Suncor Energy Third Quarter 2020 Financial Results Call

Thursday, 29th October 2020

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Suncor Energy Third Quarter 2020 Financial Results Call. At this time all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. (Operator Instructions). I would now like to hand the conference over to your speaker today, Trevor Bell, Vice President of Investor Relations. Please go ahead, sir.

Introduction

Trevor Bell

Vice President of Investor Relations, Suncor Energy Inc.

Thank you, operator, and good morning. Welcome to Suncor's third quarter earnings call. With me this morning are Mark Little, President and Chief Executive Officer; and Alister Cowan, Chief Financial Officer. Please note that today's comments contain forward-looking information. The actual results may differ materially from the expected results because of various risk factors and assumptions that are described in our third quarter earnings release as well as our current Annual Information Form. And both are available and can be found at SEDAR, EDGAR and our website, suncor.com.

Certain financial measures referred to in these comments are not prescribed by Canadian GAAP. For a description of these financial measures, please see our third quarter earnings release. Following formal remarks, we'll open up the call to some questions.

Now, I'll hand it over to Mark for his comments.

Opening Remarks

Mark Little

President & Chief Executive Officer, Suncor Energy Inc.

Great thanks, Trevor, and good morning everybody thanks for joining us.

On our call last quarter, I expressed confidence in the momentum of our business and the decisions we made to lower our cash break-even costs, our ability to maintain financial health and deliver strong cash flow through these continued volatile times.

The resilience of our physically integrated model was demonstrated again in the third quarter as we exited with over 95% refinery utilization. Our Downstream business delivered solid results and we’re confident in the momentum and performance of the Downstream for the remainder of this year and into 2021. Across the company, our costs and capital spend is tracking very well with our revised guidance. Despite the operational challenges, our model allowed us to fully fund our capital, our dividend and reduce debt in the quarter.

Moving to operations. From the outset, let me say our third quarter operational performance does not reflect our commitment to operational excellence and the incident at Base Plant was extremely disappointing to all of us. But as you will hear in this quarterly update, our team is focused and committed to operating our assets safely and reliably, and we're well along the path to improve reliability.

At Base Plant our work to ensure that our response to the August fire was grounded in operational excellence. We restored the full bitumen production capacity of the plant within a few weeks but decided to constrain the plant to ensure that we're not putting too much sediment or fine sand particles into the upgrader. This decision prioritizes reliability and capital discipline by protecting the long-term health and value of our assets. I'm pleased to say that all the repairs are substantially complete, and we expect to be operating at full mining rates of approximately 300,000 bbls/d by early November.

Earlier this year, we outlined plans to increase Firebag's production by 30-40,000 bbls/d by 2025 through capital efficient plans to debottleneck the asset. In September, we provided an update on the work being completed to realize the initial portion of these incremental volumes. We have accelerated some maintenance originally scheduled for 2022, allowing us to fully leverage the new, additional emulsion handling and steam infrastructure. With this work completed this week, the asset is ramping up to nameplate capacity which has been increased by 12,000 bbls/d, or 6%, to 215,000 bbl/d.

It's important to note that both the repairs at Base Plant and capacity increase at Firebag are included in our full year capital and production guidance – which remains unchanged from our September release.

At Fort Hills, in September, the partners fully supported the decision to restart the second mine train of production, reduce structural costs of the assets, and fully deploy autonomous haul truck systems throughout the mine by year end. The phased ramp-up at Fort Hills introduces new volumes at a very low incremental operating cost and lays the foundation for further cost structure improvements. The second train has been in operation throughout October and the asset is now on track to achieve our Q4 targeted guidance of 120,000 –130,000 bbls/d. As a result of our cost reduction initiatives, the sustaining capital and operating costs required to operate at this level remains essentially unchanged from when we were only operating one train. We plan to increase the production of the second train in 2021, guided by achieving and maintaining the overall reduced structural costs associated with any increased production, the economics, and also driven by commodity prices. This continues to be worked by the owners.

Last week, the Alberta Government made the decision to suspend monthly limits on production under the curtailment system. While the mandatory production curtailment regulation may be in place until December 2021, the indication is that the Government does not plan to resume production limits, and this is a very positive signal for us and we're really looking forward to this being a fully unencumbered market. We will be agile and disciplined as we consider the impacts of these changes on our production plan for Fort Hills.

At Terra Nova, we're undertaking activities to safely preserve the vessel. We've deferred the asset life extension project until an economically viable way forward can be agreed upon with all stakeholders. Together with the owners, the province of Newfoundland & Labrador and the Federal Government, we're working hard to develop such a plan. Progress is being made – although much slower than we had hoped for.

Once an agreement has been achieved, we will work to develop a plan to return the vessel to safe and reliable operations.

The interconnecting pipelines between Base Plant and Syncrude are nearing completion of construction and will be commissioned in the fourth quarter. We expect the bi-directional pipelines to enhance integration between these assets and provide increased operational flexibility.

As in the second quarter, our Downstream business continues to outpace our peers across the continent. We averaged 87% utilization in the third quarter – once again performing about 15% higher than the Canadian refining average. This outperformance included the impact of planned maintenance at our largest refinery in Edmonton. In addition, our trading expertise and investment in logistics assets meant we continued to capture significant value in crude and refined products. This is evident in our refining margins that are significantly higher than benchmark crack spreads. Despite continued COVID-19 pandemic restrictions resulting in lower demand and challenging cracking margins, our Downstream business, once again, proved its strength, contributing nearly $600 million of funds flow from operations in the quarter.

As we exit October, we're expecting to have Base Plant back to full rates, Firebag ramping up to its new nameplate, Fort Hills increasing capacity by bringing on the second mining train, and Syncrude moving forward now that planned maintenance is fully complete. In addition, with downstream utilization continuing to build pre-COVID-19 levels, we expect strong Q4 operating performance which positions us very well for 2021.

I'll now hand it over to Alister to go through our quarterly financial results.

Financial Highlights

Alister Cowan

Chief Financial Officer, Suncor Energy Inc.

Thanks, Mark.

At the end of March, you'll recall we announced a $1 billion reduction to our operating costs in 2020, compared to 2019. As you've seen during the quarter, we continued to progress towards this goal, as evidenced by our decrease in cost guidance for both Fort Hills and Syncrude, all of which we had shared in our September update release. Our absolute cash costs across the company are tracking in line with our $1 billion reduction target.

On capital spending, with the significant planned maintenance activities, we spent approximately $910 million in the third quarter. Our year-to-date capital spend of $2.9 billion positions us well to deliver a capital plan within the current guidance range of $3.6 to $4.0 billion. Within this reduced capital guidance range, we continue to invest in assets to improve the efficiency of our business, reduce future operating and sustaining capital costs, and drive towards our $2 billion incremental free funds flow target by 2025. The incremental free funds flow target includes the Suncor/Syncrude interconnecting pipelines, that Mark previously mentioned.

These initiatives are expected to contribute to increasing shareholder returns in the future, as the vast majority of the $2 billion free funds flow benefit is as a result of structural cost and productivity changes in our business and is largely independent of commodity prices.

During the third quarter, we generated $1.25 billion of cash flow provided by operating activities, which covered all our capital expenditures and dividends. We achieved this despite the operational performance issues that Mark discussed at Base Plant, some significant planned maintenance, and before we ramped up the volumes at Fort Hills and Firebag that Mark mentioned. We recorded an operating loss of $300 million in the quarter, of which approximately half is related to higher derecognition charges of property, plant and equipment, and exploration and evaluation assets. These higher derecognition charges, just for some detail, are largely related to the incident at Base Plant and the surrender of the Frontier carbon lease.

Our commitment to returning value to shareholders while maintaining our financial strength remains. In fact, during the third quarter, we returned over $320 million to shareholders. Even after investing in cash flow growth projects we were able to deleverage the balance sheet and ended the quarter with total debt to capitalization ratio of 36.8%, so just to emphasize that, that does include all our capital lease obligations of approximately $3 billion and does not net our cash position of $1.5 billion. It also includes the impact of the income tax refund for the cash taxes previously paid, which we do expect to receive as cash in late 2021 – and that amount is currently estimated to be approximately $800 million. If I look at the debt metrics, this amount will reverse when we receive the refund in 2021 and that would take our ratio down close to 35%. And as I look at debt going forward, I am looking at over the next 12 to 24 months and a trajectory of cash flow debt levels and the accounting impacts of certain transactions such as impairments and debt metrics. All of these combine as we make decisions of future capital allocation over the next 12-24 months

And with that, I'm going to pass it back to Mark to discuss the outlook.

Mark Little
President & Chief Executive Officer, Suncor Energy Inc.

Great. Thanks, Alister. Earlier in October, we shared with Suncor employees plans to reduce our overall workforce by 10-15% throughout the next 18 months. We did not take this decision lightly as we know this has real impacts on our employees, who have worked hard to contribute to the strength of the company. However, we are making decisions that take into account the long-term health and sustainability of Suncor which is pivotal for our future success. These reductions are primarily associated with process and technology improvements and will occur with the implementation of these improvements across the business and are part of our progress to achieving our $2 billion free funds flow from operations initiatives – but COVID has accelerated certain aspects of these changes. These technology investments reduce manual work, standardize processes, increase efficiency and clerical accuracy while reducing the need for supervision and review. It also includes expanding our AHS fleet in our mines. Further benefits are seen through reduced management layers, improving communication, enhancing flexibility in decision making, and better engaging employees on the front line.

We communicated internally on Monday that most positions in our Downstream business, currently located in Mississauga and Oakville, will now be based at our headquarters in Calgary and will result in workforce reductions which is part of the overall company reductions. These transition is expected to be largely completed in 2021, although we will adjust accordingly to make sure our employees stay safe during this uncertain time.

As we head into the final quarter of 2020 with over 95% refinery utilization, we have confidence that the strong performance of our Downstream business will continue to lead the recovery. We believe our Downstream business is best in class. While we recognize the challenges to refining complexes across North America, our business, through physical integration, has a significant advantage due to its geographic location and is therefore positioned to disproportionately deliver impressive results. We remain firmly confident in its ability to deliver pre-pandemic levels of free funds flow with easing lockdowns and normalizing demand as we move into 2021 and beyond.

We've also noted a shift in market commentary this year, where investors are encouraging companies to live within their means and focus on returns rather than just production growth. As you're aware, Suncor has long embraced this philosophy, which we continue to describe as value over volume. The industry has moved from an environment of resource scarcity to one of resource abundance, and therefore, an environment of extreme price volatility. An energy producer can still thrive in this environment with an emphasis on capital discipline, cost management, consistent generation of free funds flow and returning the cash to shareholders. Our reset cost and capital structure, low decline asset base, and physically integrated model, along with our continued investment in making our business more efficient through this downturn, will contribute to growing our free funds flow in the years to come.

I've been 'virtually' on the road recently, meeting with many investors and I would like to address three themes that just keep coming up in all these conversations.

As we move into 2021, we remain extremely disciplined on our capital spend. We've said in the past calls, at our US$35 WTI price, we would expect a similar capital profile to 2021 as 2020. Assuming WTI pricing in the low $40s, we anticipate a moderate capital increase next year of approximately 10 to 15%, and part of this is because of the scheduled 5-year turnarounds next year. We also anticipate a 10% increase in 2021 production. As you are aware, we and our joint venture partners, like most of the industry, have restricted investment across many of our assets this year, resulting in a more moderate production outlook than what was communicated, pre-pandemic, at the beginning of 2020. We're working on finalizing our 2021 budgets and plans, consistent with prior years, we expect to release the 2021 corporate guidance later in Q4.

With M&A starting to take off, I want to also be clear – we remain steadfast in our three criteria that must exist for M&A to occur. One - high-quality assets, and secondly, synergies that can be achieved by combining the assets to increase shareholder value, and thirdly, the transaction must be accretive for our shareholders. I can't overstate it enough - we did not cut our capital budget, operating costs, and reduce our dividend, to leverage up our balance sheet to do M&A

We're also getting asked a lot about energy transition and our investment approach going forward, either organically or inorganically. I'd like to point out that we've been participating in energy transition for a significant period of time. We've allocated billions of dollars in capital towards advancing bitumen treatment technologies at Fort Hills, with resulting GHG emissions in line with the average crude barrel refined in the U.S on a wells to wheels basis. Further, we own Canada's largest ethanol plant and generate power through efficient cogens and wind farms, which allows us to export approximately 600 MW of power to the grid, displacing higher sources like coal. In our portfolio today are projects like our sanctioned 800 MW Cogen at Base Plant or our 200 MW Forty Mile wind project, as well as several other biofuels investments like Enerkem and LanzaJet. Interestingly, just very recently in the last couple of weeks in Edmonton, Enerkem just made their 1 millionth liter of ethanol from municipal garbage, so that's an exciting milestone.

Our investments in any form of energy are always governed by our ability to fund the projects, to generate competitive returns on capital and contribute to our ESG targets, specifically our 2030 goal of reducing GHG emissions intensity by 30%. We will not invest in energy transition projects that don't meet our corporate hurdle rates or projects in areas where we do not bring some expertise to the table and add disproportionate value. Cleaner energy from our operations and cleaner energy for our customers are two areas where we can, and will, bring our expertise to the energy transition. In the mean-time – we fully expect to continue to leverage our investments and produce oil resources for many decades to come, with better and better ESG results. As we've stated – our purpose is to provide trusted energy while enhancing peoples lives while caring for each other and the earth! And team Suncor is doing this with vigor!

To summarize, our near-term primary focus is on the safe and reliable operations of our assets. Doing this allows us to strengthen our financial advantage, meet our target of returning 6-8% cash returns to shareholders and to grow the cash flow of the company by 5% a year. The decisions we've made this year give us the ability to advance all of these areas in 2021, rather than being forced to choose amongst them. We expect to make significant progress on all of these important areas in 2021

And with that, I'll turn it back to Trevor.

Trevor Bell: Great, thank you, Mark and Alister. I'll turn the call back to the operator now to take some questions. Operator?

Q&A

Operator: Yes, sir. (Operator Instructions). And your first question is from Greg Pardy with RBC Capital Markets.

Greg Pardy (RBC Capital Markets): Yeah. Thanks. Good morning. And thanks for the rundown. Couple questions, maybe the first one, Mark, is just to pick up on the bidirectional pipeline, just curious how close that is going to get you think to the objectives you laid out a few years back, which included then sort of sub $30/bbl Opex and 90% utilization rate. Is that going to do it, or do you think there's a lot more work to do there?

Mark Little: Well, it's interesting, Greg, and thanks for your question. We've made a lot of great progress and the Syncrude came in 2019 delivered their second best ever utilization. So, on the reliability side, our target of 90%, I think we're– this will actually give us the infrastructure we need to be able to deliver it. On the cost side, we said $30, we have more work to do. The owners have been working hard to figure out how do you collapse the cost structure to get to that $30. And so, there's lots of discussion going on amongst the owners and quite frankly, you know, I'm really encouraged with the – with some of this stuff that's going on recently and hopefully we'll make some progress and get that across the goal line.

Greg Pardy: Okay. Terrific. And then the second thing is that I just want to pick up on the integration, the physical integration you guys have in the business, which really extends into the, you know, the 1,600 retail sites you have. So, in a, you know, in a world in which we're living and, you know, whereby you want to take your debt down and so on, how critical is it that you would own all of those stations or would it suffice to have control over them? … Imperial a few years ago sold retail stations off for a huge price. Just curious how you think about that now?

Mark Little: Well, I think it's important to note that half of those stations, we don't own. So, we only own about half of them. And – but one of the things that we're finding, Greg, is and you see it in the downstream results when we're 15% above the Canadian market. We think this direct connection to the consumer and seeing the change in consumer habits and behaviors and stuff has been a real advantage in being able to deliver the downstream results. So, at least, in the near term, we don't see this as a priority.

Greg Pardy: Okay. Terrific. Thanks very much.

Operator: Your next question is from Neil Mehta with Goldman Sachs.

Neil Mehta (Goldman Sachs): Great. Well, thanks, guys, for taking the question. The first question is just on refining. You guys came out with a view a couple of months ago that, think, some of us were skeptical of that, you know, oil would be sitting here at $35 and that refining – your refining utilization would be inflecting. And, I guess, oil is in here at $35 and your refining utilization was 87%. Can you just talk about durability of that refining utilization as you see it? And given how challenged most of North America refining is right now, whether you see / your ability to sustain that as you go through 2021.

Mark Little: Yeah, Neil, great question. I mean, nobody really knows, the second wave of COVID is a bit of a challenge. I think the relative performance of us relative to the market, we're extremely confident in because of the physical integration you talk about.

The good thing about it is we're seeing right now in the markets, gasoline's off something like 5% in North America, probably 5% to 10% on the distillate side, jet's off 50%. So, you know, could this soften if we get a big wave and everybody shuts everything down? I think it could. Do I see it going back to where we were in the second quarter? I don't. Because lots of governments are working very hard to keep their economies going. I think it's far more apparent now that we're really balancing three challenges. The COVID physical health issues, the mental health issues, and then the economic issues, and the economic issues are very significant as you know.

Neil Mehta: Very clear. And, Mark, you said in the press release, but I think a lot of folks agree that the operations this year have been not where you want them to be. Obviously, you had some volume guides and some of your peers have been outperforming you from an upstream performance perspective. How do you – when you do the look-back of what's gone wrong, what do you think is the core of it? And how do you think about the pace of inflecting going into 2021?

Mark Little: Yeah. Great question, Neil. Part of the issue is anytime an incident occurs you look back and find something where we didn't have the discipline that we needed to be able to do it. We could literally sit and look at the last decade where we've made, I think huge progress on improving the operational excellence and execution of the company.

Was it perfect? No, it hasn't been because we had these incidents. But it's amazing how when we go and look at other fundamental indicators, like right now we're on track probably to have the best safety year in the history of the company. So, there's lots of positives that are happening.

Yes, this incident happened. This just needs to be 24 hours a day, 365 days a year, a relentless focus by our operating organization. That's the conversation that us, as a leadership team, and I've been having with all the operational leaders in the company and it has our 100% focus to deliver and meet the expectations of our shareholders.

Neil Mehta: Okay. Thanks, Mark.

Mark Little: Thanks, Neil.

Operator: Your next question is from the line of Manav Gupta with Credit Suisse.

Manav Gupta: Hi, guys. Thank you for taking my question. In the past, you have highlighted some of the issues of ramping-up Fort Hills because of the production curtailments. Now that these curtailments are gone and you talked about in earlier in the call, do you actually see Fort Hills performing up to your expectations as to it can run the way you designed it initially? Would these production curtailments get removed – getting removed, help you out at Fort Hills?

Mark Little: Yeah, Manav. Thanks for the question. I mean, essentially, we fully expect Fort Hills to get to full rates and perform as originally designed. The question is, is how fast will we get there. And part of the issue with it is we've shed an enormous amount of costs through this. We took $200 million out of OpEx and $100 million out of CapEx this year. So, by bringing on the second train and going to 120,000 - 130,000 bbls/d, we essentially retained that benefit. And so, we're not spending that money.

And what we're wanting to do is ensure that as we step-up, it's done in a disciplined way so that we're collapsing the cost structure. That's what we need to focus on in 2021. So, quite frankly, I'm not really expecting it to get there in 2021, but this is an area that we're continuing to work with our owners, and we'll let you know as we get out with guidance.

Manav Gupta: A second quick follow-up is, you guys actually generated about $400 million in free cash in refining, which I don't think any refiner out there is able to match up, but you also have a unique perspective. You are operating both in Canada and in US, and I just wanted to understand, is there a big difference in the refining margin capture in the Canadian assets versus the US assets because most US refiners are really struggling on the free cash flow front, and you, as a company, were able to make about $400 million in free cash in 3Q. So, I'm just trying to understand what's driving that?

Mark Little: Well, it's interesting because, Manav, every customer or every refinery, actually, has its unique signature because it's the crude that runs and the market dynamics and those sorts of things. All of our refineries are actually good performing refineries. And so, it depends, like our Edmonton refinery tends to be a little stronger, but partly because it runs very heavy crude and physically integrated with the oil sands. That's not true of Denver, as an example. So, it's not nearly as good as in Denver is what we would see in Western Canada. But Denver is competitive with some of what we see in Eastern Canada. So, it just depends on crude slates, market dynamics, market competition but, you know, Denver is doing fine.

Manav Gupta: Thank you for taking my questions.

Operator: Your next question is from the line of Phil Gresh with J.P. Morgan.

Phi Gresh (J.P. Morgan): Yes. Hi. Good morning. First question, on the workforce reductions and the expectation that they'll contribute to the cost savings initiatives that you've laid out. How much – and I apologize if I missed it – did you quantify how much you expect that to contribute, say, starting out, I would think, in 2021?

Mark Little: Yeah. In 2021, it's a little hard to say, Phil. Like, you know, when you go and look at it, we said we were going to increase our cash generation capability by $1 billion. If you look at the cost reductions we have from head count right now it would add something like $300 - $400 million of structural change in our cost structure. And then even some of implementations that we did this year, we think about 30% to 40% of that structural. So, if you take our headcount reductions what's the structural cost reductions, we ended up getting this year. You're getting very close to our 2023 target. But some of these reductions won't happen until early 2022. So, it's going to be a little noisy as we go through some of these changes. You will see part of this in 2021. But some of that might just get offset with restructuring charges and such that we would expect to show up.

Phil Gresh: Right. Okay. And with respect to the comments you made about the turnaround schedule, the every five-year turnaround scheduled for next year, how do we think – with the 10% increase in the production that's coming, how do we think about the mix of that in terms of where the turnarounds are and how much is upgraded production growth versus - non upgraded.

Mark Little: Well, when we go down because we're taking our big upgrader at Oil Sands offline for it's one in a five-year turnaround. And when we go down with that, a bunch of the mine production will go down at the same time. So, I think you'll see stronger relative upgrading performance next year versus this year, just because of this incident that we've had. And it's one of the reasons that our production is only up 10% because if it wasn't for the turnaround we'd be up further.

Phil Gresh: Right. Right. Okay. And just one last question on the balance sheet, I mean, how do you – how are you thinking today about the longer-term target leverage level, whether it's the debt to cap commentary initially, or debt to EBITDA? Just what do you think is the right level to be at, if oil is in the 40s?

Alister Cowan: Yeah. I mean, Phil, it's Alister. I always say that we're getting very close to the level at which we are able to move forward and start to increase the – both our shareholder returns and capital investments. I am very comfortable with where we are today, particularly if we're in this sort of low $40 oil price level. You know, there's lots of noise going on around the debt to cap metric, particularly when you saw that, you know, some of the impairments that we've taken, some of the accounting issues. I really think a cash flow or a EBITDA metric is the one that is always pretty critical here. But, as I said, I'm pretty comfortable with where we are today at around low $40 oil prices. And, I think, we have a great capacity to be able to start to look at what we want to do in shareholder returns as we move into 2021.

Phil Gresh: Great. Thanks, Alister. Thanks for the comment.

Operator: Your next question comes from the line of Prashant Rao with Citigroup

Prashant Rao (Citigroup): Hi. Good morning. Thanks for taking the question. I wanted to touch back on the downstream. I know it's been asked about already a couple of times on the call, but your margin capture has been quite strong, particularly versus your sort of suggested indicator all year, even stronger than it was sort of in 2018 and 2019. And, I think, we have some of the pieces in the answers that you've given here, but I sort of just wanted to ask it another way. If we would bridge the moving parts, how would you think about the, you know, how much is sort of, let's say, at the refinery itself in terms of, you know, how you're operating the assets versus the midstream and logistics and retail pieces that are also part of that segment? And I think we all have struggled to appreciate the contributions from – of different components there. So, any color would be helpful particularly with reference to sort of this quarter and this year really.

Mark Little: Yeah. Thanks for the question. You know, it's interesting because we tend to look at the integrated margin. We will pull it apart to look at the performance of each segment of that, but not necessarily on a quarterly basis associated with it. One thing I would tell you though is, if you look at refining as an example, you know, it's a very substantial fixed cost business. And so, part of the issue with it is if you can't get your utilization to like notionally 80%, although we were below that and generated cash in the second quarter, but it's very difficult to get these machines to actually make any money. So, utilization is super important. So, the integration with the retail consumer and our ability to get our utilization rates up above the market is super important for us to be able to generate cash flow. So, you know, I don't have a great answer for you, but the focus is really around that entire system operating at higher utilization rates is one of the key reasons why this set of assets is generating cash.

Prashant Rao: Okay. Thanks. I appreciate that, Mark. And then just to follow-up on the upstream, just sort of looking at the Q-on Q movement in Oil Sands, you know, volumes are down 6% obviously, had some operational issues that you've come out of now, but you managed to keep your cost per barrel fairly controlled. I sort of wanted to dig down a little bit into just broadly speaking across the Oil Sands asset base. Could you give us more color on what drove this? And specifically, if we should be thinking about elements here to keep in mind as we talk about Q4 and going forward, maybe upgrading costs were less or if there was there's other things that you were able to - levers you were able to pull that - that may be are ratable as we go forward here.

Alister Cowan: I'll take that one more, Mark. I think it's a general focus across all parts of our business not just Oil Sands, but then in the downstream and in the corporate functions around making sure that we only spend what we need to spend, looking hard at everything that is going out the door, and a real focus on reducing that as we go forward. And we've talked about that really as part of that $ 1 billion OpEx reduction that we announced in March. And we're making great progress on that. So, that's really my overall answer.

As we look forward into 2021, we've announced some additional structural reductions. But as Mark said some of that benefit will be offset by restructuring charges. But we are taking the underlying core structure of this business down, and that would be consistent with our $35 breakeven cost.

Mark Little: And maybe the one thing I would add to that is, it's interesting because we've been talking about this now for, I don't know, a couple of years where we've been talking about generating this incremental $2 billion and such. And I think to some degree that conversation has been relatively abstract. Now, we're seeing the implications of it as we start to restructure the company. We are reducing our head counts and such. And so, these are real structural changes that are fully driven by our journey around Suncor 4.0 and such, some of the timing is just getting adjusted based on COVID. And – but, you know, we're very excited about the change going forward despite the fact that we know how challenging this is on our people.

Prashant Rao: Alister and Mark, thank you very much for the time. I appreciate it.

Mark Little: Thanks.

Operator: Your next question comes from the line of Asit Sen with Bank of America.

Asit Sen (BofA): Thanks. Good morning. Mark, thank you for the – a little bit of a peek into 2021 capital spending scenarios, just about sustaining capital, I think, in the past, you've highlighted a number between $2.75 and $3.75 billion each year. How should we think about that number in 2021 given Fort Hills, some of the other changes that is taking place in the portfolio, as well as cost-cuts?

Mark Little: Well, we fully expect it to be in that range, it's going to be higher in that range. This year, in 2020, with the cuts that we did, we went below that range. I think, we're sitting somewhere between $2.2 and $2.4 billion this year. You know, next year, I think, it's going to be in the mid-3's. We have not only, do we have our largest upgrader turnaround, Syncrude has their big coker offline next year as well. So, you know, there is a lot going on next year. But – so our capital mix is actually changing quite a bit as we go into next year, but it will be in that range.

Asit Sen: Got it. Thanks. And then, Mark, Suncor has a significant offshore asset base. Is there a scope to rationalize some of these portfolio, whether it's in North Sea or the East Coast of Canada?

Mark Little: Well, it's interesting because, I guess, the question is, is the asset base getting rationalized right now. Like you heard, you heard Husky talk a little bit about, through this merger and such, talk about the plans for West White Rose. We really have no money in there associated with it. But at all points and times, we're looking at our asset base and trying to figure out can we get more out of it than we would if we just carried on the current course and path. So, you know, we're always asking ourselves those questions. But we like the offshore base because it actually generates. We're so physically concentrated in a very small geographic area that it gives us some really good diversification to our cash flow resilience, which has been important during the forest fires. It was important during COVID quite frankly, and so, we like the asset base and we think that's a real good compliment to the company.

Asit Sen: Thanks, Mark. And if I can squeeze one, one in – on consumer channels you were very clear on when you talked about ethanol and retail. How about EV charging station initiative? You've talked about that in the past. Could you elaborate what's going on in that strategy?

Mark Little: Yeah. Right now, we don't have any specific plans to be able to increase that, although we're looking at it and spending quite a bit of time just trying to understand how all these assets are performing. So, this – that we're actually just coming up to a session to talk about all these investments that we've made and how they're performing. So, we're – so, I actually don't have the specific information for you. But we're not planning to invest more until we understand how it's performing in some detail.

Asit Sen: Appreciate the color. Thanks.

Operator: Your next question is from the line of Mike Dunn with Stifel FirstEnergy.

Mike Dunn (Stifel FirstEnergy): Thank you. Good morning, everyone. I guess maybe two or three questions, if I could. First, probably for Mark. Forgive me if I missed it, but did you or can you address the, I guess, the root cause of the incident there in August and, you know, and talk – maybe talk about if there been implemented changes since then? And I've got a couple of follow-ups.

Mark Little: Yeah. I mean, part of the issue with it is we had some vapor exit a tank that ignited, and that was the cause of the incident. It should not have happened with all the standards and such that are in place. And so, for sure, every single time we have an incident, we go through and try and understand, how could this happen with all of the controls and processes we have in place. We then try and understand, okay, well, what happened. And then, we go and look at, well, where are we doing this or across the rest of the company. And do we have the proper standards in place to ensure that what we learn from this incident is factored in so it doesn't happen again.

And so, we're going through that process now and, like I said, every single time there, – we don't use the word, or try not to use the word accident because we know that, with proper controls, all of this can be done and done safely. So, that's the process we're into now.

Mike Dunn: Okay. And then, you know, I do recall, I guess, earlier this year when you and all of your other peers, you know, kind of changed the – had to modify your, I guess, your workplaces for COVID and what not. There were questions that came up about, you know, whether any of that would lead to operational, you know, interruptions or mistakes. Do you think that had anything to do with this incident?

Mark Little: No, not at all. It's interesting because, in so many aspects of our operations, you're seeing the operating discipline strengthening through this period of time, which is very interesting. As I mentioned in my text, this will be the best safety performance in the history of the company. At least, that's where it's at today. So, you know, the diligence we're seeing in the operating organization is excellent.

Mike Dunn: Understood. If I can move on to the downstream, you know, certainly appreciating your clearly explained views on the strategic importance of your retail network. I just want to clarify on comments you and your colleagues have made about the real time feedback I guess you're getting, that's helping you plan your final utilization. Am

I to understand that if you didn't own half of your retail stations that would be diminished? Is that the fair way to think about it?

Mark Little: We think that with – if we didn't own the stations, the cash generation capability would be impaired beyond what you would just think of a retail station. Yes.

Mike Dunn: Okay. Okay. That's all for me. Appreciate that. Thanks, Mark.

Mark Little: Thanks

Operator: Your next question comes from the line of Chris Tillett with Barclays.

Chris Tillett (Barclays): Hi, guys. Good morning. Just one question for me, if you don't mind, if I look at your cash flow on the quarter, net of CapEx and dividends, it was effectively zero and you guys reported average WTI during the period of just north of $40. So, I was just wondering if you could help us bridge the gap between kind of, you know, that break even that you reported this quarter at roughly $40 versus the typical $35 level that you talk about? Was that due to some of the outages and incidents in the period or are there other factors we should be considering?

Alister Cowan: Yeah. Chris, I'll take that one. Effectively, I would say there are three things. Clearly, our production was down in the quarter. Then, what we assumed in the $35 rate. The cracks were lower as you would have seen. Nothing, we would have assuming $12 cracks in our $35. And then the exchange rate was significantly higher. The Canadian dollar has obviously strengthened quite a bit in the last few months. So, those will be the three key things that are why it's higher than the $35. And also I would say, Chris, you're assuming you're taking into all account, all the capital that we spend. That $35 is just on sustaining capital and the dividend, not every dollar, and we're spending significant dollars on growth capital related to driving cash flow growth going forward.

Chris Tillett: Okay. Understood. That's fair. That's all for me then. Thank you.

Operator: Your next question comes from the line of Menno Hulshof with TD Securities.

Menno Hulshof (TD Securities): Morning, everyone. I just have one point of clarification. You talked about a 10% bump on production into 2021 despite the five-year U2 turnaround. So, my question is, are there any other turnarounds embedded in that 10% year-over-year increase? And then as a follow-up to that maybe you can just remind us of the scope and duration of the five-year turnaround itself. Thanks.

Mark Little: Yeah. I mean we're just trying to get this all finalized, so it wasn't intended as a guidance comment. It's just directionally correct. If you look at it – we'll provide some of this when we get into guidance, Menno, as we go forward here. But when you look at it, yes, like Syncrude is offline with their big coker next year. So, that's actually the biggest event that they have is when the big coker goes off. And U2, like I said, is the biggest event that we have in oil sands when we go through this. So, those are the two big ones.

And then, you have to remember that like we have Terra Nova. Our assumption next year is, at this stage of the game, is that it doesn't return to service. So we, we're not showing any production from there. So, there's a few other contributing factors to that.

Menno Hulshof: Perfect. Thanks, Mark.

Mark Little: Thank you.

Operator: Your next question is from William Lacey with ATB Capital.

William Lacey (ATB Capital): Good morning. I just wanted to step back for a second. You talked about how you liked the diversification of the international and the offshore assets in terms of your cash flow. And, generally, diversification is a good thing. You guys are very material consumer of natural gas. And, obviously, we've seen that market shift pretty materially to the upside. What are your views in terms of having potentially a bit more of a balance to your overall production profile in terms of inputs for the oil sands operations?

Mark Little: Well, at this stage of the game, you're right. Natural gas prices have strengthened through this period of time. We think this is somewhat temporary that, over the next 18 months or so, as we go through COVID and such because essentially all shale and associated gas associated with the incremental drilling has been shut down. So, we think, this is a bit of a temporary phenomenon. We understand the risk management associated with that. A $1 change in the natural gas price is about $230 million of cash flow. But, at this stage of the game, we don't see ourselves changing the products that we mix or getting into a different line of business.

William Lacey: Ok. Fair enough. Thanks.

Operator: There are no further questions in queue. Mr. Bell, I would like to turn the call back over to you, for any closing remarks.

Trevor Bell: Great. Thank you, operator, and thanks, everyone, for attending the call. I know it's a busy earnings day today. So, appreciate it and I and our team will be around all day if you have further questions, please reach out. Thank you again for attending.

Operator: Ladies and gentlemen, this does conclude today's call. You may now disconnect.