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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Suncor Second Quarter 2016 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.

Steve Douglas, Vice President, Investor Relations

Thank you, Wayne, and good morning to everyone. Welcome to the Suncor Energy second quarter earnings call. I have with me here in Calgary Steve Williams, our President and Chief Executive Officer, along with Alister Cowan, our Executive Vice President and Chief Financial Officer.

I'd ask you to note that our comments today contain forward-looking information, that our actual results may differ materially from the expected results because of various factors and assumptions, and they're described in our Q2 earnings release as well as our current AIF. Both of these are available on SEDAR, EDGAR, and suncor.com. There are certain financial measures referred in these comments that are not prescribed by Canadian general accepted accounting principles and these are described in our Q2 earnings release.

After our formal remarks we will open the call to questions, first from members of the investment community and then, if time permits, members of the media.

With that, I'll turn over to Steve Williams for his comments.

Steve Williams, President & Chief Executive Officer

Good morning and thank you for joining us.

I think as everyone is aware, the second quarter dealt us a considerable challenge in the form of forest fires in Northern Alberta, which forced an evacuation of the Fort McMurray area and impacted the majority of oil sands operations in the region; however I think both as industry and as a company we were able to respond in a manner that demonstrated the ingrained and deep value and culture of safety, social responsibility that is developed in the Canadian oil sands. And let me just take a moment to put this in perspective.

Consider the scale of the event and Suncor's response: the fires impacted an area of roughly the size of the province of Prince Edward Island or the state of Delaware with a perimeter of 1,000 kilometers. We shut down all of our oil sands production in order to focus on the safety of the employees and Fort McMurray residents and protect our assets from the fires. We hosted more than 14,000 guests in our lodges. Our Firebag Aerodrome handled almost 1,000 flights. Suncor employees joined over 2,000 firefighters from around the globe in responding to the blaze. And perhaps most importantly, we responded successfully to this unprecedented situation without a single Suncor lost-time injury, recordable injury, or even medical treatment associated with the fire.

So when the evacuation order was lifted by the province we safely remobilized thousands of employees and contractors, completed planned maintenance at our second upgrader on budget, and returned to full production across all our oil sands facilities, including Syncrude, by the middle of July. All of that was accomplished in line with our updated guidance which we issued on June 6th.

The forest fires were without question a significant event that tested our mettle on many fronts and resulted in one-time reduction in production and cash flow, but the important takeaways are actually very positive. We sustained, as I said, no recordable injuries and no damage to any of our assets and we were able safely restore production and return to normal operating rates in relatively short order. The event represented a comprehensive test of our emergency capability. It confirmed that we have well-trained people and robust plans in place to efficiently and effectively respond. In the spirit of continuous improvement we're also incorporating learnings from this event into our emergency response plans going forward. The results of the fire and mitigation efforts that we took mean that the threat of damage from a future forest fire incident has been dramatically reduced.

We shut in approximately 20 million barrels of oil sands production across all of our operations but we were able to mitigate the financial impact through excellent cost management. In fact, our updated guidance for the year maintains our original cash cost range of $27 to $30 per barrel and we fully expect to meet that target. So that gives you an indication of what our trend was prior to the wildfire. And despite the sharply reduced oil sands production, we were still able to generate over $900 million in cash flow in the quarter thanks to our integrated business model. And this underscores the fact that although our operating model is integrated, it is made up of highly efficient but independent upstream and downstream businesses which can each generate strong standalone profitability while effectively mitigating the impact of crude price differentials. So even though our oil sands production was shut in for an extended period, our refineries were able to secure alternate feedstock and continue to outperform the peer group in terms of realized margins and profitability. Effectively, the forest fires were a quarter two event and with the #2 Upgrader major turnaround completed on budget we're now poised for multiple quarters of strong profitable production.

So whilst the forest fires attracted a lot of focus, this was also an eventful quarter on other front as well. Our offshore production is tracking ahead of plan thanks to strong reliability at Buzzard and Golden Eagle combined with a new well coming on line at Hibernia. And, as a result, we've recently increased our production guidance for E&P. In the downstream, reliable operating performance and solid local refining cracks enabled us to generate strong earnings and cash flow, and that was supplemented by FIFO accounting gain as a result of the increase in crude prices during the quarter. These results were particularly notable given we completed planned maintenance at the Montreal, Sarnia, and Denver refineries and dealt with forest fire related crude shortages and unplanned maintenance at Edmonton during the quarter. So, as I said, it reinforces the point that I made earlier that Suncor's downstream, whilst it's integrated with our oil sands production, is not dependent on that production for its profitability.

Turning to our major growth projects, we continued to make significant progress on Fort Hills construction, which is now over 60 percent completed at the end of the quarter, the remaining work being almost entirely Alberta based. The forest fires resulted in us demobilizing just over 5,000 people from the Fort Hills site and interrupting the site construction activities for approximately a month; however, the project has since been safely ramped back up to the planned workforce levels. We're currently assessing the impact of the forest fire interruption and developing some mitigation plans. We continue to target first oil in quarter four of 2017 with production expected to ramp up through 2018. Suncor's share of production will be approximately 90,000 barrels per day. At Hebron, on the east coast, construction of the gravity-based structure and topside continued during the quarter. A major milestone was achieved in late June with the last major module fabricated overseas being shipped on schedule. First oil is anticipated by the end of 2017 followed by a multi-year ramp up to peak production and Suncor's share will be about 30,000 barrels a day.

In addition to our organic growth projects, Suncor has taken full advantage of recent oil price weakness to invest approximately $9 billion in acquisitions over the past year. We've increased our working interest in the Fort Hills project by 10 percent, taking our ownership to 51 percent. We also acquired two additional stakes in Syncrude, bringing our working interest up to 54 percent. These transactions build on a well established track record of countercyclical acquisitions and divestments. By exercising patience and discipline and remaining focused on our core business, Suncor has added significant shareholder value through A&D at the right points in the price cycle. This includes the purchase of the two Denver refineries back in 2003 and 2005 when refining cracks were at single digits; the Petro-Canada acquisition during 2009; the sale of our natural gas business when gas prices rallied briefly in 2013; and of course the recent Syncrude acquisitions, which were completed as oil prices bottomed out earlier this year.

We are currently working on a plan to improve reliability, reduce costs, and capture the very attractive synergy opportunities between the Syncrude and Suncor operations and I'm optimistic and pleased with the way that work is going and we expect to be in a position to share that plan with you later this year. We also would continue to look for opportunities to build shareholder value through more opportunistic A&D. But be very clear: We will not chase the market. We will only act if we see the opportunity for genuine long-term value creation. Between organic growth in-flight and recent acquisitions Suncor expects to exceed 800,000 barrels per day of production by 2019. So that's over 40 percent growth in just four years and represents a 6 percent per share compounded annual growth rate between 2015 and 2019. This production growth significantly increases our leverage to oil prices and we expect it to put us among industry leaders on free cash flow at forward strip crude prices.

So the Suncor strategy, which has served us so well through the price cycle, remains very much intact. The relentless pursuit of operational excellence, as demonstrated by the continuous improvements to reliability and ongoing reductions in both capital and operating costs, a very disciplined approach to the allocation of capital as we profitably grow production through organic projects that are in progress at the moment and countercyclical acquisitions while continuing to return cash to shareholders through a competitive dividend. So we'll continue to execute and I'm confident we'll deliver strong returns for shareholders.

So I'll now pass it over to Alister to provide some additional colour on the second quarter financial results.

Alister Cowan, Executive Vice President & Chief Financial Officer

Thanks, Steve.

As Steve pointed out, the forest fires in Northern Alberta had a very significant impact on our oil sands production in the second quarter but, nevertheless, as he pointed out, we were still able to generate healthy cash flow from operations of $960 million. A number of factors contributed to this positive result. They included reliable, low cost production from E&P that has continued to exceed expectations, strong downstream profitability as our refining and marketing network actually realized improved gross margins versus the second quarter of 2015 despite a decline of over 30 percent in the New York harbor crack spreads, and a continued focus on cost management which has us on track to exceed our target of a further $500 million in cost reductions this year across the enterprise, and this is in addition to $1 billion of cost reductions we banked in 2015.

We're equally focused to cost savings and the execution of our capital spending programs. As Steve noted earlier, we were able to complete the major upgrader turnaround of the oil sands on budget despite having to demobilize and remobilize our turnaround workforce as a result of the forest fires. Major maintenance on the downstream business was also completed on budget. Overall, when I look at our capital spending it's tracking towards the low end of our reduced guidance range of $6 billion to $6.5 billion for 2016. Now that includes absorbing the additional capital related to our increased working interest in Syncrude. As we've talked about before, this is a peak year for spending on Fort Hills and Hebron and we anticipate a significant reduction in CapEx as we look to 2017 and beyond.

Suncor's strong balance sheet has been a competitive differentiator through these past two years of weak oil prices and during the second quarter we took a number of actions to ensure this continued strength going forward. We issued $2.9 billion of equity to fund the acquisition of Murphy's 5 percent interest in Syncrude and to reposition the balance sheet for further potential acquisitions and I'll reemphasize what Steve mentioned earlier: we don't feel pressure to make further acquisition so we'll continue to evaluate opportunities that fit well with our existing business and we won't hesitate to take some action if it can generate value for the shareholders. The equity offering was very well received by the market, was heavily oversubscribed with existing shareholders taking almost 80 percent of the issue.

We also repaid $600 million of bank debt and $864 million of bonds acquired in the Canadian Oil Sands transaction and these bonds were replaced with commercial paper resulting in annual pre-tax savings of over $40 million at current funding levels. The net present valued associated with interest savings over the life of the redeemed bonds is estimated at approximately $125 million. The net result of these actions as of June 30th is a balance sheet that continues to be in excellent condition with metrics appropriately positioned for point in the price cycle. We have almost $9 billion of liquidity, including $3 billion of cash. Our net debt to cash flow was three times, despite the impact forest fires on our cash flows. Our total debt to capitalization is just over 28 percent. And of course we continue to attract a strong investment-grade credit rating.

Crude prices rose quite sharply in the second quarter but seemed to be somewhat range-bound currently. We remain believers in higher oil prices long term but we don't expect to see those higher prices until global demand outstrips supply and inventories return to historical levels. Even then we would expect that crude prices will continue to be volatile. Now the good news for Suncor is that we can achieve cash flow neutrality at relatively low crude prices. We believe our current operations can generate sufficient cash flow to cover sustaining capital and dividend obligations at a Brent crude price of less than $40 per barrel.

As our growth capital starts to decline starting in 2017 it's easy to see that we'll quickly return to generating free cash flow even at the relatively low forward strip prices and crack spreads, so we have good reason for optimism. Our major oil sands maintenance for this year is complete, production is back up at maximum rates, we're continuing to increase efficiency and to take cost out of the business and advance our organic growth projects. We're also continuing to evaluate opportunities for further profitable inorganic growth. Our market conditions have improved to a level that should allow us to generate free cash flow going forward and we're certainly looking forward to a strong second half in 2016.

Now I'll pass it back to Steve Douglas.

Steve Douglas, Vice President, Investor Relations

Thanks, Alister, and thank you, Steve.

Just before we open the floor for questions, a couple of comments additional to that. There was significant LIFO/FIFO impact in the downstream. It was an after-tax gain of $275 million in the quarter. That offset or more than offset Q1. It leaves us year to date at an after-tax $83 million positive impact from FIFO.

Stock-based comp was an after-tax expense of $29 million, bringing the year to date to an expense after tax of $131 million and the Canadian dollar strengthened modestly in the second quarter reusing in an after-tax gain of $27 million in the quarter, but there is still an after-tax net expense year to date of $858 million.

We did make an update to our guidance on June 6th. We have updated it further with the incorporation of the 5 percent working interest of Syncrude associated with the closing of the Murphy deal on June 23rd, but other than that no changes to guidance.

With that I will turn it back to the operator to go to questions from the phone.

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 participants register. Thank you for your patience.

The first question is from Guy Baber from Simmons. Please go ahead.

Guy Baber, Simmons & Co. International

Good morning, everybody. It was mentioned a few times during your prepared remarks that you all see yourselves as free cash flow leaders even at the forward strip and generating free cash flow going forward into next year. We obviously have production and oil price sensitivities as a check on our cash flow numbers. The other part of the equation is obviously CapEx. Can you just help frame for us perhaps, understanding you can't give specific guidance but if you could frame for us a general roadmap for capital spending over the next couple of years I think that would be helpful.

Steve Williams, President & Chief Executive Officer

Okay, thanks, Guy. We do and of course, and I will answer your question on CapEx but of course the fact that we believe we're sort of cash flow neutral after sustaining capital and dividends at less than $40 a barrel sort of sums it all up, but let me give you some comments on CapEx.

If we look at our CapEx and you look over the last three or four years you've seen a great deal of discipline around that and we've been in the sort of $6 billion range plus or minus for a number of years. Now that has of course included a significant amount of growth capital. So if we look at our sustaining capital, it was through that period in the $3 billion range. If you look, and clearly that's, you know, we're not in a position to guide in detail yet and we need to work through the acquisitions that we have gone through, but we would expect that number to modestly increase associated with Syncrude. So you could see it coming up 3 to 3.5 and maybe up slightly higher. And then you look and then you move on to the next piece, which is organic capital spend, both Hebron and Fort Hills have peaked this year, so they are coming down, and both will be largely complete next year. So we have no plans to approve major growth projects, organic growth projects in that time. And if you look at the lag time between approval and spend, we're already going to see big dips, and I don't think you'll see us approving big organic projects for at least the next couple of years. So you're going to see a significant decrease in overall capital and I'm guessing, you know, it's too early, as you say, to guide, but I will be challenging the organization with getting down into that 5 range.

Guy Baber, Simmons & Co. International

That's very helpful. So that was challenging to get into the 5 next year you think?

Steve Williams, President & Chief Executive Officer

Well, next year, yes, I think next year, as we start to take spend off on Hebron and then Fort Hills and then we've got some potential scope to go further after that.

Guy Baber, Simmons & Co. International

Great. Thank you. And then you mentioned M&A a few times in the prepared comments, that you won't chase the market, that you're focused on value. Can you just be very clear for us what your priorities would be when it comes to potential acquisitions, what your primary criteria is when it comes to how you determine whether or not opportunities create value? And if you can just give maybe a quick comment on the level of relative attractiveness when it comes to adding oil sands opportunities versus something offshore versus downstream, I think that will be very helpful.

Steve Williams, President & Chief Executive Officer

Okay. And I'll do the first piece around strategy and I'll actually look at both sides of it, both acquisition and divestments, and then Alister will give us a few comments on the actual metrics we look for creation of value.

So let's first look at, and you've heard me use these phrases in the past, you'll see us investing in the core of our business and divesting in the non-core parts of our business. And our definitions are really very clear. So the core of our business is, the very central part of it is oil sands, but oil sands to get the full margin for the product. So its oil sands integrated to the market. So you will see us looking at oil sands possibilities and you will see us looking at potentially refining opportunities.

If I look now at the next level of detail, the market is offering lots of opportunities potentially around oil sands. What we've looked at in the refining marketing sector we haven't particularly liked, so I am not optimistic to see any moves in that area. So core area is oil sands.

The next to the core area is areas in the world where we add value, where we believe we have a competitive advantage, and that's in the North Sea and off the East Coast of Canada. So you've seen us invest with first grade partners in potential opportunities with Shell around Shelburne and in the other venture out there with Exxon. And we're very comfortable with those areas. But you're not going to see some—I think there has been a lot of speculation in the market about transformational and step-out changes. That's not what you are likely to see.

Now I want to qualify it with, um, we really have no need for any more acquisitions. So we start in a very strong position. You heard us say we got 40 percent growth between 2015 and 2019, which is probably the pace setter in our industry for our size of corporation. So you can expect us to be rigorously adhering to our capital discipline, and unless there are opportunities in those core areas which really stand out, we will not be pursuing them. So it's a really powerful countercyclical position that we find ourselves in.

Just a quick comment on divestment. Divestment will be in non-core areas that don't fall in those categories and the example we've been talking about in the market is potentially our lubes business. No final decision has been made on the lubes business, although as we went into the front end of the process the interest we've got has exceeded our expectations. So I'm very pleased with the way the divestment program is going as well.

So I'll just let Alister to make a few comments on the sort of metrics we look at to evaluate whether we think these deals are adding real long-term value for our shareholders.

Alister Cowan, Executive Vice President & Chief Financial Officer

Okay, thanks, Steve. Guy, so just, ah, I'll take this back to the fundamental underpinning of what we look at as capital allocation and the discipline around that. When we've got free cash flow there are three areas, as you know, that we look at, are we going to take that free cash flow and invest it in profitable growth, are we going to invest it in increasing the dividend sustainably for our shareholders, or are we going to invest it in buying stock back? So we've talked about a lot about how we are very disciplined around that.

What do we look out when we're trying to make an evaluation in those three areas? We're very focused on return on capital, internal rates of return, as you would expect, but that's not the only part of the story. How much cash flow we're going to generate, what's the free cash flow out of an asset, what kind of accretion are we going to be looking at to generate value cash flow on the earnings basis, and then when we stand back and look at it what is the cost per barrel of the asset that we're potentially buying. Those are probably the key things that we look at when we're assessing value. But I come back to we're very disciplined about and we're going to invest it in growth, looking at dividend increases, or are we going to buy the stock back.

Guy Baber, Simmons & Co. International

Thanks very much for the comprehensive answer.

Operator

Thank you. The following question is from Neil Mehta from Goldman Sachs. Please go ahead.

Neil Mehta, Goldman Sachs

Hi, good morning, team. How are you?

Steve Williams, President & Chief Executive Officer

Thank you. Sorry, we were on mute there. Thank you.

Neil Mehta, Goldman Sachs

Of course. I want to kick it off on downstream. It's something that's gotten a lot of attention on the integrated call so far in earning season. We've seen product margin soften up a little bit. Just from your perspective how do you see it playing out from here and given that you have a large refining business does that impact the way you see the go-forward cash flow for the company? Or do your assets have a built-in premium just given the markets that they serve that you can weather any potential storm a little bit better than others?

Steve Williams, President & Chief Executive Officer

Yeah, I mean, let me make a few comments, and I'll just take a step back as well and look at the downstream over time. I mean Suncor clearly has the best quality downstream in North America in terms of dollars per barrel margin we are making. You can go back as far as 2010 and you'd see that through a quite extreme cycle in terms of commodity prices that business has been resilient. I think we still continue to surprise the market in the ability to be able to model that business through the cycle and in terms of how we continue to beat it, whether it's low crude prices whether it's high crude prices. Part of that is to do with the location of the refineries and part of it is to do with the indication, with the integration of that business back into oil sands. But throughout the cycle we tend to be the number one margin producer on our downstream assets. So are there going to be some changes in profitability in that sector? Yes, certainly, you know, we didn't expect the levels to stay the sorts of levels we've seen, in particularly 2013, 2014, and 2015, but we do expect us always to be at the very top of those profitability and cash margins for those refineries. Sometimes that becomes a little bit opaque because of the FIFO accounting mechanism where you will see, you know, some quarters you'll see it high, some quarters you'll see it low. But interestingly approximately this year those effects have almost netted each other out. So if you start to look over a more extended period, I'm optimistic. So I like the business, I like the positioning of it, and I think you're going to see it to continue to make a significant contribution going forward.

Neil Mehta, Goldman Sachs

I appreciate that. And then on Syncrude, you've been able to spend even more time with the asset here and so any update that you can provide the market on just that the opportunity set you seeing in front of it to improve the utilization and drive down costs?

Steve Williams, President & Chief Executive Officer

I would just say we are quietly confident. We are working the very detail now of the change plan with the operator, Imperial. We are still optimistic we will get that reliability into the 90 percent range and we'll get the cash cost of that business dining into the $30 range. So very pleased with the acquisition, very pleased with the prices we got that business for, encouraged by how the plan is panning out, and I hope that as we finalize that plan we'll come and share with you guys. So I would expect to be in the market sharing the details of how we get from here to those numbers before we get to the end of the year.

Neil Mehta, Goldman Sachs

We look forward to it. Thanks, Steve.

Operator

Thank you. The following question is from Greg Pardy from RBC Capital Markets. Please go ahead.

Greg Pardy, RBC Capital Markets

Thanks. Good morning. Steve, most of my questions have been answered but when we come back to the organic opportunities that you have, let's just say some additional dollars become available, what becomes attractive to you? Is it things like the, you know, an expansion at Mackay or do you look at further the growth of Firebag or is it that replication strategy that you described a couple of years ago? Just trying to get a feel for that as well.

Steve Williams, President & Chief Executive Officer

All right. Thanks, Greg. I mean I would say it clearly is, you know, you can fix these things one, two, and three years ahead. If I look at those three potential allocations of cash, organic growth, the question you're asking, shareholders, either through dividends or buybacks or acquisitions and mergers, clearly our view at the movement is that there is more value to be had in the acquisitions and mergers pieces rather than the organic pieces, and that's where you've seen us concentrating and spending our time. I think that cycle will come to an end. It's not going to stay like that. We're starting to see upward movement and volatility in crude prices. I think as that trend continues then some interesting things will happen in our willingness to buy other assets. We like to be countercyclical. We like to buy at the bottom of the market. So then we get back—so that says, you know, we're looking at, as we grow the company, dividends and share buybacks.

You then go to your particular question on organic growth. We have the best opportunities in the industry available to us going forward. We have a long list of opportunities with mines. I don't see us investing in a major mine, you know, new mine similar to at Fort Hills for a long time. It could be ten years. So you can take that out of the equation. That leaves then with the in situ assets we have in oil sands and it leaves you with some of the potential opportunities off of the east coast of Canada and in the North Sea. If I look in oil sands, which is where I think your question was particularly focused, you are right, we have a long list of in situ opportunities. We will take the opportunity of not approving those in the next year or two to really work the options there. And we can already see what's going to come out is the leader. It is going to be the replication strategy. We've identified a program which would take us eight to ten years of replication, probably one project every year to 18 months. The more we're working them the lower we're able to get the prices and the more we're able to include the new breakthrough technologies that we're starting to see about solvent extraction and use of these electromagnetic wave technologies. So you're not going to see it quickly and given we're not talking about approvals for at least a couple of years you're then into early to mid-20s before those projects come on. But I think the next generation of organic growth, if the market, if we come to a conclusion the market will support those, is going to be in that replication in situ business.

Greg Pardy, RBC Capital Markets

Okay, that's great. Just one more for me, I mean it's more of a nitty question but the sales, your base oil sand sales force obviously is supported by pretty significant draw downs on the inventory side. Should that more or less rework itself by the end of the year? In other words, you'd expect to see sales lower than production here just through the balance of the year as you rebuild?

Steve Williams, President & Chief Executive Officer

I mean, yeah, it's already starting to build. I think you'll see the majority of that correction in the third quarter. And of course I will be putting some pressure into the business, because part of our cost reduction is to get our working capital down, and I am putting a fair amount of pressure in the business to make sure we only go to levels we actually need to service that business.

Greg Pardy, RBC Capital Markets

Okay, that's great. Thanks very much.

Operator

Thank you. Our following question is from Jason Frew from Credit Suisse. Please go ahead.

Jason Frew, Credit Suisse

Yeah, thanks. Steve, this might have overlapped a bit with your comments on the replication strategy but I wonder if you could comment a little more on the recent sustainability report and the targets you have for reducing emissions intensity. Just what's the strategy there and how well do you think that strategy has developed, I guess, in your view?

Steve Williams, President & Chief Executive Officer

You know, we are engaged in all of the conversations in Canada around climate change and around sustainability going goals and how we make progress to get there. We've done a comprehensive piece of work in putting together our targets. We believe that the best place for Suncor, the best place for Alberta, the best place for Canada to be is at the leading edge of those conversations and then we can start to form the word's policy around how you manage climate change. Of course what we like about that is that then starts to give us certainty in terms of the investments we're making, what the cost structure looks like, what our ability to grow the industry looks like. And I have to say overall I've never been more optimistic. So the conversations have moved Canada into a leadership position. President Obama came into parliament in Ottawa and said he recognized Alberta and he recognized Canada now as one of the leaders in policy. What that starts to do is give us the certainty and hopefully start to create a way for the next pipeline to be approved and installed. So overall I am very comfortable with that big picture.

I then look at the, you know, clearly our sustainability targets are ambitious. We have the ideas. We still need some technology development to be able get there but the major steps in that we're already starting to see. So we've already scoped what some of those projects would look like in terms of technology steps. And of course of examples would be, the first one be the in situ technology you heard me speak about. Once you start to put solvents in you need much less heat, so you take a step improvement in the carbon footprint or that type of project, and we plan to be implementing some of those in this period. Another one would be, and it's an interesting one because it's not immediately intuitive until you sit back and think about it. We are advocating, in a modest way, to work with government so that we can strand some of the oil in the oil sands. And what I mean by that is when you have vast reserves like we have what our preference would be, the last barrel we currently take out, because the reserve belongs to the province and the population here, our regulation is written so that we take to a very high percentage the last piece of oil out. That tends to be the most expensive, both economically and environmentally. What we would like to do is be able to leave that last piece in and effectively high grade particularly the mines and in situ as well. I'm very optimistic that we're making some breakthrough with government now that will now enable us to do that. And you could be talking about 10 percent or 20 percent improvements in the economics of some of those extraction operations. So it looks as though, both through a bit of interpretation and a bit of regulation, we will be able to do that. So great opportunities. That is another significant potential contributor to reducing our carbon footprint. So I'm really encouraged by where we are. Our plans are ambitious and that's deliberate because we want to push ourselves to be best.

Jason Frew, Credit Suisse

Okay. Thanks for that.

Operator

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

Paul Cheng, Barclays

Hi, guys. Good morning. I have to apologize. First I came in the call late, so if the question has already been addressed, please let me know, I will take it off line. Several quick ones. Steve, if we're looking at your production mix right now it's probably about 85 percent oil sands and then split evenly on the Eastern Canada and North Sea. From that standpoint is that the desirable mix for you or do you think one is more heavy or that's too light that you want to change it?

Steve Williams, President & Chief Executive Officer

Thanks, Paul. I would look at it slightly differently. So we're really looking, we have, ah, clearly Suncor is a company which is very heavily concentrated on oil sands. We're very comfortable with the mix we have. We're very comfortable with the E&P business, because we believe we have value we add in those two regions, North Sea and off of the East Coast, and we have some potential opportunities there in the medium to long term. If you look at the—the business has critical mass and is a good generator of cash through, right the way through to the mid 20s. We have leases in our ownership which will work at offsetting any depletion in production there. And if we're going to sell that business you probably look at, and you could look at it, we certainly wouldn't look at it at this stage in a cycle, and you probably would look at it in towards the mid 20s. So I really like the position we're in. We have no imperative to do anything in those businesses. We liked those, you know, with Exxon and Shell, the opportunities that we bought into there. We look around the North Sea. There hasn't been a great deal that's excited us but there are opportunities around some smaller, more mature developed opportunities there. You can look at some tax benefits and opportunities but I don't see any significant moves in those areas. Most of it is likely to be concentrated in oil sands, which means you end up with about the balance we've got or, you know, you could see it slightly changing, but nothing significant.

Paul Cheng, Barclays

Okay. Second question maybe it is for Alister and, Steve, also for you. If we look at most of the oil companies, and I think including you guys, but if we, I mean we are in a highly cyclical industry and so if we decide to grow the dividend over time, but is that a concern at some point the dividend commitment becomes so big it's not sustainable? Now you are not in that case but if we continue to grow at some point we may get there. So from that standpoint should we look at dividend and buyback, ah, you need to go hand by hand as you raise the dividend on a per share basis you should also (inaudible)?

Steve Williams, President & Chief Executive Officer

Yeah, I mean what we said in the past, Paul, is you can expect to see, and of course the dividend is at the discretion of the board, not management, but you can expect broadly that you see dividends increase in line with our growth as we go forward. And there clearly is an opportunity for some variation on that but that's the expectation we've try to create. The second piece, you will see opportunistically buying our stock back. And, as Alister said, we'll just value it on a level playing field and compare it with the other alternatives, which is organic growth or acquisition and mergers. So I think that position, and you know, if you look our track record, you've seen increase dividends for multiple years and you've seen us, we've bought, we effectively pre-purchased the acquisitions that we used our stock for because we bought 10 percent of our stock back over the previous three plus years. So judge us by our track record. You'll see us continuing broadly with those philosophies going forward.

Paul Cheng, Barclays

I know it's early; do you have any preliminary outlook for 2017 CapEx versus 2016, whether it's going to be about flat, go up, or go down?

Steve Williams, President & Chief Executive Officer

You did miss an answer earlier on that, Paul. I mean would expect it to modestly go down from... Both Fort Hills and Hebron peaked this year so you'll see it go down modestly.

Paul Cheng, Barclays

Okay. And final one, SAGD, based on what you just described on the replication strategy and looking out over the next couple of years (inaudible) detail, Steve, maybe I got you wrong but it seems like the timeline have been pushed a bit to the right, a little bit later. Is that, well, first of all whether you think that is the correct statement, and if it is correct, if it is different primarily because the technology is not mature enough or that you are focusing a lot of effort in the integration of your recent acquisition so that it may take, ah, management may be having lesser time on that? Or that it is a capital availability issue?

Steve Williams, President & Chief Executive Officer

Yes, I mean first of all, you're right, we've pushed it back a couple of years. No, technology is, you know, we can see our way largely to the new technology. The more time you spend in the design phase, the better it gets, the lower cost and the more efficient it is, so I'm not concerned, but that in itself is not the driver. It's simply when we look at the allocation of capital between the organic acquisition and mergers and buying our own stock back, we do the economics on that, on our view of prices going forward, and the other two are coming out in a very strong position relative to organic growth at the moment. So we don't see ourselves investing organically in major projects in this area and we don't see ourselves approving those for at least a couple of years. And that's a combination of economics and the fiscal environment here.

Paul Cheng, Barclays

Thank you.

Operator

Thank you. The following question is from Fernando Valle from Citigroup. Please go ahead.

Fernando Valle, Citigroup

Hi, guys. Thanks for taking my question. If we look at how you've proceeded with acquisitions so far it seems to be concentrated on the light oil end of the spectrum in Syncrude. Just wanted to understand as you're growing in Fort Hills and as you look towards acquisitions how market access will play a part in the strategy, particularly since you're saying that there aren't a lot of opportunities under refining and marketing? Also wanted to understand how you're seeing, with the AECO gas at under $1 for the quarter it seems to be an interesting aspect considering the utilization of natural gas in your upstream oil sands business. I wanted to understand how that plays into your strategy going forward. Thanks.

Steve Williams, President & Chief Executive Officer

Sorry, you just broke up on the second piece of the question there on natural gas.

Fernando Valle, Citigroup

Yes, so currently you produce 99 percent oil and obviously SAGD and oil sands has a huge content of costs that are natural gas related, just wondering if you see more interesting opportunities to acquire to balance out and hedge out your natural gas exposure.

Steve Williams, President & Chief Executive Officer

Okay, got it. Thank you. So I mean the first one, just to say, you know, we have a clear strategy around light oil, heavy oil, upstream, downstream, and we are well within our target ranges as we go through the acquisitions that we have done. Of course market access is very easy for things like Syncrude, because it's already there, it's an operating business. And as far as Fort Hills goes, Suncor is in, you know, we are, at the industry level we support all of the pipelines. We are actually partners in each of the pipelines. But as a corporation we don't actually need them through this period. We'd like them there, we think they, you know, we sell most of our product because of our integration at a Brent related price, so we're significantly different than the most of the other players. But we've also secured a preferential position in terms of market access on existing facilities and in fact today we have, you know, we're often in a situation where we will subcontract our capacity and pipelines to some of our competitors as a profit-making trade transaction. So market access is not really an issue for Suncor through this period, it's more of an industry challenge.

We do have a view on gas prices. That was why we sold our business in 2013.Our view was that the price of gas was going to go low and stay low for an extended period, probably 25 plus years. We didn't anticipate it was going to be quite this low for this long but, you know, we were thinking more in the sort of $3 to $5 range. So we find ourselves 99 percent oil and a low percentage of gas by design and decisions we made. As a hedge, when we sold our gas business we kept a very significant reserve in the Montney, and we still have that. There's very low costs to keep and retain it. If there is a bigger opportunity it's that others would dearly like to acquire that, because it's a very high quality resource, right in the sweet spot of that reserve. So we're very happy with our high bet on oil because we think gas prices will stay low and so the opportunities there have not been great. And we already have a gas resource in our ownership should we chose to develop it and prices go high.

Fernando Valle, Citigroup

Great, thanks a lot.

Operator

Thank you. The following question is from Phil Gresh from JPMorgan. Please go ahead.

Phil Gresh, JPMorgan

Hey, good morning. First question is just a follow-up on some of the CapEx discussion. Could you just remind us how much of the CapEx budget this year is from Fort Hills and Hebron and then how that rolls off in 2017 and 2018?

Alister Cowan, Executive Vice President & Chief Financial Officer

Phil, it's Alister. Fort Hills and Hebron is $2.8 billion this year and as you move into 2017 you see that coming down probably close to $800 million to $1 billion and then rolling off to a low level as we finish it up in 2018.

Phil Gresh, JPMorgan

Got it. Okay. And I apologize, I was late as well, but I believe the long-term CapEx commentary was around getting the number towards $5 billion, which of course is above a maintenance capital level. I'm just wondering how you think about the growth that would tie to that level of spend and, you know, I know maybe some of the opportunities on the oil sands that need some cost reduction still but where the opportunities lie?

Steve Williams, President & Chief Executive Officer

I think what it says is, I mean if you actually look at our sustaining capital, even with the acquisitions we've done you're getting into the $3.5 billion, $4 billion type level, we think, at the top end of the range. There's a range because it is slightly cyclical. It's not a completely flat spend. If you look beyond that it's discretionary. I mean we clearly know that, you know, some of the opportunities in front of us as we've acquired these assets with very modest amounts of capital can have very, very high impacts in terms of reliability and therefore returns. And I remember coming out a couple of years ago and we talked about 100,000 barrels a day capability by fine tuning, debottlenecking our existing assets. So they're clearly are those opportunities and that's why the number pushes up slightly from the $3.5 billion, $4 billion sustaining capital. So it's those types of projects and we're not, when we talked about the numbers, factoring any major, major independent growth projects like new in situ or new mines in there.

Phil Gresh, JPMorgan

Right. Okay. That makes sense. My last question is, you know, as we think about the balance sheet now, it's around three times level and trailing 12, obviously that's influenced by the impact of the fire so really as we move forward it's not that high, but as you move out to 2017 and you talk about M&A over buybacks, I mean is there a leverage level where you are comfortable maybe being more assertive with buybacks even if you see opportunities out there on the M&A front?

Steve Williams, President & Chief Executive Officer

I'll start and I'll let, Alister's keen to get in a comment as well. I mean part of the power of the model is this ability to do things counter-cyclically. And what it means is that because we've, and that's one of the reasons we went and did the equity issue, is the opportunities we've seen when we're able to operate almost at the, when the market is in the best position for the acquirer, is because of that strong balance sheet. And I took you through more words back to 2003 and listed seven or eight acquisitions and divestments where by having our balance sheet in the right position we've been able to take advantage of those market opportunities and that creates, they're going to create vast amounts of a shareholder value. So you'll see is doing that just broadly in terms of the ratios and the health of the balance sheet, you will see that capital discipline right the way through. I mean Alister can give us a few more details and numbers but, you know, you'll see as we trade off the three uses of the capital one of them will be we're going to keep our balance sheet in excellent health.

Alister Cowan, Executive Vice President & Chief Financial Officer

Yeah, Phil. I mean as you look at our numbers, yeah, the debt to cash flow is obviously impacted by the fire, so while it's at three, you know, I kind of look at it as actually less than that on a realistic basis. We're at the top end of the ranges that were set out on both debt to cap and debt to cash flow. I think that's entirely appropriate for where are, what we've done, investing the $9 billion in acquisitions and also bringing Hebron and Fort Hills forward. We've got flexibility, as Steve said, and if I look at going forward, you know, even with thinking about dividends and share buybacks and potential other acquisitions I do see those metrics trailing down at to the bottom end of our ranges over the next few years just as we bring on the projects and generate more cash flow. So we've got lots of flexibility.

Phil Gresh, JPMorgan

Sure. Do you see divestiture cash coming in this year? I know you have some things on the market.

Alister Cowan, Executive Vice President & Chief Financial Officer

Yeah, I mean, we might see some of that. I think, if I recall what I said at the beginning of the year, $1 billion to $1.5 billion within the next 12 to 18 months, so I guess, you know, I'm now down to 12 months. So I'd expect to see some of it in this year but probably some of it actually in the door Q1, Q2 next year.

Phil Gresh, JPMorgan

Okay, thanks. I'll stop there.

Steve Douglas, Vice President, Investor Relations

Thank you, Phil. And we have reached our time so I'm going to stop us there, but obviously lots of opportunity, the IR team is available and welcomes your calls later today and going forward. Thank you to everybody for joining us. Thank you, operator.

Operator

Thank you. That concludes today's conference call. Please disconnect your lines at this time and we thank you for your participation.
