



everything in balance



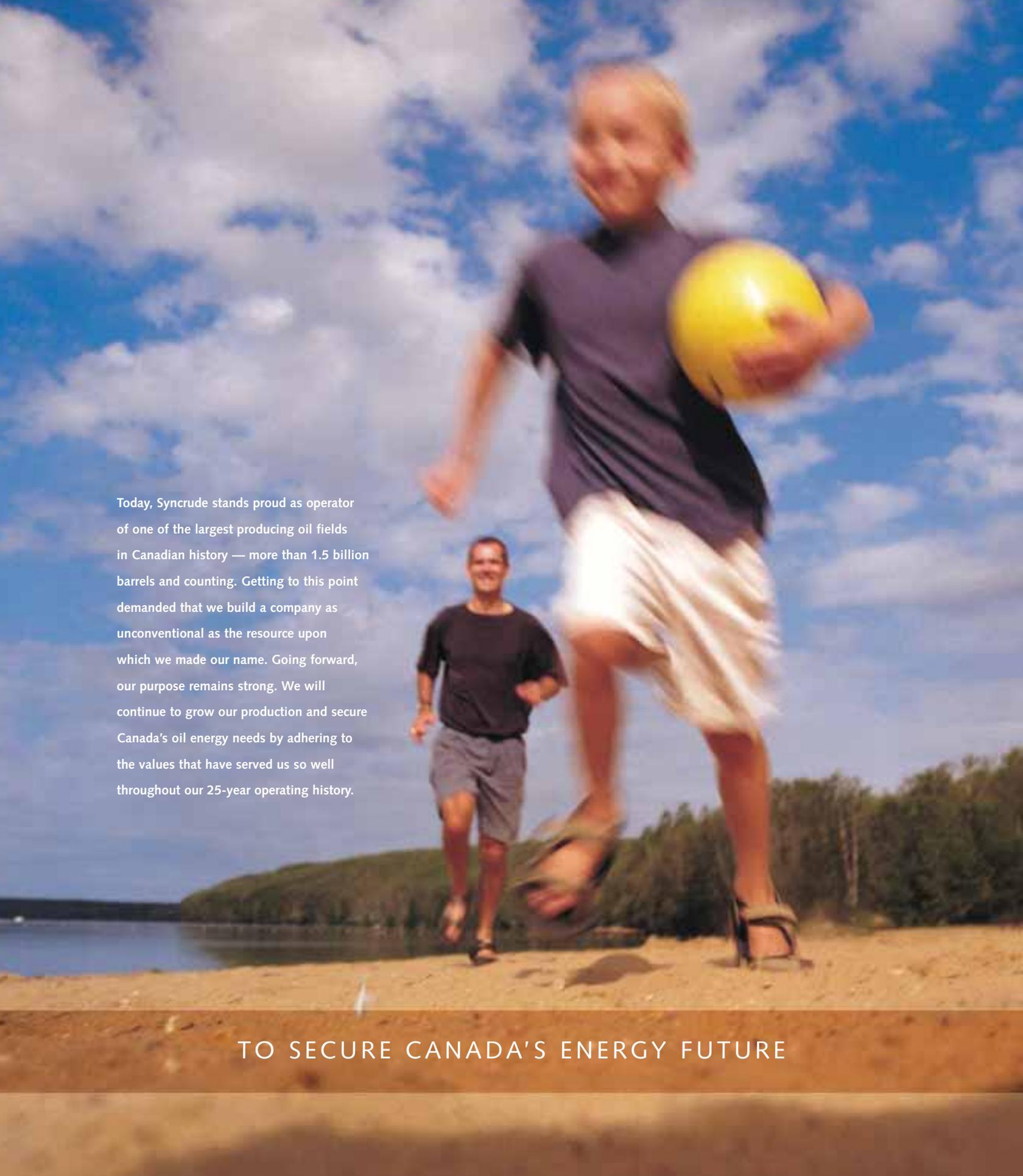
WE MADE A PROMISE TO OUR COUNTRY

The Athabasca oil sands deposits have long been known as one of the world's great natural resources. While development of the resource presents great opportunity to secure the energy needs of a nation, it also poses tremendous challenges. The talents of many people are required to harness its potential. The efforts of many more protect the natural environment under which the resource lies. Along the way, communities are prospering. And a way of life has been preserved.

LONG BEFORE OUR FIRST BARREL OF OIL WAS SHIPPED

A woman with long, dark, curly hair is wearing a blue jumpsuit with reflective silver stripes on the sleeves and a gold belt. She is also wearing an orange hard hat with the word "Synpro" on it and safety glasses. She is looking upwards and to the right. In the background, there is an industrial facility with various structures, pipes, and a tall chimney stack against a blue sky with scattered white clouds.

In 1964, Syncrude embraced the aims of economic, social and environmental sustainability and vowed to make them real. Then, as now, we believed that careful stewardship would unleash economic benefits on a scale never before seen. Engineering and research would invent production processes and make them better. Planning and foresight would see the return of trees and animals to their original lands. Regard for people and their places would be evident in every decision.

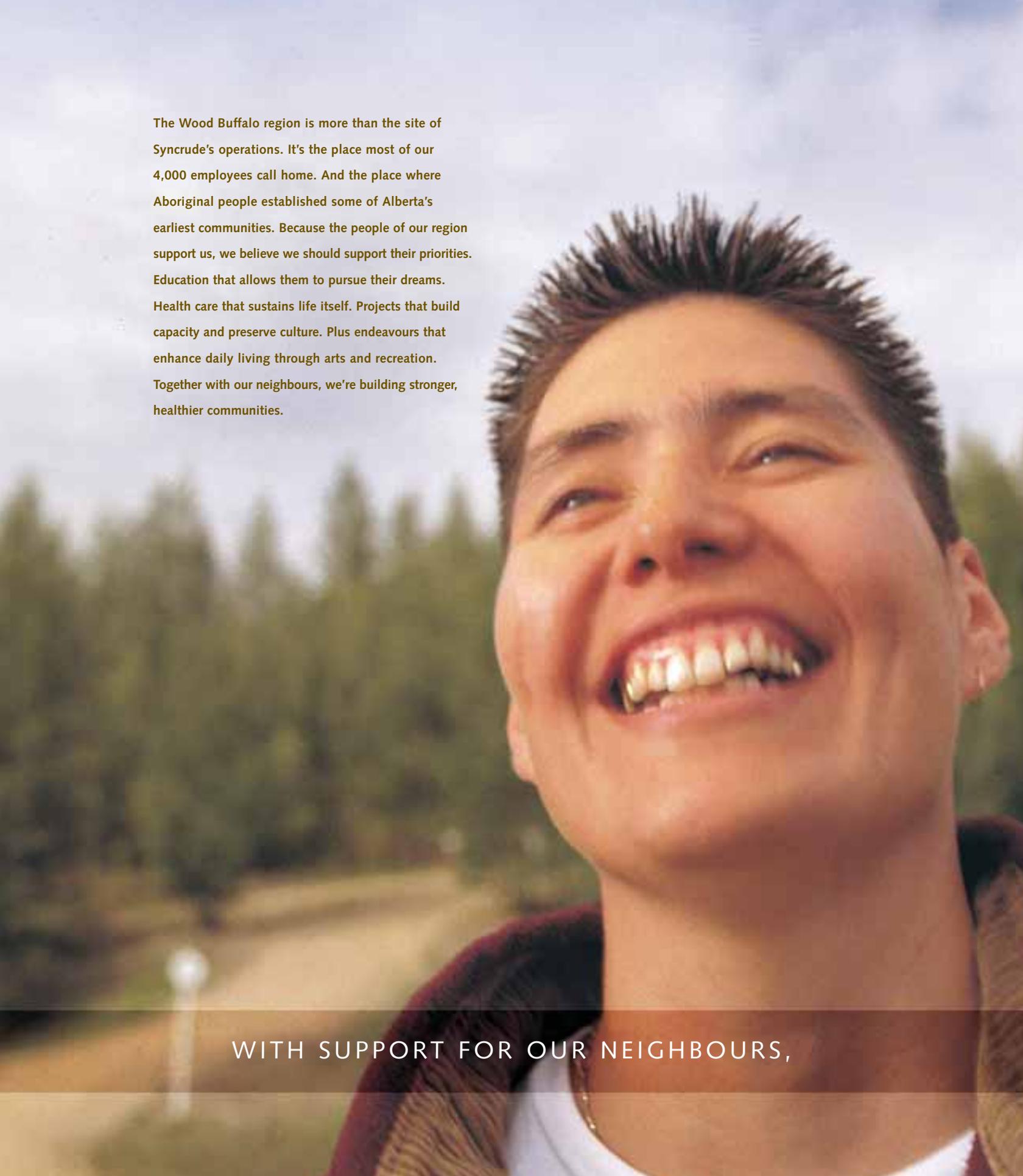


Today, Syncrude stands proud as operator of one of the largest producing oil fields in Canadian history — more than 1.5 billion barrels and counting. Getting to this point demanded that we build a company as unconventional as the resource upon which we made our name. Going forward, our purpose remains strong. We will continue to grow our production and secure Canada's oil energy needs by adhering to the values that have served us so well throughout our 25-year operating history.

TO SECURE CANADA'S ENERGY FUTURE

The Wood Buffalo region is more than the site of Syncrude's operations. It's the place most of our 4,000 employees call home. And the place where Aboriginal people established some of Alberta's earliest communities. Because the people of our region support us, we believe we should support their priorities. Education that allows them to pursue their dreams. Health care that sustains life itself. Projects that build capacity and preserve culture. Plus endeavours that enhance daily living through arts and recreation. Together with our neighbours, we're building stronger, healthier communities.

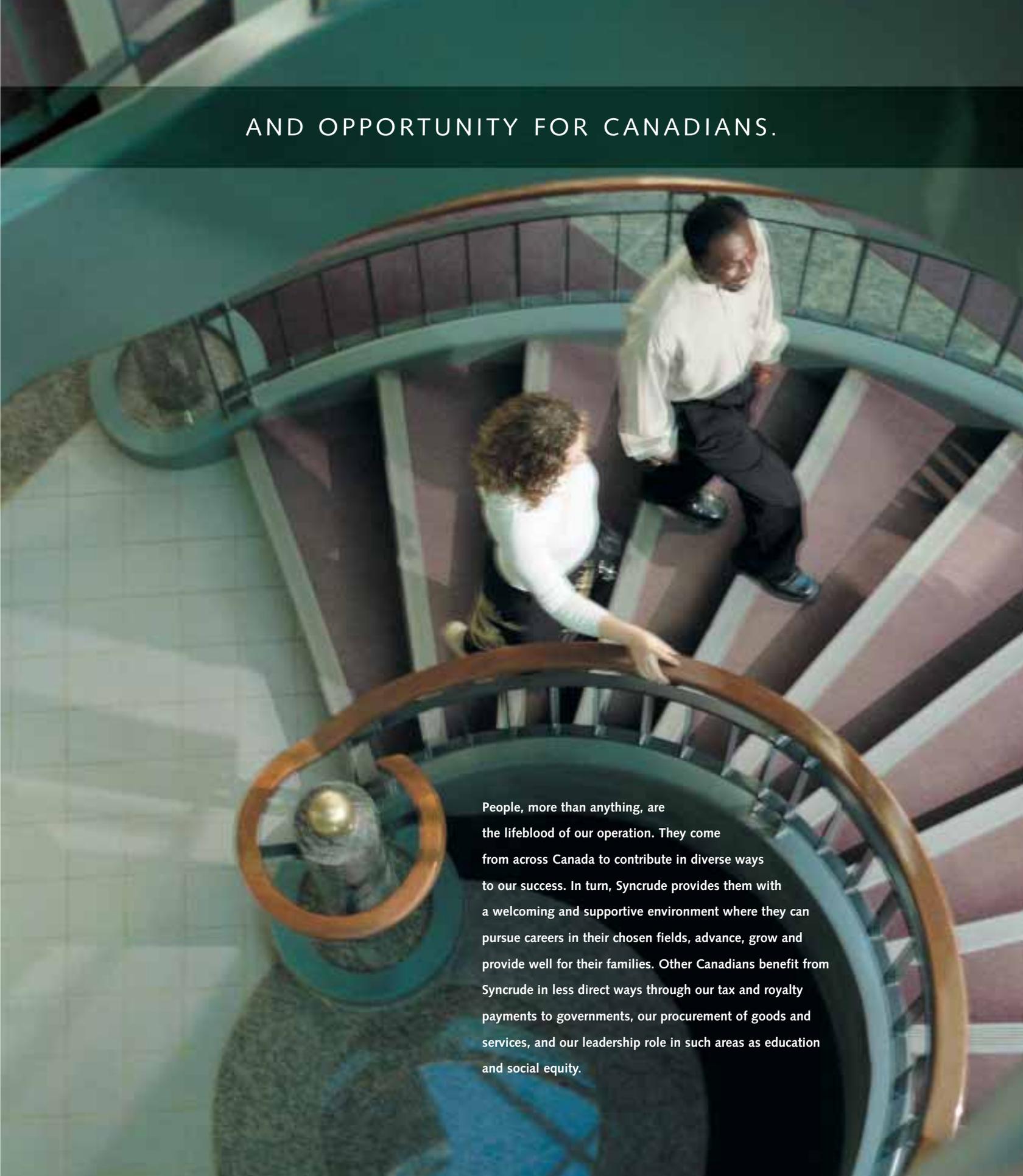
WITH SUPPORT FOR OUR NEIGHBOURS,



RESPECT FOR OUR BACKYARD

Syncrude's commitment to the environment took shape in the company's earliest years, when environmental scientists were hired among our very first employees. As time has progressed, so has our ability to mitigate impacts on air, land and water. Today, we work cooperatively with our stakeholders to understand the potential impacts of oil sands development, and take actions that harness the best that modern science and traditional knowledge have to offer.





AND OPPORTUNITY FOR CANADIANS.

People, more than anything, are the lifeblood of our operation. They come from across Canada to contribute in diverse ways to our success. In turn, Syncrude provides them with a welcoming and supportive environment where they can pursue careers in their chosen fields, advance, grow and provide well for their families. Other Canadians benefit from Syncrude in less direct ways through our tax and royalty payments to governments, our procurement of goods and services, and our leadership role in such areas as education and social equity.

THAT'S HOW WE MEASURE SUCCESS.

At Syncrude, we believe no successful business can separate itself from the things that make it strong, that make it grow, that make it matter — that make it better. For us, it's about making more than a profit. It's about making a real and lasting contribution to our people, our communities and our country. It's about keeping promises we make, and making promises we can keep. Because our success is based on how well we keep everything in balance.



Syncrude
at a glance

AT A GLANCE 2003



finance & economy

- Crude oil shipments were 77.3 million barrels (212,000 barrels per day) in 2003, a drop of 7.8 per cent from 2002 due to unplanned and extended maintenance turnarounds.
- Prices for *Syncrude Sweet Blend* averaged \$42.82 Cdn per barrel at the plant gate, an increase of \$2.32 per barrel from 2002.
- Total operating costs were \$1,629 million in 2003, \$200 million higher than the previous year due to higher purchased energy costs, as well as higher turnaround and unscheduled maintenance costs.
- Operating netbacks remained strong at \$21.32 per barrel and, on average, have outperformed that of the Canadian oil and gas industry over the last three years.



social

- Combined employee and corporate contributions to the United Way totalled an all-time record of \$637,000.
- Syncrude distributed more than \$43,000 to eligible groups through a new community investment program that recognizes the time and money employees donate to not-for-profit or educational institutions.
- We are one the largest employers of Aboriginal people in Canada; 13 per cent of our workforce is represented by Aboriginal people.
- We spent more than \$90 million — a ten per cent increase from 2002 — with 27 Aboriginal businesses. Since 1992, we have spent more than \$660 million with Aboriginal companies.

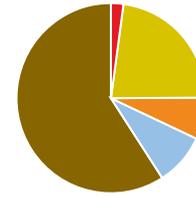


environment, health & safety

- Syncrude introduced a new risk-based management system, as well as a new Environment, Health and Safety policy, that will foster continuous improvement in our performance.
- Syncrude's 2003 safety performance led Alberta industry, with a total recordable injury frequency rate of 1.10 per 100 person years worked.
- In concert with local stakeholders and government, Syncrude took the lead in adding a third lane to a section of highway approaching our plant, which has alleviated congestion and driver hazards.
- Emissions of greenhouse gases were 0.097 tonnes per barrel, better than target. Energy efficiency was 1.36 million BTUs per barrel, off target due to operational upsets.

- Capital program, operating and other expenditures totalled more than \$4.2 billion in 2003.
- Pro-forma after-tax return on productive capital employed, excluding investment in facilities that have not commenced operations, was 32.6 per cent.

- Since start-up in 1978, Syncrude has made payments in excess of \$6.1 billion to governments for royalties, payroll and municipal taxes.
- Procurement of goods and services totalled \$3.3 billion, including \$1.4 billion in business with Edmonton area companies and \$645 million in business with Wood Buffalo area companies.



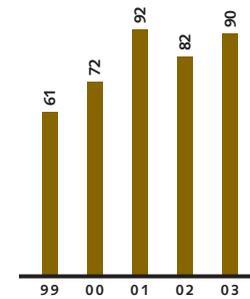
Geographic Distribution of \$4.2 Billion Economic Contribution

• Aboriginal Community	\$90 million
• Municipality of Wood Buffalo	\$964 million
• International	\$300 million
• Rest of Canada	\$375 million
• Rest of Alberta	\$2,503 million

- Syncrude is investing \$500,000 in the Aboriginal communities of Fort McKay and Fort Chipewyan towards Elder health care, internet-based learning tools and a day care facility.
- Through a benchmarking review of our employee compensation and benefits, Syncrude reaffirmed its position as one of the top employers among 15 comparable companies in the oil and gas sector.

- Our acceptance rate for new hires was 90 per cent, a ten per cent increase from the previous year, attributed to our competitive salaries and benefits package as well as our reputation as a safe and challenging place to work.
- Initiatives to foster greater safety and productivity among our upgrader expansion contractor workforce included stress management, mentoring, and supervisory training as well as awareness activities around drug and alcohol policies.

Contracts to Aboriginal Companies (\$ millions)¹

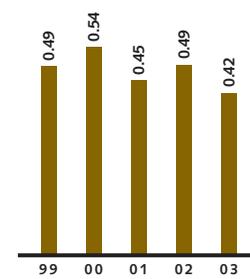


¹ Amount does not include non-local Aboriginal companies.

- Sulphur dioxide emissions averaged 212 tonnes per day, lower than the previous year.
- A site-wide water management program was initiated to balance future river water needs with our ability to reuse process-affected water.

- In 2003, 187 hectares of land were reclaimed, bringing the total net land reclaimed since 1978 to 3,402 hectares.
- Reforestation included the planting of 315,000 tree and shrub seedlings, bringing the total number of seedlings planted since 1978 to over 2.8 million.

Fresh Water Import per barrel of Syncrude Sweet Blend (m³)



About This Report

BALANCE

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 to date toward more sustainable performance, as well as our plans going forward.

This is our second sustainability report and we welcome your comments and feedback to info@syncrude.com or our toll-free telephone line at **1-800-667-9494**. More information about Syncrude, as well as access to past annual and sustainability reports, can be found at www.syncrude.com

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BALANCE

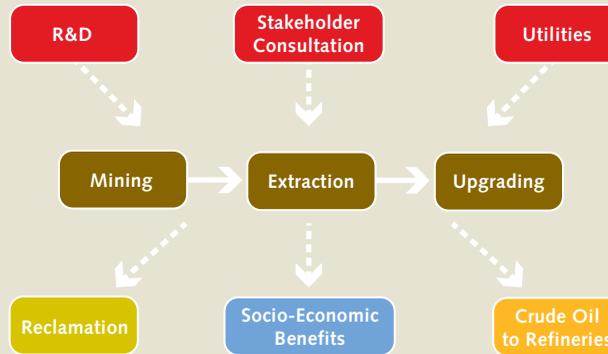
About Syncrude

Syncrude Canada Ltd. is a leader in Canada's oil sands industry, producing 13 per cent of the nation's crude oil requirements. Our mission is to create wealth for our stakeholders from Canada's oil sands by safely, reliably and profitably producing high quality crude oil and other products in an environmentally and socially responsible manner.

Towards this, Syncrude operates technologically advanced oil sands mines, extraction and upgrading facilities, and 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 among Canadian Oil Sands Limited Partnership (5%), Canadian Oil Sands Limited (31.74%), Conoco Phillips 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%).



Mining

Shovel and truck operations mine the oil sand, which is then placed in a hydrotransport system where it is mixed with warm water. This process creates a bitumen slurry which is pumped via pipeline to extraction facilities.



Reclamation

After mining is complete, our vision is to create a new landscape that sustains an integrated mosaic of land uses which meet stakeholder expectations. To date, we have permanently reclaimed over 3,400 hectares and planted over 2.8 million tree and shrub seedlings. And, in cooperation with the Fort McKay First Nation, we have successfully developed wood bison habitats.





Research and Development

Syncrude invests over \$40 million annually on science and technology, and is among the top 50 R&D companies in the country. At our Edmonton Research Centre, we operate one of the largest private sector research programs in Western Canada.



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 generate the steam, electricity, air and 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 which 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. While the hydrocarbon gases are treated for use as refinery fuel, the naphtha and gas oils are treated and blended into *Syncrude Sweet Blend*. The oil is then transported via pipeline to refineries across 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.



Securing Canada's Energy Future

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

Syncrude's Vision and Values, and our guiding principles, reflect our commitment to responsible oil sands development.

Letter from Syncrude's Leaders

As any acrobat who's ever walked a tightrope can attest, balance is critical not only to a successful performance, but to survival itself.

Finding such equilibrium is also essential to Syncrude's long-term success. We must work to deliver attractive financial returns and meaningful economic benefits to Canadians while respecting the needs of our environment, our people and our communities.

While these goals are not easily achieved, we are making substantial progress toward them.

In 2003, for example, our *Syncrude Sweet Blend* product delivered a very competitive pro forma net-back of \$19.18 per barrel, while our positive impact on Canada's economy reached an all-time high of \$4.2 billion. We also earned recognition for excellence in land reclamation research and practices, enhanced our reputation as an employer of choice, and were extensively involved in our communities.

All of these topics are discussed in detail in the following pages of our 2003 Sustainability Report.

For us, a key development in 2003 was a new understanding brought about in part by the many operational challenges we have encountered in recent years. Plant upsets impact production, profits, the environment and people. Their unwelcome occurrence really drove home the value of reliability in a sustainable enterprise.

Accordingly, Syncrude has adopted a new sustainability credo, which promises *responsible development built on a foundation of operational excellence*. Our experience has shown us that safety, reliability and profitability must be the foundation upon which all other objectives rest.

Indeed, as a company that is one of Canada's largest producers of crude oil, Syncrude also runs one of the largest mining operations in the country. The process by which we produce our product is complex, and draws on technologies from the mining, refining and utilities sectors.

To some people, Syncrude's work is a marvel of engineering achievement and technological know-how. To others, it illustrates the challenges inherent in balancing various stakeholder interests.

That's why Syncrude's sustainability efforts focus on operational excellence. We are working to bridge diverse points of view about the value of oil sands development and the benefits it brings to our stakeholders. And we are doing this through management systems and actions that engage people and technology in producing crude oil, in minimizing resource inputs, and in reducing potentially adverse environmental impacts.

Syncrude's Vision, Values and Guiding Principles also serve to foster a more sustainable operation. Among other notions, these speak to our desire to be a leader in all of our key activity areas, and to do better by harnessing the power of people and technology. Moreover, they help us focus on doing what is right.

We feel strongly that increasing our production of crude oil to meet the energy needs of a growing economy is the right thing to do. So is our plan to improve our product's environmental attributes, as are the steps we are taking to turn waste streams into useful products. These integrated moves will allow Syncrude to capture volume cost efficiencies and ensure that our product and the way in which it is produced keep pace with the expectations of our stakeholders.

Syncrude's expansion program also will allow us to continue contributing to local, regional and national economies. Since we started producing crude oil in 1978, Syncrude has made payments exceeding

\$6.1 billion to governments for royalties, payroll and municipal taxes. In 2003, the company's procurement of goods and services reached a new high of \$3.3 billion. And today, nearly one-quarter of our total economic impact provides direct benefit to the Regional Municipality of Wood Buffalo.

During the year, Syncrude's work with the Aboriginal community made notable advancements, particularly in the education area. Cooperative programs are fostering learning success among Aboriginal students at all levels in the education system, and are enhancing access to career-oriented learning at the high school and post-secondary levels. These initiatives will help ensure the continued presence of Aboriginal people in all areas of Syncrude's workforce and our supply chain.

As much as regional stakeholders are demonstrating increased capacity to benefit from Syncrude's positive economic impacts, they also are contributing in increasing ways to the management of social and environmental effects. Independent multi-party mechanisms are helping build more cohesive and vibrant communities and are gathering and sharing comprehensive scientific data to enable better understanding of the human and industrial impacts on air, land and water. Syncrude is an active participant in these endeavours, providing both financial resources and professional expertise.

Syncrude corporate leadership extends to corporate responsibility initiatives such as the Mining Association of Canada's *Towards Sustainable Mining* program, the Canadian Association of Petroleum



Marcel Coutu



Charles Ruigrok



Jim Carter

Producers Stewardship program, the Conference Board of Canada's Corporate Social Responsibility knowledge area, and the Alberta Chamber of Resources Aboriginal Programs project. These efforts help ensure widespread exposure to Syncrude's learning and experience around sustainability.

No discussion of Syncrude's progress toward sustainability would be complete without mention of our employees. While we had a tough year from an operations perspective, their efforts ensured another year of environmental progress and outstanding safety performance, and are largely responsible for the many reliability initiatives that will, in the future, foster sustained excellence.

In recognition of their exemplary contributions, Syncrude aims to provide a workplace that is respectful and challenging, as well as opportunities that can lead to promotion or new work experiences, while paying salaries and benefits that are rated among the best in our class. This approach seems to be working. Employee-initiated turnover is just 1.5 per cent while the acceptance rate on job offers to new hires is 90 per cent. More than 1,400 people have joined our workforce over the last five years.

As we bring this letter to a close, we invite readers to peruse this report for more information on how we are working to keep everything in balance, and to provide us with your feedback. The views of stakeholders like you reflect the true measure of our success.

Marcel Coutu
Chairman

Charles Ruigrok
Chief Executive Officer

Jim Carter
President and Chief Operating Officer

Key Sustainability Challenges

Syncrude has embarked on a bold plan of growth that provides great potential for the company, its owners, employees and the community. However, this plan will not be realized unless it can be shown to be sustainable from financial, economic, social and environmental perspectives. Here, we outline our key sustainability challenges and the work underway to address them.



Operational Excellence

- ongoing improvements through reliability maintenance program
- strategic capital investments
- R&D to solve operations issues



Operating Costs and Investor Returns

- capture volume efficiencies through Syncrude 21 expansion program
- establish "best-in-class" cost target for business units, and plans to achieve these
- increase product margin through product upgrading strategy
- increase energy efficiency by reducing thermal inputs
- study alternate fuel options to natural gas
- produce new products from waste materials
- reduce oil sand haul distances
- enhance bitumen extraction and froth treatment processes
- extend wear life of materials
- increase labour productivity



Health and Safety Performance

- instill safety culture among newer workers and construction trades
- manage issues associated with an aging workforce
- encourage sustainable improvements in the regional health care system
- implement new EHS management system
- sponsor community health and safety initiatives



Environmental Footprint

- increase crude oil yield from oil sand
- improve tailings disposal techniques; new CANMET oil sands tailings research facility to open in 2004
- increase pace of land reclamation
- implement integrated land management initiatives among resource industry (more information: www.acr-alberta.com)

Research and Development – A Strategic Asset

Syncrude believes knowledge is the foundation upon which we move forward and, accordingly, is consistently among Canada's top 50 investors in research and development. Our research department has been

contributing to our success for 40 years now, and holds 29 active Canadian and U.S. Patents for key technologies used at Syncrude and throughout the oil sands industry. The research group is also responsible for ongoing work to make incremental improvements in existing technologies that enable better economic and environmental performance. Our areas of research focus

include: Tailings and Water; Geology; Equipment and Process Development; Advanced Materials; Information Technology; and Reclamation. Syncrude researchers also maintain extensive ties with universities and research institutes in their ongoing quest for technology solutions that enable sustainable development. For more information: www.syncrude.com



Air Emissions

- implement flue gas desulphurization technology (2006/2009)
- design higher efficiency diesel engines
- reduce flaring
- increase energy efficiency
- study alternative fuels
- increase crude oil yield from oil sand
- improve naphtha recovery
- reduce oil sand haul distances
- reduce tank venting
- improve product quality to reduce downstream emissions



Water Use

- increase crude oil yield from oil sand
- increase water recycle in production processes (now 75 per cent)



Support for Aboriginal and Community Stakeholders

- continue ongoing direct and multi-party consultation
- share long-term benefits through formal agreements
- support community investments
- encourage volunteer efforts by Syncrude leaders and employees
- support management of social and infrastructure issues
- continue local and regional procurement efforts

Sourcing and Developing Skilled Human Resources

- continue Syncrude's development programs with accredited education and training providers (more information: www.syncrude.com)
- continue with 'employer of choice' initiatives

Charting a Sustainability Course

Syncrude is a leading contributor to a number of national initiatives aimed at promoting and encouraging sustainability among the Canadian industry. This includes the Mining Association of Canada's *Towards Sustainable Mining (TSM)* strategy (www.mining.ca), the Canadian Association of Petroleum Producers' *Stewardship* initiative (www.capp.ca) and the Alberta Chamber of Resources *Oil Sands Technology Roadmap* (www.acr-alberta.com). These initiatives outline directions for meeting the economic and social needs of our stakeholders while providing a forum where resource sector companies can share their experiences and lessons learned.







About Our Financial Reporting

Letter from Syncrude's Chief Financial Officer

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.

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 un-audited 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 owner.

Syncrude incurs operating costs and capital expenditures associated with its operations. Each joint venture owner accounts for their proportionate share of Syncrude's costs in accordance with their stated accounting policies. Certain additional costs 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, and pension costs dependent on market performance and changes in discount rates.

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.

Philip C. Lachambre

Executive Vice President and Chief Financial Officer

2003 Results¹

Crude oil shipments were 77.3 million barrels (212,000 barrels per day) in 2003, a drop of 7.8 per cent compared with 2002. Production interruptions caused by unplanned maintenance outages and extended Coker turnarounds were responsible for most of the decrease.

With oil prices averaging Cdn \$42.82, crude oil shipments generated pro-forma revenues of \$3.3 billion, compared to the \$3.4 billion recorded in 2002. Operating costs were \$21.07 per barrel, higher than the \$17.05 per barrel recorded in 2002. Lower crude production combined with higher purchased energy costs, and unplanned maintenance and turnaround costs were the main contributors to the unit cost increase.

Pro-forma cash flow from operations was \$1.6 billion, a drop of \$282 million from 2002 as a result of lower crude oil shipments, a lower average plant gate price and higher operating costs. Cash flow from operations provided a significant portion of the funding for the \$2.5 billion capital program, the largest in Syncrude's history. A second bitumen production and mine train at Aurora had a successful completion and start-up in 2003; this \$723 million project was completed on schedule in the fourth quarter and within 5 per cent of budget. During the year, construction progressed on the Stage 3 upgrader expansion, which is scheduled for start-up in 2006.

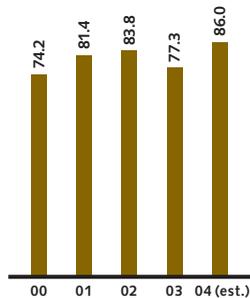
Operating netbacks averaged \$21.32 per barrel compared with \$23.04 in 2002. Return on average productive capital employed was 32.6 per cent compared with 38.6 per cent in 2002, and on a total capital basis was 14.8 per cent in 2003 versus 25.6 per cent in 2002. The decline on a total capital basis is due to capital assets in development but not yet in production.

Syncrude is
a major engine of the
Alberta economy and
an important contributor
to Canada's economy
and energy needs.

We contribute to the economic
well-being of Canadians by
being profitable in our work to produce
crude oil from oil sand, and through
such measures as royalties, corporate
and payroll taxes, and procurement
of goods and services.

¹ Prior years' financial results, as published in the 2002 Sustainability Report, have been restated to conform with the current year's accounting and presentation basis.

Total SSB Production (millions of barrels)



Refinery customers for Syncrude Sweet Blend expect reliability in terms of both volume and quality. Toward this, Syncrude expends significant effort to monitor product quality and make accurate determinations regarding the volume expected to be available for shipping. Updates of critical parameters are provided regularly to Syncrude's owners.

Financial Performance

Dollar amounts in Cdn dollars	2003	2002	2001
Total SSB Production ¹ (millions of barrels)	77.3	83.8	81.4
Pro-Forma Revenue for Syncrude Sweet Blend *			
Millions of dollars ²	3,310	3,393	3,211
Annual Average Deemed Unit Price			
Per Barrel Cdn at Plant Gate	42.82	40.50	39.43
Annual Average WTI at Cushing (per barrel U.S.)	30.99	26.15	25.90
Operating Cash Flow * ³			
Millions of dollars	1,648	1,930	1,489
Netback per barrel of SSB	21.32	23.04	18.29
Capital Program ⁴			
Millions of dollars	2,553	1,946	910
Net Cash Flow (Outflow) (before tax) * ⁵			
Millions of dollars	(905)	(16)	579
Return on Capital Employed (ROCE) (after tax) *			
Productive capital (%) ⁶	32.6	38.6	29.7
Total capital (%) ⁶	14.8	25.6	25.7

* Proforma 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

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

⁵ Net cash flow (before tax) is operating cash flow less capital program expenditures

⁶ ROCE is based on return on average capital employed. ROCE — total capital — includes the investment in assets, including assets not currently in service, in average capital employed. ROCE — productive capital — excludes the investment in assets not currently in service, from average capital employed

Pro-forma Revenue

The Owners' pro-forma revenue generated from the sale of *Syncrude Sweet Blend* crude oil (SSB), based on deemed unit prices, was \$3,310 million compared with \$3,393 in 2002. The year over year decrease in pro-forma revenue was the result of lower shipments of SSB and a strengthening Canadian dollar, partially offset by higher world crude oil prices.

Conflict in the Middle East, combined with OPEC production discipline and a resurgence in global economic growth led by China, fueled strong crude oil prices in 2003. Prices were at their highest during the first quarter then moderated over the balance of the year. West Texas Intermediate (WTI) reached a high of \$35.73 US in March, and a low of \$28.07 US in May. Average WTI was \$30.99 US, up from \$26.15 US in 2002.

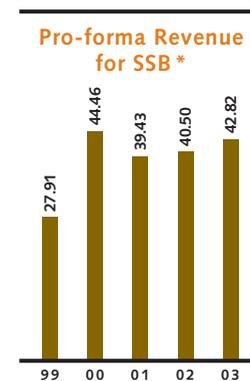
Deemed unit prices for *Syncrude Sweet Blend* averaged \$42.82 Cdn per barrel at the plant gate, an increase of \$2.32 per barrel from the 2002 average price of \$40.50 per barrel. The average exchange rate in 2003 was \$0.72 U.S. per Canadian dollar, versus \$0.64 US per Canadian dollar in 2002.

Total Operating Costs

Total operating costs were \$1,629 million in 2003, compared with \$1,429 million in 2002. The \$200 million increase in operating costs was driven by higher purchased energy costs, and higher turnaround and unscheduled maintenance costs in Upgrading and Mining. These added costs, combined with lower production volumes, increased unit costs to \$21.07 per barrel, up from the \$17.05 per barrel recorded in 2002. Major initiatives are underway to achieve higher production volumes through improved plant reliability, and to reduce total operating costs.

The purchased energy component of total unit operating costs increased 87 per cent in 2003 to \$4.44 per barrel. Natural gas costs totaled \$350 million, and averaged \$6.28 per gigajoule compared with \$3.79 per gigajoule in 2002.

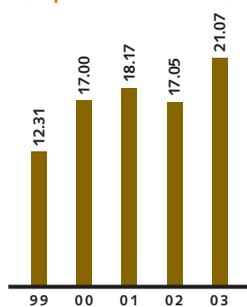
Additional details about Syncrude's operating costs are provided in the table on page 16 of this report.



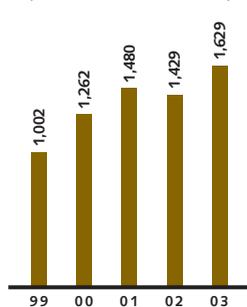
* Annual Average Deemed Unit Price per Barrel (Cdn \$) at Plant Gate

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. Some producers may elect to capitalize or defer and amortize certain expenditures that are recorded as an expense by other producers.

**Total Operating Costs
(\$ per barrel of SSB)**



**Total Operating Costs
(millions of dollars)**



Joint Venture Operating Costs

Dollar amounts in Cdn dollars	2003	2002	2001
Overburden Removal Costs ¹			
Millions of dollars	215	212	183
Per barrel of SSB	2.78	2.53	2.25
Production Costs ²			
Millions of dollars	865	834	869
Per barrel of SSB	11.18	9.96	10.66
Turnaround and Catalyst Costs ³			
Millions of dollars	144	100	75
Per barrel of SSB	1.86	1.19	0.92
Purchased Energy ⁴			
Millions of dollars	343	199	288
Per barrel of SSB	4.44	2.37	3.54
Corporate and Research ⁵			
Millions of dollars	62	84	65
Per barrel of SSB	0.81	1.00	0.80
Total Operating Costs			
Millions of dollars	1,629	1,429	1,480
Per barrel of SSB	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 and 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 and Research includes the cost of corporate functions and research activities, gainshare and incentive pay.



Production and Unit Operating Costs ¹

Amounts in millions of barrels	2003		2002	
	Bitumen	SSB	Bitumen	SSB
PRODUCTION				
Mildred Lake	63.4		71.7	
Aurora	28.9		26.1	
Total	92.3	77.3	97.8	83.8

Amounts in Cdn dollars	2003		2002	
	\$/Bbl Bitumen	\$/Bbl SSB	\$/Bbl Bitumen	\$/Bbl SSB
UNIT OPERATING COSTS				
Bitumen Production				
Overburden Removal Costs	2.33	2.78	2.17	2.53
Production Costs ²	6.17	7.36	5.75	6.71
Purchased Energy	1.67	1.99	1.02	1.19
Total Bitumen Production	10.17	12.13	8.94	10.43
Upgrading				
Turnarounds and Catalysts		1.86		1.19
Production Costs		3.82		3.24
Purchased Energy		2.45		1.19
Total Upgrading		8.13		5.62
Corporate Administration and R&D		0.81		1.00
Total Unit Costs		21.07 ³		17.05 ³

¹ For description of cost categories, see p.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

³ Includes \$4.58/bbl (2003) and \$3.21/bbl (2002) to convert sour intermediate product into premium SSB product.

Supplementary Unit Cost Information

To provide additional information about operating costs as defined by Syncrude, total unit operating costs have been separated into three broad categories — Bitumen Production, Upgrading and Corporate Administration (G&A) and R&D. Syncrude's business objectives are to be the lowest cost bitumen producer and the highest margin upgrader.

Kyoto Protocol

The Canadian government's regulatory framework governing Canada's compliance with the Kyoto Protocol on greenhouse gas emissions remains under development. Syncrude's emission limits under the Protocol have yet to be established. The costs of compliance may be carried directly by the joint venture, or pro-rata by each owner.

The cost of compliance is currently estimated to range from \$0.20–\$0.30 per barrel, depending on final calculation methodologies and "business-as-usual" targets established by the government.

Individual Syncrude owners may also enter into financial arrangements for the purchase or sale of greenhouse gas emissions credits.

Bitumen Production comprises the cost of mining and extraction operations, including overburden removal and purchased energy. Bitumen Production costs are shown 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 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 hydrotreating stage upgrades the intermediate sour products into SSB. This stage is energy intensive due to the addition of hydrogen, which Syncrude produces from imported natural gas.

The operating cost of converting sour, intermediate product into premium *Syncrude Sweet Blend* product was \$4.58 per barrel in 2003, and \$3.21 per barrel in 2002. Syncrude's strategy to produce and upgrade bitumen into a light, sweet crude oil generates superior financial performance and netbacks.

Pro-forma Operating Cash Flow and Netbacks

Operating cash flow was \$1,648 million in 2003, down from the 2002 record of \$1,930 million, mainly due to lower production and higher operating costs. Changes in non-cash working capital, and owners' financing costs and income taxes are not included.

Operating netbacks remained strong in 2003 at \$21.32 per barrel, although lower than the 2002 netback of \$23.04 per barrel. For the past three years Syncrude has on average generated higher operating netbacks than the average of Canadian oil and gas producers. When sustaining capital or depreciation, depletion and amortization (DD&A) is taken into account, Syncrude's netbacks have consistently outperformed the Canadian oil and gas industry average.

Pro-forma Netbacks per Barrel

Amounts in Cdn dollars	2003	2002	2001
Syncrude SSB			
Operating Netback ¹	21.32	23.04	18.09
Netback after Sustaining Capital ²	19.28	21.15	16.25
Netback after Pro-forma DD&A ⁶	19.18	20.56	15.90
Canadian Oil and Gas Producers ^{3, 5}			
Operating Netback	22.19	16.01	19.07
Netback after Sustaining Capital ⁴	11.51	5.47	8.80
Netback after DD&A and Exploration Expense ⁶	12.94	6.74	7.88

¹ Pro-forma Operating Netback for SSB is the Deemed Unit Price Cdn. 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 Canadian 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 the Ross Smith Energy Group Ltd.

⁵ Values for 2003 are estimated.

⁶ 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.

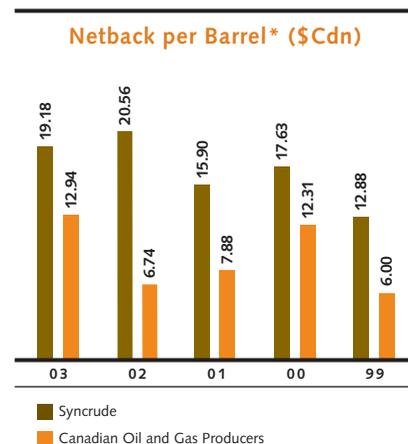
Capital

Amounts in Cdn dollars	2003	2002	2001
Capital Program (millions of dollars)			
Development expense ¹	118	89	82
Capital expenditures – total	2,435	1,857	828
Sustaining ²	193	190	183
Growth/Major ³	2,242	1,667	645

¹ Development expense is the cost of research and engineering development activities related to sustaining capital and major capital projects.

² Sustaining capital expenditures are for capital required to maintain the production capacity of the current operation.

³ Growth/major capital expenditures are for investments in production growth increases and for various operating efficiency improvements.



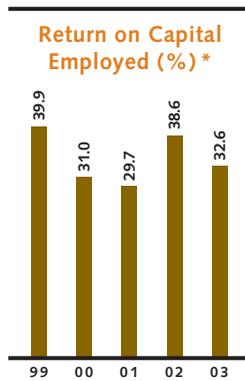
Capital Program

Total capital program expenditures including major/growth capital, sustaining capital and development expense reached \$2,553 million in 2003, up from \$1,946 in 2002.

Major/growth capital expenditures, which are focused on large production growth and cost reduction initiatives, reached \$2,242 million in 2003, up significantly from \$1,667 million in 2002. Spending on a major project known as the Stage 3 expansion reached a peak of \$2,137 million during 2003. Most of the Stage 3 spending was for the large capacity increase in Syncrude's upgrading and processing facilities at Mildred Lake. The remaining Stage 3 spending was for the second production train at the Aurora mine, which was completed successfully and brought on line in the last quarter of the year.

Sustaining capital expenditures required to maintain existing plant production levels were \$193 million in 2003, compared to \$190 million in 2002. Over the last five years, these expenditures have averaged \$2.04 per barrel.

Development expense associated with capital projects was \$118 million in 2003 up from \$89 million in 2002 due to the increase in capital projects activity.



* Productive capital

Return on Capital Employed (ROCE)

The pro-forma after-tax return on productive capital employed, which excludes investment in facilities that have not commenced operations, was 32.6 per cent, down from 38.6 per cent in 2002. The year over year decrease was due to lower revenues and higher operating costs.

Return on total capital employed, which includes investment in facilities that have not commenced operations, averaged 14.8 per cent in 2003 compared with 25.6 per cent in 2002. The decrease resulted from lower revenues and higher operating costs, combined with cumulative capital additions of \$3,377 million in new assets not yet placed in service.

2004 Outlook

Syncrude has set a production target of 86 million barrels (235,000 barrels per day) for 2004 and a total operating cost target of approximately \$1,550 million or about \$18 per barrel of SSB, assuming a natural gas cost of \$5/GJ. Total operating costs include production costs, overburden removal costs, turnaround and catalyst costs, purchased energy, and corporate general and administrative and research expenses.

Production during the first quarter of the year averaged 253,000 barrels per day, an all-time first-quarter record. The increased level of production is the result of improved operating reliability and reduced maintenance turnaround activity.

The joint venture owners have approved a 2004 capital program of \$2.8 billion. Of this amount, approximately \$2.0 billion is for spending on the upgrader expansion project, mainly for construction work. A further \$425 million is for a project that adds a third mine train at Aurora and an additional oil sand production system at Mildred Lake to replace bitumen production from the original base mine area. This project will enhance the efficiency and reliability of bitumen production operations when completed in 2005. The remaining expenditures are for base plant sustaining capital projects, including efficiency enhancement and environmental initiatives, and for capital project development expenses.

Economic Contribution

Syncrude is a joint venture producer of high quality, light crude oil from oil sand with a 25 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 royalty and corporate and payroll taxes and the procurement of goods and services.

Production of *Syncrude Sweet Blend* represented nine per cent of Canada's total crude oil production in 2003 and 13 per cent of domestic crude oil consumption. The long life of the resource base, progressive fiscal regimes and continuing operating improvement provide our joint venture owners with an incentive to continue to expand production capacity. New investments incorporate 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 improved product quality. Syncrude is committed to remaining in the forefront of profitable, sustainable development of the Athabasca oil sands.

The Stage 3 project will increase production from current levels by about 50 per cent to 350,000 barrels per day of higher quality Syncrude Sweet Premium Blend (SSP). Stage 3 incorporates state of the art mining and upgrading technologies, including a retrofit of automated control systems in the current operation, and environmental units to reduce emissions, and will be fully operational in 2006.

Recoverable Resources

The oil sands resources of the Syncrude Project are huge — enough to double production to 160 million barrels per year and produce at a consistent rate for 50 years.

Syncrude continues to be a major engine of growth for the Alberta and the Canadian economies with over \$4 billion in total spending during 2003. Approximately 4,000 employees and 1,500 contractors support current operations. A further 5,500 highly skilled contractor personnel are currently engaged in Stage 3 construction. This project will have created an estimated 25 million field hours of work when completed in 2006.

2003 Economic Indicators

Syncrude's capital program, operating and other expenditures totalled more than \$4.2 billion in 2003. Funding was provided by the joint venture owners from pro-forma revenue of \$3.3 billion and a \$900 million capital contribution.

Approximately 60 per cent of total expenditures were for the capital program. The remaining \$1,679 million funded operating costs, royalties and other costs.

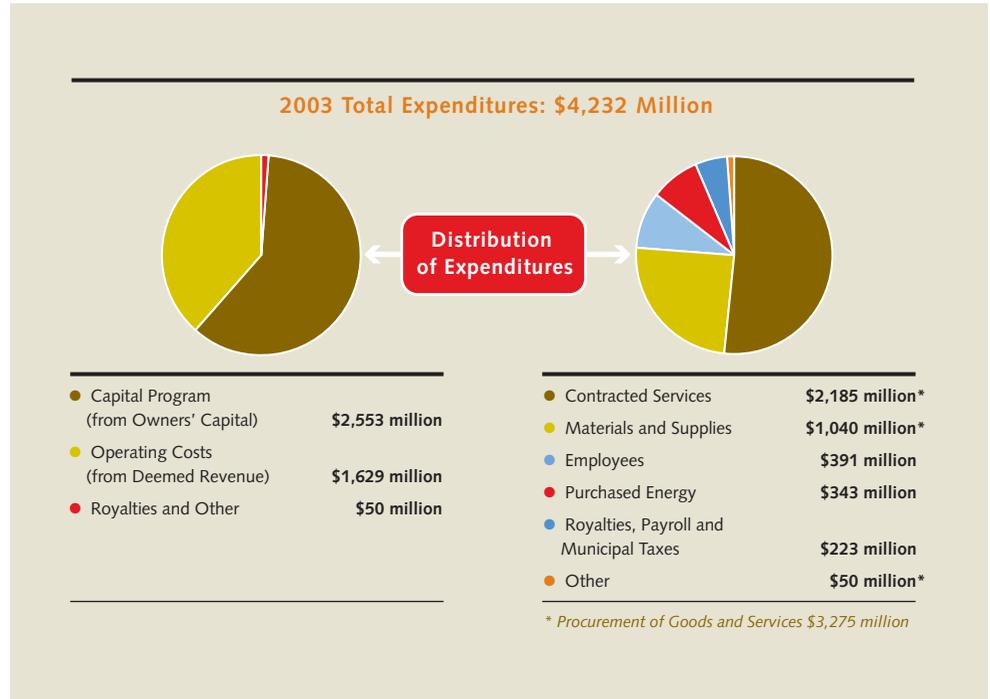
Economic Contribution

Millions of dollars (Cdn)	2003	2002	2001
Royalties, Payroll and Municipal Taxes ¹			
Annual	223	206	392
Cumulative since 1978	6,153	5,930	5,724
Salaries, Wages and Benefits (net of payroll taxes)	391	355	323
Purchased Energy	343	199	288
Procurement of Goods and Services ²	3,275	2,297	1,485

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 \$6.1 billion to governments for royalties, payroll and municipal taxes. Royalties paid to the province of Alberta by Syncrude's owners during this period amounted to over \$3.0 billion. Payments to governments in 2003 were \$223 million, up from \$206 million in 2002.

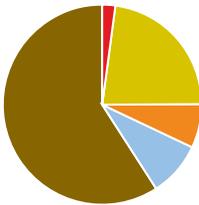


Procurement of goods and services from Canadian and international companies totalled \$3.3 billion in 2003 or about 78 per cent of total expenditures. The nature of these goods and services are summarized below (with percentages of total spending shown in brackets):

- **Contracted Services** engineering, labour, material and equipment:
\$2,185 million (52%)
- **Materials and Supplies** materials and supplies, chemicals, catalysts:
\$1,040 million (25%)
- **Other expenditures** includes lease rentals, property taxes and insurance:
\$50 million (1%)

Overall benefits to the Alberta economy in 2003 exceeded \$3.5 billion, including more than \$2.7 billion in non-energy procurement. Business volume with Edmonton area companies was approximately \$1.4 billion while business with other Alberta firms totalled a further \$1.3 billion. Companies in other parts of Canada received in excess of \$200 million. Contracts with international suppliers were valued at \$300 million.

**Geographic Distribution of
\$4.2 Billion Economic Contribution**



Aboriginal Community	\$90 million
Municipality of Wood Buffalo	\$964 million
International	\$300 million
Rest of Canada	\$375 million
Rest of Alberta	\$2,503 million

In 2003, Syncrude generated a total economic impact of \$4.2 billion. Positive effects were felt in the local Wood Buffalo region, across Alberta, in other parts of Canada and internationally. The graph above includes capital and operating costs, as well as expenditures on such items as royalties, payroll and municipal taxes.

Businesses in Syncrude's immediate trading area, the Wood Buffalo region of Alberta, received \$645 million in contracts during the year, about 24 per cent of total procurement from Alberta based companies. Syncrude's business volume with Aboriginal firms in the Wood Buffalo area was \$90 million.

The majority of Syncrude's 4,000 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.

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.

Royalty System Spurs Oil Sands Investment

In 1996, following public consultation in response to the report by the National Oil Sands Task Force, the Government of Alberta implemented a new, generic fiscal regime for the oil sands industry. Under this arrangement, the government shares the considerable risks of oil sands development with the private sector by deferring royalties until capital costs have been recovered.

By deferring some resource royalties until a project has returned the large sums of capital invested by its owners, the government is enabling timely development of the oil sands resource as well as the considerable economic benefits associated with this activity. In later years, after investors have recovered capital costs, the government will benefit from a larger, reliable royalty revenue stream that will continue for the life of each project.

The new generic fiscal regime is a model of strategic cooperation between the public and private sectors that has led to unprecedented growth in oil sands development and resulting gains to the economies of Alberta and Canada.

Syncrude's owners have paid over \$3 billion in royalties since the start-up of the Syncrude project in 1978. After the completion of the Stage 3 expansion currently underway, and the recovery of associated capital costs by Syncrude's owners, royalty payments to the Province of Alberta for the remaining life of the joint venture will return to the level that was being paid prior to the current expansion. Higher oil prices will accelerate the increase in royalty payments.

Future Growth Potential

Syncrude's Stage 3 expansion is scheduled to become operational in 2006. Much of this expansion is focused on increasing upgrading capacity and improving product quality to produce 350,000 barrels per day of *Syncrude Sweet Premium* crude oil (SSP). This represents an increase in production of about 50 per cent from current levels, all of which will be a lighter, sweeter, premium product with markedly lower sulphur and nitrogen content. This high quality crude oil will help North American refiners meet stringent environmental requirements.

Syncrude has additional opportunities to grow beyond Stage 3. Projects that will stage growth in production to as much as 500,000 barrels per day by 2015–16 are under consideration by the joint venture owners. Development of these projects will be contingent on meeting strict economic, capital cost, operating cost and environmental performance criteria.

A major investment will be made over the next five years in the Syncrude Emissions Reduction project. Using state-of-the-art flue gas de-sulphurization technology, the project is targeting a 60 per cent reduction in current sulphur dioxide emissions, and a 50 per cent reduction in particulate emissions, by 2009.

With a total estimated recoverable resource in excess of 315 billion barrels, Alberta's oil sands continue to be Canada's largest single source of future crude oil production. In the face of declining reserves of conventional oil in Canada and the United States, the oil sands are an increasingly important element of North American energy security.

Syncrude has to date produced 1.5 billion barrels of crude oil from its oil sands leases, making it the second largest producing oilfield in Canadian history. Syncrude will remain at the forefront of future oil sands development and will continue to be a major contributor to social and economic development in Alberta and Canada for decades to come.







Understanding Public Opinion

Syncrude regularly participates in surveys to gauge Albertans' opinions on key attributes of our corporate image as compared to other selected companies. These include perceptions regarding Syncrude's dynamism and success, overall favourability, environmental performance, contribution to Alberta, support for charitable and

STAKEHOLDER CONSULTATION AND ENGAGEMENT

At Syncrude, we believe that to be a sustainable company, key stakeholders must be consulted throughout the life of our operations. Toward this, we aim to understand the various impacts of our operations, as well as the diverse backgrounds and expectations of our stakeholders.

Our stakeholders' interests are as different as the processes we have designed to engage them. Among those with whom we consult are industry, government, Aboriginal communities, community residents, contractors, suppliers, advocacy groups, nongovernmental organizations, our employees, our owners, and the public-at-large.

The Consultation Process

Syncrude has developed a variety of mechanisms for engaging stakeholders. These include:

- responding to individuals or groups that identify a concern about our operations;
- ongoing one-on-one dialogue with community members and organizations;
- conducting employee surveys every two years to gauge the importance of arising issues;
- developing ongoing consultation processes with key stakeholders to continue to channel information and mitigate issues;
- continuing to build partnerships with Aboriginal organizations for effective consultation through Industry Relations Corporations and the Metis Industry Consultation Office;
- participating and funding multi-stakeholder forums that address cumulative impacts of industrial development.

For information on our consultation principles: www.syncrude.com/community

community causes, treatment of employees, and quality of management. Measuring them helps us determine the performance expectations of Albertans and take action on them.

In the various polls we participated in during 2003, Albertans ranked Syncrude the highest among energy

sector companies and among the highest for all companies in the poll. When it came to environmental performance, however, Albertans felt we could do better. This feedback helped shape a new Syncrude initiative to reduce air emissions, which is discussed in the Environment section of this report.

social

Taking Action on Issues

In 2003, our consultation processes helped Syncrude identify a number of opportunities to work with stakeholders to improve social conditions, environmental stewardship and safety. Many of these are discussed elsewhere in this report and include:

- a project to increase driver safety on Highway 63 between the Suncor and Syncrude plant entrances (see page 49)
- a \$400 million emissions reduction plan to reduce air emissions (see page 53)
- a medicinal plant study in concert with Fort McKay Elders (see page 61)
- a \$100,000 donation to Fort Chipewyan to establish long-distance learning (see page 35)

Regional Consultation Groups

Syncrude is a participant in many collaborative stakeholder processes to promote sustainable development and manage the cumulative impacts of industrial development. Through these, stakeholders have a role in defining the processes to understand, monitor and mitigate issues. They also help Syncrude understand different visions and needs so we can balance our interlinked goals of social, environmental and economic performance. The following are key multi-stakeholder groups:

- Cumulative Environmental Management Association (CEMA) www.cemaonline.ca
- Wood Buffalo Environmental Association (WBEA) www.wbea.org
- Regional Aquatic Monitoring Program (RAMP) www.ramp-alberta.org
- Regional Issues Working Group (RIWG) www.oilsands.cc

At Syncrude, we believe success is fostered by healthy relationships with our stakeholders and the well-being of the world around us.

From First Nations and local community residents to our own employees and contractors — all play an integral role in how we operate our business today and how we plan for tomorrow.

Opening a World of Discovery

A new generation of young scientists and engineers are learning about the wonders of technology through *Discover E*, a program organized by students from the University of Alberta to promote interest in technology among children. A \$4,000 donation from Syncrude helped to bring science camps to the Wood Buffalo region and create enthusiasm for future studies in science or engineering.

To date, the response has been overwhelming; the local camps are always fully subscribed.

COMMUNITY INVESTMENT

Syncrude's community investment program helps Syncrude maintain its reputation as an employer of choice among highly skilled workers by supporting quality of life projects in the communities where our employees live and work. These places include Fort McMurray and outlying communities in the Regional Municipality of Wood Buffalo, and the city of Edmonton.

To qualify for support, a project must be compatible with Syncrude's interests in education and lifelong learning; environment, health and safety; science and technology; Aboriginal development; local community development; arts and culture; or recreation. Our assistance may be provided in the form of funds, materials or equipment, or employees' time and expertise.

In 2003, we invested 84 per cent of the program's direct funding resources in the Wood Buffalo and Edmonton regions; the remaining 16 per cent supported projects in other areas of Alberta and Canada.

Enhancing Health Care

Bolstered by ongoing oil sands development, Wood Buffalo and the community of Fort McMurray have experienced a significant increase in population as well as an influx of temporary contract workers living in the industrial camps. Syncrude recognizes this places a strain on the local health care system and, in turn, has donated in total over \$900,000 since 1989 to the Northern Lights Regional Health Centre for facilities and the purchase of medical equipment. We believe this investment has helped to ensure the best health care possible for our employees, their families and the entire community.

Engineering Success

As one of the largest recruiters of engineers from the University of Alberta, Syncrude is also a long-standing supporter, having invested more than \$4.8 million in the university since 1990. In fact, thanks to the leadership and efforts of companies like Syncrude, the mining engineering department alone has enjoyed an unprecedented



300 per cent increase in enrolment and now boasts the largest graduate mining program in North America.

As we move forward with expansion of our operations, we will continue to look to the university for the next generation of engineers needed to sustain our operation. Accordingly, we have recently invested \$500,000 in a new engineering complex that houses a cooperative education facility and provides over 2,000 seats of new classroom and computer lab space.

Good Neighbours Program

Syncrude matches employee donations to educational institutions and, through the *Good Neighbours* program, also recognizes the community-minded efforts of our employees by making donations to the organizations for which they volunteer. In the first seven months of the program in 2003, more than \$43,000 was distributed to eligible groups in the Wood Buffalo region and Edmonton.

A Record United Way Campaign

Each year, Syncrude supports the United Way with a corporate contribution and by organizing an employee campaign. In 2003, employee contributions totalled over \$547,000, surpassing the campaign target by 25 per cent. Syncrude's corporate contribution added a further \$90,000, making the grand total an all-time record of \$637,000.

What's the game plan for victory? Bring together over 1,200 participants, an equal number of volunteers and support from companies like Syncrude. Backed by our donation of \$50,000, the Alberta Seniors Games held in Fort McMurray were one of the most successful ever.

The Athabasca Delta Community School in Fort Chipewyan is seeing huge improvements in literacy skills amongst their students. This positive trend is due to an accelerated literacy program brought to the school with the help of a \$15,000 contribution from Syncrude.



ABORIGINAL RELATIONS

Since the company's inception, Syncrude has remained steadfast in its commitment to ensure the Aboriginal people of the Wood Buffalo region benefit from our ongoing operations.

Syncrude aims to respect Aboriginal cultures and traditions and is proud to be one of Canada's largest employers of Aboriginal people. We continue to work toward providing greater opportunities for Aboriginal participation in our company through business development initiatives, and through education and skills development programs that open the door to rewarding Syncrude careers.

To help steward the company's commitment, we have a steering committee comprised of senior managers and key resource personnel in the areas of stakeholder relations, human resources, diversity, business development and environmental affairs. The committee's mandate is to identify and develop corporate commitments, evaluate strategies for Aboriginal employment and business opportunities, and to assess, review and develop Aboriginal initiatives. The committee presents a progress report to the company's executive each year. In addition, we have a dedicated Aboriginal and stakeholder relations team who maintain regular contact with Aboriginal leaders and community members to better understand and meet their needs.

Our Aboriginal relations commitment focuses on corporate leadership, community development and capacity building, employment, business, education, environment and consultation. Every two years, we produce a comprehensive report of our progress in all these areas. Our next Aboriginal Review will be published in late 2004.

Corporate Leadership

Syncrude works with industry and government leaders from across Canada to provide opportunity and influence positive change for Aboriginal people. We share our experiences and lessons learned, and actively support such organizations as:

- Conference Board of Canada: Council on Corporate Aboriginal Relations www.conferenceboard.ca
- Canadian Council for Aboriginal Business: Progressive Aboriginal Relations Program www.aboriginalbiz.com
- Aboriginal Human Resources Development Council of Canada www.ahrdcc.com
- Alberta Chamber of Resources Aboriginal Programs Project www.acr-alberta.com

- Canadian Association of Petroleum Producers www.capp.ca
- Mining Association of Canada www.mining.ca
- National Aboriginal Achievement Foundation www.naaf.ca

Highlights of our 2003 involvement include a study by the Petroleum Human Resources Council of Canada that drew attention to the role Aboriginal people can play in meeting future skills shortages. As well, we assisted the Aboriginal Human Resources Development Council in developing a proposal that, upon approval, will provide 50 new career opportunities within our company over a five-year period to qualified Aboriginal candidates.

Employment

Syncrude is one of Canada's largest employers of Aboriginal people, and we continue to seek innovative ways for this important segment of our overall employee population to contribute fully to the growth of our company. Syncrude's target is for our Aboriginal workforce to reflect the representation of Aboriginal people in the regional population, which is estimated at 13 per cent. In 2003, Syncrude and its contractors met that target.

Pursuing Further Growth

Through succession planning and skills development opportunities, we are continuing to advance Aboriginal employees to the fully qualified trades level and increase their representation in administrative, professional, technical (APT) and supervisory positions. The results show participation across all occupations and levels continues to grow. In particular, of our Aboriginal workforce, the number of employees at the fully qualified trades levels has increased from 57 per cent in 1995 to 77 per cent in 2003. In addition, 27 per cent hold APT positions compared to 19 per cent in 2001.

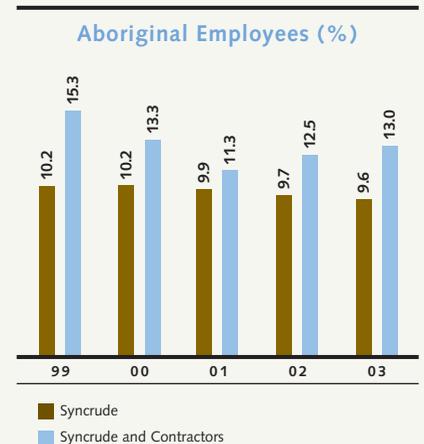
Toward better retention of Aboriginal employees, Syncrude assembled a task-force in 2003 to review the reasons for Aboriginal turnover. Our goal is for the Aboriginal retention rate to be consistent with that of the total Syncrude workforce.

Business Development

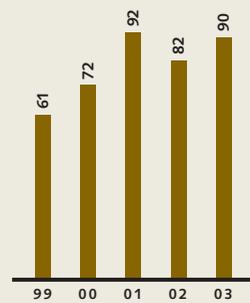
Syncrude has spent more than \$660 million with Aboriginal businesses since 1992. Last year, we recorded over \$90 million in business volume, a ten per cent increase from the previous year, with 27 Aboriginal companies.

When deciding upon the awarding of a contract, preference is first given to local companies and regional Aboriginal businesses when all other factors are equal. Our procurement policy states that an Aboriginal business must be 51 per cent

Syncrude is a leading sponsor of the National Aboriginal Achievement Foundation and has provided additional support for the Foundation's Blueprint for the Future conference. In 2003, this one-day career fair was held in Edmonton where it provided Aboriginal high school students with information on careers and the post-secondary education paths that can lead to them. Syncrude also sponsored the attendance of 20 Wood Buffalo area students at the fair.



Contracts to Aboriginal Companies (\$ millions)¹



¹ Amount does not include non-local Aboriginal companies.

owned by a Band or an Inuit, First Nation or Metis person. The Aboriginal owner must also be in control of business operations on a day-to-day basis.

Our contracting procedures also encourage other suppliers to include Aboriginal content in the goods and services they provide to Syncrude. This includes providing employment for Aboriginal people or obtaining goods and services from Aboriginal companies.

Syncrude has a full-time Aboriginal business coordinator who works with local Aboriginal businesses to identify and pursue opportunities at our operation. We also are active in the Northeastern Alberta Aboriginal Business Association (NAABA), a group that was established with support from Syncrude to foster the development of Aboriginal companies in the region. Over the last 11 years, NAABA has

grown from 14 members to 70 full members and 80 associate members. More information can be found at www3.telus.net/naaba

Education and Training

Syncrude works actively through direct and indirect mechanisms so that Aboriginal people can develop their potential and increase their ability to pursue rewarding careers in the oil sands industry and other areas. These efforts focus primarily on education and skills development.

Lending a Helping Hand

Through efforts to identify Aboriginal candidates for potential employment at Syncrude, for which completion of Grade 12 is a minimum requirement, we learned that many Aboriginal high school students were dropping out at alarming rates, often because of difficulties in reading and writing. The Helping Hands Program supported by Syncrude is working to address these key learning issues at the primary school level, and thus ensure successful learning in later years.

Aboriginal Apprenticeship Project

Syncrude has provided a full-time resource person to the Alberta Aboriginal Apprenticeship Project to administer the program and place qualified candidates at Syncrude and other companies in the region.

Scholarship Program

Through direct scholarships, Syncrude helps Aboriginal students pursue post-secondary education that will lead to rewarding careers in the oil sands and other fields.

Since 1993, about \$138,000 has been disbursed to 82 Aboriginal college and university students.

University of Alberta

Aboriginal Careers Initiative

Between 1998 and 2003, Syncrude committed \$500,000 to support the Aboriginal Career Initiative at the University of Alberta. This initiative aims to increase the number of Aboriginal graduates in the Faculties of Engineering, Education, Business, and Health Sciences. Syncrude's investment helped the university leverage further program funding of more than \$10 million, and has led to promising results:

- a three-fold increase in Aboriginal graduates between 1998 and 2003; from 50 to 150;
- counselling, academic advice and assistance to further the success of Aboriginal students at the university's School of Business; and
- funding for a program to enable Aboriginal communities to better identify their health needs and carry out health research.



Lora Cardinal is a second-year electrical apprentice currently working with a local contractor in Fort McMurray. A participant in the Registered Apprenticeship Program (RAP), Lora also apprenticed at Syncrude and was named the Female Youth Role Model of the Year at the Regional Aboriginal Recognition Awards.

Community Development

Community development efforts lie at the heart of Syncrude's work to assist Aboriginal communities in developing capacity while retaining their culture and traditions. Recent initiatives include long-distance learning opportunities for youth in Fort Chipewyan and a care facility for Elders in Fort McKay.

Long Distance Learning

Educational barriers presented by the remote location of Fort Chipewyan are being overcome through a \$100,000 donation from Syncrude that enabled an internet-based program to link local students with a teacher hundreds of miles away and share audio, video and text messaging. The program was piloted to two students in 2003, with full availability in September 2004.

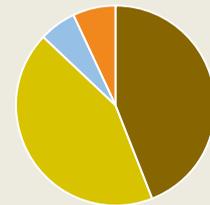
Elder Care Facility

In response to an approach by the Fort McKay First Nation about the need to provide better care for the community's Elders, Syncrude donated \$300,000 in 2003 to assist in the construction of a new care facility.

Fort Chipewyan Day Care Centre

Consultation with the Fort Chipewyan Child Development Society led to a \$100,000 donation from Syncrude toward the building of a day care facility in their community. The centre will provide day care services, space for educational resources for parents, and also will be available as a meeting place for youth groups like Boy Scouts and Brownies.

Aboriginal Community Investment 2003



● Education and Lifelong Learning	44%
● Community Development	43%
● Arts and Culture	6%
● Other	7%



Preserving Aboriginal Knowledge

A 2003 partnership between Syncrude and the Fort McKay First Nation gave Elders the opportunity to share their traditional skills and knowledge with youth and future generations through

a video. Called Sakow Pmachihowan, meaning "bush life" in Cree, the video includes how-to instruction and advice on moose hide tanning, beadwork, snowshoe and fish net making, and drying fish.

Environment and Consultation

Syncrude endeavours to build relationships between the company and the region's Aboriginal communities that are mutually beneficial over the long-term. We work with the communities to build their capacity to assess, manage and benefit from the impacts of industrial development. Toward these outcomes, several consultation mechanisms have been jointly developed:

Athabasca Tribal Council All Parties Core Agreement

In January 2003, the five First Nations Chiefs from the Athabasca Tribal Council came together with Syncrude, 16 other industry representatives, and three levels of government to renew the ATC All Parties Core Agreement. The original capacity building agreement was signed in 1999 and was later adapted to address regional issues, consultation and mitigation.

The agreement provides each First Nation with annual base funding of \$230,000 for an Industry Relations Corporation (IRC). Each corporation identifies issues related to regional

industrial development and, in consultation with the parties to the agreement, develops effective strategies to manage and monitor impacts.

Bilateral Agreements

Syncrude also has negotiated Bilateral Agreements with each of the regional First Nations. These provide for administration of the IRCs and their participation in multi-stakeholder organizations. The agreements also foster effective First Nations consultation regarding impacts and opportunities directly related to the Syncrude operation.

As a result of these collaborative processes, mutual understanding of cultures, internal processes and long-term vision has been increased. Communication also has become more effective and now includes such information sharing mechanisms as updates to Chief and Council, bulletins, Elder meetings, publications in community newspapers, and environmental stewardship meetings.

In addition, First Nations have been developing consultation protocols

specific to their community's key socio-economic and environmental concerns and are now providing technical reviews of regulatory applications.

Metis Industry Consultation Office (MICA)

The Metis-Industry Consultation office opened in September 2003 as a pilot project for a period of one year. MICA was created out of a year-long consultation process between member companies of the Athabasca Regional Issue Working Group (RIWG), of which Syncrude is a founding member, and the Presidents of the Metis Locals located within Wood Buffalo.

MICA provides a forum for local Metis people and industry to develop positive relationships and address concerns related to industrial development. It will establish community consultation protocols within each Metis community and develop a key concerns document relating to industry impact.

PEOPLE

Syncrude's Vision, Values and Guiding Principles framework guides the decision and actions we take toward being a competitive and responsible company. Through this corporate framework, we have created a workplace that cultivates innovation and new ideas, and that respects the diverse contributions of all our people.

Taking Action on Employee Feedback

Syncrude conducted an employee survey in 2001 to get a better sense of how our employees perceived our strengths and areas for improvement. Since then, efforts have focused on the key areas employees suggested for improvement, including work to develop leaders, address performance improvement and feedback, manage conflict, value employee contribution, and increase employees' ability to plan financially for retirement. To measure progress on these key focus areas, a follow-up survey will be completed in 2004.

Creating an Inclusive Culture Through Diversity

Syncrude's diversity commitment helps ensure fair and equitable treatment of all employees and is earning Syncrude a reputation as the employer of choice in the Wood Buffalo region. Our Treatment of Employees policy (more information: www.syncrude.com) calls for all employees to be treated with care, dignity and respect. In 2003, five investigations into alleged harassment or discrimination were conducted, versus eight in 2002.

All formal leaders are trained to appreciate diversity and understand what constitutes discrimination and harassment. By the end of 2003, more than 71 per cent of leaders had completed diversity training and 76 per cent had participated in discrimination and harassment workshops. Additional workshops are planned for 2004.



Tracking Our Progress on What Matters Most

A "People Results Scorecard" developed in 2003 has become part of Syncrude's formal corporate reporting structure, along with financial and operating results. The scorecard charts progress in areas of health and safety, attraction and retention, leadership and learning, and workforce productivity. The scorecard will foster better understanding of people-related trends and help Syncrude realize the business benefits that come from developing the full potential of all our employees.

Helping Employees Plan for the Future

Through the 2001 employee survey and all-employee forums, people expressed interest in learning more about retirement planning so they can maximize the value of Syncrude's pension and benefit programs. As a result, financial education is now provided to employees to enhance their ability to make informed decisions about their future. An on-line

financial education website was introduced in October 2003 which received over 120,000 hits in the first two months of operation.

Syncrude also offers retirement planning workshops for employees and their partners. Ten full-day workshops will be offered in 2004.

Improving Employee Relations

In 2002 in response to employee feedback, we changed the reporting structure of employee relations staff so they would report directly to the human resources department rather than line management. Employee relations staff provide assistance to workers in areas such as treatment of employees, performance management and conflict resolution.

Improvements in Disability Management

Syncrude's disability management program aims to help employees recover from illness and return to work. The current Long Term Disability claim rate reflects a two-year downward trend, which is partially attributable to improvements made after a 1999 review of our disability management program.

Providing Employee and Family Assistance

Feedback from client employees and their family members, as well as Syncrude leaders, indicates that

Syncrude's Employee and Family Assistance Program is improving the job performance and work situation of those who seek help through the program. In 2003, the program focused on leader training and forging internal partnerships to deal with employee concerns.

Employee Compensation and Rewards

Each year, Syncrude reviews our employee compensation and benefits to ensure we remain competitive in our sector. In 2003, Syncrude reaffirmed its position as one of the top employers among 15 comparable companies in terms of compensation and benefits.

A key component of employee compensation is Impact 21, a gain-sharing program that financially rewards employees for meeting targets for improved performance in areas of safety, operating costs and energy use. The rewards are distributed equally to all eligible employees and annually average about four per cent of average base salary.

At Syncrude, we encourage our employees to think outside the box. With a Ph.D. in computing science and expertise in robotics, Ron Kube leads a team of Syncrude researchers exploring the use of intelligent systems in our mine. The results could have significant benefits not only for our operation, but the entire surface mining industry as well.

Building Individual and Organizational Capability

Syncrude's success rests on the foundation of a highly skilled and motivated workforce. We estimate that \$23 million* is invested annually in the development of our people — approximately three per cent of total workforce hours each year. This investment helps ensure safe, reliable and profitable operations, and is aligned with our commitment to make Syncrude a great place to work.

Supporting Our Leaders

In 2003, Syncrude continued efforts to develop the capability of our leaders to create an environment that engages employees in delivering business results and that is congruent with our Vision, Values and Guiding Principles.

Leaders receive 360-degree feedback from their employees, peers and supervisors on how well they model Syncrude's guiding principles. In 2003, over 90 per cent of leaders received such feedback, which is now



incorporated into their annual performance review, and used to guide further development opportunities.

Syncrude believes information sharing and development opportunities are essential to quality leadership. Accordingly, regular exchanges are held throughout the organization to discuss business results and future challenges. As well, more than 82 per cent of formal leaders have now participated in our basic leadership development workshop. We anticipate a 90 per cent completion rate by the end of 2004.

Hiring and Attrition

At the end of 2003, Syncrude employed 4,026 people. We hired 236 new people during the year, more than 60 per cent from the Wood Buffalo area. Our acceptance rate for new hires was 90 per cent, compared to 80 per cent in 2001. We attribute this increase to our competitive salaries and benefits package, and our reputation as a great place to work.

During the last five years, more than 1,400 people have been hired, meaning that one third of our employee population has been renewed due to growth, retirement and attrition. Excluding retirements, employee initiated turnover was extremely low, at

* Does not include expenses related to the schooling of apprentices; capital dollars to support renewal of the training infrastructure; nor does it account for the overtime associated with backfilling for employees while they attend training.

Canadian Institute of Mining Recognizes Employee

Syncrude general manager Peter Read was named recipient of the 2003 Canadian Institute of Mining's Past President Award. This award is presented to a member under 45 years of age who has set an outstanding example to young members of CIM and to young men and women contemplating a career in the minerals industry.

Peter, who graduated from the University of Alberta with a Bachelor of Science degree in Mining Engineering, and later added an MBA, also received an award recognizing his work over the past 13 years with the university's Mining Engineering department.

1.5 per cent, while total turnover was 4.2 per cent; however, turnover for both females and Aboriginal employees is higher than the company average. Work is underway to identify causes and explore mitigating strategies.

Cultivating the Future Workforce

Syncrude is acknowledged as a national leader in education and training. We actively support a variety of initiatives that prepare youth for future employment, and create training and entry-level opportunities with Syncrude and its contractors. In fact, of all 2003 hires, 37 per cent were recruited from our student employment and graduate development programs.

Introducing Privacy Policies

In early 2004, Syncrude introduced privacy policies that maintain the security, confidentiality, integrity and privacy of our employees and those with whom we interact externally through the course of business. These policies are in accordance with the Alberta Personal Information Protection Act (more information: www.syncrude.com).

To prepare for the introduction of the privacy legislation to the organization, departments were surveyed as to the type of personal information that is collected, used, disclosed, safeguarded and retained for business purposes. As well, a privacy advisor has been appointed to oversee our privacy policies and to facilitate access requests and compliance resolution.

Operating in an Ethical Manner

The Board of Directors adopted Syncrude's ethics and corporate conduct policies in 1978 (more information: www.syncrude.com). Since then, extensive communication of these policies has helped employees adopt ethical behaviour as an integral part of their job function. More than 400 employees also annually sign a representation letter in which they acknowledge that they and their direct reports understand and adhere to company policies.

For confidential guidance on ethical matters, employees can turn to Syncrude's Corporate Secretary, who oversees interpretation and communication of the ethics policy.

In 2003, about 100 employees proactively sought ethics guidance through the Corporate Secretary in order to avoid potential concerns.

Working With Our Contractor Trades

At the end of 2003, more than 4,500 contract workers were engaged in our upgrader expansion project; this population will increase to around 5,500 as the project peaks in 2004. Given the immense impact of such a large number of contract workers on our site, we are working with contractors and building trades to ensure a safe and productive working environment through provisions in the Syncrude 21 Labour Agreement. Further efforts include supervisory training and awareness activities around alcohol and drug policies, and sessions on coping with stress and working away from home. As well, a mentoring program has been introduced to assist the project's 400 new apprentices in becoming familiar with the workplace and its safety and job requirements.

Employee Data

	2003	2002	2001	2000	1999
Workforce Demographics					
Year-end Total Employees	4,026	4,004	3,874	3,544	3,495
New Hires During the Year	236	350	542	207	33
Female Employees (included in total)	677	688	631	556	545
Aboriginal Employees (included in total)	388	390	382	360	358
Representation in Workforce					
Females (%)	16.9	17.2	16.3	15.7	15.6
Females in Management Roles (%)	9.0	8.7	8.3	7.9	8
Aboriginal (%)	9.6	9.7	9.9	10.2	10.2
Aboriginal Employees – Syncrude and Contractors (#)	1,315	682	702	754	853
Aboriginal Employees – Syncrude and Contractors (%)	13.0	12.5	11.3	13.3	15.3
Turnover (including retirements) (% of average workforce)	4.2	4.7	5.1	3.6	2.8



Our upgrader expansion is one of the largest and most complex industrial projects currently underway in the world. Construction workforce initiatives are helping ensure a safe and productive work environment.





Syncrude's commitment to superior environment, health and safety performance has been strengthened and streamlined following a review in 2002 and 2003 during which more than 250 employees at all levels provided their thoughts as to how Syncrude could do better.

The review resulted in the adoption of a new risk-based management system, as well as a new Environment, Health and Safety policy, that will foster continuous improvement in environment, health and safety performance. These will be stewarded by Syncrude's General Manager of Environment, Health and Safety in concert with the entire Syncrude management team.

Syncrude's New Environment, Health & Safety Policy

At Syncrude, we are committed to protecting and promoting the safety and well-being of our employees, our contractors, our communities and our environment.

We believe excellence and continuous improvement in environment, health and safety performance are in the best interests of all of our stakeholders. Our corporate success depends upon it.

Our desired outcomes are a workplace where everyone upholds Syncrude's Vision, Values and Guiding Principles, a workplace that fosters the emotional and physical well-being of employees, a workplace where incidents that could harm people or the environment do not occur, and a workplace where all employees and contractors demonstrate personal commitment to operational excellence. Toward this:

- we aim for a safe and reliable operation where all risks that could compromise the health and safety of workers, or the environment, are identified, understood and managed;

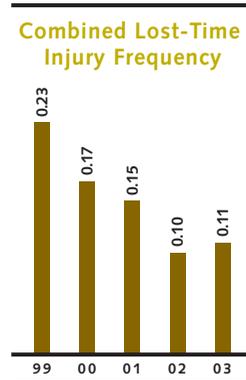
- we meet all regulated standards for environment, health and safety performance as the minimum expectation;
- we integrate environment, health and safety considerations, along with economic factors, into all business decisions;
- Syncrude management takes a leadership role in advocating workplace health and safety, and environmental sustainability, in appropriate regional, provincial and national forums.

Through the efforts and collective experience of our employees and contractors, Syncrude will be an acknowledged leader in environment, health and safety performance.

We will continue to improve by working together and sharing responsibility for a healthy environment, as well as the safety of our co-workers, our families, our communities and ourselves.



Syncrude maintained excellent safety performance in 2003, despite a 45 per cent increase in contractor employees working in a high-risk construction environment.



Syncrude is a safe place to work. In 2003, workers sustained just 0.11 lost-time injuries per 100 person years worked. Our goal is a worksite where incidents that could harm people, equipment or the environment do not occur.

HEALTH & SAFETY

2003 Safety Performance

Syncrude and its contractors enjoyed another year of excellent safety performance in 2003, with a total recordable injury frequency of 1.10 per 100 person years worked. Recordable injuries are comprised of medical aid incidents plus lost-time injuries. Total lost-time injuries were 0.11 per 100 person years worked.

While our 2003 performance constitutes a slightly higher incident occurrence than Syncrude's best ever year in 2002, it is still a world class achievement, particularly given the large increase in people working in a construction environment, a change that results in a higher overall risk exposure. Syncrude's safety performance also leads Alberta industry which, in 2003, experienced about 2.8 lost-time injuries per 100 person years worked.

As we develop
Alberta's oil sands resources,
we are ever mindful
of the impacts we generate.

By fostering a safe workplace
and demonstrating respect for
our neighbours and the environment,
Syncrude is working to ensure
a positive legacy.

Health & Safety Performance

	Long-term goal	2003	2002	2001	2000	1999
Lost-Time Injury Frequency *						
Syncrude	0	0.15	0.12	0.21	0.22	0.11
Contractors	0	0.09	0.08	0.08	0.12	0.31
Combined	0	0.11	0.10	0.15	0.17	0.23
Recordable Injury Frequency *						
Syncrude	0	0.79	0.57	0.58	0.86	0.77
Contractors	0	1.23	0.97	2	2.35	1.81
Combined	0	1.10	0.82	1.28	1.57	1.31
Employee Fatalities	0	0	0	0	0	0
Number of Lost-Time Injuries *						
Syncrude	0	6	5	8	8	4
Contractors	0	8	5	3	4	12
Combined	0	14	10	11	12	16
Number of Recordable Injuries *						
Syncrude	0	32	23	22	31	27
Contractors	0	113	61	76	77	63
Combined	0	145	84	98	108	90
Injury Severity Rate *						
Syncrude	0	3.87	2.72	3.30	21.14	0.79
Contractors	0	3.96	1.02	0.18	5.17	5.57
Combined	0	3.93	1.68	1.74	13.53	3.17

* Recordable injury frequency is a ratio 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 number of lost workdays per 100 person years of work. It is also expressed per 100 person years of work.

2003 Symposium Promotes Courage to be Safe

Syncrude's leading safety performance can be attributed in part to the participation of more than 1,800 of our safety stakeholders at our annual safety symposium, which was held in June. Represented at this unique event were over 130 contractor companies as well as leaders and front line workers from Syncrude and the building trades. The symposium focused on the concept of courageous leadership and how it is required for performance excellence in safety, productivity and quality. Also discussed were the societal, human and business impacts of alcohol and drugs in the workplace.

Moving the Goods Safely

Throughout 2003, Syncrude embarked on a campaign to ensure public stakeholders in highway communities between Edmonton and Fort McMurray were aware of the movement of large loads destined for Syncrude's upgrader expansion project. The campaign, which included radio and newspaper advertisements, encouraged all drivers to be alert for large flatbed trucks on the highway and to take extra caution when encountering one.



Ensuring Dam Safety

Syncrude has 21 dams of various kinds on its sites. To ensure their integrity and safe containment of materials held within, Syncrude has a comprehensive program comprising dam design and construction, operation, maintenance and surveillance, which is in accordance with the Mining Association of Canada liquid impoundment storage guidelines. The program relies on a skilled staff of geotechnical engineers and technologists and also benefits from advice solicited from internationally recognized geotechnical experts. The program ensures the ongoing geotechnical stability of these structures and has enabled more than 25 years of safe dam operation.

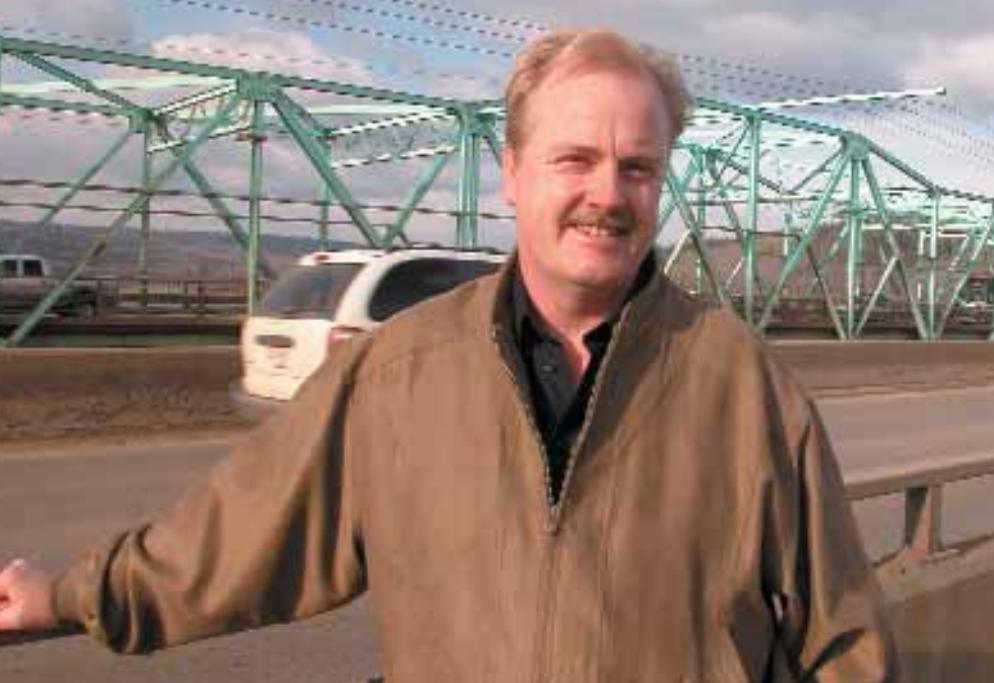
New Safety Association Delivers on Objectives

Oil sands developers and their contractors have expressed satisfaction with outcomes being generated by the new Oil Sands Safety Association. In its first six months of operation, the association implemented a new standard for Fall Protection Training and accredited four training providers who facilitated the training for 400 workers. The association, which was established by Syncrude, Suncor and Albion Sands to set oil sands industry standards for safe work practices, accredit qualified training providers and deliver standardized safety training, has eliminated duplicative effort while helping bring these oil sands developers closer to their goal of worksites that are injury free.

In 2004, the group will develop a common code of practice for workers who are required to work in confined spaces. Syncrude representatives serve on the Association's Board of Directors.

Emergency Simulation Exercises Ensure Preparedness

Syncrude's emergency response personnel may be called to respond to an emergency on the Syncrude site or, in keeping with our various mutual aid agreements, elsewhere within the Regional Municipality of Wood Buffalo. To prepare for potential emergencies and meet Syncrude's corporate standards, our people frequently participate in a variety of training exercises to ensure readiness for any kind of emergency situation.



Employee's Road to Recovery
Aided by Syncrude People
and Resources

Cooperative Effort Improves Traffic Safety

A local traffic safety committee chaired jointly by Syncrude and the RCMP is identifying regional traffic safety issues and developing ways to reduce traffic incidents and fatalities on local roadways.

The committee's work is complementary to Transport Canada's Vision 2010 initiative.

These exercises include Syncrude's own emergency response simulations and those which are organized by groups that manage emergency response elsewhere in the Wood Buffalo region. Syncrude emergency response employees also are regular participants in competitive events such as the Firefighters and Mine Rescue Competitions.

These activities served Syncrude and its partners in emergency response well when a forest fire started just five kilometres north of Syncrude's Mildred Lake site on June 18. The fire's proximity to the community of Fort McKay necessitated the immediate evacuation of the town's residents, as well as closure of a portion of Highway 63. The fire was brought under control within three days, after destroying 477 hectares of forest; people and other property went unharmed.

Regional Network Promotes a Safe and Healthy Community

As an active participant on the executive and working committees of the Wood Buffalo Safe Healthy Community Network, Syncrude is helping reduce injuries, improve population health and promote well being within its home communities. The Network was instrumental in getting Fort McMurray recognized as North America's first "safe community" in 1995, by the World Health Organization. More recently, the Network has supported such programs as School Safe Arrival, Drug Roundup, Neighbourhood Inspections, and Safe Kids Day, as well as initiatives to promote local traffic safety and greater usage of child passenger restraints in vehicles.

After experiencing the horror of becoming a traffic collision victim, Syncrude employee Dwight McIntosh has a new appreciation for life — and for the efforts of other Syncrude employees who aided in his rehabilitation. Two years ago, Dwight sustained serious injuries after being t-boned by a van and then thrown from the motorcycle

he was driving. Dwight says he was “blown away” by many encouraging visits from co-workers and supervisors during a lengthy hospital stay, and by the support he received from Syncrude managers and personnel from Health & Wellness, Human Resources and Payroll. Dwight also benefited from treatment he received at the Syncrude Centre for

Motion and Balance at the Glenrose Rehabilitation Hospital in Edmonton. In combination, he says these resources made his eventual return to work “a pleasant, enjoyable and rewarding experience. I know that when it counts, Syncrude and the people who work here will be there for me.”

Re-engineering a Safer Highway

In concert with local stakeholders and government, Syncrude took a lead role in adding an additional lane to a section of Highway 63 that runs between the Syncrude and Suncor plants. The 2003 action has significantly reduced traffic incidents in this busy area, and also has improved traffic flows.

AADAC Honours Syncrude

The Alberta Alcohol and Drug Abuse Commission recognized Syncrude’s employee health and wellness programs for excellence in 2003. Citing Syncrude as “a leader in the field of employee health and wellness”, David Nesbitt, manager of AADAC’s Business and Industry Clinic, noted that Syncrude has supported the clinic for about nine years. The clinic provides counselling and other services that help business employees dealing with addiction problems adopt a healthy and safe lifestyle. Syncrude also worked with AADAC to develop a workplace manual for supervisors and managers.

Syncrude Co-Sponsors Healthy Community Partnership

Syncrude’s leadership with pharmaceutical manufacturer Pfizer has helped launch an innovative community health partnership. *HealthQuest* is enabling Wood Buffalo residents to learn more about the risk factors for, and relationship between, chronic diseases such as cardiovascular illness and diabetes, and to take appropriate action. In November, some 250 people participated in a community health fair where they had their cholesterol, blood pressure and fitness levels assessed, and a further 40 people learned about heart disease at a public forum. The success of the Fort McMurray *HealthQuest* program may lead to its introduction to other Alberta communities. *HealthQuest* will return to Fort McMurray in October 2004.

Health Centres Work Around the Clock

Health Centres at Syncrude’s Mildred Lake and Aurora sites provide a comprehensive suite of health and medical services to all employees and contractor personnel, as well as emergency medical care to residents of neighbouring communities. The health centres are staffed by Syncrude’s Chief Medical Officer and a team of full-time Registered Nurses. In 2003, they provided services and advice on more than 19,000 occasions, an increase of about 16 per cent over 2002 which was caused by a large influx of contractor workers on our site.

Reasons for visiting the Centres were comprised of non-occupational illness and injuries at 41 per cent; followed by occupational injuries and illnesses, at 37 per cent; and surveillance of employees whose work may put them at risk of such conditions as hearing or vision impairment, at nine per cent.



ENVIRONMENTAL PERFORMANCE

An important part of Syncrude's sustainability challenge is continuously improving our environmental performance. Toward this, we are implementing short- and long-term measures in all areas of our operation that will lead to more environmentally sustainable outcomes and meet the expectations of regulators, employees and community stakeholders.

Regulatory Compliance

Syncrude did not incur any fines or administrative penalties related to environmental performance in 2003. In fact, throughout our 25-year operating history, only five such penalties have been assessed, all of which were issued between 1999 and 2001 for relatively minor matters such as late reporting of operating upsets and venting from hydrocarbon storage tanks. Subsequently, Syncrude has improved management practices at its tank farm, and also has strengthened internal reporting requirements, to reduce the risk of similar future incidents.

Air

Ambient Air Quality

The Wood Buffalo Environmental Association assesses the quality of ambient air through the Wood Buffalo Regional Air Quality Monitoring Network. This state-of-the-art network comprises 13 monitoring stations located throughout the region; the station sites were determined through a stakeholder consultation process and approved by Alberta Environment. Syncrude is a member of the Association and provides ongoing operating and capital funding.

During 2003, there were no instances where the Alberta Ambient Air quality guidelines for sulphur dioxide, hydrogen sulphide, or nitrogen dioxide were exceeded at the Associations' air quality monitoring sites.

When an exceedence is noted, Syncrude will typically deploy its mobile air monitoring van to determine if the source cause was located on our plant site.

Each year, Syncrude conducts six manual surveys of its main stack to meet the requirements of Alberta Environment's Alberta Stack Sampling Code. Alberta Environment is invited to witness these surveys for verification purposes.

All ambient air quality monitoring data we report is gathered and verified by the Wood Buffalo Environmental Association, which posts all ambient air quality data, including real-time and historical information, on its website, www.wbea.org. Similarly, all water quality monitoring is conducted by the Regional Aquatics Monitoring Program, which posts information at www.ramp-alberta.org. These are independent multi-party organizations that include oil sands operators, First Nations, environmental groups and regulators.

All Syncrude meters used for regulatory reporting are calibrated on a regular basis, and also are manually tested to ensure valid results.

Syncrude surpasses the quality assurance requirements of Alberta Environment's code for Continuous Emission Monitoring Systems. This code applies to emissions stemming from Syncrude's main stack and the Aurora gas turbine generator.



Syncrude's mobile air monitoring van is fitted with specialized equipment to help track the source of air emissions.

**Reporting and Maintenance
Ensure Optimal
Equipment Performance**

Syncrude now publishes a detailed internal report on energy use, as was suggested by employee Christian Matte.

The monthly report aims to reduce Syncrude's energy use by charting the energy effectiveness of equipment so that timely adjustments and maintenance can occur, thus ensuring optimal equipment performance. The report is a valuable supplement to Syncrude's Reliability Centered Maintenance initiative, which uses predictive techniques to deal with potential equipment failures before they happen.

Climate Change and Energy Efficiency

Syncrude did not meet its targets for energy efficiency in 2003. Performance was 1.36 million BTUs per barrel of oil produced, versus the target of 1.17. Emissions of greenhouse gases, however, at 0.097 tonnes per barrel, were lower than our target of 0.098. Operational upsets experienced during the year account for much of the reduction in energy efficiency. Mitigating this was Syncrude's use of fuels that are less carbon intensive than earlier estimates.

Toward improved performance in 2004 and beyond, Syncrude is developing and implementing a plan to reduce energy consumption and greenhouse gas emissions on a per unit of production basis. These reductions will be achieved through an ongoing program of operational improvements and capital investments. Our commitment is to achieve energy efficiency gains of at least one per cent per year, and our track record since 1988 has been better, at about 1.7 per cent per year.

Sulphur Emissions

During the year, sulphur dioxide emissions from all Syncrude sources averaged 212 tonnes per day, or 0.99 tonnes per thousand barrels of crude oil produced. This compares to 2002 performance of 222 tonnes per day, or 0.96 tonnes per thousand barrels of crude oil produced.

Toward improved sulphur emissions performance in 2004 and beyond, Syncrude enhanced systems at its sour water processing facility, which allow for better operational control and faster response during a plant upset. These actions will reduce the amount of sulphur dioxide delivered to the main stack in the event of an upset. A new tail gas analyzer installed in another plant provides additional capability to monitor and optimize the performance of the sulphur recovery complex.

Syncrude exceeded its approval limit for hourly main stack sulphur dioxide emissions (16.4 tonnes per hour) on three occasions; in each instance, actions were taken to limit the duration of the exceedence. Operations were successful in staying within the daily main stack limit of 292 tonnes per day throughout 2003. Sulphur dioxide emissions from all sources, however, exceeded the limit of 365 tonnes over one 24-hour period in January when sour coker gas was flared. During this time, the rate of feed into Syncrude's cokers was reduced to minimize the extent of the release. The incident was attributed to faulty plant instrumentation, which was immediately repaired.



Nitrogen Oxides

Fixed plant sources account for about 60 per cent of Syncrude's emissions of nitrogen oxides, while diesel powered mobile mining equipment accounts for the remainder.

Syncrude's purchase specification for mobile mine equipment requires that diesel engines meet or surpass all regulatory requirements for engine design, exhaust gas treatment, and state-of-the-art combustion control. Regular turnover of mobile mine equipment ensures continual improvement in emissions performance.

Syncrude is working to reduce NO_x emissions per tonne of material moved by optimizing equipment performance and productivity, minimizing haul distances, and reducing rolling resistance through road and mine pit surface improvements.

As well, Syncrude regularly pursues opportunities to retrofit furnace burners with low-NO_x models.

Greenhouse Gas Emissions Audit

Syncrude is a lead participant in the oil sands and heavy oil upgrading industry's efforts to develop a comprehensive, auditable method for the reporting of GHG emissions from these complex and highly integrated facilities. The result will ensure that our industry arrives at a common and consistent GHG emission estimating method, and that the method meets provincial, federal and international reporting requirements. Other participants include the provincial and federal governments. The proposed method will be subject to a government-led third party audit before it is implemented. Syncrude will begin reporting its GHG emissions to regulators in 2004.

Sulphur Shipments

Improving sulphur market conditions in 2003 allowed Syncrude's owners to commence shipping small amounts of its sulphur byproduct to market. In total, nearly 13,000 tonnes were shipped, while 522,000 tonnes were blocked on our site.

Syncrude's future sulphur management strategy includes using the sulphur captured from the new coker under construction to manufacture ammonium sulphate fertilizer. This move, which will commence with the start-up of Syncrude's upgrader expansion project in 2006, will turn some of the sulphur Syncrude removes from its crude oil product into a useful, marketable product.

Emission Reduction Projects Move Forward

The Syncrude Emission Reduction Project, a \$400 million initiative which will reduce sulphur dioxide emissions by about 60 per cent from current approved levels of 245 tonnes per day to 100 tonnes per day when it becomes operational in 2009, moved ahead during the year with the completion of regulatory approval documents, which were submitted to regulators and subject to discussion and review with key Syncrude stakeholders. The project also will reduce particulate matter emissions by 50 per cent, making Syncrude a leader in reducing impacts on the regional air shed.

Syncrude's upgrader expansion project also is incorporating sulphur reduction technology. The project, which will be operational in 2006, will virtually eliminate all sulphur emissions from the new fluid coker being built, as well as from the tail gas of all Syncrude sulphur recovery plants.

Targeting Improved Performance

Syncrude has established targets for future environmental performance, which were determined through a comprehensive internal and external consultation process. At a minimum, these targets meet limits specified in our regulatory approvals, and in some cases go beyond these requirements. More information on Syncrude's environmental releases is available from the National Pollutant Release Inventory at www.ec.gc.ca.

	2002 Actual	2003 Actual	2004 Target	2005 Target	2006 Target ³	2007 Target	2008 Target
Main Stack SO₂ Approval Limits							
Hours greater than 16.4 TPH ¹	1	0	0	0	0	0	0
Daily average greater than 292 TPD ¹	0	0	0	0	0	0	0
SO₂ All Sources							
Tonnes of SO ₂ per 1,000 Bbls SSB	0.96	0.99	0.91	0.84	0.53	0.52	0.52
Tonnes of SO ₂ per day	222	212	215	215	185	185	185
Main Stack Opacity							
Hours in excess of 40%	3	6	<5	<5	<5	<5	<5
Diverter Usage							
Hours of Usage (versus 365 day rolling value approval limit of 292 hours/365 days)	7.32	10.61	<70	<70	<70	<70	<70
Sour Gas Flaring/Diverting							
Tonnes of SO ₂ per day	2.47	5.61	<1.0	<1.0	<1.0	<1.0	<1.0
Sour Gas Flaring							
Tonnes of SO ₂ per day	2.4	5.52	<.8	<.8	<.8	<.8	<.8
Main Stack NO_x Emissions							
Hours greater than 1.5 TPH (as NO ₂)	0	0	0	0	0	0	0
Ambient Air Exceedences Attributable to SCL							
H ₂ S Hourly	7	5	0	0	0	0	0
H ₂ S 24 Hour	0	1	0	0	0	0	0
SO ₂ Hourly	2	2	0	0	0	0	0
Odour Complaints Received	4	1	0	0	0	0	0
Water Import (MCM/yr)	40.7	32.3	29.4	30.0	47.3	45.4	45.2
Water Import (m³/barrel)²	0.485	0.418	0.312	0.330	0.394	0.354	0.354
Land Reclamation							
Area Capped Permanent (Ha) Mildred Lake	247	182	270	270	128	190	122
Area Capped Permanent (Ha) Aurora	0	7	31	40	102	106	149
Total	247	189	301	310	230	296	271
Energy							
Energy Consumption MBTU/Bbl SSB Produced	1.32	1.36	1.26	1.13	1.13	1.10	1.09
Tonnes CO ₂ Equivalent per Bbl SSB	0.107	0.097	0.113	0.106	0.108	0.105	0.105
Naphtha Losses							
Naphtha Losses, Bbls/Bbls Bitumen Produced	0.0044	0.0040	0.0048	0.0043	0.0043	0.0043	0.0043

¹ Approval Limit

² Includes water used for bitumen extraction and upgrading

³ Start-up year for Stage 3 expansion

Water

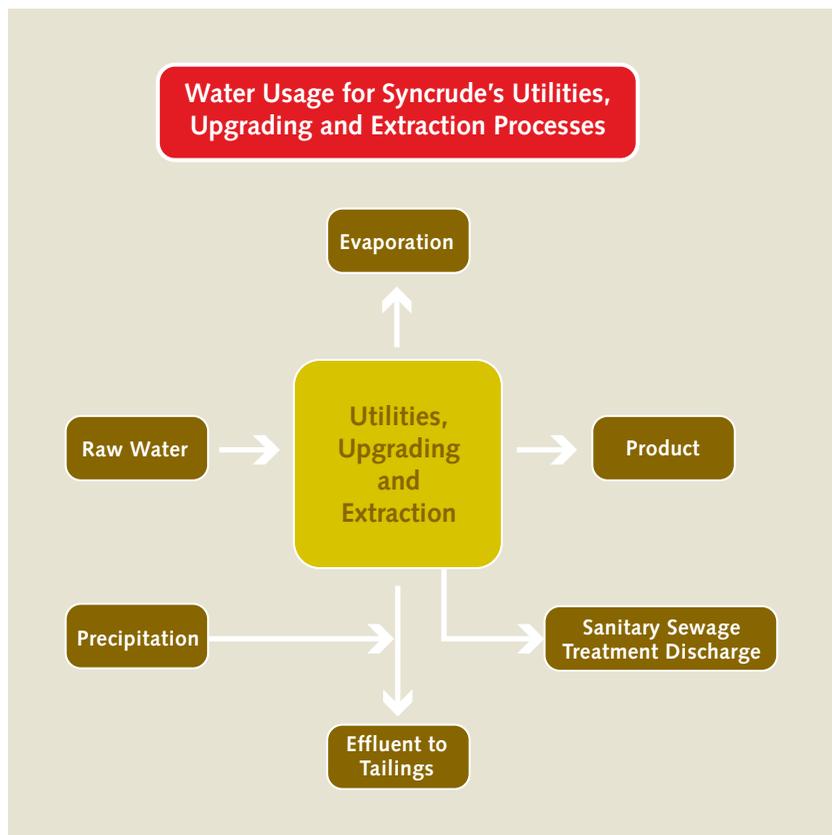
Syncrude diverted 32.5 million cubic metres of water from the Athabasca River for industrial processing and on-site drinking water purposes in 2003. This compares favourably with 40.7 million cubic metres in 2002. This reduction of more than eight million cubic metres (about 20 per cent) in river water use is mostly attributable to improved management of Syncrude's recycle water ponds system as well as the implementation of water conservation initiatives throughout our operation. A site-wide water management program was initiated in 2003 that aims to balance future river water needs with our ability to reuse process-affected water.

While our plans to increase crude oil production also will likely increase our total import of river water to near license limits, Syncrude continues to make more efficient use of imported water and is an oil sands industry leader in this area. Indeed, Syncrude uses two cubic metres of river water for every cubic metre of bitumen we produce. Data submitted to regulators by other existing and proposed oil sands surface mining operations suggests that Syncrude's water use per cubic metre of bitumen produced is less than half that of the industry average.

In support of Syncrude's future water conservation goals, Syncrude is in the process of identifying additional capital projects that will enable further efficiencies in our use of water, as well as greater recovery and recycle of this water from our processes. These actions also may lead to reductions in our import of river water.

Syncrude does not inject any water into reservoirs, an action that permanently removes water from the hydrologic cycle. Water that we do not recycle is either evaporated as steam or placed back into the landscape. Syncrude also does not discharge any process-affected water into river systems.

As referenced in our 2002 report, a study to determine the minimum river water flow necessary to meet industrial requirements is currently underway by the Cumulative Effects Management Association. Findings from the study are expected in 2005.





Martin Fung is an internationally acclaimed reclamation scientist and a member of Syncrude's environmental team. Martin's work is helping put Syncrude at the forefront of reclamation practice.

River Water Quality

Syncrude is a lead participant in the Regional Aquatics Monitoring Program, a multi-party group of oil sands developers, First Nations, environmental groups and regulators whose mandate is to assess and respond to potential effects of oil sands development on rivers and lakes in the oil sands region. The Program recently released a report of studies undertaken in 2002, which encompassed water bodies throughout the entire Regional Municipality of Wood Buffalo. Extensive data was collected on fish and fish habitat, water and sediment quality, water dwelling insects, wetland vegetation, river and lake chemistry, and water flow and climate.

Data continues to be collected and it contributes to a growing body of information that will help stakeholders compare industry performance with predictions contained within environmental impact assessments. It also will enable oil sands developers to respond to community concerns.

Overall, findings to date suggest oil sands development is having negligible impact on rivers and lakes. A summary of these findings can be viewed at www.ramp-alberta.org

Land

Syncrude is committed to ensuring that the land disturbed by our operation is returned to a stable, safe condition capable of supporting biologically self-sustaining communities of plants and animals. Our long-term vision is to create a landscape that sustains an integrated mosaic of land uses that meet stakeholder expectations.

Toward this, Syncrude has plans in place for closure and reclamation of its Mildred Lake and Aurora mine sites that meet the conditions and expectations contained in our operating approvals.

Field execution of these plans starts with design and construction of stable landforms, including surface drainage features that in the future will be valleys and streams. During 2003, Syncrude applied its internal design tools to the development of such features at both the Mildred Lake and Aurora sites, and constructed waterways comparable to those found naturally in the region.

At the end of 2003, total land disturbance on Syncrude's sites was 18,335 hectares. This represents an increase from 2002, and is due to the ongoing removal of overburden from the mine sites in preparation for ore mining, and the placement of the overburden near the mine pit.



The Regional Aquatics Monitoring Program assesses the health of rivers and lakes in the oil sands region through ongoing studies of fish and fish habitat, water and sediment quality, water dwelling insects, wetland vegetation, river and lake chemistry, and water flow and climate.



A climate station placed on an instrumented watershed measures rainfall, solar radiation, temperature, wind speed and direction, humidity and more. This information helps us determine the interaction of water, wind and heat with reclaimed landscapes.



Bison Ranch a 10-year Success Story

What began as a modest experiment to determine the viability of reclaimed land to support large animal habitat is now a ten year-old success story. In 1993, Syncrude and the Fort McKay First Nation partnered to move a small herd of 30 wood bison on to a section of land reclaimed by Syncrude.

Today, the Beaver Creek Wood Bison Ranch is home to an award-winning herd that averages about 250 head with a 99 per cent calving rate.

Syncrude and Fort McKay now aim to establish the commercial viability of the project, which has been co-managed by Fort McKay for several years. The ranch could provide considerable economic opportunity to the First Nations community.

The net area achieving the “permanently reclaimed” standard for reporting to the Alberta government was 187 hectares in 2003, bringing to 3,402 hectares the total net land reclaimed since 1978. Syncrude also completed considerable preparatory work in support of our 2004 target of placing reclamation material on 300 hectares.

Reforestation during 2003 included the planting of 315,000 tree and shrub seedlings on 240 hectares, bringing to 2,835,000 the total of trees and shrubs planted since 1978. Direct 2003 expenditures on reforestation and other reclamation programs was about \$10 million.

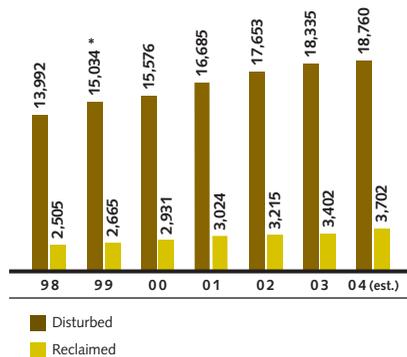
Thorough monitoring of all reclamation areas allows Syncrude to track and compare their performance to design intent and also provides the database for reclamation certification, which is the formal testing of reclamation success against government standards.

Toward excellence in reclamation practices, Syncrude’s ongoing reclamation research has evolved to emphasize integrated programs within watersheds that are intensively instrumented and monitored. We now have established such watersheds on two of the major substrates on which reclamation material will eventually be placed, and two more will be established by 2005. This approach leads to cross-fertilization between research disciplines as well as better, more integrated insights from research findings. As part of these efforts, Syncrude routinely collects information on soil and vegetation development, drainage feature performance, and wildlife habitat development.

Terrestrial Effects Monitoring

The Wood Buffalo Environmental Association is responsible for the collection and reporting of data regarding terrestrial environmental effects through the Association’s Terrestrial Environmental Effects Monitoring Program (TEEM). The current focus of the program is assessment of soil acidification, which is caused by the deposition of sulphur dioxide and nitrogen dioxide. If the deposition of these compounds exceeds the neutralizing capacity of the natural ecosystem, effects to soil and vegetation can result. In an effort to better understand any potential effects, a program to monitor the health of acid sensitive soils and the Jack Pine trees growing on these soils was established in 1998. The program involves periodic measurement of soil chemistry and tree growth at 10 permanent sites along a gradient from high to low acidic deposition. Five additional monitoring sites will be added in 2004. At the time

Total Land Disturbed vs Total Land Reclaimed (ha)



* Large increase resulted from the opening of the Aurora mine.

the plots were established in 1988 there were no significant effects of acidic deposition on either soil chemistry or tree growth.

A study to assess trace mineral concentrations in traditionally used country foods and medicines was undertaken on lands around the communities of Fort McKay and Fort Chipewyan. However, the research program design did not allow for meaningful statistical assessment, so further sampling is being conducted. Initial results are expected in 2004 and will be communicated to residents of Fort McKay and Fort Chipewyan.

Waste Management and Recycling

Reduce, reuse and recycle (3-R) is the guiding philosophy of Syncrude's waste management program. We aim to minimize the amount of waste disposal in landfills, and maximize opportunities to create useful products and compounds from our waste streams. Over 15,000 tonnes and 93,000 cubic metres of various materials were sent for recycling or reuse in 2003. They include:

- 5,948 tonnes of catalyst
- 50 tonnes of lead acid batteries
- 82 kg of lithium and ni-cad batteries
- 92,240 cubic metres of waste oil
- 65.3 tonnes of oil and fuel filters
- 207 cubic metres of glycol
- 4,000 kg of cleaning rags
- 1,594 metal and plastic drums
- 13.6 tonnes of electronic (eg: computer) waste
- 354 tonnes of used conveyor belting
- 11.6 tonnes of kitchen grease
- 1,020 tonnes of large equipment tires
- 7,840 tonnes of metal and metal parts
- 681 cubic metres of waste hydrocarbons



Giant Equipment Saved From Scrap Heap

A huge dragline that had been in operation at Syncrude for 22 years until its retirement will not be destined for the garbage heap. Instead, Mighty Samson, as the dragline is known, will be put to a new use working at an Australian coal mine. As a result, its working life will be extended for a further 20 years. The equipment became obsolete when Syncrude changed its mining method to truck and shovel technology. Syncrude conducted a global search to find the 6,000-tonne dragline its new home.

Tailings Management

Syncrude's current method for managing tailings, which are a mix of sand, clay, minerals and water, focuses on Composite Tailings (CT). Nearly seven million cubic metres of composite tailings were produced in 2003 to aid in the reclamation of Syncrude's east mine. The material is comprised of coarse sand tailings and mature fine tailings mixed with gypsum as a binder. Composite tailings quickly release contained water and allow for more rapid reclamation of the regional landscape. The released water is recycled for use in Syncrude's production processes.



Syncrude's leading-edge work to understand reclaimed watersheds will foster long-term reclamation success. We can see how the soils and landscapes are developing by regularly measuring and tracking the movement of water.

Waste which is unsuitable for reuse or recycle is sent for treatment or destruction, or disposed of in our on-site industrial and sanitary landfills. Of this material: 68 tonnes and 4.5 cubic metres of hazardous waste was sent to approved hazardous waste treatment facilities; and 57,731 tonnes of non-hazardous waste was landfilled.

Syncrude waste reduction efforts are supported by over 20 organizations that process materials for recycle or reuse.

Mineral Recovery from Waste Tailings

In 2003, Syncrude entered into an agreement with Titanium Corporation Inc. and a major titanium oxide pigment producer to study the potential to create value from what is otherwise a waste material. Work conducted under this agreement will investigate the opportunity to extract titanium bearing minerals and zircon from Syncrude's centrifuge plant tailings stream. A pilot processing facility is now under construction at the Saskatchewan Research Council. A successful pilot could further the prospects for a commercial-scale mineral sand operation.

Syncrude's tailings stream is also rich in kaolin clay, which is used in the manufacture of paper and cement. Currently, kaolin for these needs comes from the mining of natural clay deposits. Toward identifying process steps for the viable recovery of commercial grade kaolin from Syncrude's tailings, Syncrude and the Alberta Energy Research Institute are funding research by two Masters students at the University of Alberta.



Medicinal Plant Study

At the encouragement of Aboriginal Elders from the Fort McKay First Nation, Syncrude, along with two other oil sands companies, is participating in a study to collect and record the location and uses of traditional medicinal plants in areas that are proposed for oil sands development. Information gleaned from the study will aid in the re-establishment of such plants when the land is reclaimed. The Elders also are contributing their wisdom and knowledge in an ongoing dialogue with Syncrude to help enhance land reclamation outcomes.

Performance Summary 2003

	2003	2002	2001	2000	1999
Environment					
Greenhouse gases ¹					
(tonnes CO ₂ /barrel)	0.097	0.094	0.097	0.107	0.109
Sulphur dioxide					
(tonnes/day)	212	225	237	202	208
(tonnes/thousand barrels)	0.99	0.97	1.05	0.99	0.98
Nitrogen oxide					
tonnes/day	57.11	56.79	55.3	48.3	49.3
tonnes/thousand barrels	0.27	0.24	0.24	0.23	0.22
Land disturbed					
(cumulative hectares – Aurora Mine added as of 2000)	18,335	17,653	16,685	15,576	15,034
Land reclaimed (cumulative hectares) ²	3,402	3,215	3,024	2,931	2,665
Energy intensity (million BTUs/per barrel) ³	1.36	1.32	1.34	1.28	1.23
Water diverted from Athabasca River (million cubic metres)	32.3	40.7	37	40.2	40.3
Health and Safety					
Total recordable injury frequency rate (Synchrude + contractors) ⁴	1.10	0.82	1.28	1.57	1.31
Employee lost-time injury frequency rate ⁴	0.15	0.12	0.21	0.22	0.11
Contractor lost-time injury frequency rate ⁴	0.09	0.08	0.08	0.12	0.31
Economic and Social Contribution					
Royalties and payroll and municipal taxes (\$ millions Cdn) ⁵	223	206	392.3	731.2	191.9
Cumulative royalties and payroll and municipal taxes					
(\$ millions Cdn) ⁵	6,153	5,930	5,724	5,332	4,601
Aboriginal contracts (\$ millions Cdn) ⁶	90	82.0	92.0	72.0	61.0
Cumulative Aboriginal contracts (\$ millions Cdn) ⁶	661	571	489	397	325
Aboriginal workforce (per cent of Synchrude workforce only) ⁷	9.6	9.7	9.9	10.2	10.2

¹ Greenhouse gas emissions – Greenhouse gas emissions include all CO₂ and other greenhouse gases on a CO₂ equivalent basis to produce a barrel of SSB.

² Land disturbed/land reclaimed – Refers to all land surface area disturbed during the process of mining. Reclaimed land refers to disturbed land that has permanently been returned to a stable, biologically self-sustaining state. All reclaimed land will be returned to the Province of Alberta at the end of operations.

³ Energy Intensity – Synchrude's product, SSB, is a 100 per cent upgraded, high quality product with 31° to 33° API, low sulphur (0.1–0.2 per cent), low residuals and excellent low temperature pour qualities. Energy intensity to produce this product includes all energy consumed to produce a barrel of SSB – natural gas, coke, diesel, electrical generation, jet fuel, gasoline, propane and net imported power.

⁴ Total Injury Frequency and Lost-Time Injuries – Total recordable injury frequency includes all injuries requiring medical attention or which resulted in a worker being absent from work. A Lost-Time Injury is an injury that requires medical attention and results in the worker being absent from work. The injury frequency rate is the number of Lost-Time Injuries per 100 person years (200,000 hours) worked.

⁵ Royalties, payroll and municipal taxes – Represent total royalties paid to Government of Alberta, direct payroll taxes and municipal taxes. Royalties vary depending on crude oil prices and level of capital expenditures as defined by the Oil Sands Royalty Regulation 1997.

⁶ Aboriginal contracts – Includes contracts for base plant and Synchrude 21 capital projects. Dollars shown are commitments against purchase orders and payments against contracts.

⁷ Aboriginal workforce – Numbers include only full-time Synchrude employees and do not include casual or contract workers.

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.

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 review the financial results of the corporation. The Board functions on a more frequent basis through several active committees including a CEO Committee, an Environment, Health & 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 the generally accepted standards of Canadian corporate governance.

Board Committees

The governance of the Syncrude Board of Directors was recently enhanced with the creation of a CEO Committee of the Board (consisting of the most senior executive of each Syncrude Canada Ltd. shareholder company). The primary role of the CEO committee is to oversee the performance of Syncrude's CEO and COO, oversee compensation of company Officers, ensure sound management ranks and succession plans, and review and provide input to Syncrude's annual Strategic Business Plan.

The Environment, Health & Safety Committee consists of not fewer than 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 area of environment, health and safety matters and makes recommendations where appropriate.

The mandate of the Audit Committee was broadened to incorporate overall responsibility for Syncrude's Pension Plan and renamed the Audit and Pension Committee. In addition, this committee retained responsibility for reviewing 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 the 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 not fewer than three 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 not fewer than 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}
Allen Hagerman ⁴

ConocoPhillips Oil Sands Partnership II
Henry Sykes ¹
John LeGrow ^{2, 3}
John Anders ²

Imperial Oil Resources
K.C. Williams ¹
Eddie L. Lui ^{2, 4}
Rick Pawluk

Mocal Energy Ltd.
Sonny Lyons ¹
Charles Scholz
Masashi Yoshizawa

Murphy Oil Company Ltd.
Harvey Doerr ¹
Tim Larson ^{3, 4}

Nexen Inc.
Charlie Fischer ¹
Marvin Romanow ³

Petro-Canada Oil and Gas
Ron Brenneman ¹
Brant G. Sangster ⁴

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 and Pension 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

Fred A. Hemphill
Vice President, Bitumen Processing

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

Gordon R. Winkel
Vice President, Bitumen Production, Aurora

Rosalind Eichhorn
Vice President, Human Resources
and Support Services

Gary K. Brennan
Controller

Ray B. Hansen, Q.C.
General Counsel

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

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KPMG

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