Imperial 2018
Mid-Year Update Call

Friday, July 27th, 2018

Operator: Good day, ladies and gentlemen, and welcome to the Imperial 2018 Mid-Year Update Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will follow at that time. If anyone should need operator assistance at any time, please press star, then 0 on your touchtone telephone.

I would now like to turn the conference over to manager of Investor Relations, Dave Hughes. Sir, you may begin.

Introduction

Dave Hughes

Manager, Investor Relations

Thank you. Good morning, everybody. Thank you for joining us today on this mid-year update call. Just before we start, I would like to introduce you to the Imperial management committee in the room today. We have Rich Kruger, Chairman, President and CEO, Dan Lyons, Chief Financial Officer, Theresa Redburn, Senior Vice President, Commercial and Corporate Development, and John Whelan, Senior Vice President of Upstream.

I will start today by noting that today's comments may contain forward-looking information. Any forward-looking information is not a guarantee of future performance and actual future financial and operating results could 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 release that was issued earlier today, as well as our most recent form 10K, and these documents are available on SEDAR, EDGAR and www.imperialoil.ca, and I would encourage you to refer to them

At the conclusion of Rich's remarks, we are going to begin a Q&A. We are trying something a little different, maybe a little bit out of the ordinary, and we provided the analysts the opportunity to submit questions in advance. We have a lot of questions submitted, so at the conclusion of Rich's remarks, we are going to go and address some of those questions first and then move to the more traditional live Q&A, and probably we will maybe bounce back and forth a little bit between the two. Now, without further ado, I will turn it over to Rich.

Second Quarter Remarks

Rich Kruger

Chairman, President and CEO

Good morning. What my objective or intent is this morning is to give you a bit more color, commentary and clarity on our second quarter results, but in addition, give you a bit of a sense of what we expect as we look forward over the rest of the year. You have seen the results, a net income of just shy of $200 million for the quarter. Twenty-four cents a share, well below consensus. I will talk about the factors or the drivers as to why that result.

From our cash generated from operating activities, we were a bit over $800 million-and-some. A significant increase over last year. If I look at the first half of the year, that $200 million in the second quarter is maybe a bit over $700 million in earnings for the first half and our cash generated from operating activities is a bit over $1.8 billion. That is up about a billion dollars year-on-year. If I step back broadly from an operating environment standpoint, we have seen over the course of the year a significant growth in WTI. We have also seen that growth from the first quarter to the second quarter. Year-on-year, we are up about $15 a barrel of WTI and then the second quarter is about $5 a barrel higher than the first quarter.

Similarly, we have seen increases in the heavies as measured by WCS to the point where the light oil prices have went up on the year about $15 a barrel, but heavy oil prices, if I represent it by bitumen realizations, have only risen by about $5 a barrel. Market access considerations / constraints are behind those differentials. On downstream and chemical side of the business, both market conditions and margins, have remained strong throughout the first half of the year and I will comment more there on performance.

The bottom line result of both the operating and the market conditions: we have had strong cash generated in each of our upstream, downstream and chemicals business lines. Continuing on, I will make a couple of comments on capital and exploration expenditures. In the first half of the year, we spent $558 million. A run rate for the full year would point to something in the $1.1-1.2 billion range. However, in the second half, we expect higher spend than the first half. However, we think we will end the year at the low end of our earlier guidance. The earlier guidance was about $1.5-1.7 billion on the year. We think it will be something on the lower end around or closer to that $1.5 billion.

The drivers in this second half, why a bit higher spend, we are continuing to execute the Strathcona refinery cogeneration project. We are continuing to invest in the Kearl supplemental crusher and flow interconnect projects. I will talk more about Kearl here shortly. Then, we are advancing at a measured pace our Aspen Institute oil sands project while we still await the final regulatory approval.

On dividends and share repurchases, we have detailed in our release a fair bit about both our program timing basis and then within each of the quarters, but I will step back broadly…from a capital allocation strategy, what we seek to do is maintain a strong balance sheet, pay a reliable and growing dividend, invest in attractive growth opportunities – attractive defined as globally competitive and I can comment more on that if we would like in the Q&A - and then, ultimately, return surplus cash to shareholders via buybacks.

If you look at where we are at mid-year, balance sheet, we have about $5.2 billion in debt at mid-year. Debt to capital ratio of 18 percent. We are quite comfortable with that strength. From a dividend, we declared three cents per share increase earlier in the year, so we are currently at 19 cents per share per quarter or about $600 million at the current rate in aggregate. You are well aware of our hundred plus years of consecutive payments and 23 years of consecutive year-on-year growth.

Attractive projects, I have commented on those, where we are spending money on projects that we believe are attractive, globally competitive: Strathcona cogen and Kearl supplemental crusher and potentially an Aspen in situ project. Then, lastly, relative to that capital allocation, over the last year in the 12-month program that ended here a month ago in June, we bought back about $1.6 billion over that 12-month period.

Upstream production, 336,000 barrels a day in a quarter characterized by a lot of maintenance activity. I will talk specifically to each of our core assets and that activity here in a moment. To look at the first half, we are about 353,000 gross oil barrels a day, essentially flat with where we were a year ago. This is a bit below where we had expected to be at the end of the first half. It was really largely due to Syncrude performance and to a little bit lesser extent, Cold Lake and I will talk about both of those.

With the majority of our scheduled maintenance complete for the year and Syncrude recovery from its recent power outage ongoing, we are positioned for what we expect to be very strong volumes performance in the second half of the year.

Going specifically to the assets, I will start with Cold Lake. We completed a large turnaround at our Maskwa facility of 38 days. It was split between May and June. Work included required regulatory inspections on our steam, flare and fuel gas systems and then, periodic steam and water system cleanings and repairs, quite typical of maintenance turnarounds at steam injection facilities.

Cold Lake, for context, what we have is actually five separate steam plants that require periodic maintenance of this sort. We have worked very well over time on equipment strategies, maintenance practices and these improvements have allowed us to extend each plant's major turnaround cycle to roughly a six-year interval. On average, we will have about one turnaround a year. Now, the plants vary in size. Maskwa was the second largest of the Cold Lake plants. Then, on the sixth year, we will go a year without it. Post turnaround, Cold Lake's average has increased to about 150,000 barrels a day. We expect continued ramp up in this second year and expect that we will be at or approaching 160,000 barrels a day by the end of this year.

Kearl, for gross production in the quarter, averaged 180,000 barrels a day. That followed on 182,000 barrels a day first quarter leaving us 181,000 gross. These are gross numbers, our share, of course, is 71 percent. In the second quarter, we had a 32-day maintenance turnaround at one of the facility's two plants and this included a number of vessel inspections and continued enhancements to reliability with both piping and ore prep equipment. Throughout the rest of the year, we have one more turnaround at the second plant. We think it is going to be a bit shorter, 20 to 25 days. We are finalizing the details right now. That is scheduled to start in mid-September and then overlap into October.

Let's talk about the second half. In the last four weeks since the start of the third quarter, we have achieved several best evers at Kearl. We have had the highest week ever at 297,000 barrels a day. We have had the highest day ever at 340,000 barrels a day. We have had the highest days ever at each of the two facilities at essentially at or above 170,000 barrels a day each and we had seven of the 10 highest days since startup. The daily rate for [July], as of 6 am this morning, was about 255,000 barrels a day gross and with [July's] performance alone, in three and a half weeks, we have taken the annual average at Kearl from the 181,000 through the first half to, as of 6 a.m. this morning, we were at 190,000 barrels a day for essentially the first seven months of the year.

It's this performance and these expectations, which were in our plan, both the maintenance, the reliability enhancements, we knew our first half of the year would be lower than the second half, but it is this performance that we are seeing now, and expect to continue, that gives us confidence in averaging 200,000 barrels a day for the full year. Longer term, in addition, we have the construction of our supplemental crushing capacity at each of the two plants ongoing, as well as the flow interconnections further downstream, that will give us flexibility for directing fluid flows to maximize reliability and equipment utilization. Our objective is that when these projects are complete, by the end of next year, that we will achieve an annual average production of 240,000 barrels a day starting in 2020. The cost, timing and plans with this work are unchanged from any of our earlier conversations or commitments on Kearl.

Going to Syncrude, we averaged our share of 50,000 barrels a day in the quarter. It was up a bit from the disappointing quarter of last year and this quarter was disappointing. Although, the biggest ideation in the quarter versus capacity was the 25,000 barrels a day impact, our share, associated with plant turnaround activities. Specifically, a 71-day turnaround occurred on Coker 8-3. Essentially, it started at the end of the first quarter and wrapped up in the second quarter, but the other event in the quarter was the major power outage that occurred on June 20. Specifically, a high-voltage transformer failed, backup systems also then failed to respond. It resulted in a hard shutdown of the full facility, caused some damage to steam systems and followed select processing units. A complete investigation by [Syncrude] with Imperial, ExxonMobil and Suncor support is ongoing.

We have resumed production from Coker 8-3. It is now roughly at its 140,000 barrel a day capacity. Coker 8-2 is going through its restart procedures and we anticipate full rates will be achieved sometime in September following the decoking of unit 8-1, an activity that was originally planned for next year. In the downstream, refinery throughput averaged 363,000 barrels a day, up a bit from the second quarter of last year. The biggest news in the quarter is we completed a 72-day schedule turnaround at our Strathcona Refinery and this was the largest such event in the refinery's history. The work included major maintenance on the fluid cat cracker, or the FCC, and this is the gasoline engine or machine of the facility. For reference, the FCC fundamentally converts heavier molecules into lighter gasoline and distillate products. As a rough rule of thumb, about 70 percent of Strathcona's gasoline is derived from the FCC. This is the moneymaking unit.

Consequently, the earnings impact of the event in the quarter, relative to the first quarter, was about $250 million. That is based on the incremental opex and the volume and margin impact of the overall event. Two hundred and fifty million dollars equates to roughly 31 cents earnings per share in the quarter. Very fortunately, the FCC only goes through maintenance of this magnitude about once every 10 years or so, so it will be a long time before we talk about an impact such as this again.

More broadly, we continue to improve our overall competitiveness in the downstream by optimizing feedstocks and taking advantage of discounted heavy crudes. A statistic for you: over the last four years, about 17 percent of our refining feedstocks, roughly 64,000-65,000 barrels a day on average, were heavy crudes. We are primarily a light crude refiner. However, through the first half of 2018, we have increased our heavy crudes to a full 25 percent of our feedstocks, approaching nearly 100,000 barrels a day average in the first half. We have achieved this through our utilization of our Coker at Sarnia, through our asphalt plants at both Strathcona and Nanticoke and increasing heavy crudes and our overall raw material mix. Actions like this are what are continuing to strengthen our overall downstream performance.

On petroleum product sales, we sold 510,000 barrels a day in the quarter, up from 486,000 a year ago. The last time we had quarterly sales at 510,000 or above was 1990, immediately after our Canada Texaco acquisition. We achieved this result despite the Strathcona turnaround by leveraging our own refinery network, building pre-turnaround product inventories and securing third-party product purchases in advance. As a result, we were able to reliably supply our customers throughout the entire period. Fundamentally, if you step back, our strategy in the fuel side is to profitably grow via branded sales, longer-term strategic partnerships and superior product offerings. As a statement of fact, if you include our aviation sales in our overall branded business, three out of every four barrels that we sell are sold under the Esso or Mobil brands and we derive added value through branded sales.

Earlier this year, we announced that Esso and Mobil, our branded network, exceeded 2,000 sites nationwide. Since we shared that, the branded count has now grown by some 150 to 2,150 sites nationwide, largely driven by the introduction of the Mobil brand in Canada and the conversion of existing Loblaws' retail fuel sites.

Quickly, on the chemicals business, we matched our best-ever quarterly chemicals earnings of $78 million. The second quarter performance matched the previous quarterly high of $78 million achieved in the third quarter of 2015. For the first half of the year, earnings of $151 million are a record first half.

Polyethylene leads the way for us. It is about 40 percent of our sales, but more than 70 percent of our chemical earnings. Fundamental to our chemical performance are our feedstocks, largely Sarnia refinery off gas and Marcellus-ethane that provide us sustainable cost-advantage feedstocks supporting the overall profitability of the chemicals business.

In wrap up, before we go to your questions, the second quarter can be characterized by a uniquely heavy planned maintenance schedule to safely and reliably operate our facilities over time. With this work successfully completed, in both the upstream and the downstream, we are positioned for what we expect to be a strong second half of the year performance. With that, I am going to turn it back to Dave and Dave will get us kicked off in the process for addressing your questions.

Q&A

Dave Hughes: Okay. As I mentioned at the outset, we were trying something a little differently with a new technology. We do have a number of questions that were pre-submitted by the analysts. We are going to go through two or three right now and then move over to live Q&A and then probably come back to some of the pre-submitted questions as we move through.

So, the first question comes from Mike Dunn at GMP FirstEnergy. Regarding Aspen, can you provide anymore color on what is holding up regulatory approval? If the current price environment holds, if you receive the Aspen approval tomorrow, do you think you would fully utilize your current five percent NCIB?

Richard Kruger: Sure. For those that are not familiar with Aspen, we submitted a regulatory approval for two phases, 75,000 barrels a day of bitumen per phase on a solvent-assisted SAGD project. A project with this technology that would result in about a 25% improvement in capital efficiency and a 25% improvement in greenhouse gas reductions versus industry's SAGD, so economic and environmental benefits. We anticipate it will be about a $2.5-2.6-billion investment and we have said all along that our investments need to be globally competitive and we would define that as delivering a 10% return in a $40 a barrel WTI world and we believe Aspen will meet that criteria.

We initially submitted our first application back in December of 2013. We amended or updated it in October of 2015 to the SA-SAGD. We responded to three rounds of supplemental questioning. Our environmental impact assessment was deemed complete by the operating energy regulator in April of 2016 and we have engaged for four and a half years extensively with stakeholders and indigenous groups on this project in all regards.

There were delays in determining the adequacy of the consultation. That has now occurred and what we are waiting on is a decision from the AER regarding closure of any further statements of concern and, ultimately, the decision that the project is in the public's best interest.

I will tell you, I am quite disappointed in the timeline on this. I think this is an extremely attractive project, both economically and environmentally, and it should be the type of project that we should as a province and as an industry be striving to pursue ASAP. The long timelines and uncertainty are quite disappointing.

Now, that said, if we get the approval we will look and see what, if any, conditions come with it to make a final investment decision. As it relates to any impact on our NCIB, when we expanded our

NCIB program here recently, we had Aspen clearly in the view screen then. Our thought is, just like my comments back on the capital allocation strategy, that we will have both the capacity to pursue Aspen as well as pursue a continued NCIB program at or near the level here that we have applied for.

Dave Hughes: Okay. The next question came from Justin Bouchard, Desjardins. Are there any specific details, examples you can share that can help us understand your confidence that Syncrude is on the right path?

Richard Kruger: There is no question about it, as we look back over time, that Syncrude's performance has been disappointing. It is an asset that has tremendous potential to generate cash, but the issue is the reliability. Yet again, we hear with the power outage we had, yet another event. If we look at the sketch we are doing, both under the management services agreement that Imperial and ExxonMobil have had with the venture, and now with the expanded ownership and support of Suncor in it. As the owners step back from the table, we look at and we continue to believe all the things we are doing to enhance ultimate reliability of this facility remain the right things: equipment strategies, maintenance procedures, operator training, on and on. We need to eliminate the so-called "one offs" that occur. The frustration is there with the overall performance, but the confidence and clarity in the steps we are taking remains high and the belief that we continue to be on the right path. It is difficult to make promises and commitments and then continually disappoint on them, but we do think something on the order of a 90% reliability, which would lead to something in our share of a 75,000 to 80,000 barrels a day is the ultimate target and the objective that we will achieve at Syncrude over time.

Dave Hughes: Okay. Next question from Jennifer Rowland at Edward Jones. How is the new solvent-based recovery technology impacting Cold Lake's volumes?

Richard Kruger: Specifically, right now, Cold Lake has always been identified as a cyclic steam operation, but in actual operation, Cold Lake is a bit of a patchwork quilt. It has cyclic steam. We have a large part of the field under steamflood and we have used it and continue to use it to test and pilot new technologies, solvent-based technologies. The application that we are expanding, we call LASER. It is Liquid Addition to Steam to Enhanced Recovery. It is a high-pressure process that puts a mixture of five, six, seven percent of solvent in the steam. You inject it and then you let it soak like you did cyclic steam and then you turn around and produce it back.

Last year, we communicated that this was a part of our plan. We have had some delays in starting it up with we completed some casing integrity work. Some of the steam strategy use in the other areas, so we are a bit behind. Probably on the order of that current rate, somewhere about 5,000 to 6,000 barrels a day behind where we had thought late last year we would be. That is timing. The confidence in the technology and the competence in the economic remains high and that is part of the ramp up we'll see at the second half of the year as now that we have implemented LASER and it kicks in a production performance. We will see that growth continue in the second half of 2018 and then on in to 2019. It is a technology that we are looking at and we anticipate further expanding in its application at Cold Lake as the field continues to transform from a pure cyclic steam operation to other enhanced forms of recovery.

Dave Hughes: Okay. Operator, I think we are going to turn over to the phone line now for the next couple of questions.

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star then the one key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key. To prevent any background noise, we ask that you mute your line once your question has been stated. Our first question comes from Dennis Fong from Canaccord Genuity. Your line is now open.

Dennis Fong (Canaccord Genuity): Hi, good morning guys, and thanks for taking my question. For the first question that I have is around Kearl. I really appreciate the call as to some of the operating conditions and level that you guys are currently at right now. Just out of curiosity, in terms of I think it's more of a consistency situation in terms of being operated at a high level for an extended period of time, what kind of additional level of confidence do you guys have for the interim – call it the next six to 12 months - versus after you complete some of the redundancies that you are installing at in Kearl, in terms of being able to achieve a stronger rate of production.

Then, secondarily, how much further from the about 240,000 barrel a day capacity that you guys are indicating, do you think you may be able to achieve with some form of consistent operation?

Richard Kruger: I think if I start at the backend of that question and then come back. When we have the supplemental crushing capacity and the flow interconnect, it will give us a lot of operational flexibility. Four crushers instead of two crushers that any one of them at a point in time can provide essentially half or 150,000 barrels a day of ore feed. When we have that work completed, the confidence in the reliability, I would say, would be quite high.

In the meantime, what it takes is with the two crushers we still have a bit of that vulnerability to any downtime on any one of the two. The regular maintenance, the ongoing inspections we do – we took a number of steps last year to lessen the load on the crushers, to enhance bearing life, chain strength and life. We have done a number of things that we think have made a material difference to bump up the current reliability, but there is no question that we will continue to have a bit more vulnerability until the supplemental crusher is in place.

With that said, that eyes-wide-open awareness has been factored into our expectation of achieving 200,000 barrels a day gross this year and next year. Then, the bump up to 240,000 beyond that. On a personal level, when we have that work in place, we will be testing it certainly to see is there any magic about the 240 or can we do better than that? I think that will be a conversation on the day once we have completed the work in progress.

Dennis Fong: Okay, perfect. Then, secondarily, on egress and your current exposure to rail, I was hoping to find out a little bit more about it. It seems like a number of your peers are looking at potentially ramping up production to some degree and how you guys are managing around, we'll call it, potential tightness in egress out of Western Canada. Thank you.

Richard Kruger: Sure. If you step back fundamentally kind of strategy, first and foremost, we seek to take and put as much heavy oil into our own refineries as we can and there is a bit of a left pocket / right pocket kind of a natural hedge within that. I made comments on the refining, how we have significantly increased the heavy feeds to about 25% or roughly 100,000 barrels a day of dilbit or heavy crude into our refineries That is priority one.

Secondly, we strive to get as many barrels to the Texas, Louisiana, Gulf Coast via contract pipe commitments as we possibly can. It is the highest valued market. It is the largest concentration of heavy oil processing facilities in the world and from a feedstock reliability with declines in places like Venezuela and things, that continues to be the market that offers the highest value. That is priority two.

Priority three then would be to use rail capacity to fundamentally achieve the same thing; to get barrels to the highest valued markets which – that could be Baton Rouge, Louisiana, Beaumont, Texas, the Gulf Coast. We decided in 2013 to build a rail terminal, a joint venture 50/50 with Kinder Morgan, adjacent to our Strathcona Refinery. At the time, we said it would be a bit of an insurance policy if market access; i.e. new pipelines did not come about in the needed timeframe. Like any insurance policy, our hope was that we did not have to use it too much. Over time, we have used it. We have increased volumes at it. Earlier in the year, we were in the 50,000 to 60,000 barrels a day capacity and are using 50,000 to 60,000 of the capacity. We have ramped that up to closer to about 100,000 barrels a day of it's capacity now.

As I look to the second half of the year, I expect that we will be using more of it, notionally targeting something in the 125,000 barrels a day of the roughly 210,000 barrel a day capacity of the facility. Here again, it is allowing us to cost effectively, through the use of unit trains and our existing ownership in this facility, compete on a netback basis with pipe alternatives to get to markets. Again, primarily Texas, Louisiana, Gulf Coast and get the highest realization for our production.

Last but not least, our volumes that go into the mainline system, which would largely be exposed to kind of a head of pipe differential or discount. The bulk of that, if it does not go to our own refineries, it will go into the U.S. Midwest. Places like Joliet and Whiting, things like this, to large refiners in that area. We continue to reduce our overall exposure to differentials, through our own refineries, contract pipe to the Gulf Coast and continued expanded use of rail.

Dennis Long: Okay. Thank you.

Operator: Thank you. Our next question comes from Travis Wood from National Bank of Canada. Your line is now open.

Travis Wood (National Bank of Canada): Good morning, guys, and thanks for taking my call. In the release this morning, you touched on autonomous haul vehicles and the success that you are having, at least early on here. Could you walk us through how you guys were thinking through kind of the short, mid, long-term plans around rolling that out in a larger scale? And then what that could mean on cost savings, both on an absolute cost per barrel or just even more of a higher-level efficiency conversation?

Richard Kruger: Sure. If I step back, before I dive into the question, for all of our operations it is all about achieving the lowest long-term reliable cost of supply to enhance or maintain our competitiveness in good times and in bad. Kearl is no different than that. On the mining side, the economy of scale is key to it, hence the supplemental crushing capacity, et cetera. Then, it is looking at what other opportunities do we have in our business to continue to improve performance.

We do think autonomous trucks offers significant potential. For example, we commented in the release about the current pilot and the expansion of that pilot. These are existing trucks that are in our service today that we have retrofitted with the equipment, the sensors and the controls that are required for autonomous operation. Ramping it up here to the seven trucks by the end of the year will be just to continue to see how, when you have more and more trucks that are autonomous, how you can direct their movements and their ultimate performance relative to a driver fleet. Very key to this is our workforce where we have worked very closely to ensure people do not view this as a threat, a threat to jobs, and so that they are embracing and helping to support this for its ultimate success.

Now, in terms of what kind of value might it provide – if we just do straight up math and think of the autonomous trucks, the incremental cost to make them autonomous, the money you might save on having fewer drivers as our truck fleet would grow in the future, you can come up with something in the 50 to 60 cents a barrel. That does not include necessarily productivity improvements, which we believe there are. We do not have an absolute number yet. I saw there was a question asked on the expectations of can it be in the dollar a barrel range, I do not see any reason why it could not be in that type of range. Continuing to expand this pilot, we will see where it goes, but I would say we are optimistic and have a level of confidence that a form of autonomous operation in the future will be an economic enhancement to the operation.

Travis Wood: Okay, thank you. Then, just an extension on this, along this supply and value chain through the integrated business, are there any technologies that you are thinking about today? Whether it is autonomous vehicles or something else, where we could see some step function where the sustaining capital continued to be headed lower. What other types of disruptions can we see or some improvements on the technology side as we look out –

Richard Kruger: You are well aware, our commitment to fundamental science technology and innovation, we would hold that up to anyone in terms of that we spend about $150-200 million a year in good times and in bad on this because of the type of assets and the long-life nature of our assets. We can do that, and it pays out over the long-term. I think the areas I am most excited about now, we have talked a little bit about it at Cold Lake, our solvent-based technologies because for a given amount of steam, you can get a material production uplift and an incremental resource recovery over time. That has largely been the story of Cold Lake over its 33 years commercial life is applying new technologies, operational innovations to continue to enhance recovery. I think solvent-based technologies will give a bit of a step function improvement and it will do that consistent with the societal aspirations of lower greenhouse gas emissions and performance. I think that is key.

Another area, we have not talked a lot about this yet, is the overall digital aspect of things. We think there are several hundred million dollars of potential that we are scoping now in process optimizations at places like Kearl. Again, at steam flood optimization at Cold Lake. With 5,000 wells at Cold Lake and the complexity and size of the operation at Kearl, small things can make big differences. I am focused on the upstream right now, but I think a lot of the same things, the digital enhancements, can apply in a downstream as well. We call those breakthrough step function. I think largely they can have big material impacts to our competitiveness and we are aggressively pursuing those types of things.

Travis Wood: Okay, great. Thanks for the color.

Operator: Thank you. Our next question comes from Greg Pardy from RBC Capital Markets. Your line is now open.

Greg Pardy (RBC Capital Markets): Thank you. Rich, just a couple of quick ones for you. You may want to not give precise numbers on the first question, which is really just trying to get a sense as to where is the OpEx running at Kearl and maybe where do you expect it to go as you go through the year and your volumes ramp up?

Richard Kruger: Greg, I think our earlier conversations and guidance on Kearl remains the same. The first half of the year, we are kind of in the mid-twenties or so US dollar basis, but that is because of the volume performance at the 180 and the major turnaround. We spent a fair bit of money on the turnaround itself and, as you and I have talked before, the incremental barrel in a mining operation comes at a fraction of the cost, 25% to 30% of the cost of the full barrel. As we increase volumes in the second half of the year, we expect that to drop down. Then, in particular, as the supplemental crusher comes on at the end of 2019 and into 2020 and we get to the 240, that is where we are going to start to see that $20 a barrel or below cost.

You always have competing offset as we mine further distances out and the haul distances and the needs for trucking increase, but that is where things like the autonomous truck or other opportunities we are pursuing are aimed at more than offsetting any natural increase you might have just by the nature of your operation. I think Greg fundamentally, the guidance and conversations we have had on Kearl and costs will really remain unchanged. If anything, I think with digital and some of these other things I probably would see more opportunities to further drive down unit costs now than we might have been talking about a year or two years ago.

Greg Pardy: Okay, great. I know there has been some questions asked around Syncrude and I am not speaking out of school hear when I say, on Suncor's call yesterday, they did talk about the necessity, I think, for perhaps just more cohesion amongst the owners in terms of accelerating that reliability game plan. In your view, is everybody kind of on the same page at Syncrude or is it a situation where actually fewer owners would be better?

Richard Kruger: I did hear there was a lot of interest there and quite a few questions on that yesterday during their call. What I would say is, we are all about anything that can add or enhance value to any asset we own. Syncrude clearly fits in that. With a fewer number of owners in the past few years, we have focused like a laser on further dismantling the corporate structure of Syncrude and making it more and more an operating organization to the economy's scale and synergies of support services, whether that is IT, procurement, et cetera.

For example, each and every day right now, there are 120 Imperial and Exxon Mobil people that are assigned to and working on Syncrude from a seconded standpoint, management, technical, IT, procurement, financial services and we think that it lowers the overall cost to Syncrude. In recent months/years, with Suncor, the operating efficiencies looking at logistic and warehousing because the adjacent operations have been high priorities. Now, we are looking at things about either commercial arrangements that can be constructed that can help on both sides of the fence on that. I think, like all commercial arrangements, they need to make sense for all parties in the deal. We are working on and believe there are commercial enhancements that can be achieved here at Syncrude. Say, go back to where I started, if it can enhance value of Syncrude, we are 100% behind it, and that has not and does not change with the ownership.

Greg Pardy: Thanks very much.

Richard Kruger: You are welcome, Greg.

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

Mike Dunn (GMP FirstEnergy): Thanks. Rich, I wanted to ask about the interlinkings of your Strathcona Refinery profitability to Syncrude given that light synthetic is a big part of the feedstocks there. Could you frame for us how – if you have unexpected down time at Syncrude, can you provide some sort of numbers around how that impacts your Strathcona profitability? Obviously, we would see probably spikes in the price of, let's say, a benchmark synthetic crude if there's unplanned outages at Syncrude or Suncor or Horizon, for example, but just wondering if you could frame for that how much maybe that has impacted your downstream, or your Strathcona profitability over the last several years relative to if Syncrude was running at 90%?

Richard Kruger: Mike, you are correct in connecting the importance of Syncrude to Strathcona. It is a feedstock that is right up Strathcona's alley in terms of what it needs. At our share, when it is up and running at roughly 70,000 barrels a day or so, essentially all those barrels do go to Strathcona and that can be a third of the refinery's feedstock. When Syncrude has unexpected, unplanned upsets it is important. It has an impact on Strathcona.

Now, when we have planned events, we are able to work ahead of time, get alternate supplies and things. When Syncrude has an unplanned event, the supply folks for Strathcona do need to scramble. Unfortunately, they have had to scramble over the last few years more than they would have liked.

Some of the things we are doing – we are testing and looking at alternate crudes, whether they be synthetics or other light. We are looking at does it make sense to direct every barrel of Syncrude there every day, or should we have a plan that maybe takes a part of it, directs it to Strathcona, secure supply agreements with other synthetics and then use the remainder of Syncrude a little bit as a swing? Because the vulnerability and exposure to Strathcona, a very high-performing facility, the Syncrude events are more troubling than Syncrude because of their impact on Strathcona.

On a numbers standpoint, you can kind of do math on it. I do not have explicit numbers necessarily to share, but when we find alternate supply, it can be in the millions of dollars over the course of a quarter on the upset. It is not gigantic. The impacts of the loss of Syncrude on the upstream alone is bigger, but it does affect the ability to run that refinery at the highest level of reliability without disruptions. We keep looking at what we can do to not only benefit from the synthetic crudes diet that it likes, but maybe lessen the absolute reliance on a day-to-day basis.

Mike Dunn: Thanks, Rich.

Dave Hughes: Okay, Rich, we are going to go to some more of the pre-submitted questions now. I have one here from Jason Frew [inaudible] Credit Suisse. I am interested in the relative attractiveness of upstream versus downstream investment in the current and projected environment. Do you see our balance investment going forward or does upstream still dominate the opportunity set?

Richard Kruger: Jason, I think our viewpoint is it is less of an upstream or downstream. It is where do we see the greatest value. In the upstream, we tend to talk about big bites. An Aspen-like project, maybe a programmatic drilling at Cold Lake, things like this. Whereas the downstream, it tends to be generally smaller incremental investment. Cogen at Strathcona, terminals, logistics in the greater Toronto area. Things that either strengthen the competitive position we have or work to further enhance it.

I would say, and you have seen this over the last five years or so, when you look at our downstream performance and the cash generated there, the integration and balance we have there is a very strong financial performer that we want to continue to strengthen. I have talked about efforts to expand our branded network, some of the long-term strategic partnerships we have, whether that is with aviation service providers, whether that is with rail. We now are supplying aviation fuel into the Vancouver airport that we had not been able to do.

On an asphalt standpoint, we have figured out how to run our facilities year-round, even in winter and store asphalt for sales in use in the warmer weather months. There are opportunities in the downstream. On an absolute dollar basis, they may not compete year in year out with where some of the upstream growth is, but we are certainly looking at and pursuing opportunities to strengthen our performance, our cash generation in the downstream. It is like the old saying, you need to spend money to make money and increasingly, we are doing that with and around many of our downstream assets.

For example, you did not ask it this way, but if you said, a big new refinery or something like that, that is certainly less likely. You look at North America, relatively flat to the declining petroleum product demand market. There are surplus capacities in some areas, so it would not be necessarily in that kind of investment but really investments to further add on our strength in what we have.

The one exception could be the chemicals business. We continue to look at both our Sarnia facility as well as opportunities in the west that can take advantage of cost or price advantage feedstocks. We are a bit early in that and I would say that would be an area that over time we may talk more about as we look at the overall business environment and the relative attractiveness. It is not an upstream versus downstream, one or the other. It is where do we think we have the highest value opportunities in whatever business line they happen to be in.

Dave Hughes: Okay. We have a question from Benny Wong from Morgan Stanley. Can you give us an update on the five-year CapEx plan provided in your business update in November? How has your outlook evolved since and where are the main levers to pull if there are changes?

Richard Kruger: I think, Benny, we have not announced this yet. I guess I am announcing it right now. We are going to have an investor day in late October, early November. We are landing on the date right now. It will go through and give some pretty comprehensive updates on all these, but if I sit here today relative to the capital plan that we outlined last November, I think the component parts are still quite similar. We have talked about Kearl. We have talked about Strathcona. We had some moderate growth opportunities in there including Aspen in the outlook, so I think notionally it will be similar to what we talked about. We are going through our planning process, as we do every year, right now. We will update and dust all that off and will put both sources and uses of funds, as we see them out there in front of the investment community here, later this year.

Dave Hughes: Okay. Question from Matt Murphy Tudor, Pickering, Holt & Co. How is the mainline apportionment affected IMO's ability to move barrels on committed pipeline space?

Richard Kruger: I think it gets back to some of the market access comments I had earlier when we looked at our priorities. Getting heavier crudes in our own refineries, using contract pipe capacity to get to the Gulf Coast, rail and we move a lot of volumes on the mainline. We had some limitations on market access in the first quarter. I think we talked about 12,000 barrels a day impacted.

In the second quarter, we really have not. It is tight, but because of our integrated nature, our refineries and the way the nomination system works with both confidence in the production we can provide to the pipe and in the purchaser's or the refineries commitments to run the pipe, we have advantage in that mainline system because of the integrated and balanced nature of it. It is tight. I will sleep better when there are new pipes in the ground and expanded market access. It is a month to month challenge that keeps our production folks and our supply folks on their toes to ensure we have full assurance for our equity production and to ensure we get the most cost advantage feedstocks to our refiners.

Dave Hughes: Okay. We are going to go to a couple of questions on the phone again.

Operator: Thank you. We have a question from Neil Mehta from Goldman Sachs. Your line is now open.

Emily Chieng (Goldman Sachs): Hi, this is Emily on behalf of Neil. I was just interested in seeing how Imperial's position did in IMO 2020 world. Are there any sort of projects that the company is taking out that could help position it better?

Richard Kruger: Emily, first of all, let's take compliance out of the equation. There is a lot of discussion and debate about what the level of compliance will be, but from a planning standpoint, the industry complies. When this topic first came up a while back, we saw it and were a bit concerned about it kind of from the threat standpoint what might this mean. Over time, as we have continued to analyze it, understand it, look at our opportunities, we feel less threatened by it. We do have a level of heavy crude conversion capacity that gives us access to the WCS crudes and the ability to create differentiated, high-value marine fuel offers.

If you will look at our distillates, which we think will benefit in a post IMO 2020 world, we had about 180,000 barrels a day to round numbers of distillate sales. Our heavy sales are less than five percent, so these are things that we are looking at. We are working on how can we operate in that world, but I would say it is not a topic that gives us a great deal of anxiety in terms of what impact it may have on the company.

Now, if you talked about what it might do more broadly to heavy crude prices, here again, we have the refinery network that works to give us a bit of an offset and a hedge and you have that massive complex that I have mentioned a couple of times now in the Texas, Louisiana Gulf Coast that has all the facilities to maximize value from heavy crudes and our ability to get our crudes there will remain a priority and we expect that that will continue to be a strong, high-demand for those heavy crudes.

Emily Chieng: Great, thanks. I have a second question, just on the chemical segment. Chemicals has performed really well for Imperial this quarter, just wondering what you guys can comment on with respect to margins? Particularly as you see crackers come online in the Gulf Coast.

Richard Kruger: I think there is a couple of things. Over the last few years, we have taken a number of steps to continue to reduce our feedstock cost. I mentioned Marcellus ethane and of course, all the Sarnia off gas. That keeps our cost quite low and where we make the bulk of our money is in the polyethylene, particularly the rotation and injection molding. I forget the exact number, but the majority of our customers are within a day's drive for our polyethylene.

We have a feedstock cost advantage and then a location advantage relative to our customers, so as you look at other facilities that would strive to compete in those markets, they may have scale and they may or may not have the feedstock situation, but they have a greater logistical cost to get into those markets. Our strategy here, as we put in a new furnace over the last couple of years, it gave us a more cost-effective operation. It gave us an incremental seven to eight percent increase creep capacity. Take what is a strong, not a niche business, I do not mean to minimize it that way, but it is not massive in its size or scale but continue to do all the things to keep it fit, in shape and profitable that we are able to weather any competition wherever it may come from.

Emily Cheing: Great, that is very helpful. Thanks.

Richard Kruger: Okay. Dave is giving me the signal that we have time for maybe one or two more questions. Why don't we go ahead and keep taking it off the phone line

Operator: Our next question comes from the line of Phil Skolnick from Eight Capital. Your line is now open.

Phil Skolnick (Eight Capital): Thanks. Good morning, Rich. You had mentioned that because you own the railcars and the facility that you have a competitiveness relative to the pipe and getting down the U.S. Gulf Coast. Can you help us just to quantify how those individual pieces and how competitive it is to the pipe?

Richard Kruger: Sure. I will kind of reference some of the industry numbers, but also ours. Phil, these are round numbers, but generally if we look at moving a barrel on a contract pipe from Alberta to the Gulf Coast, and these are out there, and you can see it, but you are kind of talking plus or minus $8 a barrel or thereabouts. On the rail terminal, our variable cost on rail is something a couple dollars a barrel, perhaps higher than that, $9 or $10 a barrel.

Of course, we have the fixed cost, the investment in the terminal and things. We look at it, and from earning you will certainly see the fuller fixed costs, which for us is in that kind of $15 a barrel range. You have seen industry talking about 17 to 20 full cost, whether that is a unit train or a manifest rail. We are a bit lower than that because of the ownership of the facility and then when it comes time to literally optimize week to week, month to month, yes, we look at that full cost, but the optimization can come on that variable cost. Our traders are looking at with that contract pipe, with a head of pipe price in Edmonton, where do we get the highest net back, the highest value? As I said earlier, that continuing to increase volumes via rail is providing, and we think for the foreseeable future, will continue to provide a higher value than a head of pipe sale in Edmonton Hardesty.

Phil Skolnick: Thanks, and just a follow up on the rail side. You mentioned you think it is going to get to a 125,000 in the second half of the 210. Is that going to be third-party or is that your own volumes? Also, what is your confidence on the 125 in the second half, and then are you going to look at all at third-party rail to get to the full 210, or would you just continue to maybe do more on your own internal volumes?

Richard Kruger: I think from our standpoint, our own terminal, the terminal we own 50% of. Our view, again, for the foreseeable future, that will meet our needs as we continue to ramp up and optimize the overall disposition of our crude. The determinate on the rate of the increase in the capacity and utilization has largely been on the rail service providers getting necessary power, locomotives and trained people on it. It has probably been a bit slower than we would have hoped over the course of this year, but that is something that we keep working. We have entered into arrangements where and that supports the growth I have commented from the 50,000 to 60,000 barrel a day utilization early in the year to the more 80,000, 90,000, 100,000 of late and then growing to the 125,000 range over the course of the year. I think our terminal will meet our needs and we will continue to look at if it is attractive to expand the utilization either for our own needs or third-party needs and take advantage of it as not just a market access mechanism, but an ability to make money by providing service to others.

Dave Hughes: Okay. I think that brings us to the end. Rich, I turn it to you for any summary remarks.

Richard Kruger: First of all, I would like to thank you for your time and your questions today. I do appreciate Dave and your use of this technology to allow some questions ahead of time, so we can see where folks' interests lie. I hope you feel you have a better explanation, not only of the second quarter results, but also our outlook for the rest of the year. Our commitment continues to be to provide greater clarity, transparency on our performance and our results. We will look at how we do this going forward, but as I mentioned, we will have a full-fledged investor day around the time of our third quarter release. We are locking it down now, but I look forward to your continued engagement as the year goes on. Thank you for your time and attention today and I hope you found this of value.

Dave Hughes: I would just like to repeat my thanks to everybody joining us this morning. I recognize we did not get to all of the pre-submitted questions, but we did make an effort to try to cover a wide range of topics. As always, please do not hesitate to reach out to Jeff or myself if you have any further questions. I think everybody has our contact information. If not, it is on the Imperial website under the investors tab. Thank you very much, everybody. Have a safe weekend.

[END OF TRANSCRIPT]