Suncor Energy Third Quarter 2023 Financial Results Call

Thursday, November 9, 2023

Operator: Good day, and welcome to the Suncor Energy Third 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 third 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 third 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 third 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.

Thanks, Troy.

Third quarter, characterize it as strong results across our business. Safety, upstream, downstream, turnarounds in particular, Fort Hills acquisition and some organizational improvements I'll comment on.

Let me start with safety. Core value, number one priority, safety of our people, employees and contractors alike. Recognizing that safety is a never-ending journey, I'm pleased with, and proud of our team. Year-on-year, recordable injuries are down 10%, lost time incidents are down 33% and most importantly, we've had zero life threatening or life altering injuries in 2023.

We've had improvement in each and every business segment and that said, I'd like to call out our downstream. Our downstream had zero recordable injuries in the third quarter, zero. The first quarter injury free in our company's history. It is a very focused effort involving leadership, training, procedures, workforce engagement and technology.

A few highlights on the leadership and training front. Implementing Human and Organizational Performance ("HOP") leadership training, which is fundamentally about a culture change. We are on target for all Suncor leaders to be trained on HOP by year-end 2023.

Comment on procedures, in mining in the third quarter, we completed 4,000 critical control verifications. It's a big number. The important number is it's 20% higher than the second quarter. And so, the significance of that is that we are engaging our workforce to focus and safely execute our higher risk activities.

In technology, I'll just comment once again on, in mining, where we are installing and employing collision awareness and fatigue management systems. We now have collision awareness equipment installed on over 1,000 pieces of mobile equipment.

I'll continue with Fort Hills. On October 3, we announced a revised deal to acquire Total Canada for CAD 1.468 billion. This is an improved deal versus the original deal. Specifically, we no longer have a contingent payment provision in the acquisition. Similar headline valuation to the earlier Teck deal, but we've got additional benefits. Commercial, commercial patience and persistence were key here and we're pleased with the deal. We're on track to close the transaction later this month. It addresses long term bitumen supply uncertainty associated with our upgraders, fills our upgraders for the long term, but also enables additional value creation. Value creation through regional synergies with mobile equipment deployment, value creation through directing higher yield PFT from Fort Hills to our upgraders. A number of incentives, and as I said, we're quite pleased with the deal.

Continuing with Fort Hills from an operational perspective, we executed our first five-year full plant turnaround during the third quarter, safely, on budget, and on schedule.

Production, we're bang on expectations, as per our three-year improvement plan. We're continuing to progress mining through the Center Pit. We're starting North Pit opening cuts. And of note, it is success on past lessons learned, zero water -- zero issues with water seeps or slope instability, and now with 100% ownership and full control, we will be striving, driving for further and faster improvements.

On the second quarter call, I highlighted several areas that were considered high priority for improvements, specifically turnaround performance, mining fleet management, and above field costs.

Let me start with turnaround performance. As a reminder, we completed large annual turnarounds at most all of our upstream and downstream sites and spend on the order of CAD 1.3 billion per year or about 20% of our Capex on turnarounds. I've shared before that we benchmark using Solomon and other sources as below average in performance cost schedule volumetric impact. So, to describe our efforts as an intensified focus, I can assure you that would be an understatement.

So how did we do in the third quarter? Well, base plant, the U2 upgrader, or U2. Massive turnaround, nearly a million hours, CAD 500 plus million, 55 days. We completed it last week as per plan. I mentioned Fort Hills, the first full plant turnaround at CAD 60 million, 25 days, completed in the third quarter, again as per plan. Syncrude, we had a large turnaround in the second quarter that was completed per plan, and we had a smaller third quarter turnaround completed early and under budget. Montreal and Edmonton refineries. We had events that overlapped between the third and the start of quarter. Smaller in scope, also completed successfully. My message in all this is we have more work to do, certainly to become best in class. But first we need to improve our performance relative to our internal cost and schedule commitments. And as we drive further and we look at our second third quarter performance, I would say we're on track, here. Ultimately, our vision is that turnaround performance should be a differentiating core competency for the company.

Let me move on to mining fleet performance for context. The cost of physically moving ore from the face of a mine to a crusher for the start of extraction, that's our single highest cost component in the production of bitumen. Today, we move about 1.3 billion tonnes of earth per year, to support production and we've got a competitive cost gap versus best-in-class. Comprehensive efforts to lower our cost per tonne, the winning formula, newer trucks, bigger trucks, more efficient trucks, and of course, companion or compatible shovels. That's our mining improvement strategy in a nutshell.

So, this year and throughout 2024, we will add via a combination of purchase and lease, 55 Ultra Class 400-tonne trucks to our total fleet, displacing nearly twice as many smaller, third party, less efficient, higher cost vehicles. Each truck will be pre-equipped for ultimate driverless or autonomous operation. The cost for these acquisitions and leases are in our guidance for this year, as well as our guidance that we'll issue shortly for 2024. Once in place, this action alone is expected to lower our overall corporate breakeven by $1 a barrel US.

In addition, in the third quarter, we executed a new long-term strategic agreement with Finning, our Caterpillar equipment provider to deliver value through a win-win framework, associated with equipment and parts acquisition, maintenance practices, and fleet reliability. We're also working with our equally important strategic partner SMS Equipment Komatsu on improvements, including finalizing the purchase of the world's largest hydraulic shovel in production today, the PC9000 series for mid-2024 delivery at Fort Hills.

Lastly, in mining, I'll comment on autonomous operations. Today, we have 31 trucks operating at base plant autonomously. By second quarter 2024, it will be 45. And by year end 2024, it will be 91. If our data is correct, this will be the largest single mine fleet of autonomous ultra class trucks globally. Stay tuned for more.

Our plans for materially improving mining costs and competitiveness is tangible, focused, on safety, fleet efficiency, fleet composition and overall reliability.

Let me continue with above field costs for organizational effectiveness. During our second quarter call, we discussed plans to reduce above field costs by CAD 400 million per year via workforce reduction of 1,500 people, to be completed by year end 2023. And you'll recall in the second quarter, we took a one-time charge of CAD 275 million. Our approach was 100% internal, no consultants' advisors, focused on eliminating low value or unaffordable work. Today I can share that this effort has been completed two months ahead of schedule. Annual cost reductions starting in 2024 of CAD 450 million will be achieved, 12% or CAD 50 million above target, in part due to additional reductions of contingent workers or above field contractors. The impact of this action equates to a $1.20 per barrel US reduction in our corporate breakeven. As the process unfolded, it certainly hasn't been easy on our organization, neither of those that left the company nor those that stayed. However difficult, we recognize, it was necessary for our competitiveness. Now, we look ahead. Coupled with executive leadership team changes, other structural changes, we are a simpler, more focused organization, positioned to compete and win, and that's exactly what we intend to do.

Guidance. During our second quarter call, I mentioned that although tracking at or near the bottom end of guidance, we were focused on meeting our targets and delivering on commitments. I also said that given the material fall turnaround impact, fall turnarounds had, it made sense to update, if necessary, each year after the majority of our major maintenance work was completed. With that work now behind us and executed well, we are maintaining our guidance unchanged with full year upstream production tracking at or near the 740,000 barrel a day level.

Final comments before I turn it over to Kris, I suspect you've noticed a few references today in terms of dollar per barrel, this reflects the new and evolving vocabulary within the company, thinking about and communicating the impact of our actions, plans and improvements in unit per barrel terms. In addition, a subset of us similarly talk about the impact in per share terms. Our vocabulary is part of creating clarity and focus, developing a results-oriented high-performance culture.

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. To start with, I'd like to make a few comments on the business environment that we saw in the third quarter. It was a very constructive one with both crude prices and refining cracks strengthening versus Q2 on the back of healthy supply demand fundamentals. We saw WTI average at about US $82 a barrel in the quarter and the light heavy differentials narrowed versus Q2 averaging about $13 a barrel. As well, we continue to see synthetic crude oil trade at a premium of about $3 a barrel to WTI. On the refining side, while we saw a weakening gasoline cracks in the back half of the quarter, it was a good quarter for refining margins and particularly for distillate cracks. And our 5-2-2-1 Refining Index was $2 a barrel stronger than Q2. Finally, natural gas, which is a key input cost to our operations, remained low, with AECO averaging CAD 2.50 a GJ in the quarter, while Alberta power prices remain robust.

Now, with respect to our financial performance, with this constructive business environment and Suncor delivered a strong financial quarter delivered CAD 3.6 billion in adjusted funds from operations or CAD 2.80 per share and adjusted operating earnings of CAD 2 billion or CAD 1.52 a share. During the quarter, we also returned nearly CAD 1 billion to shareholders in dividends and share repurchases. And since the beginning of the year, we've bought back over 3% of our common shares outstanding as at December 31, 2022. Also, during the quarter, we reduced our net debt by CAD 1.4 billion, with net debt at CAD 13 billion as at the end of the quarter.

Turning now to operations, we saw solid operations in both our upstream and downstream segments. Our upstream delivered 691,000 barrels per day of total production in the quarter. Oil sands had strong operations with 646,000 barrels a day of production and delivering CAD 2.9 billion of adjusted funds from operations with average price realizations of CAD $106 a barrel or 97% of WTI.

Now, Rich has already talked about the very good turnaround performance in the quarter, so I'm not going to repeat that, but I would like to highlight a few things. Outside of planned maintenance activities in the quarter, our upgraders operated at over 100% utilization, and we continued to see strong in-situ production, including 99% utilization at Firebag. As Rich mentioned, the Fort Hills asset came out of its five-year full plant turnaround with strong operations and delivered as expected with high asset utilization.

Our E&P Business segment generated CAD 372 million in AFFO in the quarter with production of 44,000 barrels per day and average price realizations of CAD $121 a barrel or 104% of Brent. The Terra Nova FPSO completed its life extension work in the quarter and has now returned to station where it has commissioning and startup activities well underway and we expect it to begin production later in Q4, ramping up for the remainder of the year and into 2024.

As for our downstream segment, it had its strongest financial quarter of the year so far, generating CAD 1.5 billion in adjusted funds from operations on a FIFO basis. We saw very strong performance across the entire refining network with average refinery utilization rates of 99% post the Q2 turnaround season.

And while retail and branded wholesale sales were impacted by the cyber incident earlier in the quarter, overall refined product sales were solid at 574,000 barrels per day, and we saw margin capture averaging 88% similar to the same quarter last year. With respect to overall costs, despite inflationary pressures this year, we continue to see progress on reducing costs and along with the benefit of low natural gas prices, are trending toward the bottom end of our oil-sands cash cost per barrel guidance ranges for the year.

As for Capex, it was CAD 1.5 billion in the quarter with spend primarily focus on planned turnaround and maintenance activities, and mine and tailings development, including the Mildred Lake West Mine Extension Project at Syncrude. As well, we are completing the Terra Nova Asset Life Extension project that I mentioned earlier, while also beginning investment on West White Rose. And despite inflationary pressures this year and the extension of the Terra Nova work, and the unplanned repairs which we had at Commerce City earlier this year, we expect to remain within our capital guidance range, and though we will be towards the top end.

Now, as mentioned, our net debt was CAD 13 billion at the end of the quarter. With the anticipated close of the TotalEnergies Canada acquisition, which Rich spoke about earlier in his comments, we expect our net debt to end the year between CAD 13.5 and CAD 14 billion depending on commodity prices. As mentioned, we delivered nearly CAD 1 billion in shareholder returns in this quarter. We remain committed to our capital allocation framework, delivering value to our shareholders through competitive dividends and share buybacks while maintaining a strong balance sheet.

Now before I hand it back to Troy, I just want to make a few comments on Suncor's progress on our decarbonization plans and the Oil Sands Pathways Alliance to Net Zero. We remain focused on delivering against our 2030 emission reduction goals and our longer-term objective of net zero by 2050. A prime example of that, is the progress we're making on our base plant cogeneration project, which is on track to be complete in late 2024. When operational, that project will reduce our direct GHG emissions by about one megaton a year, while also providing lower emissions intensity power to the Alberta grid.

A key part of our decarbonization plan is our work with our industry partners in the Pathways Alliance to Net Zero, which is advancing an industry leading carbon capture and sequestration project, as we continue to advance early engineering work on the project. We're working closely with both the Canadian federal and Alberta provincial governments to get the necessary fiscal and regulatory frameworks in place to support it. And we look forward to being in a position to advance the next phase of the project in 2024, which would include ordering materials for the carbon pipeline.

And with that, I will now 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] Our first question will come from the line of Greg Pardy with RBC Capital Markets. Your line is open.

Greg Pardy (RBC Capital Markets): Thanks. Good morning. Thanks for the rundown. Rich, what inning of the turnaround do you think Suncor is in at this juncture? And then what are some of the next steps you're going to be taking in the next, I don't know, 6, 12, 18 months?

Rich Kruger: You know we – Greg, I think we've got the right team, we've got the right leadership. We know this game. I think we're I think we're about ….

Greg Pardy: I put you on the spot. Sorry about that.

Rick Kruger: Yeah. We got a lot of – we've got a lot more work to do, Greg. But I feel really good when you talk about the things I've reiterated in terms of safety, integrity, reliability, and profitability. I feel very, very good on that. We've got more to do. But I think we have a business plan that we'll be talking about in the not-too-distant future that has continuous improvement about it, and as I sit here seven months in, I feel better than I did in the first month.

Greg Pardy: Okay. No, thanks for that. And I'm going to completely shift gears maybe in and ask Peter another question. But as it relates to Fort Hills, then, could you give us an update on just how that mine remediation plan is unfolding? Are you seeing the things you want to see right now and so on? And what can we expect?

Rick Kruger: Yeah, well, I will turn it over to Peter. We were talking about this yesterday. Go ahead, Peter.

Peter Zebedee: Thanks, Rich. And thanks, Greg. Yeah, actually, we're really pleased with the performance at Fort Hills year-to-date. As Rich stated in his comments, some of the risks that have manifested themselves in earlier years around water seeps, pit wall stability, our risk mitigation activities have been entirely successful. We haven't seen any of that show up in our operations so far year-to-date, so I'm really pleased about that.

We've been able to reestablish healthy mine inventories. And so far, year-to-date, we're bang on our production plan and expectations in addition to executing that first five-year turnaround on time and on budget, so really happy with that. Just a reminder that we're in the first year of our three-year plan to - to reset the Fort Hills operation. The first couple of years do entail higher costs and lower production. But we're ultimately driving to those higher run rates down the road. So, I think to sum it all up, I'm really happy with Fort Hills, but we've still got some work ahead of us to get it to where we want it to be.

Greg Pardy: Yeah. Understood. 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. My first one for me follows along that second question from Greg. So as your about to close the Fort Hills consolidation later this month, can you maybe highlight or even provide some examples of how owning the entire asset both improved logistics within the facility and the asset base, as well as more broadly with respect to your oil sands operations?

Rich Kruger: Sure. Let me you know; I'll make a couple of comments and then if Peter wants to add on to it. I think one of the things we now have such a concentration of assets in the mining world, things that sound fairly simple, but like fleet deployment. We have a higher percentage of smaller leased trucks at Fort Hills, and I described the - in my comments - kind of the strategy of fewer, bigger. So, our ability to optimize things as simple as where heavy equipment goes is an opportunity for improvement. The ability to make decisions faster and more effectively, diverting Fort Hills to the upgraders to get the uplift that comes with a PFT on the process. And so, I think it allows us to do things faster and think of it in more of a holistic oil sands front. Peter, would you, anything you'd add to that?

Peter Zebedee: No, I think I just reinforce Rich. I mean, the production optimization opportunities are significant. I think you've seen us do that over certainly over the last year. And our ability to keep those upgraders full and have really high utilization of those upgraders has really enabled by the interconnectivity of our bitumen producing assets. And I think with 100% ownership of Fort Hills, that only enables that further. And we see a quite a beneficial yield uplift through the upgraders as a result of running that PFT through them.

Dennis Fong: Great. Appreciate that color and context. My second question is maybe shifting gears towards the downstream assets. With respect to Q3 results, you guys continued quite a strong downstream operating margin there. As we look forward through to the of the year, can you remind us about a), the flexibility that you have in terms of...

Rich Kruger: Dennis, I don't know, on our end it cut out. I don't know if you can hear us, but what you are ending with the flexibility we have. But then it went silent.

Operator: Yes, Dennis disconnected his line.

Troy Little: Okay. Operator, why don't you to move to the next question, please.

Operator: Thank you. Our next question will come from Neil Mehta with Goldman Sachs. Your line is open.

Neil Mehta (Goldman Sachs): Yeah, maybe I'll try to build off Dennis, on refining. Just curious on the team's view of the setup here in the near term for downstream operations, we get this big bifurcation between distillate and gasoline. Are you guys able to run and capture the stronger diesel margins? And then as it relates to WCS, what do you think is going on there and what are you hearing on TMX? And in the meantime, are you able to keep the business relatively neutral from a sensitivity standpoint? Thank you.

Rich Kruger: Dave, why don't you take the kind of the downstream marketing standpoint, and then when we get to the WCS, I'll ask Kris to comment on that?

Dave Oldreive: Yeah. Sounds good. Yeah. Thanks for the question, Neil. In the downstream for Suncor, we're a little less exposed to G to D, or to lower gasoline cracks than maybe our competition is. So, we've got a pretty low G to D across our refining network with hydrocracking technology at all of our refineries really helps us swing our gasoline to distillate around, we've got about a 1 to 1, G to D, which is much lower than the competition. You add the production of diesel from the upgraders. And that takes it to about 0.8, which is much lower than the competition. So, we're significantly less exposed to lower gasoline cracks than many others. That being said, we certainly have seen the gasoline market drop. We expect to continue to be able to run full through the fourth quarter. Ran crude to make high value diesel and making sure the gasoline gets cleared, but we see a very strong fourth quarter ahead of us.

Kris Smith: Great. And hey, Neil, on your question about WCS and TMX, I mean, obviously, we've seen the WCS light heavy start to widen out quite a bit here as we are in Q4. And a lot of drivers behind that. Obviously, refinery turnarounds, production out of the basin, as well as we go and as you probably know, as you go into the winter season, just that diluent ratio has an impact on that light heavy def. So, it's got some seasonality in it. But we do see when TMX comes on, it will obviously be constructive to narrowing that light heavy def. And right now, every indication is that line is going to be in operation towards the end of Q2 or early Q2 or sorry, the end of Q1 or early Q2 of next year, they're really literally down to the last few kilometers of pipe. And they got the latest approval just a reroute I think is about 1.5 kilometers that they needed to deal with. So, they've made great progress on the project. It's 97% complete. So, the finish line is in sight for us. We expect the call for line fill to be coming here in Q4 and that line fill will start in Q1 of next year. And as I said, I think it's going to be quite constructive. We would expect light heavy defs. You know, there's always going to be some seasonality and some things which affect it. But TMX is going to I think, put that light heavy def more towards a mid-teens as an average. And really, it's going to be about less volatility in it.

Neil Mehta: Okay. That's great color. And the follow-up is on 2024 Capex. I think you gave us a lot of nuggets around it. But as we think about building to the 2024 Capex number, any early thoughts that you can provide and how should trucks be consideration in that, in that estimate?

Rich Kruger: Yeah, we'll be coming out here shortly in the next few weeks I guess it is something like this with our guidance. And you know, Troy has been sharing with me kind of what folks' consensus is. And I would say that I don't think there'll be any surprise. It'll be a bit bigger than this year as we bring about some of these structural improvements driven by particularly, mining. And then, of course, the other component part of it is the incremental ownership that goes with Fort Hills. But I think if you – if you kind of think about in terms of where we are this year and add increments for those two things, it gets you right in the range of what you can expect. The other thing I just comment on the trucks itself. We're really looking at any incremental spend in terms of its payout period. And these trucks, the displacing two for one and all the efficiency go with that, they are very rapid payout. They are independent of oil price and there are things that we're quite confident that we get back quite quickly. So, any incremental, quite frankly, any money, we're looking at it very, very closely in terms of bang for the buck and how quickly it provides accretive, or value added. But I think, in a nutshell, that's kind of what you can expect when you see 2024 guidance.

Neil Mehta: Thanks, Rich. Appreciate it.

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.

Doug Leggate (Bank of America): Hi. Good morning, everyone. Thanks. Thanks very much indeed. Rich, congratulations on the changes you're making clearly having an impact and obviously you're not done yet. So, my question is related to the $5 improvement. And I guess you talked a bit about $1.20 this morning. For the balance, how much do you put down to efficiency gains? What are the kind of gating items that we should be watching to have line of sight on the timeline to achieve that?

Rich Kruger: You know, thanks, Doug. You know, you mentioned the – I mentioned the buck in the above field cost that has been captured as we go into it. I commented on another buck that Peter, as he gets bigger and fewer more efficient trucks, is another buck. And literally the way we are talking here and looking at it is. Peter has a display, or a spectrum of opportunities and we look at timing, what it will cost, what it will deliver.

Dave is developing the same thing in the downstream and then beyond that we're looking at corporate, whether that's further efficiencies. And we know to get, you referenced $5 as a kind of initial target, we know to get that, our inventory list has to be much bigger than that. Because some things won't happen, they won't happen on the timeline. But I would I think this, how you're hearing us talk about the improvements in the dollar per barrel terms, how to get used to that, because that's the way we're going to be going for a while. And of course, that comes from cutting costs, spending less, sustaining capital, increasing volumes, increasing margins. There's a lot of levers to achieve that. But it's really, it's the way we're looking at almost all aspects of our business now.

Doug Leggate: Appreciate that. And I don't want this to count as a second question, but perhaps you could give us some idea on your latest thoughts on when you will come to market with your strategy plan that be helpful for put our diaries. My second question is actually on your guidance. Obviously, Fort Hills has not closed yet, but you left the full year unchanged, and it leaves you with quite a big ask for the fourth quarter to achieve the 740,000 to 770,000 range for oil sands, for upstream rather. Can you give us an idea of what the stair steps are to get there as you did not change the guidance for the year?

Rich Kruger: Sure. You know and I've said we're going to be at or around the low end of that range. So, the 770,000, 760,000, 770,000 those numbers aren't going to happen. But as we look at completing the third quarter, all the big work is behind us, all the operations are up and running. No maintenance work planned. You commented on Total. Of course, we had Total in our original guidance, in with the Teck deal, we didn't get as much of it. Now this, later this year as we complete it, kind of come back. So, you know, there's a part of it with closing the deal that will be additive for the last quarter. And the rest of it's just it's running full out and running efficiently through the rest of the quarter. I do all the math. I know exactly what it takes literally from not only the quarter but from here on. And we continue to believe it's achievable. And that's exactly what we have everyone in the organization focused on.

Doug Leggate: Great stuff. I appreciate the answer, Rich. I guess, on the date of your Strategy Day and I'd appreciate any update on that. Thank you.

Operator: Thank you.

Rich Kruger: I just maybe comment on that quickly, Doug. We're looking at – we're looking at right now - kind of when in the new year, we come out with an Investor Day or whatever we want to call it, get into you know, a lot more granularity on the strategy. We're sharing as we along kind of tidbits of it in the actions. But as we get into the new year, we'll put it all out there in terms of exactly what we're trying to achieve and when.

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. It looks like you're tracking well ahead of your 50% target for the year. So, is it fair to assume Q4 could be more focused on debt reduction or with the pullback in oil and crack spreads and even your share price, is it possible that you get after the buyback more aggressively here and land above your target for the year?

Rich Kruger: Yes. Kris, do you want to comment on it?

Kris Smith: Yeah. Thanks, Rich. Hey, Menno, thanks for that question. You're right in that when you look at the shareholder returns and particularly the buybacks, we had quite a large number in the early part of the year. We are – we're managing towards that allocation target that we have out there 50/50. That doesn't mean that we're going to dial back further on the buybacks that you've seen in the third quarter. But certainly, we want to make sure that we're balancing against that capital allocation in the fourth quarter. We are probably going to end the year probably a little a little more balanced towards share buybacks versus debt reduction. Quite frankly, it'll probably be closer to 60/40 on an annual basis. But with the transaction in the quarter and the other drivers, we're looking to make sure that we're in the zone of that capital allocation as we're managing the balance sheet to the exit of the year. And then we're going to continue with that capital allocation framework into 2024.

Menno Hulshof: Perfect. Thanks, Kris. And then my follow-up is on the 20% contractor count reduction. Can you just confirm that 20% is still the right number longer term? Or could we ultimately see something in excess of that? And with the understanding that this was only completed recently, I believe, what are the sort of positives and negatives that have come out of this in terms of impact to day-to-day execution?

Rich Kruger: Peter, do you want to comment on that?

Peter Zebedee: Yeah. So, thanks, Menno. Yeah, we did achieve that earlier this year. I continue to believe that there are more efficiencies in our contractor base across the breadth of our operations. I think we've taken kind of the first step where we've taken a lot of the waste out of the system so far, and now, we're looking at more sophisticated examples of integrated planning and scheduling and kind of maintenance scheduling activities to drive further efficiencies. So, do I think there is more? Yes, absolutely. But this stuff is a bit more difficult to go after than the kind of the first tranche. But that is something that we keep top of mind in our operations each and every day. It's easily measurable and it's something that my team is focused on quite heavily to drive further cost efficiencies over and above what we've already done so far.

Rich Kruger: And if I could, this is Rich. If I could add to Peter's comment, it kind of gets into the Fort Hills again. The I mean, operatorship and 100% ownership are more immediate control on things.

As it looks, as we look at contractors, whether it's the contractor efficiency, deployment just like equipment, I mentioned Finning and SMS, strategic contractors. For us, we're able to look at things at a scale and that the efficiency or improvements can come in some pretty material numbers. And we're able to do that because of the full scale and scope of our operation and that we indeed operate them. And I think when you start putting all that together, that's where you start to get kind of a snowball effect on what's possible.

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

Operator: Thank you. One moment for our next question. That will come from the line of Roger Read with Wells Fargo Securities. Your line is open.

Roger Read (Wells Fargo Securities): Yeah, thanks. Good morning. Maybe just follow back up to make sure I understand the guidance items for the full year production and what's included in that. So, at the time you came out early, May, Fort Hills consolidation was anticipated, but now it's a 100%. So maybe how does that compare? And is any of this have to do with the accounting convention, meaning that the close would be backdated to April 1, or does it matter when the transaction closes this quarter?

Kris Smith: Hey, Roger. It's Kris. Let me let me just it's not about the April 1 effective close date. So, when we set the guidance at the beginning of the year, we had an assumption on the Teck transaction, which we completed, and we built that into guidance. You may recall that Total actually exercised its ROFR. And so, we ended up actually having less production than what we had anticipated in our guidance, but we didn't reset our guidance. And so, what Rich was referring to is obviously now we're completing the transaction for Total, which includes the volumes or the interest that they took from Teck. And so, we'll be including the newly acquired working interest in Total for the balance of the quarter, which is we expect that to close here later in November. And so, when you look at it, it's a wash at the end of the day. And so that was just that point. And so, when we stack that up and then look at our operations, just to underline what Rich was saying, we're it's all hands-on deck. We got a big quarter in front of us, but we got the assets available. Peter and the team are pushing hard. We like what we see from the asset. So, we're standing at the bottom end of the guidance. But we believe we'll be at or near it.

Rich Kruger: And, you know, just add to that it's you know, we've talked about Fort Hills now being a wash. The profile is different from the time *[indiscernible]*. But if you dig into it, there's some puts and takes strong in situ performance -- the real big difference in all that is the absence of Terra Nova, for the year. There are some other things that are generally kind of small ups and downs, but Terra Nova is the difference between being -- middle of guidance and at the lower end of guidance.

Roger Read: Okay. No, it helps. And then back to your comments about the performance on the turnarounds this quarter, coming in on budget, but wanting to do better. My kind of broader question is, does the budget get tougher going forward? I mean, is that part of the process here of becoming a call it an upper quartile or upper quintile performer on turnarounds? That it's not simply you hit your budget, but you actually need to refine the budget down in terms of how turnarounds are executed.

Rich Kruger: Yes, absolutely. What you know, and I'm looking at Dave and Shelley here, who are two executive leads on this across upstream and downstream. In kind of the first point, I made it, I said it kind of quickly is get a level of predictability and stability relative to our own targets.

The cost, the schedule, the work we have to get executed, that establishes just confidence and improving the performance in moving from a third quartile, third or fourth quartile, depending on whether you're looking at cost schedule and then moving that up higher into a second quartile or above. It does deal with the processes, our risk-based work selection, and the execution. So, stability with where we are now, our own expectations and then concerted improvement in areas where we know we have a gap. And I think we certainly won't declare victory. But what the second and third quarters have shown is we are getting better at predictability and actually delivering on the commitments we've established for ourselves. Now it's time to get better. Shelley, Dave, anything you'd add to that?

Dave Oldreive: I think you said it well, Rich. And maybe the only thing I would add is, as an example of how we're going to get better using benchmarking. We do benchmark our turnarounds, but often it's later in the process when the scope is already defined. What we want to do is go early as we're planning the turnarounds in the very early stages, put our benchmarks in place, challenge the organization to deliver. As you set more challenging targets, put that in early and then plan the turnaround on that basis. I think from, with that change alone, we're going to see some significant improvement in our turnarounds.

Rich Kruger: And so, we don't have numbers to share on it, but how does it look like when we get there? We're safer. We have a shorter duration because of the selection of the work, and we have lower cost. And then when you do that, then you have more days where you're back up and running and production. So, this is a huge opportunity for us. And as I said in my comments that to say an acute focus on this, that would be a big understatement.

Roger Read: No, I appreciate that clarity and look forward to seeing the execution on that front. Thank you.

Operator: Thank you. One moment for our next question. Our next question 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, my first question, I think I want to borrow Neil's question on 2024 Capex and just make it a production question. So maybe you can go through some of the moving pieces on the upstream production side thinking about bridging to next year. There's obviously the increased working interest in Fort Hills. You've got the loss of UK, the Terra Nova restart, just a lot of moving pieces and then not really sure how to think about the maintenance side. So maybe you can help us frame how to think about production for next year.

Rich Kruger: Sure. And, in its comment, I know Troy is looking at me like, don't let the horse out of the barn early. It's coming. But take where what we're – where we project, we're going end up this year, in the 740,000 range. And in the same asset base Terra Nova wasn't part of it. Flash forward to next year, we have an incremental ownership at Fort Hills and a modest growth overall at Fort Hills. And then we've got Terra Nova back on for we expect to be essentially the full year. We'll ramp up as we bring on well centers a little bit in the year, but we have that on. So, if you take it, add those three numbers together, you're not far off from what we'll be expecting 2024 to look like.

John Royall (JPMorgan): Great. Thank you. And then just maybe if we could have an update on when you expect to get to the 75% level on capital allocation, you have the visibility now for what you're paying for Fort Hills, and you've given some guidance on yearend net debt. So, any view on the timing there?

Kris Smith: Yeah. Thanks, John. It's Kris here. So, as I mentioned in my comments, we expect to exit the year somewhere between 13.5 and 14 because of the transaction. And depending on commodity price, we expect that the CAD 12 billion net debt to be somewhere in the back end of 2024. I mean, it depends obviously on your view of the price deck going into 2024. We do expect a strong year on production next year and higher volumes, as Rich just said, as well as we're driving a lower cost structure. So that's certainly going to help accelerate that. But that's kind of the notional timing you should think about.

John Royall (JPMorgan): Great. Thanks, Kris.

Operator: Thank you. That concludes our Q&A session for today. I would now like to hand the call over to Mr. Rich Kruger for any closing remarks.

Rich Kruger: Okay. Thank you. Well, okay. First of all, folks, you got to blame what I say here on Greg Pardy. He started it out with the baseball question. The two questions I get asked the most are, can Suncor turn it around? And if so, how fast? We all know by now I'm a sports fan. I love teamwork, strategy, competition and winning. Eight days ago, a team called the Texas Rangers won the World Series best team in baseball. Two years ago, they were last in their division. They were one of the worst teams in baseball. Now they are the world champs. How did they do it? Same game, big turnaround. Well, they got a new coach, a little bit of gray hair there, lots of experience, kind of a no-nonsense kind of guy. They got a few new players. They took some of the current players and put them on the field where they could succeed the most. What else? They created intense focus on the goal of winning, a culture of winning and endless focus on the fundamentals. So, what does any of this have to do with Suncor? Maybe nothing, but to our investors who have stayed since, they've cheered us on, held on to their season tickets. Thank you for your confidence and your patience. Our goal is to reward you with the trophy. That's all we've got for today. This team needs to get back on the field.

Operator: Thank you.

Troy Little: Thank you, everyone, for joining our call this morning. If you have any follow-up questions, please don't hesitate to reach out to our team.

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

[Operator concludes call]