

## CORPORATE PARTICIPANTS

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*Executive Vice President & Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Greg Pardy**

*RBC Capital Markets*

**Guy Baber**

*Simmons & Company*

**Paul Cheng**

*Barclays Capital*

**Mohit Bhardwaj**

*Citigroup*

**Paul Sankey**

*Wolfe Research*

**Arthur Grayfer**

*CIBC World Markets*

**Mike Dunn**

*FirstEnergy Capital*

**Nia Williams**

*Reuters*

**Chester Dawson**

*The Wall Street Journal*

**Jeff Lewis**

*The Globe and Mail*

## PRESENTATION

**Operator**

Good morning, ladies and gentlemen, and welcome to the Suncor Third Quarter 2014 Conference Call and Webcast. I would now like to turn the call over to Mr. Steve Douglas, Vice President, Investor Relations. Mr. Douglas, please go ahead.

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**Steve Douglas, Vice President, Investor Relations**

Thank you, Mary, and good morning everyone and welcome to the Suncor Energy Q3 call. With me here in Calgary are Steve Williams, our President and Chief Executive Officer, and Alister Cowan, our Executive Vice President and Chief Financial Officer

I'd ask you to note that today's comments contain forward-looking information and actual results may differ materially from expected results because of various risk factors and assumptions described in our third earnings release as well as our current AIF, and both of these are available online.

Certain financial measures referred to in these comments are not prescribed by Canadian Generally Accepted Accounting Principles and for a description of these financial measures please see the Q3 earnings release

After our formal remarks we'll open the call to questions, first from members of the investment community and then, if time permits, members of the media.

With that I'll hand over to Steve Williams.

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**Steve Williams, President & Chief Executive Officer**

Thanks, Steve, and good morning, everyone, and thank you again for joining.

The third quarter saw oil prices decline sharply and the market outlook turn bearish; however, Suncor continued to manage both our operating and capital costs very tightly and the integrated model delivered solid financial results once again.

At oil sands we saw a new quarterly production record and captured an average price of over \$89 per barrel. At the same time we were able to push our cash operating costs down close to \$31 per barrel. In E&P our production was reduced by planned maintenance but we achieved average pricing of over \$101 per barrel of

production. The net result was another quarter of strong cash generation.

We produced almost \$48 of cash flow and \$10 of free cash flow for every barrel of production. We've now posted almost \$10 billion in cash flow and over \$3 billion of free cash flow in the past 12 months. But given the recent drop in oil prices and comparatively weaker market that many are forecasting for the coming year, perhaps we should take a few minutes to look forward rather than back.

First, I would say that forecasting short-term oil prices is not for the faint of heart. Even the experts get it wrong almost as often as they're right. Because of that near-term uncertainty, we use conservative assumptions in our planning. We're focused on driving costs out of our business and we maintain a very healthy balance sheet. Pricing volatility is a reality in our business and we believe it's critical to be well prepared for the inevitable down cycles. If we are in fact headed for an extended period of lower oil prices, Suncor is among the best positioned companies in the industry to not only withstand lower prices but potentially to outperform.

We've made significant progress on cost management. Our average cash cost across the company to produce a barrel of oil is less than \$30. That means we can generate strong cash flow even in a low oil price environment. Over the past few years a key part of our strategy has been to instill strong capital discipline and spend within our means. We continue to do that going forward. Even with global oil prices in the current range we would expect to generate sufficient cash flow to maintain our current operations, fund our growth projects, and sustain our dividend. We have a very low debt, strong liquidity, and cash on hand, and that gives us flexibility at a time when the sector will be squeezed.

In short, we believe Suncor is well positioned to create value for shareholders during a period of weakness in global oil prices with strong upside growth potential. Now I'm not going to tell you that I like lower oil prices but what I will say is that Suncor's strategy was designed with oil price volatility in mind and we have positioned ourselves to deliver on our long-term strategy.

So now turning back to our third quarter results, I'll take a few minutes to look at our operations in some detail. In oil sands we achieved solid reliability in production in July and August prior to commencing planned coker maintenance. At the tail end of September we took the number two upgrader complex down to make some minor repairs. The work was safely completed and we've been running it up at capacity the past couple of weeks. We

expect to finish the year around the low end of our annual oil sands guidance range.

Our in-situ operations continued to perform well in the quarter. Prior to the planned maintenance in September Firebag routinely exceeded its nameplate capacity of \$180,000 barrels per day whilst maintaining a steam-to-oil ratio below three to one. Going forward we're confident we can sustain even higher production from Firebag without significant investment in the near term. At MacKay River we've achieved a first oil from our de-bottlenecking project and expect to move beyond 30,000 barrels per day during the fourth quarter.

In E&P it was a fairly heavy maintenance quarter with significant turnarounds at Terra Nova and Buzzard. Nevertheless, we finished the quarter at the high end of our guidance range and we anticipate solid production in the final quarter of the year. We saw encouraging developments in Libya this quarter as production restarted at a reduced level and we recorded a lifting in September. Our downstream delivered yet another very strong quarter. The refineries operated at an average of 94 percent of capacity, even as we began turnarounds late in the quarter, and we took full advantage of strong margins, particularly in the west.

Our midstream business is what connects our upstream and downstream. This quarter we continued to extend our crude marketing logistics. We shipped over 40,000 barrels per day of inland crude to the Montreal refinery, primarily by rail. We also moved cargos of Western Canadian oil by rail to Eastern Canada and then by ship to foreign buyers. We'll continue to use our deep portfolio and capability in midstream assets to maximize the value of our production and to reduce the cost of our refinery feedstock. We're comfortable that we have the assets and plans in place to continue to access global pricing as we grow our production.

So, speaking of growing production, we did continue to push forward on all of our key growth projects this quarter. Our Fort Hills mine project is tracking to all key milestones. Engineering and procurement activity are progressing to plan. Market pricing has largely been within expectations. We're not seeing inflationary pressures. Construction is progressing on schedule with civil works well underway and some offsite modular and process facility construction starting. Site construction manpower is currently around 3,000 and will gradually ramp up to peak of approximately 5,500 in 2016. Our capital and schedule outlook is unchanged since we announced project sanction a year ago. We continue to expect first oil in 2017 with ramp up to full production of about 70,000 barrels per day, that's our share, in 2018.

Elsewhere in the oil sands we continued to progress a variety of debottlenecking expansion projects that are expected to push production at the base operations over 500,000 barrels a day by 2018. These include production growth at both Firebag and MacKay River as well as further infrastructure enhancement at our base plant.

In the North Sea the Golden Eagle project remains on budget and has now moved ahead of schedule with first oil expected any day now. Drilling activities will continue into 2015 as the project ramps up to full production.

The Hebron project off the East Coast of Canada is also progressing well. During the third quarter the gravity based structure was moved from dry dock and safely installed in its deep water location. The project continues to target first oil by the end of 2017.

These two projects are expected to add between 40,000 and 50,000 barrels per day of production, so when combined with the various brownfield extensions at our other offshore projects they will help to grow net production over the next few years.

In Montreal we continued our \$200 million investment program that will transform that plant into an inland refinery. The reversal of Enbridge's Line 9 recently encountered a delay but we still anticipate moving to 100 percent inland crudes by mid-2015, and of course that was the original plan, and that will represent a step change in profitability for our business in Quebec.

So the operations are delivering and the capital programs are on track to growth both our production and our margins. While the near-term macro environment is somewhat uncertain, I remain enthusiastic about Suncor's prospects. We are well positioned to continue to deliver strong results.

So I'll turn over to Alister now to take a closer look at our financial performance.

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**Alister Cowan, Executive Vice President & Chief Financial Officer**

Thanks, Steve, and good morning, everyone.

As everyone knows, this is my first full quarter with Suncor and it was certainly eventful. We've seen crude prices drop sharply and energy stocks follow suit, but, as Steve did note, Suncor was able to put another quarter of strong financial results on the board, thanks the high-quality of our assets, our integrated strategy, and steadily improving operating performance.

We posted operating earnings of over \$1.3 billion and cash flow from operations of almost \$2.3 billion. For the last 13 consecutive quarters now we have generated more than \$2.2 billion in cash flow each quarter. We increased our capital spend to \$1.8 billion during the quarter, over half of which was devoted to growth, but we still generated free cash flow of \$470 million.

The balance sheet continues to be in great shape. We finished the quarter with net debt of just under \$6.7 billion, a net-debt-to-cash-flow ratio of 0.67 to 1, and a cash balance of \$5.35 billion. Two credit rating agencies upgraded Suncor during the third quarter into the A rating range, providing us with further financial flexibility.

As we promised in our last quarterly call, we aggressively executed on our share buyback program. During the last quarter we invested \$522 million to purchase almost 12 million Suncor shares. Since commencing the buyback program just over three years ago, we have now repurchased and cancelled over 9 percent of our outstanding shares. At the current price levels we continue to be strong buyers of the stock. In addition, on September the 26<sup>th</sup> our dividend payment to shareholders reflected the 22 percent increase that was announced earlier in the quarter, so we are continuing to deliver strong value back to our shareholders.

We also continued to review and refine our portfolio with a view to focusing on our core integrated business. In Montreal we completed the \$121 million acquisition of a sulphur recovery facility that will be a key part of our operation and help to reduce our operating cost as we convert to running 100 percent inland crudes, including oil sands production. Also in the downstream we announced an agreement to sell our 50 percent share in Pioneer Energy for \$183 million. Pioneer was a passive investment that did not fit with our downstream strategy. And in the upstream we completed the sale of our Wilson Creek oil and gas assets in Central Alberta for \$169 million. These were quality assets but not longer a strategic fit for our business. Moving forward we will continue to look for other opportunities to optimize our integrated portfolio of assets and grow the overall profitability of the business.

With crude prices having declined, the capacity of the business to generate sufficient earnings and cash flow to fund growth is squarely in focus. We routinely stress-test the balance sheet by modeling protracted lower oil prices and assessing that impact on our key financial metrics. The results of that work confirm our confidence. Our integrated strategy and business model are robust and we expect to continue to generate sufficient cash flow to execute our strategic plans, even in a much lower crude

price environment than we've seen in the last couple of years. So we will continue to stay the course and adhere to the principles that have got us to where we are: Pursue operational excellence in our base business, continuously improve the reliability of the assets and focus on cost management across the enterprise, exercise capital discipline, lay down capital efficiently and spend within our means and steadily increase the cash return to shareholders, and profitably grow the business, focus on returns and never chase growth for the sake of growth.

So you should not expect a lot of surprises from Suncor just because the macro environment may be in flux. As Steve noted earlier, our integrated strategy anticipated volatile oil prices. We'll continue to execute on it to derive value for the shareholders.

So, with that, I'll give you back to Steve Douglas.

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**Steve Douglas, Vice President, Investor Relations**

Thank you, Alister, and thank you, Steve.

I just want to make a couple of references before we go to questions. We have issued an updated guidance. The only change on the guidance, and it is available on our website, is an update to oil price and exchange rate assumptions reflecting the recent downturn in pricing and the weakness of the Canadian dollar. A couple of other metrics that people are always interested in, ah, we did have an inventory LIFO/FIFO net decrease to after-tax earnings of \$103 million in Q3 as a result of falling prices but year to date it's a positive \$82 million after tax. With regard to stock-based compensation, the impact was a recovery after tax of \$33 million in the third quarter. Year to date it's a net expense of \$249 million. And, finally, the weakening Canadian dollar against the US dollar, the FX impact on our US-denominated debt was a net expense of \$394 million after tax in the quarter and year to date it's \$420 million expense.

With that I'll turn it back to Mary. I'd ask you to try to keep the questions on a strategic level. As always, the IR team and controllers will be available for any detailed modelling questions throughout the day. Mary, please open up the lines.

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**QUESTION AND ANSWER SESSION**

**Operator**

Thank you. We will now take questions from the telephone lines. If you have a question and you are using

a speakerphone, please lift the handset before making your selection. If you have a question, please press star one on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

The first question is from Greg Pardy from RBC Capital Markets. Please go ahead.

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**Greg Pardy, RBC Capital Markets**

Yeah, thanks. Good morning. Steve, just you mentioned Golden Eagle. I guess we expected it at year end or even early next year. Could you touch on what the production outlook is looking like for Buzzard in terms of when we should expect declines kicking in there and to what extent Golden Eagle is going to offset that?

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**Steve Williams, President & Chief Executive Officer**

I mean you've sort of nailed it in the question there, Greg. I mean we expect declines to start through 2015, but the importance of the timing of Golden Eagle is we expect that to more than offset the decline. So overall you'll see a slight increase through the year.

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**Greg Pardy, RBC Capital Markets**

Okay, great. From everything you said in terms of how you're running the business right now, it doesn't sound as though there's any change in your thinking with respect to dividend policy and dividend growth as we move into 2015. Is that fair?

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**Steve Williams, President & Chief Executive Officer**

No, that's fair. I mean clearly we have to calibrate it in terms of, you know, the price of crude and the actual cash flow that comes in, but we are in a very robust position so, you know, our commitment was to a competitive sustainable and growing dividend. That policy is intact. I think we're in our thirteenth consecutive quarter now of more than \$2.2 billion cash generation and what we've been doing as operational excellence is working, as the integrated model is working, and our degree of confidence in that cash flow has been increasing, we've been moving across from the share buyback to increasing the dividend relatively aggressively. You'll see that policy continue to play out. And even at these

stressed prices at the moment we still see ourselves having enough cash to take a dividend review at the end of this year.

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**Greg Pardy, RBC Capital Markets**

Okay, very good. Last question from me is if we just go to the oil sands right now, the SOR performance at Firebag is impressive. Wondering, and I think you alluded to it, is that you may not need to go ahead with a big debottleneck just because you're getting more volume through the plant. The contrast there is just with the mining and upgrading and it just seems as though, you know, we've probably had more wrinkles in terms of production, albeit very good operating costs. What's your perspective based on how the oil sands business is running right now?

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**Steve Williams, President & Chief Executive Officer**

Again, you sort of nailed it in the question there, Greg. I mean if you think of Firebag, nameplate capacity is 180,000 barrels a day and, as I said, with the exception of the planned maintenance we've been at about those levels. We were moving into, over the last couple of years, particularly into, ah, because of the age of the facility, the opportunity to start drilling the first infill wells. They've been working very well. The whole strategy was meant to optimize it through the cycle, not at the beginning of the cycle but the whole way through the cycle of the wells, and what we're seeing are the SORs now consistently below the three level. So, very encouraged by that. You'll see us continuing that strategy. What it's demonstrated to us is that we do have—the first part of the debottleneck is going to come free or very close to free. So you will see us bring the plant up to 190, maybe even beyond 190, with very little investment. So what that means is that the investment debottleneck step will go back, because we'll be able to take first advantage of it with virtually no capital. So very good news around Firebag.

On the mine what I would say is the mining operation was always a much slower burn project in a sense. It was about getting operational excellence to work and then the steady continuous improvement there. So if you go back a couple of years you will have seen, you know, 250,000, 260,000 barrels a day of mined bitumen. We're now regularly approaching 300,000 barrels a day. In fact, in Q3 it was 295,000 barrels a day. So I'm getting confident that we will be able to get up over the 300,000 barrels a day but, yeah, it's then, you know, it's about maintaining at that level, you know, lots of high ware on equipment,

and it's about continuous attention, continuous operational discipline, and sticking to that ops excellence principle we've put in there, and I'm comfortable we will get to and stay at over 300,000 barrels a day.

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**Greg Pardy, RBC Capital Markets**

Okay. Thanks very much.

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**Operator**

Thank you. The following question is from Guy Baber from Simmons & Company. Please go ahead.

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**Guy Baber, Simmons & Company**

Good morning, everybody. Thanks for taking my question. Steve, your point that Suncor can fund the current growth plans and the dividend at current prices is an important one, I think, and it's a unique one, and we would agree with that assertion given what we're modeling for 2015, but my question is what capital spending assumption is implicit in that comment that you would be using for 2015? And then if you can't be that specific, maybe you could perhaps just talk about how sensitive your CapEx plans are to the oil price environment and maybe what are some of the primary moving parts or considerations that you're thinking about the most when it comes to formulating 2015 CapEx.

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**Steve Williams, President & Chief Executive Officer**

Okay. Thanks, Guy. And of course you're right. I mean the way our detailed planning process works, we go through with our Board at our next meeting detailed budgets and CapEx and then by the end of the year we will come out with our guidance on capital expenditure. But I can say a few things which I think will help significantly.

So a big part of our focus over the last three years has been about capital discipline and getting our capital budget under control. It's working very well. And you've seen the results of that where we've reduced versus guidance our numbers for three consecutive years. Let me just make a comment. In the third quarter that trend has continued. We haven't re-guided but there is, and, you know, our plan always was as Fort Hills starts to get nearer to completion the spend will increase as we go into 2015 and 2016, and that's absolutely working to plan but is below the levels we originally guided at the

beginning of the year and we took \$1 billion out. The under-spend is still continuing so I don't think it'll be anything like you've seen, but we're on or ahead of the guidance we've given you in terms of capital spend. So that's to the good side, not overspending it.

For the last three years we've been guiding, and I think the crunch here was always going to be 2015 and 2016. We've been guiding to—and it was a broad target in order to enable you to model it that we would be in that \$7 billion to \$8 billion range. We expect to be in that \$7 billion to \$8 billion next year. I need to go through the final reviews but it does look as though the capital discipline is working. We'll be somewhere towards the centre of that range. And when you start to model those numbers in of course you have to put your crude price assumptions in there but you will see we can afford that capital and it leaves us free cash flow.

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**Guy Baber, Simmons & Company**

Very helpful. Thank you. And then I had a follow-up. Wanted to discuss the buyback a little bit, but I believe, and apologies if I missed this in the prepared comments, but before you had talked about buying \$500 million or so back of your stock over the second half of the year. In the prepared comments I think you still said you're still strong buyers of the stock at current levels. It looks like you bought back 400 or 500 or thereabouts during 3Q. Can you just talk about the thought process around accelerating your repurchase activity in 3Q and then how you're thinking about the buyback at lower price levels?

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**Steve Williams, President & Chief Executive Officer**

Yeah, let me talk specifically about—and, Mary, can I just check, we had a fading line there. Is the line still clear to you?

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**Operator**

Yes, we do hear you very clearly, sir.

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**Steve Williams, President & Chief Executive Officer**

All right, thank you. Yeah, so we talked and I think there may have been some confusion. When we talked about it at the end of the second quarter we had over \$1 billion of NCIB left and our plan was to spend the \$1 billion by the end of the year. And, you know, we are a value purchaser, so we look at the opportunities to buy and

we've been aggressive in the third quarter. We still have approximately \$500 million left for the fourth quarter and our current plans are to execute that consistent with our view on value as we do it. So we're still in the market and plan to execute on the share buyback.

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**Guy Baber, Simmons & Company**

Thanks for clarifying that.

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**Operator**

Thank you. The following question is from Paul Cheng from Barclays. Please go ahead.

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**Paul Cheng, Barclays Capital**

Hey, guys. Good morning. Two questions. Steve, seems that you're not going to change your budget at today's oil price, rightfully so, but is there a rule of thumb that you can share at what much lower oil prices and how long they sustain before you may start revisiting your capital program? That's the first question.

Secondly, if we looked at your international E&P operation, what are your competitive edge which you believe could result in better than industry average return? If there's no real competitive edge in that business, then should that business really be part of your core operation? Thank you.

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**Steve Williams, President & Chief Executive Officer**

Thanks, Paul. Yeah, I mean in terms of capital program, it is important that we take a step back. We have been clinical in our execution of capital discipline for the last three years. The primary purpose of that was to get us into a position where our balance sheet was strong so that when the market had downturns we wouldn't be stopping and starting capital projects. Because that's a very inefficient way of spending capital. Every time you slow it down it costs money, every time you remobilize it costs money. So we deliberately got our balance sheet into very good health so that these situations would not cause us to adjust our capital spend. And of course the economics of the project are not sensitive to short-term oil prices. It's a 52-year project and it's against our view of oil prices through that period. So of course we have to cut our cloth within our means but you will not see capital budget coming up and down and these projects being stopped and started. If it went to, you know, levels in the

40s, 50s, of course we'd have to reflect, but right now nothing we see will cause us to change course on that capital budget. It's very disciplined about sustaining capital to retain reliability and it's very disciplined about focused growth within our means. So I don't see yet—and I can't say what will happen end of next year or the following year. If we were to see extended lower prices for multiple years then we might have to reflect on that but right now I don't see us—I've already taken the first review of our capital budget for next year and I'm very encouraged by the levels of it well within our affordability, and then we'll reflect on that next year. So no quick change in course, no need to change course, because we already have that capital discipline.

Around E&P, and let me just talk more broadly around M&A to start with, particularly divestments. I mean you have seen us, again, with a great deal of discipline, sell down assets to get to our core business. So you saw us sell the gas businesses down, and Alister took us through a couple of businesses, one in the downstream and one in the upstream which didn't fit our core model and we haven't hesitated. We've sold those and we've actually sold them at very good prices as well before this market, ah, crude price started to reduce. So good strategy around that. Of course you know, because we've been talking about it over a number of calls, our E&P business, we do see our E&P as a core business, but only particular parts of it. The North Sea we have a competitive advantage. Off of the East Coast of Canada we have an advantage. And we have a window of opportunity which is with the projects we're executing we slightly grow capacity over the next four or five years. Towards the end of that period, and we'll take the review during it as well, we need to look at how core our E&P business is to us. And if we're able to find great opportunities and sustain them in those basins where we have competitive advantage, you'll see us utilize that.

You won't see us exploring the world. Today in the world there are, you know, most companies are much more stressed than Suncor are so there's a huge number of opportunities in the conventional upstream, in oil sands, and in the downstream. We have been very, very disciplined and found nothing of interest to us. So whilst we have the capability to do it, you've seen us exercise discipline around what we've actually done, and actually that's been supporting, I think, the tone of your question, which is we've been selling down, not buying assets.

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**Paul Cheng, Barclays Capital**

Thank you.

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**Operator**

Thank you. The following question is from Mohit Bhardwaj from Citigroup. Please go ahead.

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**Mohit Bhardwaj, Citigroup**

Thanks. Steve, I just wanted to ask you to up follow up on the comments that you were just making. You've said this in the past that if the oil prices are down enough there might be certain opportunities which might become interesting. So you guys are obviously doing a lot of divestitures but on the acquisition side are you seeing something either in the oil sands or outside that would be of interest to you?

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**Steve Williams, President & Chief Executive Officer**

I mean yes, as you would expect, I mean we, we positioned our balance sheet to be very strong for this period. Not that we had foresight that oil prices would be this low but one of the scenarios we planned against was it. What a market like this does is other companies who are not in such a good position are having to sell assets in order to support their balance sheet. So we are, and I think it's well known, there are assets in the downstream on the Americas continent, there are significant conventional E&P assets around the world, and there are a number of major oil sands assets up for sale. So we're aware of those and we have the capability to look at them. But we've not been interested in anything we've looked at so far. So if I looked, you know, we're in an excellent position as far as the downstream is concerned where, you know, you've seen the degree of integration and balance we have in the operation, and with Line 9 connecting into Montreal we have effectively the ability to make a spare refinery to come into that integration. So it becomes an inland refinery, not an international crude fed refinery.

If you look at oil sands, it's very difficult for any oil sands project to be attractive to us, because we have amongst the best access in the industry and we have enough resource in our ownership for the next 50-plus years. And then there's the conventional E&P world and, as I said, we view our core and our strengths to be relatively limited around the East Coast of Canada, the North Sea, and that sort of Atlantic basin region, and so we've looked at opportunities there and we've not been interested in them. So you will see us continue to exercise that discipline.

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**Mohit Bhardwaj, Citigroup**

Thanks. Very clear. If you could just also update us on your strategy as far as midstream assets are concerned. You mentioned in the past that you might look at an income fund to house those assets to realize a better value. Is this something still on the plate or are you still looking at that?

**Alister Cowan, Executive Vice President & Chief Financial Officer**

It's Alister here. I mean I think the midstream assets are very core to delivering our integrated strategy so we wouldn't, at this point, see any concept of an income fund to monetize those.

**Mohit Bhardwaj, Citigroup**

Thank you. Thanks for taking my questions.

**Operator**

Thank you. Once again, as a reminder, please press star one on your telephone keypad at this time if you have a question.

The next question is from Paul Sankey from Wolfe Research. Please go ahead.

**Paul Sankey, Wolfe Research**

Hi. Good morning, everyone. Hello?

**Operator**

Your line is now open.

**Steve Williams, President & Chief Executive Officer**

Hi, Paul.

**Paul Sankey, Wolfe Research**

Guys, you've been very clear about your capital discipline and I think we've also heard from you very clearly that

acquisitions are not interesting to you, so I guess the question then becomes the outlook for cash return to shareholders, and I think you've outlined—could you just go back through how you see the balance between buyback and dividend and how fast you're going to want to return free cash flow? Thanks.

**Steve Williams, President & Chief Executive Officer**

Yeah. You know, what I would say, Paul, is just look at our track record. And we've had a—over the last five years our compounded average growth rate in dividends is above 40 percent now. We have bought back approaching 10 percent of the company's shares. What you will see us do, and of course the free cash we have available is of course dependent on the, ah, mainly on the price of crude, given the discipline and the reliability of the operating businesses now. And what you'll see is what we've said. So it's about making sure we have a competitive, sustainable, and growing dividend, and that that will grow as the company grows. And, you know, we have, I've talked about in my preamble around our move particularly around oil sands up to 500,000 barrels a day in that 2018 timeframe.

So it then just becomes a question of what's the balance between share buyback and dividend. Over time you'll see us moving to dividend. That's the long-term we have with our shareholders. We have been—as the operational excellence and the capital discipline has been getting traction and our share price has been below what our valuation of it is, then we've been buying back reasonably aggressively. We will continue a balanced strategy of opportunistically buying back our stock and increasing dividend, but you'll see that move more towards dividend from NCIB. Although we're a value buyer, as time goes on our plan is to move that into more of a dividend payment, and that's what you've seen. So you'll see the same strategy continue to play out.

**Paul Sankey, Wolfe Research**

Yeah, I guess the idea is that your cash flows and volumes are going to be accelerating very quickly relative to, unless you were just to simply increase the dividend that quickly. I'm just wondering how fast that'll go up or if there's a kind of terminal—

**Steve Williams, President & Chief Executive Officer**

Yes. I mean we have, I mean, you know, there are so many ifs and buts that it's an impossible question to

answer other than in principle. We do have very attractive growth. We shouldn't forget that we have, you know, we have enough resource in our ownership probably for 50 to 100 years at the levels of operation we're looking at. We have a whole sequence of, um, particularly in-situ investments that we're working on, which will become, you know, we've called it this replication strategy where, you know, we're currently in the details of the design and construction philosophy for that. But what it's going to be is because we have such extensive high-quality in-situ resource you'll see us, you know, putting one of these plants down at regular frequencies as we move into the next decade.

So we also have growth opportunity through there. I wouldn't want you to think that we're stuck at this size of company. One of the purposes of the operating discipline and the capital discipline was to be able to grow the company profitably, and we've been working very hard on that. So the three things that will compete for capital will be the growth of the company, dividend, and share buyback and, you know, we'll be looking on a value basis at those three.

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**Paul Sankey, Wolfe Research**

Great. The clarity of the message bears repeating. Thank you very much.

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**Operator**

Thank you. The following question is from Arthur Grayfer from CIBC. Please go ahead.

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**Arthur Grayfer, CIBC World Markets**

Good morning. Just one question for me. Cash costs, oil sands cash costs in the quarter were \$31.10 and they're lower than the guidance you provided for the year. Can you talk a little bit about how you see that cash cost developing over the next few years? And you talked about achieving 500,000 barrels a day of oil sands production in 2018; any indication as to what that number could look like when you achieve that production threshold?

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**Steve Williams, President & Chief Executive Officer**

You guys have tough questions. I mean there are so many moving parts in that question, Arthur, I have to be

really careful, but I'll give you this, I've tried over the last four or five quarters to sort of give my thoughts on what's happening to operation costs up there.

So, first of all, I would say, you know, great credit to the business up there. They have got their operating costs in great shape. And there are always two big components to that type of business. And I know most people are aware of it but the fixed costs in the oil sands business are very high and depending on how you define them they're in the 70 percent to 80 percent range. So when you've got that sort of cost structure it's very important you have a reliable operation so you can spread it over the maximum number of barrels. So a key part of getting our operational costs down was getting our reliability up. That's working very well and I expect it to get better as time goes on. So the prices are coming down and everything else equal they will stay down.

There are one or two effects, just health warnings in the short term. Of course there is some seasonality, particularly in base plant costs, because of the weather and the things we have to do as we go into that, so you will see some movement. You'll see, you know, I wouldn't be surprised if you see a slight increase relative to that number as we go into the fourth quarter. But, you know, we guide an average through the year and through the cycle. So, overall, the trend continues to be downwards. You've heard me say a couple of times if everything else were equal I wouldn't be surprised to see it come down into the 20s, and you can see on a quarterly basis we are occasionally getting very close to that now and on a, you know, if I look at it on a much shorter-term basis I can see moments when we do that.

So we keep that as is an objective. It's not within our short-term reach to be able to get there but I hope the tone you're getting these are real changes, they are sustainable, and I'm very encouraged by the way they've been moving, so you can start to model them in. And then, in particular for 2015, we will guide as we get towards the end of this year as to what we're expecting for next year and we haven't finalized those numbers yet.

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**Arthur Grayfer, CIBC World Markets**

Okay. Thank you very much.

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**Operator**

Thank you. The following question is from Mike Dunn from FirstEnergy. Please go ahead.

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**Mike Dunn, FirstEnergy Capital**

Good morning, everyone. A couple questions for me. First, your thermal cash operating costs excluding gas were down, I guess looks like \$1.70 a barrel quarter over quarter even though production, thermal production was roughly flat. Can you just talk about what's driving that lower cost and whether or not this is a one-time or maybe indicative of what we should be thinking about going forward?

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**Steve Williams, President & Chief Executive Officer**

Yeah, I mean I'll make some indicative comments but, you know, they come with healthy—you have to be very careful about taking just very short-term numbers. So, again, very encouraging, good progress. If I had to pin it on a couple of things for this period it would be, ah, if you remember when we came out with our investor books a couple of years ago we went to great lengths to explain how in-situ works through the cycle. So, you know, when you first bring it on you have very high steam-oil ratios, because you have very low oil production. As you go through the life of it you start to get into equilibrium on an individual well. Then you go into decline as you get towards the end of that well. Then you have to bring on new wells and you get into, um, so you have to add the net effect of all of those wells up. And then as you start to get towards the end of the life of the first generation of wells, you then have the opportunity to start drilling infill wells. And we've always said be very cautious about taking instantaneous SORs. You have to look at it through the cycle. What you're seeing is very encouraging for the long run, because we're now coming towards the end of the first cycle. We started to see some run down and we've been doing, as we've said before, the first infill wells up on Firebag. So what you're seeing are the low SORs associated with those infill wells starting to have an impact. And that's what you get because you're effectively drilling them into a place where you've already got some distribution of heat, so you have much less. In fact, we've seen the first flow from those wells is with no steam, because the temperature has been warm enough. So overall it's encouraging, you're seeing the move in the right direction, and Firebag SORs, you know, you will see stay in a relatively low range.

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**Mike Dunn, FirstEnergy Capital**

Okay, great. And second question maybe for Alister. Alister, you've been on the job there a few months. One

thing I've always had difficulty with Suncor is figuring out what your cash overhead costs are on a corporate basis outside of what you report as cash operating costs outside of royalties, outside of current tax, etcetera, and I guess outside of the G&A portion of your downstream business. What is that run rate number on an annual basis? Other companies would probably report it as a cash G&A expense excluding stock-based comp. Can you just give us some guidance on that?

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**Alister Cowan, Executive Vice President & Chief Financial Officer**

Yeah, Mike, that's a good question. I mean clearly I've been looking at the whole cost base across the company since I've got in and I'm encouraged by what I see on the operating cost. On the G&A side, I think we probably should take that offline, it's a bit more of a modelling question, just so we get the right analysis and detail perhaps that we want. So let's take that offline and we'll follow up with you.

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**Mike Dunn, FirstEnergy Capital**

Okay. And then maybe along those lines as well, just looking at your annual reports, your headcount is higher today than it was, I guess, back when the Petro-Canada merger occurred, and even though you've gotten rid of essentially all of your Western Canadian conventional business. Is there room to trim some fat there?

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**Steve Williams, President & Chief Executive Officer**

I mean I would look at it differently. We always look at costs and of course employee costs are an important part of that, but what you've got to remember is we are investing and executing major projects. You know, I talked about the construction staff up in Fort Hills are over 3,000 people now, which we weren't executing when we did the Petro-Canada merger. They're not Suncor headcount but of course we're supervising and managing and leading that activity. So, you know, we're setting the company up for its position in the future. We always, you know, part of operational excellence, part of the discipline of how we run the business, we're always looking at how we can be more efficient, and that's a continuous process.

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**Mike Dunn, FirstEnergy Capital**

Great. That's all from me. Thanks, everyone.

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**Operator**

Thank you. The next question is from Nia Williams from Reuters. Please go ahead.

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**Nia Williams, Reuters**

Hi. Thanks for taking my question. I just wanted to ask about whether you have any more plans to send tankers of oil sands crude off the East Coast of Canada to markets overseas and whether you see that becoming a regular route to market for Suncor crude.

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**Steve Williams, President & Chief Executive Officer**

Okay. Just a technicality, it wasn't actually an oil sands crude but very close to it. It was Cold Lake material. But yes, you know, depending on the market, it is a logistics route that is part of our flexible midstream. It's a purely economic activity so we'll look at the price differentials and see whether it makes good business sense. But, yes, potentially it's a long-term piece of opportunity and flexibility for us. So the ability to rail in there, the ability to get the vessels of the right size and move it through the St. Lawrence, yeah, we see that as a key piece of the industry's flexibility.

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**Nia Williams, Reuters**

Thanks. And are there any plans for another shipment right now? Like is there any in the works?

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**Steve Williams, President & Chief Executive Officer**

Yeah, I don't talk normally to short-term movements but, you know, as a part of our plan going forward we will regularly look and see if it makes sense. Of course, economics have changed a bit with crude price changes but I normally don't talk to individual vessel movements.

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**Nia Williams, Reuters**

Okay, thanks.

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**Operator**

Thank you. The next question is from Chester Dawson from The Wall Street Journal. Please go ahead.

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**Chester Dawson, The Wall Street Journal**

Yes, thank you for taking my question. I'd like to know in terms of Energy East, how much capacity you intend to ship from there and whether any of that you envision going offshore. And, secondly, can you speak to Syncrude's reliability? Is there anything that they can learn from the Suncor base plant, you know, operational excellence, and are you satisfied with their reliability at this point?

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**Steve Williams, President & Chief Executive Officer**

Okay. Yeah, so let me first take the Energy East Pipeline and, again, I'll just make some general comments and then come in onto Syncrude.

As you know, logistics is a key part of Suncor, because of our size and our history on the continent, and we have plans which I'm very comfortable with to accommodate our growth. We are a strong of the need to get to different markets, so we are a supporter of Energy East, we're a supporter of Keystone to the Gulf, we're also a supporter of the Gateway project to the west, and you'll see us continue. And all of those are contingent on best practice, best consultation, best environmental practice, and the highest standards of safety. We don't talk about the commercial terms associated with each of those supports but we are a strong supporter of Energy East and the filing is going in as we speak.

Moving over to Syncrude, I mean I think it's fair to say we and the operator, have been disappointed in the performance of the asset, but are encouraged in the potential. Exxon and Imperial are absolutely right up there amongst the best of the operators of assets in the world. There are some particular challenges around oil sands and, you know, particularly the location and some of the conditions we have to work with, so we work closely with them to try and get the best out of those assets. We've been doing that for some time and I'm confident in their program to turn those assets around. It's taken a little bit longer than we would have expected but I'm comfortable that we will get there.

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**Chester Dawson, The Wall Street Journal**

Thank you.

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**Operator**

Thank you. The following question is from Jeff Lewis from The Globe and Mail. Please go ahead.

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**Jeff Lewis, The Globe and Mail**

Hi. Thanks very much for taking my question. I've just got two quick ones. What sort of volumes can you move from the port in Sorel-Tracy and which markets are attractive at this point? And second question would be as these Eastern pipelines move forward, Energy East and particularly Line 9 in the near term, what would be the determining factor on the addition of a coker at Montreal? Thanks.

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**Steve Williams, President & Chief Executive Officer**

Volumes, they're not big volumes, and I don't think we've ever talked about specific volumes, but you'd see them same sort of vessel. Potentially, if you used the facility all of the time, you'd be moving one of those ships maybe each month, maybe potentially every two or three weeks. So it's, you know, it's not a significant increase in the volume on the St. Lawrence.

The second question was...

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**Jeff Lewis, The Globe and Mail**

Well just which markets from Sorel-Tracy are attractive?

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**Steve Williams, President & Chief Executive Officer**

Sorry, there was over-speak there. So we look globally in terms of what the opportunities are and it depends on the economics of the day, and if the economics aren't right then we wouldn't make those movements. But normally economics are stronger nearer and then you start to move further away so, you know, it could be movement around the coast of this continent, either to refineries on the East Coast or down to the Gulf, or it could be, you know, Europe currently has an issue in terms of crude supply so there may be opportunities to move into Europe as well. But that will depend purely on the economics of the day.

On the question on Montreal, several things need to happen there. First of all, we are getting close to finishing the first \$200 million investment there on a project called Isomax, which gives us more flexibility in terms of the types of crude we can put in there. So that's a good, positive sign. I was very pleased with the approvals for Line 9, very pleased with the opportunities, and that's why we've gone ahead with the first parts of the investment to take full advantage of that flexibility. Then as Line 9 gets turned over next year, we will move the refinery to cheaper inland crudes, which will be a mix of light and some heavy material. And then the coker project is purely dependent on the economics and the main driving force for a project of that type is the difference between light and heavy material, so what we call the light-heavy spread. So we continue to look at that. I would expect to get the first proposal on that across my desk mid to end next year. It's not something that will happen instantaneously and then it will be a big investment over a number of years if we choose to go ahead with it.

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**Jeff Lewis, The Globe and Mail**

Okay, thanks.

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**Operator**

Thank you. There are no further questions registered at this time. I would now like to turn the meeting back over to Mr. Douglas.

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**Steve Douglas, Vice President, Investor Relations**

Thank you, Mary. Perfect timing. Thanks to everyone for participating and just a reminder, again, we have one question that we will follow-up on today but I'm sure there are others. We'll be available by phone and email on an ongoing basis. Thanks again for taking part. Bye-bye now.

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**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time. Thank you for your participation.

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