Imperial Oil Limited
Second Quarter Earnings Call

Friday, 2nd August 2019

Welcome and Safe Harbor Statement

David Hughes

Vice-President, Investor Relations, Imperial Oil Limited

Good morning everybody. Thanks for joining us on our second quarter earnings call. I will start by introducing you to who is in the room. We have Rich Kruger, Chairman, President and CEO; Dan Lyons, Senior Vice-President, Finance and Administration, and Theresa Redburn, Senior Vice-President, Commercial and Corporate Development.

Just before we get going, I want 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 in our second quarter earnings release, that we issued earlier this morning, as well as our most recent Form 10-K. All those documents are available on SEDAR, EDGAR and on our website, so please refer to them.

When we get started here Rich is going to open up with the business overview and then turn it over to Dan Lyons, who is going to provide the financial overview for the quarter. Then Rich will provide some further details on the operating performance. Once we are through that, we will turn it over to Q&A. We have had some questions submitted via the Slido application earlier this morning, so we will be mixing those in with live Q&A.

With that, I will turn it over to Rich.

Results Highlights

Rich Kruger

Chairman, President and CEO, Imperial Oil Limited

Business environment

Good morning. Before I start detailing the second quarter results, I would like to offer a few comments on the overall business environment. I will focus my comments in two areas: crude prices, or the price environment and then politics and policies.

Price

First of all, prices, WTI about $60 in the quarter, a bit higher, $5 or so higher, than the first quarter and about $8 a barrel lower than it was a year ago, so somewhere in the range of what we will spend a lot of time comparing to. You saw the Canadian light, or MSW, up essentially the same, $5 a barrel quarter to quarter and then Canadian heavy, or [WCS], was up about $7 a barrel in consecutive quarters. That averaged $49 in 2Q. So, consequently, if you take quarter-over-quarter differentials they have remained essentially flat year to date. The MSW to WTI at about $5 a barrel for both the first and the second quarter and then the Canadian heavy, or WCS, to WTI averaging between $11–12, again across the two quarters.

Politics

On politics, on April 16th Jason Kenney was elected the new premier of Alberta and I would characterize it that his government has not wasted any time in making pro-business changes.

Some of the changes most notable for the oil and gas industry: bill number one, which repealed the prior administration's carbon tax. This will result in annual savings for our company; the amount remains to be determined. And bill number three, which reduced the corporate income tax rate from 12% to 8% over four years, starting this year. This is detailed in our second quarter release and we will talk more about it. This reversed an increase four years ago from 10% to 12%. The government of Alberta's curtailment program has remained in effect, with modest easing of constrained volumes over time and I will offer more comments on this program and its impact on us throughout the review.

So, with that, I am going to turn it over to Dan to go through the financial performance before I come back and talk more about operational performance.

Financial Performance

Dan Lyons

Senior Vice-President, Finance and Administration, Imperial Oil Limited

Net income

Thanks Rich. Good morning everybody. I will start with our net income. Second quarter net income was slightly over $1.2 billion, which included a $662 million favorable impact from the Alberta corporate tax rate change that Rich referenced. On June 28th, Alberta government's bill three received royal assent and came into effect. So Imperial has substantial deferred tax liabilities and the rate reduction reduced those liabilities and generated that one-time gain. The $660 million, roughly, benefit is split a $690 million benefit in the upstream segment and actually a slight negative for downstream of $10 million and a slight negative for corporate and finance of about $20 million.

Now, excluding this impact, Imperial earnings were $550 million, up $257 million from the first quarter of 2019 and up $354 million from the second quarter of 2018. Relative to the first quarter of 2019, upstream earnings increased more than $900 million. Excluding the tax impact, upstream earnings increased almost $240 million to just under $300 million; that was driven by higher prices and higher volumes. Relative to the first quarter, downstream earnings were flat as higher margins were offset by planned maintenance and a fractionation tower incident at Sarnia that we will talk about more later.

Cash

Moving on to talk about cash, cash generated from operating activities was $1 billion in the second quarter, essentially the same as the first quarter of 2019, so for the first half just over $2 billion of cash generation. That is the highest cash generated from operating activities for a first half since 2014, where we generated just under $2.1 billion. It is interesting to note that Canadian heavies, or WCS, averaged $79 a barrel in the first half of 2014 five years ago whereas, in the first half of 2019, it averaged just $46 a barrel.

Clearly our integration and balance across the upstream, refining and petroleum product sales continues to support the strength and resiliency of our cash generating capability across a range of market conditions.

CAPEX

Moving to capital expenditures, in the second quarter those totaled $429 million, bringing the first half of 2019 to $958 million. Upstream expenditures of $673 million represented 70% of the total in the first half. We had spending on key projects in both the upstream and downstream. These included the Kearl crusher, Aspen, albeit in the case of Aspen ramping down; it included the Strathcona cogen project and the Alberta products pipeline. Those, together, totaled $420 million in the first half.

Recall, after the first quarter, we modified our CAPEX guidance for the full year to take account for the slow down of the Aspen project. Our guidance at that time was $1.8–1.9 billion for the full year. Our current outlook is consistent with that guidance.

Dividends and share buybacks

Moving to dividends and share buybacks, our capital allocation strategy remains unchanged. We want to maintain a strong balance sheet, a reliable and growing dividend, invest in attractive growth opportunities and return surplus cash to shareholders through buybacks. Our balance sheet remains strong. We have $5.2 billion of debt and a 17% debt to capital ratio. At the end of the quarter, we had $1.1 billion in cash.

In the second quarter, we paid $147 million in dividends at 19 cents a share, an increase from $132 million and 16 cents a share in the second quarter of 2018. In July, just a month or so ago, we paid $169 million in dividends at 22 cents a share, consistent with our announcement in April to increase the dividend by an additional 3 cents a share from the dividends paid in the second quarter. We continued share buybacks in the second quarter, consistent with our Toronto Stock Exchange-approved normal course issuer bid program, allowing us to purchase up to 5% of outstanding shares over the June 2018 to June 2019 period. We fully utilized this program by purchasing the maximum allowable share at about 40 million, returning almost $1.6 billion in cash to shareholders over the 12-month period. In June this year we received approval from the Toronto Stock Exchange for a new normal course issuer bid running from June 2019 to June 2020. That approval allows us to repurchase just over 38 million shares, again 5% of outstanding shares, between June 27th 2019 and June 26th 2020. We plan to continue to execute our buybacks ratably, roughly 9–10 million shares per quarter. ExxonMobil also intends to continue to participate, maintaining its overall ownership at 69.6%. At Imperial, we continue to see our share purchases as a flexible way to manage our capital structure and distribute surplus cash to our shareholders.

With that I will turn it back to Rich to discuss our operating performance

Operating Performance

Rich Kruger

Chairman, President and CEO, Imperial Oil Limited

Upstream production

Overview

Very good. I will start with upstream production. Production averaged 400,000 oil-equivalent barrels per day in the second quarter. This was up 64,000 oil-equivalent barrels a day, or 19%, from the second quarter of last year. Relative to the first quarter, we were up 3% or 12,000 oil-equivalent barrels a day. The second quarter represented our highest second quarter in over 25 years and it was the fourth-highest of all quarters over the same 25-year period.

The second quarter typically includes major turnarounds and this year was no exception. We had turnarounds at Cold Lake and Kearl; I will comment more on those in a moment. For context, over the past three years, with fundamentally the same operating asset base, second quarter production has averaged about 332,000 barrels a day, so we were 17% higher this year with the typical major maintenance performed but also without a series of unplanned outages that have occurred in recent years, most notably at Syncrude.

If I step back from most any angle, this year's second quarter production of 400,000 oil-equivalent barrels per day I would characterize as exceptionally strong. The first half, we averaged 394,000 oil-equivalent barrels per day compared to 353,000 in the first half a year ago and an average of 361,000 over the prior three years. So, 9–10% higher than the more recent years. Liquids in the second quarter were 377,000 barrels a day, 94% of total production; in the first half they were 370,000 barrels a day. If I look ahead to the third quarter, we anticipate total production in the same range as Q2, plus or minus the 400,000 barrel a day range. We do have major maintenance planned in the third quarter, both at Kearl and at Syncrude and I will detail those more here in a moment.

The outlook includes some estimated impact of the government of Alberta's ongoing curtailment program and we continue to work with the government to minimize any curtailment impact, recognizing that the third quarter typically includes some of our highest individual months of production each year.

Kearl

Continuing with Kearl, on a gross basis we produced 207,000 barrels a day at Kearl in Q2, up from 180,000 in Q2 a year ago. This was, by far, the highest second quarter in the asset's history and it was the third highest of any quarter in the asset's history. It was also achieved despite completing the largest turnaround Kearl has ever had. The turnaround impacted gross production by an estimated 46,000 barrels a day in Q2 or on a year-to-date basis about 23,000 barrels a day. The turnaround itself was completed ahead of schedule, it was on budget and most importantly, it was completed injury free, which included a peak workforce of more than 1,500 individuals on site. Scope: normal inspections, repairs, some supplemental crusher work, some preparatory tie-in for those crushers. Total cost: on a gross basis a bit over $100 million, about $72 million Imperial's share. It was completed in 30 days versus the plan of 32, mid-May to mid-June and it compares similar in cost and scope to the turnaround Kearl had a year ago.

Coming out of the turnaround, since essentially mid-June we have had quite strong performance for reference, four of the asset's top-ten highest ever production base have occurred, all days in excess of 320,000 barrels a day. We had a 338KBD maximum daily rate in there and post that turnaround we have averaged essentially 250,000 barrels a day throughout the second half of June and through July.

So at 207,000 barrels in the second quarter, well above our earlier guidance that had pointed you more toward about 180,000 barrels a day for Q2. Our full year outlook for 2019 remains confident that it will be above 200,000 barrels a day, consistent with last year's 206,000 barrels a day. At the half-way mark, we are at 193,000 barrels a day on a gross basis and a year ago we were at 181,000 barrels a day, so we are well positioned. I would add that, through July, adding another month to the data, the year to date has now increased to literally 200,000 barrels a day whereas, a year ago, through the first seven months we were at 190,000 barrels a day. So all signs would point toward our confidence in being at or above that 200,000 barrels a day, where we were last year; some, maybe, suggesting we would be higher than that. We do have another turnaround planned for the other plant at Kearl that will start in the first half of September. It is about a five-week scope of work, quite similar to the work we completed here in the second quarter. It will have an impact that will affect volumes in both Q3 and a little bit of a carry-over to Q4. When we take all of that into account, we are anticipating Kearl to be in the range of 215,000–220,000 barrels a day or thereabouts for the third quarter. Our supplemental crushing capacity project and the flow interconnection work that is designed to take us from the 200,000 barrel-a-day annual average to 240,000 barrel a day or beyond is on schedule and everything is pointed towards the year-end 2019 start up that we have communicated consistently now for some time.

Cold Lake

At Cold Lake, we produced 135,000 barrels a day in Q2. It was down 10,000 barrels a day from the first quarter and up 2KBD from the second quarter of a year ago. We had previously communicated in our first-quarter call that we anticipated second quarter production to be in the range of 130,000–135,000 barrels a day. We had major turnaround work at Mahkeses planned and we performed at the upper range of our expectations. Mahkeses is one of Cold Lake's five plants; it averages about 32,000 barrels a day or so on average. The scope of work there that we do on a five or six-year cycle: regulatory inspections, some line cleaning, base repairs, fundamental maintenance, we completed that over a 32-day period from late April to late May. Cost was about $30 million and the production impact was, round numbers, about 12,000 barrels a day in the second quarter. Here again we had a peak workforce of 700 individuals on site. The work was completed four days ahead of schedule and I am very pleased to say injury free. A year ago we had a turnaround at the Maskwa plant which was similar in scope, duration, cost to this year's work. With this work now behind us, in the third quarter we expect to average somewhere around 145,000 barrels a day to perhaps as high as 150,000 barrels a day at Cold Lake, relatively flat over each of the months in the third quarter.

Syncrude

Turning to Syncrude, our 25% share of Syncrude production averaged 80,000 barrels a day in the second quarter compared to 78,000 barrels a day in the first quarter and 50,000 barrels a day in the second quarter of last year. The 80,000 barrels a day was consistent with what we had previously communicated and consistent with our expectations for the quarter. With the reliability we have now been experiencing at Syncrude, the first half, at 79,000 barrels a day is the highest first half in the asset's history. The previous best was in 2011 at 75,000 barrels a day. When you take into account last year's fourth quarter, we are now on the strongest nine-month run, again, in the asset's history.

Syncrude is a designated operator in Alberta. What that means is it is subject to specific orders associated with the government of Alberta's mandatory curtailment program. The negative impact of these orders has been largely, although not entirely, offset by purchased production quota credits from other operators. We, as Imperial, have contributed to providing those credits to the Syncrude asset.

In the third quarter our share of production at Syncrude is expected to be in the 60,000–70,000 barrel a day range. It will be impacted by scheduled turnaround work. Specifically, there will be a turnaround on one of Syncrude's three cokers, the 8-1, that will start in the third quarter and continue into the fourth, a very large scope of work. Our share of cost is estimated to be in the $85 million range, so you can see our gross cost is in the $350 million, plus or minus, range. It is a long scope of work, 75 days, it will start in the second half of August and we anticipate it will go into early November. It will have about a 10KBD impact in the third quarter and we would estimate, at this point in time, a comparable impact in the fourth quarter.

Crude by rail

Crude by rail, with a little bit of history here with market forces working unconstrained, pipelines full. You will recall industry crude by rail out of Western Canada increased rapidly in late 2018 and it peaked in excess of 350,000 barrels a day in December. Then came the government of Alberta's mandated curtailment order. Crude by rail economics nearly instantly eroded and so you saw a lot of volatility, a bit of a rollercoaster for industry and our Edmonton rail terminal as well, where it came off of those peaks, industry's crude by rail was half of the December level by March and now has moderately increased a bit over the second quarter. We have seen similar performance for us to the extent that we averaged 64,000 barrels a day crude by rail in the second quarter but it was an increasing profile. We were in the mid 30,000s in April and the mid 80,000s in June and that is what got to the average over the course of the quarter.

All of our decisions are economic-based and so, in February, when we had a terminal shutdown, it did not make any money and in the second quarter, when we have increased it, we are back in the black, making money. But, I think it is important to note the volatility here, both in what you see from us but as important, overall, the industry. The volatility really highlights what we consider to be a very negative unintended consequence of the curtailment order.

If I step back and look at where the province is right now, in terms of provincial crude inventories, there has been progress in reducing the inventories. At the end of the year, the industry was essentially at tank tops: 34–35 million barrels in crude inventories. We saw some variation over the first several months of the year but we remained high at the 34–35 million barrels through April and into May. Now, most recently, publicly-reported numbers have suggested inventories have dropped to 27 million barrels, plus or minus, in the middle of July. We commented in our first quarter earnings call that we would anticipate that, particularly with a lot of the major maintenance that would be occurring. However, where we are today is the lowest provincial inventory since November 2017 and our view is this restores much-needed flexibility within the system.

So, back to curtailment specifically, the original orders from the government called for 325,000 barrels a day withheld across industry, effective January of this year. There have been a series of allocation increases over time, reducing that 325,000 barrels a day to 175,000 barrels a day through July. August, industry was given another 25,000-barrel-a-day increase and now we received the orders for September which provided a further 25,000-barrel-a-day increase. So the 325,000 barrels a day has been reduced by about 200,000 barrels a day, suggesting that there are still curtailment orders that would withhold about 125,000 barrels. We believe, with the inventory cushion that now exists, that the government of Alberta can and should further reduce curtailment levels. If you do some math, 100,000 barrels a day over 30 days is 3 million barrels. With inventories 7–8 million barrels below tank tops we think there is flexibility and the time is now to test this system and see what differentials do in response and in particular what rail movements do if the incentives are provided to sustainably move crude by rail.

Our conversations with the government are focused on achieving this further relief and ultimately the elimination of the curtailment program entirely.

Downstream production

Overview

Switching to refining, throughput average 344,000 barrels a day for us. It was down about 19,000 barrels a day from a year ago. It is up about 19,000 barrels a day or 20,000 barrels a day from the prior three-year average, so we are kind of mid-range over the last three years. But, if I look at our year-over-year, there were two factors as to why we were lower this year. We did have major turnaround work at our Sarnia refinery but we also had the impact of an incident with a fractionation tower, also at Sarnia, which occurred early in the quarter, specifically April 2nd. I mentioned that in our first quarter call and I will detail it more fully here in a moment. Regarding the turnaround itself, this is part of normal, ongoing maintenance activities, typically completed over, plus or minus, four-year cycles. Work includes catalyst change-out, reliability upgrades, any replacement of end-of-life equipment. The cost to us was $60–65 million. That is essentially as planned. However, the time for the turnaround was extended due to the tower incident itself. Volumetrically, if I isolate the turnaround, we met most all of our petroleum product sales over the period, with pre-planned third-party purchases but the impact on refining we would characterize as 20,000–25,000 barrels a day due to the turnaround, as expected.

Fractionation tower incident

The more material and the unexpected impact in Q2 was associated with the fractionation tower incident. In short, what this is is a tower more than 100-feet tall; it was taken out of service in preparation for the turnaround. It overheated, buckled and fell over inside the plant boundaries. Fortunately no one was hurt. There were no air emissions or hydrocarbon spills associated with it. The tower is used to manufacture jet fuel and gasoline components. It was installed in the late 1960s and has been opened five previous times without incident. The investigation concluded that work performed in 2011 that modified internal components, we call it packing, within the tower increased the potential for pyrophoric ignition, or said differently, accumulation of materials which can ignite under heated conditions when exposed to air. So the turnaround preparation activities did not adequately anticipate or prepare for this potential. The suggestion is there are a lot of learnings that have come out of it. We expect the full-year impact of this incident to be about $80–90 million of OPEX and CAPEX for the repairs and the replacements. In addition, we estimate a margin impact from lost production to be on the order of $100 million over the course of the year and we have already absorbed about two-thirds of that margin impact in the second quarter, with the remaining third essentially all in the third quarter. The refinery was initially shut down and later restarted at reduced rates under a revised configuration. Over time, throughput has increased to now, where it is 105,000–110,000 barrels a day. This is about 5 – 10KBD lower than normal rates.

A new tower is being built, expected to be operational in the fourth quarter and as a result of the incident, we would assign refinery throughput impact to be about 35,000 barrels a day in the second quarter. In the third quarter, with Sarnia at a bit lower rates, we would expect the impact to be about 5,000–10,000 barrels a day.

Strathcona and Nanticoke

Performance at our other two refineries, Strathcona and Nanticoke was quite strong, with utilization at or above 90% in the second quarter, but overall performance was certainly overshadowed by Sarnia. As I look out over the remainder of the year, we do have two additional maintenance turnarounds planned. Nanticoke, early September for about 50 days, $70 - $75 million cost, of course there will be a margin and volume impact, as there always is and some more work at Sarnia that had always been planned in a two-step manner with the second turnaround, also late September, for about 55 days, $45–50 million cost here. With three major refining turnarounds in 2019, it is a higher-than-typical planned maintenance year. Generally a typical year would include two significant refining turnarounds at our three facilities overall, so a bit higher than normal.

Petroleum product sales

On petroleum product sales, we averaged 477,000 barrels a day in Q2, flat with the first quarter but it was down about 33,000 barrels a day from the second quarter of last year. You may recall our second quarter of last year at 510,000 barrels a day. It was, essentially, a modern-day high, a 30-year quarterly high at the time. For perspective, second quarter sales have averaged, over the last five years, about 485,000 barrels a day, so we are within a percentage point or two of that more recent historical average. However, any shortfall this year I would attribute to the Sarnia refining issues that I have just highlighted. Throughout the quarter, sales volumes grew. They were lowest in April at 441,000 barrels a day with the Sarnia incident and turnaround, growing to 488,000 barrels a day in May and 502,000 barrels a day in June. In the first half we averaged 477,000 barrels a day, down a bit from the first half of last year. Again, I would link that to the experience at Sarnia. For context, for the last five years, our first half sales have averaged 481,000 barrels a day versus this year's 477,000 barrels a day. In the third quarter, we expect performance to rebound a bit from the second quarter as refining throughput increases and as I would sit here today, I would anticipate sales volumes in the range of 480,000–500,000 barrels a day in the third quarter, quite consistent with the prior five-year average.

Summary comments

So, with that summary, I think I will pause on a couple of comments before we start the Q&A. I would characterize our second quarter and the first half overall as the financial and operating performance was generally strong, not without a few hiccups that we have had or are resolving. Strength particularly in the upstream and here again I would say, particularly, as Dan highlighted, in cash flow from operations and the continued strong shareholder distribution. I would just reiterate that with the integration and the balance we have across our portfolio from production, refining, petroleum product sales, you are seeing the resiliency in whatever market conditions happen to exist with our ability to continue to generate cash in most any of those environments.

With that, I will turn it over to Dave. Dave, if you will describe and kick off our Q&A process.

Q&A

Dave Hughes: Okay, thanks. As I mentioned at the start, we did have some questions pre-submitted so I think I will start with a couple of those and then we will move over to the live Q&A. So the first question is from Prashant Rao from Citi Group, 'Given the K2 turnaround, the strong production of 207,000 barrels per day was a nice surprise. Can you talk a bit about the drivers of the outperformance? Then, given that we are already at 193,000 barrels a day year to date, with less overall maintenance work and better weather conditions in the second half, do you consider the 200,000 barrel a day target a bit conservative?'

Rich Kruger: Okay. I have hit on a number of those in my comments but what I would say is we had several years running where we were underperforming expectations. When we communicated in late 2017 the cumulative scope of work we had completed at that time, to enhance reliability with crushers, with transport lines and a number of things, coming out of 2017 that gave us a great deal of confidence in our plan for 2018 and 2019: at or above, 200,000 barrels a day. Of course, from year-end this year and beyond, supplemental crusher will bump it up again. I think what we are seeing we certainly saw it in the second half of last year and we also saw it coming out of the turnaround this quarter. It is that those upgrades we have made, modifications to operating practices, enhancements to equipment and maintenance procedures, have and continue to deliver the intended results. I will feel better when we get through the third-quarter turnaround this year. It is a bit bigger in scope than our third-quarter turnaround last year so there will be a little bit more volumetric impact. But, it is certainly where we are positioned through the first half and I commented on where we are through July gives us very high confidence in the year. Will I ever find that 200,000 barrels a day and say we are going to be 210,000 barrels a day or so. Again, I think it is a little bit too early to call that but with the strong performance I would be disappointed if we do not meet, or perhaps exceed, where we ended up a year ago.

DH: Okay. We have also received a number of questions related to crude by rail. Also you did comment extensively on it but I will try to summarize the questions. There are really two particular ones coming through. Number one is around our utilization of crude by rail. Can we offer something about July and then through the rest of the year? Then the second one is more on the incentives side, a comment on our view of the economics of crude by rail.

Rich Kruger: Sure. It is a good question because it has been volatile over the last seven or eight months. As I commented on, this is one of the unintended, I would characterize it as negative unintended consequences coming out of curtailment. I will get to the question more explicitly here but if I step back, market demand for Western Canadian heavy crude remains robust, particularly in the Gulf Coast, with supply capacity exceeding takeaway capacity. We saw and it is recognized that the potential for volatile pricing dynamics certainly was shown late last year and exists. You can work this two ways. You can increase takeaway capacity or you can curtail supply. I think folks know what I think about curtailing supply. We have tried that. It certainly bolstered prices but it has been slow in coming with other consequences on, first, the initial inability to reduce provincial inventories and the erosion of rail economics. Our view is current pipeline capacity has been optimized. Our partners in the pipeline business have and continue to do a good job at fully utilizing those facilities, so expanding rail is the only real short-term option for us. What we need is a sustainable economic incentive to do that. Parties have talked a lot about differentials and I think it is important that when you do you talk about what are you talking about. Often WTI versus WCS is compared, but when you are looking at rail economics, I would urge folks to focus on WCS in Hardisty and WCS in the Gulf Coast. You look at those two prices and you look at the differential. If the differential is wide enough to cover rail cost, rail will move. If it is not wide enough, you lose money on each barrel you sell.

So, that differential has actually been quite tight over the first half of the year, oscillating around $10–$12 a barrel. It increased a bit in the second quarter and we responded by increasing rail. Right now it is back at or below $10. Parties, including us, have various variable costs in their rail system but you do not invest money on a variable-cost basis. To grow it, you need to have a full cost recovery. I said before that we look for something that creates a sustainable rail incentive of a differential or an arbitrage between the same barrel in two locations of $15–$20 a barrel and we are not there. So what we are doing right now, July, was about where May and June were, in the mid seventies or so but our outlook for August and September is we will ramp down rail because it is not economic to move those barrels on rail. This ragged edge of up and down; pardon the pun but it is no way to run a railroad. We need a sustained incentive to increase rail capacity, we and industry. That is one of the reasons, I will go back to curtailment, we think it is time to loosen up the curtailment purse strings, allow more oil to flow to the barrel, strengthen or solidify differentials in a range where rail is clearly incentivized and we think that is the best answer in the foreseeable future as we all await uncertain future pipeline capacity additions.

Emily Chieng (Goldman Sachs): My first question is just around egress, it is sort of a three-part question here. One, what do you think of the government's rail contracts and is there any potential in Imperial potentially having a look at that? Then, just on how the government is thinking about curtailment levels and what is the thought on whether or not they continue to ease curtailments or cut them completely? Then, just on the final egress piece, there has been a little bit of noise around line five. What is the thought around the impact to Imperial if that does get, potentially, shut down?

Rich Kruger: Thanks for your questions, Emily. First, the government rail contracts: we agree with the government that we think the rail business is best left in the hands of industry. The government's objective or intent to remove themselves from the rail business, we have supported that all along. Now, in the process of assigning or taking on those rail contracts, we, like others, are reviewing those. We are working with the government. I cannot really comment on those specific contracts themselves. We are all under confidentiality agreements in doing that. But, I think their direction, of getting industry participants to take on those rail contracts to support a sustainable, healthy rail sector for the foreseeable future, I think, is a good thing to do.

Specific to us, we got in the rail business when getting in the rail business was not cool. We got in it several years ago, anticipating some of the uncertainties on pipe and we wanted to have that - I have described it before as an insurance policy if and when we needed it. Lo and behold, we are glad we have had that insurance policy because we in industry have needed it. So we got in it early, we built a rail terminal, we negotiated contracts with CN, CP. We have not only the loading points but we have offloading points. We have a very efficient unit train operation that allows us to get to market and get empty cars back here fast. So we feel that we have an advantaged rail situation. If we are looking to enhance or add to that in anyway, whether that is through the government, taking on part of their contracts or other things, we are going to want to ensure it is just as economic and just as efficient as what we have been able to build over the last several years.

On curtailment levels, I think I have commented on this. The first several months of the year did not give a lot of flexibility here. The industry was working under curtailment but lo and behold, because rail had ramped down, their inventory levels maintained themselves at or near tank tops for largely the first four or five months of the year. With major maintenance work and increase in rail in the second quarter, I have commented on specific numbers, how the inventory levels have been brought down, we think there is a lot of flex in the system right now and now is the time to see what that means. I commented how 100,000 barrels a day for 30 days is 3 million barrels. There is 8–9 million of barrels of inventory [space]. I would let out the curtailment at this point in time, the month of August, the month of September and I would see what does the market do? If there are concerns that it is getting back near tank tops and parties start suggesting differentials will blow out and anxiety rises, the government has flexibility to do that. But, we will never know unless we try and I think the market conditions, physical conditions, are right. Instead of 25,000 barrels here and there, I would go further than that and we have had conversations, very good conversations, with the government on that. It is ultimately their decision but we would like to see that curtailment level, if not eliminated, certainly reduced in the near term. Let us see what market conditions develop, in particular can we get to where this rail incentive is clear, sustainable and not a month-by-month decision?

Line five: I will not recap the situation. Folks are aware of the situation in Michigan with the governor and most notably the attorney general. Line five is a critical piece of infrastructure to Ontario, Quebec refineries, as well as key parts of the Midwest. We are a shipper on line five. The majority of our light crudes go through line five that support our Sarnia and Nanticoke refineries. We get some light crudes in other pathways and heavy crudes come, in a way, unaffected by line five. So it is an important topic to us and we are working very, very closely with Enbridge, the operator, on whatever help and support they need from us as they progress the legal and operational challenges that they are receiving from the state of Michigan as it relates to line five. I will really stop there. I think for specific comments on line five, I would defer to Al Monaco and Enbridge on that. But, it is an important piece of infrastructure, quite important not only for us but the industry on the supply balance in south-east Ontario and parts of the Midwest. Finding a good long-term resolution here is in the best interests of consumers, both north and south of the border.

Emily Cheng: Great, thanks. Just one quick follow-up: how should we think about Aspen and when that decision may be to bring that back into construction mode? I will leave it at that; thank you.

Rich Kruger: Okay, thank you. Just a recap there for those that missed it: late last year we funded Aspen, a $2.6 billion project, best-in-class technology for carbon intensity reduction, for water intensity reduction, a globally-competitive project that had a lot of resiliency in a low-price world; we were quite pleased. Then, sadly for us, government intervention through the mandated curtailment program came into place. It destroyed rail economics. For us, in a several year period, we looked at Aspen over a range of scenarios: getting into the current pipe system, capturing space in incremental pipe capacity but the ace in the hole was always rail as a way to get it to market. With the curtailment and what it did on rail economics, that shattered our confidence in that. We worked with the prior administration on getting some assurances that Aspen, when it came online, that we would be able to produce it. The current curtailment rules would not do that. They are based on historical production. A new project has zero historical production. We were not able to get the assurance that we have sought for our shareholders for an investment of this magnitude and sadly that led us to ramp down Aspen project activities in an orderly way so that we could be positioned, when we think the time is right, to restart it. I have said before, we are going to be looking at what happens on subsequent actions around intervening in the market, curtailment specifically, certainly what happens to rail incentives, rail economics and then just our overall confidence in market conditions. I would say that does include, as we look at progress on the new pipes, whether that be Line 3, Trans Mountain and/or Keystone XL, we will be looking at all of that. When we feel the time is right to resume the ramp up in full-scale investment we will do that and we have not concluded, at this point in time, that that time is right to ramp back up.

Benny Wong (Morgan Stanley): Hi, good morning, thanks for taking my questions. My first question is really on your perspective of integration. On upstream production to downstream throughput, it looks like you guys are well matched but most of your upstream volumes and future growth is largely on heavy production, while you are mostly a light oil refinery. I just wanted to get your view on that: does it make sense to have more heavy processing capacity at some point or does that balance still make sense going forward because a lot of global production growth is really light?

Rich Kruger: Yeah, very good and you have described it well. We are roughly a 400,000 barrel a day equity producer. This quarter was quite convenient when I say that because that is exactly what it was. We are roughly a 400,000 barrel a day, largely a light oil, refiner and then of course the 450,000–500,000 barrel a day petroleum product sales. So at a glance you see certainly the integration and the balance. But, as you appropriately point out, the mix effect is heavy production oriented and light refining.

Now, what we have done over the last few years with incentives with discounted heavy crudes, we have incrementally increased our heavy throughputs in our facilities from roughly 65,000 barrels a day to, when it made good, strong economic sense last year, tipping 100,000 barrels a day, so almost 25% of our capacity. We have a coker at Sarnia; we have asphalt facilities at Nanticoke and Strathcona and the incentives were there to push every bit of heavy molecules into those facilities and that is exactly what we did.

Now with heavy and lights, the differentials, we optimize that on any given day. We do see demand for heavies continuing strong, particularly in the Gulf Coast, so it is all about getting the heavies there. We do not necessarily run our own production in our own refineries. Our upstream is charged with maximizing the value of each and every barrel they sell to whoever they can sell it to. If that is our own facilities, so be it. Our downstream is charged with getting the most price-advantaged feed stocks, heavy or light, from whoever they can get it from. So, not only with our operations but with our commitments on infrastructure, certainly the common carriage in Enbridge but we also have contract commitments with base Keystone, Gulf Coast access and then our investment in the rail terminal. We are quite active in maximizing the value, however it happens to go.

I think, for the foreseeable future, we will continue to look at, if the economic incentive is there, how can we get more heavies into our existing facilities. However, as I sit here today and I look at coking capacity in other parts of the world, it is harder for me to see a clear economic incentive that we would want to make large investments to materially modify our facilities, as opposed to continuing to work to optimize them.

As conditions change and particularly when you have some confidence that market condition changes are not short term in nature or aberrations and particularly when they have not been caused by artificial interventions, then, when you have that confidence, we reevaluate that and we look at it. Does it make sense to invest more in the downstream or the other? Downstream investments more recently have been in things like cogen, reliability enhancements, things that can strengthen what we believe is already a strong downstream business. They have been less to take our downstream business and convert it to something that it is not today.

I hope I hit on your question there.

Benny Wong: Yeah, that was great colour and a very thorough answer, so I appreciate that.

My next question is on Aspen again. I know you just previously touched on it and I know you really focus on egress before you really move forward. I just want to take that question one step further. Particularly in a world that does not value growth like it used to, I think some investors would argue that they would prefer Aspen being deferred further, indefinitely. It would free up more capital for even more cash returns. So I just want to get your perspective on that. Do you think that is a little short sighted because you are managing a long-term business or has the world and the market changed enough for that argument to have some validity?

Rich Kruger: Yeah. I know, fair question. We have a large and diverse shareholder base. What I have found in the 6.5 years I have been in this job is I get no shortage of advice from people on how to run this business, whether it is debt reduction, whether it is increased dividend, whether it is increased buybacks, whether it is investments, no investments. We take all that in and what we do is we strive to enhance the long-term value of this enterprise. Obviously we deal with short-term market disconnections, dislocations but that integration of balance we have positions us extremely well.

Now, if I just do a little bit of math, we have roughly $1 billion to $1.1 billion to $1.2 billion a year in requirements of sustaining capital to care and feed for our existing corporate asset base. Our dividend at current rate, where the last two increases have been the highest two increases we have made in our history, roughly consumes about $600 million at the current rate. So you add the two of those together and you get $1.6–$1.7 billion a year. Dan commented through the first half of the year we have generated $2 billion in cash in not necessarily the most advantaged market environment. Oil prices have been higher but differentials lower. If you look back over the average of the last ten years, that is closer to $3.3–3.4 billion a year but we have been enhancing the cash generation capacity of this enterprise, where it is more consistently looking on the higher side of that, $3.5–$4 billion. So if you have about half of that as sustaining capital and dividend, the question comes down to what do we do with the other half of it? For the last two years now we have maximized share purchases under the TSX-approved program, 5% of our outstanding shares. We maximized it in the first program and we maximized it again. Lo and behold, we look at the end of each quarter and we still have $1 billion or so of cash on hand. This year's capital is more than that sustaining, it is the select growth. So our view is from an ability to balance and meet our capital allocation priorities –

dividend, sustaining capital, highest-quality selective growth and some level of share buybacks – we see the ability to do all of that under a wide range of market conditions. When we launched Aspen last fall, we detailed the amount of capital it would require over a three-year period. It is going to be roughly $700–800 million a year. We anticipated we would continue to be able to do buybacks. Did I say at the time we would be able to maximize the program? No, because it depended on market conditions. But, I think we are quite confident we can find a selection of all of those priorities: continued dividend growth, taking care of what we have, continued share buybacks and if and when the time is right to resume Aspen, I think we will have the financial capability to do all of those. It is just a matter of when is the time right.

Benny Wong: That is great colour, Rich. Thank you very much.

Rich Kruger: Thanks Benny.

Greg Pardy (RBC Capital Markets): Good morning and Rich, I tell you, you guys have gone from never having done a call to probably one of the best from an informational standpoint, so please keep that going.

Rich Kruger: Well, Greg, I appreciate that. I like everything you said except the 'one of the best'. We will keep working, so [inaudible].

Greg Pardy: Alright, there you go; something to strive for. So, I have asked you before just around OPEX at Kearl but I am looking at your numbers and we will not get the actuals until next week. However, realizations look good. We understand the downstream, you hit the cover off the ball with the Kearl volumes. If you were to look at the run-rate OPEX ex the turnaround impact, are you now in the low twenties US or thereabouts, just from an operating cost standpoint?

Rich Kruger: Yeah, Greg, we are not there yet. I will tell you a bit of the first half of this year has a little bit of an artificial aspect to it because we have been doing a lot of work that has been preparing for the supplemental crusher at the end of the year, increasing the size of our truck and shovel fleet because when we go from 200,000 barrels a day to 240,000 barrels a day we are going to need more trucks, more shovels so you cannot go to Home Depot and get those on December 31st. So we have been doing some of that. Also, with all of the work we have done in the last year or two on reliability, we have been ensuring that we have been quite proactive on a lot of our maintenance practices in taking care of that fleet. John Whelan, a year ago at our investor day in November in Toronto, outlined a series of initiatives that we referred to as Kearl profitability improvement. So we have been spending money in getting Kearl in a position not only where it can sustain the 240,000 barrels a day but we also outlined a pathway last November on what is beyond 240,000 barrels a day. How do we get it to 270,000–280,000 barrels a day? We described how that was not some big bang capital project but it was a series of things and we have been working on those series of things. So taking the first half of this year at Kearl and comparing it to the first half of last year is not quite an apples-to-apples. But, I think the thing I would say is the confidence and commitment we have on Kearl and the number we have advertised for a long time is the $20 a barrel US and sustaining that: nothing has wavered in that. The supplemental crusher: I think we have advertised, we think that is going to be about a $3 a barrel drop in Kearl OPEX, nothing has suggested that would change and these other things we do continue to drive at it. So we have not advertised explicitly what Kearl cash unit costs are year to date. Actually they are slightly higher than they were last year. But, then, when I go back to my first set of comments on monies we have been spending, you have not directly seen those costs would be reflected in the barrels yet because they are what comes as we get to the end of the year with the crusher and beyond. But, nothing has changed in terms of our focus and confidence and where we think this asset will be for the long term, nor our pathway and the timeframe to get there.

Greg Pardy: Okay, that is great. The second one is really kind of coming out of the Suncor conference call. They had increased the OPEX guidance on Syncrude. I think there was some disappointment in the market as to whether costs could really get down there, given the utilization rate. We have seen turnarounds at Syncrude for many, many years, typically in the third quarter. Is there anything you need from a sustainability or performance enhancement basis that is going to occur with the turnaround you talked about in September?

Rich Kruger: Just so I am clear, quick, are you talking about Kearl or back to Syncrude here?

Greg Pardy: I am sorry. No, just all at Syncrude.

Rich Kruger: Yeah. I have not seen everything or have not analyzed everything that Suncor said on it. The turnaround in September is a big deal. We are pretty euphoric of late on the performance at Syncrude so I do not really have anything to offer, that there is any fundamental change on the ongoing operating cost level. Syncrude is a difficult one, at least over the last several years, to kind of chart trend lines because there have been so many one-offs. But, when I look at where they are and certainly where they have been on an all-in, we are quite pleased certainly with the reliability. We have spent money to achieve that reliability and as long as it continues to perform like that, we continue to be quite confident and the outlook is not materially different than what we have had in our own internal plans. In fact, I would say I am looking at a table right now of kind of where we are year to date versus where we thought we would be, year to date. We are a moderately optimistic lot internally. When we come talk to hard-nosed fellows like you we might temper that a little bit. However, our own internal expectations are spot on in Syncrude from a cost standpoint and from a production standpoint with exactly where our plan for the first six months would have been.

Greg Pardy: Okay, a last quick one from me. You guys looked at a diluent recovery unit, I think, back in 2015 attached to the Edmonton rail terminal, I guess and then it just went away. Is a DRU something that you would contemplate or is effectively the paraffinic froth treatment just so good from dropping up the heavy molecules, it is not a path you would ever go down.

Rich Kruger: No, you are right. We have looked at that before. I think what is important on a DRU is the math or the economics on a DRU deal with a series of differences between a whole bunch of numbers. What is the cost of pipe or rail on transportation? Of course a diluted barrel has more volume, roughly a third more volume, so if you save transportation on that, what type of transportation? What is a rail cost versus a pipe cost? What is a diluent cost?

When we looked at it, we did a pretty good scrub on it. It would not be an inexpensive investment to go at scale. At that point in time we thought, even before some of the things that have occurred more recently, there are a lot of variables in this marketplace: diluent supply, with some of the unconventionals, how much diluent you get from the Gulf Coast or the US, rail versus pipe economics. We concluded then that there is a validity to this project but our own assessment at that time on the economic side and the uncertainties were too high to take it to the next level of commercial progression. I would say now we still have it. We dust it off the shelf now and then. We look at some of those key assumptions but I think you have described it. I would never say never but right now it is not a front burner opportunity for us.

Greg Pardy: Okay, terrific, thanks for that.

Mike Dunn (PNF Energy): Hi, good morning. Rich, some of your competitors have commented recently that they would be supportive of the Alberta government linking an operator's increased production allowance to an increase in their crude by rail shipments. Can you comment on how you guys feel about that and whether you have had discussions?

Rich Kruger: Sure. We have had discussions with the industry and we have had discussions with the government. Mike, if I step back far enough and I said this earlier in my comments, expanding rail capacity in an economic and sustainable way is the winning formula for the foreseeable future. There is still so much uncertainty on new pipe; rail is the answer near term. So, on my earlier comments, I talked about how we do not think the government being in the rail business is the right way to go. Similarly, when you let market forces work and you get the right level of economic incentive, industry will take the actions, invest in growth.

What you have talked about is the linking of allowances to rail. The devil is in the details; it is how you do it. At one level I can hear, okay, the government linking additional allowance to additional rail. That sounds a lot like continued government intervention to me. I like the idea of letting the market work, letting differentials expand by relieving the pressure and reducing curtailment and I think the market will get there. But, I do get concerned about how, when you talk about specifically linking things, because then the government is back in the rail business in a big way, just in a different way.

So yeah, I support the industry's comments on what they are trying to achieve but I cannot say I am there yet. On what, I understand; how? It is a work in progress, we are working in collaboration with other industry players and the government on this. How we do it is going to be very important to it because the last thing we want to do is ingrain the concept of curtailment: that you get relief for curtailment if you get rail. I want relief from curtailment and no curtailment. I want it done and I think the industry can be in that position sooner rather than later and I am looking forward to that day.

Mike Dunn: Thanks Rich, that is all from me.

Rich Kruger: Thanks Mike.

Manav Gupta (Credit Suisse): Thanks for squeezing me in, guys. I just have a very quick question. Any update you can give us on the progress of the supplemental crushers? What I am trying to also understand is you can do 220,000 barrels a day without the supplemental crushers and I understand the guidance with the supplemental crushers will average 240,000 barrels a day. However, I am also trying to understand what could be the peak production for a month with the supplemental crushers? So assuming no turnaround in a particular month, how high could you go with the two supplemental crushers coming on?

Rich Kruger: Yeah, fair question. When you say an annual average of 200,000 barrels a day at Kearl, what you typically get is a lower first quarter, just like we had because it is oftentimes affected by extreme cold weather and the challenges that offers in a mining environment. You often get an artificially lower second quarter because of major maintenance, weather warms up, we all get a lot of work done, this year was a very strong second quarter, last year had been the previous high at about 180,000 barrels a day. Then, in the third quarter, all that maintenance is behind you, you get after it. The months of July and August have typically been the best months of the year. Oftentimes we have had some maintenance that starts in September and October so the quarter tails off a little bit. Then the fourth quarter can also be quite good, a little bit dependent on, when you get into later in the year, what is the weather. So the profile of a mining operation, if we say 200,000 barrels a day or 240,000 barrels a day, it is not a flat line at either one of them.

The best months we have had at Kearl without supplement crusher were last July and August. We averaged a smidgen over 260,000 barrels a day, I think it was 262,000 barrels a day and 263,000 barrels a day. The quarter last year was, I think, the third quarter; it was like 243,000 barrels a day, or something like that and it had two months of 260,000 barrels a day in it, without supplemental crusher. We have long talked about the downstream aspect of Kearl, the processing capabilities of having two parallel trains that have 300,000 barrels a day capacity. I have increasingly referenced the number of days we have had not only at 300,000 barrels a day but beyond 300,000 barrels a day. We had four of those best days in the second half of June. So when we have the supplemental crusher, you take the bottleneck and constraint out of the front end and you start to balance across that.

So what is a good month with supplemental crusher in place? I think 300,000 barrels a day is a very achievable month when we do not have other downtime in there. However, you will still have that quarter-to-quarter profile. You will still have maintenance in the spring and the fall and then of course you will still have weather to deal with. But, the 300,000 barrel-a-day months are certainly achievable. We have had weeks that have approached that now and that supplemental crusher will largely deal with what has prevented us from having longer periods of time at that range.

I know there are a lot of folks are saying, 'You had this big second quarter, you did better last year, come on. 240,000 barrels a day? You guys are going to be able to do better than that.' You guys prompting leads me to ask those same questions of my team so thank you for that. My tongue is in my cheek, fellas, as I say that. We are not ready to commit to more than that but I certainly see the potential with the stability and the redundancy the supplemental crushers will add to allow us to do more than that on an annual average basis. Once we get those things up and running, that is exactly what we will start talking about. What now do we think we have? But, I think take away from that a great deal of confidence in the 240,000 barrels a day with the supplemental crushing capability.

Manav Gupta: Yeah, thanks for taking my question.

Rich Kruger: You are welcome.

Phil Gresch (JP Morgan): Hey, good morning. Just a bit of a follow-up to Greg's question on the OPEX side of things. Obviously you are pre-investing here at Kearl, there are some pre-investment, I guess you would call it, at Syncrude as well that was discussed. If I look at the absolute levels of the OPEX that we are seeing here in 2019, is that the run rate that we should be thinking about for the year? I realize the per-barrel will come down as the supplemental crushers come on line but I presume there are going to be some absolute increases from there. So I am just kind of trying to baseline myself and think about the cost outlook from here. Thank you.

Rich Kruger: Yeah, it is a fair question, Phil and we have talked a bit before about what is the incremental barrel cost and then what is the incremental barrel cost when you add new kit; in this case there will be the supplemental crusher and stuff. That is still work in progress but I think, whether that run rate is exactly what you have seen in the first half, I think it is indicative of what you will see. We have a lot of efforts that, as we have done this pre-work or pre-investment to take some of those costs out of it that are more one-time but a run rate that is at a higher level than what we saw last year, more indicative of the first half, that's not unreasonable. You hit on it: along with that is going to come higher production. So when you start looking at the unit cost, this quarter was an example of much, much higher production and this year versus the year last year for the first six months, despite higher absolute cost, the unit cost was at or below what we were a year ago with a lot higher production. So we really manage the business on unit cost. We sell barrels, we produce barrels so we are interested in what the cost per barrel is. But, I think the absolute cost, the first half run-rate, is probably not unreasonable. I hope I get to tell you at the end of the year that we did better than that but from a modeling standpoint, that is probably fair.

Phil Gresch: Okay, I appreciate that. The follow up might be granular, so if it is I am happy to take it offline. I have just noticed in the past few years that you guys have had very low cash taxes and you have NOLs and things like that. So I am just wondering how you foresee that mathematically planning out as we move into 2020? I think you will have worked through a lot of those NOLs but is there a way to think about book and cash tax rates on a go-forward?

Rich Kruger: Yeah, Mike. I think I will ask Dan Lyons to comment on that a little bit. I will then offer a few comments but if there is more granularity, as you say, we could do it offline.

Phil Gresch: Thank you.

Dan Lyons: We had a significant tax loss carry-forward balance in the last couple of years which has really minimized our cash taxes. As our profitability has been pretty solid those are running down and you can look in our Q, which will come out here in a week or so and see the balances. They are coming down and we anticipate being cash tax paying pretty shortly. However, obviously it is going to depend on prices and other things. So we have benefited from that. We still have some tax loss to carry forward so we are using – we obviously are still benefiting from accelerated depreciation but our rate of cash tax paying at these prices should start going up, certainly in 2020.

Phil Gresch: Any order of magnitude relative to that? I am thinking of book tax kind of mid-twenties recently; any order of magnitude relative to that book, or your kind of ratio of cash to book?

Dan Lyons: I do not have a number on that. Suffice it to say once you run out of tax loss to carry forward, our cash tax rate is going to be closer to our book tax rate.

Phil Gresch: Yeah, okay. Alright, thanks very much.

Dennis Fong (Canaccord Genuity): Hi, good morning, I know we are getting pretty long in the tooth here but I will keep my couple of questions short. So this is just a bit of a follow-on in terms of the OPEX question there at Kearl. So, essentially, it sounds like you guys were implying that there was some kind of pre-spend to kind of prep for the supplemental crusher and then kind of going back to the investor day, there is obviously a shortlist therein of future upcoming projects that you call pseudo further de-bottleneck to 280,000 barrels a day plus. I suppose the question for me really here is how much of that have you actually completed thus far and is incorporated, essentially, in your, we will call it, elevated OPEX right now and how much could potentially come in the next few years? How do you guys foresee the decision around sanctioning or allocating capital towards that component of de-bottlenecking? Thanks.

Rich Kruger: Dennis, if I take the last part of your question first, in terms of the decision, you may recall from the investor deck we wrapped up investment opportunities we have and we use just a very simple indicative cost-per-flowing barrel kind of a measure just to normalize. We described Aspen, we described a couple of phases of the Aspen, Cold Lake expansion. We had the supplemental crusher on there and then we had what we think are investments or spending that might take us from 240,000 barrels a day to 280,000 barrels a day at Kearl. Those incremental redundancy reliability investments are extremely attractive. The supplemental crusher, at the advertised, what I have said about it from a price standpoint, or a cost standpoint, before and the incremental production that comes with it, we talk about $15,000–$16,000 per flowing. So that is quite attractive and we will look at it not only on the individual economics but what it does to the enterprise and its ability to more confidently sustain cash generation.

Also, to the point, after the supplemental crusher they are quite small. So we are looking at it kind of bit by bit. It is not like there is a $500 million project, or a $300 million project. There are component part things and we have been doing some of those. Some of them you could say that, well, they reduce maintenance intervals, maintenance requirements but some of them I could say they support that higher capacity from a 240,000 barrels a day to a 280,000 barrels a day. I will give you one that I have not really talked about. My upstream lead, John Whelan, is not in the room with me; he might cringe. We are working long and hard on the turnarounds we are doing this year and next year to see, as opposed to an annual turnaround at each of the two big plants, can we get those extended where we have an every-two-year cycle on those? That would be huge, not only from the OPEX cost you would save but also from the incremental volumes that that would shed in a given year. I am not ready to say we are going to be able to achieve that yet but we have been spending some money, on strengthening materials in key components, where we went in on annual cycles because we felt the need to check and see what erosion has been. If we modify some of that and we operate for a year, look at it and say, 'Wow, there is not much change,' those kind of things can give us the confidence to go to longer and longer cycles between turnarounds. That is a winning formula here because it not only saves the OPEX of a turnaround which, as I described at Kearl, was $100 million gross and then the quarterly impact on production 46,000 barrels a day, you save that $100 million OPEX and you do not have the annual average 10,000, 11,000, 12,000 barrel a day impact on production. So we have been working on that. We have not talked much about it. I think I just did right now, so that means probably this fall we will get to talk more about it. However, those are some of the things you are seeing in the OPEX run rate. It is not just higher cost at Kearl, it is things we are doing that we are absolutely convinced will lead to higher value at Kearl for the longer term.

I have probably walked to the end of that limb on that one. Later this year we will pull investors and analysts together again and we will talk in more detail. I will promise you now we will talk in more detail about what we are and have been doing in those areas.

Dennis Fong: Okay, perfect. Thank you. Then the second question that I have is just with respect to a comment that you made earlier in the call on Syncrude and essentially allocation of production quotas. How should we think about that going into Q3 and the remainder of this year, given that you do have some levels of heavier turnaround at some facilities and how are you guys thinking about balancing out, I guess, the production on a corporate level, notwithstanding a potential significant change from the mandatory curtailment plans from the government? Thanks.

Rich Kruger: Yeah, good question. I will mix my comments a little bit industry and then us specific.

In us specific, when you take the quotas, we are assigned a quota for Kearl and Cold Lake combined as an operator and Imperial is the operator of those two assets. Then we have, at our discretion, on a month-to-month basis, to decide, if we are bumping up against those limits, how and what we produce between Kearl and Cold Lake.

Now Syncrude is a designated standalone operator, so they have no ability to trade off between other assets; it is Syncrude. So with the turnaround work, for example, that we had at Kearl in the [second] quarter, with some of the operational challenges on cold weather that we had, both at Cold Lake and Kearl in the first quarter, we were a net seller of credits during much of that time period and we sold many of those to Syncrude so that we could optimize Imperial's overall performance.

As we get into the third quarter, I commented, we are out of the turnaround at Cold Lake. We are out of the turnaround and we are roaring loud at Kearl. Syncrude has some turnaround late in the period but these orders are month by month. So we see it is going to be pretty tight. It was tight in July. It is going to be tight, if not tighter, in August. This is true not only for us but the industry at large. I would not expect there are going to be a lot of credits traded, at least for the next month and a half or so, in the quarter until others start to do maintenance work again or the government continues to release incremental quota to industry.

The third quarter, from a year ago, we looked at it and we thought the toughest time in this world, not knowing what would happen on curtailed volumes, will be the third quarter. We saw that at the beginning of the year; we are here now and that is exactly the way we continue to see it.

Dennis Fong: Thank you.

Rich Kruger: Okay, I think we have time for one more.

Jon Morrison (CIBC Capital Markets): Morning all. Rich, if the Alberta government were to ask Imperial what was the right WCS Hardisty to WCS Gulf Coast diff to target from an optimally functioning market perspective, i.e. all production is clearing the market through the trifecta of pipe, rail and domestic refining capacity but pricing is also protecting industry cash flows and arguably sustainability for the broader group of companies, what would you say? Do you believe that the government can dial back curtailments to walk into that pricing scenario or do you believe that they need to just effectively remove curtailments, let it go wider and let CBR ramp to get there?

Rich Kruger: I can tell you what I would say because I have said it. If you take WCS Hardisty, WCS Gulf Coast for a healthy, sustainable growing rail sector that parties will plan and invest in, we think that number needs to be $15–20. That is kind of a full-cost model. At any point in time to incent rail one month versus another month, many parties will operate under their variable cost: okay, if I do not do it, I am going to incur this level of fixed costs because I have tankcar commitments or whatever. So at any point in time, the industry is not operating off of a full-cost recovery model. I may not have the best memory but I am very consistent. I think I have said $15–20 for some time now and I still see that math the same way. That is what we have described to the government would get us in a world of clear economic incentives, sustainable rail activities and then parties would not be worrying about what is going to happen month on month like they are today.

The second one, walking into it, this is a tougher one. However, I go back to my inventory comments. With an 8 million barrel or so inventory that now exists, 100,000 barrels a day for 30 days is 3 million barrels, now is the time to test it. We do not believe, if you put that incremental production in, that the differentials will blow out over it. If you get at or near tank tops, it is a lot more difficult to predict because there is no place to put oil and you get into things like shut-in economics. But, we think let us flex our muscles a little bit and see: can we live in a non-curtailed world? We think the time is ripe right now to do that. That also happens to be something I have shared in a very productive manner. We have good, good conversations with the government on this. They have a lot of things to consider but that differential and what we think could and should be done in the short term is exactly what I have talked to the government about as recent as a couple of days ago.

Jon Morrison: I appreciate the colour. Maybe I will just ask one follow-up, which is on Devon, Jackfish. There are obviously a decent amount of investors who would have liked to have seen you buy that asset rather than push forward with Aspen, at some point down the road. Can you just share any colour around whether it was of interest to you and it was just the function of price that did not really get you there or it really was not on the table in the context of the market that we are in in a curtailed world?

Rich Kruger: I think the ability to grow shareholder value in a globally-competitive, long-term sustainable way is of high interest to us in all environments. We have described a bit of what we have an internal opportunity inventory: Aspen phase one, phase two, Cold Lake expansion, Kearl supplemental crusher, other Kearl enhancements. We have talked about how we compare that to other things in the market. You commented on one here; we have looked at several others. So I will not specifically get into Jackfish itself but we have our nose and ears to the ground. We evaluate far more things than we ever talk about publicly and we are not opposed to making a move when we are convinced it can add shareholder value. But, I will go back to some of the things that I have just said. There is a lot of uncertainty out there, not the least of which is the ability for the market to operate in a free market world. We would like to get in that world. We would like to see some supplemental pipe. We would like rail economics to be sustainable and I think then you will see us with more appetite than we have right now for spending new capital money.

Jon Morrison: I appreciate the colour, I will turn it back.

Rich Kruger: Thanks Jon.

Dave Hughes: Okay, so that is the end of the questions. Thank you everybody for calling in. As always, if you have any further questions, please do not hesitate to give us a call.

Rich Kruger: Thanks folks.

[END OF TRANSCRIPT]