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INVESTOR BRIEF: SUNCOR/KPMG

MATERIAL CLIMATE- AND LIABILITY-RELATED MATTERS MISSING FROM 2024 FINANCIAL STATEMENTS & AUDITOR'S REPORT

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VOTING INFORMATION

Meeting date: **May 6, 2025**
Proxy cut off date: Intermediaries must receive instructions by **10:30 am MDT, May 2, 2025**
Voting information: here

NOTE: This is NOT a solicitation of your proxy; it simply provides contextual information from public sources regarding the the financial statements and auditor election. 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.

SUMMARY

The auditor's report exists for investors, to provide assurance that a company's financial statements are accurate. To craft a report, an auditor is to stress test the assumptions a company makes regarding its finances, to ensure that nothing material is mis-stated or overlooked.

Oil and gas companies in particular make several assumptions regarding climate change, the energy transition, and liabilities that are significantly material to their books. For example, what are the magnitude of capital expenditures required to meet stated emissions reductions targets? Or, what are prospective demand projections as the world shifts to renewable energy, and what are the implications of these for commodity prices, cash flow, and decommissioning liabilities? Are the scale and timing of decommissioning liabilities properly reflected in the financials?

The role of the auditor is, in part, to revisit these assumptions on behalf of investors to ensure that present fairly, in all material respects, the financial position of the company. Unfortunately, in the case of KMPG's 2024 auditor's report for Suncor, investors are left in the dark as to whether the auditor considered these issues, since there is no mention of them.

The gaps in reporting begin with Suncor itself. According to the Climate Accounting and Audit Assessment framework established by Carbon Tracker on behalf of Climate Action 100+,[1] the financial impacts of climate-related matters were not sufficiently addressed in Suncor's 2023 financial statements.[2] Our application of the same framework, with additional detailed analysis, indicates the same significant gaps remain in Suncor's 2024 financial statements. They do not clarify:

- Whether previously stated emissions reduction targets are reflected in capital expenditures (i.e. carbon capture and storage); or
- Whether the energy transition may decrease the useful lives and cashflow projections of its oil and gas production assets, and in turn, bring forward the timing of associated decommissioning expenditures and clean-up liabilities.

These considerations are required by applicable accounting standards,[3] and are at least partly dealt with in the financials of other oil and gas companies such as Shell and BP.

Despite these gaps, KPMG nonetheless states that Suncor's financial statements are completed in accordance with applicable accounting standards. The 2024 auditor's report does not address whether, how, or to what extent material climate-related matters were considered in the audit. KPMG also does not mention the uncertainty regarding the status of Suncor's climate targets and the cost implications of trying or not trying to meet them.

1 Climate Action 100+ is an initiative led by 600+ institutional investors, including Blackrock International, BMO Global Asset Management, RBC Global Asset Management, and TD Asset Management, to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change in order to mitigate financial risk and to maximize the long-term value of assets.

2 CA100+, Suncor 2024 assessment, at Criteria 6 for the Disclosure Framework and in its Climate Accounting and Audit Assessment; See also: Carbon Tracker, Methodology: Climate Action 100+ Net Zero Company Benchmark: Climate Accounting and Audit Assessment, (2023).

3 IFRS Accounting Standards, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IAS 36 impairment standard, and IAS 16 for asset lives/depreciation.

Not only is this required by applicable auditor standards,[4] but KPMG has publicly committed to do so and even published related guidance. We also see KPMG applying these practices in its audit of other oil and gas company financials, namely at Total Energies and OMV.

These gaps in reporting are of importance to Suncor's investors, audit committee, and regulators. The uncertainty they give rise to potentially distorts the investment environment and needs to be addressed.

NOTE: IMPACTS OF SUNCOR REMOVING REFERENCES TO ITS NET ZERO COMMITMENT

Since Canadian anti-greenwashing laws were strengthened in 2024, Suncor announced that it would be temporarily removing all of its climate disclosures and associated materials from its website.[5] All references have also been removed from its 2024 Annual Report and notes to its 2024 financial statements. This extends to the website for the Pathways Alliance initiative, which represents Suncor and other Canadian oil sands companies' plans for achieving their scope 1 and 2 net zero emissions targets. This raises uncertainty regarding Suncor's net zero commitment and near-term decarbonization targets, which are material to the accuracy and reasonableness of its financial statements. As such, this is also material to the auditor's report but is not mentioned by KPMG.

I. MATERIAL MATTERS MISSING FROM 2024 FINANCIAL STATEMENTS

MATERIALITY OF CLIMATE CHANGE AND ENERGY TRANSITION RISKS

As a major oil sands producer and refiner, Suncor is subject to various transition costs and risks associated with its own transition commitments, as well as transition-related market shifts that could affect the profitability and viability of its assets. Investors expect these risks to be reflected in its financials, and tested by its auditor.

The IEA 2024 World Energy Outlook's scenarios see global oil consumption dropping between 3.5% to 18.9% by 2030, and 26.7% to 57% by 2040.[6] BP's Energy Outlook foresees similar trends, with both its current trajectory and net zero scenarios projecting no future growth of oil demand after 2025.[7] Shifting consumer demand, technological advances, and availability of capital are transition risk drivers that can result in stranded assets.[8] Stranded assets are "tangible assets that experience premature devaluations (impairments) or conversion to liabilities as a result of over-exposure to poorly understood and mispriced exogenous risks such as climate change."[9]

4 IAASB, The Consideration of Climate-Related Risks in an Audit of Financial Statement (October 2020); Canadian Public Accountability Board, Impact of climate-related risks on financial statements audits (March 2024).
5 Suncor, Suncor's response to recent changes to the Competition Act (June 2024, accessed March 4, 2025).
6 International Energy Agency, World Energy Outlook Tables for Scenario Projections (Oct. 2024).
7 BP, BP Energy Outlook 2024 Edition, at 31.
8 Task Force on Climate-Related Financial Disclosures Knowledge Hub, Examples of Climate-Related Risks and Potential Financial Impacts (2017).
9 Carbon Tracker, Overlooked: Why oil and gas decommissioning liabilities pose overlooked financial stability risk (2023) at 15.

Canada's oil sands are more vulnerable to shifts in demand than conventional oil, as pointed out by the Canada Energy Regulator, due to high upfront costs and longer-term capital recovery.[10] In today's market, oil sands projects are some of the most expensive oil projects in the world, meaning that future oil supply in a declining market is more likely to come from basins where costs are cheaper.[11] As the profitability of Canadian oil sands is squeezed, transition risk is a persistent and material concern to Suncor's shareholders.

GAPS IN SUNCOR'S 2024 FINANCIAL REPORTING

According to Suncor's 2024 Annual Report, its financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), which provide that climate change issues should be considered in the creation of financial statements.[12]

However, according to the Climate Accounting and Audit Assessment framework established by Carbon Tracker on behalf of Climate Action 100+, it was not clear due to insufficient disclosure whether the financial impacts of material climate-related matters were sufficiently addressed in Suncor's 2023 financial statements.[13] Our application of the same framework with additional analysis indicates that the same significant gaps remain in Suncor's 2024 financial statements.

Suncor's 2024 financial reporting states that the company has considered climate risk. In particular, under the Notes to the Consolidated Financial Statements at section 4, "Significant and Other Accounting Estimates and Judgments," Suncor explains the materiality of climate change as follows:

> *Climate change, global energy demand, and the transition to a low-emissions economy were considered in preparing these consolidated financial statements, primarily in estimating commodity prices used in asset valuation and reserves analysis. [...] As part of its ongoing business planning, Suncor estimates future costs associated with GHG emissions in its operations and in the evaluation of future projects. Changes in market and regulatory conditions and assumptions, as well as climate change, and the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels, can materially impact the estimation of net reserves, asset valuation and reclamation timing and requirements. The timing and pace at which global energy markets transition from carbon-based sources to alternative energy is highly uncertain.*[14]

10 Canada Energy Regulator, Canada's Energy Future 2023, at 89.

11 Rystad Energy, Shale project economics still reign supreme as cost of new oil production rises further (2024).

12 International Financial Reporting Standards, Examples of Climate-Related Risks and Potential Financial Impacts (July 2023). ("IFRS Accounting Standards do not refer explicitly to climate-related matters. However, companies must consider climate-related matters in applying IFRS Accounting Standards when the effect of those matters is material in the context of the financial statements taken as a whole.") ; See also: IFRS, Exposure Draft and comment letters: Climate-related and Other Uncertainties in the Financial Statements (July 2024).

13 CA100+, Suncor 2024 assessment, at Criteria 6 for the Disclosure Framework and in its Climate Accounting and Audit Assessment; See also: Carbon Tracker, Methodology: Climate Action 100+ Net Zero Company Benchmark: Climate Accounting and Audit Assessment, (2023).

14 Suncor, 2024 Annual Report, at 77.

But, Suncor does not provide any details about whether the commodity price projection it applies considers future climate scenarios. For another case study, Shell's 2024 financial statements include an example of how future climate scenarios, including an IEA 1.5 degree scenario, were applied to notes on its commodity price projections (e.g., via sensitivities of using "aligned assumptions" for relevant assets and liabilities).[15]

Suncor states that climate-related matters also materially affect the company's "estimation of net reserves, asset valuation and reclamation timing and requirements."[16] Despite these references, Suncor's 2024 financial statements continue to provide insufficient evidence of whether, and how, Suncor considered the financial impacts related to:

- Transition-related capital expenditures, when applicable; and
- Whether the energy transition affects asset useful lives, future cash flow, and timelines for decommissioning liabilities.

TRANSITION-RELATED CAPITAL EXPENDITURES

Suncor's 2024 financial statements provide insufficient evidence of how decarbonizing its operations will impact the ability to continue to use, and the valuation of productive assets. It provides some data associated with capital expenditures related to building a cogeneration facility at one of its oil sands sites and meeting US biofuel regulation,[17] but this is a small corner of the company's operations. Information is needed regarding estimated capital expenditures related to carbon capture and storage facilities, which were reported as key to achieving Suncor's net zero target.

Nor does Suncor refer to its previous commitment to spend approximately 10% of its annual capital budget, on average, through 2025 on projects aimed at lowering its emissions and advancing low-carbon energy offerings.[18] As in 2023, Suncor's 2024 financial statements do not disclose the stated value of its capital expenditure allocated towards climate solutions during this last reporting year or for the future.[19]

Furthermore, as in 2023, Suncor does not state in any of its disclosures that it has phased out or is planning to phase out capital expenditure in new unabated carbon-intensive assets or products by a specified year.[20] According to Carbon Tracker in 2023, 97% of Suncor's announced future investments are incompatible with the IEA's Announced Pledges Scenario (APS), meaning a pathway to limiting global warming to 1.7°C above pre-industrial levels.[21]

15 Shell, 2024 Annual Report, at 262-265.
16 Suncor, 2024 Annual Report, at 77.
17 Ibid at 35.
18 Suncor, 2023 Sustainability Report, at 14.
19 Ibid, at criteria 6.2 (a) & (b).
20 CA100+, Suncor 2024 assessment, Disclosure Framework, criteria 6.1 (a).
21 Climate Action 100+, Suncor Energy Inc. Capital Allocation Alignment (2025); See also: IEA, Announced Pledges Scenario (APS) (2021).

In 2023, CEO Rich Kruger appeared before the House of Commons Standing Committee on Natural Resources to testify that Suncor's plans to reduce emissions to net-zero by 2050 have not changed, after suggesting earlier in the year that the company would not prioritize long-term energy transition. In regards to reducing emissions, he stated, "It's two things: It's good for business and it's the right thing to do."[22] In his testimony, Mr Kruger outlined a variety of decarbonization investments that the company is making, stating:

> *[W]e are taking tangible and financially material actions to decarbonize our existing hydrocarbon businesses by investing in low-carbon fuel switching and cogeneration capacity at all oil sands mining sites, by piloting low-carbon injectant technologies for in situ operations, by installing electric vehicle charging facilities at Petro-Canada stations coast to coast, by advancing sustainable aviation fuels and by operating Canada's largest ethanol plant to produce renewable transportation fuels. In each instance, we are putting our money where our mouth is.*[23]

However, Suncor's 2024 financial statements provide little to no detail on the company's investments in these activities.

RISKS TO FORECASTED CASHFLOWS, ASSET USEFUL LIFE, & DECOMMISSIONING TIMELINES

As per Carbon Tracker's analysis of Suncor's 2023 financial statements, our review of Suncor's 2024 financial statements demonstrate how material climate-related matters are only partially incorporated into relevant financial assumptions and estimates, namely they do not detail the extent to which energy transition risks impact:

- The forecasted cashflows used to assess the recoverability of all relevant assets;
- The remaining useful lives of relevant assets; or
- The timing and breakdown of decommissioning assets and the recording of decommissioning liabilities.

Suncor's 2024 financial statements apply a 50 to 55 year forecasted cash flow period for testing goodwill in its oil sands business.[24] In its description of the goodwill impairment testing, Suncor states that "[p]rojected cash flows reflect current market assessments of key assumptions, including climate change…"[25] As 50 to 55 years is an unusually long forecast, it is not clear how the impacts of climate change are reflected here. Suncor does not indicate what assets this forecast relates to, whether it represents the remaining useful lives of such assets, and if not, what the remaining useful lives are.

22 Graney, E., Suncor CEO explains sustainability comments, says company still committed to reducing emissions, I (The Globe and Mail: Oct. 16, 2023).
23 House of Commons, Standing Committee on Natural Resources RNNR-76 (Oct. 16, 2023).
24 Suncor, 2024 Annual Report, at 93.
25 Ibid.

There is insufficient information to determine what – if any – transition-related matters were considered by Suncor in the determination of the useful lives and units of production applied to its assets, which affect the relevant cashflow period. Furthermore, Suncor does not disclose the estimated remaining asset lives/units of production (UOP) for all relevant Property, Plant, and Equipment. These are relevant quantitative assumptions/estimates to its financial statements. For context, Shell provides a climate analysis regarding the useful lives of its refinery, oil sands, and other related equipment.[26]

Furthermore, Suncor does not provide relevant quantitative assumptions or estimates regarding:

- Forecasted oil and gas prices for its exploration and production segment assets, estimated production forecasts, as well as forecasted refining margins and GHG (carbon) prices, used for impairment testing.

DECOMMISSIONING LIABILITIES

According to KPMG, a decommissioning liability arises from an obligation to dismantle, remove, or restore an asset after it's no longer in use, and this liability is recognized as an estimate of the costs involved.[27]

Suncor does disclose in its 2024 financial statements the following decommissioning liabilities, both for its wells and oil sand fields:

- The undiscounted decommissioning costs (CAD $21.5bn);
- The discounted decommissioning costs (CAD $11.8bn);
- The discount rate used (4.8%);
- A sensitivity analysis to a 1% change in the discount rate (+$2.4bn, - $1.9bn);[28] as well
- Indicates that decommissioning timing "…can exceed 50 years." [29]

However, there is significant uncertainty surrounding the cumulative decommissioning liability for Canada's oil and gas industry. Estimates from the Alberta Energy Regulator (AER) regarding the cumulative decommissioning liability for Canada's oil and gas industry have ranged from $60 billion excluding the oil sands to $320 billion[30] including the oil sands.[31] Based on the AER's Licensee Inventory Life Cycle & Closure Activity database, Suncor is responsible for covering around 1% of the industry's estimated liabilities.[32] This means that Suncor's estimated undiscounted decommissioning costs ($21.5 billion) are at the low end of the range.

26 Shell, Annual Report and Accounts 2023, at 266.
27 KPMG Global Energy Institute, Decommissioning Strategy: A New Imperative For E&P Firms, (2015).
28 Suncor, 2024 Annual Report, at 100.
29 Ibid, at 100.
30 In 2025 dollars. Adjusted for inflation using Bank of Canada's Inflation Calculator.
31 National Observer, The silence on Alberta's $260 billion environmental liability is deafening (2018); See also: Report of the Auditor General of Alberta, Liability Management of (Non-Oil Sands) Oil and Gas Infrastructure (Mar. 2023); See also: Ecojustice, Alberta's Inactive and Orphan Wells Threaten Wallets, Health, and Nature (Nov. 2024).
32 Alberta Energy Regulator, Licensee Inventory Life Cycle & Closure Activity.

Furthermore, the AER's estimates for the oil and gas industry are likely also on the low end. Recent reports from the Auditor General of Alberta suggest that costs may be underestimated because pipelines are still largely excluded from the AER's liability management calculations.[33] Furthermore, the AER's estimates are based on what companies have been spending to clean up sites.[34] As companies tend to do work on sites that are easier and cheaper to clean up, it is probable that the cost to clean-up older, more problematic sites could be significantly higher.[35]

Additionally, due to the type of discount rate used, it is likely that Suncor's decommissioning liabilities are understated compared to some of its competitors. Suncor uses a credit-adjusted risk-free discount rate rather than a risk-free discount rate to calculate its decommissioning liabilities.[36] The International Accounting Standards Board (IASB) is considering specifying that companies must use the latter – a risk-free discount rate – when calculating its decommissioning liabilities.[37] The reason for this proposed amendment is that "rates that include non-performance risk [such as credit-adjusted risk-free discount rates] are higher than risk-free rates and result in smaller provisions."[38] In other words, Suncor would be reporting higher decommissioning liabilities if it used the type of discount rate that the IASB is recommending.

Deeply discounting decommissioning provisions, particularly those that may be settled over an extended time period, can leave investors in the dark about corresponding undiscounted obligation amounts that will inevitably need to be funded through future revenues.

Furthermore, Suncor's financial statements provide insufficient detail about whether and how climate or transition-related matters impact the timing of and expenditures required for decommissioning assets and the recording of decommissioning liabilities by asset type and segment (e.g. Exploration and Production, oil sands, and refining).

The lack of detail surrounding Suncor's full estimated timing schedule of its decommissioning activities and its segmented decommissioning costs is an issue for investors. Petroleum infrastructure assets are at risk of becoming economic liabilities with valuations below zero due to significant decommissioning costs in various energy transition scenarios which threaten the profitability of assets.[39] As decommissioning liabilities are expected to be paid out of future revenues, the 50 to 55 year profitability timeline Suncor projects for its assets will be subject to change in energy transition scenarios.[40] Unless oil and gas infrastructure can be repurposed (e.g. for geothermal or renewable energy storage or as refineries for biofuels), obsolescence will force many oil and gas assets into early retirement, thereby accelerating the maturation of decommissioning liabilities.[41]

33 Report of the Auditor General, Liability Management of (Non-Oil Sands) Oil and Gas Infrastructure - Alberta Energy Regulator, (2023).
34 The Narwhal, Alberta releases new data about progress on multibillion-dollar oil and gas cleanup problem (2024).
35 Ibid.
36 Ibid, at 75.
37 IASB, Exposure Draft: Provisions—Targeted Improvements—Proposed amendments to IAS 37 (November 2024) at 6.
38 Ibid.
39 Carbon Tracker, Overlooked: Why oil and gas decommissioning liabilities pose overlooked financial stability risk (2023).
40 Ibid.
41 Ibid.

For an example of better practice in terms of disclosure, Shell provides a breakdown of and timing schedule for its decommissioning provisions, by asset type or segment.[42]

II. MATERIAL MATTERS MISSING FROM 2024 AUDITOR'S REPORT

By providing an independent check on companies' financial reporting, the auditor ensures that companies' financial statements are free from material misstatement.[43] The election of the auditor at Suncor's AGM is therefore an important decision for shareholders to consider.

Auditors are responsible for ensuring all material risks have been considered in the preparation of the financial statements. Auditing standard setters have confirmed that auditors are required to include material climate-related matters when preparing and auditing the accounts.[44] However, KPMG does not mention climate risk once in its auditor's report of Suncor's 2024 financial statements.[45]

Without evidence that KPMG considered climate change and the energy transition in its audit, shareholders do not know whether KPMG is meeting the International Standards on Auditing regarding the consideration of climate-related risks.[46] The International Auditing and Assurance Standards Board is clear that, "If climate change impacts the entity, the auditor needs to consider whether the financial statements appropriately reflect this."[47] Similarly, Canada's public company audit regulator, the Canadian Public Accounting Board, has stated that, "to the extent that climate or sustainability related events or conditions [...] may contribute to the susceptibility of the financial statements to misstatement, auditors should be considering their impact."[48] In its auditor's report, KMPG provides assurance that,

> *the consolidated financial statements [...] present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its financial performance and its cash flows for each of the years then ended, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).*[49]

KPMG has published its own handbook on the potential effects of climate risk on financial statements prepared in accordance with American accounting standards (US GAAP). KPMG acknowledges in its handbook that "financial statements might be misstated" if climate-related risks are not accounted for properly, for example in terms of "impairments and other writedowns, liabilities and contingent losses."[50] The handbook acknowledges that oil and gas has been flagged as a high-risk industry and includes an example in which an oil company adjusts the estimated useful life of certain assets because of its net zero commitment and strategy.[51]

42 Shell, Annual Report and Accounts 2023, at 301-302.
43 IAASB, The Consideration of Climate-Related Risks in an Audit of Financial Statement (October 2020).
44 Ibid.
45 Suncor, 2024 Annual Report, at 67-68.
46 IAASB, The Consideration of Climate-Related Risks in an Audit of Financial Statement (October 2020).
47 Ibid, at 4.
48 Canadian Public Accountability Board, Impact of climate-related risks on financial statements audits (March 2024).
49 Suncor, 2024 Annual Report, at 67.
50 KPMG, "Handbook: Climate risk in the financial statements" (2024) at 2.
51 Ibid, at 30.

While Suncor reports under the International Financial Reporting Standards (IFRS) rather than American accounting standards, KPMG has also published guidance on specific types of climate-related information that a company may need to disclose under the International Financial Reporting Standards (IFRS).[52] Despite publishing on the importance of accurately accounting for climate risk, KPMG offers no detail as to whether it applied these practices in its audit of Suncor's financial reporting.

As the auditor, KPMG's responsibilities also extend to assessing whether Suncor's climate pledges and strategy are reflected in the financial statements and, if not, to call out the inconsistency. And yet, KPMG did not indicate to investors if its assessment included:

- Consideration of the impacts of climate-related matters when assessing critical audit matters, aspects of the companies' financial reporting that are especially complex and could be materially impacted by climate change and the energy transition;
- Procedures to address uncertainty regarding the financially material climate-related information Suncor has provided across its reporting; or
- Sensitivity tests to assess the impact of potential transition scenarios.

KPMG's 2023 auditor's report for Suncor was similarly found to be lacking according to the analysis undertaken by Carbon Tracker for Climate Action 100+'s company assessment.[53]

NO EVIDENCE MATERIAL CLIMATE RISK CONSIDERED WHEN ASSESSING CAMS

KPMG's 2024 auditor's report of Suncor's 2024 financial statements identified one critical audit matter (CAM) that could be materially impacted by climate-related matters. As a member of the Net Zero Financial Service Providers Alliance, KPMG is committed to,

> *take companies' net zero commitments and strategies into account when auditing the material judgements and related disclosures underpinning the financial statements to which the auditor's opinion relates, as required by professional standards.*[54]

However, KPMG does not provide any evidence that it has upheld this commitment in its audit of Suncor's 2024 financial statements, for its CAM or otherwise.

52 KPMG Belgium, "The impact of climate-related matters on impairment testing of non-current assets."

53 Climate Action 100+, 2023 Suncor Assessment.

54 United Nations Principles for Responsible Investment, Net zero gets boost from global financial powerhouses (2021).

Critical audit matters are defined by the Public Company Accounting Oversight Board (PCAOB), whose auditing standards KPMG follows, as "accounts or disclosures that are material to the financial statements and…involved especially challenging, subjective, or complex auditor judgment."[55] KPMG's 2024 auditor's report identifies only one CAM: *Assessment of indicators of impairment related to Oil Sands and certain Exploration and Production property, plant and equipment*.[56] To explain why this CAM was chosen, KPMG wrote that it identified it "as a critical audit matter [because] a high degree of subjective auditor judgment was required to evaluate the reserve assumptions used by the Company in their assessment" [emphasis added].[57]

According to the Centre for Audit Quality,[58] not only are CAMs related to reserves common for the petroleum refining industry, so too are CAMs related to the environment and asset retirement.[59] Nonetheless, KPMG's auditor's report only focused on reserves.

For oil and gas companies like Suncor, it is common to assess company valuation based on the company's proven reserves and the timeline it expects for developing them.[60] Reserves are "the volume of oil or natural gas that can be recovered under current technical and economic conditions."[61] They are the most important assets of oil and gas companies and are crucial to company valuation as they form the basis for future output.[62] In the past, oil and gas companies have faced significant backlash for exaggerating the size of reserves.[63] In the audited financial statements, Suncor explains that:

> *The estimation of reserves is an inherently complex process and involves professional judgment […] Oil and gas reserves estimates are based on a range of geological, technical and economic factors, including projected future rates of production, projected future commodity prices, engineering data, and the timing and amount of future expenditures.*[64]

Suncor specifically mentions that, "[c]limate change, global energy demand, and the transition to a low-emissions economy were considered…[in] reserves analysis."[65] Despite the potential for significant devaluation of reserves in an energy transition scenario,[66] KPMG makes no mention of considering climate change and the energy transition in any of the procedures it took to address this CAM.[67] This runs counter to expectations of Climate Action 100+ companies that climate matters are subject to significant judgments and uncertainties, and accordingly, should be included within the auditor's disclosure of CAMs as applicable under international standards.[68]

55 PCAOB, AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, at Critical Audit Matters; See also Suncor, 2024 Annual Report, at 67.
56 Suncor, 2024 Annual Report, at 68.
57 Ibid.
58 The Centre for Audit Quality, About Us (2025).
59 Centre for Audit Quality, Critical Audit Matters: A Year in Review (2020) at 7.
60 Publish What You Pay - United States, The Disclosures Needed to Support a Managed Decline of Oil and Gas Production and an Informed Energy Transition, (2023).
61 Natural Resources Canada, Alberta's Shale and Tight Resources (2025).
62 Misund, B., & Osmundsen, P. Valuation of proved vs. probable oil and gas reserves. Cogent Economics & Finance (2017) 5(1); See also: Financial Post, Shell posts its worst performance on oil reserves since 2004 scandal, (February 2016).
63 Helman, C. Shell Shocked (2006). *Forbes*.
64 Suncor, 2024 Annual Report, at 77.
65 Ibid.
66 Hansen, T.A. Stranded assets and reduced profits: Analyzing the economic underpinnings of the fossil fuel industry's resistance to climate stabilization (2022). *Renewable and Sustainable Energy Reviews*.
67 Ibid, at 68.
68 Carbon Tracker, Climate Action 100+ Net Zero Company Benchmark: Climate Accounting and Audit Assessment (2023) at 10.

In its audits of similar companies in other jurisdictions, KPMG considers climate change and the energy transition in its auditor reports. As the auditor of TotalEnergies in 2021, KPMG highlighted two CAMs in its auditor's report. For the first CAM, an *Evaluation of the impairment of non-current assets used in exploration and production activities in the Exploration and Production (E&P) and the Integrated Gas, Renewables and Power (iGRP) segments*, KPMG outlines how it "considered whether there was an impairment trigger" for the relevant assets, such as "the impact of new assumptions on hydrocarbon prices or the carbon price, including in connection with the Company's ambition to achieve carbon neutrality by 2050 together with society."[69] In simple terms, TotalEnergies' stated emissions reduction targets prompted KPMG to explicitly consider the financial implications of these targets and discuss them in its auditor's report. And, in 2023, as auditor for OMV, KPMG

> *[...] evaluated whether the impact of net zero commitment, as assessed by the Group, was reflected in the respective assumptions applied in the measurement of recoverable amount of assets, the useful lives of assets, and the valuation of provisions for decommissioning and restoration obligations.*[70]

In contrast, Suncor has previously stated its own emissions reduction targets but KPMG does not indicate that it has considered the financial implications of these targets in its auditor's report of Suncor's 2024 financial statements.

UNCERTAINTY REGARDING SUNCOR'S TRANSITION-RELATED DISCLOSURES AND DECOMMISSIONING LIABILITIES NOT ADDRESSED

Suncor's past reports state that it is committed to achieving the long-term objective of net-zero emissions from its operations by 2050 and the interim goal of reducing annual emissions across its value chain by 10 megatonnes by 2030. While management mentions in Suncor's 2025 Proxy Circular that they "believe Suncor's existing reports should be used to disclose our plans [to achieve net zero emissions by 2050,"[71] its 2024 Annual Report and financial statements make no mention of its emissions reduction targets, including the more proximate 2030 target it disclosed previously. This points to uncertainty for shareholders regarding Suncor's commitments and plans which are material to its business.

KPMG does not flag this uncertainty, discuss any potential inconsistencies in the company's financial reporting, nor does it mention applying procedures to ascertain consistency. Under PCAOB auditing standards, the information in company reports, outside of the financial statements, is subject to the auditor's consistency check.[72]

69 TotalEnergies, Annual Report Form 20-F (2021) at 44.
70 OMV, 2023 Annual report, at 107.
71 Suncor, 2025 Management Proxy Circular at 57.
72 PCAOB, AS 2701: Auditing Supplemental Information Accompanying Audited Financial Statements (2014).

As per Carbon Tracker's analysis of Suncor's 2023 financial statements, in our review of KPMG's auditor's report we note that KPMG did not flag apparent or potential inconsistencies that were noted across the company's reporting, including consideration of all relevant risks or the impact of Suncor's emission reduction targets on the following key financial metrics:

- Asset recoverability,
- Remaining asset lives,
- Unit of Production rates,
- Existing decommissioning provisions, or
- The need to record additional decommissioning provisions.

In its *Decommissioning Strategy* report, KPMG sets the context of the decommissioning challenge for oil and gas companies such as Suncor that do exploration and production.[73] KPMG writes that, "Given the scale of the decommissioning challenge and the impact of falling hydrocarbon prices, companies will need to make fundamental decisions about their late-life assets in the near future."[74]

In spite of recognizing the looming risk posed by the decommissioning challenge, KPMG does not address the significant uncertainty regarding Suncor's total decommissioning liabilities in its auditor's report. A sensitivity analysis by the auditor could have addressed the uncertainty that surrounds oil sands companies decommissioning liabilities in Canada, in addition to the uncertainty created by the lack of detail Suncor provides regarding whether and how climate or transition-related matters impact the timing of and expenditures required for decommissioning assets.

In contrast, we see Deloitte testing the reasonableness of Enquest's stated decommissioning liabilities in their 2023 audit.[75] They assess the validity of cost reduction factors that Enquest applies to its total decommissioning liabilities, including:

- Consideration of the impacts of climate-related matters when assessing critical audit matters, aspects of the companies' financial reporting that are especially complex and could be materially impacted by climate change and the energy transition; and
- Considering potentially contradictory evidence from actual decommissioning spend, changes in market rates, and industry publications.

73 KPMG Global Energy Institute, Decommissioning Strategy: A New Imperative For E&P Firms, (2015).
74 Ibid at 3.
75 Independent auditor's report to the members of EnQuest PLC (2023).

NO INDICATION OF SENSITIVITY TESTS TO ASSESS POTENTIAL TRANSITION SCENARIOS

As was identified in Carbon Tracker's 2023 assessment, we note that KPMG's 2024 auditor's report of Suncor's 2024 financial statements did not indicate that it conducted and provided the results of sensitivities for financial statement items that could be impacted by the energy transition, or alignment of Suncor's inputs with net zero more broadly. Despite management acknowledging the materiality of climate risk and noting that some climate-related quantitative inputs were used in the preparation of the financial statements, KPMG did not indicate that it conducted any sensitivity tests related to climate matters or disclose the climate-related quantitative inputs used.

Auditors conduct tests during the audit of financial statements to assess how sensitive a company's financials are to changes in certain variables or assumptions, such as the company's stated commitments to achieve net-zero in its operations by 2050 or the potential quantitative impacts of achieving net zero on various productive assets using transition scenario commodity prices. KPMG did not indicate that it conducted and provided the results of sensitivities for the relevant financial statement items to achieving Suncor's emissions reduction targets.

In contrast, Ernst and Young (EY) performed a sensitivity analysis due to climate change and energy transition risks in its 2023 audit of Shell. The key audit matters identified in EY's auditor's report included a climate-related key audit matter, *The impact of climate change and the energy transition on the Consolidated Financial Statements*. To assess this key audit matter, EY audited Shell's sensitivity disclosures regarding:

> *The carrying value of Shell's Upstream and Integrated Gas PP&E assets to a range of future oil and gas price assumptions, reflecting reduced demand scenarios due to climate change and the energy transition […].*[76]

EY also considered Shell's future commodity price assumptions to energy transition scenarios, and found that even though Shell did not apply net zero energy price scenarios, they still fell within accepted accounting standards.[77] In terms of future carbon costs, EY tested Shell's assumptions across the top of the reasonable range and found that they added an additional 2% to forecasted operating expenses over the next 10 years, which they did not consider a material increase.[78]

In its audit, EY demonstrates the importance of the auditor reviewing management's use of climate scenario analysis and applying a sensitivity analysis to estimate potential climate-related risks, risk of stranded assets in relation to current investment projects, and energy transition risks in general.

76 Shell plc, Financial Statements and Supplements (2023) at 231.
77 Ibid, at 233.
78 Ibid.

Understanding the extent to which companies include the effects of climate matters on relevant quantitative inputs enables investors, as well as regulators, to better assess a company's resilience and make their own adjustments and sensitivities more accurately.[79] Auditors must also test the credibility of material assumptions and step in where assumptions underlying material line items, such as remediation costs, appear inconsistent with the financials.[80] As mentioned above, Suncor's reporting does not provide sufficient detail about whether and how climate or transition-related matters impact the timing of decommissioning assets and the recording of decommissioning liabilities.

CONCLUSION

Climate change and the energy transition represent a significant risk to the oil and gas industry, particularly for a high-cost producer like Suncor. While Suncor faces significant decommissioning liabilities in any scenario, the energy transition may result in these liabilities coming due far sooner than is currently reflected in the company's statements, and there is also uncertainty about the scale of liabilities in the first place. Yet, neither the company nor its auditor appear to address the financial impacts of these risks for the 2024 financial statements. Investors and lenders require this information to properly assess the risks and opportunities associated with climate change and the energy transition, and to make informed investment decisions.

These gaps in reporting are of importance to Suncor's investors, audit committee, and regulators. The uncertainty they give rise to potentially distorts the investment environment and needs to be addressed.

79 Carbon Tracker, Flying Blind: Accounting and Audit Regulation (2025).

80 CPA Canada, Essential Guide to Valuations and Climate Change (2020).