Q1 2020 Earnings Call

Friday, 1st May 2020

Introduction

Dave Hughes

Vice President, Investor Relations

Good morning, everybody. Thanks for joining us on our first quarter earnings call. I am going to start by introducing you to the senior management we have here in our virtual room. We have Brad Corson, Chairman, President and CEO; Dan Lyons, Senior Vice President, Finance and Administration; John Whelan, Senior Vice President of the Upstream; and Theresa Redburn, Senior Vice President of Commercial and Corporate Development.

Before we start, I am 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 first quarter earnings press release that we issued this morning as well as our most recent Form 10K, and all these documents are available on SEDAR, EDGAR and on our website. So I would ask that you please refer to them.

We are going to follow our usual format. Brad is going to offer some opening remarks, and then Dan will give a financial overview of the first quarter. Then I will go back to Brad for some more color on the operating performance, and then we will get to the Q&A. As I am sure everyone is aware, we have our Annual General Meeting today at 10:30 Mountain Time. So I just want to note that we will need to end the Q&A at 10:00 sharp. But if there are any outstanding questions, we will certainly follow up directly with you after the AGM. And I thank you in advance for your understanding.

So with that, I will turn it over to Brad.

General Update

Brad Corson

Chairman, President and CEO

Good morning, everyone, and welcome to our first quarter 2020 earnings call. I hope you are all doing well and staying healthy. Before we get started with reviewing the first quarter financial and operating results, on behalf of the employees of Imperial Oil, I would like to take this opportunity to express our deep appreciation and gratitude for all those working on the front lines of this global pandemic. We cannot thank them enough for the sacrifices they are making to keep us all safe and provide us with our essentials. Our industry, as you know, is considered essential, and so Imperial is working hard to ensure ongoing reliable supply of the energy society requires, while at the same time, managing the health and safety of our workforce. But our teams are also doing everything they can to support our communities and keep them safe and resilient during this unprecedented time.

The company has recently announced a promotion to provide up to $2 million worth of free fuel to the real heroes in this, the frontline healthcare workers. The company is also donating

60 tonnes of isopropyl alcohol to help meet the significant increase in demand for this ingredient, which is used in applications like hand sanitizer, medical wipes and rubbing alcohol. We also raised our matching dollars 2:1 for donations by employees to community charities and not for profit organizations through its employee giving and volunteer program.

Also, in order to support online learning and to help meet high demand for technology devices while classrooms remain closed, the company is donating 500 laptops to the Electronic Recycling Association in support of the Calgary Board of Education's Education Matters campaign. We recognize the need is great, and I am very, very proud of how our employees and neighbors have come together to donate critical supplies and funding where it is needed the most.

So now let's turn to the first quarter. Certainly, what started out as a pretty typical quarter turned out to be anything but typical. The combination of demand reductions brought on by the COVID-19 pandemic and the supply shock resulting from the OPEC+ actions was truly unprecedented and resulted in a challenging business environment by the time the quarter ended.

Significantly lower global demand had a material impact on crude oil and product prices, which in turn, impacted our reported financial results. We have taken a number of steps to reduce spending and modify our business plans to adapt to these challenges. We communicated some of these in our 31st March press release, and we will provide more details throughout the discussion. However, from an operations perspective, I am very proud of our first quarter performance. Upstream production volumes were quite strong, in fact, near a 25-year high for the first quarter at 419,000 barrels of oil equivalent per day. This included record Q1 production at Kearl, demonstrating the positive impact that the Kearl supplemental crushers have had this thus far.

We also had strong results in the Downstream, including record first quarter throughput at our Strathcona refinery, which continues to demonstrate the value of our integration. Putting it all together, I believe we delivered a solid quarter. While we reported a loss of $188 million in the quarter, when you back out the non-cash charges that are primarily related to market prices for inventory at quarter-end, earnings were a positive $113 million on an adjusted basis, ahead of analyst expectations.

We also generated $423 million of cash from operations in the quarter, and this included an unfavourable working capital effect of $179 million. This resulted in a cash balance at the end of the quarter of $1.4 billion. The value of our integration and balance was demonstrated as we achieved strong financial results in our Downstream business.

Further, while today's crude prices present a substantial challenge for our Upstream business, in April, we have seen some lower prices for light crude, which will support our Downstream business profitability in the second quarter.

We continue to return cash to our shareholders in the quarter with over $400 million returned through dividends and share buybacks. While we have suspended the buyback in this environment, we continue to pay a dividend. And this morning declared a second quarter dividend of $0.22 per share, unchanged from the prior quarter. Our financial strength, combined with the actions taken to reduce spending and costs, provide us with the confidence to support the dividend despite the challenging circumstances. Our longer-term outlook for our assets and competitive position lends further confidence.

So at this point, I am going to pause and turn it over to Dan to go through our financial performance for the quarter.

Financial Performance

Daniel Lyons

Senior Vice President, Finance and Administration

Thanks, Brad. Our first quarter net loss was $188 million, down $481 million from earnings of $293 million in the first quarter of 2019. The first quarter results in 2020 include non-cash charges of $301 million, mainly associated with the revaluation of our crude inventory to market value at quarter end. Excluding these non-cash charges, as Brad noted, earnings would have been $113 million compared to $293 million in the same period last year, with the drop mainly driven by the decline in commodity prices. On a sequential basis, and excluding non-cash charges, we were down $158 million from the fourth quarter of 2019.

Performance by Business Line

Looking at our performance by business line. Upstream recorded a net loss of $608 million compared to net income of $96 million in the fourth quarter of 2019, reflecting non-cash charges of around $250 million and the impact of lower realizations. The Downstream recorded net income of $402 million, up from $225 million in the fourth quarter of 2019, as crude runs increased with the completion of turnaround activities at Sarnia and Nanticoke, and the restoration of the damaged tower at Sarnia.

We also benefited from record first quarter crude runs at Strathcona, as Brad noted.

Chemicals earned $21 million in the first quarter, up $23 million from a loss of $2 million in the fourth quarter of 2019 as margins and volumes increased.

Cash Generation

I will now discuss cash generation. Cash generated from operating activities was $423 million in the first quarter, compared to just over $1 billion in the fourth quarter of last year. Cash flow was impacted by lower earnings and unfavourable working capital impacts. As Brad noted, we ended the quarter with $1.4 billion in cash. Our strong liquidity position is supported not only by our cash on hand, but also by our industry leading balance sheet and credit rating, which provide Imperial with advantaged access to debt markets.

Capital Expenditures

Moving on to CAPEX. Capital expenditures in the first quarter totaled $331 million. Upstream expenditures of $231 million represent about 70% of the total in the quarter.

Reduced spending compared to last year is associated with the ramp down of the Aspen project, as well as completion and startup of the Kearl supplemental crushers. On 31st March, in response to COVID-19 and market conditions, we provided updated guidance, reducing our capital spending outlook by $500 million to the range of $1.1 billion to $1.2 billion for full year

2020. We also indicated that we plan to reduce our operating expenses by $500 million compared to 2019 spending levels as we build on our ongoing OPEX efficiency plans.

Our spending will focus on ensuring ongoing safe and reliable operations of our assets and paced investments to continue work on key projects at a level reflective of the current challenges presented by COVID-19 and the business environment.

Dividends and Share Buybacks

Now I will discuss dividends and share buybacks. In the first quarter, we paid $164 million in dividends at $0.22 per share, an increase from $149 million at $0.19 per share in the first quarter of 2019. We also continued share buybacks in the first quarter, totaling $274 million or 9.8 million shares, consistent with our Toronto Stock Exchange approved NCIB program.

While we suspended our share purchases as 1st April, we continue to view our share purchase program as a flexible way to return surplus cash to shareholders. The company will continue to evaluate its share purchase program in the context of its overall cash flow and capital activities going forward. As Brad noted earlier, we announced the second quarter dividend of $0.22 per share today, maintaining our dividend in this challenging period for the industry reflects our strong balance sheet and our confidence in the long-term outlook for our business.

I will now turn it back to Brad to cover our operational performance.

Operational Performance

Brad Corson

Chairman, President and CEO

Thanks, Dan. So, moving on to operating results, as noted earlier, Upstream production averaged 419,000 oil equivalent barrels a day in the first quarter. This represents an 8% increase over the first quarter of 2019 and includes record Q1 production rates from Kearl, as production benefited from our new supplemental crushers, which I will talk more about in a couple of minutes.

Upstream Expectations

We expect Upstream production volumes to be negatively impacted in the second quarter as we deal with an unprecedented drop in demand as Canada, along with the rest of the world, deals with the necessary travel restrictions, self-isolation and social distancing measures to address the global pandemic. I will talk more about how each asset is impacted, but at this point, it is too early to determine what the annualized impact of this demand and price reduction will be.

Kearl

Now I will comment on the individual assets, starting with Kearl. We have had some very positive performance at Kearl in the first quarter.

On a gross basis, we produced 226,000 barrels a day, up from 208,000 barrels per day in the fourth quarter of 2019, and up from 180,000 barrels a day versus the first quarter of 2019. I would also note in the month March, we achieved a rate of 248,000 barrels a day for the month.

Now back in January, on the fourth quarter call, I expressed how pleased we were with the completion and commissioning of our supplemental crushers at Kearl, and how well they were performing. I am excited to announce that this first quarter result reflects the continuation of this strong performance. These new crushers are performing as well, if not better than expected. As you are likely aware, the first quarter has historically been a lower production quarter for Kearl as we deal with the cold weather and associated operating challenges. However, the availability of these supplemental crushers allowed us to compensate for what has historically been this period of lower productivity.

I would also tell you that in consideration of the health and safety of our workforce, we have been looking for opportunities to manage workloads at our sites to better support physical distancing. One of the areas we mentioned we were looking at was the scheduling and scopes of the various turnarounds we had planned for this year. With this in mind, we have opted to advance, as well as extend, our typical second quarter turnaround at Kearl to roughly eight weeks. So it will now begin in early May, literally within just a few days and continue to late June or early July. This allows us to progress work at a more measured pace and greatly reduce the number of people we have working at site at any given time, and without affecting the overall scope. It also allows us to execute the turnaround during a period of likely low demand and prices, so we can have the asset fully up and running as and when prices do recover. As a result, we currently see second quarter production at Kearl running at approximately 150,000 barrels per day.

I would like to take a few minutes now to talk about our employees and contractor partners at our Kearl asset. By now, you have likely seen the reports of several confirmed cases of COVID-19 at the Kearl site. This news is naturally concerning for Imperial's leadership team, our employees, the public, and of course, the members of our extended Kearl family. The safety and health of our people and the communities where we operate is our very top priority. We've taken several steps to protect the Kearl workforce, including reducing capacity on flights and buses in order to leave open seats and ensure physical distancing, as well as providing cloth face coverings to all workers for use during bus and flight travel as well as at the camps and work sites. These measures are in addition to the extensive list of preventative steps that have been in place for over a month at Kearl, such as enhanced health screening and cleaning practices at all sites, and the implementation of temperature monitoring.

We are ensuring our workforce has all the proper personal protective equipment needed such as masks. And to ensure we are meeting the guidelines for physical distancing, we have reduced our onsite workforce to essential workers only. Out of an abundance of caution and in coordination with Alberta Health Services, Imperial made voluntary COVID-19 testing available to all employees and contractors at Kearl, regardless of whether they were showing any symptoms. The information gathered through this testing will help us better protect our workforce.

To date, approximately 1,900 of the Kearl workforce have been tested and most results have been received. As we have seen in other provinces, when testing is expanded, there is often an increase in confirmed cases. And as we conducted this widespread testing at Kearl, this was certainly the case. Now, as of yesterday, and since our very first case a few weeks ago, we have now confirmed a total of 83 cases of COVID-19 within our Kearl workforce, both on-site and off-site. Of these 83, 22 have now fully recovered, and 61 are still being actively monitored and treated as necessary.

We continue to manage the situation very carefully, and in close coordination with Alberta Health Services. We are in contact with those cases who had earlier tested positive to ensure they have the full support of their Imperial family. And of course, our thoughts are with these individuals and hope they make a full recovery. I would also point out that we are taking COVID-19 mitigation steps at all of our facilities across Canada.

Cold Lake

So, now moving on to Cold Lake, production was 140,000 barrels a day in the quarter, similar to the fourth quarter of 2019, and consistent with what was communicated at our Investor Day last November. And at this point, we continue to expect production for the year to be around 140,000 barrels a day. As I mentioned on the fourth quarter call, we have a turnaround at the Mahihkan Plant in the second quarter, which is now scheduled to run from early May to the end June. In order to reduce on site workforce, the scope of work has been scaled back and the timeline extended. We are still in the process of finalizing revised production estimates.

Syncrude

And at Syncrude, Imperial's share of production was 73,000 barrels per day in the quarter, up from 66,000 barrels per day in the fourth quarter, and consistent with earlier guidance. In January, I told you about a coker turnaround at Syncrude that was scheduled for the second quarter with an expected duration of about two months. However, in our March 2020 press release, we indicated that this turnaround had been deferred into the third quarter. Since then, however, the ownership of Syncrude - the partners, have continued to look at options and have now decided, given this environment of COVID-19, low demands and low prices, to go ahead with that scheduled work at this time. The intent is to manage these efforts as a number of smaller, discrete scopes of work which can be completed by a smaller workforce, enabling appropriate physical distancing. The plan would have the work running from now through October, but will also provide flexibility around production levels depending on changes to market conditions.

Based on this current outlook and execution plans, second quarter production is now estimated to be between 45,000 and 50,000 barrels a day.

Edmonton Rail Terminal

With respect to utilization of our Edmonton Rail Terminal, which I know is always of interest, in late January, I indicated that rail volumes for the month were just over 100,000 barrels per day. They then increased slightly in February. But as you know, crude by rail economics are very volatile, and given the significant declines we are seeing in global demand and reduced production rates across the industry, pipelines are now running with spare capacity, leading to a narrowing of transportation differentials and making rail uneconomic. Given this, and our ability to be quite responsive to these economics, we began to ramp down our rail terminal throughput in March, and ended the quarter averaging 97,000 barrels per day. Our April shipments are down substantially, and were around 10,000 barrels per day.

Downstream

Now shifting to the Downstream. We refined an average of 383,000 barrels a day in the quarter, which was well above the fourth quarter 2019 throughput, but slightly below the guidance we provided in January of 400,000 barrels per day target. The difference is mainly due to reduced runs associated with COVID-19 related demand decline at the end of the quarter.

Now despite COVID related sparing, we nonetheless achieved a couple of records in the quarter as a result of the expansion completed at the end of 2019, which added about 6,000 barrels a day of additional Cold Lake crude processing capability, our Strathcona refinery achieved record first quarter throughput at 192,000 barrels per day for the quarter and also set an asphalt production record.

2020 outlook

As we look ahead through 2020, our original Downstream maintenance plans, while lower than 2019, were still substantial. However, as part of our efforts to manage our operations in the current environment, we have made some changes to these plans as well. The turnaround at Sarnia refinery, which started in early April, has seen a scope reduction, and now only the coker will be taken offline for maintenance, with the duration being expanded due to reduced on-site personnel.

And given current crude differentials, the incentive to run heavy crude is limited in the near term, mitigating the impact of the coker being offline. As I noted earlier, given that we run mostly light crudes, our refineries are benefiting from the current narrow heavy - light crude spreads in the market.

We had also planned to execute a significant turnaround at the Sarnia chemical plant this year, but have deferred the majority of that work to later years, and are now evaluating a much smaller scope of work at the facility for this year.

Our Strathcona turnaround originally scheduled for a late third quarter start, has been deferred beyond this year. However, we will conduct some minor maintenance at the site in the month June. And similarly, the turnaround at Nanticoke has been deferred to 2021, with a more limited scope of work being conducted in the fall. Altogether, the limiting of scope and extension of duration for these turnarounds and the planned maintenance work enables us to reduce the number of people on our sites, supporting improved physical distancing and reduced costs, while better aligning crude runs with demand levels.

However, I want to be very clear that all business-critical work will be completed as planned to ensure optimum operation once things return to normal. None of the work being deferred will impact the safe and reliable operations of these assets. I mentioned that the lower first quarter refining throughput was driven by the demand reductions we're seeing as a result of COVID-19 impacts. And given the current uncertainty and volatility in the marketplace, we are not in a position to offer updated throughput guidance at this time as our activities will continue to adjust and adapt as demand and market conditions change.

Sales

On the sales side, petroleum product sales were 462,000 barrels a day in the first quarter, up slightly from the fourth quarter. Again, the demand impacts due to COVID-19 have resulted in volumes that are lower than we would have initially expected for the quarter. To give you an idea of the type of demand impacts we are experiencing as an industry, recent reports show material demand reductions across many products, with motor gasoline down 50% to 60%, jet demand down 80% or more, and diesel demand down 20% to 30%. With these types of numbers, there is no doubt our petroleum product sales will continue to be impacted in the second quarter, although the volumes and earnings impacts are still unknown at this time.

Our Chemical business had a solid quarter with earnings of $21 million, stronger than the fourth quarter of 2019. This was due to seasonal volume growth and the absence of turnaround activity, but as we talked about quite a bit on the fourth quarter earnings call, Chemical earnings continue to be impacted by recent industry capacity additions, which have resulted in a down cycle in the market.

Corporate Social Responsibility

And finally, changing gears a bit, I am excited to mention that earlier this year, we released our new and enhanced Sustainability Report. As a responsible corporate citizen, environmental, social and governance matters are a key priority in everything we do. This new report underscores our commitment to keep improving in the area of ESG and provides a significant amount of detail on these topics. I encourage you to go to our website and have a look.

Summary

Now to wrap up, as I commented earlier, I believe we delivered solid results for the first quarter. We are currently in a more difficult period with significantly lower near-term demand and depressed prices. And while we do expect an eventual recovery, the pace and magnitude are inherently difficult to predict right now.

As Dan outlined in detail, we have taken actions to reduce our spending and costs to align with the current environment. However, it is important to note that we have not taken our eye off of the future, and are still progressing work that will enable us to adapt quickly as markets change, as well as select strategic initiatives that will enhance our competitive position long-term. As a company, we have always prided ourselves on the value and stability provided by our integrated business, the strength of our balance sheet and our priority on delivering shareholder value. With these actions we have taken and are taking, we are confident that we are well-positioned to weather this storm and leave ourselves well positioned to benefit during the recovery.

So with that, I will turn it over to Dave to facilitate the Q&A session.

Q&A

Dave Hughes: Okay. We are going to start with a couple of pre-submitted questions, and then we will switch over to the live Q&A line. So, the first question comes from Mike Dunn at Stifel.

‘Can you quantify recent and Q2 plans for output at Kearl and Cold Lake? And how those levels have been impacted by the drop in prices and demand? And could you provide an estimate for the approximate WCS price required for revenues to cover variable costs in each of the assets?'

Brad Corson: Thanks for your question, Mike. In terms of production outlooks, as I just mentioned, Kearl outlook is 150,000 barrels a day for the second quarter. In terms of Cold Lake, looking long term, we are still targeting 140,000 barrels a day for the year, but there will be some impacts in the second quarter, but we have not fully quantified those yet. We normally do not talk specifically about breakevens at the asset level. But what I will tell you is that as we look at the external environment and the economics of production what we are very focused on is ensuring that the current value that we will realize in the marketplace for our products more than offsets or exceeds our variable operating costs.

And while the overall total costs of many of our assets can be higher, the variable costs tend to be very low and without again getting into the details, I would say they are generally kind of mid-single-digit-type numbers. So in that regard, we are routinely assessing the market conditions and comparing them to the variable costs at each of our operations, and that is what is guiding our decisions on trying to optimize the timing of these turnarounds and take full advantage of, if you will, this lower price environment to reduce production, complete critical turnaround work, and be ready to take full advantage of the market when it responds.

Dave Hughes: Okay. Our next question comes from Jon Morrison at CIBC.

'Is there any potential that the extended Kearl downtime could be pulled into the third quarter of 2020, depending on crude pricing? And how are you thinking about the decision to run lower throughput at the two trains at Kearl versus shutting one of the trains down for longer post the extended turnaround that we talked about?'

Brad Corson: Thanks for your question, Jon. Let me come at that from a couple of perspectives. First of all, the team has spent a lot of time planning the duration and approach to the turnaround that I just mentioned that is about to start in a couple of days. And in order to ensure the safety and health of our workforce and provide proper distancing and minimal-sized crews, we have concluded that the best way forward is to undertake that work over an approximate two-month time frame.

We are just moving into that work. We believe we have a good plan for it. But I would also say that the approaches we are taking and the measures we need to apply as a result of COVID-19 continue to be very much a learning process for us and as such, time will tell in the first few weeks if we are able to achieve the productivity that we expect to. But at this point, we believe we will be able to complete all that work within the two-month time frame.

Now once we complete all that work and we find ourselves at the end June or early July, the market, we hope, will look much different than it does today, and we want to be positioned to restart that train and resume our path to continue production records at Kearl. But we will need to reassess that, and it is very difficult to predict as we sit here today what those economic conditions will look like at that period of time.

Dave Hughes: Okay. And Jon did have a follow-up to that one, too, that is related.

'Now that we are through the peak of winter, would you say it is mechanically easier to have Kearl largely off-line for three to six months without major overhaul work needed for restart?

Does idling Kearl become more of an economic question now that you are in the spring versus the mechanical economic in Q4 and Q1?'

Brad Corson: Certainly, the operations in the winter months are more challenging. But I would say, relative to other assets in our portfolio, as well as, in general, assets and industry, we do have a fair amount of flexibility with ramping up and ramping down Kearl really at any time of the year, and that is one of the benefits of having that type of asset in our portfolio in this economic condition is we can make adjustments pretty quickly, as needed. And that is a bit different than in-situ operations, which are very dependent on pressure maintenance and long steam soak cycles where it is more difficult to dial them up or down quickly.

Manav Gupta (Credit Suisse): Hi guys. A quick question. You talked about the supplemental crushers and how they have helped you with the production side. Can you throw some light on how the supplemental crushers have helped you on the operating cost per barrel side? I mean there was an understanding that as these supplementary crushers come online, they will help you lower the breakeven of the project. So any light you could shed on that would be very helpful.

Brad Corson: Yes. Thanks for that question. And as I mentioned, we are very pleased with the results of the crushers. They did allow us to achieve record production in the first quarter. And I would just say that in conjunction with that, we are seeing a proportional reduction in operating costs. I think in prior calls and at our Investor Day, what we indicated was an objective to reduce $4 per barrel US out of the unit operating cost for Kearl. And so far, everything we have seen suggests that is achievable, and again, these supplemental crushers are a key element of achieving that. What we have also said is long-term, our goal is to drive that unit cost down to $20 a barrel US all in. And again, the supplemental crushers are key to that and I am very encouraged by the progress we are making.

Manav Gupta: A quick second follow-up. Your refining results were very strong. Clearly, there is a benefit of the light-light crude differentials widening out in Canada. Can you talk about some of the benefits that your refineries are uniquely positioned when it comes to exploiting that light-light benefit up in Canada?

Brad Corson: Yes. That is a very good question. And as I mentioned, I think we are in a good position with some of these wider differentials. And when you look at our refinery configuration, we are definitely balanced more toward running light crude slates versus heavy. So on balance, as a company, we are a net seller of heavies and a net buyer of lights. And so at times like this, we are well positioned.

I would also say the location of our refineries is advantageous. We have two refineries on the eastern side of the country, near Ontario, where there is historically high demand for products that we produce. And then likewise, we also have the largest refinery in Alberta, which is Strathcona, and as I mentioned, we are seeing record throughput at that facility as well. So I think we are well positioned. We do leverage our equity crude where it makes sense to us, but we also are in a market and acquiring light crudes at discounted prices, and that's helping our economics.

Manav Gupta: Thank you for taking my questions.

Menno Hulshof (TD Securities): Thanks and good morning. I will start with a question on inventories and storage. Clearly, there is a widely held view that we hit tank tops out here within the next several weeks, and closer to the end May in the US. So my question is, do you share that view? And the more important follow-up here is, what does Imperial look like a few weeks into that scenario? And what are the levers that could get pulled to mitigate that risk?

Brad Corson: No doubt, everybody is watching inventories very carefully right now, which are directly impacted by this significant reduction in demand that occurred in April, record, precipitous reductions, down almost 30 million barrels a day globally. And obviously, that had a significant impact in North America, and Canada, specifically. Likewise, the initial supply increases from the OPEC+ countries also exacerbated that balance.

And so, whereas kind of the supply demand balance is coming more into check, it is going to take a long while to get there. And in the meantime, inventories are building as refineries across North America have reduced their utilization and run rates and fewer products being produced and less demand for crude, so inventories are building.

My impression is that the build is much more extreme in the U.S. As we monitor inventory levels in Canada, the builds have been, I would say, more moderate. I think the latest Genscape data shows something 30 million, 31 million barrels in Canada, which still is about 20% or so below tank tops, if you will. As we look at our own crude production, the demand from our refineries, the outlets for sales to third parties, we are pretty well balanced at this point. We are not concerned with not having storage capacity or logistics to move our crude, so we feel quite confident about that at this point.

Menno Hulshof: Okay. And then my follow-up question is on Downstream. Where do you stand on refinery utilization today, and what can we expect that to look like across your portfolio for Q2?

Brad Corson: Well, as I mentioned, we have one of our refineries is undergoing a turnaround right now. The other two are undoubtedly experiencing reduced throughput. I am hesitant to quote any numbers because those throughputs are being adjusted every day as we see changes in demand. I mentioned what some of the overall product demand scenarios look like with significantly reduced mogas, significantly reduced jet, moderate reductions in diesel. All of those are impacting our refinery utilization, just like others in industry. But we are trying to take full advantage of the markets we are in and maximize the throughputs where it makes economic sense.

Menno Hulshof: Perfect. Thanks, Brad.

Benny Wong (Morgan Stanley): Thanks everyone. Thanks for taking my question. I hope everybody on the line is staying safe and healthy. Just had a follow-up on your comments on product demand, and I appreciate that color. That was super helpful. Just given your perspective on Downstream and your integrated model, just wondering, are we seeing any signs of the foreign demand slowing or even spot stabilization? And is there any observable differences you're seeing on the eastern and western markets of Canada?

Brad Corson: Yes, Benny, thanks for the question and good to hear from you. We are starting to see a recovery, albeit still pretty slow and measured. Over the last week or two, as we monitor traffic data and utilization in the major metropolitan centers, we are starting to see a gradual increase. And so, that is starting to benefit mogas demand, still very, very depressed, though, overall. But the trend seems to be moving in the right direction. Seems like we have bottomed out there and now making a recovery.

On the diesel side, I would say that the reductions were a little bit slower to occur. In fact, for the last several weeks, we were only experiencing maybe a 5% to 10% reduction in diesel. That seems to now have increased to maybe more like 15%, 20%. But again, I think that is stabilized and will start to recover. Diesel was not as severely impacted just because there was a lot of transportation for essential goods that continued as well as some manufacturing and agriculture that continue.

We are optimistic that diesel will rebound pretty quickly now as we get into warmer weather and the agricultural demand starts to pick up. Obviously, the real big impact is jet fuel. As I mentioned, it is down 80-plus percent. And that will not change until health restrictions are lifted and people start flying again, both domesticly and internationally. So that will probably be the slowest to pick back up. East versus west, there are some changes there. I think early on, we saw greater reductions in the east than the west. But as I said, they are both starting to respond positively at this point.

Benny Wong: That is super helpful. My follow-up question is thinking about your CAPEX. Obviously, very low level this year. But as I am thinking a little further out into next year, is the $1.1 billion to $1.2 billion, is that sustainable if we are continuing to be in a depressed oil price environment? Or is there a little bit of incremental spending that is required, things like some of the deferred maintenance you mentioned earlier?

Brad Corson: Yes. That is a good question, Benny. To be honest, we have not fully updated our plans to look into future years. Where we were last year, as we put together our plans, we expected to be in that $1.6 billion, $1.7 billion, $1.8 billion range for the coming multiple years. We have scaled that back, of course, to $1.1 billion to $1.2 billion kind of reflective of both the COVID-19 response as well as the economic conditions. That level of spending $1.1 billion to $1.2 billion is above our sustaining capital by probably $100 million or maybe $200 million. So, if we found ourselves in a very extended period of low pricing that warranted continued reductions in CAPEX, I think that is sustainable because we would be able to complete all the safety critical work, if you will, and reliability critical work. So I think that is achievable.

But I would say that is not our current outlook. We believe the reductions we are taking for this year are very prudent for this year, but we would expect to return to more normal levels once we get to next year. And we will be updating those plans later in the year. And I am sure when we find ourselves at our annual Investor Day, we will be in a good position to talk about, in the rearview mirror, the impacts of COVID-19 and this unique supply demand situation we are in. But also, hopefully, at that point, we are well on the path of recovery, things returning to normal and then we can have a more realistic view of what the future looks like.

Benny Wong: Thanks Brad; super helpful.

Greg Pardy (RBC Capital Markets): Thanks, good morning. Hey, Brad. Thanks so much for the rundown most of my questions have been answered. Just the only one I would have for you is that, that Mahihkan plant at Cold Lake, what would the rough capacity be there?

Brad Corson: Yes. Thanks, Greg, and appreciate you calling in. At Cold Lake, we have, I think, [five] major plants. Mahihkan is kind of one of the smaller ones. I have John Whelan here, the Senior Vice President of the Upstream, and I will ask him to answer that so he gives you kind of the exact number.

John Whelan: Yes. I think probably what you are trying to figure out is what do we think the second quarter is going to be. We do not have the full plant off-line. But I would say, generally, we are 140,000 for the year. We have this turnaround in the second quarter. It is not as big as the turnaround we did last year, but kind of in the 15 KBD off-line for the quarter, something like that, that kind of range.

Greg Pardy: Okay. Terrific. Yeah, thanks very much.

Asit Sen (Bank of America): Thanks, good morning. Hi, Brad, how are you.

Brad Corson: Good, thanks.

Asit Sen: Hey. Thanks for the detail on crude by rail, and good to see that you guys have ramped down significantly in April. Just wondering if you could share your views on the medium, longer term, how rail plays out as more and more pipeline capacity looks like it is going to be available? And any updated thoughts on pipeline projects, particularly on KXL announcement, if you could share your views?

Brad Corson: Yes. In terms of rail, when we made the investment in the Edmonton Rail Terminal, it was very purposeful that that would serve as an alternative egress method for us and somewhat of a backstop, if you will, if pipeline capacity was not available to us. And certainly, over the last couple of years, we have been able to take good advantage of that. And we have adapted quite rapidly to the prevailing economics. And there has been several months that the economics were very strong, and we moved a lot of volume by rail and was advantageous, especially if pipeline capacity was not available to us.

But there were other times, and we are seeing that right now, we saw it late last year, where the arb. had completely closed, it did not make sense. And so we very quickly shut it down or scaled it way back, and I see that continuing. The base egress for us is certainly pipeline, and we use this as a bit of a flywheel where economics support it, and we do not have better alternatives.

Looking to the future, we are optimistic with the progress that has been made on some of the key pipeline projects in Canada and, of course, moving into the US. Some very positive announcements on Keystone recently, with the Alberta government taking a stake in that project and providing financial support such that the project could move forward. Construction has started. One of the key things to work on was the crossing at the border, and my understanding is that is far advanced, if not completed.

There has been in the press some announcement of some setbacks in Montana where some permits have been challenged and withdrawn. I do not know the very latest on that, but I do know that the project is moving forward, and I think that is a very positive sign. And likewise, we are seeing positive progress for Trans Mountain, for Enbridge. All those things are very important projects for the industry, and we're very glad to see them move forward. And we will be a shipper on many, if not all those as well. So, it is good for us.

Asit Sen: And my follow-up is on your asset portfolio. Bottom of the cycle offers challenges as well as opportunities. So when you're thinking about bottom of the cycle opportunities, any thoughts? And we have seen that in prior cycles. Any thoughts on M&A, particularly A&D? How are you thinking about your unconventional portfolio tactically in 2020 or perhaps strategically?

Brad Corson: Yes. That is a really good question and clearly something that is on our mind. Obviously, there are a lot of assets that, unfortunately, are distressed, given these economic conditions. So we always keep the aperture open, evaluating whether there are strategic opportunities for us to expand our portfolio or change our portfolio, and this time is no different. So we continue to refresh our analysis in that regard. I would say, though, that my experience in M&A is that at these extreme points in the cycle, it could be very difficult to transact because buyers' and sellers' expectations become very different, and the view of what recovery might look like and the timing for that is often very different. So it is difficult to transact, but that does not discourage us from continuing to evaluate potential opportunities and see if there is something that makes good strategic sense for us. So that work continues.

Asit Sen: Thanks, Brad. Appreciate the color.

Emily Chieng (Goldman Sachs): Hi, there. It's Emily Chieng on behalf of Neil, here. My first question is around the operating cost reductions of $500 million that you have announced. How durable can we think this $500 million reduction is, for example? Can you give a sense of what percentage is associated with deferred activity versus what is an actual cost efficiency that we are seeing there, please?

Brad Corson: Thanks for your question, Emily. As we approach these efficiencies, we are looking at all things. And there is no doubt there are structural efficiencies that we are pursuing and that we would expect to capture and that would give us long-term sustainable benefits. There are other steps we are taking that no doubt are deferrals, and some of the expenditures are being impacted by pace of activity. I do not have a good percent split between structural versus deferral, but I would tell you that our ongoing objective is to maximize those structural improvements and continue to drive down the unit operating costs of all of our assets. And I am quite proud of the asset teams and what they have demonstrated just in the last two, three months that, to be honest, I am optimistic that we're going to see more cost reductions in that $500 million by the time we get to the end of the year.

Emily Chieng: Got it. And just one real quick one, if I may. How quickly do you think that Kearl and Syncrude can be ramped back up to full capacity once demand starts to pick up again? And I will leave it at that.

Brad Corson: Yes. Thanks. To be honest, something like Kearl, where we are taking one train down now to undertake the turnaround. As I mentioned, we expect to complete that work by the end of June, and we will have it ramped back up within a week. It's very responsive.

Emily Chieng: I appreciate the time.

Closing Remarks

Dave Hughes

Vice President, Investor Relations

Okay. Thank you, Daniel. It is 10:00. As I mentioned, we are going to have to end the call now to move on to our Annual General Meeting. We do have a couple of pre-submitted questions that, as I promised, we will follow up today, directly. So I would just like to thank everybody for joining us this morning. And as always, if you have any follow-up questions or want some further discussion, do not hesitate to reach out to the IR team here. And just wish everybody all the best in what could only really be considered as some pretty challenging times. Thank you very much.

Brad Corson: Thank you.

[END OF TRANSCRIPT]