



# **Suncor Energy Second Quarter 2020 Financial Results Call**

Thursday, 23<sup>rd</sup> July 2020

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**Operator:** Ladies and gentlemen, thank you for standing by and welcome to the Suncor Energy Second Quarter 2020 Financial Results Conference Call. At this time all participants lines are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. (Operator Instructions). I would now like to hand the conference over to your speaker today, Trevor Bell, Vice President of Investor Relations. Thank you and please go ahead, sir.

**Introduction**

Trevor Bell

***Vice President of Investor Relations, Suncor Energy Inc.***

Thank you, operator, and good morning. Welcome to Suncor's second quarter earnings call. With me this morning are Mark Little, President and Chief Executive Officer; and Alister Cowan, Chief Financial Officer. Please note that today's comments contain forward-looking information. The actual results may differ materially from the expected results because of various risk factors and assumptions that are described in our second quarter earnings release as well as our current Annual Information Form. And both of those are available on SEDAR, EDGAR and our website, [suncor.com](http://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 second quarter earnings release. Following formal remarks, we'll open up the call to questions.

Now, I'll hand it over to Mark for his comments.

**Opening Remarks**

Mark Little

***President & Chief Executive Officer, Suncor Energy Inc.***

Good morning, everybody, and thanks for joining us.

During our first quarter earnings call in early May, we knew that the second quarter would be particularly challenging, certainly the most challenging in our modern history and drastic measures to minimize the impact of global COVID pandemic were implemented. And in line with our expectations, the second quarter was marked by the unprecedented scale and severity of market volatility that affected both upstream and downstream. In our markets, gasoline, diesel and jet fuel demand declined by approximately 50%, 25% and over 80%, respectively, during a four-week period between mid-March and mid-April.

WTI futures traded across an \$80 US per barrel range from negative to positive \$40 US a barrel. And sweet differentials moved nearly \$20 a barrel within the span of a month from plus \$2 in April to minus \$15 in May returning to par in June. But through this, we have focused on positioning the company for long-term success and by remaining agile, taking decisive action, and capturing value through our integrated model.

On our Q1 call, we outlined a number of measures taken in response to the unprecedented market environment, including a 33% or \$1.9 billion reduction in capital spend, a \$1 billion or 10% reduction in operating costs; and a 55% reduction in our dividend. And through the second quarter, other actions were taken to adapt to the rapidly evolving market conditions, generating positive funds flow for the quarter.

We continued to enhance COVID-19 safety measures and ensure the health and protection of our employees, customers and communities. We maintained flexibility in our maintenance schedules while protecting the health and safety of our employees. We adjusted the utilization of our refineries while flexing the product mix for enhanced margin.

We captured value provided by our integrated model, especially within our midstream assets and we maximized physical integration to ensure our upstream production paced demand, avoiding unnecessary inventory builds.

The value realized from these activities reinforces once again that our physical integrated model is greater than the sum of our parts. Alister will provide more details in a minute, but I first wanted to recognize and thank all of our employees. They did an amazing job in very difficult circumstances and it certainly demonstrated how agile and decisive we can be when responding to extremely volatile markets.

Starting with the actions taken in the upstream, we captured better than the industry average realized pricing across our products brought to market. In a quarter where SCO differentials were highly volatile, as I previously mentioned, we successfully captured the full value of index pricing. On bitumen sales, we realized approximately 35% higher pricing than the Hardisty benchmark due to our marketing and logistics expertise.

For all of our assets in the Oil Sands region, including Syncrude, we swiftly lowered our capex to \$422 million in the quarter, which was less than half of the capital that we spent in the first quarter. We safely executed our planned maintenance activities and continued cash flow improvements projects such as the Syncrude Interconnecting Pipelines and the Fort Hills autonomous truck deployment.

In the downstream, we achieved 76% utilization above our previously guided second quarter range expectations. This utilization was made possible by having real-time access to consumers, allowing us to rapidly adjust to evolving market conditions. Our retail and wholesale channels were able to secure customers for our refined products, allowing our refineries to pace ahead of industry average utilization. We also flexed our refineries to meet diesel demand early in the first part of the quarter and as consumer demand increased in the latter part of the quarter, we shifted to increased gasoline production.

Our Canadian refineries averaged 80% utilization in the second quarter, which was more than 15% above the Canadian industry average. This advantage, combined with our sophisticated marketing and logistics capabilities and our retail and wholesale consumer channels, equips the downstream portion of our business to lead the overall recovery of our funds flow in the second half of the year and into 2021. As we exited the second quarter, our refineries were operating at an overall utilization rate of approximately 85%.

We connect the upstream and downstream business units with our trading and marketing expertise and widespread logistics assets. We placed maximum equity volumes through our refineries and carefully managed inventory levels, to take advantage of the price volatility during the quarter.

Since 2017, we've been strengthening the capabilities of our trading and marketing organization, investing in technology, infrastructure and expertise. We continue to make investments, advancing initiatives to significantly improve our ability to manage our products. The current environment highlights the strategic importance of these investments through strong realized pricing in our upstream, increased equity feedstock into our refineries and optimization of our production and inventory levels.

I would also like to mention that just last week, we continued to build on 26 years of sustainability reporting, by releasing our 2019 Annual Report on Sustainability and our fourth climate report. This track record continues to highlight our longstanding commitment to transparency, disclosure and progress on ESG.

I'll now pass it off to Alister to go through our quarterly financial highlights.

## **Financial Highlights**

Alister Cowan

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

Thanks, Mark. As Mark highlighted, the unprecedented scale of volatility across the business this quarter was like none other in Suncor's modern history as it was impacted by both the demand and supply sides with unparalleled speed and scale. In this quarter, the resilience of our integrated model was certainly tested. Despite a \$540 million negative cash impact of one-time inventory and FIFO losses in the quarter due to the rapidly declining crude price, we were still able to generate approximately \$500 million of funds flow from operations.

Throughout Q2, we maximized price realizations, with approximately 80% of the company's upstream product mix weighted towards lighter crude. Approximately 45% of refinery feedstock was physically integrated with upstream production, and refined product mix was weighted 40% gasoline and 42% diesel. As Mark said, this mix varied significantly throughout the quarter to capture margin as consumer demand shifted.

At the end of March, we announced a \$1 billion reduction to our operating costs in 2020 compared to 2019. During the quarter, we made progress towards achieving this target with our absolute costs \$811 million lower than Q1 this year and \$643 million lower than Q2 last year. We remain confident in the agility of our business and our people to deliver the \$1 billion of operating cost savings in 2020 relative to 2019.

On the capital side, we spent \$671 million in Q2, a reduction of \$611 million, or 50%, compared to Q1. Our year-to-date capital spend of \$1.9 billion positions us well to deliver a capital plan in the \$3.6 billion to \$4.0 billion range, which would be a \$1.9 billion reduction from our original 2020 guidance. Within this reduced capital guidance, we continue to make economic capital investments which improve the efficiency of the business, reduce future operating and sustaining capital costs, and drive to our \$2 billion incremental free funds flow target by 2025.

I just wanted to reiterate that approximately \$100M of our Q2 capital spend, or 15%, was invested in these initiatives. We are on track to achieve \$1 billion of this cash flow target annually by 2023, and the full \$2 billion by 2025. These initiatives support increasing shareholder returns in the future, as the vast majority of the \$2 billion free funds flow benefit is a result of structural cost and productivity changes in our business and is largely independent of commodity prices.

We remain committed to returning value to our shareholders while maintaining our financial strength. During the second quarter, we returned over \$300 million to shareholders. We ended the quarter with the debt to total capitalization ratio of about 37.5%, which I just wanted to emphasize, includes all our leases. This is slightly outside our target ratio of 20 to 35%. The significant reductions in costs, capital spending, and the dividend enables critical preservation of cash, limiting debt increases, and preserving the financial resiliency of the business. While we did build debt of approximately \$2 billion during the quarter, that included a working capital build of approximately \$1.3 billion, a significant portion of which is made up of an income tax cash receivable we anticipate we will receive by the end of next year. At current strip pricing we don't expect to add any further debt for the remainder of the year.

And with that, I'll pass it back to Mark to discuss the outlook for the rest of 2020.

Mark Little  
***President & Chief Executive Officer, Suncor Energy Inc.***

Great. Thanks, Alister. As I said on our last call, our view is the recovery will be led by the downstream, as product demand improves and refining margins strengthen, which we fully understand differs from the general view of refining outside of Canada. Based on our second quarter operating and financial results, and the improving market dynamics that we're currently observing, we maintain this view. During the second half of 2020, we see continued strengthening of downstream demand in gasoline and diesel, to more seasonal levels by the end of the year. Given the high level of global crude inventories and the return of production which was shut in during the second quarter, we expect upstream pricing and crude spread volatility to remain through 2020, although obviously not as extreme as we saw in second quarter. We will continue to pace upstream production with overall downstream demand to manage our crude inventories.

The pace of demand recovery will be influenced by a number of factors: including the timing and pace of the restart of North American and global economies; and secondly the impacts of any government stimulus – such as infrastructure spending or other fiscal stimulus; and third the potential for a second wave of COVID-19 and any medical advancements in the area of testing, tracing, treatments or vaccines for COVID-19. In other words, uncertainty remains very high. And we will take necessary actions within our model to generate additional value, including evaluating, with our partners, the option to resume a two-train operation at Fort Hills. If we generate free funds flow in excess of our capital and dividend commitments, we'll look to bring our total debt to capitalization back into the top end of our range. Once we're at, or below, our 35%, we will continue to follow our capital allocation framework with a combination of future debt repayments, increasing shareholder returns, and making measured investments in economic projects.

Going forward, there is a fine balance between supply and demand – production shut-ins and re-starts across the globe, against the backdrop of starting and stopping, and restarting economies. This situation will continue to evolve and highlights the importance of our cash breakeven to cover sustaining capital and dividends which we reset in Q1 to \$35/bbl US WTI. This ensures our ability to maintain the financial health and deliver strong cash flow through these continued volatile times. Said another way – we won't bet the financial health of our company on the pace of the recovery, which is outside our control.

Although volatility continues, we wrap up this quarter well positioned across the business. There's no doubt that the pandemic is an evolving situation. But we will continue to remain agile in the execution of our strategy, leveraging the flexibility and strength of our unique business model, assets, and expertise. Our company's strategy remains unchanged. In fact, these circumstances have reinforced that our focus on safety, operational excellence, financial strength, disciplined capital allocation, shareholder returns, and leadership in ESG, is the path to create long-term value for the company and our shareholders.

And with that, I'll turn it back to Trevor.

**Trevor Bell:** Thank you, Mark and Alister. I'll turn the call back to the operator to take some questions.

## Q&A

**Operator:** Thank you. (Operator Instructions). And our first question comes from the line of Manav Gupta with Credit Suisse. Your line is now open.

**Manav Gupta (Credit Suisse):** Thank you for taking my question. I have a simple question. Your total operating and SGA expenses actually went from \$2.96 billion to \$2.156 billion in a single quarter. That's quite an achievement. I'm just trying to understand, can you help us quantify the buckets how you achieved such quick cost reduction and how much of this is ratable for 3Q? Thank you.

**Alister Cowan:** Thanks, Manav. Alister here. Yeah, quite a significant reduction in one quarter. I think really if you look at it, we focused hard on stopping work that wasn't essential, taking out surplus positions that we didn't need, vacant positions, contractors across the organization. We obviously, as you know, rescheduled the maintenance as some of those costs will likely come in the third quarter, but not a lot. Those are the key buckets of what we were able to achieve on the cost side.

**Manav Gupta:** And a second quick follow-up is you talked a little bit about it, but, generally, what we see in the refining space is, if your utilization drops 20%, your earnings drops 40%. What you achieved was very remarkable where the utilization dropped 20%, but the earnings went like – funds flow from operations went from about \$224 to almost \$600 if you could take into account the FIFO impact. So, if you could highlight how you were able to achieve this reversal of trend.

**Mark Little:** Manav, it's Mark. So if I caught all that, a lot of this is just leveraging 100% of the expertise of the integrated model and making sure that we're maximizing the value in such a volatile market where we talked about the spreads and the things changing so much and a shifting from gasoline to diesel, 100% of our focus was constantly pivoting to where the value was and the value shifted in many different dimensions through the entire quarter. So, it's not just on average with the way that the market changed with every single month, every single week....

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**Operator:** [Operator Instructions]. Our next question comes from the line of Phil Gresh with JPMorgan. Your line is now open.

**Phil Gresh (JPMorgan):** Hey. Good morning. Can you hear me all right?

**Mark Little:** Yes. We can, Phil.

**Phil Gresh:** Great. Good morning. I guess the first question that I had would be for Alister. You made a comment about not having any additional debt in the second half. And, Mark, you talked about a \$35, reiterating \$35 breakeven. So, I just want to – it's a bit of a nuanced question, but it seems like you guys should actually be generating positive free cash flow in excess of the dividends and actually showing some deleveraging in the back half, given your commentary on refining, that seems reasonably positive. So, any additional color you could provide on that.

**Alister Cowan:** Well, Phil, I think that we will be assuming prices are going to be at the second half of the year. And I know that many of you, there are much higher-priced forecasts for the second half of 2020 than we have. So, we're assuming that we'll be very consistent with our \$35 WTI level. If it's higher, yeah, I would agree with you, we've got the potential to de-lever.

**Mark Little:** And maybe just to add to that, Phil, part of the issue with it is uncertainty is high. You've seen it in all sorts of – across North America, economy is starting, stopping, restarting. So, I think the jury is still out and there's a lot of things that have to get resolved before we get back to what we thought was normal. And so, our whole focus is to maintain flexibility. And as I stated, let's see it before we start trying to figure out what we're going to do with the additional cash.

**Phil Gresh:** Yeah. Understood. Just going off of the script that you had made. The second question would be just on capital spending. I think most people are kind of wondering where their companies are headed as we look out to 2021 relative to 2020 and whether you would continue to keep spending at current levels or if you – do you have a need for any particular reason for spending to go higher? And just given what we've seen so far, is there any view around sustaining capital needs? Have those changed at all based on what's happened over these past few months?

**Mark Little:** What we've said about sustaining capital is we expect it to be between \$2.75 billion and \$3.75 billion each year. We're below that this year, because we've shut in some of the projects that we would consider to be sustaining capital. The entire focus was to maintain financial strength of the balance sheet through this period of time. And so, assuming that the price was \$35 next year, you would expect that our focus would be

continuing to keep the company in the same situation around capital and operating cost and such. Now, that may sound very conservative. I think we'll find out towards the fourth quarter, but our specific views on 2021 will be published with our guidance that we'll send out in December as per our normal process.

**Phil Gresh:** Okay. Last question, just on the working capital, Alister, you mentioned the tax element. Just any further color you could provide on the rest of the working capital headwinds in the quarter? Is there any chance in the second half of the year that any of that would reverse or is that more of a onetime impact specifically to 2Q? Thanks.

**Alister Cowan:** A lot of it, most of the rest is related to lower accounts payable, which is a reflection of the significant reduction in operating costs and capital that we have in the quarter. So, to the extent that, at some point in the future, we begin to increase either of those, you'll see that reverse out, but I wouldn't expect it would reverse for the rest of the year into next year.

**Phil Gresh:** Got it. Okay. Thank you very much.

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

**Neil Mehta (Goldman Sachs):** Hi, team. Can you hear me okay?

**Mark Little:** Yes. We can, Neil. Welcome back.

**Neil Mehta:** Thank you. Sorry. Sorry about that before. So, I guess the first question for you is just around the \$1 billion target. You had made some comments in the release about it, but just how do you think about the glide path to achieve – \$2 billion target, I should say, cash flow target, the achievability of that, what's in the bag? And what are the milestones we should be watching?

**Mark Little:** Yeah. Thanks, Neil. And apologize for the technical issues we had this morning. I guess, having an agile Q2 call fits with an agile quarter, but the \$1 billion, so our focus right now has been narrowed to deliver the \$1 billion by 2023. Key projects that are making up that is the autonomous haul truck system, which we expect to have fully deployed at Fort Hills this year, ahead of schedule, and then we'll go back to base plant.

We're still working on the Syncrude/Suncor pipeline interconnect, which we're anticipating to commission before the end of this year. We're doing continued investment in our supply and trading as an example. We're still working on our enterprise-wide processes, which we're expecting to have in place right at the end of next year.

So, these are the things that are driving our \$1 billion cash flow improvement by the time you get to 2023. Our confidence in that is very high. All of these items are underway now. And several of them are well advanced. As you know, we took some place of action to slow down and defer the Cogen and the wind farm and then some of our other digital programs, which is why the second \$1 billion got pushed out to 2025. These are great projects. We've talked about the Cogen at length, great returns, very positive in driving down greenhouse gas emissions by 2.5 megatonnes and such. So, there's a lot of great attributes to that. Obviously, it's a high priority for us. We just need the financial market conditions to improve before we restart that project. We certainly don't want to restart it and then have to stop it again. So, that's now scheduled for 2025. And our confidence, again, is very high.



**Neil Mehta:** Yeah. That's great. And the follow-up is just there has been so much in the news around pipelines and it has been for the last couple years but it feels like, it has been particularly acute for in 2020. So, just to step back and talk about some of these individual projects and your perspective on them and a couple come to mind, right? So, one is, is where we stand with Line 5, the Dakota Access, and what it can mean for some of the light crudes in your system. And then, the longer-term long-haul pipelines, whether that's Trans Mountain or Keystone. So. There's a lot there, but if you can unpack some of these individual projects and how you get comfort around egress would be great?

**Mark Little:** Thanks, Neil. I think you covered off the waterfront on pipelines there.

So, let me touch base on it. Line 5 we think is a low probability event of that line getting shut in. We really think that there's some really good work going on around how to manage that and improve the path forward. And this is something that's critical to the whole Central Canada and Michigan markets. And so, to the extent that gets shut down, it's a real threat to the consumers that are relying on those products to be able to keep the economies going and moving forward. And so, our view is this, we think it's being well managed. We think it's a low probability event, but we do have contingency plans in place, and we have the ability to be able to move crude into Montreal and use the dock there for waterborne crudes coming up the St. Lawrence. And we also have the Portland, Maine, pipeline that allows us to bring crudes into Eastern Canada as well.

Remember that when Line 9 went the other way, the entire Central Canadian market was essentially provided by waterborne crudes. So, we have some flexibility there, which we think is a great contingency.

So, and then, when you get on to DAPL, we don't move any crude on DAPL. We do end up using some of the Bakken and light crudes into our Eastern Canadian refineries. And we don't see this as having a significant impact on Canadian differentials. We think it's more of a regional issue and that there's adequate rail capacity. So, it's basically a hit to those producers in the Bakken.

And then, on the other three lines, Trans Mountain, it's cleared its final court case. We think it's in good shape. Their construction's moving forward. They're talking about it being on late 2022. If it's 2022 or into 2023, out to mid-2023, it's in good shape.

Line 3, we're optimistic about. There is the process going on with the Minnesota Public Utilities Commission to reapprove the route and such associated with it and we're expecting a decision in late 2020. So, we're expecting that line to show up in, say, mid-2021 or towards the end of 2021, but we still think it happens.

And so, and then, Keystone XL, I don't know, seems like it's becoming a significant part of the discussion on the politics side. And so, now, they're working through these latest court rulings. So, it's delaying any of the construction across the waterways, but I think if you go and talk to TC there, they're still plowing ahead and working hard to make this thing happen. So, there's a lot to resolve there to keep going. So, we're still optimistic about the lines, but you're absolutely right, there has been more activity on the pipelines for a long time.

But that said, Trans Mountain is looking better than it ever has.

**Neil Mehta:** Thanks, Mark.

**Operator:** Thank you. And our next question comes from the line of Greg Pardy with RBC Capital Markets. Your line is now open.

**Greg Pardy (RBC Capital Markets):** Yeah, thanks, thanks. Good morning. A couple questions for you. Maybe just to start at Fort Hills, so you went to 1.5 to 1 train, but I guess what's piquing my interest there a little bit is, is just with the progress that you've made with the autonomous haul trucks. What's the game plan at Fort Hills? Is it to move back to 1.5 towards the end of the year or do you think you'd probably remain running that at 1 train?

**Mark Little:** Yeah. Great question, Greg. Thanks for that. Our focus on Fort Hills is like, with all of our assets, is to maximize value. Clearly, in the second quarter when prices were so low, we decided to park one train, because we couldn't efficiently use it. And so, when you look at it, there's three things we're trying to accomplish at Fort Hills. First of all, we're trying to make sure that if we bring it on, we think that we're going to have a relatively stable price environment, so that this thing will be able to perform and generate good cash flow. The second thing is its curtailment is a bit of an issue, because, as you know, with the second train, if we start it up, we can't run it at full utilization. So that's a bit of a challenge. And then, the third one, which is where we're putting on an enormous amount of our attention is to restructure the cost structure of that business. When we originally started it up, we overstaffed it with the expectation we'd start it up, get it to full rates and then maintain it for a year and then lean out the organization. We haven't been able to do that because of curtailment. So, now, we're in the process of doing that without having run it for a significant period of time. So, we're doing that. So, when we parked it, we thought we would have it down potentially to the end of 2021. The price environment now would incent us to bring it back on. This is a debate that's going on with the owners. So, no decisions have been made and it requires the alignment of the owners to be able to move forward on it.

But with that said, at some point here, we're going to have to go into a substantial cost around winterizing it, if we're not going to run it. So, I think there's a reasonable chance that it will be back online by the end of the year, but again, no decisions have been made and this is what we continue to work with the owners.

**Greg Pardy:** Okay. That's a really thorough answer. And I know, just Manav's question at the beginning, just on the downstream, but maybe to be a bit more specific in terms of the performance and it did – it certainly surprised us just given all the headwinds. But did retail or marketing logistics play a big role there? I can see a big smile on Mark Townley's face as he probably took advantage of all kinds of things in terms of the volatility you're referring to. And I know in the first quarter, you guys, I think, had talked about the value brought from supply and logistics. Was that a big driver here?

**Mark Little:** Yeah. Greg, I'd say this is a huge driver as we've emphasized to this. Being able to see exactly what's happening at the retail consumer and at the wholesale level and being able to pivot to make sure that we're managing our inventories and yet providing the product to the end consumers has been a huge strength. And that goes all the way through our crude logistics and such that Mark Townley's shop manages and such.

So, we're very happy. This is where the strength of our supply and trading and the marketing organization really shines and then, the agility of both the upstream and downstream to be able to keep adjusting the operations to chase the value. And so, I think

the whole focus on agility, but the logistics piece of that in supply and trading has been a huge part of it to be able to constantly optimize between the upstream and the downstream.

**Alister Cowan:** I'd just add there, Greg, that from a cost perspective, a significant cost reduction across the business, including in the downstream, also helped them in the quarter as well.

**Greg Pardy:** Okay. Okay. Thanks very much, guys.

**Mark Little:** Thanks, Greg.

**Operator:** Thank you. And our next question comes from the line of Asit Sen with Bank of America. Your line is now open.

**Asit Sen (BofA):** Thanks. Good morning, everyone. Mark, appreciate all the details on pipeline news and just wanted to dig a little deeper. The second layer is crude spreads. WCS spreads have been well-behaved. Just wondering if you could share kind of your outlook on spreads over the next 12 to 18 months, given all the volatility, just pipes versus – underutilized pipes currently, versus whether you see crude by rail resurgence at some point? What's your outlook here?

**Mark Little:** Yeah. You can see as Canadian crude is coming back on and you can see that, and you'll hear it over the next 10 days as lots of Canadian crude is coming back on. So, we're starting to see the pipelines fill up again. And I would expect that. Thankfully, our inventory positions in Western Canada are in pretty good shape. But if you look at the forward forecast on WCS, you see spreads coming out as we head towards the end of the year here. So, we're fully expecting that several operators will start reinitiating their crude by rail associated with it. We've seen rail movements now are kind of getting down to the low lows here with very little crude moving by rail, but we are expecting that to ramp up as we get towards the end of the year and that all assumes that we don't have another significant COVID outbreak and lots of parts of the economy have to shut down again.

So, we do expect this to start getting back to where we were last winter, maybe not to the same extreme just because of our inventory positions and some crude being a little slower to come back. But by the time we get to the end of the year, if we don't have this upset with a second COVID outbreak, we expect essentially all crude in Western Canada to be back online.

**Asit Sen:** Great. And just shifting to renewable investments, Mark, you had a steady strategy. Any details on the LanzaJet equity investment and how does it fit into the Enerkem investment that you made recently?

**Mark Little:** Well, LanzaJet is coming out of the same company, that's LanzaTech, and so – but it's specifically around biojet fuel, but it also can make a hydrotreated renewable diesel product. So, we committed to join in as an equity partner and build this pilot, a commercial demonstration facility essentially in the United States.

The good thing about it is that we will take possession of a bunch of that product is hydrotreated renewable diesel and use it to manage our blending commitments as such that we have in Canada. LanzaTech technology, we're looking to see whether there's an opportunity around using that in conjunction with potentially the Enerkem technology. That's all getting worked. Whether that happens or not, that hasn't been fully sorted out,

but we think that there could be a relationship between the two of them and that's currently getting thought about.

**Asit Sen:** Thank you.

**Operator:** Thank you. And our next question comes from the line of Benny Wong with Morgan Stanley. Your line is now open.

**Benny Wong (Morgan Stanley):** Hey. Good morning, guys. Thanks for taking my question. Just had a follow-up on the prior question from Manav on OpEx reduction. We were all fairly impressed with the cost showing up in a meaningful way in the quarter. Just wanted to get some color and apologies if you already addressed this, I might have missed this when the line cut out was, how you guys think about how much is structural and how much is potentially coming back in a more normal environment, if there's some areas where you could potentially see some upside there?

And the second part of that question is, is in relations to the \$1 billion free cash flow you guys are targeting by 2023, how much of that \$1 billion is embedded within there, especially the structural part, or is any of that incremental to that \$1 billion free cash flow by 2023?

**Alister Cowan:** Okay. I'll take that one. I'll answer the second part of your question first. It's an immaterial amount of these cost reductions is in that \$1 billion of cash flow that would be in addition to that. Now, how much of that \$1 billion OpEx reductions that we're targeting this year is sustainable post-2020? We had talked about it being roughly 30%. A third is structural, a third is kind of one-time and then another third is probably structural for a couple years. And then, obviously, beyond that, we'd seek to make it long term, but that's kind of roughly the split of that.

**Benny Wong:** Got it. Thanks, Alister. Appreciate those details. Question was really – second question is around your bitumen realization in the quarter was relatively strong relative to our expectations in the benchmark. Just hoping if you can provide some color in what drove that. And can we expect this trend to continue going forward or is this more of an isolated event in the second quarter in taking advantage of some arb opportunities?

**Mark Little:** Yeah. Maybe I'll start and Alister can chime in on it. It's interesting, Benny, that some of this is just showing the agility of it. And it's kind of like what I was saying is we are constantly looking to figure out where can we make money in this super volatile environment? So, at points in time where bitumen prices were very low, we tried to minimize the amount of bitumen we are producing and then maximize the value of our logistics associated with it.

And then, when it was strong bitumen pricing, we sold more bitumen and worked to be able to maximize that. So, between the logistics and managing that and being very agile and leveraging that to the maximum extent possible and constantly shifting what products we're sending to market, that's actually why this comes out quite differently than the average. Do you want to add to that, Alister?

**Alister Cowan:** Yeah. I would just say it shows the strong benefit of that extensive midstream trading and marketing expertise. You've got the logistics that we've added over the last several years, being able to access different markets, particularly down to the Gulf Coast. I mean it's a clear differentiator for us compared to any company selling only at Hardisty. Yes, we have more costs, but you can see the absolute value we've added by

being able to be much more agile and flexible than where we sell our product than being a price taker at Hardisty.

**Benny Wong:** Thanks for the details, guys. Appreciate it.

**Mark Little:** Thanks.

**Operator:** Thank you. And our next question comes from the line of Mike Dunn with Stifel FirstEnergy. Your line is now open.

**Mike Dunn (Stifel FirstEnergy):** Thank you. Gentlemen, with the Syncrude bi-directional pipeline soon to be onstream here, I don't believe you've, in the past, pegged exact numbers on the margin or throughput improvements as you might expect. I'm just wondering if you can add some additional color there. I'm sure you must have run some numbers internally looking at what the Syncrude and Suncor margins and output might have been in years past had the system been online. So, just wondering if you can provide a bit more color as we get pretty close to this, I guess, this long-anticipated project getting done.

**Mark Little:** Yeah. Mike, thanks for your question. This is a complicated one. I'd say the simple answer associated with it is when we put this investment in, our calculation showed that we could generate \$200 million of incremental cash flow per year and some of that will show up in the Syncrude investment, some of that will show up in the Oil Sands base investment. And so, and this is on an investment that's a couple hundred million dollars.

But it's difficult to answer your question, because in some cases, it allows additional crude when, at Syncrude, when they're doing maintenance on the upgrader so that we can take it and use our logistics in our Oil Sands site and our downstream logistics to be able to keep the crude growing and moving forward. It could be like, in some cases, it's moving sour product from our site into Syncrude, so that we could use idle hydrotreating capacity associated with it. And the beauty of it is it provides the foundation and flexibility to be able to pivot to all of these types of examples that I'm saying based on market conditions in real-time, kind of like what you're seeing with the entire platform that Alister just highlighted for us in the second quarter.

So, on specific details, in some cases, it can be additional production. In some cases, it's margin improvement. In some cases, we're taking product from one and moving it to another, so that the other site picks up another piece of the margin. So, it's difficult to answer your question, but the simple thing is \$200 million a year in improved cash flow and we're confident that it will generate that cash. That's part of our \$1 billion by 2023.

**Mike Dunn:** Thanks, Mark. That's helpful. Can you provide any numbers around, I guess, capacity to transport sour crudes, bitumen and any other product that can move in between?

**Alister Cowan:** Mike, why don't we take that offline and answer that?

**Mike Dunn:** Okay.

**Alister Cowan:** Trevor and the team will give you a call.

**Mike Dunn:** Great, thank you.

**Mark Little:** Thanks, Mike.

**Operator:** Thank you. And our last question comes from the line of Roger Read with Wells Fargo. Your line is now open.

**Roger Read (Wells Fargo):** Yeah. Thanks for sneaking me in here guys. Assuming you can hear me.

**Alister Cowan:** Hey, Roger.

**Roger Read:** Yeah.

**Alister Cowan:** Yeah, Roger.

**Roger Read:** I got to ask that question the way this call has gone earlier. Yeah, just one thing I'd like to clarify on the working capital and then the other question I'm going to have is on thinking about the spending on the Capex side being underneath a sustainable level. If that were to continue into 2021, where should we think about that having the impacts? I guess from a volume side, right, would that be more E&P? Would we see that across the Oil Sands unit? Just curious.

And then, to specify on the working capital, Alister, just it sounds like very little recovery from this tax issue or anything else until we're Q1 or Q2 of next year. Is that right way to think about it and then approach sort of the debt to capital improvements accordingly?

**Alister Cowan:** Yeah. I'll answer the tax one. Given the way the tax filings work here in Canada, you don't file until Q2. You won't get your money back till Q4 of next year, 2021.

**Roger Read:** Okay. Thanks. Got that.

**Alister Cowan:** And then, I think Mark is going to answer your first part.

**Mark Little:** Yeah. Roger, on the volume impacts associated with sustaining capital, maybe the best way to say it is if it was \$35 next year, we expect across the platform to look a lot like this year. And so, our production would be similar to what we have this year as well. We fully recognize and I think people are seeing that is, in the second quarter, the challenge you have is if you don't shut things down quickly, you spend a bunch of money, you can't get it back.

And so, we kind of describe it as two feet on the brakes through this whole process. Thankfully, we're able to shut it down quickly. We're now going back and evaluating, okay, do we like all the things that were shut down and like take an example like Firebag. So, at Firebag, we shut down some of the sustaining pad investments. Now, we're going in and kind of finessing that and realizing, okay, well, we probably should move some of these things forward.

So, obviously, right now, if you just doubled our capital investment between now and the end of the year, we would still be within our range. But we had a very high quarter and a very low quarter that made up the first half of the year. I think, you'll see kind of more middle ground on our capital in the third and fourth quarter and we are going to start some of this work and be able to move it forward.

Next year, if we end up at \$35 in a similar capital range, you'll see a much higher percentage of that being sustaining capital and less on the economic side. Next year is a big turnaround year. So, we have a lot going on as well, but, right now, we would say on the volume side, next year is more likely to look a lot like this year and then some of it will just depend on what we end up restarting for 2022 and beyond. So that's kind of where we're at. Thanks for your question.

**Roger Read:** Okay, thank you.

**Mark Little:** Thanks, Roger.

**Operator:** Thank you. And this does conclude today's question-and-answer session. I would now like to turn the call back to Trevor Bell for any closing remarks.

**Trevor Bell:** Great. Thank you everyone, for attending the call. If you have any follow-up questions, please email myself or the team as we're obviously working remotely with the COVID situation and we'll get back to you today. So, thanks again for joining.

**Operator:** Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.