Suncor Energy Fourth Quarter 2022 Financial Results Call

Wednesday, 15 February 2023

Operator: Good day, ladies, and gentlemen, and thank you for standing by. Welcome to the Suncor Energy fourth quarter 2022 results conference call. [Operator instructions]. At this time, I would now like to hand the conference over to your host today, Mr. Troy Little, Vice President of Investor Relations. Please go ahead.

Introduction

Troy Little

Vice President of Investor Relations, Suncor Energy Inc.

Thank you, operator and good morning.

Welcome to Suncor Energy's fourth quarter earnings call.

Please note that today's comments contain forward-looking information. Actual results may differ materially from the expected results because of various risk factors and assumptions that are described in our fourth quarter earnings release as well as in our current Annual Information Form, both of which are available on SEDAR, EDGAR and our website, suncor.com.

Certain financial measures referred to in these comments are not prescribed by Canadian Generally Accepted Accounting Principles. For a description of these financial measures, please see our fourth quarter earnings release.

We will start with comments from Kris Smith, Interim President and Chief Executive Officer, followed by Alister Cowan, Suncor's Chief Financial Officer. Also, on the call are three of our senior operating leaders – Peter Zebedee, Executive Vice President Mining and Upgrading; Shelley Powell, Senior Vice President In-Situ and E&P; and Arnel Santos, Senior Vice President Refining & Logistics.

Following the formal remarks, we'll open the call to questions.

Now, I'll hand it over to Kris to share his perspectives on the quarter.

Opening Remarks

Kris Smith

Interim President & Chief Executive Officer, Suncor Energy Inc.

Thanks Troy. Good morning, everyone and thank you for joining us.

Since taking on the interim CEO role of Suncor in July of last year, I have been fully committed to improving the safety and reliability of our operations. We're also maximizing our value capture by leveraging Suncor's difficult-to-replicate integrated model and driving fit and focus across our asset base. I want to begin our discussion today with an update on several initiatives we discussed at our recent Investor Day:

- First, on safety. As planned, collision awareness systems are scheduled to go-live at Syncrude's Aurora mine by the end of the first quarter, and we are on track to complete implementation of collision awareness and fatigue management technology systems across all mine sites. As well we continue to drive sharp focus on safety performance across the entire company, and to that end we have doubled the safety component weighting of our 2023 employee annual incentive program to ensure alignment with that focus.
- Second, with respect to costs. We are making progress on contractor workforce reductions in our Mining & Upgrading business and remain on track to achieve a 20% reduction by mid-2023. And to be clear, these reductions will not be replaced by insourced workforce.
- Third, with respect to reliability. Our upstream assets performed well overall during our very cold weather at the end of Q4. Syncrude achieved the highest full-year production in its history, while our Firebag insitu asset set a new quarterly production record. With respect to Fort Hills, while there will be variability between quarters during the next three years as outlined at our recent Investor Day, our performance improvement plan is progressing as expected. By mid-2023, volumes will start to ramp up as our mine inventory increases until our planned five-year fixed plant turnaround in July and August.
- Last, we continued to adjust our asset portfolio to focus more on our core integrated business. We completed the sale of our wind and solar assets and are making progress on the potential sale of our UK North Sea Assets. We also closed the acquisition of an additional stake in Fort Hills from Teck Resources. Considering the smaller than expected interest we acquired, we are updating our annual production guidance for Fort Hills to reflect a corresponding decrease of 5,000 b/d, for an annual range of 85,000 to 95,000 b/d.

Now onto the quarter. Looking at the fourth quarter results, Suncor generated adjusted funds from operations of $4.2 billion dollars, or $3.11 per share. Total upstream production averaged 763,000 barrels per day:

- 70% of this was Synthetic crude oil which commanded premium pricing due to higher distillate cut relative to WTI.
- 20% was non-upgraded bitumen from our In Situ Operations and Fort Hills.
- Lastly, 10% came from our E&P segment and reflects the disposition of our Norway assets, which was completed in the third quarter.

Downstream generated $1.7 billion of FIFO adjusted funds from operations with an average refinery utilization rate of 94%, and margin capture was strong at 99%. As previously communicated, our Commerce City refinery was put into safe mode following the impacts of the extreme weather in late December. It has begun a progressive restart and we expect it to come back to full production later in the first quarter.

For the full year 2022, Suncor generated record adjusted funds from operations of $18.1 billion dollars, which is 67% higher than our previous annual record. We paid down $3.2 billion of debt through the year, further strengthening our balance sheet. And, at the same time, through dividends and share buybacks, we returned record cash to shareholders of $7.7 billion dollars, representing nearly 45% of adjusted funds from operations for a 13% cash yield. We also continued to drive capital discipline across the company and our capital expenditures for the year were $4.9 billion, which was at the bottom end of our updated guidance range.

Now, before turning things over to Alister, I would like to highlight the significant progress we've made to date on the Oil Sands Pathways Alliance to Net Zero – a key lever in our sustainability leadership and the long term decarbonization of the Oil Sands industry. Recently you would have seen that Pathways has signed an evaluation agreement with the Province of Alberta allowing further delineation of our allocated pore space. We hope to further advance this with a formal lease agreement before the end of 2023. As well, front end engineering and design of both the pipeline and sequestration facilities progresses as we continue to work with both the Canadian Federal and Alberta Provincial governments on the required fiscal and regulatory frameworks to enable these important projects.

And, with that, I'll now pass it over to Alister to go through the financial results.

Financial Highlights

Alister Cowan

Chief Financial Officer, Suncor Energy Inc.

Thanks Kris, and good morning, everyone.

In the fourth quarter, Oil Sands delivered approximately $2.9 billion of adjusted funds from operations with an average realization of $97 Canadian per barrel. Quarterly performance reflects, obviously lower commodity prices compared to Q3, specifically a decrease in WTI of US$9 per barrel, as well as a US$5 per barrel decrease in the SYN premium. We also saw light heavy differentials widen by US$6 per barrel, but the upstream impact was offset by a benefit in Downstream due to our physical integration. Softening commodity prices quarter over quarter, were partly offset by higher production following completion of significant turnaround activities at the Base Plant and Syncrude upgraders.

On an annual basis, cash costs per barrel for Oil Sands Operations, Fort Hills, and Syncrude came in as forecast, reflecting industry-wide inflationary pressures as well as mine progression work that we discussed in some detail at our Investor Day last November.

As benefits from our enterprise-wide systems implementation and other digital initiatives start to come through, we continue to focus on employee and contractor workforce reductions over 2023 and 2024.

Our E&P segment generated $720 million of adjusted funds from operations in the quarter, reflecting average price realization of $122 Canadian per barrel.

As Kris said, downstream generated $1.7 billion of adjusted funds from operations and excluding a $440 million FIFO loss in the quarter, this would have been $2.1 billion on a LIFO basis. This performance demonstrates the strength and competitive advantage of our integrated model which enabled us to capture robust benchmark cracks and lower feedstock costs with widening heavy differentials. As a result, we achieved margin capture of 99% through the quarter.

Suncor returned $1.4 billion to shareholders including $700 million in dividends and $725 million in share buybacks in the fourth quarter. On a full year basis, that's 117 million shares repurchased and $7.7 billion of total value returned to shareholders – or approximately 13% of our market cap. Our quarterly dividend is now at the highest in the company's history after the most recent increase of 11% to $0.52 per share. And as Kris said, we continued to strengthen the balance sheet and reduced net debt during the year by $3.2 billion excluding FX impacts on US denominated debt. As previously noted, we intend to increase excess funds flow to buybacks to 75% by the end of Q1. Subsequent to the fourth quarter, the Board approved a renewal of the company's share repurchase program for up to 10% of Suncor's issued and outstanding common shares as of February 3rd, 2023. This program is planned to begin on February 17th, 2023.

With that, I'll pass it back to Kris for his closing comments.

Kris Smith
Interim President & Chief Executive Officer, Suncor Energy Inc.

Great, thanks, Alister.

Over my last six months as interim CEO I have placed my focus on setting the foundation for improved performance through Operational Excellence and a strong safety and performance culture with focus & follow through. Our continued focus will be, not only to build on that momentum, but to accelerate it, driving delivery of safe, reliable operations, capital discipline, reducing our cost structure and growing shareholder returns.

Suncor has an unparalleled set of assets in the Canadian Oil Sands coupled with an unmatched integrated model. We see great opportunities in front of Suncor to leverage those competitive differentiators to drive value for our shareholders in both the short and the long term and that is our focus.

And, with that, I look forward to any questions you may have, and I'll turn it back over to you Troy.

Troy Little: Thank you, Kris and Alister. I'll turn the call back to the operator to take some questions.

Q&A

Operator: Thank you. [Operator Instructions] our first question comes from the line of Dennis Fong with CIBC.

Dennis Fong (CIBC Capital Markets): Hi, good morning and I appreciate you answering our questions this morning. First and foremost, understanding that there were some comments around margin capture from the refining business. I was hoping that you could outline some of the operational impacts from the supply and trading business unit really given the combination of price volatility and some of the other, we'll call it, items like potentially ramping up Commerce City?

Kris Smith: Yeah. No, thanks very much, Dennis, for that question. We're very proud of our supply and trading organization. It's that organization has been in place for over 20 years, and we've been putting a lot of work and focus on growing it and creating greater impact from that part of the organization. It's based in Calgary, but we also have significant trading and marketing operations in Houston, as well as an office in London, UK. What I'd say is that organization as we manage the operations, it looks to increase the value capture and maximize that margin by leveraging our logistics positions, working closely with both upstream and downstream, and also ensuring that we're maximizing our asset backed trading activities around that as well.

Examples would be, I mean, obviously, we had the shutdown of the Commerce City Refinery that we put into safe mode, because of the extreme weather events that happened in late December in the Midwest and Gulf Coast. Our supply and trading organization was able to react quickly to manage both crude feedstock supply into that facility, but also product supply into the PADD 4 region. Another example would be with the Keystone outage that occurred at the end of December. We were able to react very quickly and very flexibly to that in terms of looking at our product mix in our oil sands business and using our asset positions, our logistics, our tankage positions to actually mitigate the impact of that and maximize margin through that event. So, it's a great part of the organization. Thanks for asking the question, Dennis. I don't think it gets enough attention sometimes, because it's a key component of our integrated model and that margin capture that you see in the downstream, but also our margins we see in the upstream.

Dennis Fong: Great. Thank you. I appreciate that color. And if I would — if at all possible, I'd like to move in a slightly different direction. You've now commissioned and completed the PFT hot bitumen transfer pipeline, which now connects Fort Hills to your upgrading complex in the base plant and the baseline. I was just hoping for some commentary on; a), we'll call it, the increased flexibility that you have by connecting all of these various assets, and secondarily, I believe the base plant has processed TFT barrels. I believe it was at the start of Fort Hills. But wouldn't mind understanding kind of again the potential flexibility as well as the upside that that connection could offer?

Kris Smith: Great. Thanks for that Dennis. Actually, I'm going to pass that question over to Peter Zebedee.

Peter Zebedee: Yes. Thanks very much, Dennis. So yeah, indeed, you're correct. We have commissions of TFT jump over line to put Fort Hills barrels over into the base upgrader. We have the flexibility to bring over up to 40,000 barrels per day of Fort Hills bitumen into the upgrader. We have utilized that within the last year. And that, of course, just provides additional flexibility for us on bitumen supply sources into the upgrader. I think that particular line in conjunction with the ICP line that we have between both Syncrude and the base plant offer us differentiated flexibility in the region to offset various unit maintenance activities and really extract them with the highest margin for the barrels that we're producing in the upstream.

Kris Smith: Thanks, Peter. Maybe, I'll just add to that. The flexibility that Peter is highlighting, Fort Hills, Syncrude, Firebag, we've got all those assets with connectivity into our base plant and into the Athabasca tank terminal. So, it's creating a tremendous amount of optionality for us to move bitumen around. And in the case of Syncrude as well, we — it's a bidirectional pipeline, and we can move sour gas oils up to Syncrude when we find ourselves an opportunity where we've got long hydrotreating in that asset. So, it's been a real win for Suncor, and we're looking for more and more opportunities to increase that flexibility.

Dennis Fong: Fantastic. I appreciate that. I'll turn it back.

Kris Smith: Thanks, Dennis.

Operator: Thank you. And our next question comes from the line of Greg Pardy with RBC Capital Markets.

Greg Pardy (RBC Capital Markets): Yes, thanks. Thanks. Good morning. And thanks for the run down. Wanted to stay, maybe, just on the operations side right now and two questions there. The first is, Kris, why is 20% reduction in the contractor workforce? Like, how did you guys' sort of land on that as being the right number? And I think you probably accomplished probably half of that already? And are you seeing benefits coming from it?

Kris Smith: Yes. Thanks very much, Greg. And 20%, I wouldn't say is an arbitrary number. It's working in a very focused way to how low can we get that contractor workforce down, while ensuring we're maintaining safe, reliable operations and getting the work done. Maybe, I'll ask Peter to talk to it a bit. Peter's obviously been leading this, because it's been primarily in our Mine and Upgrading business, which is really the part of the business that has the largest amount of contract workforce. Peter, do you want to…?

Peter Zebedee: Yes. No, I would say, maybe a couple of things, Greg. First was ensuring that we had the transparency built out across the assets to understand how many contractors we are coming through the gate each and every day. As you can imagine, with these mega sites, the scale is quite significant. So, we had to get our arms around the numbers. The second was implementing a robust set of controls and work processes on ensuring that we're really scrutinizing the release of work to contractors and ensuring that we're maximizing the capacity that we have within our own Suncor workforce first and foremost. And then, we're really looking to also build some additional tools to provide to our operators, to provide them with sufficient information to ensure that we're sequencing maintenance activities, in particular, in the most cost-efficient way.

Kris Smith: Thanks Peter. And Greg, I'd add to that as well. So, we are making good progress, as you just mentioned, we're on track. We've got high confidence in driving those reductions. But the thing I'd add to it, these reductions do two things in our mind. One, obviously, it reduces cost and increases efficiency. But secondly, and as importantly, it actually improves safety, because there's less people in the field. And so, we're getting both the benefits from these reductions.

Greg Pardy: Okay. Terrific. And just really, the second question comes back to the upstream. So, as you've maybe had a relook under all the rocks in the upstream, where do you see most of the low-hanging fruit as it relates to either output increases or cost reductions aside from safety, I'm just wondering, is there more to come from MacKay, is there more to come from Firebag and so forth. But where do you see the easy wins that maybe you can achieve in 2023?

Kris Smith: Yes. Our focus in 2023 is in the upstream and particularly in the oil sands basin. It's continuing to drive — leveraging the scale around regionalization. And so, the contractor reduction is a great example of that because it's the ability to leverage across the entire asset base and optimize and drive down the contractor workforce, as an example. We're continuing to work on that regionalization strategy around services, around materials and supplies. And then the other piece is, and Peter was talking about earlier in his answer, on the question around Fort Hills is we're seeing this opportunity to continue to drive this integration between the assets because it increases reliability and how we manage even things like maintenance events.

So, as we're managing, for instance, maintenance in Syncrude, we now have the added benefit that we look at, well, if certain things are down for maintenance, it doesn't mean necessarily we're slowing the mine down. We can now move that bitumen and bring that bitumen into the base plant. So, we're going to be focusing on more and more opportunities like that. I've been pleased with what I've been seeing with the assets. An example would be Firebag as well. We had a Q4 production record. So, we're seeing increased reliability across the assets. But really, our big focus is in the mine upgrading space that Peter is leading because there's a lot of opportunity, both on how we're managing cost in the business, as well as how we're optimizing the production amongst the assets.

Greg Pardy: Thanks very much.

Kris Smith: Thanks, Greg.

Operator: Thank you. And our next question comes from the line of Doug Leggate with Bank of America.

Doug Leggate (Bank of America): Thanks, good morning, everyone. Guys, I wonder if I could address the dividend. I know you've announced it last quarter, but with the visibility you have today, one of the key things behind the strategy we laid out a few years ago was to drop the breakeven. So, with all the moving parts that we've seen with Fort Hills and the kind of reset you've had, where do you think that breakeven progress sits today relative to what you laid out? I guess what I'm asking is what's the breakeven to cover your dividend today? What's the headroom for additional dividend increases?

Kris Smith: Go ahead, Alister.

Alister Cowan: Yes, I'll take that one, Kris. Thanks for the question, Doug. Obviously, lots of moving parts here. The dividend has been going up and as we progress improvement in our operations. I would say, as we sit and look at it today, our corporate breakeven for sustaining capital and dividend is low to mid $40 WTI. It's higher than obviously we had targeted. But it is competitive amongst our integrated peers. As we work through our performance improvement plan to drive down cost and improve reliability and production over the long-term, we are focused on driving that back then to our longer-term target of the mid-$30. The biggest factor in that really and the opportunity is the main improvement plan, particularly in Fort Hills.

And I would say as we work through those near-term mine constraints and get into the north pit as the largest and final pit, we would expect to see a significant improvement in Fort Hills. That will help us drive down the overall corporate breakeven.

Doug Leggate: Okay. I will continue to watch it. I guess, my follow-up is buried in the numbers, I guess, there was a comment about the increase in decommissioning in restoration provision. I'm just wondering if you can walk us through what the back story is there, how this has come about, whether we should expect that, whether this is the end of the story, or we should expect that to continue to evolve. And I'll leave it there. Thanks.

Alister Cowan: Yeah. Thanks, Doug. I mean you've heard us talk about the challenges of water return remediation, which is an industry-wide challenge anybody with mines…. And it's certainly one that we've been talking about. There will be in conversation discussions with the two levels of government in Canada and also the First Nations to resolve. I'd just remind everybody, we're the only industry in the world that is not allowed to return any treated water back to the river. And that would include all the rainfall that falls on our sites. So, everybody in the industry is actually focused on resolving this. Obviously, we have a larger volume than anybody else because we've been at it for far longer than everybody else.

As we go through our normal process each year, we update our estimates to manage that water return challenge. And specifically, this year, that would include incorporating higher rates of inflation on future costs …for up to 70 plus years into the future. So, that really is the driver behind the increased ARO liability that you see in the financial statements. Everybody industry has it, and that's why we're all so focused on resolving that water return challenge with governments and our peers.

Doug Leggate: Just to be clear, Alister, for clarification, what's the cash out, the cadence of the cash out for that incremental liability?

Alister Cowan: Yeah. Most of that, Doug, will come in after mine closure and ranges from late 2030s to 2070 / 2080.

Doug Leggate: So, it's very long dated. Got it. Thank you.

Alister Cowan: That's very long dated and there's no near-term increase in cash outflow.

Doug Leggate: That's what I was trying to get to. Thanks so much Alister. That's great. Thank you.

Operator: Thank you. And our next question comes from the line of Neil Mehta with Goldman Sachs.

Neil Mehta (Goldman Sachs): Good morning team. I'd like to kick off here on capital returns and as you said, last couple of years, you've been aggressive in repurchasing shares and reset the dividend. Just as you look at 2023, can you give us a sense of how much capital can be returned to shareholders and with commodity prices coming off a little bit, what's your confidence interval about making that pivot to 75% from 50% of cash back?

Kris Smith: Thanks for the question, Neil. So, our view is that we're still in a constructive pricing environment, obviously, not going to be what we saw in terms of the records of 2022. But we feel that what we see right now in the pricing environment, assuming it continues to hold through the balance of the year and our own operational plans. Our intent is to pivot to the 75%/25% here towards the end of Q2 — sorry, end of Q1 and as we're starting to see the debt start to get even closer to those long-term targets that we set out quite a while ago. As you know, we've made a lot of progress on those debt targets relative to where we thought they would have been 18 months ago. And so, right now, our plan is to continue to move to that 75%/25% in that time frame unless something radically changes in the business environment.

Neil Mehta: Yes. Thanks for that. And the follow-up is around the safety journey that you're on. Maybe you could spend some time, Kris, talking about your perspective on that, how can we, as an investment community, evaluate where you are in that movement back towards where you want to be? And any comments around Commerce City as it relates to that as well?

Kris Smith: Right. Thanks, Neil. I would say, I've been very pleased with how the organization responded to safety, particularly since I've taken on the Interim CEO role. The entire operations organization led by the senior operating team, many of them — or a number of them are sitting here with me on this call today. We put in place a very defined and specific and focused safety improvement plan, one that is reinvigorating and driving our focus on our operational excellence management system and operational risk management. That's engaging with our frontline. We are rolling out human organizational performance principles. We've been engaging with the organization on those actively over the last number of months, as well as Peter has talked about in the past, some of the safety technology investments we're making around the specific risk areas that we saw in the last two years that have led to tragic fatality incidents.

I'm encouraged by what I've seen over the last six months. I'm always — I always say, this is a journey, and you don't measure this thing in days and months. But what I would say is, since I've taken the interim CEO role, I've been pleased with the direction I've seen in safety performance, both in personal safety and process safety. And we've seen a reduction in the number of incidents over that period of time. But, again, this focus has to continue. It has to — it's a daily focus for this organization. For investors, I mean how you measure that, obviously, is in results at the end of the day. But what I can assure you and all our investors is that the focus of this operating team is squarely on safety first in this organization. And let me talk about Commerce City.

I think it's a great question you just asked, Neil, about Commerce City and in the aspect of safety. So, we had an extreme weather incident in December. Everyone saw the impact of the entire refining industry during that period of time. Our own facility was significantly impacted by that extreme weather. And we had a number of equipment failures and some loss of containments.

And the team, the operating team down there took the measure to put that facility in safe mode and take the right steps to save that facility and ensure that it is in — that we have it in a state and condition that we can operate as safely going forward. I've been incredibly pleased and proud of the work that the team has done down there in terms of the full inspection and repair of the facility.

We've already started the progressive restart of the facility and are on track with where we expect it to be. But to me, that's an example, while no one likes to see incidents like that, its an example of how an organization responds when it comes to safely managing your assets.

Neil Mehta: Thanks, Kris.

Kris Smith: All right. Thanks, Neil.

Operator: Thank you. And our next question comes from the line of Menno Hulshof with TD Securities.

Menno Hulshof (TD Securities): Thanks, and good morning, everyone. I'll start with the base mine extension since it ties into some of the other questions that were asked previously. My understanding is that a decision on sanctioning the extension to address mine depletion versus leaning more on in situ production to keep the upgraders full is still expected by 2025. But maybe you could just give us your latest thoughts on the various options and what you consider most likely at this stage?

Kris Smith: Thanks, Menno. Yes, as you point out, I mean, our base mine end of mine life in the mid-2030s. And so, we're working through various options for replacement of that bitumen supply. Our focus is primarily in those upgraders full. We do have a number of options you just outlined a couple of them in your question. We do have the base mine extension application in place. We're continuing with that application, but it is not our only alternative or option. We do have the option, which we're also progressing around further in situ development just east of the — of our base plant contiguous to our current mine operations is both our Lewis lease as well as Firebag, which also has significant resource left. Too early to call in terms of which horse is in the lead race, but those options are both being worked very hard.

And the other piece I'd mention as well and kind of back to early on the call, we talked about the connectivity amongst the operations and our ability to bring bitumen into the upgrader from Fort Hills now. It's 60,000 barrels a day or sorry, 40,000 barrels a day of capacity that can be further increased and as well we can bring more Firebag in. So we have lots of optionality in terms of bitumen supply and the upgrader. The team is working hard on all of those options. It's all about what's going to be the most economic and risk-based option that we're going to supply that upgrader. I expect over the next 24 months, we're going to start landing on which option is going to be the lead horse.

Menno Hulshof: Terrific. And so maybe I'll just pivot to the macro with a question on diesel. We've obviously seen come down quite a bit over the last several weeks. So. what is your read on this pull back. What are your expectations for Canadian diesel cracks over the midterm? And maybe you could just remind us of how much flex you have on dialing the products slate up and down for distillates across your four refineries?

Kris Smith: Sure. And remember too, as well, Menno, when we think about diesel, we think about it in two aspects as well. There's our refining business, which we are tooled we're more at 2-1-1. We're not a 3-2-1 refining network, which is great. And it does give us some flexibility to tool up a bit more to diesel. But also recall, too, in terms of our synthetic crude oil and our diesel make up in our Oil Sands business. So certainly, we're levered to the side of distillate rather than gasoline across the whole system. The view on diesel, I mean, certainly, not expecting that we're going to see the extraordinary cracking margins that we saw in 2022. But our expectation is we're still going to see a very robust distillate market. We're still seeing good demand on distillate even though it pulled back slightly here, recently.

But still, I think the structural foundation for strong distillate tracks is still there. That's the expectation that we're going to see through the balance of the year. And if you just look at global inventories and demand. I think gasoline, gasoline has actually strengthened a little bit. It really came off at the end of Q4, not a surprise given the seasonality of that. But gasoline, we think the cracking margin should be at/or around historical norms. I don't see a big, big pullback on gasoline. But the story, I think, in 2023 is going to continue to be distillate and it's going to still be very supportive of both the downstream business as well as our diesel make out of oil sands.

Menno Hulshof: Thanks Kris. I'll turn it back.

Kris Smith: Great. Thanks Menno.

Operator: Thank you. And our next question comes from the line of Roger Read with Wells Fargo.

Roger Read (Wells Fargo): Yeah. Thank you. Good morning. Yes. Maybe just dig in a little bit here on an operational question. Looking at two things in the oil sands, your thoughts on what we should expect in terms of royalties? And then what you are looking at in a way of cash OpEx. I know higher fuel prices have an impact. But just what are some of the thoughts in terms of cash operating costs, underlying inflation and what you can do to push back against that?

Kris Smith: Sure. Thanks, Roger. On royalties, I think we're going to continue to see royalties were in post payout in some of the assets, but pre-payout in others, expect royalty is going to be less in 2023 versus 2022, just because of where we're going to see commodity price. But I expect we're still going to have a healthy royalty remittance back to the province. On the cash operating cost, I mean, we're obviously incredibly focused on that. When I was at our Investor Day, we talked about the cash operating costs and the impacts both of where we're at structurally with our mine plans in 2023. The mine improvement plan in Fort Hills, as well as where we're at in Syncrude just in its mine cycle in 2023, which is adding some additional costs, which we're going to be working through this year and expect that to go in the right direction as we head into next year.

But as well, we've been seeing inflation, but not in any way that we haven't expected it. And the team has been doing a lot of work trying to go back to what we talked about earlier in terms of the contractor reductions, but doing a lot of work to, first of all, offset that inflation wherever we can and drive the costs further down. We set the guidance range for 2023 and communicated that at the Investor Day. We're focused on delivering those costs within that guidance range or below. And I think one of the things on inflation; certainly, we saw extreme inflation into the back half of last year, seeing some of it come in. We've seen it continue into 2023, but it's starting to mitigate a bit too.

And hopefully, we're going to continue to see inflation start to temper itself as we move into the balance of the year.

Roger Read: And can you quantify at all what part of that is related to underlying fuel costs, or what sort of offset you might get there?

Kris Smith: Yeah, I'd say the inflation, you know we were seeing inflation is on the labor side contractors. And that's why it's one of the areas we've been incredibly focused on. It's that inflationary pressure is coming in wages and labor costs. We were seeing it in supplies and materials, but that's starting to come off a bit. I've seen the steel prices inflation starting to really cool on steel. In terms of fuel, I mean, look at commodity costs, I mean, certainly, it's been helpful where we've seen gas prices trend here. They're a lot lower than what our expectation would have been going into this year. But just the — as you would know, just seeing what's going on with global — with just temperatures, a warm winter and an oversupply of natural gas in North America, that's been a nice surprise for our business, and there will be a bit of a tailwind on the cost side.

Roger Read: Okay. And then the unrelated follow-up, is we're all well aware you remain the interim CEO. Any updates on the timing for removing that tag?

Kris Smith: Yes. Thanks. No, I'm not in a position to make an announcement on this call. And I'll say what I said before. The Board is going through a very diligent process, ensuring that they make the decision that's going to take this company forward. I expect the decision is going to be very soon. It's been communicated in the past, that – that decisions expected in mid-February. I mean, we're sitting here at February 15. So, I expect the decision and the announcement will be coming fairly soon.

Roger Read: Yes, I appreciate that. I'm not real good at math, but it struck me the 15th was mid-February.

Operator: Thank you. Your next question comes from the line of John Royall with JPMorgan.

John Royall (JP Morgan): Hi, guys. Good morning. Thanks for taking my question. So just a follow-up on Neil's first question on capital allocation, and I just wanted to make sure I understand. You're at about $13.5 billion of net debt today. Are you talking about possibly going to the 75% tier before you hit the $12 billion level, or is there an expectation that you'll be delevering by $1.5 billion in 1Q? And if it's the latter, maybe you can go through some of those drivers of deleverage? I know your closing the wind and solar assets, but then you should have the stake increase in Fort Hills going the other way. So just anything on those drivers. Thanks.

Alister Cowan: Hey, John, I'll take that one. I said before that I'm going to look through any FX impacts to get to the $12 billion. Included in the $13.4 billion is about $750 million of FX impacts from a weaker Canadian dollar compared to when we set the targets. So, I would take that also, and we fully expect to be close to the $12 billion or close enough to the $12 billion ex FX by the end of Q1. There is some noise around, as you mentioned, the timing of closing Fort Hills, we had assumed it would be in the beginning of Q2 and match up with the sale of the UK assets in that quarter. There'll be some noise around that. Obviously, we closed Fort Hills earlier, but we expect to move beginning of Q2 to 75% / 25%.

John Royall: Okay. Thanks, that's helpful. And then maybe you could talk about the optimization you guys are doing in retail and specifically the things you're doing around mix for operated versus non-operated stores? Just a little bit of color there would be helpful.

Kris Smith: Sure. Thanks, John. So, what we're doing with our — the retail business and as outlined in Investor Day. We're optimizing our national network. It is a mix of control and non-controlled. It's about 50-50 just for round numbers. What we're doing is we're focusing our investment on high-volume, high-value sites in core markets. When we put those types of investments in place, we've seen terrific results within the network. While at the same time, we're looking to optimize and rationalize those pieces of the network that are less core. And so that will be rationalizing non-performing sites as well as moving sites that are in non-core markets out of control and into the noncontrolled channel as well. And so that will allow us to focus our controlled network on those core markets in those high-volume sites. And so that plan is now underway. It's a five-year plan that we laid out when we talked about it in Investor Day and the team is focused on delivering it.

John Royall: Okay. Thank you.

Kris Smith: Great. Thanks.

Operator: Thank you. I'll now hand the call back over to Vice President of Investor Relations, Troy Little for any closing remarks.

Troy Little: Thank you, operator and thank you to everyone for joining us today. Please don't hesitate to contact us should you have any questions. With that, operator, you can end the call.

Operator: Thank you for participating. This concludes today's program, and you may now disconnect.

[Operator concludes call]