Suncor Energy Third Quarter 2021 Financial Results Call

Thursday, 28 October 2021

Operator: Good day and thank you for standing by. Welcome to the Suncor Energy Third Quarter 2021 Financial Results Conference 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.

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 Annual Information Form. Both are available on 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 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 everyone, and thank you for joining us.

Suncor's third quarter results delivered in three key areas – operational excellence, increased shareholder returns and significant debt reduction.

Suncor delivered $2.6 billion of funds from operations for the third quarter while also completing the most significant maintenance year in our history, on budget. The Downstream produced nearly $1 billion of funds from operations which included approximately $80 million of FIFO gains. This performance marked the third-best set of Q3 results for the Downstream in its history.

Year to date we have reduced the company's net debt balance by more than $3 billion and returned over $2.6 billion to shareholders in the forms of dividends and buybacks by allocating over 70% of our funds from operations including the tax refund received earlier this quarter.

Reviewing the progress, we made on our commitments from earlier this year:

- Our nine-month annualized cash return is 9%,
- We've bought back over 4% of the company's shares since the program's initiation in February,
- The company's net debt level has been returned to year-end 2019 levels, and
- We remain on target to deliver our capital in line with expectations.

In short, we are meeting or exceeding our commitments. Our confidence in our operations and the pace in which we're executing our plan allows us to increase shareholder returns by:

- Doubling the current dividend to annually $1.68 per share or back to the 2019 levels,
- Increasing the buyback by a further 2%, to 7% by February of 2022, all
- While expecting our net debt to be near the top end of our 2025 target range by this year-end given the favorable macro backdrop.

Turning to operating performance.

Upstream delivered 700,000 barrels per day of production in the third quarter.
Oil Sands Operations production of 370,000 barrels per day reflects the planned five-year U2 turnaround. This was partially mitigated by 90% utilization for In Situ in spite of completing the planned maintenance at Firebag.

Looking at year-to-date cash operating costs of $25 per barrel Canadian, we are progressing extremely well towards the bottom end of our full year cash operating cost per barrel guidance.

Syncrude achieved 185,000 barrels a day of production with 91% utilization for the quarter and cash operating cost of $31 per barrel. At the end of the quarter, on September 30, we assumed operatorship of Syncrude - a critical milestone towards achieving the previously communicated $100 million in annual synergies in the first six months of operatorship, and $300 million in total annual synergies by the end of 2023. These synergies will contribute to achieve the cash operating cost target of $30 per barrel at Syncrude.

Fort Hills production of 51,000 barrels per day reflects a one-train operation. We have made significant progress on overburden removal and slope stability, and as a result, anticipate achieving full rates by year-end. We're right on plan with what we stated before and will have both trains at full rates intermittently in November and December, to ensure a seamless transition to full operating mode. Our expectation for 2022 cash operating costs per barrel is in the mid $20s with an incremental 45,000 barrels per day of production.

In our E&P operations, Q3 production of 94,000 barrels per day was an increase from Q2. However, our funds from operations of $360 million reflects an inventory build associated with the timing of cargo sales. The sale of Golden Eagle was completed on October 22 with cash receipt of approximately US $250 million.

In the Downstream, you will recall that we completed significant maintenance at all of our refineries in the second quarter. And as a result, we're very well positioned to take advantage of the demand recovery in the third quarter and the refineries operated at 99% utilization with nearly $1 billion of funds from operations.

Compared to $3.8 to $3.9 billion for full-year funds from operations in 2018 and 2019 from the downstream, the third quarter is in-line with that run rate with slightly better cracking margins, but also with some significant headwinds:

- Average sweet and heavy differentials were $4/bbl US narrower,
- Canadian dollar was 5% stronger, and
- Natural gas prices were 125% higher.

In short, while the headline funds from operations this quarter is comparable to our 2018-2019 run-rate, there were considerable headwinds that we were able to offset through strategic improvements and investments in our supply, trading and logistic assets to further our competitive advantage.

As discussed during Investor Day, the investments we've made – and continue to make to achieve our $2 billion of incremental free funds flow initiatives are building a business that's more resilient and stronger than ever before. As incremental demand continues to recover, we expect to capture higher margins.

Reflecting back on the second and third quarter of this year, we delivered $5 billion of funds from operations or nearly $3.50 per share, despite completing the highest maintenance activity across Base Plant, Syncrude, and all of the refineries in our history , and with Fort Hills operating at one-train.

Our assets continue to operate at strong rates which positions us for significant improvement to our free funds flow generation in the fourth quarter and into 2022 and beyond.

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

Financial Highlights

Alister Cowan
Chief Financial Officer, Suncor Energy Inc.

Thanks, Mark, and good morning, everyone.

For the third quarter, we continued to exceed our plan to increase shareholder returns and reduce debt. We returned over $1 billion to shareholders in the form of $310 million in dividends and $700 million in share repurchases. During the quarter, our buyback amounted to 28 million shares – that's 20% more than in Q2, at an average of $25 per share. In addition to the nine-month annualized cash return of 9%, we have also reduced our net debt balance by over $3 billion – and $2 billion of that came in Q3.

Oil Sands delivered approximately $1.6 billion of funds from operations during the quarter. Although price realizations were higher during the quarter, these were partly offset by

higher royalties especially at Firebag, which turned to post payout during the quarter. We had anticipated this royalty change to be the middle of 2022, however at current prices post payout has been achieved much sooner. To just to clarify, all our assets except Fort Hills are now in post-payout thus the cashflow from these assets now fully reflects the royalty charges.

As Mark mentioned, our Oil Sands Operations cash operating costs continue to trend very well, with year-to-date Q3 sitting at $25 per barrel despite increasing natural gas costs. You can see from the disclosures, that higher natural gas costs added just over $1 to our Oil Sands Operations cash operating costs in the third quarter, but nearly half of this has been offset elsewhere in our business – including through higher power revenue. We have updated our natural gas sensitivity to reflect a $160 million funds from operations impact for every $1 Canadian per GJ change in AECO. This sensitivity update reflects our integrated model view and includes power revenue, which is correlated to, and does mitigate a portion of the natural gas cost.

The E&P segment generated $360 million of funds from operations with price realizations of approximately $90 Canadian per barrel, delivering $300 million of free funds flow net of capital expenditures. These results include an inventory build, due to lifting schedules which we expect to come through as additional funds flow in the fourth quarter.

As Mark noted, we recorded our third best Q3 results in Downstream's history, despite a less than normal business environment. I would like to put these results in the context of the demand – if I look at Q3 2021 versus Q3 2019, average product demand across Canada was down nearly 7%, but Suncor's sales channels remained relatively similar to the same period Q3 2019. This strong performance is a considerable driver towards capturing higher margins and is a direct result of strategic investments in our supply, trading, and logistics asset. We expect this trend to continue into 2022 with Suncor's Downstream capturing higher demand and higher margins and continuing to outperform the industry.

Ending the third quarter, our net debt is $16.7 billion which includes capital leases. With the Golden Eagle sale proceeds of approximately US $250 million received in October, the net debt balance stands at $16.4 billion CAD – similar to year-end 2019 levels.

As it relates to our guidance, our only change is to the business environment for increasing commodity prices which of course does increases our cash taxes and royalty ranges slightly.

Lastly, as I look at our performance for the remainder of the year, we are on track or ahead on both the net debt and buybacks. On our investor day, we outlined the 5-year target to buyback approximately 12% of the outstanding shares. By the completion of the current program in February 2022, we expect to purchase 7% of the float or said another way, achieving 60% of our planned buybacks over five years.

With that, I'll pass you back to Mark.

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

Great. Thanks, Alister.

With Downstream delivering strong results, our assets operating at expected rates, and Fort Hills ramping-up as planned, I'm really confident in our near and long-term business outlook.

Further, we are resolute in driving down our cash breakeven by capturing the $2 billion of annual free funds flow initiatives and Syncrude synergies we detailed at our Investor Day. Although I do acknowledge that the impact of higher commodity prices, are impacting both revenue and cost side of our business.

In 2021, we are on track to deliver $450 million of incremental annual funds flow largely through margin enhancements – for example the Firebag and Edmonton debottlenecks, our trading optimizations, lower reclamation spend and interconnecting pipelines.

Meanwhile, we are also on track to buy back the highest annual percentage of stock in the history of the company, while expecting to reduce our net debt by almost $5 billion by the end of this year and be at the top end of our 2025 target range.

Next year, through significant cost savings via improved productivity, synergies, and further margin enhancements, we expect to generate an additional $400 million of annual funds flow. Additionally, on capital we expect to be $300 million lower than the $5 billion ceiling we discussed at our Investor Day.

As I mentioned earlier, given our execution to date and the confidence in achieving our plan, the Board has increased the dividend back to 2019 level. The next dividend will be payable on December 24, 2021. This dividend will increase and set a new quarterly dividend payment at $0.42 per share, up from the current $0.21 per share. The board has also increased the current buyback program to 7% of outstanding shares – a further 2% increase to be purchased by February 7, 2022.

We fully expect to renew the current share buyback program upon its expiry on February 7th and anticipate continuing the buyback program at approximately 5% of outstanding shares at that date.

Even with a significant increase to the dividend and continuation of the buyback program, we're planning to accelerate the pace of achieving the net debt targets. This reflects our confidence in the performance of our asset base and the strong free funds flow generation across our integrated model, taking advantage of strong commodity prices.

To put this into perspective, Suncor today is on track to deliver similar debt levels and a lower number of outstanding shares than it had in 2015 – however, with 35% higher production, a resilient Downstream and a lower breakeven.

Our integrated model is stronger today than ever before and we are now well into the execution of optimization strategy that maximizes the value from this model. As I look forward, I'm confident in our plan to ensure long term value for our shareholders and a stronger and more resilient future for Suncor.

With that Trevor, I'll turn it back to you.

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

Q&A

Operator: (Operator instructions). Our first question is from Neil Mehta of Goldman Sachs. Please proceed.

Neil Mehta (Goldman Sachs): Good morning team and congratulations on the announcement here today. What you're talking about, Mark, is a 7% buyback yield or up to that level and now a 6% dividend yield. Can you kind of talk about what changed in the room to move from the 25% CAGR to this increased return of capital strategy? And just talk about the oil price bands at which we can think about you executing it, certainly at current constructive commodity price environments, it makes sense. But if we dip lower again, do you still see the ability to execute toward the top end of that capital returns yield?

Mark Little: Yeah. Thanks, Neil. I appreciate it. It's interesting because when we looked at it, there were really four factors that we looked at when we thought about setting this dividend increase.

First of all, the confidence in safe and reliable operations and you've seen that in executing the maintenance program or on Fort Hills ramp-up, and the progress that we're making there. Secondly, the downstream is back and delivering on the cash flow that we expected that business to do. We haven't seen that for some time given the impact of COVID, so it's providing significant and stable cash flow going forward. Execution of our $2 billion of funds from operations and you can see that in the comments I made about the downstream and it delivering this cash flow despite the significant headwinds that I had highlighted.

And finally, when you look at it, all of the cash allocation other than our investments is being accelerated. So, you've seen it in our share buybacks, when Alister was talking about the share buybacks, we're now working on the 2023 share buybacks by the time we get to the end of this year from what we said before. We're actually working to get to the top end of our 2025 debt target. So, all of the cash and allocation of capital is being accelerated in all areas and we felt it was appropriate to do that in the dividends as well.

So, this is fully consistent with the 25% CAGR that we outlined. And in fact, this is 75% of what we said we would deliver by 2025. So, it's not inconsistent. It's just accelerated, just like it is on debt repayments and share buybacks.

Neil Mehta: And then Mark, can you talk a little bit about the oil price bands and how we should think about the durability of this strategy even in a lower commodity price environment if that plays out?

Mark Little: Yeah, yeah. Thanks, Neil. So, when you look at the durability of it, we went back and then looked at this around, OK, well, what does this mean at the $55 oil that we talked at. And, so given the fact that we've made so much progress on debt, one of the challenges at $55 is you don't have the cash flow to restructure the debt of the company

and to be able to buyback your shares and such. So, given the fact that it's all accelerated, if we went to $55 tomorrow, this is sustainable. We still generate free cash flow and we can still continue to push forward on our debt and our share buybacks through that. So, we view that it's very sustainable. The other piece associated with it, if you look at the work that we've done, we said we were -- just $465 million of our $2 billion has been delivered this year, so just under $500 million. We have a similar amount next year associated with it. And then with cutting our capital by $300 million versus the cap that we outlined, this also gives us over this period of time, approximately $1.2 billion essentially that we turned over into the dividend. So, even in this environment, we view that we're earning our way to actually deliver this dividend increase albeit very accelerated just like we're seeing in debt and in share buybacks.

Neil Mehta: Thank you. And then the follow-up question is around Fort Hills. That's the next big catalyst from our perspective to help to reset the story. And it sounds like, based on your comments, you're feeling good about the progression. I know, Mark, you've been spending some time up there. But can you give us an on-the-ground perspective and the milestones we should be watching for to get confidence you getting back to two trains?

Mark Little: Yeah, yeah. Thanks, Neil. It's interesting with Fort Hills because we've seen some significant progress. The team is really doing well. We're moving an awful lot of dirt there at this stage of the game. It's interesting just how much this has changed. And so, the whole south face, we have all sorts of equipment in there working. So, we've really been able to deal with that. So, we've been able to manage that whole piece associated with it. And they're getting ready now to do test runs, as I mentioned, both in November and then we'll start staging the asset up in December. So, you'll start to see nominations. Particularly in December, you'll see an increase in nom’s as we get ready to -- and shipping on the pipelines as we get ready to bring that asset into full production before year-end.

And so -- and we also remain on track to achieve our $20 a barrel cost target in 2024 and next year, we expect it to be in the mid-20s.

Neil Mehta: Thanks, guys.

Operator: Thank you. Our next question comes from Greg Pardy of RBC Capital Markets. Please proceed.

Greg Pardy (RBC Capital Markets): Thanks. Good morning. And I'd echo what Neil said. I mean, just a very, very strong quarter.

So, I don't want to get ahead of myself here, but does the -- Mark, does the reset of the dividend now negate consideration for the typical adjustment that you would do at year-end? In other words, are we good sort of on the dividend for the next year or so or would you go through a normal planning cycle as you go into year-end and into next year?

Mark Little: Yeah, Greg, thanks for your question. And I guess some of this is kind of picking up on my answer to Neil, that when we did the investor day, we talked about the

25% CAGR through 2025. And essentially, this accelerates and delivers three-quarters of that now a short time after our investor day.

So -- and we did -- we felt we had highlighted that this is going to be front-end loaded, but obviously, this is a lot more front-end loaded than we ever dreamt, although the commodity price is significantly higher. So, all of these things, debt, repayment, share buybacks and such has all been significantly accelerated. You know, the management and board regularly assess our progress on where we're at and look at shareholder returns and how we're positioned. All that said, given the significance of the move and stuff, we're really not expecting that the board would choose to make any further decisions coming up in the next quarter.

Greg Pardy: OK. Appreciate that. Very clear. The other thing is, I mean, you know, you look at all the moving parts in the oil market right now. Obviously, cost inflation, just costs in general. And I guess the thinking on year-end had been, that you need a 35 TI breakeven to cover sustaining capex and so on. With the dividend adjustment and all the other moving pieces is, how should we think about that breakeven price now?

Mark Little: Yeah, that's actually a great question. Obviously, this is around affordability, right. It's one of the reasons that we had the breakeven and looked at doing that along -- and this included all our operating costs, sustaining capital and the dividend. And our focus was to be able to pay that in a $35 world. With substantially higher prices and the current environment and such, including things like increased natural gas and FX rates, and everything else, obviously, our breakeven is higher than that.

Essentially, everybody says that's consuming energy because energy is up so much. But we remain very confident in delivering our $2 billion. But in this high-priced environment and very high commodity prices, you know, that's actually a challenge. So, our breakeven is higher, but we don't see that as an issue in this environment.

Obviously, if the entire energy market declined, our breakeven will decline as well. So, you'll see us continuing to work on changing the structure of the company going forward. We lowered our capital in 2022 and we're confident that we can accelerate other aspects of our five-year plan. So, we haven't given up on it, but in the short term for sure our breakeven is higher than the $35.

Greg Pardy: OK. Make sense. Thanks, Mark.

Mark Little: Thanks.

Operator: Thank you. Our next question comes from Phil Gresh of J.P. Morgan. Please proceed.

Phil Gresh (J.P. Morgan): Hey. Good morning. My first question, just to follow up on some of your balance sheet commentary, the $12 to $15 billion long-term target. Is that something that you would consider also bringing down with the excess cash flow or would you rather kind of keep that target, maybe hit the low end of that target, and return incremental cash to shareholders? How do you kind of compare and contrast those two ideas?

Alister Cowan: Yeah. Thanks, Phil. As we look at it, you'll recall we set two targets there. We set a 2025 target of $12 to $15 billion. And as Mark said, we're actually on track to achieve the $15 billion, the top end of that range this year, so that's an acceleration. We will continue to drive that debt down over the next few years. But we also set a 2030 target, which was $9 to $12 billion and we will continue to drive to that. And if we have a commodity price environment, whereby we can drive that down to those levels faster, we will do that.

But we're also cognizant of ensuring the shareholders get their return. And you saw us make a comment that free cash flow after capex and dividend will be allocated 50% to buybacks and 50% to debt reduction next year. That will be pretty consistent going forward.

Phil Gresh: Got it. Got it. OK. And then just to follow up on some of the operating costs commentary, acknowledging the higher price environment leads to some inflationary pressures for everybody.

Looks like your opex this year based on your guidance probably will be around $11 billion for the total company. Is it -- I guess, is it fair to think that from there, we should be looking at these, call it, $400 million of free funds flow improvement would be off that baseline as we move forward into '22 as opposed to looking at the absolute targets for May because the cost environment has changed or just any further color on that would be helpful.

Mark Little: Yeah. I mean it's interesting when you look at the overall cost structure. It's interesting when you look at OS&G because, as Alister pointed out, we changed the natural gas sensitivity. It was for every $1 change in natural gas, it was $240 million impact and we've revised it down to $160 million.

But these two pieces of it, one is the power revenue that comes -- shows up in a revenue line and the costs actually show up in our OS&G costs. I mean, this is actually one of the complexities of it. So, you don't really see it when you look at our unit operating costs. You see some of the impact of that, but it's mitigated by the revenue.

So, we're far more focused on our unit operating costs and staying on track to deliver the cost outlooks that we've had associated with it. And so, we are seeing some impacts associated with that. A lot of the challenge with our $2 billion this year is a lot of it showed up on the revenue side and very little in the cost side. So, you're not seeing the movement in the operating cost that some expect because I think some people have just taken this that it's all coming out of costs and such.

So anyway, that's one of the challenges. I don't know, Alister, did you want to add anything to that?

Alister Cowan: Yeah. I mean I think it's important to realize, you know, obviously, we've had some impacts this year. But I think as we look forward to next year, I would say there's a couple of things that are -- that we're focused on and working our way through. Availability of labor, I think you're seeing that across the industry. It's not just a Suncor

issue. I would say that we're probably in an advantaged position compared to others. We have a largely in-sourced workforce, which limits our exposure to service providers, where I think we'll see now those same pretty significant cost increases. We're not experiencing those to any great extent because of that largely in-sourced labor force. General CPI in Canada is around three and a half to four and a half percent. So, as we work through our planning and we get to guidance in December, we're also going to give you some more details around those costs. So, I think there's more to come on this, but I'm not expecting a significant increase in costs here.

We will be offsetting that inflation by some of the -- partially offsetting that inflation by some of these additional cost reductions that Mark talked about.

Phil Gresh: Just one last one, just on the operating cost. You said this is obviously the biggest turnaround here in history. Would you say that there was like a material impact on cost or was it more just the lost volumes that came from that, that would be an incremental tailwind. Thank you.

Mark Little: Well, Phil, you actually see it on both sides of the coin. Part of it is actually the turnaround itself obviously has some impact on the volume side. But you see a bunch of this in capital because a lot of this sustaining capital has actually done on the work that we're doing physically on the assets. That said, we work really hard to try and normalize that from year to year so that we don't have these huge swings in sustaining capital and such associated with it.

So, I would say you're going to see it more on the volumetric side than you would see it year to year on the capital side.

Phil Gresh: Yeah. OK, thanks a lot.

Operator: Thank you. Our next question comes from Dennis Fong of CIBC World Markets. Please proceed.

Dennis Fong (CIBC World Markets): Hi. Good morning and thanks for taking my questions. A couple of them have already been asked, but there's two that I have quickly on Fort Hills that I'd like to just prod about. And hopefully, I'm not getting too ahead of myself here is, first, just with respect to the components around the wall stability, kind of fixes and so forth. Has there any -- has there been any changes in terms of mine plan going forward, as well as, has that changed the thought process around any debottlenecking or further optimization once this project is able to ramp up to full capacity as well as maybe timing around hearing about incremental debottlenecking or efficiencies that you could gain?

Mark Little: Yeah. Thanks, Dennis. It's interesting with this because the mine plan has changed. Just because the South face was so rich with ore, we took a little different approach around how we are planning to mine that and obviously were well into that now. There's been an enormous amount of work done since -- in the last quarter. And, you know, compliments to the team. They've really been going hard at it and making

tremendous progress. That said and to some degree, I would say it's a little bit of a separate issue.

When you set that aside, that's really around getting this asset ramped up, getting it to full rates and delivering on 90% of nameplate capacity that we've always stated. Then the issue about the debottleneck is, there are opportunities, or we believe there will be opportunities to debottleneck the facility. On a few occasions, we've had it running to full rates. So that's very positive.

And we've made some tremendous progress looking at the facility and such. We're looking for this really to be the first year coming up in 2022 where we've run the facility at 90% of nameplate capacity. Through that, we are getting -- the more we run the facility and then the more circumstances and conditions we run it, we see more and more opportunity around -- and a better understanding about how we could debottleneck the facility. But anytime you put this much capital on the ground, there's an opportunity to debottleneck and line it out. It's always a little different than what it looked like on paper or in the math models. So that's what we'll be paying a lot of attention to over the next year and we fully expect that we will find opportunity going forward.

Dennis Fong: Great. Great. Thanks. And then, maybe shifting gears just to discuss Syncrude here. Now that -- you've -- I mean, not spent a lot of time specifically operating assets that you -- given the timing when you've taken over operatorship, I was just curious in terms of, we'll call it, the first nine months of this year as well as kind of what you understand with respect to the assets already given your interest in it. Have you found anything with respect to the interconnect beyond being able to showcase stronger utilization, help improve the quality of the feedstock into the Syncrude facility as well as mitigate downtime between both base plant and Syncrude? Is there anything further that we need to understand about that just given that it's operated for several months this year thus far?

Mark Little: Yeah, Dennis. I don't think that there's anything beyond improving the feedstocks, increasing the utilization, and driving higher profit than what you've outlined. But those are super significant, right? This is -- and we're seeing more and more opportunities. I think one of the things we're really excited about is we essentially had two separate organizations looking at the assets, trying to identify opportunities and then drive a discussion about, OK, well, how could we do this? Can we get a deal, get things going and everything else. Now, we essentially have it all in the same organization. So, we think that we'll be able to drive up the utilization of the asset and really leverage and maximize the value of the interconnecting pipeline. This is our first year. We've made some good progress.

It's interesting how the opportunities come and go. Sometimes they're in very short term, but we're excited about the interconnecting pipeline. It's a huge lever in helping to improve the Syncrude asset. And we think that with operatorship, this even sets a better foundation to maximize its value.

Dennis Fong: Great. I appreciate the color. And congrats on the accelerated returns as well as hitting your target goals ahead of time. Thank you.

Mark Little: Thanks, Dennis.

Operator: Thank you. Our next question comes from Menno Hulshof of TD Securities. Please proceed.

Menno Hulshof (TD Securities): Good morning, everyone, and thanks for taking my questions. So, there's lots of chatter out there on the impact of higher natural gas prices on refinery processing costs for heavy oil in particular. And it sounds like that's been a key driver of widening heavy differentials as refineries bid up light feedstock over heavy. So, my question for you is how are higher gas prices impacting your downstream margins and decisions on whether or not to -- sorry, not whether or not, but whether to price this, process lights versus heavies? And I'm focusing on the downstream side of things, in particular. I understand that you did provide that $160 million sensitivity for natural gas for the core.

Mark Little: Yeah, Menno. It's interesting because I actually think that to a large degree, you're seeing that commentary come out of Europe where they're paying orders of magnitude, higher natural gas prices because this is an area that has very constrained access to natural gas, essentially no storage. Their storage volumes are way below historical levels. And I would say, to some degree, the region is struggling with energy access, just in its entirety.

So, I really don't see it. And in fact, that's one of the reasons that we kind of pointed out is that in my downstream commentary, we talked about delivering Q3, the third highest in our history, but we also talked about, yes, but one of the challenges is natural gas prices up 125%, the Canadian dollar is up 5% and you've seen much narrower spreads than what we've seen by $4 on the light-heavy. So, I really don't think in North America, this is really a dynamic. But in Europe, you see it much more.

And so, maybe there's been a little bit widening of the differential. The beauty of our model is, our whole model is designed that, look, whether the differentials are wide or narrow or whether the prices are absolutely high or not, we actually can extract the money within our model associated with it. And so, we view that our model actually helps protect us against this. Just as we talked about on the power side, it's one of the reasons we modified our sensitivity -- before we were just showing you the impact on OS&G, but the offset here is in revenue. So, we think we're very well positioned to be able to manage this. But in North America, I don't see that as a really significant factor although it may have some impact.

Menno Hulshof: And then just on a related note, would you ever consider getting back into the gas business? I know it was a big part of the business model back in the day. Just to hedge out that price risk or is it just -- it's just not enough -- there's just not enough sensitivity to even to have that be a consideration?

Mark Little: Yeah, Menno, it's interesting because I think you'll see that our model, although very unconventional to a lot of folks, we see that we actually have impacts. As you see the Cogen come on, our sensitivity to natural gas will change again and be mitigated further associated with it. When you ask would you ever, I mean -- maybe I'm

getting old enough to know that to never answer the question than -- absolutely not. I don't -- maybe there's a circumstance. Obviously, we're a big consumer of natural gas and we continue to look at our positioning within the markets all the time. Our primary focus at this stage of the game is how to mitigate, obviously, increased natural gas prices and power is the way that we're doing it. And obviously, we're further investing to manage that further. So, would we ever? Maybe we would, but not at this time.

Menno Hulshof: OK. Thanks for that, Mark.

Operator: Thank you. Our next question comes from Manav Gupta of Credit Suisse. Please proceed.

Manav Gupta (Credit Suisse): Hey, guys. So, I wanted to switch gears a little. You and some of the other bigger operators in Canada have come out with projects on carbon capture and sequestration. And I understand it's pretty early. But just trying to understand like what kind of support do -- you would need from the government of Canada to move ahead with this? Is it a firm carbon pricing? Is it basically supporting you with some kind of capex, you know, where they pitch in? So, I'm just trying to understand as these negotiations are proceeding, what kind of help do you expect from government to move ahead with the carbon capture program.

Mark Little: Yeah. Thanks, Manav. Obviously, I mean this is an area we're quite excited about. Obviously, we are a large emitter of CO2 and it's been fantastic to see the alignment among the industry peers and really being able to get an unprecedented alliance in the history of our industry within Canada to be able to chart a clear path moving forward.

That plan is to take the whole industry to net zero by 2050. Obviously, there's a lot to that plan. But one of the key points in that is carbon capture and sequestration. We realized, as we worked on it, that as we worked as an industry, if we work together, we can drive down the cost significantly. And this is about keeping the industry competitive. If you look at Norway as an example, two-thirds of the capital and two-thirds of the operating costs for the first 10 years are actually provided by the government. In the United States with Q45, we actually have incentives to be able to do carbon sequestration and that deals with both capital and operating costs. So, we need to have something that's competitive.

We want to ensure that we can't afford to be investing below our weighted average cost of capital, of course. And so, we're working to try and figure out, both with the provincial government and the federal government, what's the path forward. And it's not just all monetary, some of this actually gets into access to poor space and those sorts of things. The great thing is we have a plan and I think we have a great relationship with both the federal and provincial government and we're looking to get alignment so that we can move forward.

Manav Gupta: Thank you for that. And a question here on the refining side. You were generating free cash in refining even during the worst of pandemic. And now obviously, you're generating a lot of free cash from refining.

But if we look at your refining, it's actually three parts: it's refining, it's logistics, and its retail. And I wanted to understand from the retail perspective, is this a business you want to grow, is this is a business you want to keep as it is, or is it a business that you could potentially look to divest at some stage? So, if you can help us understand your views on your retail business within refining.

Mark Little: Yeah. It's interesting, Manav, because we actually talked about this on our investor day. So, I think there's some good material there that helps provide some context to it. I would actually add a fourth piece to this, is our trading capability.

And you saw that in the last year is that we were able to run disproportionately high utilizations in the refineries, leveraging our logistics network and our trading capability to deliver free cash flow when nobody else was. And I think in our investor day, we talked about how we delivered twice as much operating cash flow in refining than our next nearest competitor within North America because of the combination of all of this capability that we've outlined, retail is an important part of that. We have the #1 brand in the country. We have the largest coast-to-coast network. We have direct relationships with the customers that we can leverage as we think about adding energy options to the future, so we see this as an important part of our model. And so, I think I would just refer you back to that. Our team can actually walk you through some of those slides and stuff we did on investor day, but we think this is an important part. And we recognize that a lot of people have just sold this off and taken the cash out of it.

But we don't think that's the right answer for Suncor. And, the more we see the integrated piece associated with it, this was very helpful when we went through COVID. Anyway, that's kind of where we're at with it, Manav, and that's why we've continued to position and continue to invest in this part of the business.

Manav Gupta: No, no, I completely agree. I don't think it should be moved out. It's an integral part of the business. It gives you that access to the end markets where placing a barrel is important.

My last and final quick question here is, 2021 was a year of very heavy turnaround for you, upstream and downstream. As we look at 2022, do we think the level of maintenance in both upstream and downstream should be lower? How do you expect to run in 2022 at both upstream and downstream versus 2021?

Mark Little: Yeah. It's interesting when you look at it, the downstream and upstream have lower turnaround activity. We still have a lot of maintenance going on, but we have lower turnaround activity than what we had in both sides of the house associated with it. Syncrude still has some substantial maintenance and turnaround work within the year. And Firebag actually is going to be off. We have a big piece of work associated with Firebag. I think the impact is something like 15,000 barrels. And so, -- and you keep in mind, Golden Eagle with it out, that's about a 10,000-barrel hit.

So, there's puts and takes across the platform. Turnarounds are lower but we're still executing a bunch of work. And some of this is what I said earlier to one of the previous questions, just about trying to flatten out and optimize our sustaining capital going forward

so we don't have huge swings in that. So anyway, so that's where we're at. You know, the beauty of it is that overall, as we talked about during investor day, this optimization phase 40% less capital than the growth phase we had. And next year, as we've highlighted, we're spending $300 million below our 2022 ceiling. So, you know, I think we're trying to manage this well so that we can continue to deliver very strong returns to our shareholders.

Manav Gupta: Thank you for taking my questions.

Operator: Thank you. Our next question comes from Harry Mateer of Barclays.

Harry Mateer (Barclays): Thanks. Alister, I think this one is for you. One of the questions we often get is the concept of net debt versus gross debt and you have net debt targets for 2025 and 2030, as you've laid out, but your capital allocation framework for next year also indicates paying down debt with cash. And presumably, there's a limit to how high you want the cash balance to go, as opposed to just doing gross debt reduction.

So curious how you're thinking about that. And then the follow-up is, when I look at your debt schedule, you still have a couple of billion of short-term debt, but at these sorts of prices you spin through that pretty quick. So, how are you thinking about the willingness to do more LME, such as you did with the 24s in the third quarter. Yes, maybe not paying make-wholes but waterfall tenders, etc.

Alister Cowan: Yes, that's a great question, Harry. I mean, I think you're right on there. You know, net debt versus gross debt, we obviously don't want a cash balance to grow significantly, but somewhere in the $2-$3 billion is probably reasonable. Just to emphasize to everybody when we talk about net debt or debt in total, we include our leases of about $3 billion, which is not -- so companies in the U.S. don't do the same thing. I would say that as we're looking at all options as we go forward, we have short-term debt, we'll pay down. We've got some maturities. But ya, I think we'll be looking at liquidity management events so that we can take some of that longer-term debt out. You'll see us manage the debt profile. You know you may see us issue some longer-term debt just to term out and increase the maturities at the same time as we're taking shorter-term debt out, but all those options are certainly on the table.

Harry Mateer: Got it. Thanks very much.

Operator: Thank you. Our next question comes from Roger Read of Wells Fargo. Please proceed.

Roger Reed (Wells Fargo): Hey, good morning and congrats on the better results. I admit to missing the first part of this call, we had quite a number of reports this morning. But I would like to come back to the decision to reinstate the dividend to the pre-reduction level. What was the thinking kind of at the time of the cut? And what's the thinking today bringing all the way back? One of the reasons I ask, we expected a dividend raise next year, but we didn't really think you'd get all the way back. So, I'm just trying to understand the confidence level that you have here and how that all came together.

Mark Little: Yeah. Thanks, Roger. I appreciate it. Really, if you go back to the dividend cut and I think we've been through this on several occasions is, you know, our focus was, hey, we're in a global pandemic. It's having a dramatic effect on global demand. And our view was we needed to keep the company financially strong. We took that decision. Essentially, any company -- in our analysis, any company that cut the dividend has underperformed in the market.

But then when you look at it, we really looked instead, there were four key factors when we looked at reinstating the dividend. One, is just our confidence in the safe and reliable operations. We've just concluded the most significant maintenance year in the history of the company. Fort Hills is on track to ramp up. And so, the business is looking really strong.

And then when you look at consumer demand, although it's off a little bit, you're seeing the downstream recover and providing significant and stable cash flows as we look to the future. And so, we saw the downstream deliver in line in the third quarter with what we saw in 2018 and 2019. It's the third best Q3 in the history of the company for the downstream despite challenges of higher dollar and such.

And then the last piece or, the other two pieces is, our confidence in the execution of delivering on our $2 billion of free funds flow, $465 million this year and we're on track to deliver that and another amount similar to that next year. So that's going very well. And then the last one is really when you look at our share buybacks and paying down our debt, we're working to -- and Alister went through this is when you look at debt, we're looking to be at the top end of our 2025 debt targets on net debt by the end of this year. We're actually now looking to buy back up to 7% of our shares and we're working on the 2023 share buybacks that we talked about at investor day.

So, we're just taking advantage of the high commodity price environment. We've made so much progress on restructuring the debt and such, our view was we needed to keep the dividends up at the same pace. So, you're seeing that -- what, we talked about on investor day, the dividend increase is 75% of the dividend increase we talked about doing between now and 2025. But it's in line with the progress we're making on share buybacks and debt. So, thanks for your question.

Roger Reed: Yeah. Can I follow up just an operational question? There's been kind of a crude diff question. A lot of improvements in pipeline volumes to the U.S. and some of the stuff going on with Line 3, all presume Line 5 doesn't face any particular issues. And then obviously, we've got the pipeline of the West Coast expansion. Can you just give us an idea of how you think about differentials moving, whether it's the light or the heavy crudes down south and then, you know, understand you haven't faced some of the same differential issues that others have, the transportation issues, but a better market is a better market just how we should think about that affecting Suncor as we look forward over the next couple of years. And how that maybe factors into your cash flow expectations if it does at all?

Mark Little: Yeah. Roger, I mean, I think to some degree, this goes right to the heart of our model. Predicting differentials is very challenging. We've seen that in all these different

markets. We saw an inventory build in Q2, which I actually found a bit surprising because, you know, there was lots of maintenance that was happening in the second quarter within the industry and such. And so, it was seasonally high when you look at it relative to the last three years. And then, you know, when you get into the -- my comments in the prepared remarks and such, you saw the downstream perform really well with narrower diffs, strong Canadian dollar, and a much higher gas price. I think there are several factors that are actually driving diffs around. You know, Greg actually pointed one out in his question about natural gas and whether that's affecting lights and heavies and demand for lights. I think in some markets, it is. I don't see it as a significant factor in North America. You're seeing increased crude coming in from OPEC. I think most of that's going to be on the heavy side. And then on the positive for narrowing the diffs, you're seeing better access with Line 3 coming on. So, there's push and takes to it. We don't see a dramatic effect in the diffs one way or the other.

The issue with it for us is, we're fairly indifferent. We have an integrated model. It's designed to be able to pick up the cash either in the upstream or the downstream depending on where the diff is. And so, we really don't focus on it all that much.

Roger Reed: OK, thank you.

Operator: Thank you. I would now like to turn the call back to Trevor Bell for closing remarks.

Trevor Bell: Great. Thank you, operator and thanks, everyone for attending the call. I know it's a busy part of earnings season. So, appreciate your support and we're around all day if you have any follow-up questions.

Thanks again, operator.