



Suncor Energy Third Quarter 2017 Financial Results Call

Thursday, 26th October 2017

Operator: Good day, ladies and gentlemen, and welcome to the Suncor Third Quarter 2017 Financial Results Conference Call. As a reminder, this conference call may be recorded.

I would now like to turn the conference over to Steve Douglas, Vice President, Investor Relations. Sir, you may begin.

Introduction

Stephen Douglas

Vice President of Investor Relations, Suncor Energy Inc.

Welcome

Thank you, operator, and good morning, everyone. Welcome to the Suncor Energy third quarter earnings call. I have with me here in Calgary this morning, Steve Williams, our President and Chief Executive Officer; and Alister Cowan, Executive Vice President and Chief Financial Officer. I'd ask you to note that today's comments can contain forward looking information. Our actual results may differ materially from the expected results because of various risk factors and assumptions and these are described in our Q3 earnings release and our recent Annual Information Form, and they're both available on SEDAR, EDGAR and our website, suncor.com. Certain financial measures referred to in these comments are not prescribed by Canadian Generally Accepted Accounting Principles. For a description of these, please see our third quarter earnings release. Following our formal remarks, we'll open the call to questions, first, from members of the investment community, and then, if time permits, members of the media.

With that, I'll hand it over to Steve Williams for his comments.

Operational Highlights

Steven Williams

President, Chief Executive Officer, Suncor Energy Inc.

Good morning and thank you as well for joining us. On our last call, I'm sure you'll remember I indicated that we expected improved performance in the second half of the year. I'm pleased to report that we're very much on track to meet those expectations. In the third quarter, we achieved reliable low-cost operations across our entire asset base and set a quarterly upstream production record of 740,000 barrels per day. And we took advantage of a relatively positive business environment, particularly in the downstream to produce very strong earnings and cash flow. We generated almost \$2.5 billion in funds from operations and \$867 million in operating earnings.

So let's get straight into the details. At Oil Sands operations, we produced a quarterly record of 469,000 barrels a day and upgrading average 93% utilization, and that's despite several weeks of planned maintenance at U1. Firebag returned to service in July after a 5-year turnaround and it produced record rates in August and September. The strong production was complemented by excellent cost management. Our Oil Sands operation's cash operating costs came in at just CAD 21.60 per barrel, the lowest in over a decade. And this brings our year-

to-date Oil Sands costs to CAD 23.65 per barrel and that's less than USD 19 per barrel. So it's putting us in great shape to hit the lower end of our cash cost guidance, which was revised down just last quarter. Syncrude also returned to normal operations in July and ran at full rates through August and September. And thanks to strong reliability, cash operating costs decreased to \$35 per barrel for the quarter. We're seeing material progress at Syncrude as Suncor works collaboratively with the operator and other owners to execute on the performance improvement plan. Just this week, you will have heard that Syncrude announced the appointment of Suncor's Doreen Cole replacing the President and CEO, Mark Ward. Doreen will assume the title of Managing Director of Syncrude operations, reflecting the owner's focus on operational improvement at Syncrude. Doreen has extensive experience in Asset Management, most recently, as the leader of Suncor's Upstream Maintenance and Reliability Team. And I'm confident that with Doreen overseeing operations at Syncrude, we will achieve the significant performance improvements that we've targeted by 2020.

Our E&P group continued to deliver reliable low-cost production in the third quarter. And thanks to strong performance in the first half of the year from all of our offshore projects, we've twice increased our 2017 E&P production guidance. With a solid third quarter now on the books, we're on track to meet the revised production guidance range. And our offshore operating costs continue to be amongst the lowest in the industry, averaging less than \$7.50 per barrel year-to-date in 2017.

In our downstream, refinery utilization rates actually exceeded 100% as we achieved record refinery throughput for the quarter of almost 467,000 barrels per day. And this helped to reduce operating expenses to just \$4.50 per barrel. The strong reliability enabled us to take advantage of sharply higher refining cracks. Our Canadian wholesale and retail sales volumes set yet another record during the third quarter. And interestingly, in a year when many people expected refining and marketing results to decline, Suncor's downstream has actually generated increased earnings and cash flow year-to-date versus 2016. And these results have been achieved even when taking into account the lost earnings and cash flow associated with divesting our lubricants business at the beginning of the year.

So in summary, the third quarter was extremely strong from both an operational and financial perspective. I think some of the observers were a little surprised when we didn't revise our production guidance downwards after the challenges we experienced in the second quarter. However, we were confident that we could produce reliably in the back half of the year.

So turning to our growth projects, the primary focus at both Fort Hills and Hebron has shifted from construction to operations. Both projects continue to track to previously announced budget and schedules, with first oil still anticipated at both sites by the end of this year. At Fort Hills, 80% of the plant has now been turned over to operations and the remaining construction activities are now concentrated in secondary extraction. We've already completed 2 out of 6 test runs on the front end of the plant and produced 700,000 barrels of froth. The froth is loaded into tank trucks and then shipped to our base plant for further processing. And so these test runs are allowing us to prove out the mining, ore preparation, major site infrastructure, utilities and primary extraction assets. To date, no significant issues have been identified and our confidence in the high quality of construction continues to be confirmed. The test run also helps us to de-risk first oil in December and the ramp-up of production through 2018. We have a high degree of confidence in a relatively smooth production ramp-up. We plan to be sustainably operating the plant at 90% of capacity by this time next year.

Now you'll recall, we previously informed the market of two challenges that had arisen at Fort Hills. In the secondary extraction area of the plant, we encountered a significant issue with the structural steel passive fire protection, and the costs associated with resolving that issue were part of the reasons the Fort Hills budget was increased back in quarter 1 of this year. We've recently filed a statement of claim to recover the additional costs from the supplier. There's been no impact to the overall project schedule. And we're on track to mitigate the fire

protection issue prior to starting up the secondary extraction as planned by the end of this year. And as you know, we simply do not compromise employee safety.

In our Q2 call, we discussed a commercial issue that had arisen with one of our partners on the Fort Hills project. We've made progress towards a resolution of this issue, but I do want to repeat what I said again. It does not involve a material sum of money in the context of a \$17 billion project, and it will have absolutely no impact on the construction and start-up schedule.

Our other major growth project is, of course, Hebron, off the East Coast of Canada. It continues to progress according to plan. During the third quarter, the first production well spudded and first oil is anticipated by the end of the year. So our major growth projects are in good shape, and we're set to reduce our capital spending in 2018 while growing production by more than 10%.

Now we've been very interested in recent market commentary suggesting that investors are pushing companies to live within their means and focus on returns rather than just growth. As you know, this is a philosophy that Suncor has embraced for a number of years. Some may remember that more than 5 years ago, we said for Suncor, the days of growth for the sake of growth were over, and we began to focus on free cash flow generation and returning more cash to shareholders. It's clear to us that the industry has moved from an environment of resource scarcity to one of resource abundance. Now in that world, an oil producer can still thrive but setting production growth targets becomes far less important than generating free cash and earning returns. So this means continually reducing our costs and our environmental footprint while exercising steadfast capital discipline. And of course, the Oil Sands advantage - a low decline, long life reserve base, that is cost and carbon competitive on a global scale - is a huge asset. I mean, you'll hear me talk more about that, the Oil Sands advantage as we move forward.

But for now, I'll hand over to our Chief Financial Officer, Alister Cowan, to go into further details on the financial performance.

Financial Performance

Alister Cowan

Chief Financial Officer, Suncor Energy Inc.

Thanks, Steve. Well, we had strong operations in the third quarter, as Steve outlined. The commodity price environment was somewhat mixed compared to the second quarter. Benchmark crude prices were flat to slightly higher, where the Canadian dollar strengthened a further \$0.06 on average, roughly 8% versus the U.S. dollar. And that resulted in lower realized prices for our basket of Oil Sands products. On the positive side, refinery cracks did increase by about \$5 per barrel versus the second quarter, leading to sharply higher-than-assumed profitability. On balance, it all added up to our best quarterly financial results since the first quarter of 2014 when WTI was over CAD 100 per barrel. As Steve mentioned, we generated almost \$2.5 billion in funds from operations and \$867 million in operating earnings. Our funds from operations for the quarter easily covered our sustaining capital spending of \$816 million plus our dividends of \$531 million, leaving over \$1.1 billion in discretionary free cash flow. In the past 12 months, we've generated almost \$3.8 billion in discretionary free cash flow plus over \$1.5 billion from noncore asset sales. A big driver of that free cash flow is our continued success of taking costs out of the business. Steve mentioned earlier that our Oil Sands cash operating costs dropped to \$21.60 per barrel in the third quarter and Syncrude's cash costs fell to \$35 per barrel. Our offshore business is also demonstrating strong cost management. And if you look at our latest IR deck, we show that Suncor's U.K. offshore production ranks #1 in the peer group on operating costs. Year-to-date, we've averaged just \$4.27 per barrel there.

On the downstream side, our refineries are equally cost conscious with operating costs dipping below \$5 per barrel this quarter. And these results are consistent with the overall cost reduction trend that's taking place across the company.

About 3 years ago, we started working in earnest to reduce our company-wide expenses. This effort included significant business process reengineering together with the implementation of enabling technologies that involved examining almost everything that we do and looking for opportunities to improve efficiencies. This included not only our internal processes, but also our interaction with suppliers, customers and other stakeholders. And you have seen that we have made a great deal of progress. Year-to-date in 2017, Suncor has increased production by 27% versus the same period in 2014, while reducing our total overall company expenses by 6%. But you know that embracing good cost management is not a task where you check the box and move on. It has to be a culture change. It has simply got to become the way that we do things. So that's the philosophy here at Suncor. And our sense is that analysts and investors are just beginning to recognize that our business has become cost competitive on a global basis. And make no mistake, we intend to continue our relentless focus on cost management and productivity across the company.

We're also working equally hard to manage our capital expenditures. In the third quarter, we invested approximately \$1.5 billion, about 45% of which went to growth projects. That brings the total capital spend year-to-date to just under \$4.4 billion. We're spending on our major growth projects, ramping down as we approach first oil. We're on track to meet our guidance range of \$5.4 billion to \$5.6 billion for the year.

With a strong financial quarter in the books, our balance sheet remains very solid. We finished the quarter with approximately \$2.8 billion in cash and over \$8 billion in liquidity. Our net debt to cash flow decreased 1.6x and our debt to capitalization fell to approximately 26%, both well within our target ranges. On our last quarterly call, I indicated that we plan to scale back our share buyback program as a result of lower crude prices. However, with crude moving back up in September and cash flows very strong, we've continued buying at a similar pace to Q2. As of today, we're about 6 months into the 1-year program, and we've spent over \$700 million through repurchase and cancelled over 17 million shares at an average price of just over CAD 40 per share. If the commodity prices remain at current levels and cash flow continues to be strong, you need to expect us to execute aggressively on the buyback in the months to come.

Now regardless of oil prices, we'll continue to focus on the things which we can control. We will continue to manage cost out of the business. We will continue to allocate capital in a very disciplined manner, and we will continue to maintain a very healthy balance sheet and that will allow us to continue to return significant cash to our shareholders. With that, I'm going to pass it back to Steve Douglas.

Q&A

Stephen Douglas: Thanks, Steve and Alister. Just a couple of things before we open the lines. LIFO, FIFO not a big factor this quarter or this year. It was an after-tax expense of \$27 million in the third quarter, bringing the year-to-date to an after-tax expense of \$22 million. Stock-based compensation expense impact in the third quarter was an after-tax expense of \$103 million; year-to-date that brings us to an after-tax expense of \$194 million. As everyone knows, the Canadian dollar has continued to strengthen in the second quarter -- excuse me, in the third quarter with an after-tax gain of \$412 million and year-to-date \$793 million. There are very few changes to our guidance. The only thing we have done on guidance is adjust crude prices and the business environment to reflect year-to-date and the expectations for the remainder of the year and that had one knock-on effect. It has increased our cash tax range for the year. And I'd remind you that the cash tax range does not include taxes paid,

one-time taxes on the gains associated with the sale of our lubricants business and our Cedar Point Wind Farm earlier this year.

With that, we'll open the mics to questions beginning with analysts. Operator?

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 RBC Capital Markets.

Greg Pardy (RBC Capital Markets, LLC): Just a couple of questions for me. I guess, the first one is, how are you thinking about your 2018 capital program?

Steven Williams: I mean we're in normal cycle, Greg. So we'll be guiding the market formally after our November board meeting in a couple of weeks. But everything I'm seeing is very much as we talked about last quarter. So we're still anticipating this quarter being max of \$5.4 to \$5.6 range, probably towards at the top end of that and still expecting, as we mentioned before, to be below 5, probably in that \$4.5 billion to \$5 billion range for next year, but nothing formal yet.

Greg Pardy (RBC Capital Markets, LLC): Okay. Great. And Steve, the second question is just with Syncrude. Is the fix there, after having reviewed everything that's gone on over the past couple of years, is it really just more about people culture as opposed to any kind of hardware upgrade?

Steven Williams: No. I would say it's a mixture of both. I mean, definitely the governance of Syncrude was a hindrance in some ways to the operations. So we've been working with the partners to sharpen up the ability for transparency between the various owners. That's progressed very well. So there are some governance, some cultural or people issues. And part of that is getting the very best expertise in the region to be able to help. And us working closely with Imperial and Exxon and getting the leader of that business in place now is definitely a big step towards that. But there are the secondary and tertiary steps as well. The secondary ones, and I'll just give you a couple of examples, are connecting the plants that we've been able to. This year for the first time, we were able to keep the upgrader running by moving some unhydrotreated material across to the Suncor-based plant, and there was a period of bitumen shortage. We've been able to put some MacKay River bitumen in there. So those types of connections are working very well. We've got a project in the system now for a bidirectional pipeline, which will enable us to move materials both ways and expecting that to start up in 2020. So that's the second category. And then the third category, of course, are the potential down the road, probably some way down the road because we don't have any plans for new mines in the near or mid-term. Then to be able to rationalize leases and get some of the advantages from just developing the lease next door rather than having to invest in a complete Greenfield mine. So that mix of benefits and we're seeing significant progress on all fronts. In the third quarter, you've been able to see that return certainly -- as it came up in July, we've then gone to full throughputs in August and September and it's very encouraging. We're seeing those sorts of levels right away across Oil Sands, not just Syncrude, that continue into this month as well.

Operator: Thank you. And our next question comes from the line of Phil Gresh of JPMorgan.

John Royall (JP Morgan Chase & Co): This is John Royall sitting in for Phil. Just had one very quick one. You guys talked a little bit about the ramp for Fort Hills, 90% utilization by this time next year. Can we think about moving operatively each quarter? And then is there any similar colour on how Hebron will ramp throughout 2018?

Steven Williams: For modeling purposes, John, I'd say, yes, I pretty much have a straight line up to 90% through the year. We'll -- you know Suncor well enough. We tend to understate and over-deliver. There is a degree of conservatism in there. The targets I've set for the plant are quite different than those. But we're confident. You put those in your model and that should work. In terms of Hebron, that -- it's slightly different. Think of it as 1/3, 1/3, 1/3. So we get 30,000 barrels a day, so 10 next year, 10 in '19 and 10 in '20.

John Royall (JP Morgan Chase & Co): Great. And actually one more. Can you give any colour on maintenance across the system in 2018? Anything you're planning?

Steven Williams: I mean, just -- when we come out with volume guidance later, we'll give you more detail. But it is a reasonably large maintenance year with Unit 1 taking its full 5 -- it's the first of its 5-year turnaround. So it's a relatively big turnaround. Good news was when we did the work on U1 in this quarter; we found the coke comes in very good condition. So very encouraging for that work next year. And then there's a number of bits of work on the refineries, particularly on Edmonton.

Operator: Our next question comes from Guy Baber of Simmons & Company.

Guy Baber (Simmons & Co): So to start off, I just wanted to prowl a little bit more on the last question, so regarding the Fort Hills ramp up. But can you just talk about, I think, how -- I mean, you touched on it, but how the confidence in the pace of that ramp has, maybe, evolved for you guys over the last few months and the degree to which that has been de-risked? And then maybe more specifically, with 5 of 6 major project areas operating right now there, where do you see the risks to quicker-than-expected ramp-up to 90% utilization a year from now? And I have a follow-up also.

Steven Williams: Yes. I mean, I'll just talk generally about the project. I mean, it is a large project with big integrated assets. So we've talked about the 80%, which is now in operator's hands. I mean, effectively, that is 95% started up. 95% of those bits of equipment have been started up. The boilers, the cogens, the primary extraction facilities, and the test runs are designed to test various elements of the operation. So it takes individual pieces up to its full capacity. It takes it up to the quality we need. And because we don't have a secondary extraction plant, we run it, we fill up tankage and then we shut it down, then we go in and do any work we have to, and then we move that product down to the base plant and then on to the market and then we repeat that process. So our increasing confidence there is coming from the fact that those runs have exceeded our expectations. It's too early to extrapolate that right away through and say that it's going to be a flawless start-up. But we're very encouraged by those first test runs. We've had it up to full product quality requirements, and we've had it up to high levels of throughput, which has been very confident and inspiring for us. So very high degree of confidence in that front. And then it's meeting or exceeding most of the design criteria we had in place. The secondary extraction, which was always scheduled to come on in a phased way after primary extraction, is also going fairly well. We've largely finished all of the hydros on all 3 of the trains. We have -- we're in the very last pieces now of mechanical completion on the first train for oil. And that's why we are using words like confident in oil -- first oil this year and then becoming increasingly confident in the ramp-up as we go forward. So it's based on a lot of real evidence now, in terms of how the project has been handed over to operations and is performing.

Guy Baber (Simmons & Co): That's very helpful detail. And then my follow-up. You highlighted that cash costs -- obviously, you have it down to a 10-year low. So impressive performance on that front. But you also highlighted the focus on continuing to take those costs lower. So as we think about the next few quarters into 2018/2019, I really wanted to ask about what you see as the opportunity to continue to drive those costs lower? And if there are some specific initiatives that you can point to, to give us confidence that, that trend continues to progress from what is already pretty impressive cash cost reductions?

Steven Williams: Yes, sure. I mean, I would say, first of all -- and we do guide on cash cost and we do try to take everything that's happening in the year into account when we're doing that. As you pointed out, we're actually challenging the lower end of the re-guided numbers. The most important part of getting the cash costs down is reliability. And we have seen -- we're becoming, again, increasingly confident in the levels of that reliability we're seeing from the plant. If you look last quarter, it disappointed us. But if you looked at the last 8 quarters, you'd see that we have been doing very well consistently through that piece. We haven't finished in terms. So reliability, we're continuing to work on it, you've seen what Firebag has done as it has come back from its turnaround. These 5-year runs are working and then the plants are coming back in a very reliable condition, which is very encouraging to us. We're continuing to work on what we call the nuts and bolts of our business. So as the reliability comes up, we can start to look at where we put our priorities, where we put our manpower, and we've been able to reduce costs through that piece steadily. It gets tougher as you go on. I mean, you clearly go in and get the low-hanging fruit first, and then you move on to the more difficult issues. But we still have lots of things we're working on. So generally you will see that trend continue. If you look at things like mining, you know we've been working on a program of automation there, which -- and I'll use this one by way of example, automation, which lowers maintenance costs, increases the productivity of the vehicles, increases the production of the mine. So that has gone very well. It's commercially successful. So you'll see us continue to work on initiatives like that, where we steadily get reliability up and reduce real cost. I mean, Alister pointed out that we've actually -- with all the capacity increases we've had since 2014, 25% plus, we have actually reduced the absolute costs, even accounting for that 25% increase in production. So it's been significant. You're going to see more of that. As we finish these big investments, we also get the opportunity to refocus again. So these are -- a project the size of Fort Hills takes a considerable amount of attention. Some of that attention is going to come back into our base operation as we consolidate our base operation again and integrate those operations into the business. So yes, I'm confident you'll see a slow but steady trend on costs down and reliability up.

Operator: Our next question comes from Neil Mehta with Goldman Sachs.

Neil Mehta (Goldman Sachs Group Inc.): The question I have, Steve, was -- first one was around share repurchases. You came out with a \$2 billion share repurchase authorization buybacks in the quarter, run rating less than that. Do you see the potential to accelerate share repurchases as you think about, call it, the next 6 months of the program?

Steven Williams: It's part of our capital discipline. We will flex share repurchases against two criteria at least. One is, how well the business is performing and the cash it is producing. Our plan is to have a very healthy balance sheet through this piece. So we're looking to fund those repurchases from good free cash flow. So when, after the second quarter, we had some challenges, we wanted to make sure we got the operation back reliable. We have, so we've increased the pace of them again, and you'll see us doing that next year. I mean, the general trend is going to be, with current performance and what we're expecting in the fourth quarter, to see those share purchases continue at the higher end of the scale.

Neil Mehta (Goldman Sachs Group Inc.): That's great. And then, Steve, one of the questions we've been getting a lot as Canadian production continues to ramp and some questions around timing of pipes that fuse on WCS differentials. You guys are more protected, given the integrated nature of your portfolios. But if you could remind us, again, the sensitivity to WCS differentials? And just thoughts on how those spreads will evolve? That'd be great.

Steven Williams: I mean, the first thing I would say is -- I mean, in terms of diff, it's an easy answer. We're not exposed to the differentials because of the way our business is integrated and the way we run it. Diffs have virtually no impact on Suncor. We actually put a number in our shareholder book, which is on the website, but it's \$2 million per -- for 1. So

it's a very low number. And you're almost best in your models to ignore the fact of differentials.

On pipes, similarly, we're not particularly exposed. We are supporters of all of the pipelines and are actively out there trying to encourage the construction of those pipelines. But Fort Hills has always been in our plans. So we have access to market right away through the Fort Hills ramp up and when it gets up to full volumes, the vast majority of that will go on pipeline. There may be occasions when we put some on rail, but we feel very covered. So pipes and differentials are not something I lose sleep over.

Neil Mehta (Goldman Sachs Group Inc.): That's great, Steve. Last question from me. On Syncrude, as you mentioned, new leadership of the asset with the new Managing Director coming in, in December and I believe somebody that was with the Suncor organization before. Can you just flesh this out a little bit in terms of where you see the ability to drive out cost? And where you stand with synergies? And how this leadership change can fit into that strategy?

Steven Williams: I mean, first of all, in the leadership change, yes, I mean, Doreen Cole is a very seasoned and experienced industry individual. She -- her experience was, she worked for Shell for 17 years. She ran the Shell -- the Scotford upgrader as part of her development. She came across -- she did some other jobs. She then came across to Suncor. As I said, she ran a big part of our reliability and maintenance organization across the company. So we're very, very confident that Doreen brings the scales we need for this next level. It also gives us an integration back into Suncor, where when we can help, we will put that help forward. So we have some of the industry's best miners. We have some of the industry's best operators, literally a stone's throw from the Syncrude plant. So it's just another step in working together. And I do have to say, it was very much in cooperation with Imperial and Exxon that we've made the changes. Personnel need to change over time. This was the time for the leadership change, and Doreen was the best candidate that the company has put forward. So very healthy process of development. Then all I'd say, I mean, it's largely the answer I gave before. We will flesh out a little bit more through time, but we have a comprehensive accelerated program of improvements that Doreen Cole has been working on, by the way, with Mark Ward for the last 6 or 9 months. That's about all of the sorts of things that we've talked about. And some were already going on in Syncrude, some will take a new emphasis. So it's things like the reliability focus, the maintenance focus, the integration of processes, the coordination of supply chain like we've now -- we now -- Suncor system handles the lodging and the transportation of individuals.

It just helps and you get economies of scale when you get to the sum of the 2 companies that you can't get with 1. So lots of things like that and they go fine, and we're starting to see the benefits. The second ones are then the hardcore integration of the plant. So moving products and intermediate streams from one place to the other. And the third are these leases. We have comprehensive programs of those. I mean, this probably isn't the place, but if needs be, we can take you through those in a bit more detail.

Operator: Our next question comes from Roger Read of Wells Fargo.

Roger Read (Wells Fargo Securities, LLC): And I guess, maybe, delve in a little bit. Obviously, we're going to see more changes with Syncrude management change and all the other things you mentioned. I was just wondering, though, are we going to see in the fourth quarter a fairly high level of utilization? And should we think about that as potentially the right way to say that's the new baseline and we stair-step up from there as we think about improvements in Syncrude over the coming years?

Steven Williams: No. I think that -- I think we have to be realistic. We've been progressing from a level, which for the last 4 or 5 years has been in the mid-70% utilization. Our plans, we think, get us to in the low 90% by 2020. And it's -- we think it will be a relatively straight

line between here and there. So we're expecting to move up into the mid-80s next year, and then move towards the 90s as we get to 2020. So it's a -- you will see periods where we're running very high. We have been running it very high for the last 2 months of the third quarter and for October. So you will see periods of those very high levels, but it does need plant maintenance as well. So I'd be a little bit more conservative on your assumptions.

Roger Read (Wells Fargo Securities, LLC): All right. I just wanted to touch you a little bit there.

Operator: Our next question comes from the line of Travis Wood of National Bank Financial.

Travis Wood (National Bank Financial, Inc.): I wanted to revert back to Fort Hills ideally. I like to understand a couple of things. And this is more a high level and kind of structural as you went through the test run. But what type of data were you looking for during the test run? And what output was studied once it was completed? How many days did it run for? And then, with that data, were there any changes that you talked about in terms of operating plans or some of the components in terms of going back to the plant?

Steven Williams: Okay. I mean, I'll give you the overview here, and then if you want more detail, don't hesitate to come back to us during the day. There are 2 or 3 main pieces of focus for these early test runs. The first ones are mechanically to get the -- get it going. Because the beauty of the way we executed this project was that it wasn't all finished on day 1. We were able to get pieces. We can work through those, and inevitably, you will find issues, you'll find pump alignment issues, you'll find control issues. The beauty of what we're doing is, you fix all of those, but it doesn't have any impact on the full operation when you get to the point of having secondary extraction available. So we've mechanically gone through significant parts of the plant, and I'll give you a clue as to the pieces we've been. So we've been running the sizes, the slurry prep, the separation cells. The third test run actually runs the thickness, which is in progress over the next couple of days, and we've been running the tailings lines. So that's on the primary extraction side. And what we've been doing is running those mechanically and testing the quality of the materials and they've been working very, very well. Then if you look at utilities, we've got boilers, cogens, water treatment, and we've been running all of those and all of those main facilities have now been run. And then the answer to how long, it depends. I mean, we've run it on an integrated basis producing -- as I said, we produced between 200,000 barrels and 300,000 barrels already. And we ran the first one for just under 15 hours and then our tanks -- and then we got to where we wanted to be. And then the third one, we ran to a higher level. And we've commissioned the road trucking facilities, which were only temporary, to get the product out so we can continue to run these things. But as I've always said, the front end of a plant is very well designed and large, and we've been running up in some cases to full capacity. So we can take you through the design of those 6 test runs, but the overall summary is that front end is looking very good.

Travis Wood (National Bank Financial, Inc.): Okay. No, I appreciate that. And that -- this sounds like it's the foundation to the confidence around first oil and then the ramp-up through '18?

Steven Williams: Yes. That's right.

Operator: And our next question comes from Paul Cheng of Barclays.

Paul Cheng (Barclays PLC): Steve, I think, for some times there you guys have been targeting your upgrader utilization where you had 90%. And you certainly, I think that by now hopefully, you become more comfortable that you can achieve it. So is that the Holy Grail? Or that you think we actually should be able to do better than that? Is there a new target in terms of our sustainability way that you can? And also whether there is any debottleneck opportunity for the upgrader that is low cost for that one?

Steven Williams: I mean -- so yes, and yes, Paul. So I mean, to start with, you get for low-hanging fruit again. You work through those. And what we're doing is then we take the plant to that level and we run it and we find what the next level is, and we look at what the resolution of that bottleneck is. Yes, there is still further to go. We've got comfortable on average in these low 90 ranges. There's still capacity. I mean, an upgrader in terms of comparison, it's not a fair comparison. It's more comparable to a refinery than it is to a mine. And you've seen in our refining, we've been able to get it up to, for extended periods, at 100% type levels. We can't do it continuously, but we can get it up there for periods. So you will see further creep, although it obviously can't be at the same pace as the early reliability moves. In terms of debottlenecking, yes, we are looking at the next opportunities for debottlenecking. Our view always was that first debottleneck was to fully utilize the assets you have. At that point, you can start to see if there are any lower than full Greenfield investment-type levels that you can debottleneck at. We're looking at those. And as we go through this next couple of years, I expect us to identify some of those, some real opportunities between Syncrude and Suncor, but particularly getting the Syncrude assets up and some of that by connectivity into the base plant. And we think -- I wouldn't plan into next year, but we think there are real opportunities around Fort Hills as well that we'll be looking at. So you're going to get 10% growth next year, 10% growth the following year, and then you'll see us start to push on these debottleneck opportunities.

Paul Cheng (Barclays PLC): I know, Steve, and it's probably way too early, but is there any preliminary somewhat estimate that how big is the opportunity set on debottleneck in your base upgrader in your operation? And what are capital costs that we may be talking about?

Steven Williams: Yes, it's too early, Paul. So I mean, as that becomes clearer, we will talk, but it is a little bit too early for us to be talking specific numbers and costs.

Paul Cheng (Barclays PLC): Okay. On Fort Hills, I think, previously that you guys talked on a full operation \$25 in the cash costs. I think spending CapEx may be \$5 or \$6, transportation costs may be \$4. So that gets to about \$35 round number, \$33 to \$35 in the total cash cost. That means that at today's oil price, you won't generate much of cash. So is that really the best that we can do? Or you think those are just the starting point we can actually push it below?

Stephen Douglas: Paul, it's Steve Douglas here. Actually, what we talked about for cash costs at the time we sanctioned the project was \$20 to \$24, and we haven't adjusted that range. So I kind of look at that as the range until such time as we've ramped it up and reforecast. Then on transportation costs, yes, that's probably in line. But I think that gets you to more of a high CAD 20s number, rather than a low CAD 30s number.

Paul Cheng (Barclays PLC): Okay. And is that the best that you guys can think that we will be able to do? Or you actually think that there's still room there to be able to push it down substantially?

Steven Williams: Absolutely not the best we can do. No. I think that's a good planning basis, and you will see us apply exactly the same approach to Fort Hills. You'll see us start to grind those costs down. And a great example is, when we approved the project, we were talking about manned vehicles. And as you know, we put temporary contractors in there for pre-purchased automated vehicles. We're now looking at the possibility of using those in an automated fashion. And we'll come out in the next 3 to 6 months and talk about how the test runs have gone and what that transition might look like.

Paul Cheng (Barclays PLC): A final one for me on the M&A front. Steve, do you see the market bid past today as favourable or it's too wide apart?

Steven Williams: I think there's been -- as prices are coming up, expectations from sellers are coming up. I think in the mean, the purchasers have been patient. And I think what I

would say for us is, we have no needs to do M&A. We are in good shape. We will look dispassionately at the allocation of capital from -- got no major organic growth planned in the next year or 2. So we will then look in a very disciplined way at what projects might look like, what projects look like, what M&A looks like, what share repurchase looks like. So you'll see us move between the 3. Mind, what we're saying at the moment is M&A is not particularly encouraging for us. We're very selective. And so that's why we've been favouring share buybacks and we've been talking about potential for a dividend increase next year.

Operator: Our next question comes from Jason Frew of Credit Suisse.

Jason Frew (Credit Suisse): Actually, all my questions are answered.

Operator: Our next question comes from Dennis Fong of Canaccord Genuity.

Dennis Fong (Canaccord Genuity): Just a couple of quick questions. First on the Syncrude baseline bilateral pipeline. What's kind of the path that we need to take from here to kind of sanction the project? I think, it looks like you have like a preliminary cost estimate, I suppose, for the time being? Like is there -- is engineering work complete? Are there commercial negotiations that you have to complete? Can you kind of like frame maybe a bit kind of the path to the actual sanction of this pipeline?

Stephen Douglas: Yes. Dennis, Steve Douglas here. And we did in fact put in the IR deck approximately a \$200 million or less spend. That's quite preliminary. There is a substantial amount of permitting work that has to go on even though it is a very short line. And there is - - we're really only -- that's a pre-engineering estimate. So we have to go through detailed engineering and the results of commercial discussions that have to be completed between the owners. So we are at the front end of this path, which is why we expected to take until 2020 to actually have lines in place and operational.

Dennis Fong (Canaccord Genuity): Okay, perfect. And then just with respect to the integration on the operations side, like what the potential relocation of Syncrude staff into the Suncor Energy centre. What are you guys doing at a field level with respect to, call it, best practices? Or doing very something similar within Fort McMurray?

Steven Williams: I mean, on those fronts, we have cooperative best practices. So if you think of safety or environmental, we work very closely together. And then, each company has slightly different operation integrity systems. But not completely coincidentally, Exxon system and Suncor system is -- has many very similar components. So we'll take the best of the best and use them for Syncrude. So that's where you get some of the benefit where you have best practice there. And some of it is geography as well. I mean, we do have -- in some cases, we have a clear leadership. In some cases, Imperial or Exxon would have a clear leadership. And one of the best things about what's been going on is, we've been -- just saying, who is the best leader on this? And there's no ego. If that's Exxon, let Exxon do it. If that's Suncor, let Suncor do it. And then where everything else is equal, if there are geographic benefits, then we let that persuade. But it's been very much using the best of the best. Not going in with dogma. And I think I've had a number of questions as to when he is going to take over operator-ship. That was never our objective. Our objective was to get the plant very reliable and low cost as quickly as we could, and there are lots of skills that Imperial and Exxon bring to the party and lots of skills that Suncor bring and we're trying to make the best of both.

Dennis Fong (Canaccord Genuity): Okay. Perfect. And then just last question here. With respect to Fort Hills, you talked about trucking some of, I guess, the bitumen froth from Fort Hills down to the operators. Approximately how much trucking are you guys talking about? And maybe even a volumetric number there?

Steven Williams: I mean -- I wouldn't -- I'll give you a number on average detail. I wouldn't -- I wouldn't worry about too much. Think of it as about -- for the fourth quarter, you could think about 8,000 barrels to 10,000 barrels a day equivalent.

Stephen Douglas: Maybe I'd just supplement that, Dennis, with -- the objective here is not an economic one. So the numbers really aren't that material, one way or the other. It's more about fully testing the front end of the plant in a comprehensive way to de-risk the full plant start-up and ramp-up. That's our real goal here.

Operator: Our next question comes from Amir Arif with Cormark Securities.

Amir Arif (Cormark Securities Inc.): Can you just remind us, after Fort Hills is fully ramped up to its production at the end of '18, what your total oil sands production is, your upgrading capacity and your heavy oil refining capacity?

Steven Williams: Rather than -- Amir, rather than do those numbers in my head, I don't have them front of mind here. We're not increasing upgrading capacity. But we will be guiding in November for '18, but I'm happy to come back to you offline with specific numbers.

Amir Arif (Cormark Securities Inc.): Okay. So I was just trying to follow-up with the previous question in terms of exposure to WCS.

Steven Williams: Okay. Yes. So we will -- currently, we sell about 100,000 barrels a day of bitumen to third parties. With Fort Hills, that will close to double because we have close to 100,000 barrels a day of bitumen coming out of Fort Hills as Suncor's working interest and that will -- or the equivalent of that will go to third parties. So we essentially double our exposure, but we remain not materially exposed to the light-heavy, and we can walk through that and we will in our IR deck and presentations going forward.

Amir Arif (Cormark Securities Inc.): That sounds good. And then just, as I think about longer term growth beyond '19, should I think about more just capacity creep at some of the mining operations? Or does Greenfield SAGD start to become economic and competitive at current prices based on new cost structures?

Steven Williams: I mean, yes, think about to start with the 10% next year, and then the next 10% the following year coming from Fort Hills and Hebron coming up to full capacity. Also factored in there is Syncrude starting to increase reliability as we move up towards the 90% level. Then think about other debottleneck opportunities, and we'll clarify those as time goes on. And then beyond that, you can start to think about in situ replication. We've had our approvals for Meadow East, which was 2x 40,000 barrels a day unit. We've had -- Meadow West is now in for approval. So that gives you 120,000 barrels a day. And then beyond that, we will have, certainly in the next 6 months, our applications in for a property we called Lewis. That's 4x of 40,000 barrels a day, so 160,000 barrels. So in total, we have replication in situ projects mapped out for 280,000 barrels a day beyond that. So we have lots of exciting opportunities.

Amir Arif (Cormark Securities Inc.): Okay. And could you share what your capital efficiency assumption would be on new thermal SAGD? Or is it too early to think of?

Steven Williams: I mean, I'll tell you what the objective I've set the businesses is. I'm looking for \$50 breakeven -- crude breakeven on those projects. And they're starting to get -- when it started, it was probably near \$70. It's now down into -- got down sub -- around the \$60, maybe in sub-\$60 level. And I'm looking for it to have a breakeven down at \$50 for approval.

Operator: Thank you. And this concludes the question-and-answer session. I would like to turn the conference back over to Steve Douglas for closing remarks.

Stephen Douglas: All right. Thank you, operator. And thanks to everyone for participating. I know we do have a few questions still lined up. And as always, we are available throughout the day. So -- but we do need to sign off here. So thanks to everyone for participating, and we'll talk to you again.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone, have a great day.