Suncor Energy First Quarter 2022 Financial Results Call

Tuesday, 10 May 2022

Operator: Good day and thank you for standing by. Welcome to the Suncor Energy first quarter 2022 results conference call. [Operator instructions]. I would now like to hand the conference over to your host today, Mr. 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 first 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 first quarter earnings release, as well as our current annual information form. Both of those 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 first quarter earnings release. Following our formal remarks, we'll open up the call to questions.

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

Opening Remarks

Mark Little

President & Chief Executive Officer, Suncor Energy Inc.

Great, well thanks, Trevor.

Good morning and thank you for joining us.

I concluded my remarks on our fourth quarter call by saying that Suncor is well positioned to deliver higher production and substantial free funds flow in 2022, with a clearly defined capital allocation framework that accelerates shareholder returns and debt reduction. I also reiterated my commitments to strengthen safety, reliability, and operational excellence to improve Suncor's performance in a meaningful and sustainable way.

While we still have work to do, I'm pleased to report that we're making progress and that all parts of Suncor are shifting into high gear.

Today's record financial results are due to our operating performance and strengthening market conditions. Before we go into the results, I would like to walk through the unique advantages of Suncor's physically integrated model in the current macro environment which underpins our confidence in continuing to grow shareholder returns.

In a time of global energy scarcity, our physically integrated model is in an enviable position. In the past, the integrated model gave Suncor and its shareholders downside protection, today it gives us upside opportunity.

Crude oil and refined product markets gained strength in Q1 which accelerated in late March and early April on the back of a global energy shortage. Cracking margins are responding to low inventory levels, refinery rationalizations and significant crude feedstock shortages throughout the system. Record diesel cracks are providing an additional pricing uplift to our sweet synthetic crude oil due to its significantly higher distillate cut relative to other supply options.

And, while crude prices and cracking margins are certainly strong compared to recent years, there are even more competitive advantages for us on both ends of our integrated model:

- Within the upstream, we have the highest SCO conversion ratio amongst peers and expect SCO production this year to be the highest ever in company's history.
- In the downstream, Suncor's refinery production is heavily weighted towards distillate production which is well above industry average.
- We are seeing significant value capture on both ends of our integrated model under current market conditions.
- Putting this together, approximately 60% of our enterprise-wide production is weighted to SCO and distillate – both of which are trading at significant premiums and with a strong macro demand outlook for both.

A combination of operational improvements and strong market conditions over the past year have driven free funds flow that is much stronger than the scenario presented at our 2021 Investor Day. This has enabled us to significantly increase shareholder returns and the pace of debt repayment. Specifically:

- In the quarter, we bought nearly 1.5% of the outstanding shares for 830 million dollars and reduced net debt by 730 million.
- Suncor's Board of Directors approved a quarterly dividend of .47 cents per share, which represents an increase of 12% over the prior quarter dividend and is the highest quarterly dividend per share in the company's history.
- Also, the Board approved an increase of the company's NCIB program up to a maximum of 10% of Suncor's public float.

With respect to capital allocation, we continue to accelerate progress against our 2021 Investor Day plan.

Our plan is to use half of our free funds flow to buy back shares, and half to repay debt until our net debt reaches 12 billion dollars. Once at 12 billion dollars, our plan is to direct 75% of free funds flow to buying back shares and 25% to debt reduction. And for clarity, once net debt is at a 9-billion-dollar floor, we'll direct all free funds flow to shareholder returns.

With current strip pricing, we expect to be in a position to achieve our 12-billion-dollar net debt target during the second half of this year and move to this increased share buy-back level. It is important to note that our net debt includes our capital lease obligations of 2.8 billion dollars.

You'll find these details and further supporting illustrations as part of slide 6 within the first quarter investor relations deck.

And in addition to these actions, we're making changes to our asset portfolio to sharpen our focus and realize significant value uplift. On our last call, I mentioned initiating a sales process for Norway E&P and part of Rosebank. Since then, we have also begun the process to divest of our wind assets, and based on interest from potential purchasers, we've decided to market our entire UK North Sea portfolio. These potential divestments offer further opportunities to accelerate progress towards our capital allocation goals.

Let's go through the first quarter financial results.

With 4.1 billion dollars of adjusted funds from operations for the first quarter, Suncor posted the highest quarterly cash flow in its history, beating the prior record set in Q4 2021 by over 30% on an absolute and per share basis.

We completed the first quarter with 766,000 barrels per day of production. This represents strong rates through February and March after a slow start in January that we discussed on our last call. Our Q1 production is a solid start towards achieving our 2022 production guidance.

Turning to operations.

Oil Sands delivered 417,000 barrels per day of production and Syncrude delivered production of 182,000 barrels per day.

As we continue to physically integrate our assets, it's worth looking at a couple of key performance indicators:

- The combined SCO production was 515,000 barrels per day at a 96% upgrader utilization and was supported by in-situ production of 249,000 barrels per day, or 98% utilization.

Despite challenges in January, these utilization rates reflect the progress we're making on reliability.

On the last call I mentioned the optimization of Syncrude maintenance in support of stronger full year volumes. While SCO volumes are comparable to the last quarter, the mine performance and bitumen production has never been better. And in fact, Q1 was the highest quarterly bitumen production in Syncrude's 44-year history. In line with our plan, we built sour synthetic inventory for hydrotreating in the coming months and increased the use of the interconnecting pipeline infrastructure. This optionality is just one example of the flexibility within our assets and provides further support to our full year production guidance range.

With Fort Hills fully ramped up, the asset delivered 88,000 barrels per day of production. February and March production averaged approximately 90% of nameplate capacity.

Our E&P offshore assets delivered 80,000 barrels per day of high margin production, as we continue to follow our disciplined free funds flow approach to these assets.

Moving to the downstream, our LIFO margin is 20% improvement compared to last quarter, while our Canadian utilization came in ahead of industry average. As many are aware, the majority of the Canadian population had significant lock down restrictions until the end of February. As a result, Canada's gasoline demand in the quarter lagged versus 2019, while diesel is ahead. As I look at March and April gasoline demand, it continues to improve towards higher and normalized levels.

For downstream, first quarter results are solid given this weak demand. However, with continued demand growth and strong market cracks, I expect improved results from our downstream for the remainder of the year. This is a strong business with an exceptional track record as it's outpaced its peer on a refining EBITDA per barrel, on a 5-year basis of 50%, improving to 60% on a 3 year basis – highlighting the benefits of its resilience, especially through volatility.

Before leaving operations, I wanted to highlight the recent additions of Peter Zebedee as executive vice president of mining and upgrading, and Alisdair Gibbons as our VP of Fort Hills. These additions add depth to our mining team. Most of Peter's career has been spent in oil sands mining and tailings. And Alisdair brings decades of global mining and mine development experience. Combined, these two leaders bring over 50 years of direct mining and operational expertise.

We know we've had challenges in our mines, and we've taken concrete actions since the fall of last year to strengthen our mining capability. Peter and Alisdair are two excellent additions bringing more senior mining expertise into our senior leadership team.

Another significant milestone is our implementation of SAP. In April we went live with our company-wide business process transformation which moves Suncor to a common platform across the entire organization, driving productivity and cash flow improvements.

Further to our commitments on safety, reliability and operational excellence, Suncor will be hosting an Oilsands Operational Presentation on the morning of July 13th. This will be a combined in-person and webcast event with a focus on the execution of our plans. During this session we will review the changes we've made – and are making – to ensure safe and reliable operations. The presentation will feature my operational executive leaders, with a particular focus on our mining operations.

I'll now pass it on to Alister to go through our financial results.

Financial Highlights

Alister Cowan

Chief Financial Officer, Suncor Energy Inc.

Thanks, Mark, and good morning everyone,

As Mark noted, our adjusted funds from operations per share of $2.86 is a 30% improvement compared to our previous quarterly record which we just set in Q4 of last year and is more than double last year's result.

We continue the disciplined execution of our capital allocation framework. We've returned 600 million dollars in dividends and 830 million dollars in share buybacks, which equates to an 11% annualized cash return yield using the Q1 average share price. We acquired and cancelled nearly 1.5% of our shares in the quarter, at an average price of approximately $38 Cdn per share. We increased our share buyback momentum in March, and as of today we have bought back over 2% of our outstanding shares.

We also reduced our net debt by nearly 730 million dollars to end the quarter at roughly 15 billion dollars of net debt and note that this includes 2.8 billion of capital leases. It's also worth noting that this net debt reduction took place despite a significant 1-billion-dollar final tax payment for 2021. This was the main use of cash in working capital during the quarter as we had highlighted in previous earnings calls.

Before I go through our financial results, I note that we have updated our segmented financial reporting to be on pre-tax basis in-line with our peers to assist with comparability. As such the adjusted funds from operations figures which follow will be on a pre-tax basis, while tax is captured at a consolidated level.

So, let's walk through our results.

Oil Sands generated Q1 adjusted funds from operations of 3.4 billion dollars with an average realization of $115 per barrel. As I look at realizations across Oil Sands, our bitumen realizations at $103 per barrel were significantly above the benchmark due to our strategic marketing and logistics advantage. Expanding our marketing capability and driving higher realizations is a key element of our 2 billion dollar free funds flow improvement program.

E&P delivered 725 million dollars of adjusted funds from operations in the quarter reflecting an average price realization of $123 per barrel.

Moving to our downstream results, we generated 1.6 billion dollars of adjusted funds from operations with 94% utilization. These are the second highest quarterly downstream financial results in the company's history and achieved in a seasonally weaker quarter. Although FIFO tailwinds helped the results, I'm pleased to see strong LIFO margins that increased 20% when compared to Q4 – this result is in line with strengthening cracking margins, partly offset by weaker Canadian gasoline demand in the quarter, which, as Mark highlighted, continues to strengthen monthly.

As Mark discussed in detail, our downstream operations enjoy an unparalleled advantage in the current macro environment. With the current strip, we view our downstream profitability to be well above 2018/19 which were record years.

These operating results and progress on our 2 billion dollars free funds flow program, are foundational to our confidence in delivering our capital allocation goals, including our record dividend of .47 cents per share, a 10% share buyback for this year and allocating an increasing proportion of free funds flow to shareholder returns. For example, as Mark mentioned, our company-wide business process transformation based on SAP is going well. This program is the largest component of our 2 billion plan with an anticipated annual contribution of 275 million and 80 million to be realized in 2022.

As a reminder, the net debt levels that Mark discussed were highlighted last year at our Investor Day, as 2025 and 2030 targets and do include capital leases. At current strip, we fully expect to execute the full 10% share buyback program and achieve our 12 billion dollars net debt level by later this year. And, to clarify, our forecast reflects proceeds from North Sea E&P and wind dispositions to be received in first half of 2023.

Lastly, we have updated our Corporate guidance to reflect the current business environment. These changes are a result of higher energy prices and impact our cash cost per barrel primarily due to higher natural gas, tax and royalties guidance for 2022. And, while higher energy prices impacted these elements, they translate to significantly higher revenues and funds from operations.

Before I pass it back to Mark, I'd like to emphasize that our 60% of corporate production weighted to SCO and distillate, positions us very well in the current macro environment. Therefore, our shareholders should expect the cash return profile to be even more robust for the remainder of the year and shareholder returns and debt reduction to be more aggressive than outlined at our investor day scenario a year ago.

Now back to you Mark, for some closing remarks.

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

Great, well thanks, Alister.

Last call I mentioned that Suncor's board of directors have endorsed a detailed operational excellence plan. I outlined the progress in my opening remarks today, and our board and management have great confidence in our plan, and the progress we're making. The Board and management team looks forward to engaging in constructive discussions with Elliott, as we do with all of our major shareholders, to better understand their perspective. We will continue to do so with the clear goal of enhancing the long-term success of Suncor and maximize long term value for our shareholders.

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

Trevor Bell: Thank you, Mark and Alister. I'll turn the call back to the operator so we can take some questions.

Q&A

Operator: [Operator instructions]. And our first question comes from the line of Greg Pardy from RBC Capital Markets. Your line is open.

Greg Pardy (RBC Capital Markets): Thanks. Thanks. Good morning and thanks for the detailed rundown. Mark, I was wondering, I know you've made some changes with your executive leadership and so on, and you've had time to reflect in terms of safety and reliability and so forth.

Is there anything else you can maybe walk us through in terms of how perhaps the approach, your approaches have shifted in terms of enhancing reliability and so on.

Mark Little: Yeah. Thanks, Greg. Appreciate the question. And I think I've talked about this maybe with as much detail, but we've spent a lot of time getting input and assessing our safety performance, including input from third-party experts, some of which are mining focus, some of which just global safety experts.

And so, we've obtained a lot of good feedback associated with that. And then, as you know, we've been reorganizing the leadership team. Now I have four operators at the leadership table. So, we doubled that and made some big changes, split the upstream in half as well.

And then we've made and brought significantly very capable and new leaders to the table, including Bruno Francoeur and Shelley Powell. Bruno’s running the central organization. Shelley is running the In Situ and E&P assets. And then I just talked about Peter Zebedee joining the team. He's a deep mining expert. We've also -- I talked about Alisdair coming into Fort Hills, and we've just had Arnel Santos, global refining and chemical processing leader, join us to run the refining business. So, there's been a lot of change at the leadership table. We've changed our processes within the organization.

And so, we're -- and I would say, the primary focus there is not just in preventing incidents, which, of course, we have an enormous focus on, but also ensuring if something does go wrong, that we've mitigated the potential consequence and put just as much focus on that as we do on preventing incidents. And then finally, leveraging technology, making sure that we're using whatever technologies are available. On the last call, I talked about collision avoidance and fatigue management. There's other technologies that we're implementing as well.

So, getting that input from third-party experts, reorganizing, bringing in new leadership, changing the processes of the organization and leveraging technology.

Greg Pardy: OK. Thanks for that, Mark. Second question is -- totally shifting gears, but just in terms of the sale of the U.K. assets, I'm wondering if you can just provide us with a bit of a thumbnail on what that package looks like. I think it's around 30,000 barrels a day. And then is the motivation here really about acceleration of debt reduction? You certainly don't have a money problem this year, but an acceleration of debt reduction or is it also about strategic fit?

Mark Little: Well, some of this is -- it's both around strategic fit associated with it. Our view was -- is we could narrow the focus. All of the business and all the various parts of the company require lots of investment to move forward. And so, staying disciplined on our capital deployment is critical.

Obviously, Rosebank is coming up and requires significant investments. And the total size of the package is about 25,000 barrels a day.

Greg Pardy: OK. Thanks very much.

Mark Little: Thanks, Greg.

Operator: Our next question comes from the line of Phil Gresh from J.P. Morgan. The line is open.

Phil Gresh (J.P. Morgan): Yes. Hi, good morning. First question, obviously, Elliott has their proposal out there with many different factors around it. I was particularly curious about your view on retail. You talked about the benefits of the integrated model, and I was just wondering how strategic you think it is to maintain control of retail assets.

Mark Little: Yeah. Thanks, Phil. Great question. We have the best downstream business in North America, and our rack forward business in retail is a key part of that. It's also intertwined with our wholesale and industrial business as well. And the rack forward business, it's interesting. We're generating the highest cash flow in our downstream business on a per barrel basis of any business in North America. And so, what we call rack forward as a retail business is a very strong performer and can go head-to-head with other retail businesses.

We think it's key to maximizing the value across the integrated business chain. And it's also one of the reasons that we've been able to deliver twice the profitability versus our next closest peer, particularly through COVID, as I highlighted in my prepared remarks. So, we think we have the best downstream business in North America, and we think it's important that it stay together.

Phil Gresh: OK. Got it. Very clear. My second question with respect to the cost factors. So, I was just looking back at the 2021 Analyst Day where you talked about reducing the operating costs by about $1.7 billion over a multiyear period. And I certainly recognize the underlying cost environment is very different, so it's entirely outside of your control. But if I were to kind of disaggregate the controllable versus uncontrollable factors, how would you suggest we think about where you are in that $1.7 billion trajectory of savings you're looking to get? And what is still remaining? I think the slides would imply maybe $500 million will be left between '22 and '25, but just any kind of update there would be interesting. Thanks.

Mark Little: I'll let Alister answer that.

Alister Cowan: Thanks, Phil, for the question. We're -- if I look at that, we're still on track for the $1.7 billion of cost reduction, we're ramping up. I would say that if you recall last year, our problem was where -- it was really around margin and revenue enhancement, very little on the cost side. As we move through 2022, you're going to see more costs coming out of the business, and that will ramp up in '23 and '24, which is really in line with our plan here.

So, we are on track. I mean the key element -- Mark and I both mentioned that we went live on our business process, new systems at the beginning of April. You'll start to see some of those costs come out later on this year. And they are significant across the organization, as I talked about in my remarks. So, we're on track. You mentioned inflation. Yes, we're -- obviously, we're looking at that. We are looking at how do we mitigate that, how do we offset as much as we can. We'll continue to attack that as we go through the remainder of the year, both on the operating cost and the capital side.

Phil Gresh: OK, great. Thank you.

Operator: Our next question comes from the line of Neil Mehta from Goldman Sachs. Your line is open.

Neil Mehta (Goldman Sachs): Good morning, team. Mark, I'd love to kick off on the downstream side of the business. Obviously, the refining fundamentals are very strong on the screen right now. And I see you raised your New York Harbor indicator to $38 a barrel.

Just curious on your perspective on how you're capturing that in the second quarter. Does the backwardation enable you to still earn a strong margin against what you see on the screen? And it does look like you have a decent amount of turnaround here in Q2 in the refining side of the business. So, any thoughts on your ability, operationally to maximize profitability in this environment? And I want to tack on there is we saw some headlines around Denver this morning in downtime, but -- if that plant is still up and running.

Mark Little: Yeah. Great. Thanks, Neil. Appreciate it.

Let me deal with Denver upfront. So yes, we are posting essentially everything on our public network there, just to make sure for community awareness and those sorts of things. So, what you saw posted in our communications is kind of normal protocol, but we do not expect this to be material in any way, and we continue to make our product in Denver.

On the downstream, it's interesting. New York Harbor is particularly strong. It's kind of interesting. But even as you get into the Chicago market, we're not seeing the same strength in Chicago as we would see in New York Harbor. But that said, this is the strongest downstream market we've seen in a very long time, as I commented in my prepared remarks. And so, we're seeing significant capture in the distillate markets. The fact that we have a very strong wholesale business and such, we've seen continued strength in the distillate side of our business with direct connection to the consumer. And so, we think that we have very strong capture, and it's one of the reasons I commented in my remarks that we're expecting the downstream to continue to strengthen in its performance as we go forward. And the market looks fantastic.

So that's really what the focus is. We've built a bunch of inventory to manage our turnarounds. Sarnia is now done. Edmonton has been in turnaround for a short period here and so is Montreal. And so, we built the inventory to be able to manage it. And so, our focus is to capture as much of this. Q2 is always, and Q3 are the strong quarters in the downstream. So that's what we're focused on.

Neil Mehta: Thanks for the perspective Mark. And then the follow-up, with your comments around the mining side of the business. As you said, you brought in new leadership to take a look at those assets. One of the questions we get from investors, is the challenges that you're having in mining, are those process-driven? Or are those asset-driven? In other words, as you think about and maybe go through each of them, Base, Syncrude, some of them are older in nature. Are there fundamental problems that we as a community should be worried about? And then talk about Fort Hills, which is a newer asset. So, is it a process problem, which would be more fixable? Or is it an asset -- underlying asset problem, which would be more problematic?

Mark Little: Well, I would separate this into two pieces associated with it. One is on the safety performance. Safety performance, as we've talked on previous calls, is in the contractor community, it's almost exclusively with young contractors with mobile equipment. So, it's a huge focus area. It's one of the reasons that we focused on collision avoidance as a technology that can help and also making sure that the folks that are coming in fully understand the risks and are managing them accordingly. In the mining side, we think that this is -- some of this is ore body-related, and such like at Fort Hills, we've talked about unexpected very high ore grade in the south face of the mine. We talked about opening up the mine face. So, some of this is just the evolution of the mine as we go.

But Fort Hills -- the physical plant at Fort Hills has operated extremely well. We've highlighted before that we've run this above our 100% design and such. So, I think we've put the cards on the table associated with it. But I would separate safety and performance. Clearly, getting global mining expertise to the table will help us in managing this and ensure that we're delivering safe and reliable operations.

Neil Mehta: Thanks, Mark.

Operator: Our next question comes from the line of Dennis Fong from CIBC Capital. Your line is open.

Dennis Fong (CIBC World Markets): Hi. Good morning, and thanks for taking my question. The first one maybe follows a little bit along what Phil was tugging at there in terms of incremental free cash flow margin. By our estimates, we think that there could be another $400 - $500 million increase with 2023 free funds flow through digital initiatives, mine optimization, AHS and Syncrude synergies.

How should we be thinking about those improvements to, we'll call it, breakeven cost structure? And how that potentially influences the way that you think about the existing dividend level in addition to the shares that you're buying back? Thanks.

Alister Cowan: OK. Thanks, Dennis. Yes, I mean as we've outlined and I talked a little bit earlier, we'll continue to accelerate the realization of that $2 billion. In 2023, there's a further several hundred million dollars of benefits to come in from that.

What that essentially does to the cost structure and breakeven is it lowers the breakeven. And as you'll recall from that old chart that we had, by lowering the cost breakeven, we give ourselves more room to increase -- further increase the dividend. So, by lowering the cost, we allow ourselves the opportunity to continue to increase the dividend in line with what we laid out at investor day. And of course, the more stock that we're buying back, that gives us more flexibility to increase the dividend for the remaining shareholders. You're absolutely correct there.

Mark Little: And maybe I can just add to that, Alister, is -- it's interesting. We've talked a lot about various components of our $2 billion cash flow improvement plan, some of which is cost-oriented, some of which is margin. But it was interesting because in the first quarter, we just achieved a milestone because the interconnecting pipeline between Syncrude and Base Plant reached payout, which is interesting. It's been in operation for a short period of time, and we're learning more and more ways to leverage it and extract additional cash.

So that's just one example of why we're able to drive better and better results.

Dennis Fong: Great. Great. Really appreciate that incremental color. Shifting gears to my second question here is just, frankly, upstream, and really more specifically non-upgraded bitumen realizations for the quarter were like considerably stronger quarter over quarter relative to the benchmark. Can you talk to some degree what changes may have been implemented or underlying advantages Suncor has on the supply and trading side, which has kind of driven some more of that value capture, specifically on the upstream barrels? Obviously, there's been some strength in the downstream side. Thanks.

Mark Little: Yes. Some of this, as you see, is we have a very efficient barrel in Fort Hills that's actually coming out of the mine. Because it's partially deasphalted, it needs less diluent to be blended, and we can literally take it all the way into the U.S. Gulf Coast because of our advantaged logistics and such and sell that.

And we can drive much higher netbacks. If you go back in time, you'll see it captures a higher netback associated with that. So, some of this is just market access, moving the volumes and the total production that's coming out of these assets versus where we were in Q4. So, with Fort Hills being a larger portion of our production with higher netbacks, you see that in the results.

Dennis Fong: Great. Appreciate the color. I'll turn it back.

Mark Little: Thanks, Dennis.

Operator: Our next question comes from the line of Roger Read from Wells Fargo. Your line is open.

Roger Read (Wells Fargo Securities): Yeah. Thank you, and good morning. Just like to maybe follow up a little bit on some of the maintenance and how maybe that ties into -- on the upstream side of the business and how that probably ties into a few of the questions that are already out there. So, we look at what's coming at you here in the second quarter. Is any part of this maintenance aimed at overall process improvements? Or is it just the basic maintenance that you need to do? I was just curious how the new management team may already be affecting that.

Mark Little: Yeah. You see a little bit of that, Roger, at Firebag. So, they're doing some work associated with it. But our view is the vast majority of this, at this stage of the game is kind of annualized or time-based maintenance to ensure that the facility has integrity and that could operate going forward. At Firebag, it's the first time we've had the two big plants down at the same time. And this is just really about reliable, safe operations going forward.

Roger Read: OK. And then shifting gears a little bit, going back to the goals on the $12 billion of debt, the longer-term target of $9 billion in the process of returning via, I guess, share repurchase, maybe special dividends, trying to understand what was all on the table there if you reach the $9 billion level. And then do we assume that the proceeds from the divestments in the U.K. and Norway would be used toward debt reduction?

Alister Cowan: Thanks, Roger. If you look at our allocation, we expect to get to $12 billion by the end of this year at the same time as we bought back 10% of the stock. And then at that point, we switch over to 75% buyback and 25% debt reduction. Once we get to the $9 billion, we've talked about -- and that allows us to devote all free funds flow to -- or 100% of it to shareholder returns. And we're not taking anything off the table. At this point, this could be buyback. It could be variable dividends. It could be special dividends. I think I would like to leave my options open on that. What we are committed to is returning 100% of the free funds flow at that point back to the shareholders.

And then on the asset sales which we expect to get the proceeds in next year, they go -- if you look at that old chart, we did -- they go into the free funds flow. So, they would be allocated out at the coming of next year, 75% buyback, 25% debt reduction.

Roger Read: Thank you for clarifying. Appreciate it.

Mark Little: Thanks, Roger.

Operator: Our next question comes from the line of Menno Hulshof from TD Securities. Your line is open.

Menno Hulshof (TD Securities): Thanks, and good morning, everyone. Most of my questions were answered already, but maybe I'll just toss one in on market access. Trans Mountain expansion just got pushed to Q4 of next year for mechanical completion, which has me thinking it could be a 2024 event at this rate. And with the understanding that you don't have much differential exposure, how tight do you think things could get for the industry from a basin egress perspective between now and TMX? And what are you currently seeing in terms of basin storage, apportionment, or anything else that comes to mind?

Mark Little: Yeah. Thanks, Menno. That's a big question. It's interesting to see in the market, for the first time ever that I recall, we had significant inventory draws through Q4 and through Q1 within Western Canada.

I think now that everybody has reported, it's a little clearer as to why that all happened. And so, we're sitting now at relatively low inventory levels coming into maintenance season. So, I would expect that we're going to trade sideways and have a fair amount of inventory available in Western Canada through until the fall. Now, could we end up building inventory in the fourth and first quarter of next year? I think that's a possibility.

Surprisingly, we're still moving about 100,000 barrels a day of oil by rail despite the mainline being unapportion. So, there's lots of space right now to actually move oil, and we would expect that the mainline could stay unapportion through until the fall. So, when you start talking about the end of '23, the question is if it actually gets pushed to, say, Q2 of '24, it means we have another winter to go through and we could be much tighter. So that is -- could be a bit of a pinch point. That said, our expectation is that late '23 is a realistic expectation for TMPL, and the team seems to be executing well and making good progress. So that -- our call is -- I think that the dates they have out there, we're aligned with and we're expecting it to happen at that time. Thanks for the question.

Menno Hulshof: Yeah, that's really helpful, Mark. And maybe I'll just follow up with a question on asset sales. And you've touched on this to some degree already, but since you're testing the market on a number of different fronts at the moment, Norway, the

U.K., wind, solar, what does the M&A market feel like at the moment? Are you seeing any sort of movement in terms of the bid-ask spread? And how confident are you that you can get some of these deals across the line?

Mark Little: Yeah, it's a great question. When you get into the oil and natural gas side and such, it's complicated because the volatility in the commodity price is huge, both in oil and natural gas. And so, whether we're able to get these across the goal line or not and get fair value for it, time will tell associated with it. When you get to wind and solar, I would say, well, that's a little different. We've had a massive response to us selling our wind and solar business. The opportunities and our current investments that are underway. In fact, so much so that it's slowing down the process because we've had to process so many different inquiries associated with it. So, I think that I'm very confident that, that'll move forward and we'll get really good value associated with it.

But in the oil and gas side, it's more complicated, although we did our deal on Golden Eagle last year, and we're quite happy with that. So, we'll wait and see how it plays out. But time will tell.

Menno Hulshof: Thanks, Mark.

Mark Little: Thanks, Menno.

Operator: Our next question comes from the line of Manav Gupta from Credit Suisse. Your line is open.

Manav Gupta (Credit Suisse): Hey, guys. I had a quick question. I mean we're seeing a very interesting dynamics here. Syncrude sweet is trading almost $7 over WTI, and WCS is trading $15 below and bitumen about $20. So, I know you have the flexibility in the system to make one product a little more than the other. Can you remind us if you push the system, how much more Syncrude sweet you can actually make at the expense of bitumen? And what's the flexibility in the system?

Mark Little: Yeah. Great question, Manav. So Syncrude -- the physical asset of Syncrude only makes one product, and it's a sweet synthetic crude. And as you pointed out, it's trading at a significant premium. This goes back to the comments that I talked about where both sides of our integrated model have some tremendous winds in the sail as we go forward here because you're seeing the sweet synthetic barrel trading at a big premium. And we think a lot of it is related to getting the high-distillate molecules that are so strong within the market. And then you have our refining system that disproportionately makes diesel at a much higher percentage than the average refining business. And obviously, distillate cracks are extremely strong.

Gasoline is strong, but distillate is even stronger. And so, as I pointed out in my prepared remarks, 60% of our production is either synthetic or distillate. So, we think that this is really going to supercharge the integrated model because both sides of our business, the upstream and the downstream, have tremendous opportunity as we look at this market condition. So, it sets us up very well for the second and third quarter.

Manav Gupta: Perfect. And I think in the past, you have indicated that on a normalized basis on refining, you are reasonably confident that refining and marketing can generate cash from operations of like $4 billion. I think you were at $1.7 billion in 2020, which is a pandemic year. You improved to about $3.2 billion in 2021.

And somewhere, you had indicated $4 billion is a reasonable estimate. But like the kind of environment, we are in right now, $4 billion would be very conservative given your refining capture and your system. So, I know it's a little bit of -- it's not an easy question, but like are we in a year where Suncor cash from operations or adjusted for from operations in refining could be $5 billion, $6 billion? Can you talk a little bit about that?

Mark Little: Well, we'll leave it to you to come up with the numbers. But what I would say is -- when we talked about the $4 billion, we considered that to be kind of a normal market for our downstream business with demand back. And clearly, this is not a normal market. We're seeing tremendous strength. And so, we are expecting this year's performance to be above what we saw in 2018 and 2019.

Manav Gupta: Perfect. Thank you, guys.

Mark Little: Thanks, Manav.

Operator: Our last question comes from the line of Doug Leggate from Bank of America. Your line is open.

Doug Leggate (Bank of America): Well, thank you. Good morning, everyone. Thanks for taking my question. Mark, I realize you're doing the event on July 13. But I wonder, given obviously the pretty strong performance in the quarter, I wonder if you could just give us any early insights as to what your new management team is seeing or doing or initiatives that have been identified to address one of the obvious criticisms of the operation in the past, which has been reliability and safety.

Mark Little: Yeah. Thanks, Doug. A lot of this is -- one of the things, when I talk about lessons learned from third-party experts, we've done that both, like boots on the ground, in the mine, getting feedback from folks. We've also looked and assessed our performance relative to the global super majors and try to understand exactly how does this play out, what are we doing or what are they doing that we're not doing..

From that, we learned a lot about driving standardization and having a core of excellence at the core of the company. We've had that to some degree, but we significantly strengthened it with the reorganization. So, a lot of that was behind the reorganization. We brought in all the new leaders and such.

And so, Peter, which is kind of interesting, Peter has been on the ground now for just over a month. He's almost like a cold eyes expert into this window cause he's getting a chance to go through. Some of it he's impressed with, some of the things he feels like need to be changed. And so, lots of support and focus with Peter on -- not just preventing incidents, but ensuring that we have the capacity to fail safe.

At the center of the organization, we're putting a lot more emphasis on driving the standardized risk assessments across all of our facilities versus being done within the actual facilities themselves and sharing talent around our assessments across all the various facilities. So those are a few of the nuggets in that whole process. And one of the things that we've thought would make a lot of sense is for our major investors and such to be able to meet these people, hear from them directly about the work they're doing. And it's one of the reasons that we set it up for July 13 because we think it's important that you get a chance to understand the operating capability we have in the organization and the leadership that they're providing.

So, we look forward to that opportunity.

Doug Leggate: I'm grateful for the answer. I know it's early days and obviously very much looking forward to that. My follow-up is on, I guess, allocation of free cash flow. I think all of us are resetting our views as to what mid-cycle refining could look like. And obviously, you've got your organic self-help $2 billion target. It sounds like that's now getting some traction.

So, I'm curious, one of the other issues that was brought up by Elliott, obviously, was how they saw allocation of free cash flow toward capital returns to shareholders, share buybacks and so on. So, I'm curious if you've had any dialogue on that topic because it seems that your capacity for cash returns could be substantially higher than what you laid out last year.

Alister Cowan: Yeah, Doug. I'll take that one. I mean we haven't had any specific dialogue, but we talk to shareholders a lot. We are being consistent with our investor day last year when we laid out the framework.

I mean -- but it's fair to say it's all got accelerated with the strong business environment there. And that's why we're able to come out and say, look, we expect to be at $12 billion of net debt by the end of this year and bought back substantially more shares than we would have expected. You may want to recall that last year, we were assuming a $55 WTI price over the long term. Clearly, we're not there, but it's allowed us to accelerate the returns. And you'll see now in the dividend, the buyback, the debt reduction, and that means that as we move forward, we can allocate much more of our free cash flow to shareholder returns and that's what we outlined today.

Doug Leggate: Great stuff. Thanks for the answers.

Operator: We have no further questions at this time. Now, I'll turn the call back over to Trevor Bell, vice president of investor relations, for any closing remarks.

Trevor Bell: Great. Well, thank you, operator, and thanks, everyone, for joining us today. If there's any follow-up questions, please reach out to myself and the IR team. We'd be happy to help. That concludes todays call, thank you.

[Operator concludes call]