Suncor Energy First Quarter 2023 Financial Results Call

Tuesday, May 9, 2023

Operator: Good day, and welcome to the Suncor Energy First Quarter 2023 Results Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded, I would now like to hand the conference over to your speaker, 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 first 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 first 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 first quarter earnings release.

We will start with comments from Rich Kruger, President and Chief Executive Officer, followed by Kris Smith, Suncor's incoming Chief Financial Officer and Alister Cowan, Suncor's current 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 up the call to questions.

Now, I'll hand it over to Rich to share his comments.

Opening Remarks

Rich Kruger

President & Chief Executive Officer, Suncor Energy Inc.

Thanks, Troy. Good morning. Thanks for joining us.

I know many of you on the line and I look forward to reconnecting. For those of you that I don't know, maybe a very brief background. I have -- I come to Suncor with nearly 40 years in energy, 31 of those were with Exxon Mobil around the world and then the last seven of those nearly 40 were with Imperial Oil here in Canada as their chairman and CEO.

Background includes everything from operations, capital projects, commercial, corporate strategy, et cetera. Upstream. Downstream, oil, gas, onshore, offshore, conventional, LNG, oil sands and the geography started out in North America, Southeast Asia, Middle East, West Africa, former Soviet Union and now back to right where I am supposed to be, North America in Canada. So, I would never say that I've seen and done it all. But I think it's pretty fair to say I've seen and done a lot. Personality what can you expect from me? I strive to be quite clear. I hope you find me candid, transparent. I live in a fact-based world, and I tend to be quite focused.

Last but not least, I consider myself to be reasonably decisive and very competitive. I play to win. My assessment, this is week six on the job, it's been quite a time. I see a very proud company here at Suncor, excellent people, quality assets, some very unique competitive advantages, but I also see a company with uncapped potential. I see a gap between our current performance and what I would consider best-in-class in many, many areas. So, what is my objective? It's really quite simple. Lead the company to be the best of the best. The undisputed industry leader number one, I think in our business that there is four kind of foundations or pillars that are key to that: safety, operational integrity, reliability and profitability. If you read the press release this morning, you probably noticed I said that three, two, if not three times. It's because I believe in it and that's what I've learned over the course of my career.

I strive for us to be a company that delivers on its commitments and delivers long-term, or superior long-term shareholder value. I never forget the shareholder. And I promise you that. Will this be easy? No. But quite frankly, I wouldn't have come out of retirement to be here, had it – had it been easy. So, what can you expect from Suncor going forward? This focus on the fundamentals starting with safety, operational integrity. You can expect an intense focus on cost, organizational efficiency, and then operational support from our center.

We will become a simpler and a more focused organization and I think it's important to note that we basically produce a series of commodities, commodities subject to price cycles. And those who have the lowest cost structure have the greatest resiliency to compete in whatever business cycle we happen to be in. We will look hard at reducing spending where value isn't added, whether that's operating costs, OpEx or CapEx.

In terms of capital allocation philosophy, for those of you that know me, you've heard this before. We've got a strong balance sheet, we very much believe in a reliable and growing dividend, selective, high quality, well-timed investments and returning surplus cash to shareholders. I believe in rewarding our shareholders for their faith and ongoing commitment to the company.

So said succinctly, you can expect a lot of words around clarifying, simplifying and focusing on - what we do, why we do it and how we do it and I would end with last but not least you can expect a sense of urgency, an urgency to improve, strengthen our competitiveness, produce results.

My first five weeks on the job have been quite busy. I visited about 50% of our major facilities. I met with men and women who wear hard hats and boots for a living. Our workplace leaders, I've observed, I've listened, I've learned, I've started coaching. My general sense is this organization is ready. It is ready to respond, it is ready to step up and perform. I'm quite honored and excited to lead it and I can assure you we won't leave anything on the table. So, with that, I'll turn it over to Kris.

Quarter Highlights

Kris Smith

Incoming Chief Financial Officer and EVP Corporate Development, Suncor Energy Inc.

Alright, thanks Rich, and good morning, everyone.

Well, first of all, I would like to acknowledge all of the achievements that our company and employees have made over the last nine months as I’ve handed the reins over to Rich as our permanent CEO:

- We took decisive action to address our safety performance and drive increased focus on operational excellence.
- We refocused our portfolio through the sale of our renewable power and international E&P assets in Norway and UK. And, meanwhile, we acquired an additional stake in Fort Hills at an attractive price and recently announced our transaction with TotalEnergies to acquire its Canadian upstream assets, including its stake in Fort Hills.
- We also presented a Fort Hills mine improvement plan in November that enables us to improve long-term asset performance and drive down unit costs, and we continue to work across our entire portfolio to drive improved performance.

Now we have more work to do, but I am confident that we will build on that momentum under Rich’s leadership and deliver strong performance and results for our shareholders. I am very excited about what the future holds for Suncor, and I look forward to working with all of you in my new role as CFO following our AGM.

Now, before handing it over to Alister I would like to update you on three transactions we recently announced, as well as provide a brief operational performance update.

As mentioned, two weeks ago we announced the acquisition of TotalEnergies Canada for $5.5B CDN. The transaction, which remains subject to the exercise of a right of first refusal, include the 50% non-operated working interest in Surmont and a 31.23% working interest in Fort Hills.

This transaction adds 135,000 kbpd barrels per day of high-quality bitumen production capacity to our portfolio and strengthens our long-term free cash flow potential. The transaction is accretive to adjusted funds from operations per share and delivers attractive returns at mid-cycle pricing.

As for Surmont, it is a high-quality In-Situ asset with top-quartile steam oil ratios, a 50-year reserve life and low cash operating cost per barrel, which will improve Suncor's cash margins and provide a reliable source of funds through the commodity cycle.

With the two recent acquisitions of additional Fort Hills interests between the Teck and Total transactions totaling 46%, as well as bitumen production at our Firebag and MacKay River operations, Suncor will have sufficient owned bitumen volume with an oil sands reserve life of 29 years to keep the Base Mine upgraders full post the projected end of Base Mine life in the mid-2030s. In addition, Suncor has now eliminated the need to replace the Base Mine's production with new developments, which also provide optionality for future growth, if that is the best use of investors' capital.

The transaction will be fully funded via debt and is expected to close sometime in Q3. With a more resilient pro forma business supported by incremental production and cash flow potential, Suncor's Board of Directors intends to approve an increase in the quarterly dividend of approximately 10% after the close of the transaction as contemplated.

Also, consistent with Suncor's strategy of refocusing on our core business, we announced the sale of our UK E&P assets for $1.2B CDN, including $338m in contingent payments, and excluding working capital adjustments. The transaction is expected to close soon, and we look forward to it.

And lastly, we announced last week that Suncor will become the primary long-term fuel supplier for Canadian Tire's retail fuel sites. Consistent with the retail optimization plan presented in November. By bringing two icon Canadian brands and loyalty programs together, in Petro-Canada and Canadian Tire, this strategic partnership provides long-term value to Suncor by expanding our non-controlled retail fuel network and securing long-term supply to protect refinery utilizations and maximize sales volumes.

Now, switching to current operations, we're pleased to report that our Commerce City refinery returned to service as scheduled at the end of Q1 after a progressive restart that commenced in February.

For Terra Nova, the FPSO is undergoing additional work quayside in Bull Arm, Newfoundland to ensure that it is ready for safe and reliable operation in the field. Based on this and looking forward to the remainder of the year, we are removing any expected production from Terra Nova from our 2023 E&P production guidance. An updated plan for reaching first oil will be available after mid-year, once we are further through the additional work.

With the removal of production volumes from Terra Nova, as well as the impact of acquiring a lower-than-expected stake in Fort Hills, with respect to the acquisition from Teck, and the potential early closing of the sale of our UK North Sea assets as expected, we expect to be near the bottom of our 2023 upstream production guidance range. Once we have further progressed the acquisition of Total's Canadian upstream assets, we will update shareholders further on production guidance for the year.

Now, just before I close, I would like to thank Alister for his tremendous leadership as Suncor's CFO over these last nine years and in particular to thank him for his support of me over these last nine months. Congratulations, Alister, I hope you enjoy a well-deserved retirement, but you still have a little bit more to do, so back over to you.

Financial Highlights

Alister Cowan

Chief Financial Officer, Suncor Energy Inc.

Thanks for the kind words, Kris. A little bit more to do. I certainly have appreciated all of the relationships I've formed with members of the investment community over these last nine years while I've been at Suncor, as well as before that time. And I am very thankful for the support of my colleagues and the finance team during my time here.

Now enough of that, and let's get on with the quarter highlights.

Overall, we generated $3B of adjusted funds from operations.

Oil Sands segment delivered $2.6B of adjusted funds from operations with production of 675,000 barrels per day. This performance reflects a new quarterly In Situ production record of 261,000 barrels per day and average Base Plant and Syncrude upgrader utilization of 93%. At Fort Hills, we completed the acquisition of the additional working interest from Teck Resources in early February and production remains on track to ramp up in Q2 prior to starting a 5-year turnaround in July consistent with the restart plan. Oil sands realizations averaged $91 per barrel, or 89% of WTI. This reflects a US$7 per barrel decrease in the benchmark WTI offset by a small US$1 per barrel narrowing in the WCS heavy differential versus Q4 of last year.

Our E&P segment generated adjusted funds from operations of $500m with production of 67,000 barrels per day and an average price realization of $108 per barrel, or 98% of Brent.

Downstream generated adjusted funds from operations of $1.2B on a FIFO basis. Excluding $130M of FIFO loss, this would be $1.3B on a LIFO basis. Refinery utilization averaged 79% and margin capture was strong at 102%. Overall segment performance was in line with our expectations and obviously impacted by the downtime at the Commerce City Refinery that started at the end of Q4 but utilization at our Canadian refineries was a solid 94% during the quarter.

During the quarter, we returned $1.6B to shareholders, including $700M in dividends and $900M in share buybacks. Suncor's net debt position as of quarter end was $15.7B, which primarily reflects working capital use of $2B and the earlier than expected closing of the acquisition of the stake in Fort Hills from Teck, which all in including leases was $1B. Our final 2022 cash top-up payment was $500M as we paid the majority of our cash taxes of $4.2B throughout 2022. As Kris mentioned, we expect to receive $1.2B of gross proceeds from the sale of UK E&P in the near term.

As stated previously, with the acquisition of Total's Canadian upstream assets, we are now expecting to remain at a 50/50 capital allocation between share buybacks and debt reduction until we return to $12B of net debt, at which point we will switch to 75/25 allocation.

And with that, thank you all, and I'll turn it back to Rich.

Rich Kruger
President & Chief Executive Officer, Suncor Energy Inc.

Before we get to your questions, I'd like to commend Kris for his leadership over the last nine months, the focus he's brought to this business, particularly safety. I've seen that in my site visits. And also, I can assure you, Kris and I are going to work very well together. We have been engaged since before I showed up or weeks before that, and I think we're going to make a very strong team. And lastly, thank Alister for his dedication of leadership for nearly a year. As I said, he'll be missed but not forgotten. I look forward to working with each of you and the investment community at large.

And with that, I'll turn it back to Troy to kick off our question period.

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

Q&A

Operator: Thank you. [Operator Instructions] One moment while we compile the Q&A roster. And our first question will come from the line of Greg Pardy with RBC Capital Markets. Your line is open.

Greg Pardy (RBC Capital Markets): Yeah, thanks very much. Good morning, everybody, and thanks for the – thanks for the rundown and indeed all the very best to you, Alister. Rich, and welcome. You can't imagine how happy I am to have you back in the chair. So, a couple of quick ones. So Rich, particularly as you've looked at the business, I'm wondering if there are areas upstream or downstream where you see low hanging fruit from an operating performance perspective, so either higher throughputs or lower operating costs, and if so, what those might be and how long do you think some of that might be to achieve better performance.

Rich Kruger: Greg. I missed you, too. So, it's good to be back, thank you. You know, I do, I've seen opportunities across the organization. And I think let me start on the downstream a little bit. We, it was a baseball analogy that I, that I want to share quick is you know the downstream here to here, and in Canada has done very, very well. I'm a baseball fan and somebody told me it's we weren't we; we didn't hit a triple. We were born on third base. We have a lot of structural advantages right now. But what is important are we operating to the best of our ability. And I think is as I look at the downstream, I see reliability is still an opportunity. I think our cost structure, turnaround performance, turnarounds we spent a lot of money, and of course the time offline.

So, I think there is it's getting it's just getting incrementally better at the fundamentals, the basics. In the upstream, I mean the mining, mining is a tough business we know that we've got aging mines. We've got more challenges on haul distances and things, but I spent a lot of time with Peter in looking at his kind of improvement plans all the way from reducing contractors, to enhance efficiency and reduced cost, improving the performance of our fleet. So, you know Greg in those areas, I would say it's lots of little things.

And so, I don't know if I'd maybe describe as low hanging fruit, but I think they're very tangible and things that we have and will continue to have a very intense focus on. I hit at it in my comments. Just fundamentally, our cost structure is looking at ensuring that all our people, everybody above the operating units are focused on what they do to support -- to support the operating units.

And I think, a I think there are some low hanging fruit there and really looking at what we do, how we do it. And we've already, we're making small improvement. I'll have more to say about that in the next couple of months ahead. But I wrapped up my comments with this sense of urgency. We need to get on, we need to get on with it. I don't see anything in my first five, six weeks that will prevent us from bringing about material improvement from inside, for focusing on those things that we control.

Greg Pardy: Okay. Understood. The second quick one. Well, maybe it's not a quick one. The pace at which you run the base mine is coming up a lot. And there is a fairly defined view, it would seem out there that it's really all about managing ARO, that you're going to have to slow down the mine to manage ARO. How are you guy's kind of thinking about that decision? Like, how should we think about, how fast that base mine is going to run over the next few years?

Rick Kruger: Well, you know, I'm going to turn it over to Peter here in a second to, you know, maybe give you a little bit more specific on it. But I think if you – you know, you look at you look at Kris described the recent deal we've done looking at longer term bitumen supply, the most valuable barrel through an upgrader is the incremental barrel, the last barrel. It's much like a refinery is. So, ensuring that we utilize those facilities to the fullest and then it becomes what's the most economic way to do that? And whether it's continuing to mine and extend the life of the base mine, whether it's bringing a bitumen supply from outside the lease, and I would say those are all kind of works in progress, but it's all about value. It's all about determining what is the most valuable barrel to fill up those upgraders with. But Peter, if you if maybe if you want to add any further color to my comments?

Peter Zebedee: Yeah. So maybe a little bit more information, Greg, I think in the short term, and I mean between now and 2026 and 2027, the rate of mining at base mine will continue as is and so we'll be running to maximize volumes out of the base mine. This is a tailings driven facility and so until we're able to open up our tailings plan and we look to secure an additional piece of variability around our potential for water management and recycle, we don't have a lot of ability in the short term to throttle the rate of mining. Post that in our long term plans we are looking to see what the rate of mining is that'll maximize the value coming from the outset, taking into consideration the ore body operating costs, et cetera.

Greg Pardy: Terrific. Thanks. Thanks to both.

Rich Kruger: Thanks, Greg

Operator: And one moment for our next question. And that will come from the line of Dennis Fong with CIBC. Your line is open.

Dennis Fong (CIBC Capital Markets): Thank you. Good morning, everyone, and again, congratulations to Kris and Rich on your new roles, as well as Alister for a well-deserved retirement. The first question I have is during the quarter it looks like you had about 5,500 barrels a day of Fort Hills production that was processed at the base plant upgraders and about 1,800 barrels a day of oil sands off the volumes that were processed at Syncrude. Can you talk towards, I guess, some of the impact of seeing those barrels through the various upgraders and processing facilities and maybe what some of the considerations may be in the future for of shifting the destination of barrels across your portfolio.

Rich Kruger: Dennis, this is Rich. I'll maybe start out with that again and then I'll probably turn it to Peter for more specifics. But it's – it's all about value. And I think one of the things I said in my opening comments is that I really look forward to working with here is the unique competitive advantages that we have through the physical integration of our upstream, through our upgrading and actually quite frankly, all the way through refining and logistics. We've got a – we've got an asset base that is quite hard. Well, it's unparalleled, it's hard to replicate. And so those kinds of decisions are about incremental, what – you know, what our – what our bitumen prices in the market, what's the sour crude, what's a synthetic price? And how can we move molecules around to maximize the value of each and every barrel? Maybe I'll turn to Peter, though, to kind of get into like how do we really – how do we do it? And how real time are those decisions to make the most money?

Peter Zebedee: Yeah, thanks, Rich, and thanks, Dennis. And it is indeed a really dynamic process and frankly, it is all about margin optimization and generating the maximum value for those molecules. Dennis, we really look at it, I would say on three-time horizons, you know, starting from a long-range kind of the business planning process and the budgeting process that really optimizes extraction at all of the Bitumen production facilities, the utilities and takes into consideration major maintenance outages for the years, so that kind of macro level planning. And then zooming in on much more of a short-term planning process where we look at production planning and consideration of all the risks, we have in our facilities on kind of a 1-to-12-week time horizon. And that really allows us to optimize on market base conditions, crude differentials, logistics, downstream demand, et cetera.

And then finally, it's really in the here and now. It is that shift-by-shift optimization that's done by our production planning team. And we have an integrated production planning team across the upstream assets in the region and extending down into the downstream, into the refining and production coordinators on 24hr shift by shift basis. So, this is very dynamic, very real time and it's all about making the most from the molecules that we produce.

Dennis Fong: Great. Great. Appreciate that color. Maybe shifting focus towards the downstream side and maybe a little bit more specifically Commerce City. I know the facility itself was impacted by; we call it a very unique circumstance with respect to winter conditions in the region. I was just curious as to whether or not there were any learnings from the events that occurred there and if there were any changes to operations or operating procedures that were being implemented to maybe limit the risk of future downtime as well as anything else across the platform. Thanks.

Rich Kruger: Yeah. You know, Dennis, Rich here, again, there have been a lot of learnings and I think, the best organizations, whenever you have things like this happen, that's how you get better is through the learning process. In fact, I'll say just literally real time, we went through a pretty comprehensive discussion with our – the Suncor Board of Directors yesterday on the learnings on it. And you know, the learnings they fall into a variety of buckets, but the competency of individual operators that we had sufficient training in the uniqueness of what happened, the temperature drop over the very, very short period was an extreme. If you look at the temperature range itself and the low ends of it, that's not necessarily, you know, out of the, you know, the realm of history, but it's how fast the temperature changed. And then what that impacted on control systems, steam generation and our ability to keep things hot, keep things warm with that. And so as we lost steam capability, there was a little bit of a cascading effect and the judgment was made. It was before I was here. But I look at it, I think it's exactly the right judgment to take that entire facility down.

And that was made out of concern, out of safety and operational integrity. And that to me was the right decision. But now you've got a facility in extremely cold weather that you're not able to be keeping warm anymore. And so, it's kind of a damned if you do, damned if you don't. If you do continue to operate, you would run risk that in those extreme conditions, you could have some type of loss of primary containment and, you know, further escalating to that.

But also, you knew when shutting it down. Now you've taken things to, you know, ambient temperature. So, I would say there have been a lot of learnings. And what we're trying to do right now is take those learnings and incorporate it into the facility, whether it's operator capability and training, whether it's heat tracing, some, you know, things that we would do in preparation for the you know, apparently every year there's winter in Denver and before the next season. So that if we were to experience something as unique as this, we would be far better equipped to handle it. So yes, lots of learnings and we're plowing it right back into actions to ensure that if something of this consequence doesn't happen again.

Dennis Fong: Great. Appreciate the incremental color you provided there Rich. I'll turn it back, thanks.

Operator: And one moment for our next question. And that will come from the line of Neil Mehta with Goldman Sachs. Your line is open.

Neil Mehta (Goldman Sachs): Hey, welcome back, Rich. We missed you sir.

Rich Kruger: Thank you, Neil, it's good to be back.

Neil Mehta: All right and congrats to everyone and Alister on your retirement. The first question is just around the transactions. Both Surmont and Fort Hills from Total. Maybe you can dive into what attracted you to this asset. Why now, and dig more into the upside case associated with the deal and how you're mitigating some of the risks associated with that.

Rich Kruger: I'll give you a little bit of color commentary, but I'm really going to turn it over to Kris, because Kris and Alister were the ones that you know, made this happen. I was brought into this thing literally within an hour of my announcement on February 21st. And by then things had been, things have been things that moved along as well.

As we look at it is we've talked about the long-term bitumen supply, the value in keeping of the upgraders full and the uplift you get from that.

Now we have other internal alternatives. We look at those alternatives, whether they're developing incremental mining capacity or in-situ. But we looked at this and we saw a significant value in it. We saw a material dimension of risk management in it of in terms of not having to plan and execute large scale capital projects. The timing of it, it brings barrels immediately and it's accretive. So, to me, it looked at it, it was pretty clear that this is a win-win. You know what don't I ask Kris to comment any further on it.

Kris Smith: Well, thanks, Rich. I actually don't have too much more to add, because I think you covered the major points. I mean, when we looked at it Neil, when we looked at the opportunity of this transaction, I mean, it was checking a lot of boxes for us. And first of all, obviously we know the Fort Hills asset really well. We have a lot of confidence in the long-term value of that asset and the plan we have for it. Surmont is a high-quality bitumen asset. As I mentioned in my remarks. We're also well, you know, we're a very good operator in-situ ourselves. We see a real opportunity to actually work with the operator and bring both of our advantages to that asset. And then as Rich mentioned, you know, from a strategic, it's just a great strategic fit. There's a lot of industrial logic related to this transaction and long-term bitumen supply into the region. So, we saw it as a really nice fit for our portfolio. As Rich mentioned, accretive to shareholders, we see very good return, long-term returns from this investment at the price we paid. So, we just thought attractive on all sorts of dimensions when we entered into the deal.

Rich Kruger: And you know, I'll make one other comment on it. The – you know, we're all aware that ConocoPhillips has a ROFR on Surmont. We reached out the morning of the announcement and, you know, one of the overriding messages is we would be a partner, a very willing partner that would look to invest and grow value in this asset. We have tremendous respect for ConocoPhillips as an operator, and we think there would be synergies that we could bring that would add value to both the Surmont operation as well as our Firebag back and forth, that together we could make this more valuable than either of us individually. So, you know, we'll see. We'll see what goes on in that. But we would very much look forward to being in that partnership.

Neil Mehta: Yeah. That makes sense. That's, the follow-up is that as you highlighted in the presentation, there are significant tax pools associated with this to the extent that Conoco does execute a right of first refusal on Surmont only, do the tax pools exist at the asset level or they at the consolidated level? That makes sense.

Rich Kruger: One comment and then I'll ask Alister if he wants to supplement a little bit. But you know with the ROFR still out there, kind of anything that might happen in the future is kind of speculative, you know, if this, than that and I would say I'm, you know, all those remain to be seen. We've just it kind of depends on what happens. But if you know, Alister, would you have anything you'd want to add there or.

Alister Cowan: No, you got it right. I mean, it depends on how you guys execute it what happens to the tax losses, they would on the face of it be lower by the -- of the ROFR. But beyond that, we have to see how it was executed.

Operator: And one moment for our next question, and that will come from the line of Doug Leggate with Bank of America. Your line is open.

Doug Leggate (Bank of America): Good morning, everyone. I love the exotic version, but congrats to all you guys and Alister. I'm glad we were able to get our trip squeezed in before you walked away, so thanks for your time again, um guys. I wonder if I could follow-up on Neil's question on the ROFR, but I want to be a bit more specific about the tax benefits that you guys are acquiring. Kris, this might be for you given this is more of a kind of a technical accounting question. But I'm trying to understand who owns the tax losses? Is it the Total entity that your buying the shares of, or does the tax losses sits at the asset level, in other words, if ConocoPhillips did pre-empt, do you hold on to the majority of those tax losses or do they get transferred with the asset? Any technical explanation of how that might work would be really appreciated.

Kris Smith: Thanks, Doug. So, as you pointed out, we're doing a share transaction. We're purchasing the entity, so the tax pools are at the entity level now as Alister mentioned in his answer to the earlier question from Neil, I mean certainly if the ROFR is triggered it, then it's going to move into a different sort of transaction at an asset level and then I think the tax pools are going to be looked at quite differently and they're going to be lowered, but we're transacting at the entity level, so as we're looking at the tax pools are on that basis.

Doug Leggate: Okay. So, we're going to have to wait and see how it plays out. The tax pools split proportionately to the value of the assets including and the transactions are two-thirds, one-third?

Kris Smith: They're at – Doug, they're at the entity level.

Doug Leggate: Okay. I'll have to wait and see what -- how that plays out. I guess, Rich, my question for you is that obviously you're inheriting a lot of legacy reliability issues, not all of those, or rather a large part of those when margins are structural related to the age of the mine. So, how do you anticipate closing some of those reliability gaps, given the obvious, more structural, is just structural challenges of the mine life?

Rich Kruger: Well, first of all, Doug, I would say that advanced age is no excuse for poor performance. So, I'm saying that a bit tongue in cheek. The -- I think you take the mines, yes, what you're saying is, obviously, there's aging equipment. I think the issues are a little bit more things like haul distances and, you know, and/or quality in different areas. Because if you look at and I was up with Peter just a couple of weeks ago and I was, I went into the maintenance phase at each of the, you know, the base mine at Syncrude, Fort Hills and you talk about, you know, how we maintain things. We basically like rebuild trucks over time. So, a truck is not old because over – over a period of, you know, a relatively short time, it's rebuilt. And now upgraders are a different thing. But look at refineries.

Refineries across the world have been operating and they can operate very reliably despite age. It comes down to maintenance, it comes down to best practices, operational discipline and so, yes, we have an aging mind set of assets, and yes, we have increased haul distances. But I think that just means we just have to get smarter and more creative about how we manage costs and improve reliability. So I really don't look at that as a – I certainly don't. Peter doesn't either. I know we don't. We don't look at that as a as an excuse or as a well, you know, a limitation on what we can achieve. I think it just means we need to get, you know, more thoughtful and more creative. And it really means executing the fundamentals extremely well.

Our maintenance programs, our reliability programs, looking at risk-based work selection on turnarounds is just, you know, the blocking and tackling in our business that we've learned for decades is whether we've learned that in refining or whether you've learned in mining, but executing extremely well. And I hope and I think you've heard in my comments, you know, that's going to be our plan, looking at how we do that, what we do, how we do them, and then ensuring that those folks that are not at the asset, that they're providing the highest level of support, whether that's for rotating equipment, whether that's, you know, near-term, mid-term or long term mine planning. So it's really, you know, it's a focus on the basics, but just doing the basics extraordinarily well. So, I know, you know, it's kind of a long answer to it, but I – I just, you know, I mean, -- my premises the age of our facilities and ultimately is not going to be a material inhibitor.

Anything you would add to that, Peter.

Peter Zebedee: Well. I would just say, and especially in the mining operations are really our approach is threefold. You know, across our portfolio we're moving 1.3 billion tonnes of material every single year to generate the products that we do. And so little things make a big difference. And that means squeezing the efficiency out of our own operations every shift, every single day. It means reducing our exposure to more expensive tonnages by – executed by a third-party contractor. And I would say the last tranche of that really is around the implementation of new mining technologies like the autonomous trucking technology. We have active in our base plant today, and we'll be scaling up across all of our assets in the near future.

Rich Kruger: And Doug, it's Rich, again, you know, you got me going here. So, I got to say one more thing. I think, you know, we haven't talked today so much, but our focus on safety in improving safety. Safety is a huge productivity driver. When you not only do, we have a moral obligation to people and we care about people, that's why that it affects productivity. So, activities that Peter has going on, on safety systems, collision avoidance, fatigue management, we've talked about autonomous vehicles over time. All of these things not only ensure a safer workplace, but they provide a more productive workplace.

And so I think those things, you know, the safety, operational integrity, reliability and profitability here are all very inter-interlinked. And so, I think the other things we're working on add to that same reliability aspect in, particularly in mining.

Doug Leggate: Appreciate your answers. Guys, thanks so much.

Operator: And one moment for our next question, and that will come from the line of Menno Hulshof with TD Securities. Your line is open.

Menno Hulshof (TD Securities): Thanks, and good morning, everyone. Rich, you talked about driving clarity and simplification throughout the organization. Can you just elaborate on what is meant by that? It felt like those words were carefully selected and what specific steps could we see over the next year or two to achieve that?

Rich Kruger: You give me too much credit, Menno. I don't know that they were carefully selected but what I believe is, I believe everybody in the organization needs to have a line of sight to how do they support making money? And I very much believe in making money, we are in business to make money and as much of it as possible. And everybody, starting with me, needs to see how they do that.

Well, you know, so what I what I believe here in just a short while, but I'm proof testing a lot of things is that we can enhance our clarity about what the workforce does to support whether it's safety, integrity, reliability or profitability. And I think we can eliminate work; I think we can do away with work that doesn't add value. I can look, I think we can look at things like service levels and service level support, but all with a keen eye on how it enhances bottom line business performance. So, if my words came across as carefully selected, they're not really intended. We're early in this, but I just see a lot of opportunity for organizational efficiency, and you know if that's you know focusing on higher value activities, so be it – if that's eliminating low value-added work, awesome. It's combinations of all of that. And I do think above the field in an organization, you can create an energy, a motivation through clarity and focus that people can move mountains, you know I think fundamentally if you look at our business, our business has a kind of it involves moving mountains in many cases. And I think this organization is ready for that. I think they are asking for it. And that's – that's exactly what I intend to provide.

Menno Hulshof: Okay. Thanks for that, Rich. And then – and then having seen all of the inner workings at Exxon and Imperial for decades, are there any best practices that have been shortlisted for roll out at Suncor over the near to mid-term? And I guess as a follow up to that, do you think there are ways that Suncor and Imperial could work together even more effectively?

Rich Kruger: Yeah. I think I'm a big believer in benchmarking and best practices. You know how do you, how do you know if you're the best unless you know unless you've got some kind of a scorecard, to it. And so, when I – when I think of best practices you know whether you know whether it's safety systems, integrity systems. There is kind of three categories I think about. First, the system design itself. Is it a quality system? And in my short time here, I think we have quality systems. Our safety systems, our operational excellence systems, I think are quality. Now, can they – can they be improved? Can they be made better to implement? Absolutely. Are they – are they you know as simple as they can be to apply in the field? Those are questions. But we have sound systems. So, then you get into the application of a system. that's where – in a short time, but I've seen variability in how well we've applied systems at different sites in my and my vision there would be we reduce variability to the highest – the highest standard of performance. And once you have a quality system, once you've applied that system, then it comes into the effectiveness is – are your systems delivering the intended result and that's where you put that, you know, that return feedback loop in place to enhance the system, strengthen the leadership that goes with the applicability to produce better results.

So on the application of what I think are our quality systems, we have work to do to reduce variability. And then, along with that is measuring the execution quality, the effectiveness of our application. Those are the two areas where I plan to focus on, you know, early on and other best practices, I think, in – on the big one for learning. You look – you look over – over the lease line to learn, and for collaboration, whether that's in, you know, whether that's in operation refineries, whether that's in operation of mines, I believe that for the oil sands, well for Suncor to be a winner in the oil sands, the oil sands also has to win and compete on the world stage.

You know, the consumer, when they put a nozzle in a car and truck or the side of an airplane, quite frankly, they don't really think about where that low gas, diesel or jet comes from as it come from an oil sand, West Texas intermediate oil, so we have to be globally competitive in the oil sands and then our goal is to be the best of the best in the oil sands. So, to be globally competitive that comes with collaboration. And I think Pathways is a – is a great example of that.

But I think there's other more fundamental examples of how do we run and operate mines, how do we – you know, how do we maintain, you know, dikes and dams in tailings, how do we treat, how do we collaborate with the federal and provincial governments on sound, sound public policies that achieve the objectives, but also ensure or maintain the competitiveness of what is a critical industry for not only Alberta but Canada overall. So that's a long answer – you got me going there on a topic I'm passionate about. But I think collaboration and application of standards and best practices is very much a part of a winning formula.

Menno Hulshof: Appreciate the thoughts, Rich. I'll turn it back.

Operator: And one moment for our next question. And that will come from the line of Harry Mateer with Barclays. Your line is open.

Harry Mateer (Barclays): Thank you. Good morning. First of all, I see slide 4 about the capital allocation. And it looks mostly similar to what the company had previously. But at the same time Suncor is coming out of the gates with you know a debt funded acquisition and going above the $12 billion to $15 billion net debt range at least for a period of time. So you know Rich for the credit investor community would like to get your perspective on the balance sheet, how you think about optimal leverage for Suncor? And perhaps where in the investment grade category you think the right places for Suncor's ratings to be?

Rich Kruger: Yeah, I think, you know, I think some of the specificity of what you've asked for maybe is beyond what I can comment on today. But you know, just fundamentally I think I believe in a strong balance sheet. We've produced a basket of commodities; prices go up and down. And how you have the resiliency to get through the inevitable cycles is by having you know a strong balance sheet. And when I look at, you know covering what my priorities are, the care and feeding of the existing asset base and sustaining expenditures are you need to do those in the short-term, and the long-term and as I commented, a reliable and growing dividend, high dividend is very, very important to me. So I want to ensure that we have a cost structure which includes you know level of debt and financing costs on debt, so that we can withstand those ups and downs and financially deliver maybe you dial back on high-quality investments at periods of low prices maybe you use the flywheel, a flywheel of returning surplus cash to shareholders is modified, but that you don't put at risk taking care of what you already have and you can still continue with a reliable and growing dividend in periods of ups and downs, maintaining a strong credit rating is key, obviously, for the cost and I think coming out of daisy is a bit of a reflection on confidence that I have in the corporation and I think that's all important maintaining our ability to borrow when we can and should leverage for opportunities, keeping a strong credit rating, our credibility in the marketplace and then getting our cost structure where we can withstand inevitable ups and downs you see in our business, it's the business we've chosen. I'm not – Harry - I'm not sure if I was specific enough for you, Alister, if you have anything else to add or bolster that or refute it.

Alister Cowan: No, I feel like you summarized it very well and I would just emphasize that the work the rating agencies went through our Total acquisition and no changes to our rating. So, I think that demonstrates their commitment to a strong balance sheet and getting the debt back down in a relatively short order.

Harry Mateer: Great. Thanks for that. And then follow up, I'm not sure for Alister or Kris, but given the planned debt financing you've noted in the slides, I mean, Suncor has a pretty clean maturity slate in the next couple of years. So how are you thinking about staggering the financing or are you comfortable issuing some longer-term debt or are you thinking more like issuing shorter dated notes or bank debt to provide a bit of a glide path to gross debt reduction in the next couple of years?

Alister Cowan: Yeah, as you noted, Harry, our maturities have been in the short term when you take most of those out with the debt buyback last year, we'll focus more on the shorter end. Obviously, we think we can accelerate the debt repayments, though we'll be focusing on our ability to be able to repay debt as quickly as we can. We will issue some longer-term stuff as part of the package, but the focus will be on the shorter end.

Harry Mateer: Okay, thanks very much.

Rich Kruger: Thanks, Harry.

Operator: And we do have time for one final question, and that will come from the line of Roger Reed with Wells Fargo Securities. Your line is open.

Roger Read (Wells Fargo Securities): Yeah, thanks for working me in here. Guess what I'd like to really kind of understand Rich and Kris' so much of the forward focus is going to be on reliability, safety, and the general systems are in. How much visibility do you have today, or certainty do you have of what needs to be done in terms of making things work the way you want them to work and improving the overall performance. And what I'm really just getting at is, you know, you had the Investor Day at the end of last year and then we've had obviously some pretty significant changes here at the top. And I just want to kind of understand, you know, are we looking at something that, you know, should really be a very quick impact or are we looking at things that well, let's think about it more as a 2024 or 2025 kind of event. Anything you can do to help us with the timeline, I'd appreciate.

Rich Kruger: Yeah. You know, I think in terms of what needs to be done, a lot of it is not and, you know, and I don't mean to oversimplify it, but it's not rocket science either. It – it gets back to and you know I'm looking down the table at the, you know, the executive VPs and the senior VPs responsible for our operations. It's the kind of things we talked about. It's applying, you know, best practice – well, it's executing our work exceedingly well. That is not necessarily complicated. It's ensuring that people have the skills, abilities, the time, the support to do what we know it takes to operate and maintain facilities. Yes, it is also getting smarter and looking for creative financial solutions and whether that's our, you know, our truck fleet at Fort Hills, for example, or – or getting better at, you know, the turnaround expenditures.

We spend, for example, nearly $1 billion a year on plant turnarounds across our massive asset base. Well, it seems like that should be something we become really, really good at because you save money. And if you shorten timelines through risk-based work selection, you get online quicker and you start making money while you take facilities down. So, you know, I think I would love to be able to say, you know, how fast and what to expect. I'm just you know, Roger, I'm not there yet. But I think the, you know, the what we need to do and what we need to focus on and equally important what we – what we need to be sure, we don't focus on, to allow that, you know to allow the attention to where the biggest bang for the buck is.

I think that's getting clearer and clearer. I think the senior leadership team and I are rapidly getting aligned on that and in terms of – we will be pursuing any and all improvement opportunities with a sense of urgency. I know I didn't give you a timeline or numbers, but this is when you started saying you know 24, 25, that isn't my timeline, you know there is no better time than the present. And so. I think you know I would hope that we start seeing hope is not a very good strategy by the way. So, you know I would expect that we will start to see incremental improvements, you know with time and at times not just in future. That's sooner rather than later. I just signed you guys up to deliver folks, I'm looking at my team down there and I just signed them up. I can tell there is a little tightness being formed down there at the end of the table, but they're all smiling. So, that's a good thing.

Roger Read: Yeah, I appreciate that. Yeah. Just as a – as a quick follow up. It's been kind of hammered already, but the ROFR that Conoco has, if they exercise that, it obviously alters the transaction. Would we anticipate you know then you would obviously with a lot less debt would be likely to move back to a 75-25 pay out more quickly. I mean that's – that seems like a natural progression if that happens. And I'm just trying to you know kind of anticipate what the changes might be if – if that – that piece of the Total transaction does not occur.

Rich Kruger: Well, you know, you know, I get it, what – what Conoco may or may not do. You know we will all learn that here in the relatively near future. But if I think about if I step back from it more broadly, you know if we have - go back to what I described on capital allocation, if we have if we have surplus cash, we'll look at what's the best way to return that to the shareholder. And that will, you know, that'll be, you know, combinations of continue to look at our dividend and/or share buybacks and/or debt reduction. So undoubtedly, if we didn't have this big acquisition, our debt would be back closer to where we've talked about targeting it. And but it'd be that combination of events that we would just look at what do we believe is the highest value of the shareholder.

And I can assure you, you know, Roger, everything – everything we have done and will continue to do, we'll always have the shareholder, you know, at the front of the windshield, not looking it back, but looking forward, what's in the best interests of the shareholder? That is our – that's our mantra.

Roger Read: Appreciate it. Thank you.

Rich Kruger: You're welcome.

Operator: Thank you. I would now like to turn the call back over to Mr. Troy Little for any closing remarks.

Troy Little: Thank you, operator. Thank you for joining us everyone. Please don't hesitate to call us with any follow up questions. Operator, you can now end the call.

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

[Operator concludes call]