

## **CORPORATE PARTICIPANTS**

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*Vice-President, Investor Relations*

**Steve Williams**

*President & Chief Executive Officer*

**Alister Cowan**

*Executive Vice President & Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Guy Baber**

*Simmons & Company*

**Greg Pardy**

*RBC Capital Markets*

**Phil Gresh**

*JP Morgan*

**Sameer Uplenchwar**

*GMP Securities*

**Mike Dunn**

*FirstEnergy Capital*

**Arthur Grayfer**

*CIBC World Markets*

**Ashok Dutta**

*Platts*

**Chester Dawson**

*Wall Street Journal*

**Jeff Lewis**

*The Globe and Mail*

**Scott Haggett**

*Reuters*

**Sean Posczer**

*Merger Markets*

## **PRESENTATION**

**Operator**

Good morning, ladies and gentlemen. Welcome to Suncor's First Quarter 2015 Financial Results 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, sir.

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

Thank you, operator, and good morning, everyone. Welcome to the Suncor Energy Q1 earnings call for 2015. With me here in Calgary are Steve Williams, our President and Chief Executive Officer, along with Alister Cowan, Executive Vice President and Chief Financial Officer

I need to remind you that we will have some forward-looking statements this morning. Please note that our comments contain forward-looking information and actual results may differ materially from expected results because of various factors and assumptions described in our Q1 earnings release as well as our current AIF, and these are, of course, available on our website.

Certain financial measures referred to in our comments are not prescribed by Canadian Generally Accepted Accounting Principles and for a description of these please see, again, our Q1 earnings release

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

I'll now hand over to Steve Williams.

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

Good morning and thank you for joining us.

These are certainly interesting times in our industry. Oil sands in the first quarter were down about 50 percent year over year, forcing many companies in our sector to take drastic action to weather the storm. We've seen budgets slashed, growth deferred, and debt and equity issued in response to the low oil price environment. Here at Suncor, we've taken decisive steps to sustainably reduce our costs in response to the fall in crude prices, but our balance sheet remains very healthy and our fundamental strategy remains very much intact.

We're continuing on our operational excellence journey, which means steadily improving reliability, reducing costs, and profitably growing our production. It also means an unwavering focus on safe, reliable, and environmentally responsible operations. I am very pleased with the progress we've made in the first few months of 2015. During the first quarter, strong reliability and a very light maintenance schedule contributed to companywide production of over 602,000 barrels per day, a 10 percent increase versus the first quarter of last year. At the same time, we demonstrated the financial and operational discipline necessary to generate free cash flow yet again, even as benchmark crude prices dipped to six-year lows.

We've had a strong start to the year to despite a very challenging market, and here are some of the highlights. With a relatively mild winter in Northern Alberta, our oil sands operations ran almost flawlessly. The Firebag in-situ plant continued to exceed expectations averaging almost 189,000 barrels per day and reducing steam oil ratios to 2.6. In the mine we took advantage of improved ore grade and strong reliability to produce over 318,000 barrels per day. So it all added up to new quarterly records for both total and upgraded production, which increased year over year by 13 percent and 11 percent respectively.

We also continued to drive down the costs of our oil sands operations. Our cash operating costs dropped by more than 20 percent quarter over quarter to C\$28.4 per barrel. That included a record low of \$14 per barrel for in-situ production. And it's not just unit costs that are falling. Our absolute oil sands cash costs for the quarter were down by almost \$125 million, even as we grew production. So we certainly benefitted from a 50 percent drop in natural gas prices but, more importantly, our controllable costs were down by over 5 percent on an absolute basis. And of course our costs are denominated in Canadian dollars. At prevailing exchange rates, our first quarter cash costs came in below US\$23 per barrel. Let me just say that again: Our oil sands cash costs were below US\$23 per barrel.

In the E&P the operation story was also positive. The ramp up of Golden Eagle and stronger reliability from all of our producing assets allowed us to increase offshore production by 2.5 percent while maintaining operating costs of well under \$10 per barrel. We did see some modest production from our Libyan assets but no liftings were recorded in the first quarter. And we continue to exclude Libya from our guidance in light of the ongoing uncertainty in the region.

Turning to the downstream, our refineries operated very reliably once again during the first quarter. Utilization rates exceeded 95 percent, which supported a modest increase to refined product sales. And I'm pleased to say that our cost reduction efforts were not confined to the upstream. In the downstream we took advantage of lower gas prices and also realized a number of efficiencies that allowed us to lower our operating, selling, and general expense by 8 percent quarter over quarter.

So, all in all, it was a strong operational quarter, as demonstrated by improving reliability, growing production, and declining costs. Our long-term focus on operational excellence is clearly delivering results. At the same time, we're making excellent progress on future growth projects. At Fort Hills, all critical milestones continue to be met. Engineering has surpassed 75 percent and construction is more than 25 percent complete, and both continue to track to schedule and budget. The current oil price environment presents a number of key opportunities, including lower costs, increased productivity, better resource availability, and improved work quality, and we can capitalize on those through disciplined project execution. So this will enhance our ability to deliver the project as per the plan.

Meanwhile, construction continued in the first quarter on the gravity-based platform at the Hebron project off the East Coast of Canada. Both Fort Hills and Hebron are on target to produce first oil in late 2017. Together, these two projects will contribute over 100,000 barrels per day of new volumes once they ramp up to full production. These projects are an excellent fit with Suncor's strategy to profitably and responsibly develop long-life assets that will generate cash flow across multiple price cycles.

Speaking of price cycles, I'd be remiss if I failed to comment on the current pricing environment. On last quarter's call I promised not to get into forecasting oil prices; nevertheless, I am asked my view on oil price in just about every meeting I have with investors and analysts. And, to be honest, I'm not overly concerned with crude prices, at least not short-term spot prices. Suncor has no impact on global pricing and I'd rather concentrate my efforts on the things which we can control.

We're focus on continually improving the reliability of our operations, taking unnecessary cost out of the business, and profitably growing our production. If we're operationally excellent and capital disciplined, our business will be profitable through all phases of the price cycle. When oil prices are high, as they were the past few years, we'll build cash on the balance sheet as a hedge against low oil prices. When oil prices are low, as they

currently are, we'll draw down some of that cash and continue to execute on our strategy. And we'll take advantage of soft market conditions to achieve cost efficiencies in both our base business and our growth projects. Most importantly, we will live within our means, grow production, and return cash to shareholders throughout the price cycle.

We've had a very strong start to 2015 and we're tracking very well against our various guidance metrics. I've summarized our strong operational performance in the quarter. I'm now going to ask Alister Cowan to take a closer look at some of the financial details.

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

Thanks, Steve.

As everyone knows, the first quarter featured the lowest benchmark crude prices in six years. As we've said before, Suncor was prepared for the downturn in prices and our integrated business model has proven very resilient. We generated almost \$1.5 billion in cash flow from operations. This number was virtually identical to last quarter even though the average Brent crude price fell by well over \$20 per barrel to average just over \$55 this quarter. This underlines the strength of Suncor's integrated business models that captures profitability across the entire value chain. Despite a negative \$170 million FIFO accounting impact as a result of the fall in oil prices, the refining and marketing group posted operating earnings of \$492 million and cash flow from operations \$678 million.

Earlier on the call Steve referenced to the cost reductions achieved at oil sands and in R&M. These are just two examples of the cost saving efficiencies being realized right across the company. In January, as you know we announced (inaudible) operating budget in the range of \$600 million to \$800 million, including a reduction in our workforce to 1,000 positions. At that time we anticipated phasing in the budget cuts over a two-year period. With our first quarter results you can see we've already made substantial progress. Our operating, selling, and general expenses were down by over \$160 million or about 7 percent versus the same quarter last year and we achieved these reductions while growing production by over 50,000 barrels per day. We've been focused on streamlining our business processes and permanently removing structural costs. Now this is part of a comprehensive exercise that begun well before the drop in oil prices and I am confident that we will continue to

achieve and potentially exceed our cost reduction targets in the quarters to come.

We are also targeting capital cost efficiencies. As part of our January announcement we're committed to reducing our 2015 capital expenditure by \$1 billion, bringing our capital guidance for the year to range of \$6.2 billion to \$6.8 billion. With a first quarter capital send of just over \$1.3 billion and keeping in mind the seasonality of our spending, we're on track to meet the target. Significantly, we were able to fund our first quarter capital spending entirely from cash flow from operations and produced almost \$150 million in free cash flow. So even in a quarter with the Brent average price with just over \$55 per barrel we were able to maintain our operations at capacity, continue to invest in our key growth projects, and pay a dividend that was 22 percent higher in Q1 of last year. And, most importantly, we continue to maintain a rock solid balance sheet. Our net debt to cash flow was running at 1.2 times and our debt to capitalization is at 26 percent. We finished the quarter with over \$4.8 billion in cash on the balance sheet and undrawn lines of credit of \$6.7 billion and we continue to attract a strong investment grade credit rating.

Looking forward, our capital allocation priorities remain unchanged: fund the base business as it continues its operational excellence journey to lower costs and improved reliability; invest in long-term profitable growth in our core business areas; and return meaningful cash to our shareholders. We certainly don't want to anticipate a substantial oil price recovery in the short term but we do anticipate higher prices down the road. In the meantime, we will continue to live within our means and take the necessary steps to preserve cash and maintain our balance sheet strength. As I've said before, our financial strategy is designed to enable us to manage through the inevitable oil price cycles. We will remain committed to capital discipline, operational excellence, and profitable growth, and I'm confident that we'll continue to produce strong results going forward.

With that I'm going to pass you back to Steve Douglas.

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

Well thank you, Alister and Steve.

Just a couple of highlights before we go over to Q&A: LIFO/FIFO again was a factor as we had a falling Canadian dollar during the quarter and it was a net after-tax negative impact of \$170 million in the first quarter. Stock-based compensation was an impact after tax of \$93 million in the quarter and, finally, as everyone is

aware, the exchange rate was very significant in its impact with the falling Canadian dollar. There was an after-tax negative impact of \$940 million to our net earnings based on our U.S. denominated debt.

With that I should also reference our 2015 guidance. No changes to production or to our capital spending. It's little early in the year with just three months under our belt to make any changes there. We did adjust some of the assumptions around international tax rates current tax payable. All the details are available on our updated guidance on the website.

With that, operator, I'll turn it back to you and we'll take questions.

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## **QUESTION AND ANSWER SESSION**

### **Operator**

Thank you, sir. We will now take questions from the telephone lines. If you are using a speakerphone, please pick up your handset before making your selection. If you have a question, please press star one on your telephone keypad. You may cancel your question by pressing the pound sign. Please press star one at this time if you have a question. There will be a brief pause allowing you to register.

The first question is from Guy Baber, Simmons. Please go ahead.

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### **Guy Baber, Simmons & Company**

Good morning, everybody, and congratulations on the strong quarter. I wanted to start off on the theme of the operational excellence journey but could you just comment on the exceptionally strong upgrader performance this quarter with the SCO output of 347,000 barrels a day? If you could just talk about that improvement and the uplift it gave to your bottom line versus more historical utilization efficiencies. And then if you could talk about how sustainable you believe that is and if you are continuing to run that well on a leading edge basis. And then I have a follow up as well.

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

Okay, let me answer that for you, Guy. So, you know, in some ways there are no surprises for us. We've been working in a diligent way over multiple years to improve upgrader reliability. What we said was that we were

expecting to move the whole complex up to above a 90 percent utilization over a number of years and that the full extent of that program was going to take us two turnaround cycles and that unit two, where we're seeing the big difference, has its main turnaround next year. So some of the results, you know, we've always seen a little conservative in terms of what we've been guiding on, so some of the results are starting to come. So we haven't re-guided because, you know, it's the first quarter and we do build into our guidance some unplanned work as well as planned work, but it's a trend. We've seen it over a number of years. It is a result of the ops excellence. We do expect to see that trend continue. In fact, we've seen it continue, although we've got some minor turnarounds going on in the plant at the moment we've seen it continue into April. So very much on target, very much part of the trend, and we expect to see that trend continue through the next couple of years.

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### **Guy Baber, Simmons & Company**

Very helpful. And then also, obviously great progress on the \$600 million to \$800 million of cost reduction initiatives, so first congrats on that. Could you just talk a little bit about where perhaps you've been the most successful in reducing costs and what (inaudible) in the market?

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

Sure. Yeah, I mean I'll give you some examples. I mean I would say I'm really pleased with the excellent progress that has been made. I'm a little bit cautious sometimes about the words I use, like successful, because a big part of it was a significant reduction in workforce, which is a difficult thing to have to manage. You know, we targeted 1,000. We've actually realized just over 1,200 as we speak. A lot of what we've been doing has been looking at productivity, not just numbers, so the sorts of things that are happening, we're flying less people in and out, we're using far more local labour, we're seeing better quality people come in, we've negotiated savings with contractors, we've reduced overtime by different scheduling, we've reprioritized things like IT spend. So, to be honest, what we're doing is it's—it's part of a process. We're going to overachieve versus the \$800 million we've talked about and we're going to reduce the time we did in from two years to this year. So we will continue, because it's part of, you know, the search of operational excellence for perfection, but of course you never quite get there. So very pleased with what we've done. The program is continuing and we will overachieve this year.

**Guy Baber, Simmons & Company**

Great. Thanks for the comments.

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**Operator**

Thank you. The following 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, the base oil sands OpEx number was quite impressive. When you look at the balance of this year and really going ahead, how much of that number do you think is going to be sustainable? In other words, you know, volumes were higher, you're taking absolute cost out of the system, you know, eventually we will go back into higher oil price environment but is this a trend you think we'll continue to see going down (inaudible) OpEx?

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

Two things I would say, Greg. I think it is a trend and the best view of the trend you get is if you look at what happened over the last four or five years. So we've come from approximately \$40 down to this \$28 number. Now we've had an exceptionally good quarter so two things have helped us, or three things if you like: The basic cost management has done very well and we're pleased with that, but we did have very low gas prices and we had exceptionally high reliability. So both of those things helped. So there's definitely a trend. We've not guided, re-guided for this year because we do have two quarters with not major maintenance but some maintenance in the upgrader region, so, you know, we will take a look at guidance towards the middle of the year in third quarter to see if we should be reducing it. But, you know, you can definitely start to assume that we will be at the very low end of guidance if we continue this.

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**Greg Pardy, RBC Capital Markets**

Okay, great. And just maybe staying on the cost front, the Syncrude numbers were also considerably lower. I mean we haven't numbers like that for a very long time. Is there anything in the Syncrude volumes were good in the quarter but is there anything around things like deferred maintenance or reclamation that are taking a real bite out of the Syncrude numbers? Or was this simply a volume in 1Q?

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

Let me say a couple of things. I mean of course you should really address the questions to the operator, but I'll make a few comments. We've been working on operational excellence within Syncrude and the same components are there, better cost management and management of reliability. I'm on the record as having been disappointed with Syncrude's performance over the last three or four years, but also on the record that they have been diligently working on what I believe are the right issues. Your question gets right to the important bit. The most important thing we're looking for from Syncrude is costs coming down and reliability coming up. So it was a good quarter but I'd like to see that improvement continue.

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**Greg Pardy, RBC Capital Markets**

Okay. Thanks for that, Steve. And maybe just the last one, spending wise you guys have been, the last few years, call it mid sixes in billions per year. How should we be thinking about CapEx maybe into the end of 2017 with Hebron and Fort Hills finishing up in that year?

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

You know, I mean I think the best indication of the discipline is the rigor we've had around our capital budget is to look it through, you know, what was a fairly big cycle over the last four years, we've kept to our \$6.5 billion. You're right, I mean the peak of spending on Fort Hills and on Hebron is next year, but broadly speaking you will see us applying the same sort of capital discipline. So if I go back three or four years, we were talking about that, Greg, and I can remember you asking the question about, you know, will we be between \$8 billion and \$9 billion. You're going to see us much closer to the numbers historically we've been spending.

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**Greg Pardy, RBC Capital Markets**

Okay, that's great. Thanks very much.

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**Operator**

Thank you. The following question is from Phil Gresh from JPMorgan, please go ahead.

**Phil Gresh, JP Morgan**

Hey, good morning. First question is just around the capital cost opportunities on Fort Hills and Hebron, you know, without making you commit to saying that the capital cost could be lower maybe just talk about what you're seeing trend wise given what you've been seeing on the operating cost front.

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

Okay. I mean you'll recall, Phil, when we said we were going ahead with particularly Fort Hills, and the same logic goes across to Hebron, parts of the reason for wanting to go ahead at this time was our view not that we foresaw the significant down cycle in crude price but we did see a drop off in activity in the Fort McMurray region, and so we anticipated the upward pressure on the cost of major projects would start to come down. So part of the reason we went ahead in this timeframe was to be able to spend the majority of the money on the project at a very low cost time in that particular business and region. That's proving to be the case. So you heard me say the project's going very well, construction is 25 percent complete, it will be 50 percent by year end, engineering is 75 percent complete. What we're seeing, if you think about how we set up, the reason for setting up the joint venture was to de-risk our exposure. So we had 40 percent. There's definitely a de-risking going on the project. So the risks, the upside risks are improving relative to the downside risks, which is very, very encouraging. So as we continue to hit the milestones, that continues to be the case. And of course we've used virtually none of the contingency, which is in excess of \$1.5 billion on that project. So all of the signs are the execution of the project is going very well and we're seeing real trends out there. So the quality of the work, the quality of the labour, the commitment of the contractors has been exceptional.

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**Phil Gresh, JP Morgan**

And if you run the current strip kind of through your model in Fort Hills, I mean would you be comfortable that it's still a low double digit IRR type of profile?

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

Oh, sure. I mean, you know, there are lots of puts and takes on the economics but, you know, there are some mitigating factors that you have to look at. You run the strip. And of course that's the important point. We put the

long-term price, and this is a 52 year project, you know, short-term spot prices through construction are not that relevant to the IR calculation. So we redo and it hasn't moved much from our original numbers when we put current exchange rates in crude prices. So things are looking pretty good.

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**Phil Gresh, JP Morgan**

Yeah, okay. Fair enough. And just my follow-up question is how do you think about the long-term growth of the company today? Has anything changed materially? Are you still thinking kind of through the cycle mid single digit growth? Just kind of coming back to the question about CapEx post Fort Hills, just how are you thinking about things?

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

I mean the simple answer is yes. I mean what we're looking at is the major growth projects are going ahead, they're about 100,000 barrels a day building up in that 2018 timeframe, so considerable growth. The other piece of growth is the continued reliability improvements that I think there was a bit of skepticism about initially, but they're clearly manifesting themselves now. That's what the upgrader production is around, that's what the Firebag improvements have been around. So you see that and then we have a long list of growth projects behind that. So we owe the market a clearer view of our replication strategy. It's coming along very nicely. So we have a complete in-situ replication strategy which will take us through ten years through to 2030 sort of timeframe. And then we have some great conventional E&P projects as well. So within our ownership we have lots of opportunity for growth. Of course one of the benefits of the relatively good performance of our equity is we also have some opportunities in the market. So there is nothing we much liked at the moment. Our view is there is still a bit operating gap between buyers and sellers. But the best position to be in is to have a good balance sheet and be disciplined.

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**Phil Gresh, JP Morgan**

Sure. Absolutely. Thanks a lot.

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**Operator**

Thank you. The next question is from Sameer Uplenchwar from GMP Securities. Please go ahead.

**Sameer Uplenchwar, GMP Securities**

Good morning, guys. Congrats on a great quarter again. Quick question on dividend growth. I am trying to understand, and this is on the prior question, once Hebron and Fort Hills spending starts coming down starting 2017 how are you thinking about dividend growth and share buybacks? Because capital spending seems to be kind of tapering off. So just trying to understand long-term how are you thinking about that.

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

You know, I mean I don't think our strategy has changed in a sense. I mean we look at the opportunities we have to deploy the funds and we compare them rigorously. So we look at the returns we get on our projects, the dividend, we've always said, you know, we will keep our dividends in a meaningful, sustainable, growing in proportion to our production, so we plan that that would continue as the company continues to grow. And then opportunistically we will buy stock back. So with the exception of this year for four years we've bought back 10 percent of the company. Our average share price buyback has been in the sort of mid \$30s, \$34 share range. So we think that was very successful and you'll see us using those same tools with the same discipline.

**Sameer Uplenchwar, GMP Securities**

Perfect. And last question, like you just mentioned on the A&D front, if I have to think about it from that perspective are you looking at assets within Alberta or is it going to be international? Like how should I think about that ?

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

I mean, to be honest, if you look at our record, our record has been one of disciplined divestment rather than acquisition. So we did do the Petro-Canada deal, we did do the purchase of the Denver refinery, both very much at the bottom the cycles they were in. So, you know, we're not adverse to doing deals but we've been more, recently we've been more into divesting of assets at the right time. It's not a great time to be selling assets right now. There are lots on the market. So we look at how it fits with our business. The first area we look at, and I think of three broad areas we look at, the first one is oil sands. Very difficult for acquisitions to work in oil sands because we have the highest quality resource. So we have organic projects which those things have to work against. So it's very difficult, it's very tough for us to make

those work. We look at the downstream, because we believe in this integrated model adding value and I think it's doing that, so we looked at all the assets on this continent to see if they fit with our integrated model. And then we do look around our conventional E&P and our strategy is being around approximately the percentage of E&P we have. So we are part of the joint ventures with Exxon and Shell off the East Coast of Canada, two great opportunities in the mid-term there, and we do look at other assets, but overall our view has been there's still a gap between buyers' and sellers' expectations.

**Sameer Uplenchwar, GMP Securities**

Thank you.

**Operator**

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

**Mike Dunn, FirstEnergy Capital**

Yeah, good morning, everyone. A couple of questions on your upgraded output in the quarter. Your sour SCO sales was about 58 percent of the total, I guess, an upgrader output similar to what you achieved, is that a reasonably good number to use going forward?

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

You know, I think it's fair to say, you know, that's what I said almost flawless, Mike, when I talked about operations. We didn't have a perfect quarter on the hydrotreaters. It wasn't bad, we did well, but we did have one unplanned shutdown there. So, I don't know, Steve, if you would want to say particular numbers there?

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

We probably lost something in the area of 25,000 to 30,000 barrels a day of sweet production over to sour, Mike, and so that does have an impact. But when you're running at close to 100 percent you can't expect the entire complex to be at that level. So I think as we get to that top end you're likely to see that sweet/sour mix weaken somewhat.

**Mike Dunn, FirstEnergy Capital**

Okay. And it's my understanding, folks, that, ah, I mean you did have a strong quarter in terms of mined bitumen output partially due to the ore grade but even if that was more of a normalized throughput from the mine would you have still been able to make that up from Firebag bitumen through the upgrader?

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

We expected to do over 300 and we did. We run, Firebag and MacKay River run full to the limit of the assets all of the time so, you know, we take them to a limit. If we're working on a steam generator then its impacted but our normal strategy is we run those, we run all of the bitumen sources full.

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**Mike Dunn, FirstEnergy Capital**

Okay. And then over to your E&P division, your press release mentioned, ah, are you drilling the Beta, around Beta right now off Norway? And then as well maybe just shed some colour on that non-commercial well off Newfoundland that you had the exploration expense for, whether that was something this quarter or from prior quarters.

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

I mean the answer to your first question is yes, we are in the process of drilling that well, and over the next few months we would expect to start to see the results. And, yes, we wrote down the Aster well. You know, that's part of our normal E&P and of course you have to drill a number of those to hit a good one. So very much far off the E&P program.

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**Mike Dunn, FirstEnergy Capital**

Okay. Thanks, Steve. That's all for me.

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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 a few questions. The first one is on the cost side. Can you elaborate a little bit about that \$600 million to \$800 million? And what I'm looking for is how much of those cost savings are really a reflection of the current price environment or the current deflationary cost environment, and so really what I'm wondering is could we potentially see more cost savings just due to a cost deflationary environment. Like are all these really just structural changes that we don't expect to come back overtime?

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

Arthur, it's Alister. Yeah, I mean I would say that, ah, Steve gave some great examples of how we're achieving those cost savings. We did take 1,200 people out of the organization. But Steve gave some other examples and they're more, they're very much structural changes in the way we're doing our business rather than sort of taking one-time price reductions that ultimately do come back. So our view is the majority of those cost reductions will be permanent structural changes in our cost base.

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**Arthur Grayfer, CIBC World Markets**

Okay. Looking at the CapEx numbers, so as you said, Alister, that CapEx is \$1.3 billion, and taking into consideration that Suncor has a history of putting out CapEx guidance and then coming underneath that, is there a reason why I shouldn't just take that \$1.3 billion and times it by four and assume that's what the CapEx will actually turn out to be this year?

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

That was music to my ears. So I'll hand it over to Alister so he can answer the question but I wish you could see the smile on my face. You know, we've been working for a number of years, particularly in oil sands, against a reputation of projects overruns, not being able to do things within our CapEx limits, so it was a specific objective of ours to become much more disciplined about capital and to give a prudent but realistic estimate. So I'm pleased that, you know, there is a general realization now that we manage that in a disciplined way.

Go on, Alister, you can...

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

Thanks, Steve. As I said in my comments, our CapEx is seasonal, so the \$1.3 billion was actually in line with what we expected as part of that overall 6.2 to 6.8. So don't just multiply it by four.

There's going to be some seasonality, we've got some turnarounds coming, obviously as we ramp up and the summer work of some of it, especially Fort Hills. You'll see that go up in the next couple of quarters. We're still going to hit in that range of 6.2 to 6.8.

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**Arthur Grayfer, CIBC World Markets**

Okay. And the last question from me is you talked about some planned maintenance in Q2 and Q3, in terms of context of the guidance of the 4.10 to 4.40, can you talk a little bit about where...(inaudible)?

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

Sorry, you cut out there for just a second, Arthur. You said talk a little bit about...?

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**Arthur Grayfer, CIBC World Markets**

The planned maintenance for Q2 and Q3 in the oil sands operation, in terms of guidance ten to four (inaudible) volumes like you take out (inaudible)...

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

Okay, we got it. You are cutting out but I think we have the gist of it. You know, it's true we are right across the upstream producing at or above the high end of guidance, but we do have maintenance planned right across the upstream in the second and third quarters. I would say that we certainly expect to be mid-point or above in our guidance production but you have to have quarters like Q1 in order to hit guidance because we do take that maintenance into account.

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**Arthur Grayfer, CIBC World Markets**

Thank you very much.

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**Operator**

Thank you. As a reminder, if you have a question, please press star one. To cancel your question you may press the pound.

The next question is from Ashok Dutta from Platts. Please go ahead.

Ashok Dutta, your line is now open. Please proceed.

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**Ashok Dutta, Platts**

Hi. Just a very few quick questions. Line 9 and Montreal coker, just wanted to find out what's the latest with that please.

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

Okay, Line 9, much as we anticipated, we still anticipate it coming on in the second quarter this year, so in the May-June timeframe. It is dependent on a final leave permission to start up from the NEB and that being given to Enbridge, but we're working with both of those to try and secure the second quarter start up. So, you know, I'm waiting to see it actually happen but it does still look as though signs are encouraging. And of course the actual regulatory approval for Line 9 reversal was given last year, so still on schedule.

Montreal, let me just say that, you know, the combination of the rail connection we've put into Montreal and the modifications we made to the Isomax, Montreal had one of its best quarters ever in the first quarter. And of course as Line 9 gets reversed then that trend will continue. The yields that we got particularly for distillates around the Isomax have been above our expectations, which is good news. The coker is, you know, a refinery margin project that we will look at at the right time. We're still investing in the development of that project this year and towards the end of this year/beginning of next year it will come across my desk to take a look at whether we approve it. So still being developed but not imminent.

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**Ashok Dutta, Platts**

Okay. And just a very quick follow up: With Line 9 reversal would you still be looking at getting crude from the U.S. Gulf Coast?

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

You know, one of the strengths of Suncor is what I call our logistics in our intermediates. We run our trading organization to take advantage of the difference in prices so, yeah, all is possible. We run that model every day and look at where the best trades can be made. So we move material up from the Gulf Coast into Montreal.

Of course Line 9 will give us great access to inland crude, both from the western side of Canada, here in Alberta, but also for inland crudes in the U.S., so it just gives extra flexibility and we will take advantage of all of that.

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**Ashok Dutta, Platts**

Okay. Thank you very much.

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**Operator**

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

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**Chester Dawson, Wall Street Journal**

Yes, thank you for taking my question. Two main points. First, I was wondering if you could tell me what your average realized price for oil sands crude was in the first quarter. And, secondly—well, actually maybe I'll ask you to answer that first.

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

Steve's just looking up a number for you.

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**Chester Dawson, Wall Street Journal**

While he's doing that maybe I'll ask my second question, which is you mentioned that you don't have any particular interest in oil sands M&A but I'm wondering if you have any insight into whether others might be interested in Syncrude, for example. There's been some talk or speculation that Imperial might want to increase its stake. Are you aware of that? Have they had any discussions with you about that as a major shareholder?

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

No, I wouldn't have any comment. I can't comment on theoretical competition type issues. I mean I think the fundamentals are still the same for all of us.

But, you know, one of the challenges around acquisition is if you hold excellent resource you have to benchmark other assets against them, and I think that still is, generally, a disconnect between buyers and sellers. But other than that I would ask other Syncrude owners directly.

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

Okay, Chester, it's Alister. The realized price, the average realized price for the oil sands in the quarter was C\$47.67.

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**Chester Dawson, Wall Street Journal**

Okay, great. Thank you. And then, lastly, could you give me any update on your crude-by-rail shipments in the first quarter and where you expect second quarter and beyond?

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

It's Steve Douglas here. We continued to ship significant volumes to Montreal, 30,000 to 40,000 per day of rail. Other than that we really do it, as Steve Williams mentioned, on an opportunistic basis. So when there is an arbitrage opportunity we can actually move anywhere in North America with our rail shipments, and we'll continue to do that. We have a large fleet of railcars and it's really about taking advantage of arbitrage opportunities. We don't move our own equity crude by rail; we have sufficient pipeline access to move it all by pipe.

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**Chester Dawson, Wall Street Journal**

Okay. And just to follow up and clarify, I think last quarter you said it was not efficient to rail it to the Gulf of Mexico. Is that still the case?

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

It really comes and goes, because of course we're seeing a lot of volatility in crude pricing and so it's really a day-to-day optimization exercise.

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**Chester Dawson, Wall Street Journal**

Great, 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 for taking my question. I was wondering about the 200 additional layoffs. Can you clarify from what area of the business those cuts were made?

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

I mean I would just comment generally. The majority of these costs have been around what I would call our head office and overhead. So, you know, we've been working for a number of years on streamlining our work processes in the company and that's where these have come from.

So although we set targets it was very much about how can we still do the critical important work for the company but do it more productively, and that's where they've come from. So the majority are in Calgary and Toronto around our sort of head office functions.

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**Jeff Lewis, The Globe and Mail**

Okay. And, just as a follow up regarding the cost reductions, Alister mentioned that a lot of them were from structural changes. Can you be more specific on some of the areas of the business where you've been able to (ring) costs? The release mentioned lower gas prices and higher volumes helped to help sort of drive the per-barrel cost down, but what specifically have you been able to change in the business that you see sort of sticking around at the year goes on?

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

Yeah, I mean it would be, you know, largely a repeat of what I said earlier. It's about productivity, it's about improved processes, so it's around better supply chain, IT, HR, finance, it's about how we work those processes better. So the changes we've made are permanent with different systems in place, which is why we think these things will largely be sustainable. So it's about how you, you know, I mean the phrase that used to be used was how you reengineer or redesign those work processes. So it's those types of things.

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**Jeff Lewis, The Globe and Mail**

But would you say the bulk of the savings are coming from things like that or from the higher volumes and lower gas prices?

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

No, the bulk of the savings are coming from those—that 600 to 800 million has no, the gas prices have no impact on that, nor do volumes.

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**Jeff Lewis, The Globe and Mail**

Okay, I see. Thank you.

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**Operator**

Thank you. The following question is from Scott Haggett from Reuters. Please go ahead.

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**Scott Haggett, Reuters**

Yeah, just to get a little more mundane, can you tell us when you expect the current coker maintenance to wrap up and when you'll begin the vacuum unit and other coker work?

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

Yeah, just general comments. I think you're talking about the unit one upgrader annual inspection that's going on two of the coke drums. It's going very well. The work is on schedule. We'd expect it back on line in the next few weeks. And then in terms of the planned unit two vacuum tower work, we'll be executing that in the fall.

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**Scott Haggett, Reuters**

Great. Thank you.

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**Operator**

Thank you. The following question is from Sean Posczer, Merger Markets. Please go ahead.

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**Sean Posczer, Merger Markets**

Would you be interested in increasing your stake in Syncrude?

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

You know, I think what I would say is I would just look back to our general position. I mean we're not adverse to transactions. We have a long list of excellent organic projects, so anything we look at has to work very well relative to those. If we look at Suncor's track record on what I would call general M&A type activity, we tend to be more in the disposal of assets than in the buying of assets over the last few years, and that's been part of that disciplined strategy about getting to our core business. We do look at all potential opportunities out there but generally our feeling is there's a big gap between buyers and sellers.

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**Sean Posczer, Merger Markets**

Would you be interested in selling your share in Syncrude?

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

Same answer.

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**Sean Posczer, Merger Markets**

Okay, thank you.

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**Operator**

Thank you. We have no further questions registered. I'd like to turn the meeting back over to Mr. Douglas. Please go ahead, sir.

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

Thank you, operator, and thanks to all the participants. If you more detailed questions, we're certainly available today and all the time. Thanks for taking part and we'll look forward to talking again.

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**Operator**

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