


**Highlights** year ended December 31

	1984	1983
Revenues (\$ millions)	\$1,584.5	\$1,484.3
Earnings (\$ millions)	\$ 123.7	\$ 114.3
Earnings per common share	\$ 2.35	\$ 2.17
Dividends per common share	\$ 0.80	\$ 0.80

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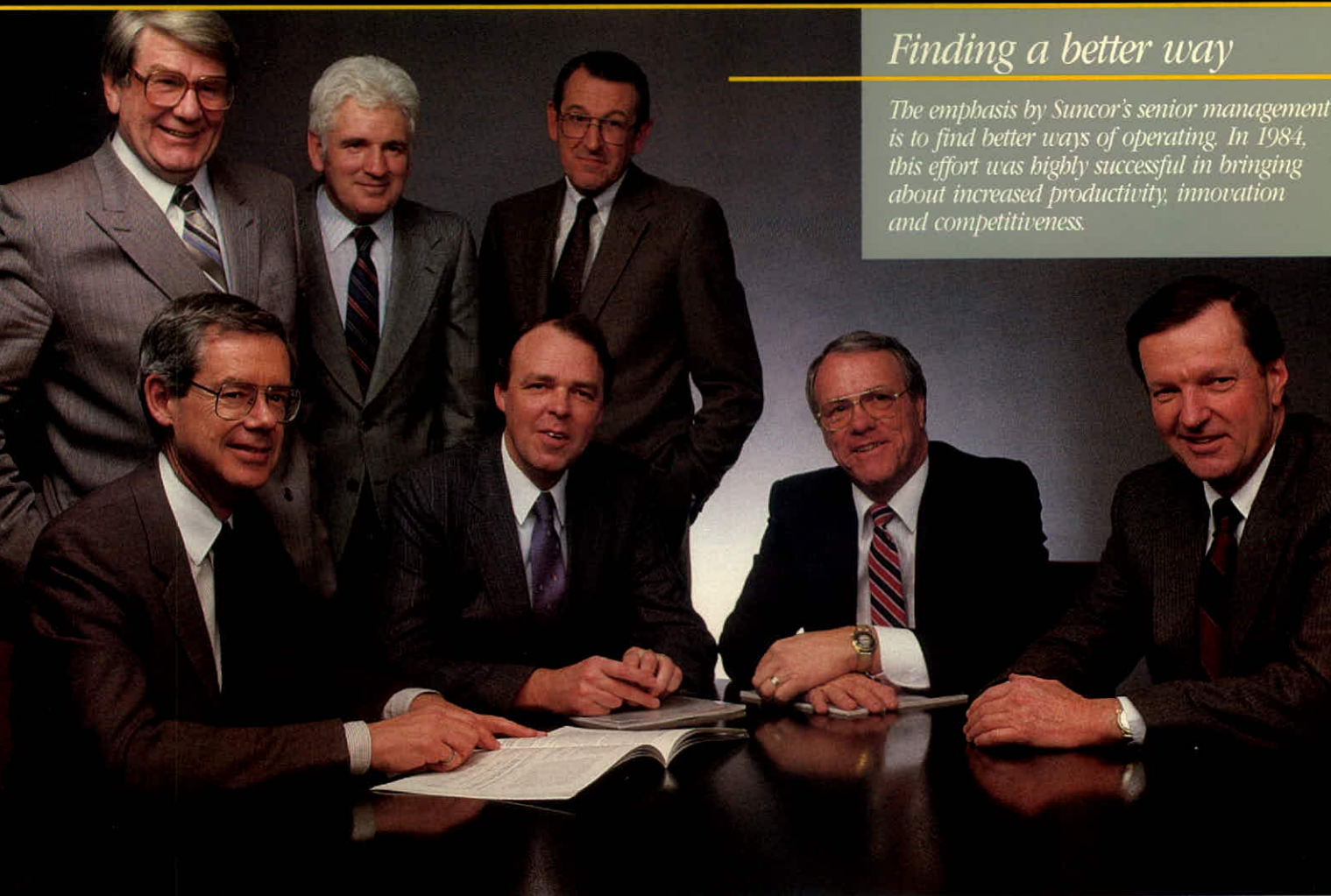
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*Cover photo:*

*Peter Sivell, senior area technician, at the terminal of the new CB4 control room, a key part of the Sarnia refinery hydrocracker project completed in 1984.*

*Finding a better way*

*The emphasis by Suncor's senior management is to find better ways of operating. In 1984, this effort was highly successful in bringing about increased productivity, innovation and competitiveness.*



***D**uring 1984, Suncor continued to pursue three main strategies:*

- Attaining production reliability at the oil sands plant together with effective cost control*
- Developing a highly competitive and efficient refining and marketing business*
- Investing in the growth of our hydrocarbon resource base and production capability*

*In pursuing these strategies, Suncor personnel found better ways of managing and operating our business. These improvements enhanced productivity, innovation and competitiveness. In this report, we highlight some of these achievements.*

*Seated, from left to right: Tom Thomson, President and Chief Operating Officer; Peter Spelliscy, Vice President, Human Resources and Communications; Don Smith, Executive Vice President, Resources Group; Bill Loar, Chairman and Chief Executive Officer. Standing, from left to right: Stan Cowtan, Executive Vice President, Sunoco Group; Mike Supple, Executive Vice President, Oil Sands Group; Dudley McGeer, Senior Vice President, Administration and Chief Financial Officer.*

Suncor Inc., one of Canada's major integrated oil and gas companies, was the first in the world to tap the enormous potential of oil sands on a commercial scale. Today, Suncor operates both mining and steam stimulation projects recovering hydrocarbons from the oil sands of Alberta. The Company explores for, and produces, conventional crude oil and natural gas in Canada's

western provinces and participates in the search for oil and gas in the frontier areas of the Arctic Islands, the Beaufort Sea, the Mackenzie Delta and the coastal waters of eastern Canada. It is also assessing opportunities for coal and other minerals.

Suncor manufactures, distributes and markets transportation fuels, petrochemicals, heating oils, lubricants and

specialty products under the Sunoco and Sunchem names. The Company owns and operates a refinery in Sarnia, Ontario.

About 75 per cent of Suncor's common shares are held by Sun Company, Inc. of the United States and 25 per cent are owned by Ontario Energy Resources Ltd., a corporation indirectly owned by the Province of Ontario.

## BOARD OF DIRECTORS



Suncor is guided by a Board of Directors with extensive and varied business experience. Of the 14 directors, 11 are Canadians.

Two changes were made to the membership of the Board in 1984. John Poole and Walter Huffman, who have contributed so substantially to the Board's deliberations, have retired as directors. Their counsel and advice have been most deeply appreciated and we wish them well. Two new directors replaced them — Harry Booth and Robert Campbell. Mr. Booth is Chairman of the Board and Chief Executive Officer of Alberta and Southern Gas Co. Ltd. and Alberta Natural Gas Company Ltd. of

*From left to right: Gerry Hobbs, Malcolm Rowan, Gordon Hillhouse, Max Clarkson, Harry Booth (standing), Peter Kingsmill, Bill Loar (standing), Jack Neafsey, Robert Campbell, Pierre Genest, Ted Jarman, Dudley McGeer. (Missing from photo: Michael Koerner and Guy Saint-Pierre.)*

Calgary. Mr. Campbell is President of Sun Refining and Marketing Company of Philadelphia.

Michael Koerner, who served as Chairman of the Board, has assumed the position of Deputy Chairman. Bill Loar has become Chairman while continuing as Chief Executive Officer.

The Board has three standing committees, each headed by an independent director. Peter Kingsmill is Acting Chairman of the Audit Committee, which also

comprises Max Clarkson, Pierre Genest and Jack Neafsey.

The Board Policy and Strategic Planning Committee, chaired by Michael Koerner, includes Gordon Hillhouse, Gerry Hobbs, Bill Loar, Dudley McGeer and Malcolm Rowan.

The Human Resources and Compensation Committee, chaired by Max Clarkson, includes Gordon Hillhouse, Ted Jarman, Bill Loar and Guy Saint-Pierre.

# SUMMARY OF RESULTS

## Financial

(\$ millions except per share data)	1984	1983
Revenues	\$1,584.5	\$1,484.3
Earnings		
–for the year	\$ 123.7	\$ 114.3
–per common share	\$ 2.35	\$ 2.17
–as a percentage of capital employed	6.7%	6.7%
–as a percentage of shareholders' equity	10.1%	10.0%
Funds from operations		
–for the year	\$ 266.4	\$ 208.5
–per common share	\$ 5.10	\$ 3.99
Capital expenditures	\$ 289.9	\$ 353.2
Dividends		
–per preferred share	\$ 1.92	\$ 1.92
–per common share	\$ 0.80	\$ 0.80

## Operating

	1984	1983
<b>Oil sands</b>		
Synthetic crude oil		
–production (a)	2 715	2 776
–proven reserves (b)	61.7	63.6
<b>Exploration, production and resources development</b>		
Crude oil and natural gas liquids		
–gross production (a)	859	821
–gross proven reserves (b)	9.0	8.8
Natural gas		
–gross sales (b)	614	539
–gross proven reserves (c)	13.5	12.9
<b>Refining, petrochemicals and marketing</b>		
Refined product sales (a)	3 863	4 036
Crude oil processed at Suncor refinery (a)	3 520	4 091

(a) thousands of cubic metres

(b) millions of cubic metres

(c) billions of cubic metres

Suncor recorded the third successive annual increase in its earnings in 1984. The eight per cent improvement over 1983 was primarily due to less volatile market conditions for transportation fuels and higher conventional crude oil and natural gas sales volumes and prices. (For further analysis of earnings, see page 28.)

In last year's annual report, we identified three main business objectives for 1984: successful completion and start-up of the new Sarnia refinery hydrocracker complex; further improvements of an ongoing nature in the operating reliability of our oil sands plant; and expansion of our investment in conventional crude oil exploration and production in the western provinces. All three objectives were realized. I would like to express my appreciation to the employees of our Company whose dedicated efforts achieved such notable results in the year just ended.

### **Top management team expanded**

The growing size and complexity of Suncor's operations have led to a reallocation of responsibilities at the most senior levels of the Company.

On May 1, 1984, the two operating groups were reorganized into three: the Oil Sands Group; the Resources Group; and the Sunoco Group. Each is now under the direction of an executive vice president.

Effective December 12, 1984, I assumed the position of Chairman while continuing as Chief Executive Officer. This move will enable me to devote more of my time to strategic planning (to increase the asset base and profitability of the Company) and the important functions of government and public affairs. Michael Koerner, who has served Suncor so ably as Chairman of the Board, now becomes Deputy Chairman.

Reporting to me is a new President and Chief Operating Officer, Thomas



Thomson, formerly a senior executive with another major Canadian integrated oil company. The operating group executive vice presidents will report to

Mr. Thomson while the corporate functions, including finance and human resources, will continue to report to me.

This new organization will enable the Company to pursue more effectively its twin goals of growth and operating improvements.

### **Hydrocracker complex fully operational**

A hydrocracker unit, a hydrogen plant, a vacuum unit, a sulphur recovery plant and other facilities constructed during the Sarnia refinery upgrading project were operational during the fourth quarter of 1984. The project was completed ahead of schedule and well under the estimated cost of \$335 million.

With the hydrocracker in place, the Sarnia refinery is now among the most flexible and efficient in Canada. Using significantly less crude oil, the refinery can produce the planned amounts of high-value transportation fuels and petrochemicals without producing large amounts of low-value residual fuel oils. These benefits are expected to have a significant impact on the Company's bottom line in 1985 and beyond.

To mark the completion of the hydrocracker project, Suncor donated \$500,000 to restore the Lawrence House, a 92-year-old Sarnia landmark noted as a rare example of Queen Anne architecture by the Ontario Heritage Foundation. After restoration, the building will be used as a cultural centre for young people.

### **Refined product margins still weak**

The Sunoco Group returned to slightly better than a break-even position in 1984 following a loss in the previous year. Refined product margins were somewhat improved but gasoline price wars in Ontario and excess world supply of petrochemicals seriously impacted downstream profitability. However, volumes and margins for lubricants and specialty products were higher during 1984 due to the economic recovery in the Canadian manufacturing sector.

## **Improved reliability at oil sands plant**

In 1984, Fort McMurray production volumes of fully and partially processed synthetic crude oil averaged 7 417 m<sup>3</sup> (46,673 barrels) per day, a slight decrease from the previous year. However, the volume of fully processed synthetic crude oil increased 19 per cent from 1983.

While the upgrading operation did experience difficulties in 1984, these were less severe than in the previous year. The improved operation of the upgrading area also enabled Suncor to process additional bitumen from Syncrude after its upgrading operations were damaged by fire in August 1984. We continue to improve training, equipment and operating procedures in a co-ordinated effort to attain better plant effectiveness and these initiatives are proving fruitful.

In 1984, we received an average of \$262.20 per cubic metre (\$41.69 per barrel) compared to \$250.68 per cubic metre (\$39.85 per barrel) in 1983. The increase in revenue per unit was largely because fully processed synthetic crude receives a higher price.

## **Further investments to enhance oil sands production**

Late in 1984, the Company announced its intention to invest an additional \$500 million to increase the efficiency and reliability of the Fort McMurray plant. These expenditures will improve the mine, utilities, extraction and upgrading areas, add to productive capacity and increase ultimate reserves by a total of some 4.5 million m<sup>3</sup> (28 million barrels) of synthetic crude oil and other hydrocarbon liquids.

This program will generate work for several hundred Canadians over the next five years. The new reserves will also save Canada approximately \$1 billion in imported oil at current prices.

The \$500 million program was assisted in part by a change in federal government tax policy which eliminated the incremental oil revenue tax on synthetic crude oil production effective January 1, 1985. Suncor was the only company paying this tax. The government also agreed to remit to Suncor a total of about \$43 million — a portion of the incremental oil revenue tax which had been collected from the Company from 1982 through 1984.

## **Exploration activity increases**

One of Suncor's strategic goals is to expand the earnings potential of the Resources Group to be more in balance with the earnings potential of the other two segments — the Oil Sands Group and the Sunoco Group.

Significant progress was made towards this objective in 1984. We substantially increased our investment in land, geological and geophysical work and drilling. In total, 71 gross exploratory wells were drilled in the western provinces in 1984, up 54 per cent from 1983. For the first time in several years, our additions to conventional oil reserves exceeded oil production.

## **Outlook**

In 1985, Suncor will accelerate its long-term strategy of investing in the expansion and development of the Resources Group's hydrocarbon reserves.

To achieve the objectives we have set, Suncor will have to meet a number of other important challenges. For the Sunoco Group, the challenge is to realize the increased profit potential of its new

refinery capability through creativity and innovation in its marketing, supply and refining operations.

The Oil Sands Group must effectively manage a major maintenance shutdown during 1985 as well as continue to make progress in production reliability and cost control. These challenges will require skilled management and a high degree of participation by the work force.

The Resources Group must identify and pursue new investment opportunities to make effective use of available cash flow at a time when energy consumption is stagnant and prices are generally soft. This challenge will require good judgment and superb technical skills.

I believe that Suncor has the resources to accomplish these tasks. The talent, dedication and resourcefulness of our employees have never been better and the Company is stronger today than at any time in its history.

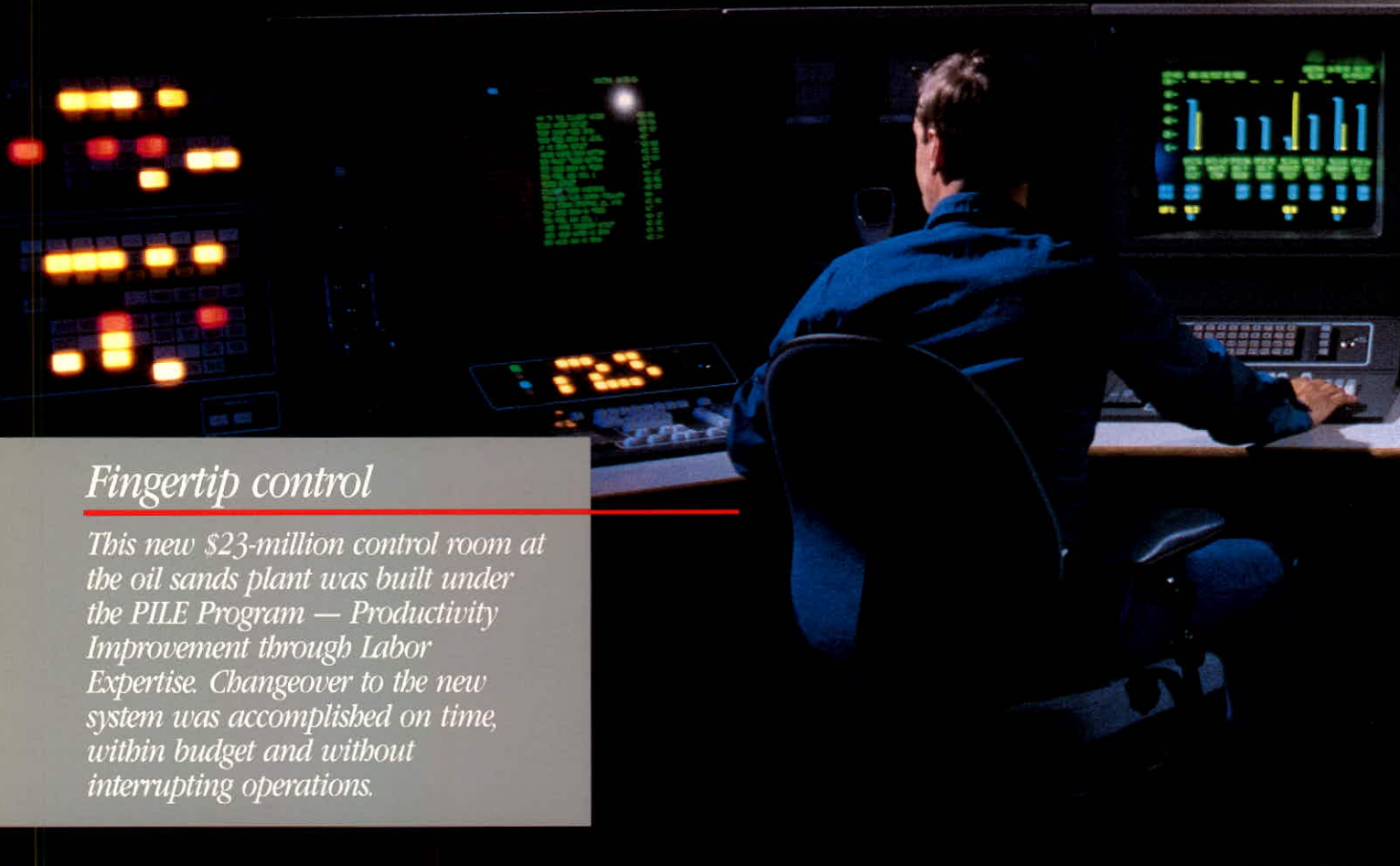
I would like to take this opportunity to thank John Poole and Walter Huffman who retired from the Board of Directors in 1984. Their advice has contributed much to the development of Suncor.

Submitted on behalf of  
the Board of Directors:



*William R. Loar  
Chairman and Chief Executive Officer  
Toronto, Ontario*

*February 6, 1985*



## Fingertip control

*This new \$23-million control room at the oil sands plant was built under the PILE Program — Productivity Improvement through Labor Expertise. Changeover to the new system was accomplished on time, within budget and without interrupting operations.*

The Oil Sands Group contributed \$96.2 million to Suncor's earnings in 1984, down 11 per cent from 1983. The reduction was due largely to increased maintenance costs and lower production, offset in part by higher selling prices resulting from an improvement in the quality of the plant's output and more favorable exchange rates.

One of the most important 1984 accomplishments was the achievement of more reliable operation in the upgrading area of the plant, thereby avoiding the production of partially processed synthetic crude oil. The volume of fully processed synthetic crude oil increased 19 per cent from 1983. The efficient operation of the upgrading area also enabled Suncor to process some surplus bitumen from the Syncrude plant after its upgrading operations were

*Joe Hickey and John Jones in the new control centre (above) use terminals (right) to manage operations of the oil sands plant's upgrading area.*

damaged by fire in August 1984. A total of 69 285 m<sup>3</sup> (436,000 barrels) of bitumen was processed for Syncrude by Suncor and shipped through our pipeline to Edmonton.

The Oil Sands Group is currently pursuing a four-part strategy consisting of: maximizing plant reliability; improving occupational health and safety; controlling costs and manpower levels; and increasing commitment and productivity among employees.

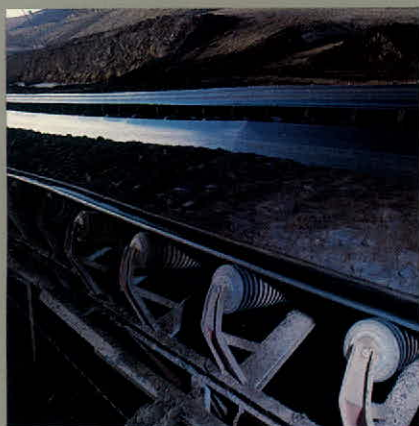
When this strategy was first established in 1983, 17 Special Emphasis Areas were identified where opportunities for improvement existed. These areas ranged from the environment and safety to house-



keeping and management of human resources.

Employees were asked to participate in the development of recommendations for each of these areas. Two hundred people volunteered from all levels of the organization to form Employee Action Committees. By the end of 1984, 11 of these committees





One of the two main conveyors taking oil-bearing sand to the extraction plant.

had presented their recommendations to the Management Committee for approval and over 300 recommendations were being implemented. The remaining committees will report by June 1985.

### Oil Sands Group capital—Capital expenditures

(\$ millions)	1984	1983
Plant Integrity Program	\$22.0	\$30.5
Mine and mobile equipment	18.4	28.1
Other plant	30.4	19.9
Housing	3.9	3.0
<b>Total Oil Sands Group</b>	<b>\$74.7</b>	<b>\$81.5</b>

Employee participation is beginning to play a vital role in all aspects of management, from the design of new productivity and quality assurance programs to the implementation of safety and maintenance audits. The success of these efforts is due in large part to the willingness of employees to become more involved in the operation of the plant.

### Outlook

The most important challenge for 1985 will be to complete the triennial maintenance turnaround which is expected to cost approximately \$23 million. The project will

start in mid-April and take an estimated 32 days to complete, including 26 days of lost production. During the turnaround, modifications will be made to equipment to permit maintenance on an ongoing basis.

Production for 1985 should increase slightly from 1984 levels. Ore grades should improve in 1985 and output lost as a result of the maintenance shutdown should be offset by improved performance afterward.

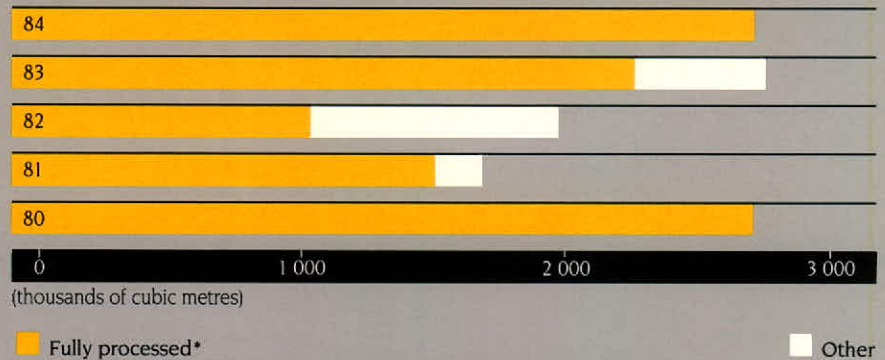


### The right tool

*This new \$2.4 million diesel-powered hydraulic shovel was purchased in 1984 to remove overburden. It is more cost-effective than the two front-end loaders it replaced.*

A four-step method is used to produce synthetic crude oil. First, overburden is removed to expose the oil-bearing sand. Second, the sand is mined and transported by conveyors to the extraction unit. Third, hot water and steam are used to extract the bitumen from the sand. Fourth, the bitumen goes to the upgrading area where it is thermally cracked into coke and distillates. The distillates are desulfurized and blended to form high-quality synthetic crude oil, almost all of which is shipped to Edmonton via pipeline for distribution.

### Production of synthetic crude oil



\*Fully processed synthetic crude oil represents normal plant output

### Production

Oil sands mining and steam and electrical generation reached record levels in 1984. However, several factors combined to reduce 1984 synthetic crude production below 1983 levels: bitumen extraction was slowed by lower-grade ore; mine equipment experienced higher than

expected rates of down time; and a fire in April damaged coker equipment resulting in a 10-day shutdown.

Steps were taken to rectify these problems. In the mining area, additional emphasis has been placed on equipment maintenance and timely replacement. In the extraction area, more efficient steam



*Operating efficiencies increased significantly in the upgrading and utilities areas.*

and water utilization and increased pumping capacity on the tailings lines should help to process lower-grade ore more effectively.

### **Operating improvements**

The Oil Sands Group is continually searching for ways to upgrade its operating effectiveness. A number of improvements were introduced in 1984 including:

- Completion of a new control room for the upgrading area.
- Rebuilding boiler #2 at a cost of approximately \$16 million to improve reliability of steam and power production for the plant.

### **Synthetic crude oil gross proven reserves**

(millions of cubic metres)	
December 31, 1983	<b>63.6</b>
Revisions	<b>0.8</b>
Production before in-plant usage	<b>(2.7)</b>
December 31, 1984	<b>61.7</b>

The above reserve estimates have been prepared by independent petroleum consultants, Coles Nikiforuk Pennell Associates Ltd., based on constant prices and costs.

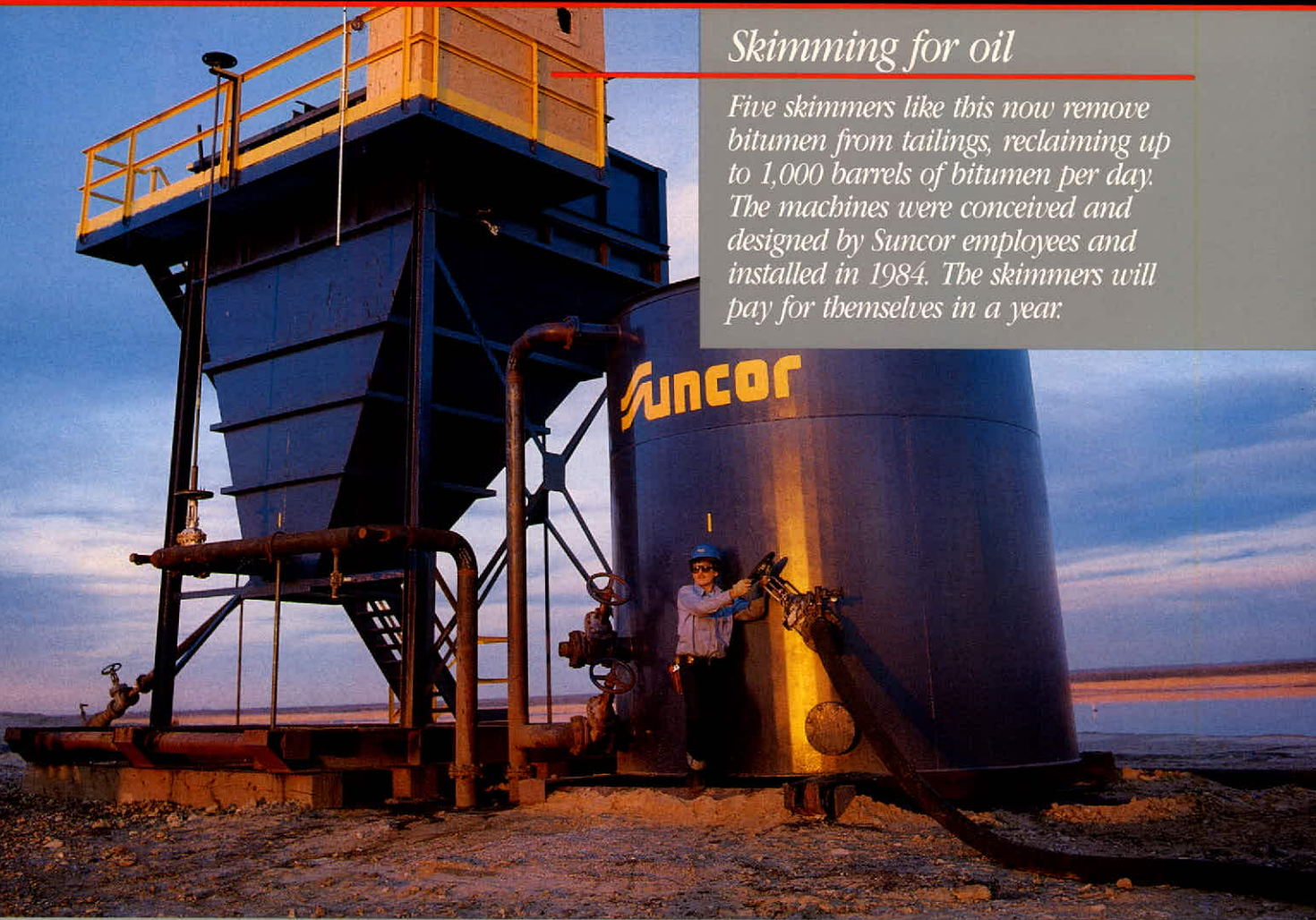
Proven reserves are those which are considered with a high degree of certainty to be mineable at commercial rates using current and planned future mining methods. All of these reserves are adjacent to the Fort McMurray oil sands plant.

Gross proven reserves do not reflect deductions in respect of Crown and applicable sublease royalties. Since the Crown royalty rate is dependent on the rate of synthetic crude oil production, calculations of net reserves would vary depending upon assumed production rates.

- Design and installation of skimmers on the tailings lines and modifications to the design of the separation cells to improve bitumen recovery.
- Improvements to the "scavenger" process in the extraction area which will boost recovery in 1985.
- Implementation of phases one and two of a new Materials Management/Maintenance Information System to improve plant availability, reduce materials inventory and improve the control of maintenance activities.
- Installation of facilities in the upgrading area to handle bitumen shipped from off-site.

## Skimming for oil

Five skimmers like this now remove bitumen from tailings, reclaiming up to 1,000 barrels of bitumen per day. The machines were conceived and designed by Suncor employees and installed in 1984. The skimmers will pay for themselves in a year.



Further projects are now in progress:

- A new tailings pond, the third, will go into service in 1985.
- Steam boiler #3 will be rebuilt at a cost of approximately \$16 million thereby completing the \$225 million Plant Integrity Program launched in 1982.
- Steaming and feedwater capacity will be increased at a cost of about \$15 million to improve synthetic crude production starting in late 1986.
- A new mine plan developed by the engineering group will save \$8 million by mining around a waste zone which borders on a water-saturated aquifer.



Rae Stephenson operates a 170-ton truck hauling overburden for dike construction.

Chad Langdon adjusts the outflow of bitumen-bearing froth on one of the tailings skimmers.

### Innovation

Suncor's oil sands technology is constantly evolving to achieve higher rates of production and improve efficiency.

A small plant has been constructed to test tertiary recovery techniques which, if successful, could provide a substantial increase in the total recovery rate. Assessment of the tests should be completed in 1985.

Another pilot project is testing the potential of a process to recover bitumen from the sludge found at the bottom of the two tailings ponds. The sludge is fed into a rotating tumbler and then onto a belt which attracts the oil, while



*Gord Hannah (above) checks turbo generator #1 as it goes into service following a maintenance overhaul.*



*Martin Cutler inspects rebuilt boiler #2 in the utilities plant prior to start-up.*



*Storage tanks for synthetic crude oil.*

allowing water and minerals to escape. Results from this project will be evaluated in 1985.

### **Environment**

During 1984, the oil sands plant's three environmental licences were renewed by the Alberta government

for the customary five-year period and Suncor is committed to meet the standards contained in these licences.

One area requiring improvement is the performance of the electrostatic precipitator system installed in 1979 to remove fly-ash from the utilities plant smokestack. A task force of Suncor personnel assessed the problems and determined that the precipitators themselves could be made to meet environmental standards with modifications. To provide long-term reliability and improve the working environment, induced draft fans will be installed in 1985 and 1986 at a cost of about \$20 million.

Environmental consultants conducted their annual assessment of the vegetation in the area surrounding the oil sands plant. There was no damage attributable to Suncor's operations.



The Resources Group contributed \$37.9 million to Suncor's earnings in 1984, up 23 per cent from 1983. The gain was due primarily to higher production of crude oil and natural gas and higher selling prices.

The Resources Group comprises the Exploration, Production and Resources Development Divisions which are managed from the Group's Calgary head office.

One of Suncor's overall strategies is to increase its investment in the Resources Group's hydrocarbon reserves and production capability. Significant steps were taken in this direction in 1984 including the attainment of higher production of crude oil and natural gas and additions to both oil and gas reserves.

The Resources Group is pursuing three primary long-range strategies: to maintain a strong exploration and

development program in the western provinces with an emphasis on conventional oil; to maximize economic production of heavy oil reserves and build future capability; and to maintain a significant position in the frontier areas while keeping expenditures relatively low.

In line with these strategies, capital investment in the Resources Group reached \$108.2 million in 1984, up 46 per cent from 1983. Major increases are planned for 1985.

In its search for conventional crude oil in the western provinces, the Resources Group is using new seismic techniques and new computer facilities to process geophysical data. This approach results in more accurate and quicker prospect identification and analysis — an important factor in meeting the Group's growth objectives.

One of the most encouraging developments in 1984 was a change

in natural gas export pricing. The federal government introduced new guidelines in the summer of 1984 to protect the Canadian share of the United States gas market by allowing prices to be more sensitive to market conditions. Subsequently, Canadian gas customers in the U.S. market renegotiated their contracts and in November, the National Energy Board approved eight of these amended agreements covering about 80 per cent of all Canadian gas exports into the U.S. As a result, Suncor was able to maintain its gas revenues from export markets.

Domestic sales of natural gas were up appreciably in 1984, primarily due to more normal weather (following warmer than usual temperatures the year before) and increased demand in the commercial and industrial sectors. However, natural gas still faces stiff competition from electricity and heavy oil.

## Sounding for oil

*A new computer is used to analyze seismic data. Data is gathered from up to 1,000 points at once, enabling the computer to create a three-dimensional image of the formations underground.*



The Ontario Energy Board (OEB) has proposed that Ontario-based industries should be allowed to purchase natural gas directly from western Canadian producers. The OEB proposal calls for natural gas transmission and distribution systems to become contract carriers of the product rather than buyers and sellers. This would enable Suncor's Resources Group to deliver its natural gas directly to the Sunoco Group for use at the Sarnia refinery. The OEB proposal must now be considered by the Ontario government for appropriate legislation. Federal and Alberta government actions would also be required before the change could be fully implemented.

### Outlook

The Resources Group has excellent prospects for 1985. Oil and gas production should increase and natural gas exports should be particularly strong. An expanded

exploration program should also result in further significant additions to reserves of conventional oil. Further development work will be conducted on several promising heavy oil properties while

*Geophysicist Doug Campbell analyzes seismic data.*

exploration will continue on coal prospects which could provide the basis for long-term diversification.

### Resources Group—Capital expenditures

(\$ millions)	1984	1983
<b>Exploration*</b>		
Land acquisitions	\$ 28.5	\$ 16.0
Drilling	22.8	15.3
Geology, geophysics and other	10.0	8.1
Trillium	6.9	(0.4)
	<b>68.2</b>	<b>39.0</b>
<b>Production</b>		
Land acquisitions	5.7	6.2
Development drilling	13.4	5.5
Plants, related facilities and other	14.6	6.3
	<b>33.7</b>	<b>18.0</b>
<b>Resources development</b>		
In-situ oil sands and minerals	4.1	17.0
Administration	2.2	—
<b>Total Resources Group</b>	<b>\$108.2</b>	<b>\$ 74.0</b>

\*Includes frontier expenditures of \$9.4 million (1983 - \$1.4 million).

### Western provinces

Every phase of Suncor's exploration program in the western provinces increased substantially in 1984.

Land purchases amounted to \$28.5 million compared to \$16.2 million in 1983. A total of 134 574 gross hectares (336,435 acres) was obtained during the year from Crown land sales and freehold rights purchases. Major acquisitions were in the Fire and Senex areas of northern Alberta, the Pembina and Medicine River areas of southern Alberta and the North Antler area of Saskatchewan. Work on these properties is planned for 1985.

Outlays for geological and geophysical work increased 24 per cent to \$8.3 million in 1984. The emphasis was on locating oil targets for an expanded drilling program in 1985.

Exploration drilling expenditures increased 45 per cent to \$20.3 million in 1984 as a total of 61 gross exploratory wells were drilled in which Suncor had an interest, up from 36 the year before. Of these wells, nine were oil wells, 11 were gas wells and 41 were dry. Another 13 wells were suspended or still drilling at year-end. The success rate was 33 per cent.

Areas of special interest were:

**Glacier area:** An oil discovery was made in this area of northern Alberta and another well was being drilled at year-end. Suncor has working interests ranging from 50 to 100 per cent in 1 024 hectares (2,560 acres). Further delineation wells are planned.

**Seal area:** Suncor has working interests ranging from 33 to 55 per cent in 2 304 hectares (5,760 acres) in this area of northern Alberta. An oil discovery was made in 1984. Seismic work is planned in 1985, followed by more drilling.

**Dunvegan area:** Three wells were drilled in this area of northern Alberta, resulting in one oil discovery, one dry hole and one well being tested at year-end. Suncor has

working interests in 9 045 hectares (22,612 acres) in the general area. **North Antler area:** Two successful oil wells were drilled in 1984 and one more well was in progress at year-end in this area of southwestern Saskatchewan. Suncor has a one-third working interest in 3 584 hectares (8,960 acres). Further drilling is dependent on well results.

**Bougie area:** A gas discovery was made in this part of northeastern British Columbia which extended the productive area of this field. Suncor now has interests in five exploratory wells in the Bougie area and working interests ranging from 25 to 56 per cent in 12 288 hectares (30,720 acres).

### Beaufort Sea

Two exploratory wells on Suncor holdings were re-entered in 1984. Havik B-41 was suspended for the year. Further drilling and testing is expected in 1985. Natiak O-44 was drilled to its target depth and abandoned. Suncor's interests in both wells have been farmed out to Dome Petroleum.

A new exploratory well, Aagnerk, has been proposed for drilling in 1985 by a group including Suncor.

### Mackenzie Delta

Suncor and partners have entered into negotiations on a farmout agreement with Trillium covering 91 062 hectares (227,655 acres) in this area. The agreement would require seismic work and the drilling of an exploratory well in 1985 or 1986.

### Arctic Islands

Suncor participated in three wells in the Arctic Islands area in 1984. Skate C-59 found oil and gas, confirming a 1981 discovery. Cisco M-22, also a delineation well, did not encounter any significant hydrocarbons. Buckingham O-68, a new exploratory well, located only small amounts of light crude oil and was abandoned. Suncor's interest in the Buckingham well was farmed out to Trillium Exploration Corporation which is one-third owned by Suncor.

Two exploratory wells will be drilled on Suncor interests offshore in the Arctic Islands in 1985 — Cape Allison C-47 and N.E. Drake L-06. A third well may also be drilled onshore at Skybattle Bay on Lougheed Island.

### Scotian Shelf

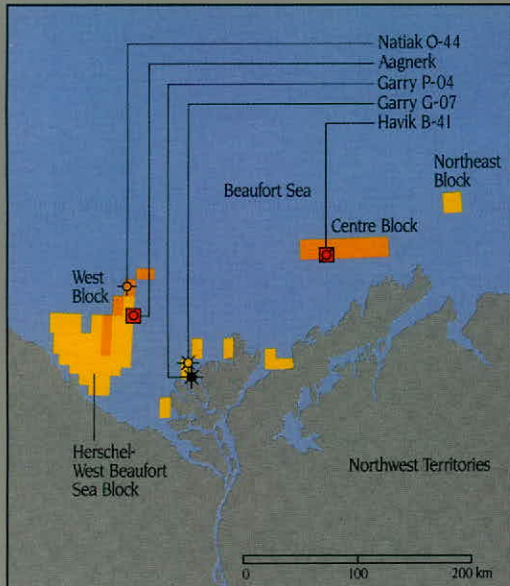
Lands in the Albatross, Banquereau and west Scotian Shelf areas are

### Resources Group—Undeveloped land holdings

(thousands of hectares)	1984		1983	
	Gross	Net	Gross	Net
<b>Oil and gas</b>				
Western provinces				
British Columbia	142	57	154	61
Alberta	510	321	392	261
Saskatchewan	58	25	10	7
	<b>710</b>	<b>403</b>	556	329
Frontier*				
Northwest Territories and Yukon	19	14	20	15
Mackenzie Delta/Beaufort Sea	788	161	769	134
Arctic Islands	7 342	1 369	7 339	1 368
Offshore Labrador	3 971	490	9 010	900
Offshore Nova Scotia	292	40	341	49
	<b>12 412</b>	<b>2 074</b>	17 479	2 466
<b>Total oil and gas holdings</b>	<b>13 122</b>	<b>2 477</b>	18 035	2 795
<b>Coal and other minerals</b>	<b>198</b>	<b>178</b>	270	239
<b>Total</b>	<b>13 320</b>	<b>2 655</b>	18 305	3 034

\*Subject to future reductions as others earn interests in the lands by carrying out exploration activities pursuant to farmin agreements with Suncor and to reflect the Government of Canada's right to a 25 per cent interest in all Canada lands.

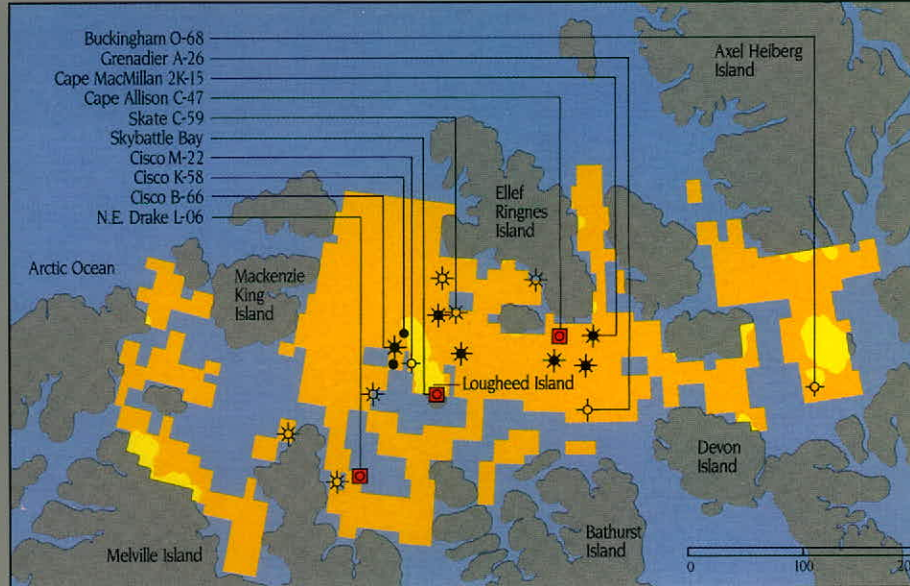




**Beaufort Sea/Mackenzie Delta**

- ☐ New location
- ☐ Suspended (1985 re-entry)
- ★ Oil and gas potential
- ☆ Gas potential
- ◇ Dry well
- Farmout to Dome Petroleum
- Suncor land holdings
- 0.79 million gross hectares
- 0.16 million net hectares

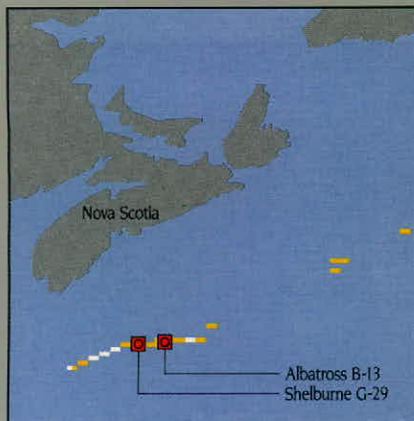
(The Herschel-West Beaufort Sea block lands have been farmed out to Trillium Exploration Corporation.)



**Arctic Islands**

- ☐ New location
- ★ Gas potential
- ★ Oil and gas potential
- Oil potential
- ◇ Dry well
- Suncor land holdings
- 7.34 million gross hectares
- 1.37 million net hectares

(All lands have been farmed out to Trillium Exploration Corporation except certain properties surrounding previous discoveries.)



**Scotian Shelf**

- ☐ New location
- Suncor land holdings relinquished in 1984
- Suncor land holdings
- 0.29 million gross hectares
- 0.04 million net hectares

(All lands have been farmed out to Trillium Exploration Corporation.)

covered under Exploration Agreements with the Canada Oil and Gas Lands Administration. One exploratory well, Albatross B-13, was being drilled at year-end. A second exploratory well, Shelburne G-29, may also be drilled in 1985.

**Offshore Labrador**

Suncor and partners have relinquished approximately 50 per cent of their holdings in this area. The Company now has a 12 per cent interest in 3 971 067 hectares (9,927,668 acres). No work has been planned for 1985.

**Trillium Exploration Corporation**

Trillium was a partner with other companies in five frontier discoveries during 1984: Kadluk O-07 and W. Tuk M-09, two gas finds in the Beaufort Sea/Mackenzie Delta area; Terra Nova K-08, an oil discovery in the offshore Newfoundland area; and Alma F-67 and Uniacke G-72, two gas finds in the offshore Nova Scotia area. Trillium also purchased



*Suncor is a participant through Trillium Exploration in wildcat drilling in the Grand Banks area off Newfoundland. (Courtesy of Petro-Canada Ltd.)*

a five per cent equity position in Panarctic Oils Ltd.

In 1985, Trillium will be participating in seven exploratory wells in the Beaufort Sea/Mackenzie Delta area, one well offshore Newfoundland and two wells on the Scotian Shelf. Trillium is one-third owned by Suncor.

## Drilling

During 1984, Suncor, as Operator, drilled 85 gross development wells of which 79 were completed as oil wells, two as gas wells and four were dry. Two more Suncor-operated development wells were still in progress at year-end.

In 1984, Suncor also participated in 221 gross development wells operated by others. Of these, 217 were completed as oil wells, two as gas wells and two were dry.

The Company's expenditures for development drilling and related equipment totalled \$23.1 million in 1984, more than double the level of 1983.

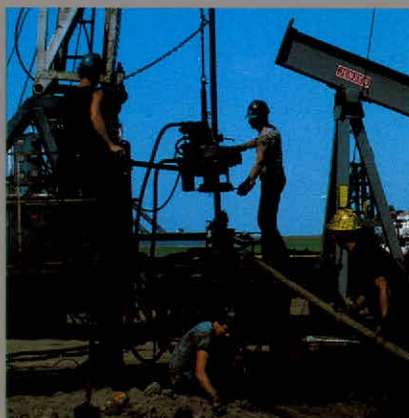
## Production

Suncor's gross production of conventional crude oil and natural gas liquids increased two per cent in 1984 as volumes from newly-developed properties more than offset a normal decline in older fields. These figures do not include Fort Kent heavy oil production.

Gross natural gas sales increased nearly 14 per cent in 1984, essentially due to increased exports. TransCanada PipeLines purchased approximately 53 per cent of its Suncor contract volumes in 1984 compared to 47 per cent in 1983.

Purchase of land for development drilling totalled \$5.7 million, down eight per cent from 1983. Some of the more significant areas were:

Leitchville-Leon Lake area: Suncor purchased a 100 per cent interest in 1 165 hectares (2,912 acres) in this area of southwestern Saskatchewan. Five oil wells have been completed and drilling will continue in 1985.



A service rig installs production tubing into one of the oil wells drilled in 1984 prior to the start of production at the Dodsland project near Kindersley, Saskatchewan.

Unwin area: Suncor acquired a 100 per cent interest in 512 hectares (1,280 acres) in this area of west central Saskatchewan. Two wells were drilled in late 1984 and are scheduled for completion in early 1985. If these wells are successful, a

more extensive program is anticipated in 1985.

Ante Creek area: Suncor obtained a 100 per cent interest in 256 hectares (640 acres) in this area of north-western Alberta where one successful oil well was drilled in 1984.

Pembina area: Suncor purchased a 100 per cent interest in 192 hectares (480 acres) in this area of central Alberta. Two oil wells were drilled in 1984.

## Reserves

Gross proven reserves of crude oil and natural gas liquids (including Fort Kent heavy oil) increased two per cent in 1984 as additions exceeded production.

The most important reserve additions were in the Dodsland area of southwestern Saskatchewan where 302 thousand m<sup>3</sup> (1.9 million barrels) of gross proven oil reserves

## Resources Group—Reserves

	Gross		Net	
	Conventional crude oil and natural gas liquids	Natural gas	Conventional crude oil and natural gas liquids	Natural gas
	(millions of cubic metres)	(billions of cubic metres)	(millions of cubic metres)	(billions of cubic metres)
<b>Proven</b>				
December 31, 1983	8.8	12.9	6.8	10.8
Revisions	0.5	0.7	0.6	0.6
Additions	0.6	0.5	0.4	0.4
Production	(0.9)	(0.6)	(0.6)	(0.5)
December 31, 1984	<b>9.0</b>	<b>13.5</b>	<b>7.2</b>	<b>11.3</b>
<b>Proven developed –</b>				
December 31, 1984	<b>8.5</b>	<b>8.5</b>	<b>6.7</b>	<b>7.1</b>
<b>Probable additional –</b>				
December 31, 1984	<b>3.0</b>	<b>6.0</b>	<b>2.3</b>	<b>4.7</b>

The above reserve estimates have been prepared by independent petroleum consultants, Coles Nikiforuk Pennell Associates Ltd. ("CNP").

1. Proven reserves are those which geological and engineering data demonstrate to be recoverable with a high degree of certainty, at commercial rates, from known oil and gas reservoirs under existing economic and operating conditions.

Proven developed reserves means those proven reserves that are actually on production or, if not producing, that could be recovered from existing wells or facilities.

Probable additional reserves are those which may be recovered from properties in the vicinity of proven reserves where there is some degree of geological, engineering or operational risk.

2. Gross reserves are before deducting royalties. Net reserves are after deducting royalties. Royalties can vary depending upon prices, production volumes, timing of initial production and changes in legislation.

3. CNP has determined the present value of estimated future net revenues from proven reserves as at December 31, 1984, using a discount factor of 10 per cent to be \$714 million.

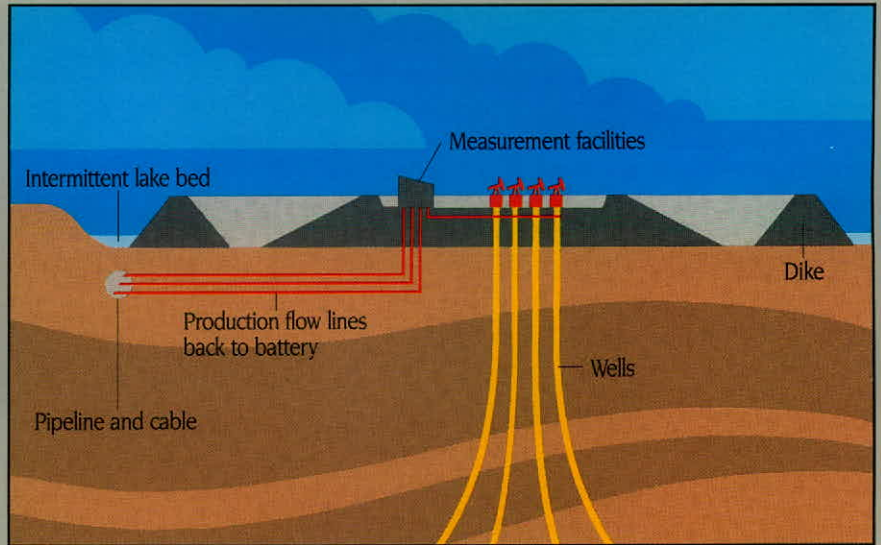
These estimates have been calculated using constant prices and costs and represent gross revenues from estimated future production, less royalties, production taxes, operating costs and capital expenditures incurred in developing and producing the reserves. There has been no deduction for interest costs, income taxes or administrative costs.



The Micro Centre trains Resources Group personnel in use of microcomputers which are enhancing efficiency in virtually every department of the Group.

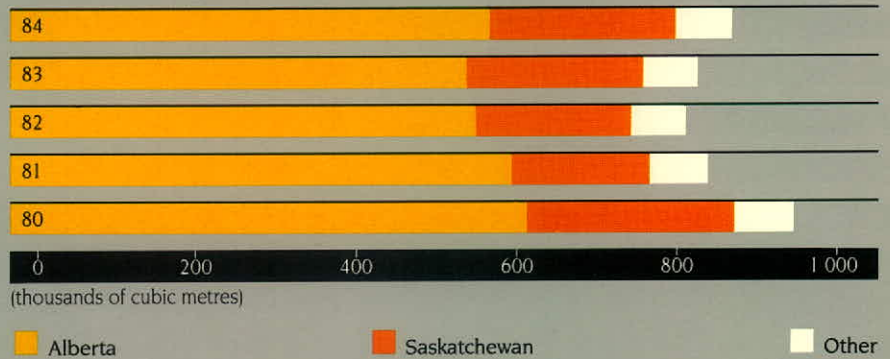
and 114 thousand m<sup>3</sup> (718 thousand barrels) of probable reserves were developed. A total of 55 wells were completed on the 850 hectare (2,125 acre) Doddsland property in 1984. Other major additions to oil reserves were the result of successful drilling in the Leitchville and Gleneath areas of Saskatchewan and the Pembina and Ante Creek areas in Alberta. The installation of a miscible flood in Swan Hills Unit #1 in Alberta also accounted for a significant increase in reserves.

Gross proven reserves of natural gas increased five per cent in 1984. Additions to reserves exceeded 1984 production due to a number of factors. First, the continued excellent performance of the Calling Lake, West Calling Lake and Nixon properties in northern Alberta resulted in a revaluation of these properties' reserves and substantial upward adjustment. Second, detailed reservoir studies by Suncor and other operators led to the recognition of additional gas reserves in the Blueberry field in B.C. as well as the Amber, Virgo, Zama and Mountain Park areas in Alberta. Third, successful gas wells were drilled in the Adsett area in B.C., and the Flat, Chigwell and Wood River areas in Alberta.

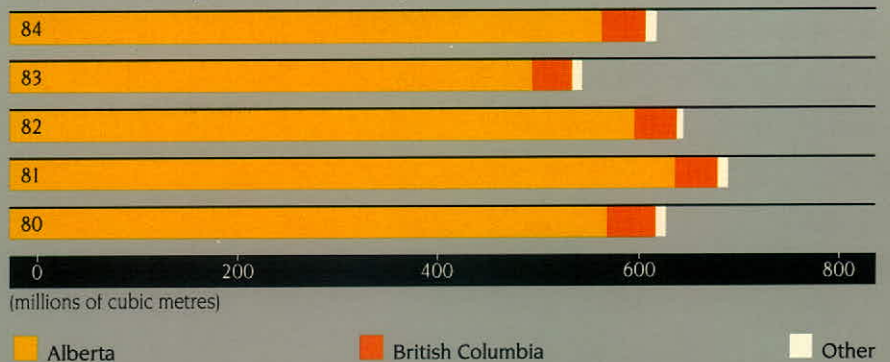


A graphic cutaway of one of the Doddsland Kiyu Lake production pads shows the pad, dike, well locations and production flow lines. Forty-five lake wells were placed on production in 1984.

### Resources Group—Gross production of crude oil and natural gas liquids



### Resources Group—Gross natural gas sales





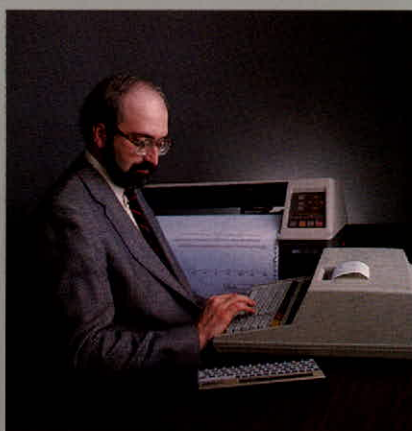
## Heavy oil

Suncor is the Operator and 50 per cent owner of an in-situ heavy oil project located near Fort Kent, Alberta. Steam is pumped down wells to reduce the viscosity of heavy oil trapped in the sand. The oil is then pumped to the surface where it is treated and shipped to refineries.

Gross production averaged 245 m<sup>3</sup> per day (1,540 barrels), compared to 174 m<sup>3</sup> (1,095 barrels) in 1983.

Prices for Fort Kent production averaged \$184.32 per m<sup>3</sup> (\$29.30 per barrel) in 1984, compared to \$179.56 per m<sup>3</sup> (\$28.55 per barrel) the previous year.

Initiatives are planned for 1985 to increase production including the drilling of 10 additional wells which will come on stream in 1986. Steps will also be taken to improve the



*Paul Hawkins, minerals geologist, converts digital field data into maps using a computer.*

reliability of the systems which reuse water to generate steam and to overcome production problems posed by sand entering the wells.

Suncor also has a 48 per cent working interest in 9 152 hectares (22,880 acres) near the Fort Kent

project. After conducting 113 kilometres of seismic work, five delineation wells were drilled in 1984. Good results from two of these wells indicated sufficient potential to consider a further work program. This property could be produced using the Fort Kent steam and water treatment facilities, contingent on approval by our partner.

During 1984, Suncor acquired through purchase and farmin an interest in 38 784 hectares (96,960 acres) of oil sands rights in the Granor and Liege areas of Alberta immediately west of the Athabasca heavy oil deposits. Upon completion of seismic work, drilling and a pilot project, Suncor will have an average working interest of 80 per cent in these lands. Drilling is expected to commence in the first quarter of 1985.

## The lay of the land

*Suncor's Resources Development Division enters geophysical data into a hand-held digital field "notebook" which records the data onto a cassette. A portable terminal organizes and plots the data in the field for immediate evaluation and decision-making.*

In total, Suncor now has an interest in 109 373 hectares (273,432 acres) of land in western Canada with potential for in-situ heavy oil production.

### Coal and minerals

Exploration work on Suncor's 7 320 hectare (18,300 acre) coal property in Pictou County, Nova Scotia, continued to provide encouragement in 1984. A drilling program confirmed the presence of a multiple-seam underground thermal coal resource. Preliminary engineering studies were in progress at year-end and further development is under consideration.

Six gold prospects were examined in British Columbia and the Northwest Territories in 1984. Data is now being analyzed.

### Resources Group—Wells completed

	1984		1983	
	Gross	Net	Gross	Net
<b>Exploratory wells</b>				
Oil	16	9	9	5
Gas	11	8	11	6
Dry	58	27	32	19
Total	85	44	52	30
Success ratio	32%		38%	
Average depth drilled (metres)	1 884		1 648	
<b>Development wells</b>				
Oil	296	89	87	25
Gas	4	3	6	3
Dry	6	4	14	6
Total	306	96	107	34
Success ratio	98%		87%	
Average depth drilled (metres)	1 229		1 333	

**Note:** This table excludes wells completed under farmout agreements on Company properties as no cash expenditures were incurred by the Company. During 1984 there were 15 such wells (8 exploratory and 7 development); in 1983 there were 14 such wells (11 exploratory and 3 development).  
As at December 31, 1984 there were 17 wells in progress (15 exploratory and 2 development).



The Sunoco Group returned a profit of \$3.0 million in 1984 compared to a loss of \$15.0 million in 1983. The improvement was largely due to better margins on transportation fuels as well as efficiencies created by the new hydrocracker complex which was fully operational throughout the fourth quarter.

The most significant achievement of 1984 was the successful completion of the refinery upgrading project and the smooth start-up of the new equipment including the hydrocracker and other related facilities.

Start-up of the hydrocracker enabled significant shifts in the mix of end products. In 1984, heavy fuel oil production was reduced to 13 per cent of the total refined product output from 22 per cent in 1983.

*These new heat exchangers at the Sarnia refinery, installed as part of the upgrading project, take heat from finished products for use in preheating incoming feedstocks.*

This was consistent with our strategic direction to reduce heavy fuel oil as a by-product of our refinery's output of transportation fuels and petrochemicals.

The Sunoco Group also phased out most of its direct retail home heating oil business in 1984 and entered into several long-term contracts to supply and manage a number of retail gasoline outlets.

As a result of the refinery improvements made during 1984, the Sunoco Group began selling commercial quantities of sulphur and isobutane. The new sulphur recovery unit, part of the hydrocracker complex, is capable of producing 25 tonnes (27.6 tons) of



*Bill Davis, then premier of Ontario, and Bill Loar officially open the new Sarnia refinery hydrocracker complex.*

sulphur per day. The isobutane is produced by the new liquified petroleum gas splitter which was constructed in parallel with the hydrocracker.

## Meeting the need

Quality appearance, products and service make this new location a success. The Blender Centre demonstrates Sunoco's unique orientation to meeting customer needs.



## Outlook

Markets for refined petroleum products will remain very competitive over the next several years with no growth expected in the transportation fuels market. However, margins should improve as recent refinery closings in eastern Canada help to bring the supply of petroleum products more into line with demand.

Demand for petrochemicals as solvents and chemicals should remain fairly stable while demand for their use as octane enhancers for gasoline should rise in Canada and the U.S. where lead is being phased out as a gasoline additive due to new government regulations.



Student Clean Teams hired by Suncor put a shine to Sunoco stations during its annual spring clean-up program.

Demand for home heating oil is expected to continue to decline over the next several years although at a slower rate than in the past five years because of the discontinuation of government incentives to consumers to switch to other fuels.

We are confident that, with the investments we have made in our refinery capabilities, the Sunoco Group will be able to compete effectively.

**Refining**

**T**hroughput of crude oil at the Sarnia refinery was about 3.5 million m<sup>3</sup> (22 million barrels) in 1984, down nearly 15 per cent from 1983. The reduction was partially due to operation of the new hydrocracker throughout the fourth quarter of the year. This efficient installation means that Sunoco customer needs can be met using substantially less crude oil than before the refinery upgrading. There were no major interruptions in refinery operations during the year.

In addition to the hydrocracker complex, a number of other capital improvements were made to the refinery in 1984. The \$10.9 million liquid petroleum gas splitter successfully commenced operation. The splitter separates propane, butane and isobutane from refinery feedstock. Also, the refinery's flare system underwent a \$5 million upgrading to enable it to dispose of waste gas more efficiently.

**Transportation fuels**

Suncor supplies gasoline to the Ontario and Quebec markets. Overall demand in both provinces increased slightly in 1984 compared to 1983. Competition remained very intense in both markets but margins firmed up in Quebec and Ontario from the very low levels of the previous year.

Demand for diesel fuel in Ontario and Quebec increased by approximately 10 per cent in 1984, largely because of the economic recovery which stimulated the trucking industry.

Demand for propane as a transportation fuel increased in 1984. Suncor converts vehicles to propane use at its propane conversion centre and markets propane to commercial fleets and selected retail outlets.

**Petrochemicals and liquid petroleum gases**

Suncor produces benzene, toluene, xylene and orthoxylene and sells them in North America and Europe under the Sunchem name. Sales volumes remained at the same level as in 1983 with average selling prices lower, primarily due to the stronger U.S. dollar, significantly increased production of aromatics and lower world crude oil prices.

Completion of the refinery's liquified petroleum gas splitter has increased our production of liquid petroleum gases. In 1984, we began selling isobutane and larger volumes of propane.

**Home heating oil**

Suncor divested most of its direct retail home heating oil subsidiaries during 1984 and made most of its sales of this product to the wholesale market. The Company's sales volumes of home heating oil declined nearly 30 per cent from 1983.

**Lubricants and specialty products**

Suncor blends, packages and markets a wide range of lubricants, with a primary focus on specially-developed products and technical service expertise for industrial applications. In addition, Suncor blends and packages lubricants for marketing by others under their own brands.

Overall, sales revenues increased 10 per cent over 1983, with the largest increase in both revenues and volumes coming from the specialty products area. This increase in higher-value specialty sales plus tightly controlled costs resulted in a significant increase in operating profits.



*This Blender Centre pump provides three blends of unleaded gasoline. Its counterpart dispenses as many blends of leaded gasoline.*

Additional sources of feedstock were established in 1984 including a secure long-term source of high-quality refrigeration oils.

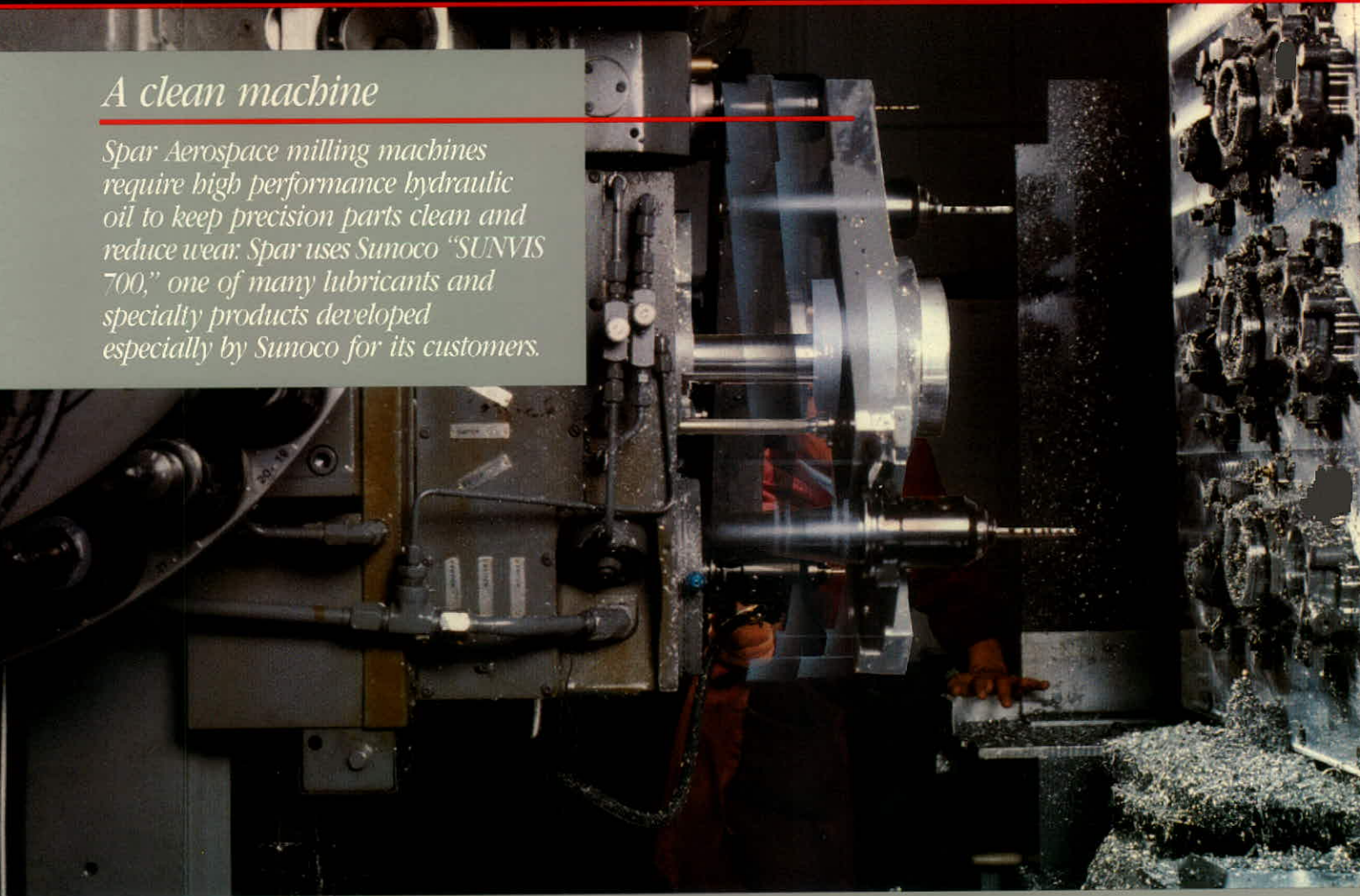
**Supply and transportation**

The supply and transportation department has the responsibility to supply feedstocks to the refinery and distribute refined products to the marketing system. A number of export sales of synthetic and conventional crude were completed in 1984 and a small amount of transportation fuel was exported.



## A clean machine

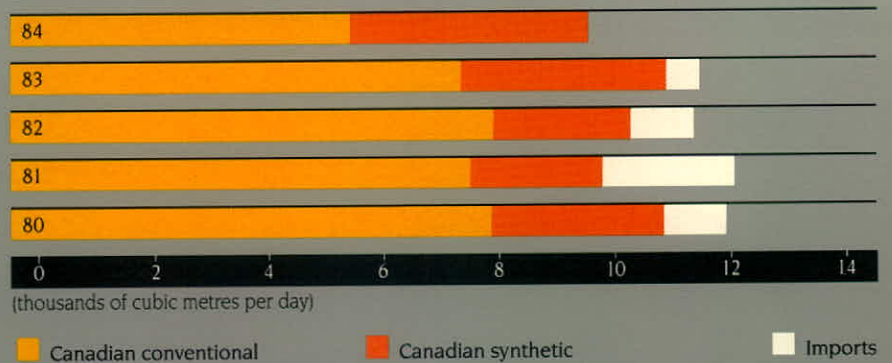
Spar Aerospace milling machines require high performance hydraulic oil to keep precision parts clean and reduce wear. Spar uses Sunoco "SUNVIS 700," one of many lubricants and specialty products developed especially by Sunoco for its customers.



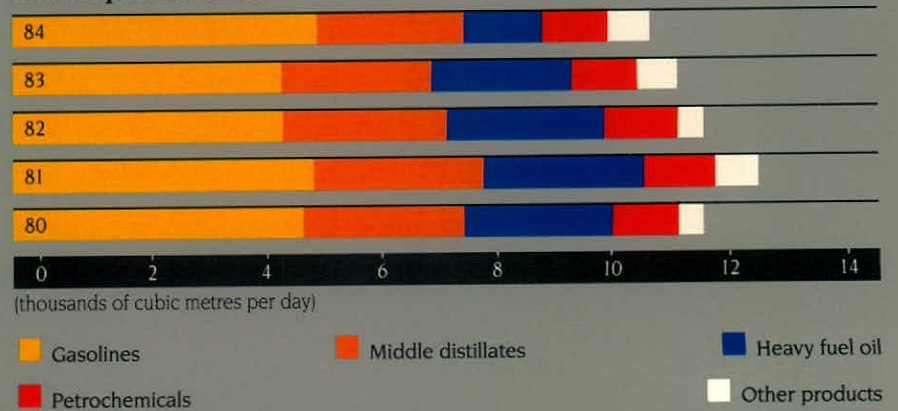
Contracts were also signed to process feedstock for other companies.

A primary emphasis of this department in 1984 was to improve efficiency and productivity of Suncor's terminals and distribution system.

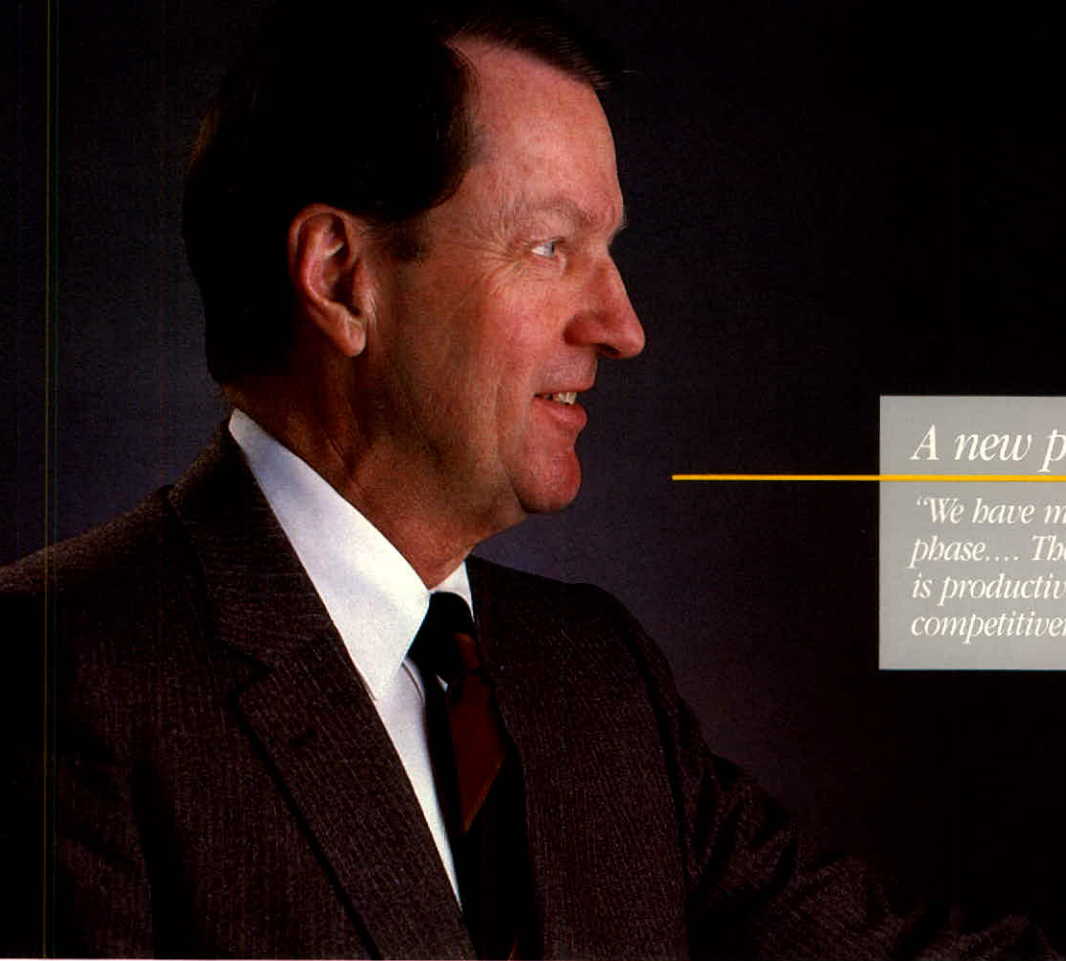
### Sources of crude oil refined for Suncor account



### Refined product sales



For details of refined product sales, see page 45.



### *A new phase*

*"We have moved into a new tactical phase... The emphasis at Suncor today is productivity, innovation and competitiveness."*

**S**uncor's Chairman and Chief Executive Officer William Loar discusses how Suncor is improving its bottom line by finding better ways of operating.

***In last year's annual report, you set out Suncor's strategy for the next 10 years. Have there been any significant changes in the past year?***

No, there haven't. For Suncor, the past year has confirmed existing strategies, not changed them. The major decisions we made in 1982 are fundamentally sound. Those decisions include the refinery hydrocracker project, the Plant Integrity Program at the oil sands plant, a major addition to oil sands reserves and expansion of the Fort Kent project. At the same time,

the environment for our industry has stabilized somewhat. We are therefore holding to our present course.

However, Suncor is far from static. In fact, we are in the midst of a major transition, which is according to plan. In the past three years, we have invested heavily in the Oil Sands Group and the Sunoco Group. In 1985, we will start to see a major new emphasis on investment in the Resources Group. Most of the capital we intend to invest over the next 10 years will be used to expand the hydrocarbon production of the Resources Group.

We have also moved into a new tactical phase of making our operations more effective and profitable. The emphasis at Suncor today is productivity, innovation and competitiveness.

***How are you going about increasing productivity?***

It's not a question of working harder but rather working "smarter". We are emphasizing it in our goals, recognizing it and rewarding it.

In reality, nearly everyone wants to find a better way of working. The task of senior management is to provide an environment for our people that encourages productivity.

***Can you highlight some examples of increased productivity during the past year?***

Yes, there are many I can mention. But the outstanding example is the completion of the Sarnia hydrocracker project ahead of schedule and approximately \$50 million under budget. The credit goes to everyone involved in this undertaking, from senior management through to skilled

contract labor on the job site. We had excellent labor/management relations, superb work scheduling and organization on the job site and outstanding communication among all those involved.

Another significant productivity achievement was upgrading bitumen for Syncrude Canada Ltd. at our Fort McMurray oil sands plant. This negotiated opportunity occurred as a result of a major fire in one of Syncrude's two cokers in mid-August 1984.

We are also seeing improvements in the Resources Group where, in 1984, we expanded production and reserves of oil and natural gas, effectively reversing the trend of the past few years. That's encouraging when you consider that we expect to be investing very heavily in this segment of the Company over the next several years.

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***Do you expect this sort of effort to continue to produce results or will you begin to encounter a declining rate of return after the obvious improvements have been made?***

I think there's considerable scope for additional gains. But you have to look for them and be willing to invest in the opportunities.

Let me give you an example. In 1982, we decided to expand our Fort Kent heavy oil project. It was a learning experience and I think we learned our lessons well. We now expect to develop a nearby piece of land without the need for any additional facilities or staff. In a company our size, there are many such opportunities for applying what we know and optimizing the use of existing facilities.

Even more significant is the opportunity for innovation. There is no question that, over the next 10 years, the most successful companies will be the ones that are the most innovative and adaptable.

---

***Is there much practical opportunity for innovation in an oil company?***

The impact of innovation in a company like ours can be very significant. For example, in 1983, members of the dike crew at the oil sands plant designed and constructed a skimming device to recover bitumen from the tailings lines. The device was so successful that units have now been constructed and installed on all tailings lines. The amount of bitumen recovered from this innovation should exceed 55 000 m<sup>3</sup> (345,950 barrels) in 1985 alone. Klaas Velting, a dike area supervisor, encouraged construction of the original unit.

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***Earlier you mentioned that Suncor is also focusing on its competitive position. I suppose this is especially critical for the Sunoco Group?***

The refining and marketing segments of our industry have had problems. The size of the market has declined over the past five years resulting in surplus capacity and fierce competition. Although we have managed to maintain our market share for transportation fuels, the Sunoco Group lost money in 1983 and operations were only marginally profitable in 1984.

To survive the competitive pressures, we must be as efficient as possible in refining and distribution while also pursuing innovative marketing strategies. Now that we have completed the hydrocracker project, I think you will find we are among the most efficient refiners in the country. We have done what we can on that side of the equation and I think you will see the benefits reflected in our bottom line in 1985. The priority is now to become one of the most efficient on the marketing side.

Competition is also an important factor in the upstream end where hundreds of companies are searching for new oil and gas reserves in the western provinces. In 1985, our investment in conventional oil and gas should nearly double. We will be hard-pressed to find good quality prospects to maintain this level of activity. We believe the solution is to use the latest in technology to help us identify and evaluate potential acreage ahead of the competition. Judging from the results in 1984, the approach appears to be working.

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***With a new federal government in place, do you see any changes in the regulatory environment which might prove favorable to Suncor?***

The most important issue is the sharing of oil and gas revenues among the industry and the two levels of government. We expect to see the development of a new consensus on this issue which will provide the kind of encouragement our industry needs to increase its investments. The new government appears to be genuinely interested in establishing a better fiscal and regulatory environment for our industry, to help create jobs and achieve oil self-sufficiency. The elimination of the incremental oil revenue tax is a very positive sign. (See page 5.)

We also expect to see some progress with FIRA, now called Investment Canada. The new role for this organization will be to facilitate foreign investment. We hope this will open new opportunities for Suncor and help achieve Canada's self-sufficiency objective.



*This equipment used to remove overburden at the oil sands plant receives 8 to 12 hours of preventive maintenance every week to ensure safe operation.*

Every employer has a responsibility to make the workplace as safe and healthful as possible. Safety is also good business. Accidents are expensive and people are a most valuable resource.

In 1982, Suncor undertook an intensive review of its occupational health and safety programs in our three operating groups — Oil Sands, Resources and Sunoco. The result is a systematic approach to safety which has already led to some significant reductions in accident frequency and severity. In the following report, we outline our approach and some of its accomplishments.

### **Data spurs improvement**

In health and safety work, as in anything else, one must measure in order to succeed. We therefore collect and analyze a great deal of safety-related data.

The Oil Sands Group and the Resources Group have installed data management systems for all areas of loss prevention including occupational health, safety and industrial hygiene. A similar system will be fully operational within the Sunoco Group in 1985. The information produced by these systems identifies tasks and equipment required to prevent accidents and also monitors

the performance of personnel. The data is reviewed by Occupational Health and Safety Committees consisting of senior line and staff managers whose responsibility it is to achieve occupational health and safety goals.

Accident investigation is another valuable tool for improving performance. Systematic techniques are used to identify the immediate and contributing causes of a mishap and define ways to prevent recurrence. The data helps in evaluating our work procedures and determining training requirements.

### **The key to safety is training**

Safety objectives are accomplished only when employees understand how to work safely and how to respond to accidents. Training is essential.

All of our operations have ongoing training programs in safe work practices, first aid, cardiopulmonary resuscitation, defensive driving and fire fighting.

Each operating group also identifies individual training needs related to employee performance and responsibilities. All three groups make extensive use of manuals that describe how to do tasks safely. Safe work procedures are issued to ensure that responsibilities and procedures are clearly defined for tasks which could be hazardous. Guidelines have also been prepared on safe work practices in the office environment to prevent injuries.

Training is also important in preparing for emergencies. For example, in the Oil Sands Group, four special fire/rescue teams have been formed, trained and equipped to respond to emergencies. A team of 11 of our employees played a critical role in helping to control a serious fire at the Syncrude plant on August 15, 1984. The crew received many plaudits on its professionalism. Similar programs are in place in the other groups.



*Tom Handyside wears protective equipment when checking burners in the hydrogen reforming heater of the new hydrocracker complex.*

### **Communication and motivation**

Safety programs require the involvement of every employee. At Suncor, we use a number of different techniques to encourage participation.

Regular safety meetings are held to increase safety awareness, review safety practices and exchange ideas. This two-way communication demonstrates management's commitment to safety and also allows employees to get more involved in health and safety programs.

Posters, newsletters, booklets and audiovisuals are used to reinforce safety messages, often dealing with specific topics or concerns which are made the focus of special safety campaigns. Suncor also uses contests and awards to enhance safety awareness and teamwork. For example, safe driving awards have for many years proved very successful in reducing vehicle accidents both on and off the job site.

At the Oil Sands Group, attention to safety has benefited from a union/management safety committee and safety representatives on every shift.

### **Identifying hazards**

Regular inspections are the backbone of an effective safety



Jacques Ouellet, Occupational Health and Safety Manager and Merv Suddaby, Production Superintendent demonstrate how to use a ventilator at an H<sub>2</sub>S training session.

program. Employees inspect tools and personal protective equipment on a regular basis. Supervisors ensure that protective equipment is used and that safety devices on machines are in order.

## Contributions: Helping Canadians

Thanks to Suncor, young musicians play more music, amateur athletes have improved chances to compete and elderly people receive health care more attuned to their needs.

Suncor's contributions programs at the corporate level and in each of the three operating groups support a wide range of community organizations. In general, we ask that organizations we support: demonstrate excellence in serving social needs or providing community service; encourage new programs and services that fulfill needs within society that are not yet being fully met; or assist communities where Suncor employees live.

There are four areas of emphasis. One is education. A major film program — The Disability Myth — is devoted to helping Canadians become more aware of the issues and obstacles confronting disabled persons in our society. Last year, the second documentary film in the four-part series had its premiere in Ottawa, Toronto, Calgary and Fort McMurray.

The many different work environments in a major integrated oil company like Suncor may contain hazardous situations which are far from obvious. One of our priorities is to identify and evaluate these hazards before they affect the health of our employees and Suncor is therefore conducting a further safety audit of its operations. Key segments of the Resources Group underwent this audit in 1984. The Oil Sands and Sunoco Groups are scheduled to complete their studies in the near future.

## Results to date

Suncor's approach to occupational health and safety is producing impressive results.

For example, in the Sunoco Group, the frequency of accidents at the refinery in 1984 declined by nearly

50 per cent from the previous year and the severity of accidents declined 72 per cent.

In the Resources Group, the frequency of disabling injuries in 1984 declined to 0.40 incidents per 200,000 hours worked, compared to 2.1 in 1983.

In the Oil Sands Group, the frequency of accidents increased in 1984 but there were encouraging signs of improvement. Accident frequency and severity in the upgrading area declined 50 per cent compared to 1983.

Suncor intends to be among the leaders in occupational health and safety. The commitment has been made and the necessary steps are being taken. The results will benefit our employees and our shareholders.

Also in 1984, 60 top high school science students from across Canada met in Ottawa to design a satellite for energy exploration and environmental monitoring under the watchful eye of one of Canada's astronauts and engineers from the federal government's RADARSAT Project. This was the fourth annual Suncor Youth Symposium in partnership with the Youth Science Foundation.

Health care is another priority. Suncor is a sponsor of the new R. Samuel McLaughlin Centre on Health Care for the Elderly at McMaster University. The Centre will conduct research into how to meet the health care needs of senior citizens.

Also, in 1984, the Resources Group assisted emergency health care services in Wandering River, Alberta and provided special funding to two hospitals for the purchase of new equipment.

A significant portion of Suncor's contributions budget is dedicated to the arts. One of the most imaginative projects in 1984 was the commissioning by the Sunoco Group of 10 original paintings by Canadian artists to commemorate Ontario's

bicentennial, Toronto's sesquicentennial, the 450th anniversary of Jacques Cartier's arrival in Canada and the 25th anniversary of the St. Lawrence Seaway. The paintings were of significant crossroads in Ontario and Quebec, selected and painted by artists born in, or residing in, the communities in which the crossroads are located.

Suncor increased its financial support in 1984 for Esprit Contemporain, Canada's contemporary music orchestra, which is dedicated to the development of a truly Canadian orchestral repertoire. Suncor also continued support of the Canadian Association of Youth Orchestras, bringing three international guest conductors to the Sixth Canadian Festival of Youth Orchestras in 1984.

In support of amateur sport, the Oil Sands Group is helping to sponsor the Alberta Summer Games which will be held for the first time in Fort McMurray in 1985. Suncor employees are also providing considerable volunteer assistance to help make the games a success.

These are just some of the ways in which Suncor is helping Canadians.

## Consolidated statement of earnings

Earnings for the year were \$123.7 million, an increase of \$9.4 million or eight per cent over the restated earnings for 1983. These earnings do not reflect the recent favorable Alberta court ruling relating to royalties payable by Suncor under its oil sands sublease with Norcen International Limited. (See note 2 to the financial statements.)

The earnings improvement in 1984 was primarily due to less volatile market conditions for transportation fuels. The effect of this and other factors is discussed more fully in the following segmented analysis.

## Schedule of segmented data

### Oil Sands Group

Earnings from this segment were \$96.2 million, a decrease of \$11.9 million or 11 per cent from 1983.

Synthetic crude oil sales volumes were down two per cent to 7.4 thousand cubic metres per day (46.5 thousand barrels), primarily as a result of second quarter production difficulties, reducing earnings by approximately \$10 million.

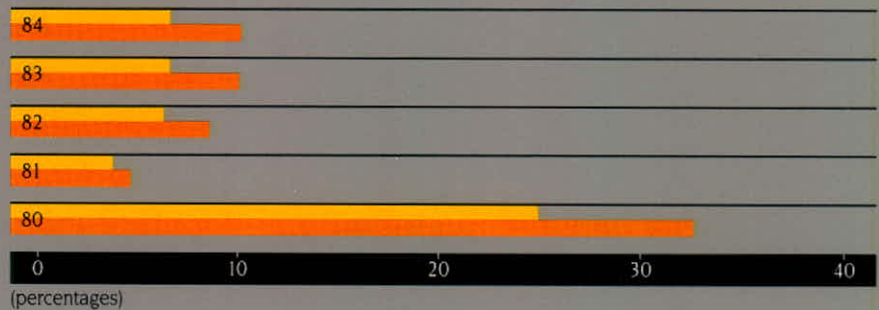
Average selling prices increased mainly as a result of an improvement in the quality of the plant's output. Sales in 1983 included a significant quantity of partially processed crude oil at lower prices. The weakness of the Canadian dollar also contributed to higher prices.

The increase in average selling prices was more than offset by higher costs due to inflation and increased maintenance activities, and the net benefit in 1983 of a property damage claim settlement.

### Earnings



### Rates of return



Return on capital employed

Return on capital employed is earnings before long-term interest expense as a percentage of average capital employed. Average capital employed is the average of total assets less current liabilities at the beginning and end of the year.

Return on shareholders' equity

Return on shareholders' equity is earnings as a percentage of average shareholders' equity. Average shareholders' equity is the average of total shareholders' equity (including Preferred Shares Series A) at the beginning and end of the year.

### Resources Group

Earnings from this segment were \$37.9 million, up \$7.0 million or 23 per cent over 1983.

Results for 1983 included the repayment of certain export price adjustments related to royalty-free gas production in a previous year. This repayment reduced 1983 earnings by approximately \$4 million.

The remaining improvement primarily reflects higher crude oil and natural gas sales volumes and prices. Heavy oil production from the Company's facilities at Fort Kent, Alberta increased by 41 per cent to 245 cubic metres per day (1,540 barrels). Natural gas sales volumes

rose 14 per cent as a result of improving economic conditions in Canada and the United States and extended service to Quebec markets. Average oil prices increased as a result of a higher proportion of production receiving new oil reference price, the weaker Canadian dollar, and changes to the pricing system. Average prices received for natural gas improved as a result of higher Alberta border prices offset by lower export premiums.

## Sunoco Group

Earnings from this segment were \$3.0 million compared to a loss of \$15.0 million in 1983.

This change was primarily due to some improvement in market conditions for transportation fuels and efficiencies created by the new hydrocracker complex. Gasoline prices in 1984 were subject to periods of instability and, although the impact of price wars was not as severe as in 1983, margins continued to be generally inadequate.

While first half 1984 petrochemical margins improved over the previous year, there was a significant decline in the second half due to market uncertainty with respect to world crude oil prices, and depressed market conditions in Europe and the United States.

### Items not allocated to segments

Net interest expense (expense less income) was \$4.5 million in 1984 compared to an income of \$5.4 million in 1983. This was due to higher average debt levels in 1984 and a lower proportion of interest being capitalized in connection with major projects.

## Capital expenditures vs. funds from operations



For details of capital expenditures, see pages 7, 12 and 44.

## Consolidated statement of changes in financial position

Funds from operations increased by \$57.9 million or 28 per cent in 1984 reflecting the impact of higher earnings as discussed in the previous sections, higher non-cash charges for depreciation and deferred income taxes, and lower outlays for overburden removal.

Disposals of properties, plant and equipment decreased by \$23.4 million. Results in 1983 included the receipt of insurance proceeds related to property damage claims and proceeds from the sale of a petrochemical tanker.

Operating working capital decreased by \$38.2 million in 1984, primarily as a result of lower refined product inventory volumes.

Capital expenditures were \$289.9 million, a decrease of \$63.3 million or 18 per cent from 1983. The Sarnia refinery upgrading project was completed in 1984 and outlays for that project were \$100 million lower than the 1983 level. In keeping with the expansionary thrust in exploration and production, expenditures in this area were increased by \$34 million.

In November 1984, Suncor raised U.S. \$75 million in the Eurobond market through the issue of 12 5/8% seven-year debentures. With this issue Suncor has diversified its funds sourcing to provide more flexibility for the funding of future capital spending programs. The proceeds of this issue were used to reduce existing variable rate borrowings.

The financial statements on pages 31 to 42, which consolidate the financial results of Suncor and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They include some amounts which are based on best estimates and judgment relating to matters not concluded by year-end. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In management's opinion the financial statements have been properly prepared

within reasonable limits of materiality and within the framework of the accounting policies summarized on pages 31 and 32. In meeting its responsibilities for the objectivity and integrity of the financial statements, management maintains a system of internal controls and administers a program of proper business conduct compliance. Management also supports a program of internal audit.

Coopers & Lybrand, the Company's independent chartered accountants, have been engaged to render an independent professional opinion on the accompanying financial statements. In order to complete their report, which is shown below, they develop and maintain an understanding of the Company's systems and procedures and conduct an examination in accordance with generally accepted auditing standards.

The Audit Committee, a committee of the Board of Directors, is composed primarily of independent outside directors. It meets regularly with management, the internal auditors and the independent auditors to assure that they are all carrying out their responsibilities and to discuss auditing, internal control, accounting policy and financial reporting matters. The internal auditors and the independent auditors periodically meet alone with the Audit Committee and have unrestricted access to the Audit Committee and Board of Directors at any time. The Audit Committee reviewed the financial statements and recommended their approval to the Board of Directors.

## AUDITORS' REPORT

*To the shareholders of Suncor Inc.*

We have examined the consolidated statement of financial position of Suncor Inc. as at December 31, 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in

accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated statements present fairly the financial

position of the Company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Coopers & Lybrand  
Chartered Accountants  
Toronto, Ontario  
January 21, 1985



## SUMMARY OF ACCOUNTING POLICIES

December 31, 1984

**Basis of presentation***(a) Principles of consolidation*

The financial statements are prepared on a consolidated basis to include the accounts of all subsidiaries.

*(b) Crude oil revenues*

The Company deems its own production of crude oil, including synthetic crude oil, to be consumed internally. Therefore, on consolidation, revenues arising from the sale of crude oil at conventional "old oil" prices are eliminated from "sales and other operating revenues" and "costs and operating expenses". Crude oil receipts in excess of conventional "old oil" prices are deemed to be realized and included in "sales and other operating revenues". Sales to the Alberta Petroleum Marketing Commission, however, have been included in "sales and other operating revenues" because the Company is not permitted to designate the ultimate purchaser of such crude oil sales.

*(c) Intersegment transfers*

Transfers of crude oil, natural gas and refined and other products between segments are recorded at prevailing fair market prices in the Schedule of Segmented Data. Profit on transfers of crude oil is deferred on consolidation until realized by third party sales.

*(d) Oil compensation*

In those cases where the Company imports crude oil or purchases domestic oil at prices in excess of established conventional "old oil" prices, it applies for reimbursement under the federal government's compensation programs. Compensation claimed under such programs is deducted from "costs and operating expenses".

*(e) Joint ventures*

A significant part of the Company's oil and gas activities is conducted jointly with others. The accounts reflect the Company's proportionate interest in these activities.

**Policies of application to specific segments**

The descriptions of the Company's classes of business or segments are detailed below, together with their respective accounting policies.

*(a) Oil sands*

This segment encompasses production of synthetic crude oil from oil sands mined in the Athabasca region of northeastern Alberta.

*- Capitalization and depreciation*

Major mine development expenditures that significantly benefit operations of future years and all outlays on mobile equipment acquisitions are capitalized. Other mine development expenditures and outlays for mining equipment are expensed.

Plant expenditures which result in major additions and improvements to plant capacity, productivity or environmental protection are capitalized. Expenditures on major programs to improve plant reliability by rehabilitating, replacing or upgrading significant plant components are capitalized. Other plant expenditures are expensed.

Mine and plant expenditures are depreciated over the lesser of their useful lives or the life of proven reserves. Depreciation over useful lives is on a straight line basis for mobile equipment other than the bucketwheel excavators, which, together with all other assets, are depreciated on a unit of production basis.

The cost of housing is capitalized and depreciated on a straight line basis over its useful life.

As a result of the above policy, the Company is depreciating capitalized expenditures as follows:

- approximately \$222 million of certain mine and plant expenditures over an average of 41 million cubic metres of production, and the balance of mine and plant expenditures over total proven reserves;
- mobile equipment other than the bucketwheel excavators over three to five years; and
- housing units over an average of 30 years.

*- Deferred charges*

Overburden removal costs, including depreciation on overburden removal equipment, are deferred. Annual amortization of these costs is based on the amount of oil sands mined in the year, the ratio of total overburden to be removed to total reserves of oil sands to be mined and the year's removal cost per unit of overburden.

Deferred preproduction costs are amortized over the life of proven reserves on a unit of production basis.

*- Reclamation costs*

Reclamation costs over the entire term of the project are estimated and charged against earnings over the life of proven reserves on a unit of production basis.

*(b) Exploration, production and resources development*

This segment encompasses exploration for crude oil and natural gas in the western provinces and frontier areas and the production of oil and gas in the western provinces. In addition, it includes the operation of pipelines, research into in-situ steam recovery projects and limited activities in coal and other minerals.

*- Capitalization and write-off*

The full cost method of accounting for crude oil and natural gas activities is followed. All costs incurred in searching for oil and gas reserves, including leasehold acquisition and retention costs, are capitalized. Proceeds received from disposals of properties are deducted from these costs. The Company carries its oil and gas properties at the lower of capitalized cost or net recoverable value. Net recoverable value is the aggregate of future net revenues from proven reserves plus unproved properties at cost or fair value where value has been determined. Net revenues are determined using current prices and current costs discounted at an appropriate rate on an after tax basis. Capitalized costs are charged against operations through a provision for depletion, calculated on a unit of production basis using estimates of proven reserves.

Wellhead equipment, gas plants and handling facilities are also written off over the life of proven reserves. Support and movable equipment is depreciated on a straight line basis over an average of nine years.

*- Natural gas take or pay contracts*

Payments received or made under natural gas "take or pay" contracts without delivery of the related gas are deferred, and shown as "deferred revenues and accrued liabilities" or "deferred charges and other", respectively. The amounts will be taken into revenues or expenses when the related gas is delivered. Under current conditions, only a small portion of the gas due under such contracts is expected to be delivered within the next year.

*(c) Refining, petrochemicals and marketing*

This segment encompasses the manufacture, transportation and marketing of petroleum and petrochemical products, primarily in Ontario and Quebec. Petrochemical products are also sold in the United States and Europe.

*- Depreciation*

Depreciation of properties, plant and equipment is on a straight line basis over their useful lives. The refinery and additions thereto are depreciated over an average of 29 years, service stations and related equipment over an average of 16 years and other facilities and equipment over four to 20 years.

On the basis of a useful life review, the period over which refinery assets are being depreciated has been adjusted to 29 years from 23 years without material effect on 1984 earnings.

**Policies of general application***(a) Maintenance, repairs and shutdown expenses*

Normal maintenance and repairs are charged to expense as incurred. The cost of major maintenance shutdowns is estimated and accrued over the period to the next shutdown.

*(b) Disposals*

Costs of assets sold, retired or abandoned and the related amounts of accumulated depreciation are eliminated from the accounts, and resultant gains or losses on disposals are included in earnings, except for oil and gas assets accounted for under the full cost method.

*(c) Pension expense*

The Company has a non-contributory pension plan providing retirement benefits for its eligible employees. Pension expense includes the current pension costs, the amortization of initial past service costs over 25 years ending in 1990 and the amortization of plan improvements and experience gains or losses over 15 years. It is the Company's policy to fund the total pension expense and such additional amounts as deemed appropriate.

*(d) Research and development expenditures*

Research expenditures are written off as incurred except for capital outlays, which to date have been for in-situ oil sands and heavy oil pilot projects. Such costs are written off over the lesser of useful life or the remaining life of the project. Development expenditures are also expensed as incurred, except when future benefits from the project become reasonably assured.

*(e) Income taxes*

Some costs and revenues may by law be deducted from or added to earnings in the calculation of taxable income in years earlier or later than actually recorded in the Consolidated Statement of Earnings. The income taxes in the earnings statement are based upon the revenues and expenses actually recorded but differ from taxes actually paid or payable. The cumulative effect of these differences is shown in the Consolidated Statement of Financial Position as "deferred income taxes".

Investment tax credits are reflected as a reduction of income tax expense in the year the eligible expenditures are incurred.

*(f) Inventories*

Inventories of crude oil and refined products are valued at the lower of cost using the first-in, first-out method and net realizable value.

Materials and supplies are valued mainly at the lower of average cost and net realizable value.

*(g) Foreign currency translation*

The Company applies the temporal method of accounting for the translation of foreign currency amounts into Canadian dollars. Under this method, current assets except inventories, current liabilities and long-term borrowings are translated at year-end rates. Other assets, other liabilities and revenues and expenses are translated at the rate prevailing when they were acquired or incurred.

Unrealized exchange gains or losses on translation of long-term borrowings are deferred and amortized over the remaining repayment periods. Exchange gains or losses on forward contracts specifically identified as hedges are recognized in the period of the hedged transaction. Other exchange gains or losses are reflected in earnings.

*(h) Interest capitalization*

Interest cost incurred during the construction and pre-operating stages of major construction and development projects is capitalized and is then depreciated, depleted or amortized as part of the cost of the asset.

## CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1984

(\$ millions except per share amounts)	1984	1983
<b>Revenues</b>		
Sales and other operating revenues	\$1,575.4	\$ 1,473.8
Interest income	9.1	10.5
	<b>1,584.5</b>	<b>1,484.3</b>
<b>Expenses</b>		
Costs and operating expenses	610.5	582.3
Selling, administrative and general	196.0	169.3
Royalties (notes 2 and 3)	176.2	175.5
Taxes (note 4)	334.5	322.6
Depreciation, depletion and amortization	130.0	115.2
Interest (note 5)	13.6	5.1
	<b>1,460.8</b>	<b>1,370.0</b>
<b>Earnings for the year</b>	<b>\$ 123.7</b>	<b>\$ 114.3</b>
<b>Earnings per common share</b>	<b>\$ 2.35</b>	<b>\$ 2.17</b>

See accompanying summary of accounting policies and notes

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1984

(\$ millions)	1984	1983
<b>Balance - beginning of year</b>		
As previously reported	\$ 676.5	\$ 610.7
Adjustment of prior years' earnings (note 1)	37.9	32.0
As restated	714.4	642.7
Earnings for the year	123.7	114.3
	<b>838.1</b>	<b>757.0</b>
Dividends on preferred shares	0.8	0.8
Dividends on common shares	41.8	41.8
<b>Balance - end of year</b>	<b>\$ 795.5</b>	<b>\$ 714.4</b>

See accompanying summary of accounting policies and notes

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 1984

(\$ millions)	1984	1983
<b>Assets</b>		
Current assets		
Cash and short-term investments	\$ 34.2	\$ 5.3
Accounts receivable	204.2	175.9
Incremental oil revenue tax receivable	42.9	38.1
Inventories (note 7)	209.7	249.1
	<u>491.0</u>	<u>468.4</u>
Properties, plant and equipment, net (note 8)	1,700.2	1,508.3
Deferred charges and other (note 9)	194.3	191.5
	<u>\$2,385.5</u>	<u>\$ 2,168.2</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Short-term borrowings	\$ 17.2	\$ 14.1
Accounts payable and accrued liabilities	254.4	230.3
Income taxes	10.8	0.2
Taxes other than income taxes	82.7	85.5
Current portion of long-term borrowings (note 10)	2.8	2.6
	<u>367.9</u>	<u>332.7</u>
Long-term borrowings (notes 10 and 11)	301.7	243.4
Deferred revenues and accrued liabilities	105.8	97.9
Deferred income taxes	348.5	311.4
Contingent liabilities (note 12)		
Shareholders' equity		
Share capital (note 13)	466.1	468.4
Retained earnings	795.5	714.4
	<u>1,261.6</u>	<u>1,182.8</u>
	<u>\$2,385.5</u>	<u>\$ 2,168.2</u>

See accompanying summary of accounting policies and notes

Approved on behalf of the Board:



W.R. Loar, Director



D.M. McGeer, Director

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1984

(\$ millions)	1984	1983
<b>Internal funds generated</b>		
Operations		
Earnings for the year	\$123.7	\$ 114.3
Depreciation, depletion and amortization	130.0	115.2
Deferred income taxes	37.1	20.5
Deferred overburden removal outlays (note 9)	(35.9)	(50.0)
Other non-cash items	11.5	8.5
Funds from operations	266.4	208.5
Disposals of properties, plant and equipment	14.4	37.8
Increase (decrease) in deferred revenues	(10.0)	8.5
Decrease in operating working capital	38.2	42.2
Internal funds generated	309.0	297.0
<b>Investment of funds</b>		
Capital expenditures		
Oil sands	74.7	81.5
Exploration, production and resources development	108.2	74.0
Refining, petrochemicals and marketing	107.0	197.7
	289.9	353.2
Increase in deferred charges and other excluding overburden	4.5	9.2
Total investment of funds	294.4	362.4
<b>Dividends</b>	42.6	42.6
<b>Net cash deficiency before external financing</b>	(28.0)	(108.0)
<b>External financing</b>		
Net increase in borrowings	59.2	95.0
Redemption of preferred shares	(2.3)	(0.3)
Total external financing	56.9	94.7
<b>Increase (decrease) in cash and short-term investments</b>	<b>\$ 28.9</b>	<b>\$ (13.3)</b>

See accompanying summary of accounting policies and notes

## SCHEDULE OF SEGMENTED DATA\*

(\$ millions)	Oil Sands Group		Resources Group		Sunoco Group		Total	
	Oil sands		Exploration, production and resources development		Refining, petrochemicals and marketing			
	1984	1983	1984	1983	1984	1983	1984	1983
<b>Revenues and earnings</b>								
<i>for the year ended December 31</i>								
Sales and other								
operating revenues	\$ 197.4	\$ 175.0	\$ 145.0	\$ 116.9	\$1,233.0	\$ 1,181.9	\$1,575.4	\$ 1,473.8
Intersegment revenues	518.5	521.6	91.1	89.0	2.0	1.7	611.6	612.3
<b>Segment revenues</b>	<b>\$ 715.9</b>	<b>\$ 696.6</b>	<b>\$ 236.1</b>	<b>\$ 205.9</b>	<b>\$1,235.0</b>	<b>\$ 1,183.6</b>	<b>\$2,187.0</b>	<b>\$ 2,086.1</b>
Operating profits (losses)								
before taxes (note 14)	\$ 193.8	\$ 215.3	\$ 55.4	\$ 45.6	\$ (3.5)	\$ (44.7)	\$ 245.7	\$ 216.2
Income and incremental oil revenue taxes	(97.6)	(107.2)	(17.5)	(14.7)	6.5	29.7	(108.6)	(92.2)
<b>Segment earnings (loss)</b>	<b>\$ 96.2</b>	<b>\$ 108.1</b>	<b>\$ 37.9</b>	<b>\$ 30.9</b>	<b>\$ 3.0</b>	<b>\$ (15.0)</b>	<b>137.1</b>	<b>124.0</b>
Change in intersegment profit elimination							(1.2)	(4.3)
Interest income							9.1	10.5
Corporate expense							(12.5)	(11.2)
Interest expense							(13.6)	(5.1)
Related income taxes							4.8	0.4
<b>Earnings for the year</b>							<b>\$ 123.7</b>	<b>\$ 114.3</b>
<b>Depreciation, depletion and amortization</b>								
<i>for the year ended December 31</i>								
Segments	\$ 75.0	\$ 68.5	\$ 40.0	\$ 33.4	\$ 14.3	\$ 12.9	\$ 129.3	\$ 114.8
Corporate							0.7	0.4
							<b>\$ 130.0</b>	<b>\$ 115.2</b>
<b>Capital employed</b>								
<i>as at December 31</i>								
Segment assets	\$ 913.6	\$ 863.1	\$ 656.8	\$ 587.5	\$ 843.7	\$ 780.2	\$2,414.1	\$ 2,230.8
Corporate assets and intersegment eliminations							(28.6)	(62.6)
Total assets							<b>2,385.5</b>	<b>2,168.2</b>
Segment current liabilities	\$ 178.4	\$ 130.1	\$ 64.0	\$ 45.4	\$ 177.4	\$ 196.1	419.8	371.6
Corporate current liabilities and intersegment eliminations							(51.9)	(38.9)
<b>Capital employed</b>							<b>\$2,017.6</b>	<b>\$ 1,835.5</b>

See accompanying summary of accounting policies and notes

\*The Company has no foreign geographic segments. See note 5 for information on export sales.

December 31, 1984

### 1. Prior period adjustment

During the fourth quarter of 1984, the federal government announced changes in the taxation of the Company's oil sands plant production. Effectively, the rate of incremental oil revenue tax was reduced for the years 1982 to 1984. The tax has been eliminated effective

January 1, 1985. Accordingly, provisions made during 1984 and for prior years have been reduced.

With the reduction in the provision for incremental oil revenue tax, 1983 earnings were increased by \$5.9 million and

the previously reported results have been restated. The remaining \$32.0 million relates to 1982 and the balance of retained earnings at January 1, 1983 has been adjusted accordingly. The change increased 1984 earnings by \$4.9 million.

### 2. Subsequent event

In a judgment dated January 21, 1985, the Court of Queen's Bench of Alberta found in favor of the Company in its dispute with Norcen International Limited ("Norcen"), a subsidiary of Norcen Energy Resources Limited. The

issue in dispute was whether the Company had an obligation to pay a sublease royalty to Norcen on compensation payments under the federal Energy Administration Act in 1979 and subsequent years. Since the judgment may be appealed, the Company has decided

not to account for its financial impact to December 31, 1984, estimated to be \$30 million after tax, until it is no longer subject to uncertainty. At that time, any such financial impact will be recorded as a prior period adjustment.

### 3. Royalties

The following is an analysis of the amounts expensed:

(\$ millions)			1984	1983
	Crown	Other	Total	Total
Oil sands	\$ 79.4	\$ 42.0	\$121.4	\$122.6
Exploration, production and resources development	43.4	11.4	54.8	52.9
	<b>\$122.8</b>	<b>\$ 53.4</b>	<b>\$176.2</b>	<b>\$175.5</b>

### 4. Taxes

The following taxes and charges have been expensed:

(\$ millions)	1984	1983
Federal sales and excise taxes	\$ 78.3	\$ 60.9
Petroleum compensation charges	95.4	115.9
Petroleum and gas revenue tax	42.8	40.3
Production, property and other taxes	14.2	13.7
Incremental oil revenue tax	57.6	76.3
Income taxes - current	9.1	(5.0)
- deferred	37.1	20.5
	<b>\$334.5</b>	<b>\$322.6</b>

Certain taxes are collected from customers on behalf of governments and are not shown in the Company's revenues and expenses. The most significant of such taxes are:

(\$ millions)	1984	1983
Gasoline and diesel fuel taxes	\$184.6	\$153.9
Export taxes	18.4	26.2
	<b>\$203.0</b>	<b>\$180.1</b>

**Income and incremental oil revenue taxes**

The provision for income taxes reflects an effective tax rate which differs from the statutory tax rate. A reconciliation of the two rates and the dollar effect is as follows:

(\$ millions)	1984	1983	1984	1983
	Percentage		Dollar effect	
Federal tax rate	46.0%	46.0%	\$ 78.2	\$ 59.7
Provincial abatement	(10.0)	(10.0)	(17.0)	(13.0)
Provincial tax rate	11.0	10.4	18.7	13.5
<b>Statutory tax rate</b>	<b>47.0</b>	<b>46.4</b>	<b>79.9</b>	<b>60.2</b>
Add (deduct) the tax effect of:				
Incremental oil revenue	(39.2)	(68.6)	(66.6)	(89.1)
Crown royalties	33.6	44.2	57.1	57.4
Incremental oil revenue tax	16.0	27.9	27.2	36.2
Resource allowance	(21.4)	(24.7)	(36.3)	(32.1)
Petroleum and gas revenue tax	11.8	14.7	20.0	19.1
Depletion allowance	(12.9)	(14.6)	(21.9)	(19.0)
Investment tax credits	(4.4)	(9.2)	(7.5)	(11.9)
Provincial royalty tax credits and rebates	(2.9)	(5.5)	(4.9)	(7.2)
Inventory allowance	(1.8)	(2.4)	(3.1)	(3.1)
Manufacturing and processing profits deduction	0.2	1.4	0.3	1.9
Federal surtax	-	0.9	-	1.2
Other	1.2	1.4	2.0	1.9
Effective income tax rate before incremental oil revenue tax	27.2	11.9	46.2	15.5
Incremental oil revenue tax	18.4	32.6	57.6	76.3
<b>Effective income and incremental oil revenue tax rate</b> (note 14)	<b>45.6%</b>	<b>44.5%</b>	<b>\$103.8</b>	<b>\$ 91.8</b>

Deferred income taxes result from timing differences and are attributable to:

(\$ millions)	1984	1983
<b>Excess of tax over (under) book expense:</b>		
Depreciation	\$ 20.7	\$ (1.3)
Exploration and development costs	9.3	14.6
Overburden removal	0.2	5.1
Preproduction expense	(0.8)	(0.7)
Other	7.7	2.8
	<b>\$ 37.1</b>	<b>\$ 20.5</b>



**5. Supplemental earnings statement information**

(\$ millions)	1984	1983
Crude oil receipts in excess of conventional "old oil" prices	\$200.0	\$ 176.7
Export sales		
Unaffiliated customers -		
United States - heavy fuel oil	\$ 91.5	\$ 149.4
- petrochemicals	67.5	60.8
- other refined products	36.3	10.3
Europe - petrochemicals	55.0	64.1
	250.3	284.6
Affiliates -		
United States - refined products	13.4	-
	\$263.7	\$ 284.6
Research and development expense	\$ 4.5	\$ 2.5
Pension expense	\$ 10.2	\$ 10.6
Interest expense - short-term	\$ 2.8	\$ 0.2
- long-term	33.9	23.9
Less interest capitalized	(23.1)	(19.0)
	\$ 13.6	\$ 5.1

**6. Related party transactions**

In transactions with Sun Company, Inc. and its affiliates during 1984, the Company purchased crude oil and raw feedstocks for \$13.0 million (1983 - \$58.6 million). In turn, the Company sold crude oil for \$25.6 million (1983 - \$117.7 million) and refined products for \$13.4 million (1983 - nil) to Sun Company, Inc. and its affiliates. Since these crude oil revenues are netted against "costs and operating expenses" in the Consolidated Statement of Earnings in accordance with the Company's accounting policy, they are not shown as export sales.

Amounts due to Sun Company, Inc. and its affiliates at December 31, 1984 totaling \$4.7 million (1983 - \$2.4 million) are included in accounts payable and accrued liabilities. There was no amount due from Sun Company, Inc. and its affiliates at December 31, 1984 (1983 - \$3.1 million, included in accounts receivable).

The Company has had no significant transactions with the Ontario government other than those relating to Trillium Exploration Corporation ("Trillium").

Trillium, one-third owned by the Company and two-thirds indirectly owned by Ontario Energy Corporation, was formed in 1982 to explore for oil and gas in the frontier areas of Canada. At December 31, 1984 the Company had invested \$19.4 million in Trillium.

The Company believes these transactions were carried out on fair and equitable terms.

**7. Inventories**

(\$ millions)	1984	1983
Crude oil	\$ 69.5	\$ 78.2
Refined products	97.5	130.1
Materials and supplies	42.7	40.8
	\$209.7	\$ 249.1

**8. Properties, plant and equipment**

(\$ millions)			1984	1983
	Cost	Accumulated provisions	Net	Net
Oil sands				
Mine and mobile equipment	\$ 203.8	\$ 62.9	\$ 140.9	\$ 138.0
Plant	516.9	136.1	380.8	351.5
Housing	68.3	4.2	64.1	66.3
	<b>789.0</b>	<b>203.2</b>	<b>585.8</b>	<b>555.8</b>
Exploration, production and resources development				
Oil and gas properties	670.2	198.0	472.2	414.5
Equipment and other	173.8	61.6	112.2	103.0
	<b>844.0</b>	<b>259.6</b>	<b>584.4</b>	<b>517.5</b>
Refining, petrochemicals and marketing				
Refinery including petrochemicals	523.5	75.2	448.3	365.7
Marketing and transportation	144.7	63.5	81.2	68.7
	<b>668.2</b>	<b>138.7</b>	<b>529.5</b>	<b>434.4</b>
Corporate	1.0	0.5	0.5	0.6
	<b>\$2,302.2</b>	<b>\$ 602.0</b>	<b>\$1,700.2</b>	<b>\$ 1,508.3</b>

**9. Deferred charges and other**

(\$ millions)			1984	1983
Oil sands deferred overburden removal costs (see below)			\$ 115.2	\$ 109.9
Oil sands preproduction costs			39.4	41.2
Prepaid gas purchases			21.8	21.3
Other			17.9	19.1
			<b>\$ 194.3</b>	<b>\$ 191.5</b>
Oil sands deferred overburden removal costs				
Balance - beginning of year			\$ 109.9	\$ 89.6
Outlays during year			35.9	50.0
Depreciation on equipment during year			3.7	2.9
			<b>149.5</b>	<b>142.5</b>
Amortization during year			(34.3)	(32.6)
Balance - end of year			<b>\$ 115.2</b>	<b>\$ 109.9</b>

**10. Long-term borrowings**

(\$ millions)	1984	1983	(\$ millions)
12% Debentures, Series A, maturing in 2003, repayable at the rate of \$5.0 million annually commencing in 1989	<b>\$100.0</b>	\$ 100.0	Long-term borrowings mature as follows:
12 5/8% Debentures, Series B, maturing in 1991, redeemable at the Company's option on or after November 15, 1990. U.S. \$75.0 million	<b>99.0</b>	-	1985
5 3/4% Notes, maturing in 1991, repayable at the rate of U.S. \$2.0 million annually. U.S. \$22.0 million (1983 - U.S. \$24.0 million)	<b>29.0</b>	29.8	1986
Borrowings with interest at variable rates averaging 11.0% at December 31, 1984 (1983 - 9.7%) under or with support of revolving credit and term loan agreements (note 11)	<b>74.3</b>	113.4	1987
Mortgages on housing, bearing interest at rates between 6¼ and 9½%, repayable over the next 19 years	<b>2.1</b>	2.7	1988
Capitalized lease obligations	<b>0.1</b>	0.1	1989
	<b>304.5</b>	246.0	Subsequent years
Less current portion of long-term borrowings	<b>2.8</b>	2.6	<b>\$304.5</b>
	<b>\$301.7</b>	\$ 243.4	

**11. Lines of credit**

The Company has revolving credit and term loan agreements with financial institutions aggregating \$450 million. Revolving credit is available until 1988

generally, when the borrowings may be converted into term credit with maturities from 1989 through 1993. Borrowings under these lines of credit at December 31,

1984 are \$375.7 million less than the aggregate credit.

**12. Commitments and contingencies**

(a) In 1973, the Director of Investigation and Research under the Combines Investigation Act (the "Director") commenced formal inquiry to examine conditions and practices affecting competition at all levels of the petroleum industry in Canada. On February 27, 1981, the Director submitted to the Restrictive Trade Practices Commission (the "Commission"), a Statement of Evidence and Material collected in the inquiry so that the Commission could consider it together with such further evidence or material it considered advisable and report thereon to the Minister of Consumer and Corporate Affairs of the federal government. The Company, together with a number of other petroleum companies, was named in the Statement of Evidence and Material. The Company

believes that it has properly interpreted and complied in all material respects with the provisions of the Combines Investigation Act.

(b) On August 31, 1984, as a result of the insolvency of United Co-operatives of Ontario ("UCO"), the Company gave notice of termination of its product supply agreement with UCO, as permitted by such agreement. UCO has commenced an action in the Supreme Court of Ontario against the Company claiming specific performance and damages in the amount of \$150 million for alleged breach of the agreement. The Company has continued to supply product to UCO under interim supply arrangements and is of the opinion that the likelihood of significant damages being awarded is remote.

(c) Under the Company's business interruption insurance coverage, any future loss arising from an insured incident at its Oil Sands Group would be shared among the Company and its insurers. The Company would bear any loss up to \$30 million. For any loss in excess of \$30 million the Company would bear a declining proportion up to a loss of \$180 million. At this level of \$180 million the Company would bear \$98 million.

(d) Minimum annual rental charges under leases for vessels, service stations, office space and other property and equipment approximate \$21 million.

(e) An independent actuarial valuation of the Company's pension plan as of January 1, 1984 indicated that the actuarial present value of accumulated

plan benefits was \$103.5 million and that the plan had no unfunded liability for past service.

(f) The Company has hedged certain of its U.S. dollar sensitive revenues by securing forward contracts to sell U.S. dollars. At December 31, 1984, outstanding

contracts totalled U.S. \$380 million. These contracts are for settlement during 1985 at an average translation rate of U.S. \$0.7653 = Cdn. \$1.00.

While the result of any litigation cannot be predicted with certainty, the Company's management believes that, with respect

to the above and other known contingencies, including lawsuits, claims and guarantees, the aggregate amount of any liability and costs which might result would not have a materially adverse effect on the Company's consolidated financial position or operating results.

### 13. Share capital

Authorized:

-an unlimited number of preferred shares without nominal or par value, issuable in series, the first being Preferred Shares Series A originally 1,107,145 in number. Redemptions to December 31, 1984

have reduced the authorized number of Preferred Shares Series A to 619,094.

These shares have the following attributes:

\$24 stated capital, \$1.92 cumulative annual dividend, redeemable at \$24,

voting, convertible if and when a public distribution of common shares is made.

- an unlimited number of common shares without nominal or par value.

Issued:	(\$ millions)			
	Preferred Shares Series A		Common shares	
	Number	Amount	Number	Amount
Balance - beginning of year	492,229	\$ 11.8	52,245,101	\$456.6
Scrip certificates*	-	-	2	-
Redeemed for cash**	97,906	2.3	-	-
Balance - end of year	394,323	\$ 9.5	52,245,103	\$456.6

\*The scrip certificates were issued in 1979 and represent fractional shares exchanged for common shares.

\*\*Principally reflects determination of dissenting shareholders' claim for fair value under Section 184 of the Canada Business Corporations Act, at \$24 per share.

If and when a public distribution of common shares is made, the Preferred Shares Series A would be convertible into common shares during a 95 day period following such distribution, on the basis that \$24 bears to the per share

price (excluding commissions and discounts) at which the common shares are sold or issued for public distribution.

The Preferred Shares Series A are retractable at the option of the holder

for \$24 per share plus accrued and unpaid dividends at any time. The shares are redeemable at the option of the Company at the same price following the 95 day conversion period.

### 14. Segmented data disclosure

Strict compliance with the CICA Handbook would require determination of segment operating profits before income taxes but after incremental oil revenue tax ("IORT"). Since net revenue subject to

IORT is not subject to income taxes and since Suncor was the only company paying IORT, it believes that strict compliance with the Handbook is in-

appropriate in its unique circumstances. Consequently, IORT has not been deducted in determining segment operating profits.

## QUARTERLY SUMMARY

(unaudited)

**Financial Data\*** (\$ millions except per share amounts)

	For the quarter ended				Total year	For the quarter ended				Total year
	Mar 31 1984	June 30 1984	Sept 30 1984	Dec 31 1984	1984	Mar 31 1983	June 30 1983	Sept 30 1983	Dec 31 1983	1983
<b>Revenues</b>	\$ 406.6	\$ 378.9	\$ 369.4	\$ 429.6	\$1,584.5	\$ 362.8	\$ 355.8	\$ 376.1	\$ 389.6	\$ 1,484.3
<b>Earnings</b>										
Segment earnings (loss)										
Oil sands	28.0	14.4	31.0	22.8	96.2	27.0	33.7	21.6	25.8	108.1
Exploration, production and resources development	10.6	9.3	7.3	10.7	37.9	11.3	2.5	7.4	9.7	30.9
Refining, petrochemicals and marketing	1.0	(2.6)	1.4	3.2	3.0	(5.0)	(12.2)	0.8	1.4	(15.0)
	39.6	21.1	39.7	36.7	137.1	33.3	24.0	29.8	36.9	124.0
Items not allocated to segments	(10.9)	11.4	(12.0)	(1.9)	(13.4)	(7.1)	(4.7)	(1.4)	3.5	(9.7)
<b>Earnings for the period</b>	\$ 28.7	\$ 32.5	\$ 27.7	\$ 34.8	\$ 123.7	\$ 26.2	\$ 19.3	\$ 28.4	\$ 40.4	\$ 114.3
<b>Earnings per common share</b>	\$ 0.55	\$ 0.61	\$ 0.53	\$ 0.66	\$ 2.35	\$ 0.50	\$ 0.37	\$ 0.53	\$ 0.77	\$ 2.17
<b>Funds from operations</b>	\$ 69.0	\$ 58.6	\$ 58.2	\$ 80.6	\$ 266.4	\$ 35.5	\$ 27.0	\$ 60.2	\$ 85.8	\$ 208.5

\*Previously reported figures have been restated. See note 1 to the financial statements.

**Operating Data**

	For the quarter ended				Total year	For the quarter ended				Total year
	Mar 31 1984	June 30 1984	Sept 30 1984	Dec 31 1984	1984	Mar 31 1983	June 30 1983	Sept 30 1983	Dec 31 1983	1983
Synthetic crude oil										
- gross production										
less in-plant usage (a)	8.1	6.4	7.9	7.3	7.4	6.8	7.9	8.1	7.7	7.6
Conventional crude oil and natural gas liquids										
- gross production (a)	2.3	2.2	2.4	2.4	2.3	2.2	2.2	2.3	2.3	2.2
Natural gas										
- gross sales (b)	1.9	1.5	1.4	1.9	1.7	2.0	1.4	1.0	1.4	1.5
Refined product sales (a)	11.3	10.8	9.2	10.9	10.6	11.0	10.9	10.9	11.4	11.1

(a) thousands of cubic metres per day

(b) millions of cubic metres per day

## FIVE YEAR FINANCIAL SUMMARY\*

(unaudited)

(\$ millions except for ratios)	1984	1983	1982	1981	1980
<b>Revenues</b>	<b>\$1,584.5</b>	\$ 1,484.3	\$ 1,550.6	\$ 1,320.7	\$ 1,259.4
<b>Segment revenues</b>					
Oil sands	715.9	696.6	552.2	249.3	595.3
Exploration, production and resources development	236.1	205.9	196.1	166.9	152.5
Refining, petrochemicals and marketing	1,235.0	1,183.6	1,193.5	1,145.2	831.4
	<b>\$2,187.0</b>	\$ 2,086.1	\$ 1,941.8	\$ 1,561.4	\$ 1,579.2
<b>Earnings</b>					
Segment earnings (loss)					
Oil sands	96.2	108.1	73.6	(19.3)	211.3
Exploration, production and resources development	37.9	30.9	24.7	8.7	20.0
Refining, petrochemicals and marketing	3.0	(15.0)	19.0	53.3	62.0
	137.1	124.0	117.3	42.7	293.3
Items not allocated to segments	(13.4)	(9.7)	(25.2)	7.4	13.1
<b>Earnings for the year</b>	<b>\$ 123.7</b>	\$ 114.3	\$ 92.1	\$ 50.1	\$ 306.4
<b>Funds from operations</b>	<b>\$ 266.4</b>	\$ 208.5	\$ 190.4	\$ 127.7	\$ 418.0
<b>Capital expenditures</b>					
Oil sands	74.7	81.5	103.5	83.6	132.2
Exploration, production and resources development	108.2	74.0	85.2	75.4	110.0
Refining, petrochemicals and marketing	107.0	197.7	83.1	42.1	29.0
Corporate	-	-	-	-	0.7
	<b>\$ 289.9</b>	\$ 353.2	\$ 271.8	\$ 201.1	\$ 271.9
<b>Capital employed</b>					
Long-term borrowings	301.7	243.4	161.4	40.7	47.9
Deferred income taxes, deferred revenues and accrued liabilities	454.3	409.3	358.7	307.7	278.9
Shareholders' equity	1,261.6	1,182.8	1,111.4	1,069.4	1,102.3
	<b>\$2,017.6</b>	\$ 1,835.5	\$ 1,631.5	\$ 1,417.8	\$ 1,429.1
<b>Oil and gas costs</b>					
Property acquisition	\$ 38.5	\$ 23.8	\$ 10.6	\$ 12.4	\$ 44.4
Exploration	\$ 46.6	\$ 28.1	\$ 38.4	\$ 42.9	\$ 37.1
Development	\$ 27.4	\$ 26.1	\$ 38.3	\$ 18.7	\$ 27.4
Production	\$ 57.6	\$ 48.6	\$ 45.1	\$ 35.6	\$ 21.6
<b>Average number of common shares</b>	<b>52,245,103</b>	52,245,101	52,245,098	52,245,085	52,245,085
<b>Ratios</b>					
Earnings per common share	\$2.35	\$2.17	\$1.75	\$0.93	\$5.83
Funds from operations per common share	\$5.10	\$3.99	\$3.64	\$2.44	\$8.00
Earnings as a percentage of capital employed	6.7%	6.7%	6.3%	3.5%	24.6%
Earnings as a percentage of shareholders' equity	10.1%	10.0%	8.4%	4.6%	32.3%
Earnings as a percentage of revenues	7.8%	7.7%	5.9%	3.8%	24.3%
Long-term borrowings as a percentage of capital employed	15.0%	13.3%	9.9%	2.9%	3.4%
Interest coverage	5.0X	5.6X	4.6X	25.8X	73.3X

\*Previously reported numbers have been restated. See note 1 to the financial statements.

## FIVE YEAR OPERATING SUMMARY

(unaudited)

	1984	1983	1982	1981	1980
<b>Oil Sands Group</b>					
<b>Production</b> - synthetic crude oil					
Gross production less in-plant usage (thousands of cubic metres per day)	7.4	7.6	5.4	4.7	7.4
<b>Average sales price</b> (dollars per cubic metre) - domestic price					
	192	189	156	122	102
- government compensation and other	70	62	99	8	115
	<b>262</b>	<b>251</b>	<b>255</b>	<b>130</b>	<b>217</b>
<b>Gross proven reserves</b> - synthetic crude oil (millions of cubic metres)					
	62	64	67	54	56
<b>Other oil sands statistics</b>					
Overburden removed (millions of cubic metres)	12.0	17.1	9.3	10.4	18.8
Oil sands mined (millions of tonnes)	36.4	35.9	27.1	22.9	33.1
Average bitumen content of oil sands mined (per cent by weight)	11.4	12.0	12.4	12.3	12.9
Average crude yield of oil sands (cubic metres per tonne)	.075	.077	.073	.074	.082
<b>Resources Group</b>					
<b>Production</b> - conventional crude oil and natural gas liquids (thousands of cubic metres per day) - gross					
	2.3	2.2	2.2	2.3	2.6
- net	1.7	1.6	1.5	1.5	1.7
<b>Natural gas sales</b> (millions of cubic metres per day) - gross					
	1.7	1.5	1.8	1.9	1.7
- net	1.4	1.2	1.4	1.3	1.1
<b>Average sales price</b>					
Conventional crude oil (dollars per cubic metre)	195	188	158	117	96
Natural gas (dollars per thousand cubic metres)	94	92	88	88	82
<b>Gross proven reserves</b>					
Conventional crude oil and natural gas liquids (millions of cubic metres)	9	9	10	10	10
Natural gas (billions of cubic metres)	14	13	13	13	13
<b>Undeveloped land holdings</b> (millions of hectares) - gross					
	13.3	18.3	18.4	18.2	19.2
- net	2.7	3.0	3.2	3.3	3.1
<b>Net wells completed</b>					
Exploratory - oil	9	5	6	5	2
- gas	8	6	7	14	9
- dry	27	19	17	12	14
Development - oil	89	25	37	5	12
- gas	3	3	6	9	25
- dry	4	6	9	8	7
	<b>140</b>	<b>64</b>	<b>82</b>	<b>53</b>	<b>69</b>
<b>Sunoco Group</b>					
<b>Refined product sales</b> (thousands of cubic metres per day)					
Gasolines	4.8	4.2	4.3	4.7	4.6
Middle distillates	2.6	2.6	2.8	3.0	2.8
Heavy fuel oil	1.3	2.4	2.7	2.8	2.6
Petrochemicals	1.2	1.2	1.3	1.2	1.1
Other products	0.7	0.7	0.5	0.7	0.5
	<b>10.6</b>	<b>11.1</b>	<b>11.6</b>	<b>12.4</b>	<b>11.6</b>
<b>Crude oil supply and refining</b>					
Gross crude oil production as a percentage of crude oil refined for Suncor account	103%	86%	68%	56%	84%
Processed at Suncor refinery (thousands of cubic metres per day)	9.6	11.2	11.1	12.1	12.4
Utilization of refining capacity	67%	78%	77%	84%	86%
<b>Service stations</b> (number at year-end)					
	920	860	870	870	920
<b>Suncor employees</b> (number at year-end)					
	5,580	5,410	5,190	4,930	4,620
<b>Salaries, wages and employee benefits</b> (\$ millions)					
	224.4	196.5	172.1	144.0	112.8

## SUPPLEMENTAL INFORMATION ON THE EFFECTS OF CHANGING PRICES (unaudited)

The following current cost information is provided in support of the Canadian Institute of Chartered Accountants' (CICA) five-year experiment requiring companies such as Suncor to disclose certain supplemental current cost information, and is generally based on the CICA requirements.

There are certain inherent limitations in using this information for evaluating past results and future prospects. Although the current cost information has been prepared on a reasonable basis, these estimated current costs could differ significantly from actual current costs. This is particularly true for resource assets where, for the most part, historical expenditures to establish reserves have been restated to reflect the change in average industry costs. Since oil and gas reserves are finite in nature and unique, they cannot be replaced in exactly the way that they were established.

In regard to downstream assets, with the changing patterns of refined product demand, it is difficult to say what operating capability would be maintained by the Company if existing assets were replaced.

By supplying current cost results, the Company is not implying that it intends to replace all its existing assets now or in the future.

At best, the results can be read as providing a broad indication of the effects of changing prices on the performance of the Company.

### Current cost information

The costs of the Company's principal assets are restated at estimated current prices, and the effect is shown of measuring earnings after adjusting expenses to reflect such estimated current costs. In addition, information concerning the year-to-year change in current costs is compared with the change in cost attributable to general inflation, to determine whether the Company is maintaining its purchasing power. Finally, the effect of holding monetary assets and liabilities while prices change is provided.

The Company's current cost amounts are determined primarily by applying appropriate indices to historic costs of homogeneous groups of assets. However, other methods such as direct pricing and land appraisals are used to obtain certain current costs. Where there is no suitable alternative, the current costs of some resource assets are determined by adjusting the historic costs to reflect the effects of general inflation as measured by the Consumer Price Index. The Company has used what it feels is a valid approach. However, equally valid alternative current cost assumptions could have produced materially different results. Consequently, meaningful comparisons between companies and industry groups will be difficult.

While the CICA recommends that income taxes should not be adjusted, the Company believes an alternative presentation is appropriate. Current cost adjustments can be viewed as advance recognition of costs yet to be incurred, limited to that amount recoverable out of future net revenues. As these cost adjustments will have a future tax impact, it seems appropriate to match the tax impact to the time current costs are recognized. For simplicity, a 50 per cent tax rate is assumed.

Other supplementary information is provided to allow the reader to calculate current cost earnings using different definitions of capital. Tax effects would also be associated with this information. As current cost changes represent a portion of future years' revenues that will be taxed, they should be tax effected accordingly. However, as Canadian tax law generally gives no recognition to general inflation, any adjustment to earnings for the maintenance of purchasing power or for gains or losses arising from holding net monetary assets or liabilities should not be tax effected.

An additional departure from the CICA pronouncement is to treat deferred taxes as a monetary item for the purpose of calculating purchasing power gains or losses. While there may always be a deferred tax balance, the components change over time as previous items are paid or received. Because of this, it is the Company's opinion that it is more appropriate to treat the deferred tax balance as a monetary item.

The CICA requires the disclosure of a financing adjustment which is to reflect the benefits which accrue to common shareholders by financing assets with borrowings. While the information has been provided herein, the Company does not believe it is meaningful. It implies that an enterprise's debt-to-equity ratio remains constant, which has not been the Company's experience.

### Discussion of current cost results

Current cost earnings for 1984 were \$71 million, a decrease from historic cost earnings of \$124 million resulting from the effects of additional charges for depreciation based on higher current cost assets and increased cost of sales caused by a higher replacement cost of crude experienced during the year.

Current cost earnings improved by \$8 million when compared with 1983 results restated into dollars of 1984 year-end purchasing power. The improvement reflected revenue increases which were greater than inflation, partly due to higher volumes, offset by cost increases which were moderately greater than inflation.

The current cost of inventories and properties, plant and equipment increased \$115 million in 1984. This increase was \$1 million more than that which would be attributable to inflation and \$93 million more than the 1983 increase. The year-to-year change reflects the effect on costs of the depressed state of upstream activity in 1983. In particular, exploration and drilling, and overburden removal costs increased in 1984 whereas they had declined in 1983.

The gain on holding net monetary liabilities throughout the year reflected that obligations can be repaid in dollars of reduced purchasing power. The year-to-year change of \$1 million was caused by debt taken on in 1984 to finance certain capital projects almost entirely offset by the effect of lower general inflation in 1984 when compared with 1983.



## Effects of changing prices

(\$ millions)	1984		1983 (1)
	Historic Cost	Current Cost	Current Cost
<b>Earnings</b>			
Revenues	\$ 1,585	\$ 1,585	\$ 1,547
Costs and operating expenses	611	620	617
Depreciation, depletion and amortization	130	226	222
Other expenses	616	616	606
Earnings before income and incremental oil revenue taxes	228	123	102
Income and incremental oil revenue taxes	104	52	39
	<u>\$ 124</u>	<u>\$ 71</u>	<u>\$ 63</u>
<b>Balance sheet items</b>			
Inventories	<u>\$ 210</u>	<u>\$ 221</u>	<u>\$ 274</u>
Properties, plant and equipment (2)	<u>\$1,855</u>	<u>\$3,017</u>	<u>\$2,911</u>
Net assets (common shareholders' equity)	<u>\$1,252</u>	<u>\$2,425</u>	<u>\$2,418</u>
<b>Other supplementary information</b>			
The amount of change during the year in the current cost amounts of inventories and properties, plant and equipment (3)		<u>\$ 115</u>	<u>\$ 22</u>
The amount of change during the year in the current cost amounts of inventories and properties, plant and equipment that is attributable to the effects of general inflation		<u>\$ 114</u>	<u>\$ 128</u>
Gain in purchasing power from having net monetary liabilities		<u>\$ 26</u>	<u>\$ 25</u>
Financing adjustments:			
a) Based on the change in current cost of inventories and properties, plant and equipment		<u>\$ 27</u>	<u>\$ 4</u>
b) Based on current cost adjustments other than income taxes		<u>\$ 24</u>	<u>\$ 23</u>

(1) The 1983 comparative amounts have been restated to dollars of 1984 year-end purchasing power to reflect the increase in general price levels.

(2) Includes deferred overburden removal costs and preproduction costs.

(3) This amount would be tax effected at a 50 per cent rate.

**Aquifer:** a porous sand or rock zone containing water.

**Bitumen:** extremely viscous (tar-like) form of oil (when extracted from oil sands and upgraded, it becomes a form of synthetic oil).

**Canadian Ownership Rate (COR):** the amount of beneficial Canadian ownership relevant in determining the level of payments to which a corporation is entitled under the Petroleum Incentive Program.

**Coke:** carbon and impurities in the form of a black powder which results from the heating of bitumen to 500° Celsius.

**Conventional crude oil:** oil produced through wells by ordinary oil field methods.

**Downstream:** this business segment manufactures, distributes and markets refined products from crude oil.

**Dry hole:** an exploration or development well incapable of producing hydrocarbons economically.

**Electrostatic precipitators (ESPs):** electrically-charged screens that attract and remove particulates from flue gases.

**Farmout:** an agreement whereby the owner of a lease permits another operator to earn an interest in the lease by carrying out certain work. From the other operator's point of view, this same agreement is a farmin.

**Feedstock:** crude oil or other hydrocarbons that are the basic materials for a refining or manufacturing process.

**Gross production/reserves:** Suncor's interest before deducting Crown royalties, freehold and overriding royalty interests.

**Gross wells/land holdings:** the total in which Suncor has an interest.

**Heavy fuel oil:** the residue of crude oil refining processes which remains after the lighter products such as gasolines, aromatics and home heating oil have been extracted from the crude oil.

**Heavy oil:** crude oil which is more viscous, or thicker, than normal crudes and therefore does not flow as freely.

**Hydrocarbons:** organic chemical compounds of hydrogen and carbon atoms which form the basis of all petroleum products. May exist as gases, liquids or solids.

**Hydrocracking:** a refining process using hydrogen and a catalyst to convert home heating and industrial fuel oil to higher-value products.

**In-situ heavy oil production:** separating oil from the sand within the ore body itself and inducing the oil to flow so that it can be pumped to the surface.

**Natural gas liquids:** hydrocarbons found in natural gas which may be extracted or isolated as a liquid at standard temperatures and pressures.

**Net production/reserves:** Suncor's working interest after deducting Crown royalties and freehold and overriding royalty interests.

**Net well/land holdings:** Suncor's interest after deducting interests of partners.

**New oil reference price (NORP):** the price applicable to NORP oil.

**NORP oil:** in general, oil discovered after 1973, oil from certain infill and suspended wells, additional oil obtained by certain enhanced recovery techniques and frontier production.

**Old oil:** any oil that is not NORP oil.

**Petroleum and gas revenue tax (PGRT):** a federal tax imposed on all oil and gas production, paid for by the producer.

**Petroleum compensation charge (PCC):** a tax levied on all crude oil used by refiners in Canada, whether imported or domestic.

**Petroleum Incentive Program (PIP):** a federal program which provides incentive payments to corporations, refunding a percentage of their exploration costs on the frontier lands. The amount of the incentive payments depends on the Canadian Ownership Rate (COR).

**Reservoir:** a body of porous rock containing an accumulation of water, crude oil or natural gas.

**Scavenger process:** a series of small froth flotation cells providing longer separation time for a portion of the oil sands slurry.

**Seismic:** a geophysical technique which helps to determine the oil and gas potential of an area.

**Slant-hole drilling:** a drilling technique utilizing a drilling rig which is angled at the surface. This allows access to hydrocarbon reserves not located vertically below the drilling location.

**Synthetic crude:** a blend of hydrocarbons resulting from the thermal cracking and purifying of bitumen.

**Tailings:** a sludge-like mixture of sand, water and clay remaining after bitumen has been removed from the ore; stored in a diked-in pond.

**Thermal cracking:** a refining process which uses heat and pressure to break the large hydrocarbon molecules found in bitumen into smaller hydrocarbon molecules and coke.

**Upstream:** this business segment explores for, develops and produces crude oil and natural gas; develops and produces synthetic crude and heavy oil from the oil sands; pursues coal, uranium and mineral activities.

**Wells:**

*completed:* a well having a definite status—oil, gas or dry.

*delineation (or step-out):* a well drilled in close proximity to an oil or gas well to help determine the limits of the reservoir.

*development:* a well drilled with the expectation of producing from a known-productive oil or gas reservoir.

*exploratory:* a well drilled in unproven or semi-proven territory to find commercial deposits of crude oil or natural gas in a new reservoir.

## Metric conversion guide

*Crude oil, refined products, etc.*

1 m<sup>3</sup> (cubic metre) = approx. 6.29 barrels

*Natural gas*

1 m<sup>3</sup> (cubic metre) = approx. 35.49 cubic feet

*Land holdings*

1 hectare = approx. 2.5 acres

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**Sunoco Group**

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**Subsidiary companies**

*(100% owned unless otherwise indicated)*

**Sunoco Inc.**  
(including Sunchem division)  
Toronto, Ontario  
*Manufacturer/marketer of petroleum and petrochemical products*

**Chemsun Inc.**  
Toronto, Ontario  
*Marketer of petrochemical products*

**Fair Wind Shipping Inc.**  
Toronto, Ontario  
*Marine transportation*

**Sunchem (U.K.) Limited**  
London, England  
*European petrochemical sales agency*

**Sun-Canadian Pipe Line Company Limited**  
Waterdown, Ontario  
*Petroleum products pipeline operator in southern Ontario (55% owned)*

**Baron Petroleums Inc.**  
**SMS Petroleums Ltd.**  
**Sunoco Home Comfort Inc.**  
Toronto, Ontario  
*Retail personnel services*

**Maywelle Properties Ltd.**  
Toronto, Ontario  
*Real estate developer*

**Albersun Pipeline Ltd.**  
Calgary, Alberta  
*Natural gas pipeline operator*

**Athabasca Realty Company Limited**  
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**Suncor Supply Limited**  
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*(as at December 31, 1984)*

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**Kenneth V.E. Liddon**  
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**Major shareholders**

**Sun Company, Inc.**  
Radnor, Pennsylvania  
(owning 74.9% of common shares)

**Ontario Energy Resources Ltd.**  
Toronto, Ontario  
(owning 25% of common shares)

**Stock exchange listings**

The Suncor Preferred Shares Series A are listed on the Toronto and Alberta Stock Exchanges.

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*In Search of the Answers*