

LEADERSHIP



what does it take?

**"I believe in people and
the value they bring
to our organization."**

– Bernie Heinz
Story page 47

**"You have to listen
to people and make
a conscious effort to
seek their input on
important issues."**

– Sandra Hemphill
Story page 45

The clarity of vision. The confidence to venture The sense

**"I measure success
in the longevity of
the relationship."**

– Les Diachinsky
Story page 40

**"Our work shows
how employers and
labour groups can
come together to
solve mutual issues."**

– Cathy Yakimec
Story page 48

about this report

This report is a comprehensive discussion about the social, economic and environmental impacts of Syncrude's business activities. On the following pages we review our progress toward sustainable oil sands development, as well as our plans going forward. Data and information in this report is increasingly subject to either Syncrude's own rigorous controls, internal audit, is gathered by or reviewed by external parties, or is subject to regulatory review. We will continue to work on our verification systems. Some data also is subject to external benchmarking.

"Tailings research is a long-term endeavour and Syncrude was the catalyst in uniting the parties who are working toward solutions."

– Ted Lord
Story page 59

"To achieve Syncrude's reclamation vision we are working to understand the fundamentals of ecosystem performance."

– Clara Qualizza
Story page 54

into the unknown. of purpose and rightness of path.

"I've learned that communication is key, especially when change is happening."

– Terry Ukrainec
Story page 28

"It takes many people to make Alberta's apprenticeship system work as well as it does, and my job is to bring them all together."

– Brian Bickley
Story page 31

"At the end of the day, I hope that people will say we did what it takes to help our children succeed."

– Jeff Thompson
Story page 37

letter from Syncrude's leaders

WHAT DOES IT TAKE TO LEAD? Throughout the pages of this report, readers will receive some insight into the leadership traits of a number of our employees.

While our company represents many different things depending on your perspective, the values expressed by our people are perhaps the best reflection of what Syncrude stands for.

Clearly, they believe the best success is that which is shared with our many stakeholders. We couldn't agree more, and that is how Syncrude came to have a banner year on many fronts.

For starters, there was continuing excellence in safety performance. Syncrude's employees and contractors engaged in our maintenance and expansion projects together achieved a lost-time injury frequency of just 0.11 per hundred person years worked despite the increased risk posed by the extensive construction activity underway on our site.

Shipments of 87.2 million barrels of *Syncrude Sweet Blend* set a new record for crude oil production, up 12.8 per cent over 2003 as the plant experienced steady, reliable operations.

This production translated into a record \$4.57 billion in pro-forma revenue, in part due to higher crude oil prices. Operating costs, at \$18.61 per barrel, reflected a reduction of more than 10 per cent in costs versus 2003. Conversely, pro-forma operating netbacks of \$33.23 per barrel were up more than 50 per cent over the prior year.

Syncrude's Stage 3 Upgrader expansion project made substantial progress and was 75 per cent complete at

year-end. The South West Quadrant Mine Replacement project was close to 50 per cent complete.

Syncrude's contribution to the provincial and national economies rose markedly to \$4.45 billion, the bulk of which supported the procurement of goods and services, including a record \$107 million in procurement from Aboriginal firms in the Wood Buffalo region.

The latter achievement was one reason the Aboriginal community of Fort McKay cited Syncrude in 2004 for having best practices in Aboriginal business development and employment. This honour is one outcome among many that demonstrated Syncrude's commitment to sharing the benefits of our success.

This commitment also is evident in our community investment activities, which saw major donations to community groups that are working to enhance the quality of life among our region's residents. Syncrude provided support for the new Syncrude Sport and Wellness Centre, a new Child Development Centre and for the purchase of medical equipment needed by the local Health Region.

Elsewhere in the community, Syncrude continued to provide both financial resources and professional expertise to the regional multi-stakeholder groups that are striving to monitor and manage the social and environmental effects of oil sands development. A major concern lies in the fact that



NAVIGATORS

L to R:

Marcel Coutu
Chairman

Charles Ruigrok
Chief Executive Officer

Jim Carter
*President and
Chief Operating Officer*

expansion of our operations and those of other companies is leading to community growth that is exceeding earlier expectations; meanwhile, development of needed infrastructure has not kept pace. Syncrude and other stakeholders are seeking a holistic solution to this issue and are working to make representations to provincial and federal governments for increased and accelerated infrastructure funding.

In 2004, Syncrude continued efforts to develop a new generation of oil sands workers. Indeed, our work with educational institutions to develop and sustain education and training programs at the secondary and post-secondary levels is providing significant career opportunity to local area residents; they comprised two-thirds of all new employees hired last year.

Another challenge we face is the need for a growing, skilled workforce in a competitive market in our region. We are developing a number of workforce development and renewal initiatives within the company and externally.

Syncrude's success in attracting new entrants to our workplace is influenced by the experience of our more seasoned employees, as nearly three-quarters of the latter have expressed a high level of satisfaction with Syncrude as an employer. Still, we continue to seek input on improvements that will keep Syncrude a workplace of choice and we appreciate the many suggestions employees made toward this goal in our biennial employee survey. These suggestions are being addressed and employees are being kept informed as to their progress.


Our employees also indicated high regard for Syncrude's commitment to workplace safety, which was strengthened during the year with the implementation of a new standard for worker drug and alcohol screening. In our view, the presence and use of alcohol and drugs in the workplace is a significant safety risk that we must guard against. For this reason, Syncrude is taking a leadership position on this issue.

Similarly, risk mitigation is a central theme in Syncrude's efforts to continuously improve our management systems.

The information we provide to stakeholders is increasingly subject to either Syncrude's own rigorous controls, internal audit, or reviewed by external parties, or subject to regulatory review. We are working on our verification systems to give all stakeholders confidence in the veracity of our reporting.

Syncrude's path to the future, including our strategies to responsibly manage growth, is another subject shaped by our stakeholders. Along with substantial growth in our production of crude oil and an upgrade in crude oil product quality to meet market demand, this path will usher in an era of marked improvement in our environmental performance. Many of these positive outcomes will be realized when our Upgrader Expansion project becomes fully operational in mid-2006. But we still face further challenges. Reducing sulphur dioxide emissions is one of these. Initiatives such as the Syncrude Emission Reduction Project, currently in early stage engineering and scheduled for start-up in 2009, will keep Syncrude moving forward on its sustainability journey.

Growth in production will increase land disturbance, and we will need to continue our long-term efforts in land reclamation. Energy is another challenge, in terms of improving our energy efficiency to lower costs and to reduce our greenhouse gas emissions intensity. While we did not meet our efficiency improvement target in 2004 for a number of production related reasons, we continue to reduce our energy intensity while expanding our production. However, because we are significantly increasing our production as well as the quality and environmental attributes of our crude oil product, total emissions of greenhouse gases will increase.

Balancing various stakeholder interests is an ongoing challenge, but we continue to make progress. In this report, you will see significant evidence of actions we have taken as a result of our proactive stakeholder engagement processes; these actions are indicated by the  symbol.

We will continue to seek your feedback and guidance on matters of mutual importance, and will work to earn your respect by doing the right thing. Our plant operations will be safe, reliable and profitable, our research and development program will foster continuous improvement, our communities will prosper socially and economically, and our people will embody the many positive attributes of leadership that all of us have come to expect and appreciate.

Toward these outcomes, we will be guided, as always, by Syncrude's Vision and Values because they strike at the very heart of what sustainability is all about.

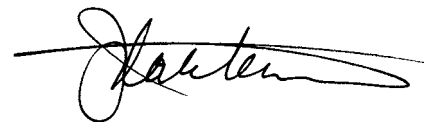
We invite readers to peruse this report for more information on our sustainability progress in 2004, and for the many indications of how we are striving to lead by example.



Marcel Coutu
Chairman



Charles Ruigrok
Chief Executive Officer



Jim Carter
President and Chief Operating Officer

Syncrude's Vision and Values

Syncrude is securing Canada's energy future with the vision to lead, the knowledge to succeed, the commitment to do better and the heart to win the race.

We will do this by encouraging learning and innovation in everything we do, pushing the limits of what technology can accomplish and working together to make Syncrude the best place to work.

In this way, we will be safe, reliable and profitable, and all of our stakeholders will want to invest in our future.

To achieve our vision, we:

- are safe, reliable and profitable
- create our own future
- realize our potential
- respect competence and value contribution
- have the courage and conviction to do what is right
- interact with care, honesty and respect
- are a participative organization
- continuously improve



FINANCE AND ECONOMY

- Crude oil shipments were a record 87.2 million barrels (238,000 barrels per day), up 12.8 per cent from 2003, as the plant experienced steady, reliable operations and no major maintenance turnarounds.
- Prices for *Syncrude Sweet Blend* averaged \$52.36 Cdn per barrel at the plant gate, an increase of \$9.54 per barrel from 2003. Total pro-forma revenue was a record \$4.57 billion.
- Total operating costs were \$1,623 million or \$18.61 per barrel, \$6 million lower than the previous year due to higher production and lower overburden removal and catalyst costs, partially offset by higher purchased energy and corporate Administration/Research costs.
- Operating netbacks reached a record \$33.23 per barrel compared with \$21.32 per barrel in 2003. Over the past four years, Syncrude has on average generated higher operating netbacks than Canadian oil and gas producers.



SOCIAL

- Memoranda of Understanding were developed with three First Nations to formalize a framework for sharing Traditional Environmental Knowledge between the First Nations and Syncrude.
- \$699,700 in employee and corporate donations were made to the United Way, a new record.
- Ten meetings and six reclamation site tours were held with Elders from regional Aboriginal communities; they helped increase Syncrude's understanding of the environmental concerns of Elders.
- Environmental stewardship meetings were held with the Industry Relations Corporations from Fort McKay, Athabasca Chipewyan First Nation and Mikisew Cree First Nation.
- A student literacy project implemented in Fort McKay with support from Syncrude showed measurable improvement in the reading comprehension levels of students in grades one through four.



ENVIRONMENT, HEALTH AND SAFETY

- 17 workers sustained lost-time injuries averaging 1.98 lost workdays. Syncrude and its contractors achieved a combined lost time injury frequency of 0.11 per hundred person years worked, 1/25th the Alberta average rate.
- A new standard for worker alcohol and drug screening was implemented. All new workers must now successfully complete an alcohol and drug screening test prior to their deployment on Syncrude sites.
- Twenty-four firefighters from Syncrude and other partners in the Wood Buffalo region's mutual aid agreement were certified as dangerous goods technicians thanks to specialized training they received in 2004.
- Alberta regulators approved Syncrude's Emission Reduction Project, which will commence operation in 2009. The project will help Syncrude reduce total sulphur emissions by 60 per cent from current levels, and also will reduce emissions of particulate matter.

- Record capital expenditures of \$2,749 million were fully funded by pro-forma cash flow. These expenditures were focused on production growth and cost reduction initiatives. Syncrude's Upgrader expansion project was 75 per cent complete at year-end.
- Pro-forma return on total capital employed (ROCE), averaged 20.1 per cent, including \$6.2 billion of capital investment in facilities that have not yet commenced operation.

- Procurement of goods and services reached \$3.4 billion, not including purchased energy.
- Business volume with Edmonton area companies was \$1.4 billion while business with Wood Buffalo firms was \$1.2 billion. Business with other Alberta firms totalled a further \$710 million.

- \$800,000 in Syncrude support for the Northern Lights Regional Health Centre will help purchase medical equipment.
- A strategic review of Syncrude's Aboriginal Development Program was commissioned. The review will assess the program's effectiveness in meeting the needs of the Aboriginal people of the Wood Buffalo region.
- Stakeholder concerns about Syncrude's research trial for in-ground sulphur storage were eased when Syncrude provided additional information about the trial's scope and purpose; consultation is ongoing as the project continues.

- The Human Exposure Monitoring Program was expanded. Residents from several Wood Buffalo communities are being studied over a period of six years to determine their exposure to indoor and outdoor airborne contaminants.
- A comprehensive and auditable system for reporting greenhouse gas emissions from the oil sands and heavy oil upgrading industry was established by Syncrude and others. The new system is an industry best practice.

- 383 people were hired as new Syncrude employees; total attrition was 5.4 percent, including retirements.
- Syncrude's biennial employee survey showed that three-quarters of employees have a high level of satisfaction with Syncrude as their employer.
- Ethics reporting procedures were enhanced. Employees can now access a toll-free telephone hotline and send anonymous messages via mail and electronic mail in addition to other established processes.
- Syncrude's total water withdrawals from the Athabasca River, at 30.6 million cubic metres, comprised Syncrude's lowest withdrawal since 1990. New conservation measures continue to be identified.
- A total of 653 hectares of land were reclaimed, bringing to 4,055 hectares the total of land reclaimed since 1978.
- Syncrude's Watershed Research Program was recognized for design excellence. The research will help ensure the long-term success of Syncrude's reconstructed landforms.

Performance Summary 2004

	2004	2003	2002
ECONOMIC AND SOCIAL CONTRIBUTION			
Cumulative Royalties and Payroll and Municipal Taxes (\$ millions Cdn)	6,406	6,153	5,930
Cumulative Aboriginal Contracts (\$ millions Cdn)	768	661	571
Aboriginal Workforce (% of Syncrude workforce)	9.1	9.4	9.6
HEALTH AND SAFETY			
Total Recordable Injury Frequency Rate (Syncrude + contractors)	1.11	1.10	0.82
ENVIRONMENT			
Greenhouse Gases (tonnes CO ₂ /barrel)	0.117	0.121	0.117
Sulphur Dioxide (tonnes/thousand barrels)	1.0	0.99	0.96
Nitrogen Oxide tonnes/ thousand barrels	0.25	0.27	0.24
Land Disturbed (cumulative hectares)	18,653	18,335	17,653
Land Reclaimed (cumulative hectares)	4,055	3,402	3,215
Energy Intensity (million BTUs per barrel)	1.35	1.37	1.30
Water Diverted from Athabasca River (million cubic metres)	30.6	32.3	40.7

BACKGROUND



Syncrude Canada Ltd. is a leader in Canada's oil sands industry, producing 13 per cent of the nation's crude oil requirements, and is among the top 50 companies in Canada for R&D investment. Our mission is to create wealth for our stakeholders from Canada's oil sands through the 21st century by safely, reliably and profitably producing high quality crude oil and other products in an environmentally and socially responsible manner.

Toward this, Syncrude operates technologically advanced oil sands mines, extraction and upgrading facilities, as well as utilities plants at its sites north of Fort McMurray, Alberta.

Syncrude was incorporated in 1964 and began producing crude oil in 1978. Today our company is the world's largest producer of light, sweet crude oil from the oil sands with cumulative production surpassing 1.5 billion barrels.

The Syncrude Project is a joint venture undertaking among Canadian Oil Sands Limited (31.74%), Canadian Oil Sands Limited Partnership (5%), ConocoPhillips Oilsands Partnership II (9.03%), Imperial Oil Resources (25%), Mocal Energy Limited (5%), Murphy Oil Company Ltd. (5%), Nexen Inc. (7.23%), and Petro-Canada Oil and Gas (12%).



RESEARCH AND DEVELOPMENT

Syncrude invests over \$40 million annually in science and technology, and is among the top 50 companies in Canada for R&D investment. Our Research Department has been active for 40 years and operates one of the largest private sector research programs in western Canada. Syncrude holds 21 active Canadian and U.S. patents and our researchers maintain extensive ties with universities and research institutes.



MINING

Shovel and truck operations at the Mildred lake and Aurora sites mine the oil sand, which is then mixed with warm water. This process creates a slurry that is pumped via the hydrotransport pipeline system to extraction facilities.



RECLAMATION

After mining is complete, our vision is to create a landscape that sustains an integrated mosaic of land uses that meet stakeholder expectations. To date, we have permanently reclaimed 4,055 hectares and planted about 3.3 million tree and shrub seedlings. And, in cooperation with the Fort McKay First Nation, we have successfully developed wood bison habitats.



STAKEHOLDER CONSULTATION

We are strongly committed to ensuring the public, whether individuals or interested groups, are consulted about corporate actions that could directly affect them. Their input and expectations are integral to the decisions we make today and how we plan for the future. ● ● ● ● ●



UTILITIES

Syncrude's utilities facilities produce the steam, electricity and air, and treat the water required to run the operation. Syncrude is self-reliant in electrical power generation and a net exporter of electricity to the Alberta Power Grid. ● ● ● ● ●



EXTRACTION

The bitumen slurry is fed into separation vessels where the bitumen floats to the surface in a froth. This froth is diluted with naphtha, and then fed into centrifuges that further separate liquids and solids. Finally, the naphtha is removed, leaving only pure bitumen. ● ● ● ● ●



UPGRADING

Bitumen is fed into either one of two cokers or a hydrogen processor. It is thermally cracked into hydrocarbon gases, naphtha and gas oil. The hydrocarbon gases are treated for use as refinery fuel, and the naphtha and gas oils are treated and blended into a high quality, light, sweet crude oil called *Syncrude Sweet Blend*. The oil is then transported via pipeline to refineries in North America. ● ● ● ● ●



SOCIO-ECONOMIC BENEFITS

Through our work to produce *Syncrude Sweet Blend*, we contribute to the social and economic well-being of Canadians. ● ● ● ● ●



REFINERIES/CUSTOMERS

Refineries process *Syncrude Sweet Blend* to make high quality gasolines and diesel fuels, jet fuels and chemical feedstocks. Syncrude and its owners work continuously to understand present and future refinery requirements; accordingly, an improved *Syncrude Sweet Premium* product will be introduced in 2006. ● ● ● ● ●



toward sustainable growth

SUSTAINABLE GROWTH

remains a key objective for Syncrude. We understand that we have many stakeholders who wish to stay informed about the impacts of our operation and discuss some areas of common interest in this section. Further information on the work undertaken in 2004 and beyond is discussed throughout the balance of this report.

	Production & Product	Employment	Infrastructure Needs	SO ₂ and Particulate Emissions
FUTURE PLANS	<ul style="list-style-type: none"> • Increase production to 350,000 barrels per day by 2006 and possibly to 500,000 in the future • Improve product quality to higher grade <i>Syncrude Sweet Premium</i> 	<ul style="list-style-type: none"> • Create and support strategic education and training programs • Implement Workforce Development strategies • Create a supportive work environment 	<ul style="list-style-type: none"> • Work with regional associations and governments to highlight the risk that oil sands growth will be constrained by a lack of public infrastructure and services needed to support a growing local community • Ongoing investments in community infrastructure 	<ul style="list-style-type: none"> • Investment in emissions reduction technology for existing cokers by 2009
EXPECTED RESULTS	<ul style="list-style-type: none"> • Sustained production at increased levels through expanded upgrading capacity and long-life mines. • Meet market demand for premium quality product with lower sulphur and nitrogen content • Downstream refineries will more easily produce cleaner burning, more environmentally friendly petroleum products. 	<ul style="list-style-type: none"> • Workforce sustainability through education and training initiatives that create qualified new employees and retain current employees 	<ul style="list-style-type: none"> • Increased infrastructure funding for health, education, roads, and recreation • Improved quality of life in the Wood Buffalo region • Unconstrained oil sands development 	<ul style="list-style-type: none"> • Reduction in total SO₂ emissions by 60% from current levels and particulate matter by 50% even while production grows by 40%

Partners Toward Sustainability

Syncrude has many industry partners in its sustainability journey. Together, we are working to address and improve the economic, environmental and social performance of Canada's resource industry. In many cases, Syncrude is a leading contributor through the provision of staff expertise and funding. Readers are invited to learn more by visiting the websites listed below.

Alberta Chamber of Resources: www.acr-alberta.com

Canadian Association of Petroleum Producers: www.capp.ca

Canadian Oil Sands Network for Research and Development: www.conrad.ab.ca

Mining Association of Canada: www.mining.ca

Land Reclamation	Water	Energy and Climate Change	Aboriginal Relations	Safety
<ul style="list-style-type: none"> Continued land reclamation progress Continued work with Land Reclamation Technical Advisory Panel of external experts 	<ul style="list-style-type: none"> Technology development aimed at reduced fresh water consumption and increased recycled water use 	<ul style="list-style-type: none"> Investment in technology to reduce energy consumption and improve bitumen recovery and upgrading yields Dedicated energy efficiency specialists and energy conservation assessments on processes and equipment 	<ul style="list-style-type: none"> Continued focus on six key Aboriginal Development commitment areas: <i>Corporate Leadership</i> <i>Employment</i> <i>Business Development</i> <i>Education</i> <i>Community Development</i> <i>Environment</i> 	<ul style="list-style-type: none"> Continued investment in training, incentives and other initiatives to facilitate further improvements in workplace safety
<ul style="list-style-type: none"> Reclaim 361 additional hectares in 2005 Land reclamation that is consistent with closure plans 	<ul style="list-style-type: none"> Optimization and efficient utilization of fresh water resources Continuous improvement in fresh water use per barrel of oil produced 	<ul style="list-style-type: none"> Continued reduction in energy intensity Further reductions in emissions of CO₂ per barrel of production 	<ul style="list-style-type: none"> Continual improvement of Aboriginal participation in secondary and post-secondary education Aboriginal representation in the workforce that is consistent with regional demographics Continued development of sustainable Aboriginal business enterprises 	<ul style="list-style-type: none"> Progress toward our long-term objective of an injury-free workplace Safety performance that continues to lead Alberta industry



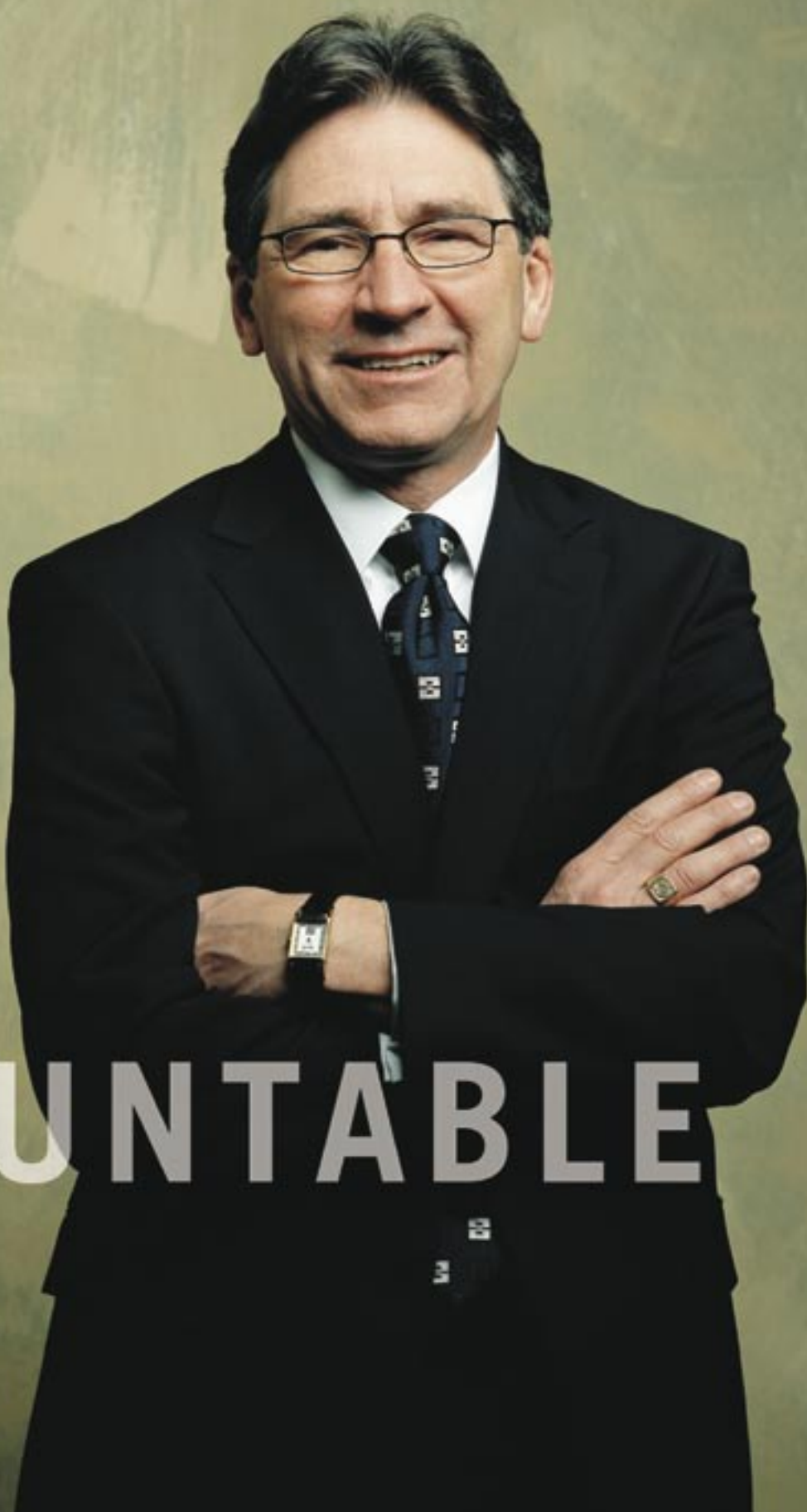
Syncrude is a platinum level participant in the Stewardship initiative of the Canadian Association of Petroleum Producers; this designation certifies that our EH&S management systems and performance are audited by independent third parties.



Syncrude is a participant in the Towards Sustainable Mining (TSM) initiative of the Mining Association of Canada, which is a strategy for improving the sustainability performance of Canada's mining industry.



Syncrude is accredited at the Gold Level in the Progressive Aboriginal Relations (PAR) Program of the Canadian Council for Aboriginal Business. PAR measures corporate performance in Aboriginal employment, business development, capacity development and community relations.

A portrait of Philip C. Lachambre, a middle-aged man with dark hair and glasses, wearing a dark suit, white shirt, and patterned tie. He is standing with his arms crossed against a textured, olive-green background. The word "ACCOUNTABLE" is printed in large, white, sans-serif capital letters across the bottom of the image, partially overlapping his suit.

Philip C. Lachambre

*Executive Vice President and
Chief Financial Officer*

ACCOUNTABLE

financial and economic performance

AS SYNCRUDE WORKS TO SECURE CANADA'S ENERGY FUTURE, we are also working to generate attractive financial returns to our Joint Venture owners, as well as substantial benefits to Alberta and Canada's economies. We are the country's leading producer of crude oil from oil sand and aim to maintain this position through a strategic growth program built on a foundation of operational excellence.

About our Financial Reporting

Syncrude's business activities are restricted to the operation of the Syncrude Project, a Joint Venture, and as such Syncrude does not sell or receive revenue from its production. Accordingly, Syncrude is not able to provide conventional financial statements.

Syncrude incurs operating costs and capital expenditures associated with its operations. Certain additional costs, liabilities and obligations are carried directly by each Joint Venture owner. These include reclamation and site restoration obligations, hedging of commodity prices and foreign exchange, development expenses, owner marketing and administrative costs, and pension costs dependent on market performance and changes in discount rates. Each Joint Venture owner accounts for their proportionate share of Syncrude's costs in accordance with their stated accounting policies.

Financial information has been prepared by management in accordance with accounting principles generally accepted in Canada and includes certain amounts based on estimates and management's best judgments. This information is presented in unaudited form.

Certain financial information contained in this report is based on pro-forma financial analysis completed by Syncrude. The pro-forma information is theoretical and not intended to represent the actual financial results of any individual Joint Venture owner.

Management maintains a system of internal controls that provides reasonable assurance that all transactions are recorded, that the financial information realistically portrays the operating and business results, and that the assets of the Syncrude Project are safeguarded. Syncrude's internal auditors review and evaluate compliance with internal controls. The Board of Directors of Syncrude is responsible for ensuring that management meets the requirements for internal control and financial reporting. The Audit and Pension Committee of the Board of Directors discharges this responsibility and engages an external auditor to conduct an independent review of the financial reports.

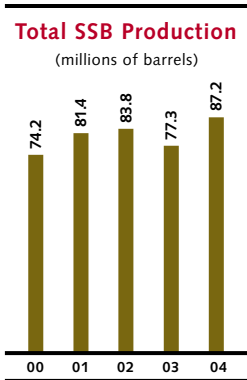
Syncrude's policy and practice is to meet the highest standard of ethical conduct in all of its activities, and to continuously improve its systems of internal business controls. Toward this end, the Syncrude organization is now upgrading its control systems and processes to ensure effective compliance with Bill C198 and related CSA regulations M52-109 and 111 by year-end 2006.



Philip C. Lachambre
Executive Vice President and Chief Financial Officer



A conveyor moves mined oil sand toward the Mildred Lake extraction facility.



2004 Results

Syncrude delivered strong business results in 2004. Crude oil shipments set a new record of 87.2 million barrels (238,000 barrels per day) up 12.8 per cent from 2003, as the plant experienced steady, reliable operations in the absence of a coker maintenance turnaround. Crude oil prices at the plant gate averaged Cdn \$52.36 per barrel, up from Cdn \$42.82 per barrel in 2003.

Pro-forma revenues from crude oil shipments rose 39 per cent to \$4.6 billion on the strength of higher crude prices and record crude oil shipments, partially offset by the impact of a stronger Canadian dollar. Operating costs were \$18.61 per barrel, a decrease from the \$21.07 per barrel recorded in 2003. Higher crude production and lower operating costs contributed to the unit cost reduction.

Pro-forma cash flow from operations was a record \$2.9 billion, an increase of \$1.2 billion from 2003 due to higher crude oil shipments and a higher average plant gate price. Operating netbacks rose to \$33.23 per barrel, a more than 50 per cent increase from \$21.32 a year earlier.

Pro-forma cash flow fully funded the \$2.7 billion capital expenditure program, the largest in Syncrude's history. Significant progress was made on the Stage 3 upgrader expansion; construction was 75 per cent complete by year-end, versus 35 per cent at the end of 2003. Mechanical completion is expected by early 2006, and completion of commissioning and start-up of all units is scheduled for mid-2006. Net cash flow after deducting capital program expenditures was \$148 million, up \$1,053 million over 2003.

Pro-forma return on total capital employed was 20.1 per cent in 2004 versus 14.8 per cent in 2003.

Financial Performance

Dollar amounts in Cdn dollars	2004	2003	2002	2001
Total SSB Production ¹ (millions of barrels)	87.2	77.3	83.8	81.4
Pro-Forma Revenue for Syncrude Sweet Blend*				
Millions of dollars ²	4,566	3,310	3,393	3,211
Annual Average Deemed Unit Price per barrel Cdn at Plant Gate	52.36	42.82	40.50	39.43
Annual Average WTI at Cushing (per barrel U.S.)	41.47	30.99	26.15	25.90
Total Operating Costs				
Millions of dollars	1,623	1,629	1,429	1,480
Per barrel of SSB	18.61	21.07	17.05	18.17
Operating Cash Flow* ³				
Millions of dollars	2,897	1,648	1,930	1,489
Netback per barrel of SSB	33.23	21.32	23.04	18.29
Capital Program ⁴				
Millions of dollars	2,749	2,553	1,946	910
Net Cash Flow (Outflow) (before tax)* ⁵				
Millions of dollars	148	(905)	(16)	579
Return on Capital Employed (ROCE) (after tax)*				
Total capital (%) ⁶	20.1	14.8	25.6	25.7

* Pro-forma data.

¹ SSB Production is Syncrude Sweet Blend shipped.

² Pro-forma revenue is SSB shipments multiplied by the Deemed Unit Price (Cdn) at the Plant Gate.

³ Operating cash flow is owners' revenue less royalties (owner's average) and total operating costs; owners' financing costs and income taxes, and changes in non-cash working capital are not included.

⁴ Capital program expenditures include sustaining capital, growth capital and related development expenses.

⁵ Net cash flow is operating cash flow less capital program expenditures.

⁶ ROCE is the after tax return on average capital employed. ROCE – total capital – includes the investment in all assets, including assets not currently in service, in average capital employed.

Pro-Forma Revenue

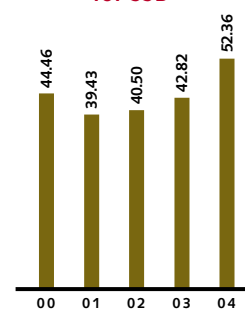
Owners' pro-forma revenue generated from the sale of *Syncrude Sweet Blend* crude oil, and based on Deemed Unit Prices, reached an all-time high of \$4,566 million compared with \$3,310 million in 2003. The revenue resulted from higher SSB shipments and higher crude oil prices, partially offset by a stronger Canadian dollar.

2004 experienced surging worldwide demand for commodities driven by global economic growth. West Texas Intermediate (WTI) prices rose from a monthly average

Kyoto Protocol

Syncrude's emission limits under the Kyoto Protocol, and the Canadian government's regulatory framework governing Canada's compliance with the Protocol, remain to be determined. Canadian Oil Sands Trust estimates the cost of compliance could be as much as \$0.20 to \$0.30 per barrel, depending on final calculation methods and large final emitter targets established by the government for the initial compliance period. Compliance costs are unknown beyond the initial compliance period as international negotiations on targets have not effectively begun.

Pro-forma Revenue for SSB*



* Annual Average Deemed Unit Price per Barrel (Cdn) at Plant Gate

Secure Natural Gas Supply

In September, Syncrude and TransCanada officially opened a new gas metering station that will function as the local delivery point for natural gas to Syncrude. The move to establish a local delivery point ensures a reliable natural gas supply to Syncrude to meet existing and future needs. It will also result in reduced natural gas transportation charges and other related costs.



Syncrude uses natural gas to produce hydrogen, which is a key ingredient in our highly upgraded Syncrude Sweet Blend product. Shown here is the hydrogen plant at our Mildred Lake Upgrader.

low of \$34.22 U.S. per barrel in January to a high of \$53.09 U.S. during October. The average WTI price in 2004 was \$41.47 U.S. per barrel, up from \$30.99 U.S. in 2003.

Deemed unit prices for *Syncrude Sweet Blend* averaged \$52.36 Cdn per barrel at the plant gate, up \$9.54 per barrel from 2003. During 2004 *Syncrude Sweet Blend* traded at an average premium of \$0.52 per barrel over Canadian Sweet Crude at Edmonton, which is comparable to 2003. The Canadian dollar continued to appreciate in 2004, averaging \$0.77 U.S. per Canadian dollar, seven per cent higher than in 2003.

Total Operating Costs

Total operating costs were \$1,623 million in 2004, down slightly from 2003. Operating costs were held steady despite a 12.8 per cent increase in SSB production. The small decrease in total operating costs was attributable to lower overburden removal and turnaround and catalyst costs, partially offset by higher production, purchased energy and other costs. Record production volumes reduced unit costs to \$18.61 per barrel from \$21.07 per barrel in 2003. Continuous improvement initiatives, with a focus on achieving higher production volumes through improved plant reliability, reduced energy consumption and lower operating costs also contributed to these improved results.

Purchased energy costs dropped in 2004 by \$0.20 to \$4.24 per barrel of SSB. Reduced consumption of imported natural gas saved \$0.34 per barrel, while the effect of lower power exports increased costs by \$0.14 per barrel.

Imported natural gas consumption declined to 0.58 gigajoule per barrel SSB in 2004 from 0.72 gigajoule per barrel SSB in 2003, and was achieved without a reduction in product quality. Imported natural gas costs averaged \$6.28 per gigajoule, the same as in 2003. Overall energy consumption, in the form of imported natural gas, net power imports, coke and fuel gas by-products, declined slightly in 2004 to 1.35 Mbtu/Bbl SSB from 1.37 Mbtu/Bbl SSB in 2003.

Major components of Syncrude's operating costs and capital expenditures are set out in the tables on page 17, 19 and 21.

There is no generally accepted accounting definition as to what constitutes "Operating Costs". The accounting treatment of certain costs may vary significantly between different producers of crude oil from oil sands. Some producers may elect to capitalize or defer and amortize certain expenditures that are recorded as an operating or development expense by other producers.

Joint Venture Operating Costs

Dollar amounts in Cdn dollars	2004	2003	2002	2001
Overburden Removal Costs ¹				
Millions of dollars	184	215	212	183
Per barrel of SSB	2.10	2.78	2.53	2.25
Production Costs ²				
Millions of dollars	916	865	834	869
Per barrel of SSB	10.51	11.18	9.96	10.66
Turnaround and Catalyst Costs ³				
Millions of dollars	62	144	100	75
Per barrel of SSB	0.71	1.86	1.19	0.92
Purchased Energy ⁴				
Millions of dollars	370	343	199	288
Per barrel of SSB	4.24	4.44	2.37	3.54
Corporate Admin/Research ⁵				
Millions of dollars	91	62	84	65
Per barrel of SSB	1.05	0.81	1.00	0.80
Total Operating Costs				
Millions of dollars	1,623	1,629	1,429	1,480
Per barrel of SSB	18.61	21.07	17.05	18.17

¹ Overburden removal costs are the cash costs incurred in the year to remove the layer of muskeg and earth that cover the oil sands deposits, and certain costs related to dyke construction.

² Production costs are ongoing costs to mine oil sand, and extract and upgrade bitumen into Syncrude Sweet Blend (SSB). Production costs exclude the more variable costs of overburden removal, turnarounds and catalyst replacement and purchased energy, and the category of Corporate Administration/Research costs.

³ Turnaround and catalyst costs are expenditures incurred in the year for major maintenance turnarounds and long life catalyst replacement.

⁴ Purchased energy is the cost of imported natural gas and the net cost of electrical power (power imports less exports).

⁵ Corporate Administration and Research includes the cost of corporate administration functions and research activities, and variable compensation.

A shovel and truck remove overburden in preparation for oil sands mining.



SUPPLEMENTARY UNIT COST INFORMATION Syncrude separates total unit operating costs into three broad categories – Bitumen Production, Upgrading, and Corporate Administration and R&D. Syncrude's business objectives are to be the lowest cost producer of bitumen and the highest margin upgrader.

Total bitumen production costs decreased to \$9.79 per barrel of bitumen (\$11.58 per barrel of SSB) in 2004 from \$10.17 per barrel (\$12.13 per barrel of SSB) in 2003, as lower unit costs at the Aurora mine offset higher unit costs at the Mildred Lake mine.

In 2004, Aurora's growing production of high-grade oil sand, and its lower waste-to-ore ratio, more than offset the high cost of declining lower grade production at the Mildred Lake mine. Aurora's production and overburden removal costs decreased sharply to \$6.34 per barrel from \$8.49 in 2003.

Total upgrading costs in 2004 were \$5.98 per barrel of SSB, a significant decrease from the \$8.13 per barrel of SSB recorded in 2003. Higher SSB production, the absence of a major coker maintenance turnaround, lower energy costs, and other efficiencies were the main contributing factors to the improved performance. The operating cost of converting sour, intermediate product into *Syncrude Sweet Blend* product was more than offset by increased margins.

Corporate Administration and R&D costs increased by \$0.24 to \$1.05 per barrel in 2004, the result of higher costs and obligations associated with variable compensation programs.

Production and Unit Operating Costs¹

	2004		2003		2002	
(amounts in millions of barrels)	Bitumen	SSB	Bitumen	SSB	Bitumen	SSB
Production						
Mildred Lake	53.3		63.4		71.7	
Aurora	49.9		28.9		26.1	
Total	103.2	87.2	92.3	77.3	97.8	83.8

	2004		2003		2002	
(amounts in Cdn dollars)	\$/Bbl Bitumen	\$/Bbl SSB	\$/Bbl Bitumen	\$/Bbl SSB	\$/Bbl Bitumen	\$/Bbl SSB
Unit Operating Costs						
Bitumen Production						
Overburden Removal Costs	1.78		2.33		2.17	
Production Costs ²	6.12		6.17		5.75	
Purchased Energy	1.89		1.67		1.02	
Total Bitumen Production	9.79	11.58	10.17	12.13	8.94	10.43
Upgrading						
Turnarounds and Catalysts	0.71		1.86		1.19	
Production Costs	3.27		3.82		3.24	
Purchased Energy	2.00		2.45		1.19	
Total Upgrading	5.98		8.13		5.62	
Corporate Administration and R&D	1.05		0.81		1.00	
Total Unit Costs	18.61		21.07		17.05	

¹ For description of cost categories, see page 16.

² Production costs in 2003 include Aurora Train 2 start-up costs: Based on total bitumen production, the start-up costs are \$0.08/bbl of bitumen, \$0.10/bbl of SSB.

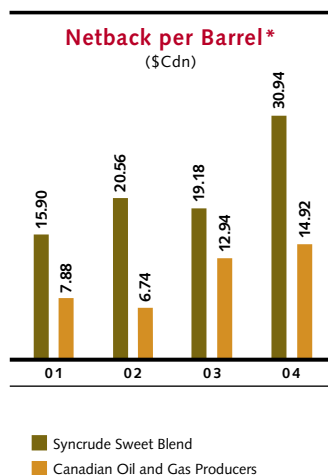
Bitumen Production at Mildred Lake and Aurora comprises the direct and indirect costs of mining and extraction operations, including overburden removal, production and purchased energy.

Bitumen Production costs are set out on a dollar per barrel of bitumen basis, and on a dollar per barrel of equivalent SSB basis. The higher unit cost per barrel of SSB results from the lower volumetric yield achieved when bitumen is upgraded into a barrel of SSB.

The direct and indirect costs of upgrading bitumen into SSB have been divided into the three main categories of turnaround and catalysts costs, production costs and purchased energy.

Upgrading of bitumen occurs in two stages. The initial stage of upgrading involves the conversion of bitumen into a stream of intermediate, sour products. The secondary or hydro-treating stage upgrades the intermediate sour products into light, sweet crude oil called Syncrude Sweet Blend. This stage is more energy intensive due to the addition of hydrogen, which Syncrude produces from imported natural gas.

Syncrude's value-adding strategy to produce and upgrade bitumen into a light sweet crude oil generates superior netbacks and financial performance, and also reduces emissions from downstream refining.



* After pro-forma DD&A.

Pro-forma Operating Cash Flow and Netbacks

Operating cash flow set a new record of \$2,897 million in 2004, up from \$1,648 million in 2003, driven by higher crude oil prices and higher production, while total operating costs were essentially unchanged. Owners' financing costs, income taxes and changes in non-cash working capital are not included.

Operating netbacks reached an all-time high of \$33.23 per barrel in 2004, compared with \$21.32 in 2003. Over the past four years Syncrude has on average generated higher operating netbacks than Canadian oil and gas producers. When sustaining capital or pro-forma depreciation, depletion and amortization (DD&A) is taken into account, Syncrude's netbacks have consistently outperformed the Canadian oil and gas industry.

Pro-forma Netbacks per Barrel

	2004	2003	2002	2001
Syncrude SSB				
Operating Netback ¹	33.23	21.32	23.04	18.29
Netback after Sustaining Capital ²	30.96	19.28	21.15	16.25
Netback after Pro-forma DD&A ⁵	30.94	19.18	20.56	15.90
Canadian Oil and Gas Producers ^{3, 5}				
Operating Netback	25.14	22.19	16.01	19.07
Netback after Sustaining Capital ⁴	11.75	11.51	5.47	8.80
Netback after DD&A ⁵	14.92	12.94	6.74	7.88

¹ Pro-forma Operating Netback for SSB is the Deemed Unit Price at the plant gate less royalties and total operating cost (as defined by Syncrude) per barrel.

² Sustaining capital is the capital necessary to maintain the current productive capacity of the operation. Sustaining capital per barrel is calculated on a five year rolling average basis.

³ Per barrel amounts for Cdn. Oil and Gas Producers are stated in terms of Barrel of Oil Equivalents (BOE), with natural gas converted on a 6:1 basis. Source of data is Ross Smith Energy Group Ltd, CAPP, Natural Resources Canada, and Statistics Canada.

⁴ Sustaining capital for Canadian Oil and Gas Producers is finding and development costs calculated on a ten-year rolling average basis. Source of data is Ross Smith Energy Group Ltd.

⁵ Syncrude's plant assets are pro-forma depreciated using the unit of production method based on estimated production over the life of the plant (40 years). Equipment and other assets are depreciated over their estimated useful life on a straight-line basis.

Capital Program

(millions of dollars)	2004	2003	2002	2001
Capital Expenditures – total	2,613	2,435	1,857	828
Sustaining ¹	250	193	190	183
Growth/Major ²	2,363	2,242	1,667	645
Development expense ³	136	118	89	82

¹ Sustaining capital expenditures are for capital required to maintain the production capacity of the current operation.

² Growth/major capital expenditures are for investments in production growth and for various operating efficiency improvements.

³ Development expense is the cost of research and engineering development activities related to sustaining capital and major capital projects.

Total capital program expenditures including growth/major capital, sustaining capital and development expense reached a new high of \$2,749 million in 2004, up from \$2,553 million in 2003.

Growth/major capital expenditures, which are focused on production growth and cost reduction initiatives, reached \$2,363 million in 2004, up from \$2,242 million in 2003. Spending on the Stage 3 expansion was \$1,954 during 2004. Most of the Stage 3 spending was for the approximately 45 per cent capacity expansion to Syncrude's upgrading and processing facilities at Mildred Lake, which reached 75 per cent completion by year-end.

The Upgrader Expansion project includes new froth treatment and diluent recovery units, adds a third fluid coker, a fourth distillate hydro-processor, a fourth hydrogen plant, a sour water treater, and supporting utilities. The project also includes modernization of existing process control systems. The new process units will result in the production of a more highly upgraded, superior quality *Syncrude Sweet Premium* (SSP) product. This new product will help keep Syncrude at the forefront of refinery processing requirements.

Other major project expenditures in 2004 included the South West Quadrant Mine Replacement project at \$374 million. This project, which reached 47 per cent completion in 2004, will replace bitumen production from the Base mine at Mildred Lake and provide a stable long-term source of bitumen for the new upgrading capacity added by Stage 3.

Another major project, the Syncrude Emission Reduction project, was launched in 2004 with \$19 million being spent on preliminary design/engineering.



A new reactor is put into place as part of Syncrude's Upgrader Expansion project.

Improved Asset Management

In 2004, Syncrude began the implementation of an Equipment Asset Management System. The system will help Syncrude increase equipment utilization, extend equipment life and reduce maintenance costs. It will track and manage more than 200,000 pieces of equipment and will be integrated with business applications currently used by Syncrude. The project is expected to take two years to complete.

Sustaining capital expenditures required to maintain existing plant production levels were \$250 million in 2004, compared to \$193 million in 2003. The increase in 2004 spending centered on improved reliability and efficiency enhancement initiatives. Sustaining capital has averaged \$2.27 per barrel over the last five years.

Development expense associated with capital projects was \$136 million in 2004, up from \$118 million in 2003 due to the significant increase in base plant and growth/major projects activity. Development expense is expected to peak in 2005 as the Upgrader expansion construction is completed.

Syncrude Joint Venture Owners' reinvestment rate, a function of operating cash flow and total capital program spending, was 95 per cent in 2004, down from 155 per cent in 2003. Over the last four years strong cash flow from operations funded 98 per cent of the \$8.1 billion in cumulative capital program expenditures, which is equivalent to a reinvestment rate of 103 per cent.

Stakeholder Benefits of Capital Program ^{SE}

A major benefit of the Upgrader Expansion project will be substantially lower sulphur dioxide emissions from the Mildred Lake plant, a change that will further improve regional air quality. Starting in 2006, sulphur dioxide emissions will decrease by about 25 per cent from current levels despite a 45 per cent increase in plant capacity.

The Syncrude Emission Reduction Project will further reduce sulphur dioxide emissions, to 50 per cent of 2006 levels, and is targeted for completion and start-up in 2009.

The higher quality of the *Syncrude Sweet Premium* product will enable downstream refineries to more easily produce cleaner burning, more environmentally friendly petroleum products that are in keeping with societal demand. Syncrude continuously engages in consultation and surveys with refinery customers to stay at the forefront of market requirements.

From an economic perspective, Syncrude's strategic decision to upgrade all of its product output to a premium quality at its Mildred Lake site generates higher returns for investors and retains highly skilled jobs in Canada, thereby making Canada's oil sands an attractive location for future investment.

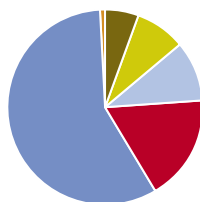
Also see discussion on Economic Contribution, page 24.

Land Reclamation Liability ^{SE}

Syncrude has taken a lead role in a joint initiative among the provincial government and the oil sands and coal industries to develop an improved system for assessing, managing and securing reclamation liabilities of major mine operations in Alberta. The program incorporates principles of environmental, engineering and reclamation science, and also employs independent, consistent and auditable accounting and financial principles.

Also see discussion on land reclamation, page 60.

Total Expenditures by Category
\$4,455 million



Royalties, Payroll and Municipal Taxes	\$253 million
Purchased Energy	\$370 million
Employee Compensation and Benefits	\$444 million
Purchased Materials and Services	\$789 million
Contracted Services	\$2,562 million
Other Expenditures	\$37 million

Return on Capital Employed (ROCE)

Pro-forma return on total capital employed, which includes \$6.2 billion of capital investment in facilities that have not yet commenced operations, averaged 20.1 per cent in 2004 compared with 14.8 per cent in 2003. The increase was due to higher revenues, partially offset by the effect of \$1.9 billion of capital additions to production assets not yet placed in service.

2005 Outlook

Syncrude's Joint Venture owners have established a production target range of 80-86 million barrels of SSB (219,000-236,000 barrels per day) for 2005, which includes the effects of a major coker maintenance turnaround, as well as maintenance and repairs on other units in the first quarter. The upper end of this range assumes strong operational performance for the remainder of the year.

Total operating costs are targeted at \$22.17 per barrel SSB. The cost target assumes a natural gas cost of \$6.90/GJ. Total operating costs include production costs, overburden removal costs, turnaround and catalyst costs, purchased energy, and corporate administrative and research expenses.

The Joint Venture owners have approved a 2005 capital program consisting of \$2 billion of capital expenditures and \$224 million of development expense.

Approximately \$1.3 billion of the capital expenditures are for completion of construction work on the Upgrader Expansion project. By late 2005 many of the project's new and revamped units are scheduled to commence start-up procedures as they transition from construction to operations.

A further \$337 million is for completion of an auxiliary mine train at Aurora and an additional oil sand production system at Mildred Lake that will replace bitumen production from the original Mildred Lake base mine area. This project commences operations in 2005 and will improve the efficiency and reliability of bitumen production operations.

Spending on engineering, procurement and construction associated with the Syncrude Emission Reduction Project is expected to reach \$31 million.

The remaining capital expenditures are for base plant sustaining capital projects, including reliability, efficiency enhancement and environmental initiatives.

Development expense associated with Stage 3 and other major projects is budgeted at \$133 million, and \$91 million has been planned for base plant development and other initiatives.

Economic Contribution

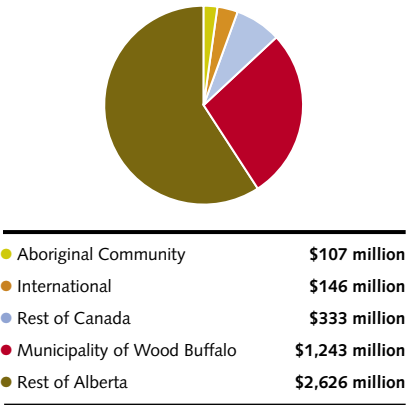
Syncrude is a Joint Venture producer of high quality, light crude oil from oil sand with a 26-year history of successful operations. The largest expansion in Syncrude's history is currently underway. Syncrude contributes to the economic well being of Canadians by helping to secure Canada's energy needs, and through payment of royalties and corporate and payroll taxes as well as the procurement of goods and services.

Syncrude's SSB production represents about 10 per cent of Canada's total crude oil production and 13 per cent of domestic consumption. The long life, high quality resource base, stable regulatory regime and competitive taxation environment provide our Joint Venture owners with a sound platform for continued growth. Capital investment and research initiatives are focused on incorporating the best of new technologies that promise lower emissions, lower operating and capital costs per barrel, lower energy consumption per barrel, more effective water use, and the introduction of a higher quality crude oil product. Syncrude is committed to remaining a leader in the profitable, sustainable development of the Athabasca oil sands.

Syncrude's Stage 3 expansion project will increase our crude oil production capacity by about 45 per cent from current levels to approximately 128 million barrels per year (350,000 barrels per day) of higher quality *Syncrude Sweet Premium* blend (SSP). Stage 3, with its state-of-the-art technologies for mining and upgrading, a retrofit of automated control systems in the current operation, and new environmental units to reduce emissions, will be fully operational by mid 2006.

Syncrude continues to be a major engine of growth for Alberta and Canada's economies with over \$4.5 billion in total spending during 2004. Approximately 4,200 employees and 1,500 contractors support current operations. A further 6,500 highly skilled contractor personnel were engaged in Stage 3 construction at its peak. This project will have created an estimated 25 million field labour hours of work when completed in 2006.

Geographic Distribution of
\$4,455 Million Economic Contribution



2004 Economic Indicators

In 2004 Syncrude's capital program and operating expenditures totaled approximately \$4.5 billion. Funding was provided from the Joint Venture owners' pro-forma revenue of \$4.6 billion.

Economic Contribution

(millions of dollars)	2004	2003	2002	2001
Annual Royalties, Payroll and Municipal taxes ¹	253	223	206	392
Salaries, Wages and Benefits (net of payroll taxes)	444	391	355	323
Purchased Energy	370	343	199	288
Procurement of Goods and Services ²	3,388	3,275	2,297	1,485
Total Contribution	4,455	4,232	3,057	2,488

¹ Consists of royalties, payroll taxes, municipal taxes, excise taxes, non-resident withholding taxes and other Crown charges.

² Represents the procurement of goods and services for capital projects and operations. Dollars shown are payments against contracts and commitments against purchase orders.

Since start-up in 1978, Syncrude has made payments in excess of \$6.4 billion to governments for royalties, payroll and municipal taxes and other Crown charges. Royalties paid to the Province of Alberta by Syncrude's owners over this period amounted to over \$3.1 billion. In 2004, total payments to governments were \$253 million, compared with \$223 million in 2003.

Procurement of goods and services from Canadian and international companies was just under \$3.4 billion in 2004, about 76 per cent of total expenditures. The nature of these goods and services are summarized below (with percentages of total spending shown in brackets):

- Contracted Services – engineering, labour, material and equipment:
\$2,562 million (76%)
- Materials and Supplies – materials and supplies, chemicals and catalysts:
\$789 million (23%)
- Other expenditures – (net of recoveries): \$37 million (1%)

Geographic Distribution of Economic Contribution

Overall benefits to the Alberta economy approached \$4.1 billion, including more than \$3.0 billion in procurement of materials, supplies and contract services. Business volume with Edmonton area companies was approximately \$1,430 million, while business with other Alberta firms totaled a further \$710 million. Business in other parts of Canada exceeded \$192 million, and contracts with international suppliers were valued at \$146 million.

Businesses in Syncrude's immediate trading area, the Wood Buffalo region of Alberta, received \$1,243 million in contracts during the year,^{SE} about 30 per cent of total procurement from Alberta based companies. Syncrude's business volume with Aboriginal firms in the Wood Buffalo area was more than \$107 million.

The majority of Syncrude's 4,180 employees reside in the Wood Buffalo region. Their support of local businesses, combined with Syncrude's procurement of goods and services from local and Aboriginal firms, are key elements in sustaining the economic base of the region.

See discussion on Syncrude's work to sustain the region's social base, page 36.

Much of Syncrude's direct spending in Alberta ultimately translates into economic benefits outside the province. Supply chain analysis indicates that the income effect of Syncrude spending is felt 40 per cent in Alberta and 60 per cent in other parts of Canada.

Payment of Royalties Expected to Increase in 2006

Syncrude's current expansion project was enabled in part by the new oil sands industry fiscal regime that was implemented by the Alberta government in 1996. Under this arrangement, a minimum one per cent royalty is paid until project capital costs have been recovered.

Recent high crude oil prices have served to greatly accelerate the recovery of capital costs by Syncrude's owners and, as a result, the royalty deferral period is expected to end at approximately the same time Syncrude's Upgrader expansion project becomes operational in 2006. At that time, royalty payments to the Province of Alberta will return to the level of 25 per cent of deemed net income that was being paid prior to the current expansion.

Enhanced Power Generation Capacity

During 2004, Syncrude continued efforts to increase its installed power generation capacity and enhance local electrical infrastructure. These initiatives will ensure that Syncrude has sufficient power to meet future needs and also will reduce the risk of power interruption. Syncrude's current power generating capacity of 350 MW will be increased to 535 MW by 2006; at that time, about 450 MW will be required to meet plant demands and the remainder will be exported under contract to the Alberta Electrical System Operator.

"I've learned that communication is key, especially when change is happening."

Syncrude's large and complex utilities operation poses many challenges to the people who aim to keep it operating reliably and Terry Ukrainec thought he had seen them all. But a new learning experience came into play when two carbon monoxide boilers failed unexpectedly just days apart from each other last summer. The boiler outages necessitated the release of gases through a diverter stack while they underwent emergency repairs. Because the boilers had long operated without incident, many Syncrude workers and external stakeholders had never before witnessed the visible plume that can accompany a diverter event. This change caused concern, which added a new dimension to Terry's work as he and his crew laboured to return the boilers to service. "I learned that communication is key, especially when change is occurring," he says, adding that the perception of a mechanical engineer like himself can differ vastly from someone not familiar with such technical happenings. He credits Syncrude's management system for helping him assess the situation

COMMUNICATOR

appropriately. Says Terry, "Operations people like me typically think about things in terms of safety and production, and the Syncrude management system requires that you also consider operational impacts on people and public image." Through open and honest communication, Terry and other stakeholders jointly arrived at a plan to improve boiler operation.

Terry Ukrainec
*General Manager, Utilities
(now General Manager,
Aurora Mine)*

social performance

SYNCRUDE IS A LEADER in establishing and nurturing productive relationships with people inside and beyond our plant gates. These include employees, contractors, local community residents, educators, Aboriginal communities, governments, advocacy groups, non-governmental organizations, industry, suppliers and the public-at-large. We believe the best success is shared, which is why we work with others toward mutual aims.

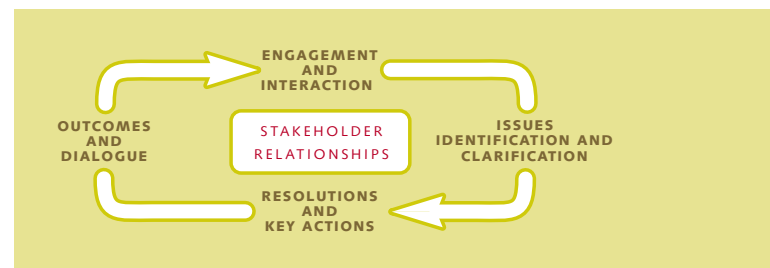
Stakeholder Consultation and Engagement

Syncrude continuously engages external stakeholders to learn about their diverse needs and to shape decisions that will ensure the long-term sustainability of our business. Toward this, we employ a consultation strategy that is based on stakeholder relevance and impact.

Consultation Processes

Syncrude's stakeholder consultation processes reflect our consultation principles (view them at www.syncrude.com/community) and are determined by a two-way discussion with each identified stakeholder group. The processes are both formal and informal. The frequency of engagement varies and is largely directed by the subject of the consultation. Subjects typically include regulatory applications; proposed operational changes and concerns, and their impacts on the community, the environment or traditional land uses; community development; employment; and business development.

Our stakeholder engagement cycle helps us understand the concerns and beliefs stakeholders have about potential impacts of proposed Syncrude activities on the stakeholder group.



Syncrude and our stakeholders jointly develop and agree on an action plan with respect to identified issues. In this process, it is important for Syncrude and the stakeholder to:

- Jointly review each of the identified key concerns/issues provided by the stakeholder;
- Identify which issues may have been a direct or indirect impact from Syncrude's operations;
- Identify which issues are not a direct or indirect impact from Syncrude's operations; and
- Identify various actions, initiatives or projects Syncrude and the stakeholder can work jointly on to address the identified issues.

The ultimate product of the consultation process is typically a document outlining the key concerns, the areas that Syncrude has worked to resolve and areas that have not been resolved. Syncrude regularly meets with stakeholders to review concerns and action plans.

Consultation Case Study

View a case study that discusses the consultation that took place between Syncrude and the community of Fort McKay in 2004 regarding Syncrude's regulatory application to construct a new power line. www.syncrude.com/community/consultation.html

2004 Stakeholder Engagement Highlights

- 13 advisory notifications regarding routine and extraordinary operational events were sent to stakeholders.
- In 2004, consultation topics included regulatory applications, amendments and updates; coker operations; water recycling; reclamation plans; research and development plans; emissions reduction plans; operational upsets that required the use of Syncrude's diverter stack; sulphur storage; terrestrial monitoring; and community development and education.
- The frequency of meetings with Elders from Aboriginal communities was increased in order to foster a more regular and effective dialogue; 10 meetings and six reclamation site tours were held in 2004. The increased interface also enabled Syncrude to build stronger relationships, which served to enhance Syncrude's understanding of Elders' concerns about the environment and the impact of industrial activity on traditional lands. The industrial relations corporations (IRCs) owned by the region's First Nations are now developing consultation processes and protocols to meet the information needs of Elders.
- In September, the Métis-Industry Consultation Office (MICA) pilot project developed through the Regional Issues Working Group and funded by Syncrude and other regional industry members, was extended for one additional year. MICA provides a forum for the region's Métis people and industry to better understand each other and develop positive, mutually beneficial relationships. It also serves to address community concerns relating to the regional impacts of industrial development. In 2005, MICA will identify projects and programs to address the Métis community's concerns surrounding economic development, education, and employment and training.
- Annual environmental stewardship meetings were held with the Industry Relations Corporations from Fort McKay, Athabasca Chipewyan First Nation and Mikisew Cree First Nation. Discussions at these focused on Syncrude operational updates, environmental monitoring, regulatory applications and key concerns of the IRCs.
- Quarterly reclamation stewardship meetings were held with the Fort McKay Industrial Relations Corporation. These meetings allowed for dialogue and feedback on Syncrude's reclamation activities and closure plans. A significant outcome was a commitment to hold more site and issue specific tours to aid in Elders' understanding of Syncrude's reclamation research activities, particularly those involving wetland development and water quality. Small group tours are being planned to demonstrate Syncrude's commitment to wetland development in the final reclaimed landscape.



Brian Bickley
*Industrial Relations
Manager and Chair,
Alberta Apprenticeship and
Industry Training Board*

By using his considerable motivational skills, Brian Bickley has helped Alberta maintain its reputation as a centre of excellence in trades and industry training. He says, "It takes many people to make the system work as well as it does, and my job is to bring them together." Indeed, students, parents, educators and employers are all important stakeholders in the Alberta system, which trains about

"It takes many people to make Alberta's apprenticeship system work as well as it does, and my job is to bring them all together."

20 per cent of Canada's apprentices, even though our province has only about 10 per cent of Canada's population. Toward this impressive accomplishment, Brian and his Board work to get employers to commit to the training of apprentices while also extolling to students, parents and educators the many benefits of careers in the trades. Says Brian, "There are many examples of trades people who have become successful business owners or supervisors or managers." Brian himself is one of them. He started his career as an instrument technician before advancing to supervisory and management roles. Among the accomplishments of which he is most proud is the innovative Co-op Apprenticeship Program, which got its start in Fort McMurray.

Stakeholder Engagement Actions ^{SE}

- Stakeholders continued to express concern about high levels of SO₂ and particulate emissions from Syncrude. Toward resolution of this concern, a major emissions reduction project was approved by regulators in 2004 and is now in the engineering stage. The project will commence operation in 2009 and will, by 2011, reduce total SO₂ emissions by 60% from current levels (an 82% capture rate) and particulate matter by 50% from current levels even while crude oil production will increase by about 45% over this period.

Also see discussion on regional air monitoring, page 35.

- In response to community concerns, Syncrude, along with industry and government stakeholders, is developing a long-term strategy to monitor and measure human health in the Wood Buffalo region. Part of the strategy involves the periodic study of local residents' exposure to indoor and outdoor airborne contaminants. The first study was conducted in 1998 and involved 300 people from Fort McMurray; it showed that ambient levels of airborne contaminants are low compared to provincial, national and international guidelines. Other regional communities, including Fort McKay, are being studied on an alternating basis over a period of six years so that sufficient data can be gathered to determine any long-term trends. Fort McMurray was studied again in late 2004, and Fort Chipewyan will be studied in 2005.

For more information, look for the report on Alberta Oil Sands Community Exposure and Health Effects at www.health.gov.ab.ca/resources/publications

- Syncrude's regulatory application to extend its research field trial for In-Ground Sulphur Storage raised concerns among some stakeholders. The trial is part of an Alberta-wide sulphur management initiative, and will provide a better

understanding of the benefits and potential effects of in-ground storage versus the current Syncrude practice of above-ground storage. Toward ameliorating stakeholder concerns, Syncrude provided information to clarify the trial's scope and purpose, and will engage in ongoing consultation as the research project continues.

- Import of water from the Athabasca River by Syncrude and other oil sands developers continues to be a concern of many stakeholders. In response, Syncrude has been working successfully to reduce its water import on a per barrel basis and to increase its use of recycled water.

See water use discussion on page 57.

- Poor educational outcomes such as a low graduation rate among high school students continue to concern the community of Fort McKay. In response, Syncrude is working with community leaders to improve the quality of education students receive. As one example, a literacy project implemented by Syncrude and the community a few years ago to help students who were behind in their reading ability has demonstrated measurable improvement; students in grades one through four progressed an average of one full year in their reading comprehension levels. In 2004, Syncrude also worked with the community to bring student teachers from the University of Alberta into the school; Syncrude provides housing and transportation for these student teachers.
- To address concerns that the Wood Buffalo region's modern industrial economy is affecting a traditional way of life among local Aboriginal people, Syncrude is working to develop Memoranda of Understanding with three of the region's First Nations to clarify and formalize a framework for sharing Traditional Environmental Knowledge between the First Nations and Syncrude.

- Concerns regarding a rising turnover rate among Syncrude's Aboriginal employees (7 per cent in 2004) prompted Syncrude to conduct focus groups comprising Aboriginal employees, hiring managers and external agencies to better understand challenges associated with Aboriginal attraction and retention efforts. The results will be tabulated in 2005 and will provide the foundation for recommendations and key work initiatives to reduce Aboriginal employee turnover.
- Concerns about the pace of Syncrude's land reclamation were addressed in part by an increase in the land available for reclamation in 2004; as a result, a record 318 hectares were reclaimed in 2004. As well, an additional 335 hectares of land that had been previously reclaimed as temporary were declared permanent, bringing to 653 hectares the total reclamation rate for 2004.

See discussion on reclamation, page 60.

Diverter Stack Use Leads to Enhanced Stakeholder Relations^{SE}

Syncrude learned some valuable lessons in stakeholder relations after our two carbon monoxide boilers failed only days apart from each other in July. The failures led to the release of untreated gases into the atmosphere through a diverter stack while the boilers underwent emergency repairs. The diversions were visibly noticeable and generated several concerns by regional stakeholders. They also caused some construction workers engaged on Syncrude's Upgrader Expansion project to report to our Health Centre with complaints of respiratory and eye irritation.

While the diverter stack is intended for use during such emergencies, and notice was given to regional stakeholders consistent with established protocols during the first incident, negative employee and contractor response led Syncrude to conduct much more extensive workforce and stakeholder notification when the second boiler failed just days later.

Workforce and stakeholder notification also was a central element in planning for a subsequent boiler outage, which was needed to ensure reliable operation of the unit until its next scheduled maintenance turnaround. This work was conducted under an Environmental Protection Order issued by Alberta Environment. The Order also called for Syncrude to evaluate and communicate possible effects of diverter stack releases on workers and others, and to minimize emissions during the repair period.

The repairs were executed during a long weekend in October, a timeframe that minimized exposure to contractors and Syncrude employees. All potentially affected stakeholders were notified before the repairs commenced. During the repairs, crude oil production was reduced to minimize emissions and air quality monitoring was conducted on and off the Syncrude site. The monitoring found no violations of legislated air quality limits or guidelines; these findings also were communicated to stakeholders. As well, an independent consultant was retained to conduct dispersion modelling and prepare an assessment of potential health impacts posed by use of the diverter. The study found that while concentrations of some airborne compounds are likely to increase during a diversion, they are not likely to exceed either legislated exposure or environmental limits nor cause any adverse health effects either on- or off-site. The study also recommended that Syncrude explain to stakeholders why diverter events sometimes occur, and what the effects of these events might be. These recommendations are being implemented.

View the facts about Syncrude's management of air quality and emissions: www.syncrude.com/syn_library/lib_fact.html

2004 HIGHLIGHTS OF REGIONAL ISSUES MANAGEMENT GROUPS Syncrude is a founding and active member in four multi-stakeholder groups that monitor and/or manage key issues of interest to oil sands developers and their regional stakeholders. Our people serve these groups in a variety of leadership positions.

Stakeholder Engagement and Regional Environmental Monitoring

	2004	2003	2002	2001	2000
Annual Contributions ¹	\$3,962,000	\$3,201,000	\$2,946,025	\$2,502,000	\$2,173,000

¹ Includes Athabasca Tribal Council, five Industry Relations Corporations, Métis-Industry Consultation Office, Regional Issues Working Group, Wood Buffalo Environmental Association, Regional Aquatics Monitoring Program and Cumulative Environmental Management Association.

Cumulative Environmental Management Association (CEMA)

During the year, CEMA members reached consensus on issues pertaining to air quality and land management. Members developed a regional Acid Deposition Management Framework, which will now be implemented by Alberta Environment as part of its regulatory process. The framework calls for reductions in sulphur and nitrogen emissions from new projects through the use of Best Available Technology Economically Achievable. Such technology is also to be implemented by all oil sands developers when they are replacing old equipment. CEMA members also agreed to a process to achieve further emissions reductions if acid deposition in regional lakes or soils exceeds agreed upon limits. To minimize land disturbance during project exploration and development, industry members of CEMA have voluntarily agreed to a standard set of management practices. As well, a Landscape Design Checklist that defines factors to be addressed during the design of reclaimed

landscapes was agreed upon. CEMA has recommended to Alberta Environment that the Checklist be adopted. For more information visit: www.cemaonline.ca

Regional Aquatics Monitoring Program (RAMP)

RAMP established four new water quality testing sites in 2004. The sites were established as part of the group's expanding monitoring activities in the Athabasca oil sands region. They are located both upstream and downstream of established oil sands projects; seven sites are located in proximity to Syncrude's Mildred Lake and Aurora operations. In addition, Syncrude operates two water quality monitoring stations and submits findings to RAMP for analysis. RAMP frequently adjusts its activities to reflect monitoring results, technological advances and community concerns. *Findings from RAMP's most recent water quality studies are discussed on page 58 of this report.*

RAMP reports and plans for future activities can be viewed at: www.ramp-alberta.org

Wood Buffalo Environmental Association (WBEA)

The Wood Buffalo Environmental Association, which operates the most extensive ambient air monitoring system in Alberta and which provides a real-time air quality index to the public through its website, has increased stakeholder communication in an effort to improve understanding of air quality issues among residents of the Wood Buffalo region. During the year, the association enhanced its newsletter to make content more relevant and meaningful to readers, launched a student engagement program involving science experiments that demonstrate the properties of air, and actively participated at community events. The Association is comprised of government, NGO, Aboriginal, community and industry stakeholders.

Access the Association's real-time air quality index and more information about its air quality monitoring at www.wbea.org

Community Open Houses ^{SE}

The region's three multi-stakeholder environmental organizations also are working toward an ongoing series of joint open houses. The sessions are designed to inform area residents about regional environmental management activities and seek feedback on key issues. Thus far, open houses have been held in Anzac and Fort McKay. Syncrude is an active member in the three multi-stakeholder groups.

Regional Issues Working Group (RIWG)

The Athabasca Regional Issues Working Group and the Regional Municipality of Wood Buffalo began work in 2004



A walleye is tagged in Autumn 2004 as part of the fish monitoring activities of the Regional Aquatics Monitoring Program.

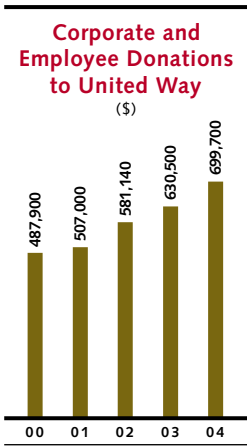
to formulate a business plan that highlights the risk of oil sands growth being constrained by a lack of public infrastructure and services needed to support a growing population and a high quality of life. RIWG notes that key stress areas include transportation, housing, primary infrastructure and recreational facilities. The group anticipates that a higher level of awareness of regional issues by the provincial and federal governments will result in increased infrastructure funding for the region, and the continuation of social and economic benefits to the provincial and national economies.

Learn more about the issues RIWG is working to manage at www.oilsands.cc

COMMUNITY INVESTMENT Leading communities are those that engage businesses, the not-for-profit sector and volunteers in the provision of services, supports and amenities that make the community a better place for all. In the Wood Buffalo region and Edmonton, Syncrude and our people are major contributors to such efforts. We are demonstrating both the heart and commitment to improve our part of the world.

Arctic Winter Games a Major Success

Syncrude was a major contributor to the success of the 2004 Arctic Winter Games held in Fort McMurray. The Games brought together more than 2,000 student athletes and other delegates from the world’s circumpolar regions for a week of competition and cultural events. In addition to cash and in-kind sponsorship from Syncrude of \$192,000, the Games were enabled in part by the volunteer efforts of hundreds of Syncrude employees.



Another Record United Way Campaign

Syncrude employees once again topped their previous record of support for the United Way, and also increased their participation in the annual fundraising campaign. For 2004, employee donations in Fort McMurray and Edmonton approached \$610,000, while donor participation increased by four per cent. Their contributions were bolstered by a corporate contribution of \$90,000, for record total contributions of almost \$700,000.

10 Years for Community Careers Cooperative ^{SE}

A groundbreaking collaboration co-founded by Syncrude to develop and train a new generation of skilled workers is celebrating 10 years of success. The Community Cooperative Apprenticeship Program was started in 1994 to address a looming shortage of people skilled in the trades and technologies. It has now graduated 140 students, 70 of whom work at Syncrude. Another 126 students are currently enrolled, with 78 of them apprenticing at Syncrude. The program has helped realize opportunity for young people in the Wood Buffalo region, while also enabling regional employers to meet their workforce needs. Syncrude representatives serve on its Advisory Council and Board of Directors.



Jeff Thompson

*Recruitment Representative
and Chair, Fort McMurray
Public School Board*

As the person who oversees Syncrude's campus recruitment efforts, Jeff Thompson has gained a lot of insight into the challenges, hopes and dreams of students. It is awareness he has put to good use in his volunteer role as Chair of the Fort McMurray Public School Board, where he brings together parents, teachers and administrators to make Fort McMurray a learning community where every

**"At the end of the day,
I hope that people
will say we did what
it takes to help our
children succeed."**

student meets their potential. Toward this goal, Jeff brings an additional understanding of how to prepare students to succeed in post-secondary education and the world of work. Says Jeff, "while there are many trials that go with our collaborative work to maintain high educational standards in a growing community that has limited resources, the rewards vastly outweigh them. At the end of the day, I hope that people will say we did what it takes to help our children succeed."

New Community Sport and Wellness Centre

Syncrude has provided key support for the new Syncrude Sport and Wellness Centre at Keyano College. The centre is the first significant addition of its type to the recreational infrastructure of Fort McMurray in 20 years. It is expected to open in 2007. Syncrude's multi-year donation totalling \$800,000 also provides support for Keyano Theatre's Arts Alive Series and student scholarships.

Corporate Giving Program¹

	2004	2003	2002	2001	2000
Community Investment					
Program (CIP)	\$ 1,692,000	\$ 1,591,200	\$ 1,867,160	\$ 1,525,000	\$ 1,250,000
Gifts in Kind	\$ 121,315	\$ 232,937	\$ 180,512	\$ 280,788	\$ 270,135
Total	\$ 1,813,315	\$ 1,824,137	\$ 2,047,672	\$ 1,805,788	\$ 1,520,135

¹ Syncrude's Corporate Giving Program is subject to formal internal and owner audits, and also is governed by three committees of Syncrude employees to ensure strategic objectives are being met.

Boost for Community Medical Needs^{SE}

Stepping in to fill a critical gap in the health area, Syncrude is providing \$800,000 to support the purchase of medical equipment for the Northern Lights Regional Health Centre. The Centre serves a rapidly growing population and the donation will help foster a continued high level of patient care. Because of population demographics, the Northern Lights Health Region receives the lowest per capita public funding in Alberta and, as a result, relies almost exclusively on donations to purchase medical equipment.

New Child Development Centre^{SE}

Thanks in part to a \$450,000 donation from Syncrude, the YMCA of Wood Buffalo has been able to create the new Oil Sands Child Development Centre. The centre is located in a former school that needed major renovations and upgrades to make it suitable for this new use. Each day, the Centre serves more than 400 children with its pre-school, day care and after-school care programs.

ABORIGINAL DEVELOPMENT Syncrude is a Canadian leader in working with Aboriginal people toward the achievement of mutual aims. Today, with nearly 30 years of experience in Aboriginal development, we have a diversified and widely respected Aboriginal Development program that in 2004 invested more than \$600,000 on activities encompassing corporate leadership, employment, business development, education and training, community development and the environment.

Strategic Review of Syncrude’s Aboriginal Program^{SE}

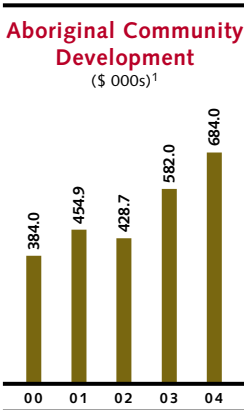
To help keep Syncrude’s Aboriginal Development Program at the forefront in a continuously changing environment, a strategic review by an external consultant has been commissioned. The review was initiated in response to stakeholder feedback and will assess the program’s effectiveness in meeting the needs of the people it is designed to serve. Syncrude’s Executive and Aboriginal Development Steering Committees will review the results and recommendations for improvement by September 2005.

New Aboriginal Review Published

In December, Syncrude published its fourth progress report on Aboriginal Development in 10 years. The report is a comprehensive overview of Syncrude’s work in the six key commitment areas listed above, and was well received by stakeholders from the region and across Canada. Syncrude has now committed to reporting on an annual basis.
View the 2004 report at www.syncrude.com/community/aboriginal.html

Honours From Aboriginal Business Council

The Canadian Council for Aboriginal Business has once again recognized Syncrude for excellence in Aboriginal business development. In 2004, Syncrude was one of only four Canadian companies to earn gold level accreditation in the Council’s Progressive Aboriginal Relations (PAR) program.



¹ Syncrude’s Aboriginal Community Development Program is subject to formal internal and owner audits, and also is governed by a committee of Syncrude employees to ensure strategic objectives are being met.

**"I measure success
in the longevity of
the relationship."**

COACH



In his 31 years with Syncrude, Les Diachinsky has seen his fair share of change. But none is more compelling than the difference he has helped Syncrude create in the area of Aboriginal business development: \$107 million in contracts with Aboriginal firms were struck in 2004 alone, bringing Syncrude's total since 1992 to more than \$750 million. Toward this achievement, Les coaches local Aboriginal entrepreneurs so they can identify and develop business niches that help Syncrude meet its procurement needs. He believes the Aboriginal community can and should benefit from opportunities in

the oil sands, which is why he networks extensively and treats his business contacts with honesty and respect. And while Syncrude's Aboriginal business volume makes it a national leader in this area, it is not his prime motivator. Says Les, "I measure success in the longevity of the relationship." Indeed, most of Syncrude's Aboriginal suppliers have been with us since the early 1990s.

Les Diachinsky
*Community Business
Coordinator*

Aboriginal Best Practice Recognition

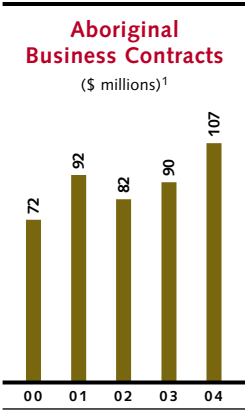
The community of Fort McKay identified Syncrude as having best practices for Aboriginal Business Development and Aboriginal Employment. Syncrude and Fort McKay are now jointly preparing a document that explains how these best practices were achieved, which Fort McKay will share with new regional industrial entrants as a means of encouraging similar success.

Business Development^{SE}

In 2004, Syncrude and its Aboriginal suppliers achieved an all-time record for annual business volume. During the year, \$107 million in contracts were struck with firms owned by First Nations and Métis entrepreneurs, an increase of almost 20 per cent over 2003.¹

New Aboriginal Financial Management Program^{SE}

A new program was launched in 2004 to support Syncrude’s goal of developing more career opportunities for Aboriginal People in such professional areas as accounting, commerce and other related fields. The Aboriginal Financial Management Internship Program is providing participating Aboriginal students studying Business Administration at Keyano college with work placements and access to business mentors who share their skills and act as role models. Future placements may also come from other post-secondary institutions. Syncrude chairs the program steering committee and provides work placements for students.



¹ The Northeastern Alberta Aboriginal Business Association assists Syncrude in identifying and verifying Aboriginal businesses, which must be 51 per cent or more owned by Aboriginal people or Aboriginal bands.

OUR PEOPLE Syncrude's corporate culture values high performance, taking measured risks, mutual respect and teamwork. We strive to recognize the contributions our people make to our success and, in turn, work to help employees develop to their full potential. That's how we are making Syncrude a workplace leader, as well as a great place to work.

Syncrude Workforce Plan^{SE}

Syncrude takes a long-term view to workforce planning and is an industry leader in creating and supporting strategic education and training programs at the secondary and post-secondary levels. These efforts ensure that skilled workers are available to support future growth at Syncrude and elsewhere in the oil sands industry. This work also is providing significant career opportunity to local area residents, who comprise a large majority of our new hires. Our workforce development initiatives include:

- Career Prep, which provides work experience internships for students in grade 11 and 12, as well as educators;

- the Co-op Apprenticeship Program, which has since been adopted by the Alberta Department of Education;
- the Registered Apprenticeship Program, which also has been adopted by Alberta Education and implemented across the province;
- new programs offered through community colleges. These include a mechanical and construction trades program for Aboriginal students at the Northern Alberta Institute of Technology; and several programs at Keyano College in Fort McMurray; and
- summer work experience programs for college and university students, which typically involve more than 400 students per year.

Scholarships, Bursaries and Endowments

	2004	2003	2002	2001	2000
Annual Contributions ¹	\$1,060,805	\$1,145,935	\$1,105,887	\$685,000	\$743,857

¹ Includes scholarships through the Syncrude Higher Education Awards Program (SHEAP) to all dependents of employees who go on to higher education at university or college, employee tuition refunds, and corporate sponsorships.

Workforce Renewal

	2004	2003	2002	2001	2000
New Employees – all categories	383	236	350	542	207
Aboriginal ¹	27	23	34	44	30
Female	87	45	95	118	48
Trades and Operators	251	148	189	399	163
Administrative, Professional, and Technical	132	88	161	143	44
Graduate Development Program	30	38	75	N/A	N/A
Job Applications Received (#)	18,116	19,777	N/A	N/A	N/A

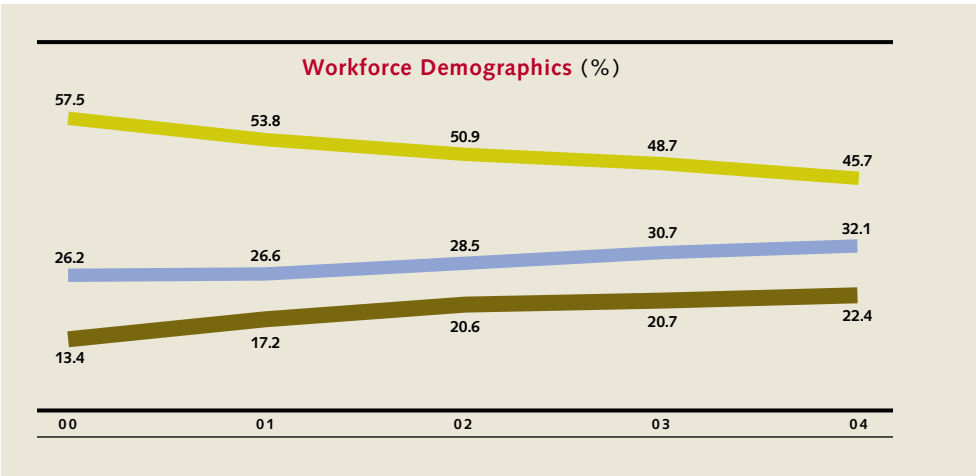
¹ See discussion on Aboriginal turnover under Stakeholder Engagement Actions, page 32.

Employee Compensation and Rewards

Syncrude annually reviews its employee compensation and benefits plan to ensure ongoing competitiveness. Salaries and benefits paid to our non-union workforce consistently affirm Syncrude as one of the top employers among our industry peers. Eligible employees also participate in a variable compensation program which financially rewards them for meeting key performance objectives.

Charting a Workforce Roadmap

In order to ensure sufficient and timely availability of skilled workers to meet resource industry needs, Syncrude is working with other members of the Alberta Chamber of Resources (ACR) to develop a cross-sectoral Workforce Development Roadmap. A steering committee is now developing parameters for the roadmap's scope, which will include continued liaison with educational institutions to shape curricula and increase student capacity, as well as additional initiatives to increase Aboriginal participation.



- Up to 34 years
- 35 to 49 years
- 50+ years

One-third of Syncrude's workforce is expected to retire within the next 10 years. Our workforce plan will ensure workforce sustainability through education and training initiatives that create qualified new employees.

Diversity Leadership Award

In February, Syncrude received the Diversity Leadership Award from the Alberta Chambers of Commerce at the annual Alberta Business Awards of Distinction. The award recognizes Syncrude's success in welcoming people from all kinds of backgrounds into our workplace through policies and programs aimed at preventing discrimination and promoting respectful treatment of all employees. Also see Human Resources Scorecard, page 46.

Treatment of Employees

Syncrude stewards to a Treatment of Employees policy that requires that all employees be treated with care, honesty and respect, and that the dignity and worth of every individual is upheld. Acts of discrimination or harassment are clearly defined and employees are required to address and/or report any such incidents they may observe

or become aware of. We investigate all concerns that come forward and have been successful in reducing the number of formal investigations by training leaders to recognize situations that negatively impact the work environment and encouraging them to take proactive steps to resolve them. Leaders also may access professional mediation and other resources as part of their intervention. Leaders are accountable for creating and maintaining a work environment that supports our Vision, Values and Guiding Principles.

Taking Action on Employee Feedback^{SE}


A survey of Syncrude employees conducted in early 2004 shows that nearly three-quarters of employees have a high level of satisfaction with Syncrude, an improvement of 22 per cent over a similar survey conducted in 2001. Employees viewed work processes and efficiency, pay and benefits, safety, and overall employee commitment as among Syncrude's key strengths. Syncrude employees responded far more positively than employees of other organizations in all of these areas.¹

Action is now being taken on concern areas such as performance management and hiring, selection and promotion practices. Issues raised at the 2004 Employee Forums also are being addressed. Progress reports posted on Syncrude's internal web site are keeping employees up-to-date on issue resolution. Issues specific to individual departments are being addressed at that level. Departments are stewarding to their actions by integrating them into their annual goals and objectives.

Ethics Reporting Procedures Enhanced

As part of our ongoing efforts to ensure the highest standards of ethical conduct and ethics reporting integrity, Syncrude has added new ways for employees to report ethics concerns. Employees can now access a toll-free ethics telephone hotline and can send anonymous messages via mail and electronic mail in addition to other established processes. Syncrude's Corporate Ethics and Conflict of Interest policies and application guidelines have been amended to reflect the new procedures. As well, department managers are now making ethics declarations on behalf of their entire areas of responsibility; employees are obliged to declare any concerns regarding potential or actual breach of corporate conduct policies to their manager. All Syncrude employees receive direction on Syncrude's corporate ethics policy every three years. During 2004, more than 80 employees proactively sought advice regarding ethics matters.

¹ Information relating to employee satisfaction was collected and measured by Hay Associates, a paid independent third party.



HUMANITARIAN

Sandra Hemphill

*Manager of Information
Services and Volunteer
Board Member, Family
Crisis Society*

In her job at Syncrude and her volunteer work in the Fort McMurray community, Sandra Hemphill believes that management by walking around gives her valuable insights that help people achieve their best. "You have to look behind the doors and understand how things work," she says. "What's more, you have to listen to people and make a conscious effort to seek their input on

"You have to listen to people and make a conscious effort to seek their input on important issues."

important issues, because you don't get buy-in unless people feel they have been heard." Sandra's keen eyes and ears help her understand the needs and motivations of the people she serves as a Board member of the Family Crisis Society, and also those she seeks to influence on the Society's behalf. The Society provides shelter for women and their children who have experienced family violence or are homeless. It also helps these women as they endeavour to take back their lives through ongoing programs and transitional or "second stage" housing. In this work, she must make a compelling case for her clients' unique needs as compared to the needs of other groups. Her humanitarian style is working; the Society continues to meet the needs of women in crisis while its "second stage" housing program is now in its third year.

Human Resources Scorecard

Syncrude has developed a scorecard to track our progress on people-related matters in a clear and consistent manner. The scorecard includes measures on attraction and retention, leadership and learning, workforce productivity, and health

and safety results (*the latter are reported on page 50*). The scorecard will be continually refined and expanded to include more measures, and will aid in the identification and proactive management of emerging human resources and business issues.

Human Resources Scorecard

	2004	2003	2002	2001	2000
Employee Productivity					
Thousand barrels of SSB per employee	20,861	19,200	20,929	21,012	20,937
Average employee service (in years)	13.7	14.1	13.9	14.1	15.0
Leadership Development					
% of Leaders completed Leadership Basics Workshop	85.0	82.0	N/A	N/A	N/A
% of Leaders completed Diversity Workshop	85.0	71.0	N/A	N/A	N/A
% of Leaders completed Harassment & Discrimination Workshop	82.0	76.0	N/A	N/A	N/A
Recruiting Effectiveness					
New hire acceptance rate: % of job offers accepted	86.0	90.0	80.0	N/A	N/A
Local hires (%)	66.0	61.0	78.0	N/A	N/A
Diversity					
Aboriginal Representation ² (% of Syncrude permanent workforce)	9.1	9.4	9.6	9.7	10.0
Aboriginal Leaders (%)	4.8	3.6	3.5	2.2	1.4
Female Representation ² (% of Syncrude permanent workforce)	17.7	17.3	17.4	16.5	15.9
Female Leaders (%)	9.7	9.8	9.1	8.9	8.4
Attrition					
All employees (% of Syncrude workforce – including retirements) ^{1, 2}	5.4	4.4	5.0	5.5	3.5
Employee-initiated termination (% of Syncrude workforce)	2.6	1.7	2.6	2.6	2.4
Aboriginal	7.0	6.2	6.6	6.1	6.7
Female	5.9	5.9	4.9	6.8	4.5
Trades and Operators	4.9	4.3	5.0	4.7	2.7
Administrative, Professional and Technical	6.0	4.6	4.9	6.5	4.6
Employee & Family Assistance Program (EFAP)					
Utilization rate (number of clients as % of Syncrude workforce)	14.2	13.2	16.5	17.5	N/A
Training					
% hours in training/per employee/per annum	3.1	2.8	2.6	3.0	2.4

¹ The increase in 2004 attrition over historical rates is primarily due to retirements.

² Prior years' workforce and turnover representation rates, as published in Syncrude's 2003 Sustainability Report, have been restated to conform with the current year's calculation and presentation basis.



Bernie Heinz
Human Resources Advisor

Bernie is a member of Syncrude's Human Resources Business Improvement Division and also chair of our Treatment of Employees committee. She is working to improve HR policies, processes and systems so that Syncrude's people practices will be best-in-class. Much of Bernie's day-to-day work involves diversity initiatives that foster productive working relationships between our people

"I believe in people and the value they bring to our organization."

and make a positive difference in the quality of work life they enjoy. Bernie says these efforts are grounded in Syncrude's Vision and Values, and they benefit Syncrude by fostering higher levels of workforce productivity and effectiveness. Her goal is to foster a respectful and inclusive workplace and ensure that employees are appreciated for their unique differences and contributions; toward this, Bernie mediates conflicts, which helps employees improve their work relationships by proactively addressing concerns through effective communication. Bernie's efforts help people understand what is expected of them, and they make Syncrude a better place to work. Says Bernie, "I truly love what I do, because I believe in people and the value they bring to our organization."

“Our work shows how employers and labour groups can come together to solve mutual issues.”

INNOVATOR



Cathy Yakimec understands that a committee comprised of employers, labour associations and the Workers' Compensation Board may make for an odd partnership, but representatives of the three groups have been remarkably effective in dealing with the difficult issue of how to re-integrate back into the workplace people who have been injured on the job or have suffered from a non-occupational injury or illness. Cathy and her fellow committee members have developed an innovative toolkit that helps employers develop modified work programs that allow workers to continue to contribute in ways that are safe, meaningful and productive. “It's important for workers to know that their employer cares about their situation,” says Cathy. She also notes significant upsides to employers

through reduced WCB claims and disability costs. Alberta was the first province in Canada to implement such a program; others are now following suit and adopting the Alberta model. Says Cathy, “Our work shows how employers and labour groups can come together to solve mutual issues; I am proud to have helped develop and share this best practice.”

Cathy Yakimec

*Workers' Compensation
Administrator and Member,
Industrial Construction
Committee on Workers'
Compensation*

environment, health and safety performance

SYNCRUDE'S LEADERSHIP to foster the health and safety of our workers, and to reduce our impact on the environment, is evident on many levels. From front line workers to senior managers, all are demonstrating a personal commitment to improved performance on these important sustainability measures.

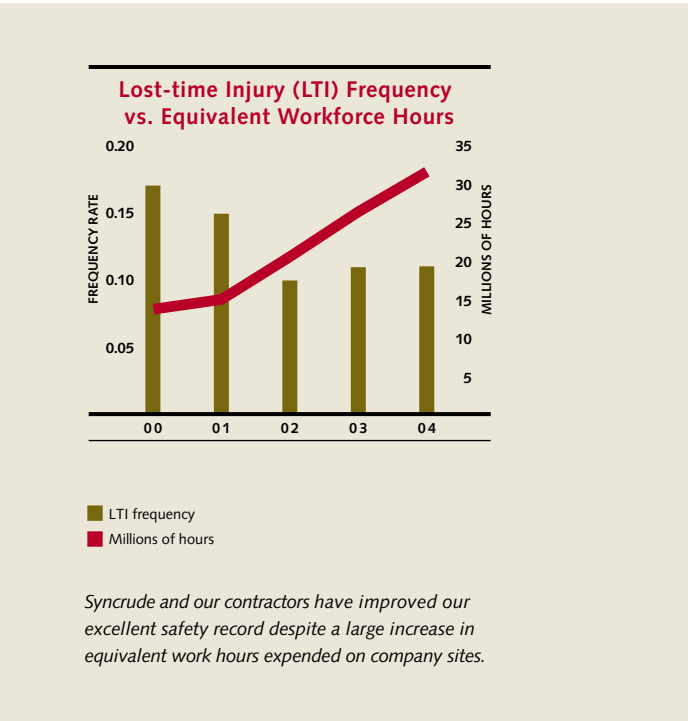
Health and Safety

2004 Safety Performance

The safety performance of Syncrude and its contractors continues to lead Alberta industry. Syncrude employees and contractors sustained a total of 17 lost-time injuries in 2004, up from 14 in 2003. For 2004, the combined lost-time injury frequency of 0.11 per hundred person years worked was considerably lower than the Alberta average.

As well, the severity of injuries sustained on the Syncrude site, which resulted in an average of 1.98 lost workdays per injury, was well below the Alberta average of 82 days. Our contractors worked the equivalent of more than 23 million hours on Syncrude sites in 2004, including the equivalent of about 17 million hours on construction activities.

Syncrude's total recordable injury frequency for the year was 1.11 per hundred person years worked. Recordable injuries are comprised of medical aid incidents plus lost time injuries.



A worker performs field maintenance on a Caterpillar 797 haul truck after conducting a field level risk assessment to ensure safe working conditions.

Health and Safety Performance

	Long-term Goal	2004	2003	2002	2001	2000
Lost-time Injury Frequency ¹						
Syncrude	0	0.22	0.15	0.12	0.21	0.22
Contractors	0	0.07	0.09	0.08	0.08	0.12
Combined	0	0.11	0.11	0.10	0.15	0.17
Recordable Injury Frequency ¹						
Syncrude	0	0.99	0.79	0.57	0.58	0.86
Contractors	0	1.15	1.23	0.97	2.0	2.35
Combined	0	1.11	1.10	0.82	1.29	1.57
Employee Fatalities	0	0	0	0	0	0
Number of Lost-time Injuries ¹						
Syncrude	0	9	6	5	8	8
Contractors	0	8	8	5	3	4
Combined	0	17	14	10	11	12
Number of Recordable Injuries ¹						
Syncrude	0	41	32	23	22	31
Contractors	0	134	113	61	76	77
Combined	0	175	145	84	98	108
Injury Severity Rate ¹						
Syncrude	0	3.87	3.87	2.72	3.30	21.14
Contractors	0	1.31	3.96	1.02	0.18	5.17
Combined	0	1.98	3.93	1.68	1.74	13.53
Injury Free Performance						
Maximum Hours between LTIs (millions of hours)		8.4	6.7	7.0	5.3	2.8
Employee Health						
Temporary Disability Absenteeism (% of SCL workforce)		3.8	4.0	3.9	3.8	3.6
New Long-term Disability (LTD) Cases		15	16	17	18	18
New LTD Cases per 1000 Employees		3.6	3.9	4.3	4.8	5.0
Health Centre Visits ²		37,052	19,000	18,520	13,307	9,458
On Site Workforce						
(# Full-time Equivalents)		15,806	13,208	10,316	7,593	6,871

¹ Recordable injury frequency is a rate that includes all injuries requiring medical attention or which resulted in a worker being absent from work. It is expressed as injuries per 100 person years of work. A lost-time injury is an injury that requires medical attention and results in the worker being absent from work. Injury severity is the rate of lost workdays per 100 person years of work.

² Includes visits by Syncrude employees and contractors for occupational (42%), non-occupational (43%) and other (16%) reasons. The increasing trend in Health Centre visits is due to an increase in workforce for construction work related to Syncrude's Upgrader Expansion.

Making Safety Pay: WCB Agreement Reflects Syncrude and Contractor Record

A unique program among Syncrude, selected contractors and the Workers Compensation Board has proven to be an effective safety incentive. The program fosters better safety performance at Syncrude by linking WCB premiums with actual compensation costs for work done on the Syncrude site. What makes the agreement unique is that contractors can voluntarily participate with no downside risk; 28 are currently doing so. During a given year, if claims costs are lower than the premiums paid, the difference is refunded to Syncrude and then shared with participating contractors based on the contractors' individual safety performance for work done on the Syncrude site. In the seven years since the program's inception we have shared about \$4.5 million in program rewards.

Health Centres Supplement Community Health Resources

Syncrude's on-site health centres, which provide a comprehensive suite of health and medical services to all employees and contractor personnel, are not only a convenient way for workers to have their health and medical needs attended to, they also ease strain on public health services available in the Wood Buffalo region. The Health Centres recorded more than 37,000 patient visits in 2004, a near doubling versus 2003, which was the result of a large increase in worksite personnel. Non-occupational illnesses and injuries accounted for 43 per cent of health centre visits; occupational health needs accounted for 42 per cent of visits.

Alcohol and Drug Screening

In an effort to reduce exposure to safety risks on Syncrude work sites, a new standard for alcohol and drug screening was implemented in August. The standard requires all new workers to successfully complete an alcohol and drug screening test prior to the workers' deployment on site. The standard supports Syncrude's alcohol and drug policy, which considers workers unsuitable for work if they report with a blood alcohol level in excess of 40 milligrams per hundred millilitres in their system, or if their system shows detectable levels of any contraband drug.

Sniffer dogs also are periodically employed to execute searches of company property such as locker rooms, vehicles, lunchrooms, offices and work areas. The dogs are seeking drugs, explosives or any other materials that could pose a threat to

employees or the workplace. Syncrude's alcohol and drug policy expressly prohibits the distribution, possession or consumption of alcohol or drugs on our premises or in any Syncrude vehicles or equipment.

Oil Sands Safety Association

The Oil Sands Safety Association, which was established by Syncrude, Suncor and Albion Sands in 2003, has won a 2004 Award of Merit for Innovation in Alberta Workplace Health and Safety. The Award recognizes the Association's leadership and innovation in developing common industry safety training standards. In 2004, the Association developed and approved three new safety training standards as well as a common Regional Code of Practice governing how Confined Space Entries will be managed on oil sands sites. During the year, the Association also accredited 14 training providers who will deliver fall protection training to Association standards.

Emergency Preparedness

Twenty-four firefighters from Syncrude and other partners in the Wood Buffalo region's mutual aid agreement are now certified dangerous goods technicians, thanks to specialized training they received in 2004. The training gives the firefighters the ability to assess, manage and defuse situations involving hazardous materials, and reflects the fact that such materials frequently travel through the Wood Buffalo area en route to oil sands sites. The training was one in a series of steps taken in 2004 to provide a comprehensive hazardous materials emergency response plan for the region.

Syncrude emergency preparedness also includes regular participation by our emergency response personnel in training exercises that ensure readiness for any kind of emergency situation. These include simulations and competitive events such as the Firefighters and Mine Rescue Competitions.

Controlling Occupational Hazards Through Industrial Hygiene

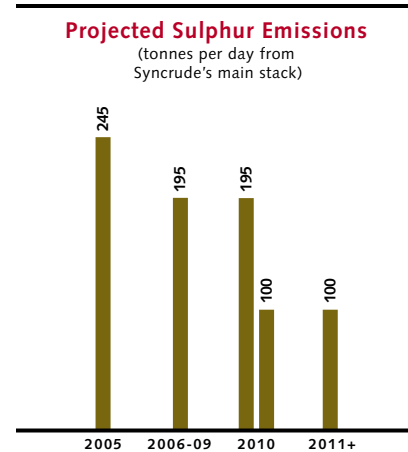
Syncrude complies with occupational health and safety regulations in part through its Industrial Hygiene activities. These are designed to anticipate, recognize, evaluate and control workplace factors that may cause sickness, impaired health and well-being or significant discomfort among workers or community residents. In 2004, our Industrial Hygiene group responded to 150 service requests, and completed health hazard assessments in the Extraction and Research departments. Ergonomics and potential chemical hazards emerged as areas of concern. Toward ameliorating ergonomics issues, Industrial Hygiene worked to adjust the layouts of computer workstations, proposed new material handling procedures and tool designs, and initiated a study of seats in heavy equipment. To address potential chemical hazards, two new and two revised Codes of Practice for handling of hazardous chemicals were prepared for review and implementation.

Environmental Performance

Air

Sulphur Emissions

Syncrude operated within its 90 day rolling average SO₂ license limits (245 tonnes per day for Main Stack emissions and 250 tonnes per day for All Sources emissions) and even limited crude oil production to ensure this occurred. However, Syncrude was required to provide additional information to regulators as our 2004 SO₂ annual average for All Sources exceeded 230 tonnes per day.



Atmospheric Emissions

	2005 Target	2004 Actual	2004 Target	2003	2002	2001	2000
Greenhouse Gases ¹							
Millions of Tonnes	10.67 ²	10.30 ²	10.7 ²	9.47 ²	9.88 ²	8.78	9.03
Tonnes per Barrel	0.121 ²	0.117 ²	0.107 ²	0.121 ²	0.117 ²	0.106	0.120
Sulphur Dioxide All Sources							
Tonnes per Day (annual average)	<250/200	241	230	212	222	238	202
Tonnes per 1,000 Bbls of SSB (annual average)	1.0	1.0	0.91	0.99	0.96	1.05	0.99
Sour Gas Flaring/Diverting (tonnes per day SO ₂)	<1.0	5.0	<1.0	5.6	2.5	5.6	5.6
Sour Gas Flaring (tonnes per day SO ₂)	<0.8	3.3	<0.8	5.5	2.4	4.4	5.1
NOx All Sources (tonnes per day)		56		57	57	55	48
Diverter Stack Usage ³ (hours per year)	<70	202	<70	11	7	159	57

Regulators Approve Emission Reduction Project ^{SE}

In November, Syncrude received regulatory approval for a proposed \$400 million project to reduce sulphur dioxide emissions. The project, which will commence operation in 2009, involves the retrofit of a flue gas scrubbing system into the operation of Syncrude's two existing cokers. In combination with sulphur dioxide emission reduction technology also being incorporated into a third coker now under construction, the project will reduce stack emissions of sulphur compounds by 60 per cent from current approved levels of 245 tonnes per day. The reduction will be gradually achieved over the course of a two-year period after start-up in 2009. A 50 per cent reduction in emissions of particulate matter also will be achieved. The project engineering design specification will be complete in 2005; with procurement and construction activities to follow in 2006 and beyond. *Also see discussion on key stakeholder concerns, page 32.*

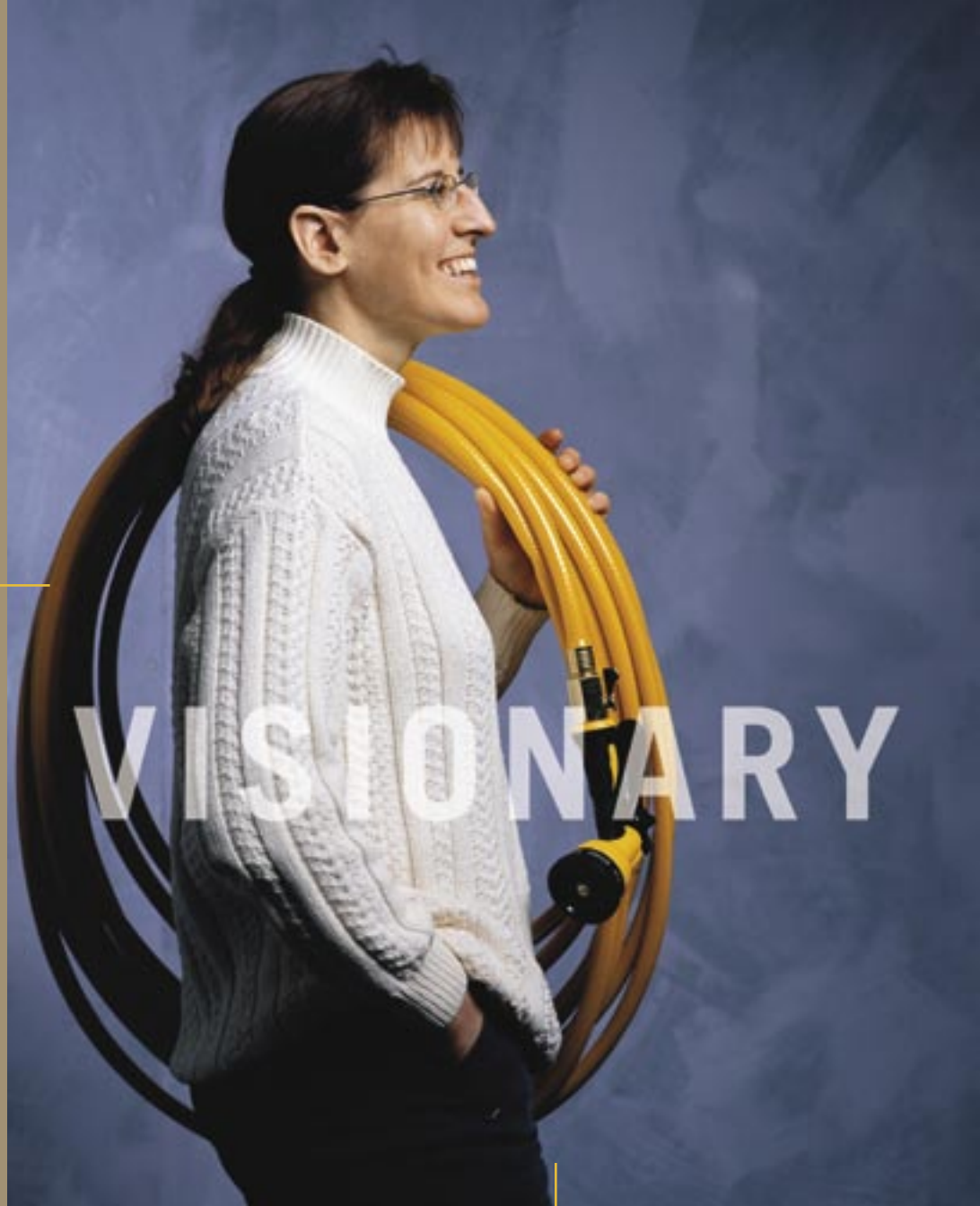
¹ CO₂E emission estimates by Point Source Method – includes emissions of CO₂, CH₄ and N₂O expressed as CO₂ equivalents (CO₂E) plus Biomass Combustion emissions (tree clearing/burning) for mandatory GHG emission reporting beginning in 2004.

² CO₂ emissions by Carbon Balance Method – includes estimated CO₂ and CH₄ emissions only. Reference: Syncrude 2003 VCR Action Plan and Report, March 2004, and Syncrude Business Plan.

³ Diverter stack usage was caused by outages of CO Boilers 8-1 and 8-2 while they underwent emergency repairs. See discussion page 33.

“To achieve Syncrude’s reclamation vision we are working to understand the fundamentals of ecosystem performance.”

As a person deeply involved in Syncrude’s land reclamation efforts, Clara Qualizza knows you can’t fool Mother Nature, but you can learn from her. Accordingly, Clara and her colleagues have embarked on a major research initiative to track and understand the complex interactions between and within climate and the components of our reconstructed landscapes—things that ultimately determine reclamation success. Says Clara, “Syncrude has a vision of what we’d like our reclaimed landscapes to look like, and to achieve it, we are working to understand the fundamentals of ecosystem performance through the research watersheds we have established on several of our reconstructed landforms.” Clara explains that watersheds are one of nature’s building blocks. Understanding how they evolve will help Syncrude reconstruct a sustainable boreal forest ecosystem on land that was once used for oil sands mining. Says



Clara, “This type of research goes well beyond typical reclamation science, which aims to understand how well a plant grows in a certain soil; it allows us to learn the story of the entire ecosystem and gain valuable design information for the future.” When it comes to achieving our reclamation vision, Clara believes that discovering nature’s way is the best way of all.

Clara Qualizza
*Senior Environmental
Scientist*

Greenhouse Gas Emissions Reporting System Best Practice

In 2004, Syncrude continued its work with government and other industry members to develop a comprehensive, auditable method for the reporting of greenhouse gas emissions from the oil sands and heavy oil upgrading industry. This effort establishes a best reporting practice for the oil sands and heavy oil upgrading industry and will support the mandatory reporting of GHG emissions to regulators, which commenced in 2004. A draft estimation method that will accurately capture all sources of greenhouse gas emissions has now been developed and is being reviewed through a multi-stakeholder consultation process.

Key Air Indicators

	2005 Target	2004 Actual	2004 Target	2003	2002	2001	2000
Main Stack SO₂							
Hours greater than 16.4 tonnes per hour	0	2	0	3	1	1	3
Daily average greater than 292 tonnes per day (# of occurrences)	0	0	0	0	0	0	1
Main Stack Opacity (# hrs >40%)	<5	11	<5	6	3	12	8
Main Stack NO_x Emissions							
(# hrs >1.5 tonnes per hr)	0	0	0	0	0	0	0
Ambient Air Exceedences							
H ₂ S Hourly (#)	0	20	0	5	7	4	49
H ₂ S 24-hr Period (#)	0	3	0	5	7	4	49
SO ₂ Hourly (#)	0	2	0	2	2	0	3
SO ₂ 24-hr Period (#)	0	0	0	0	1	0	0
Odour Complaints Received (#)	0	1	0	0	1	0	0
Environmental Fines (#)	0	0	0	0	0	0	0
Environmental Administrative							
Penalties (#)	0	0	0	0	0	3	1
Total Penalties by Year (\$000)	0	0	0	0	0	28	7
Cumulative Total Penalties (\$000)	37	37	37	37	37	37	9

Alberta Environment conducts regular on-site audits of our stack sampling procedures to ensure compliance with requirements to maintain high quality data within tightly specified tolerances. Information relating to offsite air quality is measured, collected and validated by an independent third party, the Wood Buffalo Environmental Association.

Energy Efficiency and Climate Change

Syncrude did not meet its target for energy efficiency in 2004. Performance was 1.35 million BTUs per barrel of oil produced versus the target of 1.26. Contributing factors included higher than expected natural gas consumption at the Aurora mine due to the start-up of Aurora's second production train, lower than planned bitumen recovery and high energy consumption caused by unplanned outages of major production equipment.

Syncrude has committed to achieving energy intensity improvements of at least one per cent per year. Between 1988 and 2004, we reduced the energy needed to produce a barrel of crude oil by 8.3 per cent. We continue to pursue progress through energy conservation efforts and improved bitumen recovery and upgrading yields which help to further reduce the amount of energy consumed to produce a barrel of crude oil.

These improvements have and will continue to lower our greenhouse gas emissions intensity. In fact, for the period 1988-2010, we are projecting a 23 per cent reduction in emissions of CO₂ per barrel of crude oil produced. Because we are significantly increasing our production and quality of crude oil, total emissions will increase. Syncrude continues to be

challenged by societal demand for highly upgraded clean burning crude oil, a process that consumes energy, as well as demand for greater energy efficiency in our processes.

Also see discussion on Stakeholder Benefits of Capital Program, page 22.

Toward meeting our energy efficiency objectives, Syncrude employs dedicated energy efficiency specialists who assist operating staff in the technical development of energy conservation opportunities and projects, the planning of production configurations and daily energy and emissions optimization. Syncrude also requires energy conservation assessments of all processes and equipment proposed for its expansion projects.

Syncrude has developed a set of energy and emissions performance factors to assist operating areas in achieving annual and monthly targets for heat recovery and energy use. Each month, operating teams review and steward toward their individual targets.

For more information see Syncrude's 2004 Action Plan for Reducing Greenhouse Gas Emissions at www.syncrude.com/enviro/energy.html

Resource Conservation

	2005 Target	2004 Actual	2004 Target	2003	2002	2001	2000
Total Energy Consumption							
(billion BTUs)	109,251	119,401	113,899	107,163	110,022	110,420	96,239
Energy Intensity							
(million BTUs per barrel)*	1.24	1.35	1.26	1.37	1.30	1.34	1.28
Bitumen Recovery (%)	91.6	87.4	92.4	88.4	89.9	87.0	89.6
Naphtha Losses							
(bbls per bbl of bitumen produced)	<0.0046	0.0038	0.0048	0.0044	0.0043	0.0058	0.0055
Upgrading Yield (%)	86.5	85.5	86.0	85.8	86.2	84.5	84.3

* Target is 1% improvement per year.

Water

In 2004, Syncrude continued its efforts to reduce its water intake from the Athabasca River ^{SF} on a unit of production basis. This resulted in a total river water withdrawal of 30.6 million cubic metres, a reduction of nearly two million cubic metres over 2003 and the lowest withdrawal volume since 1990. Water withdrawals were 2.21 cubic metres per cubic metre of production, which is Syncrude’s best ever performance.

While our plans to increase crude oil production also will increase our future import of river water, Syncrude continues to identify and implement water conservation initiatives to drive down consumption on a unit of production basis.

Water Use

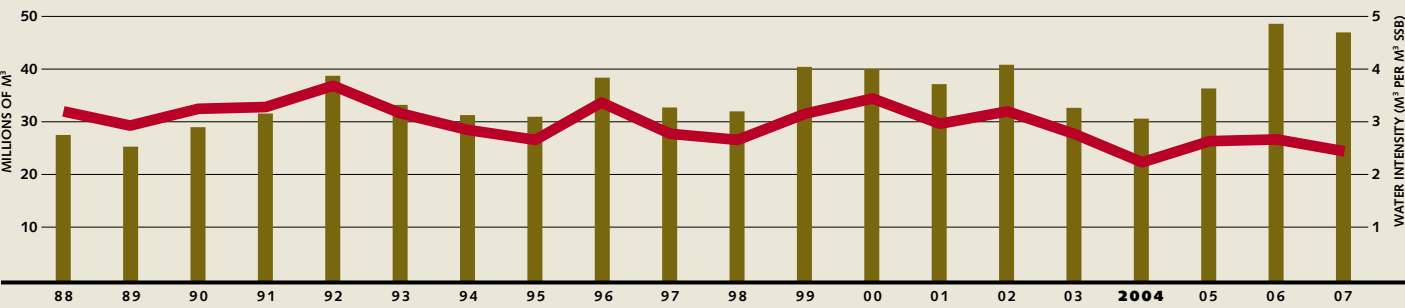
	2005 Target	2004 Actual	2004 Target	2003	2002	2001	2000
Imported from Athabasca River							
(millions of m³ per year)	36.9	30.6	33.5	32.3	40.7	37.0	40.2
Process Water Recycled ¹							
(millions of m³ per year)	226.2	228.4	220.3	189.1	162.4	178.5	171.6
(Recycle as % of total water used)	86	88	87	86	80	83	81
Treated Waste Water Discharged							
to River (1000 m³)							
Sanitary		345.4		353.2	195.3	197.8	125.3
Other	0	0	0	0	0	0	0

1 Recycled water volumes reflect the combined volumes for Syncrude’s Mildred Lake and Aurora facilities.

Syncrude’s 2004 raw water consumption of 30.6 Mm³ is the lowest volume since 1990. Raw water withdrawal of 2.2 m³ per m³ SSB is the lowest ever.

■ Volume (m³)
■ Intensity (m³ per m³ SSB)

Raw Water Import





A team of Syncrude environmental scientists takes fish inventory on the Clearwater River, Spring 2004.

As part of our ongoing efforts to mitigate the cumulative effects of oil sands development, Syncrude is working to improve water management knowledge in concert with other oil sands developers through the Canadian Oil Sands Network for Research and Development which, in February, held a technical workshop on water usage in the oil sands. Syncrude representatives made several presentations on water related issues. *Also see discussion on stakeholder concerns regarding water, page 32.*

River Water Quality

The Regional Aquatic Monitoring Program's summary report for 2003 (the latest available) indicates that water quality in the Athabasca River system downstream of Fort McMurray was generally consistent with previous years; no water quality issues were detected at any of the Program's sample sites, which are located at points upstream of the oil sands industry through to the Athabasca Delta. The report states that the rivers, tributaries and watersheds in the oil sands region were found to have comparable water quality to those of other undisturbed tributaries in the region.

The Regional Aquatic Monitoring Program web page contains useful information such as maps, sample site locations and program reports. Visit www.ramp-alberta.org



Ted Lord

*Research Associate and
Vice Chair, Oil Sands Tailings
Research Facility*

When Ted Lord first learned of two competing visions for a centre of excellence in oil sands tailings research, he decided that Syncrude would be the catalyst to unite the university and government parties in their common cause. And he went one better, by also bringing industry to the table through the Canadian Oil Sands Network for Research and Development. The new university

“Tailings research is a long-term endeavour and Syncrude was the catalyst in uniting the parties who are working toward solutions.”

centre had its grand opening in October 2004. There, researchers are working to develop new tailings management practices, and also to develop a new generation of industry practitioners through the active involvement of students. Ted says the facility's vision is to enable progressive reclamation of oil sands mines by producing a drier tailings stream that can be immediately put to work in the construction of reclaimed landscapes. He says the biggest challenge in oil sands tailings management today is a product called mature fine tailings, a soupy mix of water and suspended silts and clays that take hundreds of years to settle. While progress has been made on the latter front, Ted says a goal is to eliminate their production entirely. “Tailings research is a long-term endeavour and my philosophy is that you’ve got to have the heart to win the race.”

Good Advice

Toward excellence in land reclamation practices, Syncrude receives guidance from its Syncrude Land Reclamation Technical Advisory Panel, which is comprised of external experts in the field. The advisory panel is a management tool used by Syncrude to meet its reclamation responsibilities; it provides advice on land management technology as well as policy and practice.

Land^{SE}

Landforms involving the planting of 467,000 seedlings were constructed on 318 hectares of former mining land in 2004, a new record for the placement of reclamation material. An additional 335 hectares of land that had previously been reclaimed as temporary also were converted to permanent, bringing to 653 hectares Syncrude's total reclamation rate for 2004. Total reclamation expenditures were almost \$15 million in 2004 compared to \$11 million in 2003.

Almost 25 per cent of Syncrude's Mildred Lake site has now been reclaimed even though some of the mines on the site have a remaining life of about 35 years. About two per cent of the site is reclaimed each year. At the Aurora mine site, which has been in operation since 2000, about 16 hectares were reclaimed, bringing to 23 hectares the total of reclaimed land on this newly established mine site. *Also see discussion on land reclamation liability, page 23.*

Syncrude's reclamation efforts are supported by a long-term, large scale, and leading-edge research program. This work recently led to the development of a suite of tools that allow for the design and construction of landforms that mimic natural systems. *Also see discussion on Watershed Research Program, page 61.*

Land Reclamation

	2005 Target	2004 Actual	2004 Target	2003	2002	2001	2000
Land Disturbed							
(cumulative hectares)	19,117	18,653	18,465	18,335	17,653	16,685	15,576
Land Reclaimed							
(cumulative hectares)	4,416	4,055	3,704	3,402	3,215	3,024	2,931
Net Land Disturbed							
(cumulative hectares)	14,701	14,598	14,761	14,933	14,438	13,661	12,645
Seedlings Planted							
(per year)	724,000	467,000	500,000	315,000	233,028	118,597	241,000

Support for New Tailings Research Facility ^{SE}

Syncrude is a partner in the funding and staffing of a new \$2.2 million tailings research facility that will help oil sands developers find new ways to manage the tailings produced by their operations. The facility, which opened in October, is allowing pilot-scale research into environmentally superior methods of depositing tailings into reclaimed landscapes. Among other goals, it is hoped work done at the facility will provide management options that avoid the current need for large tailings settling basins and enable progressive reclamation in active mines. The facility is a joint initiative among government, the University of Alberta and industry.

Recognition for Watershed Research Program

Syncrude's Peat and Golden Pond Watershed Research Initiative, a multi-disciplinary research program that is studying the movement of water on reclaimed landscapes, was recognized at the 2004 National Post Design Exchange Awards. Findings from the research are enhancing Syncrude's ability to establish diverse ecosystems on reclaimed sites.

Coordination Fosters Reduced Land Use ^{SE}

Coordination between Syncrude and forestry company Alberta Pacific under the Integrated Land Management (ILM) Program of the Alberta Chamber of Resources has succeeded in reducing the two companies' development footprint by 1,000 hectares over the period 2000-2004. The ILM program aims to foster greater land use coordination among resource developers to reduce the cumulative impacts of resource-based land use in Alberta. Alberta Pacific met its timber

Nestled deep in Syncrude's reclaimed landscape is Bill's Lake—a beautifully reclaimed wetland area. The wetland boasts a dense larch forest to the north, willow-lined shores, and grassy upland areas to the south. Raspberries abound. Monitoring schedules have been adapted to provide privacy for nesting waterfowl along the shoreline.

harvest needs in part through the clearing of land for Syncrude's Aurora north and south mines.

For more information on the Integrated Land Management Program, visit www.acr-alberta.com/Projects/ILM_backgrounder.htm

Waste Management and Recycling

Syncrude's waste management program continues to be guided by the principles of reduce, reuse and recycle (3-R). These efforts are reducing the quantity of solid materials that would otherwise be treated or disposed of in on- and off-site facilities. More than 18,000 tonnes of various materials were sent for recycling or reuse in 2004. In addition:

- Syncrude recycled 2,500 cubic metres of waste hydrocarbons such as fuels, lubricants, oil and solvents produced from its various operations as feed for its upgrading operation.
- A new program implemented in 2004 allowed for the recycle of 12.3 tonnes of empty aerosol cans plus 2.3 tonnes of rags and other absorbents that were contaminated with flammable hydrocarbons.
- A new recycling building was completed on the Syncrude site. It will be the future centre for the recycling programs operated by Syncrude.



Waste Management

	2004	2003	2002	2001	2000
Waste Recycled/Reused – Solid (tonnes) ¹	18,180	15,380	13,540	14,600	22,730
Waste Recycled/Reused – Liquid (m ³) ²	3,100	3,030	2,610	4,200	3,400
Waste – Solid Hazardous sent for offsite treatment or destruction (tonnes)	19	73	13	29	101
Waste – Liquid Hazardous sent for offsite treatment or destruction (m ³)	38.3	4.1	6.7	4.3	2.8
Waste Disposal – Offsite Hazardous (tonnes)	0	0	0	0	0
Waste Disposal – Offsite Non-Hazardous (tonnes)	0	0	0	0	0
Waste Disposal – Onsite Non-Hazardous (tonnes)	88,110	75,460	57,030	48,000	61,340
Waste Disposal – Onsite Sanitary, Non-Hazardous (tonnes)	2,350	1,900	1,360	1,550	1,850

¹ Includes catalyst, scrap metal, tires, conveyor belting and batteries.

² Includes used oil, used solvents and glycol.

Enhanced Naphtha Recovery

A new process unit now in service will help reduce local stakeholder concerns surrounding naphtha-related emissions and air odours. The unit, which is part of Syncrude's Upgrader Expansion project, is expected to increase by more than 15 per cent the recovery of naphtha that would otherwise have been lost to the tailings stream. Syncrude pioneered naphtha recovery technology many years ago as a means of improving environmental and economic performance. Ongoing refinements to naphtha recovery technology have improved recovery from an initial rate of 65 per cent to more than 90 per cent today. The technology is now also used under license by other oil sands developers.

governance and committees

Governance and Management Committee

Syncrude Canada Ltd. is a private company incorporated under the Business Corporations Act of Alberta and is an organization similar to other corporations with a Board of Directors.

Syncrude's by-laws stipulate that shares in the corporation may only be held by the Owners in proportion to their interest in the Syncrude Joint Venture, and that Syncrude Canada Ltd. may not carry on business or activities other than to act as contract operator of the Syncrude Project on behalf of the shareholders.

The structure and governance of the Syncrude Project includes a Management Committee, which meets regularly and supervises the project on behalf of the Owners. Each Owner has two representatives, one of which is an alternate on this committee, and votes its percentage interest in the project.

The Management Committee reviews and approves the Syncrude Project's strategic plans and objectives and annual budget. It also approves major capital appropriations. In addition, it reviews overall performance, both operationally and financially. The Management Committee is chaired by one of the Owners' representatives. The Management Committee's governance process is consistent with current industry business standards.

Board of Directors

Syncrude's Board of Directors is responsible for governing the statutory affairs of the corporation. It meets formally on an annual basis to complete statutory requirements and review the results of the corporation. The Board functions on a more frequent basis through several active committees including a CEO Committee, an Environment, Health and Safety Committee, an Audit and Pension Committee and a Compensation Committee.

The Board and its committees are composed of Directors appointed by the Joint Venture Owners in their capacity as shareholders of the corporation.

The Board of Directors takes its duties and responsibilities seriously with respect to the principles of good corporate governance. It is the Board's view that its approach to directing the business of Syncrude is comprehensive, effective, and consistent with generally accepted standards of Canadian corporate governance.

Board Committees

The primary role of the CEO Committee, which is comprised of the most senior executive of each Syncrude Canada Ltd. shareholder company, is to oversee the performance of Syncrude's Chief Executive Officer and Chief Operating Officer, approve compensation of company Officers, review senior management succession plans, and review and provide input to Syncrude's annual Business Plan and strategic planning processes.

The Environment, Health and Safety Committee consists of four Directors. The role of this committee is to confirm that policies, procedures and controls with respect to environment, health and safety issues are in place and are implemented, maintained and audited. In addition, the committee monitors and assesses corporate performance in the areas of environment, health and safety matters and makes recommendations where appropriate.

The Audit and Pension Committee assumes responsibility for Syncrude's Pension Plan and reviews the adequacy and scope of Syncrude's internal control systems, as well as the scope and results of both internal and external audit efforts. At every meeting of the Audit and Pension Committee, the committee holds private and separate sessions with internal auditors, external auditors and Syncrude management. The committee also provides oversight on any other matters related to Syncrude's financial affairs, policies and practices. The Audit and Pension Committee consists of four Directors. All members of the Audit and Pension Committee are independent and are neither Officers nor employees of Syncrude Canada Ltd.

The Compensation Committee consists of four Directors and deals with matters related to compensation and benefits, senior management succession planning, and other issues concerning human resources programs.

corporate information

Board of Directors

Canadian Oil Sands Limited/
Canadian Oil Sands Limited Partnership
Marcel Coutu, Chairman ^{1, 2, 3, 5}
Alan Hagerman ⁴
website: www.cos-trust.com

ConocoPhillips Oil Sands Partnership II
Henry Sykes ¹
John LeGrow ^{2, 3, 5}
John Anders ²
website: www.conocophillips.com

Imperial Oil Resources
Y.M. Yeager ¹
Eddie L. Lui ^{2, 4, 5}
Rick Pawluk
website: www.imperialoil.ca

Mocal Energy Ltd.
Sonny Lyons ¹
Charles Scholz ⁵
Masashi Yoshizawa
website: www.eneos.com.jp

Murphy Oil Company Ltd.
Harvey Doerr ¹
Tim Larson ^{3, 4, 5}
website: www.murphyoilcorp.com

Nexen Inc.
Charlie Fischer ¹
Marvin Romanow ^{3, 5}
website: www.nexeninc.com

Petro-Canada Oil and Gas
Ron Brenneman ¹
Brant G. Sangster ^{4, 5}
website: www.petro-canada.ca

¹ Member of the CEO Committee

² Member of the Environment, Health & Safety Committee

³ Member of the Compensation Committee

⁴ Member of the Audit & Pension Committee

⁵ Member of the Syncrude Joint Venture Management Committee

Officers of Syncrude Canada Ltd.

Marcel R. Coutu
Chairman, Board of Directors

Charles F. Ruigrok
Chief Executive Officer

James E. Carter
President and Chief Operating Officer

Philip C. Lachambre
*Executive Vice President
and Chief Financial Officer*

Murray D. Smart
*Executive Vice President,
Strategic Projects*

Gordon M. Ball
*Vice President, Bitumen Production,
Mildred Lake*

Gordon R. Winkel
*Vice President, Bitumen Production,
Aurora*

Fred A. Hemphill
Vice President, Bitumen Processing

Rosalind Eichhorn
*Vice President,
Human Resources and Support Services*

Gary K. Brennan
Controller and Treasurer

Ray B. Hansen, Q.C.
General Counsel

Donald C. Thompson
*Corporate Secretary and
General Manager,
Environment, Health and Safety*

External Financial Auditors

KPMG

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