Imperial Q3 2020 Earnings Call

Friday, October 30th 2020

Introduction

Dave Hughes

Vice President Investor Relations, Imperial Oil

Good morning everybody. Thank you for joining us on our third quarter earnings call. To start off, I am going to introduce 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; Theresa Redburn, Senior Vice President of Commercial and Corporate Development; and Simon Younger, Senior Vice President of the Upstream.

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 third 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.

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

Opening Remarks

Brad Corson

Chairman, President & CEO, Imperial Oil

All right. Thank you, Dave. Well, good morning everybody and welcome to our third quarter 2020 earnings call. I hope each of you and your families are continuing to stay healthy as we continue to manage through these challenging times.

While the third quarter continued to present challenges related to the current pandemic and overall economic environment, we certainly saw material improvement over the second quarter, and I am pleased to say that we continued to demonstrate our ability to adapt to the changed environment, and deliver significantly improved results; a testament to the resilience of our company. Our strong balance sheet, and level of integration, coupled with a significant progress we have made towards delivering on our expense and capital spending reductions, has underpinned our performance over the past several months. Performance that continues to improve month over month. As I said before, the company is well-positioned to capture the value of improving market conditions going forward.

The health and safety of our employees and contractor workforce continues to be our top priority. And as we have been doing since this global pandemic began, we continue to take COVID-19 mitigation steps at all of our operating facilities and office locations. And finally, I would also like to take this opportunity to once again, express our deep, 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 essential services.

Third Quarter Results

Now let us talk about the third quarter results. While ongoing lower-than-normal global demand continues to impact crude oil and product prices, we did see demands improve materially through the quarter. And that improvement, coupled with the steps we are taking to reduce our expenses and reduce our capital program, resulted in significantly better financial results versus the second quarter.

Earnings for the quarter were $3 million, which represents an increase of $529 million versus the second quarter of this year, reflecting improvement in all of our business segments. With the improving market conditions and our continuing focus on reducing costs and driving efficiencies across the organization, we were able to achieve positive earnings in what continues to be a challenging environment. And this was despite being impacted by substantial turnaround activities in the quarter, and a two-week unplanned outage of a third-party pipeline supplying diluent to Kearl. While $3 million may not seem like a big number, it is a positive number and that speaks volumes in this business environment. As you will see, the organization continues to make excellent progress towards identifying and delivering even more efficiencies.

At the end of March, we committed to delivering spending reductions totaling $1 billion, which included a $500 million reduction in capital spending, as well as $500 million in lower expenses. As of the end of the quarter, our production and manufacturing expenses are down $813 million versus the first nine months of 2019, helping us to surpass our expense reduction target. And our capital spending is down over 50%, a savings of over $700 million versus the first nine months of 2019. Both of these results show we are significantly outpacing these targets. And given this progress, we are now further lowering our latest annual CAPEX guidance to about $900 million, a reduction of around $250 million from the midpoint of our previous guidance of $1.1 to $1.2 billion.

Operations

Moving to Operations, as I mentioned, we did see demand start to recover in the quarter, and as a result, we saw improvement in both our upstream and downstream production and throughput volumes. I would remind you that in the quarter we also made conscious decisions to advance and extend planned turnarounds to better align volumes with demand challenges, and to protect the health and safety of our workforce. As in the second quarter, I am pleased to tell you that the organization was able to complete these significant planned turnaround activities safely and at lower costs. Now that our major planned maintenance for the year is behind us in both the upstream and downstream, we are well-positioned to capitalize on any further recovery as the fourth quarter unfolds.

A special note is the performance at Kearl. Despite the added challenge of a two-week outage of Inter Pipeline's Polaris system, which supplies diluent the site, Kearl's performance was nothing short of outstanding. But more on that in just a few minutes.

Cash generated from operating activities in the quarter was $875 million, an increase of almost $1.7 billion versus the second quarter. After the first nine months of the year, Imperial has generated nearly $500 million of cash from operating activities. Our capital expenditures were $141 million in the quarter, and as you may know, we declared a quarterly dividend this morning of $0.22 per share, which is unchanged versus the last quarter.

I think it is important to highlight that even as we continue to manage through a challenging market environment, our financial resilience, operational strength and flexibility, and focus on cost reduction opportunities allowed us to cover our capital spending and our dividend with our operating cash flow, both pre and post working capital. All in, we saw an increase of almost $600 million of cash on hand, and we ended the quarter with $817 million of cash on the balance sheet.

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 Results

Dan Lyons

Senior Vice President Finance and Administration, Imperial Oil

Thanks, Brad. Our third quarter net income was $3 million compared to net income of $424 million in the third quarter of 2019. The decrease was driven by lower crude prices, lower refining margins, and lower volumes associated with COVID-19. These negative impacts were partially offset by the substantial reductions in production and manufacturing expenses mentioned by Brad.

Looking sequentially, results improved $529 million from the second quarter of 2020, which included a non-cash gain of $281 million associated with the reversal of an inventory write-down we took in the first quarter of 2020. Excluding this non-cash item, we saw a sequential quarterly improvement of $810 million, driven by improved market conditions across all our businesses and supported by sustained cost reductions.

Performance by Business Line

Upstream

Looking at performance by business line, Upstream recorded a net loss of $74 million in the third quarter of 2020, up $370 million compared to a net loss of $444 million in the second quarter, or an increase of about $600 million, excluding the non-cash gain of about $230 million in the Upstream associated with reversal of an inventory valuation charge in the second quarter. Higher realizations improved results by about $530 million, and higher volumes added about $90 million.

Downstream

Turning to the Downstream, net income of $77 million in the third quarter was up about $110 million compared to a net loss of $32 million in the second quarter. Again, excluding the non-cash gain in the second quarter of about $50 million for the downstream, results improved about $160 million sequentially. The increase was mainly driven by higher margins and volumes.

Chemicals

And finally, our Chemicals business continued its positive contribution earning $27 million in the third quarter of 2020, compared to $7 million in the second quarter, this increase was primarily driven by stronger margins.

Cash Flow

Looking at cash flow, as Brad noted, sequentially, cash generated from operating activities improved almost $1.7 billion from the second quarter of 2020 to the third quarter. Cash generated from operating activities was $875 million in the third quarter, compared to cash used in operating activities of $816 million in the second quarter. Second quarter cash generation had a negative working capital impact of $170 million, while third quarter cash generation included a favourable working capital impact of $485 million.

With this strong performance, our debt balance remained stable while our cash balance grew by $600 million, as we ended the quarter with $817 million of cash on hand. Beyond our cash balance, Imperial's liquidity continues to be supported by substantial undrawn credit facilities, an industry-leading credit rating, and ready access to commercial paper and term debt markets.

CAPEX

Moving on to CAPEX, capital expenditures in the third quarter totaled $141 million, down about $60 million from the second quarter. Year-to-date capital expenditures totaled $679 million, down $720 million from the same period of 2019, well ahead of our commitment to reduce CAPEX by $500 million. As Brad noted, we expect our full-year CAPEX then to be around $900 million, down from our previous guidance of $1.1-1.2 billion.

Reduced year-to-date spending compared to last year is associated with the completion of the Kearl crushers, lower unconventional CAPEX, the suspension of the Aspen project, and lower spending in the Downstream.

Dividends

Regarding dividends, in the third quarter, we paid $162 million in dividends at $0.22 a share, compared to $169 million at $0.22 per share in the third quarter of 2019. As Brad mentioned earlier today, we announced a fourth quarter dividend of $0.22 per share.

Now I will turn it back to Brad.

Operational Update

Brad Corson

Chairman, President & CEO, Imperial Oil

All right, thanks, Dan. Now let us move on and talk about operational performance for the quarter, starting with production. Upstream production averaged 365,000 oil-equivalent barrels a day in the third quarter, and while volumes were down 42,000 barrels per day versus the third quarter of 2019. This was mainly due to the advancement and extension of the second Kearl turnaround as well as the third-party diluent pipeline outage I mentioned earlier. And I will talk more about that in a minute. These results also reflect a production increase of 18,000 oil-equivalent barrels per day versus the second quarter of this year.

And once again, we took the opportunity to optimize our maintenance plans in the current environment by advancing and extending the work, both at Kearl and Syncrude.

Kearl

Now let us move on and talk about each asset specifically, starting with Kearl. In the third quarter, we produced 189,000 barrels a day on a gross basis at Kearl, down from 224,000 barrels per day in the third quarter of 2019, but essentially flat with the second quarter of this year.

Last year, as has been typical, we carried out our second planned turnaround in late September, with only a couple of weeks impacting the third quarter production. This year, however, given the business environment, we opted to advance this turnaround and extend it, taking approximately six weeks to complete the work, but entirely within the third quarter. This allowed us to better manage the health and safety of our workforce through appropriate physical distancing, but it also allowed us to complete the work at a significantly lower cost.

Also impacting Kearl in the quarter, as I mentioned, was the outage on the pipeline that supplies diluent to Kearl, which occurred at the end of August. Shortly after the outage, we were forced to shut down production operations at Kearl. Ultimately, the line was put back in service after the installation of a temporary bypass around two weeks after it was first shut down. Upon commissioning of the bypass, we were able to get Kearl back up to full rates quite quickly.

In fact, I would like to highlight the extraordinary efforts the Imperial team took to mitigate the impacts of the outage. They very quickly activated alternative diluent supply options for the site and were able to establish a level of supply that allowed us to restart one of the trains at minimal levels during the outage. These actions ultimately limited the impact on Kearl production for the quarter to around 41,000 barrels per day on a gross basis.

I would also note that in the absence of the pipeline outage, we would have delivered our strongest quarter of 2020 at Kearl.

I commented earlier that our third quarter production at Kearl was flat versus the second quarter, despite the fact that the site experienced this diluent pipeline outage. You may be asking if we did our math correctly, but I will assure you that we have done it correctly. If you recall back on the second quarter earnings call, I commented on how well the asset performed in the window between the two turnarounds, averaging over 300,000 barrels per day. I am pleased to say that this performance has continued since the pipeline was put back in service. This helped us to offset the production loss due to the pipeline issue.

I also mentioned on the second quarter call that despite the significant extension of our plant turnaround, Kearl was still able to deliver a first half production record. I can tell you now that post the pipeline outage, Kearl continues to set new production records, delivering an average production rate of 313,000 barrels a day over the four-week period from restart until mid-October. And through the month of October, we have delivered average production of around 300,000 barrels per day.

With this performance in mind, and despite the unexpected pipeline challenges, we are reiterating our annual production guidance of around 220,000 barrels per day for Kearl.

And now that we have successfully completed our planned maintenance work at Kearl, we have the opportunity to finish the year strong. I cannot tell you just how excited I am to see what Kearl can do over an extended period of time, and we have gotten a window of that in October. I am particularly pleased to see that the government of Alberta has lifted production quotas for the month of December, and hopefully forever, as that removes a potential obstacle to demonstrating Kearl's true performance potential.

Operating costs

And finally, with Kearl, an update on operating costs, which is another great story. Unit production and manufacturing expenses at the site are down about 25% versus the same period in 2019. We continue to track well ahead of the $4 per barrel reduction we committed to for 2020, and are within striking distance of the US$20 per barrel future target we previously communicated. We will talk more specifically about that next step in our cost journey at our upcoming Investor Day, but I am very excited by the potential here.

Cold Lake

Now moving onto Cold Lake, production at Cold Lake was 130,000 barrels per day for the quarter, which is up 8,000 barrels per day versus the second quarter when we had planned turnaround work at our Mahihkan plant. This work carried into early July. Year-to-date production and manufacturing expenses at Cold Lake are down around 5% as a result of the cost efficiencies we have been focusing on there. At the end of the second quarter, we guided full-year production at Cold Lake would be around 135,000 barrels per day, and we still view this as about where we will end up the year.

Syncrude

At Syncrude, we saw an average production of 67,000 barrels per day, in terms of Imperial's share, in the third quarter, which was similar to the same quarter last year, and 17,000 barrels per day higher than the second quarter of this year. The increase versus the second quarter reflects the completion of planned maintenance work at this facility. You will recall that the site started the majority of their turnaround work in the second quarter, but extended some of that work to late September. The asset continued to move forward with the bi-directional pipeline, and construction was nearly complete at the end of the third quarter. Commissioning will take place in the fourth quarter, and as you know, this project will provide improved operational flexibility for Syncrude, supporting increased reliability and utilization.

Downstream

Now let us move to the Downstream. We refined an average of 341,000 barrels a day in the quarter, which was up significantly from the 278,000 barrels a day for the second quarter of this year. The 63,000 barrel per day improvement was driven primarily by improving product demands and reduced planned maintenance in the third quarter. The throughput of 341,000 barrels per day equates to a utilization of around 81%, which is fairly consistent with what the Canadian industry was seeing in the quarter.

We also completed significant turnaround work in the quarter related to the coker at Sarnia. This work was predominantly in the second quarter but did carry over into the third quarter, all of it in an environment of fairly narrow light-heavy spreads. With the completion of this turnaround work, we remain well-positioned to respond to improving product demands, and potentially some widening of light-heavy spreads.

As we discussed last quarter, the adjustments we made to our 2020 planned maintenance schedules and scopes of work have contributed to the cost efficiencies the Downstream has been able to deliver. Year-to-date production and manufacturing expenses are down around 17% versus the first three quarters of 2019.

While I have commented on the improvements we saw in the demand for petroleum products, it is important to note that demands are still not completely back to normal. This continued uncertainty makes it difficult to forecast utilization for the fourth quarter.

I am also pleased to announce that our cogen project at Strathcona is now complete, with commissioning starting in late September, and the unit is now fully online. The cogen unit will produce 41 megawatts of power, enough to meet approximately 75-80% of Strathcona's needs, and will significantly decrease energy consumption from the Alberta grid. Not only will this deliver operating cost reductions but environmental benefits as well, reducing province-wide greenhouse gas emissions by approximately 112,000 tons per year, equivalent to removing around 24,000 vehicles from the road.

Consistent with what we saw in refinery utilization in the quarter, petroleum product sales increased 92,000 barrels per day versus the second quarter, and came in at 449,000 barrels per day. Again, this reflects a level of demand recovery for these products, but demands are still not back to what we would consider normal levels.

Industry Demand

So, now a bit more on industry demands for the various products we make and sell. As a reminder, on the first quarter call at the end of April, I mentioned we were seeing demand reductions in the range of 50-60% on motor gasoline, 20-30% on diesel, and 80-90% on jet. Today, I would say that across the country, we are seeing total industry demand for both motor gasoline and diesel much closer to normal levels, although the ongoing challenges due to COVID-19 are certainly driving some volatility. However, jet demand continues to lag significantly, although it is experiencing a slow recovery. At this point, I would estimate jet demand to be around 50% of normal.

Our Chemical business saw improved earnings in the quarter with $27 million of earnings. This business continues to be profitable in the current market, with the third quarter being the strongest so far this year. Volumes improved versus the second quarter and continue to track very closely with 2019 as COVID-related impacts have not been significant. Margins continue to be tight, but we did see material improvement versus the second quarter of this year.

140th Anniversary of Imperial Oil

And just before I wrap up, I would like to take the opportunity to recognize that 2020 represents the 140th anniversary of Imperial oil. In fact, on September 8th, 1880, 16 oil refiners in Ontario joined forces to create the company, and since then we have been delivering firsts in the industry. In fact, the first service station, the industry's first petroleum research department, and a decades-long association with hockey, including sponsoring the first radio broadcast of Hockey Night in Canada, and sponsoring the NHL’s three stars, both of those starting in 1936.

Imperial continues to be a leader in applying technology and innovation to responsibly develop and deliver Canada's energy resources. I want to recognize and thank all of the employees of Imperial Oil for the last 140 years. It is their creativity, determination and resilience that has allowed Imperial to manage through significant changes and challenges over the decades, be that World Wars, changing consumer requirements, or pandemics, but always coming out stronger. I would also like to thank our business partners and customers who have been with us the whole way. We look forward to a strong and prosperous future together.

Closing Remarks

So, to wrap up, another tough quarter but once again, our financial strength and resilience supported improved earnings and cash flow, and we delivered strong operational results, most notably at Kearl. We have also surpassed the capital and expense reduction commitments we made earlier this year as the entire organization continues to rise to the challenge. But we are not done yet, we are going to continue to find more. And as in the second quarter, we continue to demonstrate our commitment to shareholder returns by maintaining our dividend in the quarter. So, when you add all that up, coupled with the fact that our key turnaround activities for the year are behind us, Imperial has substantial momentum as we approach the end of the year. We are well-positioned to take advantage of any further recovery in the fourth quarter.

So, I will pause there and I will turn it over to Dave to facilitate the Q&A session.

Q&A

Neil Mehta (Goldman Sachs): Good morning, team. Thanks for doing this. The first question I had was just around capital intensity and spend. It was exceptionally low in the quarter and capital intensity was very good here. I would imagine that is not a run rate type of CAPEX number. can you just to help us understand what was it that drove spend lower, and then give us an early preview of what 2021 spend could look like, recognizing you have an analyst day here in a couple of days.

Brad Corson (Imperial Oil): Yeah, Neil, thanks for that question. Well, in terms of the current spend rate, I think that is very much reflective of both the proactive steps we have taken to manage capital to ensure we are focused on the highest priority projects, the highest value projects but at the same time, being selective, recognizing the business environment that we are in today. We have been focused on our sustaining capital, but also limiting our focus on growth, but being mindful that we want to be well-positioned for an eventual recovery in the market.

Capital expenditures have also been impacted by our ability to execute work. We want to ensure the safety and health of all of our workforce, employees and contractors, and that in many cases dictates how quickly we can execute work; how many workers we can have on-site at any one time, what sort of distancing is appropriate, and all that impacts pace of activity. It is really a combination of that selectivity, capital discipline but also execution pace that is driving the levels we see today. We are quite comfortable with those levels and that is the reason for our revised guidance so that we can reflect that to the market.

As we look ahead to next year, I would expect some increase in levels of capital spending versus that $900 million, which will be driven both by our view that we will be able to improve execution pace as we move out of this pandemic. But at the same time there are some key activities that we will resume and continue to focus on in 2021.

Hope that is helpful for you and as you said, there is an Investor Day coming up, and we will give you much more clarity on that plan in November.

Neil Mehta: No, that is really helpful. I do not want you to preview too much here, but if you just think at a very high level, 2020 versus 2021, what are the incremental projects that are at the top of the queue for you, where you would think that would bridge the spend higher? And why do you think those are good projects that would drive returns higher over time?

Brad Corson: Well, Neil, I think a lot of the projects are a continuation of things we already have in the portfolio and that we are already working on, so it is continued advancement of those projects. We do have some additional projects on the horizon, but I think I would rather wait until Investor Day so we can get into those in more detail with you, and be able to fully describe the benefits and how they fit into our strategic work plan.

Neil Mehta: Great. Can I sneak one more in here? Which is just your thoughts on the refining environment and, particularly, utilization at Imperial was certainly better than a lot of your US peers. Talk about how you think downstream plays out in Canada for the year, and then also talk about crude and feedstock and whether the profitability of those assets and environment where light crude, particularly Syncrude could be pretty tight.

Brad Corson: Yeah. Well, to describe the outlook for refining, it is really driven by demand. So, where are we with demand? As I described for gasoline and diesel, we have seen a significant recovery versus where we were at the lowest point in the second quarter. We are still short of historical demands by a few percentage points for each of those products, and then of course jet, as I mentioned, we are far below historical demand.

So, the real driver for refinery utilization for us is going to be what happens with demand going forward. We had been on a trajectory of pretty steady demand improvements across all those products through the end of the third quarter, but now as we find ourselves in the fourth quarter, and very unfortunately, as we are experiencing in Canada, but also in the US and key countries around the world, there is a significant increase in COVID cases. And so that is causing a change in behaviours again. So, the question is, what impact will that have and how long will it last? We just do not know that.

We are obviously hopeful that we will see demand continue that will allow us to achieve these utilization rates, if not higher, but it would be premature to commit to that.

In terms of crude and feedstock, our Canadian refineries are well-positioned to take advantage of lower-cost crude streams here in Canada. That gives us an advantage often versus US refineries. We also have some level of integration with our own production operations and that also gives us some advantages. With that integration, we continue to be optimistic about the future for our downstream business.

Neil Mehta: Thanks, Brad, thanks, Dave.

Asit Sen (Bank of America): Thanks. Good morning. Just following up on your commentary on CAPEX, Brad. You have gone through all the major turnarounds that are now behind you, and then with all these impressive costs and efficiency gains, particularly at Kearl. How would you characterize your sustaining CAPEX as we get into 2021? How would you characterize that?

Brad Corson: Well, I think the sustaining CAPEX we are looking at in 2021 is going to be comparable to what we have seen in historic levels, and I do not have that number off the top of my head. Maybe I will let Dan chime in with some more specifics. But we see those sustaining CAPEX levels as being quite appropriate to maintain the viability of the business and allow us to continue to deliver these strong reliability and overall performance results. I do not know if that answers your question, if you are looking for more quantification as we move to next year. Again, I do not really want to share any new targets until we get to Investor Day.

Asit Sen: Okay. That is fair, Brad. And then a bigger picture question, we are seeing a lot of changes in the industry, both in the US and in Canada, and your thoughts on M&A, and how do you see opportunities as it relates to Imperial? And what do you see as the potential impediments to this wave of consolidation that we are seeing right now?

Brad Corson: Well, you are exactly right there. There is a lot of activity in that space recently, both in the US and, of course, Canada. For Imperial, as I have said before and it is really no change, we continue to keep the aperture open for any select, uniquely accretive and strategic opportunities that may be available. But honestly, our focus right now is maximizing the profitability of our existing portfolio of assets.

And so, that is what we are doing. I highlighted some of the activities that at Kearl as an example of that, I talked about Strathcona - the cogen, completing all the turnaround activities. And all these structural improvements in operating costs and our discipline around capital, all that is fundamentally lowering the breakeven of our existing assets and allows us to increase our cash flows. And we think that is critically important in this business environment, so that is our priority, but again, we have got an eye on, the aperture is open for any potential M&A, but that is not our priority. And we do not need M&A, given we have got a deep portfolio of future growth projects as well.

But the market is evolving and that is causing new assets to come into play, and so it is important to keep an eye on it. In terms of impediments, I think it comes down to what I have talked about before, and that is are potential sellers and potential buyers able to align on value and future views of what the market will be, and fundamentally, do the potential buyers have the financial strength to take on more assets? So, today, there is probably a limited pool of potential buyers.

Asit Sen: Appreciate the colour. Thanks, Brad.

Brad Corson: Thank you, Asit.

Greg Pardy (RBC Capital Markets): Thanks. Good morning. Brad, with Alberta now lifting curtailment as you pointed towards, I am just wondering what that means for Kearl. But as opposed to a broad question because I know it means higher rates, but could you remind us maybe, just not so much the calendar stream capacity, because I think that is 240,000 but maybe just what daily capacity rates are, and even perhaps what some of the highest rates that you have achieved - even if over short periods of time. I am just trying to get an understanding as to whether – the asset certainly sounds like it is operating extremely well, and I am wondering if that 240,000 is going to begin to glide up with time.

Brad Corson: It is a great question, Greg. First, let me start with a comment about curtailment. Certainly, we are delighted and quite pleased that the Alberta government has lifted the quotas for December. We think that is a very necessary step, a prudent step, I would argue an overdue step, but very pleased to see that they have taken that step. I do view it as a partial remedy though. I would very much would like to see the government proceed with eliminating curtailment altogether because I think even while it is suspended, it creates this overhang of uncertainty for the industry as it relates to future growth investments. And so, I think in order to fully address that going forward, it would be quite appropriate for the government to remove that requirement altogether. But I am pleased with the first step.

And so then as we think about how does that affect us - not having a quota in December, looking forward for Kearl's performance, as I described, Kearl has performed extremely well since mid-September, achieving a four-week running record of 313,000 barrels a day. I think that is a strong indication of the potential of Kearl. For the month of October, as I mentioned, we will probably see something more like 300,000, so we clearly have the potential to exceed 280,000 barrels a day that we have indicated in the past.

The question, of course, is how all that lines out over the course of a year where we have seasonal variations, we have turnarounds and other maintenance activities that we have to account for. And that will be, I think, a key topic for us at Investor Day to share with you what our latest profiles look like. But needless to say, we continue to feel very encouraged and optimistic about Kearl's capability. And so, I expect you will see us continue to raise our views and targets for that asset.

Greg Pardy: Okay, good to know. Thanks for that. Let us go from the best to maybe an asset that is still not meeting its objectives. With Syncrude, the bi-directional pipeline, as you mentioned here, is teed up; that is great from a feedstock redundancy standpoint. I am curious as to whether you think the bi-directional pipeline puts you in better stead then to achieve the 90% utilization rate, but at the same time from an operating cost perspective, is it going to be enough, or is this a situation where you really need to begin to take absolute costs out of the equation?

Brad Corson: Well, a couple of comments on Syncrude. First of all, I do think the bi-directional pipeline is a significant enabler for that asset. Having that capability that provides additional flexibility for the asset allows greater utilization, I think is really important both to volumes performance but also unit cost performance. So, I am really excited about getting that line commissioned and started up by the end of the year. Is it enough to achieve our volumes and cost targets? I would say no. It is certainly a contributor, but we need Syncrude to continue to look for ways to drive their cost structure lower, and continue to look for other ways to improve their utilization.

2019, I think was a really good year for Syncrude, and I think demonstrated what it's potential is. Obviously, a lot of unfortunate circumstances this year have hindered that asset, but hopefully once we get past the COVID implications, get past this year, get the bi-directional pipeline on, continued support from all of the owners to ensure where we are leveraging our individual experiences and bringing that to the asset, hopefully all those things together will get us back on a path of continued performance, continued cost efficiency. That is critically important for that asset.

Greg Pardy: Okay. Last one for me, and I am going to sneak it in like Neil did. Do you think Syncrude recognizes that it is 80% owned by Suncor and Imperial? Or is it still because – it is just your reference to Syncrude has to do this, but at the end of the day, you two guys own it. Do you think there is the recognition internally at that organization that it is now an operating asset?

Brad Corson: I think very much it is recognized. We have a joint owners committee that works very closely with Syncrude. I think there is clear recognition of everybody's role, and their commitment to achieve our mission together. It has been a hard road but everybody recognizes what the potential is and they are all working together to achieve that.

Greg Pardy: Terrific. Thanks a lot, Brad.

Brad Corson: Thanks, Greg.

Benny Wong (Morgan Stanley): Hey, good morning team. Thanks for taking my question. I just wanted to follow up around the cost reductions, which it looks like you have exceeded your target of $500 million. Can you provide any colour or thoughts of where maybe your initiative exceeded your original expectations, and any thoughts of what number that will ultimately be by year-end? And any early thoughts in terms of how we think about the potential for more in 2021? I think you mentioned a cogen unit would the cost savings with that be something incremental that shows up next year?

Brad Corson: It is a great question, Benny, and I am quite proud of the organization and what they have achieved since the beginning of the year, and since we set that target of $500 million, we are far outpacing that target. As I mentioned, for operating costs we are already $813 million below where we were in 2019, and honestly, it is difficult to point out one specific place because it is really across the board. Every single asset is demonstrating lower costs this year. And likewise, in our corporate headquarters, we are also delivering lower costs, so everybody is contributing to that success.

I highlighted the Kearl unit cost just as an example of where we have made just great improvements, and so, there we had indicated we are going to try to achieve a $4 per barrel reduction this year. We are already well ahead of that and close to achieving our $20 per barrel longer-term goal. But what is driving that, all these efficiencies, all these costs savings, it is a combination of selectivity of what we work on. It is a combination of applying technology, it is making smart choices. We have had reductions in our contractor workforce and that is contributing, so it is a wide variety of things, but most importantly it is across all assets and we expect to carry a significant amount of those savings into next year.

Benny Wong: Great. That is very helpful, Brad, thank you. A follow up is, I just wanted to get your thoughts, high-level thoughts around the recent headline news that we have seen around Cenovus acquiring Husky. What do you think that means for the industry, and if you think that is an indication that we could see some more oil sands M&A, or is that more of a very unique situation between those two companies? Thank you.

Brad Corson: Well, I think we all woke up to a little bit of a surprise on that Sunday morning when it was announced, I have no clue as to how long they have been talking to each other. I am not surprised that we are starting to see some M&A. We have been at relatively stable prices for the last four months now, probably and as I have said in the past, the biggest challenge is buyers and sellers aligning on price, but when price stabilizes, that helps to converge. I think every transaction is unique, and I do not think you should read too much into one transaction as to what it means for other transactions. There may be more, there may not be. Especially now as prices have fallen a couple of dollars a barrel, that may cause people to step back and think more about it. So, time will tell, Benny.

Benny Wong: Great. Thanks, Brad.

Mike Dunn (Stifel FirstEnergy): Thank you. My question is on Cold Lake. I am just wondering if the Q3 volumes were impacted negatively at all by curtailments. Perhaps as you ramped up Kearl in September, and whether or not that is going to be an issue for you in Q4 if you try to shoot the lights out at Kearl, at least in October and November while there are still curtailments in place. Just by my math, I think you would need to get closer to 150,000 for Q4 at Kearl to hit your annual guidance, and I think you had talked us down to 140,000-ish or lower per year as the current outlook.

Brad Corson: Yeah. For Cold Lake in the third quarter, we did not have any curtailment impacts and we delivered that 131,000 barrels per day for the quarter which was up from the second quarter. Second quarter, we had our turnaround at one of our key plants there, the Mahihkan plant.

As I recall there might have been some additional minor maintenance that carried into the third quarter. We are currently producing at volumes notably higher than that 131,000, and really more in line with our prior guidance we had given of around 135,000 barrels a day. And we still feel good about that guidance for the rest of the year, and are not concerned about curtailment in the month of November, and then, of course, the quota goes away in December.

Mike Dunn: Right. Okay. Thanks, Brad. That is all from me. I appreciate the time.

Brad Corson: Thanks, Mike.

Dave Hughes: Okay. Brad, we did have a couple of questions come in ahead of time, which I will read out. The first one comes from Matt Murphy from Tudor Pickering Holt: Seeing a number of renewable biodiesel projects, picking up around the world and in the US. I appreciate the part of this is largely a function of less profitability, but can you speak to these projects as a potential opportunity for Imperial in Canada, whether that be from an economics perspective or through an ESG lens?

Brad Corson: Thanks for that question, Matt. We are always looking for projects that can efficiently deliver value to our shareholders, and there are a number of different ways that we can participate in renewable fuels. In fact, we already blend ethanol and renewable diesel at a number of our terminals, and as you may be aware, we offer products like our Synergy, gasoline, and Diesel Efficient, that allow our customers to improve their fuel efficiency and reduce emissions. This is clearly a focus for us. And we continue to look at other opportunities that could maximize our renewables volumes to reduce emissions. We are focusing on areas that are aligned with our corporate competencies, I would say, as well as the asset portfolio that we have and the businesses that we have in place.

We are currently pursuing a number of renewable fuel initiatives across our Downstream that will allow us to deliver more renewable fuel to our customers and really in an expanded set of markets. If you look a little bit longer-term, a little bit further out, there is even some larger initiatives that we are currently evaluating, but decisions on those are still very dependent on what happens with evolving regulations, like the Clean Fuel Standard, as well as market conditions. But clearly this is a focus area for us, so I appreciate the question.

Dave Hughes: Okay, and the second question from Manav Gupta, from Credit Suisse: Can you talk about benefits of PFT technology at Kearl and how that allows you to get higher pricing relative to bitumen?

Brad Corson: Yeah, thanks for that question, Manav, and it is exciting to talk about PFT. Imperial was the first to deploy PFT technology commercially and, of course that is at our Kearl operation. The PFT technology allows us to produce bitumen at a lower cost, and a much lower carbon intensity than other oil sands technologies. As you may be aware, and this contributes to the advantages, but it eliminates the need for an upgrader and that, of course, significantly reduces capital requirements at the front end, but also operating costs as we go forward. Once Kearl bitumen is produced at the site, it of course still needs to be blended with diluent before being shipped via pipeline or rail, but then is sold directly to the market, and can be run straight in the refineries, so that allows us to achieve prices in line with WCS. So, again, a very favorable technology for us to use at Kearl.

Dennis Fong (CIBC): Hi, good morning and thanks for taking my question. The crux of the question really just focuses around the removal of the Alberta government's curtailment policy. I was just more so, curious as to how you are thinking about managing or balancing the thought process of ramping up volumes on your various oil sand facilities versus what could eventually become the capacity on egress and the potential impacts around local pricing specifically on widening differentials. And how you are planning to moderate, or mitigate, or balance the thought process of ramping up volumes versus transporting them to the various demand markets. Thanks.

Brad Corson: Yeah. Thanks for that question, Dennis. Our thought process is very much focused on how do we maximize value for all of our products? And what market we direct those products to, is driven by what is the value at the destination, coupled with what is the cost of transportation to get it there. And for us, we have been able to manage all of the egress for our products, mainly our heavy oil, and so, the Alberta government removing the curtailment quota just ensures there is no other obstacle or limitation to us maximizing production.

So, our thought process is very much how do we maximize production from the existing assets? And then, given that potential, what are the most economic outlets to place them, and what is the most cost-efficient way to get the product to those locations? Whether that be a choice of pipelines or, of course, our own rail terminal. And so, all of those gives us advantages and opportunities to optimize.

And as we look forward down the road, we are encouraged by the progress that is being made on the pipelines that will, over time, provide even more capacity for shipments between Canada and the US. And we are obviously very supportive of that. So, we do not really see any constraints, but it is all about how do we optimize around it. Thanks for that question, Dennis.

Dennis Fong: Great. Thanks.

Dave Hughes: All right. Well, thank you everybody for joining us this morning. As always, if you have any follow-up questions or would like any follow-up discussion, do not hesitate to reach out to the IR team here at Imperial. And we look forward to talking again at our upcoming IR day, which is on November 19th at 08:00 Mountain, 10:00 Eastern. Thanks, everybody.

[END OF TRANSCRIPT]