Imperial Oil Limited
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Transcript

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Operator: Good day, and welcome to the Imperial Oil First Quarter '24 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Peter Shaw, Vice President, Investor Relations. Please go ahead, sir.

Peter Shaw: Good morning, everybody. Welcome to our first quarter earnings conference call. I'm 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 Simon Younger, 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 VI of our most recent press release and are available on our website with the link to this conference call. Today's comments may also contain forward-looking information. Any forward-looking information is not a guarantee of future performance and actual future 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 first quarter earnings release that we issued this morning as well as our most recent Form 10-K. All these documents are available on SEDAR plus, EDGAR and our website, so I'd ask you to refer to those.

Brad is going to start this morning 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. Good morning, everybody, and welcome to our first quarter earnings call. I hope everyone is doing well, and the year is off to a good start for you. Today, I'm very pleased to report that we sustained the strong operating momentum from the past several quarters and the organization has delivered another very strong quarter to start 2024.

Kearl had a fantastic quarter and delivered more records with the highest first quarter production in the asset's history. And Cold Lake is getting very close to first production from Grand Rapids phase one, which, as you may recall, is the first deployment of Solvent-Assisted SAGD technology in the industry, and we're very excited about that. Our downstream and chemicals businesses also ran well over the quarter and contributed very solid earnings.

Overall, we feel really good about the strong start to the year. We are well positioned to meet our guidance for the year and continue delivering significant value to our shareholders by returning surplus cash through our reliable and growing dividend and industry-leading share repurchase programs.

Over the next few minutes, Dan and I will detail the results of this very strong quarter.

Earnings for the quarter were $1,195 million, with cash from operating activities of $1,521 million when excluding the impact of working capital. From an earnings perspective, this represents the second best first quarter in company history. Throughout the quarter, the commodity price environment remains strong, and our financial results continue to reflect exceptional operating performance, which included a number of records across both our upstream and downstream business lines.

In the Upstream, we achieved total production of 421,000 gross oil equivalent barrels per day in the first quarter, underpinned by record performance at Kearl, which delivered 277,000 total gross barrels per day of production, which, as I mentioned, was the highest first quarter production in the asset's history. I'll talk about each asset in more detail in a few minutes.

In the Downstream, we continue to see strong operating performance as well. Refining throughput averaged 407,000 barrels per day, which equates to a refinery utilization in the quarter of 94% and included record first quarter throughput at our Nanticoke refinery. Crack spreads strengthened over the quarter with improving gasoline fundamentals, and we continue to capture additional margin from advantaged Canadian crudes.

With that, I'll pass things over to Dan.

Dan Lyons: Thanks, Brad. Starting with financial results for the first quarter. We recorded net income of $1,195 million, a decrease of $53 million from the first quarter of 2023, primarily reflecting lower margins in the Downstream, partly offset by higher realizations in the Upstream. Looking sequentially, our first quarter net income is down $170 million from the fourth quarter of 2023, reflecting an expected seasonal decrease in upstream production volumes.

Now looking at each business line. Upstream earnings of $558 million are down $212 million from fourth quarter earnings of $770 million, driven primarily by lower production volumes. Downstream earnings of $631 million are up $36 million from fourth quarter earnings of $595 million, mainly reflecting higher refining margins, partly offset by lower product sales volumes.

Finally, our chemicals business generated earnings of $57 million, up $40 million from the fourth quarter, reflecting the absence of the Sarnia gas cracker turnaround that was completed in the fourth quarter.

Moving on to cash flow. We ended the quarter with about $1.2 billion of cash on hand. In the first quarter, we generated about $1.1 billion in cash flows from operating activities. Excluding working capital effects of about $450 million, cash flows from operating activities in the quarter were about $1.5 billion, down about $30 million from the first quarter of 2023. Cash flows from operating activities were also impacted by unfavorable LIFO WAC deferred tax impacts, driven by higher commodity prices in the first quarter of 2024 as compared to the fourth quarter of 2023.

As a US GAAP LIFO reporter, we tend to see negative inventory-driven deferred tax impacts when prices rise and positive impacts when prices fall.

Now we'll discuss CAPEX. Capital expenditures totaled $496 million in the first quarter, up $67 million from the first quarter of 2023 and remain in line with our plans and full year guidance of $1.7 billion. In the Upstream, first 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, first quarter spending mainly included progressing our renewable diesel projects at Strathcona.

Shifting to shareholder distributions in the first quarter of 2024, we paid $278 million of dividends. Reliable and growing dividend is the cornerstone of our cash distribution strategy. And this morning, we declared a second quarter dividend of $0.60 per share payable in July, consistent with our first quarter dividend. We continue to demonstrate our longstanding commitment to delivering industry-leading returns to our shareholders, and we are positioned to deliver 30 consecutive years of dividend growth this year.

Additionally, in line with our longstanding philosophy of returning surplus cash to shareholders, we intend to file for renewal of our normal course issuer bid in late June 2024, consistent with prior years. Under the terms of the NCIB, Imperial Oil would be permitted to repurchase up to 5% of its outstanding common shares during the ensuing 12 months.

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

Brad Corson: Thanks, Dan. Upstream production for the quarter averaged 421,000 oil equivalent barrels per day, which is down 31,000 barrels per day versus the record fourth quarter and up 8,000 barrels per day versus the first quarter of 2023. The first quarter reflects expected seasonal factors driven by winter weather conditions. Overall, this is a very strong quarter and a great start to the year.

Over the quarter, we saw WTI prices soften slightly, but the WTI-WCS differential did tighten with the net result being stronger realizations for our bitumen. A key factor is the approaching startup of TMX, which will provide significant additional capacity for egress out of the Western Canadian basin. And as we've seen this past quarter, the anticipated structural tightening of Canadian crude differentials is already being realized.

Completion of infrastructure projects such as TMX are crucial to the competitiveness and growth of the country's energy industry and the strength of the Canadian economy. Going forward, we do expect to see a narrower WCS differential that will further support strong value delivery from our Upstream and a net benefit to Imperial.

So now let's move on and talk specifically about Kearl. Kearl's production in the first quarter averaged 277,000 barrels per day gross, which was down 31,000 barrels per day versus the fourth quarter and up 18,000 barrels per day from the first quarter of 2023.

This represents the best-ever first quarter performance at Kearl, surpassing the previous record of 259,000 barrels per day in the first quarter of 2023 by a wide margin. Improving our winter operating performance has been a key focus for our Kearl team over the past few years as we take learnings from the extreme cold weather challenges we experienced in early 2022. We have been diligent in applying these learnings to our processes and procedures, which has enabled the team to deliver January monthly production rates that were nearly 90,000 barrels per day gross higher than January of 2022. This is especially noteworthy because we had multiple weeks this January where the temperature was actually colder than in 2022.

And then we followed up January with record monthly production in both February and March. And although, this month of April is not over yet, we are on track to set another record, which is positioning us very well to deliver on our full year guidance of 280,000 barrels per day gross. I would also like to remind everyone that Kearl's annual plant turnaround is going to start late next week and run through the month of May.

Our team has been working hard at optimizing the scope and execution of our annual turnarounds at Kearl and has been successful in reducing both the cost and the duration of our turnaround this year compared to prior years. This work is anticipated to enable us to complete this year's turnaround at a lower cost and with lower impact to annual production compared to prior years, which has been reflected in our turnaround guidance for 2024.

Lastly, turning to operating costs. Kearl continues to make significant progress on its journey to achieving an annual unit cash cost target of below US$20 per barrel.

Unit cash operating costs in the quarter were US$20.66 per barrel, which is a great achievement. Compared to the first quarter of 2023, unit costs are down over US$4 per barrel and compared to the first quarter of 2022, down nearly US$14 per barrel, which demonstrates the progress Kearl has made in reducing its cost structure and improving reliability.

I would also note that when you normalize for energy costs and forex back to 2020, which is when we set the $20 per barrel target, the first quarter unit cost would be around $19.50 per barrel. Overall, Kearl has delivered an incredibly strong quarter and is positioned to have a strong back half of the year once our planned turnaround completes in May.

So now turning to Cold Lake. Cold Lake production for the first quarter averaged 142,000 barrels per day, which was 3,000 barrels per day higher than the fourth quarter and 1,000 barrels per day higher than the first quarter of 2023. You may recall that we went through an extended period of lower production in 2023 due to steam cycle timing. So I'm very pleased to see strong performance in the first quarter with production back above 140,000 barrels per day. I'm confident in Cold Lake's ability to meet our guidance for the year.

Moving to the Grand Rapids Phase One project. Throughout the first quarter, we continued to progress the initial steam injection phase, and I'm pleased to share that we are now very close to the finish line and expect production to begin ramping up in the coming weeks. This has been a tremendous journey for us as we work hard to bring on production from industry's first-ever SA-SAGD development, which, as many of you may recall, we actually accelerated by one year, given the strategic value of this project. Grand Rapids Phase One is an important step in our strategy to transform Cold Lake by progressing capital-efficient projects that deliver lower cost and lower emission production.

By using SA-SAGD technology, Grand Rapids is expected to deliver 15,000 barrels per day of production at an emissions intensity that is 40% lower than the technology in use today while also reducing Cold Lake's overall unit cost by about US$1 per barrel. So right now our Cold Lake team is laser-focused on getting Grand Rapids Phase one over the finish line, and I look forward to celebrating the first production milestone in the very near future.

Before I move on to Syncrude, I just want to take the opportunity to provide a brief update on our Leming redevelopment project, which is another important growth project for us at Cold Lake. The focus for this year continues to be on facility construction and well completions, which are progressing on plan for start-up in 2025 with projected average production of about 9,000 barrels per day at peak.

Now a few comments on Syncrude. Imperial's share of Syncrude production for the quarter averaged 73,000 barrels per day, which was down 12,000 barrels per day versus the fourth quarter and down 3,000 barrels per day versus the first quarter of 2023, primarily due to unplanned maintenance and lower bitumen recovery levels.

In order to continue to maintain high upgrader utilization rates throughout the quarter, Syncrude leveraged the interconnect pipeline system to import bitumen and produce about 10,000 barrels per day, our share of incremental Syncrude Sweet Premium.

I would also like to highlight that the annual coker turnaround began during the final days of the quarter and is expected to run through the end of May.

At this time, we expect the annualized volume impact of the turnaround to be consistent with our annual guidance for the year, which is around 6,000 barrels per day our share impact on a full year basis.

Now let's move on and talk about the Downstream, which is another positive story for us. In the first quarter, we refined an average 407,000 barrels per day, which was flat with the fourth quarter and down 10,000 barrels per day versus the first quarter of 2023, reflecting a utilization of 94%.

As I mentioned earlier, our Nanticoke refinery achieved its highest-ever first quarter throughput. In addition to strong operations, our Downstream business benefited from improving crack spreads over the quarter. I really believe the strength of our Downstream results this quarter clearly demonstrates the value of integration between our business lines, which remains a source of differentiation and a significant competitive advantage for us.

Within the second quarter, there are planned turnarounds at both our Sarnia and Strathcona refineries. The Sarnia turnaround began in early April and will be complete in the coming days. While the Strathcona turnaround began in mid-April and is expected to be complete by mid-May. Both turnarounds are currently tracking in line with our guidance for the year. At our Strathcona refinery, construction work continues on Canada's largest renewable diesel facility with a number of process unit modules arriving on site, including the 155-foot-tall main reactor, which weighed over one million and was fully installed this quarter.

Overall, we made a lot of progress on construction over the past few quarters, and it's hard to believe that less than a year ago, we’ve just started talking about mobilizing our contract workforce. And looking at the site today, everything is really coming together nicely, and the facility is starting to take shape.

On the feedstock side, we continue to execute our contracting strategy to ensure adequate supply to the facility. As we have shared previously, the main source of feedstock for the facility will be from crops in Western Canada.

We also want to thank the government of Alberta for the recent recognition of the project's benefits to the agricultural industry through the agro processing investment tax credit program. Imperial's facility will provide an important new lower emission offering to Canada's transportation sector in support of our collective greenhouse gas emissions reduction goals.

Petroleum product sales in the quarter were 450,000 barrels per day, which is down 26,000 barrels per day versus the fourth quarter and down 5,000 barrels per day versus the first quarter of 2023.

We continue to see steady refined product demand with gasoline and diesel at approximately 90% of historical range and get at about 100%. I also wanted to highlight the continued strong performance of our retail brand in the market. Based on recently published data, our Esso-brand has now achieved the leading market share in Canada on a stand-alone basis. This builds on our previous position of holding the leading market share when combining our two retail brands, Esso, Mobil. This significant achievement has been enabled by the hard work our teams into build and develop strategic partnerships with best-in-class convenience retailers as well as Canada's leading loyalty program, PC Optimum.

I'm very proud of this achievement, and we're committed to continuing to enhance our brand and product offering to further strengthen our market position. During the quarter, we made the decision to proactively replace a section of the Winnipeg products pipeline following routine inspections that identify increased strain on the pipeline where it crosses the Red River, which we believe to have been caused by ground movement on the River bank. Imperial is committed to the safety and integrity in all of our operations, and we made this important decision to ensure the continued integrity of the line.

Our team has worked hard to upgrade our logistics network in the region and has added rail offloading capability to our Winnipeg terminal, which will help to ensure the continued supply of fuel to the region and minimize disruption to our customers while maintenance work is completed. Currently, we have begun horizontal drilling work to replace a segment of the pipeline and drilling activity will take place over several weeks. Imperial has extensive experience using horizontal directional drilling technology.

And we will be working very closely with provincial regulators while the work is executed and providing regular updates to the community. Overall, the work remains on schedule and within our original time frame of a return to service in June. Until that time, we will continue to take the necessary steps to ensure the reliable fuel supply to Winnipeg and the surrounding area. I'd like to thank our partners and government, our neighbors and the surrounding communities and our customers for their understanding and patience as well as our employees and contractors that are working around the clock to return the pipelines to service.

Turning now to Chemicals. Earnings in the quarter were $57 million in the first quarter, which was up $40 million versus the fourth quarter and up $4 million versus the first quarter in 2023. The higher earnings were driven by the absence of the gas cracker turnaround that occurred between mid-September and the end of October last year.

Before I wrap up, I would also like to highlight that the Pathways Alliance continues to make progress on the engineering and design of the proposed carbon capture and storage projects with regulatory filings beginning in March, starting with transportation network applications. This is an important milestone as we continue to work with governments to advance the plans for this very important project. In parallel, we continue to have constructive discussions with the federal and provincial governments in order to finalize the fiscal frameworks necessary to ensure the investability of these important projects and to support Canada's ambition to achieve net zero by 2050.

Wrapping up, this was another strong quarter and an excellent start to the year, underpinned by reliable operations across our integrated business model, and in particular, the continued progress Kearl has made in growing production and reducing its cost structure.

I would also like to thank our entire workforce for their hard work and commitment that has supported these results. As we start the second quarter, we have a higher level of planned turnaround activity, and we will be very focused on executing this work safely and efficiently. I'm also very excited that we are close to seeing first production from Grand Rapids and the continued progress of our Strathcona renewable diesel project. All projects are an important part of our commitment to continue to deliver energy that society needs while generating value for our shareholders and reducing emissions.

As I look ahead, I remain confident in our ability to deliver on our commitments and achieve our guidance for 2024, and I look forward to continuing to bring you updates throughout the year. 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 it if you could limit yourself to one question, plus a follow-up, so that we get to answer as many questions as possible. So with that, operator, could you please open up the call for the first question?

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 Manav Gupta, UBS.

Manav Gupta: Congrats on a very strong quarter again and all the records you set at Kearl. My question here relates to the start-up of TMX. Look, on paper, it looks like Upstream and Downstream volumes match each other, but you have a very unique portfolio where the Upstream is a lot more levered to the bitumen prices, which are heavy and the Downstream uses a lot less WCS and other kinds of crudes. So technically, as TMX starts up, there will be a compression of differentials, but you'll see more in on the heavy side and somewhat modest on the light side. So your Upstream technically should benefit a lot more. And the Downstream, there will be a little bit of a hit, but not as much. So can you talk about the portfolio as it relates to the start-up of TMX and contracting differentials?

Brad Corson: Yes. Thanks for the question, Manav. And I think you've characterized it quite accurately for us. TMX is going to be very advantageous not just for the industry, but for Imperial overall. Our production, of course, is heavily weighted towards heavy crudes, and that will be kind of the key focus of shipments on TMX as it expands its capacity significantly. And we will obviously benefit from both the flexibility to ship crudes on that system, but more importantly, the overall impact it will have on tightening the differentials.

And as I mentioned in my prepared remarks, we've already seen that tightening occurring by several dollars a barrel, and we expect that to continue with the imminent startup of the system. We do, of course, as a refiner, Canada's largest refiner, we do consume a lot of crudes in order to manufacture our products. The crudes we refine, although there are a mix of heavy crude, synthetic crudes and light crudes are more kind of leveraged towards the lighter crudes, which will see some impact to the differential, but not as much as what we're seeing on the heavy crude. So net-net, we are a significant beneficiary of tighter differentials. So TMX is very positive for us.

Manav Gupta: Perfect, sir. My quick follow-up here is, a few years back, you had a project – growth project, Aspen, which you decided for multiple reasons was not the best investment at that time. And one of the reasons was the volatility of the differentials. If the volatility is gone for probably five, seven, eight years, is there a possibility you could go back and take a look at that project and say, we can move ahead with Aspen.

Brad Corson: Yes, it's a really good question. You know, Aspen is a very high-quality resource for us, and there are – there were several considerations for us deciding to temporarily pause that project a few years ago. Certainly, one of them was volatility. More importantly, I would say, was concerned with egress and our ability to access kind of full value markets for the crude that would be produced from Aspen. Also, I think, significant uncertainty in the regulatory environment at the time.

As we sit here today, we are seeing clearly an improvement in those fundamentals. On top of that, we have been continuing to progress our own proprietary research around technology to develop Aspen using solvents. We have a new technology that we've developed called EBRT, Enhanced Bitumen Recovery Technology. And we see as having a potential application to Aspen and potentially resulting in lower costs, lower greenhouse gas intensity, lower operating costs significantly lower water use. So a lot of benefits across all of the key metrics.

And so we've developed that technology in our research laboratory right here in Calgary, and we're now moving to develop a commercial pilot test of that technology.

And that will take us a few years. But certainly, we see that as having the potential to really enhance the value of that development. So that's our current focus is making sure we can develop that project in a way that maximizes value to all of our stakeholders. So more to come on that.

Manav Gupta: Thank you so much.

Operator: Your next question comes from Menno Hulshof, TD Cowen.

Menno Hulshof: Thanks, and good morning, everyone. I'll start with a question on Kearl, where you've clearly had another very strong quarter. You've talked about secondary recovery and mine optimization, driving an increase in capacity to potentially 300,000 barrels per day. So I guess the question here is, when do you think you'll be in a position to formally increase mainly to 300. Is that still the right number? Or could we see you stretch to something beyond that, call it, 310 or 320. Thank you.

Brad Corson: Yeah. Thanks for the question, Menno. And as you would have heard in my prepared remarks, I'm super proud of what we've been able to achieve at Kearl. Every quarter we continue to set new records to the point where I think everybody is expecting that quarter after quarter, but we have to not lose sight of the fact there's a lot of hard work that goes into setting these records each quarter. It's not something anybody should take for granted. Certainly I don't take it for granted. It is a direct reflection of the hard work and commitment of our workforce, and I'm completely proud of them for doing that.

I do think we are going to continue to see greater levels of production from Kearl over time, and I believe we're going to continue to achieve lower unit operating costs. And when you put those two together, we're going to continue to generate more and more value from Kearl.

Specific to your question about the details around 300 could it be even more than 300. The teams are working on that every day. It's taken many individual projects and initiatives to get us to 270 last year, continuing to 280 this year. And it's the same to get us ultimately to 300. So the team is working on outlining those plans.

And when we hold our Investor Day later this year, I would expect we'd be in a position to lay out much more detail. I would maybe temper your expectations about something beyond 300 at this point. That doesn't mean we don't aspire to that because we absolutely do, but we got to take it one step at a time. This is a large asset, and there's a lot of complexity to it. But again, we're working through those individual components one step at a time, and that's how you've seen us get to 270 to 280 and beyond.

So we look forward to sharing kind of the details of those plans because they're quite material to us. Thanks for the question.

Menno Hulshof: Thanks for that, Brad. And the second question relates to IT. We've seen a few companies go through some pretty significant and costly upgrades to reduce cyber risk, improve data aggregation and the like. Is that something we may see from Imperial? Or do you feel like you're already in pretty good shape on that front.

Brad Corson: Well, you know, in terms of technology and data analytics in general, that's something we continue to work on every day. I mean that is an underpinning component of our success with higher volumes. Our success with lower unit operating cost is to apply technology. We've talked at our Investor Day in the past about the potential for digital applications to improve or lower our operating costs by $500 million additional value. I think the last time we reported up to $1 billion.

We continue to see that opportunity set continue to grow. And we're working on that within Imperial. We also leverage ExxonMobil and all the work they do around technology, including data analytics. So again, that's an integral part of what we do.

Specific to cybersecurity, that is also something we take very seriously. We recognize the growing threat of cybersecurity in our society. And we have a team of experts, both locally and working jointly with ExxonMobil to ensure we are employing the latest safeguards around cybersecurity events, and I'm quite pleased to report that we have not experienced any direct cybersecurity events, and we're going to continue to keep that vigilance, but that's something we have to continue to work on every day.

Menno Hulshof: Thanks again. I'll turn it back.

Operator: Thank you. And our next question comes from Dennis Fong CIBC World Markets.

Dennis Fong: Hi, good morning, and thanks for taking my questions. My first one is just on Grand Rapids. I know it's still very early stage, and you are currently seeing the project as you highlighted in your prepared remarks. I was just wondering how the progress is in terms of the steaming, how that could potentially translate to production ramp-up in the ultimate production in the first phase? And then on that, how would you feel – or how – what would be needed for you to feel comfortable around potentially sanctioning the second phase?

Brad Corson: Yeah. Thanks for the question, Dennis. I mean, we're quite pleased with the progress that we're making at Grand Rapids. As we've described in the past, the first phase to starting up this SA-SAGD development is with steam injection into the reservoir to fully heat it up before we would start producing back oil. So we started that work late last year with the first pad or set of well pairs. And then a couple of months later, this year, we started with the second pad in group of wells. That is going exactly as we anticipated.

And consequently, we would expect sometime early next month to start some of the initial production, and it will be a phased process over several months as we convert from this steam phase initially to installing the pumps and the wells and then gradually start bringing them on.

And so we'll start to see production next month, and we'll ramp it up over the course of the year. We would certainly expect by the time we get to the fourth quarter that we would be at the 15,000 barrel a day rate.

And then in terms of sanctioning the next phase, that's something our teams are working on. We see a lot of potential at Grand Rapids and the potential for several more phases. We want to make sure we capture all the learnings from this first phase before we start implementing the second phase. But that's something, as we gain experience over the course of this year, we'll be starting to bring that kind of internal to our planning process. And that's something we'll be talking more about when we get to Investor Day. But I'm quite encouraged by the potential of Grand Rapids.

Dennis Fong: Great. I appreciate that color and context. I wanted to shift, frankly, towards digital and AI technology. I appreciate we'll call it part of your answer to Menno's question may have also partially answered this. But at the Investor Day in the past, you've highlighted the digital twin of the Kearl facility. I wanted to understand if there were any kind of further takeaways now that you've had a few years of operation with both the model versus real-time operations and maybe how that specifically improved your understanding on the ability to drive stronger utilization of the facility and/or lower cost, both operating and/or maintenance.

Brad Corson: Yeah. Thanks for that question, Dennis. And the digital twin is an extremely cool concept and something that has a lot of value to us as we think about future optimizations at Kearl. Simon's here with me, and maybe I'll ask Simon just to make a couple of comments about our experience with that and where it may take us.

Simon Younger: Yup. Sure. Thanks, Brad. We've – as you referenced, we've had the digital twin at Kearl up and running for a couple of years now, and we've actually also implemented at most of the Cold Lake plants as well. So it's been a hugely successful technology for us. It's helping us both improve costs as you referenced, but also improved production. So it's allowing us to do several things, for example, improve the efficiency and effectiveness of our maintenance planning, improve the efficiency and effectiveness of our project execution and implementation, and it's also allowing us to optimize production using AI, optimize recovery rates, optimize steam flood injection rates, optimize water balance as a Cold Lake examples.

And the technology actually is broadening beyond us and is sort of gaining widespread use in ExxonMobil as well leverage certainly in part by our experience here at Kearl and Cold Lake. So very much a success story, impacting the bottom line, both from a cost and a production standpoint.

Dennis Fong: Great. Appreciate the call and context. I'll turn it back.

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

Neil Mehta: Yeah, good morning Brad. And team two quick questions for me. Just one on return on capital that's been a hallmark of your leadership. As we think about the timing of share repurchases, how do you think about the NCIB? I guess that starts up here in the next couple of months. And then the SIB, if we follow the cadence for the last couple of years, it's fair to assume we'll get that later this year if the commodity stays this strong or is there potential for sneak-in in the first half of the year. So that would be my first question.

Brad Corson: All right. Thanks, Neil. Well, Dan loves to talk about capital distribution and share buybacks. So I'll let him talk a little bit about the cadence that we see.

Dan Lyons: All right. Yeah, Neil, as I mentioned on the call, we will – we fully intend to file for renewal of our NCIB in late June as we always have. And the last number of years, we've accelerated that NCIB. It gives us the right to buy 5% over a full year from when we file. And last number of years, as you pointed out correctly, we've done an SIB or two. And I would say, as demonstrated by our record, we remain totally committed to returning surplus cash to shareholders.

And what's going to drive the timing whether we accelerate the NCIB, whether we do an SIB or something else is going to be the commodity price environment, as you rightly point out. And I would say, right now, that's pretty attractive. And if things – prices stay where they are, we would expect to see our cash flow grow pretty significantly over the course of the year.

So we're committed to returning surplus cash. We can't say exactly when that will happen because it depends on market factors, but I think you can see over the last few years, as we generate, we'll send it home to our beloved shareholders.

Brad Corson: So Dan, that continues to be quite optimistic as good.

Neil Mehta: That's great. Well, thank you. And then the follow-up is on the pathways project, Brad, you and I've talked about this a lot. There's a lot of this project that we love, including the ability to decarbonize the oil sands. The one outstanding concern that we get from a lot of investors is the history of cost overruns in Western Canada, whether it's oil sands or Coastal Gas Link or certainly TMX and LNG facilities, given the tight labor market and equipment market. So just your perspective on how do we get it right on the front end to make sure that contingencies are built in. So when you ultimately move forward with the project that we don't have a repeat of the challenges of the past.

Brad Corson: Yeah. Thanks for that question. And obviously, there is a sorted history of large infrastructure projects in the country. And you could probably make the same generalization globally. I think what's different about pathways and what I believe will differentiate this project is, first of all, kind of the strength of bringing our six-member companies together and leveraging all of our collective experiences with project execution.

On top of that, key factors here in Canada have been around regulatory approvals and other interferences and delays. We're trying to address as much of that upfront as we can in order to minimize it because it's in everybody's best interest for us to deliver these projects not just on time or timely, but also at the lowest possible cost. And so that's what we're working hard on.

We've got lots of people working on the project design, planning, assumptions. And we're going to continue to test those across a range of scenarios. And we're going to – as we always do with major projects is apply reasonable contingencies into that planning basis. But above all else, I think what's most important for the Pathways project and for our collective objectives between us and the government is for us to get on with this project and to start moving it forward because it does have many components to it. There's the individual capture projects, many of those. There's the large pipeline. There's the sequestration hub. And so we need to be able to execute that work in a very kind of staged and organized way and not let schedule ultimately drive the time line for the project.

We need to have time to do what's needed to be most cost-effective and not let a deadline become the determining factor because there will be many thousands of workers that we will need to employ to execute this project. And so again, we need to do that in the states in orderly fashion or also will drive significant cost increases. So again, it all comes down to have a well thought-out and orderly plan and then being able to execute to that plan. But I'm optimistic we could achieve that.

Neil Mehta: Brad, one quick follow-up is do you believe that we're on track to maybe not maybe officially FID this project to put an order for pipe or to make a big step forward in this calendar year, by the end of this year? Or it's still too early to call.

Brad Corson: Well, that's certainly an objective. And that is – it's critical for us to make a mill reservation for the pipe order by the end of the year in order for us to achieve the 2030 start-up timing that we've laid out. I'm encouraged by the discussions that are ongoing between the pathways member companies and the provincial and federal governments. But we still have work to do. But I think everybody is committed to that time line. And so I continue to be optimistic.

Neil Mehta: Okay. Thank you, sir.

Brad Corson: Thank you.

Operator: Your next question comes from Patrick O'Rourke, ATB. Please go ahead.

Speaker: Hi, good morning. It's [inaudible] here on standing for Patrick. Thanks for taking my question. First question I wanted to ask here was on operating costs, up slightly year-over-year at Cold Lake materially down a bit or at Kearl. How much is energy cost playing into that? And what's the key driver for the improvement at Kearl? What's left to do there?

Brad Corson: Yeah. Thanks for the question, Patrick. We talk about operating costs pretty much on every earnings call because it is a key priority for us. I'm quite pleased with the progress we're making at Kearl. There's many components that go into Kearl's cost structure. You know, one of the most significant ones we've talked about of late is the autonomous haul trucks. And over the course of the last couple of years, we've been gradually converting that fleet to entirely driverless, and we completed that work late last year. And our assessment is that's contributing at least $1 per barrel savings to our cost structure. But that's just one of many things.

I talked a little bit about our turnaround plans for this year. That's been an ongoing focus for us. Dating back a few years now, where we went from two turnarounds to one turnaround per year, that's saved several tens of millions of dollars for us.

Now we're on this cadence of one turnaround per year, but we're looking at how we can do that more efficiently and at lower cost than our guidance for this year for essentially the same scope as last year has us doing that work in a shorter period of time at a lower cost. So that's another example.

But the cost structure kind of leverages initiatives around every part of our business. Our contracting strategy, our maintenance strategy, our energy usage, all these things together is what's driving these improvements.

One thing that differentiates Cold Lake from Kearl is the nature of that operation is very different. It's very steam intensive, and consequently, very dependent on fuel gas. And so that's a key driver in its cost structure. But beyond that, all the other things, like I just talked about at Kearl with contracting strategy, maintenance, energy usage, we're continuing to look at ways to improve those as well.

And then with Grand Rapids starting up, as I mentioned, that will take about $1 per barrel out of the cost structure for Cold Lake overall. So a lot of really important initiatives there.

Speaker: Thanks for the color on that. And one second question I'll ask here is on capital builds. How are you expecting working capital builds and leases to impact cash balances to the balance year, appreciating that commodity prices are unpredictable.

Brad Corson: Maybe I'll ask Dan to talk about that.

Dan Lyons: Yeah. Look, I mean, working capital bounces around, and as you point out, it's super hard to really predict quarter-to-quarter. We had a $450 million hit this quarter, driven by inventory and some tax payables. So I would say going forward, we kind of forecast zero, but the inventory piece of the working capital build should reverse itself out.

So it's really hard to say what it will do over the next few quarters, but we don't expect continued significant working capital hits. It's noise that bounces around. So the hit we took this quarter, we wouldn't expect that to be repeated. And if prior trends are predictive of the future, we'll probably see some unwind of some of that, especially out of inventory.

Speaker: Thanks for your answer. I'll turn it back.

Brad Corson: Thank you.

Operator: Thank you. This does conclude today's question and answer session. I'd now like to turn the call back to Peter Shaw, Vice President of Investor Relations for 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 there are further questions, please don't hesitate to reach out to anybody on the IR team, and we'd be happy to answer your questions.

With that, thank you very much, and enjoy the rest of your day.

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

	Three Months	
millions of Canadian dollars	**2024**	2023
From Imperial's Consolidated statement of cash flows		
Cash flows from (used in) operating activities	**1,076**	(821)
Less changes in working capital		
Changes in operating assets and liabilities	**(445)**	(2,375)
Cash flows from (used in) operating activities excl. working capital	**1,521**	1,554

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

	Three Months	
millions of Canadian dollars	**2024**	2023
From Imperial's Consolidated statement of cash flows		
Cash flows from (used in) operating activities	**1,076**	(821)
Cash flows from (used in) investing activities		
Additions to property, plant and equipment	**(497)**	(429)
Proceeds from asset sales	**4**	14
Loans to equity companies - net	**12**	1
Free cash flow	**595**	(1,235)

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 first quarter of 2024 and 2023.

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

	Three Months	
millions of Canadian dollars	**2024**	2023
From Imperial's Consolidated statement of income		
Total expenses	**10,711**	10,476
Less:		
Purchases of crude oil and products	**7,706**	7,478
Federal excise taxes and fuel charge	**591**	529
Depreciation and depletion	**490**	490
Non-service pension and postretirement benefit	**1**	20
Financing	**12**	16
Cash operating costs	**1,911**	1,943

Components of cash operating costs

	Three Months	
millions of Canadian dollars	**2024**	2023
From Imperial's Consolidated statement of income		
Production and manufacturing	**1,664**	1,756
Selling and general	**246**	186
Exploration	**1**	1
Cash operating costs	**1,911**	1,943

Segment contributions to total cash operating costs

	Three Months	
millions of Canadian dollars	**2024**	2023
Upstream	**1,189**	1,288
Downstream	**583**	568
Chemicals	**79**	84
Eliminations / Corporate and other	**60**	3
Cash operating costs	**1,911**	1,943

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

	Three Months							
	2024				2023			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**1,188**	**498**	**309**	**342**	1,287	558	302	399
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**1**	**—**	**—**	**—**	1	—	—	—
Cash operating costs	**1,189**	**498**	**309**	**342**	1,288	558	302	399
Gross oil-equivalent production (thousands of barrels per day)	**421**	**196**	**142**	**73**	413	184	141	76
Unit cash operating cost ($/oeb)	**31.04**	**27.92**	**23.91**	**51.48**	34.65	33.70	23.80	58.33
USD converted at the YTD average forex *2024 US$0.74; 2023 US$0.74*	**22.97**	**20.66**	**17.69**	**38.10**	25.64	24.94	17.61	43.16

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