
CONTRARIAN RESEARCH REPORT

The Contrarian Series

October 11, 2021

Imperial Oil Ltd.

(BUY)

Price (intraday):	\$34.21	Ticker:	IMO
52-Week Range:	\$11.96 - \$35.20	Dividend:	C\$1.08
Shares Outstanding:	704 million	Yield:	2.5%
Market Capitalization:	\$24.0 billion		

Data as of October 8, 2021



*Exclusive Marketers of
The Contrarian Report*

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Investment Thesis

Imperial Oil Limited, with a US\$24 billion market capitalization, is a Canadian integrated energy company, 70% of which is owned by Exxon Mobil Corp. Between today's Exxon Mobil and Exxon's prior incarnation as Standard Oil, Exxon has controlled Imperial Oil since the late 19th century. The company is active in upstream production, midstream pipelines, and refining across Canada. It also has a Chemical segment that does not necessarily coincide with the business cycle, although it only accounts for 6% of revenue.

Including its oil sands, Imperial has 6.3 billion barrels of oil equivalent (BOE) of proved and probable reserves. It produced over 400,000 BOE per day, on average, in the second quarter of 2021, and it refined 332,000 BOE. Given the reserves and current production rate, the reserve life is over 43 years. Most of Imperial's upstream production comes from oil sands in Cold Lake, Kearl, and Syncrude, which all have low decline rates. Having the permanent infrastructure in place to process this production has led to lower production costs and increased capital efficiency.

Imperial is the largest oil refiner in Canada, and it refines the vast majority of its production, which has resulted in industry-leading free cash flow margins. Canada probably could not function without Imperial's refining assets, since it produces approximately 22% of the diesel fuel consumed in Canada, 26% of its jet fuel, and 33% of the asphalt.

Imperial has a strong balance sheet, with debt representing only 24% of the capital structure, at approximately C\$4.0 billion relative to the C\$20.8 billion of shareholders' equity. A dividend has been paid for over 100 years, and the current amount of around US\$500 million represents a 2.85% yield. The dividend has been increased for 25 consecutive years and, in the past five years, has grown at a compound annual rate of more than 10%.

As a consequence of the energy depression, which has lasted for many years, Imperial Oil has vastly curtailed capital expenditures. The company spent only C\$408 million in total capital outlays in the first half of 2021, which is approximately half of its five-year average. Imperial Oil could maintain this posture for a prolonged period of time, and survive at much lower oil prices, given its cash cost of around US\$20 per barrel for its bitumen production.

With the global investment community's position with regard to energy, the company has little financial incentive to try to expand the business. Indeed, at the parent company board level, one contingent wishes the company to reduce the scope of its operations. Still, even without business expansion, Imperial Oil should have substantial excess cash flow to return to shareholders at prevailing oil and gas prices. In the last 5 ½ years, the company has generated cumulative free cash flow of C\$9.4 billion—inclusive of a C\$70 million free cash flow loss in 2020. That amount could be viewed in light of its US\$23 billion market capitalization. Imperial could, theoretically, pay off all net debt in one year with cash flow at current levels. That said, given the relatively modest leverage, the company uses its free

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cash flow to pay dividends and repurchase shares. Since the beginning of 2016, C\$3.2 billion has been spent on dividends and C\$5.4 billion on share buybacks, which have reduced the number of outstanding shares by 17%.

Despite its significant size and scope of operations, from an ETF perspective Imperial Oil is an undiscovered equity. Only three U.S. ETFs own Imperial Oil shares, and despite its large market capitalization, the total holding of those ETFs amount to US\$28.2 million. In addition, the shares are held in just five Canadian ETFs, representing a total market value of less than C\$24 million. The fact that it is not well represented in indexes is largely because so much of the float is owned by its parent company. Furthermore, the float has been in slow but steady decline, because the company has reduced the number of shares outstanding.

Given the strong movement towards ESG (Environmental, Social, Governance) investing, all fossil fuel-based energy companies might qualify as contrarian investments. The managements of the energy companies are themselves contrarian, in the opinion of virtually any public intellectual. The EIA states that petroleum now accounts for 32% of global energy demand and that natural gas accounts for another 22%. According to the EIA's 2050 forecast, natural gas production must double in the next 29 years to satisfy demand, and petroleum production must rise by more than 22%. Exxon, rightly or wrongly, forecasts that, even in 2040, oil will be by far the predominant source of energy, and natural gas will be the second most-used source. In fact, Exxon forecasts that coal will supply five times the energy demand of solar in the year 2040.¹

Yet, the consensus view is that fossil fuels will be virtually eliminated by 2040. To a degree, that consensus view, and ESG trends, have contributed to the energy shortage that the world is currently experiencing. The EIA estimates that, worldwide, between US\$12 and US\$17 trillion of additional oil and gas investments will be needed, cumulatively, by 2040 in order to meet demand.² With prevailing ESG trends, which restricts access to capital for fossil fuel companies, few companies will be able to raise the necessary capital to expand their supply, but Imperial, with its strong free cash flow generation, should be one of those companies.

The company produced around C\$1.5 billion of free cash flow in the first half of 2021, while the price of West Texas Intermediate (WTI) oil averaged US\$62 per barrel. Since WTI is now approximately 25% higher, it appears likely that the company will produce free cash flow well in excess of C\$3.0 billion for the full year, in which case the present valuation represents less than 8x the anticipated free cash flow. Stated alternatively, it trades at a free cash flow yield of approximately 12%. In 2009, with an almost identical oil price, the shares traded around \$40, which at the time represented 4x book value and more than 20x earnings. On a P/E-basis, Imperial trades at about 10x the consensus 2021 earnings, and 9.5x next

¹ In its 2019 *Outlook*

² Imperial's November 2020 Investor Day presentation

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year's estimate. In addition, the shares trade at 1.3x tangible book value, which should provide a cushion on the downside.

Importantly, this deeply discounted valuation is not a function of business fundamentals or weaknesses, such as a leveraged balance sheet or poor profitability. It appears partly to be a function of its being an oil company in a market in which divestment of oil company shares is a dominant theme. It would also appear to be a function of an insufficient tradeable market cap relative to the preferences of indexes and ETFs. That is, its float-adjusted market cap is only US\$6.2 billion, and it is therefore almost completely excluded from index-based ownership. These non-fundamental factors provide an opportunity to purchase the kind of discount ordinarily attached to troubled companies, but in this case in the form of a superior operating company with a superior asset portfolio and what would appear to be, shortly, dramatically higher, probably record, earnings.

The shares have, in other periods, traded at valuations appropriate to the business – they now trade at one of the lowest valuations on record – and, as well, circumstances always change. For instance, the transition from Scope 1 to Scope 2 ESG accounting might shortly result in the responsibility for CO₂ emissions shifting from producers of carbon (oil companies) closer to the customer/consumer emitters (electric utilities), in which case, the ESG ratings of oil companies will rise dramatically.

In fact, as various oil companies invest significant sums in renewable energy and other green projects, their ESG ratings climb, such that the new S&P 500 ESG ETF, as an example, has a higher energy sector weight than the incumbent S&P 500 ETF. Moreover, there is a possibility – though this is hardly predictable – that ExxonMobil may wish, in the future, to divest or monetize its Imperial Oil stake in order to satisfy ESG demands for reducing its carbon footprint. Exxon has already written down the value of its Canadian heavy oil assets. That would address the limited-float issue, such that Imperial Oil would become a market cap candidate for the largest equity ETFs.

Consequently, the company's valuation appears to be attractive and shares of Imperial Oil are recommended for purchase.

Company Description

Imperial Oil Limited (IMO), with an operating history of more than one hundred years, is one of Canada's largest integrated oil companies. It was founded in April 1880 by Jacob Lewis Englehart and sixteen oil refiners in London and Petrolia (both in Ontario) in response to Standard Oil's growing dominance of the oil market. Englehart was the driving force behind the partnership, hoping to emulate John D. Rockefeller and merge the entire Canadian oil industry into one conglomerate. However, Imperial struggled to compete with Standard Oil, and management ultimately decided to sell the company to Standard Oil. The

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1898 agreement specified that Standard Oil would acquire 75 percent of Imperial Oil's shares, and that Imperial Oil would acquire all of Standard Oil's Canadian subsidiaries. Over time, Exxon Mobil inherited Standard Oil's ownership of Imperial Oil, and the stake has been reduced slightly to 69.6%.

Imperial Oil is active in all phases of the petroleum industry in Canada, including the exploration for, and production and sale of, crude oil and natural gas. It is also the largest petroleum refiner and a leading marketer of petroleum products in Canada, refining almost all of its own production in its Strathcona, Alberta, Sarnia, Ontario and Nanticoke, Ontario refinery plants. Furthermore, the company controls its distribution through its Sarnia pipeline and its Edmonton Railway. It sells its production through more than two thousand Esso and Mobil branded fueling stations, all of which are owned by third parties. Because of these advantages, the company has reached industry leading free cash flow margins. Imperial also has a chemicals segment, which manufactures and markets benzene, aromatic and aliphatic solvents, plasticizer intermediates and polyethylene resin. This segment does not necessarily coincide with the business cycle, although it only accounts for 6% of revenue. It has recorded an average of just over C\$200 million per year of net income over the past decade, in a fairly narrow range. Even in 2020, it had C\$78 million of profits.

Imperial holds almost two million net acres of land, most of which is undeveloped. The majority of upstream production is in the form of bitumen from the Cold Lake and Kearl regions, which together account for 78% of upstream oil production. The remainder is derived from Syncrude, which produces synthetic crude, which is light sweet oil, as opposed to the heavy sour oil that bitumen produces. Imperial's upfront acquisition costs are generally high for its mining asset bases, but the project economics are often higher as a result of lower decline rates and lower need for on-going capital expenditures.

The Kearl oil sands project is 71% owned by Imperial, with sister-company ExxonMobil Canada accounting for the remainder. Also, Imperial holds a 25% participating interest in Syncrude, with most of the remainder being owned by Suncor (59%). The other entities, such as the Cold Lake project, the pipelines, refineries and the Chemical business are all wholly-owned.

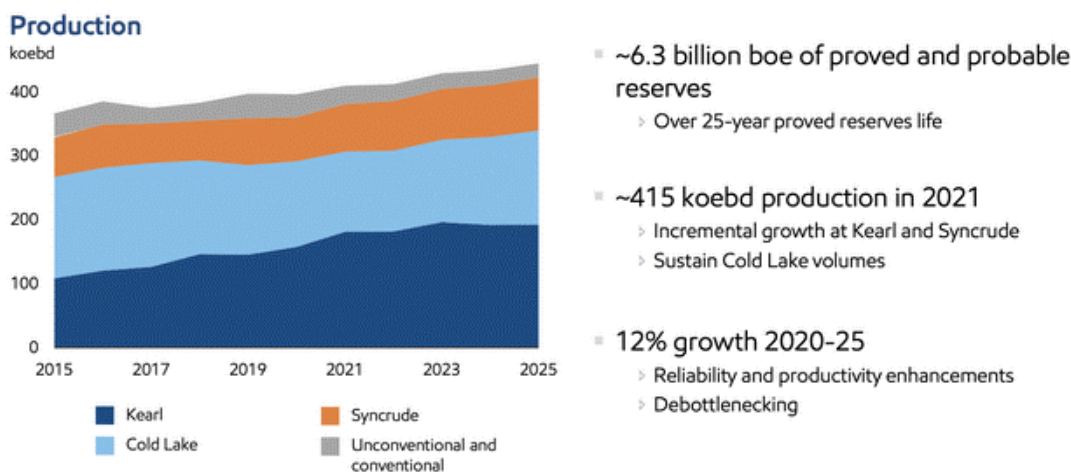
Imperial has among the lowest production costs in the industry. The estimated production cost in 2020 was approximately US\$20 per barrel for its bitumen production, and US\$36 for its synthetic oil. Because the synthetic crude is a light sweet oil, it commands a large price premium to bitumen's heavy sour crude. As a result, it sold at an average price of around US\$40 per barrel in 2020 as compared to about US\$20 per barrel for the bitumen oil.

Imperial also exports oil to the U.S. Gulf Coast market, generating around 20% of its revenues from this channel. The heavy bitumen oil is often sought after by U.S. refineries to optimize their throughput, and traditional suppliers such as Mexico and Venezuela have curtailed shipments to the U.S. for a variety of reasons, which has benefitted Imperial Oil.

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Imperial's long reserve life (more than 40 years at current levels of production) allows the company to significantly reduce its capital expenditures during periods of turbulent commodity prices, as it did in 2020. While it only spent C\$408 million in the first half of 2021, management has guided to C\$1.2 billion (US\$944 million) for the full year, which indicates almost a doubling in the second half of the year. Obviously, that is easier to justify now, when the price of oil has doubled compared to one year ago. Imperial has been ramping up construction activities for its Sarnia Products Pipeline (which will service the Toronto-area), which is one of its largest projects in the downstream segment, and in the upstream segment, the company is ramping up construction activities at Kearl with its tailings project.³

The company provides the following chart, which breaks down historical and forecasted production by source:



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The oil that Imperial produces is actually not oil, but bitumen. Bitumen is, essentially asphalt, a not fully solid, highly viscous hydrocarbon. It is a building block for oil that just was not buried deeply enough to allow the geologic processes – catagenesis – that turn hydrocarbons into a more complex forms, of which oil is one. To solve this problem, at Kearl, Imperial uses a technology known as Paraffinic Froth Treatment, whereby a solvent is used on bitumen extract to concentrate the result. This saves an energy cost associated with building a separate bitumen upgrader. Partly because of technological improvements, Since Kearl is able to produce oil at a price of approximately US\$20.00 per barrel, Imperial is able to generate substantial profit margins at the current market price of oil. In addition, Kearl has the potential to continue to improve production in the years ahead.

³ Tailings are the water, clay, sand and a small amount of bitumen that remain after most of the bitumen has been removed from the sand during the extraction process. These materials occur naturally under the surface of the land prior to being mined. Imperial manages issues associated with tailings until they are safely returned underground as part of our ongoing reclamation of the Kearl lease.

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Imperial's Cold Lake facility, which produces a similar number of barrels per day of production compared to Kearn, uses a cyclic steam injection technique to mobilize the bitumen toward the surface. This is a fairly common way to free up heavy, viscous-sometimes solid, oil and get it to the surface for processing. Cyclic steam is an older technology that has been used for decades and is very energy intensive. Imperial is considering ways of reducing the carbon intensity of this technology through alternative methods that reduce energy consumption. An example is adding water and other hydrocarbons to thin the bitumen and reduce the amount of steam necessary to free it.

While these operations appear to be capital intensive, the bulk of the fixed costs have been spent. Consequently, it is likely that, over time, operations will become more profitable and produce higher free cash flow. That, in turn, would free up more capital to be returned to investors in the form of share buybacks and increased dividends. Unlike most Canadian oil companies, Imperial maintained its dividend through 2020 and even raised the quarterly dividend to C\$0.27, which management suggests can easily be maintained at an oil price of US\$36 per barrel. In US dollar terms, the dividend has doubled since 2012 and tripled since 2005.

ETF Representation Minimal

Despite its size and scope of operations, Imperial Oil is merely an undiscovered equity from an ETF perspective. A company that is producing around C\$3 billion of free cash flow should not be ignored. Only three U.S. ETFs own Imperial Oil shares despite its large market capitalization. The largest of these is a 2.3% in the Invesco International Dividend Achievers ETF (PID) worth about US\$13 million.⁴ The total holding of all three US ETFs amount to \$28.2 million. Furthermore, the shares are held in just five Canadian ETFs, representing a total market value of less than C\$24 million. The iShares MSCI Canada ETF (EWC) owns only US\$14 million worth of Imperial Oil despite the ETF's US\$4.4 billion of assets under management. The fact that it is not well represented in indexes is largely because so much of the float is owned by its parent company.

To a degree, Imperial Oil appears to be a large capitalization stock, but, it is actually, in terms of float or tradeable market value, a small capitalization stock, since the 30% of the company that is not owned by Exxon is currently worth just around US\$6.2 billion. Moreover, the float has been in slow but steady decline, because the company's repeated buyback programs have reduced the number of outstanding shares by 17% since the beginning of 2017. In 2016, the company had 848 million shares outstanding, versus only 704 million shares outstanding now, of which only 214 million are in the float. Imperial also repurchases shares from Exxon, so that Exxon's ownership stake is maintained at around 69.6%. Since Imperial has another share buyback program in effect, from July 1, 2021 to

⁴ Source: ETFchannel.com

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June 30, 2022, which could result in a further 5% reduction in the number of shares outstanding, the float. The corresponding representation in ETFs will probably be reduced further.

There is a possibility that ExxonMobil could decide to reduce, or outright eliminate its stake in Imperial at some point. With the recent influences from Engine #1, an anti-fossil fuel organization that now has board representation, Exxon could seek to monetize non-core assets in the hope of improving its ESG rating and to please its new board. Earlier this year it wrote down the value of heavy oil assets in Canada, which could be a precursor to shedding the assets entirely. That said, a complete divestment by Exxon, unlikely as that might be, given the 123-year history, would not necessarily be a negative for Imperial, since it might then be eligible for inclusion in a multitude of other ETFs, given its then much greater free float.

Energy Investing – Still a Contrarian View

Rightly or wrongly, the basic working premise of the typical fossil fuel company is stated very clearly in the initial section of Imperial Oil's 2019 Investor Day presentation. According to this document, standard of living is essentially a function of energy use per capita. The U.S. uses about 1,000,000 BTUs per capita per day. Although this number seems fantastically absurd, a helpful frame of reference might be that one gallon of unleaded gasoline contains 114,100 BTUs. One gallon of propane contains 90,000 BTUs. A nation such as India might use 80,000 BTUs per capita per day, and Bangladesh uses perhaps 50,000. Not surprisingly, this data is extracted from ExxonMobil's 2019 *Outlook for Energy*.

Exxon, rightly or wrongly, forecasts that, even in 2040, oil will be by far the predominant source of energy, and natural gas will be the second most-used source. In fact, Exxon, in its 2019 *Outlook*, forecasts that coal will supply five times the energy demand of solar in the year 2040. The consensus view is that fossil fuels would be virtually eliminated by 2040. It is impossible to understand the energy industry without first understanding this forecast.

Energy might qualify as a contrarian investment. The managements of the energy companies are themselves contrarian, in the opinion of virtually any public intellectual. The EIA states that petroleum now accounts for 32% of global energy demand and that natural gas accounts for another 22%. According to the EIA 2050 forecast, petroleum will account for 27% of global energy demand and natural gas, another 22%. This forecast implies that natural gas production must double in the next 30 years to satisfy demand and that petroleum production must rise by more than 22%. However, almost no major energy company is making the necessary investments to accomplish this.

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Investing and the De-Carbonized World

There exist a number of movements directed towards encouraging institutions to completely divest from fossil fuel investments. According to gofossilfuelfree.org, 1,339 institutions that manage US\$14.68 trillion in assets have promised to either completely or at least partially divest from fossil fuels.⁵ The complete list, found on the website of that organization, is quite impressive in its length, and it is perpetually expanding. The organization somewhat understates its achievements, because many individuals and institutions that have yet to take the pledge would certainly not overweight fossil fuels.

Oil sands have a particularly bad reputation for carbon intensity, because of the volume of emissions created when producing crude from mines and from underground wells that require steam injection. Because of climate change trends, many upstream operators have written down or divested these assets. Examples include Norwegian energy giant Equinor, which sold its entire 19% stake (100 million shares) in Athabasca Oil sands in January of this year at a price of C\$0.19 per share. Recently, because of the recovery in the energy market, those shares traded at close to \$1.00.

Similarly, Royal Dutch Shell has divested much of its Canada oil sands assets—including a US\$7.25 billion stake in Canadian Natural Resources in 2017—which did it not help it in the Hague court ruling earlier this year. It was decided, in the Hauge, that the company has to reduce its CO₂ emissions by net 45% by 2030 (compared to 2019 levels).⁶ One of the easiest ways to move in the right direction, in that regard, is to reduce exposure to oil sands projects. ConocoPhillips also divested most of its oil sands exposure in a US\$13.3 billion transaction with Cenovus Energy in 2017⁷. Obviously, these large oil companies are experiencing unprecedented pressure to act in this manner, and the fact that Engine No. 1 now has seat on the board of ExxonMobil indicates that the trend might only intensify. Therefore, it is not unimaginable that Chevron might divest its 20% stake in oil sands producer Canadian Natural Resources' Athabasca oil sands project, as the Chevron CEO has indicated that it is not a strategic position.

An Efficient Market Hypothesis (EMH) advocate might well assert that, despite any amount of divestment, the energy stocks—which after all are a fairly limited population—would trade for the same price for which they would trade in the absence of divestment. In industry terms, everything is efficiently priced. These 1,186 institutions represent a very substantial part of the efficient market. In fact, they are the efficient market. Indeed, if the market were actually efficient, then these institutions would come to the collective conclusion that their

⁵ <https://gofossilfree.org/divestment/commitments/>. As of October 4, 2021.

⁶ While Shell is appealing this ruling, its own plan is not much different. Under its current plan, Shell will cut the carbon intensity of its products by at least 6 percent by 2023, by 20 percent by 2030, by 45 percent by 2035, and by 100 percent by 2050 from 2016 levels.

⁷ This represented its 50 percent interest in the Foster Creek Christina Lake oil sands partnership, as well as the majority of its western Canada Deep Basin conventional gas assets.

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actions theoretically have no impact and that they should not have commenced divestment in the first place.

Ultimately, diminished investment in energy will result in diminished supplies and, unless demand declines, the price should increase in accordance with the law of supply and demand. This latter principle of economics has proven to be more logically consistent than the Efficient Markets Hypothesis. Meanwhile, the list of institutional energy divestors continues to grow.

The majority of the participants in the investment business appear to believe the following propositions.

Proposition 1 The planet will dramatically reduce and quite possibly eliminate the use of fossil fuels over the course of the next 25 years.

Proposition 2 There is an enormous social stigma attached to any member of the investment community who questions Proposition 1.

Proposition 3 Energy investments are a source of portfolio volatility, so that portfolio risk can be controlled to some degree by the elimination of energy investments.

This is contrary to the EIA's forecast as, even under their sustainable development scenario, oil and gas will still account for at least half of global energy usage by 2050. However, to develop sufficient supply, EIA estimates that between US\$12 and US\$17 Trillion of additional oil and gas investment will be needed by 2040. Given the reluctance by large asset managers to invest in energy, it is highly doubtful if such capital will be available to exploration and production companies. If that is the case, the price of oil will probably increase greatly to bring supply and demand into balance.

Because of ESG trends and investment professionals' reluctance to invest in the energy sector, the energy weighting of the S&P 500 Index (SPX) has declined to a recent 2.4%. Exxon Mobil now trades at 1.27x book value, Chevron trades at 1.17x book value and ConocoPhillips trades at 1.52x, despite the fact that WTI oil prices are now at a 7-year high. In comparison, the price-to-book value ratio of the S&P 500 is 4.6x.⁸ Exxon shares yield 5.71% at a time when the 10-year U.S. Treasury Bond yields 1.48%. Chevron shares yield 5.14%. There are many energy companies with significantly lower valuations.

The pressure to invest in an ESG compliant fashion has become so intense that Standard & Poor's has created the S&P 500 ESG Index (SPXESUP) (for Environmental, Social and Governance attuned investing). However, index construction requires innumerable decisions and tradeoffs, and the results are often discordant or even perverse relative to the intended goal or product description. As an example, on October 4, 2021, the S&P 500 ESG version had a 3.1% weight in energy; yet the S&P 500 energy weight on the same day was lower, at

⁸ <https://www.multip.com/s-p-500-price-to-book>

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2.40%.⁹ Most investors have yet to switch to ESG indexes and, likewise, most indexes have yet to become ESG centric. When this transition to the ESG version of indexation happens—and happen it must—*more*, not fewer, shares of Exxon and Chevron would be purchased by reallocating funds from the S&P 500 to the S&P 500 ESG ETF.

This type of inconsistency is a feature not only of the S&P 500 Index, but also of the MSCI indexes. As of September 30, 2021, the MSCI EAFE Index (Europe, Australia, and Far East) had an energy weight of 3.74%, and the MSCI ESG EAFE Index, of 4.09%.¹⁰

The object of the divestment movement was that the large energy companies simply invest in green energy projects such as windmills or solar farms. Many fossil fuel-based energy companies, having made substantial investments in alternative forms of energy production, are thereby accorded higher weights in the ESG indexes. Thus, divestment continues alongside an increased weight in an ESG Index that reflects such green energy investments by the larger energy companies.

Incidentally, the iShares Core MSCI EAFE ETF (IEFA) has US\$96 billion of assets under management (AUM) and has an expense ratio of 7 basis points. By contrast, the iShares ESG MSCI EAFE ETF (ESGD) has US\$6.7 billion of AUM, and a 20-basis-point expense ratio—or almost 3x greater. That gives the ETF companies a strong incentive to transition investors to the ESG versions of their various ETFs while, perhaps unexpectedly, increasing their exposure to energy shares.

Complete divestment by indexation from fossil fuels would be rather daring. This divestment would be a responsible act only if there were a zero probability of a sudden and very disruptive increase in the price of oil. Because that probability is certainly not zero, a weighting of zero fossil fuels essentially means that such an index is no longer diversified. The basic idea of indexation is to provide, via broad diversification, investment representation that prepares an investor for all reasonable contingencies. If the investor is not sufficiently diversified, then that investor is unprepared. Such a situation would simply invalidate the central premise of indexation.

That said, the elimination of fossil fuels from any economy is far more difficult than the elimination of fossil fuels from an index. One way to illustrate the complexity of the problem is to consider a ubiquitous petrochemical feedstock such as polyethylene. The most common use is in the manufacture of the grocery bag, which is in the process of being eliminated. The dilemma is that virtually any food-related product sold in a grocery store is packaged in a thermoplastic container. Obvious examples are milk, all manner of juices, cheese, bread, and every salad dressing or ketchup. All manner of spices and condiments, such as basil, oregano, cinnamon, and paprika, are sold in plastic containers. People of a sufficient age

⁹ <https://www.etf.com/VOO#overview>. As of October 4, 2021.

¹⁰ <https://www.morningstar.com/etfs/xnas/esgd/portfolio>

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might recall that milk, juice, ketchup, salad dressing, and paprika were once sold in glass bottles. The bottles were eliminated, because they are heavy and consume a considerable amount of fuel in transportation. The elimination of glass containers, which was achieved to some degree, was intended to reduce fuel consumption by delivery vehicles. Although it was asserted that such measures would reduce dependency upon petroleum, the thought simply never occurred to the average citizen that all thermoplastic is produced from petroleum.

Consequently, almost any liquid—from hand sanitizers to water—is sold in a thermoplastic container. Polyethylene thermoplastic, however, is more ubiquitous than just for consumer goods packaging. The insulation on electrical cables and artificial hip joints are made from polyethylene—and that is only one of the petrochemical feedstocks.

The feedstock polypropylene is used in fabric, upholstery, carpeting, and window frames. Another feedstock, benzene, is used in chemical reactions. Small amounts of benzene are found in dyes, detergents, explosives, and pesticides. Benzene is also used to produce phenol, which is used in molecular biology to extract nucleic acids from tissue or cell culture samples. Phenol is also used in oral analgesics such as Chloraseptic sprays, and as a preservative in various vaccines. One might add polyvinyl chloride (PVC), which is used in pipes, floor tiles, and surgical gloves.

The list of industrial and commercial uses of petrochemical feedstocks continues virtually without end. The uses of petroleum as a fuel in transportation are self-evident. Fossil fuels are used as a heat source, and they are, at present, the primary means of generating electric power.

Although the following discussion might be somewhat heretical, it might provide a reason to question Proposition 1, above. In 1980, a year when oil and gas prices reached then shocking levels and provided an incentive to use coal as a substitute, if possible, the U.S. produced 830 million tons of coal. This data is compiled by the U.S. Energy Information Agency (EIA). In the first half of 2021, EIA indicates that 283 million tons were produced, 7% higher than the same quarter of 2020. At that rate, 566 million tons would be produced in 2021, which indicates that coal production has only declined 31.8% from the record-year 1980, which works out to an average annual decline of less than one percent.

Incidentally, in 1980, according to the EIA, the price of coal averaged US\$24.65 per ton. In October 2021, data from the CME indicates that some coal prices now exceed US\$250 per ton, which represents an all-time high and a quintupling compared to the price in late-2015. Even if adjusted for inflation, the real price of coal has increased significantly, given that one dollar in 1980 is approximately equal to an inflation-indexed \$3.32 today.¹¹ This is despite the fact that coal mining has become much more efficient, as has the production of fossil fuels such as petroleum and natural gas.

¹¹ <https://www.in2013dollars.com/us/inflation/>

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This is not intended to advance the proposition that coal in particular, or fossil fuels in general, will remain the dominant energy source. The point is simply that it is nearly universally assumed that fossil fuel-derived energy is in the process of being displaced. According to the available data, even coal has not been displaced; it is simply the case that coal-derived electric power consumption is not increasing, even though its price is increasing. If alternative methods have yet not displaced coal after 41 years, then such methods are not presently displacing other fossil fuels such as natural gas. In other words, fossil fuels are not being displaced; fossil fuel stocks are simply being divested. This is a vastly different matter from delivering affordable electric power from renewable sources.

In 2012, the U.S. consumed 18.6 million barrels of crude oil per day.¹² At the time, the price averaged close to \$100 per barrel. While consumption declined meaningfully in 2020, as a result of the measures taken in response to the pandemic, the U.S. still consumed 18.1 million barrels, on average, in that year. EIA forecasts an average daily consumption of 20.5 million barrels per day for 2022, which would be a 13% increase relative to 2020 and a new all-time high.

Similarly, in 2020, the US consumed 30.5 trillion cubic feet (cf) of natural gas, which is equivalent to 31.5 quadrillion British thermal units (Btu), and this represented 34% of U.S. total energy consumption. This was a 19.4% increase relative to the 2012 consumption of 25.54 trillion cf, but a slight decline compared to 31.08 trillion cf consumed in 2019. Some of this increase in natural gas consumption, which was 2.8% per year, on average between 2012 and 2019, is because natural gas displaced coal usage.

Consequently, the U.S. is increasing—certainly not decreasing—its use of fossil fuels. Despite all evidence to the contrary, the conventional and widely accepted view is that the prices of fossil fuels are falling due to declines in usage. Obviously, the elimination of fossil fuels is a very complex undertaking. If there were obvious substitutes for products that use fossil fuel, such as plastics, asphalt, and jet fuel, one might be able to forecast the evolution of a fossil-free society. Substitutes, however, do not appear to be readily available. Thus, the investment world continues to remove energy from conventional portfolios and simultaneously insert fossil fuel investments in ESG portfolios by a yet greater differential. Should supply-demand imbalances, which are already occurring, get even more material, the expected result will be spiking energy prices and rapidly improving profitability for large energy companies.

¹² All data in this section are sourced from the U.S. Energy Information Agency (EIA).

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Strong Earnings

In the first half of 2021, Imperial's upstream business produced C\$326 million of net income, which can be compared to a net loss of C\$1.052 billion in the same period last year, and that was despite the effect of an unfavorable exchange rate impact of C\$120 million in the 2021 period. The second quarter earnings were C\$26 million lower than the first quarter's, as higher realizations were more than offset by the impact of significant maintenance activity since Kearl, Syncrude and Strathcona all closed briefly for maintenance. That, combined, reduced earnings by C\$400 million in the quarter, according to management.

In the upstream segment, Syncrude's average production was 47,000 barrels per day in the second quarter, a decline of 32,000 barrels per day compared to the first quarter, as a result of maintenance. Consequently, overall production could be approximately 10% greater in the third quarter, assuming less maintenance-related downtime, which management signaled should be the case. This, coupled with a greater price per barrel, should lead to a substantial improvement in revenues and earnings. In the third quarter, WTI averaged US\$70.51 per barrel, compared to US\$66.17 in the second quarter and US\$58.14 in the first.

For the full year 2021, Imperial expects its upstream production to average 415,000 barrels per day, compared to 395,000 in 2020, while its refinery throughput is expected to increase from 340,000 last year to 375,000 in 2021. Thus, the expected improvements are approximately 5% and 10%, respectively.

	2020	2021
Upstream production (kboed)	395	415
Kearl (gross), kbd	220	255
Cold Lake, kbd	135	130
Syncrude, kbd	70	75
Refinery throughput (kbd)	340	375
Refinery utilization	80%	89%

Production represents Imperial's share, before royalties, except Kearl which is 100% gross basis

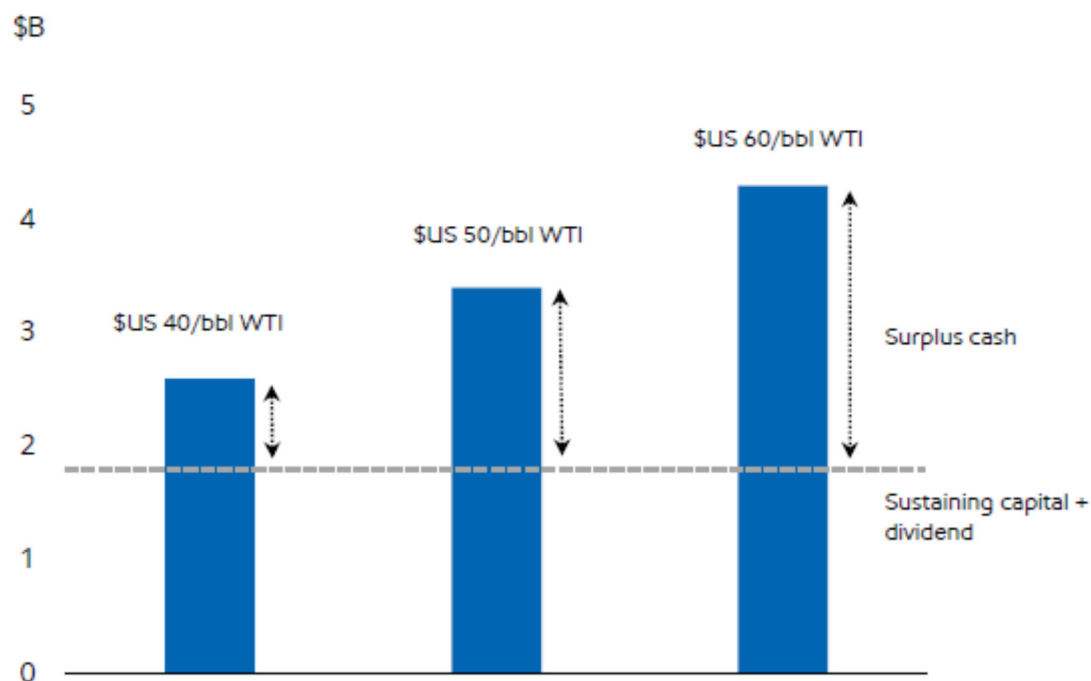
The downstream segment, which is refining and distribution, is generally considerably less volatile than the oil-price dependent upstream segment. After all, there are only a handful of companies that control the refinery and distribution business. That segment had net income of C\$352 million in the first half of 2021, as compared to earnings of C\$370 million in the volatile year-ago period. The downstream segment's net income was C\$60 million in the second quarter, as compared to C\$292 million in the first quarter, partly because of a 55-day turnaround at the Strathcona refining plant.

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On a percentage basis, the greatest improvement was realized in the Chemical segment, which reported net income of C\$176 million in the first half of 2021, as compared to C\$28 million in the first half of 2020. The improved result was mainly the result of wider profit margins. Imperial's chemical business benefits from a low cost structure, driven by its integration with the Sarnia refinery, access to readily available feed stocks and close proximity to key customers to market its products.

Management estimates that the company would break even on a Cash Flow From Operating Activities-basis with a WTI price of US\$27 per barrel. Both capital expenditures and the dividend would be covered at an oil price of US\$36 per barrel.¹³ At a WTI price of US\$60 per barrel, which is the most optimistic scenario listed by Imperial in its investor presentation, surplus cash flow, after capital expenditures and dividends, is expected to be around US\$2.5 billion. Given that the present WTI price is closer to US\$80, it appears reasonable to assume that the actual cash flows will be considerably greater compared to the US\$60-price scenario:

Cash flow from operating activities



2021-2025 period average, WCS differential varies with WTI price case (\$US 10/\$US 40, \$US 13/\$US 50, \$US 15/\$US 60 respectively), \$US 0.75 FX rate, downstream margin normalization over time
Source: Imperial's Investor Day presentation, November 2020

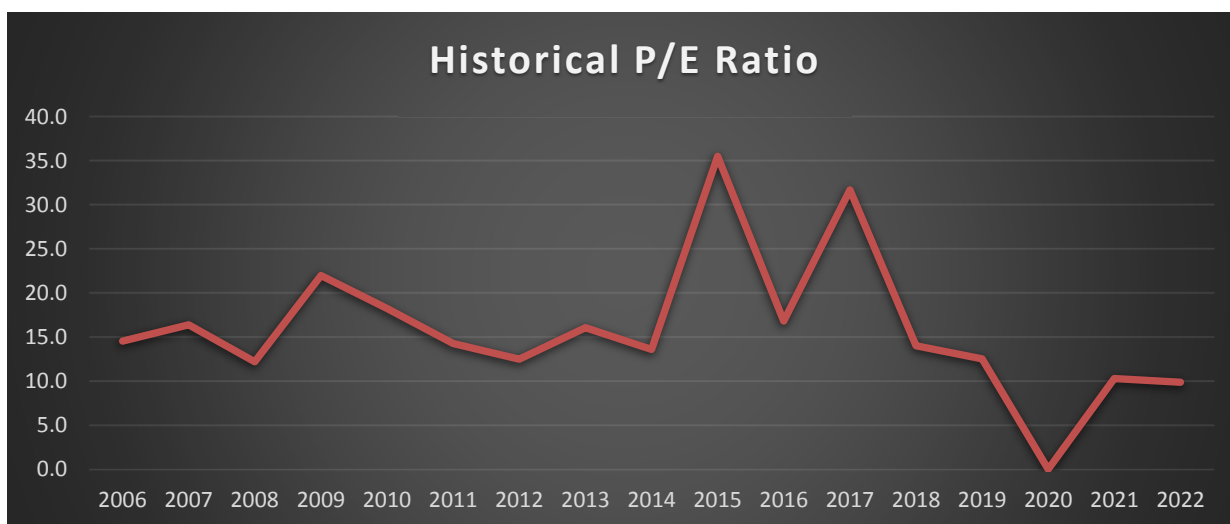
¹³ Assuming a US\$10 WCS differential, US\$ 0.75 FX rate, downstream margin normalizing over time

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Valuation

Based on Historical Valuation

With the exception of 2020, Imperial has been profitable every year this century. Its average annual earnings per share have been US\$2.35 and it has traded at an average P/E ratio of 17x these earnings:



Presently, again with the exception of 2020, earnings have been rising since 2017 and are projected to reach US\$3.44 per share in 2022.¹⁴ Should the 2022 forecast materialize, it would represent close to record-high earnings. Similar earnings were reached in 2014 (US\$3.49 per share) and 2012 (US\$3.55 per share), and in those years the share price averaged US\$45-US\$47, or a P/E ratio of around 13x. Should the market value the 2022 earnings estimate at 13x, the shares would trade at US\$45. If the 15-year average P/E multiple of 17x is used, a share price of US\$58 is indicated.

It should be noted that, despite trading at a 5-year high, Imperial's shares are unchanged compared to the 2006 level and the shares were trading higher than the current level almost all the time from 2006 to 2015, despite having considerably less earnings during most of those years. This is, at least partly, a result of the long-term bear market in energy prices and the ESG divestment trends. A rapidly increasing oil price, which appears to be transpiring, could reverse both those trends and lead to higher valuations across the sector.

Compared to its Canadian Peers

Compared to Suncor and Canadian Natural Resources, Imperial Oil has historically traded essentially in line with those companies:

¹⁴ Based on Wall Street's consensus

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P/E	Imperial	Suncor	Canadian Nat. Res.
2017	31.8x	15.6x	20.2x
2018	14.1x	23.9x	15.9x
2019	12.5x	12.0x	11.5x
2020	NEG	NEG	NEG
2021*	10.0x	9.5x	7.7x
2022*	9.6x	8.0x	9.1x

(Based on Wall Street's consensus estimates)

All three companies currently trade at the lowest forward valuation multiples in recent history, despite the fact that oil and natural gas prices have doubled in 2020. Therefore, a case can be made that they are all undervalued.

Another case can be made that Imperial should trade at higher multiples relative to these peers. Suncor processes (refines) less than one-third the volume of Imperial's production while Canadian National Resources does not have a downstream segment at all. Imperial refines the vast majority of its production. It also has a considerably better balance sheet, with considerably lower debt-to-EBITDA and debt-to-equity ratios, while trading at a lower free cash flow multiple:

	Imperial	Suncor	Canadian Nat. Res.
Debt/Equity	19%	31%	53%
Debt/EBITDA	0.88x	2.11x	1.92x
EV/FCF	9.1x	10.6x	9.2x

(As of June 30, 2020. Free cash flow represents 1H 2021 annualized.)

In 2020, Imperial's free cash flow was a negative C\$70 million, which is essentially breakeven based on its normalized revenues of around C\$30 billion. In comparison, Suncor had a loss of C\$1.25 billion. While many Canadian oil companies produced negative operating cash flow through much of 2020 and witnessed credit downgrades, Imperial maintained an AA rating which is the highest of its peer group. This is in large part due to Imperial's association with Exxon Mobil. As a result, Imperial can raise capital at attractive prices, even during industry downturns. The average effective interest rate on its C\$4.45 billion of long-term debt was just 2.0% in 2020. Therefore, at historically low P/E multiples, the Canadian oil sands companies in general, and Imperial in particular, seem to be attractively valued.

Sum-of-the-parts

In its 2020 Reserves Report, Imperial values its proven and probable reserves at C\$26 billion after tax and using a 5% discount rate. If a 10% discount rate is used, the net present value is C\$14.4 billion.

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percentage	Net present value of future net revenue										Unit value before income tax, discounted at:
	Before income tax, discounted at:					After income tax, discounted at:					
	0	5	10	15	20	0	5	10	15	20	
	billions of dollars										dollars / BOE
Proved reserves:											
Developed producing	12.6	10.3	7.9	6.2	5.1	10.0	8.4	6.5	5.2	4.2	3.85
Undeveloped	7.8	4.2	2.4	1.4	0.8	6.0	3.2	1.7	1.0	0.6	5.84
Total proved reserves	20.4	14.5	10.3	7.6	5.9	16.0	11.6	8.2	6.2	4.8	4.18
Total probable reserves	58.7	18.7	8.0	4.2	2.5	44.8	14.4	6.2	3.2	1.9	3.82
Total proved and probable reserves	79.1	33.2	18.3	11.8	8.4	60.8	26.0	14.4	9.4	6.7	4.01

Source: 2020 Reserves Report

That said, the estimates above were based on WTI, WCS and natural gas prices that are considerably lower than the prevailing price levels:

	Oil		Natural gas		
	NYMEX WTI crude oil at Cushing, Oklahoma	Western Canada Select	AECO spot price	Exchange rate	Inflationary increase
	US dollars / bbl	CDN dollars / bbl	CDN dollars / GJ	US dollars / CDN dollars	percentage
Forecast:					
2021	47.00	44.33	2.64	0.773	0.95
2022	49.75	47.89	2.58	0.768	1.00
2023	53.75	53.27	2.51	0.765	2.00
2024	55.93	55.78	2.53	0.765	2.00
2025	57.05	56.91	2.58	0.765	2.00
2026	58.19	58.04	2.64	0.765	2.00
2027	59.35	59.20	2.69	0.765	2.00
2028	60.54	60.39	2.74	0.765	2.00
2029	61.75	61.60	2.80	0.765	2.00
2030	62.99	62.83	2.85	0.765	2.00
Thereafter	+2.00% / year	+2.00% / year	+2.00% / year	0.765	2.00

For example, WTI is presently 70% above the US\$47 estimate for 2021 while AECO¹⁵ prices are 100% higher. Also, but less impactful, is the fact that the Canadian dollar has been slightly stronger against the US dollar than was predicted by Imperial, at around \$0.80 per C\$ recently. As a result, compared to the assumptions that resulted in a valuation of C\$26 billion and C\$14.4 billion above, using a 10% and 5% discount rate, respectively, the net present value based on prevailing market prices is probably 70%-75% higher, given its resource mix. Taking the mid-point of that range, and the mid-point between the 5% and 10% discount rate, results in a current net present value of C\$34.5 billion:

¹⁵ Alberta Energy Company, the local price of natural gas

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	2020 assessment	Gross up to present pricing	NPV
10% discount rate	C\$26 billion	72.5%	C\$44.85 billion
5% discount rate	C\$14 billion	72.5%	C\$24.15 billion
		Average:	C\$34.5 billion

To value the downstream segment, it should be noted that the segment reported approximately C\$1.0 billion in net income in 2019. This declined by almost half in 2020 but recovered to a C\$1.3 billion run-rate in the first quarter of 2021¹⁶. Assuming simply that the segment will return to generate C\$1.0 billion in net income, the value of the segment could be C\$14 billion. The 14x multiple is the multiple, based on consensus 2022 earnings, at which Parkland Corporation is trading. Parkland is a Canadian pure-play downstream distributor.

Finally, Imperial's Chemical business has reported net income of C\$176 million in the first half of 2021 and C\$169 million of free cash flow.¹⁷ This is approximately in line with the C\$275 million in net income and C\$329 million in free cash flow the segment generated in 2018. Westlake Chemicals (WLK) generates approximately 3x as much net income and free cash flow as Imperial's Chemical segment, and it trades at approximately 15x these measures. At such a valuation, Imperial's Chemicals segment would be worth around C\$5.0 billion.

The sum-of-the-parts valuation should be adjusted slightly to account for the fact that the net income and free cash flow measures used to value the downstream and chemical segments, are offset by approximately \$200 million of annual corporate expenses. This affects the combined C\$19 billion valuation of these two entities, but the \$200 million in corporate expenses, which is mainly financing and pension expenses, apply to the upstream segment as well. Attributing \$100 million of this to the Downstream and Chemical segment, and using the average 14.5x multiple at which these entities are valued, this would detract C\$1.45 billion from the total sum-of-the-parts valuation.

¹⁶ The net income of the three segments is offset by around \$200 million in annual corporate expenses

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Present Value of Reserves	C\$34.5 billion
Downstream Segment	C\$14 billion
Chemical Segment	C\$5 billion
EV	C\$53.5 billion
Less: Net Debt	C\$3.9 billion
Adjustment	C\$1.45 billion
Market Value	C\$48.2 billion
Shares outstanding	704 million
Value per share CAD	\$68.34
Value per share US	\$54.54

The indicated share price of \$54.54 represents a potential upside of 68% compared to the present share price.

Based on Hidden Assets

Imperial Oil owns 25% of the Syncrude Canada Ltd. project, which is 59% owned by Suncor Energy. That project has 5.1 billion barrels of proved and probable reserves, and 11.9 billion barrels of contingent reserves. In April 2016, when WTI traded at around \$45 per barrel, Suncor acquired the Murphy Oil Corporation 5% stake in the project for C\$937 million. It added another 5% interest for C\$930 million in a transaction with Nippon Oil in February 2018, when WTI stood at \$59 per barrel. Although the Syncrude Canada interest does not contribute in a meaningful way to Imperial Oil's profits, it should be worth nearly C\$5 billion if one wants to use these transactions as an example. Given that it is now 5.5 years since the Murphy Oil transaction and that WTI prices have advanced approximately 75% since that time, it is possible that Syncrude is worth considerably more. However, Imperial apparently has no interest in selling its share of Syncrude.

Imperial Oil also owns a 71% interest in the Kearl Oil Sands joint venture. Given low oil prices, according to SEC rules, the 2.2 billion barrels of bitumen at Kearl no longer qualify as reserves. However, at higher oil prices, these would be productive. Even at a \$10 per barrel valuation, Kearl would be worth $\$10 \times 2.2$ billion barrels of oil, times the 71% ownership interest, or \$15.6 billion.

According to Imperial Oil, the cost of producing oil at Kearl is around US\$20 per barrel. Even considering the discount at which WCS trades to WTI (\$10-\$15 per barrel), there is no doubt that Kearl, as well as Syncrude, are highly profitable now, whereas a year ago they were operating around breakeven.

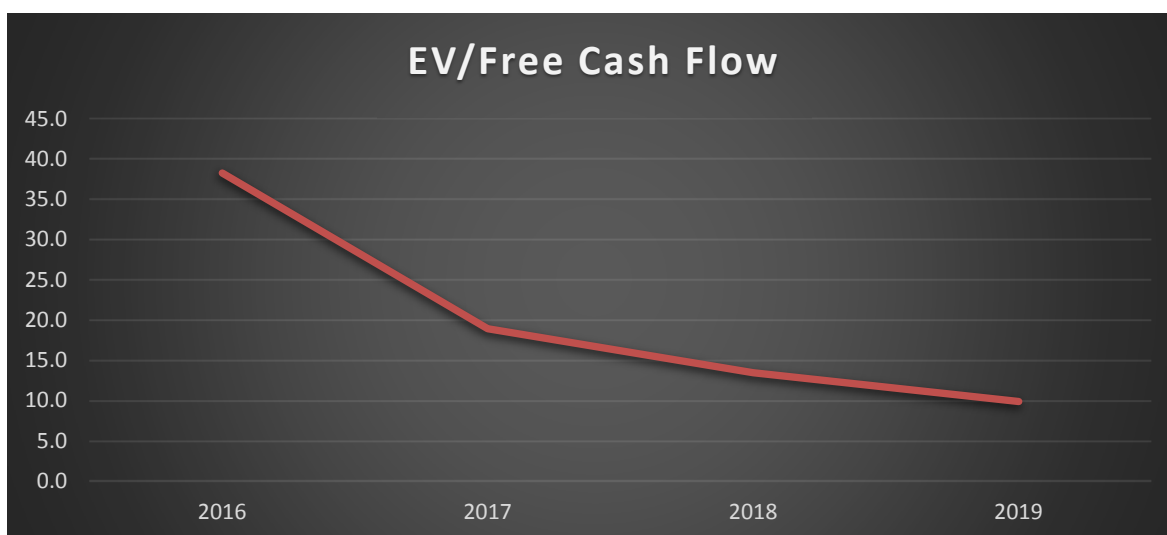
Together, the Kearl Oils sands bitumen assets and the Syncrude assets, in isolation, are probably worth close to Imperial Oil's market capitalization of around US\$21 billion. If that can be accepted, investors are, essentially, getting the Cold Lake operations, which generates

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close to half of the overall oil production, the pipelines, the Refining businesses and the Chemical business, which are all highly profitable, for free.

Based on Free Cash Flow

From 2016 to 2019, Imperial's free cash flow tripled, from C\$942 million to C\$2.79 billion. However, its share price actually declined around 20% over this period. Combined with the impact of share buybacks of approximately 10%, the company's market capitalization was 27.5% lower on December 31, 2019 compared to January 1, 2016. Thus, the increasing free cash flow, coupled with the declining market capitalization (and steady net-debt levels), resulted in a substantial reduction in its EV/FCF multiple:



This was before the vast majority of investors had heard about the pandemic, which would affect the 2020 result. Still, even in that year, Imperial's free cash flow was just a negative \$70 million. While the EV/FCF multiple narrowed greatly, from 38x in 2016 to 10x in 2019, the average was 20.1x during the period.

In 2021, on a run-rate basis, Imperial should reach C\$3.0 billion in free cash flow. And that figure is simply derived from doubling the free cash flow it generated in the first half of the year (\$1.49 billion), even though the market prices of oil and gas have increased 50% and 100%, respectively, from the levels at which they started the year. Therefore, it is not impossible that the company's free cash flow can reach considerably higher, perhaps C\$4.0 billion even in the current year, and certainly in 2022, should energy prices remain at current levels.

As discussed in a previous section, management believes that the company would generate cash flow from operating activities of more than C\$4.0 billion with a WTI price of just \$60. In fact, management has guided for C\$2.7 billion in operating cash flow from the upstream

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segment alone at a WTI price of just US\$60 per barrel. At a WTI of US\$40 per barrel, the segment is projected to generate less than C\$1.0 billion in cash flow from operating activities, which indicates how leveraged the segment is to oil prices. Consequently, at a recent WTI price of US\$80, cash flow should be considerably greater than the C\$2.7 billion specified by management as the target, which is assuming a WTI price of US\$60 per barrel. In addition to the upstream segment, the downstream and chemical segments should generate a combined C\$1.2 billion - C\$1.6 billion in 2021 in free cash flow, based on the year-to-date results.

Given the approximately C\$1.2 billion of announced (total) capital expenditures in 2021, if the company were to generate a combined cash flow of C\$5.2 billion from operating activities, its free cash flow would amount to C\$4.0 billion. At the prevailing WTI price of around \$80, this appears reasonable, if not likely. Should the company be valued at the lowest EV/FCF multiple reached in the 2016-2019 period, or 10x, the enterprise value would be C\$40 billion, which indicates a share price of US\$41 per share. At the average EV/FCF multiple of 20x, the shares would be worth US\$86.

Summary and Recommendation

Imperial Oil, despite its \$24 billion market capitalization, is relatively undiscovered and is included in just a few ETFs, mainly because of Exxon's close to 70% ownership. Still, the company is highly profitable, has long-lived assets, substantial resources with low decline rates and an operating history of 141 years. A decade-long bear market in the price of energy has left Imperial Oil's shares 50% below the highs reached in 2008, but given a substantial increase in profitability over the past few years, coupled with what appears to be a rejuvenation in energy prices, Imperial could reach record profitability as soon as next year. In the meantime, investors will collect a dividend yield of almost 3%.

Since the company devotes almost all of its free cash flow to dividends and stock buybacks, because it has a solid balance sheet that does not necessitate further debt repayments, the dividend has increased greatly—approximately tripling in the past 15 years—and share buybacks have amounted to around a 5% annual reduction in the overall share count in each of the past four years. This is expected to continue, or even accelerate with increases in free cash flow generation.

Because of its dominant position in the downstream refining segment, where it is a strategically vital asset for the Canadian market, Imperial Oil is, to a large degree, insulated from oil price shocks. Even in 2020, which was the worst year for energy companies in recent history, the company recorded a free cash flow loss of just C\$70 million, essentially break-even for a company with C\$30 billion of revenue.

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This year, free cash flow should recover to exceed C\$3.0 billion, some of which might be used for special dividends, as indicated by management. Next year, free cash flow could reach C\$4.0 billion, or more, should current oil and gas prices prevail, or increase. From 2016 to 2019, Imperial traded at an average EV/Free Cash Flow multiple of 20x. Should such a multiple be applied to free cash flow of C\$3.0 billion - C\$4.0 billion, the company's shares would more than double from the current level. On the other hand, at 1.3x tangible book value, and given its resilience to oil price shocks, as evidenced by its performance in 2020, which is largely the result of its strong downstream business, the potential downside appears to be limited. Consequently, given the seemingly favorable risk/reward profile, shares of Imperial Oil are recommended for purchase.

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IMPERIAL OIL LIMITED

Consolidated statement of income (U.S. GAAP, unaudited)

millions of Canadian dollars	Second Quarter		Six Months to June 30	
	2021	2020	2021	2020
Revenues and other income				
Revenues (a)	8,007	3,666	14,999	10,330
Investment and other income	40	44	46	70
Total revenues and other income	8,047	3,710	15,045	10,400
Expenses				
Exploration	2	3	4	4
Purchases of crude oil and products (b)	4,867	2,115	8,754	6,341
Production and manufacturing (c)	1,569	1,273	3,054	2,852
Selling and general (c)	200	183	389	349
Federal excise tax and fuel charge	465	369	869	820
Depreciation and depletion	450	413	944	886
Non-service pension and postretirement benefit	10	30	21	60
Financing (d))	13	17	27	36
Total expenses	7,576	4,403	14,062	11,348
Income (loss) before income taxes	471	(693)	983	(948)
Income taxes	105	(167)	225	(234)
Net income (loss)	366	(526)	758	(714)
Per share information				
Canadian dollars)				
Net income (loss) per common share - basic	0.51	(0.72)	1.04	(0.97)
Net income (loss) per common share - diluted	0.50	(0.72)	1.04	(0.97)
Amounts from related parties included in revenues.	1,405	747	2,913	2,483
Amounts to related parties included in purchases of crude oil and products.	666	396	1,181	1,135
Amounts to related parties included in production and manufacturing, and selling and general expenses.	106	138	222	321
Amounts to related parties included in financing	10	14	21	38

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IMPERIAL OIL LIMITED

Consolidated balance sheet (U.S. GAAP, unaudited)

	As at June 30 2021	As at Dec 31 2020
millions of Canadian dollars		
Assets		
Current assets		
Cash	776	771
Accounts receivable - net (a)	3,163	1,919
Inventories of crude oil and products	1,213	1,161
Materials, supplies and prepaid expenses	722	673
Total current assets	5,874	4,524
Investments and long-term receivables (b)	748	781
Property, plant and equipment, less accumulated depreciation and depletion	56,257	55,771
Property, plant and equipment, net	(24,664)	(23,737)
Goodwill	31,593	32,034
Other assets, including intangibles - net	166	166
Total assets	558	526
Total assets	38,939	38,031
Liabilities		
Current liabilities		
Notes and loans payable (c)	197	227
Accounts payable and accrued liabilities	4,411	3,153
Income taxes payable	42	-
Total current liabilities	4,650	3,380
Long-term debt (d)	5,065	4,957
Other long-term obligations	4,061	4,100
Deferred income tax liabilities	4,394	4,176
Total liabilities	18,170	16,613
Shareholders' equity		
Common shares at stated value (e)	1,302	1,357
Earnings reinvested	21,336	22,050
Accumulated other comprehensive income (loss)	(1,869)	(1,989)
Total shareholders' equity	20,769	21,418
Total liabilities and shareholders' equity	38,939	38,031

(a) Accounts receivable - net included net amounts receivable from related parties of \$582 million (2020 - \$384 million).

(b) Investments and long-term receivables included amounts from related parties of \$301 million (2020 - \$313 million).

(c) Notes and loans payable included amounts to related parties of \$75 million (2020 - \$111 million).

(d) Long-term debt included amounts to related parties of \$4,447 million (2020 - \$4,447 million).

(e) Number of common shares authorized and outstanding were 1,100 million and 705 million, respectively (2020 - 1,100 million and 734 million, respectively).

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This report was produced by Horizon Kinetics (“HK”). The following persons employed by HK contributed to this report: Murray Stahl, Chairman, Steven Bregman, President, and Peter Doyle, Managing Director. HK is located at 470 Park Avenue South, New York, NY 10016. At the time of this report, there are no planned updates to the recommendations. To the extent HK has provided previous recommendations concerning the same issuer(s) during the preceding 12-month period, such recommendations do not differ from the recommendations contained here.

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