



Imperial Oil Ltd Q3 Earnings Call

Friday, October 29th 2021

Operator: Good day and thank you for standing by. Welcome to the Imperial Q3 2021 earnings call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. To ask a question during the session you will need to press *1 on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press *0.

I would now like to hand the conference over to your speaker today, Dave Hughes, Vice President of Investor Relations. Sir, please go ahead.

Welcome

Dave Hughes

Vice President, Investor Relations, Imperial Oil Ltd

Thank you. Good morning, everybody. Thanks for joining us on our third quarter earnings call. I am joined today by Brad Corson, Chairman, President and CEO, and the rest of the management team, including Dan Lyons, Senior Vice President of Finance and Administration; Simon Younger, Senior Vice President of the Upstream; Sherri Evers, Vice President of Commercial and Corporate Development; and Jon Wetmore, Vice President of the Downstream.

I am going to start by reading 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 6 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 performance and operating results can differ materially depending on a number of factors and assumptions. Forward-looking information and the risk factors and assumptions are described in further detail in our third quarter earnings press release that we issued this morning as well as our most recent Form 10-K, and all of these documents are available on SEDAR, EDGAR and on our website, so I would ask you to please refer to those.

Usual format today: Brad will start with some opening remarks and then Dan will go over the financial performance, then back to Brad to talk through our operating performance for the quarter, then we will follow it up with a Q&A session.

With that, I will turn it over to Brad.

Opening Remarks

Bradley Corson

Chairman, President and CEO, Imperial Oil Ltd

Thanks, Dave. Good morning, everyone, and welcome to our third quarter 2021 earnings call. I hope each of you are doing well and had the chance to enjoy some time with friends and family over the summer.

What a difference a year makes. The third quarter is now in the books and I am very much looking forward to taking you through our results today. It was a great quarter by any measure, as our strong operational performance continued to allow us to make the most of this very attractive business environment. Our assets performance met or exceeded our expectations and, once again, we have a few records to talk about and I would note that this was across all of our business lines.

Along with very strong operational performance, we continue to benefit from actions we took last year to reduce our overall cost structure and improve reliability, and this combination is so advantageous when commodity prices are continuing to see strength. This is what allows us to capture maximum value today, but also ensures our resiliency in a downturn should that occur in the future. In this quarter, the momentum you have heard me talk about was fully on display. We had very little planned maintenance and, on top of that, high reliability, which allowed us to take maximum advantage of the improving business environment. Over the next few minutes, Dan and I will detail the results of what was, again, a very strong quarter.

Now let us turn more specifically to the third quarter results. Earnings for the quarter were \$908 million, and our cash from operating activities was over \$1.9 billion, both up significantly from the second quarter. Crude prices continued to strengthen through the quarter and Downstream and Chemical margins remained robust.

Our Upstream continues to perform very well and I will talk more about each asset in just a few minutes, but would point out that we delivered our highest third quarter Upstream production in over 30 years, driven by the second best quarter ever at Kearl.

Our Downstream performed extremely well also. We saw utilization of 94% and higher product sales as demand continued to recover. We also announced our intention to pursue a renewable diesel project, which at the time of commissioning is projected to be the largest in Canada. This will deliver incremental shareholder value in addition to helping Imperial and Canada with the energy transition and overall reduction in emissions.

I cannot say enough about our Chemicals results. Wow, not only did we set a quarterly earnings record but our year-to-date earnings are already greater than the best ever full-year earnings for the last 30 years. Obviously, we have one quarter to go for the year so it is not a direct comparison and says nothing about the fourth quarter, but gives you a flavor for just how strong our performance has been year-to-date.

In total, our strong cash flow generation in a period of very strong commodity prices is underpinned by excellent operational performance. We were able to get the most out of very attractive markets for crude, refined products and chemicals.

Once again, our strong cash position has enabled us to continue to deliver on our promise of shareholder returns. In the quarter, we returned over \$500 million to our shareholders in the form of dividends and share buybacks. So far, in 2021, we have returned in excess of \$2 billion to our shareholders. The last time our shareholder returns were this high three-quarters into the year was 2008, and of course there is more to come.

All of this together adds up to a very strong year so far, a year which is being recognized by the market: as of yesterday's close, our share price had risen over 85% since the start of the year and up 50% since pre-pandemic levels at the beginning of March 2020.

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

Financial Performance

Daniel Lyons

SVP, Finance & Administration and Controller, Imperial Oil Ltd

Thanks, Brad. Getting into the financial results for the quarter, our net income in the third quarter was \$908 million, up \$905 million from the second quarter of 2020. This increase was driven primarily by an increase in Upstream realizations and volumes as well as improved margins in our Downstream and Chemical businesses. If we look sequentially, our third quarter income of \$908 million is up \$542 million from the second quarter of this year, driven by higher margins in the Downstream and higher volumes in the Upstream and Downstream, driven by substantially lower planned turnaround activity.

Looking at each business line, the Upstream recorded net income of \$524 million, up about \$280 million from our second quarter net income of \$247 million, driven mainly by higher volumes due to the absence of planned turnaround activity at Kearl and Syncrude.

In the Downstream, Downstream's net income was \$293 million in the third quarter, up about \$230 million from a net income of \$60 million in the second quarter, reflecting higher margins and the absence of the planned turnaround at our Strathcona refinery.

Our Chemicals business continued to demonstrate strong performance through the third quarter with net income of \$121 million, up from net income of \$109 million in the second quarter, driven by strong polyethylene margins. This is the highest quarterly net income in over 30 years for our Chemicals business.

Moving on to cash flow, in the third quarter we generated over \$1.9 billion in cash flow from operating activities, or just over \$1.5 billion excluding working capital effects. Our free cash flow for the quarter was about \$1.7 billion, bringing our free cash flow for the year to over \$3.2 billion, an improvement of about \$3.5 billion from last year. Even with substantial returns of cash to shareholders, we ended the third quarter with close to \$1.9 billion of cash on hand.

Moving on to capex, capital expenditures in the third quarter totaled \$277 million, up almost \$140 million from the third quarter of 2020 and up about \$20 million from the second quarter of this year. In the Downstream, our spending reflects increased spend for the Sarnia products pipeline. In the Upstream, we continue to progress the Kearl in-pit tailings projects, as well as spend on mine progression and efficiency projects at Kearl and volume sustainment work at Cold Lake. Based on some great work done by the organization around capital discipline, we were able to revise our capital guidance down for the full year to around \$1.1 billion without impacting the key projects that we had planned for the year.

Shifting to shareholder distributions, earlier today we announced the fourth quarter dividend of \$0.27 per share. We remain fully committed to returning surplus cash to shareholders. We have demonstrated this, this year, by increasing our dividend 23% as of July 1st and by returning over \$2 billion to shareholders year-to-date, including \$1.2 billion via an accelerated normal-course issuer bid (NCIB) program in May and June. Given our strong cash position, we are actively evaluating options to return additional cash to shareholders, including accelerating our NCIB, executing a substantial issuer bid (SIB) or paying a special dividend above and beyond our base reliable and growing dividend. Now I will turn it back to Brad to discuss our operational performance.

Operational Performance

Bradley Corson

Chairman, President and CEO, Imperial Oil Ltd

Thanks, Dan. I will now take a few minutes to talk about operational performance in the third quarter, which, as I noted earlier, was very strong across the entire company. That is to say, across all business units.

Starting with the Upstream, production averaged 435,000 oil equivalent barrels a day in the third quarter, which represents an increase of 34,000 barrels per day versus the second quarter of this year and an increase of 70,000 barrels per day versus the third quarter of 2020. It also represents our highest third quarter production in over 30 years and is the first time we have seen four consecutive quarters with Upstream production exceeding 400,000 oil equivalent barrels per day since 1990. The increase was a result of continued strong operating performance, driven in large part by our focus on reliability and by the absence of the planned turnaround activity we saw in the third quarter of 2020, notably at Kearl.

I will now talk in more detail about each asset, starting with Kearl. By now, you must be getting used to hearing me talk about Kearl continuing to deliver more and more impressive results. Well, here we go again, and I am pleased to be able to report that that trend continued in the third quarter. Kearl production averaged 274,000 barrels per day gross in the third quarter, which is the second best quarter in the asset's history. Recall that in the fourth quarter of 2020, Kearl's production was 284,000 barrels per day. This quarter's production of 274,000 barrels per day was up 19,000 barrels per day versus the second quarter due, in part, to the elimination of the planned turnaround, which historically has started in September. As we discussed on the second quarter earnings call, we eliminated this second turnaround a full year ahead of our original schedule and began our strategy of only one turnaround each year versus two each year. The third quarter's production also represents an increase of 85,000 barrels per day versus the third quarter of 2020. Again, the increase is due, in part, to the absence of similar turnaround activities and the absence of a third party pipeline outage. As of yesterday, Kearl production for the month of October has averaged 289,000 barrels per day. With our third quarter performance and the strong production and reliability we have seen so far in the fourth quarter, we are confident that we will achieve our increased production guidance for Kearl of 265,000 barrels per day, which we communicated in July.

I want to take just a minute to talk about unit cash costs at Kearl and our target of USD20 per barrel. We highlighted that we were close to reaching this target late last year and we continue to focus on reducing our operating costs and are making great progress. In fact, Kearl's unit costs are down year-to-date almost CAD3.75 on a unit basis versus 2020, despite continued pressure from energy prices. In fact, we reached just under USD19 per barrel in the third quarter of this year. These strong energy prices along with the strong Canadian dollar are creating real pressure on the US dollar equivalent cost, but despite these challenges we continue to focus our efforts on achieving this target of USD20 per barrel of unit cost at Kearl.

Moving to Cold Lake, we had another strong quarter at this asset as well. Production averaged 135,000 barrels per day, which was down 7,000 barrels per day versus the second quarter due, in part, to planned maintenance, but was up from 131,000 barrels per day versus the same quarter in 2020. The key driver is we continue to see improved well performance, driven by our continued focus on reliability and optimization at the site. The minor planned maintenance at the Mahihkan plant in the third quarter, which I talked about on the second quarter call, was completed per plan. As with Kearn, our third quarter results and continued strong reliability position us well to achieve and potentially exceed our increased annual guidance for Cold Lake of 135,000 barrels per day.

Moving to Syncrude, Imperial's share of Syncrude's average production was 78,000 barrels per day in the third quarter, which was up 31,000 barrels per day versus the second quarter and up 11,000 barrels per day versus the third quarter of 2020. A major turnaround on one of the cokers at Syncrude was executed during the second quarter of 2021. The absence of this turnaround activity drove the significant increase in production for the third quarter. There was also a turnaround in the third quarter of 2020 at the asset. This asset has performed well post turnaround, although there were some relatively minor challenges late in the quarter which have since been resolved. The original plan was also for a second turnaround at Syncrude in the fall of this year. However, this plan was optimized earlier this year and by slightly increasing the scope of the spring turnaround, as well as deferring some less urgent work into next year's turnaround, Syncrude was able to eliminate the fall turnaround this year. This optimization helps to reduce overall costs at the asset and maximize production, which is particularly beneficial in today's commodity price environment.

Also of note was the transition of the operatorship of Syncrude from Syncrude Canada Limited to Suncor, which happened at the end of the quarter. The owners are completely focused on improving the asset's performance and delivering meaningful synergies over the next few years.

Now let us move to the Downstream. We refined an average of 404,000 barrels per day in the second quarter, which was up 72,000 barrels a day versus the second quarter of 2021. Recall we had a major turnaround at our Strathcona refinery in the second quarter, which primarily accounts for the significant increase in throughput in the third quarter. Throughput was also up 63,000 barrels per day from the third quarter of 2020, reflective of the demand recovery we have seen since last year. Our throughput of 404,000 barrels per day equates to a utilization of 94% versus the 78% we reported in the second quarter and represents the highest quarterly utilization since the fourth quarter of 2018, well before the pandemic. I would also remind you that on the second quarter call I mentioned we exited June at 93% utilization, so, as you can see, the strong performance and reliability continued throughout the third quarter, positioning us well to meet our full-year guidance of 89%.

As I mentioned on the second quarter call, we did have some planned maintenance activity in the quarter, specifically a smaller turnaround at our Nanticoke refinery, which started in mid-September and was completed in October, ahead of schedule. At the time, I mentioned this was not expected to have a material impact on utilization or margins in the quarter and I can confirm that that work was completed as planned and, as I mentioned, ahead of schedule.

Looking at cash operating costs, our Downstream business continues to do an excellent job in managing its spending. Year-to-date cash operating costs in the Downstream were \$1.455 billion, which is down \$87 million compared to 2020 and down even more when normalizing for the high energy prices we see this year. This is especially notable because our refining throughput has increased by 33,000 barrels per day and our petroleum product sales have increased by 19,000 barrels per day, so not only are we refining more barrels and selling more product we are doing it at a lower absolute cost.

In August, we also announced plans to construct a renewable diesel manufacturing facility at our Strathcona refinery. This facility will be world class with a capability to produce 20,000 barrels per day of renewable diesel from locally sourced feedstocks. We are really excited about this opportunity, not just because of its potential to reduce greenhouse gas emissions by up to three million tons per year but also because of its potential to deliver shareholder value at the same time. Stay tuned for more to come on this as we continue to progress towards a final investment decision. Petroleum product sales in the third quarter were 485,000 barrels per day, up 56,000 barrels per day from the second quarter. This was largely driven by the increased demand during the summer driving season. Sales were also up 36,000 barrels per day versus the third quarter of 2020 as we continue to see demand recover from the pandemic-related softness of 2020.

As of September, we were seeing industry demand pretty consistent with what we saw in the second quarter with gasoline demand nearing 95% of normal, diesel remaining close to historical levels and jet pushing above 55%, benefiting from further easing of travel restrictions. I would add that if we look specifically at Imperial sales, our jet

volume is about 10% better than broader industry levels, around 65% of historical, predominantly related to competitive gains we have been able to capture this year, increasing our overall market share.

With respect to Downstream margins, unlike crude prices, our third quarter crack spreads were hovering around the middle of the five-year band, which reflects fairly steady improvement over early 2020 at the onset of the pandemic. Despite ongoing demand volatility, our continued focus on reliable and efficient operations ensures we are capturing as much value as possible in the current Downstream environment.

I will wrap up our operating results with Chemicals. 2021 has been an incredible year for our Chemicals business and we continued to see outstanding results in the third quarter. Continued strong production, reliability and margin supported Chemical earnings for the quarter of \$121 million, which represents the highest quarterly earnings in over 30 years. This also represents an increase of \$12 million versus the second quarter of 2021 and \$94 million higher than the third quarter of last year.

I would also point out that year-to-date Chemical earnings are \$297 million, which is higher than the previous third quarter year-to-date record of \$220 million set in 2018, and we have continued to see volume and margin strength, so far, in the fourth quarter. As I mentioned in my opening remarks, our best full-year earnings for the Chemicals business was \$287 million set in 2015. We still have the fourth quarter in front of us so this is not a direct comparison, but again this gives you a flavor of just how strong our performance has been year-to-date.

So, in closing, an excellent quarter on all fronts. We have talked, over the past few quarters, about our commitment to put the company in the best possible place to maximize value and we are seeing those benefits now. The decisions we have made and the work the organization has done over the past several quarters is exceptional and is allowing us to take maximum advantage of the prevailing market conditions. I am sure you will agree that our third quarter results highlight this. Having our operations firing on all cylinders when commodity prices are as strong as they are allows us to really deliver on our value proposition, a large part of which is a focus on shareholder returns.

Looking forward to the fourth quarter, as you have seen, commodity prices have, so far, remained strong and we continue to focus our commitment to you to deliver maximum value. We are carrying a lot of momentum into the fourth quarter and, just to reiterate, we remain committed to returning surplus cash to shareholders; first, via a reliable and growing dividend and, second, through other means, like an accelerated NCIB share buyback program, a substantial issuer bid or a special dividend. Given our very strong cash position, we are actively evaluating those steps, so stay tuned.

With that, I will turn it over to Dave for the Q&A session.

Q&A

Dave Hughes: Okay. Thanks, Brad. We did have a number of questions pre-submitted, so we will open up the Q&A with a couple of those and then go over to the live Q&A line. The first question comes from Phil Gresh of JP Morgan, 'How should we think about the production progression over the next few years at Kearn as you aim to ramp to 280-plus?'

Bradley Corson: Thanks for the question, Phil. We continue to see record performance out of Kearn based on our supplemental crushing capacity that we have discussed in the past and other enhancements and reliability, and so that gives us great confidence in the asset's productive capability. Moreover, as we announced last quarter, we moved to one turnaround, starting this year, from two previously, which is a key driver for us increasing our 2021 guidance to a 265,000 barrels a day target, which, as I just mentioned, we remain very confident in achieving given the continued strong performance through the third quarter and now into the fourth quarter.

Beyond the 265,000 barrels a day level, we have other low-cost projects to get to the 280,000 barrels a day level over the next couple of years, including plant debottlenecking, enhanced mine planning, bitumen recovery, as well as some digital initiatives. You may recall at our previous Investor Day we outlined that path to 280,000 barrels a day with Kearn reaching 270,000 barrels a day in the 2023 or 2024 time frame and, ultimately, to 280,000 barrels a day by 2025. We still see a progression path, but as evidenced by our recent performance and our track record of continued improvements, I fully expect that we will do better than that 2025 time line. At our upcoming Investor Day in March, we will give more information on that, but again I expect that we will be well ahead of that earlier time line.

I would also note that as we continue to debottleneck Kearl and really put more barrels over a relatively high fixed cost asset base, we also expect to continue to drive down our overall unit cost. We are only partway through the ramp up of our autonomous haul truck program, and we talked about realizing a USD1 per barrel saving from the full rollout, which we expect to achieve over the next two years. In addition, we see a number of opportunities to apply digital solutions more broadly at Kearl, which include drones and other optimization technologies, with an overall objective to continue to drive that cost not only to \$20 per barrel but even lower beyond that.

Thanks for that question, Phil.

Dave Hughes: Phil had a follow up, 'Since you pushed back the timing of Investor Day, could you give us some updated thoughts on capex in 2022 and beyond? Does the framework from the last Investor Day still hold or could there be increases in spending from project activity like renewable diesel and/or inflation?'

Bradley Corson: Thanks for the second question, Phil. We were really looking forward to getting back together in person at the end of this year for what would have been Investor Day in November. We see a lot of value to that event being in person, as I know you and other analysts and investors do as well. As we reflected on the situation with COVID across Canada and some of the travel restrictions that are still underway, we concluded it was still just a bit too soon for an in-person event like that. Consequently, we decided to adjust the timing of our Investor Day, moving it one quarter and so we are now planning to host that event in March of next year and soon, I would anticipate, you will get a 'save the date' notice from our Investor Relations team.

Insofar as 2022 guidance goes, we are planning to share that with you within the next month or so, so that you will have our latest numbers in a timely fashion, more along the lines of what you would have received in prior Investor Days. We will give you that guidance, but then at our Investor Day early next year, we will go through our longer-term outlook, which will include an update on the Strathcona renewable diesel project and other capital investment plans. What you will see is a story that looks very similar to what we laid out last year with capex growing from this year's levels, which we now have updated at \$1.1 billion. We previously projected, over the next few years, we would be averaging around \$1.5 billion, \$1.6 billion and really we see that general magnitude of expenditure continuing, especially with the Strathcona renewable diesel project. We believe we will mostly be able to include that in those same levels of spending. That is just kind of a high-level characterization, but more to come with our updated guidance and then the Investor Day in March.

Specific to your question on inflationary pressure, we do see some cost pressure in our business, but we do not expect it to materially impact our capital spending levels given our ability to find offsets and efficiencies.

Thanks again, Phil.

Dave Hughes: I am going to add another one here that a few folks have asked about, so I am going to pull it together into one question, but it follows up from the question about inflation in general a bit more specifically, and that is: what is the impact of the much higher natural gas prices on our refinery profitability? Our fuel cost advantage that we have talked about before, refineries, energy efficiency, is that still an advantage? Finally, does it have any implications for potentially stepping up development of our unconventional assets?

Bradley Corson: That is a really good question. Obviously, energy costs are an important driver for us and so we are watching that very carefully and doing everything we can to offset those upward pressures, as I mentioned in my comments on Kearl and generally the Downstream.

Speaking more broadly about the impact of higher natural gas prices, what we have indicated in our 10-K filing and still is very accurate and representative is really a modest impact overall. For every CAD1 change in gas price, we would estimate about a \$90 million net income impact for that \$1 change. We also produce about 110 million, 115 million cubic feet per day of gas, mostly from our unconventional assets, so that provides some internal offset versus our gas input costs, energy costs across Upstream and Downstream and that is why that \$1 impact to gas price is pretty modest. I would also point out that our gas feedstock costs remain advantaged globally and are moving higher in the context of a stronger overall commodity price of environment. So, on a net basis, we are really benefiting from higher commodity prices, including for crude and refined products, as you can see in the strong cash flow that we generated for the quarter. I would also note that our refineries are at or near industry best-in-class when it comes to energy efficiency, according to our Solomon surveys. That trend has continued for many years now, so we have an advantage over Canadian competitors in the current high price environment for gas and energy.

All that said, we do not take rising costs for granted and we are always looking for offsets. A good example in our Downstream is our recent investment in the 41-megawatt cogeneration unit at our Strathcona refinery, which reduces our electricity price exposure and overall energy costs. With the Strathcona cogeneration project, I would just mention we now have almost 600 megawatts of cogeneration capacity across all of our portfolio.

As for whether we would step up investment on our unconventional acreage to produce more gas, I would say we are never sitting idle and we are always considering our investment choices. However, at the moment, we are continuing to focus on our core oil sands operations, where we have not yet exhausted all of the highly economic value creation opportunities that we see.

I hope that answers your question. Thanks.

Dave Hughes: Okay. Operator, I think we will go over to the live Q&A line now, please.

Operator: Thank you. As a reminder, to ask a question you will need to press *1 on your telephone. Again, that is * then the number 1. To withdraw your question, press the # key. Please standby while we compile the Q&A roster. Your next question will come from Neil Mehta with Goldman Sachs.

Neil Mehta (Goldman Sachs): Good morning, team. Brad, you laid out a little teaser there around capital returns. As I think about part of the stock reaction today, I think there was maybe some expectation for some incremental updates there, but it sounds like those could be coming. Just talk through how you are thinking about a buyback relative to a tender, relative to continued dividend growth and help us to frame out the time line around any such decision.

Bradley Corson: Thanks for your question, Neil. Yes, I did want to really reinforce our commitment to returning excess cash to our shareholders. We have made that a priority for a long time. We have demonstrated with our actions throughout this year that that was a high priority for us. I know there is a focus on dividend and share buybacks and I would just remind you and others that due to the strength of our company and the actions we took through the pandemic, we did not have to cut our dividend. In fact, we maintained it through last year and then, earlier this year, we announced a very significant increase in the dividend, \$0.05 per share on top of the prior \$0.22, so almost a 25% increase. A little bit later, approaching the summer, we did reinstate our share buybacks with a very accelerated 4% program over two months and then, most recently, we have reinstated the full-year 5% share buyback program. Again, we have been very active and committed in returning cash to our shareholders. As we look to the rest of this year and into next year, the momentum is building for us as a company.

We are generating significant cash, we are seeing our cash balances grow and so we are committed to returning that excess cash to our shareholders. That is why I mentioned that we are actively evaluating some very important steps over the coming months. That could include an acceleration of our NCIB program, it could also include a substantial issuer bid or perhaps a special dividend. We have not made any final decisions yet and it is subject to board approval, but those discussions are actively underway.

I might also ask Dan to comment a little bit on our views on substantial issuer bid versus special dividend, because we have been discussing that with our shareholders and that is influencing us.

Daniel Lyons: Thanks, Brad. Regarding SIB versus a special dividend, I have talked to a number of you on the line, we would like to get folks' views, analysts and investors. We are a bit agnostic, but I think the feedback we are getting is pretty significantly in favor of a substantial issuer bid buyback over a special dividend. There is some research that came out recently that said some of that, too, but mainly that is really from just talking to investors. There are different reasons for that, tax and you have a choice and more structural maybe with SIB is what folks tell us. As we weigh those options, we certainly take investor input into account in a very significant way.

Neil Mehta: Dan, is the logical timing to think about an update around this the fourth quarter call? That is when you made a big decision around dividend bump earlier this year. Is that what we should base case as the clearing point for this decision?

Daniel Lyons: I would not get into timing. As Brad said, we are actively evaluating all this stuff. Look, as Brad said, we are committed to returning surplus cash. I think we have demonstrated that. We are working through that.

Neil Mehta: Okay, alright. The follow-up question is just your thoughts on the Canadian oil markets here. WCS has widened out a little bit in terms of the differentials, but Line 3 is now online. Just how do you think about spreads from here and as oil has stayed firm, do you think that differentials could stay more contained now that you have pipeline takeaway?

Bradley Corson: There is no doubt we are very encouraged by the additional takeaway capacity here in Canada. It has been a long time coming to get some more egress capacity and so now, with the Line 3 expansion being up and running, I think that is very positive and, of course, longer term, we are still encouraged by the plans for the TMX completion as well. All of that provides more access for our barrels to get to the higher cost markets in the US. Having more stability and flexibility in that regard should help keep these differentials fairly narrow. We have seen pretty good stability throughout the year in those differentials, pretty much in the \$13, \$14, \$15 a barrel range and that differential, coupled with some very strong WTI pricing, puts us in a very strong position, so I think we will continue to see some fairly tight differentials. There is always some volatility that could occur, depending on unique situations in the marketplace and if there are any pipeline disruptions that might occur with unplanned outages, but we are feeling quite encouraged.

Operator: Your next question will come from Dennis Fong with CIBC World Markets. Your line is open.

Dennis Fong (CIBC World Markets): Hi, good morning. Thanks for taking my questions. The first one really relates to capital spending somewhat to this year. There was a modest decrease in guidance from 1.2 to 1.1. I was just hoping to understand, obviously, in light of the stronger production that you are seeing both from Kearl and Cold Lake, has that influenced any of your we will call it pace of development for other assets like Grand Rapids and so forth? How do you think about balancing some degree of, obviously, optimizing the base production levels versus tackling, potentially, we will call it ESG/expansion-related focused projects? I have a separate question for the renewable diesel facility, but really more on the Upstream side there.

Bradley Corson: Thanks for that question. First, on capital spending, I would just reiterate the comments we made earlier on the call that despite our reduced guidance on capital spending, that in no way reflects a change in focus of our program. It really is just reflecting that, as the years progressed and as we continue to lock in efficiencies and achieve capital discipline objectives, we have been able to complete the same amount of work we had planned but at a lower cost, so that is a really good outcome.

As we look to the future, and we will talk much more about this at Investor Day in March, we continue to evaluate all of our efficiency projects, our growth opportunities with debottlenecking and other low cost, high efficiency use of capital. We are positioning all of those in the best time slot that makes sense for us to maximize earnings, maximize value and, of course, capture the market as best we can. Thinking about an asset like Cold Lake; one of the reasons we have been so successful with our volumes performance there is because we have consciously deployed additional rigs to do workovers and other well optimization activities to increase production there. That is low cost and high return use of our capital, so we are going to continue to do that. Obviously, this price environment encourages that.

For bigger investments, we are taking a look at a much longer view of the price environment and certainly need to be cognizant of other risks that we may see long term. When it comes to ESG, and again you will hear us talk more about this at Investor Day, a significant part of our capital strategy is to reduce our overall emissions. You heard us talk at last quarter's call about the startup of one of our boiler flue gas efficiency projects at Kearl on just one boiler; we have plans to expand that to five other boilers. We are also deploying new solvent technologies at Cold Lake, which also reduce our emissions. ESG and lower emission spending is very important to us. It is very prominent in our capital spending plans, but also creates economic value at each of the assets where we are making those investment choices. More to come on that in March.

Dennis Fong: Great. Great. My follow-up question is on the renewable diesel facility there. Just from the language of the initial announcement as well as the potential significance, again, balancing components of a strong economic return as well as ESG-focused projects, I do not want to say it is a slam dunk per se, but it seems like a very attractive project to move forward on. With FID, potentially, insight, what are some of the last items that you are looking to gain incremental clarity on? It sounded like you were continuing to pursue we will call it negotiations and discussions with various government and regulatory bodies; how is that potentially progressing? I just wanted to get a quick update as to where you are at with the renewable diesel project. Thank you.

Bradley Corson: Thanks for the question and thanks for the interest. I think you characterized it well. We do see it as a high priority, value-accretive project for us as it does deliver significant environmental benefits, so we are progressing it as quickly and as efficiently as we can. We are still in the middle of several commercial negotiations around sourcing

the feedstock and around hydrogen production. We are also optimizing our own design to make sure we are leveraging best available technologies. All that is work in progress that will bring us to an FID probably sometime next year, but more work to do there.

You also mentioned our discussions with government entities. Yes, those are very important to us. We have had very constructive discussions both at the provincial level and the federal level. I think there is a shared view that this project is very important in, overall, Canada's objectives around net zero, and individual provinces like British Columbia see it also as very strategic for their fuel sources. We are just working with all those entities to align on a plan and a strategy with their participation and support, but it is all going extremely well. That is the key message I want to leave with you, that we are very encouraged, very optimistic and certainly more to come. We would expect to have much more detail available in March at Investor Day.

Dennis Fong: Okay, thanks. I appreciate the color.

Bradley Corson: Thank you.

Operator: Your next question will come from Greg Pardy with RBC Capital Markets. Your line is open.

Greg Pardy (RBC Capital Markets): Thanks. Good morning. Good rundown and good questions. The first one is almost like a modeling question, Brad. It is probably for Dan, but it is really just around tax horizon and cash taxability, obviously a high-class problem in the world we are living in now oil price-wise, but how should we think about that in 2022?

Daniel Lyons: Do you want me to grab that, Brad?

Bradley Corson: Yes, go ahead.

Daniel Lyons: Yes, Greg, obviously, yes, it is a high-class problem. If you had asked me a few months ago, I would say we would have very minimal cash tax payments in 2022 and I think that is still the case. I do not think we will have really what I would call significant cash tax payments in 2022. On current trends, we will become cash tax paying in 2023. That is probably as good as I can give you at this point. Obviously, it is sensitive to prices, right? We want them higher, so if that drives us to pay tax, that is just fine. However, yes, we are getting to the point where losses and depreciation and stuff like that, which have really been very, very low taxes for quite a while, we are getting past that point, but I think, 2022, you will see minimal – a relatively small amount of cash taxes and much more significant in 2023.

Greg Pardy: Okay, terrific. Just shifting over to maybe just the Pathways initiative, I know you are in the middle of negotiations still with governments and so on but, Brad, is there anything you can say in terms of the direction that that is heading? Obviously, there has been some appointments with the change up in terms of the federal cabinet and so forth, but how should we read maybe the progress on Pathways in terms of what you can say?

Bradley Corson: Thanks for the question, Greg. I am really excited about the Pathways initiative. I think we are making great progress. The consortium of five companies are all very engaged; they are working very closely together. Myself and the other CEOs, we are meeting on a very regular basis to review our plans and next steps and progress and, again, all very positive. We just issued some new information to the market, early last week, to give some more updates on our plans, talk about the phasing that we see with our emissions reduction initiatives, and all of that is illustrative of our commitment to achieve net zero by 2050 for the oil sands. What you would see in those announcements is a significant reduction by 2030. A lot of work is underway right now around feasibility studies for the main pipeline from up north, in Alberta, down to Cold Lake, giving design on that. Also, looking at all the potential sources of carbon that we would want to capture and what the time line looks like to complete those capture investments. Equally important is working with the Alberta government around pour space and so we have recently submitted our application for access to pour space in the Cold Lake region.

In parallel, we are in conversations with the federal government around the investment tax credit and the consultation that they have had underway and I would just say that all of those conversations continue to be very constructive. There is strong support for this project. There is a strong recognition that it is fundamental to the country achieving their net zero aspirations by 2050.

With respect to some of the new ministerial announcements, obviously, we follow that very closely. Minister Wilkinson has been a key contact for us on broad environmental issues. He is now staying in the cabinet, moving over to NRCan, which is another very key ministerial position for our engagements. We do not have a lot of experience with the new environmental minister, but we very much look forward to engaging him and talking about our project and next steps and, hopefully, achieving a shared vision of net zero by 2050. We have a long history of working with many ministers and many governments and our objective is always to make those engagements as constructive as possible and look for ways that we can contribute to Canada's overall goals. Again, things are progressing well and more to come, but I am extremely pleased with the progress we are making.

Greg Pardy: Terrific. Thanks very much.

Bradley Corson: Thanks, Greg.

Dave Hughes: We have a few more that were pre-submitted. The first one comes from Manav Gupta of Credit Suisse. Neil Mehta had asked a bit about our forward view of the heavy differentials. This one is a bit more specific, in that we are seeing some widening of the heavy light spread today and can you talk about what might be driving that?

Bradley Corson: Thanks for that question, Manav. Obviously, there is always a lot of moving parts in the market and especially right now. I think a key factor in that spread – and, again, it has generally been pretty tight although it has widened a little bit in the last month. I think a contributor to that is we did see some inventory builds here in Western Canada over the last month or so, in parallel to the commissioning of Line 3 and some, if you will, temporary impacts that had on pipeline egress. I think there was also some very short-term pipeline outages that also impacted egress, all very temporary in nature, but it did cause a build in inventory and so I think that probably had an effect on some of these differentials. I think that is the key, beyond what I have already said.

Dave Hughes: Manav had a follow-up question related to renewable diesel. ‘Can you talk about the feedstock you plan to use for the renewable diesel facility? Will it be vegetable oil primarily or will you use some tallow?’

Bradley Corson: Maybe building on my earlier comments about this project and our optimism about it, with respect to feedstock, we are very much planning to use vegetable oils, not a waste or tallow product. One of the reasons we chose our Strathcona refinery is because of its location; it is in close proximity to abundant local agricultural feedstocks. As we think about that supply chain, we view most of those crop sources being within a day's transit by rail and so that provides, I think, some natural synergies. Co-locating it with Strathcona refinery also provides further strategic advantages, cost efficiencies and also in close proximity to a low-carbon fuel market in BC. All those things were factors for us to choose the location, but specific to your question on feedstock, being in close proximity to that crop base is really important.

Dave Hughes: From Prashant Rao at Citi, this is related as well to renewable diesel but may be more of a strategic nature. ‘Can you talk about where Strathcona renewable diesel fits in the overall goal for longer-term net decarbonization goals, both at Imperial and as Imperial fits into ExxonMobil's recent updates on this front? Is there potential to include the remainder of the Downstream asset base in the strategy?’

Bradley Corson: Thanks for the question. Obviously, there is a lot of interest in our Strathcona renewable diesel project, so I very much look forward to talking more about that in the coming months as we progress towards an FID. I know Jon Wetmore here, who runs our Downstream business, is actively engaged in progressing that project and I am sure he will be sharing more details as well.

Specific to your question, we have been examining potential solutions in support of a net zero future for some time now. As we approach it, we bucket those solutions into short-term, medium-term, long-term opportunities and this specific renewable project fits into our short-term bucket for Strathcona, but its use could certainly be expanded over a longer-term horizon with other refinery applications for us here in Canada.

We are already manufacturing advanced fuels, lubricants and we have been growing our biofuels blending capability as well for some time. This Strathcona renewable diesel project really builds on that foundation and allows us to participate in the growing renewable fuels market in a very efficient, very economic way. You saw ExxonMobil announce the Strathcona renewable diesel project alongside our announcement, which I believe really showcases the importance of this project within their portfolio as well and also just reinforces the alignment between Imperial and ExxonMobil on this key project initiative. As I mentioned, we have started with Strathcona given its proximity to the

feedstocks and the fuels market, but I very much suspect that there will be other opportunities to progress our lower-carbon strategy within our Downstream business in other ways over time.

Dave Hughes: We have one final question, also from Prashant Rao at Citi. ‘Investors are broadly expecting industry chemicals margins to recede as 2022 unfolds. If you would, could you please talk about Imperial’s Chemicals business within the global context as this happens? Anything we should keep in mind that might differentiate your operations from the global trend?’

Bradley Corson: Thanks for the question, Prashant. You heard me talk quite positively about our Chemicals business and I think the outlook for that business continues to be very strong. We have a very low-cost Chemicals business that benefits from a number of structural advantages, maybe first and foremost being the integration with our Sarnia refinery, which really lets us optimize our product mix to extract the most value from shared feedstocks. Also, our facility is in close proximity to our customer base, which is another strength for our Chemicals business. These advantages are certainly what underpins the record profitability we have seen this year, but we have also benefited from some supply shortages and storm-related outages in the Gulf Coast, which admittedly are temporary, but as we look ahead, there will be some additional capacity coming online that will lead to lower industry margins. However, most of that capacity is expected to supply export markets and not directly impact the markets we sell into, so we continue to be very optimistic over the long term.

I would just add that we saw our Chemicals business earn around \$50 million per year last time, we had bottom of cycle pricing conditions, which just goes to show how resilient and advantaged are our specific Chemicals businesses with all those synergies I spoke to, so again, looking ahead, we do see a strong market and potential for us. Thanks.

Dave Hughes: Okay. That is the end of our questions, so I guess I would close by saying thank you very much for joining us and for your continued interest. If you have any further questions or want to have any further discussions, do not hesitate to reach out to the Investor Relations team. With that, have a great afternoon and a great weekend. Thank you very much.

Operator: This concludes today’s conference call. Thank you for participating. You may now disconnect.
[END OF TRANSCRIPT]

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	Third Quarter		Nine Months	
	2021	2020	2021	2020
Cash flows from (used in) operating activities	1,947	875	3,844	482
Less changes in working capital				
Changes in operating assets and liabilities	443	342	379	(87)
Cash flows from (used in) operating activities excl. working capital	1,504	533	3,465	569

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	Third Quarter		Nine Months	
	2021	2020	2021	2020
Cash flows from (used in) operating activities	1,947	875	3,844	482
Cash flows from (used in) investing activities				
Additions to property, plant and equipment	(276)	(142)	(684)	(657)
Proceeds from asset sales	15	19	57	68
Loans to equity companies - net	2	(2)	14	(16)
Free cash flow	1,688	750	3,231	(123)

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.

There were no identified items in the third quarter or year-to-date 2021 and 2020.

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	Third Quarter		Nine Months	
	2021	2020	2021	2020
From Imperial's Consolidated statement of Income				
Total expenses	9,044	5,952	23,106	17,300
Less:				
Purchases of crude oil and products	6,298	3,634	15,052	9,975
Federal excise taxes and fuel charge	535	470	1,404	1,290
Depreciation and depletion	488	409	1,432	1,295
Non-service pension and postretirement benefit	11	31	32	91
Financing	5	10	32	46
Total cash operating costs	1,707	1,398	5,154	4,603

Components of cash operating costs

millions of Canadian dollars	Third Quarter		Nine Months	
	2021	2020	2021	2020
From Imperial's Consolidated statement of Income				
Production and manufacturing	1,525	1,246	4,579	4,098
Selling and general	180	150	569	499
Exploration	2	2	6	6
Cash operating costs	1,707	1,398	5,154	4,603
Upstream	1,122	865	3,401	2,861
Downstream	497	475	1,455	1,542
Chemicals	70	71	213	226
Corporate/Eliminations	18	(13)	85	(26)
Cash operating costs	1,707	1,398	5,154	4,603

IMPERIAL OIL LIMITED

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.

millions of Canadian dollars	Third Quarter							
	2021				2020			
	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	1,120	425	288	331	863	342	185	279
Selling and general	-	-	-	-	-	-	-	-
Exploration	2	-	-	-	2	-	-	-
Cash operating costs	1,122	425	288	331	865	342	185	279
Gross oil-equivalent production (thousands of barrels per day)	435	194	135	78	365	134	131	67
Unit cash operating cost (\$/oeb)	28.04	23.81	23.19	46.13	25.76	27.74	15.35	45.26
USD converted at the quarterly average forex	22.15	18.81	18.32	36.44	19.32	20.81	11.51	33.95
2021 US\$0.79; 2020 US\$0.75								

millions of Canadian dollars	Nine Months							
	2021				2020			
	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	3,395	1,341	802	1,055	2,855	1,187	653	830
Selling and general	-	-	-	-	-	-	-	-
Exploration	6	-	-	-	6	-	-	-
Cash operating costs	3,401	1,341	802	1,055	2,861	1,187	653	830
Gross oil-equivalent production (thousands of barrels per day)	423	185	139	68	377	143	131	63
Unit cash operating cost (\$/oeb)	29.45	26.55	21.13	56.83	27.70	30.29	18.19	48.08
USD converted at the YTD average forex	23.56	21.24	16.90	45.46	20.50	22.41	13.46	35.58
2021 US\$0.80; 2020 US\$0.74								

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