Second Quarter 2022 Earnings Conference Call

Friday, 29th July 2022

Introduction

Dave Hughes

Vice President, Investor Relations, Imperial Oil

Good morning, everybody. Welcome to our Second Quarter Earnings Conference Call. I am joined this morning by Imperial's senior management team including 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 of Commercial and Corporate Development; and Jon Wetmore, Vice President of the Downstream. 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 on our second quarter earnings release that we issued this morning as well as our most recent form 10K. All these documents are available on SEDAR, EDGAR and on our website. So, I would ask you to refer to those.

Brad is going to start with some opening remarks and then hand it over to Dan who is going to provide a financial update. And then Brad will provide an operations update. Once that is done, we will follow with the Q&A session.

So with that, I will turn it over to Brad for his opening remarks.

Opening Remarks

Brad Corson

Chairman, President, CEO, Imperial Oil

Thanks, Dave. Well, good morning everybody and welcome to our Second Quarter Earnings Call. I hope you are all doing well.

After a challenging start to 2022, with some significant weather impacts, I am very pleased to say that our operations returned to normal in the second quarter, which underpinned the outstanding results that we reported earlier today. The high price environment continued through the quarter, and the focus we put on reliability and strong operating performance allowed us to take advantage of this environment. I think it is also important to note that this performance comes when Canadians need it most, as global challenges have resulted in supply disruptions and subsequent price escalations. With our strong operational performance, we are doing everything we can to increase production and ensure a stable, ongoing supply of the products that fuel our day-to-day lives. These economic conditions have so far continued into the third quarter and with all of our major planned downtime for our operated assets behind us for the year, we remain well positioned to continue to maximize our production in a very tight environment. Over the next few minutes, Dan and I will detail the results of what was a very strong quarter.

So, now let us review the second quarter results, and we have a lot of positive highlights to talk about. To start, earnings for the quarter were just over $2.4 billion and our cash from operating activities was almost $2.7 billion. These results continue to reflect the strong commodity fundamentals we are currently experiencing, as well as strong operating performance in the quarter. They are also reflected in the increased royalty and tax contributions that we make to the government and that go to support the communities in which we operate.

We achieved total Upstream production of 413,000 barrels per day, which represents the highest second quarter production in over 30 years. And this includes the annual planned turnaround at Kearl, which was completed on time and on budget. With the first half of the year behind us, we are updating our annual production guidance for Kearl to reflect the challenging first quarter we experienced, which I will talk about in a minute. But as mentioned, our operations are back to normal after the planned turnaround work, and we look forward to a strong second half of the year.

Our Downstream continued to perform at a very high level with second quarter utilization of 96%, which notably is the fourth consecutive quarter of utilization above 90%. This is particularly important in the current tight product supply environment and demonstrates we are doing all we can to bring as much product supply as possible to the market.

We saw the last of the provincial pandemic-related restrictions lifted in the second quarter and both motor gasoline and diesel demands have leveled off close to pre-pandemic levels. In addition, we are also seeing jet demands continue to strengthen as the public resumes traveling, which is very encouraging as jet demand has been lagging in its recovery up until now.

With respect to delivering on our commitment of increasing shareholder returns, we have successfully executed a substantial issuer bid, only the second in our company's history, returning $2.5 billion in cash to our shareholders. Including our quarterly dividend, we returned $2.7 billion in the quarter. And we recently announced the renewal of our normal course issuer bid at 5%, with the expectation that we will accelerate the purchases and complete the NCIB by the end of October. And finally, this morning, we declared a dividend of $0.34 per share, payable October 1st. All of this leaves us well positioned to return more cash to shareholders this year than we did in our record setting 2021.

Just before I pass things over to Dan to go through our financial performance for the quarter in more detail, I would also like to highlight the successful marketing efforts related to our XTO assets. Together with ExxonMobil Canada, we announced that we have entered into an agreement with Whitecap Resources for the proposed sale of these assets for a total cash consideration of $1.9 billion, which equates to $940 million Imperial share. We are extremely pleased with this result, and expect the sale to close before the end of the third quarter. We have talked a lot recently about focusing our efforts on optimizing our existing core assets and feel we still have plenty of opportunity there. This divestment is consistent with this strategy and continues to support our commitment to maximize shareholder value.

And with that, I will pass things over to Dan.

Financial Results Update

Dan Lyons

Senior Vice President Finance and Administration, Imperial Oil

Thanks, Brad. Getting into the financial results for the second quarter our net income of $2,409 million was up just over $2 billion from the second quarter of 2021, primarily driven by improved prices in the Upstream and higher margins in the Downstream, partially offset by higher operating expenses driven by higher energy costs.

Now, if we look sequentially, our second quarter net income of $2.4 billion is up about $1.2 billion from the first quarter, supported by continued strong market conditions throughout the quarter.

Looking at each business line, the Upstream, which recorded net income of $1,346 million, is up about $560 million from the first quarter's net income of $782 million, driven by higher realizations and higher volumes as Kearl recovered from the cold weather impacts in the first quarter, partially offset by higher royalties and operating expenses reflecting increases in energy costs.

This quarter, the Downstream recorded net income of $1,033 million, up about $640 million from net income of $389 million in the first quarter, reflected continued high utilization levels and higher margins, partly offset again by the impact of higher expenses from increased energy costs.

Finally, our Chemicals business continued to perform well this quarter with an income of $53 million, essentially flat with the first quarter.

Moving on to cash flow, we ended the second quarter with just under $2.9 billion of cash on hand. In the quarter, we generated nearly $2.7 billion in cash flows from operating activities, an improvement of almost $800 million from the first quarter, bringing our year-to-date cash flows from operating activities to almost $4.6 billion, up about $2.7 billion from last year. Free cash flow for the quarter was $2,452 million, about $800 million higher than the first quarter.

Excluding an increase of $101 million in working capital, our cash flow in the second quarter was almost $2.8 billion, up around a $1.5 billion from the first quarter. The $101 million increase in working capital was largely driven by an increase in accounts receivable of $1.4 billion due to substantial increases in downstream product prices in the quarter.

Also in working capital, there was an increase in an income taxes payable of about $850 million that will only be payable in the first quarter of next year. As we discussed in previous calls, we expect actual cash tax payments in 2022 to total around $400 million, including $225 million already paid in the first quarter of this year and about $50 million paid in the second quarter.

Now looking forward, there are obviously a number of factors that will impact our final income tax payment for the 2022 tax year that will occur in the first quarter of 2023, but under current market conditions, we would anticipate that this first quarter 2023 cash tax payment would be in the order of $2.5 billion.

Moving on to CAPEX, capital expenditures in the second quarter totaled $314 million, up from $259 million in the second quarter of 2021 and in line with our full-year guidance of $1.4 billion. Spending in the second quarter was primarily in the Upstream with spend at our in-pit tailings project at Kearl and volume sustainment spending at Cold Lake. We also progressed spending on our Grand Rapids project at Cold Lake and on a renewable diesel project at Strathcona.

Shifting to shareholder distributions, given our robust cash flow, and our outlook for continued strong cash flow going forward, we returned over $2.7 billion to shareholders in the second quarter with the completion of our $2.5 billion SIB and payments of $228 million in dividends. This rings our year to date distributions to over $3.3 billion, already exceeding our total shareholder distributions in 2021 of around $3 billion.

Now looking forward, our next step is to complete the 5% NCIB we announced on June 27th. As Brad noted, we plan to execute share repurchases under the NCIB on an accelerated basis and finish the program by the end of October. We remain committed to returning surplus cash to shareholders and we will consider further actions following completion of our NCIB.

Lastly, as Brad noted this morning, we announced the third quarter dividend of $0.34 per share, consistent with our second quarter dividend.

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

Operational Performance

Brad Corson

Chairman, President, CEO, Imperial Oil

Thanks, Dan. So, now let us talk about our operating results for the quarter. Upstream production for the quarter, as I mentioned earlier, was 413,000 oil equivalent barrels per day, which is up 33,000 barrels per day versus the first quarter and up 12,000 barrels per day versus the second quarter of 2021. This increase reflects a return-to-normal operating conditions at Kearl after the severe weather challenges of the first quarter and, as I mentioned earlier, represents the highest second quarter upstream production in over 30 years.

The ongoing strength in commodity prices continues to be a key part of the story. WTI prices continue to increase in the quarter as did WCS prices. The WTI to WCS differential remained fairly steady in the quarter, although we have seen some widening in the third quarter so far, but even with a wider differential, WCS prices remained very strong. Syncrude synthetic product continues to command a strong premium in the current environment as well, given its quality and desirability in the tight refining market.

From a capital allocation point of view, we are continuing the development of Grand Rapids Phase 1 and our Leming redevelopment, as we talked about at our Investor Day earlier this year. Both of these projects are not only key to sustaining and even growing our production at Cold Lake, but also further improve profitability and lower greenhouse gas intensity at these core assets.

So, now let us move on and talk about Kearl. After a challenging start to 2022, related to extreme cold weather conditions and unplanned downtime in the first quarter, production at Kearl in the second quarter fully recovered to normal levels at 224,000 barrels per day gross, which was up 38,000 barrels per day versus the first quarter and down 31,000 barrels per day versus the second quarter of 2021. And just as a reminder, the second quarter also reflects the impacts of the annual Kearl turnaround, which was completed in June, on time and on budget.

Subsequent to the completion of the turnaround, I am pleased to say that our operations have been strong and stable, with July gross production estimated at 280,000 barrels per day. And now that we are through our major planned maintenance for the year, we have reflected on what we see as the overall impact of the first quarter challenges on our full year guidance for Kearl. As such, we are updating annual guidance for Kearl to around 245,000 barrels per day gross. As mentioned, Kearl performance is back to normal heading into the third quarter and we expect production levels to exceed 280,000 barrels per day for the remainder of the year.

And finally turning to operating costs, we did see a reduction in unit operating costs at Kearl in the quarter of around $3.50 per barrel versus the first quarter, to just over $31 per barrel. The first quarter saw higher unit operating costs due to lower volumes, but we saw this come down in the second quarter as operations return to more normal levels, although second quarter results do reflect the costs of our planned turnaround as well as higher energy costs. We are still working towards and committed to achieving sustainable unit operating costs at or below US$20 per barrel at Kearl.

So, now let us talk about Cold Lake. Cold Lake started the year strong and that performance has continued through the second quarter. Production for the second quarter averaged 144,000 barrels per day, which was up 4,000 barrels per day from the first quarter and up 2,000 barrels per day from the second quarter of 2021. These results also reflect some light planned turnaround activity at our Leming plant, which started in late May and finished in late June. The production impact of this activity for the year is around 1,000 barrels per day. Our ongoing focus on production optimization and reliability continues to deliver benefits, as you can see from the fact that year-to-date production is above our full year guidance and is providing a highly cost efficient offset to natural base decline. And our strong performance at Cold Lake has continued into the third quarter so far. July production is estimated at 142,000 barrels per day.

Imperial's share of Syncrude production for the quarter averaged 81,000 barrels per day, which was up 4,000 barrels per day from the first quarter and up 34,000 barrels per day from the second quarter of 2021. The large increase from 2021 reflects the absence of a second quarter turn around this year. The major coker turnaround at Syncrude is instead happening in the third quarter this year. Also of note, Syncrude continued to build on a strong first quarter and has now delivered best ever, first half of the year bitumen production, supported by strong mining and extraction performance and good utilization of the interconnecting pipelines.

So now let us move on and talk about the Downstream. In the second quarter, we refined an average of 412,000 barrels per day, which was up 13,000 barrels a day versus the first quarter and up 80,000 barrels per day versus the second quarter of 2021, reflecting continued strong operating performance and minimal planned turnaround activity. Refinery utilization was 96%, the fourth straight quarter above 90%, and while up a little versus the first quarter of this year, it represents an increase of 18% in utilization over the second quarter of 2021, reflecting the absence of the large turnaround we had at Strathcona last year and very strong operating performance this year.

As I mentioned last year, and again back on the first quarter call, we have a relatively light planned maintenance schedule for 2022 in our Downstream and in fact, we completed our turnaround at Sarnia in April. This work had minimal impact on utilization and was completed on schedule and on budget. That also completes our planned turnaround activity in the Downstream for this year, and leaves us well positioned to take advantage of the market environment and the ongoing pandemic recovery.

The strong utilization we have delivered is playing a key role in providing the energy products that Canadians need and in a time when supply issues are driving overall market shortages. Our intention is to continue to produce at these high utilizations in order to do our part in addressing these current supply challenges. I would also note that we continue to advance our Strathcona renewable diesel project and expect a final investment decision by the end of this year.

In the second quarter, our Petroleum product sales were 480,000 barrels per day, which is up 33,000 barrels per day versus the first quarter and up 51,000 barrels per day versus the second quarter of 2021. The increase in sales in both cases was driven by increased mobility, following the lifting of most of the remaining provincial pandemic-related restrictions.

Now, with respect to product demands in the quarter, we saw demand for motor gasoline and diesel essentially returned to pre-pandemic levels. In addition, with the lifting of many travel-related restrictions, jet demand showed rapid improvement and is averaging around 90% of historical levels. We continue to see a positive downstream margin environment continue in the second quarter due to several factors, including low product inventories and global export constraints. And while we are seeing signs of margins softening a bit, they remain volatile and continue to track well above the five-year band.

And that brings us to Chemicals. The business delivered $53 million in earnings in the second quarter, which was down from $109 million in the second quarter of 2021, but essentially flat with the first quarter of this year. As expected, we have seen the all-time high margins of 2021 begin to ease. However, margins still remain quite strong, and we are looking forward to another year of solid results from our Chemical business.

Before wrapping up, I would like to take a minute to talk about a few other items that highlight our ongoing commitment to improving sustainability and reducing our overall environmental footprint. First, during the first quarter, we released our Advancing Climate Solutions report, which provides important disclosures around our continued progress and commitments to lowering greenhouse gas emissions. Second, we announced a strategic collaboration with E3 Lithium to develop a lithium extraction pilot in Alberta at our historic Leduc oilfield. Combining E3's proprietary lithium extraction technology with our water and reservoir management capabilities makes this an exciting opportunity to support the potential development of battery-grade products. And finally, we also signed an agreement with Atura Power to study the potential for hydrogen production at Nanticoke in Ontario, where we operate our refinery. We will be focusing on the potential to develop a regional hydrogen facility that would support greenhouse gas emissions reductions.

In closing now, I would sum up the second quarter as outstanding. We saw our operations fully recover from some challenges in the first quarter and we successfully completed the majority of our planned maintenance for the year. And these strong operations allowed us to benefit fully from the continued strong business environment and to deliver very strong financial results. With all of our major planned downtime for our operated assets behind us for the year, we look forward to a strong second half of 2022, benefiting further from the very strong commodity price environment we are experiencing.

The successful execution of our substantial issuer bid underscored our ongoing commitment to drive shareholder value and our continued commitment to shareholder returns. And the sale of our XTO assets, delivers on Imperial's strategy to maximize shareholder value by focusing upstream resources on our core, long-life, low-decline oil sands assets.

For the remainder of 2022, we will continue to focus on further optimizing our existing asset base and delivering superior shareholder value through enhanced reliability and maximizing performance in a period of strong commodity prices, allowing us to leverage our fully integrated assets and take utmost advantage of the current market conditions.

We will also continue to work towards a final investment decision related to our Strathcona renewable diesel project, continue our development of Grand Rapids Phase 1 and our Leming redevelopment at Cold Lake, all key parts of our emission-reduction focus, but also key opportunities that provide profitable volume growth for our business. And finally, I would like to thank you once again, for your continued interest and support.

Q&A

Dennis Fong (CIBC): Hi, good morning and thank you for taking my questions. The first one is just around Kearl as well as the application of digital technology. I know at this previous Investor Day in 2022, you discussed items like the surveillance failure analysis and in a previous Investor Day, you talked about Kearl's digital twin. I was just curious – and I know obviously it is very early in terms of talking about further extending time between turnarounds, because you have already just frankly done that, but I was curious in terms of some of your peers have extended it to an every other year turnaround. How is some of the work that you are doing on the digital side or even predicting in terms of timing of failure or time between turnarounds, potentially affecting decisions or even analysis around even further extending time between turnarounds at the Kearl facility? Thanks.

Brad Corson: Yeah, thanks for your question, Dennis. And you are exactly right. We have a long-standing commitment to technology and we are bringing that technology to bear at Kearl to continue to improve our operating performance, which is underpinned by strong maintenance and reliability. And as to turnaround timing, you may recall that at Kearl, we have two main trains of operation. And prior to last year, we would conduct a turnaround every year on each of those trains, but through our ongoing application of technology and other initiatives to provide redundancy, we were able to then conclude that we could extend the interval for turnarounds on each train from once a year to once every two years. And so the turnaround we have just completed this year was just on one train and that train had not undertaken a turnaround for two years. And so, it was a very key opportunity for us to not only demonstrate our ability to extend that duration for two years, but once we got into the turnaround, it was a great opportunity for us to validate the decision we had taken and confirm that this extended duration was viable, and did not compromise the maintenance or reliability of our equipment.

So, I am quite pleased to say that we have confirmed that, it does validate and so, going forward, we continue to plan on a two-year interval for each of our major trains and we will continue to explore further opportunities for optimization. And so some of the digital technology that you referenced, will also allow us, we believe, to not only extend these turnaround intervals to a two-year cycle, but at the same time, allow us to reduce the duration of the shutdown once we undertake that work. So, several of these technologies around inspection techniques and ongoing surveillance will contribute to that.

The other thing I would say about digital technology, it is not directly related to the turnaround, but as you know, we have had this ongoing project to convert our major truck fleet at Kearl to autonomous haul, so driverless trucks. And we have been aggressively pursuing the conversion of that fleet and we have now completed 55 trucks. So, we have about 20 more to go and we will be progressing those, but those also play a significant role in improving the reliability, the cost structure, but also the safety of our operation.

Dennis Fong: Great. Appreciate that. And my second question here is just around Cold Lake. Just given the relative performance that we have seen in terms of base level optimization, I know that progress at Grand Rapids is still progressing, but can you maybe provide a little bit of a further update in terms of how you are thinking about the existing optimization of the base at Cold Lake? And then how you are thinking about the pace of development or the pace of eventual construction or build out of the Grand Rapids project in that region? Thanks.

Brad Corson: Yeah, thanks for that question. We are quite excited about the performance at Cold Lake. It does continue to outperform the guidance that we provided at the end of last year, and we have every reason to believe that is going to continue. And it comes as a result of significant focus by the operating and technical teams around how to optimize our steam floods and water production in those assets, continuing to ensure we have optimized maintenance plans that are bringing enhanced reliability to the asset, continuing to do workover optimization on the existing wells in the field. So, all that is contributing to this higher production that you are seeing.

Now, with respect to Grand Rapids, we are in the construction mode right now. So, we are already drilling wells for that project. I had the great opportunity to visit the site just a couple of weeks ago and spent some time on the rig and that work is well underway. We have a targeted startup for Grand Rapids in 2024 at this point and we are doing everything we can to optimize around that. And once it is online, we are expecting incremental production of around 19,000 barrels a day, so a significant contributor to the long life and productive capability of Cold Lake.

And then, as mentioned in my earlier remarks, we are also progressing now a redevelopment project at our Leming asset at Cold Lake, which was our original producing asset at Cold Lake, and we see opportunities to further redevelop that asset and capture additional oil resource. And we are going to do that with SAGD technology, which of course, is lower greenhouse gas intensity and when that is online, it will also contribute several thousand barrels a day incremental production as well. So, a lot of exciting things going on at Cold Lake that not only will increase production, but also lower our greenhouse gas intensity.

Dennis Fong: Great. Appreciate the color. Thanks.

Manav Gupta (Credit Suisse): Hey, guys, so a quick question on Kearl, under your management, you guys have achieved a lot of operational reliability as well as lower OPEX in the project. We view first half as a little bit of a blip here, but just wanted to understand your level of confidence in the project that once you go over 280 again, you can push that cost down towards lower 20s? Or are there some cost inflationary pressures there, whereby we should model from there to mid-20s? But hopefully, if you could elaborate on if you run harder, can you push that cost back towards lower 20s?

Brad Corson: Yeah, thanks for that question Manav and, at first, I would say, thanks for the recognition of the substantial improvements that we have made, and you make reference to, under my management, and thank you for that. But I just want to give a big shout out to our entire Imperial Kearl team, that are all working quite aggressively and doing great work to achieve those sustained levels of improved performance. And you are right, we had some challenges in the first quarter attributable primarily to some extreme cold weather and as I projected on our last earnings call, a high level of confidence that we had those challenges behind us, and we would recover in the second quarter and in fact, that is what we did.

And I would just say that same level of confidence comes to our commitment around our cost structure. We have been working on lowering our unit costs at Kearl for a few years now and we continue to drive towards that US$20 per barrel milestone that we have talked about, you mentioned. And, in fact, last year, we had several months where we did achieve that. This year, of course, we have been impacted by lower volumes, and so that has an effect on the denominator of that calculation, but equally, we are seeing higher energy costs and some other inflationary pressures and so, that has affected us as well.

But maybe setting aside the energy costs, which are outside our control, for the other costs that drive that cost structure, our teams are working quite hard to bring additional efficiencies and offset as much of those inflationary pressures as possible. And a key contributor longer term to achieving that $20 is, of course, also achieving 280,000 barrels per day and we are quite committed to that, we are confident in that, we have very specific work plans that will move us to that 280,000 barrels a day and hopefully beyond, longer term. But as we have said in Investor Day, we plan to achieve 280,000 barrels a day by 2024. So, again, laser focused on getting the 280,000; equally focused on getting our cost structure to $20 a barrel. Thanks Manav.

Neil Mehta (Goldman Sachs): Yeah. Thanks, guys. First question is just on capital returns. Can you talk about the rationale behind the acceleration of the buybacks to complete the NCIB by the October timeframe? And then assuming the commodity prices remain elevated, how do you think about potential additional shareholder returns outside of the NCIB? Do you think the tender was a success and is that something that you would do again?

Brad Corson: Thanks for that question. And as we have said on multiple occasions, we are committed to returning surplus cash to our shareholders and, first of all, the SIB was a key component to contribute to that. We view it as highly successful. We are quite pleased with the results and I hope our shareholders that benefited or participated in that $2.5 billion return feel the same way. And as we completed that and took stock of where we were with continued building cash balances, that drove us to not only renew the NCIB at the 5% level, which is the maximum by the way, but also then drove us to accelerate it, again, as another key vehicle to now return cash to our shareholders.

So, that is driving us to complete it by October and, as Dan said, once we complete that, we will then be assessing and determining what other vehicles for returning cash to shareholders are appropriate. And obviously, we will be taking into account what is happening in the market for the second half of the year and what are our projections for cash balances, but we maintain that commitment to return cash to shareholders. So, I would expect you will see further actions as the year goes on.

Neil Mehta: All right, thank you and then the follow-up is on the refining side of the business. I would love, Brad, just your perspective on how Q3 is shaping up. Utilization has been tracking very well in refining here, as we wrapped up Q2, but how are you thinking about profitability at that business, especially with WCS having widened out? How is that tying back into Downstream earnings?

Brad Corson: Yeah, thanks for that question and we remain quite bullish on the performance of our Downstream. We obviously had a very strong second quarter, we really had a strong first half of the year and we see that strength continuing. As I mentioned, we have now completed all of our turnaround activity in the Downstream, which was light in the base case, but with that behind us, we would anticipate continued very high utilization rates for the remainder of the year. We have seen a strong recovery in demand and we still see an opportunity for further improvements there and so, we will be taking full advantage of that. And while we saw, some record high crack spreads in the second quarter that contributed to very strong profitability, we do see a little softening of that now that we have come into the third quarter. But even with that softening, we still are projecting a very strong third quarter at this point.

So, I am really encouraged by that. I think it is really important for the role we play in providing important products to our consumers here in Canada, that we maintain that high level of utilization and reliability and ensure that those products are available.

Neil Mehta: Thanks Brad.

Patrick O'Rourke (ATB Capital): Hey guys, thank you for taking my question. Maybe just to build upon the last question in terms of Downstream, you guys have been pretty nimble in terms of the products laid here. Just wondering in real time, what sort of demand elasticity you are seeing by specific products, firstly, with a lot of interplay in the economy that is going on here, potential recessionary forces and how you are responding to that.

Brad Corson: Yeah, thanks for the question, Patrick. We have seen a fair amount of variability over the last two years, through the pandemic, and now as demand has recovered, post pandemic, there have been ups and downs in some of those recovery trends. We are seeing broadly, strength in demand but there are pockets of weakness, I would say. Jet demand has recovered quite strongly. We are now over 90% of where we were pre pandemic, and we see those trends continuing to strengthen, even though globally, there are still some concerns about inflation and recessionary concerns, as well as some pockets of COVID lockdown and what is the recurrence of that. But on balance, jet continues to recover and so we are obviously responding to that with our product mix.

Diesel has continued to be very strong, 95+% of pre-COVID levels and we have not seen really any adverse effects there. Motor gasoline has tempered a bit as people are mindful of costs at the pump and that is affecting some behaviors and so, some softening there, but still 90+% of pre-COVID levels. And the other advantage we have is, we can adjust our slates at the margin to optimize around where we see the higher level of demand and we have a well-integrated refining system and product supply system around the country. And so that gives us advantages as well.

Patrick O'Rourke: Okay, and just a quick second question here. With respect to last week, we saw the federal government come out with a proposed potential cap-and-trade system. I think that the consideration was about a 42% reduction in carbon emissions from the upstream oil and gas industry. Your current plan by 2030 is about 30%. Wondering how you are approaching that in terms of risk in capital allocation, obviously, high quality, but very long duration assets and wondering, what the technical feasibility is of the 42% reduction? Is that something that is possible for Imperial?

Brad Corson: Yeah, thanks for that question, Patrick. First, I would say, we share the government's objectives to tackle climate change in a very proactive manner and we share the government's ambition to achieve net zero by 2050. And as you mentioned, we have internal to Imperial, our own stated objectives to reduce our greenhouse gas intensity by 30% by 2030. Similarly, we are a founding member of the Oil Sands Pathways to Net Zero Alliance and that alliance also has stated objectives to achieve net zero by 2050 and has laid out a very comprehensive, well thought-out plan to move our industry from where we are today to net zero by 2050, and it also achieves about 1/3 reduction by 2030, 22 megatons of CO_2 reduction.

And so when I reflect on the report issued from the federal government, I would say I do take concern with it, because it is very aggressive and I would say, stretches the capability of what is technically and economically feasible. We are encouraged that the government has put that out for consultation, so we will be providing our own feedback as Imperial, we will also be providing feedback as the Pathways Alliance as to what we think are appropriate approaches to achieve the overall objectives of that emissions reduction plan.

What I think, collectively as industry, government, society, we need to be very cautious about is ensuring that we bring the right balance to environmental improvements with continued oil supply, which, of course, impacts products to our customers. I very much believe we can achieve both objectives, but we need to make sure we approach it with a view of how do we achieve both, not one at the expense of the other. And I think our pathways plan does lay out a good roadmap for that and we will be continuing to reinforce the benefits of that approach.

I think it is also worth noting that all of these projects that will be required to continue to reduce emissions, not only have technical considerations in terms of technology that is available, have physical requirements in terms of just what is involved in executing the project, but they also all have regulatory approval requirements, permits that are required, and that process also takes time. So, I think it is important that we get all of us around the table – industry, federal government, provincial government – and we all be working collaboratively on achieving those goals. Thank you for that question.

Patrick O'Rourke: Thank you very much.

Greg Pardy (RBC Capital Markets): Good morning. Thanks, Brad, for the rundown. Look, a lot of inflation in the system, everybody seems to be adjusting CAPEX. You guys are not. I am just wondering, maybe any color around that and then also how you are thinking about sustaining capital next year.

Brad Corson: Yeah, thanks for that question, Greg. You are right, we are standing firm by our earlier capital guidance of $1.4 billion for the year and now that we are halfway through the year, we continue to feel good about that level of CAPEX. We are well on track to achieve all of the project objectives we laid out that tied to that $1.4 billion and while we are experiencing some inflationary pressures, like others are, a big credit to our team, they are focused on capital discipline, that they are able to identify efficiencies to offset them. And we are also benefiting from just the inherent nature of some of our projects and their timelines. Many of the contractual commitments and the purchase of key materials were already undertaken over the last year or two, and so that also shields us a bit from some of the current inflationary pressures. But we feel quite good about, that $1.4 billion.

And in terms of looking ahead to next year, we are going through our annual budget and planning process right now. So, not yet ready to provide updated guidance, but what we shared at Investor Day last year was a projection for about $1.5 billion, as we look to next year and a few years after that, with around $1 billion of that, on average, being sustaining capital and another $400 million or $500 million of growth capital. And I think we still see it pretty much in line with that, but we will be updating that over the next few months.

Greg Hardy: Thanks very much. Have a good weekend.

Brad Corson: Thanks, you, too.

Dave Hughes: On behalf of the management team, I would like to thank everybody for joining us this morning, and for your ongoing interest and support. As always, if anybody has any further questions, please do not hesitate to reach out to anybody on the IR team here. Thanks very much.

[END OF TRANSCRIPT]

Attachment VI

Non-GAAP financial measures and other specified financial measures

Certain measures included in this document are not prescribed by U.S. Generally Accepted Accounting Principles (GAAP). These measures constitute "non-GAAP financial measures" under Securities and Exchange Commission Regulation G, and "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	**2022**	2021	**2022**	2021
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**2,682**	852	**4,596**	1,897
Less changes in working capital				
Changes in operating assets and liabilities	**(101)**	(41)	**594**	(64)
Cash flows from (used in) operating activities excl. working capital	**2,783**	893	**4,002**	1,961

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	**2022**	2021	**2022**	2021
From Imperial's Consolidated statement of cash flows				
Cash flows from (used in) operating activities	**2,682**	852	**4,596**	1,897
Cash flows from (used in) investing activities				
Additions to property, plant and equipment	**(333)**	(241)	**(637)**	(408)
Proceeds from asset sales	**102**	35	**126**	42
Loans to equity companies - net	**1**	(1)	**2**	12
Free cash flow	**2,452**	645	**4,087**	1,543

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 2022 and 2021.

Cash operating costs (cash costs)

Cash operating costs is a non-GAAP financial measure that consists of total expenses, less costs that are non-cash in nature, including, Purchases of crude oil and products, Federal excise taxes and fuel charge, Depreciation and depletion, Non-service pension and postretirement benefit, and Financing. The components of cash operating costs include (1) Production and manufacturing, (2) Selling and general and (3) 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	**2022**	2021	**2022**	2021
From Imperial's Consolidated statement of Income				
Total expenses	**14,141**	7,576	**25,293**	14,062
Less:				
Purchases of crude oil and products	**11,021**	4,867	**19,371**	8,754
Federal excise taxes and fuel charge	**553**	465	**1,032**	869
Depreciation and depletion	**451**	450	**877**	944
Non-service pension and postretirement benefit	**5**	10	**9**	21
Financing	**11**	13	**18**	27
Total cash operating costs	**2,100**	1,771	**3,986**	3,447

Components of cash operating costs

	Second Quarter		Six Months	
millions of Canadian dollars	**2022**	2021	**2022**	2021
From Imperial's Consolidated statement of Income				
Production and manufacturing	**1,908**	1,569	**3,567**	3,054
Selling and general	**191**	200	**416**	389
Exploration	**1**	2	**3**	4
Cash operating costs	**2,100**	1,771	**3,986**	3,447

Segment contributions to total cash operating costs

	Second Quarter		Six Months	
millions of Canadian dollars	**2022**	2021	**2022**	2021
Upstream	**1,424**	1,168	**2,675**	2,279
Downstream	**571**	499	**1,074**	958
Chemicals	**89**	68	**166**	143
Corporate/Eliminations	**16**	36	**71**	67
Cash operating costs	**2,100**	1,771	**3,986**	3,447

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							
	2022				2021			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**1,423**	**578**	**396**	**380**	1,166	461	254	391
Selling and general	**-**	**-**	**-**	**-**	-	-	-	-
Exploration	**1**	**-**	**-**	**-**	2	-	-	-
Cash operating costs	**1,424**	**578**	**396**	**380**	1,168	461	254	391
Gross oil-equivalent production (thousands of barrels per day)	**413**	**159**	**144**	**81**	401	181	142	47
Unit cash operating cost ($/oeb)	**37.89**	**39.95**	**30.22**	**51.55**	32.01	27.99	19.66	91.42
USD converted at the quarterly average forex *2022 US$0.78; 2021 US$0.81*	**29.55**	**31.16**	**23.57**	**40.21**	25.93	22.67	15.92	74.05

	Six Months							
	2022				2021			
millions of Canadian dollars	Upstream (a)	Kearl	Cold Lake	Syncrude	Upstream (a)	Kearl	Cold Lake	Syncrude
Production and manufacturing	**2,672**	**1,099**	**718**	**728**	2,275	916	514	724
Selling and general	**-**	**-**	**-**	**-**	-	-	-	-
Exploration	**3**	**-**	**-**	**-**	4	-	-	-
Cash operating costs	**2,675**	**1,099**	**718**	**728**	2,279	916	514	724
Gross oil-equivalent production (thousands of barrels per day)	**397**	**146**	**142**	**79**	417	180	141	63
Unit cash operating cost ($/oeb)	**37.23**	**41.59**	**27.94**	**50.91**	30.19	28.12	20.14	63.49
USD converted at the YTD average forex *2022 US$0.79; 2021 US$0.80*	**29.41**	**32.86**	**22.07**	**40.22**	24.15	22.50	16.11	50.79

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