Suncor Energy Fourth Quarter 2018 Financial Results Call

Wednesday, 6th February 2019

Operator: Good day, Ladies and gentlemen, and welcome to the Suncor Energy Fourth Quarter 2018 Financial Results Conference Call. (Operator Instructions) I would now like to introduce your host for today's conference, Mr. Trevor Bell, VP, Investor Relations. You may begin.

Introduction

Trevor Bell

Vice President of Investor Relations, Suncor Energy Inc.

Thank you, operator, and good morning. Welcome to Suncor's fourth quarter earnings call. With me this morning are Steve Williams, Chief Executive Officer; Mark Little, President and Chief Operating Officer; and Alister Cowan, Chief Financial Officer. Please note that today's comments contain forward-looking information. Actual results may differ materially from the expected results because of various risk factors and assumptions that are described in our fourth quarter earnings release as well as in our current Annual Information Form, and both of those are available on SEDAR, EDGAR, and our website, suncor.com. Certain financial measures referred to in these comments are not prescribed by Canadian GAAP. For a description of these financial measures, please see our fourth quarter earnings release. Information on the impact of foreign exchange, FIFO accounting and share-based compensation on our results can also be found in our Q4 report to shareholders. Following the formal remarks, we'll open the call for questions. Now I'll hand it over to Steve Williams for his comments.

Opening Remarks

Steve Williams

President, Chief Executive Officer, Suncor Energy Inc.

Good morning and thank you for joining us. Looking back, the 2018 market was volatile and certainly very interesting. We entered the year with increasing benchmark prices supported by an improving global supply and demand outlook. However, as we all know, the second half of 2018 saw a significant reversal of those trends, combined with global trade disputes and market access issues and prices ultimately hitting a low at the end of December before reversing yet again in the past few weeks.

The Alberta business environment in the fourth quarter was also volatile with our realized pricing for bitumen and synthetic groups down over 80% and 45%, respectively, versus Q; pipelines at capacity, storage inventory near capacity, and of course, competitor uneconomic production being shut-in. These headwinds, while strong in the quarter, have occurred before. I know that both investors and analysts want to look forward to 2019, but we do have a great deal of good news to report for the fourth quarter.

Once again, the resiliency of our business model in difficult environments was clear as we generated $2 billion in funds from operations and returned value to our shareholders with over $1.7 billion in dividends and share repurchases.

We did this and maintained a strong balance sheet. Being able to generate cash flow through volatile commodity cycle is a strength. We're able to do so because of our long-term focus on integration between upstream and downstream assets and because we've secured strategic long-term pipeline commitments, mitigating our market access risk.

Our ongoing focus on safe and reliable operating performance was highlighted in Q4, and we achieved quarterly and annual performance records in many of our upstream and downstream assets.

I'll now hand it over to Mark to provide more context on our solid operating performance.

Operational Highlights

Mark Little

Chief Operating Officer, Suncor Energy Inc.

Thanks, Steve, and good morning, everybody.

Our fourth quarter operational results demonstrate Suncor's unwavering commitment to operational excellence, which we've talked a lot about. A long list of achievements highlights the production capabilities of our assets with a record total upstream production of 831,000 barrels a day, including record total oil sands production of 741,000 barrels a day. Syncrude had a production record of 210,000 barrels per day net to Suncor or 101% of name plate capacity, and Fort Hills achieved utilization of 94% for the quarter, exceeding our accelerated midpoint guidance of 90%. And Hebron continued its successful ramp up, achieving average production of more than 15,000 barrels per day net to Suncor following the completion of the fourth production well.

And finally, in the downstream, we achieved record crude throughput at our refineries of 468,000 barrels per day. This performance reflects the hard work of Suncor employees and the contractor community. And I'd like to take a moment just to thank the team and all their personal commitment to operate safely and reliably, which clearly drove the outstanding quarterly results. I'm also extremely proud of the successful ramp-up of Fort Hills, which achieved the increased target of averaging 90% utilization in the fourth quarter, and we just bumped it up to that level in the third quarter of last year and gave the team a new challenge.

We also saw a successful return to more reliable operations at Syncrude following unplanned outages earlier in the year. Strong reliability leads to low operating cost and that was certainly the case for both of these assets in the fourth quarter. Fort Hills cash operating cost of $24.85 per barrel and Syncrude cash operating cost of $31.75 per barrel, representing a decrease of 25% and 50%, respectively, from the third quarter. Remember, those costs are in Canadian dollars, so converted to US dollars, Fort Hills cash operating costs were $19 a barrel and Syncrude's were $24 a barrel.

As you know, there's some minor operational challenges at our base plant during the quarter. Total Oil Sands operations production of 433,000 barrels per day reflects both planned and unplanned maintenance at our Upgrader 2, which resulted in overall upgrader

utilization of approximately 80% for the quarter. The base plant returned to normal operating levels following the completion of the unplanned maintenance in late Q4. Our in situ assets continue to operate reliably, albeit slightly below the record levels achieved in the third quarter. This was a result of seasonal volatility and planned upgrade or maintenance.

On a full year basis, Suncor's in situ assets achieved a new bitumen production record of 240,000 barrels per day on a nameplate of 241,000 barrels per day. So they had a fabulous year.

Moving to the offshore E&P, our East Coast assets were impacted by a severe storm that required all platforms in the region to be safely shut-in for approximately 1 week. These events, coupled with an unplanned outage at Buzzard, which was resolved by the end of the quarter, resulted in average total E&P production of 90,000 barrels per day for the quarter.

On a full year basis, total upstream production of 732,000 barrels per day represents a new annual record and an increase of 7% over our 2017 production. This includes a successful ramp-up of Fort Hills and Hebron and the completion of the most significant planned maintenance program in Suncor's history.

Looking forward, we will focus on facility debottlenecking, cost reductions and margin improvements that will increase annual cash flow between 2020 and 2023 with the target of $2 billion of incremental cash flow per year thereafter. We'll continue our operational excellence journey, including persistently improving our maintenance and reliability practices, reducing operating costs across all our assets, and that includes the support that we have for Syncrude on their reliability journey.

Deploying and implementing technology, such as the automated hall systems or our tailings management system past and leveraging digital technology across the enterprise will be instrumental to our continued progress in improving reliability and reducing costs. We also have a number of growth projects in the works. For example, our sanctioned offshore developments off the East Coast of Canada and in the North Sea, pre-investment analysis on the replacement of our coke-fired boilers with low-cost, high-efficiency cogen and the construction of the Syncrude bidirectional pipeline, which we expect to be operational by the end of 2020.

All of these projects are expected to improve productivity and increase margins and are not affected by current egress challenges in Western Canada. In summary, through cost reduction, margin improvement and production debottlenecks, we have the potential for significant cash flow growth over the next several years regardless of market conditions, and I can assure you that the team is all over it. So with that, I'll pass it on to Alister and he can provide some color on our financial results.

Financial Highlights

Alister Cowan

Chief Financial Officer, Suncor Energy Inc.

Thanks, Mark.

And as Steve mentioned, the business environment during the fourth quarter was volatile. With Brent, WTI and WCS benchmark prices declining 10%, 15% and 60%, respectively, from the Q3 level. While those levels have occurred before, the widening of the Western Canadian light oil differential to an average of more than US $25 during the quarter was unique, and this volatility translated directly into significantly lower price realizations across the upstream energy industry.

This declining price environment for crude oil and finished products also resulted in a net $385 million after-tax charge associated with FIFO accounting and related inventory valuation adjustments.

Despite these headwinds, Suncor demonstrated the resiliency of our business model, and we generated $2 billion in funds from operations and $580 million in operating earnings in the quarter. This brings our annual totals to a record $10.2 billion in funds from operations and $4.3 billion in operating earnings. These quarterly and annual financial results are a testament to the value of our integrated business model, which is able to capture much of the value of widening differentials with record downstream annual operating earnings and funds from operations of $3.2 billion and $3.8 billion, respectively.

During the quarter, we saw significant value in our stock price and continue to execute aggressively on the stock buyback program. We purchased in 1.2 billion of shares at an average price of just under $44. On an annual basis, we repurchased more than 64 million shares with $3.1 billion, which was funded by the $3.9 billion of discretionary free funds flow generated in 2018.

Given the accelerated purchasing of our stock in the fourth quarter, we expect to complete the current $3 billion stock buyback program by the end of February. Accordingly, our Board of Directors has approved an additional $2 billion of stock buybacks.

Our board also authorized a substantial 17% increase in our dividend, which marks 17 years of consecutive annualized dividend increases. This dividend increase is supported by the structural improvements to a free funds flow to a strategic kind of cyclical investments and operating performance of Fort Hills and Hebron and additional interest in Syncrude. Our dividend does not depend on a high oil price; we are able to fund our dividend and sustain in capital at a USD 45 per barrel oil price. So with that, I'm going to hand you back to Steve for some closing thoughts.

Closing Remarks

Steve Williams

President, Chief Executive Officer, Suncor Energy Inc.

Thanks, Alister. So looking back to 2018, I think the resiliency of our business model was tested through high and low realized price environments. And as Alister emphasized, we achieved record funds from operations of $10.2 billion and returned over $5.4 billion dollars of that to our shareholders. That represents more than 50% of funds from

operations being returned to shareholders, and it's this past performance that provides us with the confidence as we look forward to 2019 and beyond. Our business is built to mitigate the volatility the industry has experienced and the cyclical nature of this commodity business, and it allows us to focus on creating long-term shareholder value.

We will remain capital disciplined. The mid points of 2019 capital and production guidance represents a flat capital spend compared to 2018 and a year-over-year production increased of approximately 10%, and that includes the estimated effects of the Alberta government mandatory production curtailment. We will also continue to operate our assets in a safe and reliable manner in keeping with our operational excellence standard. We remain committed to returning value to our shareholders. The execution of our $3 billion stock buyback program, a further $2 billion stock buyback program and a 17% dividend increase demonstrates the ability of our business model to substantially grow shareholder returns. We plan to invest capital in 2019 through to 2023 to grow production through debottlenecks, enhance margins and reduce costs.

In turn, we expect to generate incremental cash flow in each year during this period, culminating in more than $2 billion of annual cash flow in 2023 and beyond. So this will enable us to continue to grow dividends, continue stock buybacks and continue to invest in our business, all whilst maintaining a strong balance sheet. So with that, I'll pass back to Trevor.

Q&A

Trevor Bell: Thank you, Steve, Alister and Mark. I will turn the call back to the operator to take questions, first, from the analyst community, and then if time permits, from the media.

Operator: Thank you. Ladies and gentlemen, if you have a 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 Neil Mehta with Goldman Sachs.

Neil Mehta (Goldman Sachs): The first question I had this morning was about the Alberta production curtailments. Steve, I am curious to your views on the duration of these cuts, and talk a little bit about what's happening on the ground from your asset portfolio. Where are you curtailing production? And how are you actually executing the mandates that have been provided to you?

Steve Williams: Okay. Yes, thanks, Neil. I think I'm going to get a lot of questions over the next half an hour on curtailment. So if you'll forgive me, what I think I'll do is make a few general comments, which will context the situation both generally and specifically for Suncor, and I think it will answer your questions, Neil. So the first thing I would say is Suncor is unique in this particular sector because of that integrated model we have. We have 600,000 barrels a day of upgrade capacity and we have 460,000 barrels a day of refining capacity. We have strong, very strong pipeline access logistics. So we're very well positioned. Of course, I am on the record for this, I do not support these curtailments. I'm disappointed in the fact that the Alberta government has got us into this situation, but we are working with the government to make sure the unintended consequences are

minimized. But let me start to answer your question. First off, and I'll take it at an even higher level than just curtailment, I expect, everything else broadly equal, that 2019 for Suncor will look very similar financially to 2018. Now that won't surprise anyone because we put out our 2019 guidance, and we took into account the curtailment. So our expectation is we will produce between 780,000 and 820,000 barrels a day, so that's a 10% growth from 2018 to '19, and that takes fully into account reduced production that we anticipate from the curtailment. Now in direct answer to your question, I suspect -- but I mean, you have to talk to the Alberta government, that what they're seeing is that the unintended consequences we highlighted are happening a bit faster than they expected. So if you look at what's happened, the differential corrected and overcorrected very quickly and the unintended consequence of that is that potential for further egress; the rail economics are seriously damaged, and a lot of the rail movements are stopping or have stopped. That's going have the opposite impact to what the government wants. And what we've seen is I think it's ahead of everybody's expectations, they started to reduce the curtailment already by that 75,000 barrels a day. So our advice to government has been, you've seen these impacts, we take them through the unique lens that we, an industry, have on it, and it's time to start planning for what we call a soft landing or a soft exit that -- the strategy to remove these curtailments, the strategy needs to be fair, transparent and understood, and every indication that we can see is from these first moves is it's starting to happen. So if I summarized all that, I would say nobody's immune to it. We're relatively immune because of the upgrading, refining and logistics we have. We have the vast majority of all of our materials, including products, moving by pipeline. So we still think our guidance is good. We're not anticipating for now moving away from the 780,000 to 820,000. And if anything, we see curtailment coming off a little bit early.

Neil Mehta: To paraphrase a little bit, Steve, is what you're saying from a cash flow perspective for Suncor specifically, is that you will see some loss of cash flow, obviously, from the loss in production. But given that the differentials have tightened up, should we think of this as a net neutral from a cash flow perspective of Suncor?

Steve Williams: I mean, of course, it depends on all of your assumptions in there. I mean, I'd probably say, if anything, I'll be a little bit more bullish than that. I mean, it depends on your assumption where you believe differentials end. With differentials moved so significantly, like everyone else and I said, even with the curtailment, everything else equal, we were a benefactor because the increase, in large, apply to 90% of our production. So I think in the worst case, we are neutral, maybe even slightly positive, but it depends on where you think the differentials end up. Our view is that the market should be allowed to work, these differentials need to even to meet the Alberta government's objectives, and these differentials need to come back so that rail economics work. Because right now, there are rail facilities that capable of moving crude and bitumen which are not in operation.

Neil Mehta: And then looking out a little longer term, I appreciate the guidance that you provided here on Slide 3, which gives us cash flow growth out through 2023. A couple of questions on this. Is this cash flow per share CAGR or an absolute cash flow number? And as you think about the pluses and minuses, it seems to us like this could be conservative number, even in the flat price environment where there's some upside risk to it. Just any thoughts on how you think about this long-term cash flow guidance?

Steve Williams: I agree with you. I'll let Alister answer, but I think you're right. I think it is a conservative number.

Alister Cowan: Yes, Neil. Those numbers that are on Slide 3, that's an absolute increase in cash flow over that period of time. So to the extent that we're buying stock and we obviously expect to continue to do that over the next several years, those numbers would increase, yes. So I agree with Steve, I think they're probably conservative.

Operator: Our next question comes from Greg Pardy with RBC Capital Markets.

Greg Pardy (RBC Capital Markets): Steve, I was just hoping to jump into some of the operating side of the business questions; you did touch on the Syncrude bidirectional pipeline. So it sounds like the commercial side of things is there. Can you just walk us through what the next steps are? When construction might start, that kind of thing?

Steve Williams: Yes, I'll let Mark take us through the details, Greg. But yes, we're pretty much ready and the partners are pretty much agreed on it. We've actually done the detailed work on it. And I'll let Mark take us through what program looks like.

Mark Little: Yes, thanks, Greg. We went through the deal with our partners and ended up getting the agreement in place. And you can appreciate we're swapping commodities between the 2 sites and picking up the uplifts between the 2 sites and dealing with maintenance events and all that kind of stuff. So the commercial agreement was actually quite involved to try and sort out, okay, who's paying for the line? How do you split the benefits and those sorts of things? All that's behind us. We're in the process of doing the engineering and such and preparing for the fieldwork. We expect construction to begin in the not-too-distant future. And we'll end up putting the line and service towards the latter part of 2020. So we expect it to be fully in place. That's a little later than what we originally said. We were hoping to have it in place and operational for all of 2020. So it's a little later and a lot of that was just held up on the commercial work. But the work is progressing very nicely now and all the partners are working hard to get that in place. Because everybody realizes this is significant to us achieving our 90% utilization and our $30 a barrel operating cost that we committed to quite some time ago.

Greg Pardy: Okay. And so that will then mean that you'll have feed stock redundancy at Syncrude, then it will come from what, fort Hills, Mackay and Firebag? Like, will you have just kind of a cocktail in terms of what you can choose from?

Mark Little: Well, we will have the ability to do that. Right now, we view that it will be Firebag as the way that it's kind of constituted now to be able to move it in, but we have the flexibility. Unlikely we would do Mackay, but we certainly have the capability to move in Fort Hills, whether that particular connection's in place by then or not is still in debate. But it does give us feed stock flexibility. It also allows during Syncrude turnarounds with their cokers to be able to move bitumen from Syncrude to our base plants and run it and then have export more bitumen. Or we also have the ability to move sour synthetics from our base plant into Syncrude and hydro treat them and sell sweet synthetics. So there's a lot of different ways we can manage it. And all the scenarios I just talked about don't account for upset conditions and upset conditions is where you could make very significant amounts of money because it can be the difference between running and not running.

Greg Pardy: Okay. You guys also have quite a plan with respect to autonomous haul trucks, I think, in your Millennium mine as well as Fort Hills. Could you talk about that program? And do you see any plan to run autonomous haul trucks in Syncrude eventually?

Mark Little: It's interesting. Syncrude is different, one of the things that opened up the opportunity for us to do autonomous haul trucks [Millennium] right now was we came to the end of the natural life of our fleet. And so we had to decide how we were going to move forward and our view was is if we were going to invest in a new fleet, we should make sure that it was autonomous and we worked all the various technology. Syncrude isn't at that stage. We would expect that this would be something they would look at significantly, and we have a lot of experience with it by the time they get to their fleet turnover, which is several years out. Right now, in the North Steepbank Mine; we have autonomous haul trucks operating there. And I think we have about 20 autonomous haul trucks that are operational, and we're in the process now of getting ready to start turning on some of that at Fort Hills. At Fort Hills, we never actually hired permanent staff to operate the trucks in anticipation of us putting in autonomous haul trucks. So we have some people doing contract work today. And then Kent would be, over the next several years, to be able to roll this through and turn all of our operated mines at base plant and at Fort Hills to fully autonomous.

Greg Pardy: Okay, terrific. Last question from me then is the shifting gears to realizations at Fort Hills, which is significantly better as we expected. Could you give us any color in terms of where you would've placed those barrels? Was that kind of a combination then of PADD 2 and Gulf Coast?

Mark Little: Yes. It's interesting, the yields are different because we've cut off the bottom almost 10% of the barrel, which is asphaltenes and then put it back into the ground. A couple of things happen. When that barrel gets run through an upgrader or refinery, our product yield is about 6% to 7% higher. So you're going to get a premium of 6% to 7% just on yield. Your diluent requirements to ship it on a pipeline are better. And so because of that, it's more efficient, lower cost, and so because we use less pipeline space, so we gain on the logistics. And then the other issue is, we were able to send a bunch of that to the U.S. Gulf Coast, not exclusively. And so we were able to access a premium market. So its product yield, logistics and the premium market that drove the differential.

Operator: Our next question comes from Paul Cheng with Barclays Bank.

Paul Cheng (Barclays): Mark and Steve, if I look at reliability I know that you guys have been driving operational excellency all this year, and if we look at the base mine operation and the upgrader, last year, it was about 80% utilization rate versus the year before, in 2017, you hit close to about 91%. 2016, you're about 75% and 2015, you're roughly about 91%, 92%. So you're still -- it looks like that has remained inconsistent in terms of your reliability. And so if we look back, is there anything that we learned? Or that we would just realize the low utilization way or the intend downtime is just purely unlucky or there's something that we learned for that process and will be able to help us in the future in terms of whether it's changing the procedure, the process or then introduce new technologies?

Steve Williams: No, I would say, I mean, overall there's nothing sinister about those numbers. So there's not been any major issues there that are concerning us. I think operational excellences are addressing them. I mean, of course, last year was a major turnaround year for us. So I think Mark actually used the words. We took across all of our assets, not just the base plant upgraders, we took the largest turnaround program that we've executed. Now this is not surprisingly in a sense because some quarter has more assets now as we brought on more facilities. But nothing sinister there, we're working on it, and we would expect to see those utilizations continue to increase.

Mark Little: And Steve, maybe I would just add to that. The other year that you pointed out that was down a bit was 2016, which was also turnaround year. And right now, we're on a 5-year time window. So the next 2 years, we're upgrading utilization, we expect to be down a little bit as 2021 and 2023. And so this is -- now Paul, we've talked about a few of the little operating issues and such that we had through this period. So there are some learnings and things that we incorporate and continue to strengthen our position on. But the biggest issue in that pattern is the turnarounds.

Paul Cheng: Mark, so if that means that you will only be -- because I think the company has been talking about on a sustainable basis, on a 90%-plus utilization rate. Is that what it means, is that during the regimen light turnaround year, you could achieve but in a heavy turnaround year, that you won't be able to do it? So on an average for a 5-year cycle, you actually will be less than 90% utilization rate?

Paul Cheng: Well, I think Paul, you noted in there is that we're actually working to ensure that we can achieve 90% over that cycle. And so some years as you already commented on, it's over 90%, some years, it's under 90%. And so we continue to work to optimize this to try and make sure that we maximize the utilization of these assets.

Paul Cheng: So you're still targeting, say, on an average for the 5-year cycle, you still will be able to get to 90% or better?

Mark Little: Yes.

Paul Cheng: Okay. You think that in the next 5 years that it is achievable?

Mark Little: Yes.

Paul Cheng: And I know you guys normally don't get into the quarterly production guidance, but given the order curtailment and everything, is there some number that you can share in the first quarter? And also, that because the curtailment seems like its asset-by-asset. So I'm actually a little bit surprised that given your end way, that cannot run at the full capacity, does that really have no ability therefore as to put some of the turnaround that we may need to do later the year into the first quarter?

Steve Williams: I mean, like you said, Paul, I mean, for this call, and just generally, Suncor is a long-term player. Strategy is all about the mid and long term. We've got our balance sheet in a position where we can manage the long term. So we don't normally get into production in a monthly or quarterly guidance. We've been very clear about our guidance. We expect to be 780,000 to 820,000 for the year, which is a 10% increase year-on-year, taking account of the curtailment. If anything, it could be towards the top end of that as we're seeing curtailment come off a little bit faster than was originally planned by the government, but we wouldn't get into quarterly guidance.

Mark Little: Paul, maybe I'll just add 1 point to that is, there's a reason why in late Q4 and Q1, we run everything 100% of the time. A lot of this equipment has water in it. And so with the very cold conditions, we don't view it as safe to be able to take these assets off-line. Obviously, if an incident happens, and we have to deal with it, we have to deal with it. It's interesting this past week in Fort Mac, I think, with wind chill, it was minus 52 degrees Celsius and absolute, it was minus 38 degrees Celsius. You can imagine, if we shut

down during that period, just how unproductive it would be. And we view it as unsafe, so that's why we don't do it.

Paul Cheng: A final question for me. For Fort Hills, your production is already 94% utilization rates. So incrementally, the benefit from a higher warning seems like it's going to be somewhat limited. And your cost is about $25 and I think you have a target down to about $20 or less -- assumed moving into driverless trucks will have savings of $1. So what else that we should be looking at that will help you to drive it down to below $20?

Steve Williams: I mean, it's too early to be doing those calculations from a distance, Paul. The plant is not in equilibrium yet, so we haven't got the mind and equilibrium with the operation. We've been -- because we came up much faster or at the very fast end of what we were anticipating, we've had to get ahead in terms of getting the size of the pit and the overburden in a position where we like it. So we still see the costs coming down below $20 -- CAD 20 a barrel, obviously, much less U.S. Autonomous trucks is potentially a part of that. And we also haven't talked yet about where we think we can take the plant. So Mark talked about his $2 billion a year by 2023. Part of that is going to be a much lower than greenfield cost debottleneck of Fort Hills. So we think we got some significant scope there that we're working on as well. And so we think there's much progress can be made on per barrel operating costs.

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

Dennis Fong (Canaccord): Just quickly to follow on the Fort Hills component. You've spoken in the past in terms of the about 40,000-barrel a day debottlenecking kind of in the past, you've mentioned that you're testing the pieces of equipment both in, we'll call it, warmer weather in summer as well as the cooler -- colder temperatures now. Are there any specific takeaways in terms of saying that you could potentially push that 40,000 barrel a day as debottlenecking volumes for that, given how much redundancy you actually have built out in terms of the mining side of things?

Steve Williams: I would just say it's just a little bit early, Dennis, to be coming to any conclusions. Here, we are just completing the first year when most of the plants haven't been up to full capacity by that stage. We've got it up to full capacity. It's going very well. We can already see that 20,000 to 40,000-barrel a day debottleneck. We won't rest at that point. We'll be looking for what else is available.

Dennis Fong: Okay, perfect. And then just quickly subsequent to that, in terms of we'll call it -- they're obviously fairly capitally efficient projects to kind of unlock that incremental value there. How should we think about, we'll call it, maybe trigger points in which you would look at sanctioning some of those projects? The thought shouldn't be, I don't believe, is that you require incremental egress. But it's, like, what are some of the check boxes that you feel like you need to tick off to feel comfortable sanctioning some of those?

Steve Williams: Yes, I mean -- a couple of comments I would make. I mean, some of them are capital, some of them are not capital. So some of it is in the progress right now, and you will start to see some of that cash appear this year and next year, which is sort of the very front end of what you'd spend in a capital sense. If you look -- we'll obviously talk as we trigger because the capital -- several reasons why we are doing this program at this time, and it's not a coincidence. We viewed that market access would be challenging through this period until Line 3 comes on this year, until the rail capacity comes on and

then at least one of the other pipelines comes on. So we deliberately targeted and of course, we've brought big investments on anyway, so as part of our capital discipline, it made sense. Okay, we've made the big investments now, we'll start to bring that program in, we'll start to focus on projects which don't require their margin projects not purely production projects. There is a small amount of production in there but not at the sort of Fort Hills size. So right now, we have all of our production covered by pipelines. We're looking at alternatives and to trigger the next major capital and major growth phase, we will want to see some real progress on pipelines. And so this program fits perfectly with that. But I don't know if Mark wants to comment, but Mark is right in the midst now of the detail of that program, which is the $500 million each year, adding up to $2 billion additional cash flow a year by 2023. And we have the detail -- I wouldn't propose we go through it here. What we can do as we come out on the road, we have the details of that program now and we're very optimistic about being able to achieve it.

Dennis Fong: Okay. And last question here and maybe this one's a little bit more for Alister. Obviously, Q4 had a bunch of kind of FIFO/LIFO adjustments and so forth, how should we be thinking about, we'll call it, purchase product costs for the downstream segment kind of going into Q1? But as well as potentially the sourcing of, we'll call it, cheaper diluents and potentially between realization as you go through on a quarter-over-quarter basis, I mean, you think, transitioning through the rest of the year?

Alister Cowan: Yes, Dennis, on the FIFO, the inventory adjustments there was a negative $384 million after tax. For the quarter and as you think about it, it's down in Q4 coming out roughly just under $70, high $60s WTI, and it went down to I think sort of into the mid-$40s. So roughly $25 fall generated on that, sort of just under $400 million of FIFO loss. As you see WTI beginning to move back up and we're already up the sort of mid-50s, 50, 40s, you're going to see that begin to come back in. There is roughly 2 months lag between the prices coming up and it getting reflected through into our results. So you'll see some of that come back in Q1. If you don't go beyond the current levels, you're probably not going to get at it all back in 2019. But if we continue to run up into the $60s, you should see most of it come back. So it will take some time and probably, it depends on where the price of WTI goes. On the diluent side, I think that's just really, yes, certainly that will help us as we move through and move our product down the pipes, but I don't think it's going to have a significant impact to us.

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

Roger Read (Wells Fargo): Steve, I was wondering if we could come back, you mentioned unintended consequences of the proration in the near term. Any thoughts on what some of the unintended consequences may be in the medium and longer term of the proration cut?

Steve Williams: Well, I mean, I'll take longer-term to go beyond these problems within rail because I'm guessing that this curtailment will be pulled back quite rapidly to make sure that rail economics can work. Otherwise, it's having the opposite effect to what it was intended to do. I think the biggest one is around confidence and it's the most difficult for anybody to quantify. But I hope what you can see is that our model, in a sense, is it rises above that. So our discretionary capital is targeted at marginal incremental growth through this period as we just talked about. So we need some pipeline access. But what we've been able to demonstrate -- I wish we didn't have to see the extremes of these cycles to demonstrate it is, that we are a very cash generative company. We're able to cover our discretionary -- our nondiscretionary capital and our dividends at very low crude prices;

probably be setting the benchmark in the industry. So we've been able to demonstrate confidence in our model. I think the thing I would say is there has been without doubt, an off Canada signal, and I hope what this performance is going to show that we really don't deserve that because we are impacted but the extent of that impact is largely mitigated by a business strategy and our access. So we really belong in this context more alongside the super majors than we do -- our peers in Canada. Because our cash flow is very strong even at the bottom of this cycle when things are difficult. So that's the message you're going to hear us trying to get out there that we are -- we're not completely immune but we're largely immune to these cyclical impacts. I think the other comment I would make is and it's a signal we're trying to get into government is find a way out of this because this is going to -- it's going to start to look very, very difficult. As you've seen from the commentary from the industry, I mean, some are affected to a far greater extent than we are and what's most important about this exit strategy is that it's fair and transparent.

Roger Read: Okay, great. And then I don't know, Mark, if this is a question for you or not. I know you don't like to get into the quarterly guidance. But as we think about refining the downstream here in the first half of the year, the much narrower differentials for the heavy crude's obviously going to have some impact on profitability. So as we think about a cash margin not so much to change LIFO to FIFO, how should we think about throughputs in the downstream particularly coming off what was a record quarter on volumes?

Mark Little: Yes. I mean, particularly, it gets back to my Q1 comment about running the assets. Certainly, our intent is to continue to run the assets hard. The allocation of cash moves around in our model. That's the joy of being a greater model, as Steve talked to. So we do expect a lot of the cash generation to shift back to the upstream out of the downstream. But the joy is this, that whatever the market conditions are, whether the spreads are narrow or whether there's curtailment or not curtailment, the machine and the integrated model actually generates cash. And I think from an investor's perspective, that's the key point, is that in all market conditions, we're generating cash, returning cash to shareholders and continuing to invest in the business and the overall model. So we are expecting the Q1 results that the cash is going to move around in the model significantly as you've pointed out, Roger. And -- but we're expecting that, that will continue to drive cash flow and value for the shareholder.

Operator: Our next question comes from Mike Dunn with GMP FirstEnergy.

Mike Dunn (GMP FirstEnergy): Steve, Mark, Alister, just wondering if you could provide some color or insight as to how the board is thinking about the sustainability or what you can afford for -- to pay for dividend? It's the 17th year in a row of dividend increase. You've outlined some paths are growing cash flow even without pipeline egress here so I'm just trying to understand. I know your slides present a $45 WTI, call it, free cash flow breakeven to fund sustaining capital in the new dividend level but is that $45 number not a bad way to think about the threshold that's needed going forward for the next few years? Or -- I'm sure it's not that simple, but is that one of the considerations of $45 WTI breakeven?

Steve Williams: Yes, I mean, let me just give you a few comments, Mike. I mean, if you go back, the promise that we made was as underlying production and therefore cash generation came up, you would see the dividend come up. And we felt -- we've been through a relatively heavy capital period with Fort Hills and Hebron. And so we've been, in a sense, holding back dividend, whilst we we're going through that program. In fact, the market gave us more cash than the base case we were planning on so you've seen

substantial share buybacks through that period. And as you say, what we like to do is we think we've got a relatively low breakeven price on crude to cover sustaining capital and dividend, and we talked about that less than $45, and Mark's talked about our programs to get that number even lower if possible. And we've kept the flexibility. And you can see even this year, through a relatively difficult-to-forecast-and-volatile period, we've completed the first -- we're in the process of just completing the first $3 billion and we'll be quickly starting this next $2 billion buyback. So you can see a very high degree of confidence from the board because we have a track record of when we say we're going to buy back when we put the program in place, we buy the stock back. I think what it says is, and of course, it's a board decision and the end dividend, we don't feel as though we've used all of it, we still think we have some firepower there. Very happy through this period, we think balance sheet is in great shape. We're happy with the $2 billion and a 17% increase in dividend, but you could see all of those continue to move. Because I know in your models, and your model is a good one, when you put the numbers in, we talk about similar cash flows this year to last year. So we've been getting up above the $10 billion cash flows per year even in these markets. You don't have to have big changes before that number can become significantly higher again. So we think there's scope to bring the dividend up further and scope to continue significant share buybacks.

Operator: Our next question comes from Phil Gresh with JP Morgan.

Phil Gresh (JP Morgan): First question is just on the coker project. How you think about that today? I'm thinking about this kind of in light of the production kind of impacts. And the fact that in an environment where the coker could have been very economic, that got kind of taken away because of the government cuts. So do you still see it as a strategic project long term, if you want to expand up through production in the long run?

Steve Williams: Phil, we sure do. It's interesting with bitumen because it's a bit of a unique commodity. For it to be of value, it needs to be converted into products of value, whether it's jet fuel, diesel or asphalt. And so as production of bitumen increases, it needs to get converted. We think this is a good project. Obviously, it takes literally years to be able to build these assets and get them online and as a result of that, as we look forward, the curtailment we just view as a little speed bump in the road. If we believe that the Alberta government was going to be in the markets literally for decades, we would -- this would have a dramatic affect but we don't view that it's relevant to our investment decision.

Phil Gresh: Is there a particular time frame that you're hoping to make a decision on the coker?

Mark Little: We're working through it right now, and we're expecting that we'll likely make that decision by the end of 2019.

Phil Gresh: Okay, got it. Steve, how about your latest thoughts just on M&A at this point? Are you just mostly focused on these organic opportunities to improve cash flow? Or do you still think there are M&A opportunities this cycle?

Steve Williams: I mean, I would say, business as usual, judge us by our track record. One of the things we've done through all of what we've been discussing around curtailment and dividend and share buyback, we've kept our balance sheet in a very healthy condition. The biggest impact on it has been debt loss on foreign exchange conversions over the last 6 months. So our record is one-off keep a strong balance sheet to the extent you can buy

counter cyclically if you're going to do it. We screen everything in the downstream, always confident. We screen everything in and around the Oil Sands business and around our E&P business. We look at -- stepping out on our existing reservoirs or facilities or small bolt-ons. That strategy isn't changing. I think if anything is changing out there, there are potential opportunities that we're looking at. There's nothing particular we're looking at right as we speak at this moment. But this market is probably going to throw up some opportunities over the next 12 to 24 months. Not every company has been -- one of the benefits of this integrated model is it leads us strong through this period. Not everybody else is through that. Now you've seen -- even with M&A talked about particularly in oil sands over the last few months, you've not seen Suncor becoming involved in that. And I think, clearly, Mark needs to express his position through time but you'll see us sticking to the discipline and the rigor we've applied to M&A.

Phil Gresh: Okay, my last question. I guess this would be for Alister. If I look at that 2019 guidance for cash -- for FFO in Slide 11 being flattish with 2018 despite a $7 a barrel reduction in the WTI price, is that just basically the production benefits in a lower maintenance year? Or are there any other moving pieces we should be thinking about behind the scenes there?

Alister Cowan: No, so it's essentially production increases as Steve outlined where we're at and taking some more comps out of our business, offsetting the fall in the expected price.

Operator: Our next question comes from Jon Morrison with CIBC Capital Markets.

Jon Morrison (CIBC Capital Markets): Maybe just a follow up on Mike's question. Is there anything at this stage outside of a major drop in the crude price or more material widening in Canadian discipline you might have baked into your base case expectations for the coming quarters that will give you pause to not start moving through the incremental buyback program in a fairly linear fashion, obviously, once you get through the current one that should be done this month?

Steve Williams: No, nothing we can see. I mean, that's why we're speaking to it so strongly, Jon. I mean, we've -- as I've said, within days and week, we're close to completing the first $3 billion. You'll see us move straight into the other $2 billion. So no, we can't see anything on the horizon that would cause us to not do that in a relatively ratable fashion. And of course, one of the things we've always talked about from the very beginnings of our share buyback is we don't want to get caught in that trap where we can't afford to buy it when the stock is low. For us, it's a return decision we make for us. It's our other best alternative. We find our stock very attractive at these prices and so actually, when the price is lower, often associated with when -- day to day, week to week, month to month cash flows, that's exactly what we want to buy. That's why we've been buying heavily through this cycle. So no, we can't see anything on the horizon, which would cause us to hesitate here.

Jon Morrison: Steve, you made comments in terms of crude by rail volumes slipping and that's obviously in line with what Imperial messaged last week. Given that backdrop, do you have any concerns about a potential major blowout? And just towards the end of the year, should we see Line 3 replacement get pushed in anyway? And secondarily, do you believe that the industry is actually going to be able to ramp back up to something in the, call it, low to mid-300,000 barrel a day for CBR exports if it does in fact come down harder in the next 2 or 3 months?

Steve Williams: I mean, I hear the theory of that question. I would say there are some seasonal things which happen, which haven't quite been taken into account yet, which will help the situation in the short term, which I think causes this curtailment to potentially come off quicker than it's being anticipated. The first one is the industry goes into maintenance as we get into the second quarter. So the pressure of the supply side will start to come off. The other piece that happens is, is as temperatures start to come up, the diluent blending ratios on bitumen start to change. So we don't have to put so much diluent into the blend so the volumes going down the line will decrease for the same amount of production on the supply side. So you're going to see the pressure starting to come off as we go through the next 2 or 3 months on the supply side. And every indication on Line 3 is it's progressing well. In fact, it could well be calling for line fill, which is quite significant, a lot earlier than the end of the year if the progress continues. So if anything, I think the pressure is coming off. There's always the possibility of it. And my guess is that people -- this time through, there's a fair amount of crude by rail capacity starting to come on. Of course, it's a major part of some companies strategies that surround the loading facility, buying the locomotives and getting the manpower to use it. So I think the industry does have the capacity. I also think on the demand side, with what's going on in Venezuela and Mexico at the moment, there's going to be a clear pool for it from a demand point of view. So I think, for us, we're in that situation where I think supply can come up, demand is increasing and I think the U.S. will see a strong supply from Canada as a strategic benefit.

Jon Morrison: Maybe if I could squeeze in one last one and it's probably best for Mark. There was obviously expected downtime at U2 and then unexpectedly that came through. Can you give any more color on what the unexpected downtime was? And is there anything there that would give you concern of potential hangover effects in future quarters? Or is all of the comments that you've previously made and disclosures around planned 2019 maintenance largely hold the discipline?

Mark Little: Yes, we think our disclosures largely hold. Every time there's an unplanned event, there's something that we didn't foresee happen. And a lot of this is related to assets that have been on the ground for very long periods of time. So we deal with that, we learn from it, we mitigate it happening in other locations and move on. So I think that -- and the organization's been very disciplined about that. So the disclosures that we have are what we're fully expecting in 2019 and that's kind of where we're at.

Operator: I would now like to turn the call back over to Trevor for closing remarks.

Trevor Bell: Thank you, operator. So thanks, everyone, for attending the call today. For those who didn't get to question-and-answer or have follow-up questions, please reach out to the IR team, and we'll be around all day and happy to discuss those. Thanks again.

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