Imperial Q1 2023 Earnings Call

Friday April 28, 2023

Welcome & Cautionary Statement

Dave Hughes

Vice President Investor Relations, Imperial Oil Limited

All right. Thank you very much. Good morning, everybody. Welcome to our first quarter earnings call. With me today is the management team. We have Brad Corson, Chairman, President and CEO. Dan Lyons, Senior Vice President, Finance and Administration. Simon Younger, Senior Vice President of the Upstream. Sherri Evers, Vice President Commercial and Corporate Development, and John Wetmore, Vice President of the Downstream.

Starting with the cautionary statement, today's comments include reference to non-GAAP financial measures. Definitions and reconciliations of these measures can be found in attachment six of our most recent press release and are available on our website with the link to 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.

The forward-looking information and the risk factors and assumptions are described in further detail in our first quarter earnings release that we issued this morning, as well as our most recent Form 10-K, and all of these documents are available on SEDAR, EDGAR, and on our website. So I'd ask you to please refer to those. So as usual, after Brad and Dan go through the prepared remarks, we'll be switching over to Q&A. So with that, I'll hand it over to Brad.

Opening Remarks

Brad Corson

Chairman, President and CEO, Imperial Oil Limited

Thanks, Dave. Good morning, everybody, and welcome to our first quarter earnings call. I hope everyone is doing well and had a great start to the year. I'd also like to take a quick moment to thank everyone for attending our Investor Day last Wednesday, both in person and virtually. It was our first in-person Investor Day since 2019 and it was great to get to see so many folks in person again. Your positive feedback on the event was very much welcome and appreciated, as is your ongoing support.

I want to open by providing a brief update on our efforts to address the seepage issue at Kearl that we have been talking about over the last several weeks. We continue to work closely with regulatory officials from the Alberta Energy Regulator and other government officials. We have about 200 people working to advance our mitigation efforts related to the environmental protection order, and we're making very good progress. Most of this work was completed by the end of April, and we expect to finish by the end of May.

In addition, we are continuing to engage directly with local indigenous communities to share information and are providing regular updates on progress. Throughout this incident, testing has continued to show drinking water in the region is safe and there were no impacts to fish populations in nearby river systems. I want to say again that we are deeply apologetic for this situation and we're working hard to correct it and ensure that it does not happen again.

At our last earnings call in February, we reported what was the best year in Imperial's history. This performance was underpinned by strong operating performance and reflected the robust commodity price environment. And we've carried that momentum into the new year. The focus we have been consistently placing on safe, reliable operations continue to pay off in the first quarter as we delivered another strong quarter both financially and operationally.

We did see some moderation in crude prices and diesel cracks, but the overall commodity price environment remains quite supportive. On the operations side, we had a record first quarter for production at Kearl and we delivered another very strong quarter in our downstream with utilization of 96% based on the restated higher capacity we talked about in our year end reporting. And finally, after a year, which saw our highest level of shareholder returns ever, we have continued to demonstrate our commitment in this area with the announcement of a $0.06 per share dividend increase today.

Over the next few minutes, Dan and I will detail the results of what was another very strong quarter. So now let's review the first quarter results. Earnings for the quarter were $1.25 billion with cash from operating activities of over $1.5 billion when excluding working capital impacts. Total upstream production in the quarter was 413,000 gross oil equivalent barrels per day, a result of strong operating performance across our entire upstream portfolio. I'll talk about each asset in more detail in a few minutes.

We also had another great quarter in the downstream, refining throughput averaged 417,000 barrels per day, which equates to a refinery utilization in the quarter of 96%. As we talked about throughout last year, these high utilization rates are delivering significant value in the current commodity price environment. We continue to invest for the future with our focus on the work to progress what will be Canada's largest renewable diesel manufacturing facility at our Strathcona refinery following the final investment decision announced earlier this year in January.

We also successfully started up the third boiler flue gas unit at Kearl as we continue to progress, an initiative that, once complete, is expected to reduce greenhouse gas emissions by up to 220,000 tons per year. And finally, we continued to demonstrate our commitment to shareholder returns by announcing a second quarter dividend of $0.50 per share, which is an increase of $0.06 per share or 14% versus the last quarter. With that, I'll pass things over to Dan.

Financial Update

Dan Lyons

Senior Vice President Finance and Administration, Imperial Oil Limited

Thanks, Brad. Starting with our financial results for the first quarter, we recorded net income of $1, 248 million, an increase of $75 million from the first quarter of 2022, driven by strong operating performance across all business segments. Looking sequentially, first quarter net income of $1,248 million is down $479 million from the fourth quarter of 2022, mainly driven by lower upstream realizations and weaker refinery margins.

Now, looking at each business line, the upstream recorded net income of 330 million, down $201 million from the fourth quarter net income of 531 million, reflecting lower realizations and seasonally lower volumes. Downstream net income was $870 million, down $318 million from fourth quarter net income of $1,188 million, reflecting lower refinery margins and lower volumes. Finally, our chemicals business continued to demonstrate strong and reliable operational performance with net income of $53 million in the first quarter, up $12 million from the fourth quarter.

Moving on to cash flow. We ended the first quarter with over $2.2 billion of cash on hand. In the quarter, we had negative cash flow from operating activities of $821 million compared to positive cash flow from operating activities of around $2.8 billion in the fourth quarter. As previously indicated, we were planning to and have now made an income tax catch-up payment of around $2.1 billion in the first quarter.

When we exclude the impact of this tax payment and other working capital impacts, we had positive cash flow of $1,554 million. As I have previously mentioned, we expect to be tax paying in 2023. Therefore, in addition to the catch-up tax payment we made in the first quarter, we expect to make regular tax instalment payments throughout the year and depending on our earnings, our instalments could be on the order of around $500 million per quarter.

Now discussing CAPEX. Capital expenditures totaled $429 million in the first quarter, up $133 million from the first quarter of 2022 and in line with our full year guidance of $1.7 billion. In the upstream, first quarter spending focused on smaller projects to sustain and grow production at Kearl, Cold Lake and Syncrude, as well as progressing our In-Pit tailings project at Kearl and our SA-SAGD Grand Rapids project at Cold Lake. Grand Rapids remains on track to be completed on an accelerated basis by the end of this year, about one year ahead of schedule. In the downstream, fourth quarter spending focused on progressing our renewable diesel project at Strathcona, which is planned to start up in 2025.

Shifting to shareholder distributions. In the first quarter of 2023, we paid $266 million of dividends. We continue to demonstrate our long-standing commitment to return cash to shareholders. A reliable and growing dividend is fundamental to our cash distribution strategy. And as Brad noted, we announced a $0.06 increase in our quarterly dividend this morning, increasing it to $0.50 per share payable in July. Now I'll turn it back to Brad to discuss our operational performance.

Operational Performance

Brad Corson

Chairman, President and CEO, Imperial Oil Limited

All right. Thanks, Dan. So now let's talk about our operating results for the quarter. Upstream production for the quarter averaged 413,000 oil equivalent barrels per day, which is down 28,000 barrels per day versus the fourth quarter of 2022, but up 33,000 barrels per day versus the first quarter of 2022. Now, if you adjust for the sale of XTO and the absence of XTO volumes versus the first quarter of 2022, we are actually up 48,000 barrels per day. The drop versus the fourth quarter of 2022 is really just a seasonal factor with the first quarter typically being a lower production quarter due to the winter weather conditions.

However, of note is a significant increase in production versus the first quarter of 2022 when we experienced issues from extreme cold weather. This increase was in large part driven by improved performance at Kearl as we successfully implemented revised winter operating procedures. In the quarter, we saw crude prices come down versus the fourth quarter of 2022. And although we also saw a slight narrowing of the WTI, WCS differential, overall bitumen realizations were down quarter over quarter.

I would also note that we continue to see an above mid-cycle refining margin environment, which helped to offset the wider crude differentials in the upstream. And I think that clearly highlights the value of our integrated model. So now let's move on and talk about Kearl more specifically. Kearl's production in the first quarter averaged 259,000 barrels per day gross, which was down 25,000 barrels per day versus the fourth quarter of 2022, but up 73,000 barrels per day from the first quarter of 2022. This represents the highest first quarter production in the asset's history. Another record for us.

Our previous best first quarter was 251,000 barrels per day in 2021. This best-ever performance was in large part a result of many of the steps we took at Kearl after the severe weather issues we saw in the first quarter of last year. We learned from that event and developed and implemented enhanced winter operating procedures, which have certainly paid off.

This record first quarter comes on the heels of our best-ever second half of the year in 2022, which demonstrates the sustainability of strong performance at Kearl and reaffirms our confidence in achieving 280,000 barrels per day in 2024. I would also point out that we have our annual planned turnaround at Kearl in the second quarter. It is scheduled to start in mid-May and run through mid-June and have an expected annualized impact of around 11,000 barrels per day gross.

Finally, turning to cash operating costs. We saw a decrease of almost US $2 per barrel versus the fourth quarter to just under US $25 per barrel. This is almost US $10 per barrel lower than the first quarter of 2022, reflective of the improved reliability year over year, as well as our continued discipline to improve our cost structure. Given a number of structural cost reduction initiatives we are working on, we continue to target sustainable unit cash operating costs at or below US $20 per barrel at Kearl, A key part of our operating cost focus is our effort to convert our haul trucks to driverless technology. At Kearl, we are now the first fully autonomous oil sands mining operator, meaning we have fully converted our active mine area to autonomous. 65 out of our 77 Caterpillar 797 haul trucks have been converted to autonomous and the remaining 12 are expected to be complete by the end of the second quarter.

Not only does this result in improvements in safety, but we also expect to see unit cash cost benefits of at least $1 per barrel with this technology. And we see potential for productivity upside around 10% to 15% relative to staffed trucks. And also at Kearl, we successfully started up the third boiler flue gas unit and plan on starting up the remaining three units this year as part of our efforts to reduce scope 1 emissions at Kearl. Once all six are up and running, they will have the potential to reduce greenhouse gas emissions by up to 220,000 tons per year by recovering waste heat from the boilers exhaust.

Cold Lake continues to perform very well also. First quarter production of 141,000 barrels per day marks the sixth consecutive quarter at or above 140,000 barrels per day. The 141,000 barrels per day was essentially flat versus both the prior quarter as well as the first quarter of 2022 and is consistent with the guidance we provided for the year of 135,000 to 140,000 barrels per day. The annual guidance reflects a planned turnaround at Cold Lakes Nabiye plant, which is scheduled to take place in the third quarter and have an annualized volume impact of around 2,000 barrels per day.

And finally, Grand Rapids Phase One continues to progress well against the accelerated timeline we talked about last quarter. Construction is now 65% complete, and we have finished drilling a total of 21 well pairs and are working through completions of those wells now with start-up of steam injection expected later this year.

Imperial's share of Syncrude production for the quarter averaged 76,000 barrels per day, which was roughly in line with the first quarter of 2022, but 11,000 barrels per day lower than the fourth quarter of last year due to some unplanned maintenance as well as an earlier start to the planned Coker turnaround, which started in late March. The turnaround is expected to run through the end of May and have an annualized volume impact of 8000 barrels per day. The interconnect pipeline continued to add value to the operation, enabling 2000 barrels per day of export sales in the quarter and an additional 4000 barrels per day of SSP production from imported bitumen, helping offset the volume impact of unplanned maintenance. This will also provide benefits during the current planned turnaround as well.

Now let's move on and talk about the downstream. In the first quarter, we refined an average of 417,000 barrels per day, which was down 16,000 barrels per day versus the fourth quarter, but up 18,000 barrels per day versus the first quarter of 2022, reflecting a utilization of 96%. This strong start to the year positions us well to meet our full year guidance of 92% to 94% utilization. The full year guidance accounts for a more typical level of planned turnaround activity this year, including a large planned turnaround at Strathcona, which started on April 3rd and is expected to run through late May. This is expected to have an annualized impact of 6000 barrels per day.

It's also worth noting that given our high levels of utilization in 2022, especially the second half of the year, we have adjusted the stated capacity of our refining network up by 5000 barrels per day or a little over 1%. This increase reflects the ongoing efforts at all of our refineries to continue to maximize the capabilities of these assets.

Petroleum product sales in the quarter were 455,000 barrels per day, which is down 32,000 barrels per day versus the fourth quarter of 2022 and up 8000 barrels per day versus the first quarter of 2022. The decrease versus the fourth quarter is reflective of typical demand fluctuations, and demand for all products remains stable with motor gasoline and diesel at around 90% to 95% of 2019 levels.

Jet fuel demand continues to show a steady recovery and Imperial's jet sales have exceeded industry average demand recovery and are above 2019 levels. While we have seen some softening of downstream margins versus the latter part of 2022, first quarter margins remain strong with diesel margins at seasonal norms and gasoline margins above seasonal norms providing a very favorable market for our downstream business.

A final note on the downstream. In the quarter, we successfully added diesel by rail capability at our Dartmouth terminal, which will allow us to back out diesel purchases and instead supply diesel from our own refineries. This is a good example of optimized logistics that will support increased refinery utilization and improve margin capture for our downstream business. And that brings us to chemicals.

Earnings in the first quarter were $53 million, which is up $12 million versus the fourth quarter of 2022 and down slightly from the $56 million in the first quarter of 2022. This advantaged business continues to deliver strong results despite being in a lower point in the business cycle, highlighting the value of having this business fully integrated with our Sarnia refinery.

Before I wrap up, I'll highlight one other item of note. With respect to the Pathways Alliance, we, along with the other member companies, continue to prioritize our progress on this critical project. The project's proposed carbon capture and storage network has now moved to the design stage, which includes the awarding of an engineering contract to develop detailed plans for the carbon trunk line to connect more than 20 oil sands facilities to the proposed storage hub. The work being done in this stage will support a regulatory application expected to be filed later this year.

In addition, two test wells have been drilled to support further evaluation of the geological characteristics of the storage formation and the results have been positive. This progress is very encouraging and marks a major milestone in our efforts to progress our plan to help Canada meet its climate goals and ensure our country remains a preferred global supplier of responsibly produced oil. We've also begun engagement with indigenous communities and are committed to working together to bring economic reconciliation for long-term generational prosperity to these communities. It is certainly what they are looking for and what we're looking for as well for them.

I'll wrap up by highlighting another very strong quarter. Our assets continue to perform well and at high levels of reliability, supporting a very strong start to the year. As we turn to the second quarter, we have a higher level of planned turnaround activity than we did in the second quarter of 2022, and we will be focused on executing this work safely and on time, and on budget.

Through 2023, we will remain focused on our strategy of maximizing shareholder value by getting the most out of our existing asset base through optimization and debottlenecking opportunities and delivering superior shareholder value. We will continue to focus on sustainability and make progress towards our carbon reduction goals in a thoughtful and pragmatic way.

As we talked about at our Investor Day, we are approaching the energy transition and our role in it in a very thoughtful way that ensures we preserve the value of our existing business while at the same time responding to the changing needs of our customers, communities and society. And we will continue to bring a disciplined focus to our capital investments as we execute key projects such as our Strathcona Renewable Diesel Project and our Grand Rapids Phase one. And as always, we will look to efficiently return excess cash to our shareholders.

When I think about the quality of our assets, our focus on maximizing the benefits of our integrated nature and the competitive advantage we feel this brings, as well as our plans to deliver on select high return growth opportunities. I have a tremendous amount of confidence in our ability to continue to drive superior shareholder value. 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 Dave. Thank you.

Q&A

Dave Hughes: Hey, thanks, Brad. We'll go to the Q&A now. I just remind everybody, please, if you could limit yourself to one question plus a follow-up that ensures we can get in everybody's questions. So with that, operator, I'll turn it back to you to open up the Q&A line.

Operator: Thank you. If you 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. Our first question comes from Dennis Fong with CIBC World Markets. And your line is open.

Dennis Fong: Hi. Good morning. And thanks for taking my questions. My first one here maybe just follows along some of your last comments there, Brad, on GG mission-focused as well as the Pathways Initiative. When you think about spending on some of these projects that could capture carbon from your existing operations and given its proximity to obviously the potential Cold Lake region injection facility, how do you think about we'll call it either triggers or key points, which would allow you to feel more comfortable about starting to deploy incremental capital towards Imperial's specific capture projects? And then how do you think about the cadence of that? Obviously, understanding that's more of kind of a 2027 timeframe for those initiatives.

Brad Corson: Yeah. Thanks for the question, Dennis. And you're exactly right. There are some, if you will, financial advantages to the proximity of our Cold Lake operation and the planned sequestration hub also in the Cold Lake area. And for that reason, we anticipate that our Cold Lake CCUS project, our very first capture project, will be in that Cold Lake area. And we think it could be one of the very first projects for the whole Pathways Alliance. Again, because of that advantage, proximity to the hub, which as a result does not require the completion of the trunk line.

So we're quite encouraged to advance that project. We are already progressing some preliminary design work to prepare for that. Longer term, though, as we think about the massive investments that will be required for the complete Pathways Project, building the major trunk line, ultimately connecting 20 different sites there still continues to be a lot of work to do to fully define all of the regulatory requirements, the fiscal support that's needed.

We're making good progress on that. But we still have a way to go both with the federal government, the provincial government. But we're still optimistic that that trunk line can be built and operational prior to 2030, as well as many projects connected to it. And that obviously is a key enabler to helping the country meet its climate goals, carbon intensity goals.

And so we're going to continue that endeavor and continue those engagements and continue to progress the project. And as I mentioned, even with the trunk line, despite some of those uncertainties, we're already spending money on engineering, on field studies, engagements with indigenous communities because we're committed to seeing this project move forward and see it be a success.

Dennis Fong: Great. Great. Really appreciate that color there, Brad. My next question, maybe a little bit more directed towards Simon. It's really around Grand Rapids. Imperial has a lot of experience, frankly, in the region as well as the geology in the region as well. Can you highlight either some of the learnings or the work that has been done that helps increase the confidence in both the timing of the ramp-up for Grand Rapids as well as the ability to achieve the productive capacity of at least 15,000 barrels a day?

Brad Corson: Yeah. Thanks for that question, Dennis and I will let Simon answer it. But first, I'll just say we're super proud of the results we're delivering at Cold Lake and the projects that we're progressing like Grand Rapids, like the Leming redevelopment. We just talked about carbon capture. All those projects continue to position our Cold Lake business as one of the most competitive assets in our portfolio but also positions those assets for a lower carbon future. But with those kind of broader comments, let me ask Simon to talk maybe more specifically about our confidence in delivering Grand Rapids.

Simon Younger: Yeah, no worries. Thanks, Brad. And maybe just to quickly repeat sort of the strategic context for that investment at Cold Lake. As you've heard me say, and describe quite a bit, our plan for Cold Lake is to really build and then maintain a plateau production in the 140 to 150 KBD range at Cold Lake. At the same time maximizing value and cash flow of the asset and also lowering the greenhouse gas intensity of the asset. And the Grand Rapids Phase One project, as I outlined at the Investor Day, is a really, really key part of that overall puzzle. And we also had talked about the fact that we've captured some opportunity from a project execution standpoint to accelerate that and bring that forward about sort of six months versus the going in view on that.

As to your specific question around our confidence, I would answer that in two parts. I think from a subsurface standpoint, we have very, very high confidence. We understand this is a new part of the reservoir, a new reservoir horizon that will be developing. But we've drilled many, many hundreds if not thousands of wells through that Grand Rapids reservoir into the Clear Water where we're producing from today. And so we understand, I think, the subsurface very, very well. But it is new technology. This will be our first SAGD operation. And we've also talked about obviously, it's going to be solvent, assisted SAGD and it's going to be the first SA-SAGD operation in industry.

So we're putting a lot of effort into preparing for that operationally and understanding what we need to do to bring on our first SAGD operation in Imperial. We've put staff on that have SAGD operating experience, both technical and operating staff. We've gathered the best expertise in industry to help us plan for and execute the completions on those wells. They're very different than what we are accustomed to and what we've developed over the past many decades. And we've got the start-up procedures are quite different.

The way we bring that continuous process online is very different than the way we bring on CCS and Laser and the other technologies we've deployed. So high confidence but high recognition as well that it's new technology for us. It'll be our first SAGD operation. And I think we've employed the right expertise and got the right operations readiness and start-up plan to bring that online safely and see early operational success. I hope that addresses the question.

Dennis Fong: No, it definitely does. Really appreciate the color both of you. And I'll turn it back now. Thanks.

Simon Younger: Thanks, Dennis.

Operator: Once again, if you would like to ask a question, please signal by pressing star one on your telephone keypad. And our next question comes from Menno Hulshof with TD Securities. Please go ahead.

Menno Hulshof: Good morning, and thanks for taking my questions. I'll start with a question on your diesel by rail capability at Dartmouth. I'm assuming it's fairly immaterial since I don't – I was just going through the transcript and I don't see any specific commentary from your Investor Day, but maybe you could just elaborate on volumes and whether there is more work to be done there.

Brad Corson: Yeah, I might ask Jon to comment on it. It is a key logistics project for us that we feel quite excited about. Maybe Jon share a few more details about it.

Jon Wetmore: Sure. Happy to. Yes. This is a new capability that we've installed at the Dartmouth terminal. If you recall that's a former refining site that we had and we've been working over the last several years to try to fill out its capability as a terminal. And that's always a bit challenging. Trying to turn an old refining site into a terminal requires a fair bit of persistence to convert the tankage over and the lines that run to and from the marine dock. So we've been working our way through that for the last several years.

One step we did before diesel was that we installed ethanol blending capability at the site, which is really important for our gasoline business in the area and for overall biofuel capability. The diesel piece, I won't comment exactly on the capacity that we have there. It's pretty nominal. We're getting into the early stages of how big can it be. Moving railcars from Ontario into Nova Scotia is a little bit challenging.

There's not a lot of rail routes there. It really requires a good solid rail partner and we're blessed to have a good partner there. We'll continue to try to build out our capability over time. It has a lot to do with the seasonality of diesel, including furnace fuel, which is a really big product that sells in the wintertime in Halifax and in the Nova Scotia area. So we'll continue to build it out. We're really pleased to have taken this first step.

Brad Corson: And maybe I could just supplement Jon's comments just by highlighting from a geographic standpoint, during the winter months when the seaway is closed, we don't have direct access to that region historically. During other parts of the year, it's all marine access for us. But having this rail logistics allows us to serve that market directly during the winter months when the seaway is closed. So again, provides some really advantage to logistics for us.

Menno Hulshof: Terrific. Thanks for that. And I've just got a quick follow-up question on Dennis's Cold Lake CCS. The first piece, how much overlap and coordination is there on that project with Pathways Alliance, or should it be viewed as more of a standalone Imperial initiative? And then with the understanding that you're probably not in a position to talk about cost today, like is there a cost share there? And I suppose the final piece of that would be when do you think you're going to be in a position to provide more information on the bookends on cost on that specific project?

Brad Corson: Yeah, thanks for that. You're exactly right. This is a project that we can advance independently of pathways. But all of the carbon capture projects as well as the trunk line are still being coordinated through pathways. But we don't need the trunk line. We sit right on the pore space that's designated for the hub. And so consequently, we can advance it at an earlier schedule than many of the Pathways Project, but it's still integral to the whole objective of getting the industry to net zero by 2050. And the interim goals we've set out for 2030 and 2040.

It's also important to note that as we look at decarbonizing Cold Lake, it's a multifaceted approach where we're continuing to implement new solvent technologies like we just discussed with Grand Rapids SS SAGD significantly lower greenhouse gas intensity. And so again, it's all of those initiatives together that allow us to continue to reduce our greenhouse gas intensity.

In terms of the costs, we're not ready to share those details yet. But it's worth noting that as we look at the economics of the project, we would expect it to compete with other projects in our portfolio. And that's key to all of our capital investment philosophy, the discipline we're bringing. So I'll maybe just leave it there.

Menno Hulshof: And just two to clarify, you typically talk about sort of a 15 plus percent return to compete.

Brad Corson: Yeah. Its double-digit returns is certainly what we're looking for and expecting.

Menno Hulshof: Terrific. Thanks, Brad.

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

Neil Mehta: Good morning, team. My first question is just around return of capital. Remind us again when you get to that inflection point on the NCIB and you can re-up that and then also talk about the SIB. And I think you telegraphed well at the Analyst Day that there was a heavy Q2 turnaround. So maybe it was a likely back half event. But to the extent that this is the case, do you expect it to just be a larger cumulative dollar amount? Thank you.

Brad Corson: Yeah. Thanks for that question, Neil. Both Dan and I love talking about returning cash to our shareholders and Dan is kind of chomping at the bit to share his perspectives on that because it is core to our company and our strategy. And what we've kind of revealed today with the dividend increase is just one component of that as we look to the future.

Dan Lyons: Yeah. Hey, thanks, Brad. Thanks, Neil, for the question. Yeah, look, we have renewed for quite a number of years now our NCIB at the max 5% level that we can very late June. So effectively call it July 1st. And that's clearly our plan going forward. And our base philosophy is completely unchanged. We are committed, as we always have been, to return surplus cash to shareholders, and we'll continue to do that.

So you look, we're very optimistic about how this year is starting to unfold and the commodity price environment and our operational performance. And to the extent that all comes to pass, we'll be returning significant cash to shareholders over the back part of the year. But obviously, we have to see what the market gives us. But we are absolutely philosophically committed to returning that surplus cash as we have been for some time. And as we've demonstrated, last year was a great example.

Neil Mehta: Yeah, you've been very consistent on this. The follow-up is on the quarter it was obviously an earnings beat versus a consensus, but it was more in line from a cash flow perspective. It looks like there was this other delta on the cash flow statement. I'm guessing a bunch of cats and dogs, but maybe, Dan, you can walk through what some of those items were.

Dan Lyons: Yeah, I think that's probably not a bad description. A bunch of cats and dogs. I think the line is labeled. I think all other items net, if I'm not mistaken. So yeah, there's a number of things in there and obviously, there's stuff that's not working capital and are in other lines on the cash flow and they tend to be long-term sort of payable, receivable type stuff or liabilities.

So there's a number of things in there, Neil. So it's longer-term tax payments, pension adjustments, things of this sort. And it kind of that line kind of bounces around. I wouldn't read too much into it. It was a little higher than usual this past quarter, which you're right, it did impact ultimately our cash flow number after working capital that we talked about.

Neil Mehta: Okay. That's really clear. Thanks, guys.

Operator: This does conclude today's question and answer session. At this time, I would like to turn the conference back to Dave Hughes for any additional or closing remarks.

Dave Hughes: Thanks. Yeah, I'd just like to thank everybody for joining us this morning. So that brings our first quarter earnings call to an end. If anybody has any further questions, as always, please feel free to contact anybody here on the IR team. Thank you.

Operator: This concludes today's call. Thank you for your participation and 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	**2023**	2022
From Imperial's Consolidated statement of cash flows		
Cash flows from (used in) operating activities	**(821)**	1,914
Less changes in working capital		
Changes in operating assets and liabilities	**(2,375)**	695
Cash flows from (used in) operating activities excl. working capital	**1,554**	1,219

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	**2023**	2022
From Imperial's Consolidated statement of cash flows		
Cash flows from (used in) operating activities	**(821)**	1,914
Cash flows from (used in) investing activities		
Additions to property, plant and equipment	**(429)**	(304)
Proceeds from asset sales	**14**	24
Loans to equity companies - net	**1**	1
Free cash flow	**(1,235)**	1,635

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 2023 and 2022.

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 serve 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

millions of Canadian dollars	Three Months	
	2023	2022
From Imperial's Consolidated statement of Income		
Total expenses	**10,476**	11,152
Less:		
Purchases of crude oil and products	**7,478**	8,350
Federal excise taxes and fuel charge	**529**	479
Depreciation and depletion	**490**	426
Non-service pension and postretirement benefit	**20**	4
Financing	**16**	7
Total cash operating costs	**1,943**	1,886

Components of cash operating costs

millions of Canadian dollars	Three Months	
	2023	2022
From Imperial's Consolidated statement of Income		
Production and manufacturing	**1,756**	1,659
Selling and general	**186**	225
Exploration	**1**	2
Cash operating costs	**1,943**	1,886

Segment contributions to total cash operating costs

millions of Canadian dollars	Three Months	
	2023	2022
Upstream	**1,288**	1,251
Downstream	**568**	503
Chemicals	**84**	77
Corporate / Eliminations	**3**	55
Cash operating costs	**1,943**	1,886

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							
	2023				2022			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**1,287**	**558**	**302**	**399**	1,249	521	322	348
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**1**	**—**	**—**	**—**	2	—	—	—
Cash operating costs	**1,288**	**558**	**302**	**399**	1,251	521	322	348
Gross oil-equivalent production (thousands of barrels per day)	**413**	**184**	**141**	**76**	380	132	140	77
Unit cash operating cost ($/oeb)	**34.65**	**33.70**	**23.80**	**58.33**	36.58	43.86	25.56	50.22
USD converted at the YTD average forex *2023 US$0.74; 2022 US$0.79*	**25.64**	**24.94**	**17.61**	**43.16**	28.90	34.65	20.19	39.67

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