

## **CORPORATE PARTICIPANTS**

**Steve Douglas**

*Vice-President, Investor Relations*

**Steve Williams**

*President & Chief Executive Officer*

**Alister Cowan**

*Executive Vice President & Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Guy Baber**

*Simmons & Co.*

**Neil Mehta**

*Goldman Sachs*

**Greg Pardy**

*RBC Capital Markets*

**Phil Gresh**

*JP Morgan*

**Paul Cheng**

*Barclays*

**Jason Frew**

*Credit Suisse*

## **PRESENTATION**

### **Operator**

Good morning, ladies and gentlemen, and welcome to the Suncor Third 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.

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### **Steve Douglas, Vice President, Investor Relations**

Thank you, operator, and good morning, everyone. Welcome to the Suncor Energy Q3 earnings call. With me here in Calgary are Steve Williams, our President and CEO, as well as Alister Cowan, our EVP and Chief Financial Officer.

I'd ask you to note that today's comments contain forward-looking information. Our actual results may vary materially from the expected results because of various factors and assumptions and they're described in our Q3 earnings release as well as our current AIF, and these are both available on SEDAR, EDGAR, and our website, suncor.com. Certain financial measures referred in these comments are not prescribed by Canadian general accepted accounting principles and for a description of these measures please see our Q3 release.

Following our formal remarks we will open the call to questions 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.

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### **Steve Williams, President & Chief Executive Officer**

Thank you, Steve, and good morning and thank you to everyone for joining us.

I'm pleased to be reporting on a strong third quarter for Suncor with very positive results on the financial, operational, and strategic fronts. As normal, let me start with the operations.

First of all, we achieved safe reliable production across all of the operations in the third quarter. At oil sands, our facilities returned to full production by early July following the post forest fire remobilization and completion of the major turnaround activities on Upgrader 2. We achieved strong production, averaging 434,000 barrels a day for the quarter and an 86 percent upgrader utilization, and that's despite the planned coker maintenance that reduced throughput in September. And, importantly, we continued to take costs out of the system as overall oil sands cash costs came in at just over \$22 per barrel. And that's our lowest cost per barrel in over a decade. In situ performance was very solid as Firebag averaged just under 200,000 barrels a day for the quarter, and that was with an SOR of just 2.6. MacKay River turned to normal operating rates after third party pipeline issues in July and planned maintenance in August and cash costs for in situ dropped to \$10.45 per barrel effectively matching our lowest quarterly costs on record.

At Syncrude, following the post fire immobilization and completion of turnaround maintenance, production ramped back up by mid-July and ran at record levels for the remainder of the quarter. The strong production combined with continued cost reduction initiatives resulted in an average cash cost per barrel for the quarter

of \$27.65, again the lowest in almost a decade. The reliability improvement plan that was already in progress when Suncor increased its ownership stake earlier this year has clearly begun to pay off. Together, Suncor, Syncrude, and Imperial are leveraging the best of our combined knowledge and experience. Now it's much too early to declare victory but we're certainly encouraged by the progress to date and I just want to take a moment to recognize the efforts of the Syncrude employees and leaders who have been key to this recent success. Of note, we continue to work with Syncrude and Imperial on a plan to sustainably improve reliability, reduce costs, and drive synergies between our operations. We're strongly aligned on the outcomes and we're focusing on specific initiatives and milestones and, as I said before, we plan to come out with a summary of that plan by year end.

In E&P, our offshore production continued to track ahead of plan despite turnaround maintenance during the quarter at Buzzard, Golden Eagle, and White Rose. We saw strong reliability and cost management during the quarter from all of our offshore projects. As a result of this performance, we've increased our E&P production guidance for the second time this year.

In the downstream, record refinery throughput of 465,000 barrels a day drove low unit operating costs and strong financial results, helping us overcome a decline this quarter in refining crack spreads, and there seems to be a great deal of pessimism around North America refining and marketing but Suncor's downstream continues to exceed expectations. At the beginning of this year we forecasted a 20 to 25 percent drop in downstream cash flow versus our exceptional performance in 2015. Our forecast was based on an expected decline in distillate demand as a result of the mild winter and reduced E&P activity. With three quarters now in the books we're actually tracking ahead of our forecast and enjoying another year of industry-leading downstream performance.

Turning to our major projects growth, both Fort Hills and Hebron are entering the home stretch with construction over 70 percent complete and first oil expected by the end of the year of next year. For both projects offsite fabrication and modularization programs have been completed, so the global risk is now safely behind us. At the beginning of the third quarter, Fort Hills on-site activities ramped back up after the project was demobilized for approximately one month due to the regional forest fires. Now, as I've said before, this project is very large and complex with many moving parts and it's now in the final stages of construction. Approximately 50 percent of the operating systems will be handed over

to the owner by the end of this year; however, I remain confident, and that's an important emphasis I want to make today, I am confident we will deliver on the original sanctioned commitments, and specifically that's first oil by the end of 2017, a capital intensity of \$84,000 per flowing barrel, and safe and reliable production ramp up in 2018.

In addition to our organic growth projects, Suncor has also taken full advantage of low oil prices to invest approximately \$9 billion in acquisitions over the past year. We've increased our working interest in Fort Hills project by 10 percent, taking our ownership to 51 percent; we've acquired two additional stakes in Syncrude, bringing our working interest up to 54 percent; and we've purchased a very low-cost option on future North Sea production with the Rosebank project.

We've also been active on the divestment front with two asset sales announced this quarter relating to the East Tank Farm and deferred the sale of the lubricants business well advanced. I'm particularly pleased with the agreements we reached with the Fort McKay and Mikisew Cree First Nation in regard to the East Tank Farm, which is being built in conjunction with Fort Hills. We signed an agreement to sell 49 percent of the East Tank Farm to the two First Nations for a total of approximately \$500 million. As a long-time operator in the region we've worked for many years to cultivate strong mutually beneficial relationships with our aboriginal neighbors. This partnership is unprecedented in scope and scale for First Nations, Suncor, and the industry. The First Nations will take ownership in a world-class terminal asset, which is expected to generate solid returns for the next 50 years or more.

All of these transactions are consistent with Suncor's well established track record of counter-cyclical acquisitions and divestments. By exercising patience and discipline and being very clear on what is core to our business, Suncor has added significant shareholder value through acquisitions and divestitures at the right points in the price cycle. That said, there seems to be some considerable concern in the investment community with regard to potential future transactions that Suncor might undertake. There have also been a number of rumors in the market which have added to investor concerns. So let me take this opportunity to be crystal clear: We have never considered a transformational deal in the North Sea, period. We are not, and I repeat that, not marketing our retail assets. And we are not, and I will repeat that again, not currently involved in any sales process for a refinery.

Rumors and speculation will always be with us but what I would say is simply judge us by our record. We're not out to build an empire or grow for the sake of growing. Our goal is always to add long-term value for our shareholders. We will continue to evaluate every opportunity that comes along but, to be clear, I think with prices recovering to the \$50 level there is beginning to be less pressure on sellers and the window of opportunity may well be closing. Certainly for Suncor this is likely to be the case, because we will not chase deals. And, to be very frank, we don't need to do any further M&A. With our increased stake in Syncrude already generating strong returns and Fort Hills and Hebron progressing to completion, Suncor is growing both quickly and profitably. We expect to significantly exceed 800,000 barrels per day of production by 2019, and that's over our 40 percent growth in just four years and represents a 6 percent per share compounded annual growth rate between 2015 and 2019. It's also growth that significantly increases our leverage to oil prices and we expect it put us amongst the industry leaders on free cash flow yield at forward strip crude prices.

So the future is bright but in some respects the future is already here. With over 728,000 barrels a day production and \$2 billion of operating cash flow this quarter at an average Brent price of less than \$46 per barrel, Suncor is, once again, firing on all cylinders. Our five-year major maintenance program oil sands base is now safely behind us and we're looking forward to continued strong, reliable, and profitable production in the coming quarters.

So I'll now hand over to Alister to provide some additional colour on the third quarter financial results.

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**Alister Cowan, Executive Vice President & Chief Financial Officer**

Thanks, Steve.

With the third quarter results, as Steve said, Suncor's returned to generating in excess of \$2 billion of operating cash flow even though Brent crude averaged less than US\$46 per barrel. At oil sands we produced over \$1.2 billion in cash flow thanks to reliable operations and reduced operating cost. Our 54 percent working interest in Syncrude contributed almost 45 percent of that cash flow. Syncrude posted record production rates, sharply lower cash costs, price realizations on the par with WTI at over \$58 per barrel. In E&P we generated \$365 million of cash flow as our offshore projects continued to produce ahead of plan with low operating costs and realized prices very close to the Brent benchmark. In the downstream we achieved a cash flow of \$595 million

despite lower refining cracks, as Steve said, and a FIFO loss associated with the drop in the average crude price during the quarter. The fact that our refineries were able to process record volumes of crude at an average cost per barrel of just C\$4.55 was a big factor in our strong financial results.

As usual, during the third quarter we maintained our focus on cost reductions. \$2.2 billion of total operating, selling, and general expenses were up by a bit less than 8 percent versus the same quarter last year, reflecting the acquisitions Steve outlined partially offset by further cost reductions. However, when you compare an 8 percent increase in total expenses to our production increase of almost 29 percent quarter over quarter, you can see that efficiency has increased. We are on track to finish the year with total operating, selling, and general expense of approximately \$9 billion. That includes \$1.3 billion of costs associated with our increased share of Syncrude. This will push our cost savings up to \$900 million for 2016. That's well ahead of the \$500 million cost reduction target we set at the beginning of this year. Going forward, we will continue to make sustainable cost reductions and increase productivity to all priorities across the company.

And, of course, cost reductions are not limited to operating expenses. We're equally focused on cost savings and the execution of our capital spending programs. We have reduced our 2016 capital guidance for the second time this year and we now expect to come in between \$5.8 billion and \$6 billion for the year, and that will be after absorbing approximately \$300 million in additional capital spending as a result of the Syncrude acquisition. Going forward, we anticipate a significant reduction in our capital program in 2017 to around \$5 billion as spending on Fort Hills and Hebron ramps down and the projects commence operations.

With strong cash flow generation and reduced capital spending, Suncor's balance sheet remains in very good health. We have approximately \$9.8 billion of liquidity, and that includes \$3.1 billion of cash on hand. On a trailing 12-month basis our net debt to cash flow was three times and total debt to capitalization is 28.8 percent. Now those numbers include the significant impact of the forest fires, which resulted in deferred cash flow of approximately \$500 million. The strong balance sheet continues to attract a strong investment grade credit rating.

In June, we issued approximately \$2.9 billion in equity in order to fund the purchase of Murphy's 5 percent working interest of Syncrude and to bolster the strength of our balance sheet in the expectation of continued low prices.

With the benefit of hindsight, given our very strong financial results and the recent increase in crude prices, the equity raise may look to some as overly conservative. As Steve made clear earlier, we see a low likelihood of further M&A at this point, so it's unlikely we will deploy those funds in an acquisition. Nevertheless, we're comfortable maintaining excess capacity on the balance sheet given the high levels of uncertainty around forward crude prices and the wide range of perspective on global supply and demand balance.

With our recent divestment announcements in regards to the 49 percent of the east tank farm and the sales process of the lubricants business being well advanced, we are on track to exceed the \$1.1 billion to \$1.5 billion target for divestitures that we set at the beginning of this year, assuming, of course, that these transactions close as expected over the next three months. You will notice in our financial disclosures that we have now listed further assets with a net book value of approximately \$275 million as held for sale. This relates to the likely sale of some of our non-core wind assets within the next 12 months. These various divestments were Suncor's efforts to refining our portfolio of assets and focus squarely on the strategic core of our business. They will contribute to further reductions in our operating costs and are not expected to have a material impact on future cash flow generation.

So as we get towards the end of 2016 its worth revisiting the commitments we made at the beginning of this year. We set a goal of reducing operating expenses by \$500 million compared to 2015. We're on track to achieve almost double that level of cost reduction and have reduced our oil sands cash cost per barrel guidance accordingly. Importantly, we do believe that the majority of these savings are structural in nature and will be retained going forward. We set a capital budget range of \$6.2 billion to \$6.8 billion and we now believe we will deliver the capital program between \$5.8 billion and \$6 billion. And of note, this includes sustaining CapEx of approximately \$300 million associated with our increased ownership stake in Syncrude. We set out to purchase additional working interest in Syncrude and to drive performance improvements and synergies with Suncor's oil sands operations. The early returns on these acquisitions are looking very positive indeed and every indication today suggests that Suncor will realize more than the anticipated benefits, and the COS and Murphy deals will prove highly accretive. We announced a goal of divesting \$1 billion to \$1.5 billion worth of non-core assets within 12 to 18 months and we're on track to exceed the upper end of that range with the divestments announced to date.

So, in summary, we're steadily working to increase long-term shareholder value while remaining focused on capital discipline and operational excellence. We'll continue to set aggressive goals and we'll continue to deliver on them and we look forward to a strong finish to 2016.

With that, back to Steve Douglas.

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### **Steve Douglas, Vice President, Investor Relations**

Well, thank you, Alister and Steve, and just before we go to the phone lines a few things to note:

The impact of the UK tax reduction was an increase of \$60 million to our cash flow from operations in the third quarter. LIFO/FIFO with falling, slightly falling crude prices, was an after-tax cost of \$86 million, bringing the total this year to just a \$3 million cost after tax. Stock-based comp with the share price rising was a \$51 million after-tax charge in the third quarter and for the year to date is a \$182 million charge. Finally, FX with the Canadian dollar weakening in the third quarter was a net charge to us after tax of \$112 million but year to date is actually a gain of \$746 million.

We have made, as both Steve and Alister mentioned, a number of updates to our 2016 guidance. The key ones are as follows: All upstream production ranges have been adjusted resulting in total production increasing to 610,000 to 625,000 barrels per day for the year; all capital spending ranges have been reduced, resulting in total CapEx declining to \$5.8 billion to \$6 billion for the year; oil sands cash operating costs have dropped to \$25.50 to \$27.50 per barrel, and this is despite the impact of the forest fires by the way. It's reduced versus our original. Syncrude cash operating costs have also dropped, this time to \$37 from \$39 per barrel, and benchmark oil and gas prices have been adjusted upwards, refining cracks modestly reduced to reflect the most recent forward trends. There are a number of other refinements to the guidance. I'd encourage you to look them up on our website, suncor.com.

With that, I will turn it back to the operator to open the lines for questions.

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### **QUESTION AND ANSWER SESSION**

#### **Operator**

Thank you, Mr. Douglas. We will now take questions from the telephone lines. If you have a question and you are

using a speakerphone, please lift your handset before making your selection. If you have a question, please press star one on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

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

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**Guy Baber, Simmons & Co.**

Good morning, everybody. I just wanted to further explore some comments that you made in the prepared remarks but the cash flow this quarter obviously fully covered CapEx and the dividend at \$45 a barrel of oil, so you're on the cusp of some pretty significant pre-cash flow with CapEx headed lower, production moving higher, and oil prices moving above \$45. So can you just reiterate for us the priorities for the usage of that excess cash flow and if anything has changed on that front, specifically if you could rank dividend growth, buybacks, acquisitions, and organic growth investment? But it sounds that you're being pretty clear that acquisitions have slipped maybe to the back burner versus what may have been the case earlier this year with oil price having improved. So if you could just make some comments there, that would be great.

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**Steve Williams, President & Chief Executive Officer**

My first comment, Guy, would be that was a great summary of the messages we were trying to get out. So the only piece I might just correct you on, it's not really a correction, it's just a point, is we are covering our sustaining capital and our dividends at \$40, not \$45. So everything above there is potentially free cash. And then I'd, I mean I would just reiterate, if you like, what Alister and myself have said, and I'll keep it really clear because I think it's best that way.

If you look at organic growth you should not expect Suncor to be approving any major organic growth projects in the foreseeable future. That means at least the next couple of years. And lots of reasons for that that I won't go into but I don't see us pursuing major organic growth. You can never be, you can never absolutely shut down what opportunities the market will bring to you, but I think I was pretty clear there. I see the window of opportunity shutting. I see the speculation about us building up a war chest for further acquisitions as being

overcooked. We have a very healthy balance sheet. There's still a little bit of uncertainty in the market around crude prices and, you know, we would accept that we've been a little bit conservative through this piece, but we'd prefer to have, ah, it's part of our hallmark, our capital discipline is to have a healthy balance sheet there because of the cyclical nature of the commodity market.

So that really only leaves a couple of places then. That leaves dividends, which obviously are the domain of the board, and share buybacks. You should expect, you know, if things continue the way they look to be continuing, you will see movements on both of those fronts. And it could be sooner than perhaps we'd anticipated. If you look at the \$2 billion of cash at mid-\$40 then you don't have to do too much math to see we could have significant free cash available next year. I mean Alister, although we're not formally guiding on CapEx for next year until later in November, Alister gave a clear indication that we will be in the region of \$5 billion. So you add the dividend on to that and at reasonably low crude prices you have significant free cash available for dividends and buybacks, and that's what you'll see us doing.

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**Guy Baber, Simmons & Co.**

Very helpful, Steve. And then my second question was Syncrude obviously was a big story this quarter. You have the summary plan, which sounds like you're going to announce by year end. In the interim is there anything you can share there with respect to how we should be thinking about base case expectations for that asset as we think about performance in 2017 from a utilization perspective, from a cash cost perspective, and anything new to share in terms of what you're learning about that asset? How confidence is trending. That would be helpful.

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**Steve Williams, President & Chief Executive Officer**

Okay. What I'll do is give you some directional comments, because, as you say, we will be coming out by the year end with some clear and much more specific plans. I mean, what I would say is, first of all, the Syncrude governance structure has been in place and has been working hard for a number of years on reliability and cost and clearly they are getting some traction from that program and Suncor is very fortunate to be a bigger owner of that partnership at this stage. So lots of good, but we, you know, you've heard me say repeatedly Exxon Imperial are an excellent operator.

My first objective was to work very closely with them to be able to get even sharper focus on operational excellence, reliability, and costs. And I have to say it was one of the easier conversations I have taken. The governance at Syncrude is much simpler now because of the structure we have with ourselves and with two very experienced oil sands operators taking a much clearer position. I've been extremely impressed with Imperial and Syncrude's alignment with us and there are no roadblocks to making further progress. So I would say great start. It's not, you know, we couldn't expect to operate at this level continuously yet. That's our objective, to start to move the plant up to these utilizations in the 90 percent. But incredibly impressed with the way Syncrude and Imperial have worked alongside us to make those moves. So, very encouraged. That's one piece.

On the other front, we talked about the synergies, the opportunities from cross connections because of proximity, the opportunities of utilizing particularly Suncor and Imperial's corporate structures in a different way so that we didn't have to duplicate within Syncrude, and with looking at those, the details of how we might run the plants given the supply chains, the similar supply chains they both have. We're quite excited about what we've been seeing. There is considerable upside. And I'll just give you the simplest of examples.

If you look at what actually happened in the third quarter, one of the reasons Syncrude was so successful with the level of their operation and in getting their costs down was because they had a store of upgraded but not hydrotreated products. All they had to do was hydrotreat it. Their hydrotreating capability is nearer 400,000 barrels a day than 350,000 barrels a day. Suncor has unhydrotreated material. If we can find a commercial arrangement which is acceptable to both parties then there's a huge potential utilization of that asset in a different way. That was an additional one to the ones we were looking at around bitumen supply and utility supply. So that's a really long way of saying I like the base case, the operational excellence piece, I like the synergies, and I'm really very pleased with the way governance is going.

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**Guy Baber, Simmons & Co.**

Very helpful. Thanks, Steve, and congrats on the quarter.

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**Steve Williams, President & Chief Executive Officer**

Thank you

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**Operator**

Thank you. Our next question is from Neil Mehta with Goldman Sachs. Please go ahead.

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**Neil Mehta, Goldman Sachs**

Good morning, Steve.

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**Steve Williams, President & Chief Executive Officer**

Good morning.

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**Neil Mehta, Goldman Sachs**

Steve, can you talk a little bit about where we stand from a major capital project standpoint, particularly on Fort Hills and Hebron, both in terms of cost and timing?

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**Steve Williams, President & Chief Executive Officer**

Okay. And, again, I'll take bits, because we've been, as you would expect at this stage very, very considered in what we said and how we've presented it, but I hope you're going to get a clear feeling from the sort of tone of my comments. I mean we said, well, first of all, don't underestimate the fact that, ah, how good it is that we're at 70 percent. The international logistics around the manufacturing and transportation of the modules is wholly behind us. All of the materials for the Fort Hills project are in Alberta and the materials now for Hebron are local to that project as well. So that's one of the bigger risks of the projects being removed. So, pleased with that. I wanted to make the point that although we talk about 70 percent completion, in fact, we're probably nearer 72 percent, 73 percent, as we speak, almost half of the system, so think of a system as, you know, the water system, the electrical system, the roads, almost half of those systems will be handed over to operations by the end of this year. In fact, well in excess of the first 20, 25 of those systems are handed over now. So operators are in place and starting to run those facilities. So we're getting towards the end.

Now, I've made some very specific comments. I mean clearly for Hebron, Exxon are the operator and I am encouraged by the way that project is going. It looks to be broadly on cost and on schedule and praise to Exxon for that. Back to Fort Hills specifically, we've given you deliberately three very specific pieces of information to try and take some concerns away. Previously we were very

clear that there were currency pressures. When we authorized that project the exchange rate was nearer 1, nearer parity, so clearly there have been some exchange rate pressures on the project. The wildfires caused us to shut down construction activity for a month and we're mid-flight on executing the mitigation for those. So I've specifically not said an absolute capital number but I've given you three bits of information to take away the vast majority of any concerns people have. We're still planning and I'm confident that we will deliver on \$84,000 a flowing barrel. We've given you a CapEx number for 2016 which is now down to between 5.8 and 6, so the second time we've brought that number down, and Alister has given you a clear indication that CapEx for 2017 will be circa \$5 billion, which says we're not expecting any significant blowout on any of our projects through that period. So, you know, we are feeling, um, it's not that there haven't been pressures, it's not that there is nothing, but this is not material, there's not a material overrun to Suncor on that project.

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**Neil Mehta, Goldman Sachs**

Appreciate those comments, Steve. The follow-up is on cash costs. It was an excellent quarter not just at Syncrude but also at the core oil sands business. How much of this is sustainable versus tough to repeat? And can you provide us some on the ground granular colour about the drivers of the cash cost performance?

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**Steve Williams, President & Chief Executive Officer**

Yeah, I mean what I would say is that, you know, it clearly, when you look at the size of the cost decrease we've taken out, you know, you can't continue at that pace. The answer is not, we're not going to get it to zero to five. But, you know, we haven't finished yet. And the fact that you can see it across Syncrude, you can see it across Suncor, you can see it across the mining operations, you can see it across the in situ operations gives you a feel for the breadth of it. And what I would do is just take you back a year or two ago when we were talking about some of the, we've been talking about operational excellence, the pursuit of reliability because, you know, in a business where fixed costs are so high getting the divisor down is very important. And we've been on the programs continuously. We've been talking about, you know, we were putting new systems in to the corporation, which went all the way into the businesses but, you know, a better supply chain process, a better IT process, and we've been quietly working on that in the background for the last four or five years. All of those things are starting to deliver now.

So in terms of what is sustainable, I would say it is very difficult to be exact. We think 50 percent to 60 percent of the cost reductions we've got are sustainable. And we haven't finished. So, you know, we've still got more to come. What we are finding is that as we're getting more reliable we're able to look at the next best opportunity and we're still finding opportunities in progress. So I still anticipate seeing some more. Now clearly the Syncrude one did benefit by a very high divisor because we ran off those intermediates. So all of what you've seen is not sustainable on a go-forward basis, but the trend certainly is. So I'm very encouraged with the absolute cost reductions that people are making and that's, you know, that literally is item by item in the supply chain and doing things differently. So buying things at cheaper prices, setting up our systems of work in different ways, you know, we've had, the other 30 percent, 40 percent help we've had is, you know, partly to do with a very low gas price through the period, but I'm comfortable we're making real progress, we've got more to come, and I think 50 percent to 60 percent of it will stick.

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**Neil Mehta, Goldman Sachs**

Thanks, Steve.

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**Operator**

Thank you. Our next question is from Greg Pardy with RBC Capital Markets. Please go ahead.

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**Greg Pardy, RBC Capital Markets**

Yeah, thanks. Good morning. Steve, maybe to just come back to Fort Hills for a minute, if we do, you know, back into the math and the capacity we'd be somewhere around 180,000, 182,000 barrels a day gross. Is there a chance that when you ramp that up that it will be in excess of that kind of number?

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**Steve Williams, President & Chief Executive Officer**

I guess that somebody would get to if you fixed two years of CapEx and 684 then something has to give. If you look at it, Greg, I'm not sure if you've been up there recently but, you know, it's difficult to explain to people who haven't seen a \$15 billion project how vast it is. I mean it's the size of a small city. So what happens is you start with a design intent and with a range of costs and as you start to get into the detailed design and execution you

find natural opportunities to do things. I suspect we will have some capacity creep on the unit.

I would expect to, when I give the update probably in the first, with the fourth quarter results in the first quarter, we will give you a bit more clarity on that, but I think what you will find is you're going to see a little bit of movement on the capacity of the unit, you're going to see a little bit of flexibility on the systems, and that's why I highlighted we've, ah, 50 percent of the systems will already be in operators' hands by that point. I think we're going to have some opportunity because of the proximity of our base plant to do some other things as well in terms of moving materials up and down in order to give us a smoother start up. So I'll give you more detail as we get closer to the start up but, yes, I think you'll see a little bit of flexibility on the capacity and the way we start that unit up.

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**Greg Pardy, RBC Capital Markets**

Okay, fantastic. So let's just, I just want to come back, it ties back into the M&A and to some extent comes back to the equity deal back in the June timeframe. I mean is it fair to say that when you did that equity deal the thinking was A, conservatism and then, B, potentially a more open M&A window, and I think what you are seeing now is, look, big M&A is just not on our radar screen. Is that fair?

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**Steve Williams, President & Chief Executive Officer**

I mean I think that's fair. All I would say is that, you know, if I look and I think the two Syncrude deals, the Total deal on Fort Hills, time will show them to have been very opportunistic and very accretive to our performance going forward. Part of the ability do those is have a bit of flexibility in your balance sheet. But when we, the primary purpose of us issuing that equity was to fund the Murphy deal, the market offered us significantly more than we expected because of the view it took on our position. And I think, and me and Alister have had this debate, we think with the benefit of hindsight we were a bit conservative. And maybe people thought we were reloading the balance sheet for more aggressive M&A opportunities or for other things. That is not the case. So our character is deep. We are cheap, we tend to buy, we bide on the cycle, we found it easy to do these things at the low end. We will not, I genuinely see that window as starting to shut, so I think the probability of major M&A is significantly decreased since that time. And Alister is just nodding violently here.

**Alister Cowan, Executive Vice President & Chief Financial Officer**

Just to make a comment, when he said cheap I think he was having a shot at us.

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**Greg Pardy, RBC Capital Markets**

It should be inexpensive, right? Last question for me maybe to come back to the refining side. So you are going to become increasingly long bitumen, like with Fort Hills call it another 90,000 or 100,000 barrels per day or so. You've got to dilute that, it's an even bigger number. So how were you thinking about the balance between sort of your upstream and your downstream? And if there were an opportunity, if it's a Gulf Coast opportunity, does that start to make sense if the price is right?

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**Steve Williams, President & Chief Executive Officer**

You know, it's possible, but not probable. The refining cycle is out of sync with the upstream cycle. We have, you know, there's no surprise about Fort Hills. We've known for a long time we were moving in to a position lent. We have a ton of flexibility because of the location and capability of the Edmonton refinery. We have effectively in our ownership already in Montreal a potential upgrading project and home for material. And we've been, you know, I think you've heard me say a few times we're really quite comfortable with logistics through that. I'd like to see some of these pipelines start to get approved and I'm hopeful that that will be happening. But logistically we have ways of moving that material. Of course if you think of the Syncrude increase in volume, all of that material is upgraded, all of that material had a home anyway, so it really is that heavy material from Fort Hills. So I'm comfortable. We did a strategic study that we talked about a couple of years ago which gave us a range of refining volume as related to oil sands, because what we are is we're not a downstream company, we are an integrated oil sands company, and a few people have sort of underscored that for me recently and I accept that point. We are in the range we like to be in. We don't like to be long refining. We like to slightly short and have the flexibility. And with that Montreal asset we have the capability. So we're reasonably comfortable. And of course if you've got, if you're very comfortable you don't need to do deals, that's often when they come along, but we have, as I say, I couldn't be more explicit, we are not engaged in any downstream conversations currently.



**Greg Pardy, RBC Capital Markets**

Okay. That's great. Thanks very much, Steve.

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**Operator**

Thank you. Our next question is from Phil Gresh with JP Morgan. Please go ahead.

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**Phil Gresh, JP Morgan**

Hey. Good morning and congratulations on a great quarter. I just wanted to kind of come back to your discussion around the potential to start putting buybacks in the mix and I know, Alister, you've talked about the balance sheet and where you would want that to be, but is there kind of a specific level you're thinking of on net debt to cap, net debt to CFO type of basis that you want to get to before you'd start doing buybacks?

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**Alister Cowan, Executive Vice President & Chief Financial Officer**

Thanks, Phil. No, there's nothing specific around that. As Steve said, we really believe we've got a really strong balance sheet and our metrics are just, are improving all the time, so nothing significantly better than where we're at today. Steve talked about capital allocation and if you look at the numbers that we're generating and we'll be generating as we go forward at these oil prices, as Steve said, I think you can expect to see the lower CapEx that I talked about for next year and into 2018, you're going to see us move on the dividend and the stock buyback question.

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**Phil Gresh, JP Morgan**

Okay, great. Second question is on the last call, Steve, I think you talked about some opportunities to grow via debottlenecking and I just wondering if maybe you could elaborate a little bit more specifically on what those would be and perhaps when and how much?

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**Steve Williams, President & Chief Executive Officer**

Sorry, Phil, the only thing—you just broke up as you mentioned debottlenecking. Was there anything specific around that?

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**Phil Gresh, JP Morgan**

Sorry. Sorry about that. Let me rephrase. You had talked about debottlenecking in the last call as another growth opportunity that wouldn't require a lot of capital and I was just wondering how much growth you could see from debottlenecking over the next couple of years and what the projects would be and just general potential timeframe for all of that.

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**Steve Williams, President & Chief Executive Officer**

You know, I wouldn't be specific about volumes yet, but what I would say is, you know, if you think of—I remember when we came out a few years ago and said we've got these debottlenecking opportunities there and it was sort of confusing until we came out with a plan and said, well actually this could be 100,000 barrels a day, and then of course no one believed it until we actually started to deliver it. And the opportunities are quite exciting because we have even more assets within our capability now. So I can see small debottlenecks at Firebag, at Fort Hills already, I can see some around the base plant, so one of the great benefits of your operations becoming smoother is you can really start to focus with a laser on where the opportunities are. So there is that sort of debottleneck.

There is also still, um, and I wouldn't call it debottleneck, I'd call it margin type improvements that we can start to see. So the technology work we've been doing in the background around in situ, the technology work, you know, we now have the industry's first fleet of autonomous trucks operating seven days a week, 24 hours a day in the base plant. So the opportunities from these things, and I like those projects because they're completely within our control, you know, they reduced our costs and so there are things that we can control ourselves. There are lots of opportunities of those. And I think, you know, when we talk normally, when we're talking around that \$5 billion level, there is a steady stream of those benefits coming, which is why I think you continue to see cash operating costs coming down.

But there is also, you know, although I've said probably for this decade you're not going to see us approving major capital projects, we do have the next suite that we're working on. So, you know, the replication in situ with the new technology is also looking very encouraging. And we talked about trying to get those projects down to the sort of 30,000, 40,000, 50,000 barrel per day dollars a flowing barrel for the 30,000 or 40,000 barrel plants. It's looking quite encouraging. So I think by the time, I think I see a few years of us with this sort of format, low organic

growth, low if not no M&A, and then the balance of stuff on these small projects and returning money to shareholders, and then as we get into 2020, 2021 you can start to see us looking at the bigger projects again. So, encouraging. I think they'll be quite significant when you add them all up.

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**Phil Gresh, JP Morgan**

Thanks. If I could sneak in one last one, with respect to last question on the downstream integration, you know, I believe the Montreal coker project, in the past I believe you said \$2 billion, you can correct me if I am wrong there, but some of these opportunities that are out there on the market publicly are kind of a \$1.5 billion or maybe even less depending where this whole thing ends up. So I guess is there a reason that those types of opportunities don't compete with what you would have internally?

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**Steve Williams, President & Chief Executive Officer**

Do you want to take that one, Steve?

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**Steve Douglas, Vice President, Investor Relations**

Sure. No, they absolutely do compete and, you know, whenever we're investing capital we're looking at that trade off on returns, organic, inorganic or buyback. So absolutely we put up those inorganic opportunities against our organic growth opportunities on a returns basis and that competition is alive and well. We are not though, at this point, involved in any third-party sales process in the downstream.

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**Phil Gresh, JP Morgan**

Okay. Thanks.

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**Operator**

Thank you. Our next question is from Paul Cheng with Barclays. Please go ahead.

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**Paul Cheng, Barclays**

Hey, guys. Good morning. I have to apologize. I came in a bit late, so in case if the question I ask you already covered, just let me know, I will read the transcript. Steve,

your earlier down, the question talking about the debottleneck, you mentioned the base mine operations.. Is that also including the coking capacity on the upgrader? And also that what do you also see debottleneck low cost opportunity in Syncrude?

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**Steve Williams, President & Chief Executive Officer**

All of those, Paul. So, you know, there are opportunities we are looking at at the moment for lower cost debottlenecks at the existing unit one and unit two at the base plant. We're looking at particularly margin or cost reduction projects around the base mine. And I have no doubt that there are some real opportunities around Syncrude as well. It's really been quite exciting as Syncrude, Imperial, and ourselves have been putting our shoulder to that to see some of the opportunities. And I think, of course, they become much more clear and much more attractive as that utilization and reliability comes up, because it gives the owners more confidence, but I think there will be opportunities there as well. So, yeah, that was a good summary.

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**Paul Cheng, Barclays**

Okay. And I think there's some market rumor from media recently talking about you may be interested in selling your retail, which I thought you were not. So just want to see whether you can clarify on that.

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**Steve Williams, President & Chief Executive Officer**

Yeah, you did miss that and the transcript, Paul, and I said three things that were in the market about speculation at the moment, and perhaps I'll just, they're so important maybe I'll say them again anyway. We have never considered a transformational deal in the North Sea, period; we are not, repeat, not marketing our retail assets; and we are not currently involved in any sales process in a refinery. And what I was trying to say is that we don't have empire-building ambitions. Our objective is to add value for shareholders. And lots of rumors and there will always be rumors and speculation but judge us by our track record.

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**Paul Cheng, Barclays**

Okay. The final one from me, Alister, do you have a preliminary target for Syncrude and your own Suncor oil sand cash unit cost for 2017?

**Alister Cowan, Executive Vice President & Chief Financial Officer**

Paul, not at this point. We'll be coming out with guidance on November the 21<sup>st</sup>. The only thing we're giving you a sneak preview of today is when I said that we expected our capital for next year to be around the \$5 billion level, which would be significantly lower than this year's level.

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**Paul Cheng, Barclays**

Or maybe let me ask you in another way. Next year you should not have heavy turnaround schedule in your base operations?

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**Alister Cowan, Executive Vice President & Chief Financial Officer**

That's correct.

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**Paul Cheng, Barclays**

And we do not have wildfire hopefully and so, everything else equal, is that any reason not to believe your unit cost at least, ah, and I guess the cost in your own mining operations should be lower.

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**Alister Cowan, Executive Vice President & Chief Financial Officer**

Paul, you're trying to get me to tell you a number and I'm not going to do that, but there's no reason to believe that with production we should be on comparable levels to this year excluding those items. The only caveat, Paul, is whatever your assumptions would be on natural gas and diesel prices, which are about 30 percent of our costs.

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**Paul Cheng, Barclays**

Very good. Thank you.

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**Operator**

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

**Jason Frew, Credit Suisse**

Hi, Steve. Maybe just a follow-up a little on the technology side, just wondering about the technology process at Suncor and how you view leveraging third parties versus of perhaps doing more in house?

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**Steve Williams, President & Chief Executive Officer**

You know, Jason, when we look at all of it. If you look at—let me start with, I mean we're original partners of COSIA, the innovation alliance for the oil sands industry, and we're actively involved in the vast majority of their projects. We are very happy, depending on the particular pieces of technology, we would see ourselves to be in the leading edge of the in situ technology development and probably, um, and at the leading edge, to be honest, of the mining technology development as well. Some of those we do in partnership with others and, you know, we're very happy to do that. Those partnerships are within the industry, they're with academia, they're with other companies, world-class companies like General Electric, and we are happy to look at all of those and will continue to do so. Within that, um, the CapEx this year and the \$5 billion Alister talked for next year, we have funded our technology projects at a modest level because we believe there is significant upside from those new technologies as we move forward.

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**Jason Frew, Credit Suisse**

Okay, thanks.

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**Steve Douglas, Vice President, Investor Relations**

And, with that, we've hit up against our timeline here. I know there are a number of further callers on the line and I'd encourage you to give Investor Relations a call. We will be available throughout the day. Operator? Thank you very much for joining us.

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**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.