

## CORPORATE PARTICIPANTS

**Steve Douglas**

*Vice-President, Investor Relations*

**Steve Williams**

*President & Chief Executive Officer*

**Alister Cowan**

*Executive Vice President & Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Greg Pardy**

*RBC Capital Markets*

**Guy Baber**

*Simmons & Company International*

**Paul Cheng**

*Barclays*

**Benny Wong**

*Morgan Stanley*

**Mike Dunn**

*FirstEnergy Capital*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the Suncor Third Quarter 2015 Financial Results Call and Webcast. I would now like to turn the call over to Mr. Steve Douglas, Vice President, Investor Relations. Mr. Douglas, please go ahead.

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### Steve Douglas, Vice President, Investor Relations

Well, thank you, Melanie, and good morning, everyone. Welcome to Suncor Energy Q3 earnings call. With me here in Calgary are our President and Chief Executive Officer, Steve Williams, and Alister Cowan, Executive Vice President and Chief Financial Officer.

A legal advisory regarding forward-looking statements: I'd ask you to note that today's comments contain forward-looking information, that actual results may differ materially from expected results because of various

factors and assumptions described in our Q3 earnings release, as well as our current AIF and the Offer to Purchase and Takeover Bid circular dated October 5, 2015. All of these are available on SEDAR, EDGAR, and suncor.com.

There are certain financial measures referred to in these comments and they're not prescribed Canadian GAAP. For a description of these, please see our Q3 earnings release.

After our formal remarks we will open the call to questions from the phone lines. I'll now hand over to Steve Williams for his comments.

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### Steve Williams, President & Chief Executive Officer

Good morning and thank you for joining us. We have a lot to talk about this morning. What I'd like to do is start by reviewing our performance in the quarter. I'll then take a few minutes to talk about Suncor's offer for Canadian Oil Sands Ltd., but first, our quarterly results.

Suncor delivered strong operational and financial results once again in the third quarter and we took significant steps to profitably grow the company. As everyone knows, we remain squarely focused on operating our assets well, allocating capital in a disciplined manner, and profitably growing the business, and in this quarter we continued to make meaningful progress on all three fronts.

Our operating results in the quarter were very strong. At our oil sands operations we produced over 430,000 barrels per day, including 315,000 barrels per day of synthetic crude. It was the third consecutive quarter in which we've reached 90 percent throughput on our upgraders and we also continued our trend of steadily reducing costs.

Oil sands operating costs declined to C\$27 per barrel or just over US\$20 per barrel, and that's the lowest level since 2007. Record in-situ production at an average cash cost of just above \$12, coming in at \$12.55 per barrel, contributed positively to our results, and we achieved these production and cost thresholds despite several weeks of planned maintenance in September.

We also saw strong results from exploration and production in Q3. In the UK North Sea, Buzzard continued to operate reliably and Golden Eagle recorded its first full quarter running at nameplate capacity. Together they produced 67,000 barrels per day during the quarter at an average operating cost of just under \$6

per barrel. On the east coast of Canada we completed planned maintenance at Terra Nova and continued to see natural declines at White Rose and Hibernia. Nevertheless, we remain on track to meet our production guidance for the first year.

In the downstream we enjoyed one of our best quarters ever. We recorded average utilization rates of 96 percent at our refineries and took advantage of strong crack spreads and location differentials to generate near record earnings and cash flow. With the recent announcement of the final approval for the reversal of Line 9 we were able to commence line fill this month and we expect the first pipeline shipment of inland crude to reach the Montreal refinery before year end. This represents the potential for significant economic uplift for our downstream, which is already a consistent industry leader in profitability.

During the third quarter we maintained our unwavering focus on capital discipline. We executed extensive planned maintenance in both the upstream and downstream, we continued to drive our major growth projects forward according to plan, and we managed the associated capital spending well within our budget. This helped us generate free cash flow once again in the third quarter, even after investing more than \$900 million of growth capital and despite a Brent oil price that averaged just over \$51 per barrel for the quarter.

Turning to profitable growth, I'm very pleased with the progress on our Fort Hills project. Engineering is now over 95 percent complete and construction is approaching the halfway point as we continue to target first oil in Q4 of 2017. In September we announced the acquisition of a further 10 percent working interest in the project, bringing our ownership share to just under 51 percent. This transaction is a great fit with Suncor's profitable growth plans for a number of reasons.

We originally established the joint venture structure for Fort Hills in order to effectively manage the financial risks associated with a \$15 billion project. We are now two years into construction and we're tracking to plan on all major milestones. We believe that the project execution risk has been significantly mitigated and so we seized a strategic opportunity to increase our working interest. The cost to Suncor for the additional 10 percent working interest will be approximately \$1 billion. That equates to about \$56,000 per flowing barrel, a significant discount to the expected overall project cost of \$84,000 per flowing barrel that we announced at project sanction. As a result, the acquisition has good standalone economics and also improves Suncor's overall project returns. And of course moving to a 51 percent working interest gives Suncor a

majority interest in Fort Hills and strengthens our governance role on the project.

It was about this time last year that we were finalizing our goals for 2015. Oil prices were in freefall but we were looking to maintain our track record of improving reliability and growing production whilst accelerating cost reductions. With three quarters now on the books we're delivering on each of these goals. We've been working to steadily improve the reliability of our oil sands upgraders with a goal of averaging 90 percent throughput by 2017. Year to date in 2015 we have managed 94 percent upgrading throughput, including planned maintenance downtime in both the second and third quarters. This compares to 84 percent throughput for the same period in 2014.

On the production front year to date we have increased total upstream output by over 9 percent versus 2014. At oil sands operation, our year-to-date synthetic crude oil production is up by 12 percent and our overall production has increased by 9 percent versus 2014. We expect our total production to finish the year squarely in the middle of the guidance range, which of course we revised upwards in the second quarter. We anticipate all production areas to be within their respective guidance ranges with the exception of Syncrude, which is likely to fall short of guidance due to the third quarter impact of the fire in August and continued operational challenges in the month of October when it's been operating at approximately 60 percent of capacity.

With crude prices at the low end of the cycle, cost management is more important than ever, and we've continued to steadily reduce our costs on both a per-barrel basis and an absolute basis. At oil sands our cash operating costs are down by over 17 percent year over year from \$33.55 per barrel in the first nine months of 2014 to \$27.80 per barrel in the same period of this year. On an absolute basis, oil sands cash costs are down over \$300 million or 9 percent year over year, and that's even though we substantially increased production. We have not made further reductions to our Q2 guidance, which was \$28 to \$31 per barrel on oil sands cash costs, but given the positive trend in our performance we would expect to be at the very low end or possibly slightly below that range.

We're meeting or exceeding our goals on reliability, production, cost management, and growth, and that adds up to very strong financial results.

I'll now turn the mic over to our CFO, Alister Cowan, to provide some colour on our financials.

**Alister Cowan, Executive Vice President & Chief Financial Officer**

Thanks, Steve.

During the third quarter we were faced with the lowest average oil prices we've seen in over six years. Brent oil averaged just over US\$51 per barrel for the quarter and WCS, the Canadian heavy crude market, averaged just under US\$33.25 per barrel. Nevertheless, as Steve has said, we did post some solid financial results thanks to strong reliability, careful cost management, and the strength of our integrated business model.

We generated cash flow from operations of \$1.9 billion and free cash flow of \$146 million after growth capital of \$923 million. Now that brings our year-to-date totals to \$5.5 billion of cash flow and \$875 million of free cash flow after \$2.7 billion of growth capital spending. The refining and marketing segment accounted for 42 percent of our cash flow as our refineries operated at 96 percent utilization rates and we took advantage of a very favourable downstream pricing environment.

As Steve said, we'll continue to take costs out of our business. In January of this year we committed to \$600 million to \$800 million of reductions in operating expenses over a two-year period to offset inflation and reduce overall costs. We have made significant progress against that goal. During the third quarter our total operating selling and general expense declined by 11 percent versus Q3 2014. On a year-to-date basis or OS&G expense is down by \$864 million or 12 percent, even with our significant production increases.

While we certainly benefitted from lower commodity prices this year, we've also made great progress in managing controllable expenses and taking structural costs out of the system. We estimate that two-thirds of the savings we have achieved to date are sustainable and we're working to identify further opportunities as we finalize our budget going into 2016.

When we set our cost reduction targets last January we committed to reducing our 2015 capital spending program by \$1 billion. Our updated capital guidance range of \$6.2 billion to \$6.8 billion for the year reflected that \$1 billion reduction. Our capital discipline efforts proved very successful in the first half of the year and we were able to lower the guidance range in Q2 by a further \$400 million.

We have continued to realize significant savings through a combination of capital efficiencies, deferrals, and cancellations of non-critical projects. As a result, we now

anticipate that our year-end capital spending will come within a reduced guidance range of \$5.8 billion to \$6.4 billion, even after accounting for the additional capital spending associated with our purchase of a further 10 percent interest in the Fort Hills project.

Importantly, we've been able to manage our capital spending down without compromising our goals around profitable growth or operational excellence, which includes safe and environmentally responsible operations. We have completed extensive planned maintenance across our asset base and we continue to fund significant growth initiatives that are expected to deliver production and cash flow growth through the end of this decade.

Obviously this performance is helping us to maintain a very solid balance sheet. Our net debt to cash flow is running at 1.4 times and our gross debt to capitalization is 27 percent. This reflects the impact of the lower Canadian dollar on the translation of our long-term U.S. dollar denominated debt. We finished the quarter with \$5.4 billion in cash and undrawn lines of credit of \$6.9 billion for total liquidity of over \$12 billion. And of course we continue to earn a strong investment-grade credit rating.

Our healthy balance sheet and cash position are what have enabled us to increase the return of cash to shareholders. We continued that practice in Q3. In September we made the first quarterly dividend payment to shareholders at the increased rate of \$0.29 per share and during the quarter we reinstated our share buyback program, repurchasing and cancelling over 1.2 million shares at an average price well below our current trading value.

Securities regulations have required us to suspend the buyback program for the duration of the Canadian Oil Sands offer process but we aim to pick up where we left off upon completion of the offer and, subject to market conditions, meet the commitment we made to repurchase \$350 million worth of Suncor shares by the end of Q1 2016. Returning cash to shareholders remains a key element of our strategy. It's critical to our focus on capital discipline. Over the past five years we have grown our dividend by 190 percent and have repurchased and cancelled over \$5 billion of Suncor stock, representing approximately 10 percent of the outstanding shares.

As we move into the final two months of 2015 we are driving to meet or exceed our targets for this year while finalizing stretched goals for 2016. And of course we're focused on completing the growth transactions we have announced in the past few weeks. Moving forward, you

can be confident that we will stay true to our principles of managing the base business well, applying strict capital discipline, and investing in profitable growth.

With that I'll pass it back to Steve Douglas.

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**Steve Douglas, Vice President, Investor Relations**

Thanks, Alister, and thank you, Steve.

Just a few further notes on the quarter. As everyone knows, crude prices were falling sharply. As a result, we have a LIFO/FIFO impact net after tax an expense of \$274 million in the quarter, and that brings the total for the year to an after-tax expense of \$209 million. The dollar also weakened, the Canadian dollar, and so there was a net after-tax expense to us on FX of \$786 million in the quarter, bringing the after-tax cost of our U.S. dollar denominated debt to \$1.55 billion year to date. Stock-based comp was a \$77 million after-tax expense, bringing the year-to-date number to an expense after tax of \$175 million.

As Steve Williams mentioned, we have updated our guidance. In keeping with our standard procedure of not making changes unless we expect to be materially outside the guidance range, there are only a couple of revisions to note. One is the international tax rate change, which has dropped to 10 percent to 15 percent, and that's as a result of tax credits received for exploration drilling in Norway, and we've also reduced the pricing assumptions for the various marker crudes to reflect the actual lower numbers year to date and the lower forward curve through the end of the year.

That wraps up our review of the third quarter performance but before we open the lines for questions I'm going to turn back to Steve Williams to provide some comments on our offer for Canadian Oil Sands, which was made on October the fifth.

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**Steve Williams, President & Chief Executive Officer**

Thanks, Steve.

This is a bit of a departure from our standard call format but I thought it was important to separate my comments on our offer for Canadian Oil Sands from our commentary on the third quarter. I did not want our strong third quarter results to be lost in the discussion of the proposed transaction. That said, the Canadian Oil Sands offer is an important development for Suncor and I'm pleased to be able to provide some insights on it this morning.

Since we announced our offer on October the fifth we've had the opportunity to talk to the majority of the reporting shareholders of Canadian Oil Sands. They understand Canadian Oil Sands is facing a risky and uncertain future and they acknowledge the value of what we've put on the table and, just to recap, that's a 43 percent premium to Canadian Oil Sands pre-offer closing price, a 45 percent cash dividend uplift, and an all-share deal that enables a tax-deferred rollover and participation in the potential upside associated with owning Suncor shares, and that includes the impact of any increase in oil prices as well as the value we expect to create as owners of a much larger stake in Syncrude. These investors also recognize Suncor's track record on operational excellence, capital discipline, and profitable growth. They know that we've generated over \$10 billion in free cash over the past four years and that we've returned the majority of it to shareholders through dividends and buybacks while continuing to invest in long-term sustainable growth.

Now I'd like to take a few minutes to comment about our offer and address some of the key questions that have been raised in the past few weeks. So, firstly, I just mentioned the impact on Suncor shares of any increase in oil prices. If you go back and look at the correlation to oil price over almost any historical period you'll find that Suncor enjoys a very similar upside to Canadian Oil Sands, but of course far less downside when oil prices fall, and that's due to the integrated stratagem. We think that should be very attractive to Canadian Oil Sands investors in what we and many others believe is the new business reality of a lower for longer oil price environment.

Secondly, Suncor has the same information as Canadian Oil Sands and every other Syncrude owner. All material information we are aware of regarding Syncrude has been made public. Canadian Oil Sands actually chairs the Syncrude committee where this information is tabled and Canadian Oil Sands of course has a much lower materiality threshold than we do. So if there were any such information, presumably Canadian Oil Sands would have disclosed it.

Thirdly, Suncor is actually offering to pay more for Canadian Oil Sands than we recently paid for a 10 percent increased working interest in Fort Hills. If you do the math based on Syncrude's actual historical production we are offering \$67,500 per flowing barrel at Syncrude for Canadian Oil Sands versus the \$56,000 per flowing barrel we paid for our additional ownership stake in Fort Hills. So, roughly speaking, that represents a 20 percent premium. However, we do recognize it's difficult to compare the two transactions on a cost-per-flowing-barrel basis because Fort Hills will produce a high-quality

premium bitumen while Syncrude produces synthetic crude oil. We value an asset on its free cash flow profile. Fort Hills is a brand-new asset with operating costs and sustaining capital costs that are expected to be significantly lower than those of Syncrude and, frankly, depending on the assumptions you make, Fort Hills margins and free cash flow could well exceed those of Syncrude.

And finally, our offer reflects the full and fair value of all of Canadian Oil Sands' assets and liabilities. There's been a great deal of speculation around Suncor's offer and our willingness to increase our offer and I'd like to make four points on this topic. The first one, oil prices have sharply declined in the six months following Canadian Oil Sands' rejection of our initial offer. More importantly, the outlook for oil prices is much more bearish, as reflected by the forward strip on pricing. It is clear to us that we need to manage our business with the assumption that low oil prices will be with us for the next several years. Secondly, the Syncrude asset has continued to underperform. In the third quarter it ran approximately 67 percent and average production so far in the fourth quarter has further declined from this level. Thirdly, at this time there is no competing offer or alternative that we are aware of. Fourthly, Suncor, with its integrated model, diversified portfolio, and strong balance sheet can handle the risk of a lower for longer price environment and/or continued operational challenges at Syncrude but Canadian Oil Sands, with its single asset exposure and a high, a debt rating only one notch above speculative, is in a precarious position. We believe Canadian Oil Sands shareholders need to take these facts into account when they consider the Suncor offer. We think our offer delivers Canadian Oil Sands shareholders significant immediate value, strong upside potential, and considerable downside protection which they otherwise lack. In short, we believe our offer represents full and fair value and a compelling opportunity for Canadian Oil Sands shareholders. And we would like to see Canadian Oil Sands shareholders decide for themselves on its merits.

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**Steve Douglas, Vice President, Investor Relations**

Thank you, Steve. I'm now going to ask Melanie to open up the line for questions.

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**QUESTION AND ANSWER SESSION**

**Operator**

Thank you. We will now take questions from the telephone lines. If you have a question and you are using

a speakerphone, please lift your handset before making your selection. If you have a question, please press star one on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while the participants register. Thank you for your patience.

The first question is from Greg Pardy of RBC. Please go ahead.

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**Greg Pardy, RBC Capital Markets**

Yeah, thanks. Thanks and good morning, all. Steve, just a couple of questions. The first one is just with respect to that 94 percent upgrader utilization rate that you mentioned. So what's different about this year than last year and does it, does the performance this year then cause you to rethink that 90 percent target utilization rate longer term?

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**Steve Williams, President & Chief Executive Officer**

Thanks, Greg. You know, we've been on this journey of operational excellence now for the best part of ten years and one of the characteristics we've tried to have with sort of all humility is to be very straightforward on what our expectations are but with an air of conservatism so that, you know, to be quite frank, that we are sort of under-stating and over-delivering. We are, if you remember, part of getting to the 90 and above utilization rate was to move to a five-year turnaround cycle and to go through two of those cycles in order that we could pick up, through inspection, all of the maintenance that would need to be done with that new operating regime. And we go through the final second turnaround of that cycle next year with Unit 2. So, in summary, it's been a long program, it's been very focused, and we had in-house objectives to get to higher levels but the guidance we issued was 90. So I am—in fact, let me just talk about it for a second and it will give you a clue about the potential trajectory. If you look, we went through a very similar program with our refineries and we have re-rated upwards three of the four refineries. What we're finding with the upgraders is a very similar program of rigorous discipline is working and delivering. What you're seeing is a trend, not just an aberration, so we do expect it to go up, and my belief is that 90 will prove to be too conservative. But, you know, it is a principle we established that we wanted to under-state and over-deliver so it is that long-term focus and relentless focus that's got us there. And, you know, there have been,

clearly to get to those sorts of levels you need months where you're above 100 percent, and we have seen that.

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**Greg Pardy, RBC Capital Markets**

Okay. Thanks for that. And maybe the second one is just with the Line 9B reversal now essentially in place can you just remind us what the uplift, the annualized uplift in cash flow is that you expect there from the, from Montreal?

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**Steve Williams, President & Chief Executive Officer**

Yeah. I mean what I'll do is just give you the math so you can do it yourself if you like. We put 50 million barrels a year through the Montreal refinery, so for every dollar we get a \$50 million uplift through the year. If you were to look historically there have been times when that would be \$20 plus. That's not what we're expecting going forward. Much more conservative assumptions. But you can see, you know, even if it's a \$5 uplift you're getting up to \$250 million. So material to Montreal and will make a difference to what is already, we think, a best-in-class downstream.

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**Greg Pardy, RBC Capital Markets**

Okay, great. And the last one for me then is you've talked before about at least examining a coker at Montreal. I think initially that was probably designed for Mayan crudes but what's the status of that and, frankly, is there any urgency to be putting a coker in if you're going to get so much of a benefit just by going to indigenous crudes?

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**Steve Williams, President & Chief Executive Officer**

Yeah, a great question. I mean you're right; you get a substantial part of the uplift by simply moving from international crudes to inland crudes. Now there are further benefits by putting the coker in. The project is still being developed and, you know, even, and we've been developing it within the capital constrained budget that we've been managing to. It will come across my desk probably in the first quarter now for the next gate review and see whether we take it to the next stage. But the economics we've just been talking about around moving to inland crudes are standalone, they don't need the coker, and the coker would be based on refinery-type economics. So it still looks attractive. The timing is not critical so I'll take that review in the context of our budget.

**Greg Pardy, RBC Capital Markets**

Very good. Very good. Thanks very much.

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**Operator**

Thank you. The following question is from Guy Baber of Simmons. Please go ahead.

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**Guy Baber, Simmons & Company International**

Good morning, everybody, and congrats on the strong quarter. Obviously Suncor is uniquely positioned for this depressed environment given the strength of the cash flow generation, which allows you all to act counter-cyclically when other companies can't. We've seen that with your pursuit of acquisitions. And as you continue to perhaps pursue bottom of the cycle acquisitions, future opportunities, can you just remind us of the key criteria and metrics that you are screening for and that are most important? And related to that, if we assume any credible long-term threshold oil price your shares obviously look very cheap so how do you evaluate acquisitions versus potentially ramping up the buyback of your own stock given your advantaged financial position?

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**Steve Williams, President & Chief Executive Officer**

Okay, thanks. I mean I'll take the first part and then I'll let Alister talk about the screening criteria that we use.

First of all, I think I would go back to our overall strategy. Our strategy has been, first of all, we have to earn the right to spend money, so we have to run our existing assets very, very well. That's what operational excellence is about and I'm pleased with the progress we're making, still more to come, and you will see that in terms of reliability and continued reduction in operating costs. We're not finished yet; we still have some more of that to deliver. So run the assets really well.

The second part then has been about a very disciplined allocation of capital. And we have three ways that we look at using that capital. The first one is organic growth and, you know, what's so pleasing about these results are that we are still funding our organic growth. We've grown it nearly 10 percent for the last four or five years, per year, and we are growing at 5 percent through to the end of this decade with investments that are in place.

And we then have a very long list of organic projects which are there, but they have to compete with the other

two buckets. One of those buckets is the world of M&A and we've been looking and, you know, whether we're at the bottom of the cycle there'll be as many views as there are individuals having the conversation. What we know is that in the M&A world at these prices some companies have started to look reasonably attractive to Suncor. So we're letting those compete. And then, you know, I think our track record speaks for itself on the third bucket, which is we return money to shareholders. We talked in our prepared comments about the \$10 billion of free cash that we've generated and returned. We've done that through a mix of dividend and buying back through share buybacks 10 percent of the company.

So we let those three compete and the beauty of that is that given the very healthy balance sheet we have we're in no hurry. We have very good opportunities in each of those. Our shareholders, very happy to take returns themselves. The organic growth list is a very long list, which takes us forward for the next, you know, 20-plus years, and we've got some of these targets. The commitment that I've been giving very clearly to shareholders is we will not move from that capital discipline. If things don't fit in on those lists we will not pursue them or move away. We'll do that on organic projects, we'll do that on potential M&A targets, and we will use the tools available to us in terms of returning to shareholders.

And just before I hand over to Alister on the more detailed criteria I'll just answer the piece on long-term crude value. We have a simply philosophy in the company. Depending on which use of capital we're looking at, we make different crude price assumptions going forward. And they're interesting but we run the company to be cash free at this level of crude price and that's what's exciting for us about this year is that in each of the three quarters we have generated free cash.

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**Alister Cowan, Executive Vice President & Chief Financial Officer**

Okay, thanks, Steve.

So just specifically looking at acquisition criteria, I think we've been pretty clear the three main areas that we look at. One is, is the potential target a strategic fit? Is it in an area that fits with our strategy, whether it be in the oil sands, E&P, or the downstream business, does it help us in our integration? Is the asset itself or the resource a top-tier, a top-quality asset or something that we believe we can use our expertise to get it to a top-tier performing asset? And then, third, and not lastly, but is it value accretive? Is this something that can add value to shareholders? And we look at earnings and we look at cash

flow and we look at net asset value around can it add value. And then we go back to what Steve just said around our capital discipline. Any acquisition that we look at has to compete against the organic growth opportunities and the potential to return cash to our shareholders through the dividend or the stock buyback. So it's a broad mix of things that we look at and we're very disciplined about when and where we go after acquisition.

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**Guy Baber, Simmons & Company International**

Thanks very much for the comprehensive answer. I had one follow-up on the Canadian Oil Sands acquisition, if you could speak to that. You mentioned, and we agree, that Suncor has established a track record of operational excellence. The Syncrude project, on the other hand, does not have that track record. So the obvious question is can you just discuss the confidence level in improving the reliability of the operations at Syncrude, over what timeframe that could be achieved and what level of investment that might take.

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**Steve Williams, President & Chief Executive Officer**

Yeah, I mean I think I'll give a relatively sort of short and clear answer. We are confident that we can add more value than we have been doing. I don't want to understate how challenging it is to increase the reliability of these types of assets in this type of location with the access to the workforce and contractors we have there but what I would do is just reference you to what we've actually achieved. If you go back ten years, we faced some very similar challenges to the ones that Syncrude are facing. We put a comprehensive, multi-turnaround, multi-year plan in place and we have slowly worked through that. The results, I think, are evident now in our actual performance over the last few years, how that's improved.

If you look at the operations, they're very similar. They're immediately adjacent to each other. They're the same unit processes—mining, tailings, extraction, upgrading, so coking, distillation, same sort of maintenance challenges in the areas, and of course we, along with all the other owners, have a detailed understanding of the challenges that are faced. So we're confident if we were to move from 12 percent to 49 percent and we would start to help Imperial with a more significant resource assistance, we're confident that through that support to the operator we can see significant improvement. But we do believe that those synergies largely are Suncor's, because that's an area of expertise we have in that

region. Imperial is an excellent operator and so I'm looking forward to the opportunity to be able to work more closely with them.

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**Guy Baber, Simmons & Company International**

Thanks for the comments.

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**Operator**

Thank you. The following question is from Paul Cheng of Barclays. Please go ahead.

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**Paul Cheng, Barclays**

Hey, guys. Good morning. Two short questions. Maybe the first one is for Steve; the second one is for Alister. Steve, you have been pretty busy on the M&A front over the last couple of months so at this point should we assume you have reasonably, ah, your hands full, that you would be primarily focusing on your internal integration and execution and not necessarily aggressively targeting additional M&A? Or do you think that your management capability actually would be able to handle substantially more transactions?

The second question for Alister is that do you have any preliminary 2016 CapEx and production outlook? If not an absolute number, maybe just some ballpark number or direction?

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**Steve Williams, President & Chief Executive Officer**

Okay, thank you, Paul. I mean on that first question, the sort of principle we have used in house has been that we have to earn the right to move on. That's why to an extent there was a sequence. Operational excellence, deliver the reliability and the low cost, that discipline around capital, and earning the right to do other things. And my feedback to the company has been you're doing very well, you're starting to earn the right to look at some of these other opportunities.

Of course so far, if I just look briefly at the two transactions we've been considering, firstly on Fort Hills, we are already the operator, we're already the constructor, and all that's happened is our percentage of ownership and where the cash flow following the start-up goes will be directed. So there's no significant change in the amount of effort we need to put in. It is of financial benefit to us though. And then you look at Canadian Oil

Sands and the proposal is not at this stage to go to operatorship. It is about increasing the percentage ownership in the joint venture and then bringing to bear through a handful of experts in that region and in that technology the best support we can for the operator, Imperial. So, again, it's not a significant change. It's not like the Petro-Canada merger where we had to integrate multiple departments and had multi-year integration targets to achieve that. So what it says is all options are there.

These are two potentially attractive proposals. We continuously are, as a matter of good business, screening the market. We don't have any immediate other projects planned but we will keep looking, because this hasn't significantly affected our balance sheet, particularly our debt metrics, so we still remain in a very powerful position after. But anything we look at will have to be very attractive and will have to compete with those other objectives of, you know, the organic portfolio and just returning the funds to our shareholders.

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**Alister Cowan, Executive Vice President & Chief Financial Officer**

Okay, Paul, on your guidance question, we're coming out of the end of November with 2016 guidance but I would just remind everybody on the call that, you know, it will include the additional, the CapEx on the additional 10 percent of Fort Hills and remind everybody that there will be some CapEx related to the five-year turnaround at Unit 2, but we'll be out by the end of November on our guidance for production and CapEx.

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**Paul Cheng, Barclays**

All right, very good, thank you.

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**Operator**

Thank you. The following question is from Benny Wong of Morgan Stanley. Please go ahead.

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**Benny Wong, Morgan Stanley**

Hi, good morning. Thanks. Fort Hills seems to be progressing very well. I've just got a two-part question on it. First is, you know, from this point forward what's the biggest potential challenges you guys might face? Is it just really staying on schedule? And the second part is

there any areas in engineering and construction that so far surprised you in terms of cost?

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**Steve Williams, President & Chief Executive Officer**

Thanks, Benny. I mean let me just go back to of course a few years ago now when we were sanctioning the project and we clearly made a break with our own past, and I think to an extent the industry's past and said, you know, there are normally three important metrics you look at when you're developing these megaprojects—cost, quality, and schedule. And we said where companies have really come into problems is when they tried to manage all three. Our clear priority at the beginning and our clear priority as we've executed this project is to manage the cost, manage the quality, and keep an eye on schedule. Schedule is very important to us but it's not critical. It's much more important that the capital is spent efficiently and we get the returns, we get the returns on the project once we've handed it over to our operations folk.

And I'm pleased to say not only is it—the costs are pleasantly surprising us. We are, we did actually—one of the reasons we selected the timing for the project was because we thought there was a quiet period through this construction window. It actually turned out to be much better than we expected. So I think our assumption was right but it was better than we anticipated. The quality of resource we're getting and the quality of the work they are producing is surprising us to the upside. So, you know, congratulations to the contractors who are working it. They're putting very high-quality people on it and these guys are delivering a very good project. And then the final piece of good news on the project is it's on schedule. So we are still anticipating a 2017 start-up. So good news.

I guess one of the big things we had to do and, again, I say it with all humility, because we have had projects a long time in the past which have had problems too. We learned some lessons from our own experiences, we tried to learn from others in the region, and we knew that one of the challenges was going to be the logistics of moving materials in. I'm pleased to say that we're already over the hump of that and we've not experienced any significant issues. So, you know, right now we are starting to allocate the contingency to subcomponents of the project but we still have a substantial piece of the contingency available to us. So I think, you know, if it continues the way it's going this will be, we believe—we've spent something like \$20 billion over the last three or four years on smaller projects, on cost, on schedule, and I think the industry has seen those steady

improvements, but this may well be the first megaproject that has delivered on cost and schedule.

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**Benny Wong, Morgan Stanley**

Great. And just a quick question, um, you guys posted strong operating cost in the quarter and with the trend turning to the bottom end of your guidance, ah, potentially even lower, is there something that's gating you from lowering your guidance further? I mean, in other words, are you still waiting for something to play out before you want to commit to it?

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**Steve Williams, President & Chief Executive Officer**

No. One of the principles we have with guidance is we only make material changes. So if it's, you know, fractions on it, we don't re-guide ever quarter, just because, because there are lots of moving pieces here. So our belief is, and I've tried to be pretty clear, our belief is we will be at the very low end or below. What we're seeing in reductions in costs are coming from, it's coming from hardcore stuff, you know. It's different labour force, it's streamlined lodgings, it's improved productivity, it's lower contracting rates, it's reduced overtime, it's prioritized IT. And it's all of those things that we have been working on so we're comfortable they are continuing into the first quarter. But it's just our reticence to re-guide every quarter as smaller things changes. So what you're seeing is, you can see it's a trend. It's not once-off, it's a trend, and we're not there yet. I still have an internal ambition of getting below US\$20 a barrel.

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**Benny Wong, Morgan Stanley**

Got it. Thank you. And just as a final question, I really appreciate the colour you provided on the discussions with the Canadian Oil Sands shareholders, just curious if you can comment what's the support been on the deal, the bid for Canadian Oil Sands from Suncor shareholders?

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**Steve Williams, President & Chief Executive Officer**

Yeah, that's a great question. what we did do was we launched what by any measure was an extensive communications program on the fifth of October. We put two investment teams in place and they cycled around both, you know, near two-thirds of the Canadian Oil Sands shareholders and the vast majority of Suncor shareholders in that first two weeks. And there were lots

of questions. Overall, understanding the deal, supporting us, questioning, healthy questioning of are you moving away, Steve, from the capital discipline that you've exercised, and we've made it clear judge us by our track record. We have been very disciplined in what we've done and we plan to be disciplined about this. And then, okay, well what are the synergies? And we can see why it's very attractive to Canadian Oil Sands shareholders by why is it attractive to Suncor shareholders? And what I would do is just say, you know, almost go back to the third quarter script I went through earlier: Operational excellence is what we do. We started with a very humble beginning and have worked very hard to get our reliability up and our costs down. We believe that's the very set of skills that Syncrude can do with and that we are relatively uniquely placed to be able to do it. That's why we believe our offer was full and fair and we didn't come in with what we believed was a low bid. We wanted to make it clear we were serious and that we had the access to those unique synergies by bringing that expertise.

Of course there are also adjacent leases which are very attractive and those synergies belong potentially to Suncor and to the Canadian Oil Sands shareholders in terms of the deal that we've done. For that to happen it needs, you know, multiple partners to agree. It's not something which is, ah, just Suncor can go in or just 51 percent will get you, it's a number of the partners need to contribute. So our belief is that there are significant synergies available and they are largely only available to Suncor.

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**Benny Wong, Morgan Stanley**

Great. Thanks, Steve.

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**Operator**

Thank you. The following question is from Mike Dunn of FirstEnergy. Please go ahead.

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**Mike Dunn, FirstEnergy Capital**

Thank you. Good morning, everyone. Another great quarter out of your refining and marketing division folks. Just wondering if you can talk about the location differentials you mentioned and how you might see them evolving as we go into 2016 and potentially beyond. They've been quite strong here for the last few years really. Thank you.

**Steve Williams, President & Chief Executive Officer**

Yeah, thank you. I mean you're right. I mean what a standout performance from the R&M group again. What I would do is just take you back to our integrated model. What it's attempting to do and it's proved very successful through this cycle is, you know, take advantage of differentials that may occur between extraction of resource and selling it to the final customer. We have, ah, we've deliberately designed the degree of integration we have and some of that is hard physical links with things like desulphurization and cokers. Some of it is a trading capability once you have a relatively balanced upstream and downstream. And whilst it's been interesting this time, as you say, it's been largely around crack-to-rack spreads and it's been around location differentials, particularly when you start to get into places like Denver or Sarnia. And we've been able to get very high differentials. And often the regional spreads of course don't reflect that very well, which makes it very tough to model what we're doing, because you can pick out regional spreads and not see the actual local benefits we're getting in the market.

Of course with Line 9 we now have increased optionality around being able to put either Western Canadian crudes or U.S. crudes into that refinery, so it gives us, not only does it give us the benefit I was talking about earlier of logistics benefits in terms of rail versus pipeline type (inaudible), it also gives us some of these other differentials. So, you know, it's part of the design, it's why we put it there. It's quite difficult, I recognize, for analysts to be able to forecast it. but what is most important about our system is the flexibility. We're not particularly dependent on, you know, some look and think, oh, is it the Brent/WTI spread? Is it the WTI/WCS spread? And actually one of the benefits of having upstream, mid-stream, downstream and trading capability is whatever it is we can hone in and probably be one of the best to take advantage of it. So it's an important part of our design, we plan to keep it, and that's why Montreal has been so important.

And I think Steve Douglas is just going to give you a few more detailed comments.

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**Steve Douglas, Vice President, Investor Relations**

I'm mainly going to call time here but I think Steve's given a comprehensive answer. The only thing I'd add is we have set up our downstream such that we have four refineries which are essentially logistical islands buying inland crude, which is often at a price advantage, and then integrated back to our refineries where we're

comprehensively planning on an optimized basis. So we have some advantages which are quite unique to Suncor.

I apologize, I know we have a number of other calls, and what I would say is we will be available throughout the day to field those calls. I'd like to thank everyone for participating and, operator, I'll hand it back to you and we'll sign off. Thank you.

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**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.

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