



# **Suncor Energy Second Quarter 2023 Financial Results Call**

# Tuesday, August 15, 2023

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**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 host, 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 second quarter earnings call. Please note that today's comments contain forward-looking information. Actual results may differ materially from the expected results because of risk factors and assumptions that are described in our second 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](http://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 second quarter earnings release.

We will start with comments from Rich Kruger, President and Chief Executive Officer, followed by Kris Smith, Suncor's Chief Financial Officer. Also, on the call are three of our senior operating leaders – Peter Zebedee, Executive Vice President Oil Sands; Dave Oldreive, Executive Vice President Downstream; and Shelley Powell, Senior Vice President Operational Improvement & Support Services.

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.***

Good morning. The second quarter was a very active time for the company. We made material progress in a number of areas; we'll share with you today. First, creating an organization-wide, what I would refer to as focus on the fundamentals of safety, operational integrity, reliability and profitability.

Second, we took a number of tangible actions to construct a simpler, more focused, lower cost organization that we'll describe today. And last but not least, we found time in the second quarter to deal with a cybersecurity incident. I'll have more on each of these topics shortly.

I want to give you a few general comments, though. During our first quarter call, I referenced having visited 50% of our major operating facilities. Since that time, I've continued to go to the field. I've now set foot on essentially all our major sites, meeting operational leaders, engaging front line employees, touring facilities, and at our mines, our upgraders or In Situ operations, our drilling rigs, refineries and the Terra Nova FPSO. In all locations, our conversations were on the fundamentals, and what those of us above the field or above the operating site can do to help improve overall performance.

I want to comment on fundamental number one, safety, for a moment. And particularly, what did I see when I went to locations. First of all, safety. Why is this so important. We care about people. Management has a moral obligation to provide a safe workplace. And quite frankly, it's good for business, very strong correlation between safety performance and business performance. So, what did I see on site. I saw strong site leadership. I saw worker engagement. I saw very active near-miss reporting. I saw comprehensive root cause investigations. I saw technology highlighting the mines, collision awareness, fatigue management. By the end of this year, we'll have a thousand pieces of mobile equipment with these technologies installed. The -- that should make us the first to implement these technologies at a full scale in oil sands. And they have been proven around the world to reduce safety risk. Our approach is not hope or faith based, but relies on tangible actions, starting with leadership, engagement, technology and training.

Other observations from the sites. It's evident, our company's level of the physical integration is a unique opportunity and unparalleled advantage. But what I like the best is I saw opportunities to improve our financial and operating performance in most all aspects of our business. Also made time in the second quarter to meet face-to face with several of our major shareholders, had trips to Toronto, New York, Boston, a series of other virtual meetings, shared my approach, areas of focus, initial assessments of the company, highest priority plans, but equally, spent time listening to concerns, expectations and our shareholders assessment of the company.

So bottom line, what I'd say is 120 days in, Suncor is pedal to the metal. Our opportunities are abundant and they're clear. So let me hit on, let's get to some meat and I'll talk about some specific actions in the second quarter, and I'll highlight four areas starting with the leadership team. We announced yesterday a series of changes to the composition and responsibilities of our senior executive team, i.e., those reporting directly to me.

The changes are consistent with developing a simpler, more focused, high performing organization. You'll recall, I used those words in our first quarter call. The changes are designed to improve clarity and alignment on strategies, priorities, fundamentals and execution excellence. We will have clearer accountabilities, fewer internal interfaces. We're delayering the organization and we are concentrating on centers of expertise. The senior executive team will be eight, including me, four newly externally sourced this year, three of the four on board now.

A quick summary of the changes, Kris Smith, CFO. Kris will take on additional responsibilities for IT and Supply chain. Peter Zebedee, our EVP, Oil Sands, will be adding In Situ and Drilling to his remit, giving him all oil sands operations. Dave Oldreive, EVP, Downstream, joined us in June, eliminated a layer of senior management. So, all of our refineries now report directly to Dave. Shelley Powell, Senior VP of Operational Improvement and Support Services. Shelley retains her E&P portfolio but takes on the important role of revamping our operational improvement and associated support functions. Karen Keegans is our new Chief Human Resources Officer; and Jacquie Moore remains General Counsel and Corporate Secretary, both individuals with expanded portfolios. We will add a new executive -- senior executive role to lead strategy, sustainability, commercial and development. These changes were enabled by three senior executive retirements, two this month, one later in the year, and I'll step it back a little bit. I once had a mentor who used to say: simplicity creates clarity, clarity creates consistency, and consistency creates success. This senior executive team is ready to create success.

The next area I'd like to talk about is above field costs. On June 1, we announced internally, plans to reduce above field costs by \$400 million a year. If you think of it on an overall corporate breakeven basis, that would equate to about \$1.50 a barrel. Staffing will be reduced by 1,500 or 20% by the end of this year based on performance and business need. In the quarter, we took a one-time pre-tax charge of \$275 million, about \$210 million after tax. This would represent a nine-month payout. This is an internally led effort eliminating work we consider to be unaffordable or low relative value. We are looking at what we do, why we do it, how we do it, and the value it adds. Nothing is off limits.

Reductions are occurring at all levels, top to bottom, including senior most executives. We are on plan, a third complete as of August 1, 535 individuals have left the company, and a cost reduction of about \$125 million so far. Now, I would note, these actions, they aren't easy, and they certainly aren't taken lightly, but they are necessary for our competitiveness.

Another area we spent time in during the quarter was a strategy reexamination. In particular, we've taken a -- we've started a comprehensive relook at our strategies and our articulated objectives. Where we stand, is we judge that our current strategic framework is not -- or is insufficient in terms of what it takes to win. The lack of emphasis on today's business drivers and while important, we have a bit of a disproportionate emphasis on the longer term energy transition.

Today, we win, by creating value through our large integrated asset base underpinned by oil sands. Discussions have occurred with our board of directors who are supportive of our revised direction and tone. And I would just leave this with more to come, but you can expect a sharper, clearer, more tangible articulation of how Suncor plans to win.

In addition to the above, we encountered a cybersecurity incident in the quarter. On June 25, we confirmed a cyber incident stemming from unauthorized third-party access to our IT network.

We immediately isolated our operational IT systems as well as back-up databases. In the days thereafter, we established a safe, secure IT environment free of incursion and corruption. The incident certainly caused disruption; however, it did not have a material impact on our financial and operating results. Our organization responded extremely well at all levels. Our IT professionals, our operations staff in terms of business continuity and third-party support teams brought in to assist. Today, we're largely back to normal with a few exceptions and the benefits of significant lessons learned.

As I look to the rest of the year, I'll comment on a few areas. These are examples only, not all inclusive that you can expect focus from our company. First and foremost, base business, continued focus on the fundamentals and continuing to determine ways to improve our financial performance, which I would measure in free cash flow per share. Looking at the operational areas. Mining fleet management, we have in the order of about 900 trucks operating in 5 mines and 3 operational trucks. We're examining the makeup of our truck fleet sizes, ownership, leased, contracted. We're -- we believe there is a material opportunity to lower our overall cost per tonne on all earth movements. Peter Zebedee is the senior executive with the ball on this initiative.

A second area I'd like to highlight is turnaround planning and execution. And for context, we conduct large annual turnarounds at essentially all of our upstream and downstream facilities. We spend about 1.3 billion per year, roughly 20% of our capital budget. When we look at benchmarks, Solomon and others, we are well below average in turnaround planning execution. So, we see a major opportunity to improve cost schedule volumes. Dave Oldreive and Shelley Powell are our senior executive co-leads, on this important initiative.

Beyond the operation, and when I look a little bit further on the radar screen, I'll flag two areas that are top of list, Fort Hills long term plan. The near-term recovery plan was set last year with clear and definitive actions for the next several years. Given our confidence and the value in this long-life resource, our focus is now on years 4 through 40. The key strategic question is, is what is the best, most valuable way to move into the north mining areas. More to come on Fort Hills.

The last area I'll comment on is Pathways Alliance. We continue to work to achieve net zero greenhouse gas emissions from our operations by 2050. There is alignment within the Pathways Alliance and increasingly, the federal and provincial governments. This fall is key to agree on a competitive fiscal framework for infrastructure investment. Kris Smith and Arlene Strom are the senior executives on this important file.

Before I turn it over to Kris, I want to offer a couple of comments on guidance. On upstream production, we're tracking to the low end of our range, our range is 740 to 770, midpoint is 755. Our Terra Nova start-up delay, and our lower stake in Fort Hills than planned, due to the Teck acquisition, in total add up to about 20,000 barrels a day, which together would take us at or below -- the low end of the range. Downstream, our Commerce City refinery recovery from the incident in December of 2022 makes achieving guidance a challenge. Although, I'll note that Commerce City volumes don't have a proportional impact on downstream profitability simply given relative value contribution.

That said, make no mistake about it. We are focused on meeting our targets, delivering on commitments. There are no revisions to guidance today. Looking ahead, I envision updating when we have information and clarity on which to base any changes if there were to be changes.

And given that turnarounds have such a material impact, both upstream and downstream, for us, it makes sense to tend to upgrade after majority are completed each year or at least well underway. For us, for this year, that would essentially mean at the end of the third quarter.

So, with that, I'll turn it over to Kris.

## **Quarter Highlights**

Kris Smith

***Chief Financial Officer, Suncor Energy Inc.***

Great. Thanks, Rich, and good morning, everyone. Well, I'll just provide some high-level overview of the numbers and some color. Suncor generated \$2.7 billion of adjusted funds from operations in the second quarter. This includes a one-time restructuring charge of \$210 million after tax related to workforce reduction. Based on our expected annual savings, as outlined by Rich in his comments, this will have about a nine-month payback.

Now, when severance costs are excluded, AFFO was \$2.9 billion or \$2.19 per share. While not as strong as the previous year, the quarter still saw a very constructive business environment. We saw WTI averaging USD \$74 a barrel in the quarter and light heavy differentials strengthened versus Q1, averaging \$15 a barrel. As well, we continue to see synthetic crude oil trade at a premium to WTI. And while refining cracks were down from Q1, 2-1-1 cracking margins remained robust at around USD \$30 a barrel. Natural gas, which is a key input cost of our operations, remained low, with AECO averaging \$2.35 a GJ in the quarter. Looking forward, we continue to see a strong business environment with both crude and refining cracks strengthening since Q2, on the back of healthy supply demand fundamentals and expect to see this continue.

Now turning to operations. Our upstream operations delivered 742,000 barrels of total production in the quarter. With respect to oil sands, we had strong operations delivering \$2.6 billion of adjusted funds from operations with oil sands realizations averaging CAD \$94 a barrel, which was about 94% of WTI. Oil sands delivered 679,000 barrels a day of production in a quarter that had the Syncrude turnaround, which turnaround was executed safely with quality and ahead of schedule. We saw strong upgrading performance in the quarter with 94% upgrading utilization, which included that turnaround, and which also included 100% utilization at base plant upgrading, delivering a total of 505,000 barrels a day of synthetic crude oil production.

Our In Situ assets also saw a continued strong production, including 102% utilization of Firebag. Meanwhile, the Fort Hills asset was on plan with production ramping up quarter-over-quarter to 110,000 barrels a day net, including 14,000 barrels a day of internal transfers to base plant upgrading. As we look forward into the quarter, Fort Hills started its five-year full plant turnaround in late July, and we're pleased with the progress and that is on track to complete on schedule later this week.

Also, our Base Plant Upgrader 2 scheduled major turnaround will be starting in early September, stretching into Q4 and that's been reflected in our guidance.

Exploration and production generated adjusted funds from operations of \$521 million with production of 63,000 barrels per day and average realizations of CAD \$108 per barrel, which was about 102% of Brent. We also closed the sale of our UK North Sea assets on June 30 for gross proceeds of CAD \$1.1 billion.

The asset life extension work on the Terra Nova FPSO continued in the quarter and is now complete with the vessels setting sail actually just a couple of days ago on Sunday. Once it arrives at station, it will then begin subsea reconnection activities through the remainder of the quarter and into Q4. Finally, downstream generated adjusted funds from operations of \$781 million on a FIFO basis in the quarter or \$897 million on a LIFO basis.

Average refinery utilization was 85% which reflected planned turnaround activity. All refinery assets are back from spring turnaround activities and set up for a strong run for the rest of the year. And in fact, in July, we saw average refining utilizations across the network of over 100%.

Meanwhile, in the quarter, margin capture was 89%, which reflected reduced heavy feedstock mix and increased intermediates during the turnarounds and rebuilding of inventories. And we had refined product sales of 547,000 barrels per day. With respect to overall costs, as Rich said in his comments, cost management, cost reduction is a key focus of this management team, and we're seeing progress on costs and see ourselves trending towards the bottom end of our oil sands cash cost per barrel guidance ranges for the rest of the year.

Year-to-date, capital spend to the end of Q2 was \$2.7 billion. As with cost, we remain laser focused on driving capital discipline, though with the unplanned spend related to the Commerce City outage earlier this year and the extended Terra Nova life extension work, along with some inflationary pressure, we are trending toward the upper end of our guidance range. On shareholder returns, we returned \$1.4 billion to shareholders in the quarter, which was made up of about \$700 million in dividends, and about \$700 million in share buybacks.

Year-to-date, we've bought back almost 3% of our shares. And at the end of Q2, our net debt was \$14.4 billion, which was a \$1.3 billion reduction from the end of Q1. As our shareholders expect, along with safety, reliability and profitability, we remain focused on prudently managing our balance sheet and reducing debt while continuing to provide very competitive returns to our shareholders through our dividend and reduced share count via buybacks.

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

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

## Q&A

**Operator:** Thank you. [Operator Instructions] And the first question today will come from the line of Greg Pardy with RBC Capital Markets. Your line is open.

**Greg Pardy (RBC Capital Markets):** Thanks. Thanks. Good morning. And thanks for the detailed rundown. Kris, I mean, you delved into just what turnaround activity looks like in the third quarter. Are there any initiatives that you're taking to, I guess, mitigate the impacts of production being offline? I guess, is there anything special or any modifications maybe that you're making to maintenance plans for the third quarter that you might not have done in previous years?

**Kris Smith:** Yeah. Thanks for the question, Greg. What I'd say is that the team has been super focused on delivering the turnarounds as we planned them. And if anything, you know, if you look at the Syncrude turnaround in the spring and the delivery of that, I think it's a great indication of that type of focus. That turnaround, as I mentioned in my comments, not only at good quality, really good safety, but came in a bit ahead of schedule. That's what we like to see. So, I'm looking down at my colleagues at the end of the table, Peter Zebedee and Dave Oldreive, I know that they're super focused on delivering the turnarounds that we've outlined. We've outlined them in the guidance, as I mentioned, the big one in the quarter is the U2 turnaround, which will start in the September and go into October.

And, you know, Fort Hills, I just mentioned, that was a full plant turnaround, five-year turnaround, really pleased with what we've been seeing and it's coming back this week as we expected. So, I would say, it's been a real double down focus on getting good planning into these turnarounds and focus on execution through them.

**Greg Pardy:** Okay. Thanks for that. And then maybe just completely shifting gears, you know, there's reference in the release, obviously, to acquiring the balance of Fort Hills. I'm just interested in what your thoughts are there, generally, how you think about it strategically and then whether there's any possibility of, you know, getting a deal done this year? I'm not asking you to negotiate publicly. Just curious as to whether that is something that could be sooner than later or whether it's just going to take some time?

**Rick Kruger:** Yeah. Greg, this is Rich. You know, I think a couple of things I'd say is the long-term bitumen supply to the upgraders, you know, remains a focus area for us. And between a combination of ability to move Firebag volumes there and/or Fort Hills and/or incremental Fort Hills. Well, you know, as we look at it, we generally would prefer to operate and have 100% ownership of our assets. That's generally where we think we can add the most value, be the most competitive. And so, Fort Hills would fit into that.

The -- with ConocoPhillips exercising their ROFR, the deal as originally announced and configured changed and, you know, we acknowledge that Total acknowledges that. Discussions are still going and, you know, I appreciate you're not asking me to speculate where we'll end up, but discussions are going, continuing.



The value – the strategic value to us and I would say, Total, is largely remains the same. So, we just, you know, we'll work through that. And when we, you know, if and when the time is right, we have something to announce, we'll do that. I think that -- but expect, you know, resolution on all that this year, that's a reasonable expectation.

**Greg Pardy:** Okay. Terrific. Thanks very much.

**Operator:** Thank you. 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):** Hi. Good morning and thanks for taking my questions. The first one really here is, Rich, you've outlined a number of, we'll call it, strategic opportunities ahead of you. And also, in light of the changes to the management team, can you talk to how some of these decisions can or will be made or at least how you envision them being made, and maybe while comparing or contrasting to how some decisions were made in the past?

**Rich Kruger:** Yes. You know, Dennis, I think the big thing is when we -- we will -- we are disaggregating our business, our cost structure, the efficiencies, value we add from top to bottom. So, for example, I used -- I talked about mining fleet management. When you look at our mining operations, huge scale. And if you -- as Peter breaks down the component parts of his performance, he's got the mining, the extraction and the upgrading. The greatest concentration of cost is in the mining, and it also happens to be -- you heard Kris articulate, the upgrader utilization high performance. So, the greatest concentration of his cost and the greatest opportunity for improvement. So, what we're doing and, you know, it's not rocket science at all. We're very sharply focusing on where we have the biggest prizes and that represents a big prize.

And the goal in all this is to make us obviously more profitable. But I would ask you to think of that in terms of because, here's how we're thinking about it, in terms of our breakeven. What does it take. What business environment do we need to be in, so that we can pay all our bills and when I say breakeven, I'll put pay our dividends, reliable and growing dividend, and pay or fund, the sustaining capital required to take care of the assets we have. So, our focus is on improving our quality, our efficiency and lowering that cost structure so that we are resilient in the tough times.

And then, in the good times, we have more free funds flow available for rewarding shareholders. I mean, that's kind of the mental model that we have here. And I just, you know, I know I use this word a lot, but it's bringing a very strong, clear focus to where our opportunities lie. You know, you ended your question with kind of to the past. You know, Dennis, I was laying on a beach in Saint Lucia, so I don't really know, how the past. I just, I kind of focused on the present and the future. But it -- you know, I said in the very first call that we would be a simpler, more focused organization and I didn't pick those words lightly. And if you look at the actions we have and continue to take, I think they're very, very aligned with that.

**Dennis Fong:** Great. Great. Appreciate that color. My second question, I guess moving in a slightly different direction, as we saw a significant amount of volumes being transferred using the interconnect pipelines in the second quarter, really probably managing volumes around the planned turnarounds. We also saw a higher throughput at Fort Hills volumes through the upgraders as well. Out of curiosity, how's the strategy of balancing the flow of all these crudes determined?

And then secondarily, are there opportunities to potentially increase that integration or even increase the, I guess, the interconnect between your various assets as you look at strategies going forward? Thanks.

**Rich Kruger:** I'll -- I may ask Peter here to comment here in a minute, but, you know, this is one of the things I comment around at the very beginning that, you know, as I went to site to site and looked at how we're literally - how we're plumbed and the opportunities that - that provides for value, whether it's, you know, whether it's the Syncrude to the base plant, whether it's getting Firebag bitumen to the base plant, increasingly Fort Hills, you know, these are major opportunities for us, and they allow us the flexibility when we're doing, you know, planned maintenance or even unplanned events to capture value in it. And I think the -- what you saw in the quarter were just some very, very tangible examples of doing exactly that, you know. If I think to the future or further opportunities, Peter, maybe can I offer you -- or can I ask you to maybe comment on kind of how you see how things might unfold for us.

**Peter Zebedee:** I think you saw that through the quarter where we're flowing volumes and really keeping our upgraders full and optimizing the production network, the integrated production network within the region. This actually also extends into the downstream refining network that we have. Our -- and this is something that we've got our teams focused on 24 hours a day, 7 days a week, really looking to generate the maximum benefits for the company through placing volumes in the appropriate places.

We've seen a significant benefit in flowing Fort Hills volumes into the base plant upgrader in terms of yield uplift. Are there opportunities to expand that - yes. We have our development teams focused on looking at what other regional physical integration opportunities, and any further integration opportunities down -- into the downstream.

**Rich Kruger:** And, Peter, that yield uplift is from PFT.

**Peter Zebedee:** From, yeah, from the paraffinic froth treatment process. Yes.

**Rich Kruger:** And it's material. I mean, it makes a difference.

**Peter Zebedee:** Yes.

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

**Operator:** Thank you. 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):** Yeah. Good morning, team and Rich. This was very helpful color. I want to build on your comments on the cyberattack and we were watching it from the outside, but you can share some perspective with the investment community of lessons learned and how your new team was able to take on this -- the challenge and the - as we evaluate the ability to navigate challenges going forward?

**Rich Kruger:** Well, first of all, I'd rather have a root canal than go through one of these attacks. Again, you know, they're not pleasant at all. But let me start with the tail end. I was -- what -- we -- I had been here a couple of months, Dave Oldreive in the downstream was four days into his new job.

And I got to tell you, I saw Suncor management at its best, in terms of the trigger and we call it different things, but I call it the business continuity plan -- triggering that, putting it in motion, making decisive key decisions early in it. And that goes from the IT, as Peter led our internal business continuity efforts. And, you know, I say it tongue in cheek, but June was our highest upstream production month of the year.

So apparently, when the rest of us in Calgary were, you know, playing whack-a-mole here, the organization just delivered. And so really pleased with that. Now, what I'd also say is, we had a comprehensive rundown with our board a week and a half ago. And John Hill, our Senior VP of IT, I've said John is free to share lessons learned with his colleagues in the IT community. And what I've also said is I'm very comfortable talking to any of my colleagues on lessons learned.

But I would say a few simple things. And these, you know, these aren't rocket scientists. We're not the first and we're not the last to go through a cybersecurity attack. But a quick action and it's like any emergency response. When in doubt, go the extra distance, it's easy if you over respond and pull back. If you under respond or slow play things, it likely doesn't turn out well. Then, the confidence in reestablishing a safe, secure IT environment. And I'll tell you, I'm not the only one around this table, but in the three or four days that followed, I learned more about IT, hardware, software, interconnect than I ever imagined I would in my life, because you needed to understand that as we talked with John and his team to make informed decisions as the event unfolded.

And so, fast response, decisive, the building the safe, secure environment. And then, as you resume or restore operations, doing it very thoughtful, measured twice, cut once. And I'll probably end my comments there, but it -- I wouldn't want anyone to go through this, but if I were ever to go through it again, this is the team I would want to go through it with.

**Neil Mehta:** That's really helpful, Rich. And then, the follow-up is just your perspective on Fort Hills as you've spent time now touring all the assets. Investors are trying to evaluate whether the issues here are structural or there's a clearer line of path to fixing it. And then how does that affect the way we should think about 2024 capital spend as well as you think about the, you know, the plan to get that up to the capacity?

**Rich Kruger:** Well, I think the overall reset that was developed last year and communicated last year is solid. You know, there's not a lot of margin for error in that. We've got to execute. But fundamentally, that's true in all aspects of our business. It's execution that's key. And so, I like that. And what it -- you know, Peter uses the analogy with me is now, we're able to put on the high beams and we're looking not just in front of us month by month, quarter by quarter, but we're able to look longer term. And my confidence of the value in this asset is high.

And so, as we look at that, I made the comment in my earlier remarks of years 4 through 40, what is the best way to maximize that value in 4 through 40? I'll be very explicit what we're looking at. In the north mine, the north part of the mine, you've got an area that has a higher fines content and another area that has the lower fines content. So, as we're looking to go to that north mine, we're thinking about, are we better opening up two pits and blending bitumen volumes over time, get in a more ratable, stable, predictable production profile versus ups and downs that may occur quarter-to-quarter, year-on-year as you put a variable bitumen supplier, higher fines content, lower fines content. And that, you know, that's a -- a value based, it's a strategy based and that's where we're digging in right now.

And, you know, and what it may mean on capital as we move activities around, we may move some capital around. Is it the -- is it fundamentally different... Is it at the end of the day, is it a different plan or a different, you know, overall capital profile? No. I don't think so. I think it's just what's the best timing and sequencing to do.

And that's, well have more to say on that, I would say, you know, as we complete our work, which will largely be over the rest of the year, but, you know, it's not -- I would just finish up there. It's nice to be not hand to mouth and figuring out the short term, how we're responding to things, but with a confidence in the short-term plan and I really mean the next few years. And now we're looking at, okay, how do we maximize long term value, which is the name of the game.

**Neil Mehta:** Thanks, Rich.

**Operator:** Thank you. One moment for our next question. And that will come from the line of Manav Gupta with UBS. Your line is open.

**Manav Gupta (UBS):** Good morning, guys. I wanted to switch a little to that refining side, the refining side. You are one of the most profitable North American refiners. In the third quarter, we are seeing a very strong rebound in cracks, almost \$5 - \$6 higher quarter-over-quarter. And then, you indicated, you are running much harder in 3Q. So, when we look at the third quarter in terms of refining, should we think of earnings closer to the first quarter versus second quarter? I think in the first quarter, your cash flow is about \$400 million higher. So, trying to get a hang of how the refining is looking in the third quarter from you guys?

**Rich Kruger:** Yeah. Look, I'm going to turn it over to Dave here in a second. But, you know, Dave's been with us here a couple of months, which is plenty enough time to get up to speed. And, you know, his focus is on those same things we've talked about safety, operational integrity and reliability. Kris commented how as we -- with a lot of the major work behind us, we're positioned for a good strong run. So, Dave, why don't you comment on kind of how you see, you know, we're halfway through the third quarter and how you see the months ahead playing out?

**Dave Oldreive:** Yeah. Thanks, Manav, for the question. We do have a very strong refining network here in Suncor, with refineries in just great locations to make money on this business. If you look at the third and the fourth quarter, I mean, it was -- as Kris mentioned, July, even with the impacts of the cyberattack, our refining business ran over 100% of capacity, and we expect largely to run close to capacity through the balance of the year. We have two small turnarounds planned, a small hydrocracker turnaround at our Edmonton facility, and a reformer turnaround in Montreal. Both of those have solid plans in place. We expect to deliver those on time and on schedule and on budget. And with that, I would say strong performance for the refining business for the balance of the year.

**Rich Kruger:** Dave, can you comment a little bit about as you look at things, but as you look at, okay, so what can we do better. And we've talked about turnarounds, if you want to comment on that, but, you know, I think you've said, we got a good network, good locations. A big part of it is where we are. So now, what are we going to do to make it even better?

**Dave Oldreive:** Yeah. Thanks, Rich. Look, we have a strong refining business, but we, you know, we do have opportunities to be more focused in that business, to leverage stronger work processes, stronger adherence to standards, and to really drive operational excellence across that business. If you look at our Commerce City refinery, we had our event back in December, which we took most of the first quarter to recover from, but we did deliver and back up online. We had turnarounds that went longer than we'd like in Commerce City, but we know how to fix that. We've got new leadership in place, and I'm committed to help fix that refinery, to get that business really focused on excellence.

So, so, so that's an opportunity for us. But what I really like about our refining business is, is the ability to take our molecules and fully integrate them from our upstream sites through our refineries, particular Edmonton refinery, where we have some really unique optimization, integration opportunities, but all the way through to our company owned retail sites at the pump, that molecule is integrated, all the value is kept within Suncor and not lost to others in that value chain. That's a real competitive advantage for us.

**Rich Kruger:** And I think, you know, just to add on to that, we talked about -- in particular, we focused on refining, but I want to just reiterate that retail. When we talked last quarter, we announced just before the quarter, the Canadian Tire deal, for example. I think things like that, where we can further benefit from our ability to confidently provide volumes, strengthen the brand, and ratchet up on the value per liter, value per barrel, whatever, it's those synergies that I think also as I've talked to Dave and he's new in it, I can see him right now. You guys can't see him, but he's kind of salivating down there at the end of the table on what we see as continued opportunities.

**Dave Oldreive:** Yeah. Absolutely. Our retail business is solid and where we invest, we get really good results, really good business, great to see it, integrated company owned and an ability to continue to capture that short to long term for our business. So really excited to continue to optimize that part of our business.

**Manav Gupta (UBS):** And we completely agree. You have one of the best integrated downstream models out there. And my quick follow-up question here is, you have taken ownership of the Syncrude. You have announced some good measures over there. The cash cost at Fort Hills came down meaningfully quarter-over-quarter. Syncrude was still a little on the higher side. Is there a plan to make the Syncrude cash cost even more competitive from where we are right now? And I'll turn it over after that.

**Rich Kruger:** Peter, do you want to comment on the Syncrude cash cost -- in particular per barrel basis.

**Peter Zebedee:** No. Happy to do that, Rich. And I think, like back to your earlier comments, Rich, and, you know, the biggest component in cash cost per barrel is our mining costs. And at Syncrude and this is true for all our operations, we are working to drive improved efficiency in our mining business. The scale of our mining business across the Suncor portfolio, we're moving 1.3 billion tonnes per year. And so, little improvements add up to a lot here and we will look at driving improvements within our own mining operations, especially at Syncrude, but also looking at the balance of how those tonnes are moved, how much we move with our own fleet versus how much we move with third-party contractors, and leveraging what we see as an arbitrage of opportunity to move more ourselves.

So Syncrude's focus and improvement on cash cost per barrel will be driven through improvements, in further in-sourcing of mining operations. And in the future, looking to implement autonomous haul truck technology to improve our fleet productivity and drive a more competitive mining cost per barrel.

**Rich Kruger:** And 2Q was distorted a little bit by the turnaround impact. I think when you take it on a unit cost basis.

**Peter Zebedee:** Yeah. It was distorted. We did have our coker out for 63 days, 2 days -- beat the turnaround schedule by 2 days and that, of course, is another opportunity for us, is to look to reduce the duration of those turnarounds, improve [indiscernible] selection, and we'll be doing that, you know, coincident with our downstream colleagues and corporately on improving the efficiency of our turnarounds. So that did impact our costs in the second quarter.

**Manav Gupta (UBS):** Thank you so much, guys.

**Kris Smith:** Thank you.

**Operator:** Thank you. 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. I'll start with a question on shareholder capital returns. You were quite active on share buybacks in the first half. So, is it reasonable to assume that the second half will be more skewed towards debt reduction given your 50/50 target, and when do you expect to hit your secondary 12 billion net debt target on the strip?

**Rich Kruger:** Kris...

**Kris Smith:** Yeah. Thanks, Menno. It's Kris here. Yeah. As you pointed out, we probably -- we had probably more weighted towards buybacks in the first half versus debt reduction, though obviously we made progress on debt reduction, as I mentioned in my remarks. I think as we go through the balance of the year, you probably see a little bit more trending towards the debt reduction side, but we're still going to be focused on both. And we've got that 50/50 capital allocation as our guidepost as we move through the balance of the year. So, you're going to see us continue to toggle on both of those. But I think you're right to point out, we'll probably be a bit less in the second half on the buyback side, but still, I would say a very good buyback program continuing.

In terms of your question around the 12 billion net debt, I mean, obviously, it's going to be a factor on your view on what you think pricing is going to look like. I think if we see pricing continue at its current level, we're going to start approaching that kind of as we get earlier into next year. Now, the one piece, Menno, that I would add is, as we talked about earlier in Rich's comments on the Q&A would be potential for the Fort Hills transaction. If that does transpire, then obviously, that'll change the profile, but the amount would be much less than what we've been talking about a couple months ago in the original transaction. So, we would expect to be able to work through that very quickly.

**Menno Hulshof:** Okay. Thanks for that, Kris. And then, my second question is more of a point of clarification on Neil's Fort Hills question. I believe the original redevelopment plan was to get to center pit this year and north pit towards the middle of next year.

I think that was the timeline. Is that still the general plan or is all of that getting reevaluated?

**Rich Kruger:** That is still the plan. And so, my earlier comments were as we go into North Pit, and as we think a bit longer term, what is the best way to mine North Pit overall. With that, the plan you've heard before remains the plan.

**Menno Hulshof:** Terrific. Thanks, Rich. I'll turn it back.

**Kris Smith:** Thanks, Menno.

**Operator:** Thank you. One moment for our next question. And that will come from the line of John Royall with JPMorgan. Your line is open.

**John Royall (JPMorgan):** Hi. Good morning. Thanks for taking my question. So, you mentioned on Terra Nova, the subsea connection will go into 4Q once the platform arrives on site. Is there an expectation you can give us for timing on getting production back up and running full?

**Rich Kruger:** Yeah. I'm going to turn it over to Shelley Powell here in a second. And, you know, as Kris mentioned, we dropped ropes on Sunday. And I think, we should be on station sometime today, I think, Shelley. And then, it starts that process. But, Shelley, why don't you describe a little bit of, you know from the time we're on station, what happens to the integration or introduction of hydrocarbons?

**Shelley Powell:** Sure. Thanks so much for that. So, there is still a fair amount of work in front of us. So, sailing away marked one major milestone for the Asset Life Extension Project. The good news is the weather is in our favor right now off the coast of Newfoundland and Labrador. So, sea states are good. As Rich mentioned, if all goes well, we are looking to reconnect over the course of the next couple of days and then, we still do have several weeks of additional work in front of us. So, there is barrier testing that needs to be done with the subsea assets. There is a full set of commissioning activities that we need to undertake there as well. And primarily, we are very focused on making sure that we take the time to do the right work, to make sure that when we do return to operation, we have a safe and reliable, sustainable operation going forward.

**Rich Kruger:** Is that – oh sorry go ahead Shelley.

**Shelley Powell:** No. I was just going to say, so in terms of exact timing, we will take the time that we need to do it safely.

**Rich Kruger:** And, you know, -- as we've got the reconnection and you've got to establish functionality with the well centers until you bring them up on and on. But that, you know, we've been a little innocuous on it, but with where things are, production in the fourth quarter at some time, is a -- is not unreasonable. But what I'd just say is, that a little bit further down the line, get a few more of these things kind of checked off. And as we check off each of them, our confidence in what that means will get higher. But that's, you know, if we lay out our plan right now, that's what the plan would include.

**John Royall (JPMorgan):** Great. Thank you. That's super helpful. And then, given the Surmont asset is now not a part of the deal with Total and assuming you do ultimately buy in the rest of Fort Hills, what are your other options for backfilling the lost production from base mine next decade in terms of the production that would have come from Surmont? Just can you talk through some of the other options you have there?

**Rich Kruger:** Yeah. Absolutely. When we, you know, look, when I talked earlier on, I mentioned about kind of the re-examination of our strategies and kind of what are those, you know, key articulated objectives. Obviously, long term bitumen supply is in that top 10 list. There's no, you know, no question about it. And the -- I've spent time here again with Shelley recently and now Peter and looking at our -- some of our In Situ opportunities. And I think the -- we -- because I'll tell you, I'm agnostic to a barrel of bitumen. I don't care if it comes from dirt or the earth. It's what's the most profitable, the lowest cost, most reliable supply. And we're looking at some of our own internal, like Lewis, for example, is one we've talked about at points in time. I guess a Firebag South is an area we've looked at and we're looking at a variety of other kind of alternatives in the mining, just adjacent leases.

So, I think the, you know, John, what I'd say is, we're looking at kind of the full swath of opportunities and whatever we do will be driven by lowest supply cost. And whether that's incremental in situ or whether that's incremental mining, and whether that's from assets in our portfolio today or assets that, you know, we think we can -- are worth more to us than they are their current owners. So, it's, you know, it's that full -- the full view screen or radar screen we're looking at. And Fort Hills obviously helps in that regard from the standpoint, not just the Fort Hills ramp up as well as whatever happens with the Total side of it, that definitely helps in keeping the upgraders full.

Then beyond that, it's all about value, whether that's maintaining a production profile, growing it or not. It's about what value opportunities are there for us. And I'm excited because we're -- we've got a number of things that are there available, a number of levers that are available for us to, you know, consider pulling over time.

**John Royall (JPMorgan):** Very helpful. Thank you.

**Operator:** Thank you. One moment for our next question. And that will come from the line of Doug Leggate with Bank of America. Your line is open.

**Kalei Akamine (Bank of America):** Hey. Good morning, guys. This is Kalei on for Doug, so thanks for taking the question. My first question is also on Syncrude and maybe it's best for Rich. So, the trend, as we see it in recent years, that's seen the Canadians consolidate the oil sands and the result has been just a lot of synergies. When I think about your interest in Fort Hills, it's perhaps another play on this. And when I think about Syncrude, it's just another asset that you're highly familiar with. So, I'm wondering if the ownership structure as it stands today, does it maximize the value of that asset, or do you think there could be synergies? And I'm guess announcing that in the context that you guys were just able to identify material cost savings across the business that you do wholly own?

**Rich Kruger:** Yeah. You know, I think it gets back to my earlier broad comments that, you know, ownership and partnership get there for a variety of reasons over time. In a, you know, in a clean sheet of paper world, we would prefer to operate, have 100% interest. And then and I think it's our asset base is a real vivid illustration of that.



The synergies and, you know, Dave commented earlier, Peter did, too, of kind of molecule management from the mine all the way through to, you know, someone's gas tank. That gives us opportunities. It's the flexibility that goes with that is also important. And, you know, I think Peter's business is probably the best example of what I commented in round numbers. We have 900 trucks in 5 different mines in 3 different kind of asset bases that have 3 different sets of ownership.

Well, if Peter wants to move, you know, a Komatsu 980 or Cat 797, and he wants to move on from one to another, you know, he's got to ask people, well, Peter doesn't like to ask people. Peter just like to do it and get on with it and save money. So, you know, there's opportunities there. But, you know, I'm being a little tongue in cheek, but they all come down to value. You know, partnership -- aligned partnerships can be highly, highly as successful. I think the interconnect pipeline at Syncrude is a real good example of that. It was a long time of coming and there was some bad ass that used to be at Imperial that, you know, made that problematic. Well, he retired, and they got it done. And so, the opportunity when both sides can benefit, which is what we're about, creating partnerships that value. And, you know, again, 100% ownership, operatorship is ideal, but we're not always there. And if we get there and move there, it's because both parties will see value in such a deal.

**Kalei Akamine (Bank of America):** That's very helpful, Rich. I appreciate that. My second question is on the breakeven that you touched on earlier. Just wondering if you can quantify where that is today following those cost reductions and where you think it could go organically? And do you think that level would be low enough or would you consider supporting it with additional downstream? And I'm thinking back to last November when you guys decided to keep the retail segment because it helped bolster your cash margins.

**Rich Kruger:** Yeah. The -- I'm a bit of a numbers guy, so I was playing around with numbers last night and texted and emailing back and forth. And I got to tell you, on a calculation of break even, I was 0.50 cents off from what Troy's experts in IR came up with. And, you know, I would say, we're kind of -- and you guys put out a lot of stuff dependent on what you put in and what period you look at whether it's dividends or sustaining level, we're kind of in that \$50 a barrel range, plus or minus a little bit. And, you know, is it -- you said is it -- I always like it to be lower because I like the resiliency that provides, and I like the incremental or supplemental free cash flow and the options that go with that. So that will continue to be a big focus area for us as we get to the, you know, a simpler, more focused organization, as we prioritize operational improvements, whether they're turnarounds, mine fleet, whatever they happen to be, to strengthen the company and give us, you know, more and more optionality on it. Repeat the second -- the tail end of your question a little bit. So, you got me going on break even because it's very much the way I look at things. And the second part of your question, Troy's scratching a little note for me. Making sure I get it...downstream...

You know, the benefit of being an integrated company like ours is the natural hedge that goes with it. So, if the downstream growth, whether that's in retail, whether that's in partnerships in retail, whether that's looking at the pots and pans we have at our four facilities, could be midstream assets. To me, all of those are on the table to look at how we further strengthen, increase our resiliency, increase our cash flow. I don't have a -- I don't have a corresponding list right now to say, here's what those things would be. But I'm looking to my left at a fellow named Dave, and it won't be too long before I say, Dave, you know, let's talk about your list, because I think that's really part of the benefit of kind of our identity, who we are with the level of physical integration and the synergies that go with that.

**Kalei Akamine (Bank of America):** I appreciate that. And just to be clear, the \$50 that you mentioned, that's a WTI number? And what's the...

**Rich Kruger:** Yeah.

**Kalei Akamine (Bank of America):** ... [indiscernible]

**Rich Kruger:** Hear the number and then forget it, because it's not precise. But, yes, we talk about it here and what kind of a business environment in a WTI kind of world do we need to be in, to be able to pay our priority bills, our ongoing operating costs and I put dividend and sustaining capital, taking care of the assets we have. I put those in that priority bills. Dividend is, you know, sacrosanct to me and I've learned in other areas for -- you got to take care of what you have, you've got to feed the kids you have before you have any more kids. And sustaining capital is very much that, take care of the asset base you have. And you want to be able to do that in good business environments, in weaker business environment. So, when I talk about breakeven, I include dividends and sustaining capital. What kind of business environment do we need to be in. So, we have resiliency, and we can, you know, withstand or ride through when times are, you know, they're not as strong as we'd like them to be.

**Kalei Akamine (Bank of America):** Good stuff. I'll leave it there. Thank you.

**Operator:** Thank you. I'm showing no further questions in the queue at this time. I would now like to turn the call back over to Mr. Troy Little for any closing remarks.

**Troy Little:** Thank you for joining us today. Please don't hesitate to reach out to us should you have any follow-up questions. Operator, you can close the call.

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

**[Operator concludes call]**