Imperial Q2 2020 Earnings Call

Friday, July 31st, 2020

Introduction

Dave Hughes

Vice President, Investor Relations

Good morning everybody. Thank you for joining us on our second quarter earnings call. To start, I am just going to introduce the senior management here in our virtual room. We have Brad Corson, Chairman, President, and CEO; Dan Lyons, Senior Vice President, Finance and Administration; Theresa Redburn, Senior Vice President of Commercial and Corporate Development; and Simon Younger, Senior Vice President of the Upstream.

So as usual, I am going to start with the cautionary statement and note 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 on our second 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, please refer to those.

The format, as usual, we will start with some opening remarks from Brad, and then Dan is going to take us through the financial results, and then back to Brad for an operational update. Once that is done, we will then go to Q&A. So with that, I will turn it over to Brad.

General Update

Brad Corson

Chairman, President and CEO

Thanks, Dave. Well, good morning everybody. And welcome to our second quarter earnings call. I hope each of you and your families are staying healthy as we continue to manage through these challenging times. As you know, we have been faced with unprecedented health and market conditions over the last quarter, and unfortunately many of the impacts are still with us today. But as a company, we have been able to demonstrate our ability to adapt quickly. And although our second quarter results reflect just how challenging the environment has been, I am pleased with our response across the organization. This response, along with our strong balance sheet and level of integration, has allowed us to weather the storm without taking on further debt, and positions the company well to capture the value of improving market conditions going forward.

Update on Managing Health and Safety of Our Workforce during the Pandemic

Before we get started with reviewing the second quarter financial and operating results, I want to take a minute to give a quick update on our efforts to manage the health and safety of our workforce during the COVID pandemic.

As you were aware, we talked on the first quarter earnings call about multiple cases of COVID at our Kearl asset. I detailed at that time, the steps we were taking to manage and address the situation, such as working closely with Alberta Health Services, making voluntary COVID testing available to all employees and contractors at Kearl and various other steps, such as changing our rotation schedules, reducing capacity on flights and buses, and ensuring our workforce is employing best practices with safe distancing and use of proper protective equipment. And as a result of these efforts, I am very pleased to say that Alberta Health Services declared the COVID outbreak to be over as of June 14. In fact, we have not had any new onsite cases related to the Kearl workforce since May 18th, which is very positive.

I would also point out that we continue to take COVID mitigation steps at all of our operating facilities and office locations across the country.

And finally, I would also like to take this opportunity to once again, express our deep and heartfelt appreciation and gratitude for all those working on the front lines of this global pandemic. We just cannot thank them enough for the sacrifices they are making each and every day to keep us all safe and provide us with our essential services. Thank you again.

Second Quarter Update

So now let us turn to the second quarter. The combination of demand reductions brought on by the COVID pandemic and the oversupply shock resulting from the OPEC+ actions created an unprecedented challenging business environment. As a company, though, we have remained focused on maintaining the health and safety of our workforce, ensuring the strength of our balance sheet and preserving optionality for the future. Significantly lower global demand had a material impact on crude oil and product prices, which in turn negatively impacted our reported financial results.

Early in the quarter, we communicated a number of steps we were taking to reduce spending and modify our business plans to adapt to these challenges, including capital and expense reductions, revisions to our turnaround plans and suspension of our share buybacks. Each of these steps was necessary and prudent, and I am pleased to say the entire organization has worked very hard and made excellent progress towards delivering on these commitments.

With respect to our optimized turnaround plans, I will provide more details when I speak at the asset level. However, let me just summarize by saying these revised plans, as well as other efficiency steps we have taken, resulted in our second quarter production and manufacturing expenses being over $300 million or 19% lower than in the first quarter, which puts us year-to-date over $450 million or 14% below 2019 year-to-date expenses. These reductions are being delivered across the entire organization.

And while some are related to deferral of work, such as some of our revised turnaround plans, over 50% of these savings are structural in nature and will fundamentally reduce our unit costs and breakevens going forward. And consistent with our long history of driving increased value in the business, we will continue to focus on identifying further efficiencies.

In addition, our capital expenditures in the second quarter were down $222 million or 52% versus the same period last year. This reduction is being achieved in large part through adjusted pacing of project execution, which in the COVID environment helps enable us to ensure the health and safety of our workforce. We continue to spend at typical sustaining capital levels, which of course is critical to ensure we do not compromise safety and reliability, as well as spending on some selective growth and value enhancement projects. So, between the operating cost reductions and the CAPEX efficiencies we have delivered so far, we are well on our way to delivering the combined $1 billion in expenditure reductions we committed to at the end of March.

Operations

Moving to operations, while production and refining volumes were down versus the first quarter, this was not only driven by external demand factors, but also by the conscious decisions we made to accelerate and extend planned turnarounds. These adjustments were made to better align volumes with the demand challenges we saw in the market and to protect the health and safety of our workforce. I am very proud that the organization was able to complete the significant planned turnaround activities both safely and cost-effectively. As with much of this activity completed now, we are well positioned to capitalize on the strengthening the market factors and are looking forward to the ongoing recovery.

I would like to also point out that once again Kearl delivered very positive results relative to our revised guidance. The new crushers continue to support our goals of higher reliability and lower unit operating costs at Kearl. While we reported a loss of $526 million in the quarter, it is important to note that this was in large part driven by challenging upstream price realizations and significantly reduced downstream refinery throughput and product pricing due to weak demand, factors that we have little control over. However, we did take actions to mitigate these impacts and in the areas we do control, we delivered strong results and I will highlight these in greater detail.

I would also note that our earnings increased month over month as the quarter progressed.

Cash used in operations in the quarter was $816 million, including a working capital headwind of $170 million. Our cash on hand and cash conservation efforts supported capital expenditures of $207 million and a return to shareholders of $162 million by way of our second quarter dividend payment. This was accomplished without increasing our debt position. So, let me say that again, without increasing our debt position. My guess is you have not heard that very often this quarter. While market factors were a significant drag on cash generation in the quarter, cash from operating activities also saw improvement as the quarter progressed and commodity prices strengthened. Combined with cost reductions, operational strength, select growth initiatives, and with a significant portion of our turnaround activity for this year completed, we feel confident about the business going forward.

We also remain in a strong financial position with an industry low debt to capital ratio of 18% and sufficient access to liquidity. All of these factors support the third quarter dividend that we declared this morning of $0.22 per share, unchanged from the prior quarter. The balance sheet remains strong and we ended the quarter with $233 million of cash on hand.

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

Financial Performance

Daniel Lyons

Senior Vice President, Finance and Administration

Thanks Brad. Our second quarter results were a loss of $526 million as compared to earnings of $1.2 billion in the second quarter of 2019. Driven by rising commodity prices, at the end of the second quarter, our second quarter 2020 earnings include a non-cash gain of $281 million associated with the reversal of the inventory write-down we took in the first quarter. Looking sequentially and excluding non-cash charges, we were down $900 million from the first quarter of 2020 driven by low oil and product prices and COVID-19 demand impacts. These negative factors were partially offset by the substantial reductions in production and manufacturing expenses mentioned by Brad.

Performance by Business Line

Looking at performance by business line, Upstream recorded a net loss of $444 million in the second quarter of 2020 compared to a net loss of $608 million in the first quarter. Excluding the favorable non-cash impacts of the inventory revaluation change in the first quarter and its reversal in the second, results were about down about $300 million from the first quarter. These results were mainly driven by lower realizations and lower volumes, partially offset by our focused efforts to reduce operating expenses.

Turning to the Downstream, Downstream results decreased about $430 million from net income of $402 million in the first quarter to a net loss of $32 million in the second quarter. Again, excluding the impact of the non-cash inventory revaluation, results were down around $530 million. Results were negatively impacted by lower margins and lower sales volumes. These items were partially offset by favorable foreign exchange effects and lower operating expenses associated with our cost reduction efforts.

Chemical earned $7 million in the second quarter compared to $21 million in the first quarter of 2020 with the change primarily driven by lower margins.

Cash Flow

Looking at cash flow, cash used in operating activities was $816 million in the second quarter, down from cash generation of $423 million in the first quarter of 2020. Cash flow was impacted by negative earnings and unfavorable working capital effects. Nonetheless, we ended the quarter with just over $230 million of cash on hand, as Brad noted. And as Brad noted, our total debt remained stable at $5.2 billion.

Imperial's liquidity remains strong with substantial undrawn credit facilities and industry-leading credit rating and ready access to commercial paper and term debt markets.

CAPEX

Moving on to CAPEX, capital expenditures in the second quarter totaled $207 million, down $124 million from the first quarter. Year-to-date 2020 CAPEX totaled 538 million, down $420 million from year-to-date 2019, consistent with our commitment to reduce CAPEX by $500 million and in line with our guidance of $1.1-1.2 billion for the full year. Reduced year-to-date spending compared to last year reflects the suspension of the Aspen project, completion of the Kearl crushers, lower unconventional CAPEX as well as significant reductions in Downstream CAPEX. As Brad noted, our ongoing CAPEX is focused on ensuring safe and reliable operations of our assets while continuing to progress high value growth and efficiency projects like autonomous haul trucks at Kearl.

Dividends

Moving on to dividends, in the second quarter, we paid $162 million in dividends at $0.22 a share, an increase from $147 million at $0.19 a share in the second quarter of 2019. As Brad noted, and in case you missed it, we did this without increasing our debt. Our integrated business model and strong balance sheet position us well in this dynamic and challenging economic environment to continue to return cash to our shareholders. Earlier today, as Brad noted, we announced the third quarter dividend of $0.22 per share.

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

Operational Performance

Brad Corson

Chairman, President and CEO

Thanks Dan. Upstream production averaged 347,000 oil equivalent barrels a day in the second quarter, reflecting significant turnaround activity at Kearl, Cold Lake and Syncrude. While volumes were down 53,000 oil equivalent barrels per day versus the second quarter of 2019, we continue to see exceptionally strong performance at Kearl. As I told you on the first quarter earnings call, we expected upstream production volumes to be negatively impacted in the second quarter, as we dealt with the unprecedented drop in demand as Canada, along with the rest of the world, dealt with the necessary travel restrictions, self-isolation, and social distancing measures to address the global pandemic. And in fact, we did see our production volumes drop 72,000 oil equivalent barrels per day versus the first quarter, due in large part to steps we chose to take to optimize turnarounds in the current environment. However, even with the reduced demand we have seen so far this year, we still expect to see a slight year-on-year volume growth, albeit less than originally planned.

I would also note that we are not driven by volumes, but rather value. And at current prices, the value equation drives us to maximize production, so that is exactly what we are doing once the turnarounds are completed. And with our focus on reducing costs, our year-to-date production and manufacturing expenses in the Upstream are down almost 15% versus the first half of 2019.

Kearl

Now, while no one should be surprised that volumes are down this quarter, let me tell you about the positive side of this and that is Kearl. In the second quarter, we produced 190,000 barrels a day on a gross basis at Kearl, down from 226,000 barrels per day in the first quarter and down from 207,000 barrels a day in the second quarter of 2019. The lower production volumes versus prior quarters are reflective of the revised planned turnaround activities at one of Kearl's two plants. As we spoke about back on our earnings call last quarter, we made the decision to advance and extend our typical second quarter turnaround at Kearl to roughly an eight week duration versus four weeks, so that we could better manage the health and safety of our workforce through appropriate physical distancing. The turnaround started in early May and was completed in late June, actually ahead of schedule with less than seven weeks duration and at a 40% lower cost.

Our view at the time was that we would see production at Kearl average around 150,000 barrels per day gross in the quarter. So the actual production of 190,000 barrels per day is an excellent result, driven not only by our ability to complete the maintenance activities ahead of plan, but in addition, we have seen the asset perform above expectations outside this turnaround period. Again, a testament to the effectiveness of our new crushers. In fact, despite the significant extension of our planned turnaround, Kearl was still able to deliver a first half production record, the highest first half volumes for any year in Kearl's history.

And since the train was restarted and up to the point where we commence the turnaround of the second train, which I will comment on in a minute, Kearl averaged nearly 300,000 barrels per day gross production over a period of more than two weeks, which is a strong indication of its capability. Given the success of our revised second quarter turnaround activities, both in terms of managing health and safety and in completing the same scope of work at a significantly reduced costs, we decided to move up our annual turnaround of the second plant at Kearl. This effort is normally conducted in the late third quarter to early fourth quarter timeframe, but instead we have now commenced this work as of July 11th and expect it to be completed in late August. This will leave us well positioned to take advantage of the ongoing economic recovery. And again, the current pricing environment supports maximum production at Kearl once the turnaround is completed.

The other thing I would note is that although we had committed to an annual gross production rate at Kearl of 240,000 barrels per day for this year, the decisions driven by the market environment to extend both of our annual turnarounds suggest now that our annual production will be slightly lower, closer to 220,000 barrels per day on an annual average, but still reflecting the year-on-year growth. I would like to underscore however that this revised production level is not in any way reflective of operational limitations. As I have pointed out, the asset continues to outperform expectations when the environment supports running at maximum rates. In fact, this strong volumes performance is what has resulted in such a small revision to our initial annual guidance, despite the extended duration of the turnarounds.

We have seen significant operating expense reductions at Kearl, with production and manufacturing expenses for the first half of this year down over 20% versus the first half of 2019, which reflects a unit cost reduction of close to 30% and exceeds our $4 per barrel reduction target for this year. This is in large part due to both the performance of the new crushers and to the way in which we executed the turnaround. By extending the duration, the turnaround staffing levels were more than 65% lower than typical and we were able to extensively leverage Imperial employees for much of the work. In addition, we continue to invest in projects that will deliver further value such as the fleet conversion to automated haul trucks. Altogether, this reflects material progress towards our $20 per barrel unit operating cost commitment.

Cold Lake

Moving to Cold Lake. Production at Cold Lake was 123,000 barrels per day for the quarter, in line with the 15,000 barrels per day impact we communicated on the first quarter call related to the planned turnaround work at our Mahihkan Plant, which was an almost five week effort and is now complete. Year-to-date production and manufacturing expenses at Cold Lake are also down, in fact, nearly 10% down as a result of the cost efficiencies we have been focusing on with that asset. And as we look at the rest of the year for Cold Lake, we expect full year production volumes to be around 135,000 barrels per day, which is slightly behind our original plan of 140,000 per barrels per day. The difference is driven mainly by steam management challenges we are currently experiencing at Nabiye.

We are also continuing to progress our future growth investment in Grand Rapids, where we will be deploying our SA-SAGD technology to grow volumes at reduced costs and lower greenhouse gas emissions intensity. We have had to slow the pace of development due to COVID considerations with execution but continue to progress it as a high-priority growth opportunity.

Syncrude

Syncrude's average production of 50,000 barrels per day, our share in the second quarter, came in at the high end of the 45-50,000 barrel per day range we provided on the first quarter call. As we discussed back then, the owners agreed to move forward with a revised turnaround plan whereby the turnaround efforts would be managed as a number of smaller discreet scopes of work, which can be completed by a smaller workforce, enabling appropriate physical distancing. This plan originally had the work running through October, but it now looks like the majority of the work should be completed in September as that turnaround is going better than planned.

The key work completed up to this point also provides flexibility around production levels through the third quarter, depending on changes to market conditions. The asset continues to move ahead with the construction of the bi-directional interconnecting pipeline, which will support increased reliability and utilization. This line is still expected to be in service in the fourth quarter of this year. And this is just one example of how the asset and the ownership are working together to identify structural changes and capture efficiencies, to optimize the operation against the backdrop of a very dynamic market.

Downstream

Now let us move to the downstream. We refined an average of 278,000 barrels a day in the quarter, which was down 66,000 barrels per day versus the second quarter of 2019. The difference is mainly due to reduced runs associated with COVID-related demand reductions and our revised turnarounds, which are progressing very well, I will note.

Sarnia

Now let us talk briefly about those revised turnaround plans, which I initially talked about on our first quarter earnings call as part of our efforts to manage our operations in this current environment. We revised the second quarter Sarnia turnaround to include primarily just the coker and expanded the duration to reduce onsite personnel. This turnaround started back in April, continues today and is going very well. We are proud to say that based on progress to-date, we expect to complete the turnaround 13% below plan on a cost basis and have kept all of the workforce safe and healthy with our COVID protocols.

The work will be completed in mid-August as per our current plan and similar to the work at Kearl, the changes here contributed to our reduced expenses in the quarter.

Strathcona

We also had a turnaround plan for our Strathcona refinery that was originally expected to start late in the third quarter. In this case, we accelerated the shutdown work into the second quarter, but with significantly reduced scope. And that work has now also been completed. Our CoGen project that Strathcona is nearly complete and is expected to be online by the end of August. The CoGen will deliver operating cost reductions as well as environmental benefits.

And these are just a couple of examples of various efforts executed in our Downstream business that cumulatively are expected to contribute over $200 million towards the company's 2020 cost reduction efforts. I am extremely happy to have much of this essential work behind us this year, leaving us well positioned to respond to improving product demands.

It is really a testament to the agility of the organization to respond to rapidly changing demand and price signals, especially recognizing that these turnarounds are multiple years in the planning, and we adjusted them in a matter of weeks. I want to emphasize that all business critical work will be completed as planned to ensure optimum operation once things returned to normal. None of the work deferred will impact the safe and reliable operations of these assets.

As for how the rest of the year looks, while we are seeing demands for refined products, recovering, given the uncertainty in the marketplace, we are not offering updated guidance at this time. We will continue to adjust and adapt as demand and market conditions change. However, with most of our downstream maintenance behind us, we are very well positioned to respond consistent with the recovery and market demand. As with the upstream, our downstream organization has been focused on cost reduction and our year-to-date operating expenses are down over 12% versus the first half of 2019.

Sales

On the sales side, petroleum product sales were 357,000 barrels per day in the second quarter, down from 477,000 barrels per day in the second quarter of 2019. Consistent with the refining throughput, the demand impacts due to COVID have resulted in volumes that are significantly lower than we would typically expect to see in the quarter.

Product Demand

Motor gasoline, diesel, and jet

But now a few more comments on demand for the various products we make and sell. On the first quarter call, I mentioned we were seeing demand reductions in the range of 50-60% on motor gasoline, probably 20-30% on diesel and 80-90% reductions on jet. Through the second quarter, industry demands did start to recover as various jurisdictions around the country moved towards reopening. While current demands vary, depending on a number of factors, including geography, I have seen industry numbers that indicate demands for motor gasoline are approaching 90% of typical, diesel is in the 85-95% range. Jet demand has seen some minor improvement, but still sits at only around 30-35% of normal, so clearly the most challenged from a recovery standpoint.

Petroleum products

We saw petroleum products sales increase each consecutive month in the quarter reflective of the ongoing recovery in the economy. However, I would also point out that in this tough environment, demand for asphalt remained quite robust and we were able to deliver very strong results in that segment. In fact, we set an all-time production record at Strathcona for the month of May and sales in the East were at record levels in both May and June, enabled by shifting jet production to Sarnia so we could produce more asphalt at Nanticoke to meet these stronger demands.

Chemicals

Shifting to chemicals. Our chemical business continues to be profitable in the current market with earnings of $7 million in the second quarter, although this was down from $21 million in the first quarter. Volumes remained fairly flat, but we continue to experience margin pressure as we have talked about for the past few quarters, although our strong integration with the refinery and proximity to customers does mitigate this impact.

CCDI Award

Just before we wrap up, I would like to also highlight that the Canadian Center for Diversity and Inclusion, CCDI, has awarded Imperial its Employer Initiative of the Year award for Western Canada, as a result of our benefits-focused indigenous business performance in the Athabasca program. We are very, very proud of our relationships with the indigenous communities, especially near our operations. And in this particular instance, it all started quite a few years ago with the realization that indigenous communities near our Kearl operation were facing challenges funding a variety of necessities, including housing, power generation, community infrastructure, training, and education. Imperial came up with a novel approach to contracts and partnerships that has benefited all parties. We started providing in-depth support for business development of indigenous suppliers that helps these companies grow and learn to compete in the marketplace. This priority focus on growth in our partnerships with indigenous businesses and communities is happening near many of our operations, and we are pleased to be recognized for this as one example of our commitment to ESG.

Closing Remarks

So, now to wrap up, while there is no question that the second quarter was extremely challenging, in fact, probably one of the most challenging quarters in the history of our company, I am very pleased with our operational results and how effectively we were able to safely execute our revised turnaround plans. Our turnaround work was completed in a way that not only resulted in significant cost savings, but also at a time when the financial impact of the lower production was minimized due to the low price and demand environment. Now that we are seeing some recovery on the demand side, having most of this key turnaround activity behind us positions us well to take advantage of further recovery. Our progress towards delivering the key operating expense and capital reductions is another highlight. Across our entire business in all departments, in all locations, the company has risen to the challenge and delivered material cost reductions. The savings we delivered in the second quarter should provide everyone with confidence that we will deliver on the annual commitments we are making.

These savings also support our ability to continue to deliver returns to shareholders. We, again, maintained our dividend in the quarter and have achieved this with no change to our debt position. This underscores the financial strength of Imperial and our ability to weather the more challenging times in this cycle.

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

Q&A

Dave Hughes: Okay, thanks, Brad. We did have a couple of questions submitted in advance, so I think we will go to those and then we will move over to the live Q&A. So the first question, Brad, comes from Menno Hulshof from TD. It is on Grand Rapids. The plan as of late last year was to develop the Grand Rapids to curb Cold Lake declines with startup targeted for 2021. How much has this plan changed given the downturn and is 2023 still a reasonable expectation for sustained recovery of 150,000+ barrels a day.

Brad Corson: Thanks for that question, Menno. Grand Rapids continues to be a high priority growth project for us, for the reasons I described, both in terms of its contributions to our cost structure, obviously volumes which we expect to be quite profitable, but also has a material impact in lowering the greenhouse gas intensity of our operations. So, through this very challenging time, it continues to be a priority for us. We have had to slow it down just to manage COVID safe distancing, which impacts the execution schedule, but the team has been very creative and working hard to see how they can maintain schedule as best as possible.

Our current outlook shows that we would expect to complete the first pad and be able to start injecting steam in early 2022 and would have volumes produced thereafter. And so, at this point, we are still quite optimistic that by 2023, we will see a substantial contribution from Grand Rapids. And obviously that is a key enabler to us sustaining our recovery to 150,000 barrels a day.

Now, when we have our investor day in November, our plan is to give an update on Grand Rapids as well as Cold Lake in general. And so we will be able to talk more specifically to what that volume profile looks like in the coming years. So thank you for that question.

Dave Hughes: And Menno also had a follow-up. With the full understanding that it is still very early days in terms of setting the 2021 budget, can you directionally talk us through some of the key considerations across your Upstream and Downstream assets, assuming strip prices?

Brad Corson: Yeah, and I assume you are mostly talking to our capital budget in that regard and you are right. It is early days, we are right in the middle of our business planning cycle which we would expect to conclude over the next couple of months. Where we started this year, of course, was we expected to have capital spending at the $1.6-1.7 billion level. And we very purposely adjusted that in light of the market conditions to a $500 million lower number of $1.1-1.2 billion. And as you heard in my comments and Dan's comments, we are well on track to delivering that.

And so if you were to assume that we would end up the year somewhere around that $1.1-1.2 billion range, I think we are going to find ourself somewhere close to that number for next year, maybe a bit higher. I do not see us returning to the $1.6-1.7 billion but we will be somewhere in that range.

And I would say the key is that we are approaching next year very much as we are currently, in that we absolutely have to progress the sustaining capital projects that maintain safety, integrity, reliability of the operations. We do have some high value, selective growth projects like at Cold Lake that I just spoke to. And we have got some in the Downstream as well as certain infrastructure projects. And so we want to progress those as timely as we can.

A big question right now is, what will the COVID situation look like as we finish up this year and move into next year? And so because of that, we are going to maintain flexibility with our plans just as we did this year. And so again, in November at investor day, we will paint a clearer picture of exactly what that updated guidance is for next year. But as I said, it is going to be somewhere in the range between where we ended up this year versus where we expected to start this year.

Dave Hughes: Okay. The next question from Prashant Rao at Citi. Debt remained controlled through the quarter and expectedly net debt to capital moved up. Does it feel like where the balance sheet ended up at the end of the quarter is pretty much the high end of where leverage will go during this downturn? Or is there room to gear up a bit more if needed?

Brad Corson: Well, I might turn that over to Dan and let Dan talk a little bit about where we are with debt to capital and our views there.

Daniel Lyons: Sure. Clearly we have plenty of ability to lever up if that is what is needed. We have quite a bit of undrawn committed facilities. We have ready access with our credit rating, commercial paper and term debt markets as I said. Now, the question is, will we need to do that? And that is going to depend on market conditions. I think we are optimistic with market conditions and as pricing improved pretty dramatically from a really horrific April to June being a much better month for the industry. With those kinds of continued improvements we are optimistic, we will not have to increase debt, but obviously if we do, we have the capability and we will do that as needed.

Dave Hughes: Prashant had a follow-up also. How did downstream utilization trend sequentially through the quarter? And based on 3Q to date, is 80% plus a reasonable expectation for the third quarter? Related to this, can you please discuss how the impacts to your downstream network due to the pandemic may have differed from peers, both Canadian and US?

Brad Corson: Okay, thanks for that question, Prashant. Over the course of the quarter, obviously a lot of volatility. Certainly, we changed our turnaround plans, as I described, and that moved some significant downtime into the quarter, especially with Sarnia which is continuing. We had a smaller downtime event at Strathcona, as I mentioned as well. And so that was the foundational piece of it, which again, we made those decisions based on our assessment of a significantly reduced demand for our products. And that was the other key driver. Every day the downstream organization is optimizing their crude runs around what the demand profile looks like. And that was sharply down in the month of April. We saw it pick up in May and June. And so as a result over the quarter, our utilization ranged from 60% at the low end back in April to 75% at the high end. And June, July were also in that range of around 75%.

And who knows what the rest of the year will look like at this point? Again, we are going to be well positioned to operate at high utilization rates should the market demand and the economics be there to support that. We are very encouraged by some of the demand profiles we are seeing, as I talked about, in all three key segments. Motor gasoline, we are seeing improvements; diesel, we are seeing improvements; and even in jet, we are seeing some improvements.

Now, those improvements have been right here at the peak of the summer months. And as we all know, unfortunately we are seeing some increased COVID cases across the country. And so a big question as to what that recovery period will look like. We are optimistic that we will continue on this positive trend. But there's still uncertainty with that.

Your question about how do these impacts compare with our peers, both Canadian and US, I think they are very much in line with what we have seen across the industry, although each operator is having to make individual choices based on their own specific economic situation. But I feel very good about where our downstream is positioned coming out of the second quarter and now moving into the third quarter. Thank you for that, Prashant.

Dave Hughes: Okay. We are going to switch over operator to the live Q&A. We just ask folks, please, to, as usual, one question and one follow-up.

Greg Pardy (RBC Capital Markets): Well, thanks. Good morning all. Brad, you touched on the steam management challenges that Naibye and I was just wondering if you could add a bit more color there in terms of how problematic it is. I mean, that project has had a checkered past, I think, as we all know, but just wondering if you can round that out of it.

Brad Corson: Yeah, Greg good to hear from you. And thanks for the question. The Naibye has been a challenged project for us, mainly because of the reservoir performance and some surprises there with how the reservoir is responding to steam. And so we continue to learn with that and we have seen some even slightly lower production than what we had anticipated for this period of the year. And that is causing us to slightly revise downward our thoughts on Cold Lake for the year.

I would still say it is nothing too material in the context of Imperial's overall oil production volumes, and the bright side, the upside is that with Grand Rapids, we are going to put that unused steam to good use and efficiently develop the Grand Rapids reservoir. So, we will take more time at the investor day to talk about Naibye. But I wouldn't be overly concerned about it in the big picture of Imperial. And, as you just heard, we are far compensating for any slight Naibye reduction with what's going on with Kearl.

Greg Pardy: Yeah, no, for sure, for sure. And then just the second question is just on CBR, just crude by rail movements, and we know that it is pretty dormant market right now. But can you comment on maybe how much you had moving in the second quarter and then what the thinking is through the balance of the year? It is got to be pretty limited, I would think, just given spreads, but wanted to ask that anyway.

Brad Corson: Yeah, no, it is a fair question. And, normally I would cover it in my remarks at the front end of the call. But you are exactly right. It has been very limited this quarter, so I did not really feature it. But in direct answer to your question, over the quarter, we moved on average about 15,000 barrels per day, but that was all third-party volumes. So, for Imperial volumes, we did not move any on rail over the quarter.

As we look forward to the rest of the year, as we have always said, having rail available is a very strategic insurance policy for us to ensure that we have multiple avenues of egress for our produced volumes. And so as production continues to pick up over the course of the year, it is very possible that rail will come back into the mix, especially depending on the arbitrage for movements between here and the Gulf coast. So it is possible that it will pick up at the end of the year. But as we sit here today, it has very limited utility.

And in fact, I think even Genscape shows that over the entire industry, it is probably only 30,000-45,000 barrels a day that is moving on rail right now. And a lot of that is because there is surplus capacity in pipe, which of course generally is the more cost efficient means of transportation. But again, we are starting to get signals that some of that surplus capacity is about to get consumed as we move well into the third quarter. So, again that may come back into question.

Greg Pardy: Understood. Thanks very much.

Brad Corson: Thanks Greg.

Benny Wong (Morgan Stanley): Good morning. Thanks for taking my question. Brad, appreciate your thoughts around egress and the differential there. I guess just taking it one step further. Obviously, we have seen some headlines around Line 5 and DAPL. I just wanted to get your perspective. There is risk of Line 5 being disrupted for an extended period. Maybe talk about your flexibility and optionality there for your refineries in Eastern Canada. And for DAPL, just curious, in terms of your thoughts, if there's an extended disruption, what impact that might have on some of the synthetic and MSW differentials on that side.

Brad Corson: Yeah. Thanks for your question, Benny. In terms of Line 5, we saw a very short-term disruption last month, I guess as a result of, at the time, some concerns about that line, but fairly quickly, Enbridge was able to work with the regulator and convince them that the integrity was sound and it was appropriate to put it back in service and they got support for that. And that is where we are today. And so we feel quite good about the reliability of Line 5 going forward, based on our understanding of the nature of those concerns. So, we really don't view that there's much risk for us to have any interruption of Line 5.

But having said that, the interruption we had obviously caused us to mobilize contingency plans. And, through that we were able to put plans in place that would sufficiently cover our refinery demands, both with the potential for alternate pipeline supply, as well as rail, and if needed, even a waterborne supplies. So our downstream team reacted very quickly to make sure there would be no interruption to our operations. And fortunately there weren't. But that has given us confidence going forward as well.

In terms of DAPL, it really doesn't affect us directly. We are not acquiring any Bakken crude directly from that system. Certainly it has the potential, with an extended outage, to impact differentials on the light crudes. And, of course, our refineries on balance run a light slate. And so, any widening of that differential could certainly be advantageous for us.

Benny Wong: Got it. I appreciate those thoughts. My second question is really around the interconnect pipeline with Syncrude. I am just curious in terms of how you think strategically and how you guys manage that project going forward. It is increasingly more tied to Suncor's assets and how they operate. I am just curious in terms of how you guys think about that commercially and strategically. And correct me if I am wrong, but I believe that the partners are responsible for managing their own barrels. If that is the case and how does that change going forward when there's much more interconnect within those two plants?

Brad Corson: Yeah, Benny I guess what I would say is, first of all, this project is viewed as having balanced strategic benefits between both Syncrude and Suncor and that underpins the commercial framework that is in place. Broadly speaking, having that inter-connection does provide flexibility for both operations during periods of both planned and unplanned downtime. And by having that flexibility, it should allow for overall improved production. And so that is the objective. It is not appropriate for me to get into the commercial terms of that, but needless to say, the partners are all actively engaged in how those decisions are made, how the pipeline is operated, how the value is shared to make sure it is all fair and appropriate.

But we feel very good about having that additional flexibility for Syncrude.

Benny Wong: Great, thanks, Brad.

Brad Corson: And as I mentioned, Benny, it is progressing towards a fourth quarter startup. So that is very positive, that we have been able to keep that moving ahead during the pandemic.

Emily Chieng (Goldman Sachs): Hi, good morning. I just have one question and it is around your latest view around M&A. The question is now that we have seen a couple of instances in market, it seems like modest premiums are perhaps acceptable by potential targets. What are the hurdles that you think about, if at all, when you think about inorganic transactions?

Brad Corson: Yeah. Thanks for that question, Emily. And as you can imagine, we are watching that space very closely. M&A is something that we do look at, we do consider as we think about what our prudent investment choices and growth choices are for the long-term. And as I have shared with you and others on earlier calls, we are keeping the aperture open for any potential opportunities that we think would make very good, strategic, economic sense for us and our shareholders. The market continues to be, I think, a bit volatile when it comes to M&A. I will not really speak to the two key transactions that were announced in the last month, other than to say clearly there was a very unique fit between the purchaser and the seller, and that is what allowed those transactions to go forward.

But I would still say on balance, there is probably a pretty wide, if you will, bid-ask spread between sellers and buyers, that is driven by different views of price recovery and the market. Now, we have seen a little bit more stability in the month of June and now into July with crude prices so, maybe that does create some space for alignment. But I think that is the biggest question mark right now. And especially if people are wondering is the COVID recovery going to continue on the current path, or is there going to be a setback? All those things weigh heavily on investors' minds. And so I think it is going to continue to be a fairly slow M&A market in the foreseeable future. There might be some one-off transactions, but I don't think there's going to be a big wave sparked by these most recent transactions.

Thanks for your question, Emily.

Asit Sen (Bank of America): Thanks. Good morning. Brad, thanks for all the details on Kearl. If I could follow up on that, you have been able to ramp up production up and down fairly successfully. The supplemental crushers have clearly helped, and you are exceeding the unit cost reduction target. And could you provide an estimate for – again, it is a moving target on WCS pricing where revenues cover your variable cost. And then I thought I heard you talking about maximizing production at current pricing. Could you elaborate on that?

Brad Corson: Yeah. Thanks for that question. I mean, again, Kearl is a very positive story for us and certainly being able to have a highly reliable operation with a continued, improving and increasingly competitive cost structure puts us in this position where we do want to maximize production. And we have seen, although prices in April and May were very challenged, realizations were very, very low, in the month of June, we have seen the prices recover pretty significantly, at least relative to where we were. And so in terms of WTI, we have seen that pretty stable in that, whatever, $41, $42 range but equally important to Kearl is what happens with the differential. And as you mentioned, that WCS differential has actually strengthened and remained quite tight over the last couple of months. And so that results in realizations for Kearl that are quite competitive for us, quite profitable for us. And so that is why we are certainly keen to get this turnaround behind us. And we will be there in just a few weeks. And then there should be no barriers for us maximizing production at Kearl and maximizing cash flow at Kearl.

And as I said earlier, I am just super thrilled with the performance of the organization, not just volumes, but especially what they have been able to do on the cost structure. When we set out our expectation back at investor day, for that $4 per barrel reduction in unit cost – that was going to get us in the mid-twenties by the end of this year. But I will just tell you, we are operating every day in the low twenties now. And so this ultimate target of $20 a barrel is just around the corner for us. So I am quite encouraged by that.

Asit Sen: Appreciate that, very helpful, Brad. If I could follow up on the cost and the turnaround that you mentioned, that 40% lower cost in the program. Outside of labor costs such as moving away from contractors, what are some of the other areas of savings, any particular buckets that you want to highlight that could be used in future turnarounds?

Brad Corson: Yeah, a couple of things I would say would be first of all, technology. I think that is a key enabler. Just as an example, we have some very large pieces of equipment that when we have a turnaround, we want to do inspections; even if there is no issue we want to use that downtime to confirm, it is operating at the right level and there is no corrosion or other integrity concerns. And normally, we would have to go to great lengths to not only clean out the vessel, but then to set up proper entry procedures to make it safe for personnel, maybe lots of scaffolding inside of a large vessel. Well, now what we are doing is we are deploying drones to do those inspections for us.

And we have been using drones for several years for external inspections, but now we are actually using drones for internal inspections. And I have seen the photos myself, and it is just amazing that clarity of visual that we can get with these drones. And what that allows us to do is just minimize all the costs to prepare for the inspection, conducting the inspection itself is low cost, and we can do it much quicker. And so all those things add a lot of value. So, that is just one example.

The team has also been doing a lot of work with some of our business partners around procurement, material costs, and things like that. And certainly, that is having a beneficial effect as well. We have been able to conduct a turnaround – and some of these comments apply also to the Downstream with our refineries there, but we are able to do the work with, if you will, less overtime costs. So the overall cost of labor is coming way down. So there are a few examples for you.

Mike Dunn (Stifel): Thanks, good morning, everyone. My question was just asked. My second one, could you guys just remind me, with the CoGen at Strathcona, how we should be thinking about margin improvements today, or once that starts up, obviously, would probably have an escalating benefit over time, if clean fuel standards get implemented, etc. But what should we be baking into our models for that?

Brad Corson: Yes. Thanks for that question, Mike. Strathcona CoGen project is a really important project for us both in terms of efficiency gains for power and energy consumption, but also for emissions improvements. I actually do not have at my fingertips what the actual cost savings of that will be, but certainly we can follow up with you offline. But a very beneficial project for us.

Dave Hughes: Okay. Well, thank you everybody. Thanks for joining us this morning. Just like to remind you as always, if you have further questions, please, don't hesitate to reach out to the IR team. We are happy to help and we would just like to wish everybody all the best. So thank you very much.

[END OF TRANSCRIPT]