Suncor Energy First Quarter 2020 Financial Results Call

Wednesday, 6th May 2020

Operator: Thank you for standing by and welcome to the Suncor Energy First Quarter 2020 Financial Results Call. All lines are in a listen-only mode. After the speakers' remarks, there will be a question and answer session. (Operator Instructions) I would now like to turn the call over to Mr. Trevor Bell, Vice President, Investor Relations. Please go ahead.

Introduction

Trevor Bell

Vice President of Investor Relations, Suncor Energy Inc.

Thank you, operator, and good morning. Welcome to Suncor's first quarter earnings call. With me this morning are Mark Little, President and Chief Executive Officer; and Alister Cowan, Chief Financial Officer. Please note that today's comments contain forward-looking information. The actual results may differ materially from the expected results because of various risk factors and assumptions that are described in our first quarter earnings release as well as our current Annual Information Form. Both of these are available on SEDAR, EDGAR and our website, suncor.com.

Certain financial measures referred to in these comments are not prescribed by Canadian GAAP. For a description of these financial measures, please see our first quarter earnings release. Following our remarks, we'll open up the call to questions.

Now, I'll hand it over to Mark for his comments.

Opening Remarks

Mark Little

President & Chief Executive Officer, Suncor Energy Inc.

Good morning, everyone, and thanks for joining us today. At Suncor, our purpose is to provide trusted energy that enhances people's lives while caring for each other and the earth. As we navigate these challenging times, our purpose continually reminds us that we have a critical role to play by providing energy to our customers while supporting the health and wellness of our employees, our customers, and the community. Safety is at the core of Suncor's values and we have moved quickly to respond to the COVID-19 pandemic to ensure the health and safety of our workforce in all our global locations. Our experience with the Calgary floods in 2013 and the Fort McMurray forest fires in 2016 has allowed us to proactively initiate our business continuity plans and effectively respond to this evolving circumstances related to COVID-19, despite the pandemic being very different than what we have faced before.

Steps that we have taken include reducing staff at all our sites and offices to only essential personnel, implementing health surveys and temperature testing at all our facilities as well

as at airports for individuals flying into our northern facilities, adapting to longer shift rotations to reduce travel exposure and modified bussing and flight logistics to maintain proper distancing, closing common areas in all our Oil Sands camps along with providing full-service meals and deep cleaning of facilities, implementing several on-the-job protocols such as physical distancing and elevated hygiene practices, adding health protective measures for our employees and customers at our 1,800 Petro-Canada locations, and finally, we've been talking with our employees about mental health and we have professional support available for all our employees and their families.

These steps have been very successful in keeping our employees safe and we continue to adapt our response as the situation evolves. Our employees provide an essential service, supplying the trusted and reliable energy required for the transportation of critical supplies and goods across Canada. During this period, many of our customers are essential worker. Such as truck drivers where we've made an extra effort to provide sanitized, welcoming and fully functioning truck stops to support and protect these critical individuals. It's our honor to be able to play our part alongside all Canadians through these challenging times.

We've recently implemented a C$3 million essential worker and community support program at our more than 1,800 locations across Canada. The Suncor Energy Foundation, together with our employees, has also donated C$2 million to support charities and critical organizations to help communities get through this. In support of Canada's northern communities, we leveraged the company's supply chain to purchase and donate N95 masks to the federal government to ensure northern medical facilities did not run out of these vital supplies.

Before we get into operational and financial updates, I want to thank all our workers, suppliers and partners and the many other essential workers across Canada and in all the countries in which we operate for all of their efforts in keeping us safe, healthy and providing us with what we need so that we can be cared for and care for each other. At this time, I would also like to extend our thoughts and best wishes to all the residents in Fort McMurray who were impacted by the recent flooding. We continue to work in the region, assisting and providing lodging to displaced residents and in any other manner we are able to do so. The convergence of global events has created a turbulent market situation. The COVID-19 pandemic and the associated rapid demand reduction is unlike anything that's occurred in modern times. And currently, the OPEC+'s failure to reach consensus in early March resulted in increased oil supply into an already oversupplied global market. These events have resulted in market conditions, which require a thoughtful and measured response. And we provided updated corporate guidance on March 23, reflecting our response, which included increased liquidity and reduced capital and operating expenses and adjusted production.

Our continued focus on maximizing value also meant that we optimized the bitumen through our upgraders and minimized bitumen sales into the market, particularly towards the end of the quarter. As part of this focus, working with our partners, we reduced our Fort Hills operations in April to one fully utilized mine train. This decision is expected to contribute to C$200 million towards our operating cost reduction target and C$100 million of our capital reduction target.

Finally, our substantial marketing experience in midstream logistics network has allowed us to focus on managing market exposures and capturing opportunities in real time. Our midstream strength has been even more valuable in this volatile environment as global inventories have continued to rise. We anticipate crude oil to reach full storage capacity in the near term, although we are encouraged by the pace of production shut-ins globally.

This phenomena means upstream production will either be shut in or be forced to balance with downstream product demand, increasing commodity price volatility.

Our team has made significant progress in executing, in a short period of time, the business decisions we announced in March. We have put in place controls that make our workplace and retail sites as safe as possible, while operating our assets safely and reliably and maintaining the financial strength of the company. We understand that the fundamentals of the market recovery will be dependent on how quickly governments restart their economies and the discipline of our industry to achieve and maintain a balanced oil market. However, the pace of these factors is uncertain.

Since our March update, we continue to monitor market conditions, analyzing various recovery scenarios, potential timelines and their impacts on future operating cash flow, capital expenditure plans, financial health and flexibility of the company. Although we expect the crude market to substantially recover by 2022, the risk of an extended period of economic uncertainty translated into weaker commodity prices and higher volatility remains possible.

Balance sheet strength and financial health of Suncor are the foundations of our capital allocation framework. It is not something that can be put at risk by precision of models or, describe it more bluntly, spreadsheet math. Financial health and resilience are maintained by taking actions, which are measured, prudent and proactive. As we have consistently stated, hope is not a strategy. In the second quarter, we know our industry is being challenged by both a significant supply and demand imbalance, which has resulted in the largest collapse in crude prices ever. These market conditions require decisive leadership and action. We have decided to target a further reduction in our 2020 capital expenditure program, revising the range from C$3.6 billion to C$4.0 billion. This represents an additional capital reduction of C$400 million at midpoint compared to our March 23 guidance.

Our board of directors remains committed to the overall business strategy of leveraging our long life, low decline asset base, while providing energy to our customers and returning value to shareholders. However, after having taken into account the significant capital and operating cost reductions announced to-date, the board believes that a reduction of the current level of dividends is required to drive down the breakeven of the company to a WTI price of US$35 a barrel.

As a result, the board has decided to reduce the dividend by 55% to a quarterly cash dividend of C$0.21 per common share, down from C$0.465 per common share. This will take effect for the dividend payable on June 25, 2020. The total actions taken with today's announcement and the March update targets a reduction in our capital spend by C$1.9 billion or 33% and our operating cost of C$1 billion or 10%. It also decreases our use of cash by C$4.5 billion on an annualized basis versus our original 2020 plan. The implementation of these decisions is expected to reduce our breakeven costs from US$45 a barrel to US$35 a barrel, covering all planned operating and administrative costs, sustaining capital and dividends. These actions not only support our strong balance sheet, financial health and high investment grade ratings, it adds to the resilience of the company to maintain its focus on long-term value creation.

I'll now pass it off to Alister to go through some of the quarterly financial results.

Financial Highlights

Alister Cowan

Chief Financial Officer, Suncor Energy Inc.

Thanks, Mark. As you know, we have long maintained a disciplined financial strategy that's based on a strong balance sheet, committed access to liquidity and capital and strong investment grade credit ratings. We finished the first quarter with C$8.1 billion of liquidity and since the close of the first quarter, we've raised an additional C$1.25 billion through the issuance of 10-year medium term notes and secured an additional C$300 million in our bank facilities. This totals C$9.6 billion of current liquidity and we do expect to draw on a portion of this liquidity during the remainder of 2020 given our expectations of lower crude oil prices. We have the support of our key banking partners in the capital market and, therefore, we don't expect to be challenged by any significant liquidity and that would allow us to weather any protracted recovery in the crude oil market.

Out of an abundance of caution, the actions we have taken plus our remaining liquidity is in effect our insurance against this. In the first quarter, our funds flow from operations was C$1 billion, largely impacted by very significant FIFO loss of C$446 million that we recognized as a result of the declining commodity prices towards the latter half of the first quarter. This rapid and significant decrease in commodity prices also factored into the balance sheet carrying value of our inventory under operating assets. As a result, we wrote down our crude and refined product inventory to market value with a charge of C$397 million after tax and that will be reflected in our Q2 funds from operations.

The Fort Hills, Terra Nova and White Rose operating assets are being impaired by a further non-cash charge of C$1.8 billion after tax and that's primarily as a result of the lower commodity prices we now expect over the next few years.

During the first quarter, we returned over C$1 billion to our shareholders, comprising C$700 million in dividends and C$300 million in buybacks. We did suspend the buyback in early March when commodity prices started to have some significant decline. However, as Mark previously mentioned, we remain committed to returning value to our shareholders, while maintaining our financial health. We continue to see buybacks as a key element of our shareholder return strategy going forward.

During the first quarter, we maximized price realizations with approximately 80% of the company's upstream product mix weighted towards lighter crude. 43% of refinery feedstock was physically integrated with our upstream production and 43% of the company's refined product mix was weighted towards diesel demand, which remained solid in the quarter.

As we manage the immediate priorities, we will also continue our work to deliver on our strategic initiatives and drive our company forward to our C$2 billion incremental fee funds flow target. While the Cogen and Forty Mile Wind projects were deferred up to two years, we remain focused on executing projects expected to deliver approximately C$1 billion of incremental free funds flow by 2023. We have expedited autonomous haul truck deployment at Fort Hills to further reduce costs. We've maintained technology investments for our supply and trading operations and our base business to reduce costs and increase margins. And finally, we will complete the Suncor-Syncrude interconnecting pipelines to add operational and product flexibility.

We expect the remaining C$1 billion of the incremental free funds flow target to be realized by 2025. In this evolving market, there are several other financial dynamics taking place. With the decline in oil prices, their anticipated royalty payments are now reduced. Similarly, the expected corporate tax position of the company has shifted from being cash taxable to receiving refunds for taxes previously paid in prior years. These shifts in royalties and taxes significantly impact the corporate financial sensitivities that are provided to the market and, as a result, these have been updated to reflect the changes.

With that, I'll pass it back to Mark. He will discuss the outlook for the remainder of 2020.

Mark Little
President & Chief Executive Officer, Suncor Energy Inc.

Great. Thanks, Alister. Our updated downstream guidance reflects our view of the significant demand reduction related to COVID-19 pandemic. In the markets we supply, average demand for gasoline is down 50%, jet fuel demand is down 70% and distillate demand is down 20% versus Q1. In response to this demand reduction, we have taken the following actions: we’ve reduced our refinery utilizations in Q2 to approximately 65% to 75% of nameplate capacity; we've increased the relative diesel mix by 10%; we've leverage the flexibility provided by our integrated model and midstream logistics assets, which generated over C$225 million after tax of additional value in the first quarter; and we maximized our upstream production into the refineries as feedstock.

Although we do not guide quarterly production or financial estimates, we did want to provide clarity in this dynamic environment as to how we see our business in the near-term. In my opening remarks, I stated the second quarter will be challenging given our business is being both impacted on the demand and supply sides. We are estimating refinery throughput to be approximately 25% to 35% below nameplate to align with current product demand. We anticipate our total upstream production volumes will be down by approximately 10% below the bottom of our production guidance range, given upstream production will need to align with downstream utilizations.

We are maintaining our full-year upstream guidance for 2020 as we expect to be able to perform some critical maintenance in the quarter while respecting all COVID-19 health orders and protecting the safety of our personnel. We expect consumer demand for refined products to be at its weakest in the second quarter. However, we are already beginning to see some strengthening in demand. We anticipate consumer demand to steadily strengthen in the second half of 2020 as economies get restarted.

Our view is that the recovery for the industry will be led by the downstream, as product demand improves and refinery margins strengthen. Given the high level of crude inventories, the upstream business will be forced to pace downstream demand given limited ability to increase crude inventories further. We also expect that the drawdown of excess of crude oil inventory will take an additional period to normalize. This phased recovery will highlight the value of our integrated model as we expect the downstream to lead the operating cash flow recovery.

Our midstream logistics assets and marketing team combined with the physical ability to place our barrels through to the end customer will allow us to maximize value with full knowledge of demand in real time. Demand recovery outlook is based on several assumptions and external factors, which we continue to closely monitor, including timing and pace of restart of the North American and global economies including any new restrictions on business operations or trade; impacts of any government stimulus to kickstart their economy such as infrastructure spending or other fiscal stimulus; outcomes of any medical advancements in the area of testing, tracing, treatments or vaccines for COVID-19; and the opening of borders and reopening of domestic and international travel.

Our assumption is that we will begin to see progress in all of these factors towards the end of the second quarter and that the momentum will continue to build throughout 2020. Canada, our primary market, moved swiftly and in a coordinated manner to initiate shelter-in-place orders, travel restrictions, and healthcare preparedness. While this has caused a deep impact on the demand in the second quarter, it positions demand to rebound more quickly as the Canadian economy restarts. As I noted in my opening remarks, our industry is experiencing a challenging combination of events. We are all understandably focused on in the current environment. However, our job is to ensure we respond to the situation, keep the safety of our employees and customers and the financial health of our company as a priority.

We also look to the future and we are confident that the steps we have taken positions our company to create long-term value for our shareholders. Our confidence is based on our experience starting over 50 years ago when our company first developed the technology to process and processes to extract oil from the oil sands. Then, many decades of processing cost improvements made the oil sands not only profitable, but globally competitive and environmentally sustainable.

Following the financial crisis in 2008-2009, we merged with Petro-Canada, creating a world-class set of assets with operational integration and flexibility nearly impossible to recreate in today's world. And throughout the North American shale boom, subsequent oil price collapse and the Fort McMurray fires in 2015 and 2016, we demonstrated the importance of financial discipline through our ability to significantly scale down costs.

And now, looking forward from today, we have confidence that we have taken the right measures to ensure Suncor will continue to weather the storm. Suncor's competitive advantages of an integrated physical connection to the consumer, sophisticated marketing, logistics and infrastructure capabilities and always maintaining our financial strength will allow us to emerge stronger than ever.

And with that, I'll turn it back to you, Trevor.

Trevor Bell: Thank you, Mark and Alister. I'll turn the call back to our operator to take questions, first from the analyst community; then, if time permits, from the media.

Q&A

Operator: (Operator Instructions). Your first question comes from the line of Phil Gresh with JPMorgan.

Phil Gresh (JP Morgan): Hey, good morning.

Mark Little: Good morning, Phil.

Phil Gresh: My first question obviously, with the decision on the dividend, I guess it will be for Alister, how do you think about where this positions you on the balance sheet for the rest of the year? And as we move kind of through the trough of this situation, do you have an absolute level of debt that you would want to target coming out of this in terms of the debt that accumulates to the down cycle and where you like to be on a more normalized basis longer term?

Alister Cowan: Yeah. Thanks, Phil. Good question. If you look at where we've positioned ourselves, we're looking into the longer term to be cash breakeven at $35 WTI. Clearly, we're not going to be there this year. And so, we would expect to be adding some more debt on to the balance sheet towards the end of the year. I think if you look at the numbers, we're about C$20 billion of gross debt. Today, we'd expect to add C$2 billion to C$3 billion more by the end of the year and really that is kind of where we think we'll cap-out at into next year on the expectation that we'll break even on a cash flow basis for 2021.

Phil Gresh: And then at that point, is the idea that you – you would want to reduce the debt from there or are you comfortable at that absolute level?

Alister Cowan: No. It's a good follow-up. Yes, we would expect to start to pay down the debt as we recover from that. But it will be in conjunction obviously with a measured pace of increasing economic investments and also increasing returns to shareholders.

Phil Gresh: Okay. My follow-up was I guess is just a little bit of a macro question. How do you guys view the situation with WCS? Obviously, you talked about crude oversupply for the rest of the year. But with the OPEC cuts and as refineries in the US start to increase run rates in the back half, if your demand outlook that you're talking about is correct. You know, would you expect to see fairly tight WCS supply-demand dynamics when we get to that point? Thanks.

Mark Little: Yeah. Maybe, Phil, on that particular point, with inventory, crude oil inventory is so high, it's a little hard to tell what's going on. And part of the issue with that is we expect that it will take literally till the end of the year to be able to get demand and the economies restarted. It might extend further. So, really, the balance between WCS and the heavy barrel in Canada relative to the market just depends on whether at any point in time it's been oversupplied or undersupplied as it moves up, and I think what you'll see is quite a bit of volatility in that, returning to normal once the market stabilizes. We have a long ways to go to get back to where we were at the start of the first quarter.

Phil Gresh: Okay. Thanks.

Operator: Your next question comes from the line of Greg Pardy with RBC Capital.

Greg Pardy (RBC Capital): Thanks. Thanks, good morning. I wanted to check some back-of-the-envelope math with you. So, just on thinking about 2021, Mohammad was helpful enough to suggest that I think in that $35 WTI breakeven, I think there's a $12 New York Harbor embedded in that. But would that kind of map to, call it, somewhere between C$2 billion and C$2.5 billion into downstream all in?

Alister Cowan: Yeah, Greg. I think that's close to where we would be. I'll have to go back to the spreadsheets, but – which I don't have in front of me, but we're probably close to that.

Greg Pardy: Okay. All right. And the second question is I'm sure as you've gone back and re-examined supply chains and everything else, can you comment maybe on how much downside there might be in terms of go-forward sustaining capital? Is there a deflationary opportunity there or do you think it will be relatively stable from what it's been?

Mark Little: I think there's opportunities there, Greg. I think part of this for us is one of the things we're trying to do is we've taken a focus on taking $1 billion out of our cost structure versus what we spent last year or approximately 10% of our total costs and we continue to look at structural changes to the business going forward. So, we've talked about some of the items like the autonomous haul trucks, the interconnecting pipeline and also putting in our enterprise-wide processes. So, what you're seeing in our guidance is reflecting the immediate effect of our actions, but there's absolutely no question, we continue to drive down the overall cost structure of the business and continue to progress those initiatives. Supply chain is one of those areas that we will continue to focus on. We've made some great progress in the near term, although many of the suppliers in the supply chain have been deeply challenged for quite some period of time. So, it's hard to know just where that ends up.

Greg Pardy: Okay. Great. And last quick one for me is just on the dividend. We've had some questions coming in. Should we be thinking about this as permanent or temporary? You mentioned willingness to return capital to shareholders with time. If the world begins to normalize in 2021, 2022, is it realistic to believe then that the dividend is going to grow from where it is now?

Mark Little: Well, where we're at, Greg, on this is we are committed to shareholder returns and dividend and stock buybacks are an important part of that commitment obviously, and we've used both significantly. So, as we reduced our operating costs and capital expenditures to maintain the balance sheet and such, we also decided that the dividend was an important point through this period of time. So, we are committed to increasing our shareholder returns as we go forward and that would both be in the dividend and continuing to grow that as we have in the past, as well as leveraging share buybacks to return capital to shareholders.

Greg Pardy: Okay. Terrific. Thanks very much.

Operator: Your next question comes from the line of Asit Sen with Bank of America.

Asit Sen (Bank of America): Thanks. Good morning. I have a quick one for Mark and then one for Alister. Mark, you mentioned benefits from a midstream logistics. I think you've quantified a C$200 million number benefit in Q1. Did I hear that, right? And could you provide a little more color on that? I know Suncor has substantial storage and real footprint, any thoughts on future benefits?

Alister Cowan: Yeah, I'll take that, Asit. Yeah, well, I can confirm it was $230 million after-tax benefit from our marketing and logistics business. And frankly that's what you'd expect to see in a volatile pricing market where there are stresses on the physical movement of oil. That is what we expect from our team and the marketing group and the logistics, the pipeline access and the storage access that we have across North America. So, my expectation is during this period of volatile times you're going to see that continue, it's the added value that we give through our integrated model.

Mark Little: And Alister, maybe I just add to that is like I've been very impressed with how that team has performed and the capability that they've had to not only understand the market, but to protect us against some of the risks that have shown up in the market that I think have been very challenging for others as well as capture opportunities. I think you will see the significance of that as we go through this event in the – certainly in Q2 and the quarters ahead.

Asit Sen: Great. And just on the dividend level – and the new dividend level, I would say, what was some of the broad macro assumptions that you're making over the medium term and particularly when you're looking at the framework and you gave a nice breakeven framework, is that the new framework or is it something to do with the percent of normalized cash flow? How you're thinking about the level? I know you talked about additional return to shareholder, but what's the normalized dividend output level?

Mark Little: Well, if you go back to the way we've talked about this in our capital allocation framework now for many, many years, we essentially picked $45 WTI because if you go back over the last decade or two, you start to – we viewed that there was essentially a floor there that naturally mitigated the decline in prices beyond that for any significant period of time. So, as a result of that, we structured our dividends and our capital allocation and the cash generation to breakeven at WTI $45. Clearly, we did not foresee this pandemic and the implications of that on the company and I think the view is, okay, well, maybe we didn't foresee it and forecast that into how we originally set it. We've just now reset it to align with this environment, this unforeseen environment. So, I think agility and being proactive is super important to us going forward. But I think maybe even more importantly than that, our commitment to shareholder returns, the strategy of the company and our journey on ESG is unwavering and is not impacted at all by this action that we've had to take.

Asit Sen: Appreciate the color, Mark. Thank you.

Operator: Your next question comes from the line of Neil Mehta with Goldman Sachs.

Neil Mehta (Goldman Sachs): Thanks. Thanks, guys, for the time this morning. Mark, maybe the first question is on the absolute level of the dividend and the magnitude of reduction. Can you take us into the boardroom as you're having these discussions between the March 23 announcement and then ultimately when you elected to reduce the dividend? What were some of the discussion points that you guys were getting your head around in terms of setting the dividend level? Why do you elect to take it down by 55% versus a higher or lower number and what were the pros and cons you were debating? I think helping us understand the thinking will help us evaluate this decision a little bit better.

Mark Little: Okay, Neil, thanks. I would say there's a couple of factors that fit into that. First of all, a lot of it was a discussion about at what level we needed to get to, so that we can stabilize the cash position of the company. And as we look out to 2021, as Alister

mentioned, we believe that we will not continue to draw on debt as we go into 2021 because we believe that there's a reasonable chance that we will see WTI $35 on average for the year. But as he mentioned, we don't expect that to happen in 2020 and we continue to lean on the balance sheet in the very lows of this environment.

And then, I think maybe the second piece to your question is why now. And one of the things that we got into and I would say this has been debated for some period of time, but there's absolutely no question that the second quarter will be far more challenging than the first quarter both in the upstream and downstream sides of the business. And so, as we see improving market conditions and such, yes, that's happening, but it's from the low of the low, and so we're expecting the second quarter to be far more challenging. And when you get into it, then the question came as, well, what probability is there that we would cut the dividend at the end of the second quarter. And our view was is that the probability of having to cut it at the end of the second quarter was very high. And so, then, the issue was, did we want to spend money by keeping paying the dividend when we thought that it was very high probability we would have to cut it and stop putting that on to the balance sheet.

And so, although if you had ask Alister and I literally three months ago whether we would cut the dividend, I think we would have been very confident that the answer to that would have been no. We can't foresee a circumstance where that would occur. But given this incredible circumstance that is having huge global implications, we view this it's very important that we be proactive and this is very prudent in managing the financial strength of the company so that we can keep the company strong through this and not continue to take on debt.

Neil Mehta: Yeah, that makes a lot of sense. But the follow-up is on the buyback strategy where as the oil price improves, you've indicated you're going to be more aggressive around share repurchases. How do you ensure that you're not buying back stock pro-cyclically and using repurchases as a flywheel, but then not getting the best entry price on buying your shares?

Mark Little: Yeah. In the past, the way we've done it is ratably bought back over a period of time and I think some of this will depend on the fundamentals that are supporting the market, so we will have to make those decisions as we see the market go out. But that's always the challenge when you buy back. I don't know, Alister, did you want to add anything to that?

Alister Cowan: Yeah. I would just say that at the end of the day, we will considerably strengthen the balance sheet as we move forward. We will execute on a pro rata basis from a dividend – stock buyback, what will also give us the capability when we undoubtedly go through another downturn in a few years to have a very strong balance sheet to take advantage of that situation.

Neil Mehta: All right. Thank you so much.

Operator: Your next question comes from the line of Manav Gupta with Credit Suisse.

Manav Gupta (Credit Suisse): Thank you, guys. I have a quick question on Fort Hills. The realizations in the netback and the realizations was a little weaker versus our model. I'm trying to understand was it just the timing of the condensate purchases or the lag, which caused this or was there any other factors because of which the operating net back at Fort Hills was a little weaker than expected?

Alister Cowan: I'll take that one, Mark. Really, it was really a condensate-diluent question here whereby we've obviously committed to that and bought that earlier at higher prices, so that was really the main driver in there, yes.

Manav Gupta: And just a quick follow-up on this, like if the operating netback doesn't improve from current levels or remains little lower on this side, is there a point where you look at Fort Hills as an independent project and say maybe 60,000 barrels annual guidance on this one may not hold?

Mark Little: I think part of the issue with it is this is a very significant asset and so it has lots of obligations on pipelines and commitments on logistics and stuff associated with it. So, you can't just shut it off because there's a whole bunch of commitments that need to carry on. So, we are looking at the margins associated with it. One of the huge challenges with Fort Hills is that coming into this, it was curtailed and so it could not operate efficiently. We essentially ran it at about 75% utilization because of the constraints from curtailment. And in this environment, you cannot run assets inefficiently, so we found in that particular case it was much easier for us to shut down one train and that's why we keep saying that we're running one train fully utilized very efficiently and then shed the costs with the other train where we can only get essentially half productivity for it. In this environment, you cannot have the inefficiency in the environment. So, going to one train was far more straightforward than whether you would shut down the entire asset.

And the second piece I guess associated with that is as prices have collapsed, a lot of the incremental value you would normally get an uplift on the product that we produce from Fort Hills because it's a higher product quality and gives higher yields doesn't show up in this environment because all the spreads essentially get collapsed together, and so that's another factor as well. But – so, we looked at all the various scenarios and then optimized for what generates the most cash.

Manav Gupta: That makes a lot of sense. Thank you for taking my question.

Operator: our next question comes from the line of Dennis Fong from Canaccord Genuity.

Dennis Fong (Canaccord Genuity): Hi. Thanks. Good morning, and thank you for taking my questions. The first one is just wanted to know and I appreciate the incremental color around the logistics and marketing slide, I guess slide 4, in your presentation, and I was hoping to dig into that a little bit more. Just characterizing your plus or minus 50 million barrels of storage capabilities, how could that play into kind of potentially increasing the C$225 million of after-tax marketing and logistics that you provided in terms of color this quarter and how does that potentially, we'll call it, impact to your upstream and downstream? I guess the margins now that you're disclosing it separately as what I think was probably predominantly blended into your realizations prior to today.

Alister Cowan: Yeah. I'll take that, Dennis. Yeah, that storage and logistics that we disclosed in that new slide in our deck is actually extremely important to generating that additional value that we disclosed, the $230-odd million. So, it will continue to be key as we go forward. It gave us flexibility on moving both crude and refining products around North America. It will allow us to keep our utilizations at refineries higher than others and it will allow us to continue to keep producing from the upstream assets where others would really be the hardest hit and just have to shut in because there's nowhere for their oil to go. So, it will be extremely important as we go forward. We still allocate as you saw from our numbers, a large part of that $235 million does get allocated back up into the

upstream and downstream, but we are separately disclosing it just to highlight the total amount of value we're creating from that group and the logistics assets that we have.

Mark Little: And maybe just add to that is, it certainly gives us a much deeper understanding of what's going on in all the various regional markets. And in these types of very volatile situations, you see dislocations from one part of the market to another. And so, as a result of that, it provides us with opportunities and it also helps us in being able to protect against situations where there is very rapid crude movements or product movements and in some cases we can just put the product into storage versus wholesaling it out at massive discounts.

Dennis Fong: Great. That's actually a really good segue to my follow-up here. So, obviously, you've made changes to your operated production on the upstream side of things to limit your exposure there. How should we be thinking about the use of equity barrels versus purchasing barrels in the market in terms of your view of, I guess, your current refining capacity even at the reduced throughput and should we think of the Q2 level of, I guess, physical integration as being kind of the maximum that you guys are able to put through your own refineries? Thanks.

Mark Little: Yeah, it's interesting in that because we have increased the amount of equity barrels that we've put in. And as Alister talked about, he said we put 43% of our equity barrels in Q1 of 2020 and that was 35% in 2018. This is an area that we continue to work on. We're expecting in the second quarter that number is more like 50% of our total barrels going through our physical assets. That also means that the other 50% we're buying in the marketplace. And in some cases, it's driven by pricing and in some cases it's driven to get the molecules we need to make the various products associated with it. So, we – this gets optimized literally every single day. We're looking for opportunities between storage, production, movement of logistics and our refineries and the product mix to be able to constantly optimize that to maximize cash flow.

Dennis Fong: Great. Thanks. I appreciate the incremental color.

Mark Little: Thank you.

Operator: And your next question comes from the line of Prashant Rao with Citigroup.

Prashant Rao (Citigroup): Good morning. Thanks for taking my question. I had a broader picture question on the pace of recovery and the even very good color about how you see the cadence of demand recovery in 2020 and then sort of a longer term goal post there about 2022 potentially being the first year of a return to something that approximates normal, assuming a lot of things go right along the way. My question is really on the interim view. Especially given that this recovery will be led by the downstream and upstream, we'll have to pace it, how do you think about 2021 in terms of the cadence of demand here and how that plays out from the downstream?

And some of the factors I'm thinking about here too are some of the deferrals we've seen globally on maintenance that may show in 2020 that may show up on downstream assets in 2021, perhaps a little bit of lingering product demand suppression in jet fuel. There's a lot of moving pieces there, but kind of the bridge between the 2020 shorter term recovery and then the 2022 is more of a mid-cycle year. How should we think about the broad strokes and how are you planning for that?

Mark Little: Yeah. Well, that's an interesting question, Prashant. That's actually the challenge and I think I commented in my text and there is, oh, we know how this will play out. It's the pace that's uncertain. And so, the question you get into is, okay, so when does a vaccine show up as an example. And then how fast does that get penetration so that people go back to their normal lives. I think if you look at the airline industry, that's been an industry that's been hit very, very hard and you just wonder about how long will it take before people feel comfortable going back to flying and doing the things that they've done in the past.

Now, when you start taking the cruise ships out and the airline industry and such, that might actually provide some strength on the gasoline side, but it'll certainly prolong some weakness in jet. So, what we're expecting to see is probably we might even see a little bit stronger gasoline than we've seen in the past if people want to get out and travel associated with it. But for all of the reasons you've mentioned, the uncertainty is very high and we think it's – in some cases, I think you'll see that there's going to be some false starts in various economies and such. So, I think it's going to be variable and we're going to be managing our inventories and integration as we do every single day to maximize value and cash flow. And agility will be a key attribute of staying strong through this period because it's impossible. No one actually knows the answer to how this will play out. And so, staying agile as an organization and responding as we see these trends.

One of the huge advantages we've had that we've talked about is the fact that we are participating and our players in a number of these markets across North America and in the international markets. And so, we see this in real time and we have the ability to adjust as we go forward. So, we do think that our view, if you look at the forward market right now shows mid-$30s for WTI US dollars a barrel next year. And will it be that? No one really knows. That's what the market's betting at this stage of the game and we'll stay agile and see how it plays out.

Prashant Rao: Thanks, Mark. I appreciate that and I know it's sort of a tougher question to answer. So, I appreciate the color there. My follow-up just sort of related to that. If we do see these fits and starts and maybe some parts of the barrel that take longer to recover on the product side, which would then have an implication for overall oil demand, sort of making that last bit into normal demand levels from historical perspective. How does that make you think about the progress you've made and the plans that you had before all this on the renewable side? Does it maybe hasten the pace a little bit? And also, what is that – did you think that you could see maybe a narrowing in the cost of capital difference between sort of the traditional oil and gas and some of these renewable products, specifically because we've just gone through so much volatility in the market? Coming out on the other side of this, might there be even more financing appetite to go that route, might be hastened the pace of that or is that maybe not so much a concern?

Mark Little: Well, I think what you would – I would say in the energy markets is all energy markets have taken a hit and in fact we announced two investments, which was the Forty Mile Wind farm and the cogen at base plant. Both of which we've had to stop working on in this environment for cash reasons. And so, those have been slowed down and I think what you will find across all energy investment is that all of it's going to get slowed down, oil, renewables, electrical projects and such associated with it. So, in our particular case and I go back to what I said before is, despite the fact that we did cut the dividend, our commitment to returning shareholder value has not changed, the strategy of the corporation hasn't changed and our commitment to ESG hasn't changed, although the pace at which we can do some of those things has needed to be adjusted to keep the

company financially strong. But, you know, I think that you are going to see implications across all of the various forms of energy and almost all industries.

Prashant Rao: Thank you very much, Mark. Appreciate that.

Operator: And there are no further questions at this time. I will turn the call over back to Mr. Trevor Bell for closing remarks.

Trevor Bell: Great. Thank you, operator, and thanks, everyone, for attending today. I really appreciate it myself and our team in IR around all day. Given the circumstances, we're all working remotely, so please just drop us an e-mail or you have our phone – our mobile numbers, give us a shout if you have any follow-up. Thank you very much.

Operator: Thank you. This does conclude today's conference call. You may now disconnect.