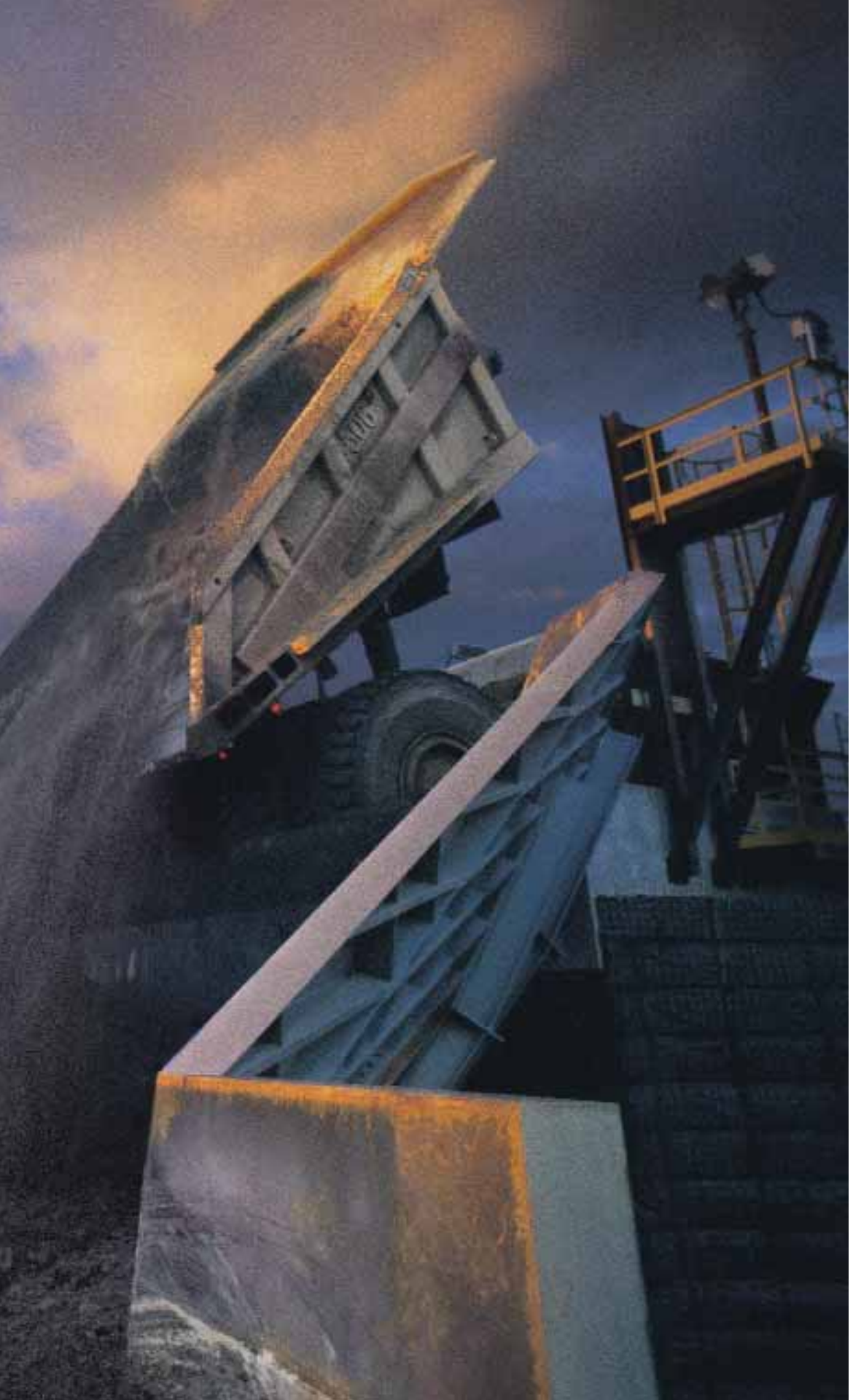


About Our Financial Reporting

## 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.

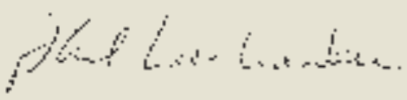
Financial information has been prepared by management in accordance with accounting principles generally accepted in Canada and includes certain amounts based on estimates and management's best judgments. This information is presented in un-audited form.

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

finance & economy

## 2003 Results [1]

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.

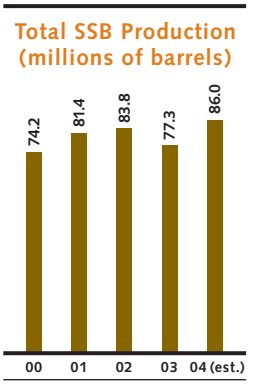
Pro-forma cash flow from operations was $1.6 billion, a drop of $282 million from 2002 as a result of lower crude oil shipments, a lower average plant gate price and higher operating costs. Cash flow from operations provided a significant portion of the funding for the $2.5 billion capital program, the 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.*




*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*

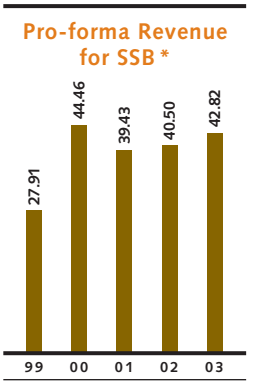
*6 ROCE is based on return on average capital employed. ROCE — total capital — includes the investment in assets, including assets not currently in service, in average capital employed. ROCE — productive capital — excludes the investment in assets not currently in service, from average capital employed*

### 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.




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

### 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.

*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.*

## 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.*

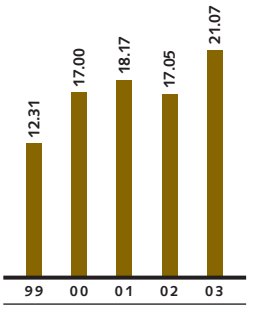
*2 Production costs are ongoing costs to mine oil sand, and extract and upgrade bitumen into* Syncrude Sweet Blend *(SSB). Production costs exclude the more variable costs of overburden removal, turnarounds and catalyst replacement and purchased energy, and the category of Corporate and Research costs.*

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

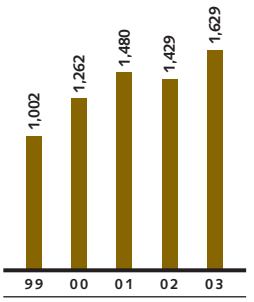
*4 Purchased energy is the cost of imported natural gas and the net cost of electrical power (power imports less exports).*

*5 Corporate and Research includes the cost of corporate functions and research activities, gainshare and incentive pay.*

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




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



## Production and Unit Operating Costs [1]

| Amounts in millions of barrels | 2003 Bitumen | 2003 SSB | 2002 Bitumen | 2002 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 | $/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

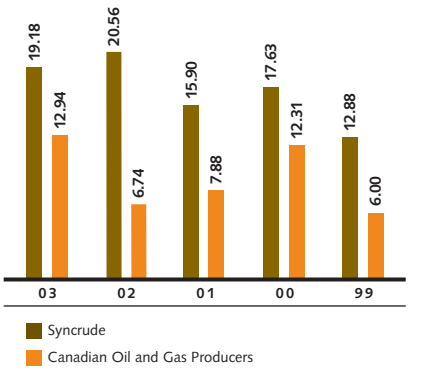
| Amounts in Cdn dollars | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Capital Program** (millions of dollars) | | | |
| Development expense [1] | **118** | 89 | 82 |
| Capital expenditures – total | **2,435** | 1,857 | 828 |
| Sustaining [2] | **193** | 190 | 183 |
| Growth/Major [3] | **2,242** | 1,667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

### Netback per Barrel* ($Cdn)




** After pro-forma DD&A*

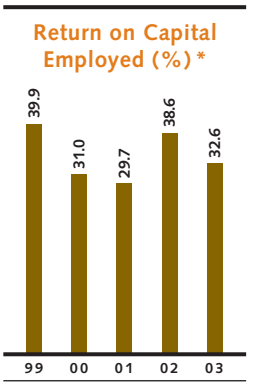
### Capital Program

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.

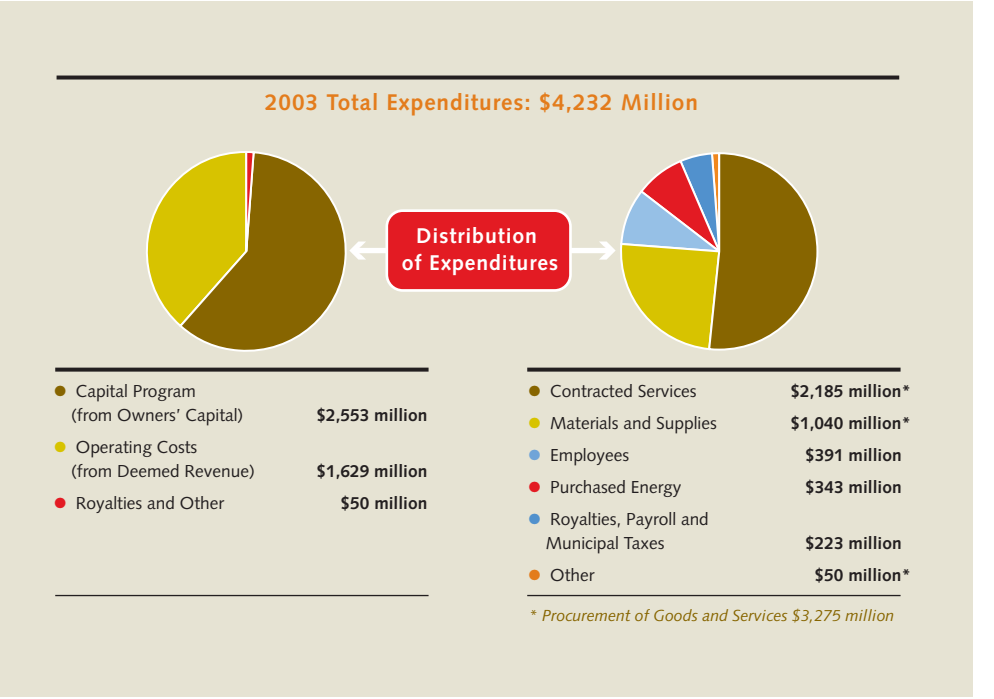
## Economic Contribution

| 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.

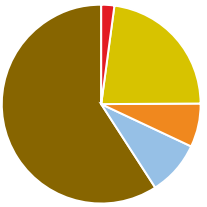



Procurement of goods and services from Canadian and international companies totalled $3.3 billion in 2003 or about 78 per cent of total expenditures. The nature of these goods and services are summarized below (with percentages of total spending shown in brackets):

- **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.