MANAGEMENT'S DISCUSSION AND ANALYSIS

February 26, 2020

This Management's Discussion and Analysis (this MD&A) should be read in conjunction with Suncor's December 31, 2019 audited Consolidated Financial Statements and the accompanying notes. Additional information about Suncor filed with Canadian securities regulatory authorities and the United States Securities and Exchange Commission (SEC), including quarterly and annual reports and Suncor's Annual Information Form dated February 26, 2020 (the 2019 AIF), which is also filed with the SEC under cover of Form 40-F, is available online at www.sedar.com, www.sec.gov and our website www.suncor.com. Information on or connected to our website, even if referred to in this MD&A, does not constitute part of this MD&A.

References to "we", "our", "Suncor", or "the company" mean Suncor Energy Inc. and the company's subsidiaries and interests in associates and joint arrangements, unless the context requires otherwise. For a list of abbreviations that may be used in this MD&A, refer to the Advisories – Common Abbreviations section of this MD&A.

MD&A – Table of Contents

Basis of Presentation

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Canadian generally accepted accounting principles (GAAP) as contained within Part 1 of the Canadian Institute of Chartered Professional Accountants Handbook.

Effective January 1, 2019, the company adopted IFRS 16 *Leases* (IFRS 16), which replaced the previous leasing standard IAS 17 *Leases* (IAS 17), and requires the recognition of all leases on the balance sheet, with optional exemptions for short-term leases where the term is twelve months or less and for leases of low value. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees. The accounting treatment for lessors remains essentially unchanged, with the requirement to classify leases as either finance or operating. Please refer to note 5 in the company's December 31, 2019 audited Consolidated Financial Statements for further information. The company has selected the modified retrospective transition approach, electing to adjust opening retained earnings with no re-statement of comparative figures. As such, comparative information continues to be reported under IAS 17 and International Financial Reporting Interpretations Committee (IFRIC) 4.

All financial information is reported in Canadian dollars, unless otherwise noted. Production volumes, apart from Libya, are presented on a working-interest basis, before royalties, unless otherwise noted. Libyan production volumes are presented on an economic basis.

Beginning in 2019, results from the company's Energy Trading business have been included within each of the respective operating business segments to which the respective trading activity relates. The Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment. Prior periods have been restated to reflect this change.

Also beginning in 2019, the company revised the classification of its capital expenditures into "asset sustainment and maintenance" and "economic investment" to better reflect the types of capital investments being made by the company. There is no impact to overall capital expenditures, and comparative periods have been restated to reflect this change. Refer to the Capital Investment Update section of this MD&A for further details.

Non-GAAP Financial Measures

Certain financial measures in this MD&A – namely operating earnings (loss), funds from (used in) operations, return on capital employed (ROCE), Oil Sands operations cash operating costs, In Situ cash operating costs, Fort Hills cash operating costs, Syncrude cash operating costs, refining margin, refining operating expense, free funds flow, discretionary free funds flow, and last-in, first-out (LIFO) inventory valuation methodology – are not prescribed by GAAP. Operating earnings (loss), Oil Sands operations cash operating costs, Fort Hills cash operating costs, Syncrude cash operating costs and LIFO inventory valuation methodology are defined in the Advisories – Non-GAAP Financial Measures section of this MD&A and reconciled to the most directly comparable GAAP measures in the Financial Information and Segment Results and Analysis sections of this MD&A. ROCE, funds from (used in) operations, free funds flow, discretionary free funds flow, refining margin, refining operating expense and In Situ cash operating costs are defined and reconciled, where applicable, to the most directly comparable GAAP measures in the Advisories – Non-GAAP Financial Measures section of this MD&A.

Measurement Conversions

Crude oil and natural gas liquids volumes have been converted to mcfe on the basis of one bbl to six mcf in this MD&A. Also, certain natural gas volumes have been converted to boe or mboe on the same basis. Refer to the Advisories – Measurement Conversions section of this MD&A.

Common Abbreviations

For a list of abbreviations that may be used in this MD&A, refer to the Advisories – Common Abbreviations section of this MD&A.

Risks and Forward-Looking Information

The company's business, reserves, financial condition and results of operations may be affected by a number of factors, including, but not limited to, the factors described in the Risk Factors section of this MD&A.

This MD&A contains forward-looking information based on Suncor's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, including those discussed in this MD&A and Suncor's other disclosure documents filed with Canadian securities regulatory authorities and the SEC, many of which are beyond the company's control. Users of this information are cautioned that actual results may differ materially. Refer to the Advisories – Forward-Looking Information section of this MD&A for information on the material risk factors and assumptions underlying our forward-looking information.

1. FINANCIAL AND OPERATING SUMMARY

Financial Summary

Year ended December 31 ($ millions, except per share amounts)	2019	2018	2017
Gross revenues	**39 866**	39 592	32 885
Royalties	**(1 522)**	(1 050)	(931)
Operating revenues, net of royalties	**38 344**	38 542	31 954
Net earnings	**2 899**	3 293	4 458
per common share – basic	**1.86**	2.03	2.68
per common share – diluted	**1.86**	2.02	2.68
Operating earnings (1)	**4 358**	4 312	3 188
per common share – basic	**2.80**	2.65	1.92
Funds from operations (1)	**10 818**	10 172	9 139
per common share – basic	**6.94**	6.27	5.50
Cash flow provided by operating activities	**10 421**	10 580	8 966
per common share – basic	**6.69**	6.54	5.40
Dividends paid on common shares	**2 614**	2 333	2 124
per common share – basic	**1.68**	1.44	1.28
Weighted average number of common shares in millions – basic	**1 559**	1 623	1 661
Weighted average number of common shares in millions – diluted	**1 561**	1 629	1 665
ROCE (1) (%)	**4.9**	8.0	6.7
ROCE (1)(2) (%), excluding major projects in progress	**5.1**	8.2	8.6
Capital expenditures (3)	**5 436**	5 250	5 822
Asset sustainment and maintenance	**3 227**	3 347	2 557
Economic investment	**2 209**	1 903	3 265
Discretionary free funds flow (1)	**4 914**	4 432	4 415
Balance sheet (at December 31)			
Total assets	**89 435**	89 579	89 494
Net debt (4)(5)	**16 010**	15 129	12 907
Total liabilities	**47 393**	45 574	44 111

(1) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

(2) Excludes capitalized costs related to major projects in progress. ROCE excluding major projects in progress would have been 8.6% in 2019, excluding the impacts of impairments of $3.352 billion and the impacts of a $1.116 billion deferred tax recovery relating to a change in the Alberta corporate income tax rate.

(3) Excludes capitalized interest of $122 million in 2019, $156 million in 2018, and $729 million in 2017, and now reflects the company's revised capital expenditure classification, with prior periods having been restated for this change. Refer to the Capital Investment Update section of this MD&A for further details.

(4) Net debt is equal to total debt less cash and cash equivalents. Total debt includes short-term debt, current portion of long-term debt, current portion of long-term lease liabilities, long-term debt, and long-term lease liabilities.

(5) 2018 and 2017 exclude the impact of IFRS 16, which was prospectively adopted on January 1, 2019, in accordance with the standard, adding $1.792 billion at December 31, 2019 to net debt.

Operating Summary

Year ended December 31	2019	2018	2017
Production volumes (mboe/d)			
Oil Sands	**670.4**	628.6	563.7
Exploration and Production	**106.8**	103.4	121.6
Total	**777.2**	732.0	685.3
Average price realizations(1) ($/boe)			
Oil Sands operations	**62.87**	54.91	54.26
Fort Hills	**48.96**	38.47	—
Syncrude	**73.45**	70.19	66.05
Exploration and Production	**82.92**	86.96	66.20
Refinery crude oil processed (mbbls/d)	**438.9**	430.8	441.2
Refinery utilization(2) (%)			
Eastern North America	**92**	94	93
Western North America	**98**	93	98
Total	**95**	93	96
Refining margin(3) ($/bbl)	**33.15**	34.50	24.20

(1) Net of transportation costs, but before royalties.
(2) Refinery utilization is the amount of crude oil run through crude distillation units, expressed as a percentage of the nameplate capacity of these units.
(3) Non-GAAP financial measure. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

Segment Summary(1)

Year ended December 31 ($ millions)	2019	2018	2017
Net (loss) earnings			
Oil Sands	**(427)**	945	994
Exploration and Production	**1 005**	807	721
Refining and Marketing	**3 000**	3 154	2 622
Corporate and Eliminations	**(679)**	(1 613)	121
Total	**2 899**	3 293	4 458
Operating earnings (loss)(2)			
Oil Sands	**1 622**	885	939
Exploration and Production	**1 141**	897	735
Refining and Marketing	**2 912**	3 154	2 128
Corporate and Eliminations	**(1 317)**	(624)	(614)
Total	**4 358**	4 312	3 188
Funds from (used in) operations(2)			
Oil Sands	**6 061**	4 964	4 734
Exploration and Production	**2 143**	1 779	1 756
Refining and Marketing	**3 863**	3 798	2 823
Corporate and Eliminations	**(1 249)**	(369)	(174)
Total funds from operations	**10 818**	10 172	9 139
Change in non-cash working capital	**(397)**	408	(173)
Cash flow provided by operating activities	**10 421**	10 580	8 966

(1) 2018 and 2017 have been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact on overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate Energy Trading and Eliminations segment.
(2) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

2. SUNCOR OVERVIEW

Suncor is an integrated energy company headquartered in Calgary, Alberta, Canada. We are strategically focused on developing one of the world's largest petroleum resource basins – Canada's Athabasca oil sands. In addition, we explore for, acquire, develop, produce and market crude oil in Canada and internationally; we transport and refine crude oil, and we market petroleum and petrochemical products primarily in Canada. We also operate a renewable energy business and conduct energy trading activities focused principally on the marketing and trading of crude oil, natural gas, byproducts, refined products, and power.

For a description of Suncor's business segments, refer to the Segment Results and Analysis section of this MD&A.

Suncor's Strategy

Delivering competitive and sustainable returns to shareholders is a top priority of the company and we aim to maximize shareholder returns by focusing on our operational excellence, capital discipline through investment in high-value projects, and our commitment to environmental stewardship and sustainability. In an industry that has experienced volatility in recent years, we believe that Suncor is well positioned to succeed due to the company's competitive advantages: financial strength, including our ability to consistently generate free funds flow across a wide range of business environments, a highly efficient, tightly integrated suite of assets, an industry-leading long-life, low-decline oil sands reserves base, an offshore business that provides geographically diversified cash flow, and our investment in sustainability, technology and innovation.

Key components of Suncor's strategy include:

- Free funds flow growth through high-return investments – Suncor's growth and development plan is focused on projects and initiatives that are expected to create long-term value for the company through structural free funds flow growth. The company's significant long-life, low-decline reserves base combined with our industry expertise allows the company to execute improvement strategies at existing assets, such as debottlenecks and the deployment of autonomous haul trucks, that are expected to generate additional value for years to come. In addition, the company's regional oil sands advantage provides the company with the economies of scale required to realize synergies between assets and further develop our in situ resources in a low-cost manner under the company's replication strategy.
- Optimize value through integration and secured market access – From the ground to the gas station, Suncor optimizes profit along each step of the value chain through integration of the company's oil sands assets with its midstream and refining assets. This integration helps to significantly shield Suncor from the effects of western Canadian crude price differentials, and our midstream and marketing assets provide the logistical flexibility to move production to a wide range of markets. Through this midstream and marketing network and our geographical diversity, the company receives global-based pricing for the majority of its production.
- Achieve industry-leading unit costs in each business segment – Suncor aims to get the most out of our assets through a focus on operational excellence, which means operating in a way that is safe, reliable, cost-efficient and environmentally responsible. Driving down costs and a continued focus on improved productivity and reliability will help us achieve maximum value from our operations. With the Government of Alberta's imposition of mandatory production curtailments in 2019, the company's short-term focus in Oil Sands has shifted from maximizing production to maximizing margin from each barrel produced, resulting in higher production costs per barrel but optimizing the cash generation from our Oil Sands assets.
- Be an industry leader in sustainable development – Suncor is focused on triple bottom line sustainability, which means leadership and industry collaboration in environmental performance, social responsibility and creating a strong economy. We believe that Suncor's growth will be fuelled by investments in lower carbon energy, and we have made such investments a key priority in achieving our sustainable development goals.
- Technology and people-enabled – Suncor is focused on shifting our culture and leveraging technology to improve performance and reliability which are central to our operational excellence journey. Unleashing the full potential of our people and technology will be critical in achieving our environmental, operational and financial goals.

2019 Highlights

Suncor generated a record $10.8 billion in funds from operations[(1)] in 2019, reflecting the ability of our integrated business to deliver strong results across a wide range of market conditions.

- In 2019, Suncor achieved record funds from operations of $10.818 billion, compared to $10.172 billion in 2018, and marked the second consecutive year above $10 billion.
- Cash flow provided by operating activities, which includes changes in non-cash working capital, was $10.421 billion in 2019, compared to $10.580 billion in 2018.
- Operating earnings[(1)] in 2019 were $4.358 billion, compared to $4.312 billion in 2018.
- Net earnings for 2019 were $2.899 billion, compared to $3.293 billion in 2018. In 2019, net earnings included non-cash asset impairment charges of $3.352 billion after-tax primarily due to lower forecasted heavy oil prices for Fort Hills and higher capital cost estimates for the West White Rose Project.

Suncor returned $4.9 billion in dividends and share repurchases to shareholders in 2019, representing 45% of total funds from operations, demonstrating our commitment to shareholder returns.

- In 2019, the company distributed $2.614 billion in dividends to shareholders, marking the 17th consecutive year of dividend increases for Suncor.
- The company repurchased $2.274 billion of its own common shares for cancellation during 2019. Since May 2017, the company has repurchased over 9% of its outstanding common shares.
- Suncor reduced its debt by $425 million, further improving the company's liquidity and balance sheet flexibility.
- Subsequent to the end of the year, Suncor's Board of Directors approved a quarterly dividend of $0.465 per common share, an increase of 11%, to be paid in the first quarter of 2020 and also approved the renewal of its share repurchase program of up to $2.0 billion beginning March 1, 2020.

Oil Sands production increased 7%, despite being limited by the Government of Alberta's mandatory production curtailments, with a continued focus on operational excellence and improved reliability.

- In 2019, the company achieved an SCO production record of 485,600 bbls/d across its Oil Sands assets while minimizing the impacts of mandatory production curtailments. During 2019, Suncor demonstrated the value of the company's asset integration and flexibility by shifting our focus to value over volume, optimization of product mix and transferring production quotas among its assets, in addition to purchasing third-party credits, to minimize the impacts of mandatory production curtailments.
  - Oil Sands operations increased its production of higher value SCO to 313,300 bbls/d and achieved upgrader utilization of 90%, compared to SCO production of 280,300 bbls/d and upgrader utilization of 80% in the prior year.
  - Syncrude reached three billion barrels of production and achieved the second best year of production in the history of the asset, due to improved upgrader reliability and despite mandatory production curtailments. In 2019, Suncor's share of Syncrude production was 172,300 bbls/d with 85% utilization, compared to 144,200 bbls/d and 70% utilization in the prior year. Syncrude cash operating costs per barrel[(1)] decreased approximately 20%, to $37.95 in 2019, from the prior year.
- Fort Hills production increased to 85,300 bbls/d in 2019, compared to 66,100 bbls/d in the prior year. The ramp up of Fort Hills operations throughout 2018 drove the increase in production, partially offset by mandatory production curtailments. Fort Hills cash operating costs per barrel[(1)] averaged $26.15 in 2019, compared to $31.20 in 2018, reflecting the impact of increased production.

Exploration and Production (E&P) increased production with Hebron reaching nameplate ahead of schedule and first oil from Oda.

- Hebron reached nameplate production ahead of schedule in 2019, with six new production wells coming online during the year. Production at Hebron averaged 23,500 bbls/d in 2019.
- First oil was achieved ahead of schedule at Oda, with production averaging 3,700 boe/d in 2019, and averaging 7,800 boe/d in the fourth quarter of 2019.
- In 2019, the company sanctioned the Terra Nova asset life extension (ALE) project, which is expected to extend the life of Terra Nova by approximately a decade and is planned for execution by the end of 2020.

Refinery and Marketing (R&M) segment achieved new records and continued to deliver strong results in 2019.

- R&M achieved record funds from operations of $3.863 billion in 2019, delivering crude throughput of 438,900 bbls/d compared to funds from operations of $3.798 billion and crude throughput of 430,800 bbls/d in

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(1) Funds from (used in) operations, operating earnings (loss), Syncrude cash operating costs and Fort Hills cash operating costs are Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

the prior year. Average refinery utilization was 95% in 2019, compared with 93% in 2018, reflecting the company's continued focus on operational excellence.

- Refined product sales were 539,400 bbls/d, with record volumes sold in the marketing channels in 2019, including a new annual record for Canadian retail sales.

Continued focus on free funds flow growth by investing in projects that are economically robust, sustainability minded and technologically progressive.

- Suncor announced that it is replacing its coke-fired boilers with a new cogeneration facility at its Oil Sands Base Plant. The cogeneration units are expected to provide reliable steam generation required for Suncor's extraction and upgrading operations and are expected to reduce the greenhouse gas (GHG) emissions intensity associated with steam production at its Oil Sands Base Plant by approximately 25%. The project is estimated to cost $1.4 billion and is expected to be in service in the second half of 2023.
- In 2019, construction began on interconnecting pipelines between Suncor's Oil Sands Base Plant and Syncrude in anticipation of an in-service date in the second half of 2020. The bi-directional pipelines will enhance integration between these assets and is expected to increase reliability at Syncrude.
- The company continued to invest in clean energy by sanctioning the Forty Mile Wind Power Project, which is expected to drive value through sustainable low-carbon power generation and retention of the generated carbon credits for utilization in Suncor's upstream business. In addition, the company invested in clean technology, including a $73 million equity investment in Enerkem Inc., a waste-to-biofuels and chemicals producer.
- Suncor continued to advance the implementation of autonomous haul systems (AHS), tailings technology advancements, and accelerated our digital technology adoption at Fort Hills and Oil Sands operations.
- Suncor advanced its sustainability and technology initiatives by completing its coast-to-coast network of fast-charging electric vehicle stations across Canada in 2019.

3. FINANCIAL INFORMATION

Net Earnings

Suncor's net earnings in 2019 were $2.899 billion, compared to $3.293 billion in 2018. Net earnings were impacted by the same factors that influenced operating earnings, which are described below. Other items affecting net earnings in 2019 and 2018 included:

- During 2019, the company recorded non-cash after-tax impairment charges of $2.803 billion on its share of Fort Hills assets, in the Oil Sands segment, due to a decline in forecasted heavy crude oil prices and $393 million against White Rose, in the E&P segment, due to increased capital cost estimates at the West White Rose Project.
- The after-tax unrealized foreign exchange gain on the revaluation of U.S. dollar denominated debt was $590 million in 2019, compared to an after-tax loss of $989 million in 2018.
- In 2019, Suncor sold its 37% interest in Canbriam Energy Inc. (Canbriam), a private natural gas company, for total proceeds and an equivalent gain of $151 million ($139 million after-tax).
- In 2019, the company recorded an after-tax gain of $48 million in the E&P segment related to the sale of certain non-core assets.
- In 2019, the company recorded a $1.116 billion deferred income tax recovery associated with the Government of Alberta's enactment of legislation for a staged reduction of the corporate income tax rate from 12% to 8% over the next four years.
- In 2018, the company recorded a net non-cash loss of $90 million, after-tax, in the E&P segment related to an asset exchange with Canbriam, as a result of the decline in benchmark natural gas prices in B.C.
- In 2018, the company recorded an after-tax gain of $60 million in the Oil Sands segment on the sale of the company's interest in the Joslyn oil sands mining project.

Operating Earnings

Consolidated Operating Earnings Reconciliation(1)

Year ended December 31 ($ millions)	2019	2018	2017
Net earnings	**2 899**	3 293	4 458
Asset impairments	**3 352**	—	—
Unrealized foreign exchange (gain) loss on U.S. dollar denominated debt	**(590)**	989	(702)
(Gain) on significant disposals and loss on equity investment(2)	**(187)**	30	(437)
Impact of income tax adjustments on deferred income taxes(3)	**(1 116)**	—	(124)
Loss on interest rate swaps(4)	**—**	—	20
Non-cash loss on early payment of long-term debt(5)	**—**	—	28
Recognition of property damage insurance proceeds(6)	**—**	—	(55)
Operating earnings(1)	**4 358**	4 312	3 188

(1) Non-GAAP financial measure. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

(2) In 2017, the company recorded a $354 million after-tax gain in the R&M segment related to the sale of the company's lubricants business, and an after-tax gain of $83 million in the Corporate and Eliminations segment related to the sale of the company's interest in the Cedar Point wind facility.

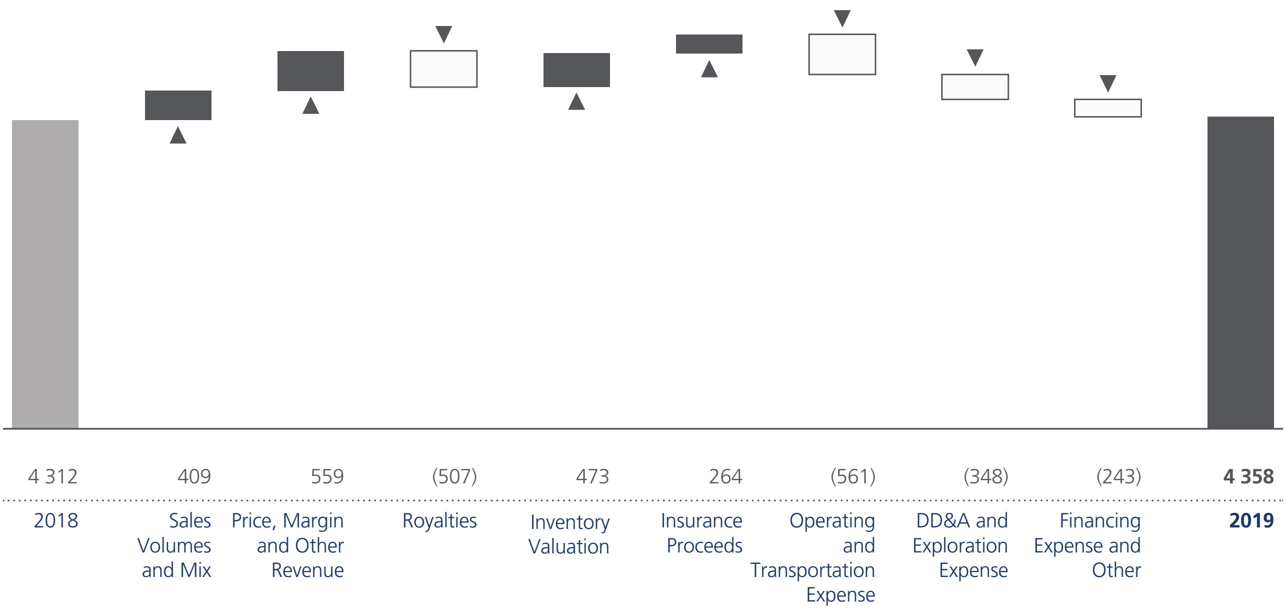
(3) In 2017, the company recorded an adjustment to its deferred income taxes of $124 million related to tax reform legislation in the U.S., with the most significant impact resulting from a decrease in the corporate income tax rate from 35% to 21%.

(4) Loss on forward interest rate swaps associated with issued debt, due to changes in long-term interest rates, in the Corporate and Eliminations segment.

(5) Charges associated with the early repayment of debt, net of associated realized foreign currency hedges, in the Corporate and Eliminations segment.

(6) In 2017, the company received after-tax property damage insurance proceeds of $55 million ($76 million before tax) related to a facility incident at Syncrude, in the Oil Sands segment.

Bridge Analysis of Consolidated Operating Earnings ($ millions)(1)



(1) For an explanation of the construction of this bridge analysis, see the Advisories – Non-GAAP Financial Measures section of this MD&A.

Suncor's consolidated operating earnings in 2019 were $4.358 billion, compared to $4.312 billion in the prior year. The increase was primarily a result of improved western Canadian crude oil differentials, including a substantial narrowing of heavy crude and SCO differentials, which more than offset lower benchmark pricing from the prior year. This led to an increase in Oil Sands price realizations and a net favourable inventory valuation change on crude feedstock costs, partially offset by increased deferral of profit on crude oil sales to R&M, and lower refining margins. Operating earnings in 2019 were also positively impacted by higher overall upstream production, attributed to improved reliability at Syncrude and the ramp up of Fort Hills and Hebron throughout 2019, partially offset by the impact of the Government of Alberta's mandatory production curtailments.

These factors were partially offset by an increase in expenses associated with Suncor's increased production in 2019. DD&A was further impacted by transition to IFRS 16, which also increased financing expenses.

Cash Flow Provided by Operating Activities and Funds from Operations

Consolidated funds from operations for 2019 were $10.818 billion, compared to $10.172 billion in 2018, and were impacted by the same factors as operating earnings described above, excluding the impact of DD&A expense.

Cash flow provided by operating activities, which includes changes in non-cash working capital, was $10.421 billion in 2019, compared to $10.580 billion in 2018, as the current year included a use of cash in working capital, compared to a source of cash in working capital in the prior year which was due to a decrease in accounts receivable balances and refinery inventory value associated with the declining price environment in the second half of 2018.

Results for 2018 Compared with 2017

Net earnings in 2018 were $3.293 billion, compared to $4.458 billion in 2017. The decrease in net earnings was impacted by the same factors impacting operating earnings described below, as well as an after-tax unrealized foreign exchange loss on the revaluation of U.S. dollar denominated debt in 2018, compared to an after-tax unrealized foreign exchange gain in 2017.

Operating earnings were $4.312 billion in 2018, compared to $3.188 billion in 2017. The increase was primarily due to improved overall benchmark crude pricing, increased refining margins, higher overall upstream production, primarily attributed to the ramp up of Fort Hills and Hebron and the increased working interest in Syncrude acquired in early 2018, as well as improved energy trading earnings. These factors were partially offset by an increase in expenses associated with the expansion of the company's production in 2018, an increase in maintenance expenditures at Syncrude and Oil Sands operations resulting from an increase in planned and unplanned maintenance, a decrease in the capitalization of borrowing costs with the commissioning of the company's major growth projects, as well as a net unfavourable inventory valuation change on declining crude feedstock costs at the end of 2018.

Consolidated funds from operations for 2018 were $10.172 billion, compared to $9.139 billion in 2017. Funds from operations were impacted by the same factors as operating earnings described above.

Cash flow provided by operating activities, which includes changes in non-cash working capital, was $10.580 billion in 2018, compared to $8.966 billion in 2017, and reflected a source of cash from the company's working capital balances in 2018, compared to a use of cash in 2017, as a result of lower year end benchmarks.

Business Environment

Commodity prices, refining crack spreads and foreign exchange rates are important factors that affect the results of Suncor's operations.

Average for the year ended December 31	2019	2018	2017
WTI crude oil at Cushing (US$/bbl)	**57.05**	64.80	50.95
Dated Brent Crude (US$/bbl)	**64.30**	71.05	54.25
Dated Brent/Maya crude oil FOB price differential (US$/bbl)	**6.45**	9.10	7.70
MSW at Edmonton (Cdn$/bbl)	**69.20**	69.30	63.20
WCS at Hardisty (US$/bbl)	**44.25**	38.50	38.95
Light/heavy differential for WTI at Cushing less WCS at Hardisty (US$/bbl)	**(12.80)**	(26.30)	(11.95)
SYN-WTI differential (US$/bbl)	**(0.60)**	(6.15)	(1.27)
Condensate at Edmonton (US$/bbl)	**52.85**	61.05	51.55
Natural gas (Alberta spot) at AECO (Cdn$/mcf)	**1.75**	1.50	2.15
Alberta Power Pool Price (Cdn$/MWh)	**54.95**	50.20	22.15
New York Harbor 2-1-1 crack(1) (US$/bbl)	**19.90**	19.40	18.20
Chicago 2-1-1 crack(1) (US$/bbl)	**17.05**	17.40	16.80
Portland 2-1-1 crack(1) (US$/bbl)	**24.55**	24.00	22.50
Gulf Coast 2-1-1 crack(1) (US$/bbl)	**19.15**	18.40	17.70
Exchange rate (US$/Cdn$)	**0.75**	0.77	0.77
Exchange rate (end of period) (US$/Cdn$)	**0.77**	0.73	0.80

(1) 2-1-1 crack spreads are indicators of the refining margin generated by converting two barrels of WTI into one barrel of gasoline and one barrel of diesel. The company previously quoted 3-2-1 crack margin benchmarks based on wider use and familiarity with these benchmarks and, although the 3-2-1 crack spread is more commonly quoted, the company's refinery production is better aligned with a 2-1-1 crack spread, which better reflects the approximate composition of Suncor's overall refined product mix. The crack spreads presented here generally approximate the regions into which the company sells refined products through retail and wholesale channels.

Suncor's sweet SCO price realizations are influenced primarily by the price of WTI at Cushing and by the supply and demand of sweet SCO from Western Canada, which influences SCO differentials. Price realizations for sweet SCO were favourably impacted by a significant narrowing of SCO differentials, partially offset by a decrease in WTI at Cushing to US$57.05/bbl in 2019, from US$64.80/bbl in 2018.

Suncor also produces a specific grade of sour SCO, the price realizations for which are influenced by various crude benchmarks including, but not limited to, MSW at Edmonton and WCS at Hardisty, and which can also be affected by prices negotiated for spot sales. Prices for MSW at Edmonton in 2019 were relatively unchanged from 2018, while WCS at Hardisty increased to US$44.25 in 2019 compared to US$38.50 in 2018, reflecting the impact of narrowing western Canadian heavy crude differentials, in part due to mandatory production curtailments in Alberta. Sweet and sour SCO differentials in 2019 were favourable when compared to 2018.

Bitumen production that Suncor does not upgrade is blended with diluent to facilitate delivery on pipeline systems. Net bitumen price realizations are therefore influenced by both prices for Canadian heavy crude oil (WCS at Hardisty is a common reference) and prices for diluent (Condensate at Edmonton and SCO) and pipeline tolls. Bitumen price realizations can also be affected by bitumen quality and spot sales. Bitumen prices were favourably impacted by narrower heavy crude oil differentials in 2019.

Suncor's price realizations for production from East Coast Canada and E&P International assets are influenced primarily by the price for Brent crude, which averaged US$64.30/bbl in 2019, compared to US$71.05/bbl in 2018. Due to the nature of cargo shipments at the company's offshore assets, the timing associated with bulk cargo sales can result in price realizations that deviate from the average benchmark price over the period.

Suncor's refining margins are primarily influenced by industry benchmark crack spreads and, although the 3-2-1 crack spread is more commonly quoted, the company's refinery production is better aligned with a 2-1-1 crack spread, which more appropriately reflects the company's refined product mix of gasoline and distillates. Benchmark crack spreads are industry indicators approximating the gross margin on a barrel of crude oil that is refined to produce gasoline and distillates. More complex refineries can earn greater refining margins by processing less expensive, heavier crudes, or lighter crudes discounted relative to the WTI benchmark. Crack spreads do not necessarily reflect the margins of a specific refinery. Crack spreads quoted in the market are based on current crude feedstock prices whereas actual earnings are based on first-in, first-out (FIFO) inventory accounting, where a delay exists between the time that feedstock is purchased and when it is processed and sold to a third party. A FIFO loss normally reflects a declining price environment for crude oil and finished products, whereas FIFO gains reflect an increasing price environment for crude oil and finished products. Specific refinery margins are further impacted by actual crude purchase costs, refinery configuration, production mix and realized prices for refined products sales in markets unique to each refinery.

Natural gas used in Suncor's Oil Sands and Refining operations is primarily referenced to Alberta spot prices at AECO. The average AECO benchmark increased to $1.75/mcf in 2019, from $1.50/mcf in the prior year.

Excess electricity produced in Suncor's Oil Sands operations business is sold to the Alberta Electric System Operator, with the proceeds netted against the Oil Sands operations cash operating costs per barrel metric. The Alberta power pool price increased to an average of $54.95/MWh in 2019 from $50.20/MWh in the prior year.

The majority of Suncor's revenues from the sale of oil and natural gas commodities are based on prices that are determined by or referenced to U.S. dollar benchmark prices. The majority of Suncor's expenditures are realized in Canadian dollars. A decrease in the value of the Canadian dollar relative to the U.S. dollar will increase the revenues received from the sale of commodities. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease revenues received from the sale of commodities. In 2019, the Canadian dollar weakened in relation to the U.S. dollar as the average exchange rate decreased to US$0.75 per one Canadian dollar from US$0.77 per one Canadian dollar, which had a positive impact on price realizations for the company in 2019.

Conversely, some of Suncor's assets and liabilities, notably 65% of the company's debt, are denominated in U.S. dollars and translated to Suncor's reporting currency (Canadian dollars) at each balance sheet date. An increase in the value of the Canadian dollar relative to the U.S. dollar from the previous balance sheet date decreases the amount of Canadian dollars required to settle U.S. dollar denominated obligations.

Economic Sensitivities(1)(2)

The following table illustrates the estimated effects that changes in certain factors would have had on 2019 net earnings and funds from operations(3) if the listed changes had occurred.

(Estimated change, in $ millions)	Net Earnings	Funds From Operations(3)
Crude oil +US$1.00/bbl	238	238
Natural gas +Cdn$0.10/mcf	(24)	(24)
WTI – narrowing light/heavy differential +US$1.00/bbl	23	23
2-1-1 crack spreads +US$1.00/bbl	153	153
Foreign exchange +$0.01 US$/Cdn$ related to operating activities(4)	(221)	(221)
Foreign exchange on U.S. dollar denominated debt +$0.01 US$/Cdn$	159	—

(1) Each line item in this table shows the effects of a change in that variable only, with other variables being held consistent.

(2) Changes for a variable imply that all such similar variables are impacted, such that Suncor's average price realizations increase uniformly. For instance, "Crude oil +US$1.00/bbl" implies that price realizations influenced by WTI, Brent, SCO, WCS, par crude at Edmonton and condensate all increase by US$1.00/bbl.

(3) Non-GAAP financial measure. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

(4) Excludes the foreign exchange impact on U.S dollar denominated debt.

4. SEGMENT RESULTS AND ANALYSIS

Suncor has classified its operations into the following segments:

OIL SANDS

Suncor's Oil Sands segment, with assets located in the Athabasca oil sands of northeast Alberta, recovers bitumen from mining and in situ operations. Bitumen is either upgraded into SCO for refinery feedstock and diesel fuel, or blended with diluent for direct sale to market through the company's midstream infrastructure and its marketing activities. The Oil Sands segment includes:

- **Oil Sands operations** refer to Suncor's owned and operated mining, extraction, upgrading, in situ and related logistics, blending and storage assets in the Athabasca oil sands region. Oil Sands operations consist of:
  - **Oil Sands Base** operations include the Millennium and North Steepbank mining and extraction operations, integrated upgrading facilities known as Upgrader 1 and Upgrader 2, and the associated infrastructure for these assets – including utilities, energy, reclamation and storage facilities.
  - **In Situ** operations include oil sands bitumen production from Firebag and MacKay River and supporting infrastructure, including central processing facilities, cogeneration units, product transportation infrastructure, diluent import capabilities, storage assets and a cooling and blending facility. In Situ also includes development opportunities which may support future in situ production, including Meadow Creek (75%), Lewis (100%), OSLO (77.78%), various interests in Chard (25% to 50%), and a non-operated interest in Kirby (10%). In Situ production is either upgraded by Oil Sands Base, or blended with diluent and marketed directly to customers.
- **Fort Hills** includes Suncor's 54.11% interest in Fort Hills, which the company operates, and the East Tank Farm Development in which Suncor holds a 51% interest and operates.
- **Syncrude** refers to Suncor's 58.74% interest in the Syncrude oil sands mining and upgrading operation.

EXPLORATION AND PRODUCTION

Suncor's E&P segment consists of offshore operations off the east coast of Canada and in the North Sea, and onshore assets in Libya and Syria.

- **E&P Canada** operations include Suncor's 37.675% working interest in Terra Nova, which Suncor operates. Suncor also holds non-operated interests in Hibernia (20% in the base project and 19.190% in the Hibernia Southern Extension Unit), White Rose (27.5% in the base project and 26.125% in the extensions), and Hebron (21.034%). In addition, the company holds interests in several exploration licences and significant discovery licences offshore Newfoundland and Labrador. Previously, E&P Canada also included Suncor's 37% equity interest in Canbriam which was sold during the second quarter of 2019.
- **E&P International** operations include Suncor's non-operated interests in Buzzard (29.89%), the Golden Eagle Area Development (26.69%), Oda (30%), the Fenja project (17.5%), and the Rosebank future development project (40%). Buzzard, Golden Eagle, and Rosebank are located in the U.K. sector of the North Sea, while Oda and the Fenja project are located in the Norwegian North Sea and the Norwegian Sea, respectively. In addition, Suncor owns, pursuant to Exploration and Production Sharing Agreements (EPSAs), working interests in the exploration and development of oilfields in the Sirte Basin in Libya, although production in Libya remained partially shut in throughout 2019 due to continued political unrest. The timing of a return to normal operations in Libya remains uncertain. Suncor also owns, pursuant to a Production Sharing Contract (PSC), an interest in the Ebla gas development in Syria, which has been suspended, indefinitely, since 2011 due to political unrest in the country.

REFINING AND MARKETING

The R&M segment consists of two primary operations, the refining and supply and marketing operations discussed below, as well as the infrastructure supporting the marketing and supply of refined products, crude oil, natural gas, power and byproducts.

- **Refining and Supply** operations refine crude oil and intermediate feedstock into a wide range of petroleum and petrochemical products. Refining and Supply consists of:
  - **Eastern North America** operations include a 137,000 bbls/d refinery located in Montreal, Quebec and an 85,000 bbls/d refinery located in Sarnia, Ontario.
  - **Western North America** operations include a 142,000 bbls/d refinery located in Edmonton, Alberta and a 98,000 bbls/d refinery in Commerce City, Colorado.
  - Other Refining and Supply assets include interests in a petrochemical plant and a sulphur recovery facility in Montreal, Quebec, product pipelines and terminals

throughout Canada and the U.S., and the St. Clair ethanol plant in Ontario.

- **Marketing** operations sell refined petroleum products to retail, commercial and industrial customers through a combination of company-owned, Petro-Canada™ and Sunoco™ location and branded-dealers in Canada and other non-branded retail stations in the U.S., a nationwide commercial road transportation network in Canada, as well as a bulk sales channel in Canada.

CORPORATE AND ELIMINATIONS

The **Corporate and Eliminations** segment includes the company's investments in renewable energy projects, and other activities not directly attributable to any other operating segment.

- **Renewable Energy** includes interests in four wind farm operations in Ontario and Western Canada: Adelaide, Chin Chute, Magrath and Sunbridge, as well as the recently sanctioned Forty Mile Wind Power Project currently under construction.
- **Corporate** activities include stewardship of Suncor's debt and borrowing costs, expenses not allocated to the company's businesses, the company's captive insurance activities that insure a portion of the company's asset base and investments in clean technology.
- Intersegment revenues and expenses are removed from consolidated results in **Eliminations**. Intersegment activity includes the sale of product between the company's segments and insurance for a portion of the company's operations by the **Corporate** captive insurance entity. The sale of product between the company's segments is primarily related to crude refining feedstock sold from Oil Sands to R&M.

OIL SANDS

2019 Highlights

- In 2019, the company achieved an SCO production record of 485,600 bbls/d across its Oil Sands assets. Suncor's curtailment optimization strategy maximized the value of the company's allotted barrels under the Government of Alberta's mandatory production curtailments program effective January 2019. The company was able to optimize the transfer of allotted curtailment credits among the company's assets and purchase third-party credits to maximize production of higher value SCO production, demonstrating our focus on value over volume.
  - Oil Sands operations increased SCO production to 313,300 bbls/d and achieved upgrader utilization of 90% in 2019, compared to 280,300 bbls/d and upgrader utilization of 80% in the prior year.
  - Syncrude celebrated its three billionth barrel of production and achieved the second best year of production in its history, despite mandatory production curtailments. Syncrude production of SCO was 172,300 bbls/d with 85% utilization, compared to 144,200 bbls/d and 70% utilization in the prior year, due to improved upgrader reliability and lower unplanned maintenance. Syncrude cash operating costs per barrel declined significantly to $37.95 in 2019, compared to $47.25 in the prior year, due to improved reliability and lower maintenance.
- Suncor's share of production from Fort Hills increased to 85,300 bbls/d, compared to 66,100 bbls/d in the prior year, due to the ramp up of operations throughout 2018, partially offset by mandatory production curtailments.
- In 2019, construction began on interconnecting pipelines between Suncor's Oil Sands Base Plant and Syncrude in anticipation of an in-service date in the second half of 2020. The bi-directional pipelines are expected to enhance integration between these assets and increase reliability at Syncrude.
- In 2019, Suncor announced a $1.4 billion investment in a new cogeneration facility at Oil Sands Base Plant to deliver low-carbon power generation and replace existing coke-fired boilers. This investment is expected to provide reliable steam generation while contributing to the company's environmental and incremental annual free funds flow growth goal.

Strategy and Investment Update

Suncor holds one of the largest resource positions in the Athabasca oil sands. Management is committed to delivering safe, reliable, low-cost production, while being leaders in growth, technical innovation and environmental sustainability. The company has developed a unique asset base within the oil sands and has established a regional advantage given the close proximity of the company's assets to one another. This collection of high-quality assets, combined with a long-life, low-decline reserves base and industry-leading expertise, provides the opportunity to continue to advance technology and innovation investments and high return growth projects while growing annual free funds flow.

The company's ability to leverage technology and innovation is at the core of our strategy supporting our financial, social and environmental goals. Investments to replace its coke-fired boilers with a cogeneration facility at its Oil Sands Base Plant is expected to provide reliable steam generation required for Suncor's extraction and upgrading, at a lower cost and with significantly lower carbon emissions. The facility is also expected to generate electricity that will be transmitted to Alberta's power grid, providing a lower carbon power alternative while delivering value to Suncor.

Additional technology projects, including the continued deployment of AHS, and innovative tailings technology advancements, including Permanent Aquatic Storage Structure, demonstrate the importance technology and innovation have in increasing efficiency and lowering operating costs while improving our environmental and safety performance.

Suncor remains committed to increasing reliability and enhancing the integration of our existing assets for profitable growth. The investment in the bi-directional interconnecting pipelines between Syncrude and Oil Sands Base Plant will provide increased operational flexibility, enabling higher reliability, utilization and profit optimization for all Syncrude partners. The pipelines are expected to be in service in the second half of 2020.

Cost management and capital discipline in Oil Sands will continue to be top priorities as the company expects to manage controllable operating costs through initiatives that include co-ordinated maintenance strategies, equipment standardization and the adoption of digital technologies.

Capital discipline continues to focus on managing investment opportunities, including asset synergies and sustainability priorities, strategically investing in projects that are economically robust, sustainably minded and technologically progressive. With these factors in mind, the company has identified opportunities to debottleneck Firebag, including the completion of our emulsion handling project this year, integrate well pad development and expand our Solvent steam-assisted gravity drainage program. Our near-term expectation is to have actual Firebag production at nameplate capacity of 203,000 bbls/d in 2021, assuming no production curtailment, with the potential to add up to 30,000 bbls/d of lower capital intensity and lower carbon production by 2024-25.

Through Suncor's midstream and logistics network, the company secures market access, optimizes price realizations associated with the marketing of crude oil and byproducts and natural gas supply, manages inventory levels, and limits the impacts of external market factors, such as pipeline disruptions, lack of egress or outages at refining customers.

Financial Highlights(1)

Year ended December 31 ($ millions)	2019	2018	2017
Gross revenues	**18 347**	15 743	13 274
Less: Royalties	**(917)**	(398)	(355)
Operating revenues, net of royalties	**17 430**	15 345	12 919
Net (loss) earnings	**(427)**	945	994
Adjusted for:			
Asset impairment	**2 959**	—	—
Gain on significant disposal(2)	**—**	(60)	—
Insurance proceeds(3)	**—**	—	(55)
Impact of income tax rate adjustment on deferred taxes	**(910)**	—	—
Operating earnings(4)	**1 622**	885	939
Funds from operations(4)	**6 061**	4 964	4 734

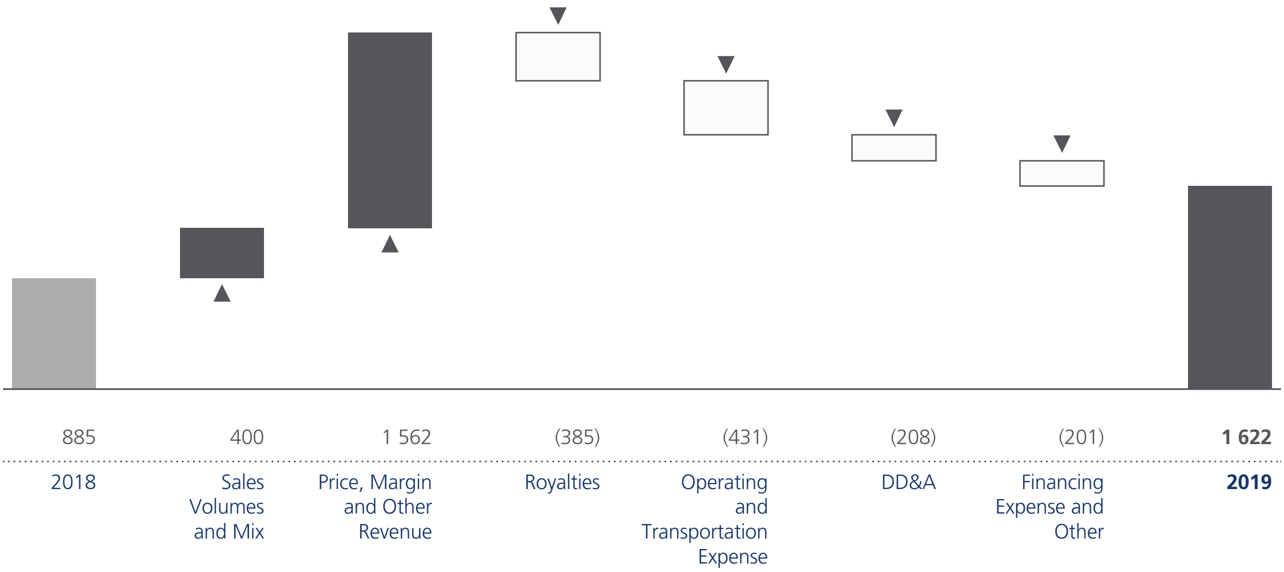
(1) 2018 and 2017 have been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact to overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment.

(2) In 2018, the company recorded an after-tax gain of $60 million on the sale of the company's interest in the Joslyn oil sands mining project.

(3) In 2017, the company received after-tax property damage proceeds of $55 million related to a facility incident at Syncrude.

(4) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

Bridge Analysis of Operating Earnings ($ millions)(1)



(1) For an explanation of the construction of this bridge analysis, see the Advisories – Non-GAAP Financial Measures section of this MD&A.

Operating earnings in Oil Sands operations were $1.622 billion in 2019, compared to $885 million in 2018. The increase in operating earnings is primarily due to improved western Canadian crude oil differentials, including a substantial narrowing of heavy crude and SCO differentials, which more than offset lower benchmark pricing from the prior year and resulted in higher Oil Sands price realizations. Strong Syncrude reliability and the ramp up of production at Fort Hills throughout 2018 contributed to the overall increase in Oil Sands production in 2019 compared to the prior year, despite being limited by mandatory production curtailments. Operating earnings were unfavourably impacted by higher operating costs, higher royalties and DD&A associated with the increase in production.

Oil Sands had a net loss of $427 million in 2019, compared to net earnings of $945 million in 2018, and was impacted by the same factors as operating earnings described above. In addition, 2019 net earnings included the impact of a non-cash impairment charge of $2.803 billion after-tax on the company's share of the Fort Hills assets, described below, partially offset by a one-time deferred income tax recovery of $910 million associated with a staged reduction to the Alberta corporate income tax rate of 1% each year from 2019 to 2022.

Funds from operations for the Oil Sands segment were $6.061 billion in 2019, compared to $4.964 billion in 2018, and were influenced by the same factors that impacted operating earnings, adjusted for the impact of non-cash DD&A.

Production Volumes(1)

Year ended December 31 (mbbls/d)	**2019**	**2018**	**2017**
Upgraded product (SCO and diesel)	**313.3**	280.3	317.7
In Situ non-upgraded bitumen	**99.5**	138.0	111.7
Total Oil Sands operations production	**412.8**	418.3	429.4
Fort Hills bitumen	**85.3**	66.1	—
Syncrude (sweet SCO and diesel)	**172.3**	144.2	134.3
Total	**670.4**	628.6	563.7

(1) Bitumen from Oil Sands Base operations is upgraded, while bitumen from In Situ operations is upgraded or sold directly to customers. Yields of SCO from Suncor's upgrading processes are approximately 79% of bitumen feedstock input. Yields of SCO from Syncrude's upgrading processes are approximately 85% of bitumen feedstock input.

Oil Sands operations production decreased to 412,800 bbls/d in 2019 from 418,300 bbls/d in 2018, primarily due to mandatory production curtailments. Mandatory production curtailments largely impacted the company's non-upgraded bitumen production and resulted in an increased yield loss as the company maximized production to its upgraders in order to produce higher value SCO. In 2019, SCO production increased to 313,300 bbls/d, with upgrader utilization of 90%, compared to SCO production of 280,300 bbls/d and upgrader utilization of 80% in the prior year, reflecting strong reliability in 2019 and reduced maintenance.

Fort Hills bitumen production increased to 85,300 bbls/d in 2019 from 66,100 bbls/d in 2018, due to the ramp up in production throughout 2018, partially offset by the impact of mandatory production curtailments. Fort Hills remains adversely impacted by mandatory production curtailments due to the continued, disproportionate effect of curtailment as it is applied on a 2018 production basis when the asset was ramping up to full production rates. In 2019, the company was able to partially mitigate impacts of curtailment on production by internally transferring credits from Oil Sands operations during planned maintenance and purchasing third-party curtailment credits.

Suncor's share of Syncrude production increased to 172,300 bbls/d in 2019, compared to 144,200 bbls/d in 2018, marking the second best year of production in the asset's history, even with mandatory production curtailments. The increase is primarily due to strong reliability and lower maintenance resulting in upgrader utilization of 85% in 2019, compared to 70% in the prior year. In 2019, Syncrude was able to partially mitigate the impact of curtailment on production by purchasing curtailment credits from partners and third parties.

Sales Volumes and Mix

Year ended December 31 (mbbls/d)	**2019**	2018	2017
Oil Sands operations sales volumes			
Sweet SCO	**113.5**	96.1	107.9
Diesel	**26.0**	28.8	27.5
Sour SCO	**171.8**	162.6	183.6
Upgraded product (SCO)	**311.3**	287.5	319.0
In Situ non-upgraded bitumen	**101.4**	134.0	110.6
Oil Sands operations	**412.7**	421.5	429.6
Fort Hills bitumen	**86.1**	57.3	—
Syncrude sweet SCO	**172.3**	144.2	134.3
Total	**671.1**	623.0	563.9

Sales volumes for Oil Sands operations decreased to 412,700 bbls/d in 2019, compared to 421,500 bbls/d in 2018, reflecting the same factors impacting production volumes.

Bitumen sales at Fort Hills increased to 86,100 bbls/d, net to Suncor, in 2019, from 57,300 bbls/d in the prior year, consistent with the increase in production.

Bitumen Production from Operations

Year ended December 31	**2019**	2018	2017
Oil Sands Base			
Bitumen production (mbbls/d)	**289.9**	258.8	305.4
Bitumen ore mined (thousands of tonnes/day)	**434.8**	378.0	464.4
Bitumen ore grade quality (bbls/tonne)	**0.67**	0.68	0.66
In Situ			
Bitumen production – Firebag (mbbls/d)	**187.0**	204.0	181.5
Steam-to-oil ratio – Firebag	**2.7**	2.7	2.7
Bitumen production – MacKay River (mbbls/d)	**29.2**	36.0	31.1
Steam-to-oil ratio – MacKay River	**3.0**	2.9	3.1
Total In Situ bitumen production (mbbls/d)	**216.2**	240.0	212.6
Total Oil Sands operations bitumen production (mbbls/d)	**506.1**	498.8	518.0
Fort Hills			
Bitumen production (mbbls/d)	**85.3**	66.1	—
Bitumen from froth	**—**	1.3	—
Bitumen ore mined (thousands of tonnes/day)	**140.5**	106.2	—
Bitumen ore grade quality (bbls/tonne)	**0.61**	0.63	—
Syncrude			
Bitumen production (mbbls/d)	**205.4**	172.0	163.6
Bitumen ore mined (thousands of tonnes/day)	**330.5**	277.5	252.7
Bitumen ore grade quality (bbls/tonne)	**0.62**	0.62	0.63
Total Oil Sands bitumen production (mbbls/d)	**796.8**	738.2	681.6

Oil Sands operations bitumen production increased to 506,100 bbls/d in 2019, compared to 498,800 bbls/d in 2018. The increase is primarily due to strong upgrader reliability and the associated increase in mined bitumen volumes, partially offset by lower non-upgraded In Situ production due to mandatory production curtailments after maximizing the volume of Firebag bitumen upgraded into SCO.

Bitumen production at Syncrude increased in 2019 to 205,400 bbls/d from 172,000 bbls/d in 2018, and was impacted by the same factors as production described above.

Price Realizations

Year ended December 31 Net of transportation costs, but before royalties ($/bbl)	2019	2018	2017
Oil Sands operations			
SCO and diesel	**69.65**	68.97	61.47
Bitumen	**42.08**	24.70	33.47
Crude sales basket (all products)	**62.87**	54.91	54.26
Crude sales basket, relative to WTI	**(13.20)**	(29.24)	(11.91)
Fort Hills bitumen	**48.96**	38.47	—
Syncrude – sweet SCO	**73.45**	70.19	66.05
Syncrude, relative to WTI	**(2.62)**	(13.97)	(0.12)

Average price realizations at Oil Sands operations increased to $62.87/bbl in 2019 compared to $54.91/bbl in 2018, primarily due to the narrowing of heavy crude and SCO differentials resulting from mandatory production curtailments in the province of Alberta, and the impact of a weaker Canadian dollar, partially offset by a decrease in the WTI benchmark price.

Average price realizations for Fort Hills bitumen were $48.96/bbl in 2019 and were higher than In Situ bitumen realizations due to a higher proportion of sales being made in the U.S. mid-continent and the U.S. Gulf Coast, where Suncor is able to utilize its logistics network to access favourable pricing in the U.S. market, combined with the higher quality associated with paraffinic froth-treated bitumen produced at Fort Hills. Average price realizations were higher than the prior year due to the improved heavy crude oil differential and the impact of a weaker Canadian dollar, partially offset by a decrease in the WTI benchmark price.

Suncor's average price realization for Syncrude sales increased in 2019 to $73.45/bbl, compared to $70.19/bbl in 2018, due to narrower SCO differentials and the impact of a weaker Canadian dollar, partially offset by decreased WTI benchmark pricing.

Royalties

Royalties were higher in 2019 relative to 2018, primarily due to higher bitumen pricing and production volumes.

Expenses and Other Factors

Total operating and transportation expenses for 2019 were higher relative to 2018, as described in detail below. See the Cash Operating Costs section below for further details.

At Oil Sands operations, operating costs increased when compared to the prior year as a result of higher costs associated with increased production of higher value SCO barrels, an increase in contractor mining costs for increased ore volumes processed, higher commodity costs and unplanned maintenance costs.

At Fort Hills, operating costs in 2019 were higher compared to the prior year due to the ramp up of production in 2018 and an increase in planned maintenance.

Suncor's share of Syncrude operating costs were lower than the prior year, primarily due to lower unplanned maintenance costs resulting from improved reliability.

Oil Sands transportation costs in 2019 were comparable to the prior year.

DD&A expense for 2019 increased when compared to 2018 due to additional depreciation associated with the transition to IFRS 16.

Cash Operating Costs

Year ended December 31	2019	2018	2017
Oil Sands operating, selling and general expense (OS&G)	**8 027**	7 577	6 262
Oil Sands operations cash operating costs(1) reconciliation			
Oil Sands operations OS&G	**4 639**	4 222	4 067
Non-production costs(2)	**(179)**	(100)	(106)
Excess power capacity and other(3)	**(241)**	(237)	(232)
Inventory changes	**48**	(14)	1
Oil Sands operations cash operating costs(1) ($ millions)	**4 267**	3 871	3 729
Oil Sands operations cash operating costs(1) ($/bbl)	**28.20**	25.25	23.80
Fort Hills cash operating costs(1) reconciliation			
Fort Hills OS&G	**921**	832	—
Non-production costs(2)	**(115)**	(120)	—
Inventory changes	**9**	55	—
Fort Hills cash operating costs(1) ($ millions)	**815**	767	—
Fort Hills cash operating costs(1) ($/bbl)	**26.15**	31.20	—
Syncrude cash operating costs(1) reconciliation			
Syncrude OS&G	**2 467**	2 523	2 195
Non-production costs(2)	**(82)**	(33)	(37)
Syncrude cash operating costs(1) ($ millions)	**2 385**	2 490	2 158
Syncrude cash operating costs(1) ($/bbl)	**37.95**	47.25	44.05

(1) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

(2) Significant non-production costs include, but are not limited to, share-based compensation expense and research expenses. Non-production costs at Fort Hills also include, but are not limited to, project startup costs, excess power revenue from cogeneration units and an adjustment to reflect internally produced diesel from Oil Sands operations at the cost of production.

(3) Oil Sands operations excess power capacity and other includes, but is not limited to, the operational revenue impacts of excess power from cogeneration units and the natural gas expense recorded as part of a non-monetary arrangement involving a third-party processor.

Oil Sands operations cash operating costs per barrel[1] averaged $28.20 in 2019, compared to $25.25 in 2018, reflecting higher contractor mining, commodity and unplanned maintenance costs, as well as higher costs associated with the production of higher value SCO barrels.

Total Oil Sands operations cash operating costs increased to $4.267 billion from $3.871 billion in the prior year.

In 2019, non-production costs, which are excluded from Oil Sands operations cash operating costs, were higher than the prior year, primarily due to an increase in research and development costs and share-based compensation expense.

Oil Sands operations inventory changes in 2019 reflect a build of higher value SCO, partially offset by a draw of bitumen inventory.

Fort Hills cash operating costs per barrel averaged $26.15 in 2019, compared to $31.20 in 2018, reflecting the impact of the production ramp up throughout 2018.

Syncrude cash operating costs per barrel decreased to $37.95 in 2019, compared to $47.25 in the previous year, due to improved upgrader reliability and decreased maintenance costs. Suncor's share of total Syncrude cash operating costs decreased to $2.385 billion from $2.490 billion in 2018. Higher non-production costs compared to the prior year is due to an increase in share-based compensation expense.

Non-Cash Asset Impairment

Due to continued volatility in the crude oil price environment and resulting declines in forecasted heavy crude oil prices, the company performed an asset impairment test on its Fort Hills cash generating unit (CGU) in the Oil Sands segment. As a result, the company recorded a non-cash impairment charge of $2.80 billion (net of taxes of $0.91 billion) on its share of the Fort Hills project using the following asset-specific assumptions:

- WCS price forecast of US$40.75/bbl in 2020, US$45.60/bbl in 2021, US$49.65/bbl in 2022, US$51.55/bbl in 2023 and US$52.90/bbl in 2024, escalating at 2% per year thereafter over the life of the project up to 2060, adjusted for asset-specific location and quality differentials;
- the company's share of production ranging from 96,000 to 106,000 bbls/d over the life of the project;
- cash operating costs averaging $22/bbl to $24/bbl over the life of the project (expressed in real dollars) reflects operating, selling and general expense adjusted for non-production costs, including share-based compensation, research costs, and excess power revenue; and
- risk-adjusted discount rate of 7.5% (after-tax).

The recoverable amount of the Fort Hills CGU was $7.7 billion as at December 31, 2019, which also includes the cost of carbon compliance in accordance with current provincial and federal regulations which starts at $30/tonne in 2020, reaches $50/tonne by 2022 and escalates at the rate of inflation thereafter. The estimate of the recoverable amount is most sensitive to the WCS price forecast and

(1) Oil Sands operations cash operating costs is a non-GAAP financial measure. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

discount rate. A 5% decrease in price would have resulted in an increase to the impairment charge of approximately $1.2 billion (after-tax) on the company's share of the Fort Hills assets. A 1% increase in the discount rate would have resulted in an increase to the impairment charge of approximately $900 million (after-tax) on the company's share of the Fort Hills assets.

Planned Maintenance

Planned maintenance at MacKay River originally scheduled for the third quarter of 2020 has been accelerated to the first quarter of 2020 to coincide with an outage that occurred in the fourth quarter of 2019, in an effort to minimize impacts to annual production. Planned Upgrader 2 maintenance at Oil Sands operations and an annual turnaround at Syncrude are planned for the second quarter of 2020. Maintenance at Oil Sands operations Upgrader 1 is scheduled for the third quarter of 2020, extending into the fourth quarter of 2020. The anticipated impact of these maintenance events has been reflected in the company's 2020 guidance.

EXPLORATION AND PRODUCTION

2019 Highlights

- E&P funds from operations increased to $2.143 billion from $1.779 billion in 2018, and operating earnings increased to $1.141 billion, compared to $897 million in the prior year.
- Drilling activity at Hebron is ongoing with six new production wells coming online during 2019. Production at Hebron averaged 23,500 bbls/d in 2019, net to Suncor, compared to 13,000 bbls/d in 2018.
- First oil was achieved ahead of schedule at Oda, with production averaging 3,700 boe/d in 2019. In the fourth quarter of 2019, Oda averaged production of 7,800 boe/d.
- In 2019, the company sanctioned the Terra Nova ALE project, which is expected to extend the life of Terra Nova by approximately a decade and is planned for execution by the end of 2020.

Strategy and Investment Update

The E&P segment delivers geographically diversified cash flows and focuses primarily on low-cost projects that deliver significant returns, cash flow and long term-value.

The Terra Nova ALE project is scheduled to commence in the second quarter of 2020, with the vessel returning to service in the fourth quarter of 2020. Production at Terra Nova is planned to resume once the project is completed. The project is expected to extend the production life and capacity of the existing Terra Nova asset by approximately a decade. Execution of this work provides an opportunity to complete enhancements to the Floating Production, Storage and Offloading vessel to increase production capacity and efficiency to enable reliable operations over its extended life.

The company has ongoing development activities offshore the east coast of Canada and in the U.K. North Sea, intended to leverage existing facilities and infrastructure to provide incremental production and extend the productive life of existing fields. These activities are planned to continue in 2020, with development drilling at Hebron and Hibernia, the West White Rose Project, Buzzard Phase 2, and the Fenja project in Norway. The Rosebank project is currently in the pre-sanction phase with a sanction decision planned for late 2022.

Through Suncor's midstream and logistics network, the company secures market access, optimizes price realizations associated with crude oil marketing, manages inventory levels and limits the impacts of external market factors.

Financial Highlights[1]

Year ended December 31 ($ millions)	2019	2018	2017
Gross revenues[2]	**3 372**	3 474	3 177
Less: Royalties[2]	**(302)**	(257)	(266)
Operating revenues, net of royalties	**3 070**	3 217	2 911
Net earnings	**1 005**	807	721
Adjusted for:			
Asset Impairment	**393**	—	—
(Gain) on significant disposals and loss on equity investment[3]	**(187)**	90	—
Impact of income tax rate adjustments on deferred income taxes[4]	**(70)**	—	14
Operating earnings[5]	**1 141**	897	735
Funds from operations[5]	**2 143**	1 779	1 756

(1) 2018 and 2017 have been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact to overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment.

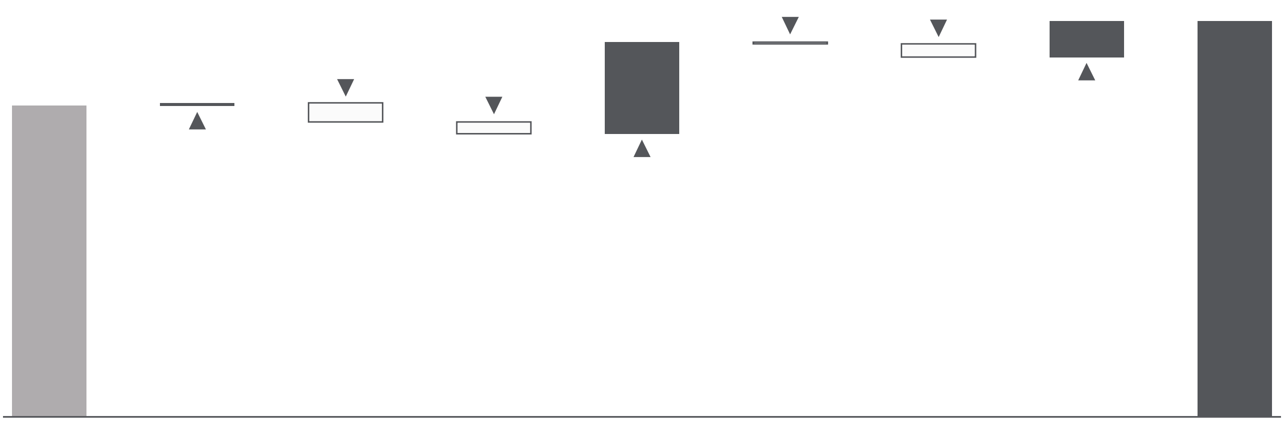
(2) Production, revenues and royalties from the company's Libya operations have been presented in the E&P section of this document on an economic basis and exclude an equal and offsetting gross up of revenues and royalties of $303 million in 2019, $395 million in 2018, and $310 million in 2017, which is required for presentation purposes in the company's financial statements under the working-interest basis.

(3) In 2018, the company recorded a net non-cash loss of $90 million, after-tax, related to an asset exchange with Canbriam.

(4) In 2017, adjustments to the company's deferred income taxes related to tax reform legislation in the U.S. for North America Onshore assets.

(5) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

Bridge Analysis of Operating Earnings ($ millions)[1]



897	8	(55)	(34)	264	(5)	(38)	104	**1 141**
2018	Sales Volumes and Mix	Price, Margin and Other Revenue	Royalties	Insurance Proceeds	Operating and Transportation Expense	DD&A and Exploration Expense	Financing Expense and Other	**2019**

(1) For an explanation of the construction of this bridge analysis, see the Advisories – Non-GAAP Financial Measures section of this MD&A.

Operating earnings were $1.141 billion for E&P in 2019, compared to $897 million in the prior year, with the increase largely due to the receipt of $264 million, after-tax, for insurance proceeds related to the company's assets in Libya and prior year losses recorded on an equity investment in Canbriam, which was sold in 2019. Operating earnings were negatively impacted by lower price realizations consistent with the decline in the Brent crude benchmark, higher DD&A and increased royalties. The insurance proceeds received may be subject to a provisional repayment that may be dependent on the future performance and cash flows from Suncor's Libyan assets.

Net earnings were $1.005 billion for the E&P segment in 2019, compared to $807 million in 2018, and were impacted by the same factors as operating earnings described above. In addition, net earnings in 2019 included an after-tax impairment charge of $393 million against the company's interest in White Rose, as discussed below, and a one-time deferred income tax recovery of $70 million associated with a staged reduction to the Alberta corporate income tax rate of 1% each year from 2019 to 2022. Net earnings in 2019 also included an after-tax gain of $139 million on the sale of the company's interest in Canbriam and an after-tax gain of $48 million related to the sale of certain non-core assets.

Funds from operations were $2.143 billion in 2019, compared to $1.779 billion in 2018. The increase was largely due to the same factors that impacted operating earnings above, adjusted for the impact of non-cash DD&A.

Production Volumes

Year ended December 31	**2019**	2018	2017
E&P Canada			
Terra Nova (mbbls/d)	**11.6**	11.7	11.5
Hibernia (mbbls/d)	**20.1**	22.1	28.5
White Rose (mbbls/d)	**4.7**	6.6	11.4
Hebron (mbbls/d)	**23.5**	13.0	0.4
North America Onshore (mboe/d)	**—**	0.5	1.9
Total E&P Canada production (mboe/d)	**59.9**	53.9	53.7
E&P International			
Buzzard (mboe/d)	**31.9**	34.2	43.8
Golden Eagle (mboe/d)	**9.0**	12.4	19.6
United Kingdom (mboe/d)	**40.9**	46.6	63.4
Norway – Oda (mboe/d)	**3.7**	—	—
Libya (mbbls/d)	**2.3**	2.9	4.5
Total E&P International production (mboe/d)	**46.9**	49.5	67.9
Total Production (mboe/d)	**106.8**	103.4	121.6
Total Sales Volumes (mboe/d)	**106.0**	102.8	120.8

E&P Canada production volumes increased to 59,900 boe/d in 2019 from 53,900 boe/d in 2018, primarily due to the ramp up of Hebron production throughout 2019 and the continued staged return of White Rose to normal operating rates, partially offset by an unplanned outage at Hibernia during the year.

E&P International production volumes averaged 46,900 boe/d in 2019, compared to 49,500 boe/d in 2018, with the increased production from Oda, which began production in 2019, more than offset by natural declines in the U.K.

Price Realizations

Year ended December 31 Net of transportation costs, but before royalties	**2019**	2018	2017
Exploration and Production			
E&P Canada – Crude oil and natural gas liquids ($/bbl)	**84.86**	87.82	69.16
E&P Canada – Natural gas ($/mcf)	**—**	1.94	1.77
E&P International ($/boe)	**81.09**	86.77	65.46
E&P average price ($/boe)	**82.92**	86.96	66.20

Average price realizations from E&P Canada and E&P International in 2019 were lower than 2018, due to the decrease in benchmark prices for Brent crude in 2019 and the timing of cargo sales.

Royalties

E&P royalties were higher in 2019 due to an increase in East Coast Canada sales volumes.

Expenses and Other Factors

Operating expenses were marginally higher in 2019, compared to 2018, primarily due to the addition of Hebron operating costs and an increase in maintenance expense.

DD&A and impairment expenses increased in 2019, compared to the prior year, primarily due to the ramp up of Hebron production volumes, partially offset by decreased production in the U.K.

Exploration expense increased in 2019, as compared to 2018, as a result of exploration charges for non-commercial drilling results off the east coast of Canada and in the U.K. North Sea.

Financing expenses and other were favourable in 2019, compared to 2018, due to prior year losses recorded on an equity investment in Canbriam, which was sold in 2019.

Non-Cash Asset Impairment

Due to an increase to forecasted capital expenditures within the White Rose CGU, the company performed an asset impairment test as at December 31, 2019. As a result, the company recorded a non-cash impairment charge of $393 million (net of taxes of $128 million) on its share of the White Rose assets using the following asset-specific assumptions:

- Brent price forecast of US$65.00/bbl in 2020, escalating at 2% per year thereafter over the life of the project up to 2036 and adjusted for asset-specific location and quality differentials;
- the company's share of production of approximately 8,700 bbls/d over the life of the project;

- the company's share of future capital expenditures of $1.4 billion including the West White Rose expansion; and
- risk-adjusted discount rate of 9.0% (after-tax).

The recoverable amount of the White Rose CGU was $360 million as at December 31, 2019, which also includes the cost of carbon compliance in accordance with current provincial and federal regulations which starts at $30/tonne in 2020, reaches $50/tonne by 2022 and escalates at the rate of inflation thereafter. The estimate of the recoverable amount is most sensitive to the Brent price forecast and discount rate. A 5% decrease in price would have resulted in an increase to the impairment charge of approximately $85 million (after-tax) on the company's share of the White Rose assets. A 1% increase in the discount rate would have resulted in an increase to the impairment charge of approximately $35 million (after-tax) on the company's share of the White Rose assets.

Planned Maintenance of Operated Assets

The Terra Nova ALE project is scheduled to commence in the second quarter of 2020, with the vessel returning to service in the fourth quarter of 2020. Production at Terra Nova is planned to resume once the project is completed. The project is expected to extend the production life and capacity of the existing Terra Nova asset. The anticipated impact of the asset being offline has been reflected in the company's 2020 guidance.

REFINING AND MARKETING

2019 Highlights

- The R&M segment delivered record funds from operations of $3.863 billion and operating earnings of $2.912 billion in 2019, compared to funds from operations of $3.798 billion and operating earnings of $3.154 billion in 2018.
- R&M delivered refinery crude throughput of 438,900 bbls/d in 2019, compared to 430,800 bbls/d in 2018, driven by strong refinery utilization in 2019. Average refinery utilization was 95% in 2019, compared with 93% in 2018.
- Refined product sales were 539,400 bbls/d, with record volumes sold in the marketing channels in 2019, including a new annual record for Canadian retail sales reflecting continued strong product demand.
- R&M continues to be a key component of the company's integrated business model, allowing Suncor to significantly shield volatility in crude differentials in the Oil Sands segment through lower refinery feedstock costs. In 2019, approximately 56% of the company's crude feedstock processed at the company's refineries was internally produced SCO and diluted bitumen.
- In 2019, Suncor also completed an electric vehicle fast-charging network across Canada, demonstrating the company's continued commitment to projects that are sustainability minded and technologically advanced.

Strategy and Investment Update

The R&M network serves to maximize Suncor's integrated returns by extending the value chain from oil sands production to the end customer and is a key component of Suncor's integrated business model. The company aims to operate its refineries at optimal levels of utilization to provide reliable offtake and secure pricing for a portion of the production from the Oil Sands segment.

In 2019, Suncor continued to leverage its strong Petro-Canada™ brand through a nationwide campaign to increase sales volumes and non-petroleum revenues through the company's network of convenience stores and car washes and will continue these efforts in 2020.

Through Suncor's midstream and logistics network, the company secures market access, optimizes price realizations associated with refined products and crude oil supply, manages inventory levels and limits the impacts of external market factors.

Financial Highlights(1)

Year ended December 31 ($ millions)	2019	2018	2017
Operating revenues	**22 304**	23 778	19 755
Net earnings	**3 000**	3 154	2 622
Adjusted for:			
Impact of income tax rate adjustments on deferred taxes(2)	**(88)**	—	(140)
Gain on significant disposal(3)	**—**	—	(354)
Operating earnings(4)	**2 912**	3 154	2 128
Funds from operations(4)	**3 863**	3 798	2 823

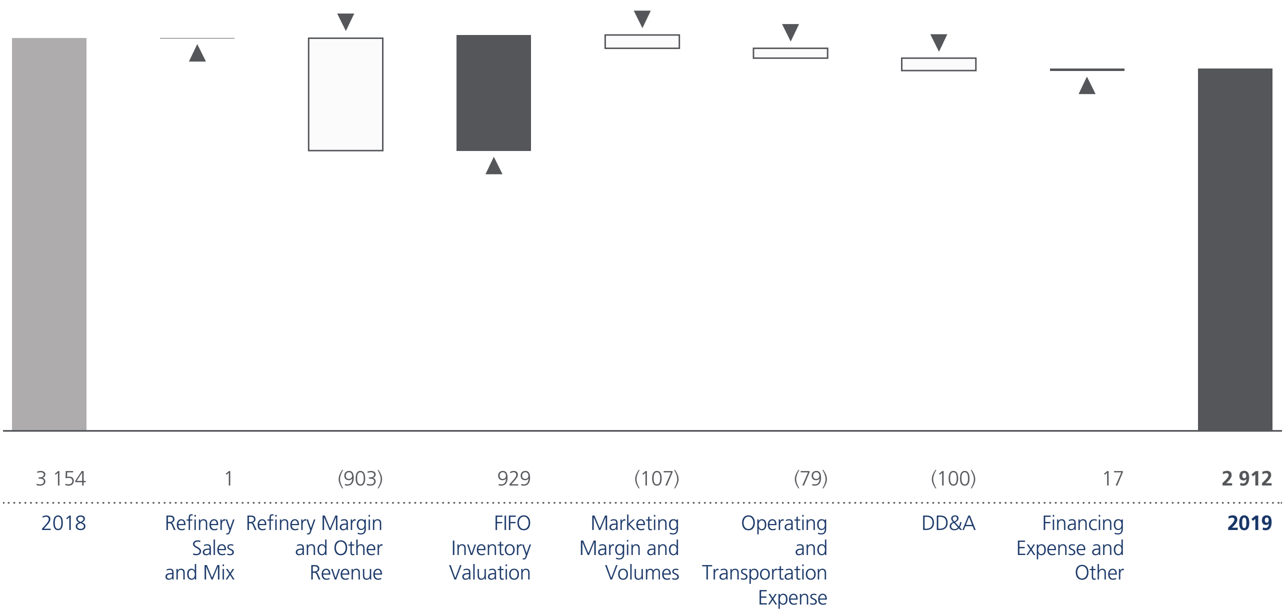
(1) 2018 and 2017 have been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact to overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment.

(2) In 2017, the company recorded an adjustment to its deferred income taxes related to tax reform legislation in the U.S., with the most significant impact resulting from a decrease in the corporate tax rate from 35% to 21%.

(3) After-tax gain related to the sale of the company's lubricants business.

(4) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

Bridge Analysis of Operating Earnings ($ millions)(1)



(1) For an explanation of the construction of this bridge analysis, see the Advisories – Non-GAAP Financial Measures section of this MD&A.

R&M contributed annual operating earnings of $2.912 billion in 2019, compared with $3.154 billion in 2018. The decrease was attributable to lower refining margins attributed primarily to significantly narrower crude differentials, lower marketing margins, and higher DD&A, partially offset by a FIFO gain in 2019 compared to a FIFO loss in the prior year associated with the significant decline in crude and refined product benchmarks near the end of 2018.

Net earnings in 2019 were $3.000 billion, compared to net earnings of $3.154 billion in 2018, and were impacted by the same factors as operating earnings described above. 2019 net earnings also included a one-time deferred income tax recovery of $88 million associated with a staged reduction to the Alberta corporate income tax rate of 1% each year from 2019 to 2022.

R&M achieved an annual funds from operations record of $3.863 billion in 2019, compared to $3.798 billion in 2018, due primarily to the same factors that impacted operating earnings described above, excluding the impacts of non-cash DD&A.

Volumes

Year ended December 31	**2019**	2018	2017
Crude oil processed (mbbls/d)			
Eastern North America	**203.3**	208.1	206.4
Western North America	**235.6**	222.7	234.8
Total	**438.9**	430.8	441.2
Refinery utilization(1)(2) (%)			
Eastern North America	**92**	94	93
Western North America	**98**	93	98
Total	**95**	93	96
Refined Product Sales (mbbls/d)			
Gasoline	**246.6**	245.6	242.9
Distillate	**218.1**	203.4	199.3
Other	**74.7**	78.4	88.3
Total	**539.4**	527.4	530.5
Refining margin(2) ($/bbl)	**33.15**	34.50	24.20
Refining operating expense(2) ($/bbl)	**5.35**	5.35	5.05

(1) Refinery utilization is the amount of crude oil and natural gas plant liquids run through crude distillation units, expressed as a percentage of the capacity of these units.

(2) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

Refinery utilization averaged 95% in 2019, compared with 93% in 2018. The increase in utilization was primarily due to a decrease in planned maintenance in 2019 compared to 2018, with the Edmonton refinery undergoing its first full plant turnaround in its history in 2018.

Total refined products sales were 539,400 bbls/d in 2019, compared to 527,400 bbls/d in 2018, with record volumes sold in the marketing channels in 2019, including a new annual record for Canadian retail sales reflecting continued strong product demand.

Prices and Margins

Refining and Product Supply prices and margins, including FIFO inventory valuation, were slightly higher in 2019 compared to 2018, and were impacted primarily by the following factors:

- An overall less favourable business environment, driven by narrower crude differentials.
- In 2019, the impact of FIFO inventory accounting, as used by the company, relative to an estimated LIFO[1] basis of accounting, had a positive impact on refining margins and net income of approximately $461 million after-tax, compared to a negative impact of $468 million after-tax in 2018, for a favourable year-over-year impact of $929 million.

Marketing gross margins in 2019 were lower than in the prior year, primarily due to finished product market conditions.

Expenses and Other Factors

Operating and transportation expenses were higher in 2019 compared to 2018, primarily due to an increase in business development costs and share-based compensation expense.

DD&A increased in 2019 compared to the prior year due to the implementation of IFRS 16.

Planned Maintenance

The company has a number of planned maintenance events, including a two-week planned maintenance event at the Commerce City refinery in the first quarter of 2020, a two-week turnaround at the Sarnia refinery scheduled in the second quarter of 2020, a four-week turnaround at the Edmonton refinery scheduled in the third quarter of 2020, and a six-week turnaround at the Montreal refinery in the third quarter and fourth quarter of 2020. The estimated impact of these maintenance events has been reflected in the company's 2020 guidance.

CORPORATE AND ELIMINATIONS

2019 Highlights

- A total of $2.614 billion in dividends were paid in 2019, an increase of 17% per common share over the prior year, making 2019 the 17th consecutive year of annual dividend increases for Suncor.
- The company repurchased 55.3 million of its own common shares for cancellation during 2019, representing 3.6% of the total outstanding common shares, for $2.274 billion, and reduced debt by $425 million, reflecting continued flexibility in the company's capital allocation strategy.
- Suncor sanctioned the Forty Mile Wind Power Project, which is expected to drive value through sustainable low-carbon power generation and the retention of generated carbon credits for utilization in Suncor's upstream business.
- In 2019, the company increased its investments in clean technology, including an aggregate of $73 million in equity investments in Enerkem Inc., a waste-to biofuels and chemicals producer.
- Subsequent to the end of the year, Suncor's Board of Directors approved an 11% increase in the quarterly dividend and a renewal of the share repurchase program. This increases the quarterly dividend from $0.420 to $0.465 per common share and provides approval for up to $2.0 billion in share repurchases beginning March 1, 2020.

(1) The LIFO inventory valuation methodology is a non-GAAP financial measure. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

Strategy and Investment Update

Returning value to shareholders continues to be a top priority for Suncor, as demonstrated by the company's history of dividend increases and commitment to its share repurchase program. Since the start of 2017, the company has completed $12.4 billion in share repurchases as of February 25, 2020, which is approximately 21% of the total outstanding common shares of the company. In 2020, the Board of Directors has approved up to a further $2.0 billion in share repurchases, reinforcing the company's ability to generate cash flow and its commitment to return cash to shareholders.

Investment in wind power and being a part of the emerging biofuel industry is a key component of Suncor's climate change action plan. In 2019, Suncor sanctioned the Forty Mile Wind Power Project in southern Alberta. This 200 MW renewable power project has an estimated total capital spend of $300 million, with 25% of the capital spent in 2019 and the remainder to be spent over the next two years. This investment approach in renewable energy is expected to generate significant value through sustainable power generation and retention of the generated carbon credits for utilization in Suncor's upstream business. This project enables Suncor to make meaningful progress towards its sustainability goal of a 30% GHG emissions intensity reduction by 2030.

In 2020, the company expects to continue to accelerate its digital transformation and implement new digital technologies across the enterprise to help improve the safety, productivity, reliability and environmental performance of our operations. As part of its digital transformation, Suncor has entered into a strategic alliance with Microsoft. This alliance enables Suncor to utilize Microsoft's full range of cloud solutions to empower a connected and collaborative workforce, build an agile data platform to increase analytics capabilities, and partner with experts while gaining access to leading edge technologies.

Financial Highlights(1)

Year ended December 31 ($ millions)	**2019**	2018	2017
Net (loss) earnings	**(679)**	(1 613)	121
Adjusted for:			
Unrealized foreign exchange (gain) loss on U.S. dollar denominated debt	**(590)**	989	(702)
Loss on interest rate swaps(2)	**—**	—	20
Non-cash loss on early payment of long-term debt(3)	**—**	—	28
Gain on significant disposal(4)	**—**	—	(83)
Impact of income tax rate adjustments on deferred income taxes(5)	**(48)**	—	2
Operating loss(6)	**(1 317)**	(624)	(614)
Corporate and Renewables	***(1 113)***	*(876)*	*(532)*
Eliminations – Intersegment profit (eliminated) realized	***(204)***	*252*	*(82)*
Funds used in operations(6)	**(1 249)**	(369)	(174)

(1) 2018 and 2017 have been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact to overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment.

(2) In 2017, the company recognized an after-tax loss on forward interest rate swaps of $20 million due to changes in long-term interest rates.

(3) In 2017, the company redeemed US$1.250 billion, US$600 million and $700 million of higher interest long-term debt that was originally due in 2018, reducing future financing charges for a net economic benefit. As a result of early redemption, the company incurred an after-tax charge of $28 million, net of associated realized foreign currency hedges.

(4) In 2017, the company recorded an after-tax gain of $83 million related to the sale of its interest in the Cedar Point wind facility.

(5) In 2017, the company recorded an adjustment to its deferred income taxes related to the tax reform legislation in the U.S., with the most significant impact resulting from a decrease in the corporate tax rate from 35% to 21%.

(6) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

Corporate and Renewables

Corporate incurred an operating loss of $1.113 billion in 2019, compared with an operating loss of $876 million in 2018, reflecting lower operational foreign exchange gains in 2019 in comparison to the prior year, an increase in share-based compensation expense, higher interest expenses and lower capitalized interest. Suncor capitalized $122 million of its borrowing costs in 2019 as part of the cost of major development assets and construction projects in progress, compared to $156 million in the prior year, with the decrease resulting from the staged commissioning of Fort Hills in 2018.

Year ended December 31	2019	2018	2017
Renewable Energy power generation marketed (gigawatt hours)(1)	**184**	183	255

(1) Power generated includes curtailed production for which the company was compensated.

Eliminations – Intersegment profit (eliminated) realized

Eliminations reflect the deferral or realization of profit on crude oil sales from Oil Sands to R&M. Consolidated profits are only realized when the refined products produced from internal purchases of crude feedstock have been sold to third parties. In 2019, the company eliminated $204 million of after-tax intersegment profit, compared to a realization of profit of $252 million in the prior year. The change year-over-year was primarily due to the increase in Oil Sands crude margins in 2019, as lower margin crude feedstock inventory sourced internally from Oil Sands was sold and replaced by higher margin crude feedstock inventory, resulting in an elimination of profit at the enterprise level.

The net loss for Corporate and Eliminations was $679 million in 2019, compared to a net loss of $1.613 billion in 2018. In addition to the factors impacting operating earnings discussed above, the net loss in 2019 included a $590 million unrealized after-tax foreign exchange gain on the revaluation of U.S. dollar denominated debt and a $48 million deferred income tax recovery associated with the Government of Alberta's staged reduction of the corporate income tax rate from 12% to 8% over the next four years. The net loss in the prior year included a $989 million unrealized after-tax foreign exchange loss on the revaluation of U.S. dollar denominated debt.

Funds used in operations for the Corporate and Eliminations segment were $1.249 billion in 2019, compared to $369 million in 2018, and were influenced by the same factors that impacted operating earnings, adjusted for the non-cash component of share-based compensation expense.

5. FOURTH QUARTER 2019 ANALYSIS

Financial and Operational Highlights[1]

Three months ended December 31 ($ millions, except as noted)	2019	2018
Net (loss) earnings		
Oil Sands	**(2 682)**	(377)
Exploration and Production	**(162)**	(115)
Refining and Marketing	**558**	762
Corporate and Eliminations	**(49)**	(550)
Total	**(2 335)**	(280)
Operating earnings (loss)[2]		
Oil Sands	**277**	(377)
Exploration and Production	**231**	108
Refining and Marketing	**558**	762
Corporate and Eliminations	**(284)**	87
Total	**782**	580
Funds from (used in) operations[2]		
Oil Sands	**1 405**	607
Exploration and Production	**555**	331
Refining and Marketing	**793**	873
Corporate and Eliminations	**(200)**	196
Total funds from operations	**2 553**	2 007
Changes in non-cash working capital	**(249)**	1 033
Cash flow provided by operating activities	**2 304**	3 040
Production volumes (mboe/d)		
Oil Sands	**662.3**	740.8
Exploration and Production	**115.9**	90.2
Total	**778.2**	831.0

(1) 2018 has been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact to overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment.

(2) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

Net Loss

Suncor had a consolidated net loss for the fourth quarter of 2019 of $2.335 billion, compared to a net loss of $280 million for the prior year quarter. The net loss was affected by the same factors that influenced operating earnings described subsequently in this section of this document. Other items affecting net losses over these periods included:

- During the fourth quarter of 2019, the company recorded after-tax non-cash impairment charges of $2.803 billion on its share of the Fort Hills assets, in the Oil Sands segment, due to a decline in forecasted heavy crude oil prices and $393 million against its interest in White Rose, in the E&P segment, due to increased capital cost estimates at the West White Rose Project.
- The after-tax unrealized foreign exchange gain on the revaluation of U.S. dollar denominated debt was $235 million for the fourth quarter of 2019, compared to a loss of $637 million for the fourth quarter of 2018.
- The fourth quarter of 2018 included a $223 million after-tax impairment charge in the E&P segment associated with the company's equity investment in Canbriam. This included the reversal of a $133 million after-tax gain recorded in the first quarter of 2018, when the equity investment was acquired through an asset exchange, for a net after-tax impairment of $90 million in 2018.

Cash Flow provided by Operating Activities and Funds from Operations

Funds from operations were $2.553 billion in the fourth quarter of 2019, compared to $2.007 billion in the fourth quarter of 2018, and were influenced by the same factors impacting operating earnings described in the Segmented Analysis below, excluding the impact of DD&A and share-based compensation expenses.

Cash flow provided by operating activities, which includes changes in non-cash working capital, was $2.304 billion in the fourth quarter of 2019, compared to $3.040 billion in the fourth quarter of 2018, and was influenced by the same factors impacting operating earnings noted below, excluding the impact of DD&A and share-based compensation expenses. In addition, cash flow provided by operating activities was impacted by a use of cash from working capital in 2019 as compared to a source of cash in 2018, which was due to a decrease in accounts receivable balances and refinery inventory value associated with lower year end benchmark prices.

Segmented Analysis

Oil Sands

The Oil Sands segment had operating earnings of $277 million in the fourth quarter of 2019, compared to an operating loss of $377 million in the prior year quarter. The improved results were primarily due to higher realized crude prices due to improved western Canadian crude oil differentials, including a substantial narrowing of heavy crude and SCO differentials, more than offsetting benchmark pricing declines. This was partially offset by lower overall production volumes due to planned maintenance and mandatory production curtailments and higher DD&A.

Oil Sands operations production was 418,100 bbls/d in the fourth quarter of 2019, compared to 432,700 bbls/d in the prior year quarter. The decrease in production was primarily due to maintenance, including planned annual coker maintenance at Oil Sands Base, increased yield loss associated with higher SCO production, mandatory production curtailments and an outage at MacKay River, which is expected to return to operation early in the second quarter of 2020. Upgrader utilization was 86% in the fourth quarter of 2019, compared to 79% in the prior year period.

Fort Hills production averaged 87,900 bbls/d in the fourth quarter of 2019, compared to 98,500 bbls/d in the prior year quarter. The decrease in production was due to planned maintenance, which was completed during the quarter, and mandatory production curtailments. Fort Hills remains adversely impacted by mandatory production curtailments due to the continued, disproportionate effect of curtailment as it is applied on a 2018 production basis when the asset was ramping up to full production rates. However, the company was able to partially mitigate production impacts by internally transferring credits from Oil Sands operations and purchasing third-party credits.

Suncor's share of Syncrude production and sales was 156,300 bbls/d in the fourth quarter of 2019, compared to 209,600 bbls/d in the prior year quarter. The decrease in production was primarily due to planned maintenance that commenced in the third quarter of 2019 and was completed in the fourth quarter, compared to no planned maintenance in the prior year quarter, and mandatory production curtailments. Upon completion of maintenance, Syncrude was able to partially mitigate the impacts of curtailment on production by purchasing curtailment credits from partners and third parties.

Sales volumes for Oil Sands operations were 417,600 bbls/d in the fourth quarter of 2019, compared to 460,500 bbls/d in the prior year quarter, and were influenced by the same factors influencing production, combined with a draw in inventory in the prior year quarter.

Exploration and Production

Operating earnings for the E&P segment were $231 million in the fourth quarter of 2019, compared to $108 million in the prior year quarter, primarily as a result of higher East Coast Canada production volumes and crude price realizations, partially offset by higher royalties and DD&A related to the increased production. Financing and other expenses in the fourth quarter of 2019 were lower when compared to the fourth quarter of 2018, as the prior year quarter had equity losses related to an investment in Canbriam that the company subsequently sold.

Production volumes for E&P Canada were 69,600 boe/d in the fourth quarter of 2019, compared to 47,900 boe/d in the prior year quarter. The increase in production was primarily due to the ramp up of Hebron production throughout 2019 and the impact of a temporary production interruption due to a major storm system that impacted all E&P East Coast Canada assets in the prior year quarter.

E&P International production increased to 46,300 boe/d in the fourth quarter of 2019, from 42,300 boe/d in the prior year quarter, primarily due to increased production from Oda, which began production near the end of the first quarter of 2019, partially offset by natural declines in the U.K.

Refining and Marketing

R&M operating earnings in the fourth quarter of 2019 were $558 million, compared to $762 million in the prior year quarter. The decrease in operating earnings was primarily due to lower refining margins, attributed to significantly narrower crude differentials, lower refinery crude throughput, and lower marketing margins, partially offset by a lower FIFO loss, as the prior year quarter included a significant FIFO loss associated with the decline in crude and refined product benchmarks.

Refinery crude throughput was 447,500 bbls/d in the fourth quarter of 2019, compared to 467,900 bbls/d in the prior year quarter. Both periods achieved high utilization rates at 97% and 101%, respectively.

Refined product sales increased in the fourth quarter of 2019 to 534,600 bbls/d, compared to 530,600 bbls/d in the prior year quarter, reflecting strong retail sales volumes.

Corporate and Eliminations

Corporate and Eliminations had an operating loss of $284 million in the fourth quarter of 2019, compared to operating earnings of $87 million in the fourth quarter of 2018. During the fourth quarter of 2019, the company realized $11 million of after-tax intersegment profit, compared to a realization of $265 million of after-tax intersegment profit in the prior year quarter. The realization of deferred profit in the fourth quarter of 2019 was driven by the decrease in Oil Sands price realizations over the quarter, as higher margin crude refinery feedstock inventory sourced internally from Oil Sands was sold and replaced by lower margin crude feedstock inventory. The realization of deferred profit in the prior year quarter was driven by the decrease in oil sand benchmark prices, as a result of the significant widening of crude differentials.

The increased loss was also attributable to a share-based compensation expense incurred in the fourth quarter of 2019, as compared to a share-based compensation recovery in the prior year quarter, and a lower operational foreign exchange gain than in the prior year quarter. Suncor capitalized $37 million of its borrowing costs in the fourth quarter of 2019 as part of the cost of major development assets and construction projects in progress, compared to $28 million in the prior year quarter.

6. QUARTERLY FINANCIAL DATA

Financial Summary

Three months ended ($ millions, unless otherwise noted)	Dec 31 2019	Sept 30 2019	June 30, 2019	Mar 31 2019	Dec 31 2018	Sept 30 2018	June 30, 2018	Mar 31 2018
Total production (mboe/d)								
Oil Sands	**662.3**	670.0	692.2	657.2	740.8	651.7	547.6	571.7
Exploration and Production	**115.9**	92.3	111.7	107.1	90.2	92.1	114.1	117.7
	778.2	762.3	803.9	764.3	831.0	743.8	661.7	689.4
Revenues and other income								
Operating revenues, net of royalties	**9 487**	9 803	10 071	8 983	8 561	10 847	10 327	8 807
Other income (loss)	**111**	93	27	414	384	16	101	(57)
	9 598	9 896	10 098	9 397	8 945	10 863	10 428	8 750
Net (loss) earnings	**(2 335)**	1 035	2 729	1 470	(280)	1 812	972	789
per common share – basic (dollars)	**(1.52)**	0.67	1.74	0.93	(0.18)	1.12	0.60	0.48
per common share – diluted (dollars)	**(1.52)**	0.67	1.74	0.93	(0.18)	1.11	0.59	0.48
Operating earnings[1]	**782**	1 114	1 253	1 209	580	1 557	1 190	985
per common share – basic[1] (dollars)	**0.51**	0.72	0.80	0.77	0.36	0.96	0.73	0.60
Funds from operations[1]	**2 553**	2 675	3 005	2 585	2 007	3 139	2 862	2 164
per common share – basic[1] (dollars)	**1.66**	1.72	1.92	1.64	1.26	1.94	1.75	1.32
Cash flow provided by operating activities	**2 304**	3 136	3 433	1 548	3 040	4 370	2 446	724
per common share – basic (dollars)	**1.50**	2.02	2.19	0.98	1.90	2.70	1.50	0.44
ROCE[1] (%) for the twelve months ended	**4.9**	9.7	10.4	8.2	8.0	9.7	8.3	6.5
ROCE[1][2] (%) excluding major projects in progress for the twelve months ended	**5.1**	9.9	10.6	8.3	8.2	10.4	9.5	7.8
After-tax unrealized foreign exchange gain (loss) on U.S. dollar denominated debt	**235**	(127)	221	261	(637)	195	(218)	(329)
Common share information (dollars)								
Dividend per common share	**0.42**	0.42	0.42	0.42	0.36	0.36	0.36	0.36
Share price at the end of trading								
Toronto Stock Exchange (Cdn$)	**42.56**	41.79	40.85	43.31	38.13	49.98	53.50	44.49
New York Stock Exchange (US$)	**32.80**	31.58	31.16	32.43	27.97	38.69	40.68	34.54

(1) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A. ROCE excludes capitalized costs related to major projects in progress. Operating earnings (loss) for each quarter are defined in the Non-GAAP Financial Measures Advisory section and reconciled to GAAP measures in the Consolidated Financial Information and Segment Results and Analysis sections of each quarterly Report to Shareholders issued by Suncor (Quarterly Reports) in respect of the relevant quarter. Funds from operations and ROCE for each quarter are defined and reconciled to GAAP measures in the Non-GAAP Financial Measures Advisory section of each Quarterly Report issued by Suncor in respect of the relevant quarter.

(2) ROCE excluding major projects in progress would have been 8.7%, 8.0%, and 8.6% for the second quarter of 2019, third quarter of 2019, and fourth quarter of 2019, respectively, excluding the impacts of impairments of $3.352 billion in the fourth quarter of 2019 and the impact of the $1.116 billion deferred tax recovery for the Alberta corporate income tax rate change in the second quarter of 2019.

Business Environment

Three months ended (average for the period ended, except as noted)		Dec 31 2019	Sept 30 2019	June 30 2019	Mar 31 2019	Dec 31 2018	Sept 30 2018	June 30 2018	Mar 31 2018
WTI crude oil at Cushing	US$/bbl	**56.95**	56.45	59.85	54.90	58.85	69.50	67.90	62.90
Dated Brent crude	US$/bbl	**63.30**	61.90	68.85	63.20	67.80	75.25	74.40	66.80
Dated Brent/Maya FOB price differential	US$/bbl	**9.30**	5.20	6.90	5.00	4.35	10.20	12.40	7.70
MSW at Edmonton	Cdn$/bbl	**68.10**	68.35	73.40	66.45	42.70	82.10	80.95	72.45
WCS at Hardisty	US$/bbl	**41.10**	44.20	49.20	42.50	19.50	47.35	48.65	38.60
Light/heavy crude oil differential for WTI at Cushing less WCS at Hardisty	US$/bbl	**(15.85)**	(12.25)	(10.65)	(12.40)	(39.35)	(22.15)	(19.25)	(24.30)
SYN-WTI (differential) premium	US$/bbl	**(0.70)**	0.40	0.15	(2.30)	(21.60)	(0.90)	(0.65)	(1.45)
Condensate at Edmonton	US$/bbl	**53.00**	52.00	55.90	50.55	45.30	66.80	68.50	63.15
Natural gas (Alberta spot) at AECO	Cdn$/mcf	**2.50**	0.95	1.05	2.55	1.60	1.20	1.20	1.75
Alberta Power Pool Price	Cdn$/MWh	**46.95**	46.85	56.35	70.75	55.55	54.45	56.00	34.95
New York Harbor 2-1-1 crack(1)	US$/bbl	**18.50**	19.75	22.40	19.10	18.75	19.50	21.45	17.95
Chicago 2-1-1 crack(1)	US$/bbl	**14.45**	17.05	21.55	15.30	16.25	19.90	19.10	14.30
Portland 2-1-1 crack(1)	US$/bbl	**25.75**	23.85	29.15	19.35	24.25	22.05	28.75	21.05
Gulf Coast 2-1-1 crack(1)	US$/bbl	**17.10**	20.00	21.70	17.85	17.45	19.30	20.50	16.35
Exchange rate	US$/Cdn$	**0.76**	0.76	0.75	0.75	0.76	0.77	0.77	0.79
Exchange rate (end of period)	US$/Cdn$	**0.77**	0.76	0.76	0.75	0.73	0.77	0.76	0.78

(1) 2-1-1 crack spreads are indicators of the refining margin generated by converting two barrels of WTI into one barrel of gasoline and one barrel of diesel. The company previously quoted 3-2-1 crack margin benchmarks based on wider use and familiarity with these benchmarks and, although the 3-2-1 crack spread is more commonly quoted, the company's refinery production is better aligned with a 2-1-1 crack spread, which better reflects the approximate composition of Suncor's overall refined product mix. The crack spreads presented here generally approximate the regions into which the company sells refined products through retail and wholesale channels.

Significant or Unusual Items Impacting Net Earnings

Trends in Suncor's quarterly net earnings and cash flow provided by operating activities are driven primarily by production volumes, which can be significantly impacted by factors such as mandatory production curtailments in the province of Alberta, which began on January 1, 2019 and was in effect for the duration of 2019.

Trends in Suncor's quarterly net earnings and cash flow provided by operating activities are also affected by changes in commodity prices, price differentials, refining crack spreads and foreign exchange rates, as described in the Financial Information section of this MD&A. In addition to the impacts of changes in production volumes and business environment, net earnings over the last eight quarters were affected by the following events or significant adjustments:

- During the fourth quarter of 2019, the company recorded after-tax non-cash impairment charges of $2.803 billion on its share of the Fort Hills assets, in the Oil Sands segment, due to a decline in forecasted heavy crude oil prices and $393 million against its interest in White Rose, in the E&P segment, due to increased capital cost estimates at the West White Rose Project.
- The third quarter of 2019 included an after-tax gain of $48 million in the E&P segment related to the sale of certain non-core assets.
- In the second quarter of 2019, the company recorded a $1.116 billion deferred income tax recovery associated with the Government of Alberta's substantive enactment of legislation for the staged reduction of the corporate income tax rate from 12% to 8% over the next four years.
- In the second quarter of 2019, Suncor sold its 37% interest in Canbriam for total proceeds and an equivalent gain of $151 million ($139 million after-tax), which had previously been written down to nil in the fourth quarter of 2018 following the company's assessment of forward natural gas prices and the impact on estimated future cash flows.
- The fourth quarter of 2018 included a $223 million after-tax impairment charge in the E&P segment associated with the company's equity investment in Canbriam. This included the reversal of a $133 million after-tax gain recorded in the first quarter of 2018, when the equity investment was acquired through an asset exchange, for a net after-tax impairment of $90 million in 2018.
- The third quarter of 2018 included an after-tax gain of $60 million in the Oil Sands segment relating to the sale of the company's interest in the Joslyn oil sands mining project.

7. CAPITAL INVESTMENT UPDATE

Capital and Exploration Expenditures by Segment

Year ended December 31 ($ millions)	2019	2018	2017
Oil Sands	**3 522**	3 546	5 059
Exploration and Production	**1 070**	946	824
Refining and Marketing	**818**	856	634
Corporate and Eliminations	**148**	58	34
Total	**5 558**	5 406	6 551
Less: capitalized interest on debt	**(122)**	(156)	(729)
	5 436	5 250	5 822

Capital and Exploration Expenditures by Type, excluding capitalized interest(1)

Year ended December 31, 2019 ($ millions)	Asset Sustainment and Maintenance(2)	Economic Investment(3)	Total
Oil Sands			
Oil Sands Base	*1 667*	*164*	***1 831***
In Situ	*113*	*575*	***688***
Fort Hills	*331*	*72*	***403***
Syncrude	*493*	*46*	***539***
Exploration and Production	5	1 011	**1 016**
Refining and Marketing	566	245	**811**
Corporate and Eliminations	52	96	**148**
	3 227	2 209	**5 436**

(1) The classification of the company's capital expenditures has been updated to "asset sustainment and maintenance" and "economic investment" to better reflect the types of capital investments being made by the company.

(2) Asset sustainment and maintenance capital expenditures include capital investments that deliver on existing value by ensuring compliance or maintaining relations with regulators and other stakeholders, maintaining current processing capacity, and delivering existing developed reserves.

(3) Economic investment capital expenditures include capital investments that result in an increase in value through adding reserves, improving processing capacity, utilization, cost or margin, including associated infrastructure.

In 2019, Suncor's capital expenditures on property, plant and equipment and exploration activities totalled $5.436 billion, excluding capitalized borrowing costs of $122 million. Activity in 2019 included the following:

Oil Sands Base

Oil Sands Base asset sustainment and maintenance capital expenditures were $1.667 billion in 2019 and were primarily focused on ensuring continued safe, reliable and efficient operations, as well as environmental compliance, such as the continued development of tailings infrastructure. The company's planned maintenance program in 2019 included planned maintenance at Upgrader 1 in the spring and major maintenance at Upgrader 2 in the fall, the continued development of tailings infrastructure in addition to other reliability and sustainment projects across the operation.

Oil Sands Base economic capital of $164 million in 2019 was focused on projects expected to improve productive capacity. This also included the company's investment to progress low-carbon power generation by replacing its coke-fired boilers with a new cogeneration facility and the construction of interconnecting pipelines between Suncor's Oil Sands Base and Syncrude.

In Situ

In Situ capital expenditures were $688 million, of which $575 million was directed towards economic investment activities, which focused on the ongoing design and construction of well pads to develop additional reserves that are expected to maintain existing production levels at Firebag and MacKay River in future years as production from existing well pads declines.

Fort Hills

Fort Hills capital expenditures were $403 million in 2019, with $72 million directed towards economic investment spending.

Asset sustainment and maintenance capital expenditures of $331 million included mine and tailings development to support ongoing operations.

Syncrude

Syncrude capital expenditures were $539 million in 2019, the majority of which was for asset sustainment and maintenance capital expenditures focused on improving asset reliability and included capital related to turnarounds and maintenance.

Exploration and Production

E&P capital and exploration expenditures were $1.016 billion in 2019, and were primarily focused on economic investment projects, including development drilling at Hibernia, Hebron and Buzzard, and development work on Terra Nova, Fenja and the West White Rose projects.

Refining and Marketing

R&M capital expenditures were $811 million in 2019, and were primarily related to the ongoing sustainment of and enhancement to refinery and retail operations, and other economic investment projects on logistics and the company's retail and wholesale network, including an electric vehicle fast-charging network.

Corporate

Corporate capital expenditures were $148 million, primarily directed towards the company's information technology initiatives and the Forty Mile Wind Power Project.

Suncor anticipates 2020 capital expenditures to be directed to the following projects and initiatives:

Oil Sands Operations

For 2020, plans for economic investment will include capital to progress low-carbon power generation to replace the coke-fired boilers and continued construction of the interconnecting pipelines between Suncor's Oil Sands Base Plant and Syncrude. Additional investment to maintain production capacity at existing facilities includes continued development of new reserves by building new well pads at In Situ and improving mining efficiency through the continued implementation of AHS.

Asset sustainment and maintenance capital will focus on tailings management and planned maintenance at Upgraders 1 and 2.

Fort Hills

Asset sustainment and maintenance capital expenditures for 2020 will focus on ongoing development of mining and tailings management projects to preserve production capacity. In addition, Fort Hills continues to invest in improving mining efficiency through the implementation of AHS.

Syncrude

For 2020, plans for economic investment will include capital to progress the Mildred Lake Extension-West Mine and continued construction of the interconnecting pipelines between Suncor's Oil Sands Base and Syncrude, which are expected to enhance integration between the assets and increase reliability at Syncrude.

Sustaining capital expenditures for 2020 will focus on planned maintenance and reliability programs aimed at maintaining production capacity.

Exploration and Production

Capital expenditures for 2020 are expected to include economic investments at West White Rose Project, Hibernia, Buzzard, and Hebron, as well as the Norwegian Fenja project.

In 2019, the company sanctioned the Terra Nova ALE project, which is expected to extend the life of Terra Nova by approximately a decade and is planned for execution in 2020.

Refining and Marketing

The company expects that sustaining capital will focus on ongoing sustainment and enhancement to refinery and retail operations, and other economic investment projects on logistics and the company's retail and wholesale network.

Corporate

For 2020, the company plans to make economic investments in digital technology initiatives and the Forty Mile Wind Power Project in southern Alberta, which was sanctioned in 2019.

8. FINANCIAL CONDITION AND LIQUIDITY

Liquidity and Capital Resources

At December 31 ($ millions, except as noted)	2019	2018	2017
Cash flow provided by (used in)			
Operating activities	**10 421**	10 580	8 966
Investing activities	**(5 088)**	(6 697)	(5 019)
Financing activities	**(5 537)**	(4 426)	(4 223)
Foreign exchange (loss) gain on cash and cash equivalents	**(57)**	92	(68)
Decrease in cash and cash equivalents	**(261)**	(451)	(344)
Cash and cash equivalents, end of year	**1 960**	2 221	2 672
Return on Capital Employed (%)(1)			
Excluding major projects in progress(2)(3)	**5.1**	8.2	8.6
Including major projects in progress(2)	**4.9**	8.0	6.7
Net debt to funds from operations(1)(4)(5) (times)	**1.5**	1.5	1.4
Interest coverage on long-term debt (times)			
Earnings basis(6)	**3.4**	6.4	6.5
Funds from operations basis(1)(5)(7)	**13.4**	14.1	11.2

(1) Non-GAAP financial measures. See the Advisories – Non-GAAP Financial Measures section of this MD&A.

(2) 2019 ROCE includes asset impairment charges of $3.352 billion after-tax.

(3) Excludes capitalized costs related to major projects in progress. ROCE excluding major projects in progress would have been 8.6% in 2019, excluding the impacts of impairments of $3.352 billion and the impact of the $1.116 billion deferred tax recovery relating to a change in the Alberta corporate income tax rate.

(4) Net debt is equal to total debt less cash and cash equivalents.

(5) Funds from operations and metrics that use funds from operations are non-GAAP financial measures. See the Non-GAAP Financial Measures Advisory section of this document.

(6) Equal to net earnings plus income taxes and interest expense, divided by the sum of interest expense and capitalized interest on debt.

(7) Equal to funds from operations plus current income tax and interest expense, divided by the sum of interest expense and capitalized interest on debt.

Cash Flow provided by Operating Activities

Cash flow provided by operating activities was $10.421 billion in 2019 compared to $10.580 billion in 2018. Cash flow provided by operating activities was positively impacted by the improved western Canadian crude oil differentials, including a substantial narrowing of heavy crude and SCO differentials, from the prior year which led to an increase in Oil Sands price realizations. Cash flow provided by operating activities in 2019 was also positively impacted by higher overall upstream production despite mandatory curtailments as well as after-tax insurance proceeds of $264 million related to the company's assets in Libya. These factors were more than offset by lower refining margins and an increase in expenses associated with the increased production, and reflected a use of cash from the company's working capital balances in 2019, as compared to a source of cash in 2018.

Cash Flow used in Investment Activities

Cash flow used in investing activities was $5.088 billion in 2019 compared to $6.697 billion in 2018. The decrease was primarily due to less acquisition activity in 2019 compared to the prior year, which included the purchase of an additional 5% interest in Syncrude. This was partially offset by an increase in capital and exploration expenditures and other investments.

Cash Flow used in Financing Activities

Cash flow used in financing activities was $5.537 billion in 2019, compared to $4.426 billion in 2018. The increase was primarily due to a net decrease in short-term debt, lease liability payments, and an increase in dividends paid, partially offset by a decrease in the purchase of the company's own common shares under its normal course issuer bid (NCIB), and a net increase of long-term debt in 2019.

Management of debt levels continues to be a priority for Suncor given the company's long-term growth plans and future expected volatility in the pricing environment. Suncor believes a phased and flexible approach to existing and future growth projects should assist the company in maintaining its ability to manage project costs and debt levels.

Capital Resources

Suncor's capital resources consist primarily of cash flow provided by operating activities, cash and cash equivalents and available credit facilities, including commercial paper. Suncor's management believes the company will have the capital resources to fund its planned 2020 capital spending program of $5.4 to $6.0 billion and to meet current and future working capital requirements through cash and cash equivalents balances, cash flow provided by operating activities, available committed credit facilities, issuing commercial paper and accessing capital markets. The company's cash flow provided by operating activities depends on a number of factors, including commodity prices, production and sales volumes, refining and marketing margins, operating expenses, taxes, royalties and foreign exchange rates.

The company has invested excess cash in short-term financial instruments that are presented as cash and cash equivalents. The objectives of the company's short-term investment portfolio are to ensure the preservation of capital, maintain adequate liquidity to meet Suncor's cash flow requirements and deliver competitive returns derived from the quality and diversification of investments within acceptable risk parameters. The maximum weighted average term to maturity of the short-term investment portfolio is not expected to exceed six months, and all investments will be with counterparties with investment grade debt ratings.

Available Sources of Liquidity

Cash and Cash Equivalents

Included in cash and cash equivalents of $1.960 billion at December 31, 2019 are short-term investments with weighted average days to maturity of approximately 17 days. In 2019, the company earned approximately $38 million of interest income on these investments.

Financing Activities

Suncor's interest on debt and lease liabilities (before capitalized interest) in 2019 was $997 million, an increase from $897 million in 2018, due to the issuance of $750 million of new debt, the transition to IFRS 16 and the unfavourable impact of a weaker average Canadian dollar on U.S. dollar denominated debt, partially offset by the significant decrease in short-term debt in 2019 and the repayment of US$140 million of higher interest rate long-term debt.

Available lines of credit at December 31, 2019 increased to $4.701 billion, compared to $3.608 billion at December 31, 2018, primarily as a result of the repayment of short-term indebtedness.

A summary of total and unutilized credit facilities at December 31, 2019 is as follows:

($ millions)	2019
Fully revolving and expires in 2023	3 500
Fully revolving and expires in 2022	3 241
Fully revolving and expires in 2021	1 455
Can be terminated at any time at the option of the lenders	132
Total credit facilities	8 328
Credit facilities supporting outstanding commercial paper	(2 155)
Credit facilities supporting standby letters of credit	(1 284)
Total unutilized credit facilities[1]	4 889

(1) Available credit facilities for liquidity purposes were $4.701 billion at December 31, 2019 (December 31, 2018 – $3.608 billion).

Total Debt to Total Debt Plus Shareholders' Equity

Suncor is subject to financial and operating covenants related to its bank debt and public market debt. Failure to meet the terms of one or more of these covenants may constitute an Event of Default as defined in the respective debt agreements, potentially resulting in accelerated repayment of one or more of the debt obligations. The company is in compliance with its financial covenant that requires total debt to not exceed 65% of its total debt plus shareholders' equity. At December 31, 2019, total debt to total debt plus shareholders' equity was 29.9% (December 31, 2018 – 28.3%) and increased due to the implementation of IFRS 16 and impairment charges recorded in 2019. The company is currently in compliance with all operating covenants as at December 31, 2019.

At December 31 ($ millions, except as noted)	2019	2018[1]
Short-term debt	**2 155**	3 231
Current portion of long-term debt	**—**	191
Current portion of long-term lease liabilities	**310**	38
Long-term debt	**12 884**	12 668
Long-term lease liabilities	**2 621**	1 222
Total debt	**17 970**	17 350
Less: Cash and cash equivalents	**1 960**	2 221
Net debt	**16 010**	15 129
Shareholders' equity	**42 042**	44 005
Total debt plus shareholders' equity	**60 012**	61 355
Total debt to total debt plus shareholders' equity (%)	**29.9**	28.3

(1) Excludes the impact of IFRS 16, which was prospectively adopted on January 1, 2019 in accordance with the standard.

Change in Net Debt

($ millions)	
Total debt – December 31, 2018	17 350
Increase in long-term debt	557
Decrease in short-term debt	(982)
January 1, 2019 increase in lease liabilities associated with IFRS 16	1 792
Increase in lease liability during the year	186
Lease payments	(307)
Foreign exchange on debt, and other	(626)
Total debt – December 31, 2019	17 970
Less: Cash and cash equivalents – December 31, 2019	1 960
Net debt – December 31, 2019	16 010

At December 31, 2019, Suncor's net debt was $16.010 billion, compared to $15.129 billion at December 31, 2018. During 2019, total debt increased by $620 million, primarily due to the impact of the adoption of IFRS 16, which added $1.792 billion in lease liability to the company's balance sheet, a net increase in long-term debt and additional leases entered into in 2019, partially offset by the repayment of $982 million of short-term debt, favourable foreign exchange rates on U.S. dollar denominated debt, as compared to December 31, 2018, and lease principal payments made in 2019.

For the year ended December 31, 2019, the company's net debt to funds from operations measure was 1.5 times, which is lower than management's maximum target of less than 3.0 times.

Credit Ratings

The company's credit ratings impact its cost of funds and liquidity. In particular, the company's ability to access unsecured funding markets and to engage in certain activities on a cost-effective basis is primarily dependent upon maintaining a strong credit rating. A lowering of the company's credit rating may also have potentially adverse consequences for the company's funding capacity or access to the capital markets, may affect the company's ability, and the cost, to enter into normal course derivative or hedging transactions, and may require the company to post additional collateral under certain contracts.

As at February 26, 2020, the company's long-term senior debt ratings are:

Long-Term Senior Debt	Rating	Long-Term Outlook
Standard & Poor's	A –	Stable
Dominion Bond Rating Service	A (low)	Stable
Moody's Investors Service	Baa1	Stable

As at February 26, 2020, the company's commercial paper ratings are:

Commercial Paper	Cdn Program Rating	U.S. Program Rating
Standard & Poor's	A-1 (low)	A-2
Dominion Bond Rating Service	R-1 (low)	Not rated
Moody's Investors Service	Not rated	P2

Refer to the Description of Capital Structure – Credit Ratings section of Suncor's 2019 AIF for a description of credit ratings listed above.

Common Shares

Outstanding Shares

(thousands)	December 31, 2019
Common shares	**1 531 874**
Common share options – exercisable	**21 535**
Common share options – non-exercisable	**12 347**

As at February 25, 2020, the total number of common shares outstanding was 1,526,810,321 and the total number of exercisable and non-exercisable common share options outstanding was 33,019,526. Once exercisable, each outstanding common share option may be exercised for one common share.

Share Repurchases

In May 2019, Suncor renewed its NCIB to continue to repurchase its common shares through the facilities of the Toronto Stock Exchange (TSX), New York Stock Exchange and/or alternative trading platforms between May 6, 2019 and May 5, 2020. In December 2019, following the approval by Suncor's Board of Directors to increase the company's share repurchase program to $2.5 billion, the TSX accepted a notice filed by Suncor of its intention to amend its NCIB effective as of December 30, 2019. The notice provided that Suncor may increase the maximum number of common shares that may be purchased for cancellation between May 6, 2019 and May 5, 2020 from 50,252,231 common shares, or approximately 3% of Suncor's issued and outstanding common shares as at April 30, 2019, to

78,549,178 common shares, or approximately 5% of Suncor's issued and outstanding common shares as at April 30, 2019. Suncor security holders may obtain a copy of the notice, without charge, by contacting the company.

Since commencing its share buyback program in 2011, Suncor has purchased 316,307,436 common shares as of February 25, 2020 for a total return to shareholders of $12.4 billion under this program, with close to half of these share repurchases occurring in the last 3 years. Subsequent to the end of the year, Suncor's Board of Directors approved a further share repurchase program of up to $2 billion.

At December 31 ($ millions, except as noted)	**2019**	2018	2017
Share repurchase activities (thousands of common shares)			
Shares repurchased	**55 298**	64 426	33 153
Share repurchase cost	**2 274**	3 053	1 413
Weighted average repurchase price per share (dollars per share)	**41.12**	47.38	42.61

Contractual Obligations, Commitments, Guarantees, and Off-Balance Sheet Arrangements

In addition to the enforceable and legally binding obligations in the table below, Suncor has other obligations for goods and services that were entered into in the normal course of business, which may terminate on short notice, including commitments for the purchase of commodities for which an active, highly liquid market exists, and which are expected to be re-sold shortly after purchase.

The company does not believe it has any guarantees or off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the company's financial condition or financial performance, including liquidity and capital resources.

In the normal course of business, the company is obligated to make future payments, including contractual obligations and non-cancellable commitments.

	Payment due by period						
($ millions)	2020	2021	2022	2023	2024	Thereafter	Total
Fixed and revolving term debt(1)	722	2 127	864	625	1 594	17 183	**23 115**
Decommissioning and restoration costs(2)	482	230	252	239	241	11 492	**12 936**
Long-term contracts, pipeline capacity and energy services commitments(3)	1 772	1 372	1 305	1 315	1 229	10 084	**17 077**
Exploration work commitments	7	44	—	—	—	465	**516**
Other long-term obligations(4)	2	20	20	20	19	—	**81**
Total(5)	**2 985**	**3 793**	**2 441**	**2 199**	**3 083**	**39 224**	**53 725**

(1) Includes debt that is redeemable at Suncor's option and interest payments on fixed-term debt.

(2) Represents the undiscounted amount of decommissioning and restoration costs.

(3) The company has also entered into a pipeline commitment of $5.9 billion with a contract term of 20 years, which is awaiting regulatory approval.

(4) Includes Libya EPSA signature bonus and merger consent. Please refer to note 21 to Suncor's 2019 audited Consolidated Financial Statements.

(5) As a result of the adoption of IFRS 16 on January 1, 2019, finance lease obligations and operating leases are no longer represented above. Please refer to note 5 to Suncor's 2019 audited Consolidated Financial Statements for further details.

Transactions with Related Parties

The company enters into transactions with related parties in the normal course of business. These transactions primarily include sales to associated entities in the company's R&M segment and service provisions to Fort Hills. For more information on these transactions and for a summary of Compensation of Key Management Personnel, refer to note 30 to the 2019 audited Consolidated Financial Statements.

Financial Instruments

The company uses derivative financial instruments, such as physical and financial contracts, to manage certain exposures to fluctuations in interest rates, commodity prices and foreign currency exchange rates, as part of its overall risk management program, as well as for trading purposes. For the year ended December 31, 2019, the pre-tax earnings impact of risk management and trading activities was $155 million (2018 – pre-tax earnings of $255 million).

Gains or losses related to derivatives are recorded as Other Income in the Consolidated Statements of Comprehensive Income.

($ millions)	2019	2018
Fair value outstanding, beginning of year	**60**	(105)
Cash settlements – received during the year	**(254)**	(90)
Changes in fair value recognized in earnings during the year	**155**	255
Fair value outstanding, end of year	**(39)**	60

The fair value of derivative financial instruments is recorded on the Consolidated Balance Sheets.

Fair value of derivative contracts at December 31 ($ millions)	2019	2018
Accounts receivable	**94**	215
Accounts payable	**(133)**	(155)
	(39)	60

Risks Associated with Derivative Financial Instruments

Suncor may be exposed to certain losses in the event that counterparties to derivative financial instruments are unable to fulfil their obligations under these contracts. The company minimizes this risk by entering into agreements with investment grade counterparties. Risk is also minimized through regular management review of the potential exposure to and credit ratings of such counterparties. Suncor's exposure is limited to those counterparties holding derivative contracts with net positive fair values at a reporting date.

Suncor's risk management activities are subject to periodic reviews by management to determine appropriate hedging requirements based on the company's tolerance for exposure to market volatility, as well as the need for stable cash flow to finance future growth. Commodity risk management and trading activities are governed by a separate risk management group that reviews and monitors practices and policies and provides independent verification and valuation of these activities.

For further details on our derivative financial instruments, including assumptions made in the calculation of fair value, a sensitivity analysis of the effect of changes in commodity prices on our derivative financial instruments, and additional discussion of exposure to risks and mitigation activities, refer to note 26 to the company's 2019 audited Consolidated Financial Statements.

9. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Suncor's significant accounting policies are described in note 3 to the audited Consolidated Financial Statements for the year ended December 31, 2019.

Adoption of New IFRS Standards

IFRS 16 *Leases*

Effective January 1, 2019, the company adopted IFRS 16 which replaces IAS 17 and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees with optional exemptions for short-term leases where the term is twelve months or less. The accounting treatment for lessors remains essentially unchanged, with the requirement to classify leases as either finance or operating.

The company has selected the modified retrospective transition approach, electing to adjust opening retained earnings with no restatement of comparative figures. As such, comparative information continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of the change is disclosed below.

The company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term, where judgment is applied to determine the lease term of the lease contracts in which the company has a renewal option, using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. In addition, the right-of-use assets may be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Lease payments include fixed payments, and variable payments that are based on an index or rate.

Cash payments for the principal portion of the lease liability are presented within the financing activities section and the interest portion of the lease liability is presented within the operating activities section of the statement of cash flows. Short-term lease payments and variable lease payments not included in the measurement of the lease liability are presented within the operating activities section of the statement of cash flows.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the company's estimate of the amount expected to be payable under a residual value guarantee, or if the company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of- use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Under IAS 17

In the comparative period, the company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense over the term of the lease.

As part of the initial application of IFRS 16, the company also chose to apply the following transitional provisions:

Right-of-use assets are measured at:

- An amount equal to the lease liability on January 1, 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of transition.

The company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Adjusted the right-of-use assets by the amount of any provision for onerous leases recognized in the balance sheet immediately before the date of initial application, as an alternative to performing an impairment review.
- Elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases with a short-term remaining life upon adoption. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.
- Accounted for each lease component and any non-lease components as a single lease component for crude oil storage tanks.
- Used hindsight to determine the lease term if the contract contained options to extend or terminate the lease.

The following table summarizes the impact of adopting IFRS 16 on the company's Consolidated Balance Sheets at January 1, 2019. Prior period amounts have not been restated. The effects of the transition have been recognized through retained earnings in equity.

($ millions) Increase (Decrease)	December 31 2018	Adjustments due to IFRS 16	January 1 2019
Assets			
Current assets			
Accounts receivable	3 206	(2)	3 204
Property, plant and equipment, net	74 245	(1 267)	72 978
Right-of-use assets, net	—	3 059	3 059
Liabilities and Shareholders' Equity			
Current liabilities			
Current portion of long-term debt	229	(38)	191
Current portion of lease liabilities	—	276	276
Current portion of provisions	667	(1)	666
Long-term debt	13 890	(1 222)	12 668
Long-term lease liabilities	—	2 777	2 777
Other long-term liabilities	2 346	(1)	2 345
Provisions	6 984	(20)	6 964
Deferred income taxes	12 045	5	12 050
Equity	44 005	14	44 019

The following table reconciles the company's operating lease commitments as at December 31, 2018, as previously disclosed in the company's Consolidated Financial Statements as at and for the year ended December 31, 2018, to the additional lease liabilities recognized on initial application of IFRS 16 as at January 1, 2019.

Reconciliation

($ millions)	January 1 2019
Operating leases as at December 31, 2018[(1)]	2 457
Exemption for short-term leases	(42)
Discounting	(623)
Additional lease liabilities recognized due to adoption of IFRS 16 as at January 1, 2019	1 792

(1) Represents undiscounted lease commitments.

For leases that were previously classified as finance leases under IAS 17, within Property, Plant and Equipment, the carrying amount of the right-of-use asset and the lease liability recognized upon initial application as at January 1, 2019 was determined to be the carrying amount of the finance lease asset and liability under IAS 17 immediately before transition.

The lease liabilities recognized in accordance with IFRS 16 were discounted using the company's incremental borrowing rate upon initial application. The weighted average discount rate used for additional leases recognized as a result of application of IFRS 16 was 3.85% as at January 1, 2019.

Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*. The interpretation clarifies the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If the entity considers it to be not probable that a taxation authority will accept an uncertain tax provision, the interpretation requires the entity to use the most likely amount or the expected value. The company adopted the amendment on its effective date of January 1, 2019. The adoption of this amendment did not have any impact on the company's consolidated financial statements.

Recently Announced Accounting Pronouncements

The standards, amendments and interpretations that are issued, but not yet effective up to the date of authorization of the company's 2019 audited Consolidated Financial Statements, and that may have an impact on the disclosures and financial position of the company are disclosed below. The company intends to adopt these standards, amendments and interpretations when they become effective.

Definition of a Business

In October 2018, the IASB issued *Definition of a Business (Amendments to IFRS 3)*. The amendments narrowed and clarified the definition of a business. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an election to use a concentration test is not made, or the test failed, then the assessment focuses on the existence of a substantive process. One important distinction is that "goodwill" can only be recognized as a result of acquiring a business, but not as a result of an asset acquisition. The amendments are effective for annual periods beginning on or after January 1, 2020 and are to be applied prospectively.

Significant Accounting Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and judgments that affect reported assets, liabilities, revenues, expenses, gains, losses, and disclosures of contingencies. These estimates and judgments are subject to change based on experience and new information. The financial statement areas that require significant estimates and judgments are as follows:

Oil and Gas Reserves

The company's estimate of oil and gas reserves is considered in the measurement of depletion, depreciation, impairment, and decommissioning and restoration obligations. The estimation of reserves is an inherently complex process and involves the exercise of professional judgment. All reserves have been evaluated at December 31, 2019 by independent qualified reserves evaluators. Oil and gas reserves estimates are based on a range of geological, technical and economic factors, including projected future rates of production, projected future commodity prices, engineering data, and the timing and amount of future expenditures, all of which are subject to uncertainty. Estimates reflect market and regulatory conditions existing at December 31, 2019, which could differ significantly from other points in time throughout the year, or future periods. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves.

Oil and Gas Activities

The company is required to apply judgment when designating the nature of oil and gas activities as exploration, evaluation, development or production, and when determining whether the costs of these activities shall be expensed or capitalized.

Exploration and Evaluation Costs

Certain exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The company is required to make judgments about future events and circumstances and applies estimates to assess the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop the project. Level of drilling success or changes to project economics, resource quantities, expected production techniques, production costs and required capital expenditures are important judgments when making this determination. Management uses judgment to determine when these costs are reclassified to Property, Plant and Equipment based on several factors, including the existence of reserves, appropriate approvals from regulatory bodies, joint arrangement partners and the company's internal project approval process.

Determination of Cash Generating Units (CGUs)

A CGU is the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructure, and the way in which management monitors the operations.

Asset Impairment and Reversals

Management applies judgment in assessing the existence of impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of CGUs and individual assets is determined based on the higher of fair value less costs of disposal or value in use calculations. The key estimates the company applies in determining the recoverable amount normally include estimated future commodity prices, discount rates, expected production volumes, future operating and development costs, tax rates, and refining margins. In determining the recoverable amount, management may also be required to make judgments regarding the likelihood of occurrence of a future event. Changes to these estimates and judgments will affect the recoverable amounts of CGUs and individual assets and may then require a material adjustment to their related carrying value.

Decommissioning and Restoration Costs

The company recognizes liabilities for the future decommissioning and restoration of Exploration and Evaluation assets and Property, Plant and Equipment based on estimated future decommissioning and restoration costs. Management applies judgment in assessing the existence and extent as well as the expected method of reclamation of the company's decommissioning and restoration obligations at the end of each reporting period. Management also uses judgment to determine whether the nature of the activities performed is related to decommissioning and restoration activities or normal operating activities.

Actual costs are uncertain and estimates may vary as a result of changes to relevant laws and regulations related to the use of certain technologies, the emergence of new technology, operating experience, prices and closure plans. The estimated timing of future decommissioning and restoration may change due to certain factors, including reserves life. Changes to estimates related to future expected costs, discount rates, inflation assumptions, and timing may have a material impact on the amounts presented.

Employee Future Benefits

The company provides benefits to employees, including pensions and other post-retirement benefits. The cost of defined benefit pension plans and other post-retirement benefits received by employees is estimated based on actuarial valuation methods that require professional judgment. Estimates typically used in determining these amounts include, as applicable, rates of employee turnover, future claim costs, discount rates, future salary and benefit levels, the return on plan assets, mortality rates and future medical costs. Changes to these estimates may have a material impact on the amounts presented.

Other Provisions

The determination of other provisions, including, but not limited to, provisions for royalty disputes, onerous contracts, litigation and constructive obligations, is a complex process that involves judgment about the outcomes of future events, the interpretation of laws and regulations, and estimates on the timing and amount of expected future cash flows and discount rates.

Income Taxes

Management evaluates tax positions, annually or when circumstances require, which involves judgment and could be subject to differing interpretations of applicable tax legislation. The company recognizes a tax provision when a payment to tax authorities is considered probable. However, the results of audits and reassessments and changes in the interpretations of standards may result in changes to those positions and, potentially, a material increase or decrease in the company's assets, liabilities and net earnings.

Deferred Income Taxes

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the company's estimate, the ability of the company to realize the deferred tax assets could be impacted.

Deferred tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The company records a provision for the amount that is expected to be settled, which requires judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the company's judgment of the likelihood of a future outflow and estimates of the expected settlement amount, timing of reversals, and the tax laws in the jurisdictions in which the company operates.

Fair Value of Financial Instruments

The fair value of a financial instrument is determined, whenever possible, based on observable market data. If not available, the company uses third-party models and valuation methodologies that utilize observable market data that includes forward commodity prices, foreign exchange rates and interest rates to estimate the fair value of financial instruments, including derivatives. In addition to market information, the company incorporates transaction-specific details that market participants would utilize in a fair value measurement, including the impact of non-performance risk.

Functional Currency

The designation of the functional currency of the company and each of its subsidiaries is a management judgment based on the composition of revenue and costs in the locations in which it operates.

10. RISK FACTORS

Suncor is committed to a proactive program of enterprise risk management intended to enable decision-making through consistent identification and assessment of risks inherent to its assets, activities and operations. Some of these risks are common to operations in the oil and gas industry as a whole, while some are unique to Suncor. The realization of any of the following risks could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Volatility of Commodity Prices

Suncor's financial performance is closely linked to prices for crude oil in the company's upstream business and prices for refined petroleum products in the company's downstream business and, to a lesser extent, to natural gas and electricity prices in the company's upstream business where natural gas and power are both inputs and outputs of production processes. The prices for all of these commodities can be influenced by global and regional supply and demand factors, which are factors that are beyond the company's control and can result in a high degree of price volatility.

Crude oil prices are also affected by, among other things, global economic health (particularly in emerging markets), market access constraints, regional and international supply and demand imbalances, political developments and government action (including the mandatory production curtailments recently imposed by the Government of Alberta), decisions by OPEC to not impose quotas on its members, compliance or non-compliance with quotas agreed upon by OPEC members and other countries, and weather. These factors impact the various types of crude oil and refined products differently and can impact differentials between light and heavy grades of crude oil (including blended bitumen), and between conventional oil and SCO.

Refined petroleum product prices and refining margins are also affected by, among other things, crude oil prices, the availability of crude oil and other feedstock, levels of refined product inventories, regional refinery availability, market access, marketplace competitiveness, and other local market factors. Natural gas prices in North America are affected by, among other things, supply and demand, and by prices for alternative energy sources. Decreases in product margins or increases in natural gas prices could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

In addition, oil and natural gas producers in North America, and particularly in Canada, may receive discounted prices for their production relative to certain international prices, due in part to constraints on the ability to transport and sell such products to international markets. A failure to resolve such constraints may result in continued discounted or reduced commodity prices realized by oil and natural gas producers such as Suncor. Suncor's production from Oil Sands includes significant quantities of bitumen and SCO that may trade at a discount to light and medium crude oil. Bitumen and SCO are typically more expensive to produce and process. In addition, the market prices for these products may differ from the established market indices for light and medium grades of crude oil. As a result, the price received for bitumen and SCO may differ from the benchmark they are priced against. Future quality differentials are uncertain and unfavourable differentials could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

In the fourth quarter of 2018, there was insufficient market access capacity to remove production from the Western Canada Sedimentary Basin causing the differential between WTI and WCS to widen significantly. The situation triggered a response from the Government of Alberta in the form of a mandatory production curtailment, which commenced in early 2019. Such circumstances may result in worsening and/or prolonged price volatility and/or further negative impacts on market dynamics that cannot currently be fully anticipated. Wide differentials, such as those experienced in the fourth quarter of 2018 or a prolonged period of low and/or volatile commodity prices, particularly for crude oil, could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations, and may also lead to the impairment of assets, or to the cancellation or deferral of Suncor's growth projects.

Market Access

Suncor's production of bitumen is expected to grow. The markets for bitumen blends or heavy crude oil are more limited than those for light crude oil, making them more susceptible to supply and demand changes and imbalances (whether as a result of the availability, proximity, and capacity of pipeline facilities, railcars, or otherwise). Heavy crude oil generally receives lower market prices than light crude, due principally to the lower quality and value of the refined product yield and the higher cost to transport the more viscous product on pipelines, and this price differential can be amplified due to supply and demand imbalances.

Market access for Suncor's oil sands production may be constrained by insufficient pipeline takeaway capacity, including the lack of new pipelines due to an inability to secure required approvals and negative public perception. There is a risk that constrained market access for oil sands production, growing inland production and refinery outages could create widening differentials that could impact the profitability of product sales. Market access for refined products may also be constrained by insufficient takeaway capacity, which could create a supply/demand imbalance. The occurrence of any of the foregoing could have a material adverse effect on the company's business, financial condition, reserves and results of operations.

Major Operational Incidents (Safety, Environmental and Reliability)

Each of Suncor's primary operating businesses – Oil Sands, E&P, and Refining and Marketing – requires significant levels of investment in the design, operation, and maintenance and decommissioning of facilities, and carries the additional economic risk associated with operating reliably or enduring a protracted operational outage. The breadth and level of integration of Suncor's operations adds complexity.

The company's businesses also carry the risks associated with environmental and safety performance, which is closely scrutinized by governments, the public and the media, and could result in a suspension of or inability to obtain regulatory approvals and permits, or, in the case of a major environmental or safety incident, delays in resuming normal operations, fines, civil suits or criminal charges against the company.

In general, Suncor's operations are subject to operational hazards and risks such as, among others, fires (including forest fires), explosions, blow-outs, power outages, prolonged periods of extreme cold or extreme heat, severe winter climate conditions, flooding, droughts and other extreme weather conditions, railcar incidents or derailments, the migration of harmful substances such as oil spills, gaseous leaks or a release of tailings into water systems, pollution and other environmental risks, and accidents, any of which can interrupt operations or cause personal injury or death, or damage to property, equipment (including information technology and related data and controls systems), and the environment.

The reliable operation of production and processing facilities at planned levels and Suncor's ability to produce higher value products can also be impacted by, among other things, failure to follow the company's policies, standards and operating procedures or operate within established operating parameters, equipment failure through inadequate maintenance, unanticipated erosion or corrosion of facilities, manufacturing and engineering flaws, and labour shortage or interruption. The company is also subject to operational risks such as sabotage, terrorism, trespass, theft and malicious software, network or cyber attacks.

In addition to the foregoing factors that affect Suncor's business generally, each business unit is susceptible to additional risks due to the nature of its business, including, among others, the following:

- Suncor's Oil Sands business is susceptible to loss of production, slowdowns, shutdowns or restrictions on its ability to produce higher value products, due to the failure of any one or more interdependent component systems, and other risks inherent to oil sands operations;
- For Suncor's E&P businesses, there are risks and uncertainties associated with drilling for oil and natural gas, the operation and development of such properties and wells (including encountering unexpected formations, pressures, or the presence of hydrogen sulphide), premature declines of reservoirs, sour gas releases, uncontrollable flows of crude oil, natural gas or well fluids and other accidents;
- Suncor's E&P offshore operations occur in areas subject to hurricanes and other extreme weather conditions, such as winter storms, pack ice, icebergs and fog. The occurrence of any of these events could result in production shut-ins, the suspension of drilling operations, damage to or destruction of the equipment involved and injury or death of rig personnel. Harsh weather conditions, particularly in the winter season, may also impact the successful execution of maintenance and startup of operations. Suncor's E&P offshore operations could be indirectly affected by catastrophic events occurring at other third-party offshore operations, which could give rise to liability, damage to the company's equipment, harm to individuals, force a shutdown of facilities or operations, or result in a shortage of appropriate equipment or specialists required to perform planned operations; and
- Suncor's Refining and Marketing operations are subject to all of the risks normally inherent in the operation of refineries, terminals, pipelines and other distribution facilities and service stations, including, among others, loss of production, slowdowns or shutdowns due to equipment failures, unavailability of feedstock, price and quality of feedstock, or other incidents.

Although the company maintains a risk management program, which includes an insurance component, such insurance may not provide comprehensive coverage in all circumstances, nor are all such risks insurable. The company self-insures some risks, and the company's insurance coverage does not cover all the costs arising out of the allocation of liabilities and risk of loss arising from Suncor operations.

The occurrence of any of the foregoing could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Government/Regulatory and Policy Effectiveness

Suncor's businesses operate under federal, provincial, territorial, state and municipal laws in numerous countries. The company is also subject to regulation and intervention by governments in oil and gas industry matters, such as, among others, land tenure, royalties, taxes (including income taxes), government fees, production rates (including restrictions on production), environmental protection, wildlife, fish, safety performance, the reduction of GHG and other emissions, the export of crude oil, natural gas and other products, interactions with foreign governments, the awarding or acquisition of exploration and production rights, oil sands leases or other interests, the imposition of specific drilling obligations, control over the development, reclamation and abandonment of fields and mine sites, mine financial security requirements, approval of logistics infrastructure, and possibly expropriation or cancellation of contract rights. As part of ongoing operations, the company is also required to comply with a large number of EH&S regulations under a variety of Canadian, U.S., U.K., Norwegian and other foreign, federal, provincial, territorial, state and municipal laws and regulations. Failure to comply with applicable laws and regulations may result in, among other things, the imposition of fines and penalties, production constraints, a compulsory shutdown of facilities or suspension of operations, reputational damage, delays, increased costs, denial of operating and growth permit applications, censure, liability for cleanup costs and damages, and the loss of important licences and permits.

Before proceeding with most major projects, including significant changes to existing operations, Suncor must obtain various federal, provincial, territorial, state and municipal permits and regulatory approvals, and must also obtain licences to operate certain assets. These processes can involve, among other things, Indigenous and stakeholder consultation, environmental impact assessments and public hearings, government intervention and may be subject to conditions, including security deposit obligations and other commitments. Compliance can also be affected by the loss of skilled staff, inadequate internal processes and compliance auditing.

Failure to obtain, comply with, satisfy the conditions of or maintain regulatory permits, licences and approvals, or failure to obtain them on a timely basis or on satisfactory terms, could result in prosecution, fines, delays, abandonment or restructuring of projects and increased costs, all of which could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations. Suncor's businesses can also be indirectly impacted by a third party's inability to obtain regulatory approval for a shared infrastructure project or a third-party infrastructure project on which a portion of Suncor's business depends.

Changes in government policy, regulation or other laws, or the interpretation thereof, or opposition to Suncor's projects or third-party pipeline and infrastructure projects that delays or prevents necessary permits or regulatory approvals, or which makes current operations or growth projects less profitable or uneconomic could materially impact Suncor's operations, existing and planned projects, financial condition, reserves and results of operations. Obtaining necessary approvals or permits has become more difficult due to increased public opposition and Indigenous consultation requirements as well as increased political involvement. The federal government's *Impact Assessment Act* (formerly Bill C-69) also came into force in August 2019 and will impact the manner in which large energy projects are approved. This development could also lead to significant delays and additional compliance costs, and staffing and resource levels, and also increase exposure to other risks to Suncor's business, including environmental or safety non-compliance, permit approvals, and project development and execution, all of which could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Suncor is subject to the mandatory production curtailments imposed by the Government of Alberta that commenced in early 2019. The duration, extent and consequences of the curtailments to Suncor's business are not fully known; however, prolonged production curtailment or changes to the curtailment levels could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Greenhouse Gas Emissions and Targets

Among other sustainability goals, Suncor has committed to reducing the total GHG emissions intensity of its oil and gas petroleum products by 30% by 2030 (based on a 2014 baseline year). Our ability to lower GHG emissions on both an absolute basis and in respect of our 2030 total emissions reduction target is subject to numerous risks and uncertainties and our actions taken in implementing these objectives may also expose us to certain additional and/or heightened financial and operational risks.

A reduction in GHG emissions relies on, among other things, our ability to implement and improve energy efficiency at all of our facilities, future development and growth opportunities, develop and deploy new technologies, invest in low-carbon power and transition to low-carbon fuels. In the event that we are unable to implement these strategies and technologies as planned without negatively impacting our expected operations or business plans, or in the event that such strategies or technologies do not perform as expected, we may be unable to meet our GHG targets or goals on the current timelines, or at all.

In addition, achieving our GHG emission reductions target and goals could require significant capital expenditures and resources, with the potential that the costs required to achieve our target and goals materially differ from our original estimates and expectations, which differences may be material. In addition, the shift in resources and focus towards emissions reduction could have a negative impact on our operating results. The overall final cost of investing in and implementing an emissions-intensity reduction strategy and technologies in furtherance of such strategy, and the resultant change in the deployment of our resources and focus, could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Competition

The global petroleum industry is highly competitive in many aspects, including the exploration for and the development of new sources of supply, the acquisition of crude oil and natural gas interests, and the refining, distribution and marketing of refined petroleum products. Suncor competes in virtually every aspect of its business with other energy companies. The petroleum industry also competes with other industries in supplying energy, fuel and related products to consumers. The increasing volatility of the political and social landscape at provincial, federal, territorial, state, municipal and international levels adds complexity.

For Suncor's Oil Sands business, it is difficult to assess the number, level of production and ultimate timing of all potential new projects or when existing production levels may increase. Although current commodity pricing and increased regulatory requirements have slowed certain larger projects in the short term, an increase in the level of activity may have an impact on regional infrastructure, including pipelines, and could place stress on the availability and cost of all resources required to build and run new and existing oil sands operations.

For Suncor's Refining and Marketing business, management expects that fluctuations in demand for refined products, margin volatility and overall marketplace competitiveness will continue. In addition, to the extent that the company's downstream business unit participates in new product markets, it could be exposed to margin risk and volatility from either cost and/or selling price fluctuations.

There is a risk that increased competition could cause costs to increase, put further strain on existing infrastructure and cause margins for refined and unrefined products to be volatile, and impact demand for Suncor's products, which could have a material adverse effect on Suncor's business, financial condition and results of operations.

Carbon Risk

Public support for climate change action and receptivity to alternative/renewable energy technologies has grown in recent years. Governments in Canada and around the world have responded to these shifting societal attitudes by adopting ambitious emissions reduction targets and supporting legislation, including measures relating to carbon pricing, clean energy and fuel standards, and alternative energy incentives and mandates. There has also been increased activism and public opposition to fossil fuels, and oil sands in particular.

Existing and future laws and regulations may impose significant liabilities on a failure to comply with their requirements. Concerns over climate change, fossil fuel extraction, GHG emissions, and water and land-use practices could lead governments to enact additional or more stringent laws and regulations applicable to Suncor and other companies in the energy industry in general, and in the oil sands industry in particular.

Changes to environmental regulations, including regulation relating to climate change, could impact the demand for, formulation or quality of the company's products, or could require increased capital expenditures, operating expenses, abandonment and reclamation obligations and distribution costs, which may not be recoverable in the marketplace and which may result in current operations or growth projects becoming less profitable or uneconomic. In addition, such regulatory changes could necessitate that Suncor develop new technologies. Such technology development could require a significant investment of capital and resources, and any delay in or failure to identify and develop such technologies or obtain regulatory approvals for these technology projects could prevent Suncor from obtaining regulatory approvals for projects or being able to successfully compete with other companies. Increasing environmental regulation in the jurisdictions in which Suncor operates may also make it difficult for Suncor to compete with companies operating in other jurisdictions with fewer or less costly regulations. In addition, legislation or policies that limit the purchase of production from the oil sands may be adopted in domestic and/or foreign jurisdictions, which, in turn, may limit the world market for Suncor's upstream production and reduce the prices the company receives for its products, and could result in delayed development, stranded assets or the company being unable to further develop its resources. The complexity, breadth and velocity of changes in environmental regulation make it extremely difficult to predict the potential impact to Suncor.

Suncor continues to monitor the international and domestic efforts to address climate change. While it currently appears that GHG regulations and targets will continue to become more stringent, and while Suncor continues its efforts to reduce the intensity of its GHG emissions, the absolute GHG emissions of the company may rise as a result of growth. Increases in GHG emissions may impact the profitability of the company's projects, as Suncor will be subject to incremental levies and taxes. There is also a risk that Suncor could face litigation initiated by third parties relating to climate change, including litigation pertaining to GHG emissions, the production, sale, or promotion of fossil fuels and petroleum products, and/or disclosure. For example, the Board of County Commissioners of Boulder County, the Board of County Commissioners of San Miguel County and the City of Boulder, all of Colorado, have brought an action against Suncor and certain of its subsidiaries seeking, among other things, compensation for impacts they allege with respect to climate change. In addition, the mechanics of implementation and enforcement of the OSELA are currently under review and it is not yet possible to predict the impact on Suncor. However, such impact could be material.

These developments and future developments could adversely impact the demand for Suncor's products, the ability of Suncor to maintain and grow its production and reserves, and Suncor's reputation, and could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Environmental Compliance

Tailings Management and Water Release

Each oil sands mine is required under the Tailings Directive to seek approval for its updated fluid tailings management plans. If a mine fails to meet a condition of its approved plan, the applicable company could be subject to enforcement actions, including being required to curtail production, and financial consequences, including being subject to a compliance levy or being required to post additional security under the MFSP. The full impact of the TMF, the Tailings Directive and updates to the dam regulations, including the financial consequences of exceeding compliance levels, is not yet fully known, as certain associated policy updates and regulation updates are still under development. Such updates could also restrict the technologies that the company may employ for tailings management, which could adversely impact the company's business plans. There could also be risks if the company's tailings management operations fail to operate as anticipated. The occurrence of any of the foregoing could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

In addition, an integrated water management approach to support operations and successful reclamation and closure requires the release of treated oil sands mine water to the environment, which is not currently permitted for oil sands mines under existing laws. There is no certainty as to when regulations authorizing such water release would be enacted, the content of any such regulations, and the ability of and timing for the company to obtain the required approvals under such regulations to permit such water release. The absence of effective government regulations in this area could impact the success and timing of closure and reclamation plans, which could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Alberta's Land-Use Framework (LARP)

The implementation of, and compliance with, the terms of the LARP may adversely impact Suncor's current properties and projects in northern Alberta due to, among other things, environmental limits and thresholds. The impact of the LARP on Suncor's operations may be outside of the control of the company, as Suncor's operations could be impacted as a result of restrictions imposed due to the cumulative impact of development by the other operators in the area and not solely in relation to Suncor's direct impact. The uncertainty of changes in Suncor's future development and existing operations required as a result of the LARP could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Alberta Environment and Parks (AEP) Water Licences

Suncor currently relies on water obtained under licences from AEP to provide domestic and utility water for the company's Oil Sands business. Water licences, like all regulatory approvals, contain conditions to be met in order to maintain compliance with the licence. There can be no assurance that the licences to withdraw water will not be rescinded or that additional conditions will not be added. It is also possible that regional water management approaches may require water-sharing agreements between stakeholders. In addition, the expansion of the company's projects may rely on securing licences for additional water withdrawal, and there can be no assurance that these licences will be granted in a timely manner or that they will be granted on terms favourable to Suncor. There is also a risk that future laws or changes to existing laws or regulations relating to water access could cause capital expenditures and operating expenses relating to water licence compliance to increase. The occurrence of any of the foregoing could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Species at Risk Act

Woodland caribou have been identified as "threatened" under the *Species at Risk Act* (Canada). In response to the Government of Canada's Recovery Strategy for Woodland Caribou, provincial caribou range plans are being developed. Suncor has existing, planned and potential future projects within caribou ranges in Alberta. The development and implementation of range plans in these areas may have an impact on the pace and amount of development in these areas and could potentially increase costs for restoration or offsetting requirements, which could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Air Quality Management

A number of Canadian federal and provincial air quality regulations and frameworks are currently being developed, changed and/or implemented, which could have an impact on the company's existing and planned projects by requiring the company to invest additional capital or incur additional operating and compliance expenses, including, among other things, potentially requiring the company to retrofit equipment to meet new requirements and increase monitoring and mitigation plans. The full impact of these regulations and frameworks is not yet known; however, they could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Alberta Wetland Policy

Pursuant to the Alberta Wetland Policy, development in wetland areas may be obligated to avoid wetlands or mitigate the development's effects on wetlands. Although the full impact of the policy on Suncor is not yet fully known, certain Suncor operations and growth projects will be affected by aspects of the policy where avoidance is not possible and wetland reclamation or replacement may be required, which could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Information Security

The efficient operation of Suncor's business is dependent on computer hardware, software and networked systems, including the systems of cloud providers and third parties with which Suncor conducts business. Digital transformation continues to increase the number of, and complexity of, such systems. In the ordinary course of Suncor's business, Suncor collects and stores sensitive data, including intellectual property, proprietary business information and personal information of the company's employees and retail customers. Suncor's operations are also dependent upon a large and complex information framework. Suncor relies on industry accepted security measures, controls and technology to protect Suncor's information systems and securely maintain confidential and proprietary information stored on the company's information systems, and has adopted a continuous process to identify, assess and manage threats to the company's information systems. While Suncor has an information and cyber security program in place, the measures, controls and technology on which the company relies may not be adequate due to the increasing volume, sophistication and rapidly evolving nature of cyber threats. Suncor's information technology and infrastructure, including process control systems, may be vulnerable to attacks by malicious persons or entities motivated by, among others, geopolitical, financial or activist reasons, or breached due to employee error, malfeasance or other disruptions, including natural disasters and acts of war. Any such attack or breach could compromise Suncor's networks, and the information Suncor stores could be accessed, publicly disclosed, lost, stolen or compromised. Any such attack, breach, access, disclosure or loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruptions to Suncor's operations, decreased performance and production, increased costs, and damage to Suncor's reputation, physical harm to people or the environment, or other negative consequences to Suncor or third parties, which could have a material adverse effect on Suncor's business, financial condition and results of operations. Although the company maintains a risk management program, which includes an insurance component that may provide coverage for the operational impacts from an attack to, or breach of, Suncor's information technology and infrastructure, including process control systems, the company does not maintain stand-alone cyber insurance. Furthermore, not all cyber risks are insurable. As a result, Suncor's existing insurance may not provide adequate coverage for losses stemming from a cyber attack to, or breach of, its information technology and infrastructure.

Security and Terrorist Threats

Security threats and terrorist or activist activities may impact Suncor's personnel, which could result in injury, death, extortion, hostage situations and/or kidnapping, including unlawful confinement. A security threat, terrorist attack or activist incident targeted at a facility or office owned or operated by Suncor could result in the interruption or cessation of key elements of Suncor's operations. Outcomes of such incidents could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Project Development and Execution

There are certain risks associated with the development and execution of Suncor's major projects and the commissioning and integration of new facilities within its existing asset base.

Project development and execution risk consists of four related primary risks:

- Development – a failure to select the right projects and identify effective scope and solution;
- Engineering – a failure in the specification, design or technology selection;
- Construction – a failure to build the project in the approved time, in accordance with design, and at the agreed cost; and
- Commissioning and startup – a failure of the facility to meet agreed performance targets, including operating costs, efficiency, yield and maintenance costs.

Project development and execution can also be impacted by, among other things:

- The effect of changing government regulation and public expectations in relation to the impact of oil sands development on the environment, which could significantly impact the company's ability to obtain the necessary environmental and other regulatory approvals;
- The impact of general economic, business and market conditions and the company's ability to finance growth, including major growth projects in progress, if commodity prices were to decline and stay at low levels for an extended period;
- The complexity and diversity of Suncor's portfolio, including joint venture assets;

- The accuracy of project cost and schedule estimates, as actual costs and schedules for major projects can vary from estimates, and these differences can be material;
- The availability and cost of materials, equipment, qualified personnel, and logistics infrastructure, maintaining adequate quality management and risks associated with logistics and offshore fabrication, including the cost of materials, and equipment fabricated offshore may be impacted by tariffs, duties and quotas;
- The inability or unwillingness of third-party vendors, contractors or service providers to provide materials, equipment, personnel and services of necessary quality in the timelines anticipated and at the agreed upon cost;
- The complexities and uncertainties associated with identification, development and integration of new technologies into the company's existing and new assets;
- Complexities and risks associated with constructing projects within operating environments and confined construction areas;
- The commissioning and integration of new facilities within the company's existing asset base could cause delays in achieving guidance, targets and objectives;
- Risks relating to restarting projects placed in safe mode, including increased capital costs; and
- The impact of weather conditions.

The occurrence of any of the foregoing could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Technology Risk

There are risks associated with sustainability, growth and other capital projects that rely largely or partly on new technologies and the incorporation of such technologies into new or existing operations, including that the results of the application of new technologies may differ from simulated, test or pilot environments, or that third-party intellectual property protections may impede the development and implementation of new technology. The success of projects incorporating new technologies cannot be assured. Advantages accrue to companies that can develop and adopt emerging technologies in advance of competitors. The inability to develop, implement and monitor new technologies may impact the company's ability to develop its new or existing operations in a profitable manner or comply with regulatory requirements, which could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Cumulative Impact and Pace of Change

In order to achieve Suncor's business objectives, the company must operate efficiently, reliably and safely, and, at the same time, deliver growth and sustaining projects safely, on budget and on schedule. The ability to achieve these two sets of objectives is critically important for Suncor to deliver value to shareholders and stakeholders. These ambitious business objectives compete for resources, and may negatively impact the company should there be inadequate consideration of the cumulative impacts of prior and parallel initiatives on people, processes and systems. The establishment of the Transformation Management Office to support Suncor's digital transformation is expected to assist with the transformation, but there is still a risk that these objectives may exceed Suncor's capacity to adopt and implement change. The occurrence of any of the foregoing could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Joint Arrangement Risk

Suncor has entered into joint arrangements and other contractual arrangements with third parties, including arrangements where other entities operate assets in which Suncor has ownership or other interests. These joint arrangements include, among others, those with respect to Syncrude, Fort Hills, In Situ assets, and operations in Suncor's E&P Canada and E&P International businesses. The success and timing of activities relating to assets and projects operated by others, or developed jointly with others, depend upon a number of factors that are outside of Suncor's control, including, among others, the timing and amount of capital expenditures, the timing and amount of operational and maintenance expenditures, the operator's expertise, financial resources and risk management practices, the approval of other participants, and the selection of technology.

These co-owners may have objectives and interests that do not coincide with and may conflict with Suncor's interests. Major capital decisions affecting joint arrangements may require agreement among the co-owners, while certain operational decisions may be made solely at the discretion of the operator of the applicable assets. While joint venture counterparties may generally seek consensus with respect to major decisions concerning the direction and operation of the assets and the development of projects, no assurance can be provided that the future demands or expectations of the parties relating to such assets and projects will be met satisfactorily or in a timely manner. Failure to satisfactorily meet demands or expectations by all of the parties may affect the company's participation in the operation of such assets or in the development of such projects, the company's ability to obtain or maintain necessary licences or approvals, or the timing for undertaking various activities. In addition, disputes may arise pertaining to the timing, scope, funding and/or capital commitments with respect to projects that are being jointly developed.

The occurrence of any of the foregoing could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Financial Risks

Energy Trading and Risk Management Activities and the Exposure to Counterparties

The nature of Suncor's energy trading and risk management activities, which may make use of derivative financial instruments to manage its exposure to commodity price and other market risks, creates exposure to financial risks, which include, but are not limited to, the following:

- Unfavourable movements in commodity prices, interest rates or foreign exchange could result in a financial or opportunity loss to the company;
- A lack of counterparties, due to market conditions or other circumstances, could leave the company unable to liquidate or offset a position, or unable to do so at or near the previous market price;
- The company may not receive funds or instruments from counterparties at the expected time or at all;
- The counterparty could fail to perform an obligation owed to Suncor;
- Loss as a result of human error or deficiency in the company's systems or controls; and
- Loss as a result of contracts being unenforceable or transactions being inadequately documented.

The occurrence of any of the foregoing could have a material adverse effect on Suncor's business, financial condition and results of operations.

Exchange Rate Fluctuations

The company's 2019 audited Consolidated Financial Statements are presented in Canadian dollars. The majority of Suncor's revenues from the sale of oil, natural gas and petroleum products are based on prices that are determined by, or referenced to, U.S. dollar benchmark prices, while the majority of Suncor's expenditures are realized in Canadian dollars. The company also owes a portion of its debt in U.S. dollars. Suncor's financial results, therefore, can be affected significantly by the exchange rates between the Canadian dollar and the U.S. dollar. The company also undertakes operations administered through international subsidiaries, and, therefore, to a lesser extent, Suncor's results can be affected by the exchange rates between the Canadian dollar and the euro, the British pound and the Norwegian krone. These exchange rates may vary substantially and may give rise to favourable or unfavourable foreign currency exposure. A decrease in the value of the Canadian dollar relative to the U.S. dollar will increase the revenues received from the sale of commodities. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease revenues received from the sale of commodities. A decrease in the value of the Canadian dollar relative to the U.S. dollar from the previous balance sheet date increases the amount of Canadian dollars required to settle U.S. dollar denominated obligations. As at December 31, 2019, the Canadian dollar strengthened in relation to the U.S. dollar to $0.77 from $0.73 at the start of 2019. Exchange rate fluctuations could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Interest Rate Risk

The company is exposed to fluctuations in short-term Canadian and U.S. interest rates as Suncor maintains a portion of its debt capacity in revolving and floating rate credit facilities and commercial paper, and invests surplus cash in short-term debt instruments and money market instruments. Suncor is also exposed to interest rate risk when debt instruments are maturing and require refinancing, or when new debt capital needs to be raised. The company is also exposed to changes in interest rates when derivative instruments are used to manage the debt portfolio, including hedges of prospective new debt issuances. Unfavourable changes in interest rates could have a material adverse effect on Suncor's business, financial condition and results of operations.

Issuance of Debt and Debt Covenants

Suncor expects that future capital expenditures will be financed out of cash and cash equivalents balances, cash flow provided by operating activities, available committed credit facilities, issuing commercial paper and accessing capital markets. This ability is dependent on, among other factors, commodity prices, the overall state of the capital markets, and financial institutions and investor appetite for investments in the energy industry generally, and the company's securities in particular. To the extent that external sources of capital become limited or unavailable or available on unfavourable terms, the ability to make capital investments and maintain existing properties may be constrained.

If the company finances capital expenditures in whole or in part with debt, that may increase its debt levels above industry standards for oil and gas companies of similar size. Depending on future development and growth plans, additional debt financing may be required that may not be available or, if available, may not be available on favourable terms, including higher interest rates and fees. Neither the articles of Suncor (the Articles) nor its by-laws limit the amount of indebtedness that may be incurred; however, Suncor is subject to covenants in its existing credit facilities and seeks to avoid an unfavourable cost of debt. The level of the company's indebtedness, from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise and could negatively affect its credit ratings.

Suncor is required to comply with financial and operating covenants under existing credit facilities and debt securities. Covenants are reviewed based on actual and forecast results and the company has the ability to make changes to its development plans, capital structure and/or dividend policy to comply with covenants under the credit facilities. If Suncor does not comply with the covenants under its credit facilities and debt securities, there is a risk that repayment could be accelerated and/or the company's access to capital could be restricted or only be available on unfavourable terms.

Rating agencies regularly evaluate the company, including its subsidiaries. Their ratings of Suncor's long-term and short-term debt are based on a number of factors, including the company's financial strength, as well as factors not entirely within its control, including conditions affecting the oil and gas industry generally, and the wider state of the economy. Credit ratings may be important to customers or counterparties when Suncor competes in certain markets and when it seeks to engage in certain transactions, including transactions involving over-the-counter derivatives. There is a risk that one or more of Suncor's credit ratings could be downgraded, which could potentially limit its access to private and public credit markets and increase the company's cost of borrowing.

The occurrence of any of the foregoing could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Royalties and Taxes

Suncor is subject to royalties and taxes imposed by governments in numerous jurisdictions.

Royalties can be impacted by changes in crude oil and natural gas pricing, production volumes, and capital and operating costs, by changes to existing legislation or PSCs, and by results of regulatory audits of prior year filings and other such events. The final determination of these events may have a material impact on the company's royalties expense.

An increase in Suncor's royalties expense, income taxes, property taxes, carbon taxes, levies, tariffs, duties, quotas, border taxes, and other taxes and government-imposed compliance costs could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Dividends and Share Repurchases

Suncor's payment of future dividends on its common shares and future share repurchases by Suncor of its common shares will be dependent on, among other things, legislative and stock exchange requirements, the company's financial condition, results of operations, cash flow, the need for funds to finance ongoing operations and growth projects, debt covenants and other business considerations as the company's Board considers relevant. There can be no assurance that Suncor will continue to pay dividends or repurchase shares in the future.

E&P Reserves Replacement

Suncor's future offshore production, and therefore its cash flows and results of operations from E&P, are highly dependent upon success in exploiting its current reserves base and acquiring or discovering additional reserves. Without additions to its E&P reserves through exploration, acquisition or development activities, Suncor's production from its offshore assets will decline over time as reserves are depleted. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent Suncor's cash flow is insufficient to fund capital expenditures and external sources of capital become limited or unavailable, Suncor's ability to make the necessary capital investments to maintain and expand its reserves will be impaired. In addition, Suncor may be unable to develop or acquire additional reserves to replace its crude oil and natural gas production at acceptable costs.

Uncertainties Affecting Reserves Estimates

There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the company's control. Suncor's actual production, revenues, royalties, taxes, and development and operating expenditures with respect to the company's reserves will vary from its estimates, and such variances could be material.

Third-Party Service Providers

Suncor's businesses are reliant on the operational integrity of a large number of third-party service providers, including input and output commodity transport (pipelines, rail, trucking, marine) and utilities associated with various Suncor and jointly owned facilities, including electricity. A disruption in service or limited availability by one of these third parties can also have a dramatic impact on Suncor's operations and growth plans. Pipeline constraints that affect takeaway capacity or supply of inputs, such as hydrogen and power for example, could impact the company's ability to produce at capacity levels. Disruptions in pipeline service could adversely affect commodity prices, Suncor's price realizations, refining operations and sales volumes, or limit the company's ability to produce and deliver production. These interruptions may be caused by the inability of the pipeline to operate or by the oversupply of feedstock into the system that exceeds pipeline capacity. Short-term operational constraints on pipeline systems arising from pipeline interruption and/or increased supply of crude oil have occurred in the past and could occur in the future. There is a risk that third-party outages could impact Suncor's production or price realizations, which could have a material adverse effect on Suncor's business, financial condition and results of operations.

Foreign Operations

The company has operations in a number of countries with different political, economic and social systems. As a result, the company's operations and related assets are subject to a number of risks and other uncertainties arising from foreign government sovereignty over the company's international operations, which may include, among other things:

Currency restrictions and restrictions on repatriation of funds;

- Loss of revenue, property and equipment as a result of expropriation, nationalization, war, insurrection, and geopolitical and other political risks;
- Increases in taxes and government royalties;
- Compliance with existing and emerging anti-corruption laws, including the *Foreign Corrupt Practices Act* (United States), the *Corruption of Foreign Public Officials Act* (Canada) and the United Kingdom *Bribery Act*;
- Renegotiation of contracts with government entities and quasi-government agencies;
- Changes in laws and policies governing operations of foreign-based companies; and
- Economic and legal sanctions (such as restrictions against countries experiencing political violence, or countries that other governments may deem to sponsor terrorism).

If a dispute arises in the company's foreign operations, the company may be subject to the exclusive jurisdiction of foreign courts or may not be able to subject foreign persons to the jurisdiction of a court in Canada or the U.S. In addition, as a result of activities in these areas and a continuing evolution of an international framework for corporate responsibility and accountability for international crimes, there is a risk the company could also be exposed to potential claims for alleged breaches of international or local law.

The impact that future potential terrorist attacks, regional hostilities or political violence, such as that experienced in Libya and Syria, may have on the oil and gas industry, and on our operations in particular, is not known at this time. This uncertainty may affect operations in unpredictable ways, including disruptions of fuel supplies and markets, particularly crude oil, and the possibility that infrastructure facilities, including pipelines, production facilities, processing plants and refineries, could be direct targets of, or collateral damage of, an act of terror, political violence or war. Suncor may be required to incur significant costs in the future to safeguard its assets against terrorist activities or to remediate potential damage to its facilities. There can be no assurance that Suncor will be successful in protecting itself against these risks and the related safety and financial consequences.

Despite Suncor's training and policies around bribery and other forms of corruption, there is a risk that Suncor, or some of its employees or contractors, could be charged with bribery or corruption. Any of these violations could result in onerous penalties. Even allegations of such behaviour could impair Suncor's ability to work with governments or non-government organizations and could result in the formal exclusion of Suncor from a country or area, sanctions, fines, project cancellations or delays, the inability to raise or borrow capital, reputational impacts and increased investor concern.

The occurrence of any of the foregoing could have a material adverse effect on Suncor's business, financial condition, reserves and results of operations.

Skills, Resource Shortage and Reliance on Key Personnel

The successful operation of Suncor's businesses and the company's ability to expand operations will depend upon the availability of, and competition for, skilled labour and materials supply. There is a risk that the company may have difficulty sourcing the required labour for current and future operations. The risk could manifest itself primarily through an inability to recruit new staff without a dilution of talent, to train, develop and retain high-quality and experienced staff without unacceptably high attrition, and to satisfy an employee's work/life balance and desire for competitive compensation. The labour market in Alberta has been historically tight, and, while the current economic situation has partially moderated this effect, it remains a risk to be managed. The increasing age of the company's existing workforce and changing skillsets as technology continues to evolve adds further pressure. The availability of competent and skilled contractors for current and future operations is also a risk depending on market conditions. Materials may also be in short supply due to smaller labour forces in many manufacturing operations. Suncor's ability to operate safely and effectively and complete all projects on time and on budget has the potential to be significantly impacted by these risks and this impact could be material.

The company's success also depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the company. The contributions of the existing management team to the immediate and near-term operations of the company are likely to continue to be of central importance for the foreseeable future.

Labour Relations

Hourly employees at Suncor's oil sands facilities (excluding MacKay River), all of the company's refineries, and the majority of the company's terminal and distribution operations are represented by labour unions or employee associations. Approximately 31% of the company's employees were covered by collective agreements at the end of 2019. Negotiations for new collective agreements are in progress for two facilities across the company. Any work interruptions involving the company's employees (including as a result of a strike or lockout), contract trades utilized in the company's projects or operations, or any jointly owned facilities operated by another entity present a significant risk to the company and could have a material adverse effect on Suncor's business, financial condition and results of operations.

Land Claims and Indigenous Consultation

Indigenous Peoples have claimed Indigenous title and rights to portions of Western Canada. In addition, Indigenous Peoples have filed claims against industry participants relating in part to land claims, which may affect the company's business.

The requirement to consult with Indigenous Peoples in respect of oil and gas projects and related infrastructure has also increased in recent years. In addition, in recent years, the Canadian federal government and the provincial government in Alberta have made a commitment to renew their relationships with the Indigenous Peoples of Canada. The federal government has stated it now fully supports the United Nations Declaration on the Rights of Indigenous Peoples (the Declaration) without qualification and that Canada intends "nothing less than to adopt and implement the Declaration in accordance with the Canadian Constitution". At this time, it is unclear how the Declaration will be adopted into Canadian law and the impact of the Declaration on the Crown's duty to consult with Indigenous Peoples.

Suncor is unable to assess the effect, if any, that any such land claims, consultation requirements with Indigenous Peoples or adoption of the Declaration into Canadian law may have on Suncor's business; however, the impact may be material.

Litigation Risk

There is a risk that Suncor or entities in which it has an interest may be subject to litigation, and claims under such litigation may be material. Various types of claims may be raised in these proceedings, including, but not limited to, environmental damage, climate change and the impacts thereof, breach of contract, product liability, antitrust, bribery and other forms of corruption, tax, patent infringement, disclosure, employment matters and in relation to an attack, breach or unauthorized access to Suncor's information technology and infrastructure. Litigation is subject to uncertainty and it is possible that there could be material adverse developments in pending or future cases. Unfavourable outcomes or settlements of litigation could encourage the commencement of additional litigation. Suncor may also be subject to adverse publicity and reputational impacts associated with such matters, regardless of whether Suncor is ultimately found liable. There is a risk that the outcome of such litigation may be materially adverse to the company and/or the company may be required to incur significant expenses or devote significant resources in defence against such litigation, the success of which cannot be guaranteed.

Trade Risk Relating to CUSMA

If CUSMA is ratified, Canada will no longer be subject to the proportionality provisions in NAFTA's energy chapter, enabling Canada to expand oil and gas exports beyond the U.S. Further, a change to the oil and gas rules of origin under CUSMA will allow Canadian exporters to more easily qualify for duty-free treatment for shipments to the U.S. Canada must, however, notify the U.S. of its intention to enter into free trade talks with any "non-market economies" under CUSMA, which may include China or any other importers of Canadian oil and gas exports. Although CUSMA has been signed, Canada has yet to ratify CUSMA according to its legislative processes before it goes into effect and replaces NAFTA. The outcome of the ratification process in Canada is not complete and is therefore uncertain. If CUSMA is not ratified and adopted by all three countries, the sale and transportation of Suncor's products within North America could be affected in a manner which could negatively impact Suncor's business, financial condition and results from operations.

Control Environment

Based on their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, and even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Failure to adequately prevent, detect and correct misstatements could have a material adverse effect on how Suncor's business, financial condition and results of operations are reported.

Insurance Coverage

Suncor maintains insurance coverage as part of its risk management program. However, such insurance may not provide comprehensive coverage in all circumstances, nor are all such risks insurable. The company self-insures some risks, and the company's insurance coverage does not cover all the costs arising out of the allocation of liabilities and risk of loss arising from Suncor operations.

Suncor's insurance policies are generally renewed on an annual basis and, depending on factors such as market conditions, the premiums, policy limits and/or deductibles for certain insurance policies can vary substantially. In some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. Significantly increased costs could lead the company to decide to reduce, or possibly eliminate, coverage. In addition, insurance is purchased from a number of third-party insurers, often in layered insurance arrangements, some of whom may discontinue providing insurance coverage for their own policy or strategic reasons. Should any of these insurers refuse to continue to provide insurance coverage, the company's overall risk exposure could be increased.

11. OTHER ITEMS

Control Environment

Based on their evaluation as of December 31, 2019, Suncor's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the United States *Securities Exchange Act of 1934*, as amended (the Exchange Act)), are effective to ensure that information required to be disclosed by the company in reports that are filed or submitted to Canadian and U.S. securities authorities is recorded, processed, summarized and reported within the time periods specified in Canadian and U.S. securities laws. In addition, as of December 31, 2019, there were no changes in the internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting. Management will continue to periodically evaluate the company's disclosure controls and procedures and internal control over financial reporting and will make any modifications from time to time as deemed necessary.

The effectiveness of our internal control over financial reporting as at December 31, 2019 was audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in our audited Consolidated Financial Statements for the year ended December 31, 2019.

Based on their inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, and even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Corporate Guidance

There have been no changes to the corporate guidance ranges previously issued on December 2, 2019. For further details and advisories regarding Suncor's 2020 corporate guidance, see www.suncor.com/guidance.

12. ADVISORIES

Non-GAAP Financial Measures

Certain financial measures in this MD&A – namely operating earnings (loss), ROCE, funds from (used in) operations, free funds flow, discretionary free funds flow, Oil Sands operations cash operating costs, In Situ cash operating costs, Fort Hills cash operating costs, Syncrude cash operating costs, refining margin, refining operating expense and LIFO inventory valuation methodology – are not prescribed by GAAP. These non-GAAP financial measures are included because management uses the information to analyze business performance, leverage and liquidity, and it may be useful to investors on the same basis. These non-GAAP financial measures do not have any standardized meaning and, therefore, are unlikely to be comparable to similar measures presented by other companies. Therefore, these non-GAAP financial measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Except as otherwise indicated, these non-GAAP measures are calculated and disclosed on a consistent basis from period to period. Specific adjusting items may only be relevant in certain periods.

(a) Operating Earnings (Loss)

Operating earnings (loss) is a non-GAAP financial measure that adjusts net earnings (loss) for significant items that are not indicative of operating performance. Management uses operating earnings (loss) to evaluate operating performance, because management believes it provides better comparability between periods. For the years ended December 31, 2019, December 31, 2018 and December 31, 2017, consolidated operating earnings (loss) are reconciled to net earnings (loss) in the Financial Information section of this MD&A and operating earnings (loss) for each segment are reconciled to net earnings (loss) in the Segment Results and Analysis section of the MD&A. Operating earnings (loss) for the three months ended December 31, 2019 and December 31, 2018 are reconciled to net earnings (loss) below.

(b) Bridge Analyses of Operating Earnings

Throughout this MD&A, the company presents charts that illustrate the change in operating earnings from the comparative period through key variance factors. These factors are analyzed in the Operating Earnings narratives following the bridge analyses in that particular section of the MD&A. These bridge analyses are presented because management uses this presentation to analyze performance.

- The factor for Sales Volumes and Mix is calculated based on sales volumes and mix for the Oil Sands and Exploration and Production segments and throughput volumes and mix for the Refining and Marketing segment.
- The factor for Price, Margin and Other Revenue includes upstream price realizations before royalties, with the exception of Libya, which is net of royalties. Also included are refining and marketing margins, other operating revenues, and the net impacts of sales and purchases of third-party crude, including product purchased for use as diluent in the company's Oil Sands operations and subsequently sold as part of diluted bitumen.
- The factor for Royalties excludes the impact of Libya, as royalties in Libya are taken into account in Price, Margin and Other Revenue as described above.
- The factor for Inventory Valuation includes the after-tax impact of the FIFO method of inventory valuation in the company's R&M segment, as well as the impact of the deferral or realization of profit or loss on crude oil sales from the Oil Sands segment to Suncor's refineries, as both represent inventory valuation adjustments.
- The factor for Insurance Proceeds includes the after-tax insurance proceeds related to the company's assets in Libya.
- The factor for Operating and Transportation Expense includes project startup costs, operating, selling and general expense, and transportation expense.
- The factor for Financing Expense and Other includes financing expenses, other income, operational foreign exchange gains and losses, changes in gains and losses on disposal of assets that are not operating earnings adjustments, changes in statutory income tax rates, other income tax adjustments.

(c) Return on Capital Employed (ROCE)

ROCE is a non-GAAP financial measure that management uses to analyze operating performance and the efficiency of Suncor's capital allocation process. Average capital employed is calculated as a twelve-month average of the capital employed balance at the beginning of the twelve-month period and the month-end capital employed balances throughout the remainder of the twelve-month period. Figures for capital employed at the beginning and end of the twelve-month period are presented to show the changes in the components of the calculation over the twelve-month period.

The company presents two ROCE calculations – one including and one excluding the impacts on capital employed of major projects in progress. Major projects in progress includes accumulated capital expenditures and capitalized interest for significant projects still under construction or in the process of being commissioned, and acquired assets that are still being evaluated. Management uses ROCE excluding the impacts of major projects in progress on capital employed to assess performance of operating assets.

Year ended December 31 ($ millions, except as noted)		2019	2018	2017
Adjustments to net earnings				
Net earnings attributed to common shareholders		**2 899**	3 293	4 458
Add after-tax amounts for:				
Unrealized foreign exchange (gain) loss on U.S. dollar denominated debt		**(590)**	989	(702)
Net interest expense		**638**	541	158
	A	**2 947**	4 823	3 914
Capital employed – beginning of twelve-month period				
Net debt		**15 129**	12 907	14 414
Shareholders' equity		**44 005**	45 383	44 630
		59 134	58 290	59 044
Capital employed – end of twelve-month period				
Net debt		**16 010**	15 129	12 907
Shareholders' equity		**42 042**	44 005	45 383
		58 052	59 134	58 290
Average capital employed	B	**60 402**	60 347	58 667
ROCE – including major projects in progress (%)	A/B	**4.9**	8.0	6.7
Average capitalized costs related to major projects in progress	C	**2 452**	1 412	12 901
ROCE – excluding major projects in progress (%)(1)	A/(B-C)	**5.1**	8.2	8.6

(1) ROCE excluding major projects in progress would have been 8.6% in 2019, excluding the impacts of impairments of $3.352 billion and the impact of the $1.116 billion deferred tax recovery relating to a change in the Alberta corporate income tax rate.

(d) Funds from (used in) Operations(1)

Funds from (used in) operations is a non-GAAP financial measure that adjusts a GAAP measure – cash flow provided by (used in) operating activities – for changes in non-cash working capital, which management uses to analyze operating performance and liquidity. Changes to non-cash working capital can include, among other factors, the timing of offshore feedstock purchases and payments for fuel and income taxes, and the timing of cash flows related to accounts receivable and accounts payable, which management believes reduces comparability between periods.

Year ended December 31 ($ millions)	Oil Sands 2019	2018	2017	Exploration and Production 2019	2018	2017	Refining and Marketing 2019	2018	2017
Net (loss) earnings	**(427)**	945	994	**1 005**	807	721	**3 000**	3 154	2 622
Adjustments for:									
Depreciation, depletion, amortization and impairment	**8 170**	4 024	3 782	**1 505**	967	1 028	**823**	684	685
Deferred income taxes	**(1 565)**	351	170	**(215)**	(112)	(113)	**(49)**	72	(147)
Accretion	**221**	209	195	**43**	48	45	**6**	7	7
Unrealized foreign exchange (gain) loss on U.S. dollar denominated debt	**—**	—	—	**—**	—	—	**—**	—	—
Change in fair value of financial instruments and trading inventory	**21**	(59)	13	**16**	(89)	42	**70**	(32)	45
(Gain) loss on disposal of assets	**(14)**	(108)	(50)	**(228)**	91	—	**(11)**	(7)	(354)
Share-based compensation	**16**	(28)	(3)	**—**	(5)	6	**3**	(21)	5
Exploration expenses	**—**	—	—	**66**	11	41	**—**	—	—
Settlement of decommissioning and restoration liabilities	**(413)**	(428)	(305)	**(32)**	(23)	(31)	**(19)**	(17)	(17)
Other	**52**	58	(62)	**(17)**	84	17	**40**	(42)	(23)
Funds from (used in) operations	**6 061**	4 964	4 734	**2 143**	1 779	1 756	**3 863**	3 798	2 823
(Increase) decrease in non-cash working capital									
Cash flow provided by operating activities									

(1) 2018 and 2017 have been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact to overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment.

Year ended December 31 ($ millions)	Corporate and Eliminations 2019	2018	2017	Total 2019	2018	2017
Net (loss) earnings	**(679)**	(1 613)	121	**2 899**	3 293	4 458
Adjustments for:						
Depreciation, depletion, amortization and impairment	**74**	63	106	**10 572**	5 738	5 601
Deferred income taxes	**(89)**	129	339	**(1 918)**	440	249
Accretion	**—**	2	—	**270**	266	247
Unrealized foreign exchange (gain) loss on U.S. dollar denominated debt	**(624)**	1 090	(771)	**(624)**	1 090	(771)
Change in fair value of financial instruments and trading inventory	**—**	1	28	**107**	(179)	128
(Gain) loss on disposal of assets	**—**	—	(70)	**(253)**	(24)	(474)
Share-based compensation	**25**	(63)	23	**44**	(117)	31
Exploration expenses	**—**	—	—	**66**	11	41
Settlement of decommissioning and restoration liabilities	**—**	(1)	—	**(464)**	(469)	(353)
Other	**44**	23	50	**119**	123	(18)
Funds from (used in) operations	**(1 249)**	(369)	(174)	**10 818**	10 172	9 139
(Increase) decrease in non-cash working capital				**(397)**	408	(173)
Cash flow provided by operating activities				**10 421**	10 580	8 966

(1) 2018 and 2017 have been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact to overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment.

(e) Free Funds Flow and Discretionary Free Funds Flow

Free funds flow is a non-GAAP financial measure that is calculated by taking funds from operations and subtracting capital expenditures, including capitalized interest. Discretionary free funds flow is a non-GAAP financial measure that is calculated by taking funds from operations and subtracting asset sustainment and maintenance capital, inclusive of associated capitalized interest, and dividends. Discretionary free funds flow reflects cash available for increasing distributions to shareholders and to fund growth investments. Management uses discretionary free funds flow to measure the capacity of the company to increase returns to shareholders and grow the business. The following is a reconciliation of discretionary free funds flow for Suncor's last three years of operations.

($ millions)	2019	2018	2017
Funds from operations	**10 818**	10 172	9 139
Asset sustaining and maintenance capital and dividends(1)	**(5 904)**	(5 740)	(4 724)
Discretionary free funds flow	**4 914**	4 432	4 415

(1) The classification of the company's capital expenditures has been updated to "asset sustainment and maintenance" to better reflect the types of capital investments being made by the company. Comparative periods have been updated to reflect this change.

(f) Oil Sands Operations, In Situ, Fort Hills and Syncrude Cash Operating Costs

Oil Sands operations, In Situ, Fort Hills and Syncrude cash operating costs are non-GAAP financial measures. Oil Sands operations cash operating costs are calculated by adjusting Oil Sands segment OS&G expense (a GAAP measure based on sales volumes) for i) costs pertaining to Fort Hills and Syncrude operations; ii) non production costs that management believes do not relate to the production performance of Oil Sands operations, including, but not limited to, share-based compensation adjustments, research and the expense recorded as part of a non-monetary arrangement involving a third-party processor; iii) revenues associated with excess capacity, including excess power generated and sold that is recorded in operating revenue; iv) project startup costs; and v) the impacts of changes in inventory levels, such that the company is able to present cost information based on production volumes. To determine In Situ cash operating costs, Oil Sands operations cash operating costs are further adjusted to remove costs pertaining to Oil Sands operations mining and upgrading. Syncrude and Fort Hills cash operating costs are calculated by adjusting Syncrude OS&G expense and Fort Hills OS&G expense, respectively, for non-production costs that management believes do not relate to the production performance of Syncrude operations or Fort Hills operations, respectively, including, but not limited to, share-based compensation, research and project startup costs, if applicable. Oil Sands operations, Fort Hills and Syncrude cash operating costs are reconciled in the Segment Results and Analysis – Oil Sands section of this document. Management uses cash operating costs to measure operating performance. Oil Sands operations cash operating costs in 2019 were $4.267 billion and included $729 million related to In Situ production for In Situ cash operating costs per barrel of $9.25, based on total In Situ production of 216,200 bbls/d.

(g) Refining Margin and Refining Operating Expense

Refining margin and refining operating expense are non-GAAP financial measures. Refining margin is calculated by adjusting R&M segment operating revenues, other income and purchases of crude oil and products (GAAP measures) for non-refining margin pertaining to the company's supply, marketing and ethanol businesses, and the company's former lubricants business, which was disposed of in early 2017. Refinery operating expense is calculated by adjusting R&M segment OS&G for i) non-refining costs pertaining to the company's supply, marketing and ethanol businesses and the company's former lubricants business; and ii) non-refining costs that management believes do not relate to the production of refined products, including, but not limited to, share-based compensation and enterprise shared service allocations. Management uses refining margin and refining operating expense to measure operating performance on a production barrel basis.

Year ended December 31 ($ millions, except as noted)	2019	2018	2017
Refining margin reconciliation			
Gross margin, operating revenues less purchases of crude oil and products	**7 008**	7 122	5 744
Other income	**75**	68	16
Non-refining margin	**(1 320)**	(1 351)	(1 541)
Refining margin	**5 763**	5 839	4 219
Refinery production(1) (mbbls)	**173 705**	169 138	174 461
Refining margin ($/bbl)	**33.15**	34.50	24.20
Refining operating expense reconciliation			
Operating, selling and general expense	**2 173**	2 043	2 003
Non-refining costs	**(1 246)**	(1 142)	(1 121)
Refining operating expense	**927**	901	882
Refinery production(1)	**173 705**	169 138	174 461
Refining operating expense ($/bbl)	**5.35**	5.35	5.05

(1) Refinery production is the output of the refining process, and differs from crude oil processed as a result of volumetric adjustments for non-crude feedstock, volumetric gain associated with the refining process, and changes in unfinished product inventories.

(h) Impact of First-in, First-out (FIFO) Inventory Valuation on Refining and Marketing Net Earnings

GAAP requires the use of a FIFO valuation methodology. For Suncor, this results in a lag between the sales prices for refined products, which reflects current market conditions, and the amount recorded as the cost of sale for the related refinery feedstock, which reflects market conditions at the time when the feedstock was purchased.

Suncor prepares and presents an estimate of the impact of using a FIFO inventory valuation methodology compared to a LIFO methodology, because management uses the information to analyze operating performance and compare itself against refining peers that are permitted to use LIFO inventory valuation under United States GAAP (U.S. GAAP).

The company's estimate is not derived from a standardized calculation and, therefore, may not be directly comparable to similar measures presented by other companies, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP or U.S. GAAP.

(i) Operating Earnings Reconciliations – Fourth Quarter 2019 and 2018(1)

Three months ended December 31 ($ millions)	Oil Sands 2019	Oil Sands 2018	Exploration and Production 2019	Exploration and Production 2018	Refining and Marketing 2019	Refining and Marketing 2018	Corporate and Eliminations 2019	Corporate and Eliminations 2018	Total 2019	Total 2018
Net (loss) earnings as reported	**(2 682)**	(377)	**(162)**	(115)	**558**	762	**(49)**	(550)	**(2 335)**	(280)
Asset Impairments	**2 959**	—	**393**	—	**—**	—	**—**	—	**3 352**	—
Unrealized foreign exchange (gain) loss on U.S. dollar denominated debt	**—**	—	**—**	—	**—**	—	**(235)**	637	**(235)**	637
Non-cash loss on equity investment	**—**	—	**—**	223	**—**	—	**—**	—	**—**	223
Operating earnings (loss)	**277**	(377)	**231**	108	**558**	762	**(284)**	87	**782**	580

(1) The three months ended December 31, 2018 have been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact to overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment.

(j) Funds from Operations Reconciliations – Fourth Quarter 2019 and 2018(1)

Three months ended December 31 ($ millions)	Oil Sands 2019	Oil Sands 2018	Exploration and Production 2019	Exploration and Production 2018	Refining and Marketing 2019	Refining and Marketing 2018	Corporate and Eliminations 2019	Corporate and Eliminations 2018	Total 2019	Total 2018
Net (loss) earnings	**(2 682)**	(377)	**(162)**	(115)	**558**	762	**(49)**	(550)	**(2 335)**	(280)
Adjustments for:										
Depreciation, depletion, amortization and impairment	**5 081**	1 019	**803**	199	**211**	184	**18**	17	**6 113**	1 419
Deferred income taxes	**(890)**	89	**(112)**	3	**(7)**	(19)	**7**	87	**(1 002)**	160
Accretion	**54**	53	**10**	12	**1**	2	**—**	—	**65**	67
Unrealized foreign exchange (gain) loss on U.S. dollar denominated debt	**—**	—	**—**	—	**—**	—	**(246)**	688	**(246)**	688
Change in fair value of financial instruments and trading inventory	**(20)**	(84)	**13**	(37)	**(6)**	(27)	**—**	—	**(13)**	(148)
(Gain) loss on disposal of assets	**(1)**	(1)	**—**	253	**(8)**	(2)	**—**	—	**(9)**	250
Share-based compensation	**22**	(22)	**2**	(3)	**11**	(12)	**28**	(51)	**63**	(88)
Exploration expenses	**—**	—	**27**	11	**—**	—	**—**	—	**27**	11
Settlement of decommissioning and restoration liabilities	**(128)**	(91)	**(16)**	(8)	**(7)**	(5)	**—**	—	**(151)**	(104)
Other	**(31)**	21	**(10)**	16	**40**	(10)	**42**	5	**41**	32
Funds from (used in) operations	**1 405**	607	**555**	331	**793**	873	**(200)**	196	**2 553**	2 007
(Decrease) increase in non-cash working capital									**(249)**	1 033
Cash flow provided by operating activities									**2 304**	3 040

(1) The three months ended December 31, 2018 have been restated to reflect the change to the company's segmented presentation of its Energy Trading business, with no impact to overall consolidated results. The Energy Trading business is now included within each of the respective operating business segments to which the respective trading activity relates. Suncor's Energy Trading business was previously reported within the Corporate, Energy Trading and Eliminations segment.

Measurement Conversions

Certain crude oil and natural gas liquids volumes have been converted to mcfe or mmcfe on the basis of one bbl to six mcf. Also, certain natural gas volumes have been converted to boe or mboe on the same basis. Any figure presented in mcfe, mmcfe, boe or mboe may be misleading, particularly if used in isolation. A conversion ratio of one bbl of crude oil or natural gas liquids to six mcf of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, conversion on a 6:1 basis may be misleading as an indication of value.

Common Abbreviations

The following is a list of abbreviations that may be used in this MD&A:

Measurement

bbl	barrel
bbls/d	barrels per day
mbbls/d	thousands of barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
mboe	thousands of barrels of oil equivalent
mboe/d	thousands of barrels of oil equivalent per day
mcf	thousands of cubic feet of natural gas
mcfe	thousands of cubic feet of natural gas equivalent
mmcf	millions of cubic feet of natural gas
mmcf/d	millions of cubic feet of natural gas per day
mmcfe	millions of cubic feet of natural gas equivalent
mmcfe/d	millions of cubic feet of natural gas equivalent per day
m^3	cubic metres
MW	Megawatts
MWh	Megawatt hour

Places and Currencies

U.S.	United States
U.K.	United Kingdom
B.C.	British Columbia
$ or Cdn$	Canadian dollars
US$	United States dollars
£	Pounds sterling
€	Euros

Financial and Business Environment

DD&A	Depreciation, depletion and amortization
WTI	West Texas Intermediate
WCS	Western Canadian Select
SCO	Synthetic crude oil
SYN	Synthetic crude oil benchmark
MSW	Mixed Sweet Blend
NYMEX	New York Mercantile Exchange

Forward-Looking Information

This MD&A contains certain forward-looking statements and forward-looking information (collectively, forward-looking statements) within the meaning of applicable Canadian and U.S. securities laws and other information based on Suncor's current expectations, estimates, projections and assumptions that were made by the company in light of information available at the time the statement was made and consider Suncor's experience and its perception of historical trends, including expectations and assumptions concerning: the accuracy of reserves and resources estimates; commodity prices and interest and foreign exchange rates; the performance of assets and equipment; capital efficiencies and cost savings; applicable laws and government policies; future production rates; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour, services and infrastructure; the satisfaction by third parties of their obligations to Suncor; the development and execution of projects; and the receipt, in a timely manner, of regulatory and third-party approvals. All statements and information that address expectations or projections about the future, and statements and information about Suncor's strategy for growth, expected and future expenditures or investment decisions, commodity prices, costs, schedules, production volumes, operating and financial results, future financing and capital activities, and the expected impact of future commitments are forward-looking statements. Some of the forward-looking statements may be identified by words like "expects", "anticipates", "will", "estimates", "plans", "scheduled", "intends", "believes", "projects", "indicates", "could", "focus", "vision", "goal", "outlook", "proposed", "target", "objective", "continue", "should", "may", "potential", "future", "opportunity", "would", "priority" and similar expressions.

Forward-looking statements in this MD&A include references to:

Suncor's strategy, business plans and expectations about projects, the performance of assets, production volumes and capital expenditures, including:

- *Suncor's strategies and priorities, including delivering competitive and sustainable returns to shareholders and aiming to maximize shareholder returns by focusing on operational excellence, capital discipline through investment in high-value projects and the company's commitment to environmental stewardship and sustainability;*
- *Suncor's belief that it is well positioned to succeed due to its competitive advantages of financial strength, a highly efficient, tightly integrated suite of assets, an*

industry-leading long-life, low-decline oil sands reserves base, an offshore business that provides geographically diversified cash flow and its investment in sustainability, technology and innovation;

- *Projects and initiatives that are expected to create long-term value for the company through structural free funds flow growth, such as improvement strategies at existing assets, like debottlenecks and the deployment of autonomous haul trucks, and the company's regional oil sands advantage, which is expected to provide the company with the economies of scale required to realize synergies between assets and further develop its in situ resources in a low-cost manner under the company's replication strategy;*
- *Suncor's belief that the integration of the company's oil sands assets with its midstream and refining assets helps to significantly shield Suncor from the effects of western Canadian crude price differentials and its midstream assets provide the logistical flexibility to move production to a wide range of markets;*
- *Suncor's belief that technology and unleashing the full potential of its people will be critical in achieving the company's environmental, operational and financial goals;*
- *The company's belief that driving down costs and a continued focus on improved productivity and reliability will help achieve industry-leading unit costs in each business segment;*
- *Suncor's belief that its growth will be fuelled by investments in clean energy and is a key priority in achieving its sustainable development goals;*
- *Statements about the Terra Nova ALE project, including the expectation that it will extend the life of Terra Nova by approximately a decade, that it is planned for execution by the end of 2020 and that work on the project will start in the second quarter of 2020;*
- *Suncor's expectations for the coke-fired boiler replacement project, including the expectation that the cogeneration units will provide reliable steam generation required for Suncor's extraction and upgrading operations, the expectation that it will reduce the GHG emissions intensity associated with steam production at Base Plant by approximately 25% and the estimated cost and in-service date of the project;*
- *Statements about the sanctioned Forty Mile Wind Power Project, including the estimated capital spend of $300 million, with 25% of the capital spend in 2019 and the remainder to be spent over the next two years, the expectation that the project will generate significant value through sustainable low-carbon power generation and retention of the generated carbon credits for utilization in Suncor's upstream business and the belief that the project is part of Suncor's sustainability strategy of making meaningful progress toward the greenhouse gas emissions intensity reduction target of 30% by 2030;*
- *Expectations for the Oil Sands segment, including the commitment to delivering safe, reliable, low-cost production while being leaders in growth, technical innovation and environmental sustainability, the belief that Suncor's collection of high-quality assets, combined with long-life, low-decline reserves and industry-leading expertise provides the opportunity to continue to advance technology and innovation investments and high return growth projects while growing annual free funds flow, the expectation that cost management and capital discipline at Oil Sands will continue to be top priorities as the company expects to sustainably manage controllable operating costs through initiatives and that capital discipline will continue to focus on managing investment opportunities, including asset synergies and sustainability priorities, strategically investing in projects that are economically robust, sustainably minded and technologically progressive, and expectations for the interconnecting pipelines between Syncrude and Suncor's Oil Sands Base Plant, including the expectation that the pipelines will enhance integration between such assets and that they will be in service in the second half of 2020;*
- *Expectations for the E&P segment, including the segment's focus primarily on low-cost projects that deliver significant returns, cash flow and long-term value, and ongoing development activities offshore the east coast of Canada and in the U.K. North Sea intended to leverage existing facilities and infrastructure to provide incremental production and extend the productive life of existing fields which are planned to continue in 2020, along with development drilling at Hebron, the West White Rose Project, Buzzard Phase 2, and the Fenja project;*
- *Statements about the Rosebank project, including the expected timing of sanction for the project being planned for 2022;*
- *The expectation that MacKay River will return to operation early in the second quarter of 2020;*
- *The expectation that the company will continue to accelerate its digital transformation and implement new technologies across the enterprise to help improve the safety, productivity, reliability and environmental performance of its operations and that Suncor will utilize Microsoft's full range of cloud solutions and expertise to empower a connected and collaborative workforce, upgrade data centres and increase analytics capabilities; and*
- *The expectation that well pads under construction will maintain existing production levels at Firebag and*

MacKay River in future years as production from existing well pads declines.

The anticipated duration and impact of planned maintenance events, including:

- *Planned Upgrader 2 maintenance at Oil Sands Base and annual turnaround at Syncrude in the second quarter of 2020, and maintenance at Oil Sands operations Upgrader 1 scheduled for the third quarter of 2020, extending into the fourth quarter of 2020; and*
- *The two-week turnaround event at the Commerce City refinery in the first quarter of 2020, the two-week turnaround at the Sarnia refinery in the second quarter of 2020, a four-week turnaround at the Edmonton refinery scheduled in the third quarter of 2020 and a six-week turnaround at the Montreal refinery scheduled to begin in the third quarter and extend into the fourth quarter of 2020.*

Also:

- *Economic sensitivities;*
- *The company's priority regarding returning value to shareholders, statements about the company's share repurchase program, and the company's ongoing ability to generate cash flow and commitment to return cash to shareholders;*
- *The company's belief that it does not have any guarantees or off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the company's financial condition or financial performance, including liquidity and capital resources;*
- *Suncor's planned 2020 capital spending program of $5.4 to $6.0 billion and the belief that the company will have the capital resources to fund its planned 2020 capital spending program and to meet current and future working capital requirements through cash and cash equivalents balances, cash flow provided by operating activities, available committed credit facilities, issuing commercial paper and, if needed, accessing capital markets;*
- *Suncor's expectations as to how its 2020 capital expenditures will be directed and the expected benefits therefrom;*
- *The objectives of the company's short-term investment portfolio and the expectation that the maximum weighted average term to maturity of the company's short-term investment portfolio will not exceed six months, and all investments will be with counterparties with investment grade debt ratings;*
- *Management of debt levels continuing to be a priority for Suncor given the company's long-term growth plans and future expected volatility in the commodity pricing environment, and Suncor's belief that a phased and flexible approach to existing and future growth projects should assist Suncor in maintaining its ability to manage project costs and debt levels;*
- *Suncor's intention to adopt certain accounting standards, amendments and interpretations when they become effective; and*
- *Expectations with respect to changes to law and government policy.*

Forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, some that are similar to other oil and gas companies and some that are unique to Suncor. Suncor's actual results may differ materially from those expressed or implied by its forward-looking statements, so readers are cautioned not to place undue reliance on them.

The financial and operating performance of the company's reportable operating segments, specifically Oil Sands, E&P, and R&M, may be affected by a number of factors.

Factors that affect Suncor's Oil Sands segment include, but are not limited to, volatility in the prices for crude oil and other production, and the related impacts of fluctuating light/heavy and sweet/sour crude oil differentials; changes in the demand for refinery feedstock and diesel fuel, including the possibility that refiners that process the company's proprietary production will be closed, experience equipment failure or other accidents; Suncor's ability to operate its Oil Sands facilities reliably in order to meet production targets; the output of newly commissioned facilities, the performance of which may be difficult to predict during initial operations; Suncor's dependence on pipeline capacity and other logistical constraints, which may affect the company's ability to distribute products to market; Suncor's ability to finance Oil Sands growth and sustaining capital expenditures; the availability of bitumen feedstock for upgrading operations, which can be negatively affected by poor ore grade quality, unplanned mine equipment and extraction plant maintenance, tailings storage, and in situ reservoir and equipment performance, or the unavailability of third-party bitumen; changes in operating costs, including the cost of labour, natural gas and other energy sources used in oil sands processes; and the company's ability to complete projects, including planned maintenance events, both on time and on budget, which could be impacted by competition from other projects (including other oil sands projects) for goods and services and demands on infrastructure in Alberta's Wood Buffalo region and the surrounding area (including housing, roads and schools).

Factors that affect Suncor's E&P segment include, but are not limited to, volatility in crude oil and natural gas prices; operational risks and uncertainties associated with oil and gas activities, including unexpected formations or pressures, premature declines of reservoirs, fires, blow-outs, equipment failures and other accidents, uncontrollable flows of crude *oil, natural gas or well fluids, and pollution and other environmental risks; adverse weather conditions, which could disrupt output from producing assets or impact drilling programs, resulting in increased costs and/or delays in bringing on new production; political, economic and socio-economic risks associated with Suncor's foreign operations, including the unpredictability of operating in Libya due to ongoing political unrest; and market demand for mineral rights and producing properties, potentially leading to losses on disposition or increased property acquisition costs.*

Factors that affect Suncor's R&M segment include, but are not limited to, fluctuations in demand and supply for refined products that impact the company's margins; market competition, including potential new market entrants; the company's ability to reliably operate refining and marketing facilities in order to meet production or sales targets; and risks and uncertainties affecting construction or planned maintenance schedules, including the availability of labour and other impacts of competing projects drawing on the same resources during the same time period.

Additional risks, uncertainties and other factors that could influence the financial and operating performance of all of Suncor's operating segments and activities include, but are not limited to, changes in general economic, market and business conditions, such as commodity prices, interest rates and currency exchange rates; fluctuations in supply and demand for Suncor's products; the successful and timely implementation of capital projects, including growth projects and regulatory projects; risks associated with the development and execution of Suncor's projects and the commissioning and integration of new facilities; the possibility that completed maintenance activities may not improve operational performance or the output of related facilities; the risk that projects and initiatives intended to achieve cash flow growth and/or reductions in operating costs may not achieve the expected results in the time anticipated or at all; competitive actions of other companies, including increased competition from other oil and gas companies or from companies that provide alternative sources of energy; labour and material shortages; actions by government authorities, including the imposition or reassessment of, or changes to, taxes, fees, royalties, duties and other government-imposed compliance costs, and mandatory production curtailment orders and changes thereto; changes to laws and government policies that could impact the company's business, including environmental (including climate change), royalty and tax laws and policies; the ability and willingness of parties with whom Suncor has material relationships to perform their obligations to the company; the unavailability of, or outages to, third-party infrastructure that could cause disruptions to production or prevent the company from being able to transport its products; the occurrence of a protracted operational outage, a major safety or environmental incident, or unexpected events such as fires (including forest fires), equipment failures and other similar events affecting Suncor or other parties whose operations or assets directly or indirectly affect Suncor; the potential for security breaches of Suncor's information technology and infrastructure by malicious persons or entities, and the unavailability or failure of such systems to perform as anticipated as a result of such breaches; security threats and terrorist or activist activities; the risk that competing business objectives may exceed Suncor's capacity to adopt and implement change; risks and uncertainties associated with obtaining regulatory, third-party and stakeholder approvals outside of Suncor's control for the company's operations, projects, initiatives, and exploration and development activities and the satisfaction of any conditions to approvals; the potential for disruptions to operations and construction projects as a result of Suncor's relationships with labour unions that represent employees at the company's facilities; the company's ability to find new oil and gas reserves that can be developed economically; the accuracy of Suncor's reserves, resources and future production estimates; market instability affecting Suncor's ability to borrow in the capital debt markets at acceptable rates or to issue other securities at acceptable prices; maintaining an optimal debt to cash flow ratio; the success of the company's risk management activities using derivatives and other financial instruments; the cost of compliance with current and future environmental laws, including climate change laws; risks relating to increased activism and public opposition to fossil fuels and oil sands; risks and uncertainties associated with closing a transaction for the purchase or sale of a business, asset or oil and gas property, including estimates of the final consideration to be paid or received; the ability of counterparties to comply with their obligations in a timely manner; risks associated with joint arrangements in which the company has an interest; risks associated with land claims and Indigenous consultation requirements; the risk that the company may be subject to litigation; the impact of technology and risks associated with developing and implementing new technologies; and the accuracy of cost estimates, some of which are provided at the conceptual or other preliminary stage of projects and prior to commencement or conception of the detailed engineering that is needed to reduce the margin of error and increase the level of accuracy. The foregoing important factors are not exhaustive.

Many of these risk factors and other assumptions related to Suncor's forward-looking statements are discussed in further detail throughout this MD&A, including under the heading Risk Factors, and the company's 2019 AIF and Form 40-F on file with Canadian securities commissions at www.sedar.com and the United States Securities and Exchange Commission at www.sec.gov. Readers are also referred to the risk factors and assumptions described in other documents that Suncor files from time to time with securities regulatory authorities. Copies of these documents are available without charge from the company.

The forward-looking statements contained in this MD&A are made as of the date of this MD&A. Except as required by applicable securities laws, we assume no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing risks and assumptions affecting such forward-looking statements, whether as a result of new information, future events or otherwise.