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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Suncor Fourth Quarter 2016 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

Thank you, operator, and good morning, everyone. Welcome to the Suncor Energy Q4 earnings call. With me here in Calgary this morning are Steve Williams, our President and Chief Executive Officer, as well as Alister Cowan, EVP and Chief Financial Officer.

Please note that today's comments contain forward-looking information. Our actual results may differ materially from the expected results because of various factors and assumptions described in our Q4 earnings release as well as our current AIF, and both of these are available on SEDAR, EDGAR, and our website, suncor.com. Certain financial measures we refer to in these comments are not prescribed by Canadian general accepted accounting principles and for a description of these financial measures please see our Q4 earnings release.

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

With that, I'll turn it over to Steve Williams for his comments.

Steve Williams, President & Chief Executive Officer

Good morning and thank you for joining us. We certainly have a lot to talk about this morning, including I think what you've seen are the strong operational and financial results in the fourth quarter, and of course the updates that we promised on Syncrude and Fort Hills, where you'll see in both cases we've made significant progress. Cash generation was an impressive $2.4 billion in a quarter where both Brent and WTI prices averaged less than $50 per barrel. Alister is going to go into the financial details a little bit later but what I'd like to do is start with a quick summary of our fourth quarter operations. Then I'll talk about how our growth strategy is playing out. And then finally I'll give you a sense of what to expect from Suncor through the rest of the year.

So in the fourth quarter our production averaged just under 740,000 barrels a day. That's a 27 percent increase versus the same quarter in 2015. And that brought our annual production to 623,000 barrels a day and that's an 8 percent annual production increase. And of course that's despite the fact that the second quarter Alberta forest fires reduced our 2016 total oil sands production by over 20 million barrels.

At oil sands, we achieved record in-situ production in Q4 as our Firebag and MacKay River plants produced more than 238,000 barrels a day and our average in-situ cash costs came in at $10.75 per barrel. So that's 8 percent lower than the same period in 2015. And we achieved those low operating costs even though one of our biggest cost drivers, natural gas prices, increased by 27 percent quarter over quarter.

Meanwhile, our base plant operations continued to achieve strong reliability from both mining and upgrading since following planned maintenance completed in October. Our upgraded production was up by 11 percent versus the similar quarter in 2015 as we achieved almost 93 percent utilization for the quarter. And we continued to take cost out of the business is our quarterly mining and upgrading cash costs both significantly declined versus Q4 2015.

Our blended oil sands operations cash costs for the quarter were just under $25 per barrel, bringing our average cost for the year down to $26.50 per barrel. That's a reduction of 11 percent for the quarter and 5 percent for the full year. And, again, that was accomplished like the significant impact of the forest fires on the second quarter production, which did sharply increase our per-unit cash costs. And of course those cash costs, and I often that remind us of this, those numbers are all measured in Canadian dollars, so in US dollars we're comfortably below $20 per barrel at current exchange rates.

Moving to E&P production, for both the fourth quarter and the full year it came in at 118,000 barrels per day, so substantially above our original guidance of 95,000 to 105,000 barrels a day. We saw continued strong production in Q4 from Buzzard and Golden Eagle at an average operating cost interestingly of just $7 per barrel. And in E&P Canada new wells at Hibernia helped push our production to over 60,000 barrels and costs there to under $10 per barrel.

Turning to the downstream, our refineries continued to operate reliably with utilization rates for both the fourth quarter and the year as a whole hitting 93 percent and with that reliability comes efficiency. So the Q4 operating costs came in at $5.45 per barrel, bringing the average operating costs up to just over $5 at $5.10 per barrel, and that matches a multi-year low for us.

So if I were to summarize that I would say another strong quarter marked by safe, reliable, low cost operations across our assets in both the upstream and downstream and with very limited major turnaround activity planned for 2017 I'm confident that the strong performance will continue. But of course we also recorded a very important addition to our operations early in 2016 with the takeover of Canadian Oil Sands and the acquisition subsequently of the Murphy stake. So we raised our overall ownership in Syncrude from 12 percent to 54 percent.

And if I just go back year ago, you'll remember I made a number of observations about the Syncrude operations. I promised we would devote experienced personnel to work closely with the operating team there, that's from Imperial, Exxon, and from Syncrude, to drive major performance improvements and realize significant long-term added value for our shareholders. I also noted that the transaction was an excellent fit with our oil sands growth strategy and a prime example of our ability to create value during the oil price downturn in order to build an even stronger company. Now, as it turned out, the performance improvements materialized more quickly than we had planned for. In the fourth quarter, Suncor's share of Syncrude production increased to just under 190,000 barrels per day with cash costs of $30 to $55 per barrel. So that's down 19 percent from the similar quarter in 2015.

Bitumen conversion rates exceeded 100 percent of the nameplate capacity of 350,000 barrels per day during the quarter as the operations ran very reliably with minimal maintenance downtime. And I would note that we are now reporting utilization rates based on the amount of bitumen processed through the cokers rather than utilization rates on sales, as was previously done. And we've done that just to give a clear indication of how the cokers themselves are operating, because we believe that's important to focus on the coker to get the improved reliability we're looking for. We don't want to smooth it out through tankage when we report our numbers.

So, for the year, if we exclude quarter two when production was curtailed due to maintenance and the forest fires, Syncrude achieved average utilization rates of 97 percent and cash costs of just over $30 per barrel. In fact, the third and fourth quarters represented the best six months of production the Syncrude facility has ever achieved. At this point last year we forecast immediate savings of about $25 million annually in reduced overhead and, as it turns out, we actually captured more than twice that savings. And we generated $360 million of free cash flow from our increased stake at an average WTI price for the year of just $43.36 a barrel.

So these strong results were achieved in a partial year as we didn't close the Canadian Oil Sands and Murphy transactions until March and June respectively and of course production was sharply curtailed in the second quarter due to planned maintenance and the forest fires. So I would just say it's a little bit premature to expect this level of performance to continue every quarter but we do now have an increased confidence that a sustained utilization rate in excess of 90 percent and cash costs of $30 per barrel or less are very reasonable goals in the mid-term.

Now, as I talked about in November, at the same time as we've been working on improving the reliability and cost structure of the business, we've also been working with Syncrude and the other owners to drive near-term other operational improvements. We've also began to plan for significant future value creation through changes in governance and support services as well as increased collaboration on operational fronts. In fact, between the performance improvements, cost reductions, and lease and asset development initiatives, we've identified potential opportunities with a net present value to Suncor of over $2 billion. And that potential value is incremental to the original business case. So it's fair to say that we're extremely pleased with our increased working interest in Syncrude. The transactions we executed in 2016 are already generating very strong returns for our shareholders and proving to be a key part of our growth strategy.

Now another part of our growth program is the Fort Hills project, and once again we've made significant progress. As 2016 drew to a close, construction surpassed 76 percent complete. In fact, we're nearer to 80 percent complete as we speak today. And we remain on track to achieve first oil by the end of this year. With all of the major equipment and materials now on site, field construction is moving ahead at pace. About 60% percent of the operations personnel have been hired and two of six major projects areas are already in the hands of the operators and being started up.

So, as we indicated on the Q3 call, the project has encountered some cost pressures, which will push the gross Fort Hills project cost about 10 percent above the sanctioned single point estimate of $15.1 billion. We've also increased capacity of the plant by 8 percent as part of the detailed design, which has helped us to maintain Suncor's originally targeted capital intensity of approximately $84,000 per flowing barrel. And I do want to say quite clearly and of course we expect to fully manage any increase in the project in the capital guidance that we gave out at the back end of last year.

The bulk of the cost challenge lies in the secondary extraction area, which employees paraffinic froth treatment, or as we call it, PFT, and that partially upgrades the Fort Hills bitumen. And there've been a few contributing factors that I would highlight here, there is a lot more details behind that that we can talk to you about later if there's an appetite for it, but what I would say is, first of all, the final PFT design was completed after the project was sanctioned and we elected to incorporate additional investments to support our strong focus on reliability and process safety, and I have no doubt that those who pay out as we ramp the project up and aim for relatively high utilization early on in the project. And secondly I would say while the project overall has achieved higher than typical levels of construction productivity in the region, the inherent scale and complexity of secondary extraction combined with the impact of the forest fires, and we've had a particularly harsh winter up there this year so far, resulted in slightly lower productivity than planned.

Now, we've now moved into the detail start-up planning and we've identified a number of very encouraging upside opportunities. As I mentioned, we've been able to increase the nameplate capacity by 8 percent, bringing Suncor's share of capacity to just under 100,000 barrels per day, and maintaining Suncor's capital intensity at actually slightly less than the $84,000 per flowing barrel that we forecast at sanction in 2013. And importantly, as I said, we'll maintain our capital spending within the 2017 guidance range of $4.8 billion to $5.2 billion, so we'll absorb that over spend. Additionally, we are also working on a range of value-adding initiatives that have the potential to advance initial operations of primary extraction and accelerate production ramp up, improving reliability and further reducing costs.

Now when I take detailed reviews I often look at our experience and we benchmark versus other oil sands mining projects and we have, in our view, brought forward what would normally be considered some post start-up discretionary capital, and we've done that in support of a safe, reliable, long-term low-cost operation. And as we move into the final months of construction I am encouraged by our progress and I'm getting increasingly confident that we'll meet or exceed our original commitments in regards to capital intensity production and added value.

Our third level of growth for Suncor is the Hebron project off Canada's east coast and, once again, we are pleased with the progress being made. In the fourth quarter a significant milestone was reached as the integrated top side modules were towed out to the deepwater construction site and mated with the gravity-based structure. The project continues to track plan with first oil anticipated by year end followed by a three-year ramp up to full production rates, which for Suncor will be approximately 30,000 barrels per day.

So, if I were to summarize, our existing operations are performing well and our growth projects are on track with Syncrude outperforming expectations and Fort Hills and Hebron on target to produce first oil by the end of this year. With lower levels of planned maintenance across Suncor's operation and a full year of increased working interest in Syncrude, we expect production to increase by approximately 10 percent to 15 percent in 2017. At the same time, our capital spending is expected to decline by approximately $1 billion and we will continue to manage operating costs out of the system. With year-over-year average oil prices expected to rise we're therefore well positioned to significantly grow our earnings and generate strong free cash flow for our shareholders.

And, as a result of that, I'm pleased to confirm that Suncor's Board of Directors has approved a 10 percent increase in our quarterly dividend payment, and this means that 2017 will be the 15th consecutive year that Suncor's dividend was increased. So that reinforces our commitment a competitive and, very important to us, a sustainable and growing dividend. It's also, I hope you can see, an indication of our confidence in our ability to continue to grow production and cash flow going forward and deliver superior results for our shareholders. I'm sure in questions we'll also get to share buybacks and we are starting to plan for share buybacks later in the year as well.

So, to go into a little more depth on our financial performance, I'll now pass over to Alister, our Chief Financial Officer.

Alister Cowan, Executive Vice President & Chief Financial Officer

Thanks, Steve.

As we know, the fourth quarter of 2016 had fairly substantial volatility in crude pricing, but we did see an average price of WTI that increased by $4.40 per barrel versus the third quarter and, as Steve talked about, our operations continued to produce reliably, so therefore we did post some very strong financials once again.

Before I get into some of the details, I want to note that some of you may have seen a change in some naming conventions and that's as a result of a recent Alberta Securities Commission recommendation in respect of non-GAAP financial metrics, specifically cash flow from operations. We have renamed it funds from operations. Now I just want to clarify for Suncor, unlike some other companies, there is no change in the calculation. It's purely a name change.

So, in the fourth quarter we generated $2.4 billion in funds from operations and $636 million in operating earnings. That brought our total funds from operations for the year to $6 billion. And our operating earnings fell just $83 million shy of breakeven for the year. I'll remind you it was a year in which WTI averaged just $43.35 and the forest fires in Northern Alberta reduced our productions for the year by over 20 million barrels between Suncor and Syncrude operations. So that $6 billion of funds from operations for the year more than covered our sustaining capital of $2.3 billion and our dividends of $1.9 billion, leaving over $1.8 billion of discretionary free cash flow, which we invested in growth projects.

Now, as Steve mentioned, Syncrude delivered very strong funds from operations thanks to record production and improved pricing but I would certainly be remiss if I failed to underline the equally strong contribution from our downstream business. Coming into 2016, we anticipated that downstream earnings and funds from operations would decline by approximately 20 percent, 25 percent from the previous year. Now this was largely due to our expectations of pure distillate demand as a results of a mild winter combined with sharply reduced drilling activity in the oil and gas sector. As it turned out, benchmark cracks for 2016 fell by 30 percent but Suncor's downstream funds from operations were only reduced by 10 percent. They came in at $2.6 billion for the year, including $722 million in the fourth quarter, and I think this demonstrates yet again the value of our integrated model and our structurally advantaged refining and marketing network.

During the fourth quarter we maintained our focus on cost management right across the company as we continued to identify and an implement opportunities reduce both capital and operating expenses. On the capital front, we invested $1.4 billion in Q4 and that brought our total CapEx for the year to $6 billion. Now this represented a savings of more than $1 billion versus the midpoint of our original guidance and it speaks to our commitment to exercise rigorous capital discipline and continue to live within our means. We've also been equally disciplined in managing operating costs. A year ago we set a goal reducing our operating expenses by $500 million versus the previous year and I'll remind you that we had already taken $1 billion of costs out in 2015. We exceed that aggressive goal by over 50 percent as our 2016 operating expenses came in approximately $850 million below 2015. Now these results are normalized to account for the additional $1.4 billion in operating expense that we assumed in 2016 with the acquisition of the increased working interest in Syncrude. Now, as we've said before, we estimated that approximately two-thirds of the savings we have achieved are structural costs that are not expected to come back into the system as crude prices rise and the remaining costs we expect may or could come back over the next several years.

Let's turn to the balance sheet, and it remains in a solid condition. We finished 2016 with approximately $3 billion in cash, net debt to cash flow of 2.4 times, and a debt to capitalization of 28 percent. With approximately 6.5 billion of unutilized lines of credit we have ample liquidity, particularly given the improving crude price environment. And of course it's important to point out again that the forest fires last May reduced our operating cash flow by approximately $600 million, which had a negative impact on many of our financial metrics. As that impact rolls off in the second quarter of this year, we expect to see a significant improvement in those financial metrics that are calculated on a trailing-12 month basis.

Our balance sheet will be bolstered this year by approximately $2 billion of proceeds from the divestment of non-core assets, which is now largely complete with cash already received of approximately $1.5 billion. These divestments include the Petro-Canada lubricants business, Suncor's working interests in the Cedar Point wind facility, the expected sale of approximately 49 percent of the east tank farm, and several smaller non-material transactions. When we announced the divestment program a year ago we targeted $1 billion to $1.5 billion in proceeds and I think the actual results reflect very strong valuations for these non-core assets.

So, just to sum up, our disciplined financial strategy has served us well through the extended downturn in crude pricing and allowed us to take advantage on an attractive M&A environment to significantly strengthen and grow the company. With increasing production, decreasing capital spending, lower operating costs, and oil prices moving higher than last year, Suncor stands poised to make a step change in cash flow and free cash flow generation. We feel confident that we've put the pieces in place to deliver another year of outperformance in 2017 and the Suncor team is focused on continuing to generate strong returns for our shareholders.

So, with that, back to Steve Douglas.

Steve Douglas, Vice President, Investor Relations

Thank you, Alister. And thank you, Steve.

Just a few more notes before we go to the phones. LIFO/FIFO impact, as we mentioned, was an after-tax gain of $114 million in Q4 with crude prices rising and on the year it was a $111 million gain as crude prices rose throughout the year. Stock-based compensation was a $153 million charge in the fourth quarter and $335 million for the year. The impact of the change in the Canadian/US dollar, the Canadian dollar strengthened in the fourth quarter, as a result it was a $222 million after-tax gain, but on the year a $524 million charge.

I'd reference briefly our 2017 guidance. There are no changes to it, it is available on the website, but you will note on page 23 of our updated investor relations deck we have added sensitivities for the year to our 2017 guidance and I'd note that a $1 change in the price of Brent results in an annualized $205 million impact on our cash flow and, very notably, the power of our integrated model is very evident in that our sensitivity to the light/heavy differential is essentially neutral. That is if the light/heavy widens or narrows by $1 the impact on us on an annualized basis is just $2 million to cash flow.

I would request as we go to the phones that we keep questions on a strategic level. Certainly the investor relations team and controllers will be available throughout the day to answer more detailed modelling questions. With that, I'll turn it back to Wayne to go to questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and 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 at all times cancel your question by pressing the pound key. Please press star one now if you have a question. There will be a brief pause while participants register. Thank you for your patience.

Our first question is from Neil Mehta from Goldman Sachs. Please go ahead.

Neil Mehta, Goldman Sachs

Good morning, guys. Steve, you teed this question up for us here but following the dividend increase, congrats on that, but, one, your thoughts on share repurchases and how you think about that as part of the capital allocation priority set in 2017.

Steve Williams, President & Chief Executive Officer

Okay, thanks, Neil, yeah, and I did slightly set it up. I mean what I will take the opportunity to do is just be a little bit repetitive on what I said in November. So, you know, capital discipline, I know everybody talks to capital discipline. I hope what you're seeing is now we have demonstrated, right the way across the potential ways we allocate capital, a rigor and a discipline and a willingness to look at what is in the shareholders best long-term interest.

If I go through just quickly what the opportunities are, you know, organic growth is one of those and we're coming to the end of a phase of substantial organic growth with Fort Hills and Hebron, and I don't think I can be clearer than what I said in November. Mining investments are coming to an end, not just for Suncor but for the industry, I believe, for a considerable period, probably in excess of 10 years. So whilst we look at the go-forward economics of Fort Hills, when we look at the absolute economics of Fort Hills those are not projects we will be repeating in the foreseeable future. Some substantial things in the cycle would need to change.

I then look at the other opportunities we have. We have great reserves in oil sands and I look at in-situ opportunities and, as you know, we've been looking at replication and new technology, and those are quite exciting in how those technological developments and the in-situ costs from replication can start to come down. However, I want to be equally as clear we have no plans to be going ahead with major capital investment in either mining or in-situ in the foreseeable future. We'll come back next year and the year after and talk about how that technology is developing and how the cost reduction opportunity around replication is progressing but you should, as we signalled with the 2017 CapEx, 2018 will be very similar, we're going to see us substantially reduce the organic growth spending because we think that is coming, that this part of the cycle is coming to an end.

Then I move on to the second way I can allocate capital and that's mergers and acquisitions. I'll just look at the other side of that quickly, which of course is divestments. We're well ahead of where we expected to be on disinvestment. We've got $1.5 billion of the program in. We were targeting initially $1 billion to $1.5 billion and we've already got the next $500 million pencilled in as well. So, you know, we're going to get to that $2 billion, $2 billion plus level on divestments, so that's strong. On the mergers front, I hope you, you know, you can now see why we were so attracted to the opportunity around Canadian Oil Sands and Murphy, and you've seen us apply discipline to very good projects there, but again I think I was relatively unambiguous, in our view the window is starting to close. It's not completely closed yet but the spread is starting to move away from disciplined buyers, not in their favour. So we have nothing of any materiality in the pipeline around mergers and acquisitions.

Which then gets to your question really, which is, so what do you do with it? I've seen some of the models out there and we don't disagree with them in terms of the potential free cash flow that's generated. So the first part of it is you will see us increasing, and this word is really important to us, you'll see us sustainably increasing our dividend. So you've seen us go with this 10 percent, nearly 11 percent this time, and you'll see us continue to look at dividend broadly in line with the growth of the production of the company going forward. And, you know, I teed it up deliberately because we are already starting to look then at, depending on how the year unfolds, some share buybacks later in the year. So you'll see us sustainably increasing the dividend as we grow and you'll see us opportunistically buying share buybacks, and those two will be our priority through the next few years.

Neil Mehta, Goldman Sachs

Appreciate that, Steve. My follow-up question, a topic that's been dominating a lot of the macro discussion has been around border taxes and not only what it means for downstream but also what it could potentially mean for Canada. Can you talk about the early scenario analysis that Suncor has run on this and how you see it could theoretically impact your business in its different forms?

Steve Williams, President & Chief Executive Officer

Yeah, I mean it's a tough question to answer, Neil, and I will make a few comments. Let me just firstly comment on that downstream.

I mean if you recall, actually about this time last year we were looking at the downstream and there were serious concerns about, you know, the demand profile going forward for refined products, serious concerns about the margins, and I think what we've been able to demonstrate, I mean we've had multi years of excellent downstream performance, and what we've been trying to highlight is that we have a very powerful integrated strategy, which means we are able to disproportionately take advantage of the market. Even when it's in a downturn we're still able to have a very good year, like we did in 2016. So I think selling and distribution works and we had had a long-term view that the demand for refined products had probably peaked on the continent and our plans were in that context. I would say with the current regime in the US that may potentially reverse depending on what happens to general economic activity and the well being and number of citizens who are participating in that upside and therefore want to start travelling and consuming our product. So I'm expecting a broadly similar year this year as we had last year just generally and overall in terms of refining.

On the border tax, gosh, that is such a difficult question to answer. What I would say, and I'll start in close to Suncor, overall I am positive, not negative. Now of course there's a risk, you know, there's a probability adjustment in that comment. First indications are very strong. There's a lot of support for the oil and gas industry. There's a lot of expertise in the government with Rex Tillerson as the secretary of state. He's clearly saying that he believes oil and gas is an important part of the US's future. The secretary has great experience not just in the industry but with the Canadian oil sands. On his watch, significant investment came into the oil sands and he understood that when you look at the long-term continental balance Canadian oil sands are a vital part. And I'll sort of go back to a few years ago when we shut down the Voyageur project, and one of our long-term reasons for doing that was we believed there was (length) generally in the world of light sweet crude and particularly on the continent but there was more of a shortage of heavy crude, and that's why we're very comfortable to be producing a heavier barrel as we go forward and that demand is still there. And the potential sources of that to make best use of the refinery stock in the US are Canada, Mexico, Venezuela, and some of the other heavy crude oil suppliers around the world. So I see we're still a critical part of that mix.

I then look at the general signals and say, you know, the new regime down there are going to probably reduce corporation taxes, they're probably going to be encouraging businesses in ways that we haven't seen for a while, and the good recognition in Canada has been even by our NDP government here in Alberta and the federal government have been an open realization that we have to stay competitive and that we have to have a level playing field. And that was a vital component of the climate taxes or levies that we've been talking about, it's a vital part of Alberta's strategy and Canada's strategy. So we've got our own levels of government now advocate approving pipelines advocating for the industry.

So whilst it's difficult to talk about a border tax, because it could come or it may not come in all sorts of different ways, my view is that overall Canada is not at the top of the list for the US in terms of the trade concerns. The trade, I think it's a very healthy balance and a very healthy symbiotic relationship between Canada and the US, so I think the probability of a border tax as we're currently thinking about it is very low. But even if it's there, you know, we do play on both sides of this so we are unusually advantaged. We have businesses in the US and in Canada. So, difficult to be very specific about it. We're feeling that the probability is relatively low and, you know, we'll respond in a bit more detail if any details come out.

Neil Mehta, Goldman Sachs

Appreciate it, Steve.

Operator

Thank you. The following question is from Roger Read from Wells Fargo. Please go ahead.

Roger Read, Wells Fargo

Yeah, thank you and good morning.

Steve Williams, President & Chief Executive Officer

Good morning, Roger.

Roger Read, Wells Fargo

I guess kind of along the lines of the cash flow and the share repurchase discussion I was wondering how you think about the balance sheet competing with that as well. You're not what I would describe as an over-levered company but you do have some debt maturity. So should we think about repay or refinance as another use of cash flow or should we really think about share repos and higher dividends as the more likely paths?

Steve Williams, President & Chief Executive Officer

Okay. I mean I'll give you a top line answer and Alister will chip in. So, as I say, you will see us, you know, of course I'm not an accountant, so I can be really critical of how healthy a balance sheet these guys like to see. I mean I think we have a very healthy balance sheet. We're tough. We do a lot of our ratios on trailing numbers and so 16 is a relatively tough test for us in terms of cash because of the special events that happened there. But you will see capital discipline around the balance sheet. You'll see us, you know, I don't think it's repair, I think it's improve.

The overall plan when we came into this last cycle and into the major capital was we sort of prepaid for lots of things. We bought back $5 billion of our own stock, we had some very, very low debt ratios, and that was sort of de-risking the potential cycle that was coming but in particular Fort Hills and Hebron. So you'll see us continue. I mean Alister took the debt down in, you know, that high-cost Syncrude debt, our Canadian Oil Sands debt that we took on, so I'll let Alister talk about that. And then those comments I made on you'll see dividend increase, share buyback, and we think if we take a combination of the analyst's NAVs and our own NAVs we've got considerable room to buy back our own stock, so you will see us moving into that.

Alister Cowan, Executive Vice President & Chief Financial Officer

Yeah, the only comments I would make, Roger, are, you know, reemphasize I actually view our balance sheet as strong today. You'll see us through the cycle take some measured steps to strengthen it even further, as Steve mentioned. We already refinanced some of the debt that's due next year, so when it comes due you'll see us pay some of that down as part of that measured strengthening going forward.

Roger Read, Wells Fargo

Okay, thanks. And then back to Syncrude, obviously a lot of potential here. Any idea when you might give us some very specific sort of, you know, what you're setting internally for targets, where you think you can really go with this say over a three-year period putting a much more aggressive management plan in place. Or I say aggressive management but, you know, a very focused management team on this asset.

Steve Williams, President & Chief Executive Officer

Yeah, I mean I'll make a few comments. I will stop just short of talking about specific targets and specific numbers, and my reason for that is very simple. You know, we have several owners, we have a major organization up there, which, by the way, I want the overall message to be one of respect and compliments to. They've done a tremendous job, the Syncrude workforce, the leadership under Mark Ward, the Chief Executive up there. They have made substantial and visible progress and we're proud owners of Syncrude.

But if you look, you can tell by, you know, our general policy in Suncor is to understate and over deliver and that degree of conservatism we think is appropriate. We've tried to highlight the size and scale of these benefits and, you know, I'll be perfectly frank with you, if that's all we achieve, I won't be completely happy. I think there's considerably more available there. I am tremendously encouraged by the group of owners. We had an owners meeting a few weeks ago and we have unanimous support of all of the owners to accelerate ahead with the program we're about to go into.

The simple way I would characterize it, I'll give you just a few examples. Let me give you one on, so I talked last time about the fact that Syncrude has a very generous, slightly overcapacity in terms of hydrotreating. We can find ways of filling that up. So it will make money for all involved in that. We found another one. Because it's, you know, one of the secrets for Suncor's reliability has been what I call multiple parallel paths. So we have two mines, we have two in-situ plants; any one of those doesn't affect the operations of our upgraders and hydrotreaters. We think we can bring some of that flexibility quite quickly to Syncrude, so we are looking at a fast way of, ah, they have some maintenance coming up in the next six months and we're looking at how we can put our MacKay River in-situ bitumen in there to keep the back end of the plant operating whilst work is being done on the front end. So those are great, those are exactly the sort of connections I was talking about when I said we're next door neighbours, we can give some of our redundancy and duplication and share that with Syncrude. I think we will be able to do that for this next period. So that will be one.

I'll give you completely different example. Suncor in the oil sands region have been, for a number of our major turnarounds, trialing what we call digital turnarounds. So every individual who's working there, contractor and employee, wears a tag. We are able to monitor where they are, primarily for safety purposes, but it has a tremendous benefit in terms of productivity. So the next turnaround in Syncrude is going to be digital and we're going to do the same thing. So, some great synergies there.

And then what I would I say is, and Mark Ward will be leading the activity with some close engagement from Imperial and ourselves, we'll be looking at where we duplicate services and cost. So we have a great opportunity to integrate some of our services and the governance and you will see Syncrude move in the direction of an operating business rather than a completely standalone corporate entity, which was wholly appropriate in the past, probably is less appropriate as we go forward, and so I think you'll see us make progress in that direction. And, you know, Mark Ward is going to be working closely with us leading that.

So, overall, I'm very encouraged by the speed with which we've been able to move. Our ambitions are still high and I'm encouraged with the quality and pace that the team are moving at.

Roger Read, Wells Fargo

Okay, great. Thank you.

Operator

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

Guy Baber, Simmons & Company

Good morning, everybody. I wanted to follow-up on the buyback discussion a little bit more but, Steve, you mentioned seeing how the year develops before making a decision, so the questions are, one, what are the signals you need to see to launch the buyback program? And then two, how do you think about determining the appropriate size of that program? It would appear that it could be pretty significant as you are already generating free cash flow at current levels, you have $2 billion in asset sales coming in, CapEx should head lower in 2018. So how do you think about the size and will that be a quarter-to-quarter decision or do you take a longer-term view in formulating that program? And then I have a follow-up.

Steve Williams, President & Chief Executive Officer

Okay. Again, I'll give a general overlay and then we'll get a much better-quality answer from Alister.

We are looking at a share buyback program. The execution of that is likely to be later in the year. And that's simply because of, um, if you look at the detail of the finances of the company, we've got some priorities there. We're looking at some of the higher cost of debt because we've been working hard to get our weighted average cost of capital down, and that's been very successful. You'll see us do a little more of that. I wanted to say, you know, there is a little bit of seasonality in our business, so not every quarter will be identical. I can say the first quarter has started just where the fourth quarter finished. So, so far the quality of the operations is very high. So we're seeing, on the cash generation side, the same sort of numbers are being achieved so far. But it's really just working through that. You should expect a share buyback program to start later this year. I think, and again, this is just a general comment, it will, the execution of it is managed on a quarter or a six-month period but that's not how, we will look at a much bigger program over a period of time and we will just take a capital disciplined approach. So our last program was, it was literally programmed in terms of buying, and what you'll see us do is announce a program which we will execute over an extended time. So we haven't telegraphed exactly when we're going to do it, but you'll see us do over the next couple of years.

I don't know if you would add to that, Alister.

Alister Cowan, Executive Vice President & Chief Financial Officer

No, I think that was a very high-quality response.

Guy Baber, Simmons & Company

That's very helpful. And then my follow-up, I wanted to talk a little bit more about the cash flow stream over the last two quarters and you said 2017 is starting up on the right foot, but on slide six of your deck I think you show it's $52 a barrel oil about $8 billion of cash flow for 2017, yet if we think about the last two quarters, you're running at a rate well above that level despite WTI only averaging $47. Obviously Syncrude has been exceptionally strong but it still seems to me that that 2017 cash flow forecast has some conservatism built in. Do you disagree with that? Is there anything specific you're risking as we think about 2017 cash flow? Just trying to make sure that we understand all of the drivers of cash flow as it progresses this year.

Steve Williams, President & Chief Executive Officer

Okay. I mean now I'd say two things in particular have been a fall in wind and maybe I'll add a third one in there. We have been working very hard over an extended period on reducing our costs and that's going very well. There's still more to come. It gets tougher as we go forward. And as we get one or two years ahead and this cycle turns, then we've got some programs in place to keep real downward pressure on that cost so we don't find ourselves retracing a pattern that's been trodden in the past. So costs have gone extremely well and you'll see that continue. The other thing is we've been producing above guidance for the period and we do have, albeit much less, you know, it's not a big year on maintenance, we do have maintenance this year. So we have some maintenance in the upstream and some in conventional upstream and some maintenance in Firebag. So you will some effects from planned maintenance. So you can't just take a clean quarter and multiply it by four. But we work closely with the models. We don't forecast in detail cash forward but I don't significantly disagree with the model, that's why you've seen a 10 percent plus dividend increase and this talk here quite clearly about share buybacks, because there is a significant free cash flow coming. And Alister wants to make a few comments as well.

Alister Cowan, Executive Vice President & Chief Financial Officer

Yeah, no, Steve, I was just going to emphasize, pick up in your comment around seasonality, so I just wanted to make sure everybody understands that Q1 and Q2 are always our seasonal low quarters for cash flow and you saw that last year. Typically we will pay our stock compensation and we have some other one-time payments that always get made in the first quarter, and then Steve just talked about our maintenance quarter is always Q2. So you will see them as lower compared to the last couple of quarters and then in Q3 and Q4 it will pick up again on cash flow. I just wanted to make sure everybody understands the seasonal nature of our business.

Guy Baber, Simmons & Company

Thank you.

Operator

Thank you. The following question is from Greg Pardy from RBC Capital Markets. Please go ahead.

Greg Pardy, RBC Capital Markets

Yeah, thanks. Good morning. Steve, I know we've kind of beaten Syncrude to death but one thing I did want to ask is was there anything unique then that occurred in the fourth quarter, i.e. additional ore or what have you, that would have led to the high rate of utilization that you are able to achieve?

Steve Williams, President & Chief Executive Officer

Not particularly, no. I mean it was generally and broadly a high-quality operation. Sometimes it's a little bit counterintuitive around the mines, Greg, that they actually operate, as long as it's not, you know, when you get down to minus 40 or 50 it can be brutally tough, but generally in the winter they operate well because the roads are hard, the equipment is designed for those cold temperatures. Often we find the mines operate best in the shoulder seasons. But generally it was quality operation throughout Syncrude. The mine operated well, the delayed cokers operated well, hydrotreating operated pretty good. So it was an overall quality operation. And, as I say, that's the result of a number of years the efforts by the Syncrude team who have been working on reliability and costs. And we put our shoulder to the wheel and helped when we could as well.

Greg Pardy, RBC Capital Markets

Okay. That's helpful. Now you mentioned that you are going to MacKay as a backup for the maintenance period but is that a part of a border initiative then to increase the redundancy of feedstock? In other words, is MacKay or even potentially Fort Hills likely to become a backup for Syncrude on a go-forward basis?

Steve Williams, President & Chief Executive Officer

I would say both of those are being studied. This is a once-off opportunity that we're looking at and we'll probably put it in by road, not even put a pipeline in for this one, where they have some of the front-end of their plant shutting down and they'd have to shut some of the back-end down. We're able to help mitigate that by getting bitumen in. But it's a forerunner. It's exactly, ah, my best view is that from what I'm looking at you will see some bitumen supply increases, you'll see, you know, the ability to get bitumen in, in both directions by the way, because we may well benefit from that on occasions when the back-end of Syncrude is shutdown and they're producing bitumen. So there could be a reciprocal agreement there. I think you will generally see it there and I think you'll see it about some of these midstreams as well.

Suncor is generally short of, as a conscious business decision we're short of hydrotreating because we produced a complete mix of products. Syncrude is long with hydrotreating so there's an opportunity there. So I think, you know, we'll always be slightly behind where you would like us to be in defining it because of the nature of the partnership. These are commercial arrangements which have to be, you know, before I can speak about them here with specificity and detail they have to be approved and agreed by the partners. So it's exactly what you're indicating in your question.

Greg Pardy, RBC Capital Markets

Okay. And then the 90 percent—oh, Steve, go ahead.

Steve Williams, President & Chief Executive Officer

No, we'll finish up there. Go ahead.

Greg Pardy, RBC Capital Markets

All I was going to say is so the 90 percent utilization you're talking about, in simple terms I'm assuming that would still be on 350,000 barrels a day of calendar stream capacity on synthetic, that would part of it, and the another thing is it doesn't sound like there's lot of capital you need to expend to achieve that. This is more about consistency and best practices. Is that right?

Steve Williams, President & Chief Executive Officer

Absolutely right. Remember, Greg, how difficult it was, first of all to explain, secondly to inspire any confidence when we talked about the 100,000 barrels a day of increased production we were going get in Suncor's business, because it's lots of little things, you know, the old piece of pipe that has to go in, but you characterized it really, absolutely right. It will be relative, very low cost, it will be easy to implement, and you'll probably see the results before we'll talk a lot about it. The other thing I would say, I'm so encouraged by how well they've done. Like Suncor, there's nothing magic about it. So you may see, just like Firebag, we've rated it twice, that we will look for the next opportunity, and if there's investment we'll talk about that but it may be just connectivity.

Greg Pardy, RBC Capital Markets

Okay. All right. And I just want to switch over quickly to Fort Hills then. So did the redesign on the secondary extraction then take into account lessons learned from other projects or I guess project and is that what the main driver of the capacity, is that main driver of the capacity increase?

Steve Williams, President & Chief Executive Officer

So, let me just remember, when we approved the project and, you know, I never wanted to go too much into this, the project was $15.1 billion plus 16 percent was what we approved, and the reason it was a plus 16 percent was because of PFT wasn't fully designed at that stage, because of the sequencing of the project. So, some of it is just the detailed design and our emphasis on reliability and safety. So, some of it was the first part of the design. It was an excellent period to execute major projects. So we took the opportunity to put in, you know, sparing of major pieces at the low point in the market. That would become... So I actually look at half of those projects as additional return on investment projects.

And then I'll answer your question specifically. We were very aggressive. Somebody much smarter than us once said, you know, if you're really smart you learn from your mistakes, if you're really, really smart, you learn from other people's. And what we did was we bench marked to all the PFT examples that have been executed. We bench marked to the latest mines that have been built and we looked and we looked at their weak spots and we've invested our way through that from the beginning. So I don't want to talk about specific competitors, that wouldn't be fair, but we have looked at what has limited other mining operations and we've built in to our plan. Not only have we built in, to be quite frank, we've got some of the best employees from those organizations working with us as well to help us with that. We've also done the same with the start-up team. So we've brought in experience deliberately from our competitors because that experience exists in the industry. So that's why I'm very confident about Fort Hills. Fort Hills will come up, I believe, faster than people anticipate and it will stay up at reliable levels because we have duplicated equipment where we need to. For example, take PFT. We have built three parallel trains so that any one train doesn't have a major impact. My honest view on the front end of Fort Hills is it's too early to build in any economics or any advantage for it. The front end of the plant is oversized. And that's deliberate, because you don't want to be, you want to keep your PFT full all of the time because that's where your capital intensity is. So we have some other opportunities around the front-end. So we've taken advantage of upgrading the nameplate capacity of the unit to 194. I will be very surprised if in three or four years time we're not having a debate about the first debottleneck for that the plant, because we know there is significantly less than full cost debottlenecks on that plant, because you can't build a plant that size and perfectly match all the pieces of it.

Greg Pardy, RBC Capital Markets

Okay. And then just on the OpEx you guys I think it'd been $22 to $23 in terms of these original design; with these changes are those still the numbers that you would stick with or are they going to look better as well?

Steve Douglas, Vice President, Investor Relations

Sorry, it's Steve Douglas here, Greg. We haven't moved away from the sanction numbers, so for the time being $20 to $24 is the cash cost that we're still sticking to and you should model.

Greg Pardy, RBC Capital Markets

Okay.

Steve Douglas, Vice President, Investor Relations

And with that, we're over time. I know we started a minute late but we've run the full hour and then some. So thank you to everyone. I know there is a considerable line-up still on the line and we are available, so we'll get to the rest of the callers throughout the day. Thanks so much. Back to you, operator.

Operator

Thank you. That concludes today's conference call. Please disconnect your lines at this time and we thank you for your participation.
