Imperial Q4 2018 Earnings Call

Friday, February 1st, 2019

Operator: Good day ladies and gentlemen, and welcome to the Imperial first quarter 2018 earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will follow at that time. If anyone should require assistance during the conference, please press star then zero on your touchtone telephone. I would now like to introduce your host for today's conference, Mr Dave Hughes, Vice President, Investor Relations. Sir, you may begin.

Dave Hughes

Vice President, Investor Relations

Opening remarks

Morning everybody, thanks for joining us. Just before we get started I would like to introduce who we have here in the room, we have Rich Kruger, Chairman, President and CEO, John Whelan, Senior Vice President of the Upstream, Dan Lyons, Senior Vice President, Finance and Administration, and Theresa Redburn, Senior Vice President, Commercial and Corporate Development. I am also going to start by noting that today's comments may contain forward-looking information. Any forward-looking information is not a guarantee of future performance and actual future financial and operating results could differ materially depending on a number of factors and assumptions. Forward-looking information and the risk factors and assumptions are described in further detail on our fourth quarter earnings release that was issued earlier this morning, as well as the most recent form 10k, and those documents are available on SEDAR, EDGAR and at our website, so I would encourage you to refer to them. Rich is going to start making about 20 minutes of remarks or so, and then we will turn it over to Q&A, and as we have done before, we did offer the opportunity to folks to submit questions ahead of time. We did get a couple of questions, so we will probably go to those first and then switch over to the live Q&A. So, with that, I will turn it over to Rich.

Rich Kruger

Chairman, President and CEO, Imperial

Opening remarks

Good morning, before I detail the fourth quarter and the full year F&L results, I would like to offer a few comments on the overall business environment. Stepping back, if you look year over year, we saw WTI increase by about $14 a barrel. It was $51 a barrel round numbers in '17, it was about $65 a barrel in '18, WCS or Canadian heavy on the other hand, was flat in both years, at $39, so said differently, the differential increase to the full extent of the WTI growth. A sobering phenomenon for Canadian heavy oil producers who have not enjoyed that, what you have seen in terms of the global price growth. I will come back to us here in a moment. Now, more specifically to the fourth quarter, I would characterize it by even higher price volatility with the largest WCS-WTI differential that we have seen at $40 a barrel, and also Canadian light differentials blew out, with MSW trading in the quarter $27 below WTI. Now, all that said, given the differentials, Imperial our corresponding financial results illustrate the competitive advantage of operating under an integrated business model with a uniquely balanced portfolio across the value chain, balanced in terms of roughly 400,000 barrel a day upstream production, 400,000 barrel a day of refining throughput and some 500,000 barrels a day or so of petroleum product sales. With widening differentials, our downstream benefits from price advantage feedstocks, while our upstream realizations with lower absolute prices are adversely impacted, however we partially offset that by a series of advantaged logistics.

Intervention in a free market

Now, of course on December 2nd, the government of Alberta took an unprecedented action of intervention in a free market, by imposing mandatory upstream production curtailment effective January 1. The order to artificially withhold production resulted in immediate manipulation of market prices, some material shifts in company specific market capital valuations heading in to the new year, and I will have more to say on this topic at the end of my overall fourth quarter and full year comments.

Performance

With that, I will dive in specifically to the performance. For the full year net income, $2.3 billion, up 1.8 billion versus ’17, this is our highest annual earnings since 2014. 2017 had some upstream non-cash impairments on the order of about $560 million. If I look across kind of by business line, the upstream after climbing into the black through the first nine months and despite very strong operational performance in the fourth quarter, the price environment resulted in negative earnings for the quarter, and negative earnings of 138 million for the full year. Downstream conversely on the heels of three strong quarters, the fourth quarter set a record with low cost feedstocks and strong operations, and that also resulted in a full year earnings record of nearly $2.4 billion. I will offer more comments specifically in upstream, downstream, as well as chemical here shortly.

Cash generation

Relative to cash generation, our full year cash generation generated from operating activities approached $4 billion for the year and I think it is interesting to note that this performance is comparable to our annual average in the 2012, ’13 and ’14 time periods, where for those three years, we averaged just a bit above $4.1 billion a year, so just within 100 million/150 million or so, but it is even more interesting to note that during those three years, WTI averaged $95 a barrel and WCS averaged $73 a barrel, so $30 a barrel higher than what we experienced in 2018, and I think underlying that comparable cash generation, despite a much lower price environment are a number of enhancements we have made to the organization over time, upstream, downstream, chemical, and I will flag some of those as we go forward. Now, relative to that cash gen, working capital changes reduce cash generated from operating activities by about $700 million in 2018, essentially all in the fourth quarter associated with accounts payable and receivable balances, with lower downstream feed stock prices in particular. Capital and expiration expenditures for the full year we finished a bit above $1.4 billion consistent with previous guidance that we had issued throughout the year 2018. We were just shy of a billion dollars or 70% of our total spend in the upstream, again consistent with previous communications, and nearly $400 million or the vast majority of the rest of our Capex was invested in the downstream.

Sustaining capital

Our investments were largely sustaining capital in nature, along with previously announced projects, so the sustaining capital on the order of a billion dollars and the projects on the order of $400 to $500 million. The biggest piece within the projects was our Kearl supplemental crusher at just shy of $200 million investment on the year, and I will offer more comments on Kearl shortly, but that project is on schedule and on budget for year-end '19, start-up.

Capital allocation strategy

Dividends paid and share repurchases, just to recap our capital allocation strategy is to maintain a strong balance sheet, pay a reliable and growing dividend, invest in attractive growth opportunities and return surplus cash to shareholders through buybacks as and when available. Balance sheet continues strong, $5.2 billion total debt, 18% debt to capital, we had just essentially a billion dollars' cash balance at year end, relative to dividends, 24th year of consecutive growth, $572 million paid, that was about 10% higher than dividends paid in '17, our per share dividend declared was 73 cents for the year, versus 63 cents in 2017, and of course this morning we had declared a dividend of 19 cents a share, payable on April 1st to shareholders on record on March 4th. The share purchases, nearly $2 billion for the year, almost 49 million shares; this was up from $600 million and 16 million shares in 2017, combined at more than 2.5 billion our dividends and share purchases are our highest cash return to shareholders since 2007.

Operational performance

Shifting to operational performance, starting with the upstream production, had a very strong fourth quarter with production of 431,000 oil equivalent barrels a day, this included liquids production of 407,000 barrels a day; our highest quarterly liquids production in company history. Now, for the full year, 383,000 oil equivalent barrels a day, up 8 KBD or about 2% year on year, and it was really a bit of a tale of two halves. The first half we were at 353,000, followed by a second half of 413,000 oil equivalent barrels per day, so up 60,000 oil equivalent barrels per day, half on half, or 17% and I would take you back to our mid-year earnings call where we commented on how we were positioned for a strong second half, with the vast majority of our maintenance work both upstream and downstream, behind us in the first half, and I think the second half unfolded precisely as we would have expected it.

Liquids production

For the full year, liquids at 361, this was our second highest liquids production ever on a full year basis. Going to Kearl, following a series of reliability improvements, our unconditioned commitment was to deliver 200,000 barrels a day, annual average at Kearl in the year 2018. Through the first half we averaged 181, so we were down by a couple of touchdowns at half time, and in the second half, we averaged 230,000 barrels a day, bringing the annual average at Kearl to 206,000 barrels a day, consistent with what we expected and what our commitment was. This was our best year ever at Kearl, topping last year's 178,000 barrels a day by 28,000 barrels a day or 16%. The fourth quarter results, they were reduced by an estimate of roughly 20,000 barrels a day, we had a few weeks of planned maintenance at one of our two plants, that carried over from September with the work completed as planned by mid-October. Typical activities, crusher wear-plate replacements, vibration screen repairs, hydro transport line, inspections rotations, valve inspections and the like, activities typically associated with an oil sands mining operation. Looking ahead, I commented on the supplemental crusher, all of that work continues to go well, not only the crusher, but flow interconnections that we will make to optimize and improve the overall utilization of all of our equipment and that is on target, on budget for year-end ’19. What that will do is take us full from the annual average of the current, roughly 200,000 barrels a day, we delivered in ’18, the roughly 200,000 barrels a day we expect to deliver in ’19, and then we’ll bump us up to reliably a 240,000 barrel a day level starting in 2020.

Cold Lake

Continuing with Cold Lake; we had previously communicated, we expected Cold Lake to ramp up throughout the fourth quarter and approach 160,000 barrels a day by year end, and average about 148 for the year. We did ramp up somewhat. We averaged 147,000 barrels a day for the year. We fell a bit short of our year-end target production of that, plus or minus 160 with some short term steam management challenges but also coupled with optimizations that we undertook late in the year as a result of very low bitumen prices, such as reduced well work of this sort for the last few months.

Syncrude

Moving on to Syncrude; when we last spoke about Syncrude, November 2nd, we were fully ramped up and running, following the extended recovery from the June 20th, high voltage transformer failure and the resulting site wide power outage we had. The operation ran extremely well for the entire quarter, resulting in a best ever quarterly production of any quarter, at 89,000 barrels a day Imperial’s share, the previous best were two different quarters back in time at 87,000 barrels a day. Norman Wells average 7,000 barrels a day in the quarter, you will recall that a bit more than two years ago, Enbridge proactively suspended shipments on their line 21. This is the export pipeline for Norman Wells, there were integrity questions and after a lengthy regulatory process, 2 kilometers of the nearly 900 kilometer pipeline were ultimately replaced, that enabled us then to start resuming operations essentially at the start of the fourth quarter with some 300 wells and associated flow lines, we had expectations that we would ramp up over time, to roughly where we were before the shutdown, at about 10 KBD, that ramp up progressed well ahead of schedule averaging seven in the quarter, and we were at 9,000 KBD in the month of December.

Refinery throughput

Refinery throughput at 408,000 barrels a day, it was a strong operational quarter with no major maintenance work performed and capacity utilization at 96% was also quite high. For the full year, 392,000 barrels a day, up nine from the prior year, a bit more than 2%, and we had a full year utilization at 93% up from 91% in the prior year. This has been a – with margin atractiveness in the downstream business, this has been a high priority area for us, and just I would comment that ex. turnarounds over the last five years, we have averaged a capacity utilization of about 96%, and that compares to the prior five years, 2009 to ’13 where we were at 89%. So this has been a very concentrated focused effort to fully utilize our facilities and make hay while the sun shines, and that’s exactly what that organization has been doing. 2018 included a number of best evers at each of our three refineries, Sarnia worked the entire year without a single reportable injury of any type, the first time in its 121 year history. Nanticoke had its highest ever facility utilization improving 6% from its previous best, and Strathcona achieved record performance in asphalt manufacturing. These are a few of the best evers we delivered in the downstream or in the refining business. In the first quarter, all three refineries are up and running, expected to do so until about mid-March when we will kick off a regularly scheduled maintenance turnaround at Sarnia, which is part of the typical periodic three-year cycle that we will undertake. We will comment more at this at the end of the first quarter, and then as it wraps up in the second quarter, we will more fully detail the impact of that work.

Petroleum Product Sales

Turning to petroleum product sales, 510,000 barrels a day for the quarter. Our strategy remains to profitably grow petroleum product sales via branded sales into strong markets and product channels, long-term strategic supply agreements with major customers, superior product offerings to meet our customers' need. In 2018, relative to this strategy, we focused our growth areas in several areas, expanding the Esso, Mobil nationwide branded retail network, increasing sales into high value asphalt markets and increasing aviation fuel sales into major commercial hubs, most recently Vancouver. For the full year we average 504,000 barrels a day, our highest annual sales in nearly 30 years, 2018 was one of only three years in our history with sales above 500, the others go back some 30 years and this was immediately after the merger acquisition that we had with Texaco Canada back when. The record full year was led by record sales in asphalt from 18,000 barrels a day to 23 in '18, and jet fuel sales that increased from 37,000 barrels a day to 41.

Largest retail fuel network

We now have the largest retail fuel network in Canada with some 2,200 sites nationwide up 200 sites versus the prior year, in a large part due to the relationship with Loblaws and the introduction of the Mobil brand into Canada. Third party data suggests that as of the fourth quarter we are now the number one in branded retail volumes nationwide with a bit more than 21% market share. Downstream earnings at nearly 2.4 billion dollars, our highest ever annual earnings, when you exclude 2016, when we had a material gain on the sale of retail sites. Our previous best was 2014 at $1.6 billion, so we were $800 million better than our best ever. Historic high price advantage heavy crude runs were a part of our story throughout the year, we averaged 94,000 barrels a day into our facilities versus 64,000 barrels a day, averaged over the last several years, nearly a 50% increase, taking advantage of those price advantage feed stocks.

I previously mentioned retail asphalt and jet fuel volumes growth, they were all part of the story, the fourth quarter with earnings of 1.1 billion was also a record quarter, and the previous best year was in the fourth quarter of '13, at 625 million. Chemicals, second highest earnings ever at 275 million for the full year, this was $12 million short of our 2015 best ever of 287. Polyethylene continues to lead the way, that's the storyline, some 40% of volumes and more than 70% of earnings. In our press release, we highlighted a few other areas of importance during the quarter including a series of agreements with Indigenous communities in the Athabasca region. These are areas we work very closely, and we look to enhance opportunities for consultation, environmental performance, economic benefit through community funding, employment, and business contracting opportunities, so we were pleased to conclude a series of agreements at that point in time. I had a couple of other comments in our release around some environmental efforts where we relinquished some land to support a biodiversity area, and then our continued major sponsorship of Esso Minor Hockey Week with some 13,000 kids play nearly a 1,000 games in a week here in Calgary, and for those of us in Calgary it's a real highlight early in the year.

2018 in summary

To wrap up 2018 quickly, I did not detail in any great length, but we had strong safety, our operation integrity and risk management performance. Our net income and cash flow were the highest since 2014. What we returned to shareholders via dividends and share purchases, the highest since 2007, a growth in liquids production, record at Kearl, record downstream earnings, highest in company history, refinery throughput up year on year, petroleum product sales also up, Chemicals' second best year ever, and we did a number of things that helped position and prepare us for future growth and value addition, most notably continuing the Kearl investments for the supplemental crusher, progressing Strathcona co-generation project to improve energy efficiency and then the approval of $2.6 billion for our 75,000 barrel a day Aspen in situ project which will use SA-SAGD technology.

Curtailment order

Before I turn it over to you for your questions, I want to offer a few comments on the government of Alberta's curtailment order, and I take us back to the fourth quarter, we had a perfect storm occurring with increasing industry production, seasonally high refining maintenance, inventories at tank tops, no new pipelines, and rail ramping up but lagging overall takeaway needs. The result was the blowout in both heavy and light spreads and also as important are absolute low crude prices for heavy and lights that occurred. Driven by financial and political considerations, December 2nd, the government announced the curtailment order 325,000 barrels a day, shy of about 9% of the provincial production, effective January 1, there was a 10,000 barrel a day exemption for each operator, the implication being 28 producers out of 421 would bear the full burden of this.

Fundamental principles

I publicly commented that we disagreed with this government action for a number of reasons, three fundamental principles; one we think free markets work and we think the market was indeed working, uneconomic production was being shut in. We believe that intervention to artificially manipulate markets, introduce free trade risks, particularly in an integrated market such as North America. Last but not least we think investor confidence can be counted as damaged at a time when we already have a confidence issue in Canada. The assertions that government intervention will quickly rebalance the market, our view is they're ill informed. The fact of the matter is predictions and consequences are uncertain in terms of timing and ultimate impact, time will tell here. The relationship with United States, our largest trading partner, with the North American energy market was designed and built to allow free and unrestricted flow of energy across borders, and actions to manipulate or influence/affect prices we again fundamentally disagree with.

Prospective investors

For prospective investors, we think Canada and Alberta, we already have some challenges, market access, regulatory uncertainty, relative fiscal competitiveness, and for our existing investors, government intervention that deliberately and artificially alters the value of assets and investment decisions, denies our investors the opportunity to benefit from their prior independent and informed decision. So, in short, with a stroke of the pen, the government began picking winners and losers; we think this action is unfair, anti-competitive and not representative of a free economy in a modern democracy. Now, everything I have just said, I have said before, so I felt the need to say it again, from an industry perspective, each company makes independent and informed decisions on strategies and investments over time and our view is just like each one of us in our individual lives must live with the consequences of our decisions, we think companies also should live with the consequences of their decisions.

Where are we at Imperial?

The stump speech aside, that said, where are we at Imperial, and what are we doing? We are doing everything we can to maximize the competitive value from our assets and our investments, we are doing everything to limit the curtailment scope and duration, and we are doing everything we can to encourage or deter government from taking any future or further intervention actions. We are a month into this, market factors continue to unfold, we have seen absolute crude price changes, we have seen heavy and light differential changes, we are rapidly seeing crude by rail utilization change, market clearing cost, we are seeing some producers who encouraged and now are complaining about actions that have been taken, so it is going to be, and we expect it will be a very continued active period. At the end of the first quarter, we will be better able to describe and perhaps quantify the impacts on Imperial and we intend to do so. At this point in time, I imagine you have questions on that, but estimates or projections are going to be difficult and in many cases speculative. So, with that, I will turn it back to Dave and we will kick off the Q&A process.

Q&A

Dave Hughes: Okay, as I mentioned at the outset, we did provide the analysts an opportunity to pre-submit questions, so we do have a couple here, and we will start with those and then we will go over to the live Q&A. So the first question was from Mike Dunn of GMP First Energy; how has mandated curtailments Alberta impacted Imperial's previously stated plans to ramp up crude by rail volumes in 2019, from approximately 125,000 barrels a day in Q4, and your hopes to eventually use all of the terminal's, 210,000 barrel a day capacity?

Rich Kruger: Mike, thanks for your question, our Edmonton rail terminal utilization - maybe step back, context, the industry saw crude by rail increasing dramatically at the end of the year with the incentive to move crudes to the US in particular, Texas/Louisiana Gulf Coast, highest value market and for the last several months we are exceeding 300,000 barrels a day. We were a big part of that ramp up, after the first nine months of the year where we averaged round numbers, 75,000 barrels a day, in facility utilization, in October we bumped it up to 117, in November we were at 153 and at December we were at 168, a full likely around or a bit more than half of the full industry crude by rail utilization. We averaged, doing the math on that, 146,000 barrels a day for the quarter, and that was above what we had communicated earlier we thought we would achieve, and that was all good because of the big differentials and the tremendous incentive to provide take away capacity by rail. We were also on plan, for the first quarter, I think we had said something that we expect in the first quarter, 170, 175 roughly. We were on track to achieve 180 to 190 of the facility's full utilization, 210,000 barrel a day capacity, so all that was unfolding perhaps a bit better than we said. Today, the differentials have collapsed and the incentive to move crude by rail has been erased; it is negative, it's uneconomic to move crude by rail at this point in time, so unfortunately we are ramping down rapidly on the month of January. I anticipate I think our average will have been about 90,000 barrels a day, half of what we had targeted and in February, with current conditions as they are and differentials, we expect to be at or near zero. I think the implication is that crude by rail should be helping to alleviate this situation in the province but now because of the drastic dramatic manipulation and impact on differentials, take away capacity is now being idled. That is a sad state, a very tangible example of what we believe is ill advised, ill informed, negative consequence of this curtailment order. I cannot say it and describe it in any other way, so thank you for your question, Mike.

Dave Hughes: Okay, the next question is from Phil Skolnick of Eight Capital. Were you one or the only seller of crude to Valero in the US Gulf Coast via rail in Q4 and are the Venezuela sanctions making you look to increase your rail efforts today?

Rich Kruger: Well, I take that kind of reverse, the heavy crude demand in the Gulf Coast is high, and if you look at their traditional supply sources, whether that's Venezuela or other sources, there is less supply from traditional sources, and that makes Canadian heavy highly valued, and that is the optimum, the best market for Canadian producers to strive to get their crude to, so we have contract pipe commitments that we have talked about, roughly 100,000 barrels a day, that allows us to get there. Then of course our rail terminal was the other major mechanism to get to that market, so that still remains the best market we want to get there at all but we need to get there in an economic manner, and I just commented on rail, so that we kind of had one leg taken out from under us on that, but still getting barrels there is the right thing to do. Specifically, to who we sell to; we typically do not talk about the commercial dealings of who we sell, we give prices and volumes, and see, I think you know who the big consumers of heavy are, in the Gulf Coast, and any and all of those parties are customers, but we typically do not detail specific customers and certainly not volumes to any particular customer.

Dave Hughes: Okay, so now we are going to turn it over to the operator to initiate the live Q&A.

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

Manav Gupta (Credit Suisse): Thank you guys for taking my question, a quick question on Aspen, you guys plan clearly well ahead and by 2022, you should have KXL and you have capacity on it, so EDGAR should not be issued at Aspen at all but just in case there are some delays at KXL again, what is the backup plan to get the Aspen volumes out of Hardisty.

Rich Kruger: Appreciate the question, it is a very timely question and just reflecting on Aspen, it was five years in the making from a regulatory review and approval standpoint, we are excited about the technology, the economic and environmental benefits that come with it. We like a bit of a countercyclical investment timing, investing when there is a lot of industry capacity and things. But I will tell you that as we funded Aspen late last year, the uncertainties around pipeline market access were there, of course Line 3 was progressing if there were some issues to be resolved. Keystone XL has the challenge in Montana and the case in front of the Nebraska

Supreme Court, but those are moving. They are difficult to guarantee or predict outcomes on it, but we knew eyes wide open that we have uncertainty around material new expanded market access via pipe. Underpinning Aspen, our ace in the hole was our rail terminal, we were using less than half of its capacity with our base business in the normal operation, I commented on the first half of the year. So the rail in the wide range of scenarios that we look at before we make major commitments, rail was our backstop or you heard me describe it as our insurance policy for future growth that went with Aspen.

At Aspen at 75,000 barrels a day with diluent is roughly 100,000 barrels a day at Dilbit and we had spare capacity on the order of that amount. Now, the curtailment order, it has introduced a new risk and a new uncertainty, and we can say, 'Well yes, but it is short term' and things like this, let us see; is it short term? I do not know, so what we are doing is we think it is prudent on an investment like that to reevaluate and look at the assumptions. The latest outlooks on various pipes and it is easy to say certainly by 2022, we will have Keystone and we will have this, that is easy to say, but as I look back, there have not been a lot of new pipes in quite a while, and it is fundamental to the strong economics, so we are reevaluating the assumptions, looking at market access timing. We are looking at now with intervention, the impact of curtailment, what could that have, and you say, well fast forward a few years, certainly we will be out of this situation. I do not know. A lot of things I would have said six months ago, well certainly we would never intervene in a free market, so we are going back, we are looking at these things, this is exactly what we are doing is reevaluating, the project quality is high, I do not think the question is if, the question is what is the right or optimum timing for Aspen, is it continuing exactly as we have outlined or is it something different, and that is what we are taking a look at right now. If and when we have any changes to it, those would be things we would communicate.

Manav Gupta: Thank you so much, I have a very quick follow up, do you have any insights or any colour you can provide on Enbridge Line 3, what are you seeing over there? Any possibilities of delay? The reason I am asking this is because we agree with you that government should not pick winners and losers here, and there is a possibility that if Enbridge line three is on track then the government might fully roll back the cuts, so that is why I am asking the question.

Rick Kruger: Well, I think you bring up a good point, get to Enbridge Line 3, but what are we looking at right now in the marketplace to give us confidence in whatever expenditures or growth. Well certainly the curtailment situation, how it unfolds, and we are literally only a month into this, you saw differentials collapse from well beyond rail parity, to now differentials are at pipe clearing and rail's not economic. Do we start to see as the government relaxes curtailment? Do we see those differentials move back into where rail incentive for clearing by rail now is incentivized again? That could happen, so we will see that over the few weeks. The political situation, just the warnings of intervening in free markets, that is not as easy and as definitive as we thought. Do we see further intervention? Do we see less? Do we back out of it? Line 3 is a key one. The approvals are largely in place but is not across the goal line yet. There is a lot of construction and certainly Wisconsin, the Canadian side, a bid in North Dakota bit, we have Minnesota is the last piece of that puzzle and then Keystone XL. So, all of these things are the things that we are paying very close attention to, so that as we develop our business plans, not only short term but longer term, we do that with eyes wide open and the best understanding of what risk and uncertainties and value is there for us.

So Line 3, you know, a lot has been public on what is going on with it. Enbridge, I think the latest they are talking about is the target of having an operational at the end of the year. We are certainly supportive of that. Line 3, will help in this with the incremental capacity nearly 400,000 barrels a day. I do not have anything that I would add, other than what Enbridge already says, so I think that is the current target, but they are not out of the woods yet in getting some of the final resolutions they need in the state of Minnesota. Some construction permits and some things, I believe after the public utility commission has provided the necessary approvals. There are still some other things they require before they can start laying the welding pipe and we will pay very close attention to that, and it will be a real good barometer of the timing of a material new addition to market access capacity above and beyond what the potential of rail is.

Manav Gupta: Thank you so much for taking my questions.

Rich Kruger: You are welcome.

Operator: Our next question comes from Emily Chieng, from Goldman Sachs, your line is now open.

Emily Chieng: Thanks Rich, my first question is just around Syncrude, it delivered a very strong quarter of production in the fourth quarter, I guess, how sustainable is this going forward? Can you talk a little bit about what were the perhaps cultural changes that took place that drove that strong production? Just on a slight tangent but still on Syncrude, there were reports from Conoco yesterday around someone perhaps looking for alternate sources of diluent this year, has that got any impact on the way Syncrude needs to market its product?

Rich Kruger: You know Emily, I look forward to the quarter when I can say, we are there and you can expect this from Syncrude each and every quarter. So many times over the last several years when we have had strong quarters, which we have, I have been tempted to say that and I have learnt that it is a never ending challenge. Now that said, there is no question that we are seeing fundamental structural improvements in Syncrude over time, with the introduction of best practices, the support of Imperial, ExxonMobil, and now increasingly Suncor, so the identification and addressing what have been some of the root cause challenges, in many cases particularly associated with the upgrading the cokers so we continue to believe we are on the right path and when you see a fourth quarter, you know that does give us a lot of confidence going forward that the things we are collectively doing, the ownership are doing, are the right things.

But then I go back to June 20th and the power outage we had and we did not see that coming also, so it is hard to make promises and all, but what we have seen and what we have said is we see Syncrude as our share 75 to 80,000 barrel a day, kind of an annual average as they have varying degrees of turnarounds and maintenance work that continues to be what we expect, and as we look to the new year '19, that is what we have in our business plan and I think all the actions are supporting that progress. Now specifically, the marketing the product again, it is kind of like the earlier question, I do not tend to get into that. What we do is we are always looking to get the highest value for any production and on the downstream side we are looking to get the most price advantaged feed stocks, so if there are opportunities here in the market, you mentioned ConocoPhillips with some others, and that affects what we can do or provide to maximize value of Syncrude; that is exactly what we will be doing. But I am not commenting specifically on that one. One, I do not know enough about it right now, but we are always looking to get the highest value wherever we can in the marketplace for anything we produce.

Emily Chieng: Appreciate the colour, and just one follow up, on the share purchase program in light of where the macro environment is today, and then coupled with the spending levels that are associated with Aspen, I guess, what is a reasonable run rate to think of going forward, knowing that you guys are still – when you sanctioned the Aspen project, you guys did not think that it was in conjunction with the capital allocation program that you had.

Rich Kruger: Fair question and what I have said before is a year and a half, coming up on two years, we would not have reinstituted a share buyback program if we thought it was going to be something that would be short term in nature. Now, we have also said that if you look at our capital allocation strategy and kind of that pecking order I describe about paying, strong balance sheet, the dividend, quality investments, sustaining Capex, we have always looked at the share buybacks as kind of the fly wheel to go up and down, if and when we have surplus cash. I take the environment today, this year we generated just shy of $4 billion, WCS was $39 a barrel, I will get to differentials in a minute. Last year, or 2017, WCS was $39 a barrel and we generated just shy of $3 billion. The storyline in the year were differentials and what that did on our downstream. In '17 the Canadian light differential was $3 or $4 a barrel, the WCS was $12 or $13, that was 17 and we generated $3 billion. In '18, those differentials were much bigger, we generated four.

If I look today or literally yesterday, WCS $44 a barrel, the Canadian light differential about 4 bucks, the Canadian heavy differential, about 10 bucks, so all of that is about where we were in '17, when we had strong downstream performance, we had strong upstream cash generation, WCS is a bit higher today, so it is hard to predict for the year because we are looking at a snapshot in time, but the dividend roughly $600 million, we have released the capital guidance, 2.3 plus or minus billion dollars, including some 800 million in Aspen, and so you march down from the dividend the Capex , I think the share buybacks, it will be dependent on the macro environment what it does, and how our true spending unfolds. Our intent is that we will continue at a ratable level but it will depend, we also have a billion dollars' cash on hand, and we typically do not carry a lot of cash. I think we still have a great deal of flexibility to do all those things that are important to us. Strong balance sheet, reliable and growing dividend, fund attractive growth projects and the sustaining capital in there, and then continue to return surplus cash to shareholders if and as available, and I still see that as a part of our 2019 business plan. Absolute quantum is difficult to say, it is always difficult to say because it depends on a number of things, but I do not think my earlier comments including with spending on Aspen, I stand by my earlier comments, I think '19 will be much the way we have described it in the past.

Emily Chieng: Appreciate the comments Rich, thank you.

Rich Kruger: Thanks.

Operator: Our next question comes from Prashant Rao from Citi, your line is now open.

Joeseph Ng (Citi): Hi, good morning, this is Joe on for Prashant two questions; first I would like to get your thoughts on Canadian light pricing and expectations for the differential to WTI, it seems to be back near WTI now, as we head into the back half of the year and IMO 2020 with incremental demand on middle distillates, is it reasonable to expect that Canadian light pricing in the market could take a premium to other light benchmarks, specifically to the WTI?

Rich Kruger: Okay, well you know I think first of all if you start with Canadian light, you have to start with Brent and WTI and global macroeconomic. On the Canadian light side of things, broadly we are selling at a bit of a discount from WTI of course. The differentials have come back in so on an absolute level it is a tough question because it depends on first global activities and then it comes back. Now, for us when we have a glowing differential with Canadian light, that net-net is a benefit to us because our refining, we tend to be a heavy oil producer, a lighter oil refiner, but also with where differentials are right now, that is where 2018 was kind of the anomaly year, and it is back to kind of where we were in 2017 or beyond.

But, I will go beyond what I usually do in forecasting and I will give you a few thoughts. For the curtailment strategy to work, I think a healthy rail takeaway capacity needs to be up and running, and with where differentials have led to now, that is not happening. So, you have seen reports of inventories drop down in the month of January, well that is while rail was still providing a level of export capacity, although the incentives may not have been there throughout the month, folks were unwinding and I have described us; we have largely unwound our rail terminal, so half of that capacity that was there in December, supporting reducing inventories and clearing the market here, has evaporated. So, what I think you will see here now is, and I hope you will see, is differentials start to move into the range where rail economics are positive and then industry rail and our terminal can start providing a material takeaway capacity and that would say differentials would need to be somewhere in the $15 to $20 a barrel range, or largely where they were for the first nine months of last year, before the fourth quarter and all the events of the fourth quarter.

I hope we have seen kind of a swing on differentials where they are uniquely tight, and we are in a pipe clearing mode, and I hope you start to see them swing back, maybe with a little bit of the relaxation of the curtailment order, any number of things, and when we get into that range, the rail business for industry will be back and running, make good economic sense, and I think that will help get the province back into the balance it strives and in particular, get us back to where we are operating under free market conditions without government feeling the need to try to move the dials and because what we have learnt here is that is quite difficult to move a dial and predict an outcome, and we are not a big fan of negative unintended consequences. Now, IMO, we have talked about that at a point, most recent at our investor day, again here, a lot of assumptions around what goes on, on that, but I would say, if you look at us, relative to our fuel production and our distillate, we think net-net that is going to be good for distillate. I do not have the number affirmative, but I think we produced 183,000 barrels a day of distillates and sold in the year, and then with our flexibility and our facilities we feel that we are quite well positioned to deal with IMO specs, however and at whatever pace they unfold. I will just refer back to our comments, I think it was Dan Lyons talked about it in November at our investor day; we went into that in a bit more detail and our views on that really have not changed in the last couple of months.

Joseph Ng: Thank you for the comments, and the second question, like past Line 3 any thoughts on potential alternative logistics or transportation solutions into the US Gulf Coast other than the Keystone XL, perhaps maybe involving a series of connections including the current pipeline reversal plans?

Rich Kruger: Well, I think kind of the foundation to your question is, getting heavy crude to the Texas/Louisiana Gulf Coast, and it is a no-brainer in terms this is the largest concentration of heavy oil processing facilities in the world. There is a large and growing demand for it and supply sources have either been choked off or diminished over time. That is the winner-winner, as a producer, that is where we want to get heavy oil to. Obviously US Midwest provides some strong markets too, and we want to do that, but for growth opportunity long-term for the industry, it is getting it to the Texas/Louisiana Gulf Coast, and it reminds me of an old movie, Planes, Trains and Automobiles; any way we can get there in the right market conditions makes sense. We have invested in contract pipe, we have invested in a rail terminal, we support Keystone XL with contract commitments for expanded access, I think we remain the largest shipper on the Enbridge mainline today and there are some kind of further tentacles that go down beyond the mainline that feature Gulf Coast access, so any and all of those avenues, I think you will find Imperial Oil quite supportive of, because it gives us a long-term market access capacity to advantage of the strongest market for heavy oil. And I will have my hand up any or all of those to help with the long-term growth of our industry, our company and get into the highest value markets. Line 3 in KXL are the two furthest along on the drawing board, and I think I can safely say that any pipeline sponsors or proponents are looking at any and all ways they can continue to enhance capacity, whether it is new, and/or existing lines, to get production to those markets.

Joseph Ng: Thank you, I appreciate the colour.

Operator: Our next question comes from Dennis Fong from Canaccord Genuity, your line is now open.

Dennis Fong (Canaccord Genuity): Hi, good morning guys and thank you for taking my question. The first one is just a bit of a follow on to the share buyback program, from what you were essentially outlining there, is it safe to assume that at the time of the announcement, last June, for your 40 odd million share buyback, and you guys being about half way through that right now, should the assumption still be despite, we will call it the volatility in the current market, both on a WTI basis as well as on a differential basis that your intention is still to complete the first or the second half of the NCIB, and then reevaluate the go forward, we will call it level, that you can renew the NCIB at, at June at the time of renewal?

Rich Kruger: Yes, I think when you get to June at time of renewal and things get a little more difficult, I would like to have a few more months under our belt and see where things lie, but as we sit here today, and what we are continuing to do is quite consistent with the renewal of middle of last year, and as we look at sources and uses of funds, a lot can change in a month or two and we saw that here in the last month or two. But, our execution of that, I certainly would never describe it as we are blindly executing that, but where we are today, we are continuing that and I expect that we will continue. On the renewal itself, Dennis, I really need a few more months and just seeing what kind of transpires in the market to be able to offer you any comments with any degree of confidence. But, I go back to the year before when we instituted this thing; we would not have done it if we thought it was something we would turn on and turn off, but largely for the first almost year of that program, we were at a lower pro rata rate, what, $250 million a quarter, round numbers. We bumped that up last year with improved performance and higher cash flow to something that has averaged more recently, kind of the $400 to $500 million a quarter, and moving up and down at a consistent averaging ratio, that is the way we want to do it. I do not see us going all in on one quarter, then slamming the breaks on, on the next quarter, so we will look at continuing it, but I think the next several months will give us – hold that question and ask it at the end of the first quarter call and give me a few more months of financial performance, and I will be in a little bit better position to kind of speculate with you and looking ahead.

Dennis Fong: Alright, I will hold you to that. The second question here is just, at your investor day, you highlighted a few further debottleneck projects at Kearl, at frankly fairly strong capital efficiencies; how should we think about potentially these projects in light of, not just your current view of the market, but kind of how you are thinking about the project in aggregate here as well?

Rich Kruger: Well I think you hit on it well, they are very attractive from a capital efficiency, capital intensity, and we described it as something on the order, if I recall, round numbers, 40,000 barrel a day of incremental capacity potential, above and beyond the post supplemental crusher, so John Whelan did a good job of articulating how we go from 200 to 240 and then describe what a pathway to 280 could be, and with a series of enhancements, debottlenecks, that we would think of in aggregate would be quite capitally efficient. So, near-term, all eyes are focused on getting the supplemental crusher and the flow interconnect done, complete by the end of this year and then up and running. At the same time, we have a set of really smart folks that are working on the supplemental debottlenecks that could get increment by increment. When we get supplemental crusher up and running and determine, are we truly at 240, is it something other than 240? Is it 245? Is it 250? Then we will be able to sharpen the pencil on the true value of each increment, but I do think it is safe to say that given the overall capital intensity attractiveness of that basket of opportunities, those will be things we will be looking to pursue, and if the performance is supplemental crusher were off by a little bit, I do not think that is going to take these opportunities and say they are not attractive, this is just going to help us determine how attractive. But first things first, supplemental crusher, flow interconnect this year, and those things, and I think John described it as they would unfold over the following few years, and the next time we talk at an investor day or something, or as this year goes on, we will probably be able to get more definitive on those, but everything we outlined in November remains true to form, in terms of what our expectations are for Kearl over the next several years.

Dennis Fong: Okay perfect, and just kind of the last follow up there, just given, we will call it the potential operating cost impact of being able to expand production at Kearl, for fairly low cost, I do not want to make it sound like it is agnostic frankly to market egress situations, but how should I be thinking about those potential, I guess, influencing factors on deciding around the potential of this project, or projects.

Rich Kruger: I am sorry, on how market access would play into further expansion?

Dennis Fong: Exactly.

Rich Kruger: Yes, I think it gets back to a lot of the conversations that we had either on Aspen, clearly we are going to need to be able to move this stuff and if you look at the timeframe on it, the 40,000 barrels a day, the supplemental we are working on now, in today's world it would compete for pipe space, like others. We have strong positions with the production that we have had with the downstream takeaway capacities we have. I hope, as I have said, that we get back into where rail makes economic sense, but as you keep adding increments, whether that comes at Aspen at 75,000 barrels a day, or another two increments of 40 at Kearl, you have to have confidence you are going to be able to get it to attractive markets. Now, the benefit of that second 40 at Kearl is kind of like Aspen, it is a little bit further out there in time, and we will have the time and the benefit to see how dust settles on the current situation we are in, and I know I am repeating, but Line 3, Keystone XL and rail, and any other way to get crude to market, so you cannot say we are indifferent or oblivious to expanded market access, but I think in Kearl we will have time to see how these things unfold and those potential investments, debottlenecks, I would expect with market access, incrementally would be quite attractive.

Dennis Fong: Great, thank you.

Rich Kruger: Thanks Dennis.

Operator: Our last question comes from Greg Pardy from RBC Capital Markets, your line is now open.

Greg Pardy (RBC Capital Markets): Good morning. Thanks Rich, for doing the call again. It probably suggests that your indication on the ramping down rail is going to have a pretty immediate impact on the market, but I did want to come back and just ask you a little bit about that in terms of what your cost structure is then in terms of crude by rail, call it from Alberta to the Gulf Coast, and then how you think about ramping up or ramping down. Is that thought process in the context of fully loaded costs or do you also think about variable costs? Just trying to get your thinking there, and then how fast can you ramp up crude by rail then if the differential does blow out again? Thanks very much.

Rich Kruger: Thanks Greg, I welcome your question. What we have said before that with the efficiency of our terminal, the direct access we have to markets, and just kind of all of the component parts that have built up crude by rail, and it is more than a terminal and it is more than having access to tank cars, it is having the power and people agreements on rail service providers. It is having the offloading capabilities with customers, so you do not put a rail deal together overnight, and we have been working on this for several years and feel that we have a rail facility that is on the low end of the cost curve, in terms of rail. In numbers we have said before, kind of round numbers, $15 a barrel roughly fully loaded cost. But, we do look at, just as you say, and you rightfully say it, is when we are making decisions on economic optimizations, that is the cost that will be in it, but we are looking at variable costs. And if the variable cost is $9 or $10 a barrel, and that is more attractive than what a differential is, we will move it by rail. So, with current differentials and what has happened for us, I would say it is on a variable cost basis; we are kind of close, that right now full cost rail does not make sense, variable cost for us, it is close to it. The question you ask about ramp up, that is one that we, within our interactions with the government, it has been really important because as you redeploy things because they are no longer economic, and we, in our rail terminal, have put together quite an attractive deal there with the relationship with ExxonMobil and access to rail cars, we can redeploy them, we can pull them back, but you do not do that overnight. If cars go away and they are in West Texas Permian service, and now the economic incentive is there to bring them back into Canadian service, well they have to complete what they are doing in Texas and then you have to get them on a track and you have to bring them back here, and that takes time. So there are numbers of estimates and so the specific answer to your question really depends on while restoring what level of capacity, is it a 30,000 barrel a day, 60,000, 90,000 or 120,000? Each of those come with different timelines to do it, but I would tell you it is certainly not days and weeks, it is months. Now, is it a lot of months or short months? It kind of depends on the capacity you would seek to reinstate, and what we have done, because we believe this rail terminal is very valuable to our company, but we also believe it is very valuable to the situation here, to expand takeaway capacity and get us back into a market operating world again, we are trying to do the absolute best we can, so that as the differentials may incentivize rail again, we can get back into the rail business as fast and efficiently as we can. Now, all that said, I am not much for waiting on the bus in cold weather if I am losing money, so we have been redeploying because that is what makes the most economic sense to do.

Greg Pardy: Okay, thank you very much Rich.

Rich Kruger: Yes, you are welcome Greg.

Dave Hughes: Okay, so that takes us essentially to the end of our time, did you want to offer some closing remarks, Rich?

Rich Kruger: You know, I would just say we have talked a lot about reflecting back on the quarter and the year, I think we have a lot of very strong things here, and now the questions here were largely on, okay that was interesting, but where are we today? We are in a very dynamic situation today and in my soon to be 38 years in this industry, I am kind of hard pressed to say when have I had a period of time that was not dynamic? That is the nature of the oil and gas business. But, as I sit here with Imperial Oil and I look at the level of integration we have, the balance we have, upstream, downstream, logistics, I think we are designed and built to deal with and address and prosper in most any business environment we operate in. Differentials go up, differentials go down; heavy, light, we have got a lot of tools and levers at our disposal and we will do exactly what we have always done, and particularly what we have doing of late, to find ways, to capitalize, make money, do all the things that are important to us, for our shareholders and the current situation we are in is no different. The issues are a bit different but the challenges are the same, and I will put my money on Imperial Oil to operate and address those challenges today, just like we have done in the past, so I think I will conclude there.

Dave Hughes: Okay, well thank you everybody once again for calling in. As always, if you have any further questions, please do not hesitate to reach out to the IR team here at Imperial. Thank you very much. Thank you, operator.

Rich Kruger: Thanks folks.

Operator: Ladies and gentlemen, thank you for participating in today's conference, this does conclude today's program and you may all disconnect. Everyone have a great day.

[END OF TRANSCRIPT]