INVESTOR BRIEF: TSX, NYSE: SU

CONTEXTUAL INFORMATION REGARDING NET ZERO CAPEX SHAREHOLDER RESOLUTION FILED AT SUNCOR

VOTING INFORMATION

Meeting date:	**May 9, 2023**
Proxy cut off date:	Intermediaries must receive instructions by **10:30 am (MTN) May 5, 2023**
Voting information:	here

NOTE: This is NOT a solicitation of your proxy; it simply provides further information regarding the proposal, all of which is publicly available. Please do not send us your proxy card—we are not able to vote your proxies nor does this communication contemplate such an event. We recommend shareholders follow voting instructions provided in management's proxy mailing.

ABOUT INVESTORS FOR PARIS COMPLIANCE

Investors for Paris Compliance (I4PC) is a shareholder advocacy organization that works to hold Canadian publicly-listed companies accountable to their net zero commitments. More information can be found here.

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INVESTORS *for* PARIS COMPLIANCE

CONTENTS

BACKGROUND

Suncor has a stated strategy "to be Canada's leading energy company by growing our business in low greenhouse gas (GHG) fuels, electricity and hydrogen while sustaining and optimizing our existing hydrocarbon business and transforming our GHG footprint."[1] Suncor is a founding partner in the Pathways Alliance (a partnership of the six Canada's largest oil sands producers)[2] which has committed to investing ~$24.1 billion to achieve 22 million tonnes of emission reductions by 2030 from oil sands operations.[3]

To fulfill these commitments, Suncor will have to make appropriate capital expenditures and conduct significant work to address its GHG emissions to reach both its 2030 target and net zero by 2050.

Suncor's emissions were ~50 MT in 2022[4] and the company has a target to reduce its emissions by 10MT/year by 2030, although it does not provide a baseline for this target, meaning its overall emissions could actually grow. After 2030, Suncor will have to make even more significant investments to make its business net zero.

Investors like Climate Action 100+ are expecting Suncor and other companies in the oil and gas sector to report on the alignment between capital expenditures and climate commitments.[5] Investors are looking for the oil and gas sector to report on low carbon spending to assess relative adequacy and alignment of company actions with the energy transition, GHG commitments, and competitive positioning relative to other companies in the sector.

Cover image: Suncor Tank and Refinery, Candace Elliott / Reuters

1 Suncor 2022 Climate report
2 Pathways Alliance
3 Canada's oil sands firms to invest $24-billion on emissions projects, Globe & Mail
4 Total emissions of its operated and equity assets source: pg 28 Suncor 2022 Climate report
5 CA100+ Net Zero Company Benchmark Criteria 6: Capital allocation alignment

The global energy transition driven by rapidly progressing technological shifts to low or zero emitting energy technologies is progressing at a pace much faster than predicted.[6] This past year's price shocks are accelerating the clean energy transition[7] and is creating a disruption force that will dramatically affect the oil and gas sector:[8]

> *"In this next era of the energy transition, it is energy security, not sustainability, that will come at a premium. In the 'energy trilemma' of old, energy affordability and security came as a package—fossil fuels were seen as both dependable and affordable—and it was sustainability that came at a premium. Now, we live in a world where clean energy is the affordable option, and energy security comes with the higher price tag.*
>
> *The good news is that clean energy deployment also supports energy security, and so the quest for greater energy security will ultimately lead to a faster transition."*
>
> **—BloombergNEF, Energy Transition in 2023[9]**

6 I4PC Disruptive Risk background
7 I4PC Energy Security backgrounder
8 I4PC Demand Scenarios backgrounder
9 https://about.bnef.com/blog/energy-transition-in-2023-into-a-new-era/

SUNCOR'S LOW CARBON CAPITAL EXPENDITURE REPORTING

Improved reporting on Suncor's capital expenditures is a critical ingredient of the company's commitment to achieve its stated strategy, compete in the energy transition, and reduce its emissions. Investors need more clarity and information on the company's low carbon capital expenditure so that they can evaluate how the company is building value and is responding to the transition and to the compliance risk the company faces.

INVESTOR EXPECTATIONS

CA100+ found in its October 2022 Assessment that Suncor "does not meet any criteria" for capital alignment, medium term targets or decarbonization strategy."[10] This proposal would enable Suncor to better address the gap that CA100+ identified in their current reporting and as such, CA100+ has flagged this resolution as being consistent with the goals of the initiative.[11]

10 CA100+ assessment of Suncor determined that Suncor did not meet any of the criteria for "working to decarbonise its capital expenditures", "explicitly commits to align its capital expenditure plans with its long-term GHG reduction target" or "to phase out planned expenditure in unabated carbon intensive assets or products".
11 The CA100+ initiative flags shareholder proposals and other votes aligned with the goals of the initiative for investors to take into consideration during proxy season

CURRENT LOW CARBON CAPEX REPORTING

Suncor's current reporting on low carbon capital expenditures is inadequate. While Suncor has a low-carbon capital allocation of 10% annually to "expand low-emissions businesses" for 2022-2025,[12] it has failed to disclose[13] the rationale for this level of investment, how it aligns with its 2030 GHG target and net zero commitment, any details on the amount spent on specific projects, or the associated emissions reductions from the investment. Also, for a company relying on carbon capture and sequestration to help meet its climate goals, Suncor does not disclose either details on related expenditures nor on how this technology will affect its medium and long-term cost per barrel of oil produced.

In Suncor's annual financial reporting there is no reference to "low-carbon capital allocation" and all capital expenditure is reported in broad category of "Capital and Exploration Expenditures"[14] with no differentiation of low carbon capital allocation to inform investors of spending amounts or emission reductions.

Additionally, Suncor does not disclose emissions expectations associated with the other 90% of its planned capital budget. Without this reporting, investors don't have the information to assess whether these other investments take the company further from its climate targets.[15]

RESPONDING TO TRANSITION RISK

The world is quickly heading to a demand peak for oil.[16] This peak will have a profound impact on the oil and gas industry as a plateauing and declining market will create volatility and uncertainty as cost, carbon intensity, geopolitical clout, and other variables enable some producers to succeed and others to fail. Oil sands producers will need to evaluate their ability to compete for a share of a shrinking market that will penalize high carbon intensity and high-cost barrels of oil.[17] The transition will ultimately lead to a significant decrease in demand for fossil fuels, creating an existential risk for Suncor unless it is able to make the necessary investments to remain competitive and enhance shareholder value in this transition.

COMPLIANCE

Alberta's Technology, Innovation and Emissions Reduction (TIER) regulation for large GHG emitters does not currently represent a material financial risk to ongoing oil project operations in Alberta.[18]

12 Pg 27 Suncor 2022 Climate Report
13 Ibid.
14 Pg 47-48 2021 Suncor Annual report
15 As a sidenote not related to this resolution, guidance on credible GHG targets is clear that companies with significant scope 3 emissions like Suncor (scope 3 emission represent 50 to 75% of the lifecycle GHG emissions of Suncor's products) need to include those emissions in their targets. See I4PC backgrounder on other oil and gas companies have included scope 3 in their targets (Link).
16 I4PC Demand Scenarios backgrounder
17 I4PC Compliance Risk backgrounder
18 Using Alberta facility data and as a base case, under the 2019 price of carbon (i.e. $30/tonne), the Alberta TIER regulation resulted in an average cost of $0.18/bbl source: Canadian Climate Institute report

However, the federal government's proposed oil and gas sectoral cap[19] on GHG emissions could be material as the proposed target is a 45% reduction on a 2019 baseline by 2030. (Suncor identifies the cap on oil and gas emissions as having potential to be material).[20] Design details of the emissions cap, expected to be released in the spring of 2023, are still being discussed with stakeholders. However, the 2030 target could require an 80-90 MT reduction from the oil and gas sector's 2021 GHG emissions of ~190 MT.[21]

GREENWASHING

The resolution will help address the increasing attention to claims of greenwashing by companies in the oil and gas sector. Greenwashing claims have been made against Suncor and the Pathways Alliance[22] and a complaint has been made against the Pathways Alliance with the Competition Bureau Canada for alleged greenwashing in its public lobbying.[23] In 2022 legal action was started in the UK against Shell's Board of Directors board for its failure to properly prepare for climate risk and a net zero future.[24]

19 The federal Minister of Environment and Climate Change (ECCC) has committed to publish the draft regulation in Spring 2023 link

20 p.58 Suncor 2022 Annual report https://sustainability-prd-cdn.suncor.com/-/media/project/suncor/files/investor-centre/annual-report-2022/2022-annual-report-en.pdf

21 Early Estimate of National Emissions. Canadian Climate Institute, 2023. Available via link https://440megatonnes.ca/early-estimate-of-national-emissions/#estimate-table-2

22 https://www.theglobeandmail.com/business/commentary/article-companies-need-to-stop-greenwashing-and-get-serious-with-net-zero/

23 https://financialpost.com/commodities/energy/oil-gas/competition-bureau-probe-alleged-greenwashing-canadian-gas-association

24 https://www.reuters.com/business/sustainable-business/institutional-investors-back-shell-board-lawsuit-over-climate-risk-2023-02-09/

Image: Suncor Oil Refinery, Fort McMurry, Colin O'Connor / Greenpeace

PROPOSAL RATIONALE FOR SHAREHOLDERS

The proposal can help Suncor address significant material risks to its business. These risks are:

1. **Transition risk.** Capital expenditure reporting that includes expected GHG reductions is critical for investors to be able to assess the greenhouse gas implications of Suncor's current and future business. Suncor will need to make low carbon investments to compete for a share of a shrinking market that will penalize high carbon intensity and high-cost barrels of oil.

2. **Compliance Risk:** Capital expenditures will be needed to allow Suncor to meet the emission reduction requirements associated with the proposed Canadian cap on oil and gas GHG emissions. There is a need for reporting and transparency from Suncor on low carbon capital expenditures to illustrate how Suncor will meet upcoming changes to the regulatory environment.

3. **Reputational/Legal Risk:** Reporting on capital expenditure spending is a critical step to illustrate action towards fulfilling GHG commitments and reduce clams of greenwashing. Suncor's investments in reducing its GHG emissions over the next five years will be critical in reducing legal risks from climate related litigation against the company and Board for failing to act to meaningfully manage climate and transition risk.

SUNCOR RESPONSE AND REBUTTAL

In its proxy circular (page A1-A4) Suncor includes an opposition statement to the proposal. We have written a more extensive rebuttal to this statement,[25] but here are the most salient points:

- Suncor says it wants to use existing reporting instead of a new report. The format is not the issue. Current reporting does not include details on how Suncor's capital expenditure plans are aligned with its 2030 emissions reductions target and its 2050 net zero pledge.

- Suncor says it engages experts to define useful climate disclosure and lists CA100+ as part of this. But CA100+ says that Suncor does not meet criteria for capital alignment[26] and has flagged this shareholder proposal for investors as being aligned with the goals of the CA100+ initiative.[27]

25 I4PC Rebuttal to Suncor
26 CA100+ assessment of Suncor
27 https://www.climateaction100.org/approach/proxy-season/

PEERS

Suncor and its partners in the Pathways Alliance (Cenovus, Canadian Natural, ConocoPhillips Canada, Imperial, and MEG Energy) are stating they will reduce their GHG emissions and reach net zero emissions by 2050. These statements require making major investments to support the research, technology development, and deployment of solutions. Pathways Alliance members will need to make significant investments to meet the GHG emission commitments they have made.

The oil sands sector has a competitiveness challenge[28] as its GHG abatement disadvantage relative to its peers—both within and outside of Canada—elevates risk for remaining competitive through the energy transition.[29] Investors need more clarity and information from this sector on planned investments to evaluate how it is building value and is responding to these risks.

28 I4PC Competitiveness backgrounder
29 I4PC Demand Scenarios backgrounder

ENGAGEMENT WITH SUNCOR

We have had constructive and good discussions with Suncor about this proposal, but unfortunately were unable to reach agreement. This resolution provides shareholders the opportunity to ask Suncor to disclose its capital expenditure plans to deliver on its own climate goals.

SUNCOR SHAREHOLDER PROPOSAL

NET ZERO ALIGNED CAP EX DISCLOSURE

RESOLVED: Shareholders request that Suncor produce a report, at reasonable cost and omitting proprietary information, outlining how its capital expenditure plans align with its 2030 emissions reductions target and its 2050 net zero pledge.

SUPPORTING STATEMENT

Suncor has a 2030 emissions reduction target of 10 Mt CO2e and a 2050 net zero target.

Suncor indicates it is committing 10% of its annual capital budget over the medium term to "investments that advance our low-carbon energy offerings."[30] Suncor does not provide a rationale for this level of investment and how it aligns with its targets nor disclose specific planned investments and associated emissions reductions.

Similarly, Suncor does not disclose emissions expectations associated with the other 90% of its planned capital budget and whether these investments take the company further from its climate targets. Note that there is no baseline established for Suncor's 2030 target, nor are Scope 3 emissions included in it, meaning that the vast majority of Suncor's capital expenditures may contribute towards emissions expansion.

The International Energy Agency projects a three-quarters decline in oil demand in its net zero scenario[31] and Canada's Energy Regulator predicts oil production in Canada will peak shortly after 2030.[32] These reductions are part of the net zero transition that is an existential threat to unprepared oil companies and is particularly acute for Suncor and other oil sands producers producing a higher cost[33] and higher emitting[34] source of oil than most competitors.

Considering this threat, it is critical that investors are given more clarity on how Suncor's capital expenditure plans align with its 2030 emissions reductions target and its 2050 net zero pledge.

30 https://sustainability-prd-cdn.suncor.com/-/media/project/ros/shared/documents/reports-on-sustainability/2022-report-on-sustainability-en.pdf
31 https://www.iea.org/reports/world-energy-outlook-2022
32 https://www.cer-rec.gc.ca/en/data-analysis/canada-energy-future/2021/
33 https://www.rogtecmagazine.com/rystad-energy-as-falling-costs-make-new-oil-cheaper-to-produce-climate-policies-may-fail-unless-they-target-demand/
34 oci.carnegieendowment.org/#total-emissions

Suncor's climate plans rely heavily on carbon capture utilization and storage (CCUS) for meeting its climate goals. Yet the company does not disclose spending plans for CCUS, including overall cost and projections of cost-per-barrel over the medium and long term.

Climate Action 100+, a global investor initiative representing US$68 trillion in assets under management, found in its October 2022 Assessment that Suncor "does not meet any criteria" for capital alignment, medium term targets or decarbonization strategy."[35]

To address investor uncertainty and to manage business risk, we urge shareholders to vote FOR this proposal.

35 https://www.climateaction100.org/company/suncor-energy-inc/