

**Suncor Energy**  
**First Quarter 2016 Financial Results Call**  
May 16, 2016

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OPERATOR: Good morning, ladies and gentlemen. Welcome to the Suncor First Quarter 2016 Financial Results Call and Webcast. I would now like to turn the call over to Mr. Steve Douglas, Vice President, Investor Relations. Mr. Douglas, please go ahead.

STEVE DOUGLAS: Well, thank you, Wayne and good morning everyone. Welcome to the Suncor Energy Q1 earnings call. With me here in Calgary are Steve Williams, our President and Chief Executive Officer, along with Alister Cowan, EVP and Chief Financial Officer.

Before we begin, I need to say that you no—you should note today's comments contain forward looking information. Actual results may differ materially from the expected results because of various risk factors and assumptions. And those are described in our Q1 Earnings Release as well as our current AIF. And these are available on SEDAR, EDGAR and our website, [suncor.com](http://suncor.com). Certain financial measures that we refer to are not prescribed by Canadian generally accepted accounting principles. And for a description of these, please see our first quarter earnings release as well.

After our formal remarks, we will open the call to questions. First from members of the investment community and then, if time permits, members of the media. With that, I'll hand over to Steve Williams for his comments.

STEVE WILLIAMS: Good morning and thank you for joining us. About a year ago, we started using the term "lower for longer" in relation to crude price. And that certainly proven to be the case. The first quarter of 2016 saw Brent crude fall by more than 20% from Q4 2015 levels and more than 35% versus Q1 of last year. Now at Suncor, we responded to the difficult price environment with an absolutely laser focus on operational excellence. And we continue to improve reliability, grow production and sustainably reduce our costs. We've also taken advantage of the market conditions to

undertake acquisitions at accretive valuations. Now these deals significantly increase our leverage to an improve in oil price and enhance our competitive position relative to our peer group.

So with that in mind, let's take a look at the operational and strategic highlights for the quarter. We reached record oil sands operations production of just over 450 thousand barrels per day and that included record In Situ production from both Firebag and MacKay River following the successful and low cost de-bottleneck projects we completed last year. Reliability of our upgraders continue to be strong as we average 92% through—through [indiscernible] for the quarter. And even as we grew production, we've continued to take absolute cost out of the process. Oil sands cash costs fell below \$1 billion for the quarter to average just \$24.25 per barrel. So that's less than \$18 U.S. per barrel. The lowest quarterly cash cost recorded since 2007 and included record low In Situ costs of just below \$10.40 per barrel.

So at Syncrude, we also saw the best production rates in five years as utilization exceeded 91%. And that strong reliability helped us to sharply reduce Syncrude's cash costs which came in at \$31.35 per barrel for the quarter. So that was a timely—a timely perfo—performance as Suncor increased its stake in the project from 12% to just under 49% during the quarter with the closing of the Canadian Oil Sands acquisition. And, of course, as we announced yesterday, we'll increase that working interest a further 5% in the second quarter with the purchase of Murphy's share of Syncrude.

In EP, our offshore projects all achieved strong production. Buzzard and Golden Eagle combined for over 72 thousand barrels per day at an average lif—lifting cost of just \$5.75 per barrel. Our East Coast production totaled over 53 thousand bar—thousand barrels per day at an average cost of \$13.72 per barrel. So the strong performance leaves us tracking slightly

ahead of production guidance for the year. In the downstream, our refining operations continue to run reliably, achieving average utilization of over 91% in reducing operating cost to just over \$5 per barrel. And this performance was particularly notable given the relatively weak distillate experienced in the first quarter. As a result, the mild—mild winter weather in the East and weak demand primarily driven by energy sector in the West.

So you'll notice I've made more of a point of mentioning our cost for each of our business segments than I normally do. A disciplined cost management is an important part of the Suncor story. A year ago, we committed to reducing operating costs by \$6-800 million over a two-year period. By the end of 2015, we've actually delivered almost \$1 billion in savings. And this year, we set target of a further \$500 million in reduction. And we're—we're on track to achieve that goal.

So with the current price environment, I'm—I'm often asked, "How—how low can you take these cash costs?" And it's an interesting question but to be frank, it's much too narrow. Reducing our costs is not simply a major current response to low oil prices. It's an integral part of the continuous improvement journey we've been on and it's demonstrated for several years. We're squarely focused on safe, reliable, competitive—cost competitive operations. And I'm confident that will continue to raise the bar on performance in all areas. Our strong operational performance provides a solid foundation for profitably growing the company. And we're making excellent progress on that front.

At Fort Hills, all critical milestones continue to be met. Engineering is substantially finished and construction has now surpassed 55% complete. And the low oil price environment has allowed us to contain our contracting costs, improve the construction productivity and attract very high quality

labour. And as a result, we remain on target on both cost and schedule and we continue to expect first oil in the fourth quarter of next year.

Meanwhile, on the Hebron project, construction of the gravity based structure and topside continued in the first quarter. Like Fort Hills, Hebron continues to target production of first oil by the end of next year.

Now, of course, I couldn't possibly talk about growth without spending a few minutes on the Canadian Oil Sands acquisition which we successfully closed late in the first quarter. This was the culmination of over a year's work by a very dedicated team of people. It took tremendous effort to complete the deal. But in many respects, the real work has only just begun. In the past few weeks, we've been working closely with other Syncrude owners and the operator to chart the best path forward towards improved performance and profitability. And we believe there is significant potential to reduce costs, improve reliability and capture the synergies between Syncrude and Suncor's operation. It's still very early days in what will be a multi-year performance improvement journey. But we have considerable reason for optimism. The very strong first quarter provides a glimpse into the potential of Syncrude. Now we expect it will take both time and effort to reach a point where the operation can sustain this level of performance. But we have both the knowledge and the experience and, you know, have no doubts we are definitely up—up for the challenge.

With our increased stake in Syncrude and the Fort Hills and Hebron projects on target for first oil next year, Suncor expects to profitably grow production by over 40% versus 2015. We now forecast our produ—our total production to exceed 800 thousand barrels per day by 2019. That's a growth trajectory that very few companies of our scale can hope to equal. More importantly, it's growth that gives us even more leverage to raise in oil prices. I actually think that this is something very few fully appreciate abo—about Suncor.

Our integrated model is widely recognized as providing a hedge against low oil prices which has made us a good, defensive investment over the past 18 months. However, many people are under the mistaken impression that the integrated models some had limits are upside as oil prices recover. Nothing could be further from the truth. In fact, with our recent acquisitions, we now have over 700 thousand barrels per day of production. In fact, just as a quick aside, in March, we produced just under 740 thousand barrels a day. And—and that number is going to increase to, as I say, to an excess of 800 thousand barrels per day as Fort Hills and Hebron ramp up in 2018. And more than 99% of that production is oil. And the majority of that oil is high quality, low cost, low decline and have access to market. So, as a result, our leverage to any increase in benchmark oil prices is greater than our oil sands peers and among the industry leaders globally. As oil prices recover to more sustainable levels, we fully expect Suncor to continue to outperform. We've had a strong operational start to 2016 and we're tracking very well against our various guidance metrics.

So, I've summarized there our operational performance and progress on the strategy. I'm now going to ask Alister Cowan to provide some colour on the financial results.

ALISTER COWAN: Thanks, Steve. As everyone knows that the first quarter piece of the lowest benchmark crude oil prices in well over a decade. And which in turn proves bitumen realizations then to levels well below cost at the early part of the quarter before recovering somewhat in March. At the same time, benchmark refining cracks and it seems approximately 40% versus the first quarter of last year largely as a result of weak distillate margins and narrowing crude differentials.

Despite these piping headwinds, we were able to generate solid cash flow across the business thanks to reliable operations and continued cost reductions in both the upstream and the downstream. Oil sands produced

\$263 million of operating cash flow in the quarter at over \$5 per barrel production. Explorations in production generated \$261 million in cash flow at over \$22 per barrel of production. And then the downstream, refining and marketing, produced \$404 million in cash flow despite \$192 million FIFO loss as a result of the falling oil prices versus the previous quarter. When corporate costs are factored in, Suncor generated total cash flow from operations of \$682 million for the quarter. This equates to almost \$11 of cash flow for every barrel of upstream production in a period when upstream pricing and downstream cracks were at a cyclical low. And both oil prices and refining cracks have staged modest recoveries in the past weeks although the impact of these improvements have been somewhat mediated by the weakening U.S dollar.

Obviously, we do welcome any improvement in the pricing environment but it's not something over which we have any influence. Our focus, as Steve has mentioned, is very much in the things we can control. We are rigorously monitoring both our operating and capital expenses while maintaining the strength of our balance sheet.

Now earlier in the call, Steve went into some detail on the progress we're making to drive cost down in the business. And it's important to note that it is not just the cash cost per barrel that's falling. We're sustainably reducing operating expense right across the company. If you normalize for the cost associated with acquiring Canadian Oil Sands, our first quarter operating selling and general expense is down approximately \$150 million versus Q4 of last year putting us on pace to achieve the further \$500 million cost reduction target we set at the beginning of this year. Importantly, the majority of that total is related to controllable cost savings that we expect to sustain into the future.

We also continue to capture capital efficiencies. In February, we announced the \$750 million reduction in our 2016 capital spending plan, bringing the

guidance range down to between \$6 and \$6.5 billion. In the first quarter, we invested just over \$1.4 billion of CAPEX to sustain our operations and drive our major growth projects forward on schedule. Of note, we also assumed the capital spending associated with the increase stake in Syncrude as a result of the two recent acquisitions. Given the savings we're achieving, we're now confident we can absorb the approximately \$300 million of additional Syncrude capital within our existing capital gains range.

For the past several years, Suncor has been able to comfortably fund our capital commitments and generate significant free cash. With prices at the low end of the cycle and peak growth spending on both Fort Hills and Hebron, 2016 does present a funding gap. However, we believe that gap is manageable given the stance of our balance sheet. And net debt to cash flow is running at 2.5 times. And the total debt to capitalization is just over 29%. We have almost \$10 billion in liquidity including over \$3 billion in cash. And importantly, we continue to attract a strong investment grade credit rating while many others in the sector have endured multiple [indiscernible] downgrades. While I'm comfortable with our current financial position, we do plan to bolster the [indiscernible] through the divestment of some known core assets. We have identified a number of potential diversities in our portfolio. These are known oil producing assets which we believe will command premium valuation in the current market place.

We expect to achieve proceeds of \$1-\$1.5 billion over the next 12-15 months which will provide us with an ardent financial flexible. I do see these diversities of the continuation of the disciplined portfolio management and capital allocations that is seen as opportunistically diverse over \$4.5 billion of non-core assets since the Petro Canada merger. As part of that portfolio management, we've also made a number of timely value accretive acquisitions that complement our existing asset base and increase our leverage to oil price.

Moving forward, we'll continue to look for opportunities to take advantage of market conditions, profitably grow the company without compromising our strong balance sheet.

So, to sum up, the business is running well. The balance sheet is strong. We're steadily growing production. Costs are being reduced. And we're poised to take advantage of any improvement in market conditions.

So with that, back to Steve Douglas.

STEVE DOUGLAS: Well, thank you Alister and Steve. Just before we open the line for questions, there are a few points I want to reference. As Steve mentioned, we did have a LIFO FIFO impact. It was a net after tax expense of \$192 million due to falling crude prices and product prices in the first quarter. Stock based compensation was a net after tax expense of \$102 million in the quarter. And the weakening U.S. dollar and strengthening Canadian dollar resulted in an \$885 million after tax gain on currency.

Finally, I would reference the changes to our guidance. The full guidance, of course, is available on the website. We have adjusted Syncrude production. It's been updated to reflect our increased working interest associated with the COS acquisition. We now have 125-135 thousand barrels per day as the guidance range. And that brings our total production range to 620-665 thousand barrels per day. The additional volumes that would be associated with the Murphy transaction, which was just announced, are not yet reflected in the guidance because the transaction is not expected to close until late in Q2.

While our production and cash costs are currently running well ahead of the annual guidance, it is important to remember we have major maintenance scheduled this quarter at both our oil sands base plant and at Syncrude. And those are ongoing as we speak. This planned maintenance will reduce our overall oil sands production and it will increase our unit cost in the



second quarter and, of course, that is factored into the guidance. We've added a Syncrude cash cost guidance range and that is \$35-\$38 per barrel for 2016. And we've also made a handful of changes to various assumptions to reflect market conditions and these include lower royalty rates on the East Coast, lower refining cracks, natural gas prices are down and a stronger Canadian dollar affects assumption.

As I mentioned, the complete details you can find on [suncor.com](http://suncor.com). So, I'll turn it back to Wayne to open up the mic for questions. I'd remind you that if you have detailed, modelling type questions, we'll be available throughout the day to answer those. Wayne, you can go ahead.

## **QUESTION AND ANSWER SECTION**

OPERATOR: Thank you. We will now take questions from the telephone line. If you have a question and are using a speaker phone, please pick up your handset before making your selection. If you have a question, please press '\*1' on your telephone keypad. You may at all times cancel your question by pressing the pound key. Please press '\*1' now if you have a question. There will be a brief pause while participants register. Thank you for your patience.

[PAUSE]

OPERATOR: Our first question is from Neil Mehta from Goldman Sachs. Please go ahead.

NEIL MEHTA: Hey, good morning guys. So, I wanted to kick it off on—on Syncrude. And just the improved utilization the first quarter was terrific, 91%. Just want—want your thoughts on how sustainable that improvement is as it exceeded our expectations. And just talk a little bit about how—how you plan on financing your increased stake here in Syncrude from Murphy. And then the final question as it relates to Syncrude is—is just what is this give you, the increased stake, now that you have a majority ownership of

the asset. Do you have more control over the operations and are you in a better pos—position to control its destiny?

STEVE WILLIAMS: Okay, thanks. And let me—I'll have the first go at all—all—all three of those. So, in terms of, you know, reliably increasing upgrader capacity, I mean, you know, Suncor and its base business has been on a journey. And that journey was a five plus year journey and now we're able to, you know, regularly exceed the 90% levels. I think the duration of the journey is the same for Syncrude. But, of course, we don't start from here. We've actually been engaged in that process for a number of years al—al—already.

So, you know, the first quarter is not necessarily something we can expect to do every quarter but that's clearly the objective of the groups that are working on it now. That we sustainably increase the reliability of that business up into the 90—90% plus levels. I'm very encouraged by the work that's going on. I've personally sat down with the Chief Executive of Imperial. We've also sat down with the Chief Executive of Syncrude and we've got great alignment between what we are trying to achieve over there. So good work. The project groups are working through the detail of it now and I'm greatly encouraged that our—our expectations will be met in—in—in the mid-term and that we will be able to assist Imperial and Syncrude in—in—in that process. So, early days first steps are looking good and what [indiscernible] done has given us a glimpse of the potential of that asset to perform at—at—at—at higher levels.

In terms of financing, I don't—don't plan to enter in any detail other than to say, you know, if—if you look at the materiality of this last 5% to the health of our balance sheet, you know, it's less than a billion-dollar deal. Alister talked about the \$10+ billion of—of—of liquidity we have on our balance sheet. In—in, you know, it's really not what's here. Our record is one of proven and discipline around our balance sheet and you will absolutely

continue to see—to see those go ahead. So, finance don't see as—as—as—as—as a major issue and—and—and the—our plans haven't changed going forward in the sense that our primary objective is to get the reliability of that asset out by working with Imperial and Syncrude and I'm greatly encouraged by the—the—the progress that's being made.

NEIL MEHTA: That's great. Thank you, Steve. And then, the—the follow-up for me is as it relates to non-core asset sales. You have identified a number including wind, storage assets, pipelines and logistics. What's the potential to—to monetize those in the near term and then over the longer term? How do you think about other assets like retail?

STEVE WILLIAMS: You know, again, and—and—and it's always very difficult to talk to very specific either acquisitions or divestments because it impacts the commercial negotiations that are going on. What I would do is reference you to—to our track record. We've, since the Petro Canada merger, we've sold \$4.5 billion of assets. And if you draw the curves of what that looks like in the context of each of the businesses of those assets, you will see we've been very successful. It's simply selling at the top of the market and buying at the bottom of the market. So, you know, the track record of buying at low prices and selling at high prices is very well established there. You will see that discipline and rigor continue. We don't—we're not in—in fire sells of assets. What I will say is that the—the three we've talked about are all progressing at the schedule we expected. So, when Alister talked about, you know, realization of significant funds in the next 12-15 months, we're confident of—of—of those numbers. So—so—so we're in good shape and you'll see the same rigor and capital discipline applied going forward as you've seen over the last couple of years.

NEIL MEHTA: That's great, guys. Thank you so much.

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

BENNY WONG: Yeah, thanks. Interrelation signals that you guys are, kind of, continuing to look for more acquisitions, I guess my question is, do you see more potential to further consolidate the Syncrude project? And outside that project, can you maybe provide an update on what you're seeing in terms of opportunities? Are you seeing more or less interesting opportunities today than say maybe six months ago?

STEVE WILLIAMS: You know, I would say, I mean, first of all, I would make the general comment about the MNA market and then I'll talk just a little bit about specifics. I mean, generally, the market is, I think, the—the Canadian market is seeing the lowest level of MNA activity in the first quarter that it's seen for a long while. And that's a reflection of the condition in general of people's balance sheets and their difficulty in being able to take those types of transactions on given—given—giv—given—given the state of the market and their finances. Suncor, quite different in that we'd—at a \$100, we didn't believe that that was sustainable. We'd put our balance sheet into extremely good health and that's afforded us the opportunity to leverage it where appropriate. Our strategy hasn't changed. Our balance sheet is still in good health. We will be opportunistic in looking at things in the mar—market. We're chasing nothing in particular. You know, I was very pleased with the Canadian Oil Sands acquisition and I'm equally pleased that we've now been able to get, you know, in excess of 51% of the Syncrude asset. That comes with some governance benefits but it doesn't actually change our objectives, as I said earlier. Our primary objective is to work with the operator, with Syncrude, to pair our joint expertise to get that asset fully performing. So, you know, the market hasn't changed that much. There are still opportunities but they will have to be very attractive opportunities for us to be interested.

BENNY WONG: Great. That's great colour. And then just going to the growth profile you guys laid out to 2019 of 800 thousand barrels per day. How are you guys thinking about becoming increasingly long upstream? Is this

something that you'll want to offset in some way with investment or—or is that just a natural evolution of Suncor that is just going to move away from its full integrated model?

STEVE WILLIAMS: I mean, that's a great strategic question. And, you know, because of the conversations we've had previously, it's something we're constantly looking at. What I would say is don't—don't forget that all of the volumes we have brought—bought recently are—are in a sense, partially integrated because they come with full upgrading. So their product is a very high quality, sweet synthetic crude. So they're partially integrated already and don't expose us to some of the margins which have been more difficult in—in—in the business. And that is part of the strategy.

We are—we've continued to look at that balance and we—we have a—a target range in our mind for integration to protect the integrity of—of—of the margins of our business. And we're still broadly within the ranges that we're okay with. We are constantly looking at that downstream market to see if opportunity is there. But the same capital discipline and rigor will apply and these particular acquisitions don't trigger any great concern for us.

BENNY WONG: Great. That's great colour. And just as a final question, a little bit more any, just notice with the incremental Syncrude CAPEX, kind of, baked into your guide but your guide didn't really move. Did I read it right, there's some changes in there or is a part of that driven by cost savings you guys are achieving?

ALISTER COWAN: Actually, Benny, as—as you—you—as really, we were achieving cost savings on our existing capital program as we execute it. So we were able to absorb the extra 300 million odd from the Syncrude stake within the existing guidance rates. So, it's all due to cost savings on the existing base.

BENNY WONG: Got it. Great, thanks guys.

OPERATOR: Thank you. The following question is from Greg Parady from RBC Capital Markets. Please go ahead.

GREG PARDY: Yeah, thanks. Good morning. Just, I guess, really a couple of questions but Steve, you mentioned everything on track with—with Fort Hills and so on. So when that project was sanctioned, I think it was 2013, I believe there was about a billion five or so in terms of contingency costs and so forth. Is it possible those will now start to come out just given the productivity and the cost environment you're seeing?

STEVE WILLIAMS: You know, it's far too early to—to—to—to be that explicit, Greg. I mean, what we are seeing is, you know, the—if this project comes in on cost, on schedule, it will be the first mega project in—in—in Alberta in the oil sands industry to do that and it's looking good for that at the moment. We are seeing some real benefit in terms of executing the project at this time. One of the, of course, the big challenges is in the project is it's—it's exposure to exchange rates and part of that contingency is for exchange rates and with a—a—a very low Canadian dollar, then depending on how each of the partners are set up, their corporations have—have different exposures to exchange rate. So, you know, it won't—it—things—things are encouraging. I think that's too optimistic to think that all—all of that contingency will come out. We still haven't applied all of it to the project yet. So, things are looking good and, you know, the formal position is we're on cost, on schedule.

GREG PARDY: Okay, great. And—and I—I think you've already answered those. Kind of, just get on the record though. But it doesn't sound as though, you know, with them moving now to 54% that you're going to seek operatorship at Syncrude anytime soon. Is that fair?

STEVE WILLIAMS: That is—that's fair. It is not our primary objective. Our primary objective is to work with the existing operator and Syncrude to get to the reliability levels. And we're actually in that process and—and I'm

encouraged by it. But, you know, this is a very important part of the Suncor business now and we will progressively, you know, work harder and harder until we start to achieve our goals.

GREG PARDY: Okay, great. And the last one for me, and it—and it kind of comes back to the integration question, but Montreal, right, which is largely been a—a tide water refinery now has—has kind of shifted gears with respect to the Line 9 B reverse. So, how are you thinking about Montreal on a longer term basis? I mean, it did sound as though you guys were, perhaps, more serious about contemplating a—a—a coker in Montreal. We hit sod initially. But what is the plan for Montreal longer term?

STEVE WILLIAMS: I—I mean, you know, we see Montreal as a keeper refinery, a long term part of our integration. The Line 9 has been very effective. It's largely running now on inland crews which means we can—we can take absolute advantage of whatever those margins will offer us. We like Montreal. It's a complex refinery. It has the capability for putting the coker in that we've talked about. So, you know, as we look at our downstream integration options going forward, you know. We put the coker right alongside potential other a—a—a—acquisitions when we look at the suite of alternatives. And the coker screens very well. So, you know, it's still there. It's back in our plans now a year or two into the year, early 20s, but it's still there as a potential option for us to exercise in the future.

GREG PARDY: That's great. Thanks very much.

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

GUY BABER: Thank you very much. Guy Baber with Simmons a.k.a. Guy. Steve, I wanted to dive a bit deeper into your comments that the market does not fully understand or appreciate the leverage to oil price improvement. As I tend to agree with you, so did since check our model and

what we see, is there any way you can help frame or quantify for us the incremental operational leverage to higher oil prices you're picking up relative to the portfolio before the Syncrude acquisition? Just wondering if you could frame that so we could have a sense check for our models.

STEVE WILLIAMS: Okay. Let—let me frame it. Alister's then going to pick it up and then we'll refer you to something in the future because we recognize that we had a big part to play in trying to get a clear understanding of what that leverage to the upside looks like. You know, I gave the simple math, you know, right now, you know, we are 99% leveraged. We've had, you know, 7-8% growth for the last three or four years. I've outlined that 40% growth between '15 and '19. And—and, you know, I try to give an indication in there that actually all of this is not for some [indiscernible] in the future. It—it is a, you know, we actually reached and it was a very good—very good month. So, we can't expect to do that every month of—of the year. But we did achieve 738 thousand barrels a day through March. So, you know, a lot of it is there and I think there's an under-recognition of what—what the capability of the assets we now have in our ownership are—are capable of achieving. So that was the first point.

I think the second point is then and—and I'll let Alister talk to it about what the—what the actual business is is—is looking like today. And there is some fairly detailed assistance we can give you there. And what I would say is then what you should actually have the conversation with our detailed modelling guides, cause we've started to do some work now to be able to better tell that story of—of—of what it looks like. So, I'll hand it over to Alister and he can—he can give you the—the—the intermediate [indiscernible]

ALISTER COWAN: Thanks, Steve. Just a—I'm going to give you a number. If you went to our annual report, you would have seen we have a sensitivity table and there they showed for 2015 our sensitivity to a \$1 movement U.S.



in the crude oil price from a cash flow perspective, it is \$165 million. Post Syncrude, and we're currently sitting at and exposures of \$220 million. Every dollar that crude goes up, our cash flow will go up by \$220 million.

GUY BABER: That's very helpful. Thank you guys. And then my follow-up, I— I wanted to talk about the retail business. So, from a strategic level, how do you view the value up list that your retail assets provides your overall downstream arm in house from an integration standpoint and from a margin uplift or optic security standpoint? And what I'm really trying to understand and better appreciate are the benefits you may or may not be realizing by having that asset integrated. It could be difficult for us to appreciate with the disclosures that we have.

STEVE WILLIAMS: Ok—okay, I'll make the few strategic comments and then I'll let—I'll let Steve just pick up and talk a little bit of detail. And—and—and I mean strategically, we like our integrated model. And in order to capture all of the margins, we've really enjoyed having the model which takes it from bitumen right the way up to customer. And, I mean Steve will say a little bit more, but our retail business itself is a very successful and profitable business. Now, of course, we're very cognisant of the fact and I'm sure everyone else on the call is as well that there are examples, very recent examples, of people monetizing their retail businesses. And often there are different reasons for that. That is clearly a possibility for integrated oil companies to do that. We've looked at it. We've looked at the opportunities and we retain it there as an option. It's not—it's not at the top of our list in terms of what—what we want to do because we see it as a—a business which is contributing.

STEVE DOUGLAS: Thanks, Steve. And just to add to that, I'd say, you know, we have a value from—from a couple of perspectives on—on the retail business. One is it provides a controlled channel of sale for the production out of our refinery. So, we're not simply merchant refiners, selling the

production at the refinery gate, but we have a high value added channel—controlled channel of sale through our wholesale and retail assets. The second is, frankly, they give us a very strong return. And if you look at quarter in, quarter out for the past four or five years, our refining and marketing network has easily led the pack in North America in terms of net earnings per barrel of through put. So, it certainly adds value and we're not currently, although we keep a very close eye on the market and we're well aware of the value, we're not currently marketing the retail assets.

GUY BABER: Thank you guys very much for the comments.

OPERATOR: Thank you. The following question is from Phil Gresh from JP Morgan. Please go ahead.

PHIL GRESH: Hey, good morning. First question on Syncrude is how you might think about a free cash flow breakeven there? You know, I think you're—the moment probably investing at maybe a sustaining capital level but what price do you think you need to—to breakeven there? And, I apologize, I hopped on late but maybe you could just talk about now that you have a larger stake, you know, what's really different now? I feel I get that question a lot from folks. What's different moving forward?

STEVE WILLIAMS: Okay, yeah, and in a couple of, as I've sort of hinted at, Phil. So, I mean, the first—in response to your first question, let me give an answer to the—a blended answer rather than Syncrude because we're very happy to talk about those in more detail off—off line but, you know, it depends on so many assumptions you make in terms of, you know, reliability, operating costs, crude price, etc. But let me give you a broad answer which I think sometimes surprises. I mean, for Suncor, including the Syncrude assets, we look at our, what we would call the cost at which we could cover, our dividend and our sustaining capital. And that price is a Brent price of less than \$40 a barrel. So we can—we think we're free cash flow generative on that definition at below \$40 a barrel. And that tends to

surprise people how low that is. And that's one of the characteristics of the type of—of—nature of that business we're in. So, it's, you know, one of the reasons we've been a little bit more pushy on trying to get this understanding of how—how significant our improvements would be as crude price go up. Because we think there's a misinterpretation. In fact, you know, if you look at the cash operating costs of Syncrude in the documents there, and first quarter was a good first quarter except that there was \$31 a barrel and their sustaining capital is very low levels. That's one of the very successful pieces of work that's been going on over the last few years that they've largely completed a lot of their bigger projects and they're relatively low levels of capital. And as Alister said, we're able to take those into our capital budget without actually moving our capital budget that they're so low. So, the number I would take is for the blended business of Suncor. It's less than \$40 a barrel break even for dividend and sustaining capital.

PHIL GRESH: And what sustaining number are you using there?

[PAUSE]

PHIL GRESH: For capital?

STEVE DOUGLAS: [indiscernible] Yeah, that—that's using \$250 million this year for our total sustaining capital for—for our Syncrude working interest.

PHIL GRESH: And total company?

STEVE DOUGLAS: Total company would be about \$2 billion for our production side of the business and another \$700 million for refining and marketing.

PHIL GRESH: Got it. Second question is just around the balance sheet priorities. In the slides that you put out, you talked about a below three times net debt to cash flow targets. Now you're around two and a half. I think that was, you know, end of quarter and before the additional 5% stake. Maybe just talk

about your priorities there and, you know, whether you see that two and a half as, kind of, a trough or where you want to get to through the cycle.

ALISTER COWAN: Yes, Phil, that's a very good question. I think we put out some targets there that through the whole cycle, on a debt to CAB basis of a 20-30% on a net debt to cash flow sort of two to three times. So we're kind of sitting at two and a half. So kind of in the middle of that range. So very comfortable with that. You know, as we move forward, it will go up slightly as we calculate but as, you know, we move into higher oil prices, clearly those numbers will begin to come down to the bottom end of our ranges.

PHIL GRESH: And so if you have excess cash as oil price goes up, how do you give out those priorities then?

ALISTER COWAN: Well that goes back to your capital allocation that we've talked about. Where do we allocate free cash flow and it's, you know, Steve will tell us about it, a mixture of investing for profitable growth, looking at the dividends as we grow the underlying production of the company. And then, obviously, sell buy backs. And you'll see us do a combination of all those. I mean, that goes back to our value proposition, which is growth plus return and then cash to shareholders.

PHIL GRESH: Okay, thanks a lot, guys.

STEVE WILLIAMS: You know, the only bit I would add to that is a final comment is, you know, if you look at we've got two very big growth projects which are coming to a conclusion. It is difficult in the current economic environment to see how you would be approving those types of projects in the—in the current environment. So I think you—you will see us coming back to much more of a model of operating the business really well and investing in the selective high return de-bottleneck projects. You'll see us maintaining the facilities to a very high standard so the reliability comes up. But, you know,

you will see us taking breaths around growth projects because what the market is offering is a cheaper alternative in terms of buying—buying capacity. So, you know, there isn't a go back to how we were. The—the—you'll see the same discipline and rigour but you won't see us going back to about the same mix.

PHIL GRESH: Alright, thanks, Steve. That makes sense.

OPERATOR: Thank you. The following question is from Mike Dunn from First Energy. Please go ahead.

MIKE DUNN: Good morning, everyone. Steve, just on the acquisition of the Murphy interest and Syncrude, is it fair to say that you guys were motivated to do that deal to get your ownership stake to be a majority? The metric looks, I guess, similar, maybe a little bit premium to what you did with Canadian Oil Sands but, is that a fair assumption? Or—or not and we should assume that you would be open to doing—to acquiring more stakes in Syncrude at a similar metric?

STEVE WILLIAMS: No, just make a—a few comments, Mike. I mean, actually, if—if you look at the calculation that is on the same terms as—as Canadian Oil Sands, but in Canadian dollars, so, you know, you do have to look at the fact the—there was a relatively significant change in—in exchange rates through the last period. So, that's—that's to—to our benefit. You know, the primary objective is we think it's a very attractive asset where we think it will be increased on the assumptions we are making. There's no doubt that, you know, there is—our—our primary objective is to work with Imperial and Exxon and Syncrude to get it up to the reliability that we want. But, you know, there's no doubt having in excess of 51% does improve—improve the position. And really, it's a reflection of how good we think that asset is at this price. So, you know, I am very pleased that we've been able to—to take it up above 51%.

MIKE DUNN: Thanks, Steve. And just a final one from me. Your cash flow statement noted \$159 million in asset sale proceeds in the quarter. I didn't see any disclosures of what those were. Forgive me if I've missed something. But any—any colour to add there.

ALISTER COWAN: Yeah, Mike. It's that kind of normal business deal. You recall we did come down slightly on the Hebron high bearing interest and that's just really the repayment of capital from prior years.

MIKE DUNN: Okay. Thank you. That's all from me.

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

PAUL CHENG: Hey guys. Good morning.

STEVE DOUGLAS: Hi Paul.

PAUL CHENG: Steve, just curious. Now that we—you get to 54% in Syncrude and after the Murphy deal about 59%. And you have said that the primary objective is trying to improve that operation, become—become a very large arm of your business. So from that standpoint, how's the priorities shift between focussing on that and also that looking at the next wave of your SAGD projects. That how is it a concurrent pair [indiscernible] and one doesn't really impact or, I mean. After all, you still have limited organizational capability as well as capital that how much you want to effectively spend. So, just trying to understand how that priority may have moved.

STEVE WILLIAMS: Do you know, you sort of answered the question very well there, Paul, in that it really hasn't affected our capability going forward. You know, again, it's often not—not realized when you look at competitors in the business. We are the largest SAGD operator. You know, we've got the combination of Firebag and MacKay River put us up, as you know, in the

2—240 thousand barrel a day type range. It's a—we're very pleased with the way it's going. We've got major technology development going on in those regions. And we have, probably, if not the best, amongst the best assets going forward that can be developed. So, it—we're in a very powerful position. It's a very important strategic part of our business. And it's a question of when, not if we develop those—those opportunities.

The beauty of the Syncrude asset is its instantaneous. It's there. It's operating and it's operating at a, you know, if you look at the overall deal depending on metrics you like, it's a very low cost per flowing barrel. It's a, you know, it's—we've seen what the operating costs can look like. In the first quarter, they were down to 31. So some great opportunities there.

We have—we will not take the focus off of what I call our base oil sands business. We've spent, you know, really, probably, seven or eight years, but very, very focussed in the last five years to earn—earn—earn the right to claim that plant is reliable and to get its reliability up into—into the 90s. What we've got now is a very—a very accomplished, capable team who've achieved that. So it gives us the opportunity very timely to be able to start to allow some of those guys to concentrate and help on—on the Syncrude asset. And, you know, in fact we have been doing some of that and we plan to do more of that going forward.

So, you know, we've been planning the organizational capabilities. Same with Fort Hills, if you like. I mean, one of the lessons we learned was around when, relative to the start of the projects, you develop the operating expertise. We already have a good part of the operating team in—in our Fort Hills, finishing off the facility. And so they understand it by the time they need to start it up. So, you know, everything you've seen us do, we have the organizational capability to do very well.

As we look forward, one of the questions as a team we always ask ourselves is, you know, do we have the organizational capability to be able

to deliver without distracting from the other parts of our business. So far, we've been able to act in that very positively.

PAUL CHENG: And, so, as you mentioned, as a matter of the when but not if on the next wave of the SAGD growth projects. Is there a timeline you can provide that when we will hear more about, you know, that—when's that next wave is really going to come?

STEVE WILLIAMS: I mean, you know, we are already—they're not in our capital budget this year. We are already looking at next year. We're looking at, you know, in terms of potential start-ups of those projects. We're already back into '21/'22. So, you know, we have things we want to do between now and then. So, and those projects need time. What I like about that is it gives us the opportunity to put the very latest technology in there. So as we are, you know, finishing off the fairly big pile of tests on solvent extraction and these electro—electromagnetic wave extraction techniques. We will be able with that timeframe to put the new technology into the project which is a great advantage of the timing. I mean, we've already seen, you know, we're going—I—I think we will be one of the highest performing, major oil companies in the world in terms of growth rates. We've done that for the last four years and now we've got the—already got the plans in hand which deliver another, you know, this four—next 40% of growth through to 2019. So, I really like our growth potential and we don't have to rush into these things. We can—we can do it in a—a—a way which is very consistent with the strength of our balance sheet.

PAUL CHENG: So, Steve, based on what you just said, should we assume that the next wave is going to be sanctioned sometime in 2018/2019 given that it is probably going to take two to three years for the major pilot projects to complete their testing?

STEVE WILLIAMS: Yeah, I think that's fair, Paul.



PAUL CHENG: A final one, if I may, since you talked about the CAPEX, in the pause before the downturn you, sort of talking about \$7-\$8 billion a year in CAPEX. Now with the additional asset and everything, on a going forward basis, what is the comfort—comfortable range of your CAPEX budget should be, is it still \$7-\$8 billion or is actually, even though you have more asset that have been shift down?

STEVE WILLIAMS: Do you know, I think what I would do is just take our track record. You've nailed it. We've spent \$6-\$6.5 billion for the last four years. So there's a good number in terms of, you know, what our—our project execution capability is. Within that, we've had, you know, these very large growth projects, so as Steve said earlier, absent large growth, we will be coming back to smaller numbers than those. So you'll see us start to have the opportunity to allocate capital to—to different things. But, you know, part of the asset depends on what the world looks like in the future. I see four—I would use our track record as an indication of what's going to happen in the future for the foreseeable future.

PAUL CHENG: Okay.

STEVE DOUGLAS: And with that—thank you, Paul. Sorry, Steve, you're—we've—I'm afraid we've run short of time. We still have a number of analyst questions and media lined up. I would encourage the analysts, please get in touch with me directly later in the day. And media, of course, have your Suncor Media contact who will be very responsive today. With that, though, Wayne, I see we're at time. So, I'll ask you to close the call and I'll thank everyone for participating.

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

[END OF TRANSMISSION]