Suncor Energy Fourth Quarter 2020 Financial Results Call

Thursday, 4 February 2021

Operator: Ladies and gentlemen, thank you for standing by and welcome to Suncor Energy Fourth Quarter 2020 Financial Results Call. At this time all participant 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. Please go ahead, sir.

Introduction

Trevor Bell

Vice President of Investor Relations, Suncor Energy Inc.

Thank you, operator, and good morning everyone. Welcome to Suncor's fourth 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 fourth quarter earnings release, as well as in our 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. 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 and thanks for joining us.

During the third quarter call at the end of October, I noted that the recent operational performance did not reflect our focus on operational excellence. We committed to operate our assets safely and reliably. While I'll discuss reliability a little later, in the spirit of our value of safety above all else, I wanted to address safety first and the recent incidents at our two sites.

In a matter of weeks, we've had two tragic safety incidents in which three of our contractors lost their lives – Taylor Dawe, Leslie Miller, and Patrick Poitras. After the

incidents, I met with the people involved in the operations, and those involved in the response and recovery efforts. Suncor leadership has also engaged with the families. As devastating as this has been for all of us, I can't even comprehend how difficult this is on the families and loved ones – people whose lives are changed forever. And I'll tell ya, on behalf of myself and the Suncor leadership team, our heartfelt condolences, and thoughts and prayers go out to Taylor, Leslie and Patrick's families, friends, and co-workers.

We're gravely concerned about the tragic events, which occurred despite Suncor's commitment to a strong safety culture and safety standards, protocols, and practices. This performance is unacceptable to us, and our employees, and our contractors, and our shareholders. We expect better of ourselves.

The executive leadership team and I are committed to making sure we have a safe workplace, so we've taken action with the following measures:

- We're investigating to understand how these incidents occurred and most importantly, what must be done to prevent them from ever happening again. Our investigations are rigorous. We'll work closely with our contractor organizations and implement the changes required.
- We have initiated a third-party review of our safety procedures, and specifically in the mining area where these incidents occurred. This is expected to be completed by the end of the first quarter.
- Our executive team has met with the Suncor senior leaders from across the entire organization to review the incidents, discuss the concerns, and recommit to our safety journey. This is a critical part of our focus on Operational Excellence.
- And we've also held a series of safety stand downs across the company to refocus and recommit ourselves to an injury free workplace and caring for each other. The most recent one, we just held on Monday this week, in which over 6000 of our personnel attended.
- We are committed to safety and a safe workplace and insist that every employee and contractor share this commitment. Let me assure you, we are taking all appropriate actions to ensure safe and reliable operations of all of our assets. As we stated in our values, it's safety above all else.

I would ask that you join me in taking a brief moment of silence to remember Taylor, Leslie, and Patrick.

[Pause in call]

Thank you.

I would now like to change gears and talk about Suncor's fourth quarter results, which clearly demonstrate the value of our physically integrated model. We delivered strong operational results, reflecting reliable performance across our assets. We achieved 95% utilization in the Downstream – an industry best that outpaced Canadian peers by almost 20%. Throughout the volatility of 2020, our Downstream business continued to outperform its peers – demonstrating the global access and competitiveness of our asset base, and the benefits of integration with our connection to the customer.

As we indicated on our last quarterly call, we completed the work at Base Plant and made the tough decision to take a maintenance outage at Firebag to address some operational issues and complete the debottleneck of the facility. While this created variability in the

fourth quarter – the average performance was quite strong with our upstream business producing 769,000 bbls/d, despite completing this significant maintenance in October.

Combined, the Base Plant and Syncrude upgraders produced over 514,000 bbls/d of synthetic crude oil – the second-best quarterly synthetic production in our history, supporting our continued value over volume strategy, and maximizing the value of each barrel.

Oil Sands Base Plant achieved 91% utilization, despite the maintenance which concluded in October.

Syncrude also had an excellent quarter with 101% utilization and cash costs of almost $28/bbl, one of the lowest unit quarters in some time.

As planned, Fort Hills recorded over 62,000 bbls/d of production, net to Suncor, as the second train ramped up, with continued focus on cost discipline. Our current guidance reflects average gross production of 120-130 kbpd for the first half of 2021, ramping to full rates by the end of the year.

I believe a better indication of our solid performance though, is the production volumes for the two-month period from November and December, once maintenance activities were completed. During this period, we averaged 846,000 bbls/d of production which is an all-time two-month production record for the company. This level of operating performance is continued in January. One of the contributing factors to this production was the capacity upgrade at Firebag to 215,000 bbls/d. So, our timing on that was very good.

We continued to deliver strong cost performance in the quarter, exceeding our targets for operating cost reductions and ended the year towards the low end of our unit cost guidance range for all of our assets. For the year, our total operating costs were $9.9 billion compared to $11.2 billion in 2019, a reduction of $1.3 billion, which exceeded our target reduction by $300 million.

In the Downstream, we had another quarter of reliable operations, which we leveraged through our marketing and logistics expertise. And in fact, despite the market volatility, we averaged 95% utilization for the quarter.

Lastly, we completed several highly accretive investments, including:

- The Burrard, BC storage terminal expansion, increasing our flexibility and global access capacity,
- We commissioned the interconnecting pipeline between Suncor's Oil Sands Base Plant and Syncrude,
- We increased the nameplate capacity at Firebag by 6%,
- We increased the nameplate capacity of Edmonton refinery by 3%, and
- We deployed Autonomous Haul Trucks at Fort Hills.

Throughout 2020, we continued to invest in projects to drive increased funds flow rather than reducing our capital program to sustaining capital levels, or below. As a result, we expect these and other completed investments to generate $400 million of incremental free funds flow in 2021, as part of the $1 billion incremental annual cash flow target by 2023, and $2 billion by 2025.

Looking to 2021, we've restarted construction of the Cogen facility at Base Plant and the Forty Mile wind project, which is already accounted for within our current capital guidance. That said, despite the commodity price outlook being well above our planning basis for 2021, I can assure you that we will not increase our 2021 capital guidance above our current range. Let me say that again, we will not increase our 2021 capital guidance above the current range. And in fact, we continue to target the middle of our capital range.

I am confident in the value that our Cogen and wind investments will add to Suncor's annual free funds flow and the long-term value to our shareholders, while also making some material steps in addressing our greenhouse gas emissions. Continuing to prudently invest in these types of projects strengthens Suncor in an increasingly volatile environment.

I'll now hand it over to Alister to go through our financial highlights.

Financial Highlights

Alister Cowan
Chief Financial Officer, Suncor Energy Inc.

Thanks, Mark.

In the fourth quarter, Suncor generated $1.4 billion of funds flow from operations despite the maintenance at the beginning of the quarter. Now this excludes a one-time provision for a future payment of $186 million related to a backstop guarantee provided in 2018 and 2019 for the Keystone XL pipeline, to ensure it continued to progress at that time. These results demonstrate solid performance across the portfolio and the value of our physically integrated model in a world with volatile commodity prices. We generated $300 million of cash flow after all sustaining capital and dividends.

Our price realizations remained strong. During the fourth quarter we saw bitumen price realizations improve by $4.60/bbl Cdn while benchmark crude prices improved by only $1/bbl Cdn.

Our Downstream recorded $415 million of operating funds flow, reflecting seasonally weaker headline cracks and lower margins on higher volumes of exported barrels. This also reflected a smaller FIFO uplift as compared to Q3, which was driven by relatively flat benchmark pricing in Q4. Our Downstream utilization was bolstered by taking advantage of the Burrard terminal expansion that Mark mentioned.

In Q4, with seasonally weaker demand and in advance of 2021 planned maintenance, we leveraged the fixed cost nature of our business and storage assets to build refined product inventory. You will recall that we successfully implemented this strategy for the Edmonton refinery turnaround in 2018. We expect to capture maximum value for this inventory, as it will be sold into the summer driving season and improving economic environment.

As Mark said, our full year operating expenses of $9.9 billion came in below our target. This is a reduction of $1.3 billion from 2019 which is $300 million, or 30%, more than our previously communicated target. Similarly, the 2020 capital spend was comfortably within our guidance range which removed $1.9 billion in capital from the midpoint of our original guidance range for 2020. We achieved these reductions while continuing to prudently

invest in future cash flow growth, completing several highly economic initiatives as Mark highlighted.

As you saw in our December guidance, we had estimated at that time that we'd repay at least $500 million to $1.0 billion of debt and make $500 million of share repurchases at much lower commodity prices than today's levels. As we all know, the macro pricing environment has improved since our guidance release. Should this be sustained, our allocation of incremental funds flow will be to debt reduction and further increasing the buyback. I will reiterate Mark's comment that our capital guidance range will not increase with higher commodity prices.

Let me address shareholder returns.

At this time, we will not increase the dividend, preferring to use our funds flow to increase the share buyback as we believe our stock is deeply discounted – both in an absolute and relative sense. We remain committed to providing our shareholders with a 6-8% annual cash return. Dividends remain a big part of our shareholder returns, and as we reduce costs and enhance margins from the existing asset base, this will provide the foundation to increase the dividend going forward.

So for clarity, at our updated ranges, at current commodity prices, for debt repayment are $1.0-1.5 billion and share buyback $500 million to $1.0 billion – Now I do recognize that many analysts and investors use their own commodity price assumptions, so for guidance, should commodity prices increase further, we expect additional funds flow to be allocated approximately two-thirds to debt repayment and one-third to share buybacks. Again, as Mark has said and I have said, we will not increase our capital from the current guidance range.

Mark, I'm going to hand it back to you to talk about the outlook.

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

Thanks, Alister. I'd like to emphasize an important point both Alister and I have made - as prices improve, and cashflow increases, we will allocate those funds to the balance sheet and shareholder returns. I don't think I need to say that our capital program will not change, but it won't.

Reflecting on the 2020 performance, across all of assets it did not necessarily meet our expectations, nor that of the shareholders. Further, crude price weakness and a collapse in consumer demand unusually impacted both sides of our physically integrated model. Our share price, and its relative underperformance to peers, reflects these challenges. The management team and I are committed to restoring our performance to not only historic levels, but to further strengthen it by delivering on the $2B cashflow commitment we made previously. In fact, I am very encouraged by the progress we're making to become a stronger, more resilient organization.

Since the completion of maintenance in October, our asset performance has been extremely strong. In January, upstream production and downstream utilization was consistent with the performance in November and December – reflecting the best three-month production period in the company's history.

Several actions taken in 2020 will have a positive impact to cashflow in 2021 and beyond, including:

- Lowering our cash break-even to maintain financial health and committing to significantly reduce our operating costs and capital spend. We successfully exceeded these targets in 2020 and will continue to structurally lower costs this year and going forward,
- Changes we made to operate Fort Hills resulted in significant cost reductions. The increasing production from the second train, which is focused on ramping up the mine capacity, will continue with cost discipline in order to maximize the value of this asset,
- Firebag maintenance and capacity upgrade were carried out during Base Plant upgrader maintenance to fully realize the new infrastructure and achieve higher production rates. As I stated in Q3 – we believe the timing was right as we expected that the price going forward would be higher than what it would be in October. This was the right call. Following the brief maintenance activity, the asset has been operating at over 210,000 bbls/d, or 98% utilization – capturing the full potential of the asset and higher pricing in late 2020 and into this year,
- The announcement of Suncor taking over as operator of Syncrude in Q4 of 2021, this is a very significant step forward for the asset – and in fact it will be the most significant governance change in the history of Syncrude. Similarly, to the structure and role as operator at Fort Hills, so it’s very similar to that, so we’ll operate Syncrude in a very similar way. It is anticipated to generate approximately $300 million of incremental cashflow on an annual basis for Syncrude by capitalizing on the collective advantages of our regional operations – we’re looking forward to realizing this value by building on the increased reliability of the asset over the past few years, and
- Lastly, and this is unique to Suncor, we continued to invest in high return economic projects, successfully completing several initiatives that I mentioned earlier. This not only focused on generating positive returns for our investors, but it will also help us drive down the carbon footprint of our business. Restarting the Cogen investment and Forty Mile Wind farm are great examples of this as we work to deliver on our commitment to add $1B of incremental cashflow by 2023, growing this to $2B/year by 2025, and reducing our carbon intensity by 30% by 2030.

As consumer demand and pricing steadily improve and gain momentum, we have significant tailwinds to both our downstream and upstream businesses. In fact, I can’t think of being in a better position than we are, as we come into 2021. The free funds flow generation capability of our business remains intact and, in fact, was enhanced during 2020.

I am confident that we’ll deliver on our plans namely, significantly better safety and operational performance, strengthen financial position, and increasing shareholder returns.

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

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

Q&A

Operator: Thank you, sir. (Operator instructions). Our first question comes from Neil Mehta, from Goldman Sachs. Your line is now open.

Neil Mehta (Goldman Sachs): Thanks guys and appreciate the opening remarks here on safety. Maybe that's a good place to kick off on just operational reliability. 2020, Mark, as you said, was a tough year, where there was a lot of lost opportunity profit across asset by asset. But on a go-forward basis, it could represent an opportunity if you can capture back some of that cash flow. So, can you go through each of the core assets and what you are doing to drive operational improvement? And any quantification of that upside would be great.

Mark Little: Ya. Thanks for the question, Neil. Clearly, and we've spent a lot of time in the last month or two, talking about our priority for me and the leadership team and the entire organization is operational excellence. We're committed to safety above all else and delivering on the reliability. That's consistent across the entire platform and all of the assets, including Syncrude. And so, in each situation where something's gone wrong, we focused our attention on how do we move forward and improve the asset performance and structurally integrate that so that we learn from things that have gone wrong.

We are very encouraged by the progress that we're making. You can see it in our results in November and December and January. And even at Syncrude, you've seen their reliability, and 2019 was the second best in their history, and we have additional steps that we're taking to improve it further. So whether it's at Fort Hills, where we're now in the process of working with all the owners to ramp it up to full rates or whether it's capturing the $300 million of gross savings for the partnership at Syncrude, or delivering on the reliability and production expectations at Base Plant, the focus is exactly the same. It's the #1 priority for the company, and that is where our attention will be.

Neil Mehta: All right. I'm sure there'll be more questions on that. I guess the follow-up is just the framework around cash flow. So, in 2019 you produced $10.8 billion of cash flow in a $57 WTI environment. Today, we're sitting plus/minus that price. So, I know 2021 is a noisy year, but as you look out to 2022, you've got at least $600 - $700 million of cost savings, it seems to us that are going to flow through. And then you have another couple of hundred million dollars of upside from Syncrude. And even if you back out FX and weaker refining margins, sensitivities would suggest $11 billion of cash flow in around that same oil price. Does any of that math seem off to you? And then of course, I'm not asking for a hard number, but just the framework around published sensitivities. And to the extent you get back to those 2019 levels of cash flow, that $11 billion number should -- is it fair to assume that CapEx will stay in that $5 billion range? Is that a -- or do you see that biased higher? And I'll let you take it wherever you want to with that.

Alister Cowan: Yes. Thanks, Neil. I'll talk to that one. I mean it's – you know we're not going to guide you to cash flow. But if you think about the assumptions you laid out there, I don't think that's an unreasonable level. We have, as Mark said, structurally improved the operating cost of the business. So that will drive additional cash flow as we go forward. And obviously, the -- as we ramp up Fort Hills to full rates that will also help. What I would say on the allocation of that, we've been very clear. Debt repayment, strengthening the balance sheet and returning cash to the shareholders is our priority here. Do I think that capital is going to increase materially from the levels we set for '21? No, I don't. I think it'll

be pretty consistent with those levels that you're seeing at this point in time. So, I think your assumptions would be for a very positive '22 and I would endorse that.

Neil Mehta: Thanks guys.

Operator: And thank you, and our next question comes from Greg Pardy from RBC Capital. Your line is now open.

Greg Pardy (RBC Capital): Ya, thanks, good morning. And I'll echo what Neil is saying, Mark, I know how much you care about your workers and so forth. So, appreciate you addressing the safety issues head on because they are so important. I wanted to dig back, you kind of opened up the door there on Syncrude. I was going to ask about that anyway. But it kind of gives you a bit of a forum. What is the path to success look like for Syncrude? You mentioned the operatorship, which is at the end of this year, you've done a bidirectional pipeline, but you're also starting to open up on governance. And I'm just curious as to how you -- what those changes are and then what you would see coming from them?

Mark Little: Ya. Thanks, Greg. I appreciate it. You know with Syncrude, the original structure of it had an entire separate corporation oversee it because none of the owners actually did anything around Oil Sands mining or running upgraders from Oil Sands mined material, both of which are somewhat unique. And now over 80% of the ownership with ourselves and Imperial, where the owners are directly mining Oil Sands, and for us, we're also upgrading the material. So after a long extensive assessment by the owners, we concluded that the best way to maximize the net present value of that asset to all of the owners was to collapse the overhead structure and integrate it and eliminate the duplication of the overhead there and the corporate structure with Suncor and eliminate that duplication and just extract a lot more cash out of the asset than we would if we had all that duplication. So, this is the first major structural change or by far the most significant since it was originally constituted back in the '70s, and so this is a substantial change. And as I've mentioned, now it will look a lot like how Fort Hills looks in the way that it's managed and governed.

Greg Pardy: Okay. And I'm going to ask a follow-up because I want to ask anything on other assets. But then -- so the decision-making, just correct me if I'm wrong then, under the JV structure, was it, in essence, did you have to get to unanimous decisions despite some owners owning relatively little. And as a result of this then, are you much more in the driver's seat than to -- between yourselves and IMO to kind of drive the decision making and the timing that you're looking for?

Mark Little: There's really 3 different categories. There are certain decisions that we could take unilaterally and just move forward to operate the asset. There's other decisions that require 3 of the owners and 51% of the ownership to get through, and there's other decisions that require unanimous support from all of the owners. Most of the ones that require unanimous support are actually quite small. So, a lot of these decision-making hasn't changed. But it allows us to drive day-to-day decisions, implementation of technology, alignment around how the functional support and decision making, leveraging supply chain and business support. This is why it generates, you know, significant value

without actually having to build any new assets or create a massive transaction associated with it. So, we're very optimistic about it. This is just about getting far more effective and efficient management structure for the organization. And I'm super encouraged by how the Syncrude team has been responding and all the great progress they've made in the last couple of years. So, we're very optimistic about this step.

Greg Pardy: Okay, terrific, thanks very much.

Operator: And thank you. And our next question comes from Manav Gupta from Credit Suisse. Your line is now open.

Manav Gupta (Credit Suisse): Hey guys, I wanted to focus a little bit on refining. Your utilization went up materially, but the actual product sales was down. I'm trying to understand, was this a decision taken because you saw the vaccine announcement and you thought probably let's hold back some inventory, so you get much better prices in 1Q. And this was one of the reasons you also saw a little bit of working capital headwind, which will all reverse. And obviously, the commodity prices are higher. So, the call has actually already worked. But I'm just trying to understand, was this the thought process of holding back some inventory?

Mark Little: Ya. I mean, maybe I'd just say there's 2 factors that are driving the increase in working capital. One was inventory, I'll come to that in a minute. And the other is the fact that just commodity prices went up. When commodity prices go up, our receivables go up, our working capital goes up. So, I guess, in many ways, we would say that's a very good thing. On the inventory side, you know, there's a couple of pieces to it. Some is just cargo timing, but we're getting ready for some fairly significant work. And in the upstream organization, we actually have the most significant turnarounds we ever have.

So, in our U2 upgrader at Base Plant, which is 2/3 of our capacity at Base Plant is going into turnaround for the first time in 5 years. And Syncrude is also taking their big coker offline this year as well for a turnaround. And then we also have a bunch of turnarounds in the refining, some of which we pushed from last year. And so, as a result of that, we've built inventory. If you go back and look at how we dealt with this in 2018, we built inventory, leveraged our entire asset base to use our own assets to build the inventory versus pushing it on to a competitor's assets and increasing their utilization. We think this is just prudent management. We're expecting to draw down this inventory in the first and second quarter as we move forward here. And we're very optimistic that we'll be selling a lot of the product inventory into the primary driving season as we get towards the summer.

Manav Gupta: Makes perfect sense. I have a quick follow-up on the debt reduction target. I'm trying to understand, is this $1 to $1.5 million debt reduction target basically based on organic discretionary cash flow generation? Because as I understand, as you talked about, this working capital of $400 million will reverse. You'll have got probably $300 million in asset sale proceeds from Golden Eagle. And then you have 1 -- over $1 billion coming in from tax receivables. So, there's this additional $1.5 to $2 billion in cash coming in, on top of the free cash you're generating. So, I'm just trying to understand, is the guidance of $1 to $1.5 debt reduction purely based on the organic free cash flow.

Alister Cowan: Yes. Thanks, for that. I'll take that. Ya, I mean, what I would say is those are our commitments to the market, and obviously, based on I think lower commodity prices than many of you are using, which is why I gave you the 2/3 to debt reduction and 1/3 to stock buybacks, if you have a higher commodity price. But certainly, when we are looking at that, we look at it from cash flow from operations. I recognize we have our tax repayment coming in Q4. And obviously, we just announced the sale of Golden Eagle. These are additional cash flows that will come in and will be allocated in the same manner, as I've indicated.

Manav Gupta: Thank you so much for taking my questions.

Operator: Thank you, and our next question comes from Asit Sen from Bank of America. Your line is now open.

Asit Sen (BofA Securities): Thanks, good morning everyone. Mark, you mentioned investments in midstream opportunities and highlighted Burrard terminal. Just wondering if you could elaborate on the strategy, how you're thinking about synergies, investments and value add? Anything incremental?

Mark Little: Yes. Thanks, Asit. You know, it's interesting because part of the issue with it is, we have highly competitive assets in the downstream side. So -- and you're seeing it right now is that despite the fact that product markets are oversupplied, some refineries have temporary shutdown, some have actually permanently shut down. We've been using some of this export infrastructure, both off the West Coast essentially and the East Coast to be able to export some product and be able to keep our utilizations high.

And we're doing that and making money off of the exports. And so obviously, the returns are lower. But that's actually – you know, we see that as very positive. If you look at the New York Harbor crack strip, we're up $2 a barrel higher than we were in the November and December time frame. So, we're very optimistic that, one, as we build inventory, it's a good position to be able to sell at high prices as we go forward into the driving season. And two, we're expecting strong recoveries associated with vaccines and such and easing of the lockdown. So, our view is that this infrastructure is an important way of managing the long-term profitability of these assets, having the flexibility and it's allowing to stay stronger in a relatively weaker market because we have such a competitive downstream. So, we - that's why we think it's been a very good investment for us.

Asit Sen: That's very helpful, thanks Mark. I also wanted to get your thought process on this North Sea asset sale, which was nice. Just wondering if you could touch upon the strategic rationale, valuation consideration and further opportunities in the region given a stronger macro, how you're thinking about the entire portfolio?

Mark Little: Yes. The thing with Golden Eagle is for every one of our assets, we have an end-of-life date where we view that we kind of time out because we're not really an end-of-life player in all of this. And so, we've – this has just been very disciplined with what we've always said. We're kind of an early-to-late life, but not end-of-life player. And so, we felt that Golden Eagle -- we've talked about this before that we would be exiting the asset or looking to exit the asset around this time. You know, it could have been a little sooner,

it could have been a little later. We like the transaction. We feel that it doesn't sell at a distressed price that we would have seen last year. And so, this is just disciplined and following our normal course. The joy for us is this is actually all about making the right economic decisions for the shareholder and whether our reserves go up and down and all that kind of stuff, it doesn't really matter to us. We've always said E&P, it's about driving cash flow for the shareholder, and that's why we're exiting Golden Eagle. This is just disciplined execution of our strategy.

Asit Sen: Very clear, thank you Mark.

Operator: And thank you, and our next question comes from Phil Gresh from J.P. Morgan. Your line is now open.

Phil Gresh (J.P. Morgan): Hey, good morning, how are you? [Mark Little: Very good, thanks Phil]. Good. First question, I know there's been a lot of questions on costs. So, I hate to be redundant, but a lot of energy companies through the downturn took temporary cost actions. And I was just curious, how should we think about the structural cost reduction actions that you're taking moving forward relative to potentially the return of any of these more transitory cost actions that you took?

Alister Cowan: Thanks, Phil. I'll take that one. Ya, we -- as you as you saw, we exceeded our $1 billion target by 30%. So, we reduced the cost by $1.3 billion compared to 2019 levels. Now we've talked initially that we thought about a third of those were really structural reductions, and the rest would come back in over time. As we've gone through the year, I would say that more about 50% now, I would say our structural reductions in our costs. So, we've been able to significantly improve on those structural reductions as we go forward. The other 50%, I think, will take some time, and come back in over the next 2 to 3 years. And I think as we go forward, you're starting to see the execution of the implementation of the $2 billion of additional cash flow, some of which is obviously further cost reductions across our business in the next couple of years, some of which are margin additions and then some of which are new business, such as the investment in Cogen and the 40-mile wind project, which will come in '25. So, you're beginning now to see the real execution and the delivery of the benefits of that strategy.

Mark Little: Well, and Alister, maybe I would just add to that is, as you look in 2021, we have several initiatives underway to continue to increase the structural change associated with it. And this is part of the Suncor 4.0 strategy, implementing company-wide processes to drive further efficiencies and structurally drive down the cost structure, which is exactly what Alister said. It's part of the $1 billion of incremental cash flow by 2023. So, we continue to increase the structural cost changes here even in this calendar year.

Phil Gresh: No, that's helpful. If I think about other times in the past when you've talked about, say, a $20 a barrel OpEx target for Oil Sands and Fort Hills and I think a $30 a barrel or lower target at Syncrude. How would you calibrate those targets today relative to the $2 billion of cash flow improvements you've talked about in terms of timeline?

Mark Little: Ya. It's interesting. We see these as basically incorporated in these targets that we've set around structurally changing it. You know, at Syncrude, as an example, we

said 90% and $30. We think we basically have the capability to deliver on 90%. This year, the high end of our range on that asset shows the 90% utilization although it's a big turnaround year, and we still have some challenges associated with executing big work with COVID. But the cost structures lagged associated with it. And this decision around changing the governance structure of Syncrude, we think is the final piece that's required to deliver on it. At base plant, a lot of this is incorporated in these decisions that we've made, which also includes driving down the overhead structure of the company. So, the $2 billion helps us in actually achieving these cost targets that you mentioned.

Phil Gresh: Sure. Last one for Alister. Just on the commentary you made around the dividends, how should we think about whether it's like maintain a certain breakeven target or an eventual return to growth in the dividend? Just any more color as to how you're thinking about that? Obviously, very clear in the debt reduction versus the buyback piece.

Alister Cowan: Ya. Thanks, Phil. You know, we -- when we reset last year, we reset to a $35 WTI breakeven to cover sustaining capital on the dividends. As we are executing on our cost reduction and productivity plans, we're driving down the cost side of the business. So that allows us within the $35 WTI breakeven to increase the dividend. So, the breakeven will stay the same, but driving down operating costs, driving down, sustaining capital gives us the scope to increase the dividend as we move forward. And we're very confident about our capability and the execution of that.

Phil Gresh: Okay, thank you.

Operator: Thank you, and our next question comes from Dennis Fong from CIBC World markets. Your line is now open.

Dennis Fong (CIBC Capital Markets): Thank you and good morning, and thanks for taking my questions. The first maybe relates a little bit to, I guess, Neil and Phil's question. I know you've been very specific about talking about the restart of both the Cogen and the wind farm project not impacting this year's capital spending expectations. How should we be thinking about the balancing act of improving cost structure, both from a cash cost and a CapEx savings component of things associated with -- and counterbalanced, I guess, with the increased spending associated with the restart of both of these projects, kind of this year and going forward through the completion of both projects? And I've got a follow-up as well. Thanks.

Mark Little: Well, Dennis, in this particular case, I mean one of the reasons that we didn't just plow ahead with them is we wanted to make sure when we announced our guidance last year, is we wanted to make sure that if we move forward with these projects, 2 things were true. One is we weren't going to stop again because it's very disruptive to have that happen. And then secondly, we wanted to ensure that we could deliver on the capital guidance. So, there's been a lot of focus on optimizing capital even since we released guidance. We feel comfortable now that we can deliver these projects, we're targeting and continue to drive to the middle of the range of the capital targets we put out there, and we feel very confident that these are great value adds for our shareholders. So, we're excited about moving forward on these.

Dennis Fong: Okay. Great. No, that's great color for this year. And just to make sure on -- I would presume that also carries forward to subsequent years as some of that spending increases in, we'll call it, '22, '23, just in terms of free cash flow improvements via kind of savings in the cost structure of the business, which could maybe potentially offset some of the impacts of the increased levels of spending just from a free cash flow basis for the company?

Mark Little: Ya. I mean, if you're referring to these two investments specifically, this is kind of peak spending on these two assets as we move things forward. So we're really -- we have about $1.1 billion left on the Cogen, but just generally associated with it, one of the things we're setting up for, and that's why I feel like we're very well positioned is despite the weak stock price, we positioned ourselves to generate significantly higher free cash flow than even where we were in 2019, if the commodity prices and stuff support it. And as a result of that, we can actually pay down the debt, as Alister mentioned, 2/3 going to debt and the rest going to share buybacks. We think at this point in time, particularly given the relative and absolute weakness of the share price, this is a great way to allocate cash flow. As we go forward, our expectation is to be very disciplined on how we manage the cash as well. So that we can keep this going and keep very strong free cash flow as we go forward.

Dennis Fong: Great. Great. And so, my follow-up is really on the operational side with respect to the bidirectional pipeline. Obviously, there's a significant amount of turnaround activity that is being driven by, I guess, both U1, U2 and the Syncrude facility in Q2. How should we be thinking about the actual utilization of the pipeline through that turnaround period? I guess, unfortunately, just the timing of these turnarounds happen to be significant. And what are some of the, I guess, testing measures or kind of performance metrics that you're looking for out of this bidirectional pipeline? And how are you planning to integrate that into existing operations and maybe just trying to understand what the net benefit happens to be for this year and what the puts and takes happen to be obviously given in an outlier year with respect to maintenance?

Mark Little: Ya, a good question. I mean, it's interesting because the complexity of this is it almost allows us -- this is almost like running a linear program in a refinery. We expect the utilization to capture every economic opportunity that presents itself to be able to optimize between the 2 sites. And in fact, as soon as we started up the line, we started moving sour synthetics from Base Plant into Syncrude to hydrotreat them and sell them as sweet synthetics and capture the spread. And so, depending on the situation around mine throughputs, refinery – or upgrading utilizations, hydrotreating utilizations and such. The focus is maximizing the value of this line on every opportunity that exists. So we'll do it just like we do our other assets, what was the economic opportunity and what percentage of it did you capture and so that's what we're looking for in this, and it significantly improves the flexibility of Syncrude to maximize the value.

The example we've used in the past is we've literally been selling bitumen at a discount when the upgrader at Syncrude is running below utilization because they've had some mining problem for a period of time. You know, it's crazy when you own both, and these assets are essentially side by side. Now we have the opportunity to capture that to

relatively significant volumes. That's our focus, and this is what drives value for the shareholder.

Dennis Fong: Great, thank you.

Operator: Thank you, and our next question comes from Menno Hulshof from TD Securities. Your line is now open.

Menno Hulshof (TD Securities): Good morning everyone and thanks for taking my questions. I'll just start things off with a follow-up on low carbon energy. If we look beyond Cogen and 40 mile, you have 4 other opportunity buckets, including biofuels, enhanced extraction, renewables, and energy efficiency. So, of those 4, where are we most likely to see the biggest push from a capital allocation perspective? And can we reasonably expect that low carbon wedge to increase over time?

Mark Little: Ya. It's interesting this year, like if you take the midpoint of our guidance, we're spending about, on these initiatives that we just talked about, about 10% of our total capital between Cogen and the wind farm and such. And so that's actually where we're at. And you know, I would say that, that's probably in the ballpark. We're still working through our strategy. We have a -- we're planning on a virtual investor conference coming up in May, where we're going to walk through this in some level of detail and where the areas that we think we could play. I mean, obviously, it's fairly early days. But in the electrical markets, we already use Cogen, export it to the market to drive down coal power generation in the province of Alberta, which is the target of this investment.

We're already in biofuels with the ethanol plant that we have and playing in that. So -- and energy efficiency is one that pays all day long for the shareholders, if you have an economic return, obviously, that's going to be a key area. So, I think it's -- we'll get into a little bit more detail when we get to May, Menno.

Menno Hulshof: Okay, Thanks Mark. And just to quickly, just -- I guess, the follow-up question would be related to market access. Are you seeing any notable developments on Line 5 at the moment? And how confident are you that on streaming of Line 3 replacement is still a year-end event?

Mark Little: Well, it's interesting on Line 3. I mean, clearly, just in the last couple of weeks, more permits have been issued, and it's moving ahead. So, you know, I think that our confidence in that continues to increase. And we feel really good about that. Whether it happens exactly at year-end or not, I don't think it's all that relevant. But we think it's on track for around that time frame. With Line 5, we believe shutdown is a very low probability event. The pipeline are the safe -- are very safe in that system, and it serves many consumers, both in Central Canada, Québec, and Ontario as well as Michigan and Ohio. So, you know, we think it's very important to those economies. Enbridge Mainline and their focus on that -- so that's -- we use that to get product into Ontario and such.

But one of the things we have, is we have this Portland pipeline, which we now own exclusively that allows us to bring waterborne crudes into Montreal. So, if it turns out that we had a risk, we think we're better positioned than anybody in this market to keep our

refineries moving forward and get crude to them. Either through waterborne crudes coming into Montreal or using what pipeline capacity we have without Line 5 getting into Ontario. So, you know, we think we're much stronger positioned than anybody else in that market. And as a result of that, if they constrain the market, we think that we'll get more than enough from the market to be able to pay for any efficiency or squeeze that you get on the crude side going into the refineries. So, you know, we feel that we have a very good risk management position there. Even though we see it as a very low probability event.

Menno Hulshof: Okay, thanks for the color Mark. [Mark Little: Thanks Menno].

Operator: And thank you, and our next question comes from Chris Tillett from Barclays. Your line is now open.

Chris Tillett (Barclays): Hey guys, good morning, thanks for taking my call. Most of my questions actually have already been asked. But just -- I would just kind of wanted to revisit some of the comments on capital allocation. Appreciate the messaging there has been very clear about priorities toward 2/3 debt reduction, 1/3 buybacks. Just curious, maybe to dig a step deeper there. Is that sort of regardless of where you sit in terms of debt-to-cap ratio? Or is that something that you could potentially revisit once you get back inside the 20% to 35% long-term range that you guys have talked about?

Alister Cowan: Ya, Chris, I'll take that. Thanks for the question. Now, let me be very clear. For 2021, there's additional cash flow generated, keeping capital flat within the range, as Mark said. And any additional cash flow will go in 2/3 to debt reduction in 1/3 to the buybacks.

Chris Tillett: Ok, appreciate that. That was it for me. Thanks guys.

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

Trevor Bell: Great. Thank you, operator. Thanks, everyone, for joining us this morning. I appreciate you taking the time to listen in. And my team and I are around all day, should you have any follow-ups, please reach out to us, and we'd be happy to chat. Thanks, everyone, and stay safe.

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