Imperial Oil Limited
Q2 2024 Earnings Call
Transcript

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Operator: Good day, and welcome to the Imperial Oil Second Quarter 2024 earnings call. Today's conference is being recorded. At this time, I would like to turn the conference over to Peter Shaw, Vice President of Investor Relations. Please go ahead.

Peter Shaw: Good morning, everyone. Welcome to our second quarter earnings conference call. I am joined this morning by Imperial's senior management team, including Brad Corson, chairman, president, and CEO. Dan Lyons, senior vice president, finance and administration. Sherri Evers, senior vice president of sustainability, commercial development, and product solutions. And Cheryl Gomez-Smith, senior vice president of the upstream. Today's comments include reference to non-GAAP financial measures. The definitions and reconciliations of these measures can be found in attachment six of our most recent press release and are available on our website with the link to today's conference call.

Today's comments may also contain forward-looking information. Any forward-looking information is not a guarantee of future performance and actual performance and operating results can vary materially depending on a number of factors and assumptions. Forward-looking information and the risk factors and assumptions are described in further detail on our second quarter earnings release that we issued this morning as well as our most recent Form 10-K. All these documents are available on SEDAR+, EDGAR, and our website. So I would ask that you refer to those.

Brad is going to start with some opening remarks and then hand it over to Dan, who is going to provide a financial update. And then Brad will provide operations update. Once that is done, we will follow with the Q&A session. So with that, I will turn it over to Brad for his opening remarks.

Brad Corson: Thank you, Peter. Good morning, everybody, and welcome to our second quarter earnings call. I hope everyone is doing well. I wanted to start today's call by taking a moment to talk about the serious wildfire situation that has occurred across Western Canada over the past few weeks. We are deeply thankful for the courageous work of the emergency services as they battle the fires in very difficult conditions to keep our communities safe. Our thoughts are with the community of Jasper and others who have been tragically impacted by the destruction of the devastating fires, and now, as the communities work to rebuild.

There have been large fires in the Fort McMurray region near our Kearl operations and to a lesser extent, around Cold Lake. The teams at our operations have been working closely with local and provincial agencies to ensure we're taking necessary precautions to protect our people and our assets. And fortunately, to date, there have been no impacts to our production and the situation has improved over the past few days. And of course, it's a situation that we will continue to closely monitor and take appropriate actions.

Now turning to our performance over the quarter. Our upstream saw record production coupled with stronger price realizations due to the combined benefit of strengthening WTI prices and the tightening of WCS crude differential. We were pleased to see the successful start-up of TMX in May, bringing additional egress capacity for Western Canadian crudes, which has resulted in structural tightening of the differential, reduced price volatility, and a net benefit to Imperial.

Our downstream business also performed well over the quarter and contributed very solid earnings despite significant turnaround activity and some softening of refinery crack spreads. The downstream continues to realize the structural benefits of the Canadian market, including advantaged feedstocks and import parity pricing.

So now let's review the second quarter results. I'm very pleased to report a strong second quarter with earnings per share up over 80% year-over-year. These results were underpinned by strong operations that included the safe and successful execution of several major planned turnaround activities across our integrated portfolio. And while we still have some scheduled turnaround work ahead, we're well positioned for a strong second half of the year. Earnings for the quarter were $1 billion, 133 million, with cash from operating activities of $1 billion, 508 million when excluding the impact of working capital. I'm very pleased by the strong financial results we achieved, especially from a quarter, which included significant planned turnarounds both in the upstream and downstream.

In the upstream, we achieved total production of 404,000 gross oil equivalent barrels per day in the second quarter. This marks the highest ever second quarter production over the past 30 years when adjusting for the sale of XTO in 2022. The results were underpinned by strong and reliable operations across all of our assets and successful turnaround execution at Kearl and Syncrude. Kearl had another fantastic quarter and matched the assets record for highest second quarter production. This result contributed to achieving the highest first half production in the assets history, and you may recall this follows a record second half in 2023. Cold Lake also saw a strong second quarter, including first production from our Grand Rapids Phase 1 project, the industry's first solvent assisted SAGD operation, which we will discuss in more detail shortly.

In the downstream, we continued to see strong operating performance as well. Refinery throughput averaged 387,000 barrels per day, which equates to a refinery utilization in the quarter of 89%, and includes the successful month-long turnarounds at both Sarnia and Strathcona. Overall, we feel very positive about the strong first half of the year and are well-positioned to meet our annual guidance. We continue to deliver significant value to our shareholders through our reliable and growing dividend and share repurchase programs. And consistent with our commitment to return surplus cash to shareholders, we announced this morning our plans to accelerate repurchases under the normal course issuer bid with a target to complete the program prior to the end of this year.

With that, I'll pass things over to Dan to discuss our financial results in more detail.

Dan Lyons: Thanks, Brad. Starting with financial results for the second quarter, we recorded net income of $1 billion, 133 million, an increase of $458 million from the second quarter of 2023, primarily reflecting higher realizations and volumes in the upstream and lower turnaround impacts in the downstream. Looking sequentially, our second quarter net income is down $62 million from the first quarter of 2024, reflecting lower margins in the downstream and lower volumes in the upstream, partly offset by higher realizations in the upstream.

Now looking at each business line. Upstream earnings of $799 million are up $241 million from the first quarter, driven primarily by higher realizations, partly offset by lower volumes associated with a high level of turnaround activity. Downstream earnings of $294 million are down $337 million from the first quarter, mainly reflecting lower refining margins and turnaround impacts. Finally, our chemicals business generated earnings of $65 million, up $8 million from the first quarter, reflecting higher volumes.

Moving on to cash flow. In the second quarter, we generated about $1.6 billion in cash flows from operating activities. Excluding working capital effects of $121 million, cash flows from operating activities for the second quarter were about $1.5 billion, up about $400 million from the second quarter of 2023 in line with earnings. We ended the quarter with just over $2 billion of cash on hand.

Discussing Capex, capital expenditures totaled $462 million in the second quarter, down $31 million from the second quarter of 2023. In the upstream, second quarter spending focused on smaller projects to sustain and grow production at Kearl, Syncrude, and Cold Lake, as well as progressing the In-Pit Tailings project at Kearl and the SA-SAGD Grand Rapids project at Cold Lake. In the downstream, second quarter spending mainly included progressing our renewable diesel project at Strathcona. Year-to-date capital expenditures totaled $958 million, which is consistent with 2023 year-to-date spend. Our full year guidance remains $1.7 billion.

Shifting to shareholder distributions. In the second quarter of 2024, we paid $321 million in dividends. On June 24th, we mentioned the renewal of our normal course issuer bid, which allows us to purchase up to 5% of our outstanding common shares over the following 12 months. We started purchasing shares ratably in July, but as Brad mentioned, we plan to accelerate our purchases and complete the program prior to year-end in line with our long-standing practice of returning surplus cash to shareholders. Lastly, this morning we announced the third quarter dividend of $0.60 per share in line with our second quarter dividend.

Now, I'll turn it back to Brad to discuss our operational performance.

Brad Corson: Thanks, Dan. So now, I'll cover our operating results for the quarter. Upstream production for the quarter averaged 404,000 oil equivalent barrels per day, which is down 17,000 barrels per day versus the first quarter and up 41,000 barrels per day versus the second quarter of 2023. While the second quarter typically has higher levels of planned maintenance activity affecting the sequential comparison, I'm very pleased to see a greater than 10% increase in quarterly production year-over-year, and the achievement of the highest second quarter production in over 30 years when adjusting for the sale of XTO.

So now I'd like to move on and talk specifically about Kearl. Kearl's production in the second quarter averaged 255,000 barrels per day gross, which was down 22,000 barrels per day versus the first quarter and up 38,000 barrels per day from the second quarter of 2023. As I mentioned earlier, this matched the best second quarter production ever achieved at Kearl and resulted in record first half production of 266,000 barrels per day. And these record first half results follow a record second half of 2023, which further reinforces our confidence in the production guidance we set for Kearl.

During last quarter's call, I highlighted that the team was hard at work optimizing the schedule and scope of the annual turnaround, with the goal of continuing to minimize downtime and cost. I'm very pleased to share that the team delivered on this. The planned turnaround work was completed in under 20 days for the first time in the asset's history and at a cost below our guidance as well. We've talked extensively about the step change improvement we made in 2021 when we moved from two turnarounds per year to one.

Looking more closely at the number of days required for the turnaround activity, at that time, we were averaging approximately 70 days per year with two turnarounds. We have now reduced that duration by more than 70% with this year's results. And while we are thrilled with this important achievement, the team is already looking ahead for additional opportunities to reduce turnaround durations and costs even further.

And turning to cost, Kearl's unit cash operating costs in the quarter were $22.12 US per barrel. While we saw an increase versus the first quarter due primarily to the planned turnaround costs, which we generally expense, we also saw a decrease of about $6 US per barrel compared to the second quarter of 2023, which reflects our focus on cost reductions, including the improvements to our planned turnarounds and reliability.

This second quarter performance is also contributing to our year-to-date unit cash costs of $21.45 US per barrel, a $5 US per barrel decrease versus the first half of 2023. With the turnaround behind us now and our expectation for higher volumes in the second half of the year, we expect to make further progress on unit costs towards our $20 US per barrel or below target. Overall, Kearl continues to deliver great results and with the turnaround in the rear-view mirror, it is well-positioned for a strong second half.

And now turning to Cold Lake. Cold Lake production for the second quarter averaged 147,000 barrels per day, which was up 5,000 barrels per day versus the first quarter and up 15,000 barrels per day versus the second quarter of 2023. You may recall that we went through an extended period of lower production in 2023 due to production and steam cycle timing. So I'm very pleased to see this strong performance so far this year, and we are squarely on track to meet our annual guidance. This strong production, along with lower energy costs, resulted in unit cash costs of $14.30 US per barrel, which is a decrease of over $3 US per barrel compared to last year. And this includes the impacts of Grand Rapids Phase 1, which achieved first oil in May and contributed about 3,000 barrels per day to our second quarter results.

Grand Rapids continues to ramp up, with the pumps installed on the majority of well pairs, and the remaining pumps are on track to be installed over the next several weeks. In June, Grand Rapids achieved production of about 8,000 barrels per day and is currently producing 10,000 to 12,000 barrels per day as we just completed the month of July. On site, reservoir performance continues to be monitored and is aligned with our expectations as we ramp up production and solvent injection.

We are well on our way to reaching the expected 15,000 barrels per day of efficient, lower unit cash cost barrels as we complete this important step in our strategy to transform Cold Lake. We expect phase 1 alone will lower Cold Lake's unit costs by around $1 US per barrel. I'm very proud of the work the project team has done to accelerate this project by a year and deliver industry first ever SA-SAGD development.

I also wanted to take a moment to provide a brief update on our Leming redevelopment project, which is another key project for us at Cold Lake. The focus for this year continues to be on facility construction and well completions. During the quarter, fabrication started on various units as civil work continued on site with installation expected in the coming weeks. We are progressing on plan for start-up in 2025 with the project expected to average about 9,000 barrels per day of production at peak. I would also like to remind everyone that Cold Lake has just started its planned turnaround at Maskwa and will run through to mid-September with an expected volume impact of 3,000 barrels per day in 2024.

And now, a few comments on Syncrude. Imperial's share of Syncrude production for the quarter averaged 66,000 barrels per day, which was down 7,000 barrels per day versus the first quarter and flat versus the second quarter of 2023. During the quarter, Syncrude completed its two-month-long coker turnaround ahead of schedule and is expected to start a hydrotreater turnaround at the end of the third quarter. During the quarter, Syncrude leveraged the bidirectional function of the interconnect pipeline to export about 2,000 barrels per day, our share of bitumen to maximize mine production during the coker turnaround.

Once the turnaround was completed, Syncrude reversed the pipeline flow in order to import bitumen and maintain high upgrader utilization rates, helping to produce about 5,000 barrels per day, our share of incremental Syncrude sweet premium. The interconnect pipeline is an important tool that provides optionality, ensuring the team is able to maximize both mine productivity while also maintaining high upgrader utilization rates.

So now, let's move on and talk about the downstream, which is another positive story. In the second quarter, we refined an average of 387,000 barrels per day, resulting in a utilization of 89%. This was down 20,000 barrels per day versus the first quarter, due to month-long turnarounds at both Strathcona and Sarnia, and down slightly by 1,000 barrels per day versus the second quarter of 2023.

I'm pleased to highlight that Nanticoke achieved record April throughput, which contributed to its highest ever first half throughput record. And from a financial perspective, our structurally advantaged downstream business remained quite profitable in the quarter despite the significant turnaround activity and narrower crude differentials that affected margin capture. Canadian crack spreads have softened in 2024. However, they do remain above the average of the last five years, so it's important to keep that in context.

In the third quarter, there's a planned turnaround at our Nanticoke refinery that is scheduled to start in early September and finish in late October. Strathcona will also be executing its second, smaller turnaround, which will include work to enable the co-processing of vegetable oils alongside conventional feedstock. We continue to progress the construction of Canada's largest renewable diesel facility at our Strathcona refinery that will add 20,000 barrels a day of throughput capacity when completed. Modules continue to arrive on site, and I'm pleased with the progress of the construction, which will continue into next year.

The Strathcona Renewable Diesel project is a highly attractive and strategic opportunity within our portfolio and one that leverages the numerous competitive advantages we have, including our location, scale, expertise, and technology. Another exciting milestone in the quarter was the completion of the Calgary renewable diesel blending and offloading distribution terminal, which will further develop our capabilities to continue to meet our customer's demands for lower emission fuel options.

Petroleum product sales in the quarter were 470,000 barrels per day, which is up 20,000 barrels per day versus the first quarter, and down 5,000 barrels per day versus the second quarter of 2023. We continue to see steady, refined product demand with gasoline, diesel, and jet demand generally consistent with prior year. During the quarter, we completed the proactive replacement of a segment of the Winnipeg Products Pipeline after a routine inspection found riverbank erosion was causing stress on the pipelines. The maintenance work required several weeks of horizontal drilling under the Red River with the first of two pipelines being returned to service in May and the second pipeline returning to service in late June.

We worked closely with impacted neighbors and communities, as well as the Manitoba government and regulators, and also customers throughout this process to ensure they had the latest information on the status of the maintenance work. Our priority was returning the pipeline to service on time and in the safest, most environmentally responsible way. And we appreciate everyone's patience and understanding as we completed this important work. I also want to thank our team for working nonstop since March to complete the work as we committed and minimize the disruption to our customers and communities.

And turning now to chemicals. Earnings in the quarter were $65 million, which was up $8 million versus the first quarter and down $6 million versus the second quarter in 2023. The higher earnings versus the first quarter were the result of strong polyethylene sales. And before I wrap up, I'd also like to highlight the ongoing work that the Pathways Alliance is progressing. Pathways continues to make progress on the engineering and design of the proposed carbon capture and storage pipeline project, with regulatory filings continuing through the second quarter. And in parallel, we continue to have constructive discussions with the federal and provincial governments in order to finalize the fiscal frameworks necessary for these important projects to proceed timely.

And so to wrap up, this was a really strong quarter for us, underpinned by reliable operating performance and successful execution of significant planned maintenance at four of our major facilities. I want to recognize the dedication and hard work by all our teams that delivered these exceptional results. I'm also very excited to see the production growth from further records at Kearl and the ramp-up of Grand Rapids, and the continued construction progress of our Strathcona Renewable Diesel project. Both Grand Rapids and Strathcona renewable diesel projects are an important part of our growth plans to meet the energy needs of society while generating value for our shareholders, our missions.

As I look ahead to the second half of the year, we're very focused on delivering a strong finish and I'm confident in our ability to achieve our guidance for 2024. We remain committed to returning surplus cash to our shareholders, and as we announced this morning, we are accelerating our recently renewed normal course issuers bid with the intent of completing it prior to year-end. As always, I'd like to thank you once again for your continued interest and support. And now we'll move to the Q&A session, so I'll pass it back to Peter.

Peter Shaw: Thank you, Brad. As always, we'd appreciate if you could limit yourself to one question plus one follow-up so that we can get to as many questions as possible. And with that, operator, could you please open up the phone line for questions?

Operator: Thank you. If you are dialed in via the telephone and would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. Your first question comes from Greg Pardy with RBC Capital Markets. Please go ahead.

Greg Pardy: Yeah. Thank you. And Brad, thanks for the detailed rundown. Wanted to stay with or just dig in rather into maybe the Grand Rapids and in situ in general. But the technical question, I guess, in the Grand Rapids is what kind of recovery rate are you targeting from the reservoir with respect to just like the percentage of whatever you're bringing back? And then what degree of recycling of the solvent is there? I'm just trying to get a better understanding as to how much of a closed system this is.

Brad Corson: Yeah. Thanks for that question, Greg, and good to hear from you. I don't necessarily have those specific details on the reservoir performance from a plan basis. What I will tell you, though, is based on the early data we've gathered as we just started this production up in May and as I just commented on, we saw 3,000 barrels per day average for the quarter. And then 8,000 barrels per day in June. And now we're seeing 10,000 to 12,000 barrels per day. All of that is reflective of performance, very consistent with our planning basis. We are quite pleased with how the ramp-up has gone so far, recognizing we're at this 10,000 to 12,000 barrel a day range. And we still have multiple pumps still to install, which will allow us to get all the wells in a production state as well as we're just in the process of ramping up diluent injection now as well.

So we're still in, I would say, fairly early stages but very encouraged by the results we're seeing. And so I think we'll have more data for you in the coming quarter and that may be a good time to talk more about kind of some of the details of the reservoir.

Greg Pardy: Okay. Understood. No, thanks for that. And then related but perhaps just a broader question is you've got the not a JV with Suncor, but I guess a data sharing or a collaboration going on with respect to Aspen. And I'm just I'm wondering how you're thinking about that partnership and then what the benefits are to IMO.

Brad Corson: Yeah. Well, and I think what you're referring to is the joint pursuit of the EBRT pilot that we are in kind of the process of constructing now, and that is a partnership between us and Suncor to build that pilot and operate it. And I just want to clarify, the pilot for us we believe has future applicability to Aspen. The partnership with Suncor is limited to this pilot. That partnership has nothing to do with Aspen per se. But in terms of the pilot itself, we do see it as a potential enabler of a new technology that we can apply to Aspen that will allow us to lower the capital costs, lower the operating costs because it uses significant more diluent and less steam. And also as a result then, achieves much lower emissions intensity for the barrels that we would produce.

Working together with Suncor, allows us to expedite the progress on that pilot, allows us to jointly share in the cost of that pilot, allows us to share technology and insights that we together will result in a more successful pilot. So we feel quite good about the opportunity. We feel good about where we are progressing this pilot, and we're optimistic that it will have longer-term strategic value to us for Aspen.

Greg Pardy: Okay. Very good. Thanks very much, Brad.

Brad Corson: Thanks, Greg.

Operator: Thank you. Your next question comes from the line of Menno Hulshof with TD Cowen. Please go ahead.

Menno Hulshof: Thanks. And good morning, everyone. I just I'll start with a follow-up on Greg's question on the Grand Rapids, which is obviously ramping up quite nicely. And I'm guessing you may not want to answer this, but what is your current thinking on the next potential growth phase in the Grand Rapids in terms of timing and size? Presumably, the next one would be in the 15,000 barrel per day range as well. But any thoughts there would be helpful.

Brad Corson: Yeah. Thanks for the question. And again, it's exciting to talk about Grand Rapids because we've been working on this project for several years. And then more recently, we're able to accelerate it and now we're seeing some very good reservoir results. So all that's really exciting and all of that will inform our future development plans. I think it's a little premature for us to talk specifically about the next phase, the next volume that would come with the next phase. But fair to say we're going to take all the data from this first phase and that will inform a longer-term development strategy.

And as we firm that up, we'll certainly share that with the market in future investor days. So again, premature to give any details but it's an exciting opportunity for us. We do see significant running room beyond this first phase and so now, we just need to finish the start-up, gather as much data as possible, and then optimize future plans accordingly. So more to come but it's encouraging.

Menno Hulshof: Yeah, thanks, Brad. Maybe just a very quick follow-up there. I think in the past you've talked about an incremental, I think 50,000 to 55,000 of potential growth there. Is that still the right sort of range?

Brad Corson: I don't remember those comments explicitly. We've definitely talked about continued growth at Cold Lake. That comes both from Grand Rapids. This phase, future phases, Leming redevelopment and other, if you will, transformations of that portfolio from existing technologies to new solvent-based technologies. I don't recall the 50,000 number explicitly, but we do see continued growth. And I'll have to take that away and compare that to some of our long-term plans we've shared in the past.

Menno Hulshof: Okay. And yeah, I'm just going to assume that second question was a part of the first. But the second question is quite quick, just on the renewable, Strathcona renewable diesel facility. It sounds like based on your prepared comments, it's all on schedule but what is your best guess on first volumes from that facility?

Brad Corson: Yeah, thanks for the comments. Again, another exciting growth project for us. The construction at the refinery is going extremely well and we would anticipate completing that construction by sometime in the spring of next year. And then that will allow us to move into commissioning sometime later in the second quarter, around mid-year. But equally important to keep in mind, this is a complex project. And what we're focused on is the construction of the facilities at our site. We're also sourcing the feedstock. We're also working with the hydrogen supplier on the timing for their facilities and availability. So we're working to bring all that together, which again, we're encouraged by the progress we're making, and we'll continue to coordinate with them on their timing. And we're excited to bring that product to market as soon as possible.

Menno Hulshof: Appreciate the thoughts, Brad. I'll turn it back.

Brad Corson: Thank you.

Operator: Thank you. Your next question comes from the line of Patrick O'Rourke with ATB Capital Markets.

Patrick O'Rourke: Hey, guys. Good morning and thank you for taking my question. I guess my first question is with respect to Kearl and going back to the 2023 Investor Day, the plan to sort of get to 300,000 and then alluding to potentially beyond that. With the strong performance you've had year-to-date here, how does that sort of place you in achieving these targets and what are the timeframes moving forward around that?

Brad Corson: Yeah, thanks for the question. I'm always excited to talk about Kearl because it's such a positive story and a great testimony to kind of the hard work and commitment and really creativity of our operations organization. The key milestone that we laid out at Investor Day was to achieve 280,000 barrels a day by this year. We've represented that in guidance of 275 to 285. We feel extremely confident in our ability to achieve that based on the performance I just reported for the first half of the year, including some records. I commented on the record second half of last year. So what we need to deliver and I have confidence we will is a second half of this year that is generally in line with the second half of last year. And if we do that, and I believe we will, that will put us at the upper end of that guidance and very much achieving that 280,000 barrels a day.

So that's the clear milestone we put out there. Then what we talked about at Investor Day was looking beyond 280 to what's next. And we've identified several opportunities that would allow us to achieve 300,000 barrels a day. The technical and operations teams are currently working to define those individual projects and the individual timing that would go with those. We haven't put a specific timeline out to the market yet for achieving 300 or anything beyond that. But rest assured, it's in our sights and we're working on those details, and our plans are to share more of those details with you at our next Investor Day. So more to come there. But everything we're achieving now not only gives us confidence in 280 but gives us confidence in higher volumes for the future.

Patrick O'Rourke: Okay. Thank you. And my second question here is just with respect to the downstream unit, there's obviously been a lot of moving parts in the cracks market. You guys have shown some flexibility in the past in order or to capture those moving parts or moving cracks across the product slate. If you could maybe speak to what you're seeing in the product demand market right now and what the best opportunities are for you?

Brad Corson: Yeah. Thanks for the question. And as I mentioned, we're feeling quite good about our downstream business both in terms of the successful execution of our turnarounds, but also our ability to capture an advantage market where we're seeing, I would say, stable demand across the individual product streams. And whereas in the second quarter, we saw some softening of some crack spreads. What we've seen more recently, now as we get into the third quarter is some strengthening driven by continued low inventory levels in products but also several refinery outages in the US, both planned and unplanned.

And so that is impacting inventories and supply going forward. So when you put all that together, we feel quite good about our position as we move into the third quarter. And obviously, there are a lot of variables as you mentioned. But for us, things are lining up in a good place for us.

Patrick O'Rourke: Okay. Thank you very much.

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

Manav Gupta: Thank you, guys. My first question is you reiterated your guidance for 2024. Is it safe to assume that the threat of those wildfires has come in, even from where it was a week ago? And at this point, you don't expect them to have a direct impact on your operations, which is what is allowing you to reiterate your guidance for the year.

Brad Corson: Yeah, Manav. Thanks for the comment or the question. Where we sit today, we feel good about the situation in terms of no impact to our production. And certainly, we hope that will continue through the rest of the summer season. What I can't predict is whether there will be future wildfires and where those will occur or when those will occur and what risk they would present to our operation. But in terms of what we've seen so far thanks to the great work by the emergency response services, they have done a really good job in helping manage that risk for our operations. And so we would certainly hope that would continue.

Manav Gupta: Perfect. My quick follow-up here is, obviously, you return a lot of cash to shareholders. Sometimes it gets a little bulked up like in 2023, a lot of it got in the second half. So if you do complete this NCIB in the next six months, does that leave the door open for a possible SIB somewhere earlier next year? Generally, you put in an NICBs in the later half of the year, but if you could spread it out, of course, it will depend on the crude prices and cracks. But does it leave the room open for a possible SIB early next year?

Brad Corson: Yeah. Thanks for the question. I'll give you my view on it. Dan may want to add some other comments at the end. But as you rightly pointed out, our ultimate decision is very much dependent on our surplus cash levels. And those are a function of both our operations, which are going extremely well, but also the external price commodity market, which is outside our control. We all have different views maybe on what the second half will look like. Right now, it looks quite supportive. So those are important factors.

The other consideration and we've talked about this in the past is the regulatory processes restrict us from undertaking an NCIB and an SIB at the same time. And so one of the reasons that we want to accelerate the NCIB is so that gives us flexibility for future decisions around an SIB. And so by completing this sometime in the second half of the year, then that gives us flexibility for a future SIB. The other reason we do it is it allows us to return more surplus cash between now and the end of the year versus extending that NCIB into next year.

So we will have the flexibility to do an SIB in the first half of the year. We could even have the flexibility to do an SIB before this year is over. But step one is we have to complete the NCIB first, and that's what we're doing. Dan, anything to add?

Dan Lyons: No, no. Well said, Brad. And look Manav, we try and the NCIB is simple, efficient. So our practice has been we do that as our first tool but our overall overarching goal is to return surplus cash in a timely manner. So once we exhaust that tool, we've gone to the SIB historically, and that's exactly where we are today. So we'll see what the commodity markets give us. And rest assured, our philosophy of returning surplus cash in a relatively timely manner is unchanged. And so we accelerated the NCIB, and as Brad pointed out, that just gives us more flexibility to do an SIB if our cash balances warrant that.

Manav Gupta: Thank you so much.

Operator: Thank you. Your next question comes from the line of Dennis Fong with CIBC World Markets.

Dennis Fong: Hi. Good morning and thanks for taking my questions. The first one, I wouldn't mind digging a little bit more on the Leming redevelopment program. Frankly, it's great to hear you're starting to move forward with the module construction at the facility. I was just hoping to understand how maybe your teams are looking at some of the other projects in the region Maskwa, Mahkeses, and Mahihkan. Do similar opportunities to redevelop those regions exist? Obviously, understanding Leming is your first and oldest facility at Cold Lake.

Brad Corson: Yeah. Thanks for the question. I mean, there's lots of considerations as we progress these sort of redevelopments. It's a function of kind of the status of the reservoir, what we see as future potential or remaining potential. What's the best technology to recover that remaining potential? Is it economic to transition to a new technology today, or do we continue with the existing? But the reality is we've been producing at Cold Lake for over 40 years now, but there is still a significant resource left to develop.

And so our teams are looking at the entire resource base at Cold Lake, looking at what's the most efficient way to recover that resource. And that's going to precipitate future redevelopment opportunities like Leming and as well as new opportunities like Grand Rapids. And that's what the reservoir team focuses on and we'll be driven by the economics of those individual opportunities. So much more to come there but we do see future opportunities without a doubt.

Dennis Fong: Great. I appreciate that color there, Brad. My second question is a bit of a follow-up to Manav's question there is just around I guess cash positions and cash levels. Obviously understanding last year, at the end of last year, there were specific reasons that you drove towards, we'll call it a lower cash position at the end of 2023. Can you talk towards some of your comfort levels around holding certain levels of cash now that some of the, we'll call it major projects. Whether it be the completion of Grand Rapids Phase 1 or kind of some of the ramp down and spending on the renewable diesel facility and in conjunction to the stronger operational performance that you're seeing across your assets? How does that maybe speak towards your comfort levels on holding cash in aggregate, and at what levels do you feel most comfortable just looking forward?

Dan Lyons: Yeah, you're right, we had relatively lower cash balance at the end of the year than we've had some prior years and we felt comfortable with that balance. We don't have an explicit cash target. So we have borrowing capacity if we ever needed it. We have plenty of operating cash flow. So we're not looking to carry a whole lot of cash in our balance sheet. We figure investors want that back. And that's really our philosophy and that's unchanged. So there's no magic number where you can do the math. We have X on our balance sheet, so we're going to do an SIB. But our goal is to do SIBs when we have surplus cash and we've exhausted the NCIB to do those at a reasonable size and a reasonable time frame. So that'll be a call we make as our cash balances progress, as the year progresses, as we get into next year. Sorry, I can't give you a number, but we don't really have one. But we felt comfortable with last year's balance, so maybe that's a marker for you.

Dennis Fong: Great. I appreciate that there, Dan. I'll turn it back.

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

Adam Wijaya: Good morning, team, and thank you for taking my questions. This is Adam Wijaya on for Neil Mehta. I wanted to start on Strathcona. It looks like a pretty good update there with the main reactor installed. And understand that first volumes from the asset are maybe a little bit more longer-dated from where we are today. But more broadly, the R&D margin environment looks to be a bit tougher. So I wanted to get the team's thoughts on current margins, what it's going to take to see an inflection in margins, and then maybe where you're seeing the greatest signs of demand strength as you kind of look over the next 12 to 18 months.

Brad Corson: Yeah, thanks for the question. I think it is important to distinguish the market that we see and the economic drivers for us relative to maybe what you are seeing in other regions like in the US. For us, first of all, we continue to see this as a highly economic project and it's underpinned by some very unique, strategic, synergistic kind of elements that we have available to us. We're building this renewable diesel facility integral to our Strathcona refinery, which brings significant economies of scale for us as we can leverage the infrastructure, the operation that already exists today.

Secondly, we've designed this facility to process agricultural feedstocks, oils that are available in the general area. We're sourcing from crops and farms that are relatively close. So there's not significant transportation costs and we'll be producing a product that has some other technical advantages that it can be a drop in fuel that has properties that allow it to be used across a wide range of temperature conditions. And so it can be blended up to a very high rate or even 100% drop in. All that brings advantages to the product and the value of that product.

And then on top of that, what is also unique versus what you see in the US is the regulatory environment that we have here. The Clean Fuels Regulation, the economic support that that provides. Also in British Columbia, there's some additional regulatory incentives. So all of those things together put us in a different but much better place than what you might see in the US. So again, we feel quite good about it.

Adam Wijaya: Got it. That's super helpful. And maybe just shifting gears over to chemicals for a moment and the margin environment. What are you seeing in your own system from a demand standpoint, specifically on margins? And then how do you think about the supply-demand landscape evolving over the next, call it couple of years with some global supply ads expected? Thank you.

Brad Corson: Yeah. We are seeing obviously some strong performance out of our chemicals business generally flat with what we saw a year ago, but still, quite material to us. We've seen continued strength and demand, some strengthening of polyethylene realizations, which have been at somewhat depressed levels for a while driven by global supply-demand fundamentals. We are seeing that strengthening as we come out of this cycle. But probably equally importantly, are the strategic advantages we have of our chemicals business, recognizing it's integral to our Sarnia refinery, which may be somewhat analogous to what I just talked about with renewable diesel at Strathcona.

The chemical plant is integral. We benefit from economies of scale with Sarnia access to off gas from the refinery. We have available ethylene supply to us in the region and we produce a premium product with a unique customer base in close proximity. So we don't have significant transportation logistics to get to our customers. So again, all that leads to a strong chemicals business for us, which has demonstrated its resilience over kind of the full cycle that we see globally.

Adam Wijaya: Got it. Thanks so much.

Operator: Your next question comes from the line of Doug Leggate with Wolfe Research.

Doug Leggate: Hey, good morning, guys. Thanks for having me on. How are you doing, Brad?

Brad Corson: I'm doing well, Doug. Welcome back.

Doug Leggate: Thank you. I'd love to say that Garden leave is a thing. It turns out it's a nightmare, but we'll talk about that some other time. Anyway, two quick questions, if I may. I wanted to ask you about. I know Kearl has been kind of beaten to death for a while, but you guys have been knocking it out of the park for several years now. I want to understand what the maintenance, scheduling what role that plays in the potential, I don't want to call it debottlenecking, but the ability to enhance the long-term production capacity. We've seen obviously one of your competitors obviously changed their maintenance scheduling to instead of once every year, once every couple of years. What have you guys been doing there and what role is that playing in changing the production capacity?

My follow-up is a quick one for Dan. I just wonder with everything that's going on today coming out of maintenance, Dan, where would you say your dividend breakeven is today? And those are my two questions please guys.

Brad Corson: All right. Thanks, Doug. And I'm inferring that your question around kind of turnarounds is mainly applicable to Kearl. But if not, let me know.

Doug Leggate: Yes

Brad Corson: Okay. So for Kearl, this has been a significant focus of ours and I think an area that we are a leader in this space. if you go back to 2021 at Kearl and prior to that, we were typically having two turnarounds per year, which would be one on each train. And they were roughly an average of 35 days each, so about 70 days of turnaround activities.

Subsequent to that, in the 2021, 2022 time frame, we were able to demonstrate to ourselves that we could shift from two turnarounds a year to one turnaround a year. And that obviously allowed us to reduce our volume impacts of turnarounds in half and also significantly reduce our cost structure at Kearl. Now that we have a few years of run time on that has proven very successful for us and every time we do one of those turnarounds on an extended interval, it further validates the decision we took and our ability to maintain the full integrity, reliability of the system, but with less downtime.

And we further now have employed more technology, more opportunities to take that one turnaround per year and now shorten it to less than 20 days. And that's what I was referring to in my earlier comments about we've now achieved essentially a 19-day turnaround, which is our only turnaround for the year. And you compare that to a few years ago when we had 70 days per year, so 70 to 19, huge improvement in our overall production capability, huge improvement in our cost structure. And I would just say we're not done yet. The team is actively working on further opportunities to reduce the duration of our turnarounds and so I'm quite encouraged by that.

And all that, of course, then translates to more production from Kearl. It's part of our roadmap that's got us to 280 for this year and we expect to 300 in future years. It's allowing us to reduce our cost structure from the high 20s US dollar per barrel down to a target of $20 this year, and we believe there's an opportunity to go even lower than $20. So huge value at Kearl. And I think that's a great lead in to Dan to talk about what does that mean about breakevens and dividends and all that sort of thing?

Dan Lyons: Yeah. So Doug, I heard you say dividend. What was your specific question about the dividend?

Doug Leggate: Yeah. So basically, I don't know if you got a chance to look at our reinstatement materials, but there's extraordinary correlation or market recognition of value with long-term sustainable dividend growth on a per share basis. And you guys you've led I don't want to make the pitch here, but you've led the whole industry, not just your Canadian peers but the global majors. However, the big difference is you've still got a relatively low yield and we think a lot of firepower to sustain that dividend growth relative to peers that maybe don't have. So what I'm trying to figure out is where do you see your dividend breakeven today so that we can kind of get a handle on what the sustainable growth capacity continues to be for Imperial? Because ultimately, that's what we think drives your share price. So I hope that's a clear enough articulation of the question.

Dan Lyons: Yeah. No. As we've said before, our breakeven with sustaining capital and dividend, for our last Investor Day it's about $35 US WTI. And as you well stated, our philosophy is to have reliable and growing dividend and both of those are important. We want to continue to grow it strongly as we have in the past. When I got here, I think the dividend was $0.16 a share. Now it's $0.60. So we've had some strong growth. But it's important that that growth be sustainable. And we look at the breakeven closely. We look at various scenarios.

But I think and certainly, we believe we have room for continued strong growth and it goes to really what Brad was saying. How do we do that? Well, it's supported by stronger structural free cash flow and that comes from volume growth and that comes from lower unit OPEX. And we're working both of those hard and as our plans come to fruition, that just supports further dividend growth in the future. So we had a significant increase earlier this year and as we go through time, we'll continue to look at that in the context of our business and hope to show continued growth and very importantly sustainable growth.

Doug Leggate: So right around 35 bucks is the answer, Dan, for the current level?

Dan Lyons: Yeah. Well, that's the most recently disclosed level in our Investor Day. When we do our next Investor Day, we'll put out the most current number. But that's a good ballpark number to work with, certainly.

Doug Leggate: Tremendous. Thanks very much indeed guys. I appreciate you taking my questions.

Brad Corson: Thanks, Doug.

Operator: This does conclude today's question and answer session. I would now like to turn the call back to Peter Shaw for any additional or closing remarks.

Peter Shaw: Thank you. On behalf of the management team, I would like to thank everyone for joining us this morning. As always, if anyone has further questions, please don't hesitate to reach out to the Investor Relations team and we'd be happy to answer those questions. And with that, we thank you very much and we hope you enjoy the rest of your day and the weekend. Thank you.

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

Non-GAAP financial measures and other specified financial measures

Certain measures included in this document are not prescribed by U.S. Generally Accepted Accounting Principles (GAAP). These measures constitute "non-GAAP financial measures" under Securities and Exchange Commission Regulation G and Item 10(e) of Regulation S-K, and "specified financial measures" under National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure of the Canadian Securities Administrators.

Reconciliation of these non-GAAP financial measures to the most comparable GAAP measure, and other information required by these regulations, have been provided. Non-GAAP financial measures and specified financial measures are not standardized financial measures under GAAP and do not have a standardized definition. As such, these measures may not be directly comparable to measures presented by other companies, and should not be considered a substitute for GAAP financial measures.

Cash flows from (used in) operating activities excluding working capital

Cash flows from (used in) operating activities excluding working capital is a non-GAAP financial measure that is the total cash flows from operating activities less the changes in operating assets and liabilities in the period. The most directly comparable financial measure that is disclosed in the financial statements is "Cash flows from (used in) operating activities" within the company's Consolidated statement of cash flows. Management believes it is useful for investors to consider these numbers in comparing the underlying performance of the company's business across periods when there are significant period-to-period differences in the amount of changes in working capital. Changes in working capital is equal to "Changes in operating assets and liabilities" as disclosed in the company's Consolidated statement of cash flows and in Attachment II of this document. This measure assesses the cash flows at an operating level, and as such, does not include proceeds from asset sales as defined in Cash flows from operating activities and asset sales in the Frequently Used Terms section of the company's annual Form 10-K.

Reconciliation of cash flows from (used in) operating activities excluding working capital

	Second Quarter		Six Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**1,629**	885	**2,705**	64
Less changes in working capital				
Changes in operating assets and liabilities	**121**	(251)	**(324)**	(2,626)
Cash flows from (used in) operating activities excl. working capital	**1,508**	1,136	**3,029**	2,690

Free cash flow

Free cash flow is a non-GAAP financial measure that is cash flows from operating activities less additions to property, plant and equipment and equity company investments plus proceeds from asset sales. The most directly comparable financial measure that is disclosed in the financial statements is "Cash flows from (used in) operating activities" within the company’s Consolidated statement of cash flows. This measure is used to evaluate cash available for financing activities (including but not limited to dividends and share purchases) after investment in the business.

Reconciliation of free cash flow

	Second Quarter		Six Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**1,629**	885	**2,705**	64
Cash flows from (used in) investing activities				
Additions to property, plant and equipment	**(461)**	(499)	**(958)**	(928)
Proceeds from asset sales	**3**	9	**7**	23
Loans to equity companies - net	**2**	1	**14**	2
Free cash flow	**1,173**	396	**1,768**	(839)

Net income (loss) excluding identified items

Net income (loss) excluding identified items is a non-GAAP financial measure that is total net income (loss) excluding individually significant non-operational events with an absolute corporate total earnings impact of at least $100 million in a given quarter. The net income (loss) impact of an identified item for an individual segment in a given quarter may be less than $100 million when the item impacts several segments or several periods. The most directly comparable financial measure that is disclosed in the financial statements is "Net income (loss)" within the company’s Consolidated statement of income. Management uses these figures to improve comparability of the underlying business across multiple periods by isolating and removing significant non-operational events from business results. The company believes this view provides investors increased transparency into business results and trends, and provides investors with a view of the business as seen through the eyes of management. Net income (loss) excluding identified items is not meant to be viewed in isolation or as a substitute for net income (loss) as prepared in accordance with U.S. GAAP. All identified items are presented on an after-tax basis.

Reconciliation of net income (loss) excluding identified items

There were no identified items in the second quarter or year-to-date 2024 and 2023 periods.

Cash operating costs (cash costs)

Cash operating costs is a non-GAAP financial measure that consists of total expenses, less purchases of crude oil and products, federal excise taxes and fuel charge, financing, and costs that are non-cash in nature, including depreciation and depletion, and non-service pension and postretirement benefit. The components of cash operating costs include "Production and manufacturing", "Selling and general" and "Exploration" from the company's Consolidated statement of income, and as disclosed in Attachment III of this document. The sum of these income statement lines serves as an indication of cash operating costs and does not reflect the total cash expenditures of the company. The most directly comparable financial measure that is disclosed in the financial statements is "Total expenses" within the company's Consolidated statement of income. This measure is useful for investors to understand the company's efforts to optimize cash through disciplined expense management.

Reconciliation of cash operating costs

	Second Quarter		Six Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
From Imperial's Consolidated statement of income				
Total expenses	**11,894**	10,935	**22,605**	21,411
Less:				
Purchases of crude oil and products	**8,856**	7,856	**16,562**	15,334
Federal excise taxes and fuel charge	**656**	598	**1,247**	1,127
Depreciation and depletion	**456**	453	**946**	943
Non-service pension and postretirement benefit	**1**	20	**2**	40
Financing	**14**	16	**26**	32
Cash operating costs	**1,911**	1,992	**3,822**	3,935

Components of cash operating costs

	Second Quarter		Six Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
From Imperial's Consolidated statement of income				
Production and manufacturing	**1,689**	1,785	**3,353**	3,541
Selling and general	**221**	206	**467**	392
Exploration	**1**	1	**2**	2
Cash operating costs	**1,911**	1,992	**3,822**	3,935

Segment contributions to total cash operating costs

	Second Quarter		Six Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
Upstream	**1,204**	1,257	**2,393**	2,545
Downstream	**606**	635	**1,189**	1,203
Chemicals	**71**	76	**150**	160
Eliminations / Corporate and other	**30**	24	**90**	27
Cash operating costs	**1,911**	1,992	**3,822**	3,935

Unit cash operating cost (unit cash costs)

Unit cash operating costs is a non-GAAP ratio. Unit cash operating costs (unit cash costs) is calculated by dividing cash operating costs by total gross oil-equivalent production, and is calculated for the Upstream segment, as well as the major Upstream assets. Cash operating costs is a non-GAAP financial measure and is disclosed and reconciled above. This measure is useful for investors to understand the expense management efforts of the company's major assets as a component of the overall Upstream segment. Unit cash operating cost, as used by management, does not directly align with the definition of "Average unit production costs" as set out by the U.S. Securities and Exchange Commission (SEC), and disclosed in the company's SEC Form 10-K.

Components of unit cash operating cost

	Second Quarter							
	2024				2023			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**1,203**	**499**	**262**	**400**	1,256	526	282	412
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**1**	**—**	**—**	**—**	1	—	—	—
Cash operating costs	**1,204**	**499**	**262**	**400**	1,257	526	282	412
Gross oil-equivalent production (thousands of barrels per day)	**404**	**181**	**147**	**66**	363	154	132	66
Unit cash operating cost ($/oeb)	**32.75**	**30.30**	**19.59**	**66.60**	38.05	37.53	23.48	68.60
USD converted at the quarterly average forex *2024 US$0.73; 2023 US$0.74*	**23.91**	**22.12**	**14.30**	**48.62**	28.16	27.77	17.38	50.76

Components of unit cash operating cost

	Six Months							
	2024				2023			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**2,391**	**997**	**571**	**742**	2,543	1,084	584	811
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**2**	**—**	**—**	**—**	2	—	—	—
Cash operating costs	**2,393**	**997**	**571**	**742**	2,545	1,084	584	811
Gross oil-equivalent production (thousands of barrels per day)	**413**	**189**	**144**	**70**	388	169	137	71
Unit cash operating cost ($/oeb)	**31.84**	**28.98**	**21.79**	**58.24**	36.24	35.44	23.55	63.11
USD converted at the YTD average forex *2024 US$0.74; 2023 US$0.74*	**23.56**	**21.45**	**16.12**	**43.10**	26.82	26.23	17.43	46.70

(a) Upstream includes Imperial's share of Kearl, Cold Lake, Syncrude and other.