Board of Trade of Metropolitan Montreal

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Oil has driven economies for generations and is still the fuel of choice for emerging economies. Oil products account for 39% of our total energy needs in Quebec and at least 95% of our transportation fuel. Every day, Quebecers pump 38 million liters of gasoline and diesel into their cars and trucks, about 14 billion liters per year.

Alternative energy choices are emerging and public policy more and more favors feasible least-polluting options, yet overall energy needs are not declining and oil is likely to remain very significant in our lifetimes. The International Energy Agency forecasts continued worldwide energy demand growth to be up 35% by 2035 and although oil's percentage share in the overall energy balance will likely decrease, more total oil will be needed. We are blessed here in Quebec with renewable hydro-electricity but that is not the case everywhere else – only 16% of North America's electricity comes from hydro power and 39% still comes from coal-fired plants, so innovation will likely have to come from the lucky few with hydro power. A recent study by the Montreal Economic Institute says that Quebecers consume 48% more electricity than other Canadians and 90% more than Americans and that is mostly cost-driven. Consequently, Quebecers consume less oil per capita compared to the North American average but we are still among the larger per capita consumers of overall energy.

These unpleasant smelling oil products we don't ever touch and shop for at 50 kph are so critical to our everyday lives, and I suppose this is why we are so sensitive to their economic impact on us. But beyond the obvious transportation uses in anything that moves, demand is increasing for petrochemicals to make medicines, cosmetics, your jeans, paints, your Tupperware and, as was pointed out to me, even the plastic credit card you use to pay for gas. It's hard to imagine a day without oil products; they simply make our lives work better.

This remains a dynamic and ever-evolving business in every aspect. The technologies we use and the products and services we provide today are nowhere close to those of years gone by. New vehicle technology combined with cleaner fuel formulations have reduced smog and acid rain related emissions by 90% in the last 10 years. New vehicle consumption and gasoline quality standards are on the horizon. Our company in Canada will blend over 400 million

liters of biofuels into our products this year, most of it done at our Montreal East facility, and this will reduce our carbon footprint.

Our energy future is far more complex than our energy past. And this while technology changes, market dynamics evolve and endless information - good and bad - swirls around us. The tendency to polarize the debate is unproductive – hydrocarbon development does not mean environmental doom and more responsible energy development does not mean economic collapse. But we do have to find the right place to be to avoid unwanted consequences.

What is transpiring today in the North America crude oil industry is not a transformation, it's a revolution. No one saw this coming. Our challenge is to keep up and even stay ahead or risk being marginalized and uncompetitive.

This slide points to the shifts in crude oil supply underway. Atlantic Basin crude supply continues to deplete while growing Asian demand competes for our cargoes, and this combined with the explosive growth of land-locked mid-continent crude oil production is reworking the oil supply map. The recent recession and the introduction of ethanol, coupled with stricter quality regulations for products demanding massive investments, have caused the closing of many weaker East Coast and European refineries – including a Montreal East refinery. All such closures are the final step in an inevitable destiny once investment stops.

Here are the production projections for the Canadian oil sands, the Bakken fields and the West Texas developments. The International Energy Agency predicts that the US will be self sufficient in oil by 2030 and will surpass Saudi production by 2020 by employing and improving conventional and non-conventional crude oil extraction technologies. The impact on the US economy will be immense as crude imports decline. In Canada, all the refineries combined consume 1.8 MMBPD of crude oil. Crude production alone in Western Canada will increase from the 2.7 MMBPD level reached at the end of 2011 to 4.5 MMBPD by 2020, two and half times Canada's total current needs and more than 7 times demand for refined crude from Western Canada. As you can see, the oil will go somewhere.

Here are the recent impacts of these market supply conditions on the pricing of crude oil and as you can see the spread between typical Brent crude out of the North Sea versus a Canadian grade from the booming mid-continent has grown tremendously. With the production not only sustainable, but expanding, we can expect this pressure to persist until markets are reached. In the last 12 months, a Great Lakes and Sarnia area refiner has a crude acquisition advantage over an East Coast refiner of about $22.50 per barrel, that's a difference of about 25%.

Right now, the demand and production of gasoline and diesel are pretty much in balance in Quebec, although product imports and exports are needed to balance our seasonal variations and the Ontario market. The most pressing issue for ensuring that you can continue in the future to buy your petroleum products from a local producer is access to the cheapest crude oil possible. The reversal of Enbridge's Crude Line 9B is not just nice-to-have.

This same pipeline, which was reversed towards Sarnia in 1998, is now in a context that's exactly the opposite. The responsible economic reflex is to put it back into its original state to flow from west to east. This crude is already starting to move by rail, by ship, by new and redirected pipelines to refining centers everywhere in North America. To be left behind would compromise our competitive position and expose the remaining refining and petrochemical business in Quebec to undue risk.

Citizens have concerns on all energy and infrastructure projects now and their questions are legitimate. But what to believe given the information that finds its way to the forefront from special interest groups?

We want all of our business activities to be sound, and we are depending on the science of published analyses, the efforts and investments of the project's owner and the established review authorities to ensure that we have a sustainable and safe project. No scientific information leads us to think otherwise.

Valero anticipates the synthetic upgraded crude or other light crudes to be used will improve environmental performance at our refinery due to the fact they are usually lower in sulfur and generate very little residual heavy oil.

This Line 9 reversal project will result in Valero investments of $140MM in Quebec, the bulk of which will be at our Montreal East facility, create about 200 construction jobs and 100 permanent new jobs to operate the state of the art ships to move the crude from Montreal to Levis and ongoing positive impacts for all services like pilots and tug boats, etc. There will be additional benefits to the Port of Montreal and with this additional tonnage Valero will become its biggest customer.

I now want to clarify the Valero-Ultramar status in Canada. Ultramar Ltd. has always been our operating company in Canada, a fully owned subsidiary of Valero Energy Corporation since 2001. Valero is the largest independent refiner in the world with 16 refineries and a total capacity of 3 MM BPD of crude oil. With revenues at $139 billion in 2012, Valero is number 9 on the Fortune 500 and it has a market cap of $22 billion at the moment. Valero is one of the largest renewable fuels companies with 10 corn ethanol plants and a new renewable diesel production venture on stream this year. We own a 50 megawatt wind farm with 33 turbines

in Texas and are partners here in Quebec with Enerkem, a leader in the field of cellulosic ethanol.

A new independent company called CST Brands Inc. was established for our retail assets to generate value for shareholders and promote future capital growth and the spin-off became effective on May 1st. The Ultramar brand offering remains the same and Valero guarantees supply. The Ultramar brand will be operated exclusively by the new company with the same management team.

Today, I am announcing that our company in Canada will adopt our international corporate name and become known as Valero Energy Inc. in English, and Énergie Valero Inc. in the appropriate French form. Our operations generate annual revenues of $12 billion and involve operating expenses exceeding $500 million. Our Wholesale group sells to all sectors of the market with the Montreal Terminal as our main hub. Our products reach as far as the Greater Toronto Area to the west, Newfoundland to the east and we are major suppliers in upper NY and Vermont States and into Maine. If you travel by plane from Trudeau, Pearson, Ottawa, Quebec, Plattsburg or Burlington, you will likely travel with Valero jet fuel and you probably have Valero propane in your Bar-B-Q tank at home. Over the next year, you will start to see the Valero logo appear throughput our operations. But we're the same people, the same company. All our Vice Presidents located at our Montreal office are from Quebec, even myself being originally from east end Montreal.

All members of the management team at our Levis Jean Gaulin Refinery are from Quebec, graduates of Quebec universities, and they all contribute to the success of this outstanding industrial facility. The installation has 465 employees and combined with our Montreal East Terminal – one of the largest petroleum terminals of its kind in Canada – we present a significant contribution to the Quebec economy and keep many entrepreneurs busy servicing our business. We are currently in a major maintenance period and more than 1,700 workers are now on the refinery site, in addition to our own employees.

The Jean Gaulin Refinery is not an ordinary refinery. It is the second largest by crude capacity in Canada. It is one of the top refineries in North America for return on investment and lowest cost per barrel refined – a competitive edge we do not want to lose.

Based on available data, it has the lowest GHG emissions intensity of any refinery in Canada, as you can see. This is not by accident. Our total investments in Canada have been $2.7 billion over the last 12 years, including 1.7 billion at the refinery, since Valero has owned Ultramar.

Valero supports initiatives by both the Canadian and Quebec governments to reduce overall emissions and GHG's but we do insist on recognition for our performance and early investments. Otherwise, we would put our operation at great risk compared to much less

efficient refineries here and abroad. Honestly, Quebecers have good reason to be proud of this world class industrial complex and the skills of the local people who operate it.

Our new Pipeline Saint Laurent has been in operation since December bringing refined products from Levis to Montreal. It reduces greenhouse gas by 37,000 MT per year of CO2 equivalent. This project cost $400 MM and provided work for thousands of construction workers and professionals. We crossed more than 700 private properties and 240 waterways while installing 243 kilometers of new pipelines. Our agents have sat in hundreds of kitchens working out details with land owners and have held hundreds of community meetings to ensure a comfort level with this major project. It took us only 18 months to build the pipeline, but it did take 6 years to achieve all approvals and permits. We have to seriously question the current process to enable sustainable and environmentally sound projects to get done. Although we insist on respecting people's concerns, we also should question to what extent regional interests serve the general public when major investments are stalled. Not everyone would have had our tenacity and patience.

Valero's community involvement is very important to us, after all this is where we live – United Way, Breast Cancer, local health centers such as MUHC-CHUM, Montreal Sacre Coeur Hospital, Hotel Dieu de Levis, and our own company Foundation's dedication to youth issues, especially school perseverance.

Obviously, gasoline, diesel and jet fuel are still needed here for many decades to come. We will adjust to the gradual progress of alternate fuel sources and we will even be part of the process in some cases. We will continue to invest in Quebec and Eastern Canada. Our major turnaround maintenance underway at this moment at our Levis refinery and our Line 9B preparations will total investments of over $300 MM. We will continue to invest in our people and their skills and contribute to the development of the entrepreneurs that support our business and generate thousands of jobs. I wish to emphasize that our investments are not subsidy-dependent and it is often quite the contrary, as we must overcome the contrary stream of public energy policy while ensuring your energy needs are met.

We have world-class industrial complexes in Montreal and Levis that provide the cleanest petroleum options available and we believe we need to protect them.

Whether it is Saskatchewan potash, British Columbia softwood lumber, Quebec iron ore or Alberta oil and gas, we need to get our natural resources to market to support our economy and way of life. Being able to process our own resources here at home is added value to us all.

And should Quebec find commercial oil and gas resources, Valero will be first in line to build the integrated economic value. We are one of the largest industrial consumers of natural gas in Quebec and this gas is purchased from Western Canada, thousands of kilometers away. We would like nothing more than to have local production and lower costs.

For now, we need to focus on redirecting the $15 billion Quebec refiners spend every year buying crude oil overseas back into our own economy and keeping our refining and petrochemical business at the top of its game.

To succeed, we need free access to raw materials and free access to markets and logistics to allow us to meet the global challenge. We need investment projects to get approved in a reasonable time and we need to respect responsible development.

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