Suncor Energy First Quarter 2024 Financial Results Call

Wednesday, May 8, 2024

Operator: Good day and welcome to the Suncor Energy First Quarter 2024 Results Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker, Mr. Troy Little, Vice President of Investor Relations. You may begin, sir.

Introduction

Troy Little

Vice President of Investor Relations, Suncor Energy Inc.

Thank you, operator, and good morning.

Welcome to Suncor Energy's first quarter earnings call. 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 detailed in our first quarter earnings release, as well as in our current Annual Information Form, both of which are available on SEDAR+, EDGAR, and our website, suncor.com.

Certain financial measures referred to in these comments are not prescribed by Canadian Generally Accepted Accounting Principles. For a description of these financial measures, please see our first quarter earnings release.

We will start with comments from Rich Kruger, President, and Chief Executive Officer, followed by Kris Smith, Suncor’s Chief Financial Officer. Also, on the call are, Peter Zebedee, Executive Vice President Oil Sands; Dave Oldreive, Executive Vice President Downstream; and Shelley Powell, Senior Vice President Operational Improvement & Support Services.

Following the formal remarks, we’ll open up the call to questions.

Now, I will hand it over to Rich to share his comments.

Opening Remarks

Rich Kruger

President & Chief Executive Officer, Suncor Energy Inc.

Good morning. First quarter following a strong fourth quarter 2023, I would characterize our first quarter as even stronger. So how so? I recognize I'm going to start sounding like a broken record here, but by focusing on the fundamentals of safety, reliability, profitability, coupled with a determination to deliver on commitments.

Kris will highlight our results in more detail in a moment. So, what I'd like to do is highlight some of the more notable achievements, starting, of course, with the fundamentals, safety. No life altering or life-threatening injuries. Lost time incidents down 50% year-on-year. Recordable incidents down 20% year-on-year. Process safety events down greater than 50% year-on-year, achieving first quartile US fuel and petrochemical manufacturers performance. How so? This is really a tribute to our people, our processes, our priorities, and site leadership.

Second fundamental, I'd like to continue with reliability. I'll start with refining, refining throughput, 455,000 barrels a day, up 88,000 barrels a day from a year ago or 24%. Highest first quarter in our company's history, driven by best ever first quarter utilization of 98% and led by Edmonton in excess of 100%, achieved by operational excellence, improved winterization and once again the focus of our people.

Product sales 581,000 barrels a day, our highest quarter ever. A tribute to Dave Oldreive’s sales and marketing team for aggressively moving barrels and capturing value.

Upstream production 835,000 barrels a day, up 93,000 barrels a day or 13% from a quarter a year ago, highest quarter in our company's history. There are many, many multiple best-evers, Kris will detail a few shortly, but I'll continue. I'd like to highlight one in particular. Upgrader utilization combined at an impressive 102%, achieved in part via a very tangible competitive differentiator.

I am growing to understand and recognize more and more the longer I'm here, and this is our physical integration. Remines, in-situ operations, interconnected to two large upgraders. The flexibility and optionality that this integration provides us is truly unparalleled. The ability to move molecules, bitumen, partially processed hydrocarbons, water, steam, again, all to maximize value. I guess to say it differently, there's integrated and there's Suncor integrated, and they are not the same. The last thing I'll mention is it's one thing to have a physically integrated kit, but it's something entirely different to capitalize on it. And that's exactly what Peter Zebedee’s entire oil sands team did throughout the first quarter. Well, done.

The – so if you look at where we are on the production reliability, the year-to-date, the first quarter, everything is consistent with the first quarter's expected contribution to our full year guidance. In fact, I would say every major asset upstream and downstream delivered at or above our own internal expectations.

The third fundamental I'll comment on profitability. Kris will dig into AFFO, free funds, shareholder distributions, so I won't steal his thunder, but I would like to comment on one essential aspect of profitability: cost management.

Total OS&G in the first quarter following it top to bottom was $3.4 billion for all practical purposes, essentially flat with the first quarter of 2023.

However, as I mentioned, we produced 93,000 barrels per day more in the upstream, essentially three MacKay rivers, we refined 88,000 barrels a day more in the downstream, essentially an additional Sarnia, and we sold 66,000 barrels a day additional of products, refined products, this year, versus last year. We did all of that, at essentially no extra cost, zero, nada. That's leverage.

In fact, all major assets, every single one upstream and downstream operated safely and efficiently at lower unit costs in the first quarter of 2024 than they did at the first quarter of 2023. I got to say, I love free barrels. Bottom-line, 2024 off to a strong start. Good momentum and we intend to keep it going.

You may have seen or may be aware that on May 21st, we're going to provide an update via webcast on our overall story and our near-term outlook. Specifically, our management team will outline the next two to three years expectations, financial and operating, our outlook on volumes, Capex, our $5 a barrel reduction, and break even, et cetera.

We're also going to detail expected shareholder returns and capital allocation at various prices. Later in the year, we'll see at this point. But we anticipate a more comprehensive Investor Day with a longer-term outlook. So, stay tuned, Troy Little and his IR team will provide further details in the days ahead.

As I look at the second quarter, recognizing that this update is only a couple of weeks away, I'll skip my usual detail on performance improvements and highlight only a couple of items.

We've talked at length on earlier calls about mining fleet upgrades and the cost savings opportunity they provide. So, I just wanted to comment on our conversion to autonomous haul trucks at the base plant that continues as planned. Six months ago on a call, we were talking about how we had 30, 31 trucks operating autonomously. Today, that number is fifty-six trucks. And at year end, we're on plan for ninety-one or the full base plant or fleet. Recall the impact is $1 million per truck per year in sustainable savings and an additional productive gain.

During the Q&A, I would urge someone to ask Peter Zebedee on what he is seeing in autonomous productivity. We've also commented about acquiring fifty-five new 400-ton trucks to replace twice as many less efficient third-party trucks. The first sixteen of those are now in operation, twenty-one more are on their way to Fort Hills over the next many months through November. And the final eighteen of the fifty-five will arrive at the base plant starting in the fourth quarter of this year, continuing into the first quarter of 2025. Recall in total, these trucks will lower our overall corporate breakeven by on the order of about a $1 per barrel US.

Turnarounds in the second quarter. Second quarter is a big turnaround quarter for the year, upstream and downstream. In fact, about 75% of our 2024 turnaround activity, if you look at it on a spend basis, is scheduled in the second quarter. Our priority here will be to safely, cost effectively, execute on schedule and position for a strong second half.

At this point in time, we're a month into the second quarter. Turnarounds are going well. We still have more work to do, so I really won't have any more detailed comments at this point.

If you look back in time, 15 years ago, about the time of the Petro-Canada merger, Suncor implemented an enterprise-wide system, a management system to manage operational risk, reliability, and overall performance. Internally, we referred to it as OEMS. In essence, this system provided each site with a standard list of operational requirements or expectations, largely leaving each site to determine exactly how to achieve the expectations.

Today, we sit back, and we've judged that our original system is too complex and fundamentally insufficient in meeting our high-performance expectations of today.

Consequently, we're implementing a new revised operational excellence management system. It consists of twenty-one processes associated with the work we do and how we want it done. Processes like managing maintenance, addressing risks, completing turnarounds, each process consists of a standard how to, embedded with industry best practices. We've developed this with subject matter experts, front-line employees and leaders across the organization, and our fundamental objective is to reduce site by site performance variations and institutionalize improvements.

In other words, operationally, our vision is to become consistently and boringly excellent. Our new system is clearer, simpler, and more focused with tangible leaders, specific accountabilities. Implementation has started at each and every operating site and will continue throughout 2024 and throughout the bulk of the first half of 2025. I want to shout out to Shelley Powell, and her leadership team for driving what I believe will be this game changing work.

So, with that, I'll turn it over to Kris who will provide additional comments on financial and operating performance.

Quarter Highlights

Kris Smith

Chief Financial Officer, Suncor Energy Inc.

Great. Thanks, Rich, and good morning, everyone.

While we saw synthetic crude prices weaken versus the prior quarter, it still remained a strong price and margin environment in the first quarter of the year. WTI average USD $77 a barrel in the quarter and the light heavy differential tightened slightly versus Q4, averaging USD $19 a barrel. However, we also saw synthetic crude oil pricing weaken, averaging USD $7 a barrel below WTI in Q1, on the back of strong regional upgrading production and egress constraints across the basin.

However, we've already seen sweets and diffs strengthen as we have moved into the second quarter, recovering to a premium over WTI and we expect that to continue going forward. On the refining side, 2-1-1 cracking margins remain robust, with some softening of diesel cracks being offset by strengthening gasoline cracks.

Our 5-2-2-1 refining index was USD $35.95 a barrel, which is about $2.50 a barrel above Q4, helped by discounted synthetic crude oil pricing. And finally, natural gas, which is a key input cost, our operations remain low, with AECO averaging $2.20 a GJ in the quarter, and we continue to see weakness in AECO pricing into the second quarter.

With this business environment and the very strong operations that Rich just outlined in his opening remarks, Suncor delivered solid financial results in the fourth quarter –- our first quarter, generating $3.2 billion in adjusted funds from operations, or $2.46 per share and adjusted operating earnings of $1.8 billion or $1.41 per share.

During the quarter, we also returned nearly $1 billion to shareholders. This was comprised of about $700 million in dividends, as well as about $300 million in share repurchases. Our net debt, including leases, ended at $13.5 billion, which is down about $200 million versus the end of the prior quarter, and also, included a $200 million increase from changes in FX on our US dollar denominated debt. We continued the commitment of our current capital allocation framework during the quarter by both reducing debt and returning cash to shareholders, through share buybacks.

Turning now to operational performance and building on Richard's comments. We continued to see very strong operations in the quarter, including a number of records.

Our Upstream delivered total production of 835,000 barrels per day in the quarter, which was up 13% versus Q1 2023 and was the highest in our history. This included record quarterly production in our Oil Sands segment with 240,000 barrels per day of non-upgraded bitumen and 545,000 barrels per day of synthetic crude oil and diesel.

Fort Hills had a very strong quarter, producing 178,000 barrels per day of paraffinic froth-treated barrels and which was in-line with our three-year improvement plan. Per that plan, Q1 is expected to be the highest producing quarter of the year as there is planned maintenance in Q2, and in the second half of the year, we will be moving more overburden as we accelerate opening the North Pit. Overall, we remain very pleased with the progress and the focus of the Fort Hills team on delivering against our plan.

Our Firebag asset also had record quarterly production of 229,000 barrels per day, including an all-time monthly record in the quarter. Syncrude had a very strong upgrading quarter, achieving over 96% utilization, while our base plan upgrader also had a record quarter with 107% utilization.

Our internal bitumen transfers reached a new high of 58,000 barrels per day in Q1, demonstrating our increased level of integration within the region to maximize value. This was primarily driven by 42,000 barrels per day of bitumen transferred from Fort Hills to base plant upgrader, which also provided a yield uplift and contributed to that record, I just mentioned.

Our E&P segment produced 50,000 barrels a day, which included 10,000 barrels a day net production from Terra Nova, as it continued to ramp up through the quarter. We continue to see Terra Nova improve through the quarter with flush production, and in April it was at 20,000 barrels a day net production.

Now with respect to the downstream refining utilization, an impressive 98% in the first quarter, which was 19% higher than Q1 2023, as we saw high availability across all the refineries.

And this supported record refined product sales of 581,000 barrels a day. Downstream margin capture was also strong in the quarter at 94% on a LIFO basis when compared to Suncor 5-2-2-1 refining index. And our integrated business model enabled by downstream, partially mitigated the impacts of weaker synthetic pricing in our Oil Sands business.

Capital and costs remain on plan. And as Rich pointed out in his remarks, we've essentially held our cost flat year-over-year while substantially increasing production and our cost and capital discipline focus continues.

Rich mentioned turnarounds, and in late March we commenced the planned coker turnaround at Syncrude and turnarounds at Montréal and Sarnia refineries, all of these are going as planned and are reflected in our guidance. And next week, we'll be starting the planned major turnaround at Base Plant Upgrader, which will also include pre-work for the U1 coke drum replacement project that is scheduled to be completed in 2025. There are no changes to our production, capital, or cost guidance for the year as the team remains laser focused on delivering on our commitments and building on this momentum, which has continued into the second quarter.

And with that, Rich, I'll hand it back over to you.

Rich Kruger
President & Chief Executive Officer, Suncor Energy Inc.

Okay. A few final comments before we go to the Q&A.

Tomorrow marks the anniversary of my first earnings call with Suncor, four full quarters, in the book. And you know, the number one question we keep getting asked is what's different at Suncor today - than a year ago? And I would answer that as a lot.

In a nutshell, we've been undergoing a transformation or a turnaround where we're integrating aspects of strategy, structure, and culture. So, what's different? We've got a new topnotch executive leadership team. We have top to bottom unwavering focus on the fundamentals. Our strategies and priorities are clearer and simpler. We have a smaller, more focused, above field support organization. We have very tangible and accelerated operational performance improvement plans. We've revised how we evaluate performance and compensate accordingly. And we have a leadership commitment and accountability to deliver on commitments.

So, the bottom-line, todays Suncor is increasingly a new Suncor. We've made significant progress in a year but make no mistake, we're not done. So, if I would comment on what's next, in addition to achieving continued financial and operating performance with a sense of urgency, 2024 will be about cultural and leadership development within the company; leadership in terms of exhibiting the attributes of strong leaders, including but not limited to acting with integrity, business acumen, quality decision making, strong people skills, culture in terms of developing a team based, results oriented, high performance culture, and a work environment that enables all to contribute and be recognized and rewarded for it.

My prediction, 2024 will be a very good year for Suncor and a fun year to be a part of this team.

So, with that I'll turn it over to Troy to kick off our Q&A.

Troy Little: Thank you, Rich. I'll turn the call back to the operator, to take some questions.

Q&A

Operator: Thank you. [Operator Instructions] Our first question will come from the line of Greg Pardy with RBC Capital Markets. Your line is open.

Greg Pardy (RBC Capital Markets): Yeah. Thanks. Hey, good morning. Rich, I'm going to, you had already kind of gotten into the question I was going to ask you, which is what I've asked it before is, what inning do you think you're in from a turnaround perspective? And then in addition to the things that you've talked about, if you think of the company over the next three years to five years, what are the steps you need to take, I guess, in terms of, you know, restoring leadership in the country?

Rich Kruger: Greg, thanks. Appreciate your question. Greg, I think we've really hit our stride. I am – when you start stacking together quarter-after-quarter, which I think we've done, there's a level of focus, energy, and urgency, a results orientation, that's contagious. And I think, what - what the market needs to see from us is a continued consistency, predictability. I use that phrase, consistently and boringly excellent. And I think as we continue to deliver quarter after quarter, which we'll see that. I will tell you, we are further ahead at, one year anniversary for me than I would have expected us to be.

And that is a real tribute to our people. All the way down, in fact, starting at the bottom, at the operational level and then the assets. And I commented on the, early on about the level of physical integration. I get it. I'm a believer. I see what that opportunity set that provides us and that is different. I did not have that same level of true physical integration in past lives. So, I think for us, it's in terms of the what's next, it's continuing to capitalize that and now go from playing checkers extremely well, to playing chess extremely well, and to thinking about those important longer-term issues and topics to continue to create and add shareholder value. And as our base business runs better and better. Me personally, and the executive leadership team have more time to focus in those areas.

Greg Pardy: Okay. Thanks for that. And I'm going to completely shift gears. I mean, Kris had touched on shareholder returns in the quarter, in the past few weeks, even this morning, getting questions on, what is the shareholder return picture look like for Suncor, just given I guess the favorable changes going on in the business and so forth. So, you'll probably, I suspect you'll address that on the on the 21st, but I'm wondering if you can give us maybe just a preview of your thought process?

Kris Smith: Yeah. Hey, Greg, thanks for that question. And obviously, you saw us continuing our share buybacks in the first quarter. They were probably, quite honestly a little bit lighter than we would have initially planned as we saw crude pricing and the market just react at the end of the quarter. We're certainly, you're seeing an increase in buybacks. We've seen that in April, a bit of that is catch up from what we saw in the first quarter, but as well I think the read across Greg, you've already said it is you know, our increasing confidence in this business and its cash flow generation. We will talk about our capital allocation policy and our view of the business going forward on May 21st. So, it's only couple of weeks away. So, I would just say stay tuned.

Greg Pardy: Okay. Thanks very much.

Rich Kruger: Yes, thanks.

Operator: Thank you. One moment for our next question. And that will come from the line of Roger Read with Wells Fargo Securities. Your line is open.

Roger Read (Wells Fargo Securities): Yeah. Thank you. Good morning. All right. You set it up, Rich. So, let's hear about autonomous trucking in more detail.

Rich Kruger: Awesome. You know, one, I'm a big believer in fewer bigger autonomous operated trucks. They're safer. They're more efficient. And so, you know, the – I've got this guy sitting to my left that is, apparently, he's withholding the productivity gains we're seeing. So, let's put Peter on the spot. And say, Peter, talk about autonomous productivity.

Peter Zebedee: Well, that wasn't a setup, I don't know what was... As Rich mentioned, Roger, we've got over fifty units in autonomous operations that are in North Steepbank mine right now, and actually next week we're going live with autonomous operations at Millennium.

But I do want to give a big shout out to the team that's been working this, they've taken a real, almost an industrial engineering approach to delivering incremental productivity out of this fleet. And it's by focusing on the things that drive value, an extra kilometer, an hour in the haul cycle, a few extra tonnes on the truck. And just given the amount of cycles that we're doing, that really adds up. In fact, over the last six or so months, the team's been able to improve the productivity of that fleet about 20% and generating, the equivalent of six free haul trucks. That is just incredible. And while we benchmark ourselves, internally, we also benchmark externally, and we still got some prize on the table to go after in the coming months. So, I'm really excited about this. The team is doing an excellent job. We've got a big week next week going live at Millennium, and lots more to come on the autonomous operations for Suncor.

Rich Kruger: Thanks for sharing that with me, Peter.

Roger Read: Yeah, yeah. I'm glad I thought of asking that question on my own. Can I just ask you maybe a little bit more of a macro question with the start-up here of TMX, kind of how you see that affecting overall flows or netbacks for Suncor, adjusted by the fact that your downstream business tends to benefit a little bit from, you know, the crude that has been backed up there. So, when you look at it on a net basis to the corporation, how should we think about the impact of TMX.

Rich Kruger: Dave?

Dave Oldreive: So, Roger, thanks for the question. And you know, as you know, and it's been said by us and by others before, the completion of this Trans Mountain pipeline is great for Canada. We've been waiting for this for some period of time and we're excited to start shipping on the pipeline. It's good for our industry, it's good for Suncor. It allows Canadian crude to reach new markets and that's very important for us and enables growth of Alberta production and Suncor production, and it reduces the discounts as you point out on Canadian crude. This will clearly increase the profitability of our upstream. There'll be a partial offset by increased feedstock costs into our refineries.

We think the market will rebalance and will see some softening of that downstream impact. But what I can tell you and what's maybe probably unique to Suncor is the way we're marketing the barrels on TMX. I think it gives us a bit of a competitive advantage.

You know, we're well positioned to take advantage of new markets available for crude to our advantage supply trading optimization organization. Rich mentioned how we optimize feedstock into the upgraders. We optimize feedstock into the refineries. We also optimize where our products go into the market. Crude and refined products. Now we're growing our capabilities in this space and over the last number of years, both on the crude and the product space, we've got a pretty sophisticated trading platform. And what might make us a bit unique is we're not reliant on third party trading shops.

This allows us to capture the full value of the transaction, by transaction, by interacting directly with customers. It's kind of consistent our integrated model across all of our business lines where we're trying to work directly with the customer to remove the intermediary and capture the full value.

And we've been doing this across our platform for some time. In fact, in the first quarter we delivered diesel off the east coast to Scandinavia, capturing unique quality differentials in that market. Similarly, we've been able to capture quality differentials of the West Coast down into Latin America.

We're already leveraging this experience, our capabilities and we've got some established relationships, and we expect that, crude oil coming off TMX to - to clear into primarily the California markets, as well as Asia. And our trading offices in Calgary, Houston and in London have been working to strengthen those relationships along the West Coast and into Asia, which is where we expect the volumes to clear.

We've leased aframax vessels that we're operating in the Pacific. This gives us an advantage on shipping cost. So, we're well positioned to deliver volumes into our customers and remove that middleman and capture the full value for Suncor. So, this is where you'll see us differentiate ourselves. You can do the math in your models around how you see the upstream versus downstream playing out. But I think what you want to think about is, is we differentiate ourselves in this space, on the trading side.

Roger Read: Thank you for that.

Operator: Thank you. One moment for our next question. And that will come from the line of Manav Gupta with UBS. Your line is open.

Manav Gupta (UBS): So, I wanted to ask you a little bit about you know, when we look at on the new Suncor, one of the older Suncor is always off to a slightly weaker start and trying to then catch up and try and meet the lower end of the guidance. And so, but this looks like a new Suncor, you're off to a very strong start and it looks like not the lower end, but you should be targeting the midpoint or even the upper end of the guidance, are we thinking about it the right way, even taking into consideration all the turnaround, but this is a very strong start and looks like a new Suncor here.

Rich Kruger: We aim to deliver on our commitments. And so, we look at guidance as it is a commitment we've made and we're – we did, as I commented, that we on the first quarter we met all of our internal targets which are consistent with that guidance. We're not issuing anything new at this time. We've got a lot of months ahead of us. And in particular we've talked about it, Manav, we talked last year about, you know, we need to kind of get through the big turnarounds to know where we're positioned. But we're off to a very good start and I think the, you know, looking higher in that range that's, that's where I'm looking.

Manav Gupta: Perfect. My quick follow up here is I mean, you look at the refining side, gross margin, 45, 75, operating cost 715, that's a solid $38 of EBITDA margin that probably puts you on top of in terms of the North American refiners, in terms of EBITDA margin per barrel. So, help us a little bit understand the kit, the integration, what's allowing you to deliver these record high EBITDA per margin barrels in your refining system?

Rich Kruger: Well, you've read it right, correctly. And, you know, it all starts with the safety, operational integrity, and reliability. Keeping these facilities operating just at their at their full capacity. And I do get, I won't repeat the statistics, but I look at what we've – what we're able to do in the first quarter. But if you go back before that, look at the second half of last year, 99% refining utilization, 98% in what, in the first quarter, when you typically have weather working against you and you often have some demand variations on different products.

And it's, it gets back to this, the whole commentary Dave just had on the integration with our sales and marketing team, with increasing confidence that their transactions can be backed by barrels because they're being reliably refined. They can get out there and aggressively market, whether that's domestic or across the border or into new markets.

And so, it all fits together. And that's when you have one team focused on, one Suncor goal and that's what you're seeing. And I think it, you know, we're not, that glass is not full yet. This is new territory for us to operate in this way and the team is very excited about continuing to do it and deliver value.

Manav Gupta: Thank you.

Operator: Thank you. One moment for our next question. And that will come from the line of Dennis Fong with CIBC. Your line is open.

Dennis Fong (CIBC Capital Markets): Hi, good morning and thanks for taking my questions. The first one that I have and it's shifting a little bit more to the upstream. I was hoping you can talk towards some of the initiatives that you're focusing on that helped you achieve record production at Firebag and specifically, maybe what further could be done to optimize production both there and at the other assets, Base Plant, Syncrude and Fort Hills?

Rich Kruger: Let me make a comment on Firebag and then if Dave and/or Peter want to comment on it. If you go back over the last decade for us, we've – we have been consumed by the development and start-up and the modifications at Fort Hills on the mining side. And when you look at capital allocation, the mining has, kind of demanded a lot of capital. And the phrase I've used before is, is I think as I look at our downstream and our in-situ, that for a whole variety of reasons that we won't debate, they took a bit of a backseat to mining over time.

Well, to me, what gets to sit in the front seat is what makes the most money. And so, when we look at all of our assets, we look at them individually, and we've looked at Firebag and we've seen some very low-cost debottlenecking opportunities, to just continue to fill the capacity of the facility. But the creativity, I'll give you one example of this team that we've had some work, some, you know, routine work we would do that would have taken some, so ability to clear water out of the system.

And the team looked at, well, you know, that's our bottleneck. What alternatives do we do? So, we took a water line that normally went one direction, and we made some minor modifications, reversed it to go another direction, so that as we did this maintenance, we could continue production. So those aren't fundamental shifts or development of new resources, but they're really looking at your business, rolling up your sleeves, looking at it in detail and asking the question, what's possible.

And when you get really smart, energized people focused on what's possible, they produce amazing results. And that's exactly what we're seeing at Firebag right now. The next thing I'm not leaving a lot of room for Peter and Shelley here, because this one excites me. Now, when we continue to look at what's possible in the in-situ front, we're getting the most out of our existing asset base, but we're also looking at those in-situ technologies and looking at what's possible. We've got pilots for enhanced using solvents at it. We've now got a 50-50 pilot with Imperial Oil at their Aspen facility where we'll be looking at their EBERT technology, the enhanced bitumen recovery that darn near eliminates steam and replaces it with solvent. So, we're trying to get everything out of it today while we look at this enormously large, valuable resource for the long-term. I am looking at Dave and Peter, I need to apologize because, ... This one gets me excited. But is there anything else you would add?

Peter Zebedee: And maybe a couple of things, Rich. And I think it comes back to those fundamentals and these are really driven by the asset team. If you just look at the base ability of the steam assets in and of themselves and the team's been able to improve that to levels beyond which we've ever been able to achieve historically. And so, that just enables high consistent production.

They're optimizing all the operating variables in real-time, and they're looking for those, back to Rich's free barrels type of concept. They're looking for those free to no dollar type of incremental production things, very simple projects, that are done within the control of the asset team. We expect to unlock an additional 5,000 barrels per day that's included in our guidance and it's things like, water piping from one unit to another. It's about the removal of the hydraulic restriction, the drilling and stripping unit. So, these are all things that the asset team's taken control of in and of themselves. And there's a lot of pride and ownership by the team that's driving this performance improvement. So, it's just been really great to see.

Rich Kruger: You've heard a lot of comments today about our team and our people. And that's what, they're the ones that show up on the field and win the game. When you have the clarity and consistency from the top and then you unleash the site leadership and the creativity of an organization, 16,000 strong, you can do amazing things and so going back to Greg's earlier question, kind of where are we on it? We're hitting our stride. But we – but this team has got a lot of endurance too. And I think, there's – if you see – and sound like we have some enthusiasm excitement, you're reading us right, because we're seeing it and we're feeling it. And I think that's going to continue.

Dennis Fong: Great. I appreciate that color, Rich, and Peter. My second question is related to a little bit of incremental disclosure you had in the Q1 report where you highlight 80% yield for Oil Sands, base upgrader throughput and 85% for Syncrude. I was hoping you can talk towards how, a) that might evolve through time as the feedstock into U1 and U2 adjust. And secondarily, any further initiatives to interconnect the various mines and in-situ facilities to the upgraders and between the various upgraders?

Kris Smith: Hey, Dennis, it's Kris here. I'll hand it over to Peter in a moment. I think as we're just providing disclosure to give our investors a view into actually really key components of how we drive value. And I think it really is part of the story I mentioned in my opening comments about some of the paraffinic froth treated bitumen, we're moving down from Fort Hills and the yield uplift that we're seeing in Base plants upgrader, and it actually was a contributor, wasn't the full story. The story of our base plant upgrader performance starts with reliability availability and really utilizing that asset to its full potential.

But there was a piece of that story around the utilization or the yield uplift from Fort Hills paraffinic froth treated bitumen, which is an example because as you pointed out, we're starting to move more volumes regionally. We actually manage the region for optimization, not specific single assets by themselves, and that translates through it. So, this yield piece is a bit of a proof point. And Peter, do you want to just add like what you're seeing in terms of yields from…

Peter Zebedee: Yeah. I mean, certainly those upgraders like PFT we're seeing, plus 6% yield uplift from that PFT into the base upgrader. And again, this just comes back to optimizing the physical integration that we have as a company in the region. We've moved Firebag over to Syncrude. We've moved Firebag of course into Base plant, et cetera, and that's something that the team is looking at, in near real time to deliver the most value.

But beyond that, with Kent's development team, we're also exploring further opportunities for increased integration across our producing assets. And so, stay tuned on that. There's a lot more to come there, and we still think there's more value to be able to deliver by increasing our optionality in that region beyond what we have today.

Rich Kruger: So, Dennis, if I could add one other point to it. It keeps coming back to the theme of free barrels. So, that PFT, if we didn't have the ability to get it to our upgraders and capture the entire 6% uplift ourselves, we would sell that PFT in the market and we would likely have to split that in somewhere. Some a refiner or someone might pay some incremental value for that, but inevitably in a commercial transaction, you would split it. So, it gets right back to what Dave was describing, is with this level of integration, we're increasingly looking at how can we cut out the middleman in this thing and maximize value for ourselves? And I think, PFT, the physical connection with the base plant and the upgraders are yet another example of how we're able to do that in a way that our peers can't do it.

Dennis Fong: Great. I appreciate the color and good to see the field driven initiatives as you highlighted in previous conference calls are paying some dividends here. I'll turn it back.

Operator: Thank you. One moment for our next question. And that will come from the line of Menno Hulshof with TD Cowen. Your line is open.

Menno Hulshof: Thanks, and good morning, everyone. I'll start with a question on the Canadian diesel market. I was on another call yesterday and there was a reference to what they were calling a global diesel recession. So, I guess my question is, what is your take on that? And more importantly, how does the Canadian diesel market differ from the global markets and how do you think at a high-level Suncor is positioned on a relative basis?

Rich Kruger: Dave, do you want to comment?

Dave Oldreive: Sure. Happy to take that one. Thanks for the question. Menno. I think we're seeing some softening in the diesel market. I mean, we actually look at the cracks year-on-year for the first quarter. It was a more challenging environment in the first quarter of this year than last year. We were, the harbor was down about $10, Chicago was down about $12. Our 5-2-2-1 crack softened out a bit because of our propensity to make diesel, our capability to make diesel, were about $7 a barrel. We did see gasoline cracks pick up through the quarter and that kind of helped the market overall. But even with the $7 a barrel headwind, we were able to deliver higher profitability than last year. And that's, as Rich pointed out, that's reliability and a bunch of other things.

You know, one of the things we can do in Suncor is we've got a network across the country that we can optimize, particularly where we put our diesel. We were able to stand up additional logistics capability in Edmonton to move more diesel east, and that allowed us to put the diesel into the most profitable market, where we can again sell direct to customer, taking that intermediary out of the business transaction and capture all the value. And we have logistics assets on both coasts out of Montreal and out of Burrard that allow us to export diesel into profitable markets. And our trading organization has been able to do a really nice job finding those niche markets that make a lot of sense for us.

And I mentioned Scandinavia earlier, Scandinavia saw some unique differentials with the conflicts, near – nearby them in Eastern Europe and have – and pay an additional premium for cod barrels that we – low cod barrels that we make in Canada. Similarly, off the West Coast, we sent diesel down to markets in Latin America. They pay extra for cetane, and we make a high cetane due to our high hydrocracking capabilities in the market. So, some really interesting things we've been able to do to capture the diesel market side saying. Hey, we can't control where the market goes, but what we can do is make sure we find the homes to the best customers and capture the full value along the value chain.

Operator: Thank you. One moment for our next question. And that will come from the line of John Royall with JPMorgan. Your line is open.

John Royall (JP Morgan): Hi. Good morning. Thanks for taking my question. So, I think Manav got into this a little bit, but just wanted to ask a little more specifically, can you talk about the reliability in refining? You've had a really strong stretch of three quarters here in terms of utilization. I think it's probably the best three quarters consecutively I can find in your history.

Can you talk about what's going right there? And I know 2Q is a big quarter from a turnaround perspective, but should we expect more of the same in the second half and going forward?

Dave Oldreive: You did point out we had a pretty challenging first half of the year in 2023 and we made a number of changes in the downstream that I believe are beginning to move the needle, particularly in our refining assets. I'll be honest, it's relatively simple stuff. We started by creating clear lines of accountability, setting clear expectations and really laser focus on the fundamentals. Simple things like, what safety improvement, safety performance improves when the sites actually steward safety results through the line chain of command and not to a central organization.

In a similar vein, we've created clear stewardship of our assets around a whole balanced portfolio results, detailed stewardship across our asset mix to me, and then I steward to that, to Rich as well. We created just a clear sense of accountability in the organization. We created detailed scorecards as well, which really allow us to measure across a balanced portfolio of results, but also stack the sites up against each other, there was a little bit of internal competitive tension that the organization is rising to. So, it's actually pretty, pretty simple stuff so far.

We've also been rolling out our, as Rich mentioned earlier, OEMS work processes. We're in early stages of that, but there is huge.. in the organization and we're seeing immediate benefits coming from that already. And I think you can expect even more of that as we go forward. These are really simple, well-designed processes that will create consistent work processes across the organization and allow us to operate with excellence.

It's no – there's no secret, our Commerce City refinery was part of the challenge in the second-half or the first half of last year and even into 2022 to some extent. We made changes there into our leadership team. We've undertaken a reliability and recovery initiative led by our VP down in Commerce City. They're doing a tremendous job. That work is sponsored by me, in fact, we have stewardship from them to me this afternoon on how that's going. We do that monthly and they're making incredible progress in their journey. So, I would say, hey, more to come in that space, but we think we've made some fundamental shifts in just how we're driving accountability in the organization.

Rich Kruger: And John, this is Rich. I'd add one other thing to it, and I think it's true not only in the downstream but in the upstream. Last year, while we were going through a number of other changes, Dave, and Peter, they realigned all, and I mentioned this on the last call, all of their operating sites to the same kind of organizational structure. So, now whether it's operations managers, maintenance managers, technical managers, we have networks nationwide of people who have the same jobs and the same accountabilities.

So, although, he referenced that we'll show sites against each other. I think the other aspect of it, we've greatly enhanced the collaboration across sites. And even something as simple as we've said before, we went to one incentive scorecard for Suncor. Suncor wins and loses as a team. In that collaboration I see it not only across the downstream or the upstream but between the upstream and downstream, and so, these are not, you know, single things you point out that this was the solution, but it's the aggregate, it's the puzzle of connecting these pieces that gets a result oriented, high-performance culture. And that is exactly what we're driving toward.

John Royall: That's very helpful. Thank you. And then second one is maybe just a more of a housekeeping one for Kris, but you had a working capital headwind of about $380 million in 1Q. Can you talk about the drivers there? Is that mostly price? And then last year you had a much larger headwind in 1Q, but you got a lot of it back in 2Q to 4Q. Should we expect to get any of that once you build back as we progress through the year?

Kris Smith: Yeah. Thanks for that, John. Yeah, you're absolutely right, the way you just framed it. I mean, Q1 primarily driven by higher sales volumes, pricing. So that's what we saw on the working capital, kind of use of cash. And that's not unusual as well. We usually see a bit of a working capital build in Q1, particularly as we're prepping for turnarounds. And then similarly, as we're heading into Q2, we're going to start to see inventories wind down as we're supporting these turnarounds that we've been talking about. So, I think the way you just described it, the good news is, from my perspective, is we didn't see the large swing that we saw in Q1 of 2023. And so that's really what kind of the drivers behind what you saw in Q1 and then what kind of what we should expect as we come out of Q2.

John Royall: Okay, thank you.

Rich Kruger: Thanks, John.

Operator: Thank you. One moment for our next question. And that will come from the line of Patrick O'Rourke with ATB Capital Market.

Patrick O'Rourke (ATB Capital Markets): Hey, good morning, guys. And it's been pretty comprehensive run through so far on a lot of the operational questions that I had. So maybe I'll ask something a little bit broader and more philosophical. You've obviously done some horse trading of assets here, Fort Hills, consolidating the working interest there being the biggest piece and asset sales. Just wondering, there's been – there was some media reports about potentially opening things up again on the retail side, maybe some broader commentary with respect to your views of the overall asset portfolio, potential M&A opportunities on sort of both sides of the ledger there. I know the focus has been on operations and improvements in the mines and things are doing great. But on that front, but do you look at transactions in this environment?

Rich Kruger: Yeah. Sure, Patrick. I just come at it. Yeah, we look at all of our assets all of the time in terms of their, delivery of value today, and what further potential they have in across a range of market conditions. If you look at fundamentally who we are and what our core winning proposition, is this heavy integration between our upstream and our downstream assets, that are fundamentally underpinned by large, long life oil sands resources. That's the family photo. Now, that doesn't mean we have, we don't have cousins and aunts and uncles and stuff that are part of the family, but, you know, they've got to contribute.

And so, we look at all our assets, all the time. I feel quite good about our asset base, but that doesn't mean we're not always looking at is there something that's worth more to someone else or is there something else out there that can enhance or add to our portfolio. So, you've acknowledged a few things we've done here in the recent year or so Fort Hills, the renewable power business, and things like that, North Sea assets. We'll continue to look at that. I don't I'm not signaling anything. I don't have anything on the view screen right now. But that's just what we do as we manage a portfolio.

Patrick O'Rourke: Okay. Great. And then maybe, on the return of capital policy, I'm not sure if you're able to forecast here at Strip, but in terms of the next hurdle at the 12 billion, timeframe potentially around that, and then thoughts with the structural improvements to the business that you're making and the you know, the increasing free cash flow that those generate, how you think about allocating that structural improvement between, say dividends and the balance being the NCIB?

Rich Kruger: Yeah. We will talk about this at length on May 21st. But let me just comment a little bit. The current capital allocation framework with the tiers, I think it's important that was put in place what, Kris, 2021 or so. And you know, things change over time. And I think, you know, I'll just reiterate Kris' point made a few minutes ago is when we look at our underlying performance of the business and our confidence in that business to deliver incremental cash, that's different today, than it was a few years ago.

So, as we look at capital allocation, we want to have a strong, resilient balance sheet. We want to continue to pay a reliable and growing dividend. You first, with sustaining capital; you take care of the assets you have. We – but we also look at, what exactly does it take. So, all of those things are kind of works in motion. And what we plan to do on the May 21st is kind of, share that philosophy with you, how we see our performance in the world we're operating in today, and what does that mean. So that's a long answer to stay tuned.

Patrick O'Rourke: Okay. Thank you very much.

Operator: Thank you. One moment for our next question. And that will come from the line of Menno Hulshof with TD Cowen. Your line is open.

Menno Hulshof (TD Cowen): Yeah. Thanks for letting me back on. I dropped the call halfway through your answer, Dave, but I'll be sure to pull the transcript. So, my second... Yeah, it was just dead silence after the answer. But second question was the, on the replacement of OEMS if I wrote that down correctly. The question I guess is how much is that going to cost, and do you see any risk in migrating the – to the new system and how quickly do you expect that project to pay out? Thank you.

Rich Kruger: Yeah. Menno, the – I think anytime you have change, particularly that at an operation, you need to be very, very thoughtful about your management of change process as you go from one way of doing things to another. And I'm looking down the table here at Shelley, Peter and Dave and they meet comprehensively, I know they meet monthly on this very topic, but I also know since their offices are right down the hall, they talk about this daily.

So, we wanted to be very thoughtful as we do it, so we don't drop anything in the process. And I would say we feel good, quite good about that. The cost, it's – the cost has been incurred. The cost is people's time to collaborate and develop the systems and the vision of where we are and where we want to go. So, there is not a cost, there's a benefit that comes with this. And I would say I'll shut up and let my three experts talk about it. But a real test always in the operational world is, as you're asking the operations to do something different. Are you pushing it on them or are they pulling it to them? And by the way, we put this together with fundamental first level individuals involved, site leadership, there is a pull, a draw. They are seeing how the new system can make their life clearer, simpler, better, safer, more efficient, more productive. That, to me, usually is the biggest indication of are we doing the right thing? Are the operations calling for it? Maybe, Shelley, if you have any other comments, you've been driving this train.

Shelley Powell: Yeah, for sure. We're really excited about this. I would say that at the heart of it is really the fundamental shift in defining how work happens at each site. I think Rich mentioned we had kind of been leaving it up independently to each site to figure out how to do work. This change is really about implementing standardized processes across all of our sites, so that we really get repeatability within one site, we get consistency across multiple sites, really driving to predictable outcomes at the end of this. So, this is about I'm sure you've heard the phrase that a rising tide lifts all boats. This is about OEMS being that tide lifting all of our sites so that we have consistent, predictable outcomes at the end of this.

Rich Kruger: It's just one more plug for Shelley and her team. Before we launched off, we didn't just, cook this here in this tower in Calgary. They went and did a comprehensive assessment of industry best practices. Who's the best at this? And we didn't copy and paste anyone. We took what we thought were the best attributes of components across the industry, not just oil and gas, but manufacturing to safely manage cost, reliability, risk, et cetera. And so, we've created a one of a kind here, but it's based on the best of what we've seen across the globe. I think the way they've done this. I've been a part of a lot of these things over 40 years. But my hats off to the way this team developed what I think is going to be a game changer for this company for a long time.

Menno Hulshof: That's very helpful. I'll turn it back.

Operator: Thank you. I'm showing no further questions in the queue at this time. I would like to turn the call back over to Mr. Troy Little for any closing remarks.

Troy Little: Thank you, everyone, for joining our call this morning. If you have any follow-up questions, please don't hesitate to reach out to our team.

Operator: This concludes today's program. Thank you all for participating. You may now disconnect.

[Operator concludes call]