Imperial Q4 2019

Friday, 31st January 2020

Operator: Ladies and gentlemen, thank you for standing by and welcome to Imperial Oil Fourth Quarter Earnings Call. At this time, all participant lines are on a listen-only mode. After the speaker presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press star one on your telephone. If you require any further assistance, please press star zero. I would now like to hand the conference to your speaker today: Dave Hughes, Vice President, Investor Relations. Please go ahead, sir.

Welcome

Dave Hughes

Vice President, Investor Relations, Imperial Oil

Thank you. Morning, everybody, and thanks for joining us on our fourth-quarter earnings call. I'm just going to start by introducing you to the senior management team in the room. We have Brad Corson, Chairman, President and CEO; John Whelan, Senior Vice President of Upstream; Dan Lyons, Senior Vice President, Finance & Administration; and Theresa Redburn, Senior Vice President of Commercial & Corporate Development.

Before we get going, I'm 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 can 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 fourth-quarter earnings press release that we issued this morning, as well as our most recent form 10-K, and all these documents are available on SEDAR, EDGAR and on our website, so I would ask that you please refer to them.

We're going to follow the format we've been following the last few quarters. We're going to start out with Brad offering some opening remarks and then Dan's going to give a financial overview on the fourth quarter. Then it's going to go back to Brad to provide some more color on the operating performance. Once we're through those remarks, we're going to go to the Q&A. So with that, I'm pleased to turn it over to Brad.

Introduction

Brad Corson

Chairman, President and CEO, Imperial Oil

All right. Well, good morning, everyone, and welcome to our fourth-quarter earnings call. Thank you for joining us today. I had the chance to introduce myself to a few of you at the Investor Day back in November, and certainly I'm looking forward to working with all of you in the future. For my first call as Chairman and CEO, I'm very pleased to report that Imperial had a solid fourth quarter, which marked the end of a strong year in 2019. We completed the year with total earnings of $2.2 billion and cash flow from operations of $4.4 billion, which I'll note is our highest cash flow in the last seven years. These results highlight the strength and resilience of Imperial's integrated business.

Upstream production volumes were strong as well. Our 2019 production of 398,000 barrels oil equivalent per day was the highest in over 25 years, as was our liquids production of 374,000 barrels a day, in spite of major planned turnaround activity at all three of our core upstream assets. In addition, we delivered on our commitment with respect to the start-up of the supplemental crusher project at Kearl, which will enable further growth in 2020. And I'll comment on that in more detail in a moment. And finally, in 2019 we continued to deliver on our commitment to shareholder returns by distributing over $2 billion via growing dividends and continued share purchases.

Our integration and balanced portfolio provides resilience and allowed us to achieve this even in the current challenging and volatile market environment. A variety of events affected crude price differentials, beginning with curtailment in late 2018. We then saw ongoing changes to curtailment during 2019. The Keystone pipeline was shut down for about two weeks, and then the CN Rail strike occurred thereafter, which all drove volatility in differentials. And as these events drove crude differentials up or down, we had offsetting effects in our upstream and downstream businesses. While narrower differentials negatively impacted refining margins, they had a positive impact on realizations in the upstream. These offsets reduced the volatility of the company's cash flow.

So with those introductory remarks, I'm going to pause here and turn it over to Dan to go through our financial performance, both for the quarter and the full year.

Financial Performance

Dan Lyons

Senior Vice President, Finance & Administration, Imperial Oil

Thanks, Brad. So I'll start with earnings. Our fourth-quarter net income of $271 million was down $582 million from the fourth quarter of 2018, reflecting lower downstream earnings and stronger upstream results, driven in large part by substantially lower crude differentials. Looking sequentially, the fourth quarter of '19 net income was down $153 million from the third quarter of '19, reflecting lower upstream and chemical earnings. For the fourth quarter in the upstream, earnings of $96 million decreased $113 million from the third quarter, driven primarily by lower realizations as WSC/WTI differentials widened over the quarter. Fourth-quarter downstream earnings of $225 million were essentially flat with third quarter earnings of $221 million. Fourth-quarter chemical results were a loss of $2 million, down $40 million from the third quarter, driven by weaker margins linked to significant capacity additions in the US Gulf Coast, as well as planned turnaround activity in the quarter.

For the full year, 2019 net income was $2.2 billion, down $114 million from the $2.3 billion we earned in 2018. Recall that 2019 earnings include a $662 million favorable impact from the Alberta government's corporate income tax rate reduction enacted in June. Excluding this impact, 2019 net income of $1.5 billion was down $776 million from 2018. Full-year upstream earnings excluding the income tax reduction were $659 million, an increase of nearly $800 million, driven mainly by higher crude oil realizations and higher volumes. Full-year downstream earnings of $961 million decreased $1.4 billion, mainly attributable to lower margins associated with narrower crude differentials, reliability events including the fractionation tower at Sarnia, and higher net planned turnaround impacts. Full-year chemical earnings of $108 million decreased $167 million from 2018, primarily due to weaker margins driven by overcapacity. While our chemical assets are competitively positioned, they remain subject to global chemical margins, which may be weak for some time as the industry works through its excess capacity.

Moving to cash flow, cash generated from operating activities in 4Q was $1 billion, an increase of about $150 million from the fourth quarter of '18. Cash generated from operating activities for full-year 2019 was $4.4 billion, an increase of about $500 million from 2018. This increase includes favorable working capital effects of about $900 million, effectively reversing the unfavorable working capital effects of about $700 million we saw in 2018. As Brad noted, our 2019 cash generated from operating activities is our highest in seven years, since 2012.

Moving on to CAPEX, capital expenditures in the fourth quarter totaled $414 million, bringing the full-year 2019 CAPEX to just over $1.8 billion, in line with our prior guidance of $1.8 billion to $1.9 billion. Upstream expenditures of over $1.2 billion represent about 70% of the total in 2019. Spending on key projects in the upstream and downstream include the Kearl crusher, Aspen albeit now ramped down, a Strathcona cogen and the Alberta Products Pipe Line. Those totaled about $660 million in the year. As we said at our Investor Day in November, you can anticipate 2020 CAPEX to be around $1.6 billion to $1.7 billion. This guidance excludes Aspen, which, as you know, has been put on hold.

Moving on to dividends and buybacks, in the fourth quarter we paid $166 million in dividends at 22 cents a share, an increase from $151 million at 19 cents per share in the fourth quarter of '18. For 2019 in total, dividends paid were $631 million. The annual dividend paid per share increased 12 cents from last year, representing 25 years of consecutive dividend growth and our long-standing priority to pay a reliable and growing dividend. We also continued share buybacks in the fourth quarter, totaling $301 million, consistent with our TSX-approved NCIB program. In 2019 overall, the company purchased a total of 38.7 million shares, returning nearly $1.4 billion to shareholders. Overall, the company returned just over $2 billion to shareholders in 2019. Our balance sheet remains strong, with about $5.2 billion of debt, a debt-to-capital ratio of 18%. We ended the year with a cash balance of $1.7 billion. And I guess finally, I would say, earlier today, I'm happy to report, we declared a first-quarter 2020 dividend of 22 cents per share, payable on 1st April to shareholders of record on 5th March.

Now I'll turn it back to Brad to go over our operational performance.

Operating Results

Brad Corson

Chairman, President and CEO, Imperial Oil

All right. Thanks, Dan. So, moving on to operating results, upstream production averaged 398,000 oil equivalent barrels a day in the fourth quarter. This is down 33,000 barrels a day, or about 8%, from the fourth quarter of a year ago. These results reflect the completion of significant planned turnarounds in the fourth quarter at both Kearl and Syncrude, both of which started in the third quarter and continued into the fourth quarter. The combined impact of this work from an Imperial share perspective was an estimated 17,000 barrels a day – 9,000 barrels a day impact at Kearl and 8,000 barrels a day at Syncrude on an annual basis. Now, for 2020, we anticipate total production to be around 415,000 barrels per day for the year, driven by the volume gains at Kearl associated with the supplemental crushers.

And now I'd like to comment on some of the individual upstream assets. At Kearl, on a gross basis, we produced 208,000 barrels a day in the fourth quarter, down from 224,000 barrels per day in the third quarter and down 9,000 barrels a day versus the fourth quarter of 2018. This result reflects the planned turnaround at one of our two plants at Kearl which we outlined in our third-quarter earnings call. That turnaround was started in the first half of September and successfully completed by mid-October. The turnaround was about 33 days in duration, with an estimated production impact of around 13,000 barrels per day Imperial share in the quarter. I would like to highlight that post-turnaround, upon completion of all these activities, we ended the year very strong in December, with Kearl producing 216,000 barrels per day gross, which is our highest ever for the month of December. Now, full-year gross production at Kearl was 205,000 barrels a day, once again delivering on the commitment we made to produce at least 200,000 barrels a day in 2019. We expect a similar turnaround schedule for 2020, with a turnaround on one train lasting approximately one month in the second quarter and a similar turnaround on the other train straddling the third and fourth quarters.

Now, regarding the supplemental crushers project, I'm very pleased to announce that things have gone well and very consistent with the schedule we outlined at our Investor Day. The first crusher started up as planned in December and the second crusher followed shortly thereafter in January. This is a significant milestone for the Kearl asset, and we look forward to delivering on the 240,000 barrels a day annual gross production capability it brings us going forward. Now, just a reminder: there is a seasonality to production at Kearl, so as we mentioned in November, we would expect production to average lower than that 240,000 barrels per day in the first quarter, due to weather, as well as continuing to ramp up this project to full rates, and then the second quarter will be impacted by planned maintenance, but then we would expect to ramp up to peak levels in the third quarter. I'm very excited about this asset and I know our whole organization is, as we move from Kearl's current production of over 200,000 barrels a day to 240,000 barrels a day in 2020 on a gross basis.

Now, just some comments briefly on Cold Lake. Cold Lake produced 140,000 barrels a day in the quarter, which was similar to the third quarter. The full-year production was also 140,000 barrels per day, which compared to 147,000 barrels per day in 2018. And that delta was impacted by the challenges brought on by reservoir performance at Nabiye and consistent with what was communicated at the Investor Day in November. We expect production in 2020 at Cold Lake to be similar to 2019. And in 2020 we'll have a turnaround at the Mahihkan plant in the second quarter, which will last about a month. This impact is expected to be slightly less than the Mahkeses shutdown in the second quarter of 2019.

Now, referring to Syncrude, Imperial's share of production at Syncrude was 66,000 barrels per day in the fourth quarter, which was down slightly from 69,000 barrels per day in the third quarter, but again, consistent with our guidance. You'll recall we detailed a turnaround at Syncrude which started middle of the third quarter, and it was completed middle of the fourth quarter, with an estimated impact in the fourth quarter of around 17,000 barrels per day. Full-year production at Syncrude was 73,000 barrels per day our share, which represents the highest annual production since 2010, which was also 73,000 barrels per day at that time. For Syncrude in 2020, there's a turnaround on one of the cokers scheduled for the second quarter, which will last approximately two months. And again, we'll provide more detail on all of our turnaround activity as we finalize plans closer to their start dates, but I would reiterate our 2020 guidance for Syncrude of around 75,000 barrels per day.

And now, I know there's always a lot of interest in curtailment and crude by rail, so I'd like to offer a few comments on that. With the government of Alberta's mandated curtailment order, crude-by-rail economics continue to be very volatile. Crude-by-rail shipments through our Edmonton rail terminal increased during the quarter from zero in October to 88,000 barrels per day in December, which restarted in November in response to the approximate two-week Keystone pipeline outage that I mentioned earlier. Part of this volatility highlights the ongoing negative unintended consequence of the curtailment order, which continues to be a moving target for major producers. Now, provincial inventories were coming down in the third quarter, but in the fourth quarter we saw some significant builds. All told, we ended 2019 with Canadian crude storage levels at or near record highs. Inventory is estimated by Genscape to have grown to a high of 37 million barrels at the end of December. So far in January, the WCS spreads have remained elevated as the system works to reduce built-up inventory. But the most recent Genscape data, from earlier this week, shows increases in industry rail shipments to 375,000 barrels per day just last week, and inventories drawing down quickly, to about 32 million barrels, demonstrating the market's reaction to wider differentials. And for January, shipments through our Edmonton rail terminal are just over 100,000 barrels a day, so the trend continues. At the end of October, the government announced that, effective 1st December, operators can apply on a monthly basis to increase oil production above their quota if the additional product is moved by rail capacity. This is the Alberta government's way to provide temporary curtailment relief and address the continued lack of pipeline takeaway capacity that is negatively impacting Alberta's oil and gas sector. While not the elimination of curtailment that we are seeking, this arrangement does provide some flexibility for the industry to increase production.

So with that for the upstream, I'd like to now move to some downstream comments. In downstream refining, we averaged 321,000 barrels a day throughput in the quarter, which was in line with our guidance, but below fourth quarter of '18 of 408,000 barrels per day. Throughput was impacted by the planned turnarounds at both the Sarnia and Nanticoke refineries, as well as the completion of the Strathcona refinery expansion. Nanticoke's turnaround began on 9th September and lasted about 70 days, impacting the fourth-quarter throughput by about 60,000 barrels per day. And, as we shared in the previous earnings call, Nanticoke's turnaround was about two weeks longer than originally planned, with more discovery work and labor productivity impacts. The turnaround at Sarnia was started 29th September and lasted about 55 days, impacting fourth-quarter production by less than 10,000 barrels per day as we did work on the cat cracker. Total cost of these two turnarounds was around $130 million. There was also a 44-day turnaround at Strathcona which started 1st October, focused on increasing the heavy crude processing capability of the refinery. This impacted fourth-quarter throughput by 11,000 barrels per day.

Now, regarding the fractionation tower incident at Sarnia that occurred in April, the new tower was placed in service in December, so the fourth-quarter impact was around 16,000 barrels per day or so and the full-year impact was around 18,000 barrels per day. Final earnings impacts are around $150 million. And while we are very disappointed by that incident, we are also very pleased that we now have that behind us and can look forward to more normal operations as we enter 2020. For the year, refinery throughput averaged 353,000 barrels per day in 2019, compared to 392,000 barrels per day in 2018, with overall utilization at 83% compared to 93% in 2018. Reduced throughput was mainly due to the higher planned turnaround activities and impacts from the Sarnia fractionation tower that I just referred to. Again, with that work behind us, we finished the year strong, with total throughput in December of 414,000 barrels per day.

And now, as we look ahead to 2020, while not as significant as 2019, we do see another year of substantial planned maintenance in the downstream. These activities will include an approximately 11-week turnaround at Sarnia in the second quarter, including the largest turnaround at our Sarnia chemical plant since 2011, and. straddling third quarter and fourth quarter, we have an approximate seven-week turnaround at Nanticoke and a turnaround of around eight weeks at Strathcona. And we will provide further details as we get closer to each event and refine our plans and estimates, but at this stage we see 2020 throughput of approximately 375,000 barrels a day, with the first quarter coming in at 400,000 barrels per day.

Petroleum product sales were 457,000 barrels a day in the fourth quarter, down 31,000 barrels per day from the third quarter. With the planned maintenance-related reduction in refinery throughput, we had less product to sell during the quarter and of course therefore reduced our short-term sales activities. Sales volumes in the year averaged 475,000 barrels a day, compared to 504,000 barrels per day in 2018, with the decrease being due to the Sarnia tower issues and higher-than-typical planned maintenance, again primarily at Nanticoke and Sarnia refineries.

So, with those comments, I'd just like to wrap up. With all these recent investments in the business, such as Kearl's crushers, the stage is set for a strong 2020. There's a lot of excitement in the organization as we move into the new year, and 2020 is off to a good start. We very much look forward to delivering production growth at Kearl with these new crushers and continuing to drive down the asset's all-in unit operating costs towards our target of US$20 per barrel. A big part of that focus are the digital opportunities we highlighted at our Investor Day in November, which, as we mentioned, represents value potential of greater than $500 million per year for the company. In the past year, we've made great progress in bringing our digital initiatives to life, including our recent partnership with the Alberta Machine Intelligence Institute to further enhance our data science capabilities. And of course we'll continue to build on this foundation.

We're also continuing to focus on ESG matters, including progressing activities to achieve a 10% or greater reduction in our greenhouse gas emissions intensity at our operated oil sands facilities by 2023. And of course this all underpins our ongoing commitment to investment discipline and return of cash to our shareholders. So all of this has me very excited about the opportunities that exist for Imperial, and I look forward to sharing our progress as we continue to deliver on our commitments.

So with that, I'll turn it over to Dave to facilitate the Q&A session. Thank you.

Q&A

Dave Hughes: Okay. Thanks, Brad. We did get a number of questions submitted ahead of time, so I think I'll start by going through a couple of them and then we'll switch over to the live Q&A line. As usual, I would appreciate it when you're on the live Q&A if you'd say your name and company prior to your question.

So I guess the first – we had a couple of questions come in around crude by rail, sort of Q4, which I think was addressed in the comments, but folks are also interested in what we're thinking Q1 might look like and beyond for crude by rail.

Brad Corson: Well, as I said, Dave, we're very much driven by what are the economics for crude-to-rail shipments to the Gulf Coast and, as we see with the current differentials and arbitrage, it makes good economic sense for us to ship barrels on the rail. And so we've continued to ramp up our rail activities at our Edmonton terminal. As I mentioned, we started in October at zero. We've ramped up very quickly in November and December, finished the year in December at 88,000 barrels per day, but now in January – I haven't seen the final numbers yet, but it's something slightly above 100,000 barrels a day. And, I think we're going to see that trend continue in the near term. And we see similar actions across industry, as others have ramped up rail activity as well. And all that, of course, also has a corollary positive benefit to the inventory levels here in Alberta.

Dave Hughes: Okay. The next question comes from Prashant Rao at Citi. With the Kearl supplemental crusher now online, when can we expect to see impacts to OPEX per barrel, given the potential redundancy?

Brad Corson: Yeah, thanks for that question, Prashant. As you heard, we're very excited about the supplemental crushers. I think they will allow us to make a step-change improvement in volumes performance, driven by improved reliability. And as a result, we'll put a lot more volume through Kearl and, as I said, our commitment is 240,000 barrels a day gross this year. As a companion to that, we expect to continue to drive down our unit operating costs, making that facility increasingly profitable to us. We're already taking advantage of the supplemental crusher. That's already helped us reduce downtime in the month of January, and so we're going to start seeing those reliability and cost efficiency benefits right away. Now, our objective, as we outlined at Investor Day, is we would attribute about US$4 per barrel unit operating cost reduction associated with this project. So this will give us a big step towards achieving that US$20 a barrel that I'd mentioned earlier and we'll be watching that very carefully, but I'm really excited about it. Thank you for that question.

Dave Hughes: Okay. We're going to turn it over to the operator now – to the live line.

Operator: Thank you. As a reminder, to ask a question, you will need to press star one on your telephone. To withdraw your question, press the pound key. Please stand by while we compile a Q&A roster. Our first question comes from the line of Manav Gupta from Credit Suisse. You may begin.

Manav Gupta (Credit Suisse): Thank you, guys, for those comments on the Alberta situation. I'm just trying to understand, in the near term, what's your outlook for WCS differential for the first part of 2020, and maybe for even the later part of 2020, given this inventory situation as well as the rail ramp? Where do you think WCS differential shakes out?

Brad Corson: Well, thanks for that question, Manav. I don't know that I'm in the best position to predict the market fundamentals. There's a lot of factors that impact that and, as I mentioned, we've seen some pretty significant volatility, dating all the way back to 2018. And then, when those differentials blew out, and then what we've seen in 2019 is probably more stable return with those differentials, but there's a lot of dynamics in play right now, with IMO, with what we see with global supply and demand, with the coronavirus. And so I think where the differentials are now is a place that crude by rail makes a lot of economic sense for us. And so, as long as it stays in that neighborhood, we're going to continue to ship by rail.

Manav Gupta: And a quick follow-up: you guys obviously have a lot of rail. There is some chatter up there – a couple of companies have made filings on diluent recovery units. I'm just curious on your thoughts, if you would like to partner with somebody or you're looking at it. How do you view the possibility of investing in something like a diluent recovery unit?

Brad Corson: Yeah, it's a good question. Obviously, diluent is an important cost driver in our business and integral to our operations. Of course, I'm new to the organization and I've been asking the team some similar questions, but my understanding is we've taken a pretty hard look at that in the past and the economics just didn't make sense for us. And so, we haven't pursued a DRU project. I think it's one of those types of opportunities that we'll continue to evaluate over time, but for now it doesn't make sense for us. But, those things may change. Who knows?

Manav Gupta: Thank you for taking my questions.

Brad Corson: Thank you.

Operator: And our next question comes from the line of Dennis Fong from Cannacord Genuity. You may begin.

Dennis Fong (Cannacord Genuity): Hi. Good morning, and thanks for taking my question. Both my questions are focused really around Kearl here. So, in cooler months, there's seasonality around the production level. Have you guys been looking at further overburden removal in the Q1 timeframe, as you have done in years past? And how have you guys prepped for the incremental crushing capacity in the summer months that could allow you to possibly exceed the 240,000 barrels a day for consistent periods of time?

Brad Corson: Well, I certainly like the idea of exceeding the 240,000 barrels a day. No doubt about that. And John Whelan, who's our Senior Vice President of the Upstream, he's certainly driving his organization to achieve the maximum volumes we can there. I might let John comment a little bit on the details of how we're approaching the overburden and the recovery.

John Whelan: Well, it's a good question, Dennis. As we went into the last couple of years at just over 200,000 barrels a day, of course we knew 2020 at 240,000 barrels a day – exactly to your point – we needed to ramp up on some equipment and staffing and remove overburden and expose ore to be able to have that ore available to us at a higher rate than we've needed it in the past. So that is some of the kind of extra costs that we probably incurred last year, is the preparation of that, to be able to make sure we could deliver the 240 kbd this year. So we have adequate exposed ore inventory and, you know, as we talked about at the Investor Day, we are going to ramp up. We expect that the first quarter is around 200,000 barrels a day, to the points that Brad talked about, and then getting up into the 240 and above 240 in the third quarter and the fourth quarter, to be able to hit the annual average of 240. So that has been a huge focus for us. I won't commit to anything more than 240 at this stage, but we have exposed the ore inventory to be able to ramp those rates up and be above that in the second half of the year.

Dennis Fong: And then I guess my follow-up really is also around Kearl. And from, I guess, the Kearl mine tour that you guys put on last year, some of the items in terms of kind of pushing towards 270 included items around mine plan details as well as just stronger run time and so forth. In terms of being able to kind of push some of the equipment a little bit more, where are some of the initial items that you guys are looking at, from the supplemental crushing all the way through primary separation and the PFT process, as well as what kind of advancements have you been making necessarily on the mine plan and so forth to accommodate even a higher rate of throughput on the Kearl facility? And I'll leave it at that. Thanks.

Brad Corson: I'll make a general comment – this is Brad – and then I'll turn it over to John again to give more details on that. As you noted, at our Investor Day in November, we laid out a longer-term objective to move from 240,000 barrels a day gross at Kearl to 280,000 barrels a day, and we've got a whole suite of projects that we're progressing. There's none that's probably as significant as the supplemental crusher on an individual basis, but there's many projects that, in aggregation, we believe will move us to that. One of which you talked about was mine planning, and there we do have some advanced work that will allow us to start taking credit for that. But with that, maybe I'll let John talk about any other details.

John Whelan: Yeah. I mean, we feel very good about the path we're on there and I think it's consistent to what we talked about in the Investor Day. I still have the same degree of confidence that I talked about at that time. And as Brad mentioned, this is a series of different projects, which we anticipate that we'll start to see the ramp up from 240 to 280 starting in 2022, 2023, and when you get into the 2024-plus, we'll be in this 280 range. Some of the projects we're doing today. Primary separation cell upgrades was a big one, where we were changing some of the metallurgy and so on in the primary separation cells, so we could go from one turnaround per plant per year to one every second year. That's a significant reduction in scheduled downtime. We did a number of those upgrades in the turnarounds last year. We've got a bit more to go this year, and then we get into kind of the 2022 timeframe when we see the benefit of actually being able to skip a turnaround. So that's an example of one. Another one is our froth recovery. We've started to work now on the enhanced bitumen recovery in our flotation cells. That project is under way, but it takes a couple of years to get all the work done and some of it takes turnaround, so we have to mesh it in with our turnarounds to deliver. But I feel really good. We've got a great inventory of projects, capital efficiency is similar to the crusher project, and we're on track to see that ramp up in the 2024 timeframe.

Dennis Fong: Great. Thank you.

Dave Hughes: Okay, we're going to go to a couple more of the pre-submitted questions now. So, Brad, I've got a couple here from Benny Wong of Morgan Stanley. Benny's first question is, 'What's your chemical margin outlook over the course of this year? Is the worst over and have we reached the bottom, or could there be some more pressure to work through?'.

Brad Corson: Yeah, thanks for that question, Benny. And as you heard from Dan's description of the financial results, obviously fourth-quarter margins were down – fourth-quarter chemical margins were down significantly from prior quarters and prior years. That is reflective of a cyclical down cycle that we're experiencing right now in the chemicals business. I don't know if we're at the bottom. It sure feels like the bottom and I hope it's the bottom, but, time will tell. But what I would say is, despite that, we've seen this sort of cyclical market conditions in the past, and it won't be unusual if it were to last for many months. But, we have a facility that operates to a very high standard, very high reliability, it's very efficient, it's in a great location relative to the customer demand for our product, and we also have – you know, with the integration with the refinery, we have good access to advantaged, fuel and feedstock costs. So when I put all that together, if anybody's going to bank money in this business, it's going to be us at this plant. So, I feel good about that. You heard me comment that we do have a very large turnaround planned there this year, which again I think this seems like a good time to have the facility down and to be preparing for when the market recovers.

Dave Hughes: Okay. And Benny had a second question: 'There's been some exceptionally cold days in Alberta recently. Can you give us some color around the productivity impact this has had on your upstream and rail-loading operations?'.

Brad Corson: Well, let me first say, coming from Houston, this cold weather's certainly impacted me in Alberta, but, the good news is, I think our operations are well suited for these cold weather conditions, they're well prepared, they're used to it. It really has not had any major productivity impacts to our operations or interrupted them. It's hard work for anybody working in those extreme weather conditions – there's no doubt about it – but, fortunately the folks are used to it and again, it hasn't adversely impacted us.

Dave Hughes: Okay, operator, I'm going to turn it back to you to take the next couple of questions on the line.

Operator: All right. Our next question comes from the line of Emily Chieng from Goldman Sachs. You may begin.

Emily Chieng (Goldman Sachs): Thank you. Brad, curious as to what your priorities and strategic direction are for the company that – now that you've taken a look at the business for a couple of months now, perhaps in particular with respect to growth, both organic and any sort of inorganic opportunities that may be out there, as well as capital returns.

Brad Corson: Well, thanks for that question, Emily. As you would expect, I'm spending a lot of time reflecting on the business and our strategies going forward. I would suggest several things that are driving us as an organization and things that certainly I'll be continuing to emphasize and focus on. First, we want to continue to achieve our industry-leading performance in safety and operations integrity. That's our license to operate. That is key for us wherever we do business. But beyond that, I want to also ensure that we are achieving industry-leading performance in ESG, in operational reliability, operational performance and cost efficiency. And I think this organization has clear line of sight on those objectives and they're working hard to achieve them. You heard through my comments, a theme of delivering on commitments, and that's very important.

I want to ensure that we are managing the existing portfolio of opportunities we have to maximize value, but at the same time continuing to aggressively evaluate and pursue, where it makes strategic sense, any new opportunities. Certainly, I want us to be the most trusted and admired company in our industry and to be the most valued partner with our key stakeholders. And I commented a little bit on digital; we need to fully leverage our research initiatives and our digital applications to continuously improve the efficiency of our business, while at the same time reducing the greenhouse-gas intensity of our operations. And so now you put all that together, and what I want to do is maximize the value of this company while delivering significant returns to our shareholders. We have a long history – a hundred years – of a reliable dividend. We've been growing that dividend now for 25 years, and certainly it's our objective to continue that path.

Now, that's a long answer. Let me give you a simple, quick answer. I want to take a great company and make it greater. That's the bottom line.

Emily Chieng: Great. Thanks, Brad. And just one follow-up, if I might. Would love to hear your views round light Canadian crude pricing for 2020. So both Edmonton mixed sweet and Syncrude barrels have been fairly discounted in the first part of the month, likely due to inventories, but interested in what your views are around how the light Canadian barrel competes with this condensate barrel and how that barrel should trade relative to WTI throughout the year.

Brad Corson: Yeah, again, I don't want to put myself in a position of predicting any pricing or market drivers there. It's something we obviously monitor very closely and we let those differentials drive our decisions around, where we dispatch our crude, how we fill our refinery slates, but again, there's so much volatility in the market right now, I don't want to go on record with a forecast.

Emily Chieng: No problem. Thank you.

Operator: Thank you. And our next question will come from the line of Mike Dunn from Stifel FirstEnergy. You may begin.

Michael Dunn (Stifel FirstEnergy): Thank you. A couple of questions about the downstream, if I may, Brad. Just wondering if you could provide some more detail on the Strathcona asphalt project. I guess the press release mentioned an expansion of – I'm not sure of total crude throughput capacity, but certainly heavy crude processing capacity, and I believe – and so I – just wondering, how much has crude processing capacity gone up, if at all? How much has heavy processing capacity gone up? And how much has your asphalt product capabilities gone up? And so that's a mouthful, but that's the first part. And then the second part would be if you folks could provide any more detail on the seemingly elevated downstream spending that you're planning for the next few years in terms of specific projects that those relate to. Thank you.

Brad Corson: Okay. Yeah, thanks for those questions, Mike. In terms of Strathcona and the expansion project there, it is primarily focused on our asphalt production capacity. We have a very significant market position in asphalt and have for several years. We continue to see growing demand for asphalt, and so that has motivated us to look for expansion options. And so, I'm quite excited about, the work by the Strathcona team to kind of seize that opportunity. They've just completed that work. Our target is to increase that capacity by, probably 20% to 25%. It's early days. We've just come out of that project work, so early for me to commit more than that, but we feel very, very good about that. And again, for us, it's strategic.

And then – and then on the downstream spending, as you looked at kind of our guidance from the November Investor Day, what I think we characterized was total growth capital over the next five years of $700 million to $800 million per year. That excludes Aspen, of course. Historically, we've probably spent more capital on the upstream versus the downstream on the growth projects, and I would anticipate that's likely going to continue. But for the downstream, the investments that we see looking ahead are really related to refinery optimization – capital-efficient projects that allow us to incrementally grow refinery production, but also some investments potentially in logistics that allow us to take better advantage of market situation to access premium customers, and also continue to increase our, if you will, supply chain reliability. We pride ourself on being a very reliable supplier of products to our customers and so, we want to make sure that continues even as we grow product outlets. So, that's kind of a broad description. I think it's probably premature for me to detail any individual projects, looking out over the next five years, but, as we refine the details on those, certainly we'll discuss those with you in future calls.

Michael Dunn: Thanks, Brad. That's all from me.

Brad Corson: Thank you.

Dave Hughes: Okay. We've got a couple of the pre-submitted questions left. The next one is from Phil Skolnick at Eight Capital: 'With continued uncertainty around the longevity of curtailments, how do you now think of Aspen in a buy-versus-build scenario?'.

Brad Corson: Well, thanks for that question, Phil. I'll come at that question two ways. One, just in terms of Aspen itself with the longevity of curtailments, obviously we continue to be disappointed by the ongoing curtailment that exists. We certainly want to see that eliminated, and I'm encouraged by the comments that the Alberta government has made, where they've indicated that they would expect curtailment to be eliminated by the end of the year. But while curtailment continues, there continues to be uncertainty around long-term investment economics and the ability to get product out of Alberta and to maximize value of our production. So while curtailment exists, we've said Aspen is off the table, and I don't see that changing.

I think the second maybe corollary part of your question around buy versus build is really with Aspen, obviously they're – in a curtailment scenario, there's no additional quota that goes with a new build, whereas if market conditions were right, we saw a target acquisition that has existing production – that production comes with an existing quota. But I would say again, we are not motivated to pursue even an acquisition in a curtailed world, one, because just the fact that curtailment exists, there continues to be long-term uncertainty around market dynamics, in the province, and so that adds additional risk to any investment even if it can produce today. But maybe equally important, in general, when you're looking to make an acquisition, you're not just looking to buy the existing production flow stream. The economics generally aren't very good with that. You're also looking at acquiring growth opportunities. That's where the real upside is. That's where a company like ours can differentiate ourself, bring all of our skills and capabilities to create unique value for our shareholder. But again, if a key driver for any acquisition is the growth portfolio, you're going to find yourself in the same situation you are with Aspen.

Dave Hughes: Okay. And the last question I have here is from Prashant Rao at Citi: 'Full-year 2019 CAPEX came in at the low end of guidance and the step down in Q4 seems to have helped. What drove the step-down, and is there any read-through for 2020 CAPEX?'.

Brad Corson: Well, being at the low end of guidance when it comes to CAPEX I think is a good thing, especially in this business environment, so actually I'm quite pleased that we came in at that $1.8 billion, which again, was within the range that we had signaled. The fourth quarter was a little bit lower – a variety of things, you know? We were kind of wrapping up the supplemental crusher project, and earlier in the year, as we suspended Aspen, we had some capital expenditures that were kind of already in progress that we've had to ramp down. And so again, that brings us at a much lower level in the fourth quarter versus what you might have seen or anticipated a year ago at this time. In terms of 2020, what we've indicated is a capital expenditure profile in the 1.6 to 1.7 range, so actually our plans are to spend a bit less than what we did this year. And again, we think that's very prudent. The things we're pursuing are things that have very robust economics. But again, in this market environment, I think capital discipline is very important, and it also positions us in a good place to continue to return cash to our shareholders.

Dave Hughes: Okay? I think, operator – I think that's it for the questions, if I'm not mistaken.

Operator: Yes, I'm not showing any further questions at this time.

Dave Hughes: Okay. Then just before we close, I'd like to turn it back to Brad for any closing remarks.

Brad Corson: All right. Well, thank you, Dave, and again, just to wrap it up, I would like to thank all of you for your participation in the call today. For all of you that asked questions, I thought those were very good questions and I enjoyed the opportunity for myself and Dan and John to address those with you. And, my objective continues to be one of transparency with the market. Big credit to my predecessor, Rich Kruger, who established this practice of the management team participating in these earnings calls, and I fully expect that we will continue that practice. And so, over the coming quarters, I look forward to meeting as many of you as possible and continuing this rich dialog about this company that I feel so strongly about and our organization is so proud of. Thank you.

Dave Hughes: Okay. Well, thank you, everybody. As always, if you have any further questions, please don't hesitate to reach out to the IR team here any time. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]