Imperial Oil Limited
Q4 2024 Earnings Call
Transcript

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Operator: Good day, and welcome to the Imperial Oil Fourth Quarter 2024 earnings call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Peter Shaw, vice president of investor relations. Please go ahead.

Peter Shaw: Thank you. Good morning, everyone. Welcome to our fourth quarter earnings conference call. I'm joined this morning by Imperial 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 our attachment six of our most recent press release and are available on our website with a link to today's conference call. Today's comments may 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 further in detail on our fourth quarter earnings release that we issued earlier today. All of these documents are available on SEDAR+, EDGAR, and our website. So I would ask you to refer to those as well.

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 an 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, and good morning, everybody, and welcome to our fourth quarter and full-year earnings call. I hope everyone is doing well and your new year is off to a good start. And apologies for my scratchy voice as I recover from a cold, but I'm really pleased to report another strong quarter for Imperial as we wrapped up 2024.

We saw excellent operational performance across all our assets, both upstream and downstream, which largely offsets the impact of lower commodity prices on a sequential quarter-over-quarter basis. And despite the lower prices, our ability to continue to grow production and deliver strong downstream reliability resulted in a very solid end to 2024.

Our upstream continues to set records, and we achieved the highest fourth-quarter production in the past 30 years when adjusting for the XTO divestment. We also realized the benefits of TMX pipeline, an additional egress, which resulted in much narrower and more stable differentials compared to a year ago.

Our downstream business also performed very well over the quarter and contributed solid earnings with lower turnaround activity and higher utilization. We continue to benefit from the structural advantages of the Canadian market that supports stronger financial performance despite softer refinery crack spreads.

Over the next few minutes, Dan and I will detail the results of a very strong quarter. So now, let's review the fourth quarter results. Earnings for the quarter were $1,225 million, with cash from operating activities of $1,650 million when excluding the impact of working capital. For the full year, earnings were $4,790 million, down slightly from the prior year. Also worth noting that we delivered our second-highest earnings per share of $9.03. These results reflect continued strong operational performance and our ability to capture value for our shareholders.

In the upstream, we achieved total production of 460,000 gross oil-equivalent barrels per day in the fourth quarter. This marks the highest fourth quarter production over the past 30 years when adjusting for the historical volumes associated with the divested XTO assets and resulted in the highest fourth quarter upstream earnings in the company's history. The strong fourth quarter results also contributed to the

highest annual upstream production in over 30 years, at 433,000 barrels per day, even when including the divested XTO assets.

Our strong operating performance led to a unit cash cost reduction of nearly $3 US a barrel when comparing to full year 2023. And looking ahead, we expect to continue to lower our unit cash costs based on advancing further growth and structural cost reduction initiatives.

Kearl continued the year with yet another strong quarter, which resulted in us achieving the asset's highest-ever annual production exceeding 280,000 barrels per day this year on a gross basis. I'm very proud of the team for achieving this production milestone and I know they are squarely focused on carrying this momentum into 2025 and achieving even higher volumes.

I'm also extremely pleased by the performance at Cold Lake. We delivered very strong performance in the fourth quarter, with the planned turnaround activity behind us in all of the new Grand Rapids wells producing. Our transformation of production and unit cash costs at Cold Lake is off to a great start as we leverage solvent recovery technology with impressive results. And in the downstream, all our assets performed very well and with the only planned turnaround activity in the quarter being the completion of the maintenance work at Nanticoke that we discussed on our last call.

Refinery throughput averaged 411,000 barrels per day, which equates to a refinery utilization in the quarter of 95% and a full-year utilization of 92%, which is at the top end of our 2024 guidance.

The fourth quarter also saw us continue to maximize shareholder returns. We completed the accelerated NCIB in mid-December with purchases of $1,475 million in the quarter. In addition, we paid $317 million in dividends in the quarter for a total of $1.2 billion in dividends for the entire year. And in total, we returned $3.9 billion of cash to shareholders in 2024 and $16 billion over the past three years.

And finally, this morning, we declared a dividend of $0.72 per share, payable on April 1st, 2025. The $0.12 per share, or 20% increase, is the largest nominal dividend increase in company history. This is

further demonstration of our commitment to growing the dividend and returning surplus cash to shareholders. It also reflects our confidence in delivering on the guidance we communicated in December.

As we move into 2025, we remain focused on our core strategy of optimizing our existing asset base to maximize shareholder value, a strategy that has allowed us to increase our quarterly dividend per share by over 225% since 2020.

So 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 fourth quarter, we reported net income of $1,225 million. This represents a decrease of $140 million from the fourth quarter of 2023, primarily as a result of lower margins in our downstream business, partially offset by higher upstream production. When comparing sequentially, fourth quarter net income is down slightly from the third quarter of 2024, primarily driven by lower prices, partially offset by stronger operational performance.

Now, shifting our attention to each business line and looking sequentially, upstream earnings of $878 million are down $149 million from third quarter, primarily due to lower realizations, partially offset by higher volumes. Downstream earnings of $356 million are up $151 million from third quarter, mainly reflecting lower turnaround impacts and favorable foreign exchange and inventory effects. Our chemical business generated earnings of $21 million, down $7 million from the third quarter.

Moving on to cash flow, in the fourth quarter, we generated $1,780 million in cash flows from operating activities. Excluding favorable working capital effects of $139 million, cash flows from operating activities for the fourth quarter were $1,650 million, down $147 million from the third quarter of 2024. We ended the year with nearly $1 billion of cash on hand.

Shifting to CAPEX. Capital expenditures totaled $423 million in the fourth quarter, down $46 million from the fourth quarter of 2023. In the upstream, fourth quarter spending focused on sustaining and growing

production at Kearl, Syncrude, and Cold Lake. In the downstream, fourth quarter spending mainly continued to progress our renewable diesel project at Strathcona. Full-year 2024 capital expenditures totaled $1,867 million.

Shifting to shareholder distributions. Consistent with our strategy to timely distribute free cash flow, we returned $3.9 billion to shareholders over the course of 2024. Moving into 2025, we continue to demonstrate our long-standing philosophy to deliver a reliable and growing dividend. As Brad already noted, we declared a first quarter dividend of $0.72 per share early this morning, which will be payable on April 1st. This represents an increase of 20% compared to the fourth quarter dividend of 2024.

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

Brad Corson: Thanks, Dan. I know you've all had a chance to look through the numbers, but I do want to focus your attention on some of our key performance highlights. Upstream production for the quarter averaged 460,000 oil equivalent barrels per day, and as I mentioned earlier, this represents the highest fourth quarter production in over 30 years when adjusting for the XTO divestment. Production was up 13,000 barrels per day versus the third quarter and up 8,000 barrels per day versus the fourth quarter of 2023, mainly due to higher volumes at Cold Lake. Our upstream also delivered the best full-year production in over 30 years, with 433,000 oil equivalent barrels per day, a 5% increase in total, or a 14% per share increase versus full-year 2023.

So now, let's move on and talk specifically about Kearl's record year. Kearl's production in the fourth quarter averaged 299,000 barrels per day gross, which is up 4,000 barrels per day versus the third quarter and 9,000 barrels per day lower versus the fourth quarter record previously set in 2023. As targeted, Kearl achieved over 280,000 barrels per day in 2024 and set the full-year production record of 281,000 barrels per day.

It's also worth noting, in the last five years, we have grown Kearl production by 75,000 barrels per day, which is over 35%. This marks a significant milestone in Kearl's journey to deliver record production

through efficient growth initiatives and achieve unit cash costs below our previously stated target of $20 US per barrel. We've made major strides in lowering unit cash costs at Kearl over the past few years. The full-year unit cash costs of $19.67 US per barrel reflects the hard work of the entire Kearl team, not only to meet our previously set target of $20 US per barrel but to beat it.

And talking with Cheryl and the team, they continue to find new opportunities and leverage the current momentum to drive down unit cash costs even further. This is very exciting, and I look forward to sharing at our upcoming Investor Day, some of these opportunities, and how they will help to support our new target of $18 US per barrel. And as we begin 2025, Kearl is off to a very strong start and is on track to set another record with January production over 280,000 barrels per day.

Turning to another highlight of 2024, Cold Lake. For the fourth quarter, Cold Lake production averaged 157,000 barrels per day, which is up 10,000 barrels per day versus the third quarter and up 18,000 barrels per day versus the fourth quarter of 2023. The impressive quarterly results were driven by better than expected production from the new Grand Rapids project, which has brought on lower cost barrels, and starting the transformation at Cold Lake and further reducing our unit cash costs towards our stated $13 US target.

The strong production resulted in unit cash costs of $14.21 US per barrel in the quarter, which is a decrease of over $1.50 US per barrel compared to the same quarter last year. And on a full-year basis, our unit cash costs of $14.75 US per barrel is more than $2 US per barrel, lower than last year.

A major highlight this year has been our new solvent-assisted SAGD production from Grand Rapids, and it continued to impress in the fourth quarter. Last quarter, I highlighted Grand Rapids achieving an average of 15,000 barrels per day and on an instantaneous basis, seeing peak rates of 22,000 barrels per day. While I'm pleased to be able to confirm that these volumes were maintained, resulting in an increase of 7,000 barrels per day, up to 22,000 barrels per day for the fourth quarter. While early, our data shows clear upside on the original project funding basis of 15,000 barrels per day, and I continue to

look forward to the first full year of Grand Rapids production in our operations in 2025 and the advancement of future solvent-assisted SAGD growth projects at Cold Lake.

The next step in our transformation of the Cold Lake asset is the Leming Redevelopment Project. Construction continued on the facilities through the quarter, which will leverage existing infrastructure and steam capacity. Start-up is expected to begin in late 2025 and average about 9,000 barrels per day at peak production.

And now, a few comments on Syncrude. Imperial share of Syncrude production for the quarter averaged 81,000 barrels per day, which was flat versus the third quarter, and down 4,000 barrels per day versus the fourth quarter of 2023. During the quarter, Syncrude continued to utilize the interconnect pipeline to import bitumen and gas oil, driving record annual upgrader utilization rates and producing about 9,000 barrels per day, our share of incremental Syncrude sweet premium in the quarter. As we move into 2025, we look forward to continued focus on reliability and costs at Syncrude.

Now moving on to the downstream, which also had strong operations in the fourth quarter. Overall, we refined an average of 411,000 barrels per day, reflecting a utilization of 95%, our highest quarter this year. And compared to the third quarter when we had turnarounds at Nanticoke and Strathcona, we processed an additional 22,000 barrels per day. The strong fourth quarter and the successful execution of turnarounds throughout the year enabled us to achieve the top end of our 2024 full-year guidance, with throughput of 399,000 barrels per day and a utilization rate of 92%.

Looking ahead to 2025, we have a lighter turnaround year compared to 2024 and are on track to have the construction of the Strathcona Renewable Diesel Project facilities completed in the second quarter, with expected first production in the middle of 2025.

Petroleum product sales in the quarter were 458,000 barrels per day, which is down 29,000 barrels per day versus the third quarter, and down 18,000 barrels per day versus the fourth quarter of 2023. Results year-over-year reflect some variability in discretionary sales choices and were not driven by market

demand. Overall, we continue to see resilient demand in Canada with gasoline and diesel at approximately 90% and jet recovering over 100% when compared to 2019.

Turning now to chemicals. Earnings in the fourth quarter were $21 million, which was down $7 million versus the third quarter, mainly driven by lower prices, partly offset by the absence of the Aromatics earnings shift in the third quarter, which we previously discussed. Earnings in the quarter were up $4 million versus the fourth quarter in 2023, due to the absence of the prior year turnaround activity and partially offset by lower prices and the Aromatics earnings shift.

So in closing, this was another excellent quarter to finish off a very strong year. We achieved record volumes in our upstream, significantly reduced our upstream unit costs and delivered high downstream utilization.

And as we begin 2025, I'm confident in the team at Imperial and our ability to deliver another very strong year as we continue to create significant value for shareholders by progressing on our journey to achieve the new volume and unit cash cost targets we outlined in our recent guidance. And similarly, as we look ahead in 2025, our commitment to shareholder returns is unchanged. We have demonstrated that ongoing commitment with the accelerated completion of our NCIB in December and the announcement today of our largest nominal dividend increase ever.

I'm very pleased by the operating momentum that we have carried into this new year, and I'm excited by the opportunities we have ahead of us to increase volumes, lower costs, and deliver greater free cash flow for our shareholders.

And before I wrap up, I would like to recognize Sherri Evers for her many contributions and accomplishments as part of our management committee over the last four years. Her leadership of a diverse portfolio resulted in significant progress across many key areas of the business, including her instrumental role in Pathways since day one. We wish her all the best in her new role with ExxonMobil.

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, and I'll pass it back to Peter. Thank you.

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

Operator: Thank you. If you would like to signal with questions, please press Star One on your touchtone telephone. If you are joining us today using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that will be Star One if you would like to signal with questions, Star One. And our first question will come from the line of Manav Gupta with UBS.

Manav Gupta: I wanted to start by congratulating the management on another 20% dividend hike. Brad, if my memory is right, when you took over, the quarterly dividend was close to $0.22, and now you have raised it to $0.72 during your tenure. So it does take a very strong track record of execution to achieve that. So just wanted to congratulate you on that.

My first question is on refining. Your earnings are up materially quarter-over-quarter. When we look across to US refiners, the earnings are down 50% to 70% quarter-over-quarter. Help us understand what's driving the resilience of refining here. I understand you operated at a higher rate. But still, this is in stark contrast to what we are seeing for US refiners. So if you can help us understand the resilience of refining here.

Brad Corson: Yeah. Thank you, Manav. And first, I really appreciate your recognition of the dividend increase over the last few years. That is something our organization is quite proud of, as we have continued to grow our cash flow generation abilities and obviously return that to our shareholders. So we're all quite proud of that and thanks for that recognition.

In terms of the refining strength, I'd say there's a couple of drivers there. First of all, as I've commented on the past, the Canadian refining sector, and especially our Imperial refineries are well advantaged versus US counterparts. We have access to advantaged crudes. We continue to have strong demand in the marketplace. We have exceptional infrastructure that allows us to move our products to premium outlets.

And then as you also mentioned, we had really superb utilization over the quarter, which allows us to take full advantage of the market fundamentals that we see. So when we put all that together, a very resilient and profitable downstream for us, and we're quite happy with that.

Manav Gupta: Perfect. My second is on Grand Rapids. It's clearly helping you drive production records at Cold Lake. Can you talk more about why the results of phase one actually exceeded your expectations? Any future phases as well as Leming, which can allow you to continue to grow the volumes at Cold Lake? Thank you.

Brad Corson: Yeah. Thanks for that question. We are extremely pleased with what we're seeing at Grand Rapids. Certainly, higher volumes than the funding basis that we previously shared with the market with an objective of 15,000 barrels a day. As indicated, we're seeing more in the range of 22,000 barrels a day. It's early days. We started up Grand Rapids in terms of producing volumes back in May. So we have seven months or so of production run time.

I would say our reservoir engineers are very busy analyzing those results and understanding what the implications are for future phase developments at Grand Rapids. And as mentioned, in the past, we have several phases in the future and so that's very exciting. And so I think as time goes on, we'll be able to better describe not just the long-term productivity of Grand Rapids phase one, but what it means for broader developments at Cold Lake.

Way too early to tell about Leming. We're in the process of constructing it. But again, it's super exciting and reaffirming when we can start up a production project like Grand Rapids, which, as you recall, we

accelerated by about a year. So we accelerated it and now we're seeing more production and all that adds a lot of value. So I think just an exciting signal of what's ahead for the future.

Manav Gupta: Thank you.

Operator: And the next question will come from Dennis Fong with CIBC.

Dennis Fong: Hi. Good morning, and thanks for taking my questions. I guess the first one here is I guess congratulations on another strong quarter at Kearl. I was actually hoping you could dive in a little bit more into initiatives that you're currently undergoing that are helping maintain, again, these high levels of performance. Mainly focusing on maybe a little bit around the autonomous fleet as well as some of the technological advancements that you're applying to production.

Brad Corson: Yeah, it's a great question, Dennis. And as you know, I'm super proud of what the team's been able to achieve at Kearl. And it's just been a steady result of record after record after record. And as you know from the guidance we set out in December, we are anticipating further production records, further reduction in unit cash. And the net result of that is continued growth in cash generation.

Cheryl is sitting right next to me here and she's got her hand on the wheel for Kearl. I'm going to let her make a couple comments specific to some of those growth initiatives.

Cheryl Gomez-Smith: Great. Thank you, Brad. So as Brad mentioned, we're continuing to transform our mining business. And I think it's important to start with the exceptional progress that we made in 2024 and how we're rapidly improving competitiveness. So in that space, I'll highlight a few things. We're going to continue on our journey with reliability and maintenance improvements.

The second part is around mine fleet productivity gains. And this gets to your question specifically about our HHA trucks. And I'm pleased to report that we've seen anywhere from 8% to 10% increase in productivity resulting from the automated trucks. We're going to continue with debottlenecking and

optimization, including digital initiatives. And we've got a full slate of digital that we're leveraging across the board, both within the plant as well as the mine.

And finally, I'll anchor it in. We're really building a continuous improvement culture. So it's looking for those next opportunities across all that slate. So plenty of opportunities as we look forward, but I think the most important is building on that foundation of 2024.

Brad Corson: Thanks for that, Cheryl. And Cheryl mentioned this continuous improvement mindset. And I have to brag a little bit on one example of that is around our turnaround duration. And you'll recall how just a few years ago, we were doing two turnarounds a year, each one about 35 days in duration. So about 70 days total and we took a decision to reduce from two turnarounds a year to one turnaround a year, extend that interval between turnarounds from 12 months to 24 months.

So that took us from 70 days to about 35 days. Since then, the team continues to look for ways to improve on the efficiency of those turnarounds. And this last year, they completed the single turnaround in less than 20 days. So we've gone from 70 days a year to 20 days a year and we're taking some steps in this year's turnaround to equip ourselves to potentially extend the interval even further and reduce that annual turnaround impact to something even less than what we've seen historically. So just another great example of how the team continues to capture benefits but doesn't stop there. Looks for what's next. And I think that's a good example.

Dennis Fong: I appreciate that underlying context and just the holistic approach that you're taking to development. My second question, and if you'll forgive me, taking it in a slightly different direction. You've obviously done a great job executing on projects that grow and develop existing assets within your portfolio. Can you remind me a little bit on the priorities the company has or focuses on when you're allocating capital, whether it be growth, M&A, A&D, or shareholder return? And specifically, to you, Brad, obviously, you have a prior position to this one. Historical experience with evaluating assets both within your portfolio and outside of the company, how you rank and order, and even look or evaluate how you examine your existing portfolio versus how you can make it better. Thanks.

Brad Corson: Yeah. Thanks for that question. I'll offer a few comments, and Dan may want to jump in as well. But fundamentally, on our capital allocation strategy, it is underpinned by this long-standing approach, commitment principle that we are going to return surplus cash to our shareholders. And so that starts with this reliable and growing dividend. And as you saw today, we've actioned that with another very material dividend increase.

We then look at other opportunities to efficiently return surplus cash to shareholders and so our NCIB has been our go-to for many years. And then where we've had additional capacity beyond that, we've looked to exercise an SIB, and we've done a few of those in our history and maintain the aperture for that in the future.

So that's the basic building blocks of our capital allocation. I guess I should mention debt as well. We're at a level of debt that we're very comfortable with. So we don't see really a priority to pay down debt at this point. We're at a very low level of debt leverage, so we're quite comfortable with that.

Then the question on M&A opportunities really comes to looking at potential opportunities outside our portfolio versus what we already have within our portfolio. And we're in, I think, a really unique position of having a deep inventory of really high-quality investment opportunities. And so we're allocating capital for those as they relate to the existing assets. You hear us talk about what we're doing at Kearl, at Cold Lake, what we're doing at Strathcona.

But then looking to the future, we're quite excited by the potential of the Aspen project. And so we're actively progressing a pilot project that will allow us to fully validate and commercialize the EBRT solvent technology, which we believe will significantly unlock value for Aspen relative to other solvent technologies. So that's a very material investment for us, material production growth opportunity.

So as we look at other M&A opportunities, we're comparing those to things like Aspen. And so strategically to pursue an acquisition, it needs to compete with what's already in our portfolio. It needs to

have unique synergies and be really consistent with our longer-term strategies. And that aperture is open. We have an internal team of folks that are regularly evaluating opportunities but up till now, we haven't seen anything that we believe is more value accretive than the projects within our portfolio like Aspen.

So we don't need to make an acquisition, but we're looking for something if it makes sense. So that's how I would characterize that. Dan, anything else on capital allocation?

Dan Lyons: No, I think you covered it well, Brad. But just to maybe summarize the reliable growing dividend the first place, the first stop for our free cash flow. And then we go to sustaining capital and then we look at high-return growth projects, which would include, as Brad said, potential M&A. But it's a high bar given our return expectations and our internal portfolio. And then since we're happy with our debt level after that it's return of the surplus cash to shareholders in a timely way. So no change to that. It's been our consistent philosophy for quite a while.

Dennis Fong: Great. Really appreciate the context from both of you. I'll turn it back. Thank you.

Operator: And the next question will come from Greg Pardy with RBC.

Greg Pardy: Yeah. Thanks. Good morning. Thanks for the rundown, Brad. And maybe first off, just all the very best to Sherri going to XOM. Wanted to ask you really on two fronts. One is technical, a little bit more around Cold Lake, but probably the bigger one is how are you thinking about the tariff threat that we've got going on? I'm sure you've had time to analyze that and then there's the relationship with Exxon. How well-equipped are you to withstand something like that?

And then secondly, is as it relates to shareholder returns, is it really just essentially driven by cash balances? So in other words, if we did see tariffs and cash balances still ticked up to levels where you could repurchase stock, how would you think about those? I know, very hypothetical. But obviously, just a huge issue obviously overhanging Canada right now.

Brad Corson: All right. Thanks. Thanks for that, Greg. Obviously, a lot of interest and discussion over tariffs really across all sectors, but especially energy. And as I've talked in the past, US and Canada are really strong energy partners and benefit from each other and the US heavily dependent on Canada's heavy crude. So we don't know what's going to happen with tariffs and I don't have any unique insight, but I, along with many others, have spent a lot of time educating on both sides of the border around the unique and integral energy system that exists and how that is mutually beneficial to both countries.

And so I'm hopeful that as we move forward diplomacy will prevail and we will end up with no tariffs, no restrictions on energy flow. I believe that's a win-win scenario. And anything else, any tariffs will result in negative impacts broadly to the economy and customers. So let's hope we avoid those. But I can't control that. So what we're focused on is what can we control. And what we can control is ensuring that we have the lowest cost of supply.

We have options for where we place our crude and products in the market. We're trying to do that at the lowest possible cost, and I believe that gives us unique resilience. And we obviously produce a heavy crude. We also are acquiring light crudes to meet our refinery runs. And some of those, even as we see if heavy crudes are impacted negatively with value, we would expect to see some offset of that with the light crudes that we're running in our refineries. So the strength of integration, I think, makes us much more resilient than others.

So February 1st appears to be a big day for tariffs and so we'll be watching that closely. But I am confident that we will continue to be profitable. We'll continue to generate material cash flow and be in a position to return that to our shareholders. And that clearly underpinned our decision to raise the dividend to today.

Dan, anything you want to talk about with respect to shareholder returns or anything like that?

Dan Lyons: Yeah. Yeah, Greg. You had asked if returns to shareholders and buybacks in particular would be driven primarily by cash balances or other factors like the tariffs. And I would say it's going to be primarily by cash balances, especially given our low break-evens, our ability to generate cash going forward through a range of environments, our low debt level. We don't need to have a huge amount of cash to protect us going forward. However, of course, we'll take into account the environment, whatever is happening at the time as we make those decisions. But generally speaking, our philosophy has been consistent. It's timely return of surplus cash to shareholders.

Greg Pardy: Okay. Yeah, very, very logical. And Brad, I wanted to come back to your thinking just around acquisitions versus organic. And I've mentioned before, every company seems to have significant growth initiatives underway right now. So when you weigh acquisitions where there may already be an egress solution in place versus your organic growth initiatives, where there potentially could be some limitations on pipe capacity and so forth, is that dialed into your thinking when you go through that LP model?

Brad Corson: Yeah, certainly we would look at all aspects of that. We'd look at what's the cost competitiveness of an opportunity. What's the long-term running room of an opportunity? What are any unique egress considerations? Are there unique tax pool considerations? What's the carbon intensity? So we'll take all those things into account.

And back to my earlier comment, at least up until this point, when we look at the value we see of an Aspen development, it wins relative to anything else we would see when we look at all those factors together.

Greg Pardy: Perfect. Thanks very much.

Brad Corson: Thanks, Greg.

Operator: And we have a question from Menno Hulshof with TD Securities.

Menno Hulshof: Thanks, and good morning, everyone. I'll start with a question on TMX. Can we just get an update on the status of toll negotiations? Last I heard and it's been a while, but I believe the guide from some of your peers was that it could be a mid-year event, but with all of the uncertainties, including tariffs, is it fair to assume that mid-year is too optimistic at this stage? Thank you.

Brad Corson: Yeah, Menno. Thanks for that question. I don't have a very specific update on that. Our teams are certainly directly engaged on it, but I don't have a very specific outlook on what's a refresh timing. I would say obviously that more broadly speaking, we've been very pleased with the operation, the start-up, the operation of TMX, and we are shipping on it on a regular basis. And that's really all I'm in a position to comment on at this point.

Menno Hulshof: Got it. Thanks Brad, for that. And then maybe the second question would be on Strathcona RD. In the press release, you reiterated that you're still tracking to a mid-year start-up, but can we maybe just get a bit more detail in terms of what still needs to happen to get that project across the line? And then when you think about cash flow positivity, is it possible that we see that in the second half of 2025, or is that more likely a 2026 event?

Brad Corson: Yeah, thanks for the question. We're certainly excited by this project. We view it as quite strategic for us to expand our slate of product offerings to the market. It's a really important opportunity for us to help decarbonize the industry. So we view it very positive. And as you recall, there's multiple components to the project.

At the core of the project is the manufacturing facility that we're building at Strathcona Refinery, and that construction is well-advanced. Modules have been delivered, we're in the process of hooking them up, and we expect to complete that construction in the second quarter, which would then position us to start production somewhere around mid-year.

Now, also, two other really key integral components is, first of all, the vegetable or agricultural oil supply stream. And so we have been in the process of negotiating supply arrangements, and we have sufficient

supply established for us to be able to start this unit up and then we're looking at longer-term relationships as well. So that work continues but ready to start up.

And then the third really important component is the supply of hydrogen. And so that work is underway by Air Products and also working to be in a position to supply us with initial supplies beginning in this second quarter mid-year timing. When we start up, I would expect we'll be at some reduced rates as part of a typical startup. And then over time, as we look at how to optimize each of those components with market conditions, that will determine how quickly we ramp up.

What's the ultimate product volumes, really, just like any other product in our refinery that we're constantly optimizing over time based on the cost and availability of feedstocks coupled with market conditions and demand for the product. But we feel really good about being able to start up mid-year. In terms of positive cash flow, yeah, we view this as a very profitable undertaking for us. And we would expect to see positive cash flow in the second half of this year.

Operator: And moving on to Neil Mehta with Goldman Sachs.

Neil Mehta: Yeah. Thanks so much, Brad and Team. I just wanted to spend some time on upstream cash costs where I know you guys are targeting $18 at Kearl and $13 at Cold Lake. Where are you in that journey? What's the next step? And what did this quarter tell you about your ability to ultimately get there?

Brad Corson: Yeah, thanks for the question. We're well on the journey. We're obviously below $20 at Kearl now and we're in the $14 range at Cold Lake and so well on our way. And maybe I'll ask Cheryl, just to make a couple of comments about some of the near-term initiatives that we have underway. But as we laid out that guidance back in December, we feel quite confident in being able to achieve that.

Cheryl Gomez-Smith: Sure. Thanks, Brad. So let me add a little bit more about Kearl starting with, which is when we think about what's going to enable us to get to that $18 unit cash goal, it's really about leveraging the scale that we have, as well as continued focus on reliability and optimization. So as we have that

incremental production, we're going to be leveraging basically our fixed cost structure at Kearl and that's a very powerful lever in terms of lowering our unit costs. So you heard me mention before, it's that continued focus on reliability, maintenance optimization plus deployment of digital solutions. And so that in itself will get us to improve productivity as well as lower absolute costs.

If I think about the Cold Lake side, that too is going to be leveraging our scale. And as we grow our production mix to these higher volumes, that's going to leverage that fixed cost base but we're also introducing lower cost barrels into the mix. And Brad mentioned about the progress, the early insights that we're getting from Grand Rapids SA-SAGD. As we continue this year with Leming, which are lower-cost infills, we're both growing and transforming the volumes at Cold Lake. So it's both a numerator and a denominator opportunity at both Cold Lake as well as Kearl.

Neil Mehta: Well, that's the follow-up is just the Kearl. You talked about 280 to 290 this year with the goal of getting to 300 plus. I guess the question is how plus is plus? And so just your perspective on in a capital-efficient way, how big could Kearl be in the context of the budget that you laid out?

Brad Corson: Yeah. Thanks. I'll try to answer that. I think it's too early to tell how big plus could be but the reason we shared that guidance is we do see the potential for future volumes above 300. And how much above 300 will be determined by our ability to continue to unlock cost-efficient barrels as we go forward. And we've been on this journey for five years now, if not longer, but especially the last five years where we were at around 200, 205 back in 2019. And then we've continued to take very thoughtful, very capital-efficient steps to enable us to grow that.

And as announced, we set a record last year. We set another record this year now with 281,000. And we see an increasing number of days that are above 300,000 for individual days and in some cases weeks and months. And now what the team is focused on is how can they string together more of those days, and of course, be able to offset any planned downtime like a turnaround.

So we see the potential for something above 300, but until we knock down the barriers to get us from 280 to 290 and heading towards 300, I don't know that we fully realize what that potential is. But we're going to only pursue it if it's capital efficient. But we've got a great base there with material fixed costs. So generally, if we can add additional barrels, they're going to come at a lower variable cost to us. And that adds value to the cash flow for the asset. So more work to come there. But I hope as you've seen us demonstrate over the last couple of years, we're laser-focused on it.

Neil Mehta: Thank you, Brad.

Operator: And the next question will come from Doug Leggate with Wolfe Research.

Doug Leggate: Hey. Good morning everybody. Thanks for taking my questions. Hey, Brad, Happy New Year. So I've got two break-even questions, if I may. They both might be Dan's [inaudible], but I'd love your perspective on it. First of all, someone, I think it was Manav or Greg touched on the dividend earlier. 20% is another sizable bump, obviously. But what I'm curious about is where do you see your break-even today with the capital on the growth, whether it's today or whether it's projected on where you see the growth going? How does your break-even evolve? Because that headroom for dividend growth remains a potent advantage for you guys relative to your peers.

And my follow-up is also a break-even question related to the balance sheet. You guys have got a stellar of one of the best, if not the best balance sheet in the industry, and have done for a long time. And when we think about SIB, we tend to think about the question earlier about cash balances. We don't really think about, well, yeah, but you've also got this stellar balance sheet. So I'm wondering if you could give us an idea where would you be comfortable with your balance sheet moving to over time?

And I guess if I could circle back on the dividend question, where would you be comfortable with the dividend break-even moving to overtime? I appreciate the chance to ask the questions.

Brad Corson: Yeah. Thanks, Doug. Happy New Year. I'll let Dan take those questions. But first, I would just emphasize the work we have done to grow volume to lower unit costs continues to allow us to improve our break-even. And what we're doing with the dividend is integral to that strategy. I believe we've set our break-even including dividend is about $35 a barrel. But I'll let Dan walk you through that.

Dan Lyons: Yeah. Thanks, Brad. Hey, Doug. Yeah. At the guidance call, I guess we had in December, which included, of course, our most current outlooks on volumes and capital and everything. We said our cash break-even was for WTI, US dollars less than 25, and with dividends and sustaining capital less than 35. So those are great numbers, obviously. And as Brad pointed out, our goal is to work that down through volume growth and unit cash cost reductions, which give you headroom for dividend increases and other things and keeping the break-even tight.

I would say we like the low break-evens, and we're not wedded to them. Those are pretty low, and it wouldn't stop us from growing the dividend if our break-even went up a little bit. That's a good reason for the break-even to go up as you've increased your dividend. A bad reason would be higher unit costs and things like that. So I can't give you detailed numbers except to say we're going to keep working it on the break-even side with our volumes and unit cash costs.

And on the dividend side, what we do is we look out over a future period, we put some conservative assumptions on that, and we say, okay, what dividend increase could we sustain? That's our model and that's what led to this 20% dividend increase this year and last year in fact. So with our outlook even at conservative estimates, we see room to continue to grow our dividend in a robust fashion. But we'll always be careful and make sure it's sustainable. So that's probably not getting to the detail. But hopefully, that gives you some more color on our thinking.

Doug Leggate: It does, Dan. What about the balance sheet in terms of the SIB? Because obviously, you've got a lot of headroom if you did want to take advantage of that.

Dan Lyons: I feel like we answered this question just recently. Maybe the prior earnings call, I'm not sure. Look, is it possible we could borrow to buy back shares? It certainly is. It hasn't been our practice. We've said we're happy with our debt level, about 4 billion, and we're returning 100% of free cash flow beyond that. Certainly, we would be willing to leverage our balance sheet for attractive investment opportunities, M&A, things that make sense for us. We're accretive, met our criteria. It certainly remains a possibility for buybacks. But that's not what we've historically done. So maybe I'll just leave it at that.

Doug Leggate: Yeah. Dan, I don't want everyone listening to think I'm a complete lunatic. So let me just clarify the question and I'll let you guys go. Sorry for this. So I guess the way I think about it is you can borrow at a very, very low cost to fund your projects, your growth at Kearl, and the tremendous free cash flow you have is available for the SIB. So I think about it more as leveraging for a project finance as opposed to. But at the end of the day, cash is funding. So I get it. But thank you so much, guys for the answers and I appreciate the time.

Dan Lyons: We don't think you're a lunatic, Doug.

Operator: And the next question will come from Patrick O'Rourke with ATB Capital Markets.

Patrick O'Rourke: Good morning, guys. Congratulations on the dividend increase and very comprehensive rundown so far. I'll just ask a couple of quick questions here, I guess you talked about the final steps with getting the renewable diesel facility on. There's a little bit of noise in the renewable and the LCFS market here with, I think, there's an anti-dumping lawsuit that's been launched. Can you maybe walk us through some of the puts and takes around that market? You've talked about transportation advantage to offtake for Imperial here out of the facility and how you're viewing the market and the risks right now?

Brad Corson: Yeah. Thanks for the question, Patrick. And I've talked about this a little bit in the past. There are certainly other examples of renewable diesel projects on both sides of the border that are struggling. Our project is very unique and very different and should not be characterized the same as these other challenge projects. We have multiple attributes that are quite favorable to our economic proposition,

starting with the fact that we are building this renewable diesel facility within our existing Strathcona facility, which gives us tremendous economies of scale. Unique aspects to utilities, to rail facilities, all those sorts of things that allow it to be more efficient than a standalone facility somewhere else. So that's a big plus for us.

Secondly, we are building it to process agricultural crops and oils from them that are readily available in close proximity. And so the transportation cost for those oils is quite affordable, quite efficient. We're also leveraging proprietary catalysts from ExxonMobil that will allow us to produce a premium product relative to its utility over a wide range of operating conditions, especially cold weather. And so that allows it to be a 100% drop in fuel for regular diesel does not have to be blended as much. It can be, but doesn't have to be, and also can be used year-round versus just seasonally.

So all those things are advantaged. On top of that, what also underpins the economics is we already have in our product offering a base-level demand for renewable fuels to blend. And so today, we purchase those on the market. In the future, we'll now be producing them ourselves and more cost-efficiently than buying from somebody else. So that enhances the economics.

Certainly, a lot of questions about what's the future of the carbon market. I would just offer there that we plan to sell this product into multiple provincial markets, which many of them have their own stated carbon policies and requirements for low carbon fuels. So when I put all that together, we continue to believe we have a differentiated offering here relative to others. So I hope that helps clarify that.

Patrick O'Rourke: Yeah. No, that's terrific and very comprehensive. And then just secondly, and this on the political front here, but with a prorogation in Parliament and potentially a bit of shift in sentiment towards carbon here from both sides of the political spectrum. I'm wondering if you can provide an update on the Pathways project here. I know that there were some of the critical long lead time items that need to be ordered in very short order and what the plan is with respect to that, as we head towards the end of the year.

Brad Corson: Yeah. Patrick, that's a great question. An important opportunity for me to reemphasize that the six companies that have formed together the Pathways Alliance and have been working together for multiple years, continue to see the importance and the value of decarbonizing our industry. And that's what brought us together. And irrespective of political parties, we believe that's important.

We in Canada, I think, are blessed with a tremendous endowment of resources. Third largest oil reserves in the world. And that puts us in a tremendous position to support energy availability globally. But to be competitive and sustainable long term, our view is we need to be cost competitive, and we need to be carbon competitive. And so to be carbon competitive over the long term, we need to continue to look to decarbonize.

So our discussions with the governments, federal and provincial, continue as we look to establish all the necessary fiscal support and regulatory policy support so that we can progress an investment. We still have work to do there. We're not at the point yet of committing to the pipe, which is the first critical step. And as you point out, there is some urgency around that based on our original objective of a 2030 start-up.

And as time goes on, it becomes increasingly difficult to meet that start-up timing. But we continue the work, and we continue the engineering work, we continue the permitting work, we continue the environmental studies, we continue the indigenous collaboration, all with an objective of moving this project forward as timely as we can because we think it's important. So more to come. Hopefully, we'll get further clarity from the governments on these open items, and we can move forward.

Patrick O'Rourke: Thank you.

Operator: Thank you. And that does conclude the question and answer session. I'll now hand it back over to Peter Shaw for any additional or closing remarks.

Peter Shaw: So thank you, everybody. And on behalf of the management team, we want to thank you for joining our call today. If you have any further questions, please don't hesitate to reach out to anybody on the IR team. And we'd be happy to answer your questions. And with that, thank you very much, and have a great day and great weekend.

Operator: Thank you. And that does conclude today's conference. We do thank you for your participation and have an excellent day.

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

	Fourth Quarter		Twelve Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**1,789**	1,311	**5,981**	3,734
Less changes in working capital				
Changes in operating assets and liabilities	**139**	(488)	**(495)**	(2,701)
Cash flows from (used in) operating activities excl. working capital	**1,650**	1,799	**6,476**	6,435

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

	Fourth Quarter		Twelve Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**1,789**	1,311	**5,981**	3,734
Cash flows from (used in) investing activities				
Additions to property, plant and equipment	**(423)**	(470)	**(1,867)**	(1,785)
Proceeds from asset sales	**18**	57	**25**	86
Loans to equity companies - net	**1**	2	**17**	5
Free cash flow	**1,385**	900	**4,156**	2,040

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 fourth 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

	Fourth Quarter		Twelve Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
From Imperial's Consolidated statement of income				
Total expenses	**11,032**	11,369	**45,293**	44,600
Less:				
Purchases of crude oil and products	**7,888**	8,317	**33,184**	32,399
Federal excise taxes and fuel charge	**627**	621	**2,535**	2,402
Depreciation and depletion	**529**	489	**1,983**	1,907
Non-service pension and postretirement benefit	**—**	22	**3**	82
Financing	**4**	18	**41**	69
Cash operating costs	**1,984**	1,902	**7,547**	7,741

Components of cash operating costs

	Fourth Quarter		Twelve Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
From Imperial's Consolidated statement of income				
Production and manufacturing	**1,729**	1,672	**6,599**	6,879
Selling and general	**255**	228	**945**	857
Exploration	**—**	2	**3**	5
Cash operating costs	**1,984**	1,902	**7,547**	7,741

Segment contributions to total cash operating costs

	Fourth Quarter		Twelve Months	
millions of Canadian dollars	**2024**	2023	**2024**	2023
Upstream	**1,203**	1,189	**4,647**	4,922
Downstream	**665**	610	**2,447**	2,395
Chemicals	**81**	94	**289**	349
Eliminations / Corporate and other	**35**	9	**164**	75
Cash operating costs	**1,984**	1,902	**7,547**	7,741

Unit cash operating costs (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 costs

	Fourth Quarter							
	2024				2023			
	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
millions of Canadian dollars								
Production and manufacturing	**1,203**	**514**	**285**	**359**	1,187	493	276	377
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**—**	**—**	**—**	**—**	2	—	—	—
Cash operating costs	**1,203**	**514**	**285**	**359**	1,189	493	276	377
Gross oil-equivalent production (thousands of barrels per day)	**460**	**212**	**157**	**81**	452	218	139	85
Unit cash operating cost ($/oeb)	**28.43**	**26.35**	**19.73**	**48.17**	28.59	24.58	21.58	48.21
USD converted at the quarterly average forex *2024 US$0.72; 2023 US$0.73*	**20.47**	**18.97**	**14.21**	**34.68**	20.87	17.94	15.75	35.19

Components of unit cash operating costs

	Twelve Months							
	2024				2023			
	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
millions of Canadian dollars								
Production and manufacturing	**4,644**	**1,973**	**1,094**	**1,414**	4,917	2,097	1,144	1,533
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**3**	**—**	**—**	**—**	5	—	—	—
Cash operating costs	**4,647**	**1,973**	**1,094**	**1,414**	4,922	2,097	1,144	1,533
Gross oil-equivalent production (thousands of barrels per day)	**433**	**200**	**148**	**75**	413	191	135	76
Unit cash operating cost ($/oeb)	**29.32**	**26.95**	**20.20**	**51.51**	32.65	30.08	23.22	55.26
USD converted at the YTD average forex *2024 US$0.73; 2023 US$0.74*	**21.40**	**19.67**	**14.75**	**37.60**	24.16	22.26	17.18	40.89

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