Imperial Q2 2023 Earnings Call

Friday July 28, 2023

Welcome & Cautionary Statement

Dave Hughes

Vice President Investor Relations, Imperial Oil Limited

Thank you, and good morning, everybody. Welcome to our Second Quarter Earnings Call. I'm joined this morning by Imperial's senior management team, including, Brad Corson, Chairman, President, and CEO; Dan Lyons, Senior Vice President, Finance and Administration Sherri Evers, Senior Vice President of Sustainability, Commercial Development & Product Solutions; and Simon Younger, Senior Vice President of the Upstream. A cautionary statement, today's comments include reference to non-GAAP financial measures. The definitions and reconciliations of these measures can be found in Attachment six of our most recent press release, and are available on our website with the link to 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 in our second quarter earnings release that we issued this morning, as well as our most recent Form 10-K. All of these documents are available on SEDAR, EDGAR, and on our website. So, please refer to those.

So, I will hand it over to Brad and to Dan to go through their remarks. And as always, we will follow-up after that with a Q&A session. So, Brad, over to you.

Opening Remarks

Brad Corson

Chairman, President and CEO, Imperial Oil Limited

Thank you, Dave. Good morning, everybody, and welcome to our second quarter earnings call. I hope everyone is doing well.

Before addressing the financial and operating results for the quarter, I wanted to take a moment to talk about the serious wildfire situation in Alberta, and across many parts of the country that has been present now for over the past few months, and continues in many areas today. Our thoughts continue to be with the many communities that were, and continue to be impacted by these fires and related evacuations. Throughout this challenging time, Imperial is working directly with communities to help address emergency requests, including donating safety equipment, and personal protective gear to firefighting crews, ensuring local supplies of jet fuel for firefighting planes. And our employees are helping deliver items donated by the company, such as water and nonperishable food to those impacted by the wildfires, as well as the first responders. I'd also like to send a heartfelt thank you to all the emergency services that have been doing such a tremendous job in battling these fires, and providing assistance and support to the impacted communities.

Now, let's talk about our second quarter performance. The results we will talk about over the next several minutes are reflective of a quarter that included a significant level of planned maintenance at three of our major assets. And I'm pleased to say that all the work was completed safely, and consistent with our plans. And while we still have major planned turnaround work ahead of us, in particular, a turnaround at our Sarnia refinery and chemicals site later this year, we expect to see stronger volumes in the second half, most notably in the Upstream. The second quarter also saw continued strength in a commodity price environment. While we saw some moderation in diesel cracks, motor gasoline strengthened, and crude remained relatively steady, while WCS prices improved. All in all, a positive environment for us, as we move into the second half of the year.

So, now, let's review the second quarter results. Earnings for the quarter were $675 million, with cash from operating activities of over $1.1 billion when excluding working capital impacts. These results are notable in that they demonstrate continued strong performance in a period where we were executing a significant amount of planned maintenance activity, both in the Upstream and the Downstream.

In the Upstream, production in the quarter was 363,000 gross oil equivalent barrels per day, reflecting the impacts of major planned maintenance at Kearl and Syncrude. I'll talk about each asset in more detail in a few minutes, but I'm pleased to say that this work was executed as per our plans, and operations are now back to normal at these two assets. We still have some planned maintenance scheduled for the second half of the year, but it is much less significant. And given our first half performance, we are moving into the second half of the year with confidence in the production guidance we have provided.

Our Downstream business also performed very well. Refining throughput averaged 388,000 barrels per day, which equates to refinery utilization in the quarter of 90%. This reflects a very successful major planned turnaround at Strathcona, which is our largest refinery. Operations are back to normal here as well. We ended the second quarter with year to date utilization of 93%, which is right on our guidance for our refining business. While we do have another significant planned turnaround at our Sarnia facility in the second half of the year, which impacts both the refinery and our chemical operations, we are confident in our plans and ability to deliver on our full-year guidance.

We have talked a fair bit about our priorities as they relate to greenhouse gas emissions reduction, both our own and those of our customers. And I have a couple of exciting updates on our efforts in this area. Our Kearl mining facility received its first shipment of renewable diesel for use in our heavy-duty truck fleet. And we passed a significant milestone with respect to our renewable diesel project at Strathcona, as we began mobilizing key contractors to the site to begin facility construction work.

On shareholder returns, in addition to announcing a $0.50 per share dividend this morning, in late June, we also announced the renewal of our normal course issuer bid under which we plan to repurchase 5% of our outstanding shares, which amounts to around 29 million shares. And as you would have seen in our earnings press release this morning, we have decided to accelerate the buyback program with the intention of having it completed prior to the end of this year. As we have a long track record of shareholder returns, and this underscores our continued commitment to returning surplus cash to shareholders in the most effective and efficient way possible.

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

Financial Update

Dan Lyons

Senior Vice President Finance and Administration, Imperial Oil Limited

Thanks, Brad. In the second quarter, we reported net income of $675 million, a decrease of about $1.7 billion from the second quarter of 2022, reflecting lower commodity prices and significant turnaround activity. Looking sequentially, second quarter net income of $675 million is down $573 million from the first quarter, mainly driven by significant turnaround activity in the Upstream and Downstream, and weaker Downstream refining margins, partially offset by recovering Upstream realizations. Now, looking at each business line, the Upstream reported net income of $384 million, up $54 million from the first quarter net income of $330 million, reflecting higher realizations partly offset by lower volumes mainly from the turnaround activity at Kearl and Syncrude. The Downstream's net income was $250 million, down $620 million from the first quarter's net income of $870 million, reflecting planned turnaround activities at the Strathcona refinery, and lower refining margins. Finally, our Chemicals business continues to demonstrate strong and reliable operational performance, with net income of $71 million in the second quarter, up $18 million from the first quarter.

Moving on to cash flow, in the second quarter we generated $885 million in cash flows from operating activities, an improvement of about $1.7 billion over the first quarter, reflecting the absence of the income tax catch-up payment we made in the first quarter of around $2.1 billion. Excluding working capital effects of $251 million, cash flow from operating activities for the second quarter was $1.136 billion, down about $400 million from the first quarter. We ended the quarter with just under $2.4 billion of cash on hand.

Going on to Capex, capital expenditures totaled $493 million in the second quarter, up $179 million from the second quarter of 2022, and in line with our plans and full-year guidance of $1.7 billion. In the Upstream, second quarter spending focused on smaller projects to sustain and grow production, as well as progressing the in-pit tailings project at Kearl, and the 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 in line with our previous updates about one year ahead of schedule. In the Downstream, second quarter spending focused on progressing our renewable diesel project at Strathcona. This project is planned to start up in 2025.

Shifting to shareholder distributions, in the second quarter of 2023, we paid $257 million of dividend as Brad noted, in line with our longstanding commitment to return cash to shareholders. On June 27th, we announced the renewal of our normal course issuer bid. This NCIB allows us to purchase up to 5% of our outstanding shares. While we started purchasing the shares relatively over a 12-month period, we plan to accelerate the share purchases and the finish the program prior to year-end. Lastly, this morning we announced the third quarter dividend of $0.50 per share payable on October 1. Now, I will turn it back to Brad to discuss our operational performance.

Operational Performance

Brad Corson

Chairman, President and CEO, Imperial Oil Limited

Thanks, Dan. So, now let's talk about our operating results for the quarter.

Upstream production for the quarter averaged 363,000 oil equivalent barrels per day, which is down 50,000 barrels per day versus the first quarter. Coincidentally, this is also down 50,000 barrels per day versus the second quarter of 2022. But when adjusting for the sale of XTO, we are down around 35,000 barrels per day year on year. The slower production was driven primarily by the major turnaround work that was completed in the quarter at both Kearl and Syncrude, as well as some production and steam cycle timing impacts at Cold Lake. The turnaround work executed in the quarter was completed safely, and as per plan.

In the quarter, we saw WTI crude prices come down slightly versus the first quarter. But we also saw a material tightening of the WTI-WCS differential, resulting in overall bitumen realizations being up quarter over quarter. On the petroleum product side, we saw continued softening of diesel prices, but gasoline strengthened leading into the summer driving season. And as result, overall refining margins remained above mid cycle. So, now let's move on and talk about Kearl.

Kearl's production in the second quarter averaged 217,000 barrels per day gross, which was down 42,000 barrels per day versus the first quarter, and down 7,000 barrels per day from the second quarter of 2022. Production in the quarter was impacted by our annual planned turnaround, which as I noted was completed on schedule, and also on budget. With this work behind us, we are looking to a strong second half of the year, which we are already demonstrating. With July expected to come in at around 285,000 barrels per day, which is approaching our best ever July of 287,000 per day gross. This is in line with our full-year guidance of 265,000 to 275,000 barrels per day gross. Now turning to cash operating cost, while we saw an increase versus the first quarter due primarily to the planned turnaround activities, we also saw a decrease of about $3.50 USD per barrel versus the second quarter of 2022, a quarter where we also had a major turnaround. Year to date cash operating cost at Kearl are just over $26 USD per barrel, which is about $6.50 US per barrel lower than the first half of 2022. This is the trending cost we are expecting to see as we continue to work towards our target of sustainable unit cash operating costs at or below $20 USD per barrel at Kearl. And as for a quick update on our autonomous oil program at Kearl. As of the end of the quarter, 73 out of our 79 Caterpillar 797 heavy haul trucks have been converted to autonomous. And the remaining trucks are expected to be complete by the end of the third quarter.

I'm also pleased to provide you with an update on the Kearl environmental protection order, which has been a key focus area for us. In the second quarter, we completed construction work on the key mitigation efforts to expand the existing seepage interception system. These expansions included additional drainage structures, pumping wells, and vacuum systems. Now that construction is complete and systems are fully operating, our focus is on continuous monitoring and gathering additional data to ensure these mitigation measures are working as intended. Additional assessment work will occur in the coming months and will include additional delineation drilling work in the area to determine, if any further mitigations are required. We will continue to engage with the local indigenous communities to provide updates, and we continue to provide access for site tours and independent testing. To date, there is no indication of adverse impacts to wildlife or fish populations in nearby river system nor risk to drinking water for local communities. I would also like to say again how deeply apologetic we are to our indigenous partners for this unfortunate situation. We are committed to rebuilding the trust we have lost. And as you can see, we have been working very hard to correct the issue, and ensure that it does not happen again.

As noted earlier, I'm also very pleased to announce that at Kearl, we started using renewable diesel in the heavy truck fleet for the first time. This will allow us to demonstrate the suitability of lower emission renewable diesel for use in heavy equipment applications across our customer base.

Moving to Cold Lake. Cold Lake production for the second quarter averaged 132,000 barrels per day, which was 9,000 barrels per day lower than the first quarter, and 12,000 barrels per day lower than the second quarter of 2022. The lower second quarter production was mainly driven by production and steam cycle time, which as you know is not unusual for Cold Lake since it is predominantly using cyclic steam stimulation technology. Even with the lower production in the second quarter, we remained within guidance on year to date basis, and therefore, expected to deliver full-year production of 135,000 to 140,000 barrels per day. This guidance reflects a relatively minor planned turnaround at Cold Lake's Nabiye plant, which is scheduled to take place in the third quarter with an annualized volume impact of around 2,000 barrels per day.

Next, I would like to provide a brief update on Grand Rapids Phase One. As you know, this is another key project that will impact our emissions reduction plans and focus on profitable production growth. So, I'm pleased to say that the project continues to progress very well against the accelerated timeline we communicated late last year. All well pairs have now been drilled and completed, and construction is around 80% complete. The project remains on track with startup of steam injection expected later this year. Once fully online, the Phase One of the project is expected to produce around 15,000 barrels per day.

And I would also like to address a recent issue at our Cold Lake Mahihkan plant where a flock of Canadian geese came into contact with oil in a lined process water lagoon. The 12 birds have been taken to a rehabilitation center, where they have been assessed, and are being cleaned, and cared for. We are monitoring their status, and they are currently good condition. We provided immediate notification to regulators and local communities, and continue to provide regular updates accordingly. Cleanup of the oil, which totals approximately 6 barrels, is nearly complete. And we have put additional measures in place to protect wildlife including surveillance, decoys, and flags as well as additional noise cannons. I'm disappointed that this has occurred, and we will be making every effort to learn and apply any preventive steps that are identified.

Now, a few comments on Syncrude. Imperial's share of Syncrude production for the quarter averaged 66,000 barrels per day, which was down 10,000 barrels per day versus the first quarter, and down 15,000 barrels per day versus the second quarter of 2022. The main factor in the lower production was turnaround timing. In 2022, Syncrude's main planned turnaround began in the third quarter. This year, the timing was advanced with the planned maintenance starting on March 22, and continuing for 63 days. The turnaround went well, and was completed on schedule. Syncrude also experienced some bitumen production issues related to poor weather conditions and unplanned reliability events, which impacted production in the quarter. The interconnect pipeline continued to add value to the operation, enabling around 4,000 barrels per day of SSP production from imported bitumen, helping offset the volume impact of the reliability events. Looking ahead to the second half of the year, Syncrude has a planned hydrotreater turnaround scheduled to start in mid-August, and continue into early fourth quarter running around 60 days. The expected impact is 12,000 barrels per day in the quarter.

Now, let's move on and talk about the Downstream. In the second quarter, we refined an average of 388,000 barrels per day, which was down 29,000 barrels a day versus the first quarter, and down 24,000 barrels per day versus the second quarter of 2022, reflecting a utilization of 90%. Coming off a very strong first quarter, we entered into a major planned turnaround at Strathcona, our largest refinery. The turnaround started April 3, and continued for 57 days at a cost in line with the guidance we provided of around $120 million. The team delivered a safe and successful turnaround, executing a significant scope of work over a shorter period of time than in the past, a remarkable achievement so congratulations to the team. Year to date utilization of our refinery sits at 93%, so we are right on track to deliver on our guidance of 92% to 94%. Also, please keep in mind that we have another large turnaround plan for the late third quarter and into the fourth quarter at our Sarnia site. This turnaround also includes the chemical plant, and is expected to run for six or seven weeks with an annualized crude throughput impact of 9,000 barrels per day, and a cost of around $165 million, which includes the chemical scope.

Finally, I'd also like to wish Strathcona refinery a happy 75th anniversary. July 17th marks 75 years of operations at the facility. And while the facility has changed dramatically in that time, a few things have remained quite constant, being a safe and reliable operation, as well as a good neighbor to the community over those 75 years. Congratulations to the entire Strathcona team, past and present, and thanks to all of our business partners and stakeholders for your long standing support.

I mentioned earlier, that we've reached an important milestone with our Strathcona Renewable Diesel Project as we began mobilizing key contractors to the site to commence construction. The project is progressing well, with detailed engineering and equipment fabrication progressing as per plan. Currently, construction activities are focused on underground infrastructure work and tank foundation installation. The project is currently on schedule for a 2025 startup.

Petroleum product sales in the quarter were 475,000 barrels per day, which is up 20,000 barrels per day versus the first quarter, and down 5,000 barrels per day versus the second quarter of 2022. The increase versus the first 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 strengthen, and remains above 2019 levels. I would also note that being able to continue to supply strong sales demand like we saw in the second quarter, even with our largest refining asset offline for planned maintenance is a testament to the detailed planning that went into the event. Our thanks go out to the team for managing this so effectively. On crack spreads, diesel margins softened quarter over quarter, but have leveled out, and are now showing some signs of strengthening, and are well within the five-year band. Motor gasoline cracks strengthened throughout the quarter as we entered into the summer driving season, and they also remained strong versus last year, but currently at the top of the five-year band.

And that brings us to Chemicals. Chemicals delivered strong results with earnings in the second quarter of $71 million, which is up $18 million versus both the first quarter of this year, and also the second quarter of 2022. As mentioned, we have some major planned maintenance at the Sarnia site scheduled to start later in the third quarter. This includes the chemical facility, although sales are not expected to be materially impacted.

One other item, I wanted to mention was a quick update on progress on the Pathways Alliance. Imperial continues to be actively involved in the Pathways discussions with the government regarding the fiscal policy and regulatory certainty, which is needed to progress this critical project. Conversations to date have been collaborative, productive and focused on a deeper understanding of our foundational project, and working towards meeting due diligence requirements for the government's financial support. We have also started to engage with indigenous communities, which is a high priority for us. Engineering and field work is also underway to support the regulatory application for the Foundational project expected to be filed later this year. So, a lot of work underway by the six member companies to progress this unprecedented project in support of Alberta's and Canada's net zero goals by 2050 for scope 1 and 2 emissions.

So to wrap up, this was a solid quarter, underpinned by successful execution of significant planned maintenance at three of our major facilities. This work was completed safely, on time and on budget, enabling us to minimize the impact of having the facilities offline. But we're not finished. We have another large turnaround at our Sarnia facility, as well as a relatively small planned turnaround at Cold Lake, and a planned hydrotreater turnaround at Syncrude. So, the focus will remain on executing this work as safely, efficiently, and effectively as we did in the second quarter.

And as we look forward to the second half of the year, we are targeting a strong finish. We will continue to focus on shareholder returns. And as we announced this morning, we are accelerating our recently renewed NCIB with the intent of completing it prior to the year end. And as cash balances allow, we will continue to evaluate additional opportunities to return excess cash to our shareholders. We will continue to focus on sustainability and make progress towards our emission reduction goals in a thoughtful and pragmatic way. Today, we talked about a few milestones in pursuit of these goals, including progress in our Renewable Diesel Project, receiving the first shipment of renewable diesel at Kearl for use in our heavy haul trucks, progress towards completion of Grand Rapids Phase One, and continued work on Pathways. 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 business, while at the same time responding to the changing needs of our customers and communities. And a key priority continues to be improving our environmental performance, and fully addressing the recent incidents at Kearl and Cold Lake.

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.

Q&A

Dave Hughes: Thanks, Brad. We'll jump into the Q&A session now. As always, we'd appreciate if you could limit yourself to one question plus a follow-up, and that just helps us ensure we can get as many questions in as possible. So, with that, operator, could you please 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're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. We'll go first to Manav Gupta with UBS.

Manav Gupta: Good morning, guys. We are seeing a very strong rebound in refining cracks all across US. You have a unique portfolio whereby you are levered to East Coast crack, Chicago cracks, as well as the West Coast crack. And you have a track record of actually capturing that crack. So, as we look at the second half of this year, what's the outlook for refining, given a very strong rebound in cracks, and that it looks like you're running much harder than the first half?

Brad Corson: Yeah, thanks for the question. And I think you characterized it quite accurately. We are in a unique position here in Canada with three large refining assets, both in the east and the west part of the country. We've got well-established infrastructure network, and all of that system together, coupled with other integration with our Upstream gives us a unique competitive advantage, and allows us to fully extract value from the market.

As we look to the second half of the year, we continue to have a very strong view of the market. And certainly, our priority will be to capture that. We do have the large turnaround, as I mentioned a couple of times. But we think even with that we are still in a very strong position to finish out the second half of the year. And, of course, those turnaround activities, both at Strathcona, the first part of the year, Sarnia the second half of the year, position us to continue to operate not only in a safe manner, but a very reliable manner, and fully maximize the utilization of these assets going forward so we can respond to market demands. Thanks for that question.

Manav Gupta: Perfect. My quick follow-up here is, on Kearl, help us understand some milestones, and what we can look for as you try and bring that cost down towards your target of $20 per barrel?

Brad Corson: Yeah, thanks for the question. We're quite encouraged by the progress so far this year with our cost structure. I commented on the autonomous haul trucks. Those continue to be a cornerstone of our cost structure, and so delivering on full autonomy adds significant value to us. We talked about the turnaround, now putting that turnaround behind us, but noting, that we completed it in a very cost-effective way also contributes to our overall cost structure. And then there are several examples where we are fully leveraging technology to also improve our cost.

And all of that speaks to kind of the numerator of the unit cost, but equally important is the denominator. At Kearl, we obviously, have a large fixed cost investment out there, so the more volume that we can produce will drive our unit cost down. And so, I talked about kind of our volumes performance for the first half of the year. The first quarter was, you may recall, a record, I mean, yeah, a record first quarter for us. The second quarter, which I just discussed was actually our third highest second quarter. When you put that all together, it's our second highest first half of the year. On the heels of last year, our highest second half of the year. So, the message being, we continue to set records at Kearl. And it's that momentum that I believe is going to drive us to a very strong second half volumes performance. And that will continue to drive our cost structure down to the $20 per barrel target that we set.

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

Brad Corson: Yeah, thank you.

Operator: We'll go next to Greg Pardy with RBC Capital Markets.

Greg Pardy: Hey, thanks. Good morning, and as always, thanks for the super detailed summary, Brad, and Dan, and others. Want to ask you a couple of questions. Maybe to come back to Pathways, so you are not as dependent on the pipe coming down from a sequestration standpoint or at least you would be able to, I'm assuming, get ahead of the queue a little bit in terms of actually injecting CO2 at Cold Lake. Is that the right characterization? And then how material could that be if you can start injecting in 2026 or 2027 versus 2029? Have I got that right?

Brad Corson: Yeah, you do, Greg. When you step back and you look at the whole Pathways project, focused on 95% of the oil sands production we have. The cornerstone of the project is this foundational pipeline running from the north, around Ft. McMurray all the way down to Cold Lake. And along that way, there are probably 20 different operations that ultimately would get tied in. But at the very end of that pipeline is where Cold Lake sits. And so, we have the advantage, with Cold Lake, that we can start decarbonization activities, carbon capture activities without being dependent on a pipeline -- a big trunk line to transport those to the sequestration site where the pore space is.

Now, the pore space that we will be using is all part of the Pathways Alliance of pore space award from the Alberta government. So, we will be accessing that. So, we view Cold Lake as an integral Pathways project, but it does not require the pipeline. So, it does have the potential to start off well in advance of the pipeline in the late 2020s, but targeting well in advance of 2030. So, our technical teams are actively working on that project. It has a material impact. I don't have the tonnes right in front of me. But as we've said for Imperial, we are targeting a 30% reduction in our greenhouse gas intensity by 2030, and Cold Lake carbon capture is a key component of that.

Greg Pardy: Okay, terrific. And I'll shift gears now maybe completely, and it's a bit of a holistic question, but it's probably a question aimed at Dan. But I'm just curious. I want to come back to your capital structure and then where your comfort zone is as a CFO in terms of kind of cash balances and long-term debt, particularly on cash balances. Is $2.5 billion like a nice minimum place to be? And then how does that then connect a little bit to the NCIB and SIB? And obviously, I know you're not going to spend money you don't have, and so on, but I'm just trying to better understand that capital structure in terms of how we're thinking about this going forward.

Brad Corson: Well, Greg, I love talking about our capital structure and capital allocation as well, especially with kind of the very aggressive plans that we've laid out, and we continue to deliver on. But I'm going to let Dan kind of go through some of those details because he loves it too.

Dan Lyons: Thank you, Brad. Yes, well, Greg, I appreciate your talk about not returning cash that we don't have. You've been listening carefully. I appreciate that. But, look, we've said debt-wise, we're comfortable with our level of debt, it's quite low, and we paid some last year when the sold the XTO, and used those proceeds to kind of make a structural change in our debt. So, we're comfortable there.

Regarding cash balance, we've never put out a target. And I would say, it all really just depends on circumstances. We do like to have a buffer, but there's no magic number there. So, we're committed to returning cash, as we've said, as we generate it. And that continues to be our philosophy, longstanding. And we don't have a magic number on the cash balance. It's going to be dependent on circumstances, quite frankly. So, that's probably not exactly the answer you're looking for in terms of granularity, but that's where we are.

Greg Pardy: No, no, that's super helpful. Thanks very much.

Brad Corson: Thanks, Greg.

Operator: We'll go next to Dennis Fong with CIBC Global Markets.

Dennis Fong: Hi, good morning, and thanks for taking my questions. My first one is on TMX, but a little bit kind of different maybe from what you traditionally are asked. In terms of product marketing to the West Coast, I was hoping to get a couple of things from you there. One, kind of your interpretation of impacts to the products market in that region, especially given the evolving toll structure associated with the Trans Mountain Pipeline system, as well as maybe a little bit of understanding as to the flexibility of marketing volumes into that region, especially given your, I guess, exposure to jet fuel market within BC.

Brad Corson: Let me try to give you a couple perspectives on that, but then I'll see if Sherri, who is here with us, wants to add anything to that. Certainly, we view TMX as a key component of infrastructure in the country. We are very pleased to see it progressing towards completion and startup. It does provide significant incremental flexibility and optionality for both crude movements and product movements. For us, both with the existing pipeline network to the West Coast, but then supplemented by TMX, we will be preferentially using it for products because it is key infrastructure for us. And I think, more broadly for the industry, it provides that same flexibility. It does allow us to fulfill our customer demand. It allows us to continue to explore expansion of our customer base, and not just jet, but across all of our product slate. So, we will leverage that, and we view it as a positive thing. So, I don't know, Sherri, anything you want to add?

Sherri Evers: I guess maybe, Dennis, to the second part of your question, maybe you could just repeat. It was around volatility in the market, and I believe you had a question around jet?

Dennis Fong: Yeah, I was just hoping to understand, again, kind of the flexibility or potential impacts when you think about moving jet fuel because I know you are a primary supplier to BC, and specifically, I think, that airport out there as well.

Sherri Evers: I think as Brad noted, I mean, and essentially, we're going to have improved egress into that market. And while we do intend to use the pipeline to move products into that market, we expect that the volatility that you may see in the market is no different than what we would traditionally see with imports coming into the Port of Vancouver, as well as supply coming from the Western Canadian refinery. So, I don't think, we'll see necessarily an increased amount of volatility. And the market will continue to price competitively depending on the supply and the demand fundamentals that are occurring. Certainly, we're seeing increased levels of travel across Canada as more travelers are open to traveling internationally, and seeing some demand pick up and restore back to pre-COVID level, which is encouraging. And so that will certainly challenge the supply and demand situation, but don't expect that the TMX startup will have any major impact on volatility different than what we would see today.

Dennis Fong: Okay, great. And my second question relates back to Kearl. When you think about, and I'm sure it's externally small here in terms of introducing renewable diesel into that, into your heavy equipment out there. How do we think about the eventual, I guess, cost or potential cost impact of I guess, utilizing renewable fuels or renewable diesel across the entire fleet? And how does that potentially impact the US $20-per barrel target when you think about medium to longer term plans, again layering in the idea of decarbonizing that asset?

Brad Corson: Yeah, so it's a really good question, and one, we spend a fair amount of time reflecting on. I guess I would start with stating that we remain committed to our US $20 per barrel unit cost target. And we believe that is achievable even with the use of renewable diesel, which as your question implies, that renewable diesel does come at the premium cost, and we recognize that. But we're looking at kind of the totality of our operation, and balancing cost objectives with the emissions performance objectives. And part of our emissions performance involves being responsible for carbon cost for any emissions that incremental emissions across our operations, that we would have to pay for carbon. And so, when we put all that together, we believe it's prudent from a cost standpoint, as well as from an emissions standpoint. So, again, when you look at compliance costs, you look at offsets that will be generated at the projected increase over time of carbon credits approaching $170 per tonne. We actually see it as accretive to our business.

And then, as I mentioned, our use of renewable diesel at Kearl really has two benefits. There's the immediate benefit to Kearl, as I was just talking about. But we also see it as important to be able to work with Caterpillar, demonstrate the suitability of renewable diesel at increasingly higher blend rates to demonstrate the suitability with other customers as well. So, it becomes integral to our supply strategy for the 20,000 barrels a day that we plan to produce at Strathcona once it starts up, which will be Canada's largest renewable diesel manufacturing facility. So, it's an integrated strategy.

Dennis Fong: Great. No, I really appreciate the color on both of those dynamics. I'll turn it back.

Brad Corson: Thank you, Dennis.

Operator: We'll go next to Doug Leggate with Bank of America.

Kalei Amine: Hey, good morning, guys. This is Kalei on for Doug. So, thanks for taking my question here. So, Brad, my first question really goes to Kearl, and it's a follow-up on guidance. And I know you reiterated guidance in your opening remarks, but I'm hoping you can address Kearl maybe a bit more directly. So, full-year guidance is around 270, if I'm not mistaken. So, hitting that would imply a material step-up in the second half, perhaps around the 300,000 barrel mark. So, I'm hoping that you can address maybe the upper limits of the production capacity at Kearl, and talk about how that's trending relative to the guidance that you laid out at Analyst Day?

Brad Corson: Yeah, thanks for the question. And as I've commented on earlier, Kearl has a repeated history of continuing to demonstrate strong volume performance, increasing volume performance, and setting records. And in order to achieve our guidance of 265,000 to 275,000 barrels a day full-year, we are going to need to continue to have very strong volumes performance at Kearl. But as I mentioned with one of the earlier questions, in the first quarter, we set records. The first half is second best. July is approaching a record. And it will take continued strong performance like that with some more records. But we believe that's quite achievable. We have had in our history both last year, the year before several months, where we exceeded 300,000 barrels a day. So, our objective, my challenge to the team is going to be to string together several strong months in a row to get us to the end of the year. It won't be easy, and it's going to require this continued focus on reliability. But again at this point, we believe it is achievable.

Kalei Akamine: Brad, you mentioned July. Would you be able to give us that number?

Brad Corson: Yeah, I think I mentioned it on the call. July is not over yet. Of course, right? So, we still have a few days left. But we are on track as I sit here today to achieve around 285,000 barrels a day for July.

Kalei Akamine: Got it. That's perfect. My follow-up is more of a macro question on Syncrude premium. And these have been pretty sticky since the first quarter of 2022. Wondering if you guys can talk to the underlying fundamentals and the effect that TMX may have on it next year?

Brad Corson: Sorry, I missed the first part of your question.

Kalei Akamine: On Syncrude premium, it's been trading at a premium to WTI since the first quarter of 2022. I'm just hoping that you can address the underlying fundamental. And how those may be changed or reinforced by the startup of TMX next year?

Brad Corson: Yeah. You are exactly right. SSP has traded at a premium to WTI. It's been quite strong. And we believe that with the startup of TMX and the overall impact that has on increase in egress for heavy crudes from the country and from Alberta that ultimately that helps to strengthen the value of really all of our crudes just through that increased access, less risk of constraints. And then, couple that with what's happening on the demand side. And we see continued strengthening demanding for the heavy crudes, for the synthetic crudes, setting aside any seasonal turnaround plan. So, we continue to have a strong view on SSP.

Kalei Akamine: I appreciate the comments. I will leave it there. Thank you.

Brad Corson: Thank you.

Operator: We will go next to Menno Hulshof with TD Securities.

Menno Hulshof: Thanks, and good morning. I just have one question that ties into a lot of the things that have already been talked about. Can you just update us on where things stand with respect to sourcing of feedstock for the renewable diesel facility (SHRED)? And then, maybe any color how you are managing availability and price risk on feedstock would be helpful as well.

Brad Corson: Yeah, thanks for that question. And I'll make a couple of comments, and then see if Sherri has anything else to add. But obviously, I talked about progressing the construction activity. That's going extremely well. And equally the feedstock supply work is also going quite well. It's commercially sensitive, and so, I don't want to give too many details. But what I would share with you is our strategy is to both establish some long-term supply commitments for the feedstock as well as maintain flexibility to supplement that with shorter term or spot purchases as well. And through that combination, a long-term supply commitment for a large part of the supply, but keeping optionality to capture the market or maintain optionality in the spot market with not having all of the supply tied up. We believe that's a proven strategy.

So again, without giving commercial details, we have secured some long-term supply arrangements already, and we continue to progress that commercial work, and we have complete confidence we will be ready when this project starts up in 2025. And our view is it will continue to be a very economic project for us. Anything, Sherri, you would add?

Sherri Evers: No, I think you've covered it very well. I mean, Canada is a net exporter of most of these feedstocks, and so we continue to see the market here very robust and that even the consumption that we plan to use within the SHRED production, we shouldn't have a material impact on the broader markets. And so yes, there is obviously some strengthening of pricing, but Brad covered well that we've got a diversified strategy in terms of how we manage the cost of our feedstock.

Menno Hulshof: Would you be prepared to give a breakdown on contracted versus spot ballpark?

Brad Corson: No, we normally wouldn't kind of reveal those commercial details. But again, fair to say, a substantial amount of the contract is longer-term.

Menno Hulshof: Perfect. Thank you both.

Brad Corson: Thank you.

Operator: We'll go next to Neil Mehta with Goldman Sachs.

Neil Mehta: Yeah, good morning, Brad. Good morning, team. First question is around Capex and how you see the trajectory playing out from here? At the April Analyst Day, you talked about 2024 Capex being looks like around $1.7 billion and drifting a little lower from there, and sustaining Capex averaging about $1.1 billion. Any moving pieces relative to those numbers, or that's still what we should anchor towards?

Brad Corson: Neil, thanks for the question. Nothing has materially changed at this point. We still – we're right on track for our 2023 guidance of $1.7 billion, and we're in kind of the middle of our business planning cycle for 2024, so we're kind of working through those details. But based on the reviews I've had so far, everything seems right in line with kind of the underlying assumptions that formed that outlook that we shared with you at Investor Day. So, I think we still feel quite good about kind of that range, and likewise kind of the split between sustaining capital and growth capital. Simon is here with me. The Upstream is a key driver of that Capex, anything from your perspective?

Simon Younger: No, I don't think I do have anything to add, Brad. As you say, a pretty steady outlook, and we'll see – we'll go through our planning process and cycle this year, as we currently are and inform of any updates, but it's looking pretty steady.

Brad Corson: Okay, very good.

Neil Mehta: Thanks, Brad. Thanks, Simon. The follow-up is on Kearl and winterization. That was certainly something that came into focus over the last couple of years, just given how extreme some conditions can get up there. Can you just explain to us some of the things that you're doing to create resilience to the extent cold weather plays out again, in an extreme way?

Brad Corson: Yes, thanks for that question. And for those of us that live in this area, we know that cold weather is a reality that we have to plan for, and we saw some extreme conditions, two winters ago that did have some adverse impacts and a great credit to the Kearl team that they spent a lot of time studying kind of the root causes of those reliability issues and have tackled them one by one. And we feel quite good about our readiness. And maybe I'll ask Simon to talk a little bit about a couple of the details. I think we shared some of that at Investor Day, but maybe Simon can remind us of that.

Simon Younger: Exactly right, Brad. We did share some of the details at the Investor Day, and really, we took a very thorough, deep dive into what occurred and what learnings we could glean from that. We've made significant updates and enhancements to our operating protocols that look at conditions of the ore that we're mining, through conditions in the ore prep plant, and obviously ambient temperatures. And we've established a set of protocols to optimize throughput and reliability through those extreme cold weather stretches. We also made a number of other changes around maintenance practices and cold weather preparedness in the lead up to the winter period. And as I shared previously, we feel very good that those enhancements were validated just this past winter, where we saw not quite as extreme, but relatively comparable stretches of cold, and in fact, saw record breaking reliability and throughput. So we're certainly not stepping away from any of those enhancements. We'll be doubling down on those for the coming winter, but learning any more that we feel like we need to, but do feel that we're extremely well positioned.

Neil Mehta: Thanks, Simon. And there's real money there, so appreciate that.

Brad Corson: Absolutely, thank you.

Operator: And at this time, I'll turn the call back to Dave Hughes, Vice President of Investor Relations for closing remarks.

Dave Hughes: All right, well, I guess on behalf of the management team, I'd like to thank everybody for joining us this morning. If you have any further questions or follow-ups, please don't hesitate to reach out directly to anybody on the Investor Relations team here. So thank you very much.

Operator: This does conclude today's conference. We thank you for your participation.

Non-GAAP financial measures and other specified financial measures

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

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

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

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

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

	Second Quarter		Six Months	
millions of Canadian dollars	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**885**	2,682	**64**	4,596
Less changes in working capital				
Changes in operating assets and liabilities	**(251)**	(101)	**(2,626)**	594
Cash flows from (used in) operating activities excl. working capital	**1,136**	2,783	**2,690**	4,002

Free cash flow

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

Reconciliation of free cash flow

	Second Quarter		Six Months	
millions of Canadian dollars	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**885**	2,682	**64**	4,596
Cash flows from (used in) investing activities				
Additions to property, plant and equipment	**(499)**	(333)	**(928)**	(637)
Proceeds from asset sales	**9**	102	**23**	126
Loans to equity companies - net	**1**	1	**2**	2
Free cash flow	**396**	2,452	**(839)**	4,087

Net income (loss) excluding identified items

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

Reconciliation of net income (loss) excluding identified items

There were no identified items in the second quarter or year-to-date 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

	Second Quarter		Six Months	
millions of Canadian dollars	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of income				
Total expenses	**10,935**	14,141	**21,411**	25,293
Less:				
Purchases of crude oil and products	**7,856**	11,021	**15,334**	19,371
Federal excise taxes and fuel charge	**598**	553	**1,127**	1,032
Depreciation and depletion	**453**	451	**943**	877
Non-service pension and postretirement benefit	**20**	5	**40**	9
Financing	**16**	11	**32**	18
Cash operating costs	**1,992**	2,100	**3,935**	3,986

Components of cash operating costs

	Second Quarter		Six Months	
millions of Canadian dollars	**2023**	2022	**2023**	2022
From Imperial's Consolidated statement of income				
Production and manufacturing	**1,785**	1,908	**3,541**	3,567
Selling and general	**206**	191	**392**	416
Exploration	**1**	1	**2**	3
Cash operating costs	**1,992**	2,100	**3,935**	3,986

Segment contributions to total cash operating costs

	Second Quarter		Six Months	
millions of Canadian dollars	**2023**	2022	**2023**	2022
Upstream	**1,257**	1,424	**2,545**	2,675
Downstream	**635**	571	**1,203**	1,074
Chemicals	**76**	89	**160**	166
Corporate / Eliminations	**24**	16	**27**	71
Cash operating costs	**1,992**	2,100	**3,935**	3,986

Unit cash operating cost (unit cash costs)

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

Components of unit cash operating cost

	Second Quarter							
	2023				2022			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**1,256**	**526**	**282**	**412**	1,423	578	396	380
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**1**	**—**	**—**	**—**	1	—	—	—
Cash operating costs	**1,257**	**526**	**282**	**412**	1,424	578	396	380
Gross oil-equivalent production (thousands of barrels per day)	**363**	**154**	**132**	**66**	413	159	144	81
Unit cash operating cost ($/oeb)	**38.05**	**37.53**	**23.48**	**68.60**	37.89	39.95	30.22	51.55
USD converted at the quarterly average forex *2023 US$0.74; 2022 US$0.78*	**28.16**	**27.77**	**17.38**	**50.76**	29.55	31.16	23.57	40.21

	Six Months							
	2023				2022			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**2,543**	**1,084**	**584**	**811**	2,672	1,099	718	728
Selling and general	**—**	**—**	**—**	**—**	—	—	—	—
Exploration	**2**	**—**	**—**	**—**	3	—	—	—
Cash operating costs	**2,545**	**1,084**	**584**	**811**	2,675	1,099	718	728
Gross oil-equivalent production (thousands of barrels per day)	**388**	**169**	**137**	**71**	397	146	142	79
Unit cash operating cost ($/oeb)	**36.24**	**35.44**	**23.55**	**63.11**	37.23	41.59	27.94	50.91
USD converted at the YTD average forex *2023 US$0.74; 2022 US$0.79*	**26.82**	**26.23**	**17.43**	**46.70**	29.41	32.86	22.07	40.22

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