

## **CORPORATE PARTICIPANTS**

**Steve Douglas**

*Vice-President, Investor Relations*

**Steve Williams**

*President & Chief Executive Officer*

**Alister Cowan**

*Executive Vice President & Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Phil Gresh**

*JP Morgan*

**Guy Baber**

*Simmons & Company*

**Benny Wong**

*Morgan Stanley*

**Paul Cheng**

*Barclays*

**Greg Pardy**

*RBC Capital Markets*

**Nick Lupick**

*AltaCorp Capital*

**Mike Dunn**

*FirstEnergy Capital*

**Ashok Dutta**

*Platts*

**Chester Dawson**

*Wall Street Journal*

## **PRESENTATION**

**Operator**

Good morning, ladies and gentlemen, and welcome to the Suncor Second 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.

---

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

Well, thank you, Melanie, and good morning to everyone. Thank you for joining us. Welcome to Suncor Energy's Q2 earnings call. With me here in Calgary are Steve Williams, our President and Chief Executive Officer, together with Alister Cowan, Executive Vice President and Chief Financial Officer.

Just before we begin I would underline for you that our comments today will contain forward-looking information and actual results may differ materially from expected results due to various factors, and these are described in our second quarter earnings release and our Annual Information Form. Both of these are available on SEDAR, EDGAR and our website, suncor.com.

Certain financial measures that we refer to are not prescribed by Generally Accepted Accounting Principles in Canada. For a description of these financial measures, again, please see our second quarter earnings release.

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

With that, I'll hand it over to Steve Williams.

---

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

Thanks, Steve, and good morning and thanks to everyone on the line for joining us. I am delighted to share Suncor's strong Q2 results and to have the opportunity to provide some colour on what I think is a very successful quarter.

During the past few years we've talked repeatedly about three key focus areas for Suncor: Operational excellence, capital discipline, and profitable growth. In the second quarter, despite a very challenging macroeconomic environment, we delivered on our commitment in these areas. And let me give you some highlights.

Operational excellence is all about steadily improving reliability and reducing costs and we've talked about the plan to get to 90 percent throughput on our oil sands upgrading complex by 2017. In 2012 we anticipated it would be a five-year journey, but three years on we're already seeing encouraging results. We've comfortably exceeded 90 percent throughput for two consecutive quarters, even when factoring in maintenance downtime. We've also talked about reducing costs by \$600 million to \$800 million over a two-year period and we're well on our

way to accomplishing that in this year alone. So clearly our operational excellence efforts are paying off.

Capital discipline has been critical to positioning Suncor to outperform in a low oil price environment. We've put tremendous focus on spending capital efficiently and on returning free cash to shareholders over the past few years. Our progress on operational excellence and the low sustaining capital requirements of our long-life, low-decline resource resulted in us generating substantial free cash flow again this quarter, even in a challenging price environment. I'm pleased to say that we have continued our focus on capital discipline with the announcement yesterday of a reduction in our capital spending guidance, coupled with a dividend increase and the resumption of our share buyback program. These decisions reflect the confidence we have in our ability to continue to effectively manage costs and generate free cash both now and in the future.

Profitable growth can be a challenge in the current low price environment but with an asset like Fort Hills it is less so, and here's why: Fort Hills will operate with low cash costs and sustaining capital for more than five decades. It will generate free cash flow throughout the price cycle. With construction now more than one-third complete, we're right on target with both budget and schedule, and we remain fully committed to the project. It's a significant part of our profitable growth over the next few years.

Since our last quarterly call we've also announced some relatively small but important transactions that are consistent with our efforts in all three areas—operational excellence, capital discipline, and profitable growth. Our assets swap with TransAlta, where we acquired control of the Poplar Creek cogeneration facilities at our oil sands base plant in exchange for two wind projects, is consistent with our philosophy of bringing in-house infrastructure that is core to the operations of our assets. We did something very similar last year when we purchased the sulphur plant supporting the Montreal refinery. This transaction will contribute to further improvements in reliability and efficiency of the oil sands base plant. In addition, it secures Suncor's position as one of the top power producers in Alberta and increases our ability to sell excess low carbon power back to the grid.

We also entered into partnership on two other wind farms that will support the growth of our renewable power business going forward. In particular, our partnership with the Aamjiwnaang First Nation in Southwestern Ontario is a groundbreaking arrangement that combines

sustainable power generation with business and community development.

Now I'd like to take just a few minutes to have a closer look at our operational results in the second quarter.

Our oil sands operations ran reliably once again this quarter. We averaged 424,000 barrels a day with 94 percent throughput on the upgraders. At the same time, cash cost declined to \$28 per barrel, and that's \$28 Canadian dollars, so just over \$21 U.S. dollars, an 18 percent drop year over year. We accomplished this whilst completing annual maintenance on schedule and under budget. So with six months under our belt, oil sands year-to-date production is in the upper half of our annual production guidance range. Upgrading has averaged over 96 percent throughput year to date and cash costs for that period are running at just over \$28 per barrel, well below the target range we set for 2015. We do have some maintenance scheduled at the oil sands base plant in the fall but I believe we're very well positioned to meet and in some cases exceed our original guidance.

In E&P we continued to see strong results from Buzzard and Golden Eagle steadily ramped up production during the quarter. As a result, our international production is tracking well ahead of guidance year to date. On the East Coast we completed our extended maintenance turnaround at Terra Nova more than two weeks ahead of schedule. Overall East Coast production is trending slightly below our original guidance year to date due to the extended maintenance at Terra Nova and drilling delays at Hibernia; however, we do expect to see new production in the second half of the year from extensions at Hibernia and White Rose, and of course, Hebron, our next offshore greenfield project, continues to progress towards first oil in 2017.

In the downstream it was another quarter of strong reliability and reduced costs. We averaged 90 percent utilization despite planned turnaround maintenance at both the Sarnia and Edmonton refineries. We continued to advance cost reduction efforts and also benefited from lower input costs. With year-over-year gasoline prices driving strong demand, refining cracks were sharply higher. The net result was a quarter where the downstream generated 70 percent of our operating earnings, I think demonstrating once again the strength of our integrated business model.

In summary, we delivered a strong operational quarter marked by improved reliability, growing production, and declining costs. Our strong performance in capital discipline supported an increase to the dividend and the resumption of our share buyback program. I think that's

fairly conclusive proof that the strategy works just as well in a low oil price environment than it does in a high price environment. So going forward we will stay focused on delivering more of the same.

We're doing an excellent job on the controllables; however, there are always external variables outside of our control that can have a bearing on our results. During this quarter, for example, we saw a new government elected in Alberta and tax increases on both corporate earnings and carbon emissions. We also saw reviews initiated on royalties and climate change policy. We're working closely with the new government and we have shared our perspective on the importance of looking holistically at the total fiscal take to ensure the sector is not competitively disadvantaged. The new government has made it clear that they share our goal of a competitive and growing oil sands sector with improving access to global markets. We will do everything we can to support them in achieving those goals given the economic importance of the energy sector to both provincial and national economies. And I'm confident that we'll get it to the right place.

So, with that, I'm going to turn over to our Chief Financial Officer, Alister Cowan, to take a closer look at the financial results for the quarter.

---

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

Thanks, Steve.

Our strong operational quarter led to equally strong financial results. With production increasing we took advantage of a crude benchmark increase of more than \$8 per barrel versus the first quarter to generate \$2.1 billion of cash flow from operations and free cash flow of \$580 million. The downstream impact of narrower crude differentials was offset by higher price realizations in the upstream.

Our accelerated cost reduction efforts continued. We also benefited from reductions in natural gas prices and stock-based compensation. As a result, our total operating, selling, and general expenses were down by over 18 percent versus the second quarter of last year. In January of this year we committed to \$600 million to \$800 million of reduction in operating expenses over a two-year period and we're on track to achieve that by the end of 2015. And this includes net staffing reductions of over 1,300 people or about 8 percent of the total direct workforce. And we're focused on ensuring the sustainability of these reductions as we go forward.

At oil sands we've reduced our cash cost per barrel by almost 80 percent in the past year and we're tending well below our original guidance range of \$30 to \$33 per barrel. Now while we're certainly benefiting from lower natural gas cost year over year, we've achieved real savings as the result of improved productivity and efficiency. In the second quarter our non-commodity oil sands costs were lower than Q2 of last year and we achieved these absolute dollar cost savings while increasing our year-over-year production by almost 12 percent. As we implement business process improvements both internally and in partnership with our contractors and suppliers, we believe we can continue to realize further savings, and our intent will be to embed these reductions and sustain them going forward.

We're taking the same disciplined approach to the management of our capital spending program. Through a combination of capital efficiencies, deferrals, and cancellations of non-critical projects we have limited our capital outlay to \$2.7 billion in the first half of this year. Now this puts us well on track to capture in excess of the \$1 billion of capital reductions we committed to this past January. And we're receiving these savings while we're still investing in the sustainment of our operations and moving forward on schedule with our key growth projects like Fort Hills and Hebron. Now obviously this performance is helping us to maintain a very solid balance sheet. Our net debt to cash flow was running at 1.2 times and our debt to capitalization is 25 percent. We finished the quarter with \$4.9 billion in cash and undrawn lines of credit of \$6.9 billion for total liquidity of almost \$12 billion. And of course we continue to attract a strong investment grade credit rating.

The net result of our strong financial performance is a level of free cash flow for the quarter that more than covers our dividend obligations. As a result, we are well positioned to once again increase the level of cash we return to shareholders and we have done just that with an increase of 3.5 percent to our quarterly dividend and the resumption of our share buyback program with the intention to repurchase \$250 million worth of shares through the next six months, subject to market conditions. Over the past four years we've grown the dividend by 164 percent. During that same period we have repurchased and canceled over \$5 billion of Suncor stock, representing approximately 10 percent of the outstanding shares.

What's particularly encouraging is the resiliency of our business model. With a Brent crude price that averaged less than \$60 per barrel in the first six months of this year, Suncor was able to generate sufficient cash flow from operations to fund our entire capital spending

program, over 50 percent of which is focused on growth and produced over \$700 million in free cash flow. These results, combined with a strong cash-on-hand position, supported a dividend increase and the renewal of our share buyback program. We believe this is a value proposition which very few companies in our industry can match.

Our business model and our strategy have put us in a position to thrive if, as expected, oil prices remain lower for longer, but we're also poised to benefit from eventual increases in oil price thanks to our growing production and our strong leverage to Brent pricing through our integration strategy. Consistent with our strategy, we'll remain focused on prudent cost management and disciplined capital allocation and, as you've seen, our commitment to returning cash to shareholders will not waver.

And with that I'll pass you back to Steve Douglas.

---

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

Well, thanks, Alister, and thank you, Steve. Just a few notes before we go to Q&A:

On LIFO/FIFO, with rising crude and product prices we had a positive after-tax impact of \$235 million in the quarter and year to date that puts us at positive \$65 million. The impact of the U.S./Canadian dollar was actually a positive this quarter of \$178 million but year to date it is a net expense of \$762 million. Stock-based comp was a net cost to us of \$5 million in the quarter after tax, bringing the year-to-date cost to \$98 million after tax.

As both Steve and Alister mentioned, we did update our guidance on a number of fronts. The highlights are as follows: E&P production forecast has been adjusted to reflect the strong performance in the North Sea as well as the extended maintenance on the East Coast. The net result is a 10,000 barrel a day increase to the guidance range for the overall company. We've also adjusted the sales mix forecast at oil sands as a result of exceptional upgrading performance year to date. We've raised the synthetic crude oil sales range by 15,000 barrels a day to 300,000 to 330,000 barrels a day, and of course we've made an offsetting reduction in bitumen sales.

As we mentioned earlier on the call, we continue to be disciplined with our capital spend and we have reduced the guidance range by \$400 million, taking us to \$5.8 billion to \$6.4 billion for the year. Finally, we've reduced the range for oil sands cash cost reflecting the very

strong first half of the year. The range is now \$28 to \$31 a barrel. There are few other minor changes around tax rates and you can find the full updated guidance on our website at [suncor.com](http://suncor.com).

With that, I'll turn it over to Melanie to begin the questions.

---

**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 your 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. Thank you for your patience.

The first question is from Phil Gresh of JP Morgan. Please go ahead.

---

**Phil Gresh, JP Morgan**

Hi, good morning. Congratulations on exceptional results there. First question is just on the CapEx reductions. How should we think about this in the context of your longer term sustaining capital requirements? Is the reduction related to better management of growth capital? Is it a reduction in the sustaining capital requirements? Maybe just talk about how you think about those sustaining capital requirements. I think maybe the old number was something around a \$3.5 billion run rate in 2015.

---

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

Thanks, Phil. Yeah, no real changes. I mean what we're seeing is this year's capital reductions were from all classes, if you like. We were able to get more efficient on the capital spend both on the sustaining and the major projects in execution. We were also able to take the projects at the bottom of our priority list and defer some of those. So it's a mixture of impacts.

Sustaining capital has come down and should stay down and that's been a journey we've been on over a few years as we've been working to improve the reliability by getting to a higher standard of asset maintenance, and that's clearly been working and that cycle is starting to

come to an end. So I would think of and I know when we've been on the road we've given numbers in that sort of \$3.5 billion, \$4.5 billion to sustain capital of the existing assets, depending on whether we're in a big turnaround year or a smaller turnaround year. And those numbers are good. The only footnote I would put on it, we are still continuing to see overall deflation in costs, particularly around labour and commodities, and although it's not a perfect number if you just look at second quarter 2014 to 2015 you see an 18 percent reduction on costs, which is sort of reflective of some of the deflation we're seeing.

---

**Phil Gresh, JP Morgan**

Sure. Okay, got it. And then the second question, just on the buybacks, obviously great to see the dividend coverage, the buybacks being reinstated. Maybe you could just put this in the context of your broader thinking around capital allocation between return of capital versus growth. And obviously the opportunity to return capital continues to increase with each passing year and with Fort Hills coming on and growth capital potentially coming down, so maybe just where do you stand on that thinking on a multi-year basis?

---

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

Yeah, and let me go back again to some of the messages we've been putting out. We have a very rich suite of opportunities, organic opportunities there. We have potential, I'll go out in that sort of two-, five-, ten-year timeframe, we've got great opportunities in oil sands around both, once Fort Hills comes on more emphasis on in situ development, lots of opportunities. We've got a debottleneck at Firebag, a debottleneck at MacKay River, and then we've got this replication strategy which is a 10-15-year development program of the in situ resources. So lots of opportunities there.

We've also got significant opportunities in our conventional E&P business, and we've been lining those up. We've got Hebron coming on in 2017. But beyond that we still have the opportunities we've talked about in the past where we've been working with Shell and Conoco in the Shelburne Basin and with Exxon and Conoco in the Flemish Pass. And we've got some things over in the North Sea as well. So lots of growth opportunities there within our ownership for development. What we've always done with capital is say okay, well where is, what's the best use of this cash, and we've been very sort of clinical and dispassionate in that analysis, and that's ended up being a mix of the growth opportunities we have and returning value to

shareholders. And you will see us continue to do both of those.

So dividend, our commitment on dividend has been, it will be competitive, meaningful and sustainable, and as we grow the business and the cash flow grows you will continue to see our dividend grow. We've also been opportunistic on buybacks where we just look at it versus the other allocation of other allocations for that capital and we do, we take the basket of analysts NAVs, we do our own calculations, and we look to see if we think we get a good return on that investment. Clearly with these prices we believe our stock is a good investment and so you've seen us go into share buybacks. But it will be those considerations of comparing the uses of capital and picking the best one.

The footnote I would put on it is we are still a growth company. With the budget we're talking about, even with the CapEx we're talking about, we're fully funding Fort Hills, fully funding Hebron, so we have a relatively flat 2016 because of our turnaround in terms of production, but the underlying business is growing there when we fully utilize in the year, and then in 2017 we have two substantial growth projects coming on and then we're still doing the underlying development for the other ones. So I still want us to be thought of as a growth company with a very healthy cash flow which is being returned to shareholders.

---

**Phil Gresh, JP Morgan**

And how do you think about what the growth target would be, you know, either in terms of, perhaps in terms of volume growth over time?

---

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

We think plus or minus on 5 percent is a good number through the period. So you will see 5 percent year on year through to 2020 and beyond.

---

**Phil Gresh, JP Morgan**

Okay. Thanks. I'll turn it over.

---

**Operator**

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

**Guy Baber, Simmons & Company**

Good morning, everybody, and congrats on another strong quarter. I was hoping we could dig a little bit deeper on the CapEx front, but obviously you all have the track record now of driving CapEx lower given the focus on capital discipline in 2015 is consistently trended down, so the question is on the specific read-through to 2016, just wondering how much of those savings are permanent versus perhaps getting shifted around and into 2016. And could you talk through some of the drivers of 2016 CapEx so we can better frame our expectations? I know you have the turnaround next year and then Fort Hills will hit peak spending, but any another detail that you could provide that will help us understand how CapEx moves from 2015 into 2016 would be very helpful. And then I have a follow-up.

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

Okay. I mean, you know, great questions there, but very tough to be specific in terms of numbers. But I think I can give you some clear indications.

So a significant part of the CapEx reductions are deflation and our reliable operation means that we're able to plan our maintenance and when we get there, there is less of it. So those are sustainable cost reductions into the future. We haven't set or guided on capital for 2016 yet but my expectation from the first round of reviews I've taken are that it will be in the \$6.5 billion to \$7.5 billion range. Included in that will be a fully funded Fort Hills and fully funded Hebron development, and both of those projects are towards the peak of their expenditure in 2017. So what we—sorry, 2016. And then drop off as we go into 2017. So what we're looking at now is how we define and then phase the next generation of growth in there.

As I said, the projects we are looking at the moment, Fort Hills is largely coming online at the back end of 2017. So the projects are around Firebag expansion starts to become more important. We're looking at dusting off the MacKay River, which we're still quietly developing in the background, and then we have a multi-phased program of replication around in situ. And think of those as in the 20,000 to 40,000 barrel a day type steps, each of the replication steps, and we'll be implementing one of those every one year to 18 months after 2020. So there is a nice steady development line of projects there. And the balance for CapEx allocation will be the balance of returning that to shareholders and selecting those projects. And those decisions will depend on the competitive climate in Alberta, the competitive climate in

those other arenas I was talking about, and our share price, and we'll look at those as alternatives.

**Guy Baber, Simmons & Company**

Thanks very much for that detail. Also, I was hoping we could talk a little bit more about the cost reduction initiatives, but obviously you all are outperforming versus the \$600 million to \$800 million target that you'd set earlier this year, more savings faster than expected, you reduced the OpEx guidance this quarter, which was nice to see. Can you just update us or perhaps just put into context to the extent to which you continue to outperform on the cost reduction front or perhaps the size of the price that you see and just a reminder of how much you think is sustainable versus what might be more temporary if prices were to begin to recover.

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

Okay. Yeah, I'll talk about, ah, and Alister may jump in on the end of this as well.

So we're obviously pleased with the progress we've been making. The work we've been doing on operational excellence meant we were in a very strong position to move quickly, because we'd already been working on the underlying reliability and getting new work processes in place following the merger. So our belief is that about two-thirds of these savings are sustainable in time and will not be given back in the higher price environment. So a very high proportion of them. And we haven't finished yet. These are iterative. So what we do is tackle the things at the top of the list first and then we start to continue to move through that program. So if you think about the cost, it's been, by getting it, you know, lots of different things.

First of all, it's about using a more localized workforce. Less fly-in, less distances to cover. It's about streamlining the benefits and the incentives people get. It's about tackling some of the underlying productivity issues. It's about getting better quality staff in there. It's about lower contacting rates and salary freezes. It's about reducing, taking out guaranteed overtime, reducing overtime, because we have a longer queue of employees and contractors who want to come and work in these areas. So there are varying degrees of sustainability in those cost reductions. My overall feeling at the moment is it's going very well, there's more to come, we're going to carry these savings forward into 2016 and on beyond, so I'm quite encouraged by the progress we've made.

**Guy Baber, Simmons & Company**

Great colour, Steve. Thanks again.

---

**Operator**

Thank you. The following question is from Benny Wong of Morgan Stanley. Please go ahead.

---

**Benny Wong, Morgan Stanley**

Yeah, thanks. Apologies if you mentioned it in your prepared remarks but can you provide any colour around your renewed normal course issuer bid, is there any targeted pace you guys are thinking or any kind of ways you guys plan on approaching that?

---

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

Yeah, Benny, it's Alister. You'll have seen that we have filed for \$500 million just for the TSX renewal. The pace we expect to be buying back is by \$250 million over the next six months.

---

**Benny Wong, Morgan Stanley**

Great, thanks. And just in regards to that assets swap you guys have engaged in, are you able to quantify any savings or efficiencies that you guys are going to get from owning those assets? Thanks.

---

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

I mean a simple answer is we're not planning to. And the reason is because it's complex, very complex. The way you should think about it is that it's part of the drive to improve reliability. If you think about that operational excellence journey, the first part of the journey was about the things which we had in our ownership making sure they were very well maintained, very well operated, and performing as well as they could do. That journey is very successful, still more to come. We then said, okay, well what is our next highest priority item, and it was third-party reliability, so electrical facilities into our plan and all of the service industry around us. So the first one we looked at last year was the sulphur treatment around the Montreal refinery and that was having an effect on our own base plant reliability because of our ability to get

sulphur away. So that was one that we tackled early. This is very similar.

One of our bigger opportunities around the base oil plant is the reliability of the electrical supply. So we're moving back up the supply chain to get control of infrastructure, which affects the reliability of our plant. And that's what this is about. So it's about improved reliability about electrical generation and steam generation. And so what you'll see is us continue on improving the reliability of the base plant. So as we get to the mid-90s you'll see us start to move through that and potentially beyond.

---

**Benny Wong, Morgan Stanley**

Great. Really appreciate that colour. And just as a final question, just looking at CapEx, you guys have been very successful in reducing that or cutting it; how much more is there potentially for you guys to cut this year? Are you getting to a point where you can't reduce any more spending on that front?

---

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

You know, the ability to reduce as you go into the year, because one of—this is not slashing and burning. One of the issues with slashing and burning capital budgets is it comes with a price later. So it's been a very measured reduction where we're still getting the maintenance on the plants we want, where we're still getting the growth projects we want fully funded.

So it's a grinding process of working these costs out through individual contract type negotiations. So you've seen the majority of it. It's possible we could see even more deflation as the year goes on but our work program is very well, um, is largely fixed and contracted and in place now. So the opportunity decreases as the year goes on.

---

**Benny Wong, Morgan Stanley**

Great. Thanks for the colour.

---

**Operator**

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

---

**Paul Cheng, Barclays**

Hey, Steve. Good morning. Several years ago you started with the journey and then coming out with the debottleneck opportunity outlook, at the time 100,000 barrels per day and by now you've probably fully recognized it. While you're looking at the next set of growth in (inaudible)... My question is that when you're looking at your existing asset, your base, is all the debottleneck opportunities pretty much are already captured at this point? Or is there actually far more there to go?

---

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

I don't want to—I'm going to answer your question, Paul, but I don't want it to sound too clichéd. But it is a journey. So the reason we came out with the 100,000 barrels a day was not because that was an accurate number but because it put some scale around it and it enabled you guys to be able to compare it to the size of some of the growth steps. I think at the beginning there was serious skepticism around whether we could achieve it, understandably so because it was multiple small steps that added up to it. As you say, we are well on our way to achieving that 100,000 barrels a day and I think now it's started to be built into models and expectations. There is more to come. It's also an iterative process. So the two, I'll just give you two examples of the next stages. Firebag, we've identified a clear debottleneck project there that we're in the process of finalizing the details on now. But we've got it—in order to be able to define we needed to get the plant up to its operating limits. We've got the plant up there and we've had it up, as you know, above 190,000 barrels a day. We've now been able to identify the next debottleneck step. So there is a very good brownfield debottleneck low cost type project there that we will be bringing forward. We haven't finished on the upgraders. I've always said because of our poor performance if you go back there was a great opportunity for us to get it up into the mid-90s, but there was nothing particular about 95 or 100 percent; in fact, we could identify some opportunities to lower than forecast develop those facilities. Those are starting to become clear to us as we operate regularly up in the mid-90 percents now. So I would say two big areas, Firebag is one good example, and further upgrading reliabilities another one, so still significantly more to come.

---

**Paul Cheng, Barclays**

Second question, I think this is probably for Alister. In the cash flow, ah, say the cash flow from operation for the

second quarter is like \$2.1 billion but your actual cash flow from operation is more like \$1.7, \$1.8 billion due to the change in the working capital and all that. Alister, when we're looking out do you think that the working capital in other areas will continue to be a drag in your cash flow or that this is more you need in the first half of the year?

---

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

Yeah, Paul, the changes in working capital I think are probably more isolated to the first half of the year. A couple of things are really driving now. One was as prices ramped up obviously our receivable balances moved up. We have some increases in inventory which we expect to go down in the second half of the year, so releasing cash. Prices are obviously lower now than they were in the first half, so I think our receivable balances will go down. And the other ironic thing is as we've been very successful in reducing OpEx to CapEx, ironically our payables balance is going down, so therefore that has sort of ironically increased our working capital. That one will continue as we go forward.

---

**Paul Cheng, Barclays**

Final question, Steve: When we're looking at your conventional oil and gas, ah, certainly there's a number of projects like Hebron coming on stream, but on the longer-term basis that, is that a core business for you? Or will you at some point to decide or make a decision whether that you want to stay in the current structure in terms of asset mix or that you just want to be more pure focus on the oil sands.

---

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

Yeah, thanks, Paul. And, again, I would reiterate what I've said in the past. The E&P business is a low cost, very cash generative business which maintains, with the projects we've got in flight, its current level of production through to the early mid-2020s. So it's a great business to have in our portfolio. And of course we have been reminded recently of the importance of having some diversity in the company's businesses as well as we've seen some question around new government policy in Alberta. So it's served us very well and it is serving us very well now. I think the question is bang on though in that, you know, if you look at the core of Suncor, the core of Suncor is oil sands integrated to the market. So we think part of the oil sands business is really the

downstream in that sense in that it enables us to fully value our products through the cycle.

So we ask our questions and regularly take reviews with the board on the strategy around E&P. We're very comfortable with it. We have projects that maintain the production levels as I say and then we've got these two other projects that we're partnered with world-class organizations off of the East Coast of Canada. So it's a really good position to be in. We ask ourselves that question. Clearly it's a key part of our strategy going forward. But there is, you know, it's not unusual for companies, if that business were to start to decline in the mid-2020s clearly there is a strategic opportunity to monetize it if we want to. So we like the business, no plans to dispose of it, but we regularly ask that question.

---

**Paul Cheng, Barclays**

Thank you.

---

**Operator**

Thank you. The following question is from Andrew Dranfield of RBC Capital Markets. Please go ahead.

---

**Greg Pardy, RBC Capital Markets**

Thanks. Good morning. It's actually Greg Pardy. Steve, just a couple of questions and fire-ups, ah, follow-ups more than anything else. With respect to the Firebag debottleneck, how large do you think that could be? Or has that just not been determined?

---

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

We haven't completely defined it yet but we think it's in the 20,000 barrels a day range, Greg.

---

**Greg Pardy, RBC Capital Markets**

Okay. Fantastic. And then just with respect to Fort Hills, you've got a \$1.5 billion contingency in there. Just given the environment that we are in now, things are obviously looking better from a cost perspective, is it your sense that you're going to be releasing that as you move through 2016 and into 2017?

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

The project is in really good shape. I spent the day up at Fort Hills on Friday last week and they're making tremendous progress. You're right; in total we have about \$1.5 billion of contingency. It's largely unused. The only pressure we've seen on it has been around currency and, you know, as a corporation, there are puts and takes around currency and we tend to mitigate an awful lot of that because of the integrated nature of the company. So there is some small pressure around foreign exchange, which is a relatively small proposition. Other than that we have not consumed the contingency.

So it's a little bit too early. We're currently at 34 percent completion on the project. By the end of this year we will be close to 50 percent complete. So what I have said to the project guys is I steward that contingency on a regular basis and next year I want to take a look as to whether we actually remove some of that contingency and give it back. Indications at the moment are very good, but I would say it's a little bit too early. So what I would say is if you think historically of what's happened around mega-projects is they've tended to blowout on cost and schedule. Our strategy on this project was we focus on quality and cost and the schedule will be what the schedule will be, but it will be the optimum way of spending the capital. We still maintain those priorities and we're actually on all three—quality, cost, and schedule. So I think the right time to take that debate is probably in 2016. So we'll update you then.

---

**Greg Pardy, RBC Capital Markets**

Okay, fantastic. And just the last question, and it's a loaded question obviously, but if more of Fort Hills were to become available is that something you would look at? Or are you comfortable with your 41 percent interest now?

---

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

I would go back to the original strategy. I mean, clearly I won't comment on rumors, but if you look at the original strategy, the reason we joint ventured, and it was one of the first joint ventures that Suncor had gone into of this scale, was to spread the risk, and a lot of that was execution risk. As we move forward on this project, of course if you—when I look at allocating capital, I can only allocate capital on a forward basis, I can't change the past per se, so when I look at it on a cash flow return going forward of course Fort Hills get more and more attractive as you get nearer to the project, because you

have this 52-year wall of cash that comes at you once that project is started up. So it is a more attractive project as you get close to it. We have no plans at the moment but we're very, you know, the partners are strongly supporting the project. We're very encouraged by the way it's going so you will not see us pulling back on the execution of the project.

---

**Greg Pardy, RBC Capital Markets**

Okay, fantastic. Thanks very much.

---

**Operator**

Thank you. The following question is from Nick Lupick of AltaCorp. Please go ahead.

---

**Nick Lupick, AltaCorp Capital**

I just had a quick question about the Montreal coker expansion. We haven't talked about in a little while. I guess more specifically in terms of the timing when you expect to sanction that project. And also could you give us an indication of how you're thinking about it in terms of size. And I guess what I mean by that is more when you look at it on a strategic level how you're thinking about being fully integrated on a one for one basis or whether or not you want to become long bitumen eventually, given that we have Fort Hills coming online in 20 months or 24 months or so.

---

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

Okay. Yeah. Let me start at a distance and talk about how we think the continent pans out in terms of supply, demand balance, and that will give you the background for our thinking on the Montreal coker. So a few comments. Firstly, our view is, and it has been, it was why we shut the Voyageur upgrader project down is our view is in the long run the continent has probably peaked in terms of overall demand for products. So very unlikely to see new refineries unless there's some sort of incentivization for those to be built.

The balance of crude is likely to be long, light and sweet crude and short, heavy crudes. For that reason, over time, we see ourselves moving more towards heavy products rather than upgrading, which is effectively a light, sweeter crude. So in the long run, we see the advantage we've had from integration will be diluted as

time goes on, the extent to which you would be willing to pay to protect that decreases, in our view, over time.

Now, having said that, we like the range we're in. So the sort of 60, 70 percent integration has been very attractive to us. We have effectively a spare refinery in Montreal because it's not being physically integrated to any great extent and so we have the opportunity to protect our level of integration through to the 2020s with assets in our control already. So we'll keep recycling on that view and as our point of view changes then we will look at opportunities available. We look at all the refining opportunity available to see if we want to invest in it and, to be frank, nothing has much interested us over the last few years. We tend to be, you know, we buy at the bottom of that market. That's been our track record.

The last piece of the equation of course is around the ability to get crudes, particularly Western Canadian crudes, into Montreal. We invested in a rail facility which has enabled us to get 30,000 or 40,000 barrels a day of material in there and we've been fully utilizing that since we started it up. Line 9 is the next stage of that. We've been disappointed by the NEB process. Of course we completely support the need for stringent safety and environmental controls but the length of this process, in our judgment, has been too long. I am optimistic that it's still coming. I still believe progress has been made, even though the NEB have put very high standards, which I'm pleased that they have done, around that line and we support them. My expectation is that line will still be reversed. Hopefully, later this year, but latest should be early next year. So that's just a question of, I think, time.

The size of the Montreal coker is still, you know, I would expect—we've slowed that project down. The development is still happening of the project and I would expect probably in the first half of next year that the business will be presenting that project. So that's when we'll look at the final size. But the project is, broadly speaking, the one that was always planned, because the main vessels are actually there on site already.

---

**Nick Lupick, AltaCorp Capital**

Perfect. Great colour. Thank you very much.

---

**Operator**

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

**Mike Dunn, FirstEnergy Capital**

Thank you. Good morning, everyone. A couple questions. I'll start with the, ah, I think you pronounce it the easy technology was the solvent and the radio frequency that you've started up here recently, a commercial test. Can you just comment on what's, maybe some more specifics about what you saw with the original pilot. And then I think in your slide deck you talk about potentially looking out at commercial size phase in 2017. Maybe just talk about that a bit and then I have a question about your offshore assets after that.

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

Okay. Yeah, I mean not too many comments to make, Mike. I mean we see technology as being a very important part of the future for oil sands. Our target, and we've been talking about as an industry not just as Suncor, has been to get oil sands on par with conventional crude in terms of its carbon footprint, particularly its energy input. And Fort Hills and Kearl are hitting those targets. So we're then looking at the next generation of technology in in-situ and the, ah, of course the key to the value in technology is first of all to develop the technology but secondly to have the suite of projects that you can then commercialize it on. That's the importance of the multi-phased replication we're talking about through the 20s.

We're very encouraged by what we're seeing on the solvent technology and still hopeful that we can effectively move to almost a water-free extraction of that bitumen through an in-situ type process. So very encouraged and that's why we're working so hard on the new technology. Radio frequency, again, good news. I mean we've been trying it for a number of years at various locations and when you've got a mine and you've got that technology you do have the opportunity to try it and be able to see some of the results of it. So very encouraged with the way that's going. And one of the things we are reflecting on now is the extent to which we build in the capability to use those new technologies, at some stage through that replication rollout process.

So my summary would be technology is important. We're really keen to work on it and we have the capital program to commercialize it.

**Mike Dunn, FirstEnergy Capital**

Thanks, Steve. And then on the offshore assets maybe a question, I've asked this before, but on Buzzard, ah,

strong volumes in the quarter. Has anything changed your outlook on, I guess the previous outlook that declines would be kicking in imminently here? Is that sort of put back six months to nine months? Or is there anything else you've learned there? And then just wondering if there is an update on the Hibernia South project. I think you mentioned some drilling delays at Hibernia this year.

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

Hey, Mike. It's Steve Douglas here. On Buzzard, I wouldn't say it's changed. We actually, ah, some maintenance was deferred and we have actually seen the beginning, if you like, of declines there, but with decreased maintenance in the field this year we will outperform guidance, and that's reflected in the fact that we've increased the guidance range. It's also reflective of the fact that Golden Eagle actually ramped up a little more quickly than we had anticipated. But no, going forward here you will see, you will see declines certainly in 2016 in Buzzard. As far as South Hibernia goes, yeah, there were some drilling delays, so the production that we were expecting to see come on at South Hibernia you won't see reflected until the very tail end of the year and into 2016.

**Mike Dunn, FirstEnergy Capital**

Thank you, Steve. That's all for me.

**Operator**

Thank you. Once again, please press star one at this time if you have a question. The following question is from Ashok Dutta of Platts. Please go ahead.

Your line is now open. If you're using a speakerphone, please lift up the handset or un-mute your line.

**Ashok Dutta, Platts**

Hi.

**Operator**

Please go ahead.

**Ashok Dutta, Platts**

Hi. Sorry, I lost you there. Actually my question has been answered so thank you very much.

---

**Operator**

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

---

**Chester Dawson, Wall Street Journal**

Yes, hi. Thanks for taking media questions. Just two questions. First, Steve, could you please provide the average second quarter supply cost per barrel? And secondly, a more broad question about M&A. You've got a lot of dry powder, a lot of cash, and asset prices are falling across the industry; are you any more interested in M&A opportunities now than you were say a year ago?

---

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

Chester, let me take the second one and then the guys will give you a quick answer on the first one.

Just generally, I mean we look at all uses of capital and, you know, you've heard me earlier in the call talk about the rich suite of organic opportunities we have. We've also talked about the willingness, particularly at these very low prices, to buy our stock back. Clearly the third thing, which is competing for that capital, is other external opportunities. Just generally speaking, because we have such good opportunities within the company, you know, we haven't been aggressive in looking outside. We do take a look at all of the opportunities. Our view was that the prices were still too high and the natural choices we looked at were, um, we were not prepared to pay the prices for. Clearly as time is going on they've move down and there are better opportunities there. We've still got nothing really to talk about. We look at the opportunities, we asses that versus internally use of cash and share buybacks, but nothing particular to talk about today.

---

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

Just on the supply cost, Chester, I mean, as you know, we do give a cash cost, which declined to \$28 this quarter for oil sands, bringing the total for year to date to \$28.20. If you factor in our overall, the 20 percent of our production which comes from offshore, the overall cash cost of the business is getting down into the \$27 range.

And with that I see we are over time so, Melanie, that will be the last question. I'd like to thank everyone for participating. I know it's a very, very busy day of releases. But we will be available, as always, throughout the day along with the controllers, so please feel free to contact us directly with more detailed questions.

Thank you, folks, and I'll sign off.

---

**Operator**

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

---