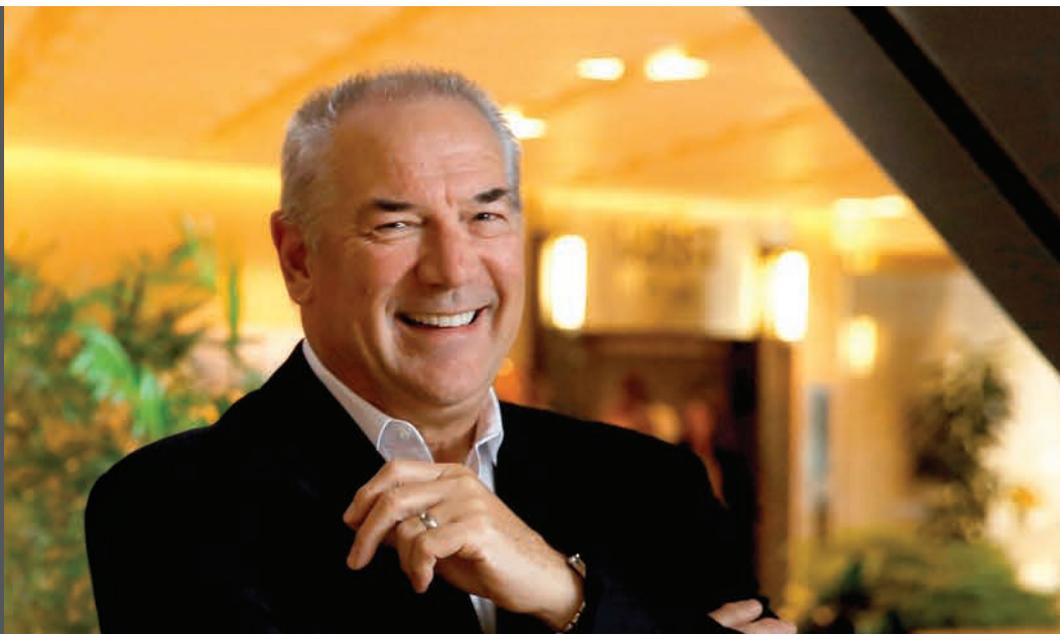


# MESSAGE TO SHAREHOLDERS

## Steve Williams

Chief Executive Officer



// During my 17 years with Suncor – including the past seven as president and chief executive officer – investors and other stakeholders have often heard me comment: “judge us on what we do, not just on what we say.” Making promises is easy – delivering results is much harder. Our laser focus on results and resilience was evident throughout 2018, a year that will help shape the future of our company for decades to come.

This past September, Suncor celebrated the official grand opening of Fort Hills, a development that exemplifies “the new face of the oil sands.”

Fort Hills will use new technologies such as autonomous haul systems and paraffinic froth treatment, resulting in lower operating costs and a greenhouse gas emissions intensity which is on par with the average refined barrel in North America – a significant step forward for our industry. Fort Hills also reflects Suncor’s evolving relationship with Indigenous Peoples through the equity partnership we formed with the Fort McKay and Mikisew Cree First Nations on the East Tank Farm Development – a landmark for First Nation investment in Canada.

Poised to deliver energy the world needs and be a key supplier for the next 50 years, Fort Hills is one of many reasons Suncor shareholders and other stakeholders can look forward with confidence and optimism.

Our integrated business model also continued to deliver significant results in 2018 – minimizing Suncor’s exposure to heavy and light crude differentials that dramatically widened over the course of the year.

With the completion of Fort Hills and Hebron, a focus on operational excellence and the ongoing deployment of new technology to improve our operations, we are positioned to deliver reliable cash flow growth for years.

Integral to our success, and our aspirations, is Suncor’s long-standing commitment to being a leader in sustainability. By continuing to invest in technology and innovation, Suncor is positioned to be a progressive, cost-efficient and carbon competitive energy provider of choice for decades.



## 2018: INTEGRATION PROVES INVALUABLE DURING VOLATILE YEAR

We continued to live through interesting times in 2018, a year when Suncor's strategy and business model demonstrated value once again.

The integration of our upstream oil sands operations, downstream refining and marketing assets, as well as midstream logistics, allowed us to remain flexible, resilient and profitable even as western Canadian oil differentials widened dramatically through most of 2018.

Among the reasons we successfully mitigated the impact of volatile differentials are the fact we:

- process a majority of our produced bitumen in our upgraders where it is converted to synthetic crude oil;
- run some of the bitumen and synthetic oil through our refineries, where it is converted into transportation fuels;
- capture value through our flexible midstream and retail operations;
- and continue to maximize the profit of offshore barrels as well as volumes transported to the Gulf of Mexico markets where we achieve higher global-based pricing.

Another key reason for our resilience: Suncor has secured adequate market access for all of our current production, including our net Fort Hills barrels.

These built-in advantages – distinct and unique – didn't occur by chance. We made strategic decisions years ago to invest in value-added upgrading and refining capacity in Alberta. We also invested in obtaining committed pipeline capacity for our major growth projects.

**75% BITUMEN**  
production from our Alberta oil sands assets is upgraded or refined locally

Over the years Suncor has invested significant capital to increase the flexibility of our Edmonton refinery, expand our upgrading capacity and develop Fort Hills, which produces partially upgraded bitumen. Today, fully 75% of what we produce in Alberta is upgraded or refined locally.

I believe the strategy we've implemented demonstrates economic, environmental and social leadership. Our value-added investments created job opportunities for tens of thousands of employees and contractors and generated significant economic benefit for all Albertans and Canadians.

These strategic decisions also lead to positive results for our shareholders. In addition to unprecedented oil differentials, 2018 was a year when Suncor underwent the largest maintenance turnaround program in our history, including significant planned refinery and upgrader maintenance. Despite these challenges, we continued to:

- generate record levels of funds from operations;
- generate profits to sustain and grow the company;
- deliver increased dividends for our shareholders for the 16<sup>th</sup> consecutive year;
- and pursue accelerated share repurchases.

Underpinning these results is Suncor's unwavering focus on capital discipline, cost management, operational excellence and sustainability.

With Fort Hills, we oversaw one of the most visible examples of operational excellence and successful project execution. Fort Hills exceeded our expectations on many metrics, including speed of ramp up and reliability, as well as hitting targeted per barrel cash operating costs. I want to thank the dedicated team that safely executed this project's careful planning, construction, handover, commissioning and start-up. In my view, their efforts were world-class.

We also continued a disciplined program of cost reductions even as we grew production. This is not a one-time event. We believe we've created sustainable reductions to the company's cost structure.

Going forward, we will continue our unrelenting focus on the many aspects of our business that we can control. However, we must also be prepared to deal with the unexpected.

In response to widening oil differentials, in December 2018, the Government of Alberta announced a mandatory production curtailment program, effectively imposing production caps for 2019. Suncor continues to work with the Government of Alberta and the Alberta Energy Regulator to manage and mitigate the unintended consequences of the curtailment orders.

Suncor's production guidance for 2019 assumes the full amount of mandatory production curtailments will be in place for three months before easing to 29% for the remainder of the year. We see this government action as a short-term response. The longer-term solution to differentials and industry competitiveness is clear – improved tidewater access for Canadian resources.



## MARKET ACCESS GOING FORWARD

While Suncor has adequate pipeline capacity for our current production, we firmly believe expanded market access is in the national interest. We further believe a new pipeline to tidewater is the best and safest option for expanding access.

This issue is vital not just to our industry, but for all Canadians. In a resource-based economy like ours, we need to ensure we are getting full value for our production.

Improved market access ensures we can help meet growing global energy needs by bringing responsibly developed Canadian crude oil to market. It strengthens our economy through jobs, royalties and taxes. It supports our quality of life by helping to fund critical social programs like health care and education. It provides Indigenous communities with increased opportunities to directly participate in resource development. And it gives us the means to continue investing in innovation and technology to improve our environmental performance and lower our carbon footprint.

## SYNCRUDE SETBACKS AND PATH TO IMPROVEMENTS

I'm proud of Suncor's multi-year journey on operational reliability and the successes we've had along the way. That said, I've also been very candid in expressing my frustration over the need to improve Syncrude's operational performance. The good news is that, together with our Syncrude partners, we are now on a clear path toward improved reliability and lower cash costs – which is starting to pay off. In the fourth quarter of 2018, Syncrude achieved a new quarterly production record of 355,000 bbls/d (101% utilization).

The fact is operational excellence is never a straight line. We are taking lessons learned from our journey at Base Plant, where reliability and costs significantly improved between 2011 and 2016.

A critical part of our success at Base Plant was the construction of an interconnecting pipeline from our Firebag in situ operation to the upgrader, providing greater feedstock flexibility. We expect

a similar step change in performance as we implement the memorandum of understanding signed by the Syncrude partners in the fourth quarter of 2018, which commits us to building essential pipeline links between Syncrude and our Base Plant.

# 355K BARRELS

of oil per day is a new quarterly production record for Syncrude

Along with other collective measures now underway, I'm confident we can achieve our average utilization rates of 90% and Syncrude cash operating costs of \$30 per barrel by the end of 2020.

## CONTINUITY THROUGH CHANGE

It has been my honour and privilege to serve as part of the Suncor team through both challenging and exciting times.

Suncor's previous CEO, the late Rick George, brought me to Suncor in 2002 and I quickly came to share his passion for the oil sands. A decade later, when Rick retired, I greatly appreciated the confidence and support both he and Suncor's Board of Directors placed in my leadership.

**Now, another transition is underway. In November, we announced Mark Little as president and that he would become chief executive officer upon my retirement in May 2019.**

I've worked closely with Mark for a number of years and I've always been impressed by his business acumen, passion and energy, as well as his personal commitment to engagement with Indigenous communities. I'm confident in Mark's ability to lead Suncor toward an even brighter future.

This leadership transition marks another chapter in Suncor's strong succession planning – a key part of our business strategy. Though faces may change around the leadership table, our shared commitment to safety, reliability, operational excellence and capital discipline carry forward.

As I reflect back over the past seven years, I'm very proud of the progress the team has made on improving our safety results, our reliability and cost structure, improving value for shareholders by making acquisitions during the cycle at opportune times, and by advocating that our industry must be part of solving complex challenges facing all of us, including taking a leadership position on sustainability.

Shortly after I took on the role of Suncor's chief executive officer in 2012, our leadership team agreed to focus on a strategy of continuous improvement in every aspect of our business. We also agreed we would not seek growth solely for the sake of growth. Rather, we'd seek profitable growth through a relentless focus on capital discipline and operational excellence, while delivering increased returns to our shareholders.

We've stayed true to that strategy through both high-and low-price environments, and I believe it's given us a strong competitive advantage – as a company uniquely positioned to deliver value, and grow in a disciplined manner, for decades to come.

Suncor has shown leadership in understanding and advocating for the essential connection between the social, economic and environmental aspects of resource development. It's why we focus so much effort on ensuring that the communities we engage with – including Indigenous communities – benefit

from our shared energy future. And it's why we are driven to continuously improve our environmental performance.

As an energy leader, and a father, I've been particularly outspoken on the need to seek collaborative solutions to a defining challenge of our time – climate change. Science and facts matter, and we all have a responsibility to work together on the transition to a low-carbon economy.

More than anything, my time at Suncor has convinced me that collaboration is at the heart of all meaningful progress. I've been part of so many positive collaborations that it seems unfair to cite just a few. But it's been a particular honour to be a member of the National Roundtable on Energy and the Environment, a founding member of the Advisory Board of the Ecofiscal Commission, which focuses on the intersection of the economy and the environment, Canada's Oil Sands Innovation Alliance (COSIA), which is advancing industry-wide technology and innovation to improve environmental performance. I've also been honoured to support Indspire, an Indigenous-led charity that invests in the education of Indigenous people, and Canada's Olympic movement.

**“** This leadership transition marks another chapter in Suncor's strong succession planning – a key part of our business strategy. Though faces may change around the leadership table, our shared commitment to **safety, reliability, operational excellence and capital discipline** carry forward.

Throughout my years at Suncor, I've benefited immensely from the knowledge and counsel of our Board of Directors. I also want to thank all of Suncor's employees who, day-in and day-out, reflect our dedication and commitment to shareholders and the communities where we work.

I'm certain Suncor's brightest and most exciting days are ahead. I look forward to seeing the next chapter of this great company's history.



**Steve Williams**  
Chief Executive Officer

# MESSAGE TO SHAREHOLDERS

## Mark Little

President and  
Chief Operating Officer



2018 was a pivotal year for Suncor as two long-planned major growth projects – Fort Hills and Hebron – ramped up ahead of schedule. Both projects were constructed in a lower oil price environment and are now poised to provide reliable, low-cost, high-return production for many years to come.

Much of this was achieved because of the outstanding leadership of Steve Williams. As Suncor’s chief executive officer and president, Steve has led our company – and our industry – on sustainability and solutions-focused collaboration. He has helped demonstrate that the oil sands can be cost and carbon competitive on a global basis.

In November, Steve announced his plan to retire. I want to extend my personal thanks to Steve for his leadership and vision. His unrelenting focus on operational excellence, capital discipline and a healthy balance sheet helped make Suncor a more reliable and resilient energy company focused on generating value and returning it to shareholders.

I am honoured to have Steve’s confidence and that of the Board of Directors as we continue to move forward, building on Suncor’s strong foundation and focusing on tomorrow’s opportunities and challenges.

## STRATEGIES FOR REALIZING THE SUNCOR ADVANTAGE

Suncor's integrated business model and disciplined execution of strategy have served us well through a range of market conditions. Despite a challenging oil price environment, we consistently outperformed our peer group. While many competitors retreated or withdrew, we grew production, reduced costs and increased returns to shareholders through dividends and share buybacks. We also executed counter-cyclical acquisitions (including obtaining a majority interest in Syncrude) and maintained a strong balance sheet.

We were similarly undeterred in 2018 as our industry faced the headwinds of widening differentials and Suncor underwent the largest maintenance turnaround program in its history. Despite this, Suncor continued to grow production by 7% and generated a record \$10.2 billion funds from operations.

With two major capital spending projects behind us, and a strong balance sheet we see as a strategic asset, we can now lay out a plan for low-cost, reliable and profitable growth that stretches well into the 2030s.

In the immediate term, with Fort Hills fully on stream, Hebron ramping up, and continued improved reliability from Syncrude, our 2019 guidance includes a production increase, of approximately 10%, from 730,000 barrels of oil equivalent per day (boe/d) in 2018. This projection takes into account the industry-wide mandated production curtailments introduced by the Government of Alberta.

Suncor's 2019 capital spend range of \$4.9 billion to \$5.6 billion provides the flexibility to respond to volatile market conditions. The majority of the 2019 capital program (63%) is allocated to planned sustaining and maintenance activities to ensure continued safe, reliable and efficient operations. The remainder of the capital program is focused on low capital intensity,

value-creating projects, including continued deployment of autonomous haul trucks, development of the Syncrude bi-directional pipeline and additional investment in midstream logistics infrastructure.

In the medium term (2020 to 2023), our focus is on generating "free funds flow" growth, with lower capital intensity projects that generate high-return margin improvements and cost savings while still incrementally increasing production through debottlenecks. Based on the current commodity price levels, we expect the cumulative impact of these projects and the existing asset base to increase our annual free funds flow by approximately \$2 billion by 2023.

**While many competitors retreated or withdrew, we grew production, reduced costs and increased returns to shareholders through dividends and share buybacks.**

Longer term (2024 and beyond), we have the potential for funds flow growth as a result of significant production growth through the sanctioning and development of more than 350,000 barrels per day of in situ projects. But clearly, we will need to have much greater certainty on pipeline access to markets before we would proceed.

In summary, we have a long-term plan to deliver predictable, profitable growth through variable market conditions. Throughout this period, we will remain true to our strategy. We will continue to focus on operational excellence, exercising strong capital discipline, maintaining a strong balance sheet and increasing returns to our shareholders.

## SUSTAINABILITY: BUILDING RESILIENCE FOR THE LONG TERM

A key part of our investor proposition is our commitment to sustainability. The economic, environmental and social dimensions of energy development are deeply integrated. We will continue to improve our performance in all of these dimensions.

Our vision for sustainability is guided by working with diverse stakeholders. We are shaped and changed by these conversations. They help make us a more sustainable and resilient energy company.

## CLIMATE CHANGE

Climate change is one of the most pressing challenges of our times and demands shared solutions. Suncor believes we have an important role to play in a lower carbon world.

To remain an energy provider of choice over the long term, we must be globally competitive on both costs and carbon. I'm encouraged by the progress we're making in these areas and other dimensions of sustainability.

We continue to pursue an ambitious goal of reducing the greenhouse gas (GHG) emissions intensity of our oil and petroleum production by 30% by 2030. Technology and innovation are

pointing to a realistic path for reaching that goal and a low-carbon future, which we believe will also move us towards ultimately bending the curve on our absolute GHG emissions.

We plan to remain resilient and thrive in tomorrow's low-carbon economy, and our annual Climate Risk and Resilience Report sets out why we believe we can be resilient over the long term. This year, we took another step forward on climate risk transparency by supporting the desire for consistency and transparency embodied in the Task Force on Climate-Related Disclosure, an international initiative of the Financial Stability Board.

## TECHNOLOGY

Innovation and technology are critical to achieving our climate change strategies as well as our other economic, social and environmental goals. That's why, last year alone, Suncor invested \$400 million in the development and deployment of new technology. In some cases, we lead the development and deployment of new technologies on our own. In most cases, we work with consortiums like Canada's Oil Sands Innovation Alliance (COSIA) or third parties. In addition, we work closely with organizations like Evok Innovations, Clean Resource Innovation Network (CRIN) and Energy Futures Lab on clean technology solutions to advance the transition to a lower carbon economy and improve our overall performance. Collaboration is a key enabler to accelerating the development and deployment of technology.

**\$635 MILLION**  
invested in technology development and deployment, including digital transformation

Fort Hills is a good example of the kind of progress that's possible. The facility employs new paraffinic froth treatment technology resulting in a GHG emissions intensity on par with the average refined barrel in North America. Fort Hills will also use autonomous haul trucks, which result in safer and more productive mining operations, with improved fuel efficiency and lower emissions.

For future growth, we can and will get beyond today's technologies. That includes next-generation in situ technologies that could lower costs as well as dramatically reduce GHG emissions from operations – in some cases, potentially by 50% to 70%. We're in the process of advancing some of these technologies at commercial scale.

## INDIGENOUS PARTNERSHIPS

Fort Hills also represented a historic step forward in strengthening our relationship with Canada's Indigenous Peoples. By acquiring a 49% equity position in the East Tank Farm Development, at a value of \$500 million, the Fort McKay and Mikisew Cree First Nations engaged in the largest First Nations business investment to date in Canada.

The East Tank Farm provides a hub for receiving, storing, cooling, blending and shipping bitumen to market – it's a lifeline between Fort Hills and our customers. The investment will provide a steady stream of income every year to the First Nations for at least 25 years, revenues that will help support education, health care, elder care, infrastructure and more. We are excited that we'll be joint venture partners with these two First Nations for decades.

In previous roles with Suncor, I was closely involved in talks with the First Nations Chiefs that led to this landmark equity agreement. When we began discussions five years ago, they were just that – wide-ranging conversations about our respective

### TECHNOLOGY AND INNOVATION IS IN OUR DNA



**We have a history of innovation**

- From bucket wheel to truck and shovel
- One of the first to use in situ
- First to surface reclaim a tailings pond



**We're already extensively using digital**

- Autonomous Haul Systems
- Robotics process automation
- Remote sensing and drones



**We're harnessing digital technologies**

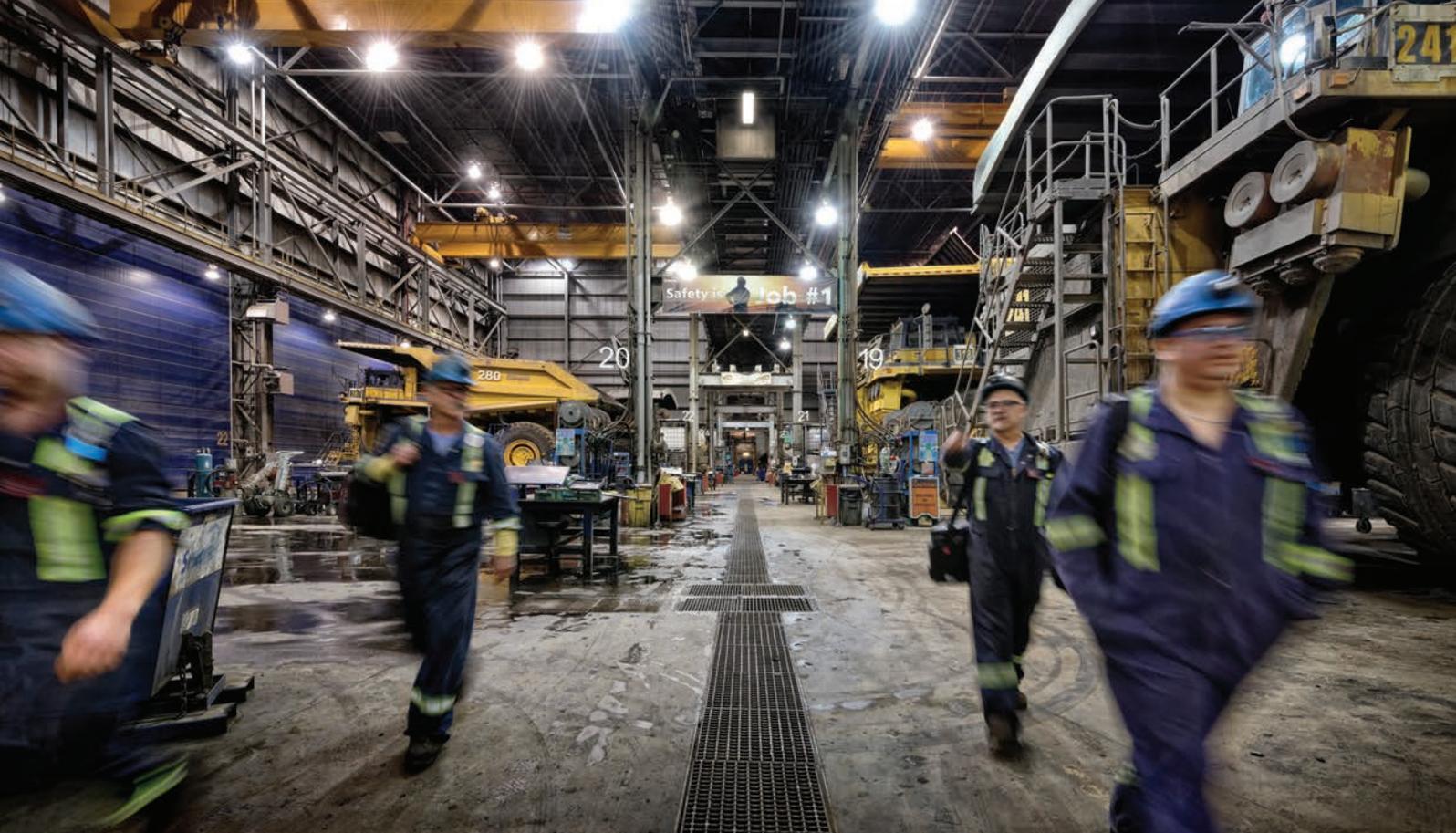
- Data-based decisions provide cost and performance benefits
- Real-time data improves safety and reliability

We already extensively use information technology across our business, investing \$235 million in digital technologies in 2018, and the increasingly digital world brings new and exciting opportunities. As part of our approach to innovation, we are harnessing digital technology in areas such as improved data, analytics, artificial intelligence technology and automation to help improve the safety, productivity, reliability and environmental performance of our operations. Digital solutions promise to significantly change how we do business – in a very positive way – and is a key focus area as we move forward.

aspirations based on listening, learning from each other and building a sense of mutual respect and trust.

Those conversations profoundly changed my outlook. I used to think engaging Indigenous business was about supporting them. What I learned is that Indigenous businesses are incredibly strong and dynamic and can compete. Working with Indigenous businesses can be a "win-win" proposition – a point I've been stressing in my role as co-chair of the Canadian Council for Aboriginal Business' (CCABs') Aboriginal Procurement Champions Initiative.

Suncor's social sustainability goal is also about changing the way we think and act so we can work collaboratively with Indigenous Peoples to create opportunities for economic and social reconciliation.



We already have a number of strong relationships. There are now 30 Petro-Canada stations across the country owned by First Nations. Suncor is a joint venture partner in an Ontario wind farm with the Aamjiwnaang First Nation. We also hold an equity interest in PetroNor, a Quebec-based fuel distribution company owned and operated by the James Bay Cree.

Suncor spent \$703 million in goods and services with Indigenous businesses in 2018 bringing the total spend to approximately \$5 billion since 1999, when we first started tracking this. Over 30% of the increased spend came from new suppliers and our Downstream business where doubled our spend.

But our social goal is about much more than business. Going forward, we will continue to support Indigenous youth, increase the participation of Indigenous Peoples in our workforce and improve Suncor employees' awareness of the history and experience of Indigenous Peoples.

Most of all, we will continue to listen and learn.

## THE SUNCOR TEAM

By continuing to capture value – and at the same time launch a 50-year project like Fort Hills – Suncor again demonstrated we have the combination of people, assets and strategies to succeed for the long run.

Our ability to successfully navigate a wide range of market cycles is rooted in the talent, hard work and ingenuity of our employees. We are also indebted to our Board of Directors, whose guidance keeps us strategically focused on long-term objectives.

As we move forward, one value continues to stand above the rest – safety. Suncor is committed to eliminating all workplace injuries and providing a safe workplace for all of our people. As part of that commitment, we implemented random drug testing for employees in safety-sensitive positions in the Regional Municipality of Wood Buffalo. For Suncor, this is all about ensuring our people go home to their loved ones safely at the end of their shifts.

Whatever challenges come along, we will maintain an unwavering focus on the strengths that got us here, including capital discipline, operational excellence and sustainability.

We know investors have many choices, both within the energy sector and across the investment landscape. That's why we believe it's important to gain your confidence – not only through words, but through performance and actions.

By fully exercising the Suncor Advantage, we will continue to provide the energy the world needs while generating the increased value that you, our shareholders, have come to expect from us.

**Mark Little**  
President and Chief Operating Officer