

Imperial Oil Unfurls Kearl for FGP

Self-driving 400-ton trucks with \$65,000 tires. Crushers. Giant sulphur blocks. These are only some of the items one of our analysts saw on a visit in March to Imperial Oil's Kearl oil sands site in Alberta's north.

Zubaida Mirza, FGP's energy analyst, went to Kearl to validate Imperial Oil's objective to increase production at the mine to 240,000 barrels per day by 2020, up from the current 206,000 barrels per day. The company is planning to expand production to 280,000 barrels per day by 2022.

"I really like these site visits as they let me see the information and come up with my own conclusions," she says. "It also lets me compare the differences that I saw at this site versus what I have seen at Syncrude, Suncor or Horizon mines."

Local staff provided Zubaida with extensive details on all the steps needed to increase production. "Given that I have seen other operators allude to similar changes, I have much greater confidence in 280,000 barrels per day after talking to these line managers," she says.

Site visits are among the most important aspects of the detailed research our equity and fixed income analysts conduct. These visits allow us to test our investment theses and improve our understanding of quality so that we can more accurately determine a company's intrinsic value. Analysts like Zubaida, a member of FGP's Canadian equity team, glean information during site visits that they won't read in annual reports, see in company videos, or hear during interviews with senior executives.

In her March trip, Zubaida travelled 450 km north of Edmonton. As the only research analyst from an investment management firm on this trip, the visit allowed Zubaida to witness what few outsiders have been able to observe.

"It was a really up close and personal

trip with a lot of access to mine and facilities that we just haven't seen at CNQ Horizon, Suncor Fort Hills or Syncrude," she says. Zubaida went right to the edge of the oil sands mine and only metres from a truck dumping sand and bitumen into a crusher. "I can see that Imperial Oil is really coming up on the learning curve," she says. "They have changed the crusher design on the supplemental crushers to lower maintenance. They use torque-based sizers now, rather than momentum crushers."



Zubaida also climbed into a 400-ton truck – a CAT 797 – to see what it feels like. "Think huge blind spots," she says.

The Kearl mine was built between 2008 and 2015 at a cost of \$14 billion, net to Imperial. The mine holds over three billion barrels of recoverable oil and is expected to remain in operation for the next 30 years. Given Kearl's isolated location – it's a two-hour drive from Fort McMurray – Imperial Oil leases a Boeing 737 to shuttle employees from Calgary and Edmonton to Kearl, where 2,800 staff work 10-day shifts followed by 10 days off.

From an ESG perspective, Imperial Oil is very proactive. The company has invested in a thickener to turn tailings into a paste before placing them in a thin layer to dry. These tailings will eventually be put back in the mine once space allows. "Kearl will never have legacy tailings issues to be addressed," Zubaida says. Furthermore, Kearl uses a process called Paraffinic Froth Treatment (or PFT) which, coupled with Kearl's co-generation power/energy production, means that Kearl's CO2 intensity is better than older oil sands assets and can compete on a full-cycle basis with the average refined barrel in the United States.

Automation via AHS, or automated highway systems, is a key part of Imperial Oil's efforts to reduce costs. The company currently has seven self-driving trucks and plans on adding another 12 before the end of the year. Imperial Oil expects savings of 50 cents per barrel thanks to AHS. Automation, however, creates its own risks, and the company is investing more money on cybersecurity to prevent hackers from taking control of these trucks.

The key conclusion from Zubaida's trip and her subsequent analysis is that Kearl is a tremendous asset within Imperial Oil's portfolio of assets. Not only does Kearl have visible growth plans for the foreseeable future, Kearl is an asset that has multi-decade longevity with low sustaining capital costs. FGP is also comfortable that Imperial Oil continues to follow through on its focus on employee safety and continuous improvement.

In today's world where there is a constant change in energy markets, public policy and geopolitics, Zubaida plans additional trips to oil sands mines to gather more first-hand information to get at the "facts" versus "fiction", thus helping ensure FGP's clients are invested in quality energy companies.