

Imperial Oil's absolute greenhouse gas emissions reduction target Resolution

Imperial Oil Limited

Vote Yes: Proposal #1, Adopt an absolute greenhouse gas reduction target

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Prepared by Aequo on behalf of the proponents, Comité syndical national de retraite Bâtirente Inc. (“Bâtirente”) and Gestion Férique

The Proposal's Resolved Clause:

Shareholders request that Imperial Oil adopt a midterm corporate-wide target to reduce absolute greenhouse gas emissions (scope 1 and 2). Such a target should be announced before the end of January 2024.

Summary

1. By not setting a corporate-wide midterm absolute emissions reductions goal, Imperial Oil Limited (Imperial, or the Company) fails to adequately inform investors as to how it will address the risks and opportunities of the energy transition.
2. Imperial lags many of its peers, including Cenovus, Canadian Natural Resources, and Suncor, all of which have already set midterm absolute greenhouse gas reduction targets, which may place the Company at a competitive disadvantage.
3. As Canada works toward its national goal of reducing emissions 40-45% below 2005 levels by 2030, companies not in line with that benchmark can expect to increasingly face regulatory burdens. Without clear absolute targets, it is difficult for investors to assess what regulatory risks Imperial could face in the coming decade.
4. As individual customers and countries work toward emissions reduction goals, companies without absolute reductions targets, like Imperial, will increasingly face risks including an escalated cost of capital, higher operating costs due to carbon pricing, loss of social license to operate, and/or diminished access to markets.
5. **Accordingly, shareholders are encouraged to vote FOR Proposal #1: Adopt an Absolute Greenhouse Gas Reduction Target**

Background

Climate change presents a material and serious risk to investor portfolios. In 2022, a United Nations High-Level Expert Group gave the primary recommendation that “non-state actors must have short-, medium- and long-term absolute emissions reduction targets” in line with “modelled pathways that limit warming to 1.5°C with no or limited overshoot, and where global emissions decline at least 50% below 2020 levels by 2030, reaching net zero by 2050 or sooner.”¹ While Imperial has set both a company-wide goal to achieve net zero by 2050 and scope 1 and 2 intensity reduction targets for its operated oil sands facilities, the Company has not set an absolute midterm emissions target. While achieving reductions in emissions intensity can indicate important operational improvements, changes in a company’s asset mix could lead overall emissions to rise even as that company’s emissions intensity declines. Without measured and disclosed progress toward a midterm absolute emissions reduction target, investors are neither able to assess if the Company’s time-bound path to its net zero goal is realistic, nor how it will be impacted by resulting risks, opportunities, and costs.

Investors increasingly recognize that “climate change presents a major threat to long-term growth and prosperity, and that there is an urgent need to accelerate the transition towards a net-zero economy.”² The Intergovernmental Panel on Climate Change finds that to remain on a 1.5°C pathway, global net anthropogenic carbon dioxide emissions must decline by about 45% from 2010 levels by 2030.³ The Climate Action 100+ initiative, which includes investors with more than \$68 trillion in assets under management, has established a Net-Zero Company Benchmark, evaluating whether companies report all emissions in their value chains and set short-, medium- and long-term targets aligned with the 1.5°C goal of the Paris Agreement. This proposal at Imperial has been flagged by Climate Action 100+ as a key consideration for shareholders during the 2023 proxy season. The request made in this proposal is informed by five years of collaborative engagement history between the Company, Aequo, and the Climate Action 100+ collaborative investor engagement team.

As investors in Imperial, we are accordingly concerned about the growing regulatory, transition, market, and competitive risks posed by Imperial’s failure to set a midterm absolute emissions reduction target.

¹ https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

² Canadian Investor Statement on Climate Change www.riacanada.ca/investor-statement-climate-change

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<https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/#:~:text=Global%20net%20human%2Dcaused%20emissions,removing%20CO2%20from%20the%20air.>

Analysis

- I. By not setting a corporate-wide midterm absolute emissions reductions goal, Imperial Oil Limited (Imperial, or the Company) fails to adequately inform investors as to how it will address the risks and opportunities of the energy transition.**

The request made in this proposal is in line with the expectations of the world's largest asset managers, including Blackrock.⁴ We acknowledge and appreciate that Imperial has set a net zero by 2050 target, as noted in the Company's statement of opposition to this proposal. We commend Imperial for progress toward this goal, including steps cited in that statement: Membership in the Pathways Alliance, progress toward a 2023 emissions intensity goal for its oil sands operations, and a new medium-term emissions intensity goal for its oil sands operations.

However, while emissions intensity reductions indicate welcome improvements, investors need to understand how and whether Imperial is aligned with the level of action needed to reach global emissions reduction targets, including those set by Canada.⁵ In order to limit global warming to 1.5°C, global emissions would need to be reduced by at least 43% by 2030, according to the IPCC⁶. And while Imperial writes in its statement of opposition that it has considered potential interim milestones, with only seven years remaining until that benchmark year, investors need clear information now about how Imperial intends to align its business with the global energy transition and Canada's own stated goals.

Further in its statement of opposition to this proposal, Imperial cites concerns about releasing "additional company-specific medium-term goals that are potentially misaligned with the anticipated Government of Canada cap currently under development" and states that "as public policy and technology advancements emerge, including policy supports and details of the emissions cap, Imperial will be in a position to share its refreshed plans and related goals." However, to act as prudent investors, we need to understand how Imperial plans to progress toward its stated long term targets. Imperial's own net zero by 2050 goal will ultimately require absolute emissions reductions. A clear midterm absolute emissions reduction goal will help investors understand how Imperial's business will remain robust in the coming years and decades.

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<https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-global-policies-summary-2023.pdf>

⁵ https://publications.gc.ca/collections/collection_2022/eccc/En4-460-2022-eng.pdf

⁶ <https://www.ipcc.ch/2022/04/04/ipcc-ar6-wgiii-pressrelease/>

2. Imperial lags many of its peers, including Cenovus, Canadian Natural Resources, and Suncor, all of which have already set midterm absolute greenhouse gas reduction targets, which may place the Company at a competitive disadvantage.

Cenovus Energy has set a goal of reducing absolute emissions 35% compared to 2019 levels by 2035⁷. Canadian Natural Resources has set a target of reducing absolute emissions 40% by 2035 compared to 2020 levels⁸, while Suncor Energy has set a target of reducing emissions 10 megatonnes by 2030⁹.

In not setting a midterm absolute emission target, Imperial increasingly stands alone, augmenting and highlighting the increasing market, transition and regulatory risks the Company faces in comparison to its peers.

3. As Canada works toward its national goal of reducing emissions 40% below 2005 levels by 2030, company operations not in line with those targets will increasingly face regulatory burdens. Without clear targets, Imperial's investors are unable to assess what penalties and risks the Company could face.

In its statement of opposition to this proposal, Imperial writes that *“there remain many unknowns including yet-to-be developed government policies, market conditions and advances in technology that may influence the cost, pace and availability of potential future pathways. In addition, as part of the Government of Canada’s 2030 Emissions Reduction Plan, it is anticipated that the Government could issue a medium-term GHG cap for the entire industry.”*

Regulatory details may yet emerge, but the spirit of Canada’s 2030 and 2050 goals is quite clear. The longer Imperial delays in disclosing the concrete steps toward its own 2050 absolute emissions reduction goals, including setting midterm absolute reduction target, the more exposed the Company will be to risk from regulations aimed at ensuring attainment of Canada's goal. To the extent that Imperial remains unwilling to commit publicly to a midterm absolute reduction target, the Company prevents investors from understanding a key piece of the Company’s transition plan.

Further, as noted above, many of Imperial’s peers have not seen fit to cite this rationale for inaction.

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https://mc-ced23ebb-4707-4c95-9c94-3171-cdn-endpoint.azureedge.net/-/media/Project/WWW/docs/sustainability/2021/2021-esg-report.pdf?rev=45bf1a4e20464dd0bd82154411fff1db&sc_lang=en&hash=B2241BE6D75EB7F4CD0A30297BD58690

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<https://www.cnrl.com/content/uploads/2022/12/1130-2023-Budget-and-New-GHG-Emissions-Reduction-Target.pdf>

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<https://sustainability-prd-cdn.suncor.com/-/media/project/ros/shared/documents/climate-reports/2022-climate-report-en.pdf?modified=20221124191332>

4. As individual customers and countries work toward emissions reduction goals, companies without clear targets, like Imperial, face potential risks including an escalated cost of capital, loss of social license to operate, and diminished access to markets.

Failure to demonstrate commitment to ambitious absolute emissions reductions can pose a risk to access to financing. The six largest U.S. banks have all committed¹⁰ to drive carbon neutrality in their financing by mid-century. Members of the Partnership for Carbon Accounting Financials, which counts 100 financial institutions responsible for over \$21 trillion, now report emissions for financed activities including the energy sector¹¹. It is increasingly clear that companies without a clear strategy for lowering their carbon risk profile will face higher costs to access capital and credit markets, putting any other future financial and operational plans in jeopardy. Setting a midterm absolute emissions reduction target would send a strong signal that Imperial's strategy is aligned with the expectations of financial markets.

Local communities are increasingly ensuring they have a say in what infrastructure development goes forward¹². The need to acquire permits can delay oil and gas production and infrastructure projects by years.¹³ By establishing a midterm absolute emission reduction target, Imperial can help demonstrate to stakeholders that the Company is serious about meeting its stated climate targets, helping to garner trust and enhance the ability to confidently proceed with project plans.

Additionally, by establishing a midterm absolute emission reduction target, Imperial would provide assurance to stakeholders that the company has a credible plan to reach net zero emissions.

¹⁰ <https://fortune.com/2021/03/09/wells-fargo-climate-carbon-neutral-net-zero/>

¹¹ <https://carbonaccountingfinancials.com/>

¹²

<https://www.thestar.com/news/canada/2022/04/15/citizens-officially-win-fight-to-ban-oil-and-gas-development-in-quebec.html>

¹³

<https://www.michiganradio.org/environment-climate-change/2023-03-24/enbridge-line-5-tunnel-project-in-michigan-delayed-another-1-5-years>

Conclusion

Imperial Oil's current approach to reducing greenhouse gas emissions does not include a midterm absolute reduction. In our opinion, this creates unnecessary reputational, regulatory, and transition risks associated with the energy transition. It also leaves investors without sufficient information to accurately assess Imperial's value and carbon risk profiles. As responsible fiduciaries, we seek to assess whether the Company is adequately mitigating climate-related risks compared to peers.

We acknowledge that Imperial faces uncertainties. What we seek with this proposal is an insight into how the Company plans to manage those uncertainties, and what interim goals will guide its business strategy through these critical years. Imperial's current lack of an absolute midterm emissions target undermines shareholder and stakeholder confidence that the Company is moving toward its stated long-term goals.

Accordingly, we urge you to vote FOR proposal 1: Adopt an Absolute Greenhouse Gas Reduction Target on Imperial's proxy card.