Imperial Oil Limited
Q4 2023 Earnings Call
Transcript

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Operator: Good day. And welcome to the Imperial Oil Fourth Quarter 2023 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Peter Shaw, VP, Investor Relations. Please go ahead.

Peter Shaw: Good morning, everybody. Welcome to our Fourth 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 & Administration; Sherri Evers, Senior Vice President of Sustainability, Commercial Development & 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 a 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 fourth quarter earnings release that we issued this morning as well as our most recent form 10-K. All these documents are available on SEDAR+ and EDGAR on 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 Fourth Quarter Earnings Call. I hope everyone's doing well. And your New Year is off to a good start. Today, I'm pleased to report that Imperial delivered another very strong quarter capping off a very strong year for the company. Kearl continued to deliver excellent production results and set many new records. And this performance drove higher Upstream volumes. At the same time, our Downstream business with our structurally-advantaged Canadian position continued to capture significant value from wider crude discounts. It was a very solid quarter.

And as we looked at 2024, we feel very confident about the strategic plans we've laid out as well as our operational capabilities to execute those plans, and our ongoing ability to generate value for our shareholders. I hope you see a reflection of our confidence in the dividend increase we've just announced today.

` Reflecting on the entire year, I'm very pleased with Imperial's performance across 2023. Specifically, we continue to have safe and reliable operations across all our assets with strong execution of all our planned turnaround activity, and continued focus on reducing operating costs. We took action to implement measures to address the environmental incidents at Kearl, including expanding our monitoring and enhancing our engagements with local communities. And throughout the year, we maintained our capital discipline as we advanced high-return growth projects such as the Strathcona renewable diesel project and the Grand Rapids Phase 1 project, both of which remain on track. And for shareholders, we delivered another outstanding year of returns.
So, over the next few minutes, Dan and I will detail the results of this very strong quarter. So, now let's review the fourth quarter results.

Earnings for the quarter were a $1365 million with cash from operating activities of $1799 million when excluding working capital impacts. These results reflect continued strong operational performance and record production from Kearl offset by weaker commodity prices. Full-year 2023 saw strong operating performance and a successful execution of our planned maintenance activities, which contributed to full-year earnings of nearly $4.9 billion, following 2022's record earnings performance. This is the second-highest earnings in Imperial's history.

We achieved total Upstream production of 452,000 gross oil equivalent barrels per day in the fourth quarter, the highest quarterly production in over 30 years when adjusting for the divestment of XTO Canada. Our results in the Upstream this quarter were underpinned by record performance at Kearl, which delivered 308,000 total gross barrels per day of production, the highest quarterly production in the asset's history. This is just one of many records we set at Kearl.

I'll talk about each asset in more detail in a few minutes. In the Downstream, we continue to see strong operating performance. Refining throughput averaged 407,000 barrels per day, which equates to a refinery utilization in the quarter of 94%, inclusive of the planned turnaround in Sarnia, which began in mid-September and was safely completed ahead of schedule and below budget by the end of October. This is especially notable because the joint refinery and chemical plant turnaround was the largest turnaround ever undertaken by our Sarnia site in terms of scope, workforce size, and total spend. I'd like to recognize the hard work of all of our teams in Sarnia for not only delivering this exceptional outcome, but doing so in a way that ensured nobody got hurt.

Our continued focus on financial discipline across the company resulted in lower overall cash operating cost, even beyond the reductions we saw from lower energy costs. I've been very pleased to see the progress our teams have made on reducing cost, which is especially notable because our company was able to deliver record production, while at the same time successfully executing significantly higher planned turnaround activity compared to recent years.

Our strong balance sheet allowed us to continue to maximize shareholder returns. We completed our annual NCIB or Normal Course Issuer Bid on an accelerated basis by mid-October, and then successfully executed our third SIB or Substantial Issuer Bid in two years, returning another $1.5 billion of cash to our shareholders in December. In addition, we paid $288 million in dividends in the quarter for a total of $1.1 billion for the year. In total, we returned $4.9 billion of cash to shareholders in 2023, our second highest year for shareholder returns following our record $7 billion in 2022. I'm also pleased to highlight that this morning, we announced a dividend increase of $0.10 per share or 20% payable on April 1st, which positions us for our 30th consecutive year of dividend increases.

A reliable and growing dividend is the cornerstone of our commitment to deliver industry-leading returns to shareholders. And since the beginning of 2021, we have nearly tripled our quarterly dividend. With that, I'll pass things over to Dan.

Dan Lyons: Thanks, Brad. Starting with financial results for the full year. We recorded net income of $4.889 billion, a decrease of $2.451 billion from 2022, reflecting lower realizations in the Upstream, lower margins in the Downstream, higher turnaround activity, and the absence of the gain realized on the sale of XTO in 2022.

Looking at the fourth quarter, we recorded net income of $1.365 billion, down about $360 million from the fourth quarter of 2022. The decrease is primarily driven by lower refining margins in our Downstream business. Moving to a sequential quarter comparison, our fourth quarter net income of $1.365 billion is down about $240 million from the third quarter, reflecting weaker bitumen realizations in the Upstream and lower Downstream margins.

Looking at each business line, Upstream earnings of $770 million are down about $258 million from the third quarter, primarily driven by lower bitumen realizations partly offset by higher volumes. Downstream earnings of $595 million are up $9 million from the third quarter, mainly reflecting higher volumes post planned turnaround activities at Sarnia refinery, partly offset by weaker refining margins.

Finally, our Chemical business generated earnings of $17 million, down $6 million from the third quarter reflecting lower volumes from the Sarnia gas cracker turnaround that was completed in October. Moving on to cash flow. In the fourth quarter, we generated about $1.3 billion in cash flows from operating activities, excluding work and capital effects of about $500 million.

Cash flow from operating activities for the fourth quarter was about $1.8 billion, down about a $150 million from the third quarter. Full-year cash flows from operating activities were $3.7 billion. As you will recall, we made a $2.1 billion income tax catch-up payment in the first quarter of 2023 driving an unfavorable working capital impact. Full-year cash flows from operating activities excluding working capital were about $6.4 billion, down about $2.6 billion from 2022 in line with earnings. We ended the quarter with about $900 million of cash on hand.

Now discussing Capex. Capital expenditures totaled $469 million in the fourth quarter, and $1.778 billion for the year, just over our full-year guidance of $1.7 billion. The additional spend was primarily attributable to increased capitalized interest as interest rates increased significantly over the course of the year. In the Upstream, fourth-quarter spending focused on smaller projects to sustain and grow production at Kearl, Cold Lake, and Syncrude as well as progressing the In-Pit Tailings project at Kearl, and the SA-SAGD Grand Rapids project at Cold Lake. In the Downstream, fourth quarter spending mainly included progressing a renewable diesel project at Strathcona.

Shifting to shareholder distributions. We continued to demonstrate our long-standing commitment to deliver industry-leading returns to shareholders. A reliable and growing dividend is the foundation of our cash distribution strategy. And as Brad already noted, this morning we declared a first quarter dividend of $0.60 per share payable in April, an increase of 20% or $0.10 per share compared to our fourth quarter dividend. In addition to our dividend in the fourth quarter, we completed our most recent accelerated NCIB program with purchases of about $950 million in October, and we completed a Substantial Issuer Bid in December, repurchasing about $1.5 billion in outstanding shares. In total, throughout the course of the year, we completed shareholder returns of $4.9 billion, the second highest in our company's history, including $1.1 billion in dividends, and total share repurchases of $3.8 billion. Our total share repurchases over the year represent over 48 million shares, and about 8.3% of our outstanding shares. Now, I'll turn it back to Brad to discuss our operational performance.

Brad Corson: Thanks, Dan. Upstream production for the quarter averaged 452,000 oil equivalent barrels per day, which is up 29,000 barrels per day versus the third quarter, and up 11,000 barrels per day versus the fourth quarter of 2022. As I mentioned earlier, this is the highest quarterly production in over 30 years when adjusting for the divestment of XTO Canada. This higher production for the quarter was driven by stronger performance across all three major assets.

And in the quarter, we saw WTI prices soften, and the WTI to WCS differential widen. As we start the New Year, we have seen some tightening of the differentials. And we would expect to see further tightening with the completion of TMX in the coming months.

So, now let's move on and talk specifically about Kearl. Kearl's production in the fourth quarter averaged 308,000 barrels per day gross, which was up 13,000 barrels per day versus the third quarter, and up 24,000 barrels per day from the fourth quarter of 2022. This represents the best-ever quarterly performance at Kearl, surpassing the previous record which we set just last quarter. And the records at Kearl don't stop there. Kearl also achieved record full-year production of 270,000 barrels per day, and a record second half production of 301,000 barrels per day, and a record December production of 321,000 barrels per day, and a record single-day production of 363,000 barrels per day on December 25th. How about that for a Christmas present and a string of records? I'm so proud of the Kearl team, and what they have been able to achieve. It's really been an outstanding year for Kearl, which provides a solid foundation to continue driving low-cost production growth, and achieving our target of 280,000 barrels per day in 2024.

And now turning to Kearl's cash operating costs, which is also another great story. Unit cash operating costs in the quarter were $17.94 per barrel, which represents a decrease of over $2 per barrel versus the third quarter due primarily to the strong production and ongoing focus on operational efficiencies. We also saw a decrease of about $9 per barrel versus the fourth quarter of 2022. And for the full year, unit cash operating costs at Kearl are just over $22 per barrel, which is $6.60 per barrel lower than 2022 or approximately $4.50 per barrel lower when normalizing for energy costs and ForEx. Going forward, we are focused on further unit cost reductions as we grow volumes and achieve further operating efficiencies.

So, turning now to Cold Lake. Cold Lake production for the fourth quarter averaged a 139,000 barrels per day, which was 11,000 barrels per day higher than the third quarter, and 2000 barrels per day lower than the fourth quarter of 2022. Higher fourth quarter production was primarily driven by the absence of the planned Nabiye turnaround completed in the third quarter as well as steam cycle timing.

And moving to the Grand Rapids Phase 1 project. I'm pleased to share that we successfully commenced steam injection on December 1st delivering on our commitment to accelerate the project startup by one year to yearend 2023. The steam circulation phase is expected to last until the end of the first quarter of this year, after which production will start to ramp up over a period of several months. Once fully up and running, Phase 1 of the project is expected to deliver profitable production of approximately 15,000 barrels per day and support our emissions reduction strategy. By using SA-SAGD technology, Grand Rapids' production is expected to achieve an emissions intensity that is up to 40% lower compared to existing cyclic steam technology in use today. This project is an important milestone for us on our journey to reduce emissions at Cold Lake by continuing to deploy next-generation solvent recovery technology.

I'd also like to take the opportunity to provide a brief update on our Leming redevelopment project. The drilling of all wells was completed in 2023 and our focus through 2024 is on well completions and facility construction. Startup is planned for 2025 with the project expected to average about 9,000 barrels per day of production at peak. Leming will use SAGD technology. And similar to Grand Rapids, we expect to be able to achieve an emissions intensity that is up to 35% lower than existing cyclic steam technology.

And now a few comments on Syncrude. Imperial share of Syncrude production for the quarter averaged 85,000 barrels per day, which is up 10,000 barrels per day versus the third quarter and down 2,000 barrels per day versus the fourth quarter of 2022. Higher production in the fourth quarter was due to early completion of the fall planned turnaround by about a week as well as favorable mining conditions and strong upgrader utilization.

Throughout 2023, the Interconnect pipeline continued to add value by enabling incremental production of Syncrude Sweet Premium from imported bitumen, helping to maintain high upgrader utilization rates and resulting in the highest-ever full-year shipments of SSP in the joint venture's history.

So, now let's move on and talk about the Downstream. In the fourth quarter, we refined an average of 407,000 barrels per day, which was down 9,000 barrels a day versus the third quarter and down 26,000 barrels per day versus the fourth quarter of 2022, reflecting a utilization of 94%. As I noted in my opening remarks, we completed the largest turnaround in Sarnia's site history at the end of October, below budget and ahead of schedule. And all three of our refineries delivered very high utilization in the final months of the year. In addition to high utilization, the refining business benefited from advantaged crude pricing across heavies, lights and synthetics, contributing to strong value capture in the quarter.

For the full year, our refineries achieved 94% utilization, which was the high end of our annual guidance. And we saw all our refineries achieve various full-year production records, including record gasoline, jet, and distillate production at Sarnia, record diesel production at Nanticoke, and record paving asphalt production at Strathcona, among many other production and process records.

At our Strathcona refinery, we continue to advance our renewable diesel project and as we finish the year, most of the underground infrastructure has been completed and the above ground tankage is also nearing completion at this point. We continue to progress towards our planned startup in 2025.

Petroleum product sales in the quarter were 476,000 barrels per day, which is down 2000 barrels per day versus the third quarter, and down 11,000 barrels per day versus the fourth quarter of 2022. We continue to see gasoline demand around 99% to 95% of historical levels and jet at about a 110% of historical levels. Specifically, jet demand was supported by strong sales into Toronto's Pearson airport. And on diesel, demand in the quarter was between 85% to 90%. Diesel crack spreads remained relatively strong in the fourth quarter supported by low inventories, whereas gasoline cracks were more subdued.

While overall crack spreads were lower quarter over quarter as Dan mentioned, our Canadian-based refinery network enhanced overall product margins through the capture of crude discounts with access to wider differentials that affected all crude grades in Western Canada. Currently, we continue to see steady demand for our refined products and overall, refinery margins remained robust.

And that brings us to Chemicals. The business delivered $17 million in earnings in the fourth quarter, which was down $6 million versus the third quarter, and down $24 million versus the fourth quarter in 2022. The lower earnings were driven by the gas cracker turnaround that occurred between mid-September and the end of October as well as a softer margin environment. Despite these pressures, our Chemical business still delivered solid full-year earnings of a $164 million.

And finally, I'd like to highlight the publication of our Annual Sustainability Report. To be successful in today's world, energy providers must find ways to balance energy security, affordability, and environmental protection while capturing opportunities in the energy transition. At Imperial, this includes our commitment to advancing our sustainability priorities, including developing pathways in support of a Net Zero future, enabling economic reconciliation and meaningful partnerships with indigenous communities, protecting water resources, and promoting biodiversity, and cultivating a workforce where everyone's perspectives are valued, and people are prepared for tomorrow. The Sustainability Report provides an update on our progress towards each of these priorities.

So, to quickly wrap up, this was another very strong quarter to finish another very strong year underpinned by reliable operations across our integrated business model. We continue to deliver on our commitments and achieved our guidance for the full year. As we look ahead in 2024, I'm optimistic and excited about delivering another very strong year.

As you can see from the completion of the accelerated NCIB as well as our successful SIB completed in December and now the announcement today of another material dividend increase, our commitment to shareholder returns remains a top priority for us. We're also committed to delivering on our plans to reduce emissions and generate value. I'm excited as we near first production from Grand Rapids and with the progress we are making with our Strathcona renewable diesel project.

I look forward to continuing to bring you updates on these attractive opportunities as we continue to focus on maximizing the value of our existing businesses, while at the same time responding to the changing needs of our customers and communities.

So, 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. 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 phone line for questions?

Operator: Thank you. If you have 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 your equipment. Again, please press star one to ask a question. Your first question comes from the line of Manav Gupta with UBS. Please go ahead.

Manav Gupta: Good morning, guys. Congrats on a very strong result. I'm actually going to start with Downstream. When I look at your corporate guidance, it appears you have an insignificant amount of downtime in the first quarter, and a very small amount of downtime in the second quarter. And when you look across the border, we have significant amount of downtime in this US refining system for the next three to four months.

So, I'm trying to understand if you are running hard and cracks are good, and across the border people are not running hard, does that set you up extremely well for the first half of 2024 as it relates to refining?

Brad Corson: Yeah. Thanks for the question, Manav. Yeah. Certainly as we look to the first quarter, the first half of the year, we're encouraged by all of the key fundamentals, including the ones that you mentioned. Having completed a fair amount of maintenance activities this last year, we feel we're well positioned as we move into this year.

Our business as you know is well integrated. We're well connected to the market with strong infrastructure. And all that positions us to take full advantage of value feedstocks, lower crude prices. We expect high reliability. We expect to capture high-value product margins in the market. Put all that together and it's a strong formula for success. So, thanks for that question.

Manav Gupta: Perfect. My quick follow up on Kearl, and congrats on getting that cost below 20. You promised people you'll do it. And the results are very impressive. My question here is your guidance for 2024 is 275,000 to 285,000. Based on the kind of records you talked about earlier in the call, should we naturally think of this as more as of a 285,000 versus the 275,000? So, just trying to understand if the top end of guidance is making more sense given the records you are setting at Kearl?

Brad Corson: Well, thanks for your confidence in us. And like you, I have great confidence in the Kearl team. And as noted, with so many records, they continue to outperform and excel. And that positions us quite well to deliver on what's been a long-term objective and commitment around 280,000 barrels a day. So, I have high confidence that we'll achieve 280,000 barrels a day.

Certainly, there is the potential that we will achieve more. And that's reflected in the higher end of our guidance. And so, we're working towards that every day. We're early in the year. But I'll also tell you, we're off to a good start in January. So, let's continue to deliver strong results. We'll continue to talk about the potential for even higher volumes, not just in this year, but as we look to the future. Thank you.

Manav Gupta: Thank you so much for taking my questions.

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

Greg Pardy: Thanks. So, hey, great results again. And it's becoming, just consistently you're putting up big numbers across the board. I wanted to dig in a little bit, Brad, to the record set in the fourth quarter and then in December. And I want to understand what were the factors that supported that? Obviously, we know weather conditions were extremely warm at least from what I understand and so forth.

So, we've seen big numbers elsewhere. What was the special sauce maybe of getting to the 363,000 or the 321,000 in December?

Brad Corson: Yeah. Greg, thanks. Thanks for acknowledging our super-strong results, and the consistency of those results. And thanks for your question on Kearl. In terms of secret sauce, I think, it really comes more down to a lot of fundamentals. We have continued to improve the reliability of that operation for several months and even years now.

We continue to focus on all of the contributing factors to maximize production, which go all the way back to mine performance, the productivity in the mine. Certainly, weather was a positive factor for us as it allows full productivity in the mine. Certainly, our autonomous haul fleet is contributing to that. We have the benefit of mining some high-quality ore grade.

And then, so, all that ensures the front end is fully loaded, and then we're managing that through the crushers. And then, when we get to the plant, we're seeing very high reliability there. So, it's a combination of a lot of factors. And actually, if there is a secret sauce, I'd tell you it's our people at Kearl that are hyper focused on delivering these results.

And they are very excited and motivated to continue to set these records. They are extremely proud of what they are doing there. And we're quite proud of them.

Greg Pardy: Okay. So, thanks for that, Brad. The second one is, I've asked it before, but I think it was considered proprietary. But I'm just curious, are you a shipper on Trans Mountain? And maybe, if the answer is we're not telling you, can you perhaps just walk us through how you see TMX impacting the business, top to bottom?

Brad Corson: Yeah. Thanks for the question. I don't think, we view it as proprietary whether we're a shipper or not. I'm happy to tell you that we are a shipper on TMX. What's normally viewed as proprietary is the volumes that we plan to ship in terms of total volume split between crude and product. So, I won't get into those details with you.

I will tell you though that relative to other shippers, we're relatively minor in terms of the capacity reservations that we've made on the system. We are quite excited about the startup of TMX, which we view as imminent and targeting sometime in the second quarter. Of course, there was recent news in the beginning of this week about some delays.

But we're still very optimistic that that system will start up in the second quarter. And when it starts up, certainly, it gives us as a company additional capacity for crude volumes, which again is not significant for us. It gives us additional capacity for products, which is more significant for us. Maybe not in volume, but just more potential to access some higher-value markets with efficient transportation.
But more importantly is the broader impact the startup of TMX will have on the industry, providing significantly additional capacity for egress out of the basin. And that will have, we believe, as I commented, we believe that will result in a tightening of the WCS differential, and will place higher value on WCS crudes, which of course we're a major producer.

So, the biggest benefit for us is not the individual barrels we ship, but our view of the impact it will have on our crude value. We continue to see maximum value, primarily shipping our crude into the mid-continent, into the Gulf Coast. And so, we'll continue to move most of our barrels in that direction. But always looking at where are the highest-value markets, and making sure we're positioned to capture those over the long term. And that's where having optionality to go west, go south puts us in a great position. Thanks for the question.

Greg Pardy: Thanks very much. Yeah. Thanks, Brad.

Operator: And our next question comes from the line of Dennis Fong with CIBC World Markets. Please go ahead.

Dennis Fong: Hi. Good morning. And thanks for taking my questions. First off, I just wanted to reiterate what Greg said. And congrats on a very strong quarter and continued strong operations from Kearl. My first question here is just around the autonomous haul. You indicated last quarter that you had completed the installation and the startup of autonomous operations at Kearl.

I just was hoping to pick your brain on any potential takeaways that you've seen now that you have over a quarter of runtime from the fleet? And where you think you are in terms of further optimization?

Brad Corson: Yeah. Thanks for the question. We're quite excited about the value that this is bringing to our business. And as you noted, we're now a 100% autonomous in the mine with our heavy-haul trucks, a total of 81 trucks. And we are seeing that transition, the use of autonomous or driverless trucks as delivering all of the value that we expected in terms of lower unit operating costs by around a dollar per barrel.

We see increased safety and reduced safety risk because of fewer human machine interfaces. And we're seeing increased productivity as well. And so, there is no doubt that having that autonomous haul fleet has contributed materially to our ability to achieve these record volumes as well as significant improvement in operating costs.

And we're still I think realizing the full potential of that because it's only been in the last quarter or so that we've completed that full conversion. And now at the same time, we're also looking for well, where can we expand this autonomous concept beyond just the heavy haul trucks. And so, we have a lot of work underway as to where else we can leverage this to further improve productivity, reduce costs, improve safety.

And I think, that'll be a key element of our discussion when we get to our Investor Day later this year to really talk about the potential that this technology is bringing, and how we can expand it further.

Dennis Fong: Great. So, I appreciate the color there. My second question is continuing on with Kearl there is you've shown very strong production. And you've discussed opportunities to potentially continuously or at least average maybe 300,000 barrels a day sometime in the future. Can you talk towards some of the secondary recovery initiatives as well as the mine optimization opportunities that help drive you to that 300,000 barrels a day?

And where are you at with respect to the engineering and the development of those next steps? Thanks.

Brad Corson: Yeah. Thanks for the question. We are very focused, first, on getting to 280,000 barrels per day. That's job number one when it comes to volumes at Kearl. We just delivered our highest annual volumes at Kearl with 270,000. Now, we got to get to 280,000. And then, we'll get to 300,000. So, it's one step at a time. But this evolution takes several years of planning, engineering, in some case investment.

So, we are progressing on steps to get us to 300,000 barrels a day. I plan for us to talk more specifically about what that roadmap looks like when we have our Investor Day. But certainly, we're focused on what are the next steps in reliability, what are the next steps in optimizations around turnaround durations. We're looking at additional steps in debottlenecking our processing facilities, we're looking at how can we extract even more bitumen out of all of the ore that we extract through further processing of coarse sands tailings, and so, it is a whole suite of activities. We talked about flotation column cells. That specific project, we have detailed engineering well advanced. We're targeting a startup in 2026. It'll be a major contributor to the next step after 280,000 and moving us towards 300,000.

So, a lot going on there. And I'm really excited about it. Because again, I think when you look at what we've achieved in the second half of the year, what we've achieved in the fourth quarter, certainly monthly and daily records, it continues to demonstrate just the potential that we have with this asset. Now, again the challenge is to link together all of those records over an entire year, right. And a significant driver still in our overall production for the year is the annual turnaround. And so, we have to not only achieve those records, but then we have to offset any planned maintenance turnaround or other plant maintenance over the course of the year. But I have confidence we'll get there. So, thanks for that question.

Dennis Fong: No, I appreciate it. I'll turn it back.

Operator: Your next question comes from the line of Doug Leggate with Bank of America. Please go ahead.

Doug Leggate: Thanks. Good morning, everyone. Good morning, Brad. I don't know if you've looked at your share price this morning. But this dividend bump, we continue to believe that is a huge mechanism for market recognition of value. So, congratulations on that decision. My question is, where do you think your dividend yield needs to be to have a competitive yield versus your peers?

Brad Corson: Yeah, thanks for, first, your recognition of our dividend strategy, and the impact it's having. And yes, I can assure you, I've looked at my share price today. I look at it every day, Doug. And we're quite pleased with the market receptivity to the board's decision to raise our dividend. And maybe, I'll give Dan a chance to make some comments about our dividend strategy.

But first, I think, you can see the consistency of our strategy with continuing to raise that dividend now for 30 years. And you can see the materiality of those increases for the last few years, obviously underpinned by our strong performance. Dan, talk about the future.

Dan Lyons: Yeah. Hey, Doug. Thanks for acknowledging the dividend. I know, you're a dividend growth lover from our prior conversations. So, we always listen to you. But as we've said, the dividend, a reliable and growing dividend and a competitive dividend is the foundation of our shareholder return strategy. And if you look over in the last number of years, our compound annual growth rate is very competitive and above most of our peers.

So, we continue to be focused on growing our dividend. But for us, it's really critical that it's sustainable. And so, as we look out into the future and look at relatively conservative assumptions, we look at that analysis. We look at what our competitors are doing. And that drives our recommendations to the board, and ultimately the board's actions.

So, it's certainly an area of focus for us. We're glad, we're delivering that growth to the market. But I can't say there's a particular target or a payout ratio or yield level that we're exactly targeting, it's dynamic. But we look ahead. And our focus is on reliable and growing, and making sure we're never in a situation where we have to cut it.

Doug Leggate: Thank you for the answers, guys. I hope that the operator doesn't take this as my second question. It's more of a clarification point. What do you think your dividend breakeven is right now? And I do have a separate follow up question.

Dan Lyons: Yeah. Well, we say with re-sustaining capital and our dividend, we're about 35 bucks. So, that's WTI US dollars. So, that's where we are. So, a pretty good spot I would say. And it leaves open room for growth over time.

Doug Leggate: Perfect. Thank you. My follow up is actually on Kearl, but a slightly different question. I think, I'm correct in saying this. You're the only major mining project left that's still pre royalty. Given all the moving parts, potentially, the fact that you are outperforming obviously and there was obviously some growth options down the road.

To the extent you can give out any visibility, how long do you expect to stay pre-royalty. You got you through the end of the decade. I'm curious if you can offer any color on that? And I'll leave it there. Thank you.

Brad Corson: Yeah. Thanks for the comment, Doug. I'll defer that one to Dan as well.

Dan Lyons: Yeah. Obviously, it depends on the prices, Doug. But our outlook is to be pre-royalty. And I think, by the end of the decade or even more is probably very reasonable. But it's very sensitive to prices. If prices get really high, we'd get there sooner. But for the foreseeable future and reasonable scenarios, I think we will continue to be pre-royalty, which is a significant benefit for us on a cash flow basis for sure.

Doug Leggate: Absolutely. Well, guys, thanks for taking my questions. And congrats on nailing this dividend story.

Brad Corson: Thanks, Doug.

Operator: Your next question comes from the line of Menno Hulshof with TD Securities. Go ahead.

Menno Hulshof: Thanks, everyone. And good morning. Maybe, I'll just start with a question on Grand Rapids Phase 1, which of course is solvent assisted. You did, Brad, touch on the emissions reduction in your prepared comments. But can you just elaborate on some of the KPIs for this project, including SOR, opex and how much solvent is actually getting recycled through the system? And then, as a follow up to that, how much do you think you can scale up solvent assisted over time?

Brad Corson: Yeah. Thanks for the question, Menno. I don't necessarily have those details at my fingertips on those metrics for Grand Rapids. I'll maybe defer to Simon, who's here beside me to see if he has those. And if he doesn't, we may have to follow up with you offline on those. But I will say that from a very macro standpoint, what is most important is we do expect to deliver 15,000 barrels a day from this asset.

It's very high return economically. By its design, it relies on lower-steam production, which is more economic for us and lower emissions intensity. So, those are the macros that are most important for the project and how it fits into our overall strategy to increase production, reduce operating costs, reduce greenhouse gas emission intensity. But now, I'll see if Simon has any of those more details he can share with you?

Simon Younger: Yeah. No worries, Brad. I can take a bit of a run at some of those. As Brad shared in terms of the greenhouse gas intensity for Grand Rapids Phase 1, when we started up, we expected it to be at least 40% lower than our heritage CSS process. If you compared it though to conventional SAGD, with the addition of SA, the solvent assisted, depending on how we evolve that and optimize that through time, think about that as anywhere from a 10% to a 20% improvement over conventional SAGD by virtue of the solvent addition.

So, that would be a key KPI as you were asking about. Another one of course is the solvent recovery, which will only be known over time and through experience again as we optimize the operation. But certainly, we're looking at numbers north of 85% or even 90% on the solvent recovery. It will be a key KPI.

You mentioned unit costs, I think, if you look across industry at the most competitive SAGD operations, as low as $10 a barrel, I'd certainly expect us to be targeting that and even improving on that, again aided by the benefit of the solvent addition to the SAGD process, which by the way we piloted for several years at Cold Lake, which gave us the confidence to proceed with a full-scale investment at Grand Rapids.

And then, I think another part of your question was what's the running room? And I would say, it's substantial. We're starting with our first pad here, it's got 21 well pairs. And that's across two wings. We're currently steaming one of those. If the Grand Rapids resource development proves successful, we've got running room of several more pads, up to as many as 10 additional pads.

So, it's really exciting. And the whole organization is super excited to see across this first quarter of this year, how we bring that new asset online.

Menno Hulshof: Terrific. I appreciate the detail. And for my second question, I'm just going to follow up on Dennis' and your comments on autonomous haul. And I'm probably getting a bit ahead of things. But is conversion of the dozer fleet still in the cards? And to the extent that it is, how would that compare in terms of scale with what you've done so far in the truck side of things? And any initial high-level thoughts on timing and upside would be helpful as well?

Brad Corson: Yeah. Thanks for that question. It is an example of the next evolution of autonomous or driverless that we are looking at. And we are actively piloting driverless dozers. So, it's really exciting. We see huge benefits to that across the whole range of considerations. I mentioned early, starting first with safety as well as cost and productivity.

We're very early in that pilot test work. So, I think, it's premature for me to quantify it. But our early experience with our pilot work is very encouraging. So, we're continuing to progress that work. And again, I think we'll be in a better position to talk about that at Investor Day. And I'll just remind you that the evolution of the autonomous haul trucks at Kearl took several years.

And so, I would anticipate as we look at expanding that technology and approach to other pieces of equipment, it takes time because we obviously want to make sure that not only we get the full benefit, but that we are in no way compromising the safety of the operation. So, stay tuned. More to come.

Menno Hulshof: Thanks, Brad. I'll turn it back. Thanks.

Brad Corson: Thank you.

Operator: Your next question comes from the line of Patrick O'Rourke with ATB Capital Markets. Please go ahead.

Patrick O'Rourke: Hey, guys. Good morning. Congratulations on the dividend increase and a great quarter. You've obviously unpacked a lot between the prepared remarks and a lot of the very detailed questions we've had. So, perhaps, this first question is going a little bit off the board. But so, with drought conditions in Western Canada and we're starting to see industrial water use restrictions that are coming about.

Are there any commercial risks to your business and how are you preparing for those going forward here in 2024?

Brad Corson: Yeah. Thanks for the question. And you're right. It's not something, we maybe normally talk about or get questions on. But it's not off the board for us because we take water consumption very seriously in all of our operations. We have a long history of continuing to reduce water consumption. And so, that's a priority for us.

In fact, when you look at both Kearl and Cold Lake, our two primary water users. Those teams have made exceptional progress towards reducing water usage in the range of 30% to 40% reductions since 2020. And that comes through the result of increased recycling as well as reduced consumption. And so, I'm quite pleased with that.

I think as we look to risk of drought and impacts that has on water supply, we're going to continue to have to manage that carefully. For Kearl, our primary source of water of course is the Athabasca river. We have agreements in place for the implications of reduced water availability, and how we manage that. And similarly with Cold Lake, which is the primary source of our water for our Cold Lake operations.

We have agreements in place there for low water levels. And so, I have no concerns with respect to our operations. But it is something we manage quite carefully and something we're very diligent about. And obviously, more broadly, we want to make sure we are contributing in a positive way to sustainability when it comes to water use, especially in drought conditions.

Patrick O'Rourke: Okay. Great. And then, my second question here. There's no formal update on Pathways in the release, although you did touch on it a little bit. Are you able to provide a bit of an update on the project where you stand here because I think from yourselves and some of the partners, there had been discussion about especially with the long-lead items being on pretty short cycle in terms of timeframes, in terms of meeting decisions in order to get the project on and meet some of the 2030 timeframes that have been in place?

Brad Corson: Yeah. Thanks for the question. And I'm glad, I have an opportunity to comment on Pathways because there is a lot of activity underway. And it often doesn't get publicized. It doesn't get maybe external recognition. But to maybe just summarize it a bit, I would characterize this as two main streams of work activity. The first is the ongoing engagement with the government, both federal and provincial regarding all of the fiscal support and regulatory certainty that is required to underpin these significant investments. And so, those discussions continue. You're obviously aware of the 50% investment tax credit offered by the federal government.

More recently, the Alberta province has announced a 12% support for projects like this. And the discussions are continuing around further support that's needed and all the details that go around that. But equally important is another big workstream around progressing the physical aspects of the project.

So, there's significant engineering and design work underway, both regarding the main pipeline as well as individual companies are working on their own capture projects, which all will feed into that pipeline.

We're working on environmental field work and studies that are integral to the permitting of the pipeline. There's significant community engagement and indigenous consultation underway.

The frontend engineering and design, the FEED work as we refer to it for the 400 kilometer CO2 pipeline is now more than 50% complete. That positions us to ultimately order the line pipe once we have all the fiscal support in place from the government. And we're also working on a major regulatory application related to the whole CO2 transportation network, but also the storage hub.

And that's an important part of this project as well. So, a lot of activities underway. Our Pathways team, including the CEOs are meeting on a weekly basis on several aspects of the project. They are meeting multiple times a week on it. So, we're making progress. And all of this is consistent with a multi-year project of unprecedented scale.

So, these things take time. But we're intensely focused on delivering this project, which is a key enabler to achieving Net Zero by 2050. And all of our member companies have their own interim targets. And for Imperial, in addition to Net Zero, we've also announced a target of 30% reduction in greenhouse gas intensity for our oil sands by 2030.

So, we're all focused on those interim targets as well. So, thanks for that question. And really a shoutout to the Pathways team that is doing a lot of work in this space.

Patrick O'Rourke: Okay. Great. Thanks very much.

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

Neil Mehta: Yeah. Dan, my congrats on the dividend bump and the strong results as well. I guess Brad, maybe I want to talk to you about the return of capital via the SIB. You've been pretty consistent about doing that over the last couple of years when you have excess cash. Just how are you thinking about the timing of that? And based on what we see on the forward curve, is it fair to assume that's more likely a back-half event than a front-half event?

Brad Corson: Yeah. Thanks for the question. As we've talked on many calls and other occasions, returning surplus cash to our shareholders is core to our strategy. It's a key priority for us. And that return of cash starts with the dividend. And ensuring that that is not just reliable, but also growing. And obviously, you've seen the decision we've taken on that today.

And then, historically, we have turned next to the NCIB. But of course for that, we're limited to 5% per year share buybacks. But we do see that as a very efficient and advantaged way to return cash to shareholders. So, that's why that has been our next go to. And we've done NCIBs consistently for many years now.

And then, of course, in the last couple of years, we've had further surplus cash beyond what's needed to support the dividend program and the NCIB program. So, we've turned to SIBs. The decision on timing for the SIB and magnitude of the SIB in the past has been very much driven by both our actual and projected cash flows as well as where we are with the NCIB.

Because again, we want to do that preferentially and we can't be doing them both at the same time. And then on top of that, to execute an SIB, there are prescriptive blackout periods that we have to work around. So, all those things factor into our decision as to when we will do, and when and if we will do an SIB. So, I'm not going to forecast at this point, the timing of a future SIB.

But we'll be looking at all those factors. We'll be reviewing those with the board on a quarterly basis. And we'll certainly be continuing to discuss the status of those plans with the market. And maybe, I'll just see if Dan has anything else to add to that.

Dan Lyons: No. Well said, Brad. And of course, Neil, it really depends on prices, right. The commodity prices, we assume will have continued strong operations. So, whether we have surplus cash above and beyond the NCIB is going to be driven by commodity prices primarily. So, to the extent we generate surplus cash, our commitment is to return it to shareholders in a timely way.

So, we'll just have to see how things play out over the year. I think, that's where we're at.

Neil Mehta: Yeah, that makes sense, Dan. And thanks, Brad. And just a follow up on just your perspective on differentials. I know in the prepared remarks, you talked a little bit about when TMX comes online, you expect some of these differentials will tighten up. But maybe, you could talk about both the outlook for WCS, but also the outlook for Syncrude and Edmonton Mix Sweet because those light crude diffs have been a little softer than many would have expected.

Brad Corson: Yeah. Thanks for the comment. And I always want to avoid forecasting too much around differentials because there are just so many factors that come into play. I made the comment around TMX because there is a major structural shift that's about to occur. When you bring that much additional capacity onto the system, that I think will have a structural impact on heavies.

I think there will be if you will kind of a carryover impact on light differentials as well. And so, we will see likely some tightening of those as well. Of course, in our case, we're well integrated across the Upstream and the Downstream. And so, the financial implications of that is muted if you will in our company relative to others. When we see extremely strong pricing in the Upstream, certainly there's a bit of a hit in the Downstream.

But the net-net of that is positive for us. And we would expect that to continue. And I guess, the same with Syncrude and SSP. It's obviously a bit unusual that that's currently trading at a discount to WTI. It normally trades more at a premium. And I think longer term, there's a few short-term things in the market I think that are driving that longer term.

I think, we would expect it to settle in at a premium over WTI like it's been historically. So, that's probably the most I could say, again given the normal volatility and uncertainty in the market.

Neil Mehta: Yeah. That's great. Thanks, Brad.

Operator: This concludes today's question-and-answer session. I would now like to turn the call back to Peter Shaw, VP of Investor Relations for any additional or closing remarks.

Peter Shaw: Thank you. And so, on behalf of the management team, I would like to thank everyone for joining us this morning. If there are further questions, please don't hesitate to reach out to anybody on the Investor Relations team. And we'll be happy to answer your questions. And with that, thank you very much. And have a great day.

Operator: This concludes today's call. Thank you for your participation. And you may now disconnect.

Attachment VI

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	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**1,311**	2,797	**3,734**	10,482
Less changes in working capital				
Changes in operating assets and liabilities	**(488)**	345	**(2,701)**	1,485
Cash flows from (used in) operating activities excl. working capital	**1,799**	2,452	**6,435**	8,997

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	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**1,311**	2,797	**3,734**	10,482
Cash flows from (used in) investing activities				
Additions to property, plant and equipment	**(470)**	(492)	**(1,785)**	(1,526)
Proceeds from asset sales	**57**	18	**86**	904
Additional investments	**—**	—	**—**	(6)
Loans to equity companies - net	**2**	1	**5**	10
Free cash flow	**900**	2,324	**2,040**	9,864

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

	Fourth Quarter		Twelve Months	
millions of Canadian dollars	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of income				
Net income (loss) (U.S. GAAP)	**1,365**	1,727	**4,889**	7,340
Less identified items included in Net income (loss)				
Gain/(loss) on sale of assets	**—**	—	**—**	208
Subtotal of identified items	**—**	—	**—**	208
Net income (loss) excluding identified items	**1,365**	1,727	**4,889**	7,132

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	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of income				
Total expenses	**11,369**	12,174	**44,600**	50,186
Less:				
Purchases of crude oil and products	**8,317**	8,893	**32,399**	37,742
Federal excise taxes and fuel charge	**621**	563	**2,402**	2,179
Depreciation and depletion	**489**	465	**1,907**	1,897
Non-service pension and postretirement benefit	**22**	4	**82**	17
Financing	**18**	26	**69**	60
Cash operating costs	**1,902**	2,223	**7,741**	8,291

Components of cash operating costs

	Fourth Quarter		Twelve Months	
millions of Canadian dollars	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of income				
Production and manufacturing	**1,672**	1,965	**6,879**	7,404
Selling and general	**228**	257	**857**	882
Exploration	**2**	1	**5**	5
Cash operating costs	**1,902**	2,223	**7,741**	8,291

Segment contributions to total cash operating costs

	Fourth Quarter		Twelve Months	
millions of Canadian dollars	**2023**	2022	**2023**	2022
Upstream	**1,189**	1,439	**4,922**	5,496
Downstream	**610**	626	**2,395**	2,293
Chemicals	**94**	103	**349**	358
Corporate / Eliminations	**9**	55	**75**	144
Cash operating costs	**1,902**	2,223	**7,741**	8,291

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

	Fourth Quarter							
	2023				2022			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**1,187**	**493**	**276**	**377**	1,438	673	327	393
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**2**	**—**	**—**	**—**	1	—	—	—
Cash operating costs	**1,189**	**493**	**276**	**377**	1,439	673	327	393
Gross oil-equivalent production (thousands of barrels per day)	**452**	**218**	**139**	**85**	441	201	141	87
Unit cash operating cost ($/oeb)	**28.59**	**24.58**	**21.58**	**48.21**	35.47	36.39	25.21	49.10
USD converted at the quarterly average forex *2023 US$0.73; 2022 US$0.74*	**20.87**	**17.94**	**15.75**	**35.19**	26.25	26.93	18.66	36.33

millions of Canadian dollars	Twelve Months 2023 Upstream (a)	Kearl	Cold Lake	Syncrude	2022 Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**4,917**	**2,097**	**1,144**	**1,533**	5,491	2,353	1,344	1,563
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**5**	**—**	**—**	**—**	5	—	—	—
Cash operating costs	**4,922**	**2,097**	**1,144**	**1,533**	5,496	2,353	1,344	1,563
Gross oil-equivalent production (thousands of barrels per day)	**413**	**191**	**135**	**76**	416	172	144	77
Unit cash operating cost ($/oeb)	**32.65**	**30.08**	**23.22**	**55.26**	36.20	37.48	25.57	55.61
USD converted at the YTD average forex *2023 US$0.74; 2022 US$0.77*	**24.16**	**22.26**	**17.18**	**40.89**	27.87	28.86	19.69	42.82

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