

PALOS

CONTENTS

Weekly Commentary

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Suncor Energy Reports Q3 Results - Doubling the Dividend and Raising the Buyback	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

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Suncor Energy Reports Q3 Results - Doubling the Dividend and Raising the Buyback

Suncor Energy Inc. (TSX/NYSE: SU) is a Calgary-based integrated energy company that's focused on developing the vast oil sands resources located in Northern Alberta, as well as the development and production of natural gas, refined fuels, petrochemicals, pipelines, and the operation of retail gas stations under the Petro Canada banner. The company has exploration and production operations on Canada's East Coast, as well as international operations in Norway and the U.K.

SU reported third quarter/2021 results last Wednesday after the close of trading. Funds from operations (FFO) increased to \$2.64 billion (\$1.79/share) versus \$1.66 billion (\$0.76/share) for the same quarter in 2020. Operating earnings of \$1.04 billion (\$0.71/share) compared favorably to a loss of \$338 million (-\$0.55/share) in the previous year's quarter. The Refining and Marketing division recorded its third best quarter ever, the result of improving gasoline demand and stronger refining utilization.

Total upstream production increased to 698,000 boe/d (barrels of oil equivalent per day) in Q3/2021 compared to 616,200 boe/d in Q3/2020. In Q3 alone, SU returned over \$1 billion to shareholders through \$704 million in share repurchases and \$309 million in dividends. The Board also approved a 100 percent increase in the dividend to \$0.42/share from \$0.21/share. The dividend hike returns Suncor's dividend to the 2019 payout level.

On the earnings call, management announced an acceleration of the company's normal course issuer bid (NCIB) program to roughly 7% of the public float from 5% previously. A NCIB, also known as a 'share buyback', is a tool used by a publicly-listed company whereby a company repurchases its own shares on a recognized stock exchange for the purpose of cancelling the shares. NCIB's are primarily used as a tool for returning capital to shareholders and is generally undertaken when management believes shares are undervalued by the market.

The company continues to use its rapidly growing cash flow to reduce debt. Year-to-date, SU has reduced debt by \$3.1 billion. SU continues to improve its balance sheet health and remains on track to meet previously

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stated 2025 debt reduction targets. On September 30, Suncor assumed operational responsibility for Syncrude, one of largest synthetic oil producers in the world. The Syncrude project began operations in 1965 and produces synthetic crude oil which is sent to refineries in North America. In Q3, Suncor also announced a revival and asset life extension (ALE) for the Terra Nova project, an oil asset located offshore in Newfoundland and Labrador. The ALE should extend the project's production life by approximately 10 years.

On the ESG front, Suncor continues to pursue initiatives in reducing emissions and nurturing relationships mutually beneficial with indigenous groups. The company plans to reduce emissions by 10 mega tons per year by 2030 and achieve net zero by 2050. Initiatives include using low carbon power, renewables, fuel switching, efficient energy usage, land and water reclamation, and carbon capture, utilization and storage (CCUS). SU currently has four wind power projects in operation. In 2020, almost 50% of the capital invested in technology was related to emissions reduction.

In our view, Suncor is well positioned to capitalize on growing global energy needs, and to do so in a progressive manner. The challenges faced during the pandemic, which were related to demand and pricing weakness, are clearly in the rear-view mirror. We are confident that the future looks bright for Suncor. We further believe this signals that rapidly improving conditions in Canada's oil patch bodes well for all companies operating in the oil sector.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$10.13	23.13%
Palos Equity Income Fund - RRSP	PAL101	\$7.78	23.09%
Palos Merchant Fund L.P. (Dec 31, 2020) ²	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL213	\$25.68	60.90%
Palos-Mitchell Alpha Fund ³	PAL300	\$10.91	30.81%
S&P TSX Composite (Total Return with dividends reinvested)			23.40%
S&P 500 (Total Return with dividends reinvested)			24.03%
S&P TSX Venture (Total Return with dividends reinvested)			8.67%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.55%
Canadian Government 10-Year			1.72%
Crude Oil Spot			US \$83.57
Gold Spot			US \$1783.90
US Gov't10-Year/Moody BAA Corp. Spread			168 bps
USD/CAD Exchange Rate Spot			US \$0.8073

¹ Period ending October 29, 2021. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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