Suncor Energy Fourth Quarter 2023 Financial Results Call

Thursday, February 22, 2024

Operator: Good day and welcome to the Suncor Energy Fourth Quarter 2023 Results Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker, Mr. Troy Little, Vice President of Investor Relations. Mr. Little, the floor is yours.

Introduction

Troy Little

Vice President of Investor Relations, Suncor Energy Inc.

Thank you, operator, and good morning.

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

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

We will start with comments from 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. Good morning.

Fourth quarter, I would characterize it as strong results across the board, safety, upstream production, downstream reliability, cost management, we finalized the Fort Hills purchase. It was about delivering on commitments for our company. Kris will detail the fourth quarter, but first I'd like to provide a little bit of a look back at 2023 overall. For context, on my first earnings call 10 months ago, I outlined four things you could expect to see from Suncor. One, an intense focus on the fundamentals. Two, a simpler, more focused organization. Three, a shareholder oriented executive leadership team. And four, an overall urgency to improve performance. So how are we doing.

Let me start with a focus on the fundamentals and first and most importantly, the fundamental of safety. The fourth quarter of the year was our safest quarter in 2023, and 2023 was the safest year in the company's history. We had no life altering or life-threatening injuries for the first time since 2015. We had a nearly 50% reduction in lost time incidents year-on-year. We had our best ever recordable incident rate in the downstream and our second best ever in the upstream. How? Leadership, workforce engagement, risk management, procedures, and technology.

I'll continue with the second fundamental, asset reliability, starting with the upstream. Our bitumen upgraders are our money makers. Full year utilization of 92%, our best ever. We had 91% of the Base Plant, 93% at Syncrude. This is the first time in our history that both assets were at or above 90%, and combined they were 3% higher than our previous best ever. How? Operational excellence by our site teams and our unique inter-site physical integration.

I'll continue with the downstream reliability. Crude unit utilization, 90% for the full year, nothing to brag about, but it's a tale of two halves. 82% utilization in the first half and 99% utilization in the second half. For the full year, Sarnia refinery had its best ever utilization. Edmonton had its second best ever. And Montreal, its third best ever. How? Again, leadership, workforce commitment to perform.

I'll continue with delivering on commitments and I'll highlight upstream production.

We finished the year at 746,000 barrels a day. Second highest in our company history, including 808 kbd in the fourth quarter. We achieved external guidance for the first time in six years, highest ever annual production at Syncrude in its 45-year history and at Firebag in its 20-year history. Fort Hills, delivered on year one of a three-year plan. Full year was at 147,000 barrels a day, in the fourth quarter at a very strong 186,000 barrels a day.

How? I'll begin to sound like a broken record. Leadership, clear priorities, workforce, focus. We understand that trust and credibility are based on delivering on commitments.

The second area I highlighted you could expect from Suncor was a simpler, more focused organization. Well, we have a new executive leadership team, smaller at eight versus previous nine. Four of us were new in 2023, a fifth in 2022. Individually, the functional expertise on this team is outstanding, but we're even better collectively or in terms of the team competency. Our newest member of the team, Kent Ferguson, joined us here a month or so ago as our Senior VP of Strategy, Sustainability, Commercial and Development. And Kent's in the room with us this morning as well.

We reorganized and refocused our above field or our non-operating workforce, a 20% reduction in head count completed in five months last year between June and November. And we did this through the elimination of work, work that was judged to be low priority or simply unaffordable. We spent 275 million in severance cost to achieve a 450-million annual savings starting this year, 50 million above our target. You do the math on that, that's about an eight-month payout. Our central above field teams have clear priorities and they're very intensely focused on operational support and improvement.

Another change we made above field is we consolidated corporate-wide strategy, commercial sustainability, and development work, not only to increase efficiency, but even more importantly to ensure we focus on the highest value work.

Simultaneously, in the second half, an area we haven't talked about, we restructured and reorganized our upstream and downstream operational site teams. So, we now have a common site design across the company, operations, maintenance, engineering, etcetera, with crystal clear site accountabilities. The benefits of this is our common operating standards, applications of best practices, and natural improvement networks across the company.

I would say the early results in this are positive, greater clarity, accountability. We're seeing it in the improvements in the execution of our work. An example, although early 2023, our cost per barrel was at or below guidance across all upstream Oil Sands sites. And for the first time in company history, we executed our turnaround scope upstream, downstream, 1.3 billion in aggregate, on budget and on schedule.

Third area, I promised you could see was a shareholder oriented executive leadership team. Well, in the year, we high graded our asset portfolio to strengthen our competitive advantage and add shareholder value. We did that in part by acquiring the remaining 46% interest in Fort Hills in two separate transactions that totaled 2.2 billion. Both transactions we consider to be at attractive prices. The second one, Total Canada, also provides large and immediate tax benefits as articulated in our release.

These acquisitions address our long-term bitumen supply uncertainty, but in addition, they enable material regional synergies with the large footprint of our operations. In the year, we also sold non-core UK North Sea upstream assets for 1.1 billion and the solar and wind business for about 700 million or a combined 1.8 billion.

In the year, profitability and shareholder returns, we had AFFO of 13.3 billion, the second highest in our history, despite oil prices being the seventh highest over the same period of time. We generated free funds flow of 7.5 billion, second highest, and we executed a 5.7-billion capital program, again, within our guidance. We distributed 5 billion to shareholders, 2.8 in dividends, 2.2 in buybacks. When combined, this is a 9.1% cash return in the year.

Where we are today and going forward, continued priorities are to lower our overall corporate WTI breakeven and increase free cash flow, free funds flow per share. In terms of continuing to improve and the urgency to do that, I'll talk a bit more about that when Kris is done. But I would say that despite overall strong financial and operating performance in 2023, I look at it as we also left some on the table. We missed our refining utilization guidance by a couple of percent, really attributed to a slow recovery in the first half of the year at Commerce City. And we had disappointing project execution at Terra Nova and the subsequent delayed start-up with the ramp up of that asset now going on.

So, in summary, 2023, I would say was a good year in many areas, very good in other areas. But I believe we can do better and that's exactly our plan. So, I'll come back to 2024 in a few minutes, but first I'll turn it over to Kris who will talk about our fourth quarter summary.

Quarter Highlights

Kris Smith

Chief Financial Officer, Suncor Energy Inc.

Great. Thanks, Rich, and good morning, everyone. Well, while we saw crude prices and refining margins weakened versus the prior quarter, the fourth quarter still saw a robust price and margin environment. WTI averaged USD $78 a barrel in the quarter, while the light heavy differential widened versus Q3 averaging about USD $22 a barrel. We also saw synthetic crude oil premiums retreat in Q4 on the back of strong regional upgrading production and egress constraints across the basin, averaging about USD $0.30 a barrel above TI.

On the refining side, while we saw a weakening gasoline cracks in the quarter, distillate cracks continued to be strong. And our 5-2-2-1 refining index was USD $33.45 a barrel, which was about $2.55 a barrel below Q3. Finally, natural gas, which is a key input cost to our operations, remained low, with AECO averaging CAD $2.15 a GJ in the quarter.

With this business environment and very strong operations, Suncor delivered strong financial results in the fourth quarter, generating 4 billion in adjusted funds from operations or $3.12 a share and adjusted operating earnings of 1.6 billion or $1.26 per share. During the quarter, we also returned nearly 1.1 billion to shareholders. This was comprised of 704 million in dividends, which represented a 5% increase over the previous quarterly dividend, as well as 375 million in share repurchases. In 2023, we bought back 2.2 billion of shares, which was almost 4% of our float.

Our net debt ended at 13.7 billion, reflecting the closing of the acquisition of TotalEnergies Canada in the quarter for CAD 1.5 billion plus closing adjustments and closing costs. And we continue to remain focused on our capital allocation framework of allocating free cash flow to continued debt reduction and cash returns to the shareholders through share buybacks.

Turning now to operational performance in the quarter, we saw a very strong operational performance in both the upstream and downstream as outlined by Rich. Our upstream delivered total production of 808,000 barrels per day in the quarter, the second highest in our history. This included 875,000 barrels per day in November and 904,000 in December, which were the highest months of production in company history.

The fourth quarter also saw a record quarterly production in our Oil Sands segment. The Base Plant Upgrader 2 turnaround was successfully completed on time and on budget, early in the quarter, while we also completed our Firebag turnaround successfully.

As well, Syncrude had a very strong upgrading quarter, achieving over 100% utilization, another record. With the successful completion of the Fort Hills full plant turnaround in Q3 and the mine plan being set up to maximize ore delivery in the quarter, we saw a very strong production at Fort Hills with total production averaging 186,000 barrels per day or about 96% utilization, a quarterly record.

In addition to high reliability across our Oil Sands assets, we also optimized inter asset volume transfers to maximize value across those assets. This included internal bitumen transfers of about 45,000 barrels per day in Q4, demonstrating an increased level of integration within Oil Sands. This increase was primarily driven by bitumen transferred from Fort Hills to the Base Plant Upgrader, taking advantage of the SCO yield uplift from the paraffinic froth treated Fort Hills barrels. Also in the quarter, we saw the return to operation of the Terra Nova asset in our East Coast E&P segment and that asset continues its ramp up of production into this quarter.

With respect to the downstream, refining utilization was an impressive 98% in the quarter, which included two smaller turnarounds at Edmonton and Montreal that were successfully completed. Downstream margin capture was strong in the quarter at 103% on a LIFO basis when compared to Suncor's 5-2-2-1 refining index, primarily driven by higher realizations from seasonal diesel differentials over the previous quarter.

And with diesel cracks continuing to outperform gasoline, Suncor is structurally advantaged as our network produces a higher distillate cut when compared to the average North American refining.

As mentioned, we closed the purchase of TotalEnergies Canada on November 20 for CAD 1.5 billion before closing adjustments and other closing costs, making Suncor the sole owner of Fort Hills. In the quarter, we recognized an initial tax benefit of 880 million associated with the transaction, which supports the strong acquisition economics. With the asset now 100% Suncor ownership, we're focused on continuing to drive the mine improvement plan and maximizing value through integration with our other regional operations.

Now, for a brief update on the Oil Sands Pathways Alliance to net zero, carbon capture and storage project. As we continue to work closely with federal and provincial governments on necessary fiscal and regulatory framework, major regulatory applications for the CO2 transportation network and storage hub are being prepared and are expected to be filed in the first half of this year, while front-end engineering and design of the proposed CO2 transportation line is now more than half complete. As well more than 2,000 hours of environmental field work have been completed so far, and formal consultation with indigenous groups along the proposed transportation corridor and storage hub began in 2023 and continue.

Now finally, before handing it back to Rich, I just wanted to make a few comments on our 2024 guidance released this past December. As set out in the guidance, we expect production to grow by about 6% or 44,000 barrels per day versus 2023. The key drivers to that are the ramp up in Fort Hills production as we move into the second year of our improvement plan, our increased ownership in Fort Hills as we move from effectively 70% of gross production in 2023 to 100% in 2024, and increased SCO production at Base Plant as it has a shorter maintenance schedule this year.

As well, while we sold our UK E&P business in 2023, we now have Terra Nova ramping up, which has us guiding fairly flat with 2023 E&P volumes. That guidance includes a number of large plants maintenance activities in the year. At Base Plant, we have a large turnaround in Upgrader 1 in the second quarter, and Upgrader 2 annual coker turnaround in Q3, Q4. And at Syncrude, we have an annual coker turnaround starting in late Q1. And in the downstream in the second quarter, we have large turnarounds at the Sarnia and Montreal refineries this year.

With regards to our cash operating costs for 2024, we're essentially holding our costs flat with 2023 while bringing on additional Fort Hills working interest and growing production. That's an example of moving costs in the right direction and we continue to be laser focused on driving costs down across the company.

And finally, our capital guidance for 2024 is 6.3 billion to 6.5 billion. This includes asset sustainment and maintenance capital, largely consistent with what we saw in 2023 and higher economic investment capital versus prior year, which reflects a number of key investments that will drive value for our shareholders. These include the Fort Hills mine improvement plan, the Upgrader 1 coke drum replacement project, the Mildred Lake mine extension at Syncrude, finishing up the Base Plant cogeneration project this year, the West White Rose Project and SeaRose asset life extension, our sales and marketing growth plan and investment in new mining trucks at Fort Hills and Base Plant, including the continued rollout of autonomous trucks at Base Plant. I'm confident that the team is 100% focused on delivering against these commitments and is building on the strong momentum we had finished up in 2023.

And with that, Rich, I'll hand it back to you.

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

Thanks, Kris. Okay. 2023 in the books, it's all about 2024 and beyond. Let me talk about what we're doing right now to continue to add shareholder value. As we look at the year, I think first and foremost, it is achieve our volume growth commitments. I won't go through those in detail. Kris just did. It's 6% year-on-year versus the midpoint of our guidance. That will require continued strong upgrader utilization, continued strong in-situ, and then of course the growth that comes along with Fort Hills.

In the downstream, we're about a 4% year-on-year growth versus midpoint of guidance. This will require continued strong performance at each of the Edmonton, Sarnia, and Montreal refineries and a full year of successful operations at Commerce City. And then, of course, last but not least on volume, it's about executing the turnarounds across all of our major sites.

A second area that I've talked about before I want to give you a bit of an update on is mining. Fundamentally, we – as a company, we will improve our cost performance as our mining business improves its performance. For context, again, I've said it before, the cost of moving ore from a mine to a crusher, that's the single highest cost component in bitumen production. And where we sit today, we know exactly what our unit cost competitive gap is relative to best in class. And there's really two components, a structural gap that's due to the relative age and configurations of our mines and deals with things like haul distances and strip ratios. And then, there's a performance gap that's related to simply how well we plan and execute our work.

Peter has a very definitive plan, focused on closing our performance gap with a specific list of tangible actions to bring about improvement. And what we're doing is we're also evaluating alternatives to address our structural gap via alternate mining scenario or different technologies in our mines. More to come each quarter on the mining business.

But I want to share two specific examples on closing the mining performance gap, the how we plan and execute our work. We've mentioned the trucks, the addition of 55 new, the 400-tonne ultra-class trucks through the rest of this year, new and bigger trucks. 55 will displace about twice as many less efficient, smaller third-party trucks. We've received and are operating 13 of those 55 trucks or about 25%, they're Komatsu 980s. And recall that I've said before, with all 55 in operation, that will lower our overall corporate breakeven about $1 per barrel US when they're all up and running by the end of the year.

I've also commented on autonomous operations. We're continuing to ramp up autonomous operations, the haul trucks at our Base Mines. The last time we talked about three months ago, we had 31 trucks operating autonomously. Today, it's 45 and we'll be at 91 by the end of the year, where in essence by the end the year 100% of the ore at the Base Plant will be moved autonomously. And recall that conversion delivers about 1 million per truck, per year in sustainable annual cost savings. So, it's a material improvement.

We will also get with autonomy what we believe to be a productivity increase, where we will effectively moving the same ore tonnage but with fewer trucks. Specifically, our estimate is it will be the equivalent of three free 400-tonne haul trucks through the conversion to autonomy. And you recall, these trucks cost 10 million plus each. What we will do in practice is move these surplus trucks to displace higher cost third-party vehicles elsewhere in our operation.

So, the winning formula in mining continues to be fewer trucks, bigger trucks, more efficient trucks, autonomous haul trucks, but coupled with an industrial engineering-like focus on all aspect of today's business. Existing fleet availability, utilization, maintenance, all the ancillary equipment reliability across the board and maybe in the Q&A, I can ask Peter to address some of the specific things we're working on to bring about further improvement.

I'll comment a bit more on turnarounds, which I've shared, give you a bit of an update on our effort there. You will recall I mentioned we have formed a new central group under Shelley Powell in 2023 and they're singularly focused on turnaround performance. Dave and Shelley combined, Dave Oldreive and Shelley are our executive colleagues across both upstream and downstream [indiscernible] (00:24:02) overall accountability on turnarounds.

We are completing extensive third-party benchmarking to identify our improvement opportunities and establish expectations. We are holding monthly reviews on scope, cost, duration and readiness, where previously these reviews had been held at an asset level. And along with our theme and our unique competitive value proposition, we're capturing regional synergies or efficiencies because of the proximity of our operations, the ability to coordinate turnarounds.

Examples early on, of some of the improvements we're seeing, I'll use refining as an example. Montreal second quarter this year, we've got a material turnaround dealing with heavy crude processing. Through benchmarking, preplanning, we've cut the duration from the original 62 days to 53 days and are very comfortable with it. A second example I'll share is at our Sarnia refinery where again we have a second quarter turnaround. Looking at risk-based work selection, our scope challenge, we've cut 66,000 hours out of that turnaround, 15%. That would equate to about a 21-million cost avoidance, and because we'll be up and running earlier, another 12 million or so in value addition.

It's early in our improvement process here, but I want to share some of those examples. We're already starting to see the benefits. And, as I said, our goal is to be best in class in turnaround performance across our business. Bottom line, there's big prizes here, lower cost, shorter durations, higher margins. And to achieve those, it's about benchmarking, knowing who's the best and why, quality risk assessments, advanced quality preplanning, very clear accountability, and then high quality, disciplined execution.

Now, as I wrap up, I want to share with you two less visible but also, I believe very, very fundamental changes we have and are making at the company that will contribute to continued improved performance. My objective from day one was to create a level of alignment between our strategies, our organizational structure, and our corporate culture, with the goal being to achieve a team-based, results oriented high-performance culture.

So, with that in mind, in the second half of 2023, we implemented a new redesigned employee performance evaluation system designed to evaluate an individual's performance based on their impact versus their effort or the activity behind their work. The goal is to better differentiate individual performance and recognize and reward individuals accordingly. The outcomes of the performance evaluation system are directly linked to individual's compensation in terms of base salary increases, and the individual component of their annual incentive.

Also, effective going into 2024, we are implementing a new redesigned employee annual incentive program. Our previous program have multiple scorecards even at the level of those sitting around the table with me this morning, each with a separate series of measures. Our new program has one single Suncor scorecard. We win and lose as a team. It will be applicable to all, and it will have far fewer varied priority measures. What measures? Surprise, the fundamentals, safety and environmental performance, reduction in throughput, costs, and profitability. We want to ensure that we incentivize what's most important and that we have an entire workforce focused on delivering our commitments and that our performance parallels the experience of the shareholder.

Our new annual incentive program is very much aligned with my philosophy to clarify, simplify, focus, which I think is the key to consistently delivering superior results. So, as I sit here today, I feel as an organization we've got the right people, the right leadership, we're focused on the right work, and we're committed top to bottom to perform.

A final comment. Employees, I'd like to thank our employees for first and foremost working safely, and their commitment and dedication to making Suncor the best it can be. Our shareholders, I'd like to thank our shareholders for their trust and confidence. We don't take it for granted and we know it must be continually earned.

So, with that, I'll pause, and I'll turn it to Troy.

Troy Little: Thank you, Rich. I'll turn the call back to the operator now 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. Thanks. Good morning. And Rich, there's a lot of content in there. I don't think I could write fast enough. I got a couple of questions for you, but maybe just before I start, obviously a big welcome to Mr. Ferguson now in the Suncor biz. There's really two things. I want to come back to the question I asked the last time and I think a lot of the things you've already said would reinforce this change that's going on in the company. But what inning do you think you're at now maybe versus when you arrived? That was probably the first inning when you arrived. But I'm curious, where are you right now in terms of the turnaround. And then, what are the steps you need to take maybe over the next year or two to maybe get back to the leadership position that Suncor used to be in?

Rich Kruger: Thanks, Greg. If I look at it, I would say 2023, there was just a large amount of change and we've talked about that. But I would describe a lot of that change as disruptive and potentially distracting, new leadership team, people coming and going. We had a workforce reduction. A lot of things that could distract people from performing. So given that, I'm really proud of the organization, how it did perform despite that.

So, as we get into the – as we turn the page on 2024, I think we've built a lot of momentum in the fourth quarter. I think our starting pitcher is throwing strikes. And I think we're well into the game. I think the momentum that we've created – and I can comment on how we're doing through the first half of the first quarter if folks would like, I think we're in a really good position to focus. Some of these other things that I mentioned. We've got a lot of very tangible operational things, but a lot of these things that I would refer to as cultural, the performance evaluation system, the annual incentive program, things like this. I think those are part of the secret sauce to getting 16,338 people focused like a laser, on performance. And I feel really good that we put a lot of that in place now and our best days are ahead of us. And I don't think it's so much of a – I don't think it's trust us, believe us, have faith. I think you're going to start seeing that. I think the fourth quarter gave you a pretty good glimpse of that.

What's next, is doubling down on things we're doing. Keeping the pedal to the metal on improvement efforts, lowering that cost structure, maintaining the highest levels of operational excellence and safety, and just continuing to create value.

And we've got examples and maybe I'll let Dave and Peter comment on some of the things we're doing to create that clarity deep, deep into the organization about what we're trying to achieve. So, I got to tell you, Greg, I wake up every day feel pretty excited to come to work. 10 months in, I feel more excited every day than I did 10 months ago.

Greg Pardy: Very good. And then maybe just to shift gears a little bit because you touched on the first quarter. So, I guess, the simple question would be how much of a weather – how much did favorable weather impact fourth quarter production? Because it's warmer and this quarter has been different. And then, within that context, could you give us an update just on how ops are going thus far in 1Q?

Rick Kruger: Yeah, absolutely. I mean, we did have good weather in the fourth quarter, but typically we don't have a lot of our most severe time. The mining business likes it when it's minus 10, 15. That's just – everything operates the best. They don't like it when it's minus 43, which it was in January. So, I would say the fourth quarter weather played a bit of a role, but not a big bit. But when we came into the new year, the first couple of weeks, we had a very uniquely cold spell there. It seems like we would expect that.

But what I'm really pleased about in that, is although we had some issues with the mobile equipment, fuel filters, plugging, things like that, the plants kept running really, really well. The upgraders, they've kept all the refineries up and running. So, yeah, we had a bit of a slow spot in the mining in the first couple of weeks of the year, but as I sit here – as we sit here at the midpoint of the first quarter, refining is at 98% utilization for the first six, seven weeks of the year. I'll let you do the math on throughput, but they are continuing the very strong performance we saw in the second half of last year.

And on the upstream, despite a little bit of slowdown in the mining the first week or two of the year, we are now at or above for the first quarter to deliver a quarter that is higher than our fourth quarter was. So, we're kind of – we started out a bit slow the first couple of weeks, but we're gaining week by week. So, I don't know exactly where we'll end the first quarter. But I think, when we put in the books, you're going to see that operational momentum has been – has continued quite frankly through the entire second half of last year and on into the first quarter.

Greg Pardy: 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. My first one here focuses on Fort Hills. Production in Q4 reached near nameplate capacity and we understand that the focus in 2024 and maybe the early part of 2025 is opening up two phases in the North Pit to access sufficient ore more consistency into the facilities. My question here is, can you discuss how you see the opportunity set at Fort Hills once you, we'll call it, fixed or remediated the feedstock bottleneck in addition to applying the more trucks and smoothing operations? Thanks.

Rich Kruger: Yes. Thanks, Dennis. I'll turn it over to Peter in just a second. But I think what the fourth quarter showed is when we can feed the plant, just how good that plant is, we average, what, 186,000 or something for the quarter. If you squeezed Peter hard, he would tell you he had days over 200,000. So, that plant is quite strong. So, you rightly said that the challenge is ensuring that we feed it.

And that's why the opening the two pits in the North Mine is so important, so we're able to do that. But, Peter, you want to maybe comment a little bit on kind of the whole – the mining, where you are in the mining and confidence in continuing to feed this beast?

Peter Zebedee: Yeah. Thanks, Rich, and thanks, Dennis. I think it is a good point. Rich is absolutely correct. Fixed plant assets at Fort Hills are extremely robust and we're confident that we can push high volumes through the back end of that facility. Our focus is indeed on the mine. As you said, it is opening up, ultimately delivering ore from the North Pit and reducing the mining bottleneck. And hence, our focus at Fort Hills is really on mining efficiency improvements. The purchase of the ultra-class haul trucks obviously helps that.

But beyond that, we're really focused – as Rich would say, we're focused on the fundamentals. We're really focused on the little things that drive mining efficiency, that extra tonne on the trucks, that extra kilometer per hour in the haul cycle and leveraging that efficiency not only to deliver ore into the production facility but to reduce our unit costs and remove higher cost mining volumes out of our fleet and delivering that with our own trucks.

Rich Kruger: And the two pits in the North Mine will give us that opportunity to blend ore so we won't have the natural up and down variation of a variable input. So, I think it's – as we improve the capacity to deliver ore, we'll also have a bit of a stability in it because of the approach Peter is taking in mining it.

Peter Zebedee: One of the key factors is to reestablish a robust inventory of mineable oil sands in front of us. So, we have lots of options for the shovels that we can bring into the six plants. And that has been key to the success that we've seen at Fort Hills. And that team has done a fantastic job at opening up those pits, reestablishing the inventory, managing the risks, and now driving productivity improvements.

Dennis Fong: Great. Great. Really appreciate that color. My second question and shifting focus more to the Base Mine and, Rich, really appreciate the context around the Oil Sands mining fleet as well as any adjustments you're making to operations to drive controllable costs lower. I know in previous conference – a previous conference call, Peter had discussed cadence of production through time, as well as the need to balance that with sourcing ore to build tailings ponds and other earth-based infrastructure. Can you talk a little bit about how, again, some of these tweaks and changes to improving controlling costs may impact or affect or even maintain or improve some of the flexibility in development, specifically with North Steepbank and the other areas of the Base Mine?

Rich Kruger: Sure. Let me – I'm going to give Peter the opportunity here in a second. But one of the things I want to start a little broader, Dennis, with now with 100% ownership of Fort Hills and our level of physical integration, Fort Hills bitumen to the Base Plant, Firebag to it, we increasingly are looking at this basin as one large bitumen supply source and what's the optimum way, the lowest cost, the greatest value way to do it. And what that does is it gives us flexibility at each individual site where we're optimizing the whole versus what would previously have been an optimizing of the site. So, that's where the options at the Base Plant come in.

I've talked about we're moving to more autonomy. We're looking at – where we deploy new trucks and shovels. We're looking at the rate at which we deplete the remaining ore at the Base Plant. And so, it's that physical integration that allows us to do this.

And everything we're going to be looking at is going to be ultimately, value, long-term value on it. But maybe – that's kind of a broad setup to your question. But, Peter, if you want to maybe comment a little bit more specifically on some of the things at the Base Plant?

Peter Zebedee: Yeah. No. Absolutely, Rich. And, as you said, really the Base Plant is the nexus of our bitumen supply into the region. We are leveraging that integration with Fort Hills and with Firebag to really be able to flex which bitumen is going to the upgraders when. That obviously translates back into additional mining flexibility at Base Plant. And I think with the investment that we made in the trucks, as I mentioned before, and the productivity improvements the team is driving, coupled with autonomous, that gives us more mining flexibility and it will give us more choices in the future on the rate in which we want to mine bitumen at Base Plant. And that's something that our teams under Kent are evaluating as we look to what we're going to do in the future with respect to the Base Plant Mine.

Rich Kruger: I've got maybe just another comment. It's a little bit from the Base Plant – away from the Base Plant. But I mentioned we produce 746,000 barrels a day. I know all of you on the line had complete confidence with us last fall that we were going to meet guidance, I know that. But Peter running his upgrader is at record high utilization. He actually put more bitumen from Firebag and Fort Hills into it that have a shrinkage component to it. So – because there's more value in it.

But absent that, Peter would've been over 750,000 barrels a day. But there again is an example of that physical integration and it's all about value for us, not volume. And I think that was a – to me as I saw through the fourth quarter as they redirected barrels to capture what was in the market, that again is something that makes us different. I know that's not on your question, Dennis, but, yeah, I couldn't help but go there.

Dennis Fong: No, I appreciate the color as always. Thanks, Rich and Peter. I'll turn it back.

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): Thank you, Rich. A tremendous, continued progress. So, congratulations for everything you've done and the changes you've made. I feel like I ask you this question every quarter, so forgive me for being predictable. But I guess I'm not sure I've seen the Analyst Day date yet, so maybe we'll get it there. But the $5 target you originally set out, where do you think you are? I guess it's a different way of asking the question about what inning you're in that was asked earlier. But how much of the $5 do you feel you've now achieved at this point?

Rich Kruger: Yeah. I think, Doug, we've talked about things like the workforce reduction, which was more than $1, about $1.50. So, that has happened I think with many of the other things. I think we've captured a couple of bucks of that already is kind of where I'm at. And the – we do have some headwinds. We've got inflation and things like this. But our $5 goal is a net goal. We've got to offset whatever headwinds we're facing on it. And so, I think we've captured a couple of that, but we have an urgency over the rest of this year with the new trucks we've talked about, improvements in turnaround performance. Dave Oldreive has got a list of things; of value he's capturing on the downstream.

So, I don't have an absolute timeline on the $5, but no better time than the present. And so, I think, this will be a big year in continuing to see that accumulate. And quite frankly, when we get to $5, well, what number is better than $5? $6 is better than $5, $7 is better. So, it's going to be a continued priority. But I think we're off to quite a good start on it.

Doug Leggate: Am I right in thinking you haven't given us an Analyst Day date yet? Troy is going to kill me for that, but maybe he will get clarification later...

Rich Kruger: Doug, you're always right. I was going to say so here's what we're thinking of doing. And, Troy, looking at me and I hope this is what you're thinking. We have some big, big decisions, some big analytics. The Base Mine, the rate at which we mine it toward depletion. We've got some big things that we're tackling right now. What's the priority on our continued development? I'm looking long and hard at in situ opportunities. I like what I see.

And so, we could hold an Analyst Day sooner and tell you the things we're looking at or we could hold it later and tell you where we land on these. So, what we're inclined to do right now is have a sometime probably in the second quarter a pretty comprehensive update, I don't know what we'll call it. It wouldn't be a full-blown Analyst Day, but we dig in detail for – particularly think about this $5 a barrel, etcetera, and then later this year have a full-blown Analyst Day that looks at answering a lot of these longer-term key strategic questions. Don't think we can wait till late this year and do all that. So, I'm feeling we're going to need to give you something sooner. But that's where Troy and I's heads are right now and we're trying to land on those dates, but that's what we're thinking.

Doug Leggate: All right. So, I didn't intend that to my second question, but you did address some of the portfolio ones, which I guess you haven't resolved yet. So, I will...

Rich Kruger: You get another one Doug.

Doug Leggate: Oh, I do.

Rich Kruger: No. No. No. Go ahead. That was freebie.

Doug Leggate: It's kind of on that exact topic actually because when you and I have chatted about this before, you've said, look, we don't necessarily have to replace bitumen because we could use that capital commitment to buy back an enormous amount of stock with the capital and draw – and basically shrink the share count. And I guess my question is where you any further forward in that thought process? And I guess you've kind of addressed it in your last question, but any updated thoughts on that would be appreciated?

Rich Kruger: Well, I think you're spot on. For us, it's all going to be about value. And I think the one area that is just pretty intuitively obvious to us is keep the upgraders full, because in doing that, the value uplift from a barrel of bitumen to a barrel of synthetic crude, whether it's sweet or sour, is kind of obvious by inspection that that creates tremendous value. Going beyond that, it's just like anybody else, whether we were in West Texas or the South China Sea, does adding new capacity make economic sense? So, we don't have a bias toward maintaining production levels at a given level or not, but it will be about value.

Now, I also do believe that as we have good, valuable development opportunities, they can create more long-term value. But we don't have a – it's not a bias one way or another.

The upgrader is full, yes, anything beyond that will have to stand on its own two feet in terms of the value it creates to shareholders. And we're going to look at that at the end of the day on free cash flow per share.

Doug Leggate: Terrific. We'll look forward to that when it comes. Thanks so much, guys.

Operator: Thank you. One moment for our next question. And that will come from the line of Menno Hulshof with TD Cowen. Your line is open.

Menno Hulshof (TD Cowen): Thanks, and good morning, everyone. I'll start with a question on upstream OpEx given your comments, Rich, on the mine performance gap. Has your thinking changed at all in recent quarters in terms of where longer term per barrel OpEx could land over the next several years? And I'm thinking along the lines of Oil Sands ops, Syncrude and Fort Hills, and if not, maybe you could just remind us of what the current goalposts are. Thank you.

Rich Kruger: I don't know Menno, that I would say our outlook has changed. Obviously, I won't go back over the examples, but our intent is to drive them down. I do think, if I take Fort Hills specifically, we would have been driving it down, if we go back a year or two ago, a little bit faster with the opening of the two pits in the North Mine is kind of delayed that a year or so. And I'll – we have specifics. I'm looking at Peter if he's got anything to say on it. We do believe in our existing business by executing the day to day work we do; we can continue to bring about improvements. And that is – so, I don't know if that translates. I think if you talk about this $5 a barrel, Peter himself is talking about $5 a tonne.

Peter Zebedee: $1 a tonne.

Rich Kruger: Excuse me, $1 a tonne, which would be equivalent of $5 a barrel. He's targeting that in the mining. I've kind of hedged my bet saying Peter's going to give me a big chunk of that, Dave is going to give me some more of that. So, our corporate number is $5 a barrel. But Peter has an inventory list that would largely give him the $5 a barrel or $1 a tonne just with all the things he's pursuing. Peter, do you have any other comments on our outlook on OpEx?

Peter Zebedee: Yeah. Thanks, Rich. And I think – and we talked a lot about the mining efficiencies and improvements, and really that is the big gearing to reducing our operating costs. But beyond just investment of haul trucks driving mine productivity, we're looking at lots of dimensions in our mining business, whether that's our like civil strategy, whether that's our maintenance and reliability expenditures, the benefits that we're going to get from the autonomous haul trucks that Rich spoke about earlier, fuel, contractors, everything we can as it relates to the operating cost build up for mining is where our focus area is.

The team is challenged to go out and find $1 a tonne, that's quite a substantial amount of cash if you project out over how many tonnes we move in the year, which is north of a billion tonnes a year. And that is the objective not just at one site but in all mine operating sites across our upstream portfolio.

Rich Kruger: So, Peter, comment on what's different today about how we're going about this than say maybe a few years back before your time here on your perception of how the company was going about it. I'm really thinking about the – I'm looking at your little chart here, the tangible nature and the accountability by the component parts. So, I'm giving you the queue on how to answer the question, but you take it from there.

Peter Zebedee: I mean, there is a very high degree of specificity and the tactics that we are taking to drive efficiency in the mine. I mentioned it earlier. This isn't just something that we look at on a monthly basis and our performance stewardship. This is a day by day, shift by shift, and dare I say even by hour – hour by hour driving efficiencies and improvements in our operation. That's owned by the operating leaders at the sites. They understand what the targets are. They have a strong commitment to deliver. And they understand what the big picture is and how that fits into driving the overall corporate performance.

Rich Kruger: And going back to a comment I made earlier on is with a common organizational structure at all of our sites now, upstream and downstream, whether that's a maintenance opportunity, an operational reliability, an engineering technical solution, we have natural networks now across the company who can collaborate and bringing – sharing ideas and bringing about in a faster way the execution of an idea company-wide. And you might say, well, why weren't you organized like that before? Well, that's a different question. But we are now, and I think that will help not only identify new opportunities but accelerate their implementation.

Peter Zebedee: I think one of the clear things on when we reorganized through the back half of 2023 and really crystallize the accountabilities for a site, so that has enabled us to implement very efficient work processes, not just within a given site but indeed across the breadth of the Suncor operating assets. So, given role and my assets are very similar to – or exactly the same as what Dave has in the downstream and refining assets. Shelley's central team is focused on delivering value to the assets. It's a very asset centric organizational design and it's enabled by consistent work processes. So, we are very clear on what's required, who's accountable to deliver it and what a measure of success looks like. And that archetype is showing to deliver some really good results for us across our operations.

Menno Hulshof: Terrific. Thanks for that. That was a very thorough rundown. So, maybe the second question for Rich, you've been in the seat for almost a year. So, I have a question on your take on strategic fit for the four refineries. I think the fit is really obvious for Edmonton and Sarnia, but maybe a little bit more nuanced for Commerce City and Montreal. So, the question is how core do you consider Commerce City and Montreal? And if we look across the entire downstream portfolio, what are you seeing in terms of near-term opportunities to further enhance margin capture? Thanks.

Rich Kruger: Well, I think – any of our assets, wherever they are, they're about the value they can provide. And I would go a step further and say is there's something unique about our capabilities, our competencies, or we've talked a lot about physical integration is there a unique level of value that we can bring to owning and operating an asset versus an alternative. Now, I mean, I think, Commerce City is a bit more of an island compared to the rest of our operations. But it also has – it's in a strong market and it's got some logistical advantages there that we believe can add and create value.

So, the key for us over the last year and a half there is keeping that thing up and running. And when it's up and running, it generates a lot of cash. I would say you look at the East Coast operations kind of in the same way. You've got – it's a bit of a – you've got the dichotomy of Hebron and Hibernia non-operated, different kind of operations. And then you got the two floaters.

But, again, it's the idea of can we keep these assets up and running with high reliability, high integrity. And when we do, they can add material value to the enterprise. So, we look at our assets individually, collectively, and it all comes down to what kind of value do we believe they can – how well can we operate them and what kind of value can they provide to us.

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

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, Rich, and team. My first question is just around your framework for capital allocation. So that's slide 5. Maybe, Rich, you can step back and talk big picture about how as you're balancing the operational turnaround, you're also prioritizing return of capital. And we've anchored to this 9 billion to 12 billion being the right net debt level at which you shift to a 75% to 25% – versus 25% – 50/50 payout. But how are you tracking towards that? And are those the right levels as you spent more time thinking about it?

Rich Kruger: Yeah. Neil, I'm going to ask Kris to comment here in a second, but I want to step back again and frame it in the context of why we keep talking about this $5 a barrel. Our breakeven now is kind of 50-ish or low-50s. And we want to take $5 out of that so that we have a greater level of financial resiliency and the inevitable ups and downs of this business that we're in.

And in doing that, that allows us from a capital allocation standpoint to weather the storms when we get in weak market conditions and be more opportunistic when maybe others are in a bit more of a difficult position. So, the $5 a barrel objective we have aligns with then having a – ensuring we have a strong balance sheet, we have financial resiliency, we can pay all of our bills in good times and bad. I put dividend in those bills, and then have the added flexibility of continuing to return cash to shareholders. But, Kris, you maybe want to talk more specifically about the current structure we have and our thoughts.

Kris Smith: Yeah, sure. Hey, Neil. Yeah. I mean, as you pointed out, our capital allocation structure is pretty clear. When we hit the 12-billion net debt, we go to 75%, 25% buybacks and reduction. And then, once we get to 9 billion and I think that is a net debt basis, including capitalized leases. We're focused on that framework.

I think to piggyback on Rich's comments, what we're trying to do is drive more free cash flow out of the business so we can drive to those targets even more quickly. Now, obviously, it's all going to be dependent on where commodity price lands and people will take varying views of when we're going to hit the 12 billion, but we're focused on driving that debt down while continuing to return cash to shareholders.

I mean, I think to your other question about will the targets change, I mean, we're always looking at the resiliency of the business and do these targets make sense.

But in a commodity business like this, as you know, having really strong balance sheet and we want a balance sheet in a place that's going to whether not even mid-cycle, low or below mid-cycle pricing. And that's really what the 9 billion is driving towards. But we're continually looking at our capital position. We're driving. But the allocation framework isn't changing at this time.

Neil Mehta: Yeah. Thanks, Kris. And then the follow up is just on slide 13. It's a pretty heavy year for economic investment capital between West White Rose, the well pad, Mildred Lake, Cogen, and then – and Fort Hills and the trucks. So, maybe you could just talk about that set of projects, how they're tracking relative to expectations and update on the investments that you're making here.

Rich Kruger: I think, on West White Rose, I'll let the operator maybe comment a bit more on that. But I think we do have a lot of things going on. The coke boiler replacements will be wrapping up later this year as we approach start up, well pads are quite economic investment for us. And so, we're wrapping some things up and now we're really looking at kind of what goes on from here forward in terms of what is the right level Capex. But maybe if there's any in terms of the execution, Shelley, you want to comment a little bit on the capital projects and/or Peter? The bulk of the money is in you guys' areas, any comments you'd offer there?

Shelley Powell: Yeah. I think you've hit the high points. The execution for all of those major projects is on track, proceeding as we expect them to be. Some of the – certainly the coke boiler replacements, we're into system turnover, starting to commission some of those key systems. So, we're expecting that spend to progress as we expected it to be.

Rich Kruger: One thing I'd comment on projects. Projects is just like operation as others. It's a specialty expertise that goes with planning and executing projects. Shame on us. We learned a lot through Terra Nova. But as we've been learning it, we've been strengthening our execution capability in other areas. And although turnarounds are different, they also have a lot of similarities in the importance of preplanning, ensuring you have the necessary resources, scheduled out in time. So, this is a whole area of emphasis for us on planning and executing our work, and that applies really across the board. But you'll really see it tangibly in project execution.

Neil Mehta: Thank you, sir.

Operator: Thank you. One moment for our next question. And that will come from the line of Patrick O'Rourke with ATB Capital Market.

Patrick O'Rourke (ATB Capital Markets): Hey, guys. Good morning and congratulations on a strong quarter. Thanks for taking my question here. You spent a lot of time going over sort of mining operations, but you touched on in-situ opportunities earlier in the call. I'm sure a lot out there, just like myself, have been watching very impressive results at Firebag and MacKay. And you're running, from what I can see, very close to nameplate capacity there. So, I'm just wondering if you could kind of maybe unpack a little bit more what the opportunities in the thermal units are. Are they growth, are they capital efficiency, are they on the operating cost side, and what that could look like going forward?

Rich Kruger: Yeah. Sure. If you look back over our last 10 years, we had such intense focus on mining with the initial investment in Fort Hills and things. I'm going to use the word – I don't mean it quite as strong, but in a sense our in-situ kind of took a bit of a backseat in some regards because we had so many other capital needs. But as we look at the quality of that operation, Firebag, Firebag is a rock star. I wish we had a couple more of them. And we do have opportunities to continue to debottleneck at lower relative cost per flowing barrel at Firebag. We've got opportunities for new developments, Lewis or Firebag South.

And what we're doing right now – and this gets in kind of to the Investor Day. We're doing a lot of work right now to answer some key questions there about what's next, what's the most capital efficient and when. And I'd love to have those questions earlier rather than later. But it's going to take us the bulk of the spring and the summer to get there on some of those. But I think in-situ plays into our future in a bigger way, so that your questions are good set up. You're going to hear more from us about in-situ.

Some of the opportunities are very much low-cost debottlenecking at the Firebag plant, in itself, water handling capability, whatnot, where you can spend a small amount of money and open up 2,000, 3,000, 4,000, 5,000 barrels a day of additional capacity. We're also testing solvent technologies. Solvent to me is a winning formula. If you can convince yourself, you get equal to or better recovery, you lower carbon emissions with it, you lower steam use. So, we've got some pilot work that's – some of it that's wrapping up this spring. And so, you can expect to hear more on that.

But in the greenfield developments, we're also – like Lewis, for example, we're looking at synergies given its proximity to the Base Plant with surplus steam utilization. So here, again, it comes back to the concentrated geographic footprint of our assets, the physical integration of what we have, and the ability to do things that add value that are above and beyond what our competitors can say. So, you answered – or you asked a great question for me because in-situ is something you're going to be hearing more and more from us about in the months and the quarters ahead.

Patrick O'Rourke: Okay, great. Thank you. And just a follow-up here. Just looking ahead at the year, I know a lot of these risks are completely unpredictable. We've had things like wildfires in the past. But one of the things we've been watching is drought conditions here. Athabasca River, water levels and flow rates look okay so far. But just wondering if you have any contingencies or any concerns on that end.

Rich Kruger: Yeah. I'm going to ask Peter to comment on that specifically because, obviously, the importance of water to our resource and, of course, our operations are where the vast majority of the source of water is in Alberta. And we in industry use a relatively small fraction of that source. But, Peter, you want to comment a little bit about our kind of our overall approach around water use and management?

Peter Zebedee: Yeah. Absolutely, Rich. I think I'd like to start by just saying, in our operations today, we're recycling 94% of the water we use in our operations, and we are very careful in the amount of water that we're drying off the river. We have contingency plans in place. Yes, absolutely. And we're also casting our eyes to the future to look at investments that will reduce our water intensity across our operations. First and foremost, at Base Plant, where we'll look to develop a potential wastewater treatment plant and bring that on kind of by the – towards the end of the decade here.

So, first, in our operations, it is all about efficiency and scarcity of use, heavy focus on recycling and building the contingency and so that we can weather through these drought conditions that we are going to see across the province this summer.

Patrick O'Rourke: Thank you very much.

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 Securities): My first question here is it looks like you don't have too much downtime in the refining segment in 1Q. Your fourth quarter capture number was 103%. Every time the capture goes over 100%, we view that very favorably. Looks like a lot of North America is in a turnaround and you are running all out in 1Q. Does that set you up very well for at least the first half of the year as far as downstream earnings are concerned?

Rich Kruger: Yeah. I think, we like the 100% too. That's good, right, Dave?

Dave Oldreive: Sure is.

Rich Kruger: We like more than 100%. I'll ask Dave to comment. We do have turnarounds at Montreal and Sarnia that come on this year in the kind of second quarter ish. But you're right, for the rest of the bulk of the first quarter, we're going to be up and running. But Dave will comment on that. But I also want we've – I've asked you to give your quart or pint of blood on the $5 a barrel. So, answer that question. But then also talk about what the downstream is doing to contribute to our $5 a barrel corporate breakeven reduction. So, Manav, sorry, you still get another question. But I want Dave to comment on what his team is doing in that regard as well.

Dave Oldreive: Sure, thanks, Rich, and thanks, Manav, for the question. Well, that's actually a lot of material I can work with, I could probably spend a bit of time on this one. But you mentioned margin capture. And I think the story for the first quarter is going to be fairly similar to the story for the fourth quarter. And for the fourth quarter, we delivered a strong margin capture and when I think about it, we – Kris mentioned some of the reasons why we were able to run our refineries full whether economic. And we've got some structural advantages in terms of our G-to-D, our location, our connectivity to our upstream as well as our retail business. But we ran full and saw strong margin capture. I'd also flip that around. Running full allows you to capture strong margin capture. Strong margin capture gives you the economics to run full, and we had – we saw both.

In the downstream, in the fourth quarter, we have optimization that our downstream teams do aggressively every day. And we saw some really good examples of that. First off, reliable operations allowed us to optimize our molecules through our refineries and integrated value chain to the customer. We were also able to give economic pull signals to all of our refineries despite falling gasoline prices. That was assisted by deeper WestCan crude discounts particularly on SCO, our lower G-to-D ratios relative to our competition, and our ability to export diesel across both coasts. And – it will continue through the first quarter as well. That ability to move diesel across both coasts and ability to move volume between the two regions, east to west, on rail is a real good advantage for us to allow us to take advantage of that.

Our Edmonton refinery is highly integrated with our upstream assets, and we optimize that every day to make sure that we fill out the refinery to all of its constraints, as well as try to tailor the mix to meet our customer demands. And that's a unique capability in the industry. Our trading organization has done a great job in the fourth quarter, continues in the first quarter to move volumes off the coast at really good netbacks. We saw that in December. We see that through January while gasoline cracks were low. Gasoline cracks have picked up, that should continue to help us.

And our rack forward business just continues to be strong. It provides a nice cushion. It also provides a little bit of cushion in a falling pricing market, which we saw through the fourth quarter in our wholesale pricing when our street price kind of lagged wholesale pricing. So, really good fourth quarter in terms of margin capture. We'd expect that to continue through the first quarter.

In terms of value capture, that's a really – really exciting thing for us in the downstream. If we think about where are our opportunities, we – Peter talks a lot about how we reduce costs of mining. That's a big opportunity in the upstream. In the downstream, our volumes are a little bit smaller, and the cost of production is – it's a smaller piece to work with to begin with. So, there's some opportunities on the dollar per barrel OpEx side of things. But our bigger opportunity is our ability to capture value, and that's really where we're focused, and our team is really excited about it. We're building plans to capture value in a number of key areas, and that value will turn into cash. And it's all the cash which – to the bottom line of the enterprise, which overall helps our breakeven for the enterprise.

We're looking at structural reliability improvement at all of our assets in the refining business. We're looking at supply and logistics opportunities. We're taking a look in the supply side and a lot of our contracts that maybe we haven't looked at in a number of years and checking whether they still have serve us well. And we're seeing some opportunities in that space. We spend a lot of money in logistics, moving large volumes of product all across North America and even at export. There's vessel leases, there's railcar leases, there's pipeline contracts. All of that stuff, there's a lot of money being spent there. We think there's some opportunity to squeeze some of that and find some really good value there. Our trading organization is world class and we've been growing that over the last few years, and we continue to see opportunity to capture more value through that organization.

On the refining side, we have a number of kind of really small investment opportunities, low Capex, high return that we're going to look at at each of our assets to continue to grow that. And, of course, folks are aware of our retail growth strategy. We began implementing that in 2023 and that's going to – that is actually delivering very well for us. We're seeing some really promising signals on some of the early sites that we've developed and we're going to continue that through the next few years. So, we see a lot of opportunity to contribute, upwards of a couple of dollars a barrel to that $5 a barrel challenge over the next number of years through downstream value capture.

Rich Kruger: I just wrote that down, Dave. Thank you.

Dave Oldreive: Take that to the bank, Rich.

Manav Gupta: My quick follow up – and thank you for the detailed response. My quick follow up is it looks like the net debt just went up a little because of the Fort Hill, I think, you took on some more debt for the transaction and maybe there were some lease liability things.

I'm just trying to understand now that Fort Hills is in there, you're crossing higher volumes, like what would be an optimal debt level after which you would say we're very comfortable holding to this amount of debt and then most of the other proceeds can just go to buybacks?

Kris Smith: Hi, Manav. It's Kris here. Similar to the question we had earlier from Neil Mehta, our capital allocation framework is quite clear. So, we're driving to 12 billion net debt as our next target and then we'll change the capital allocation framework from 50/50 to 75/25. And our goal is to get down to 9 billion net debt, including capitalized leases. So, that's the framework we have in place. And as I said earlier in the call, this is all about as – as you've listened for the last period of time, we're looking to release as much free cash flow as we can so that we can actually drive to that net debt target and return more cash to shareholders.

Manav Gupta: And the net debt only went up because of the Fort Hill's transaction, right? I just want to clarify that in the quarter.

Kris Smith: Yeah, that's right. I mean, our net debt at the end of the day was flat year-over-year and we had the acquisition, which was CAD 1.5 billion plus closing adjustments and closing costs. And as you pointed out, there were some capitalized leases that came with that. So, when you look at it on that basis, we did the transaction, we kept the net debt level. Our debt excluding capitalized leases actually went down.

Manav Gupta: Thank you so much.

Kris Smith: Thanks.

Operator: Thank you. One moment for our next question. And that will come from the line of Roger Read with Wells Fargo.

Roger Read (Wells Fargo): Yeah. Good morning. I'd like to just follow up on one thing that you mentioned, being able to supply Fort Hills and Firebag, kind of different displace, plan, and others. Does it matter what you're putting through the upgraders in terms of bitumen and bitumen quality? What's the flexibility there as we think about the long-term question of replacing Base Plant production? I know it's a next decade kind of question, but it's out there. And so, I'm just curious, are you learning something about the ability to be more flexible with the feedstock?

Rich Kruger: Roger, thank you. The upgraders have the capability of handling whatever the feed is. But the cocktail that comes from Firebag is not exactly the same as the cocktail that comes from Fort Hills. And what we've learned with the paraffinic froth treatment at Fort Hills that basically is taken the heavier asphaltenes out of it before it comes. What Peter is getting at Base Plant when he runs that through, we've talked in the past about getting an uplift in volume that when it goes through there. But literally we've been testing that long and hard and with more Fort Hills barrels going through. Peter, keep me honest, we've talked about the volumetric uplift of bringing a Fort Hills barrel in on the kind of the 4% range.

Increasingly, we're thinking it's more than 6%. And what we think is we're getting that 4%, but as you stir those Fort Hills barrels in with all the other barrels, we have a synergistic effect that get an uplift from a larger volume. And so, there again lies what's the value proposition.

When you can look at where paraffinic froth treatment bitumen gets in the market versus a Firebag, we have the ability to move barrels literally day to day, week to week to get the highest value. So, all barrels are not created equal. Peter, you have anything you'd add to that or – I love this topic. This is awesome.

Peter Zebedee: And actually, that is what the results are showing, north of 6% yield uplift on those paraffinic froth treatment barrels from Fort Hills. Again, we can bring those into the upgrader at a maximum of 60,000 a day right now. And that's one of the things the teams do is look every day on where we're going to generate the most value for the company and what the mix is, what the cocktail is that we're bringing into those upgraders.

Roger Read: So, I guess just as a follow up on that. I mean, does that imply as you're looking out 10 plus years that there's actually a lot more flexibility in the way to think about bitumen …being laser focus...

Rich Kruger: Absolutely.

Roger Read: ...mine or something?

Rich Kruger: Absolutely. Yeah. No. No doubt about it. We will look at the most holistic way so that we ensure we can accurately see what value can be captured. And here, again, I think this is part of what makes us a bit different than others is the way we can look at a barrel of bitumen and what we can do with it. We have options and that will be part of as we look forward, what are the best long-term sources of bitumen. That will be very much a consideration as we look at where value can be created.

Roger Read: All right. Appreciate it. 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 over to Mr. Rich Kruger for any closing remarks.

Rich Kruger: Yeah. I'd just wrap up very quickly before giving it back to Troy. Thank you for the time, the questions today. We had a lot to cover. I'll just reiterate really what Greg started us. Where we are right now is as we get into 2024, I believe we've got right leadership, the right people. We're focused on the right work. We have an inventory of things that can make a good operation great. And that's exactly what we intend to do. So, with that, I'll just turn it back to Troy.

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, you can end the call.

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

[Operator concludes call]