**SECOND QUARTER** 2008
Report to shareholders for the period ended June 30, 2008

# Suncor Energy releases second quarter results

All financial figures are unaudited and in Canadian dollars unless noted otherwise. Certain financial measures referred to in this document are not prescribed by Canadian generally accepted accounting principles (GAAP). For a description of these measures, see "Non-GAAP Financial Measures" in Suncor's 2008 second quarter management's discussion and analysis. This document makes reference to barrels of oil equivalent (boe). A boe conversion ratio of six thousand cubic feet of natural gas: one barrel of crude oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Accordingly, boe measures may be misleading, particularly if used in isolation.

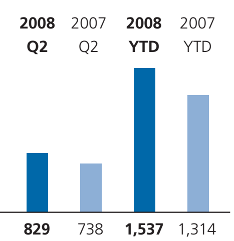
Suncor Energy Inc. recorded second quarter 2008 net earnings of $829 million ($0.89 per common share), compared to $738 million ($0.80 per common share) for the second quarter of 2007. Excluding unrealized foreign exchange gains on the company's U.S. dollar denominated long-term debt, the impact of income tax rate reductions on opening future income tax liabilities, and project start-up costs, earnings for the second quarter of 2008 were $821 million ($0.88 per common share), compared to $607 million ($0.66 per common share) in the second quarter of 2007.

The increase in earnings was primarily due to improved price realizations on oil sands products as benchmark crude prices rose to historically high levels, and strong results from natural gas operations. This was partially offset by lower oil sands production, increased operating expenses and purchases in the oil sands business, and reduced margins in the refining and marketing business. Planned and unplanned maintenance at oil sands, including a scheduled maintenance shutdown of one of the company's two upgraders, as well as lower than expected bitumen production, impacted both crude oil production and operational costs during the quarter.

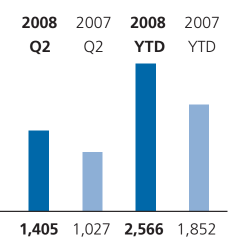
Cash flow from operations in the second quarter of 2008 was $1.405 billion, compared to $1.027 billion in the same period of 2007. The increase was due primarily to the same factors that impacted earnings, as well as an increase in non-cash future income tax.

Net earnings for the first six months of 2008 were $1.537 billion, compared to $1.314 billion for the same period in 2007. Excluding unrealized foreign exchange impacts on the company's U.S. dollar denominated long-term debt, the impact of income tax rate reductions on opening future income tax liabilities, and project start-up costs, earnings for the first half of 2008 were $1.609 billion, compared to $1.175 billion in the same period for 2007. Cash flow from operations for the first six months of 2008 was $2.566 billion, compared to $1.852 billion in the first six months of 2007. The year-to-date increases in earnings and cash flow from operations were due to the same factors that impacted second quarter results and increased oil sands royalties in the first six months of 2008.

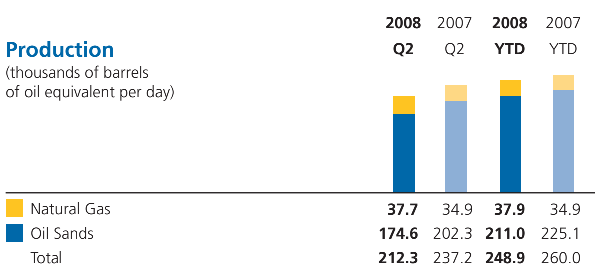
**Net Earnings by Quarter**
($ millions)



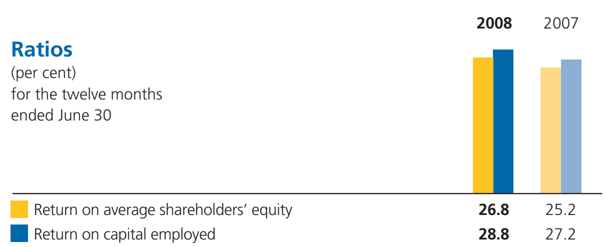

**Cash Flow from Operations by Quarter**
($ millions)




**Production**
(thousands of barrels of oil equivalent per day)




**Ratios**
(per cent)
for the twelve months ended June 30



Suncor's total upstream production averaged 212,300 barrels of oil equivalent (boe) per day in the second quarter of 2008, compared to 237,200 boe per day in the second quarter of 2007. In Suncor's natural gas business, production was 226 million cubic feet equivalent (mmcfe) per day compared to second quarter 2007 production of 209 mmcfe per day. Strong performance during the first half of the year has allowed Suncor to increase its annual production outlook for natural gas to an average expected to range between 210 to 220 mmcfe per day. Oil sands production contributed 174,600 barrels per day (bpd) in the second quarter of 2008 compared to 202,300 bpd in the second quarter of 2007. Production in both quarters was lower than average because of planned shutdowns.

Oil sands cash operating costs in the second quarter of 2008 averaged $50.85 per barrel, compared to $32.70 per barrel during the second quarter of 2007. The increase in cash operating costs per barrel was due to higher operating expenses, lower production volumes, and increased third-party bitumen purchases.

With lower than planned production over the first half of the year, Suncor has adjusted its production outlook to an annual average of 240,000 to 250,000 bpd for 2008, with a corresponding increase in our cash operating cost target to a range of $35.00 to $36.00 per barrel.

"A combination of a very cold winter, unplanned maintenance issues and tight bitumen supply made for a difficult start to the year," said Rick George, president and chief executive officer. "Going forward, we'll be focused on getting our oil sands operations running at steady and reliable rates. At the same time, we'll continue work to realize the full benefit of our current and planned expansions."

## Operations and growth update

Suncor's growth strategy reached a major milestone with the substantial completion of a $2.3 billion expansion to one of two oil sands upgraders. The project was completed within the planned budget range and on schedule.

"I'm very proud of the efforts of Suncor's team to keep this key project on schedule and on budget in a tight labour market and highly inflationary business environment," said George.

Commissioning of the expanded facility is underway and production volumes are expected to begin ramping up toward a total target of approximately 300,000 bpd by the end of the year. With additional bitumen feedstock planned to come online, Suncor's upgrading operations are expected to ramp up toward design capacity of 350,000 bpd in 2009.

Production from Suncor's Firebag in-situ operations had been limited by regulators to 42,000 bpd due to sulphur emissions that exceeded regulatory limits in 2007. With the lifting on July 22 of the production cap, Suncor expects to begin steaming new wells, with small amounts of incremental production expected to come on line in the fourth quarter of 2008.

While in-situ operations ramp up, reduced in-situ bitumen supply is expected to be partially mitigated by higher mined bitumen volumes in the second half of the year. Suncor is also pursuing opportunities to increase third-party bitumen purchases.

Suncor is also making steady progress on work to construct new emission abatement equipment for its in-situ operations, including a $340 million sulphur plant. This project is on budget and on schedule for completion in 2009. The sulphur plant is intended to reduce emissions generated from current and future stages of in-situ development, including Firebag Stage 3, targeted for completion in 2009. Stage 3 remains on schedule and on budget with engineering 90% complete and construction 30% complete.

In addition to Firebag Stage 3, work also continues to progress on other elements of the $20.6 billion Voyageur strategy which, together, are expected to increase production capacity by 200,000 bpd to a total capacity of 550,000 bpd in 2012. More than $2.2 billion has been spent to date on expanding in-situ operations, while approximately $2 billion has been spent to date on construction of a third upgrader.

"The foundations have been poured for the Voyageur upgrader cokers and at Firebag we're seeing great strides on infrastructure development, especially pipeline connections. There is visible progress on our journey to 550,000 barrels per day," said George.

As Suncor invests for future growth, prudent debt management remains a priority. Net debt levels increased to $4.4 billion at the end of the second quarter of 2008 from $3.2 billion at year-end 2007. Suncor continues to target net debt at a maximum of two times annual cash flow from operations.

*On July 8, Finning Canada employee Kevin Grocutt died following injuries sustained while working at Suncor's oil sands facility. "This is a tragic reminder that working safely is the most important part of our jobs," said Rick George.*

*Suncor is cooperating with an investigation into the incident by Alberta Workplace Health and Safety.*

## Outlook

Suncor's outlook provides management's targets for 2008 in certain key areas of the company's business. Outlook forecasts are subject to change.

| | Six Month Actuals Ended June 30, 2008 | 2008 Full Year Outlook |
|---|---|---|
| **Oil Sands** | | |
| Production (1) | **211 000 bpd** | 240 000 to 250 000 bpd |
| Diesel | **11%** | 12% |
| Sweet | **39%** | 38% |
| Sour | **50%** | 50% |
| Bitumen | **0%** | 0% |
| Third-party processing (2) | **0%** | 0% |
| Realization on crude sales basket (1) | **WTI @ Cushing less Cdn$2.55 per barrel** | WTI @ Cushing less Cdn$2.50 to Cdn$3.50 per barrel |
| Cash operating costs (1)(3) | **$39.50 per barrel** | $35.00 to $36.00 per barrel |
| **Natural Gas** | | |
| Production (4)(5) (mmcf equivalent per day) | **228** | 210 to 220 |
| Natural gas (5) | **91%** | 91% |
| Liquids (5) | **9%** | 9% |

(1) Based on second quarter results and expectations for the balance of the year, the outlook for oil sands production has been reduced to 240,000 to 250,000 bpd. The outlook for the year for cash operating costs per barrel has been increased to a range of $35.00 to $36.00. The March 31 oil sands production outlook range was 275,000 to 285,000 bpd with a corresponding cash operating cost range of $26.00 to $27.00 per barrel. The expected discount to WTI benchmark prices for Suncor's crude sales basket has been reduced from WTI @ Cushing less Cdn$3.50 to Cdn$4.50 per barrel due to strengthening differentials for sweet synthetic blends.

(2) Volumes transferred to Suncor for processing for which the company receives a processing fee. Volumes received under this arrangement are not included as purchases for financial statement presentation.

(3) Cash operating cost estimates are based on the following assumptions: production volumes and sales mix as described in the table above and a natural gas price of $6.70 per gigajoule at AECO. This goal also includes costs incurred for third-party bitumen purchases. Cash operating costs per barrel are not prescribed by Canadian generally accepted accounting principles (GAAP). This non-GAAP financial measure does not have any standardized meaning and therefore is unlikely to be comparable to similar measures presented by other companies. Suncor includes this non-GAAP financial measure because investors may use this information to analyze operating performance. This information should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

(4) Production target includes natural gas liquids (NGL) and crude oil converted into mmcf equivalent at a ratio of one barrel of NGL/crude oil: six thousand cubic feet of natural gas. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This mmcf equivalent may be misleading, particularly if used in isolation.

(5) Based on our performance during the first half of the year and expectations for the balance of the year, the outlook for natural gas production has been increased to 210 to 220 mmcfe per day, with 91% natural gas and 9% liquids. The March 31 natural gas production outlook was 205 to 215 mmcfe per day, with 93% natural gas and 7% liquids.

Factors that could potentially impact Suncor's operations and financial performance include:

- Commissioning and ramp-up of an expansion to Upgrader 2. Production rates during the ramp-up period are difficult to predict and can be impacted by bitumen supply, as well as unplanned maintenance.
- Bitumen supply. Ore grade quality, unplanned mine equipment and extraction plant maintenance, tailings storage and regulatory restrictions could impact 2008 production targets. Production could also be impacted by the availability of third-party bitumen.
- Crude oil hedges. Suncor has hedging agreements for 10,000 bpd in 2008. These costless collar hedges have an average floor of US$59.85 per barrel with an average ceiling of US$101.06 per barrel.

Information on risks, uncertainties and other factors that could affect these plans is included in Suncor's annual report to shareholders and other documents filed with regulatory authorities.

## Management's Discussion and Analysis

July 23, 2008

This Management's Discussion and Analysis (MD&A) contains forward-looking statements. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. See page 18 for additional information.

This MD&A should be read in conjunction with our June 30, 2008 unaudited interim consolidated financial statements and notes. Readers should also refer to our MD&A on pages 10 to 48 of our 2007 Annual Report and to our Annual Information Form (AIF) dated February 27, 2008. All financial information is reported in Canadian dollars (Cdn$) and in accordance with Canadian generally accepted accounting principles (GAAP) unless noted otherwise. The financial measures cash flow from operations, return on capital employed (ROCE) and cash and total operating costs per barrel referred to in this MD&A are not prescribed by GAAP and are outlined and reconciled in Non-GAAP Financial Measures on page 46 of our 2007 Annual Report, and page 16 of this MD&A.

Certain amounts in prior years have been reclassified to enable comparison with the current year's presentation.

Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet (mcf) of natural gas: one barrel of crude oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

References to "we," "our," "us," "Suncor," or "the company" mean Suncor Energy Inc., its subsidiaries, partnerships and joint ventures, unless the context otherwise requires.

The tables and charts in this document form an integral part of this MD&A.

Additional information about Suncor filed with Canadian securities commissions and the United States Securities and Exchange Commission (SEC), including periodic quarterly and annual reports and the AIF filed with the SEC under cover of Form 40-F, is available on-line at www.sedar.com, www.sec.gov and our website www.suncor.com. Information contained in or otherwise accessible through our website does not form a part of this MD&A and is not incorporated into the MD&A by reference.

In order to provide shareholders with full disclosure relating to potential future capital expenditures, we have provided cost estimates for significant capital projects that, in some cases, are still in the early stages of development. These costs are preliminary estimates only. The actual amounts are expected to differ and these differences may be material. For a further discussion of our significant capital projects, see the Significant Capital Project Update on page 12.

## Selected Financial Information

| **Industry Indicators** (average for the period) | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| West Texas Intermediate (WTI) crude oil US$/barrel at Cushing | **124.00** | 65.05 | **110.95** | 61.60 |
| Canadian 0.3% par crude oil Cdn$/barrel at Edmonton | **126.40** | 71.65 | **112.30** | 69.55 |
| Light/heavy crude oil differential US$/barrel WTI at Cushing less Western Canadian Select at Hardisty | **21.65** | 19.65 | **21.55** | 17.95 |
| Natural Gas US$/mcf at Henry Hub | **10.80** | 7.55 | **9.45** | 7.25 |
| Natural Gas (Alberta spot) Cdn$/mcf at AECO | **9.35** | 7.35 | **8.25** | 7.40 |
| New York Harbour 3-2-1 crack [1] US$/barrel | **11.50** | 22.90 | **10.15** | 17.15 |
| Exchange rate: US$/Cdn$ | **0.99** | 0.92 | **0.99** | 0.89 |

(1) New York Harbour 3-2-1 crack is an industry indicator measuring the margin on a barrel of oil for gasoline and distillate. It is calculated by taking two times the New York Harbour gasoline margin plus one times the New York Harbour distillate margin and dividing by three.

| **Outstanding Share Data** [1] (as at June 30, 2008) | |
|---|---|
| Common shares | 934 097 445 |
| Common share options – total | 47 999 887 |
| Common share options – exercisable | 26 296 686 |

(1) On May 14, 2008, the Company implemented a two-for-one stock split of its issued and outstanding common shares.

**Summary of Quarterly Results**

| | 2008 | | 2007 | | | | 2006 | |
|---|---|---|---|---|---|---|---|---|
| | **Three months ended** | | Three months ended | | | | Three months ended | |
| ($ millions, except per share) | **June 30** | Mar 31 | Dec 31 | Sept 30 | June 30 | Mar 31 | Dec 31 | Sept 30 |
| Revenues | **7 959** | 5 988 | 5 092 | 4 668 | 4 413 | 3 951 | 3 787 | 4 114 |
| Net earnings | **829** | 708 | 1 042 | 627 | 738 | 576 | 334 | 669 |
| Net earnings attributable to common shareholders per share | | | | | | | | |
| Basic | **0.89** | 0.76 | 1.13 | 0.68 | 0.80 | 0.63 | 0.36 | 0.73 |
| Diluted | **0.87** | 0.75 | 1.10 | 0.66 | 0.78 | 0.61 | 0.35 | 0.71 |

## Analysis of Consolidated Statements of Earnings and Cash Flows

Net earnings for the second quarter of 2008 were $829 million, compared to $738 million for the second quarter of 2007. Excluding unrealized foreign exchange impacts on the company's U.S. dollar denominated long-term debt, the impact of income tax rate reductions on opening future income tax liabilities, and project start-up costs, earnings for the second quarter of 2008 were $821 million, compared to $607 million in the second quarter of 2007.

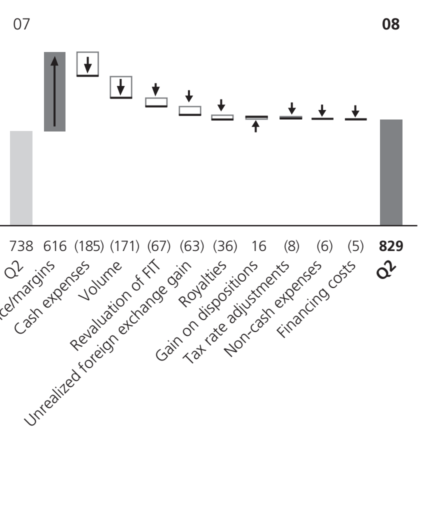
The increase in earnings was primarily due to improved price realizations on our oil sands products, as benchmark crude prices rose to historically high levels, and strong results from our natural gas segment. This was partially offset by lower oil sands production and increased operating expenses and purchases in our oil sands business, as well as reduced margins in the refining and marketing business. Planned and unplanned maintenance at oil sands as well as lower than expected bitumen production, impacted both crude oil production and operating costs during the quarter.

Cash flow from operations in the second quarter of 2008 was $1.405 billion, compared to $1.027 billion in the same period of 2007. The increase was due primarily to the same factors that impacted earnings, as well as an increase in non-cash future income tax.

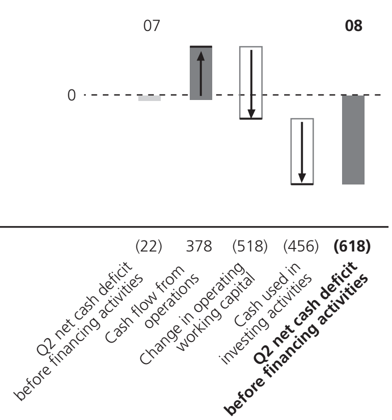
Net earnings for the first six months of 2008 were $1.537 billion, compared to $1.314 billion for the same period in 2007. Excluding unrealized foreign exchange impacts on the company's U.S. dollar denominated long-term debt, the impact of income tax rate reductions on opening future income tax liabilities, and project start-up costs, earnings for the first half of 2008 were $1.609 billion, compared to $1.175 billion in the same period for 2007. Cash flow from operations for the first six months of 2008 was $2.566 billion, compared to $1.852 billion in the first six months of 2007. The year-to-date increases in earnings and cash flow from operations were primarily due to the same factors that impacted second quarter results and increased oil sands royalties in the first six months of 2008.

Our effective tax rate for the first half of 2008 was unchanged from the first half of 2007 at 29%. During the six months ended June 30, 2008 we recorded $214 million in current income tax expense, compared to $245 million in the six months ended June 30, 2007 (see page 10 for discussion of cash income taxes).

**Bridge Analysis of Consolidated Net Earnings**
($ millions)




**Bridge Analysis of Consolidated Net Cash Flow**
($ millions)



**Net Earnings Components**

This table explains some of the factors impacting net earnings on an after-tax basis. For comparability purposes, readers should rely on the reported net earnings presented in our unaudited interim consolidated financial statements and notes in accordance with Canadian GAAP.

| ($ millions, after-tax) | Three months ended June 30 **2008** | 2007 | Six months ended June 30 **2008** | 2007 |
|---|---|---|---|---|
| Earnings before the following items: | **821** | 607 | **1 609** | 1 175 |
| Unrealized foreign exchange gain (loss) on U.S. dollar denominated long-term debt | **18** | 81 | **(57)** | 91 |
| Impact of income tax rate reductions on opening future income tax liabilities | **—** | 67 | **—** | 67 |
| Project start-up costs | **(10)** | (17) | **(15)** | (19) |
| Net earnings as reported | **829** | 738 | **1 537** | 1 314 |

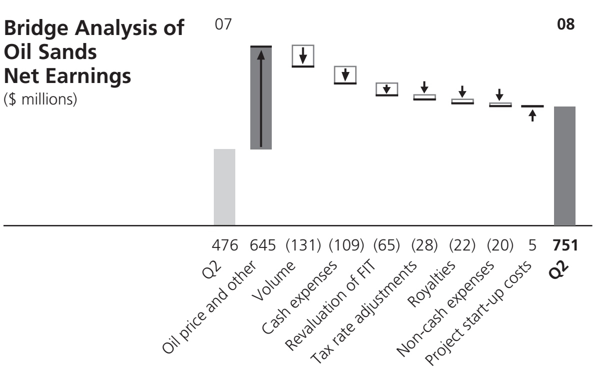
## Analysis of Segmented Earnings and Cash Flows

### Oil Sands

Oil sands recorded 2008 second quarter net earnings of $751 million, compared with $476 million in the second quarter of 2007. Excluding the impact of income tax rate reductions on opening future income tax liabilities and project start-up costs, earnings for the second quarter of 2008 were $761 million, compared to $427 million in the second quarter of 2007.

Earnings increased primarily as a result of higher benchmark WTI crude oil prices and an increased premium to WTI for sweet crude blends, partially offset by the stronger Canadian dollar and a larger discount to WTI for sour crude blends. Earnings were negatively impacted by reduced production, higher operating expenses, and an increase in purchases of third-party bitumen. Planned and unplanned maintenance at oil sands, as well as reduced bitumen production, impacted both crude oil production and operating costs during the quarter.

**Bridge Analysis of Oil Sands Net Earnings**
($ millions)




Purchases of crude oil and products were $114 million in the second quarter of 2008, compared to $60 million in the second quarter of 2007. The increase was primarily a result of third-party bitumen purchases to offset reduced production from our in-situ and mining operations, and diesel purchases to satisfy customer commitments during the scheduled shutdown. In our in-situ operations we continue work to meet regulatory requirements and in our mining/extraction operations we continue to work through reliability issues.

Operating expenses before tax were $640 million in the second quarter of 2008, compared to $575 million in the second quarter of 2007. The increase in operating expenses in the second quarter of 2008 was primarily due to increased energy input costs, higher maintenance expenses aimed at improving reliability, increased employee costs resulting from higher overall salaries and an increased number of employees, and higher contract mining costs.

Depreciation, depletion and amortization (DD&A) expense was $132 million in the second quarter of 2008, compared to $108 million during the same period in 2007. The increase resulted from continued growth in the depreciable cost base for our oil sands facilities.

Alberta Crown royalty expense was $130 million in the second quarter of 2008, compared to $99 million in the second quarter of 2007. The increase was due mainly to higher revenues resulting from continued strong WTI crude pricing. This increase was partially offset by the impact of higher operating expenses and higher capital expenditures eligible for deduction under Crown royalty formulas. For a further discussion of Crown royalties, see page 8.

Cash flow from operations was $1.174 billion in the second quarter of 2008, compared to $657 million in the second quarter of 2007. The increase was due primarily to the same factors that impacted earnings, as well as an increase in non-cash future income tax.

Net earnings for the first six months of 2008 were $1.446 billion, compared to $944 million in the first six months of 2007. Cash flow from operations for the first six months of 2008 increased to $2.084 billion from $1.257 billion in the first six months of 2007. The year-to-date increases in net earnings and cash flow from operations were due primarily to the same factors that impacted second quarter results, in addition to increased Crown royalties in the first six months of 2008.

Oil sands production averaged 174,600 barrels per day (bpd) in the second quarter of 2008 compared to production of 202,300 bpd during the second quarter 2007. In both 2007 and 2008, production at oil sands was impacted by planned maintenance shutdowns, though production during the second quarter of 2008 was further impacted by upgrader reliability and bitumen production issues. As a result, output during the shutdown averaged 121,000 bpd, compared to our expected production of approximately 200,000 bpd. Unplanned work during the shutdown, combined with labour shortages, resulted in the maintenance lasting longer than the planned 30 days. Based on second quarter results and expectations for the balance of the year, the oil sands production outlook has been reduced to 240,000 to 250,000 bpd from the previous outlook of 275,000 to 285,000 bpd.

Sales volumes during the second quarter of 2008 averaged 181,500 bpd, compared with 208,300 bpd during the second quarter of 2007. The proportion of higher value diesel fuel and sweet crude products decreased to 49% of total sales volumes in the second quarter of 2008, compared to 58% in the second quarter of 2007.

The average price realization for oil sands crude products increased to $121.12 per barrel in the second quarter of 2008, compared to $71.01 per barrel in the second quarter of 2007. We expect strong differentials for our sweet crude blends for the remainder of 2008, and have reduced our expected discount to WTI benchmark prices for our full year 2008 crude sales to WTI less $2.50 to $3.50 per barrel.

During the second quarter of 2008, cash operating costs averaged $50.85 per barrel, compared to $32.70 per barrel during the second quarter of 2007. The increase in cash operating costs per barrel was due to higher operating expenses, lower production volumes, and increased third-party bitumen purchases. Based on second quarter results and expectations for the balance of the year, the oil sands cash operating cost outlook has been increased to $35.00 to $36.00 per barrel from the previous outlook of $26.00 to $27.00 per barrel. Refer to page 16 for further details on cash operating costs as a non-GAAP financial measure, including the calculation and reconciliation to GAAP measures.

**Oil Sands Operations and Growth Update**

In the second quarter of 2008, Suncor substantially completed a $2.3 billion expansion to one of two oil sands upgraders. The project was completed within the planned budget range and on schedule.

Commissioning of the expanded facility is underway and production volumes are expected to begin ramping up toward a total target of approximately 300,000 bpd by the end of the year. With additional bitumen feedstock planned to come online, we expect upgrading operations to ramp up toward design capacity of 350,000 bpd in 2009.

Production from Suncor's Firebag in-situ operations had been limited by regulators to 42,000 bpd due to sulphur emissions that exceeded regulatory limits in 2007. With the lifting on July 22 of the production cap, Suncor expects to begin steaming new wells, with small amounts of incremental production expected to come on line in the fourth quarter of 2008.

While in-situ operations ramp up, reduced in-situ bitumen supply is expected to be partially mitigated by higher mined bitumen volumes in the second half of the year. Suncor is also pursuing opportunities to increase third-party bitumen purchases.

We are also making steady progress on work to construct new emission abatement equipment for our in-situ operations, including a $340 million sulphur plant. This project is on budget and on schedule for completion in 2009. The sulphur plant is intended to support emissions control for current and future stages of in-situ development, including Stage 3, targeted for completion in 2009. Firebag Stage 3 remains on schedule and on budget with engineering 90% complete and construction 30% complete.

In addition to Firebag Stage 3, work also continues to progress on other elements of the $20.6 billion Voyageur strategy which, together, are expected to increase production capacity by 200,000 bpd to a total capacity of 550,000 bpd in 2012. More than $2.2 billion has been spent to date on expanding in-situ operations, while approximately $2 billion has been spent to date on construction of a third upgrader.

For an update on our significant growth projects currently in progress see page 12.

**Oil Sands Crown Royalties**

For a description of the Alberta Crown royalty regimes in effect for our oil sands operations, see page 19 of our 2007 Annual Report and note 11 of our second quarter 2008 financial statements.

In the second quarter of 2008, we recorded a pretax royalty estimate of $130 million, compared to $99 million for the second quarter of 2007. In 2008, the estimation process for calculating the quarterly royalty provision was changed from being based on an annual royalty estimate to being based on the actual eligible revenues and costs recorded in the period. If the annualized approach was used for 2008, pretax royalties would have been $85 million higher for the first six months of 2008.

The following table sets forth our estimates of royalties in the years 2008 through 2012, and certain assumptions on which we have based our estimates.

**Oil Sands Mining and In-Situ Royalties**

| **WTI Price/bbl US$** | **100** | **130** | **150** |
|---|---|---|---|
| Natural gas (Alberta spot) Cdn$/mcf at AECO | 8.00 | 9.50 | 11.00 |
| Light/heavy oil differential of WTI at Cushing less Maya at the U.S. Gulf Coast US$ | 18.00 | 23.00 | 26.00 |
| Differential of Maya at the US Gulf Coast less Western Canadian Select at Hardisty, Alberta US$ | 7.00 | 7.00 | 7.00 |
| US$/Cdn$ exchange rate | 1.00 | 1.05 | 1.05 |
| **Crown Royalty Expense (based on percentage of total oil sands revenue)** % | | | |
| **2008** – Mining synthetic crude oil, in-situ bitumen (25% and 1% min) | 9-10 | 11-12 | 12-13 |
| **2009** – Bitumen (mining old rates – 25% and 1% min; in-situ new rates)(1) | 9-11 | 11-13 | 12-14 |
| **2010 to 2012** – Bitumen (new rates – cap 30% for mining)(1) | 9-11 | 12-14 | 13-15 |

(1) For additional information on royalty rates, see page 19 of our 2007 Annual Report.

The previous table contains forward-looking information and users of this information are cautioned that actual Crown royalty expense may vary from the ranges disclosed in the table. The royalty ranges disclosed in the table were developed using the following assumptions: current agreements with the government of Alberta (assuming the government enacts their proposed framework), royalty rates proposed by the government of Alberta, current forecasts of production, capital and operating costs, and the commodity prices and exchange rates described in the table.

The following material risk factors could cause actual royalty rates to differ materially from the rates contained in the foregoing table:

(i) Pursuant to the new royalty framework, the government proposed on June 30, 2008 a generic “bitumen valuation methodology” for determining the “R” (gross revenues less related transportation costs) related to bitumen. The proposal uses the Hardisty, Alberta pricing of Western Canadian Select (WCS), a widely traded blend of Alberta bitumen, diluents and conventional heavy oil, as a benchmark. The proposed pricing formula is adjusted for transportation to Hardisty, the value of diluent in the WCS blend and the constituent bitumen quality. The proposal also provides for a floor price based on Maya at the US Gulf Coast if there are unusual market fluctuations affecting WCS relative to the North American market. Following a consultation period with industry, the government expects to implement the new bitumen valuation methodology January 1, 2009, with further refinements for bitumen quality determination expected January 1, 2010. The estimated impact of quality adjustments and other assumptions have been incorporated into the above table. Those assumptions and the final determination of the bitumen valuation methodology may have a material impact on royalties payable to the Crown. For our mining operations, the proposed bitumen methodology is consistent with Suncor's January 2008 Crown Agreement which places certain limitations on the bitumen valuation methodology;

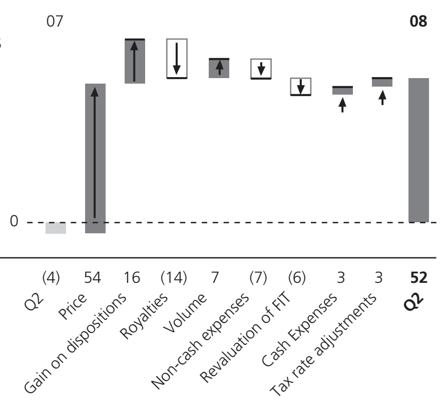
(ii) The government announced in April 2008 it will implement recommendations to enhance how the performance of the royalty regime is measured and reported. They are also in the process of reviewing technical policy details and business rules that are being changed to align with the new royalty framework announced in October 2007. Steps taken by the government may affect the calculation of royalties; and

(iii) Changes in crude oil and natural gas pricing, production volumes, foreign exchange rates, and capital and operating costs for each oil sands project; changes to the generic royalty regime by the government of Alberta; changes in other legislation and the occurrence of unexpected events all have the potential to have an impact on royalties payable to the Crown.

### Natural Gas

Our natural gas business recorded net earnings of $52 million in the second quarter of 2008, compared with a net loss of $4 million during the second quarter of 2007. Net earnings increased primarily as a result of higher revenues driven by stronger price realizations, higher sulphur prices and increased production, in addition to lower dry hole costs and the sale of non-core assets. These factors were partially offset by higher royalties, in addition to increased DD&A expense resulting from increased production and an increased capital base due to higher finding and developing costs.

**Bridge Analysis of Natural Gas Net Earnings**
($ millions)




Cash flow from operations for the second quarter of 2008 was $119 million, compared to $70 million in the second quarter of 2007. The increase is primarily due to the same factors affecting net earnings, excluding the impact of DD&A, dry hole costs, and the gain on sale of non-core assets.

Year-to-date net earnings were $71 million, compared to nil in the first six months of 2007. Net earnings increased primarily as a result of higher revenues driven by stronger price realizations, higher sulphur prices and increased production, in addition to lower dry hole costs and the sale of non-core assets. These factors were partially offset by higher royalties and increased DD&A expense. Cash flow from operations for the first six months of the year was $201 million, compared to $134 million reported in the same period in 2007. The increase is primarily due to the same factors affecting net earnings, excluding the impact of DD&A, dry hole costs, and the gain on sale of non-core assets.

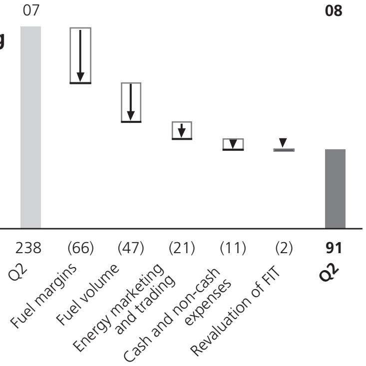
Natural gas and liquids production in the second quarter of 2008 was 226 million cubic feet equivalent (mmcfe) per day, compared to 209 mmcfe per day in the second quarter of 2007. The increased production compared to the prior year was primarily due to the addition of new wells. As a result of strong performance during the first half of the year, Suncor has increased its annual production outlook for natural gas to an average expected to range between 210 to 220 mmcfe per day. Our 2008 planned production offsets Suncor's estimated purchases of natural gas for internal consumption at our oil sands operations.

Realized natural gas prices in the second quarter of 2008 were $9.62 per thousand cubic feet (mcf), compared to $6.85 per mcf in the second quarter of 2007, reflecting higher benchmark prices.

### Refining and Marketing

Refining and marketing recorded 2008 second quarter net earnings of $91 million, compared to net earnings of $238 million in the second quarter of 2007. The decrease in net earnings primarily resulted from reduced margins on gasoline, asphalt and other heavy products, as well as from softening demand for petroleum products due to historically high prices. As a result of adopting a required FIFO (first-in-first-out) valuation accounting policy for inventory, net earnings were $179 million higher than they would have been under the previous LIFO (last-in-first-out) accounting policy. Under FIFO accounting, earnings are impacted by the increase in value of crude feedstock inventories. In the second quarter of 2007, FIFO accounting resulted in a $32 million positive impact. For further details of this change in accounting policy, see page 15.

**Bridge Analysis of Refining and Marketing Net Earnings**
($ millions)



Energy marketing and trading activities, including physical trading activities, resulted in a net pretax loss of $12 million in the second quarter of 2008, compared to a net pretax gain of $18 million in the second quarter of 2007. The decrease was primarily due to losses on crude oil sales contracts.

Cash flow from operations was $210 million in the second quarter of 2008, compared to $342 million in the second quarter of 2007. Cash flow from operations decreased primarily due to the same factors affecting net earnings.

During the second quarter of 2008, refinery crude oil utilization was 102%, compared to 108% in the second quarter of 2007. The lower utilization rate in the second quarter of 2008 was primarily due to the softening demand for petroleum products, as well as planned maintenance at the Sarnia refinery.

Our refining and marketing business recorded net earnings of $186 million for the first half of 2008, compared to $344 million during the first half of 2007. Cash flow from operations for the first six months of 2008 was $400 million, compared to $522 million in the first six months of 2007. The year-to-date decreases in net earnings and cash flow from operations were due to the same factors that impacted second quarter results.

During the second quarter, additional capital equipment improvements were identified that will be required before the Sarnia refinery can achieve full benefit from modifications made in 2007 to increase sour synthetic crude capacity at the facility.

In June 2008, we announced plans to expand ethanol production at the St. Clair plant site. The $120 million expansion, targeted for completion in late 2009, is expected to double our current ethanol production at the facility to 400 million litres per year.

### Corporate and Eliminations

After-tax net corporate expense was $65 million in the second quarter of 2008, compared to earnings of $28 million in the second quarter of 2007. Excluding the impact of group elimination entries, after-tax net corporate expense was $42 million in the second quarter of 2008 (earnings of $30 million in the second quarter of 2007). Net expense increased mainly due to lower unrealized foreign exchange gains on our U.S dollar denominated long-term debt. After-tax unrealized foreign exchange gains on U.S. dollar denominated long-term debt were $18 million in the second quarter of 2008, compared to $81 million in the second quarter of 2007. Group elimination entries increased to $23 million in the second quarter of 2008, from $2 million in the second quarter of 2007, primarily as a result of profit elimination on inventory sold from oil sands to refining and marketing.

### Breakdown of Net Corporate Expense

| Three months ended June 30 ($ millions) | **2008** | 2007 |
|---|---|---|
| Corporate (expense) earnings | **(42)** | 30 |
| Group eliminations | **(23)** | (2) |
| Total | **(65)** | 28 |

Cash used in operations was $98 million in the second quarter of 2008, compared to $42 million in the second quarter of 2007.

Corporate had net expense of $166 million in the first six months of 2008, compared to net earnings of $26 million in the same period of 2007. Cash used in operations was $119 million in the first half of 2008, compared to $61 million in the first half of 2007.

## Cash Income Taxes

We estimate we will have cash income taxes of 30% to 50% of our effective tax rate during 2008. Thereafter, we anticipate our cash income tax position to fluctuate, to a maximum of approximately 100% of our effective tax rate by 2015. Cash income taxes are sensitive to crude oil and natural gas commodity price volatility and the timing of deductibility of capital expenditures for income tax purposes, among other things. This estimate is based on the following assumptions: current forecasts of production, capital and operating costs, the commodity prices and exchange rates described in the table "Oil Sands Mining and In-Situ Royalties" on page 8 and effective income tax rates within 2% of the statutory income tax rates, assuming there are no changes to the current income tax regime. Our outlook on cash income tax is a forward-looking statement and users of this information are cautioned that actual cash income taxes may vary from our outlook.

## Analysis of Financial Condition and Liquidity

Excluding cash and cash equivalents, short-term debt and future income taxes, Suncor had an operating working capital deficiency of $257 million at the end of the second quarter of 2008, compared to a deficiency of $517 million at the end of the second quarter of 2007, due primarily to a reduction in the income taxes payable account.

During the first six months of 2008, net debt increased to $4.407 billion from $3.248 billion at December 31, 2007. The increase in net debt levels was primarily a result of increased capital spending to fulfill our growth strategies.

In May 2008, the company issued 5.80% Medium Term Notes with a principal amount of $700 million under an outstanding $2 billion debt shelf prospectus. Interest on the notes is paid semi-annually, and the notes mature on May 22, 2018. The net proceeds received were added to our general funds to repay outstanding commercial paper, which originally funded our working capital needs, sustaining capital expenditures and growth capital expenditures.

In June 2008, the company issued 6.10% Notes with a principal amount of US$1.25 billion and 6.85% Notes with a principal amount of US$750 million under an amended US$3.65 billion debt shelf prospectus. Interest on the notes is paid semi-annually, and the notes mature on June 1, 2018, and June 1, 2039, respectively. The net proceeds received were added to our general funds, which are used for our working capital needs, sustaining capital expenditures, growth capital expenditures and to repay outstanding commercial paper borrowings.

Also during the second quarter, Suncor's $3.5 billion syndicated credit facility was increased to $3.75 billion, while our $410 million bilateral credit facility was reduced to $370 million and had its term extended to 2009.

At June 30, 2008, our undrawn credit facilities were approximately $3.4 billion and we had cash and cash equivalents of approximately $2.1 billion. Outstanding debt shelf prospectuses filed in 2007 enable the company to issue debt in Canada and the United States. We believe we have the capital resources from our undrawn credit facilities, cash flow from operations, and access to debt capital markets to fund the remainder of our 2008 capital spending program and to meet our current working capital requirements. If additional capital is required, we believe adequate additional financing will continue to be available at commercial terms and rates. As reported in our 2007 Annual Report, we anticipate capital spending of approximately $7.5 billion for 2008.

## Significant Capital Project Update

A summary of the progress on our significant projects under construction to support both our growth and sustaining needs is provided below. All projects listed below have received Board of Directors approval.

| Project | Plan | Cost estimate $ millions (1) | Estimate % Accuracy (1) | Spent to date | % complete Overall engineering | % complete Construction (2) | Target completion date |
|---|---|---|---|---|---|---|---|
| Coker unit | Expected to increase production capacity by 90,000 bpd | 2 100 | +13/– 7 | 2 260 | 100 | 99 | Q3 2008 |
| Naphtha unit | Increases sweet product mix | 650 | +10/– 10 | 500 | 99 | 30 | 2009 |
| Steepbank extraction plant | New location and technologies aimed at improving operational performance | 850 | +10/– 10 | 480 | 99 | 45 | 2009 |
| North Steepbank mine expansion | Expected to generate about 180,000 bpd of bitumen | 400 | +10/– 10 | 90 | 50 | 20 | 2009 |
| Firebag sulphur plant | Support emission abatement plan at Firebag; capacity to support Stages 1-6 | 340 | +10/– 10 | 175 | 85 | 30 | 2009 |
| Voyageur program: Firebag (3) | Expansion of Firebag 3-6 is expected to generate about 270,000 bpd of bitumen | 9 000 | +18/– 13 | 2 255 (4) | | | |
| | – Stage 3 | | | | 90 | 30 | 2009 |
| | – Stage 4 (5) | | | | 50 | — | 2010 |
| | – Stage 5 (5) | | | | 10 | — | 2011 |
| | – Stage 6 (5) | | | | 10 | — | 2011 |
| Voyageur program: Upgrader 3 (6) | Expected to increase production capacity by 200,000 bpd | 11 600 | +12/-8 | 1 965 (4) | 70 | 5 | 2011 |

(1) Excludes commissioning and start-up costs. Cost estimates and estimate accuracy reflect budgets approved by Suncor's Board of Directors.

(2) Excludes commissioning and start-up.

(3) Ramp-up to full capacity of each stage can take up to eighteen months from completion of construction.

(4) Spending to date includes procurement of major project components. For Firebag Stage 3, procurement at June 30, 2008, was 85% complete; for Stage 4, 80% complete; and for Stage 5, 4% complete. For Upgrader 3, procurement was 60% complete.

(5) Pending regulatory approval.

(6) Construction completion targeted in 2011 with ramp-up to full capacity during 2012.

The previous table contains forward-looking information and users of this information are cautioned that the actual timing, amount of the final capital expenditures and expected results for each of these projects may vary from the plans disclosed in the table. The target completion dates and cost estimates are based on information and assumptions from the procurement, design and engineering phases of the projects. The more preliminary the project, the greater the range of uncertainty that is projected in connection with the project.

For a list of the material risk factors that could cause actual timing, amount of the final capital expenditures and expected results to differ materially from those contained in the previous table, please see our 2007 Annual Report, pages 21 to 26.

## Derivative Financial Instruments

On January 1, 2008, the company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation", which enhance existing disclosures for financial instruments. In particular, section 3862 focuses on the identification of risk exposures and the company's approach to management of these risks. These new disclosures have been incorporated in the following discussion and in the notes to our unaudited financial statements.

We periodically enter into derivative contracts to hedge against the potential adverse impact of changing market prices due to changes in the underlying indices. We also use physical and financial energy contracts to earn trading and marketing revenues.

The estimated fair values of financial instruments have been determined based on the company's assessment of available market information and appropriate valuation methodologies based on industry-accepted third-party models; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction.

### Commodity and Treasury Hedging Activities

To provide an element of stability to future earnings and cash flow, we have Board of Directors approval to fix a price or range of prices for up to approximately 30% of our total planned production of crude oil for specified periods of time. The company has hedged a portion of its forecasted U.S. dollar denominated sales subject to U.S. dollar West Texas Intermediate (WTI) commodity price risk. At June 30, 2008, costless collar crude oil hedges totaling 10,000 bpd of production were outstanding for the remainder of 2008. Prices for these barrels are fixed within a range from an average of US$59.85/bbl up to an average of US$101.06/bbl. In addition to these hedges, we have crude oil puts for 55,000 bpd of production for 2009 and 2010 which provide us with a floor price of US$60.00/bbl.

In addition to our strategic crude oil hedging program, the company also uses derivative contracts to hedge risks related to purchases and sales of natural gas and refined products, and to hedge risks specific to individual transactions.

Settlement of our commodity hedging contracts result in cash receipts or payments for the difference between the derivative contract and market rates for the applicable volumes hedged during the contract term. For accounting purposes, amounts received or paid on settlement are recorded as part of the related hedged sales or purchase transactions in the Consolidated Statements of Earnings and Comprehensive Income.

We periodically enter into interest rate swap contracts as part of our strategy to manage exposure to interest rates. The interest rate swap contracts involve an exchange of floating rate and fixed rate interest payments between ourselves and investment grade counterparties. The differentials on the exchange of periodic interest payments are recognized as an adjustment to interest expense. In addition to our interest rate swap contracts, the company also manages variability in market interest rates and foreign exchange rates during periods of debt issuance through the use of interest rate locks and foreign exchange forward contracts.

The earnings impact associated with changes in the fair values of our commodity and treasury hedging derivative financial instruments in the second quarter of 2008 was a pretax loss of $72 million (2007 – pretax loss of $9 million). The earnings impact in the first six months of 2008 was a pretax loss of $88 million (2007 – pretax loss of $11 million).

### Energy Marketing and Trading Activities

In addition to derivative contracts used for hedging activities, the company uses physical and financial energy derivatives to earn trading and marketing revenues. The results of these trading activities are reported as revenue and as energy marketing and trading expenses in the Consolidated Statements of Earnings and Comprehensive Income. The net pretax losses associated with our energy marketing and trading activities in the second quarter of 2008 were $12 million (2007 – pretax earnings of $18 million). The net pretax earnings in the first six months of 2008 were $17 million (2007 – pretax earnings of $15 million).

**Fair Value of Derivative Financial Instruments**

The fair value of derivative financial instruments is the estimated amount that we would receive (pay) to terminate the contracts. Such amounts, which also represent the unrealized gain (loss) on the contracts, were as follows:

| ($ millions) | June 30 2008 | December 31 2007 |
|---|---|---|
| Derivative financial instruments accounted for as hedges | | |
| Assets | **30** | 20 |
| Liabilities | **(79)** | (11) |
| Derivative financial instruments not accounted for as hedges | | |
| Assets | **68** | 18 |
| Liabilities | **(113)** | (21) |
| Net derivative financial instruments | **(94)** | 6 |

For further details on our derivative financial instruments, see note 3 to the unaudited interim consolidated financial statements on page 28.

## Environmental Regulation and Risk

Production from Suncor's Firebag in-situ operations had been limited by regulators to 42,000 bpd due to sulphur emissions that exceeded regulatory limits in 2007. With the lifting on July 22 of the production cap, Suncor expects to begin steaming new wells, with small amounts of incremental production expected to come on line in the fourth quarter of 2008. In addition, Suncor continues its work to construct a $340 million Firebag sulphur plant to help manage sulphur emissions.

In April 2007, the Canadian federal government introduced the Clean Air regulatory framework, which is expected to regulate both greenhouse gas (GHG) emissions and air pollutants from industrial emitters. Further details on the GHG framework were released in March 2008. Suncor has been engaged in the ongoing consultations on this framework. In support of developing regulation, Suncor submitted required production, operations and emissions information for designated facilities to the federal government in May. Draft GHG regulations are expected in fall 2008, with final regulations in fall 2009 and the provisions coming into force on January 1, 2010. The financial impact of this proposed legislation will be dependent on the details of Clean Air Act regulations.

There remains uncertainty around the outcome and impacts of climate change and other environmental regulations. Depending on the scope of any final regulations, these impacts may have an adverse effect on our results from operations and financial position in the future. We continue to actively work to mitigate our environmental impact, including taking action to reduce GHG emissions, investing in renewable and alternate forms of energy such as wind power and biofuels, accelerating land reclamation, the installation of new emission abatement equipment and pursuing other opportunities such as carbon capture and sequestration.

On June 26, 2008, the Energy Resources Conservation Board (ERCB) released a draft directive, Tailings Performance Criteria and Requirements for Oil Sands Mining Schemes, for industry review and comment until September 15, 2008. The directive proposes to establish performance criteria for consolidated tailings (CT) operations, a requirement for specific approval and monitoring of CT ponds, a requirement for reporting tailings plans, and changes to the ERCB annual mine plan requirements and approval process to regulate tailings operations. We are currently assessing the impact of the directive.

## Control Environment

Based on their evaluation as of June 30, 2008, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures (as defined in Rules 13(a) – 15(e) and 15(d) – 15(e) under the United States Securities and Exchange Act of 1934 (the Exchange Act)) are effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. In addition, as of June 30, 2008, there were no changes in our internal control over financial reporting that occurred during the three and six month periods ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We will continue to periodically evaluate our disclosure controls and procedures and internal control over financial reporting and will make any modifications from time to time as deemed necessary.

## Change in Accounting Policies

### (a) Inventories

On January 1, 2008 the company was required to retroactively adopt CICA Handbook section 3031 "Inventories". Under the new standard, the use of a LIFO (last-in-first-out) based valuation approach for inventory has been eliminated. The standard also requires any impairment to net realizable value of inventory to be written down at each reporting period, with subsequent reversals when applicable. The company transitioned to a FIFO (first-in-first-out) based valuation approach for inventory effective January 1, 2008. The impact of adopting this standard is as follows:

**Change in Consolidated Balance Sheets**

| ($ millions, increase/(decrease)) | **June 30 2008** | December 31 2007 |
|---|---|---|
| Inventory | **819** | 404 |
| Total assets | **819** | 404 |
| Accounts payable and accrued liabilities | **(56)** | — |
| Future income taxes | **267** | 121 |
| Retained earnings | **608** | 283 |
| Total liabilities and shareholders' equity | **819** | 404 |

**Change in Consolidated Statements of Earnings and Comprehensive Income**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($ millions, increase/(decrease)) | **2008** | 2007 | **2008** | 2007 |
| Purchases of crude oil and products | **(239)** | (62) | **(335)** | (75) |
| Operating, selling and general | **(178)** | (81) | **(136)** | (103) |
| Future income taxes | **122** | 46 | **146** | 56 |
| Net earnings | **295** | 97 | **325** | 122 |
| Per common share – basic (dollars) | **0.32** | 0.11 | **0.35** | 0.13 |
| Per common share – diluted (dollars) | **0.31** | 0.10 | **0.34** | 0.13 |

**Segmented Net Earnings Impact**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($ millions, increase/(decrease)) | **2008** | 2007 | **2008** | 2007 |
| Net earnings | | | | |
| Oil sands | **129** | 57 | **96** | 72 |
| Refining and marketing | **179** | 32 | **259** | 39 |
| Corporate and eliminations | **(13)** | 8 | **(30)** | 11 |
| Total | **295** | 97 | **325** | 122 |

### (b) Capital Disclosure

On January 1, 2008, the company adopted CICA Handbook section 1535 "Capital Disclosures". This section establishes disclosure requirements for management's policies and processes in defining and managing its capital. There is no financial impact to previously reported financial statements as a result of the implementation of this new standard.

### (c) Financial Instruments – Disclosures and Presentation

On January 1, 2008, the company adopted CICA Handbook sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation", which enhance existing disclosures for financial instruments. In particular, section 3862 focuses on the identification of risk exposures and the company's approach to management of these risks. There is no financial impact to previously reported financial statements as a result of the implementation of this new standard.

**(d) International Financial Reporting Standards**

In February 2008, the Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP in 2011 for publicly accountable enterprises. Accordingly, Suncor will be required to report its results under IFRS starting in 2011. We are currently assessing the impact of the transition to IFRS on our financial reporting and disclosures. We are developing a full transition plan for compliance, but are not currently able to assess the overall impact of the change. Key disclosures surrounding our transition will be made in our year-end 2008 Consolidated Financial Statements and Management's Discussion and Analysis, consistent with the recent reporting standards requirements release.

## Non-GAAP Financial Measures

Certain financial measures referred to in this MD&A, namely cash flow from operations, return on capital employed (ROCE) and oil sands cash and total operating costs per barrel, are not prescribed by GAAP. These non-GAAP financial measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other companies. Suncor includes these non-GAAP financial measures because investors may use this information to analyze operating performance, leverage and liquidity. The additional information should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Suncor provides a detailed numerical reconciliation of ROCE on an annual basis in the company's annual MD&A, which is to be read in conjunction with the company's annual consolidated financial statements. For a summarized narrative reconciliation of ROCE calculated on a June 30, 2008 interim basis, please refer to page 39 of our second quarter report to shareholders.

Cash flow from operations is expressed before changes in non-cash working capital. A reconciliation of net earnings to cash flow from operations is provided in the Schedules of Segmented Data, which are an integral part of Suncor's June 30, 2008 unaudited interim consolidated financial statements.

A reconciliation of cash flow from operations on a per common share basis is presented in the following table:

| | | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| Cash flow from operations ($ millions) | A | **1 405** | 1 027 | **2 566** | 1 852 |
| Weighted average number of shares outstanding – basic (millions of shares) | B | **930.5** | 921.4 | **928.6** | 920.8 |
| Cash flow from operations – basic ($ per share) | (A/B) | **1.51** | 1.11 | **2.76** | 2.01 |

The following tables outline the reconciliation of oil sands cash and total operating costs to expenses included in the Schedules of Segmented Data in the company's financial statements.

**Oil Sands Operating Costs – Total Operations**

| (unaudited) | Three months ended June 30 2008 $ millions | 2008 $/barrel | 2007 (1) $ millions | 2007 (1) $/barrel | Six months ended June 30 2008 $ millions | 2008 $/barrel | 2007 (1) $ millions | 2007 (1) $/barrel |
|---|---|---|---|---|---|---|---|---|
| Operating, selling and general expenses | **640** | | 575 | | **1 357** | | 1 165 | |
| Less: natural gas costs, inventory changes, stock-based compensation and other | **(3)** | | (43) | | **(158)** | | (137) | |
| Less: non-monetary transactions | **(30)** | | (31) | | **(56)** | | (63) | |
| Accretion of asset retirement obligations | **13** | | 10 | | **27** | | 20 | |
| Taxes other than income taxes | **17** | | 12 | | **33** | | 24 | |
| Cash costs | **637** | **40.10** | 523 | 28.40 | **1 203** | **31.30** | 1 009 | 24.75 |
| Natural gas | **139** | **8.75** | 77 | 4.20 | **250** | **6.50** | 177 | 4.35 |
| Purchased bitumen (excluding other reported product purchases) | **32** | **2.00** | 2 | 0.10 | **65** | **1.70** | 3 | 0.10 |
| Total cash operating costs | **808** | **50.85** | 602 | 32.70 | **1 518** | **39.50** | 1 189 | 29.20 |
| Project start-up costs | **14** | **0.90** | 21 | 1.15 | **21** | **0.55** | 23 | 0.55 |
| Total cash operating costs | **822** | **51.75** | 623 | 33.85 | **1 539** | **40.05** | 1 212 | 29.75 |
| Depreciation, depletion and amortization | **132** | **8.30** | 108 | 5.85 | **261** | **6.80** | 208 | 5.10 |
| Total operating costs | **954** | **60.05** | 731 | 39.70 | **1 800** | **46.85** | 1 420 | 34.85 |
| Production (thousands of barrels per day) | **174.6** | | 202.3 | | **211.0** | | 225.1 | |

(1) Prior period amounts have been restated to reflect the change in accounting policy noted on page 15.

**Oil Sands Operating Costs – In-Situ Bitumen Production Only**

| (unaudited) | Three months ended June 30 2008 $ millions | 2008 $/barrel | 2007 $ millions | 2007 $/barrel | Six months ended June 30 2008 $ millions | 2008 $/barrel | 2007 $ millions | 2007 $/barrel |
|---|---|---|---|---|---|---|---|---|
| Operating, selling and general expenses | **76** | | 68 | | **165** | | 137 | |
| Less: natural gas costs and inventory changes | **(46)** | | (35) | | **(91)** | | (70) | |
| Taxes other than income taxes | **2** | | 2 | | **4** | | 3 | |
| Cash costs | **32** | **10.10** | 35 | 10.60 | **78** | **12.35** | 70 | 10.80 |
| Natural gas | **46** | **14.55** | 35 | 10.60 | **91** | **14.40** | 70 | 10.80 |
| Cash operating costs | **78** | **24.65** | 70 | 21.20 | **169** | **26.75** | 140 | 21.60 |
| In-situ (Firebag) start-up costs | **5** | **1.65** | — | — | **6** | **0.95** | — | — |
| Total cash operating costs | **83** | **26.30** | 70 | 21.20 | **175** | **27.70** | 140 | 21.60 |
| Depreciation, depletion and amortization | **21** | **6.70** | 19 | 5.75 | **43** | **6.70** | 36 | 5.55 |
| Total operating costs | **104** | **33.00** | 89 | 26.95 | **218** | **34.40** | 176 | 27.15 |
| Production (thousands of barrels per day) | **34.7** | | 36.2 | | **34.7** | | 35.8 | |

## Legal Notice – Forward-Looking Information

*This Management's Discussion and Analysis contains certain forward-looking statements that are based on Suncor's current expectations, estimates, projections and assumptions that were made by the company in light of its experience and its perception of historical trends.*

*All statements that address expectations or projections about the future, including statements about Suncor's strategy for growth, expected and future expenditures, commodity prices, costs, schedules, production volumes, operating and financial results and expected impact of future commitments, are forward-looking statements. Some of the forward-looking statements may be identified by words like "expects," "anticipates," "estimates," "plans," "scheduled," "intends," "believes," "projects," "invests," "could," "focus," "goal," "proposed," "target," "objective," "potential," "forecast," "predict," "enable," "outlook," and similar expressions. These statements are not guarantees of future performance and involve a number of risks and uncertainties, some that are similar to other oil and gas companies and some that are unique to Suncor. Suncor's actual results may differ materially from those expressed or implied by its forward-looking statements and readers are cautioned not to place undue reliance on them.*

*The risks, uncertainties and other factors that could influence actual results include but are not limited to, changes in the general economic, market and business conditions; fluctuations in supply and demand for Suncor's products; commodity prices, interest rates and currency exchange rates; Suncor's ability to respond to changing markets and to receive timely regulatory approvals; the successful and timely implementation of capital projects including growth projects (for example, the Voyageur project, including our Firebag in-situ development) and regulatory projects (for example, the emissions reduction modifications at our Firebag in-situ development); the accuracy of cost estimates, some of which are provided at the conceptual or other preliminary stage of projects and prior to commencement or conception of the detailed engineering needed to reduce the margin of error and increase the level of accuracy; the integrity and reliability of Suncor's capital assets; the cumulative impact of other resource development; the cost of compliance with current and future environmental laws; the accuracy of Suncor's reserve, resource and future production estimates and its success at exploration and development drilling and related activities; the maintenance of satisfactory relationships with unions, employee associations and joint venture partners; competitive actions of other companies, including increased competition from other oil and gas companies or from companies that provide alternative sources of energy; labour and material shortages; uncertainties resulting from potential delays or changes in plans with respect to projects or capital expenditures; actions by governmental authorities including the imposition of taxes or changes to fees and royalties, changes in environmental and other regulations (for example, the ERCB's draft directive on tailings performance criteria and requirements for oil sands mining schemes, the Government of Alberta's implementation of recommendations to enhance how the performance of the royalty regime is measured and reported, the Government of Canada's proposed Clean Air regulatory framework and the development of greenhouse gas regulation by other provincial and state governments); the future potential for lawsuits against greenhouse gas emitters, based on links drawn between greenhouse gas emissions and climate change; unexpected issues associated with management and reclamation of our tailings ponds; the ability and willingness of parties with whom we have material relationships to perform their obligations to us; and the occurrence of unexpected events such as fires, blowouts, freeze-ups, equipment failures and other similar events affecting Suncor or other parties whose operations or assets directly or indirectly affect Suncor. The foregoing important factors are not exhaustive.*

*Many of these risk factors are discussed in further detail throughout this Management's Discussion and Analysis and in the company's Annual Information Form/Form 40-F on file with Canadian securities commissions at www.sedar.com and the United States Securities and Exchange Commission (SEC) at www.sec.gov. Readers are also referred to the risk factors described in other documents that Suncor files from time to time with securities regulatory authorities. Copies of these documents are available without charge from the company.*

## Consolidated statements of earnings and comprehensive income

(unaudited)

| ($ millions) | Second Quarter 2008 | Second Quarter 2007 (restated) (note 2) | Six months ended June 30 2008 | Six months ended June 30 2007 (restated) (note 2) |
|---|---|---|---|---|
| **Revenues** (note 3) | **7 959** | 4 413 | **13 947** | 8 364 |
| **Expenses** | | | | |
| Purchases of crude oil and products (note 2) | **1 940** | 1 456 | **3 198** | 2 581 |
| Operating, selling and general (notes 2, 3 and 7) | **886** | 816 | **1 859** | 1 636 |
| Energy marketing and trading activities (note 3) | **3 263** | 665 | **5 114** | 1 236 |
| Transportation and other costs | **62** | 44 | **114** | 88 |
| Depreciation, depletion and amortization | **252** | 204 | **500** | 394 |
| Accretion of asset retirement obligations | **16** | 12 | **32** | 24 |
| Exploration | **31** | 37 | **43** | 69 |
| Royalties (note 11) | **181** | 131 | **503** | 320 |
| Taxes other than income taxes | **167** | 164 | **317** | 322 |
| Loss (gain) on disposal of assets | **(20)** | 1 | **(18)** | 1 |
| Project start-up costs | **14** | 23 | **21** | 26 |
| Financing expenses (income) (note 5) | **6** | (74) | **85** | (85) |
| | **6 798** | 3 479 | **11 768** | 6 612 |
| **Earnings Before Income Taxes** | **1 161** | 934 | **2 179** | 1 752 |
| **Provision for Income Taxes** (notes 2 and 10) | | | | |
| Current | **58** | 83 | **214** | 245 |
| Future | **274** | 113 | **428** | 193 |
| | **332** | 196 | **642** | 438 |
| **Net Earnings** | **829** | 738 | **1 537** | 1 314 |
| Other comprehensive loss (note 13) | **(60)** | (77) | **(13)** | (94) |
| **Comprehensive Income** | **769** | 661 | **1 524** | 1 220 |
| **Net Earnings Per Common Share** (dollars), (note 6) | | | | |
| Basic | **0.89** | 0.80 | **1.66** | 1.43 |
| Diluted | **0.87** | 0.78 | **1.62** | 1.40 |
| Cash dividends | **0.05** | 0.05 | **0.10** | 0.09 |

See accompanying notes.

## Consolidated balance sheets

(unaudited)

| ($ millions) | June 30 2008 | December 31 2007 (restated) (note 2) |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **2 146** | 569 |
| Accounts receivable (note 3) | **1 996** | 1 438 |
| Inventories (note 2) | **1 604** | 1 012 |
| Income taxes receivable | **59** | 95 |
| Future income taxes | **68** | 46 |
| Total current assets | **5 873** | 3 160 |
| Property, plant and equipment, net | **23 567** | 20 945 |
| Deferred charges and other (note 3) | **653** | 404 |
| Total assets | **30 093** | 24 509 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Short-term debt | **6** | 6 |
| Accounts payable and accrued liabilities (notes 2, 3 and 11) | **3 820** | 2 797 |
| Taxes other than income taxes | **82** | 72 |
| Income taxes payable | **14** | 244 |
| Future income taxes | **101** | 37 |
| Total current liabilities | **4 023** | 3 156 |
| Long-term debt (note 12) | **6 547** | 3 811 |
| Accrued liabilities and other (notes 3 and 8) | **1 380** | 1 434 |
| Future income taxes (notes 2, 3 and 10) | **4 569** | 4 212 |
| Shareholders' equity (see below) | **13 574** | 11 896 |
| Total liabilities and shareholders' equity | **30 093** | 24 509 |

### Shareholders' Equity

| | Number (thousands) | | Number (thousands) | |
|---|---|---|---|---|
| Share capital | **934 097** | **1 085** | 925 566 | 881 |
| Contributed surplus | | **236** | | 194 |
| Accumulated other comprehensive loss (note 13) | | **(266)** | | (253) |
| Retained earnings (note 2) | | **12 519** | | 11 074 |
| Total shareholders' equity | | **13 574** | | 11 896 |

See accompanying notes.

## Consolidated statements of cash flows

(unaudited)

| ($ millions) | Second Quarter 2008 | Second Quarter 2007 (restated) (note 2) | Six months ended June 30 2008 | Six months ended June 30 2007 (restated) (note 2) |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Cash flow from operations | **1 405** | 1 027 | **2 566** | 1 852 |
| Decrease (increase) in operating working capital | | | | |
| Accounts receivable | **(27)** | 67 | **(458)** | (72) |
| Inventories | **(450)** | (141) | **(592)** | (173) |
| Accounts payable and accrued liabilities | **295** | 292 | **682** | 191 |
| Taxes payable/receivable | **(63)** | 55 | **(184)** | 207 |
| Cash flow from operating activities | **1 160** | 1 300 | **2 014** | 2 005 |
| **Cash Used in Investing Activities** | **(1 778)** | (1 322) | **(3 188)** | (2 422) |
| **Net Cash Deficiency Before Financing Activities** | **(618)** | (22) | **(1 174)** | (417) |
| **Financing Activities** | | | | |
| Decrease in short-term debt | **(1)** | — | **(1)** | (1) |
| Net proceeds from issuance of long-term debt | **2 704** | 806 | **2 704** | 1 407 |
| Net decrease in long-term debt | **(694)** | (256) | **(43)** | (487) |
| Issuance of common shares under stock option plan | **145** | 23 | **169** | 28 |
| Dividends paid on common shares | **(45)** | (45) | **(88)** | (78) |
| Deferred revenue | **—** | — | **—** | 3 |
| Cash flow provided by financing activities | **2 109** | 528 | **2 741** | 872 |
| **Increase in Cash and Cash Equivalents** | **1 491** | 506 | **1 567** | 455 |
| **Effect of Foreign Exchange on Cash and Cash Equivalents** | **(2)** | (22) | **10** | (24) |
| **Cash and Cash Equivalents at Beginning of Period** | **657** | 468 | **569** | 521 |
| **Cash and Cash Equivalents at End of Period** | **2 146** | 952 | **2 146** | 952 |

See accompanying notes.

## Consolidated statements of changes in shareholders' equity

(unaudited)

| ($ millions) | Share Capital | Contributed Surplus | Accumulated Other Comprehensive Income (AOCI) | Retained Earnings |
|---|---|---|---|---|
| **At December 31, 2006, as previously reported** | 794 | 100 | (71) | 8 129 |
| Retroactive adjustment for change in accounting policy (note 2) | — | — | — | 132 |
| **At December 31, 2006, as restated** | 794 | 100 | (71) | 8 261 |
| Net earnings | — | — | — | 1 314 |
| Dividends paid on common shares | — | — | — | (78) |
| Issued for cash under stock option plan | 34 | (6) | — | — |
| Issued under dividend reinvestment plan | 5 | — | — | (5) |
| Stock-based compensation expense | — | 38 | — | — |
| Income tax benefit of stock option deduction in the U.S. | — | 2 | — | — |
| Adjustment to opening retained earnings arising from ineffective portion of cash flow hedges at January 1, 2007 | — | — | — | 5 |
| Adjustment to opening AOCI arising from effective portion of cash flow hedges at January 1, 2007 | — | — | 8 | — |
| Change in AOCI related to foreign currency translation | — | — | (108) | — |
| Change in AOCI related to derivative hedging activities | — | — | 14 | — |
| **At June 30, 2007, as restated** | 833 | 134 | (157) | 9 497 |
| **At December 31, 2007, as previously reported** | 881 | 194 | (253) | 10 791 |
| Retroactive adjustment for change in accounting policy (note 2) | — | — | — | 283 |
| **At December 31, 2007, as restated** | 881 | 194 | (253) | 11 074 |
| Net earnings | **—** | **—** | **—** | **1 537** |
| Dividends paid on common shares | **—** | **—** | **—** | **(88)** |
| Issued for cash under stock option plan | **200** | **(31)** | **—** | **—** |
| Issued under dividend reinvestment plan | **4** | **—** | **—** | **(4)** |
| Stock-based compensation expense | **—** | **69** | **—** | **—** |
| Income tax benefit of stock option deduction in the U.S. | | **4** | | |
| Change in AOCI related to foreign currency translation | **—** | **—** | **41** | **—** |
| Change in AOCI related to derivative hedging activities | **—** | **—** | **(54)** | **—** |
| **At June 30, 2008** | **1 085** | **236** | **(266)** | **12 519** |

See accompanying notes.

## Schedules of Segmented Data

(unaudited)

| | Second Quarter | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Oil Sands | | Natural Gas | | Refining and Marketing | | Corporate and Eliminations | | Total | |
| ($ millions) | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| **EARNINGS** | | | | | | | | | | |
| **Revenues** | | | | | | | | | | |
| Operating revenues | **1 738** | 1 334 | **209** | 136 | **2 779** | 2 251 | **5** | 1 | **4 731** | 3 722 |
| Energy marketing and trading activities | **—** | — | **—** | — | **3 253** | 684 | **(32)** | (1) | **3 221** | 683 |
| Intersegment revenues | **429** | 143 | **20** | 8 | **—** | — | **(449)** | (151) | **—** | — |
| Interest | **—** | — | **—** | — | **—** | 1 | **7** | 7 | **7** | 8 |
| | **2 167** | 1 477 | **229** | 144 | **6 032** | 2 936 | **(469)** | (144) | **7 959** | 4 413 |
| **Expenses** | | | | | | | | | | |
| Purchases of crude oil and products | **114** | 60 | **—** | — | **2 242** | 1 540 | **(416)** | (144) | **1 940** | 1 456 |
| Operating, selling and general | **640** | 575 | **39** | 37 | **182** | 176 | **25** | 28 | **886** | 816 |
| Energy marketing and trading activities | **—** | — | **—** | — | **3 265** | 666 | **(2)** | (1) | **3 263** | 665 |
| Transportation and other costs | **50** | 32 | **4** | 4 | **8** | 8 | **—** | — | **62** | 44 |
| Depreciation, depletion and amortization | **132** | 108 | **52** | 44 | **57** | 40 | **11** | 12 | **252** | 204 |
| Accretion of asset retirement obligations | **13** | 10 | **2** | 1 | **1** | 1 | **—** | — | **16** | 12 |
| Exploration | **—** | — | **31** | 37 | **—** | — | **—** | — | **31** | 37 |
| Royalties (note 11) | **130** | 99 | **51** | 32 | **—** | — | **—** | — | **181** | 131 |
| Taxes other than income taxes | **26** | 20 | **3** | 3 | **137** | 140 | **1** | 1 | **167** | 164 |
| Loss (gain) on disposal of assets | **2** | — | **(24)** | — | **2** | 1 | **—** | — | **(20)** | 1 |
| Project start-up costs | **14** | 21 | **—** | — | **—** | 2 | **—** | — | **14** | 23 |
| Financing expenses (income) | **—** | — | **—** | — | **—** | — | **6** | (74) | **6** | (74) |
| | **1 121** | 925 | **158** | 158 | **5 894** | 2 574 | **(375)** | (178) | **6 798** | 3 479 |
| **Earnings (loss) before income taxes** | **1 046** | 552 | **71** | (14) | **138** | 362 | **(94)** | 34 | **1 161** | 934 |
| Income taxes | **(295)** | (76) | **(19)** | 10 | **(47)** | (124) | **29** | (6) | **(332)** | (196) |
| **Net earnings (loss)** | **751** | 476 | **52** | (4) | **91** | 238 | **(65)** | 28 | **829** | 738 |

## Schedules of Segmented Data (continued)

(unaudited)

| | Oil Sands | | Natural Gas | | Refining and Marketing | | Corporate and Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Second Quarter | |
| ($ millions) | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| **CASH FLOW BEFORE FINANCING ACTIVITIES** | | | | | | | | | | |
| **Cash flow from (used in) operating activities:** | | | | | | | | | | |
| Cash flow from (used in) operations | | | | | | | | | | |
| Net earnings (loss) | **751** | 476 | **52** | (4) | **91** | 238 | **(65)** | 28 | **829** | 738 |
| Exploration expenses | **—** | — | **29** | 37 | **—** | — | **—** | — | **29** | 37 |
| Non-cash items included in earnings | | | | | | | | | | |
| Depreciation, depletion and amortization | **132** | 108 | **52** | 44 | **57** | 40 | **11** | 12 | **252** | 204 |
| Future income taxes | **231** | 63 | **13** | (8) | **49** | 64 | **(19)** | (6) | **274** | 113 |
| Loss (gain) on disposal of assets | **2** | — | **(24)** | — | **2** | 1 | **—** | — | **(20)** | 1 |
| Stock-based compensation expense | **13** | 10 | **—** | 1 | **4** | 3 | **8** | 6 | **25** | 20 |
| Other | **8** | 7 | **(3)** | 1 | **5** | (2) | **(32)** | (82) | **(22)** | (76) |
| Increase (decrease) in deferred credits and other | **37** | (7) | **—** | (1) | **2** | (2) | **(1)** | — | **38** | (10) |
| Total cash flow from (used in) operations | **1 174** | 657 | **119** | 70 | **210** | 342 | **(98)** | (42) | **1 405** | 1 027 |
| Decrease (increase) in operating working capital | **(664)** | 356 | **(105)** | (2) | **274** | (25) | **250** | (56) | **(245)** | 273 |
| Total cash flow from (used in) operating activities | **510** | 1 013 | **14** | 68 | **484** | 317 | **152** | (98) | **1 160** | 1 300 |
| **Cash from (used in) investing activities:** | | | | | | | | | | |
| Capital and exploration expenditures | **(1 558)** | (1 118) | **(38)** | (83) | **(26)** | (66) | **(5)** | (14) | **(1 627)** | (1 281) |
| Deferred maintenance shutdown expenditures | **(240)** | (56) | **(2)** | — | **—** | (11) | **—** | — | **(242)** | (67) |
| Deferred outlays and other investments | **(25)** | 1 | **—** | — | **1** | (2) | **2** | 1 | **(22)** | — |
| Proceeds from disposals | **—** | — | **25** | — | **—** | 1 | **—** | — | **25** | 1 |
| Decrease (increase) in investing working capital | **89** | 17 | **—** | — | **(1)** | 8 | **—** | — | **88** | 25 |
| Total cash (used in) investing activities | **(1 734)** | (1 156) | **(15)** | (83) | **(26)** | (70) | **(3)** | (13) | **(1 778)** | (1 322) |
| **Net cash surplus (deficiency) before financing activities** | **(1 224)** | (143) | **(1)** | (15) | **458** | 247 | **149** | (111) | **(618)** | (22) |

## Schedules of Segmented Data (continued)

(unaudited)

Six months ended June 30

| ($ millions) | Oil Sands 2008 | Oil Sands 2007 | Natural Gas 2008 | Natural Gas 2007 | Refining and Marketing 2008 | Refining and Marketing 2007 | Corporate and Eliminations 2008 | Corporate and Eliminations 2007 | Total 2008 | Total 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EARNINGS** | | | | | | | | | | |
| **Revenues** | | | | | | | | | | |
| Operating revenues | **3 683** | 2 777 | **371** | 280 | **4 801** | 4 037 | **10** | 3 | **8 865** | 7 097 |
| Energy marketing and trading activities | **—** | — | **—** | — | **5 134** | 1 255 | **(65)** | (2) | **5 069** | 1 253 |
| Intersegment revenues | **730** | 294 | **30** | 8 | **—** | — | **(760)** | (302) | **—** | — |
| Interest | **—** | — | **—** | — | **—** | 4 | **13** | 10 | **13** | 14 |
| | **4 413** | 3 071 | **401** | 288 | **9 935** | 5 296 | **(802)** | (291) | **13 947** | 8 364 |
| **Expenses** | | | | | | | | | | |
| Purchases of crude oil and products | **161** | 69 | **—** | — | **3 795** | 2 810 | **(758)** | (298) | **3 198** | 2 581 |
| Operating, selling and general | **1 357** | 1 165 | **79** | 77 | **357** | 351 | **66** | 43 | **1 859** | 1 636 |
| Energy marketing and trading activities | **—** | — | **—** | — | **5 117** | 1 239 | **(3)** | (3) | **5 114** | 1 236 |
| Transportation and other costs | **92** | 64 | **7** | 9 | **15** | 15 | **—** | — | **114** | 88 |
| Depreciation, depletion and amortization | **261** | 208 | **110** | 85 | **108** | 79 | **21** | 22 | **500** | 394 |
| Accretion of asset retirement obligations | **27** | 20 | **4** | 3 | **1** | 1 | **—** | — | **32** | 24 |
| Exploration | **9** | 13 | **34** | 56 | **—** | — | **—** | — | **43** | 69 |
| Royalties (note 11) | **412** | 256 | **91** | 64 | **—** | — | **—** | — | **503** | 320 |
| Taxes other than income taxes | **53** | 41 | **3** | 3 | **260** | 277 | **1** | 1 | **317** | 322 |
| Loss (gain) on disposal of assets | **2** | — | **(24)** | — | **4** | 1 | **—** | — | **(18)** | 1 |
| Project start-up costs | **21** | 23 | **—** | — | **—** | 3 | **—** | — | **21** | 26 |
| Financing expenses (income) | **—** | — | **—** | — | **—** | — | **85** | (85) | **85** | (85) |
| | **2 395** | 1 859 | **304** | 297 | **9 657** | 4 776 | **(588)** | (320) | **11 768** | 6 612 |
| **Earnings (loss) before income taxes** | **2 018** | 1 212 | **97** | (9) | **278** | 520 | **(214)** | 29 | **2 179** | 1 752 |
| Income taxes | **(572)** | (268) | **(26)** | 9 | **(92)** | (176) | **48** | (3) | **(642)** | (438) |
| **Net earnings (loss)** | **1 446** | 944 | **71** | — | **186** | 344 | **(166)** | 26 | **1 537** | 1 314 |
| As at June 30 | | | | | | | | | | |
| **TOTAL ASSETS** | **21 181** | 15 632 | **1 939** | 1 717 | **5 974** | 4 194 | **999** | 26 | **30 093** | 21 569 |

## Schedules of Segmented Data (continued)

(unaudited)

Six months ended June 30

| ($ millions) | Oil Sands 2008 | Oil Sands 2007 | Natural Gas 2008 | Natural Gas 2007 | Refining and Marketing 2008 | Refining and Marketing 2007 | Corporate and Eliminations 2008 | Corporate and Eliminations 2007 | Total 2008 | Total 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **CASH FLOW BEFORE FINANCING ACTIVITIES** | | | | | | | | | | |
| **Cash flow from (used in) operating activities:** | | | | | | | | | | |
| Cash flow from (used in) operations | | | | | | | | | | |
| Net earnings (loss) | **1 446** | 944 | **71** | — | **186** | 344 | **(166)** | 26 | **1 537** | 1 314 |
| Exploration expenses | **—** | — | **29** | 52 | **—** | — | **—** | — | **29** | 52 |
| Non-cash items included in earnings | | | | | | | | | | |
| Depreciation, depletion and amortization | **261** | 208 | **110** | 85 | **108** | 79 | **21** | 22 | **500** | 394 |
| Future income taxes | **366** | 112 | **16** | (8) | **80** | 93 | **(34)** | (4) | **428** | 193 |
| Loss (gain) on disposal of assets | **2** | — | **(24)** | — | **4** | 1 | **—** | — | **(18)** | 1 |
| Stock-based compensation expense | **35** | 18 | **2** | 2 | **11** | 8 | **21** | 10 | **69** | 38 |
| Other | **(16)** | (13) | **(3)** | 4 | **10** | — | **40** | (115) | **31** | (124) |
| Increase (decrease) in deferred credits and other | **(10)** | (12) | **—** | (1) | **1** | (3) | **(1)** | — | **(10)** | (16) |
| Total cash flow from (used in) operations | **2 084** | 1 257 | **201** | 134 | **400** | 522 | **(119)** | (61) | **2 566** | 1 852 |
| Decrease (increase) in operating working capital | **(464)** | 347 | **(64)** | 11 | **164** | (70) | **(188)** | (135) | **(552)** | 153 |
| Total cash flow from (used in) operating activities | **1 620** | 1 604 | **137** | 145 | **564** | 452 | **(307)** | (196) | **2 014** | 2 005 |
| **Cash from (used in) investing activities:** | | | | | | | | | | |
| Capital and exploration expenditures | **(2 849)** | (1 911) | **(164)** | (358) | **(54)** | (123) | **(9)** | (20) | **(3 076)** | (2 412) |
| Deferred maintenance shutdown expenditures | **(259)** | (56) | **(2)** | (1) | **(21)** | (12) | **—** | — | **(282)** | (69) |
| Deferred outlays and other investments | **(31)** | 1 | **—** | — | **—** | (2) | **(2)** | — | **(33)** | (1) |
| Proceeds from disposals | **—** | — | **25** | — | **—** | 1 | **—** | — | **25** | 1 |
| Decrease (increase) in investing working capital | **191** | 90 | **—** | — | **(13)** | (31) | **—** | — | **178** | 59 |
| Total cash (used in) investing activities | **(2 948)** | (1 876) | **(141)** | (359) | **(88)** | (167) | **(11)** | (20) | **(3 188)** | (2 422) |
| **Net cash surplus (deficiency) before financing activities** | **(1 328)** | (272) | **(4)** | (214) | **476** | 285 | **(318)** | (216) | **(1 174)** | (417) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 1. ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent annual financial statements, except for the accounting policy changes as described in note 2, Changes in Accounting Policies. Certain information and disclosures normally required to be included in notes to the annual consolidated financial statements have been condensed or omitted.

In the opinion of management, these interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Suncor Energy Inc.'s (Suncor) financial position at June 30, 2008 and the results of its operations and cash flows for the three and six month periods ended June 30, 2008 and 2007.

Certain prior period comparative figures have been reclassified to conform to the current period presentation.

## 2. CHANGES IN ACCOUNTING POLICIES

### (a) Inventories

On January 1, 2008 the company retroactively adopted the Canadian Institute of Chartered Accountants (CICA) Handbook section 3031 "Inventories". Under the new standard, the use of a LIFO (last-in-first-out) based valuation approach for inventory has been eliminated. The standard also required any impairment to net realizable value of inventory to be written down at each reporting period, with subsequent reversals when applicable. The company transitioned to a FIFO (first-in-first-out) based valuation approach for inventory effective January 1, 2008. The impact of adopting this accounting standard is as follows:

**Change in Consolidated Balance Sheets**

| ($ millions, increase/(decrease)) | **As at June 30 2008** | As at December 31 2007 |
|---|---|---|
| Inventories | **819** | 404 |
| Total assets | **819** | 404 |
| Accounts payable and accrued liabilities | **(56)** | — |
| Future income taxes | **267** | 121 |
| Retained earnings | **608** | 283 |
| Total liabilities and shareholders' equity | **819** | 404 |

**Change in Consolidated Statements of Earnings and Comprehensive Income**

| | Second quarter | | Six months ended June 30 | |
|---|---|---|---|---|
| ($ millions, increase/(decrease)) | **2008** | 2007 | **2008** | 2007 |
| Purchases of crude oil and products | **(239)** | (62) | **(335)** | (75) |
| Operating, selling and general | **(178)** | (81) | **(136)** | (103) |
| Future income taxes | **122** | 46 | **146** | 56 |
| Net earnings | **295** | 97 | **325** | 122 |
| Per common share – basic (dollars) | **0.32** | 0.11 | **0.35** | 0.13 |
| Per common share – diluted (dollars) | **0.31** | 0.10 | **0.34** | 0.13 |

**(b) Capital Disclosure**

On January 1, 2008, the company adopted CICA Handbook section 1535 "Capital Disclosures". This section establishes disclosure requirements for management's policies and processes in defining and managing its capital. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard.

**(c) Financial Instruments – Disclosures and Presentation**

On January 1, 2008, the company adopted CICA Handbook sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation", which enhance existing disclosures for financial instruments. In particular, section 3862 focuses on the identification of risk exposures and the company's approach to management of these risks. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard.

## 3. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

*Derivatives are financial instruments that either imitate or counter the price movements of stocks, bonds, currencies, commodities and interest rates. Suncor uses derivatives to reduce (hedge) its exposure to fluctuations in commodity prices and foreign currency exchange rates and to manage interest rate or currency-sensitive assets and liabilities. Suncor also uses derivatives for trading purposes. When used in a trading activity, the company is attempting to realize a gain on the fluctuations in the market value of the derivative.*

*Forwards and futures are contracts to purchase or sell a specific item at a specified date and price. When used as hedges, forwards and futures help to manage the exposure to losses that could result if commodity prices, foreign currency exchange rates, or interest rates change adversely.*

*An option is a contract where its holder, for a fee, has purchased the right (but not the obligation) to buy or sell a specified item at a fixed price during a specified period. Options used as hedges help to protect against adverse changes in commodity prices, interest rates, or foreign currency exchange rates.*

*A costless collar is a combination of two option contracts that limit the holder's exposure to changes in prices to within a specific range. The "costless" nature of this derivative is achieved by buying a put option (the right to sell) for consideration equal to the premium received from selling a call option (the right to purchase).*

*A swap is a contract where two parties exchange commodity, currency, interest or other payments in order to alter the nature of the payments. For example, fixed interest rate payments on debt may be converted to payments based on a floating interest rate, or vice versa; a domestic currency debt may be converted to a foreign currency debt.*

*Hedge accounting is a method for recognizing the gains, losses, revenues and expenses associated with the items in a hedging relationship at the time when the underlying transaction impacts earnings. Suncor has elected to use hedge accounting on certain derivatives linked to future commodity and financial transactions.*

**Financial Instruments**

**(a) Balance Sheet Financial Instruments**

The company's financial instruments in the Consolidated Balance Sheets consist of cash and cash equivalents, accounts receivable, derivative contracts, substantially all current liabilities (except for the current portions of asset retirement and pension obligations), and long-term debt. Unless otherwise noted, carrying values reflect the current fair value of the company's financial instruments.

The estimated fair values of recognized financial instruments have been determined based on the company's assessment of available market information and appropriate valuation methodologies based on industry accepted third-party models; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction.

The company's fixed-term debt is accounted for under the amortized cost method. Upon initial recognition, the cost of the debt is its fair value, adjusted for any associated transaction costs. We do not recognize gains or losses arising from changes in the fair value of this debt until the gains or losses are realized. Gains or losses on our U.S. dollar denominated long-term debt resulting from changes in the exchange rate are recognized in the period in which they occur. At June 30, 2008, the carrying value of our fixed-term debt accounted for under the amortized cost method was $5.8 billion (fair value – $5.8 billion).

**(b) Hedges – Documented as Part of a Qualifying Hedge Relationship**

***Fair Value Hedges***

Suncor periodically enters into derivative financial instrument contracts such as interest rate swaps as part of its risk management strategy to manage its exposure to benchmark interest rate fluctuations. The interest rate swap contracts involve an exchange of floating rate versus fixed rate interest payments between the company and investment grade counterparties. The differentials on the exchange of periodic interest payments are recognized in the accounts as an adjustment to interest expense. The fair value of the underlying debt is adjusted by the fair value change in the derivative financial instrument with the offset to interest expense. At June 30, 2008, the company had interest rate derivatives classified as fair value hedges outstanding for up to 3 years relating to fixed-rate debt. There was no ineffectiveness recognized on interest rate swaps designated as fair value hedges during the three and six month periods ended June 30, 2008 (no ineffectiveness during the three and six month periods ended June 30, 2007). The fair value of interest rate swap contracts outstanding at June 30, 2008 is detailed in note 12, Long-term debt.

The company periodically enters into derivative contracts to hedge risks specific to individual transactions. The differentials between the fair value of the hedged transactions and the fair value of the derivative contracts are recognized in the accounts as an adjustment to operating revenues. The earnings impact associated with hedge ineffectiveness on derivative contracts to hedge risks specific to individual transactions during the three month period ended June 30, 2008 was a loss of $2 million, net of income taxes of less than $1 million (2007 – nil). During the six month period ended June 30, 2008, the earnings impact was a loss of $3 million, net of income taxes of $1 million (2007 – nil).

***Cash Flow Hedges***

Suncor operates in a global industry where the market price of its petroleum and natural gas products is largely determined based on floating benchmark indices. The company periodically enters into derivative financial instrument contracts such as forwards, futures, swaps, options and costless collars to hedge against the potential adverse impact of changing market prices due to changes in the underlying indices. Specifically, the company manages crude sales price variability by entering into West Texas Intermediate (WTI) derivative transactions, and manages variability in market interest rates and foreign exchange rates during periods of debt issuance through the use of interest rate locks and foreign exchange forward contracts.

At June 30, 2008, the company had hedged a portion of its forecasted U.S. dollar denominated cash flows subject to U.S. dollar WTI commodity risk for 2008, as well as cash flows related to natural gas production in 2008.

There was no earnings impact associated with realized and unrealized hedge ineffectiveness on derivative contracts designated as cash flow hedges during the three month period ended June 30, 2008 (2007 – loss of $8 million, net of income taxes of $2 million), and there was also no earnings impact during the six month period ended June 30, 2008 (2007 – loss of $6 million, net of income taxes of $2 million).

Certain derivative contracts do not require the payment of premiums or cash margin deposits prior to settlement. On settlement, these contracts result in cash receipts or payments by the company for the difference between the contract and market rates for the applicable dollars and volumes hedged during the contract term. Such cash receipts or payments offset corresponding decreases or increases in the company's sales revenues or crude oil purchase costs. For collars, if market rates are not different than, or are within the range of contract prices, the options contracts making up the collar will expire with no exchange of cash.

Revenue hedge contracts outstanding at June 30, 2008 were as follows:

| Crude Oil | Quantity (bpd) | Average Price (US$/bbl)[(a)] | Revenue Hedged (Cdn$ millions)[(b)] | Hedge Period[(c)] |
|---|---|---|---|---|
| **Costless collars** | **10 000** | **59.85 - 101.06** | **112 - 189** | **2008** |

| Natural Gas | Quantity (GJ/day) | Average Price (Cdn$/GJ) | Revenue Hedged (Cdn$ millions) | Hedge Period[(d)] |
|---|---|---|---|---|
| **Costless collars** | **15 000** | **7.00 - 8.71** | **13 - 16** | **2008** |

(a) Average price for crude oil costless collars is US$ WTI per barrel at Cushing, Oklahoma.

(b) The revenue hedged is translated to Cdn$ at the June 30, 2008 exchange rate for convenience purposes.

(c) Original hedge term is for the full year.

(d) For the period July to October 2008, inclusive.

***Fair Value of Hedging Derivative Financial Instruments***

The fair value of hedging derivative financial instruments as recorded, is the estimated amount that the company would receive (pay) to terminate the hedging derivative contracts. Such amounts, which also represent the unrealized gain (loss) on the contracts, were as follows:

| ($ millions) | **June 30 2008** | December 31 2007 |
|---|---|---|
| Revenue hedge collars | **(79)** | (11) |
| Fixed to floating interest rate swaps | **11** | 8 |
| Specific hedges of individual transactions | **19** | 12 |
| Fair value of outstanding hedging derivative financial instruments | **(49)** | 9 |

***Accumulated Other Comprehensive Income (AOCI)***

A reconciliation of changes in AOCI attributable to derivative hedging activities for the six month period ending June 30, 2008 is as follows:

| ($ millions) | **2008** |
|---|---|
| AOCI attributable to derivatives and hedging activities, at December 31, 2007, net of income taxes of $4 | 13 |
| Current year net changes arising from cash flow hedges, net of income taxes of $23 | (57) |
| Net unrealized hedging losses at the beginning of the year reclassified to earnings during the period, net of income taxes of $1 | 3 |
| AOCI attributable to derivatives and hedging activities, at June 30, 2008, net of income taxes of $18 | (41) |

**(c) Hedges – Not Documented as Part of a Qualifying Hedge Relationship**

Suncor also periodically enters into derivative financial instruments such as options, basis swaps, and heat rate swaps that either do not qualify for hedge accounting treatment or hedges that Suncor has not elected to document as part of a qualifying hedge relationship. These financial instruments are accounted for using the mark-to-market method and, as such, these derivative instruments are recorded at fair value at each balance sheet date. The earnings impact associated with these contracts for the three month period ended June 30, 2008, was a loss of $50 million, net of income taxes of $20 million (2007 – a gain of $1 million, net of income taxes of less than $1 million). During the six month period ended June 30, 2008, the earnings impact was a loss of $60 million net of income taxes of $24 million (2007 – a loss of $2 million, net of income taxes of $1 million).

Significant contracts outstanding at June 30 were as follows:

| Crude Oil [(d)] | Quantity (bpd) | Price (US$/bbl)[(a)] | Revenue Hedged (Cdn$ millions)[(b)] | Hedge Period[(c)] |
|---|---|---|---|---|
| **Purchased puts** | **55 000** | **60.00** | **1 227** | **2009** |
| **Purchased puts** | **55 000** | **60.00** | **1 227** | **2010** |

(a) Price for crude puts is US$ WTI per barrel at Cushing, Oklahoma.

(b) The revenue hedged is translated to Cdn$ at the June 30, 2008 exchange rate for convenience purposes.

(c) Original hedge term is for the full year.

(d) Premium paid was US$59 million.

**(d) Energy Marketing and Trading Activities**

In addition to the financial derivatives used for hedging activities, the company uses physical and financial energy contracts, including swaps, forwards and options to earn trading and marketing revenues. Financial energy trading activities are accounted for using the mark-to-market method. Physical energy marketing contracts involve activities intended to enhance prices and satisfy physical deliveries to customers. The results of these activities are reported as revenue and as energy marketing and trading expenses in the

Consolidated Statements of Earnings and Comprehensive Income. Net pretax earnings (loss) for the three and six month periods ended June 30 for our energy and trading activities in our refining and marketing segment were as follows:

**Net Pretax Earnings (Loss)**

| | Second quarter | | Six Months ended June 30 | |
|---|---|---|---|---|
| ($ millions) | **2008** | 2007 | **2008** | 2007 |
| Physical energy contracts trading activity | **(18)** | 19 | **12** | 21 |
| Financial energy contracts trading activity | **8** | (1) | **8** | (5) |
| General and administrative costs | **(2)** | — | **(3)** | (1) |
| Total | **(12)** | 18 | **17** | 15 |

**(e) Fair Value of Non-Designated Derivative Financial Instruments**

The fair value of unsettled (unrealized) energy derivative assets and liabilities, which includes all financial contracts referenced in section (c) & (d) above are as follows:

| | **June 30** | December 31 |
|---|---|---|
| ($ millions) | **2008** | 2007 |
| Energy trading assets | **68** | 18 |
| Energy trading liabilities | **113** | 21 |
| Net energy trading liabilities | **(45)** | (3) |

**Change in fair value of net assets**

| ($ millions) | **2008** |
|---|---|
| Fair value of contracts at December 31, 2007 | (3) |
| Fair value of contracts realized during the period | 61 |
| Fair value of contracts entered into during the period | (83) |
| Changes in values attributable to market price and other market changes during the period | (20) |
| **Fair value of contracts outstanding at June 30, 2008** | **(45)** |

**Financial Risk Factors**

The company is exposed to a number of different financial risks arising from normal course business exposures, as well as the company's use of financial instruments. These risk factors include market risks relating to commodity prices, foreign currency risk and interest rate risk, as well as liquidity risk and credit risk.

The company maintains a formal governance process to manage its financial risks. Our Risk Management Committee (RMC) is charged with the oversight of the company's risk management for trading risk management activities which are defined as strategic hedging, optimization trading, marketing and speculative trading. The RMC, acting under board authority, meets regularly to monitor limits on risk exposures, review policy compliance and validate risk-related methodologies and procedures. All risk management activity is carried out by specialist teams that have the appropriate skills, experience and supervision with the appropriate financial and management controls, and is unchanged from the prior year.

**1) Market Risk**

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the company's financial assets, liabilities and expected future cash flows include commodity price risk (crude oil, natural gas and electricity price), foreign currency exchange risk and interest rate risk.

**(a) Commodity Price Risk**

The company's financial performance is closely linked to crude oil prices (including pricing differentials for various product types), and to a lesser extent, natural gas and electricity prices. The company's policies permit the use of various financial instruments in managing these price exposures. Our strategic crude oil hedging program gives management approval to fix a price or range of prices for approximately 30% of the total crude oil planned production for specified periods of time. Historically, the company has leveraged hedging instruments to stabilize cash flows during periods of growth and expansion. The company will consider additional strategic hedging opportunities as they become available.

A key component of our overall business strategy is to produce sufficient natural gas to meet or exceed internal demands for natural gas purchased for consumption in our oil sands operation, thus creating a price hedge which reduces our exposure to natural gas price volatility. In addition, existing corporate policies also permit the hedging of natural gas exposures to manage regional price differentials and pricing indexes as identified.

Changes in commodity prices on our financial contracts would have the following impact on our net earnings and other comprehensive income for the three months ended June 30, 2008:

**Sensitivity Analysis**

| ($ millions) | June 30, 2008[1] | Change | Net Earnings | Other Comprehensive Income |
|---|---|---|---|---|
| Crude Oil | US$138.55/barrel | | | |
| Price increase | | US$1.00/barrel | (1) | (1) |
| Price decrease | | US$1.00/barrel | 1 | 1 |
| Natural Gas | US$10.87/mcf | | | |
| Price increase | | US$0.10/mcf | 1 | — |
| Price decrease | | US$0.10/mcf | (1) | — |

(1) Prices represent the average of the forward strip prices at June 30, 2008.

**(b) Foreign Currency Exchange Risk**

The company is exposed to changes in foreign exchange rates as revenues, capital expenditures, or financial instruments may fluctuate due to changing rates. As crude oil, the company's primary product, is priced in U.S. dollars, fluctuations in US$/Cdn$ exchange rates may have a significant impact on revenues. The company's exposure is partially offset through the issuance of U.S. dollar denominated long-term debt (refer to note 12) and by sourcing capital projects in U.S. dollars. The company does not currently hedge foreign currency risk on estimated revenues. The effect of a $0.01 change in the US$/Cdn$ exchange rate on our U.S. dollar denominated long-term debt would change after-tax earnings by approximately $35 million.

Where an operating unit has substantial exposure to capital expenditures in currencies other than the U.S. dollar, the company may hedge these risks through a combination of forward and option instruments. Transactions in the applicable financial market are executed consistent with established risk management policies.

**(c) Interest Rate Risk**

The company is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair values of its financial instruments. The primary exposure is related to notes and commercial paper. The company seeks to optimize this risk through the use of interest rate swaps by swapping fixed rates of interest for variable rates (see page 29) and other derivative instruments.

To optimize the company's position with respect to interest expense, the company targets 30% to 50% of interest should be based on floating rates. Over time this floating/fixed rate mix will fluctuate based on prevailing market conditions and management's assessment of overall risk.

The proportion of floating interest rate exposure inclusive of interest rate swaps at June 30, 2008 was 10% of total debt outstanding. The weighted average interest rate on total debt for the quarter ending June 30, 2008 was 5.7%.

The company's cash flows are sensitive to changes in interest rates on the floating rate portion of the company's debt. Given our current growth and expansion plans, all interest is currently being capitalized and therefore there is no earnings impact. If the interest rates applicable to floating rate instruments were to have increased by 1%, it is estimated that the company's cash flow for the quarter would decrease by approximately $2 million. This assumes that the amount and mix of fixed and floating rate debt remains unchanged from June 30, 2008, and that the change in interest rates is effective from the beginning of the period.

**2) Liquidity Risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and debt capital markets), and to undrawn committed borrowing facilities to meet current spending forecasts.

Surplus cash is invested into a range of short-dated money market securities and the company seeks to ensure the security and liquidity of those investments. Investments are only permitted in high credit quality government or corporate securities. Diversification of these investments is supported through maintaining counterparty credit limits.

The following table shows the timing of cash outflows relating to trade and other payables and finance debt.

| | **June 30, 2008** | | December 31, 2007 | |
|---|---|---|---|---|
| ($ millions) | Trade and other payables(1) | Finance debt(2) | Trade and other payables(1) | Finance debt(2) |
| Within one year | **3 461** | **861** | 2 843 | 764 |
| 1 to 3 years | **329** | **783** | 347 | 427 |
| 3 to 5 years | **—** | **1 211** | — | 917 |
| Over 5 years | **19** | **11 735** | 19 | 6 985 |
| | **3 809** | **14 590** | 3 209 | 9 093 |

(1) These balances exclude non-financial liabilities (pension liabilities, asset retirement obligation, future income taxes and financial instruments) totaling $1,588 million and $1,375 million at June 30, 2008 and December 31, 2007 respectively.

(2) Finance debt includes long-term debt, capital leases and interest payments on fixed-term debt and commercial paper.

**3) Credit Risk**

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. We have a credit policy that is designed to ensure there is a standard credit practice throughout the company to measure and monitor credit risk. The policy outlines delegation of authority, the due diligence process required to approve a new customer or counterparty and the maximum amount of credit exposure per single entity. Before transactions begin with a new customer or counterparty, its creditworthiness is assessed, a credit rating is assigned and a maximum credit limit is allocated. The assessment process is outlined in the credit policy and considers both quantitative and qualitative factors. The company constantly monitors the exposure to any single customer or counterparty along with the financial position of the customer or counterparty. If it is deemed that a customer or counterparty has become materially weaker, the company will work to reduce the credit exposure and lower the credit limit allocated. Regular reports are generated to monitor credit risk and the Credit Committee meets quarterly to ensure compliance with the credit policy and review the exposures.

A substantial portion of the company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. At June 30, 2008, substantially all of the company's trade receivables were current, and there were no counterparties that individually constituted more than 10% of the outstanding balance.

The company has issued collateral for $4,635 million and holds collateral of $2,059 million at June 30, 2008. Collateral issued and received consists mainly of parental guarantees and letters of credit.

The company may be exposed to certain losses in the event that counterparties to derivative financial instruments are unable to meet the terms of the contracts. The company's exposure is limited to those counterparties holding derivative contracts with positive fair values at the reporting date. At June 30, 2008, the company's exposure was $98 million (December 31, 2007 – $38 million).

**4. CAPITAL STRUCTURE FINANCIAL POLICIES**

Suncor's primary capital management objective is to maintain a solid investment-grade credit rating profile. This objective affords the company the financial flexibility and access to the capital it requires to execute on its growth objectives.

Suncor monitors capital through two key ratios: net debt to cash flow from operations and total debt to total debt plus shareholders' equity.

Net debt to cash flow from operations is calculated as short-term debt plus long-term debt less cash and cash equivalents divided by 12 month trailing cash flow from operations.

Total debt to total debt plus shareholders' equity is calculated as short term-debt plus long-term debt divided by short-term debt plus long-term debt plus shareholders' equity.

Suncor's strategy during Q2 2008, which was unchanged from 2007, was to maintain the measure set out in the following schedule. Suncor believes that maintaining our capital target helps to provide the company access to capital at a reasonable cost by maintaining solid investment-grade credit ratings.

| At June 30, ($ millions) | Capital Measure Target | **2008** | 2007 |
|---|---|---|---|
| Components of ratios | | | |
| Short-term debt | | **6** | 6 |
| Long-term debt | | **6 547** | 3 152 |
| Total debt | | **6 553** | 3 158 |
| Cash and equivalents | | **2 146** | 952 |
| Net debt | | **4 407** | 2 206 |
| Shareholders' equity | | **13 574** | 10 307 |
| Total capitalization (total debt + shareholders' equity) | | **20 127** | 13 465 |
| Cash flow from operations (trailing 12 months) | | **4 723** | 3 695 |
| Net debt/cash flow from operations | <2.0 times | **0.9** | 0.6 |
| Total debt/total debt plus shareholders' equity | | **33%** | 23% |

### 5. FINANCING EXPENSES (INCOME)

| ($ millions) | Second quarter **2008** | 2007 | Six months ended June 30 **2008** | 2007 |
|---|---|---|---|---|
| Interest expense on debt | **77** | 42 | **141** | 80 |
| Capitalized interest | **(77)** | (42) | **(141)** | (80) |
| Net interest expense | **—** | — | **—** | — |
| Foreign exchange (gain) loss on long-term debt | **(21)** | (95) | **65** | (107) |
| Other foreign exchange loss | **27** | 21 | **20** | 22 |
| Total financing expenses (income) | **6** | (74) | **85** | (85) |

### 6. RECONCILIATION OF BASIC AND DILUTED EARNINGS PER COMMON SHARE

| ($ millions) | Second quarter **2008** | 2007 (restated) | Six months ended June 30 **2008** | 2007 (restated) |
|---|---|---|---|---|
| Net earnings | **829** | 738 | **1 537** | 1 314 |
| (millions of common shares) | | | | |
| Weighted-average number of common shares | **931** | 921 | **929** | 921 |
| Dilutive securities: | | | | |
| Options issued under stock-based compensation plans | **22** | 21 | **19** | 21 |
| Weighted-average number of diluted common shares | **953** | 942 | **948** | 942 |
| (dollars per common share) | | | | |
| Basic earnings per share [a] | **0.89** | 0.80 | **1.66** | 1.43 |
| Diluted earnings per share [b] | **0.87** | 0.78 | **1.62** | 1.40 |

Note: An option will have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the option.

(a) Basic earnings per share is net earnings divided by the weighted-average number of common shares.

(b) Diluted earnings per share is net earnings, divided by the weighted-average number of diluted common shares.

## 7. SHARE CAPITAL AND STOCK-BASED COMPENSATION

*A common share option gives the holder the right, but not the obligation, to purchase common shares at a predetermined price over a specified period of time.*

*After the date of grant, employees and non-employee directors that hold options must earn the right to exercise them. This is done by the holder fulfilling a time requirement for service to the company, and with respect to certain options, is subject to accelerated vesting should the company meet predetermined performance criteria. Once this right has been earned, these options are considered vested.*

*The predetermined price at which an option can be exercised is equal to or greater than the market price of the common shares on the date the option is granted.*

*A performance vesting share unit is an award entitling employees to receive cash to varying degrees contingent upon Suncor's shareholder return relative to a peer group of companies.*

*A restricted share unit is a time-vested award with a three-year term entitling employees to receive cash.*

### (a) Stock Split

In May 2008, the Company implemented a two-for-one stock split of its issued and outstanding common shares. Information related to common shares, stock-based compensation, and earnings per share has been restated to reflect the impact of the Company's two-for-one stock split.

### (b) Stock Option Plans:

***(i) SunShare 2012 Performance Stock Option Plan***

The company granted 826,000 options in the second quarter of 2008 under its new employee stock-based compensation plan ("SunShare 2012"), for a total of 1,056,000 options granted in the six months ended June 30, 2008. During the second quarter, in connection with the achievement of a predetermined performance criterion, 25% of the outstanding options vested under the SunShare 2012 plan and will become exercisable on January 1, 2010. The remaining 75% of outstanding options may vest on January 1, 2013 if further specified performance targets are met. All unvested options at January 1, 2013, which have not previously expired or been cancelled, will automatically expire.

***(ii) SunShare Performance Stock Option Plan***

Granting of options under the company's previous employee stock option incentive plan ("SunShare") ended in December 2007. During the second quarter of 2007, 896,000 options were granted to eligible full-time and part-time employees under the SunShare plan (1,520,000 options granted in the first six months of 2007). Final vesting of all unvested SunShare options occurred on April 30, 2008.

***(iii) Executive Stock Option Plan***

Under this plan, the company granted 26,000 common share options in the second quarter of 2008, for a total of 828,000 options granted in the six months ended June 30, 2008 (no options granted during the second quarter of 2007; 914,000 granted in the six months ended June 30, 2007) to non-employee directors and certain executives and other senior members of the company. Options granted have a ten-year life and vest annually over a three year period.

***(iv) Key Contributor Stock Option Plan***

Under this plan, the company granted 22,000 common share options in the second quarter of 2008, for a total of 2,362,000 options granted in the six months ended June 30, 2008 (36,000 options granted during the second quarter of 2007; 2,352,000 granted in the six months ended June 30, 2007) to non-insider senior managers and key employees. Options granted have a ten-year life and vest annually over a three-year period.

**Fair Value of Options Granted**

The fair values of all common share options granted during the period are estimated as at the grant date using the Monte Carlo simulation approach for the SunShare 2012 option plan and the Black-Scholes option-pricing model for all other option plans. The weighted-average fair values of the options granted during the various periods and the weighted-average assumptions used in their determination are as noted below:

| | Second quarter | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Quarterly dividend per share | **$0.05** | $0.05 | **$0.05** | $0.05* |
| Risk-free interest rate | **3.06%** | 4.18% | **3.51%** | 4.10% |
| Expected life | **5 years** | 3 years | **6 years** | 5 years |
| Expected volatility | **30%** | 31% | **28%** | 29% |
| Weighted-average fair value per option | **$12.80** | $11.46 | **$15.07** | $13.87 |

* In 2007, quarterly dividends of $0.04 per share were paid in the first quarter, and $0.05 per share were paid in the second quarter.

Stock-based compensation expense recognized in the second quarter of 2008 related to stock option plans was $25 million (2007 – $20 million). For the six months ended June 30, 2008 stock-based compensation expense recognized was $69 million (2007 – $38 million).

Common share options granted prior to January 1, 2003 are not recognized as compensation expense in the Consolidated Statements of Earnings. The company's reported net earnings attributable to common shareholders and earnings per share prepared in accordance with the fair value method of accounting for stock-based compensation would have been reduced for all common share options granted prior to 2003 to the pro forma amounts stated below:

| | Second quarter | | Six months ended June 30 | |
|---|---|---|---|---|
| ($ millions, except per share amounts) | **2008** | 2007 (restated) | **2008** | 2007 (restated) |
| Net earnings – as reported | **829** | 738 | **1 537** | 1 314 |
| Less: compensation cost under the fair value method for pre-2003 options | **1** | 2 | **4** | 5 |
| Pro forma net earnings | **828** | 736 | **1 533** | 1 309 |
| Basic earnings per share | | | | |
| As reported | **0.89** | 0.80 | **1.66** | 1.43 |
| Pro forma | **0.89** | 0.80 | **1.65** | 1.42 |
| Diluted earnings per share | | | | |
| As reported | **0.87** | 0.78 | **1.62** | 1.40 |
| Pro forma | **0.87** | 0.78 | **1.62** | 1.39 |

**(c) Performance Share Units (PSUs)**

In the second quarter of 2008 the company issued 18,000 PSUs (2007 – 30,000). For the six months ended June 30, 2008, the company issued 780,000 PSUs (2007 – 828,000). Expense recognized in the second quarter of 2008 was $15 million (2007 – $17 million in expense). Expense recognized for the six months ended June 30, 2008 was $10 million (2007 – $36 million).

**(d) SunShare 2012 Restricted Share Units (RSUs)**

In the second quarter of 2008 the company issued 46,000 RSUs under its new employee stock-based compensation plan. For the six months ended June 30, 2008, the company issued 976,000 RSUs. Expense recognized in the second quarter of 2008 was $5 million and expense recognized for the six months ended June 30, 2008 was $9 million.

## 8. EMPLOYEE FUTURE BENEFITS LIABILITY

The company's pension plans and other post-retirement benefits programs are described in note 9 of the company's 2007 Annual Report. The following is the status of the net periodic benefit cost for the three and six months ended June 30.

| | | | | Pension Benefits |
|---|---|---|---|---|
| | Second Quarter | | Six months ended June 30 | |
| | **2008** | 2007 | **2008** | 2007 |
| Current service costs | **14** | 13 | **28** | 26 |
| Interest costs | **12** | 11 | **24** | 22 |
| Expected return on plan assets | **(11)** | (10) | **(22)** | (21) |
| Amortization of net actuarial loss | **5** | 6 | **11** | 12 |
| Net periodic benefit cost | **20** | 20 | **41** | 39 |

| | | | | Other Post-Retirement Benefits |
|---|---|---|---|---|
| | Second Quarter | | Six months ended June 30 | |
| | **2008** | 2007 | **2008** | 2007 |
| Current service costs | **1** | 1 | **2** | 2 |
| Interest costs | **3** | 2 | **5** | 4 |
| Amortization of net actuarial loss | **—** | 1 | **1** | 1 |
| Net periodic benefit cost | **4** | 4 | **8** | 7 |

## 9. SUPPLEMENTAL INFORMATION

| | Second quarter | | Six months ended June 30 | |
|---|---|---|---|---|
| ($ millions) | **2008** | 2007 | **2008** | 2007 |
| Interest paid | **58** | 22 | **124** | 77 |
| Income taxes paid | **131** | 38 | **404** | 55 |

## 10. INCOME TAXES

During the fourth quarter of 2007 the federal government substantively enacted a 3.5% reduction to its federal corporate tax rates. Accordingly, the company recognized a reduction in future income tax expense of $360 million related to the revaluation of its opening future income tax balances.

During the second quarter of 2007 the federal government substantively enacted a 0.5% reduction to its federal corporate tax rates. Accordingly, the company recognized a reduction in future income tax expense of $67 million related to the revaluation of its opening future income tax balances.

## 11. ROYALTY ESTIMATE MEASUREMENT UNCERTAINTY

Our current estimation of Alberta Crown royalties is based on regulations currently in effect. Alberta Crown royalties in effect for each oil sands project require payments to the Government of Alberta based on annual gross revenues less related transportation costs (R) less allowable costs (C), including the deduction of certain capital expenditures (the 25% R-C royalty), subject to a minimum payment of 1% of R.

Oil Sands royalties payable in 2008 are highly sensitive to, among other factors, changes in crude oil and natural gas pricing, foreign exchange rates and total capital and operating costs for each project. The oil sands pretax royalty estimate was $412 million for the first six months of 2008 compared to $256 million for the first six months of 2007. The balance of the consolidated royalty expense is in respect of natural gas royalties of $91 million (2007 – $64 million).

In 2008, the estimation process for calculating the quarterly royalty provision was changed from being based on an annual estimate to being based on the actual eligible revenues and costs recorded in the period. If the annualized approach was used for 2008, pretax royalties would have been $85 million higher for the first six months of 2008.

## 12. LONG-TERM DEBT AND CREDIT FACILITIES

In May 2008, the company issued 5.80% Medium Term Notes with a principal amount of $700 million under an outstanding $2 billion debt shelf prospectus. These notes bear interest, which is paid semi-annually, and mature on May 22, 2018. The net proceeds received were added to our general funds to repay outstanding commercial paper, which originally funded our working capital needs, sustaining capital expenditures and growth capital expenditures.

In June 2008, the company issued 6.10% Notes with a principal amount of US$1.25 billion and 6.85% Notes with a principal amount of US$750 million under an amended US$3.65 billion debt shelf prospectus. These notes bear interest, which is paid semi-annually, and mature on June 1, 2018, and June 1, 2039, respectively. The net proceeds received were added to our general funds, which are used for our working capital needs, sustaining capital expenditures, growth capital expenditures and to repay outstanding commercial paper borrowings.

Also during the second quarter, Suncor's $3.5 billion syndicated credit facility was increased to $3.75 billion, while our $410 million bilateral credit facility was reduced to $370 million and had its term extended to 2009.

| ($ millions) | **June 30 2008** | December 31 2007 |
|---|---|---|
| **Fixed-term debt, redeemable at the option of the Company** | | |
| 6.85% Notes, denominated in U.S. dollars, due in 2039 (US$750) | **764** | — |
| 6.50% Notes, denominated in U.S. dollars, due in 2038 (US$1150) | **1 171** | 1 137 |
| 5.95% Notes, denominated in U.S. dollars, due in 2034 (US$500) | **509** | 494 |
| 7.15% Notes, denominated in U.S. dollars, due in 2032 (US$500) | **509** | 494 |
| 6.10% Notes, denominated in U.S. dollars, due in 2018 (US$1250) | **1 273** | — |
| 5.39% Series 4 Medium Term Notes, due in 2037 | **600** | 600 |
| 5.80% Series 4 Medium Term Notes, due in 2018 | **700** | — |
| 6.70% Series 2 Medium Term Notes, due in 2011 | **500** | 500 |
| | **6 026** | 3 225 |
| **Revolving-term debt, with interest at variable rates** | | |
| Commercial Paper | **470** | 522 |
| Total unsecured long-term debt | **6 496** | 3 747 |
| Secured long-term debt | **14** | 1 |
| Capital Leases | **102** | 102 |
| Fair value of interest rate swaps | **8** | 6 |
| Deferred financing costs | **(73)** | (45) |
| Total long-term debt | **6 547** | 3 811 |

At June 30, 2008, undrawn lines of credit were approximately $3,391 million, as follows:

| ($ millions) | **2008** |
|---|---|
| Facility that is fully revolving for 364 days, has a term period of one year and expires in 2009 | **370** |
| Facility that is fully revolving for a period of five years and expires in 2013 | **3 750** |
| Facilities that can be terminated at any time at the option of the lenders | **45** |
| Total available credit facilities | **4 165** |
| Credit facilities supporting outstanding commercial paper | **470** |
| Credit facilities supporting standby letters of credit | **304** |
| Total undrawn credit facilities | **3 391** |

## 13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive loss, net of income taxes, are as follows:

| ($ millions) | **June 30 2008** | December 31 2007 |
|---|---|---|
| Unrealized foreign currency translation adjustments | **(225)** | (266) |
| Unrealized gains and losses on derivative hedging activities | **(41)** | 13 |
| Total | **(266)** | (253) |

## Highlights

(unaudited)

| | 2008 | 2007 (restated) |
|---|---|---|
| **Cash Flow from Operations** | | |
| (dollars per common share – basic) | | |
| For the three months ended June 30 | | |
| Cash flow from operations (1) | **1.51** | 1.11 |
| For the six months ended June 30 | | |
| Cash flow from operations (1) | **2.76** | 2.01 |
| **Ratios** | | |
| For the twelve months ended June 30 | | |
| Return on capital employed (%) (2) | **28.8** | 27.2 |
| Return on capital employed (%) (3) | **20.7** | 20.1 |
| Net debt to cash flow from operations (times) (4) | **0.9** | 0.6 |
| Interest coverage on long-term debt (times) | | |
| Net earnings (5) | **15.9** | 21.1 |
| Cash flow from operations (6) | **20.3** | 26.0 |
| As at June 30 | | |
| Debt to debt plus shareholders' equity (%) (7) | **32.6** | 23.5 |
| **Common Share Information** (8) | | |
| As at June 30 | | |
| Share price at end of trading | | |
| Toronto Stock Exchange – Cdn$ | **59.20** | 47.80 |
| New York Stock Exchange – US$ | **58.12** | 44.79 |
| Common share options outstanding (thousands) | **48 000** | 41 261 |
| For the six months ended June 30 | | |
| Average number outstanding, weighted monthly (thousands) | **928 572** | 920 844 |

Refer to the Quarterly Operating Summary for a discussion of financial measures not prepared in accordance with Canadian generally accepted accounting principles (GAAP).

(1) Cash flow from operations for the period; divided by the weighted average number of common shares outstanding during the period.

(2) For the twelve month period ended; net earnings (2008 – $3,156 million; 2007 – $2,317 million) adjusted for after-tax financing income (2008 – $49 million; 2007 – $31 million) divided by average capital employed (2008 – $10,967 million; 2007 – $8,410 million). Average capital employed is the sum of shareholders' equity and short-term debt plus long-term debt less cash and cash equivalents, at the beginning and end of the year, divided by two, less capitalized costs related to major projects in progress (as applicable). Return on capital employed (ROCE) for Suncor operating segments as presented in the Quarterly Operating Summary is calculated in a manner consistent with consolidated ROCE. For a detailed reconciliation of ROCE prepared on an annual basis, see page 46 of Suncor's 2007 Annual Report to Shareholders.

(3) If capital employed were to include capitalized costs related to major projects in progress (average capital employed including major projects in progress: 2008 – $15,246 million; 2007 – $11,369 million), the return on capital employed would be as stated on this line.

(4) Short-term debt plus long-term debt less cash and cash equivalents, divided by cash flow from operations for the twelve month period then ended.

(5) Net earnings plus income taxes and interest expense, divided by the sum of interest expense and capitalized interest.

(6) Cash flow from operations plus current income taxes and interest expense; divided by the sum of interest expense and capitalized interest.

(7) Short-term debt plus long-term debt; divided by the sum of short-term debt, long-term debt and shareholders' equity.

(8) In May 2008, Suncor's common shares were split on a two-for-one basis. Prior periods have been restated to reflect the split.

## Quarterly operating summary

(unaudited)

| | For the quarter ended | | | | | Six months ended | | Total year |
|---|---|---|---|---|---|---|---|---|
| | **June 30 2008** | Mar 31 2008 | Dec 31 2007 | Sept 30 2007 | June 30 2007 | **June 30 2008** | June 30 2007 | Dec 31 2007 |
| **OIL SANDS** | | | | | | | | |
| **Production** [1],[a] | | | | | | | | |
| Total production | **174.6** | 248.0 | 252.5 | 239.1 | 202.3 | **211.0** | 225.1 | 235.6 |
| Firebag | **34.7** | 34.6 | 40.4 | 35.8 | 36.2 | **34.7** | 35.8 | 36.9 |
| **Sales** [a] | | | | | | | | |
| Light sweet crude oil | **68.2** | 96.2 | 102.2 | 99.3 | 100.0 | **82.2** | 102.8 | 101.7 |
| Diesel | **21.2** | 28.0 | 26.0 | 23.9 | 20.3 | **24.6** | 24.9 | 25.0 |
| Light sour crude oil | **91.8** | 120.8 | 118.2 | 94.1 | 84.2 | **106.3** | 98.4 | 102.3 |
| Bitumen | **0.3** | 0.1 | 5.4 | 6.6 | 3.8 | **0.2** | 5.3 | 5.7 |
| **Total sales** | **181.5** | 245.1 | 251.8 | 223.9 | 208.3 | **213.3** | 231.4 | 234.7 |
| **Average sales price** [2],[b] | | | | | | | | |
| Light sweet crude oil | **122.12** | 100.93 | 87.34 | 81.00 | 75.64 | **109.72** | 72.07 | 78.03 |
| Other (diesel, light sour crude oil and bitumen) | **120.52** | 93.09 | 78.48 | 73.76 | 66.74 | **104.94** | 64.93 | 70.86 |
| Total | **121.12** | 96.16 | 82.07 | 76.97 | 71.01 | **106.47** | 68.10 | 74.01 |
| Total * | **122.39** | 96.22 | 82.36 | 76.97 | 71.01 | **107.36** | 68.06 | 74.07 |
| **Cash operating costs and Total operating costs – Total operations** [c] | | | | | | | | |
| Cash costs | **40.10** | 25.10 | 24.10 | 23.00 | 28.40 | **31.30** | 24.75 | 24.15 |
| Natural gas | **8.75** | 5.00 | 3.60 | 2.10 | 4.20 | **6.50** | 4.35 | 3.55 |
| Imported bitumen | **2.00** | 1.45 | 0.20 | — | 0.10 | **1.70** | 0.10 | 0.10 |
| **Cash operating costs** [3] | **50.85** | 31.55 | 27.90 | 25.10 | 32.70 | **39.50** | 29.20 | 27.80 |
| Project start-up costs | **0.90** | 0.30 | 0.55 | 1.10 | 1.15 | **0.55** | 0.55 | 0.95 |
| **Total cash operating costs** [4] | **51.75** | 31.85 | 28.45 | 26.20 | 33.85 | **40.05** | 29.75 | 28.75 |
| Depreciation, depletion and amortization | **8.30** | 5.75 | 5.60 | 5.70 | 5.85 | **6.80** | 5.10 | 5.40 |
| **Total operating costs** [5] | **60.05** | 37.60 | 34.05 | 31.90 | 39.70 | **46.85** | 34.85 | 34.15 |
| **Cash operating costs and Total operating costs – In-situ bitumen production only** [c] | | | | | | | | |
| Cash costs | **10.10** | 14.60 | 9.95 | 11.85 | 10.60 | **12.35** | 10.80 | 10.85 |
| Natural gas | **14.55** | 14.10 | 9.15 | 9.10 | 10.60 | **14.40** | 10.80 | 9.90 |
| **Cash operating costs** [6] | **24.65** | 28.70 | 19.10 | 20.95 | 21.20 | **26.75** | 21.60 | 20.75 |
| Firebag start-up costs | **1.65** | 0.35 | — | — | — | **0.95** | — | — |
| **Total cash operating costs** [7] | **26.30** | 29.05 | 19.10 | 20.95 | 21.20 | **27.70** | 21.60 | 20.75 |
| Depreciation, depletion and amortization | **6.70** | 6.75 | 6.80 | 6.70 | 5.75 | **6.70** | 5.55 | 6.20 |
| **Total operating costs** [8] | **33.00** | 35.80 | 25.90 | 27.65 | 26.95 | **34.40** | 27.15 | 26.95 |
| (for the period ended) | | | | | | | | |
| **Capital employed** [i] | **7 716** | 6 837 | 6 605 | 6 071 | 5 112 | | | |
| (for the twelve months ended) | | | | | | | | |
| **Return on capital employed** [j] | **43.6** | 44.3 | 43.0 | 32.3 | 35.3 | | | |
| **Return on capital employed** [j]**** | **27.3** | 28.0 | 27.9 | 21.7 | 24.4 | | | |

## Quarterly operating summary (continued)

(unaudited)

| | For the quarter ended | | | | | Six months ended | | Total year |
|---|---|---|---|---|---|---|---|---|
| | **June 30 2008** | Mar 31 2008 | Dec 31 2007 | Sept 30 2007 | June 30 2007 | **June 30 2008** | June 30 2007 | Dec 31 2007 |
| **NATURAL GAS** | | | | | | | | |
| **Gross production** ** | | | | | | | | |
| Natural gas [d] | **205** | 209 | 210 | 193 | 191 | **207** | 191 | 196 |
| Natural gas liquids and crude oil [a] | **3.4** | 3.3 | 3.2 | 3.1 | 3.0 | **3.4** | 3.1 | 3.1 |
| Total gross production [e] | **37.7** | 38.2 | 38.2 | 35.2 | 34.9 | **37.9** | 34.9 | 35.8 |
| Total gross production [f] | **226** | 229 | 229 | 211 | 209 | **228** | 209 | 215 |
| **Average sales price [2]** | | | | | | | | |
| Natural gas [g] | **9.62** | 7.30 | 6.08 | 5.39 | 6.85 | **8.45** | 6.93 | 6.32 |
| Natural gas [g] * | **9.68** | 7.31 | 6.02 | 5.14 | 6.83 | **8.48** | 6.98 | 6.27 |
| Natural gas liquids and crude oil [b] | **86.14** | 64.14 | 60.31 | 58.11 | 51.21 | **75.39** | 53.96 | 56.64 |
| **Net wells drilled** | | | | | | | | |
| Conventional – exploratory *** | **2** | 2 | 6 | 1 | 3 | **4** | 7 | 14 |
| – development | **6** | 7 | 6 | 2 | 1 | **13** | 9 | 17 |
| | **8** | 9 | 12 | 3 | 4 | **17** | 16 | 31 |
| (for the period ended) | | | | | | | | |
| **Capital employed** [i] | **1 226** | 1 175 | 1 153 | 1 090 | 1 079 | | | |
| (for the twelve months ended) | | | | | | | | |
| **Return on capital employed** [j] | **8.3** | 3.5 | 2.5 | (0.6) | 0.6 | | | |
| **REFINING AND MARKETING** | | | | | | | | |
| **Refined product sales** [h] | | | | | | | | |
| Transportation fuels | | | | | | | | |
| Gasoline – retail | **4.5** | 4.6 | 4.9 | 5.1 | 5.2 | **4.6** | 5.3 | 5.2 |
| – other | **11.8** | 10.8 | 11.0 | 12.0 | 11.7 | **11.3** | 11.8 | 11.6 |
| Distillate | **11.5** | 10.4 | 11.0 | 10.8 | 10.5 | **11.0** | 10.3 | 10.6 |
| Total transportation fuel sales | **27.8** | 25.8 | 26.9 | 27.9 | 27.4 | **26.9** | 27.4 | 27.4 |
| Petrochemicals | **0.9** | 0.6 | 0.7 | 0.9 | 1.3 | **0.8** | 1.1 | 0.9 |
| Asphalt | **1.7** | 2.2 | 1.4 | 2.1 | 1.8 | **1.8** | 1.6 | 1.7 |
| Other | **2.7** | 1.9 | 3.8 | 4.2 | 4.1 | **2.3** | 3.1 | 3.5 |
| **Total refined product sales** | **33.1** | 30.5 | 32.8 | 35.1 | 34.6 | **31.8** | 33.2 | 33.5 |
| **Crude oil supply and refining** | | | | | | | | |
| Processed at refineries [h] | **26.0** | 23.0 | 22.1 | 25.9 | 27.6 | **24.5** | 26.1 | 25.1 |
| Utilization of refining capacity [j] | **102** | 90 | 87 | 102 | 108 | **96** | 103 | 98 |
| (for the period ended) | | | | | | | | |
| **Capital employed** [i] | **2 534** | 2 837 | 2 489 | 2 332 | 2 011 | | | |
| (for the twelve months ended) | | | | | | | | |
| **Return on capital employed** [j] | **12.6** | 18.3 | 20.0 | 20.9 | 22.4 | | | |
| **Return on capital employed** [j] **** | **11.6** | 16.5 | 17.4 | 17.9 | 17.2 | | | |

## Quarterly operating summary (continued)

### *Non-GAAP Financial Measures*

Certain financial measures referred to in the Highlights and Quarterly Operating Summary are not prescribed by Canadian generally accepted accounting principles (GAAP). Suncor includes cash flow from operations, return on capital employed and cash and total operating costs per barrel data because investors may use this information to analyze operating performance, leverage and liquidity. The additional information should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

### *Definitions*

| | |
|---|---|
| (1) Total operations production | – Total operations production includes total production from both mining and in-situ operations. |
| (2) Average sales price | – This operating statistic is calculated before royalties and net of related transportation costs (including or excluding the impact of hedging activities as noted). |
| (3) Cash operating costs – Total operations | – Include cash costs that are defined as operating, selling and general expenses (excluding inventory changes), accretion expense, taxes other than income taxes and the cost of bitumen imported from third parties. Per barrel amounts are based on total production volumes. For a reconciliation of this non-GAAP financial measure see Management's Discussion and Analysis. |
| (4) Total cash operating costs – Total operations | – Include cash operating costs – Total operations as defined above and cash start-up costs. Per barrel amounts are based on total production volumes. |
| (5) Total operating costs – Total operations | – Include total cash operating costs – Total operations as defined above and non-cash operating costs. Per barrel amounts are based on total production volumes. |
| (6) Cash operating costs – In-situ bitumen production | – Include cash costs that are defined as operating, selling and general expenses (excluding inventory changes), accretion expense and taxes other than income taxes. Per barrel amounts are based on in-situ production volumes only. |
| (7) Total cash operating costs – In-situ bitumen production | – Include cash operating costs – In-situ bitumen production as defined above and cash start-up operating costs. Per barrel amounts are based on in-situ production volumes only. |
| (8) Total operating costs – In-situ bitumen production | – Include total cash operating costs – In-situ bitumen production as defined above and non-cash operating costs. Per barrel amounts are based on in-situ production volumes only. |

### *Explanatory Notes*

| | |
|---|---|
| * | Excludes the impact of hedging activities. |
| ** | Currently production is located in the Western Canada Sedimentary Basin. |
| *** | Excludes exploratory wells in progress. |
| **** | If capital employed were to include capitalized costs related to major projects in progress, the return on capital employed would be as stated on this line. |

(a) thousands of barrels per day
(b) dollars per barrel
(c) dollars per barrel rounded to the nearest $0.05
(d) millions of cubic feet per day
(e) thousands of barrels of oil equivalent per day
(f) millions of cubic feet equivalent per day
(g) dollars per thousand cubic feet
(h) thousands of cubic metres per day
(i) $ millions
(j) percentage

### *Metric Conversion*

Crude oil, refined products, etc. — $1m^3$ (cubic metre) = approx. 6.29 barrels

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