

## MESSAGE TO SHAREHOLDERS

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“As we turn the page on 2015, I am struck by the confirmation again of what truly sets Suncor apart. It is not just our integrated model, strategy and resource base, but also our people.”

**Steve Williams**



Without question, 2015 was one of the most dramatic years in recent memory. It was a year of managing challenges and capturing opportunities.

After years of carefully executing our strategy, with consistently strong performance, we were well positioned to take immediate action as oil prices fell to their lowest levels in over a decade. We responded swiftly to reduce capital and operating costs. We looked for efficiencies in every corner of our organization – while protecting our safety, reliability and environmental performance.

As a result of our efforts, Suncor delivered shareholder value in some of the most challenging economic conditions.

We will also remember 2015 as a year where, in an environment of challenging social and political attitudes towards fossil fuels, Alberta announced a new climate framework that has put the province in a leadership position on the world stage.

Taking a leadership role as we navigate through challenges is not new for Suncor. Our history and success have been built on how we've managed change. Technology, innovation, sticking to our principles, strategy and capital discipline will help ensure we emerge from this difficult environment stronger.

### Suncor's approach in the current environment

There's no doubt that depressed oil prices have been a topic of concern for many.

Suncor's resilience in these uncertain times is based on an integrated model that is focused on growing our oil sands business with complementary upstream, midstream and downstream operations.

Our forecasts and plans led to a multi-year program of operational excellence, and capital discipline, which has consistently resulted in strong performance and value for shareholders, while remaining somewhat insulated against the effects of market volatility and low crude oil price environments.

Our fundamental approach to driving value for our shareholders remains constant:

1. optimize the base business
2. pursue profitable growth
3. return cash to shareholders
4. be an industry leader in sustainability

Suncor's results in 2015 should provide shareholders with confidence at a time when our industry is facing fierce market conditions and is under immense pressure to be responsible in the way we develop this resource.

### 2015 performance

I'm pleased to report that the powerful combination of our integrated model, focused cost reduction and operational discipline is succeeding. This is reflected in the financial, operational and strategic achievements that the Suncor team delivered over the course of 2015.

#### Financial metrics

In a year when oil prices fell by almost 50%, Suncor still generated almost \$7 billion in cash flow from operations<sup>(1)</sup>, which more than covered our sustaining capital and dividend obligations while leaving \$2.5 billion to invest in growth. This performance stands out as unique in our industry.

To maintain our strong financial position and flexibility, we knew heading into 2015 that we'd need to be prudent in our capital spending. We committed to reducing our 2015 capital spend by \$1 billion and provided a guidance range of \$6.2 billion to \$6.8 billion for the year. We successfully executed our capital program for the year while spending at the low end of the reduced range.

As we wrapped up 2015, we achieved Oil Sands cash operating costs of \$27.85 per barrel; that's less than US\$20 per barrel, compared to \$33.80 per barrel in 2014, illustrating that we are focused on delivering sustainable reductions in both capital and operating expenses.

**Oil Sands Prices and Cash Operating Costs<sup>(1)</sup>**  
(\$/bbl)



■ Cash operating costs per barrel<sup>(1)</sup>

○ Oil Sands average sales price<sup>(2)</sup>

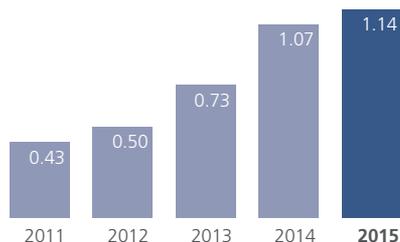
(1) Cash flow from operations and cash operating costs per barrel, which excludes Syncrude, are non-GAAP measures. See Non-GAAP Financial Measures in the MD&A.

(2) Average sales price excludes Syncrude, is before royalties, and is net of transportation costs.

Our total upstream production in 2015 increased to 577.8 thousand barrels of oil equivalent per day, which was driven by record Oil Sands operations production of 433.6 thousand barrels per day – made possible by strong reliability, a direct outcome of our unwavering commitment to operational excellence.

In July 2015, our Board of Directors approved an increase to the company's quarterly dividend to \$0.29 per common share, reflecting the company's ability to generate cash flow and our commitment to return value to shareholders.

**Dividends per Share<sup>(1)</sup>**



(1) Based on the average number of shares outstanding in each year for 2011 to 2014 and as at December 31, 2015 in the case of 2015.

*Cost reduction efforts*

Suncor was focused on prudent cost management well before the downturn in oil prices, but we accelerated these efforts, establishing aggressive cost reduction targets in early 2015.

We implemented immediate measures to reduce or postpone discretionary and non-essential spending. We streamlined business processes and eliminated low priority work, which resulted in a sustainable reduction to our workforce of about 1,700 people. Saying goodbye to colleagues is never an easy decision and I fully recognize the personal impact of these painful but necessary actions.

Our efforts to improve operational efficiency yielded reduced operating costs – down almost \$1 billion from the previous year, significantly exceeding the cost reduction targets announced in January 2015. Budgets affecting our safety, reliability and environmental performance were specifically excluded from the cost reduction program.

On the capital side of the equation, we deferred projects that had not yet been sanctioned, such as the MacKay River Expansion and the White Rose Extension. At the same time, major projects in construction such as Fort Hills and Hebron progressed as planned. These long-life growth projects are expected to provide strong returns across multiple price cycles after they come online in late 2017.

*Reliability*

Our focus on reliability has been paying off. Achieving upgrading reliability targets in excess of 90% utilization was a five-year goal we set in 2012 – achieved two years early in 2015. This contributed to reducing our cash costs per barrel for five years in a row. This kind of relentless discipline is delivering positive impacts to our bottom line.

We also completed planned maintenance activities in Oil Sands at Firebag and Upgrader 1 and in Refining and Marketing at our Edmonton, Sarnia and Montreal

refineries. We did this while maintaining high utilization rates at the refineries upwards of 94%.

*Strategic asset transaction*

In 2015, we assumed operating control of the Poplar Creek cogeneration facilities, which provide steam and power to our Oil Sands operations, in exchange for our interests in two wind power facilities. As a result, we expect to improve efficiency, reliability and profitability as we bring assets integral to our operations in-house.

*Fort Hills*

In spite of the low oil prices, the Fort Hills project remains extremely attractive to us. We expect it to operate with low cash costs and sustaining capital for more than five decades. We consider this project to be one of the best opportunities for long-term sustainable growth in the industry today, thanks to the exceptional quality of the reserves and our disciplined project execution.

In November, we acquired an additional 10% working interest in the Fort Hills project from Total E&P Canada Ltd. The acquisition provides another opportunity for Suncor to lower our capital cost per barrel and enhance our projected return on the Fort Hills project.

With first oil expected by the end of 2017, and 90% of capacity expected to be reached in the first year of operations, the project is expected to deliver approximately 90,000 barrels per day of capacity for premium-quality bitumen to Suncor. I'm proud of the significant progress we've made on Fort Hills.

*Increased capacity at In Situ*

Over the course of last year, our team continued its hard work on completing cost-effective debottleneck and optimization activities at the Firebag in situ facilities. As a result, the nameplate capacity of Firebag increased from 180,000 barrels per day to 203,000 barrels per day as of January 1, 2016.

*Increasing market access*

We have often spoken about the criticality of having the right infrastructure to provide expanded connectivity to existing markets and access to new markets. This infrastructure ensures that Canada receives full value for our resources. The regulatory approval and subsequent start up of Enbridge's Line 9 in late 2015 is one of the milestones achieved this year. As a result, Suncor has increased flexibility to supply our Montreal refinery with a full slate of inland priced crude oil. This in turn enhances the long-term competitiveness of that refinery – one that we've operated since 1955.

**Climate change**

All of our efforts to operate and grow our business safely and responsibly occur within a larger context. That macro-

environment includes broader discussions on the challenge of climate change.

Our view is that climate change is real and a challenge for our planet. At the same time, we recognize that fossil fuels – notably oil sands, given their abundance and accessibility – will continue to play an important role in meeting the global demand for energy.

In November, Suncor, together with other oil sands producers and environmental organizations formally supported the Government of Alberta's Climate Leadership Plan, which includes a broad-based carbon pricing regime coupled with an overall emissions limit for the oil sands. We are proud to have collaborated with others to support a leading climate framework in Alberta.

Predictability and certainty on pricing and emissions allow us to effectively plan how we deliver energy that creates economic prosperity and improved social well-being. The Alberta framework sets a new and ambitious performance standard for the development of this significant Canadian resource and addresses global concerns about climate change.

Tremendous effort, innovation and investment will be required to support the new plan, and I believe that regardless of how you participate in the energy industry – whether you're a producer, consumer, regulator or critic – we all want the same thing: a better planet for ourselves and future generations. We want to avoid being in a situation where our efforts amount to too little too late.

Internationally, there's recognition that Alberta is making progress and leading – with the new carbon levy, an oil sands emissions limit and a plan to phase out coal. And I believe Suncor also has a responsibility to be part of the meaningful global discussions around climate change. I was pleased to attend the United Nations COP21 climate change conference in Paris in December as part of the Canadian delegation.

When it comes to the future, we think about what's possible, versus what's not.

It's this mindset that led us to industry initiatives and enhancements like NRG COSIA X-Prize – a \$20 million prize designed to accelerate new technologies to convert carbon dioxide emissions from coal and natural gas facilities into valuable and useful products and EVOK – a clean-technology fund based in British Columbia.

Technology development continues to be an important part of our strategy because it can lead to lower capital expenditures, lower operating costs and lessen the environmental footprint. We spend about \$200 million annually on our research and development projects and see

this as a critical part of our commitment to positively impact our performance.

Globally, we're moving towards a lower carbon economy and Suncor intends to be a part of the solution by investing in technology and innovation.

### **Canadian Oil Sands offer**

In October 2015, we initiated an offer to acquire the outstanding shares of Canadian Oil Sands Limited (COS). By increasing our stake in Syncrude from 12% to 49%, we believe we can generate significant value for our shareholders. The value will come from our ability to deliver synergies through our integrated operating model, our record of operational excellence and our almost 50 years of oil sands operating experience that we bring to the table.

With the strong shareholder support that we received on February 5, 2016, we gained control of COS and we have begun the process of integrating the company into Suncor.

The market downturn may continue to present opportunities – ones that we're able to take advantage of because of the strong foundation we've built in recent years. Seeking these types of opportunities are strategic and another way we're building shareholder value for the long term. In fact, I believe that strong companies are often built during downturns and our approach is to view this difficult period as an opportunity and a challenge.

### **The Suncor team**

As we turn the page on 2015, I am struck by the confirmation again of what truly sets Suncor apart. It is not just our integrated model, strategy and resource base, but also our people.

It's hard to imagine how the past year would have turned out had it not been for the people behind Suncor. Our leadership team has been in place for several years, providing stability in an ever-changing world. I appreciate the strength and discipline of Suncor's employees and the foresight, support and guidance of our Board of Directors. It's these traits that enable us to have the stamina to thrive in the challenging crude oil price environment.

In last year's letter, I remarked that regardless of how the pricing environment evolves, the steps we have taken over the past several years put Suncor in a strong position to successfully manage through the downturn. And that we'd do this while honouring our commitments. I am pleased to say we delivered on these commitments and will continue to do so in the future.



**Steve Williams**  
President and Chief Executive Officer