Suncor Energy Second Quarter 2017 Financial Results Call
Operator: Good morning ladies and gentlemen, and welcome to the Suncor Energy Second Quarter 2017 Financial Results Call and Webcast. At this time all participants are in a listen-only mode, later we will conduct a question and answer session and instructions will follow at that time. If anyone should require assistance during the conference, please press star then zero on your touchtone telephone. As a reminder, this conference is being recorded.

I would now like to turn the call over to Mr Steve Douglas, Vice President, Investor Relations. Mr Douglas, please go ahead.

Introduction

Stephen Douglas
Vice President of Investor Relations, Suncor Energy Inc.

Welcome

Thank you Michelle and good morning to everyone. Welcome to the Suncor Energy second quarter earnings call. With me here in Calgary this morning are Steve Williams, our President and CEO; along with Alister Cowan, our EVP and Chief Financial Officer.

I’d ask you to note that today’s comments contain forward-looking information that our actual results may differ materially from expected results because of various risk factors and assumptions described in our second quarter earnings release, as well as our current AIF. And both of these are available on SEDAR, EDGAR and our website, suncor.com.

Certain financial measures that we refer to in these comments are not prescribed by Canadian GAAP, for description of these financial measures, again see our second quarter earnings release.

Following 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 ask Steve Williams for his comments.

Operational Highlights

Steven Williams
President, Chief Executive Officer, Suncor Energy Inc.
Thanks Stephen, and good morning and thank you to everyone on the line for joining us. I think it’s important right up front to acknowledge that our second quarter results were somewhat mixed both from an operational and a business environment perspective. The past few months of [inaudible] the combination of falling crude price and a strengthening Canadian dollar, and these trends and continued volatility I think simply underline the importance of concentrating our efforts on those things which we can control. In Suncor’s cash that means a continued focus on disciplined cost management, and of course capital allocation, and those two add up to what we call operational excellence.

On the positive side, I’m very pleased with our continued success in taking cost out of the business, we’re steadily moving the entire company towards a sustainably lower cost base that’s positioning us to be globally competitive. At the same time, we continue to exercise capital discipline, while executing on our growth programs, buying back shares and maintaining a strong balance sheet.

Our downstream and offshore business delivered strong operational and financial results. However, as I said, I’m not satisfied with the operational performance of our Oil Sands assets in the second quarter. The first major maintenance turnaround at Firebag units three and four, after five years of operation, encountered a number of challenges resulted in a significantly slower restart and ramp-up than expected.

And at Syncrude, the planned April turnaround was advanced use of fire and a pipe wreck in March and then had to be extended as a result of repairs associated with the fire as well as several other more minor operational issues. Syncrude also advanced coker maintenance originally planned for this fall in order to take advantage of the downtime.

So the end result was lower Oil Sands production than we had planned for in the quarter. However, it’s worth saying that I am confident that the earnings from these events will assist us in better understanding these assets going forward. And we are planning for a return to strong reliable production throughout the second half of the year.

It’s important to note that even in the quarter, where our Oil Sands production fell short of plan and average oil prices were below expectations, Suncor still generated funds from operations of over 1.6 billion. And this just demonstrates once again what a powerful cash generation [inaudible] the Suncor integrated model is.

So, let’s get into the details of our second quarter. At Oil Sands, we produced a total of just over 350,000 barrels a day, including 290,000 barrels a day of upgraded product. We completed major plant maintenance activities at Firebag and the Unit 2 upgrader, and held our cash cost to just 27.80 per barrel, and that’s the lowest second quarter Oil Sands cash costs in over a decade.

With the bulk of our Oil Sands maintenance for the year now complete, our Oil Sands operations have been running at full rates in July. We expect our production guidance for the year to meet our production guidance for the year, and have actually lowered our cash cost guidance to CAD23 to CAD26 per barrel, thanks to our strong year-to-date performance.

At Syncrude, planned and unplanned outages reduced Suncor share of production by over 100,000 barrels a day in the quarter. And once again this performance is not acceptable. I
remain confident that we can achieve the long-term operational goals we have set. We always knew that the road to operational excellence would not be a straight line, and that there will be some setbacks like what we experienced in the quarter.

However, we will continue to work closely with Syncrude and other owners to execute on a plan that expect will drive utilisation rates above 90% and cash cost below 30% – below CAD30 per barrel by 2020. So those are original commitments we’re confident in.

In E&P, we continue to see excellent performance in the second quarter. Our total, offshore production year-to-date is tracking 4% ahead of last year. At the same time, cash operating costs have come down to 22% with average operating costs year-to-date on the East Coast below CAD10 per barrel. And in the North Sea well below CAD5 per barrel. And remember, of course those are Canadian dollars.

So as a result of this strong performance we’ve raised our 2017 production guidance for E&P twice this year by a total of 20,000 barrels per day.

In the downstream, our Refining and Marketing business turned in another excellent quarter. Utilisation rates, our refineries rose to 94%, which drove a 10% increase in production and a 6% drop in unit operating expense versus Q2 of last year.

The increased production supported strong retail sales and set a Suncor record for the first half of the year.

So despite market concerns around gasoline demand, our downstream business is squarely on track to deliver another year of strong earnings and cash flows.

Turning to our growth projects. It’s an exciting time at Fort Hills and Hebron, as they rapidly approach first oil. Our focus is increasingly on commissioning, start-up and operations as we move into the last few months of construction.

At Fort Hills, we’ve been tracking to previously announced budget and schedule, the mining, ore operation, major site infrastructure, and primary extraction assets have all being handed over to operations, and the turn-over of utilities is now in progress.

Just two weeks ago, the East Tank Farm, which will support the Fort Hills operation was commissioned and declared ready for service. That just leaves a secondary extraction, the paraffinic froth treatment as the final area, where construction activities are currently concentrated.

We recently identified some opportunities to accelerate the construction schedule, in order to take best advantage of productivity and further de-risk the full plant start-up. This would result in some capital spending originally scheduled for 2018 being brought into 2017. And accordingly, you’ll have noted we have adjusted our guidance, and Alister will go into the details a bit later on the call.

Now, remember that we’re proceeding with phase commissioning and start-up plan that will see the frontend of the plan, including the water assets fully tested prior to the onset of cold winter weather. This allows for early identification and resolution of any issues that may arise. And as a result, we expect to significantly de-risk the production of first oil late in 2017.
Approximately 85% of personnel have been hired – of operating personnel have been hired including all critical frontline positions. Training activities are well advanced, and we have greatly benefited from attracting experienced staff in the PFT process.

There has been one recent development on the Fort Hills project that is a little disappointing. Our partner Total has chosen not to approve or provide additional project sanction funding for the Fort Hills project, and as a result we are now in the early stages of a commercial dispute with Total. Given the fact that construction is now 92% as of the end of July, we’re not anticipating that this issue will impact the plan to achieve first oil by the end of the year.

Our major growth – our other major growth project is of course Hebron off East Coast of Canada. During the second quarter the Hebron platform was successfully towed back to its offshore location and safely positioned on the sea floor. Drilling operations commenced just last week, and the project remains well on track to produce first oil by the end of this year as planned.

So with all operations back up and running, and our major growth project expected to deliver first oil by year end, we’re well set for a strong second half to 2017.

Perhaps the one other thing that seems most top of mind to investors is the M&A climate, in light of recent transactions in the sector, and the much lower – for much longer oil price environment.

What I would say is that, beginning over five years ago, Suncor has maintained a strong balance sheet. And as you’ve seen, we treat this as a strategic asset. We generate discretionary free cash flow that is after sustaining capital and dividend above a US$40 WTI price.

And we allocate that cash in a disciplined manner with a focus on returns between organic growth, M&A and share buybacks. So as you look to the future, judge us by what we’ve done in the past. We will continue to make disciplined choices, always targeting the best returns for shareholders.

So, with that, I’ll turn over to our Chief Financial Officer, Alister Cowan to go into some more detail on our financial performance.

**Financial Performance**

Alister Cowan  
*Chief Financial Officer, Suncor Energy Inc.*

Thanks, Steve. And as Steve mentioned earlier in the call, in the second quarter we saw average benchmark crude prices fall by about US$3.50, and towards the end of the quarter we saw the Canadian dollar strengthened sharply against US dollar.

Nevertheless, we did produce solid financial results once again. We generated as Steve said over CAD1.6 billion in funds from operations, and approximately CAD200 million in operating earnings.
Notably, our E&P business produced well above expectations and generated approximately CAD440 million in funds flow. And our Refining and Marketing delivered over CAD500 million of funds flow, despite a negative FIFO impact as a result of falling crude prices.

This is very consistent with last year’s strong second quarter in R&M, after adjusting for FIFO impacts in the lubricant sale, which was completed in the first quarter of this year.

Our funds from operations for the quarter more than covered our sustaining capital spending of CAD891 million and our dividends of approximately CAD530 million leaving almost CAD200 million in discretionary free cash flow.

Over the last 12 months, we have generated over CAD3.6 billion in discretionary free cash flow, and as Steve said, after sustaining capital underpinned of the dividend.

A key contributor to the free cash flow generation is our continued success in reducing costs across the business.

Now everyone’s aware of the steady reduction in our Oil Sands cash costs in the past few years, and that’s certainly a very considerable accomplishment. But I just wanted to emphasise, it’s not only in our Oil Sands operations that we’re improving productivity and driving our cost, right across the company we’ve been steadily streamlining business processes, eliminating non-value added work and increasing productivity.

In the first half of 2017, our total operating selling and general expenses were more than 10% lower than the first half of 2014. And at the same time, our total production increased by almost 19%. The result is, you’re seeing as lower breakeven cost and increased cash flow.

On the capital front, we've invested close to CAD1.7 billion in the second quarter, bringing our year-to-date total growth and sustained capital spend to almost CAD2.9 billion.

Progress on Fort Hills project accelerated during the quarter, and we now see the potential to advance work that was planned for early 2018 into this year. Accordingly, we’ve increased the capital spending guidance range for 2017 to 5.4 billion to 5.6 billion.

Now, to be honest, we’ve had some concerns about this, but let me assure you that this is simply an adjustment in the timing of the spend. The 2018 capital budget will be reduced commencing with the increase in this year’s spend.

Our balance sheet continues to be a key strength for Suncor. We finished the quarter with approximately 2.4 billion in cash and over 8 billion of liquidity. During the quarter, we repaid US$1.25 billion of long-term debt. Our net debt to cash flow decreased to less than two times, and our debt to capitalisation fell to approximately 27%, both within their target ranges. We expect debt levels to continue to decline organically as our production and cash flow increase moving forward.

On our last call, we’ve announced the initiation of a 2 billion one year share buyback program, which we commenced on May 1. We’ve been aggressively executing on the program for almost three months now, to give you a bit of an update as of today we have repurchased and cancelled over 11 million shares for approximately CAD450 million. So we have been quite aggressive in July on this program.

The buyback program was [inaudible] operates in the low US$50 range with funds coming from our discretionary free cash flow. Now, as everyone is aware, the oil prices fell during
the quarter and while the short-term trend and those oil prices have not influenced us to repurchases, we do believe it’s prudent to flex the program based on the discretionary free cash flow in light of the current business environment.

Irrespective of oil prices, you can expect Suncor to continue its focus on reducing costs, carefully allocating our capital and following competitive returns for our shareholders.

And I’m now going to pass it back to Steve Douglas.

**Q&A**

**Stephen Douglas:** Well, thank you, Alister and Steve. Just a few things to note before we go to the questions. There was a falling crude price, as Alister noted, and so there was a FIFO expense of CAD38 million after-tax. And that brings year-to-date to very close to zero, a CAD5 billion positive year-to-date.

Our stock-based compensation during the quarter was an after-tax expense of CAD19 million, bringing the year-to-date total to CAD91 million after-tax. And the FX impact was actually a CAD278 million gain in the second quarter, bringing us to a CAD381 million gain year-to-date.

There are, as Steve and Alister mentioned, a number of changes to our guidance. The updated guidance is available on our website, suncor.com. But a few of the highlights, we did, as mentioned increased the capital spending range up to CAD5.4 billion to CAD5.6 billion for the year, and we will be reducing our 2018 budget accordingly.

Due to strong performance and outlook, the E&P production range has been raised by a further 5,000 barrels per day. And as a result of the extended outage at Syncrude, the production range there has been lowered by the same amount, 5,000 barrels per day. So the net impact is no change to our 2017 production range of 680,000 to 720,000 barrels per day. The Suncor Oil Sands cash cost range has been reduced by CAD1 to CAD23 to CAD26 per barrel, as a result of a strong year-to-date cost management and Syncrude cash costs have been increased to US$42 to US$45 a barrel, reflecting the impact of the extended outage.

Cash taxes have been increased by CAD100 million, and that’s primarily to reflect the higher cash taxes associated with increased North Sea production. And I should note that the range excludes the cash taxes associated with the lubricants and wind farms sales earlier this year.

There’s also a number of small changes made to the business environment assumptions, and those are simply based on year-to-date actuals and expectations going forward.

With that, I’ll turn it back to Michelle to take questions. Thank you.

**Operator:** Thank you. Ladies and gentlemen, if you have question at this time, please press star, then the number one on your touch tone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key.

Our first question comes from the line of Greg Pardy with RBS Capital. Your line is open. Please go ahead.

**Greg Pardy (RBC Dominion Securities, Inc.):** Thanks. Thanks. Good morning. Steve, really just want to dig into a couple of areas not surprisingly, probably the Syncrude and Fort
Hills, but maybe just before that, in terms of the capital increase that you’ve got this year, how much of that is related to call it the Syncrude repair work, and it sounds as though you’ll be able to recover a bunch of that through insurance. Is that right?

**Steven Williams:** Yeah, I mean we haven’t been explicit about the breakdown. But, yes, in excess of CAD100 million has to do with the work at Syncrude, of which a large proportion of that is CapEx, and we would expect to get a recovery.

We can’t be absolutely sure of the timing of the recovery. So, we’ve been prudent in the allowance. So, the CAD500 million is the balance of Fort Hills and Syncrude. As Alister said, the Fort Hills piece is really just timing. We’re still anticipating on Fort Hills that we will come in towards the top end of the range we guided on earlier in the year.

**Greg Pardy (RBC Dominion Securities, Inc.):** Okay great. And just with Syncrude. Can you touch maybe on just what’s going right, what’s going wrong, and just how you’re thinking about the ramp-up coming into August?

**Steven Williams:** Yeah, I mean, first of all, perhaps it’s worth just giving a snapshot of where we are operationally today, and I’ll do it a little bit broader than just Syncrude. I mean Syncrude is already up at – between 70% and 80% of its nameplate capacity this morning. So, we’re already exporting well in excess of 250,000 barrels a day, and there’s another move planned up as of today. So, it’s already in that 70% to 80% range.

[Inaudible] I am talking current operations, the base plant Firebag, MacKay River are up at full throughputs and have been for most of July. So, although I find the results unacceptable to me through the second quarter, they’re very much back on target already in the third quarter.

But to get back to your comments, Greg, overall, I’m not completely surprised by the Syncrude performance. We did talk about it, not being a straight line. There would be – we have very good operation, and even when we had a good operation last year, I said we didn’t build that in to expectations every day just yet.

We are absolutely confident in the 90% and – to 90% utilisation and a sub-CAD30 a barrel in that 2020 time range. We are working those programs in detail, great work going on between ourselves, Imperial, Exxon and Syncrude itself. And we will bring that and take you during the year, we’ll bring that out and show you that in a lot more detail.

It’s also quite clear to us that the synergies are higher than we’ve anticipated both in the day-to-day operation of the plant, and the way we believe we will manage it going forward. But also in terms of those other synergies I talked about how we connect the plan; how we can get, you know, some – when we increase the utilisation of these non-core base facilities, it was of how we got superiority of bitumen supplies from three or four sources rather than one. We can do some of that with Syncrude by cross connecting some of the bitumen supplies.

You can keep the upgraders and export to market going longer by having connections on the product side between the players. So those projects are moving ahead with some pace in there. So, I’m very comfortable in the long-term, disappointed, but not completely surprised in the short-term.
**Greg Pardy (RBC Dominion Securities, Inc):** Thanks for that. And maybe just the last one is, you touched on the just the commercial discipline with Fort Hills. Can you – can you elaborate on that at all?

**Steven Williams:** I mean it’s a little bit early. Literally, we’re only a few days into the discussion, so it’s too early for me to comment in detail on the dispute itself. What I would say is, you know, the plant is 92% complete as of today. So we’re really on the final stretches. Suncor and Teck remains completely aligned in our approach to the project, and I am not anticipating any impact on cost and schedule.

So, if anything, there is what we’ve discussed today about the – because we get – we’ve been progressed – very good progress on the project. So what we’re planning to do is to finish off the bulk of it this year. What that means is, it positions us much better than for – no water introduction, through the winter will be done all pre-freezing season. And we’ll be able to move into the startup with a higher degree of confidence.

So, you know, the project itself, the brick and mortar piece of it is in really good shape. We’re still talking about the possibility of a first intermediate product sometime in September or October, and we’re still talking about the first train up at the end of the year, and then progressively starting the other two trains up in the early part of next year, so that bodes very well for the ramp-up next year.

**Greg Pardy (RBC Dominion Securities, Inc):** Thanks Steve.

**Operator:** Thank you. And our next question comes from the line of Neil Mehta with Goldman Sachs. Your line is open, please go ahead.

**Neil Mehta (Goldman Sachs & Co):** Good morning guys. First question is related to the FX strength, the CAD-USD. And we recognised that you lowered the cost guidance here today as a part of the release. Could you just talk about how that exchange rate change can – makes you think about the cost structure going forward? And I have a follow-up.

**Alister Cowan:** Yeah Neil, I mean, the change in the operating cost guidance we gave on the Oil Sands operations is really just – is nothing to do with the FX, it is all to do with us driving cost over the business in a sustainable manner. I mean on the FX, you know, with the pluses and minuses, you know, we take some negative impacts on the oil prices that translated back into Canadian dollars. But you saw the FX gain offsetting that as we translate our US dollar debt. So, on a net-net basis, we manage it through the balance sheet. And so we don't typically go forward [inaudible]. And we don't really see big of an impact on the equating cost structure of business.

**Neil Mehta (Goldman Sachs & Co):** That's great. Second is the strengthen in E&P has surprised us over the course of the year. Can you just talk about where you're seeing that strength, [inaudible] elsewhere? And how sustainable is that going forward?

**Steven Williams:** Hi, yeah, I mean we are very pleased with both the production and operating costs in that offshore business. And Neil, as you know, it is a highly cash-generative business.

We have been investing albeit at not, you know, very material levels to Suncor, but we have been investing in a very selective targeted way, and we're starting to see the strong returns
from those investments. So you will see us continue to do that. It's all of those if you like. So it is broadly across the operations. They've done exceedingly well.

And as we move towards the end of this year, you're going to see the ramp up of Hebron as well. So although it's not, you know, it's a very important part of our business, we've always – I often get questions about the divestment of that business, and I said, we do see it as a part of our integrated business, it gives us some diversity, so when we see some trends in other parts, it's a very robust cash generator for us.

So, I'm pleased that strategy has been working and when we plan to continue it.

**Neil Mehta (Goldman Sachs & Co):** Great. Last question for me is just around share repurchase, just going back to your comments, Alister. It sounds like, if I'm interpreting what you're saying is, if oil stays around $50 a barrel, we should assume that you continue to execute the program. If it falls to the lower end of a range of call it $45, you take your foot off the pedal a little bit, and if it goes above $50, you get a little bit more aggressive. I might be putting words in your mouth, and I am trying to create a formula where there might not be one, but any comments there would be great?

**Steven Williams:** I mean, yeah, let me just do it from me if you like. You've heard Alister speak, but let me just give you a slightly different cut. I think you've nailed it in a sense. I mean, the flex that we have in our capital allocation is, you know, we are committed to our dividend. We have capital expenditure on organic stuff, which is starting to come to an end. But, you know, those programs are disciplined and executed over a period, and we tend not to slow down or speed those up.

So the piece of flexibility in our capital allocation is share buybacks and you know we've never given specific targets per se, but I think we were quite clear. We talked about CAD 2 billion in the range we were looking at, which was in that mid-50s type range. So you'll see us just be prudent and flex share buybacks up and down.

**Neil Mehta (Goldman Sachs & Co):** Perfect. Thank you.

**Alister Cowan:** I would just add to that, Neil. We have bought just under CAD 500 million of stock in the last three months, you know, when our prices were in the sort of certainly at the lower end of the range, but the flex is there and we will utilise it when we need to.

**Neil Mehta (Goldman Sachs & Co):** Perfect. Thank you.

**Operator:** Thank you. And our next question comes from the line of Roger Read with Wells Fargo. Your line is open. Please go ahead.

**Roger Read (Wells Fargo):** Yeah. Thanks. Good morning.

**Steven W. Williams:** Hello, Roger.

**Roger Read (Wells Fargo):** Hopefully you can hear me. Okay, yeah. Good. Yeah. I just wanted to kind of come back on some of the OpEx questions, but maybe starting with Syncrude as, you know, you had the downtime planned, you had the fire. As you've gone through the restart process and the work, is this something we can identify as an equipment issue? Is it a process issue within Syncrude or, you know, we are talking about too few or maybe not quite the right people in place?
Steven Williams: No, this is a specific equipment issue, which is unlikely to be repeated. So, it's not something – that one, I'm confident about the longer term. This was what we, in the industry, call a process dead leg. So because there's a valve in a line, there's a line that has no flow in it. So we specifically understand the issue, not likely to be repeated and we've worked across the plant to identify and remove them.

So, no, it's a one-off, it's unfortunate, but not reflective of what you're going to see in terms of the improved utilisation and reduced costs. And, you know, as I say, not a complete surprise because you do get these things happen occasionally. But I'm so confident we'll get to a 90% plus utilisation and $30, because this [inaudible] interrupt that programme.

Roger Read (Wells Fargo): Okay. And actually that kind of steps into my next question. As you think about the OpEx performance over the last year, I think, in the press release, some of that is obviously due to lower natural gas prices. But where do you think you are in sort of the – where you are today, where you want to be with OpEx as a sort of a percentile marker? And I'm thinking both the Oil Sands and the E&P side business?

Steven Williams: Okay. I mean, let me just give you some general comments. I mean, clearly, it is an industry we benefited from lower gas prices for a number of years now. But they haven't changed significantly through this period. So, you know, the costs you're seeing quarter-on-quarter and year-on-year are not largely driven by reduced energy costs.

They're primarily driven by a structured programme of working hard to drive systematically cost out of the system. So both in Oil Sands and E&P, and in the downstream, you are seeing, in fact, in the corporate centre as well, we have a programme in each of those areas.

In terms of the cost reductions, and, I mean, we can be more specific off of the call, if you like, but just, generally, something like approximately 70% of those costs we think are systematic and irreversible. So, you know, those have come out and will stay out.

We haven't finished yet, it's a continuous programme. We've made some good spikes, particularly in the Oil Sands business, again, in this last quarter. So you're going to start to see that in future quarters as we go forward.

In terms of long-term objectives, and I'll just talk about our base Oil Sands operations, I still have, you know, a certain ambitious target for the guys to get us at some speed below CAD20 operating cost. So, you know, it's a mid to longer term project, we're still working towards it, but I can see us getting there. I mean, we're making the strides we are making are fantastic.

I think the next progress we'll make, some of it will be further refining, you know, our people systems, our processes, the way our supply chain works, but we've also got some technology, things we've been working on. So, you know, if you think of all the work we've been doing on autonomous trucks, if you think of all the work we've been doing on different in situ techniques, they come with comments or reductions in operating costs as well. So we still got the programme, we're working really hard at it and there's more to come.

Roger Read (Wells Fargo): Okay, great. I appreciate it. Thank you.

Operator: Thank you. And our next question comes from the line of Phil Gresh with JP Morgan. Your line is open. Please go ahead.
**John Royall (JP Morgan):** Hi. Good morning. This is John Royall sitting in for Phil. On the CapEx rates, could you tell us how much has already occurred in 2Q versus to come for the rest of the year?

**Alister Cowan:** Sorry, John, could you repeat the question, I didn't quite catch that.

**John Royall (JP Morgan):** Yeah, the CapEx rates, I just wanted to know how much has – how much of it is related to things that have occurred in 2Q versus, you know, raises for the second half?

**Alister Cowan:** Yeah, we're pretty much on budget. As of today, our year-to-date, most of that will be an acceleration in the second half of the year.

**John Royall (JP Morgan):** Okay, great. And then I think you talked about driving towards longer term $5 billion all-in CapEx number. Is that still a good number to think about, particularly in light of, you know, everything that's going on with Syncrude? And it would be as early as 2018 that you would think about that number?

**Steven Williams:** No, we're talking broadly $5 billion, and we've talked about it, you know, put – that's a good number to put in your multiple. We talked about that for '18 and '19, so they are good numbers. Of course, what Alister said this morning, and they're obviously approximate numbers, but you can expect the money we brought forward to come out of the 2018 budget. So you will see a decrease from that $5 billion.

**John Royall (JP Morgan):** Okay, great. And I know you've touched on it a little, but could you go into some more detail on the nature and the scope of exactly what you're doing in Fort Hills for the – related to the CapEx rates?

**Steven Williams:** Sorry, John, your line just broke up slightly at the end. Could you repeat your question?

**John Royall (JP Morgan):** Yeah, if you could just give a little more detail on the scope of what you're doing at Fort Hills with the CapEx rates? I know you mentioned it a little in the remarks.

**Steven Williams:** It's simply – we've got the opportunity. What we're finding is that the progress we're making on secondary extraction is above the targets we had in.

So we've been able to see the opportunity by retaining the workforce more this year, to be able to get the major pieces of that project complete and all of the hydro testing complete this year. We'd always plan that for the first train. There are two other trains. It looks as though we're going to be able to do that with the productivity that we have this year. So it's simply bringing that back from 2018 into 2017.

**John Royall (JP Morgan):** Great. Thank you.

**Operator:** Thank you. And, again, ladies and gentlemen, if you have a question at this time, please press star then one on your touchtone telephone. Our next question comes from the line of Frank McGann with Bank of America, Merrill Lynch. Your line is open. Please go ahead.

**Frank McGann (Bank of American Merrill Lynch):** Yes. Thank you very much. Yeah, if I could go back to the Total dispute, just to get a little bit more clarity on, is this primarily, you
know, commercial, strategic, technical, is it primarily related to the CapEx increase? What is actually driving that?

And assuming that they were not to go along with all of the spending, does that – would that change the eventual ownership percentages as a result of a carry that you might undertake for them?

Steven Williams: Yeah. I mean, as I said, it’s too early for all of that. We’re a few days into it. I mean, as I said, we’re 92% complete. So this is largely – they’re not very material conversations in terms of the context of the project.

It is a commercial discussion, not a technical discussion. And I think – I got asked several times, last times on the call, are Total looking to sell parts of their project? We know that they have been looking at various strategies, but in this case, this is a commercial discussion between ourselves and Total, too early to talk about the detail.

The reassuring message I would like investors to take away is, we’re 92% complete, we’re not anticipating this affecting either the cost or the schedule of the remainder of the project, so frustrating at this stage, but not that significant.

Frank McGann (Bank of American Merrill Lynch): Okay. Thanks. And if I could just follow-up, just in terms of overall cost trends, are you seeing any signs of pressure at any parts of your business?

Steven Williams: No. Not particularly – I mean we’re seeing particularly operating costs and capital costs still continue to move in the right direction.


Operator: Thank you. And our next question comes from the line of Travis Wood with the National Financial. Your line is open. Please go ahead.

Travis Wood (National Bank Financial): Yeah. Good morning guys. Just a question around the E&P business, it looks like results have been a bit better than expected. So, can you help us understand as Hebron comes on in the ramp of that, and what that could look like to the aggregate E&P production profile over that ramp period?

Alister Cowan: Yeah, Travis, I think we’ve been clear that it’s a three-year ramp-up on Hebron, as we drill the additional wells or the production wells over the next few years from the platform, that will ramp-up in 2018 to about [inaudible] 2019, 2020 and then [inaudible] going to be in 2021. So obviously that allows us some of the declines that we’re obviously going to see in the whole E&P portfolio, but that’s a ramp-up on Hebron.

Travis Wood (National Bank Financial): Okay. And do you think that more than offsets the other declining parts of the portfolio?

Alister Cowan: Yeah to a certain extent, yes, we should see some increases in E&P production, but I would caution you, it’s not the whole thing, there is some declines coming in over the period as well.


Steven Williams: Yeah, that business remaining where it is or maybe even slightly better due to the middle, maybe slightly beyond in the next decade.

Operator: Thank you. And our next question comes from the line of Dan Healing with The Canadian Press. Your line is open. Please go ahead.

Dan Healing (The Canadian Press): Good morning. Thanks for taking my question. I’m just wondering if you can be a bit more specific on what the dispute with Total involves, you said involves funding, is that funding for the portion of the capital cost that have been move forward or is that for funding farther down the line?

Steven Williams: I mean we’re at the very early stages of the dispute. It’s inappropriate for me to talk in any more detail than I have done. The project is 92% complete. So you know we’re very close to the end of – the end of the spend, it’s a commercial discussion, which is not that unusual at this stage in a project of this size, and most of the spend is really set to the end of the project.

We have 7,000 people on site finishing it off, and three quarters of the plant is in the hands of the operators and is being started up. So it’s not unusual to have these discussions at this time.

Dan Healing (The Canadian Press): Okay. If it’s not unusual, and these kinds of things happen all the time, I guess I’m wondering why you’re bringing it up on a conference call, Steve?

Steven Williams: Because it’s – we are very transparent about where we are, and we think it’s important to keep our investors fully appraised of where the project is.


Operator: Thank you. And our next question comes from the line of Jeff Lewis with the The Globe & Mail, Inc. Your line is open, please go ahead.

Jeff Lewis (The Globe & Mail, Inc.): Hi, I just had two quick questions, one about the share buyback. Can you just clarify, are you suspending the share buybacks now or just signalling that you have room to sort of tap the brakes on those?

Steven Williams: No, we’re not suspending the share buyback. As Alister said, we bought about CAD500 million worth of our shares back over the last period. We anticipate – we’re still buying, as we speak today, but we buy our stock back with our free cash, after all of our other commitments. And as that cash flow fluctuates, depending on our spend and the price of crude, we’ll flex it back up and down. But no, we’re still committed to the program.

Jeff Lewis (The Globe & Mail, Inc.): So, still the CAD 2 billion, I believe it was level for the year?

Steven Williams: That’s our target, but it will depend on free cash flow.

Jeff Lewis (The Globe & Mail, Inc.): Okay. And then just quickly, TransCanada has launched another open season for Keystone XL, do you see that project as still being necessary in today’s market given some of the changes that we’ve seen?

Steven Williams: I mean, we generally support all of the projects which are currently seeking access to markets that we support, Keystone support Trans Mountain we support the
Enbridge Line 3 project. All three of them seem to be making steady progress, which I’m encouraged by, and yeah I think you know, we certainly need these projects and it depends on you know what time they come into service. But no, I think the projects are still needed in the industry and Suncor is supporting them.

**Jeff Lewis (The Globe & Mail, Inc.):** So are you a shipper on Keystone XL?

**Steven Williams:** Yes. And we’re already a shipper on the lower half of Keystone, which is already operational.

**Stephen Douglas:** I think we can go to the next question operator.

**Operator:** Thank you. Our next question comes from the line of Nia Williams with Reuters. Your line is open. Please go ahead.

**Nia Williams (Reuters):** Hi there. Can you give us a sense of what level WTI Suncor needs to breakeven in its Oil Sands operation? I know you’ve spoken about operating costs, but I’m just wondering once you put in G&A costs in transportation and blend in, what the breakeven number is?

**Alister Cowan:** Okay, I think we’ve been very clear on this, but the breakeven cost for Suncor to cover its operating cost on sustaining capital is around US$30. If you add in the dividend it’s US$40. So for you I would use US$30.

**Nia Williams (Reuters):** Okay. Thanks.

**Operator:** Thank you. And I’m not showing any further questions. And I’d like to turn the conference back over to Steve Douglas for any further remarks.

**Stephen Douglas:** Thank you Michelle, and thanks everyone for joining us today. If you have further questions or detailed modelling questions, of course, we’re available and welcome your call. So thanks again. We will sign off.

**Operator:** Ladies and gentlemen, thank you for participating in today’s conference. This does conclude the program, and you may all disconnect. Everyone have a great day.