



ANNUAL INFORMATION FORM

SUNCOR INC.

36 York Mills Road
North York, Ontario
M2P 2C5

March 18, 1993



ANNUAL INFORMATION FORM

March 18, 1993





ANNUAL INFORMATION FORM

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
GLOSSARY OF TERMS	i	Production	16
CONVERSION TABLE	ii	Sales and Sales Revenues	16
1. INCORPORATION	1	Gas Marketing, Pipeline and Other Operations	17
Incorporation of Issuer	1	Capital and Exploration Expenditures	18
Subsidiaries of Suncor	1	Environmental Compliance	19
2. GENERAL DEVELOPMENT OF THE BUSINESS	1	SUNOCO GROUP	19
3. NARRATIVE DESCRIPTION OF THE BUSINESS	2	Refining	20
OIL SANDS GROUP	2	Marketing	21
Operations	2	Transportation and Distribution	23
Leasehold Interests and Royalties	4	Capital Expenditures	23
Synthetic Crude Oil Gross Proved Reserves	5	Environmental Compliance	23
Production	5	EMPLOYEES	24
Revenues from Synthetic Crude Oil	5	GOVERNMENT REGULATION	24
Labour Relations	6	Environmental Regulation	24
Outlook	6	Investment Canada Act	25
Capital Expenditures	7	4. SELECTED CONSOLIDATED FINANCIAL INFORMATION	25
Environmental Compliance	8	Dividend Policy and Record	26
RESOURCES GROUP	9	5. MANAGEMENT'S DISCUSSION AND ANALYSIS	26
Exploration, Development and Acquisitions	9	6. MARKET FOR THE SECURITIES OF THE ISSUER	26
Conventional Oil	11	7. DIRECTORS AND OFFICERS	27
Natural Gas	11	Directors	27
Non-Conventional Heavy Oil	12	Officers	28
Land Holdings	13	8. ADDITIONAL INFORMATION	28
Drilling	14		
Reserves	15		

GLOSSARY OF TERMS

Barrel of Oil Equivalent (or "BOE"): converts natural gas to crude oil on the approximate long-term economic equivalent basis of 10,000 cubic feet of natural gas equals one barrel of oil or 1,773 cubic metres of natural gas equals one cubic metre of oil.

Bitumen/Heavy Oil: extremely viscous (tar-like) form of oil which cannot be produced by conventional means. When extracted from oil sands and upgraded, it becomes synthetic crude oil.

Condensate: a mixture mainly of pentanes and heavier hydrocarbons.

Conventional Crude Oil: oil produced through wells by normal oil field methods.

Cash Operating Costs: for Oil Sands Group cash operating costs include operating and maintenance costs, overburden cash expenditures and the amortization of maintenance shutdown expenditures, but exclude royalties, capital expenditures, other amortization, head office overhead and interest.

Costs:

development: include all costs associated with moving reserves from other classes to the proved producing class.

finding: include the cost of and investment in undeveloped land, geological and geophysical activities, exploratory drilling and direct administrative costs necessary to discover oil and gas proved and probable reserves.

lifting: include all expenses related to the operation and maintenance of producing or producible wells, gas plants and gathering systems.

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

Dry Hole/Well: an exploration or development well incapable of producing commercial quantities of hydrocarbons, which is plugged and abandoned.

Gross Production/Reserves: Suncor's interest before deducting Crown royalties and freehold and overriding royalty interests.

Gross Wells/Land Holdings: the total in which Suncor has an interest.

Heavy Fuel Oil: the residue from refining of conventional crude oil which remains after the lighter products such as gasolines, aromatics, naphtha and kerosene have been extracted from the crude oil.

Horizontal Drilling: drilling horizontally rather than vertically through a reservoir, thereby exposing more of the well to the reservoir rock and typically increasing production.

In Situ Heavy Oil: crude oil which is more viscous or thicker than normal crudes, and therefore does not flow as freely, which is separated by the injection of steam or other means from the sands in the reservoir.

Natural Gas Liquids: propane, butanes or pentanes plus, or a combination of them, obtained from the processing of raw gas or condensates.

Net Production/Reserves: Suncor's interest after deducting Crown royalties and freehold and overriding royalty interests.

Net Wells/Land Holdings: Suncor's interest after deducting the interests of partners.

Non-Conventional Oil: oil which is not produced through wells by normal oil field methods, such as synthetic crude or in situ heavy oil.

Oil Sands: consists of a mixture of sand and bitumen.

Overburden: material overlying oil sands that must be removed before oil sands can be mined, consisting of muskeg (organic soil), glacial deposits and sand.

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

Synthetic Crude Oil: a blend of hydrocarbons resulting from the thermal cracking and upgrading of bitumen by coking and distillation, resulting in a light, low sulphur crude oil.

Undeveloped Oil and Gas Lands: lands on which no producing or commercially producible well has been drilled.

Upstream: these business segments explore for, acquire, develop, produce and market crude oil and natural gas and develop and produce synthetic crude and heavy oil from the oil sands.

Wells:

development: a well expected to produce from a known productive oil or gas reservoir.

drilled: a well having a definite status —gas well, oil well or dry and abandoned.

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

Infill: a well in an existing developed field that allows for the acceleration or additional recovery of reservoir fluids.

CONVERSION TABLE (1)

1 barrel	= 0.159 cubic metres	1 cubic metre (m ³)	= 6.29 barrels
1 cubic foot (natural gas)	= 0.0283 cubic metres	1 cubic metre (natural gas)	= 35.49 cubic feet
1 cubic yard (overburden)	= 0.7646 cubic metres	1 cubic metre (overburden)	= 1.31 cubic yards
1 imperial gallon	= 4.55 litres	1 litre	= 0.22 imperial gallons
1 acre	= 0.405 hectares	1 hectare	= 2.47 acres
1 ton (long)	= 1.016 tonnes	1 tonne	= 0.984 tons (long)
1 ton (short)	= 0.907 tonnes	1 tonne	= 1.102 tons (short)
1 mile	= 1.609 kilometres	1 kilometre	= 0.62 miles
1 foot	= 0.304 metres	1 metre	= 3.28 feet

(1) Conversion using the above factors on rounded numbers appearing in this Annual Information Form may produce small differences from reported amounts.

Some information in this Annual Information Form is set forth in metric units and some in imperial units.

ITEM 1 INCORPORATION

(1) Incorporation of Issuer

Suncor Inc. was originally formed by the amalgamation under the Canada Business Corporations Act on August 22, 1979 of Sun Oil Company Limited, incorporated in 1923, and Great Canadian Oil Sands Limited, incorporated in 1953. On January 1, 1989, Suncor amalgamated with a wholly owned subsidiary under the Canada Business Corporations Act. Its registered and principal office is located at 36 York Mills Road, North York, Ontario, M2P 2C5. In this annual information form, references to Suncor include Suncor Inc. and its subsidiaries unless the context otherwise requires.

(2) Subsidiaries of Suncor

Suncor's only principal subsidiary is Sunoco Inc. This subsidiary which is wholly owned by Suncor is incorporated under the laws of Ontario and carries on the businesses of refining and marketing of petroleum products and petrochemicals directly and indirectly through subsidiaries.

ITEM 2 GENERAL DEVELOPMENT OF THE BUSINESS

Suncor, a Canadian integrated oil and gas company, is engaged in the exploration for and acquisition, production and marketing of crude oil and natural gas and in the refining of crude oil and the marketing of petroleum and petrochemical products. Suncor has three principal operating groups: Oil Sands Group, based near Fort McMurray, Alberta, which produces and markets synthetic crude oil from Athabasca oil sands; Resources Group, based in Calgary, Alberta, which explores for, produces and markets natural gas and conventional and non-conventional crude oil; and Sunoco Group, with headquarters in Toronto, Ontario, which markets and refines crude oil and markets a broad range of petroleum and petrochemical products.

In 1992, Suncor produced approximately 70,000 barrels per day of synthetic and conventional crude oil (approximately five percent of Canada's oil production) and 147 million cubic feet per day of natural gas. In 1991, Suncor was the seventh largest crude oil producer and the twenty-fourth largest natural gas producer in Canada. In 1992, Suncor sold approximately 84,000 (13,400 m³) barrels per day of refined products, mainly in its core regional markets in Ontario and Quebec with some exports to the United States and Europe. In 1992, Suncor had a market share of approximately ten percent of the Ontario retail gasoline market and approximately five percent of the Quebec retail gasoline market.

Suncor has a unique asset base, with the largest interest of any company in the oil sands industry, a competitive and growing conventional exploration and production business and a top-quartile refinery. Suncor intends to continue to improve this asset base through aggressive cost control, proactive loss management practices, innovative use of applied technology and increasing volumes of high-value products.

Suncor believes that it has strategic advantages resulting from the synergies in its operations and that these synergies will enhance its ability to compete in the difficult market conditions currently prevailing. The upstream industry environment in which Suncor operates has been characterized by volatile crude oil prices, reduced demand for heavy oil, fluctuating price differentials between heavy and light grades of crude oil and oversupply of natural gas causing depressed prices although in the latter half of 1992 supply and demand for natural gas strengthened and prices improved. The downstream business has experienced overcapacity, volatile but primarily low margins and declining demand for fuel oil and heavy petroleum products. Some of these conditions have been exacerbated by the current recession. This environment is reducing the industry's cash flow and earnings. In 1992, Suncor reported a loss of \$228 million and cash provided from operations, before changes in operating working capital, of \$193 million. Earnings in 1992 included an asset restructuring charge of \$238 million (see Note 1 of "Consolidated Financial Statements"). The asset restructuring charge resulted in the writedown of certain oil sands assets, the writeoff of the Burnt Lake investment (see "Resources Group — Non-Conventional Heavy Oil") and the provision for losses on the sale or abandonment of certain oil and gas properties.

Public announcements by some downstream competitors indicate that they have plans to address the overcapacity in the Canadian downstream business by closing a number of refineries, bulk plants and service stations over the next few years. In Sunoco's markets during 1992 some progress was made in reducing the size of the marketing networks although there were no major refinery rationalizations implemented.

Suncor's upstream oil production is primarily light, low sulphur crude oil as a result of the characteristics of the synthetic crude oil produced at its oil sands plant and the quality of the conventional crude oil produced by Resources Group which is lighter than the Canadian average. Suncor's upstream production nearly balances its refinery crude feedstock requirements. Suncor believes this balance reduces the volatility of its earnings and cash flow due to world supply disruptions and other factors that cause crude oil and product price changes. In addition, Suncor uses its natural gas both at its Sarnia refinery and at its oil sands plant as feedstock and fuel. When gas prices are depressed, the lower cost of internal consumption partially offsets the loss of revenue in Resources Group, which lessens the impact on Suncor's earnings.

The configuration of Suncor's refinery in Sarnia, Ontario permits the processing of a substantial amount of synthetic crude oil. Synthetic crude oil is low in sulphur and heavy ends, yielding a substantially lighter product slate. This results in Suncor having a more highly valued product mix when compared to yields from average Canadian conventional crude oil and when compared to most other Canadian refineries. See also Item 3 — "Narrative description of the business".

ITEM 3 NARRATIVE DESCRIPTION OF THE BUSINESS

OIL SANDS GROUP

Suncor produces synthetic crude oil by mining the Athabasca oil sands and upgrading the bitumen extracted at its plant site located near Fort McMurray, Alberta. Suncor pioneered commercial production of synthetic crude oil from oil sands, with initial plant production beginning in 1967. The oil sands operation represents a significant portion of Suncor's asset base, cash flow and earnings. Suncor made substantial investments over the last five years to improve the reliability and flexibility of the oil sands operation, and these investments contributed to making 1992 the second best year of production ever (approximately 58,500 barrels per day). Oil Sands Group has reserves for the next 11 years on the two leases it is currently mining. During the year Suncor acquired nearby leases that are expected to have one billion barrels of recoverable light sweet synthetic crude oil. See "Outlook".

The following table sets forth the earnings, cash provided from operating activities and capital expenditures of Oil Sands Group for the years indicated.

	<u>Year ended</u> <u>December 31</u>	
	<u>1992</u>	<u>1991</u>
	(\$ millions)	
Earnings*	11	48
Cash flow provided from operations	82	158
Capital expenditures	65	76

* Excluding the impact of a 1992 asset restructuring charge of \$85 million as explained in the "Overview" section of "Management's Discussion and Analysis".

Following the 1992 strategic review, the objectives of the Oil Sands Group are to continue to implement the major strategic changes identified which should result in increasing production, improving reliability, lowering costs and improving safety and environmental performance.

Operations

Oil sands consist of a mixture of sand and bitumen. Suncor's integrated oil sands business involves a mining and extraction operation and a heavy oil upgrading process. The first phase, an open pit mining operation, removes overburden with trucks and shovels. Currently, large bucketwheel excavators move oil sands onto conveyor systems stretching approximately 11 miles (18 kilometres) carrying the oil sands to Suncor's extraction plant. A new system of trucks, shovels and large capacity sizers will replace the bucketwheel excavators in 1993. See "Outlook". Bitumen is extracted from the oil sands by a hot water process which uses a settling separation method followed by dilution with naphtha (diluent) and the removal of water and fine sand in centrifuges.

The second phase of the operation involves heavy oil upgrading. The bitumen from the extraction plant is first separated from the diluent and then is upgraded by coking, distillation and hydrogen treatment to remove sulphur and nitrogen. The upgraded distillates are blended into synthetic crude oil according to customer specifications. The

synthetic crude is then shipped approximately 270 miles (435 kilometres) in Suncor's pipeline to Edmonton, Alberta for sale and distribution to Suncor's Sarnia refinery and others.

To produce steam and electric power, Suncor operates its own utility plant using coke extracted from the bitumen as fuel. Additional power is purchased from an Alberta public utility. The operation also consumes natural gas which is carried to the plant through a pipeline owned by Suncor which runs from north of Edmonton. The natural gas includes volumes produced by Suncor, as well as gas purchased from others under long-term supply contracts. Under current provincial regulations, the gas produced by Suncor and used in the oil sands plant is generally royalty free. For Suncor's plans to update its utility operation, see "Outlook".

The oil sands plant is susceptible to loss of production due to the interdependence of its component systems. Under Suncor's business interruption insurance coverage, Suncor would bear at least the first \$50 million of any business interruption arising from an insured incident at its oil sands operation. Severe climatic conditions such as extreme cold can cause reduced production and in some situations result in higher costs. Over the past several years, back-up components and systems have been introduced in critical areas to reduce vulnerability. Major efforts and investment have been made over the same period to increase production, improve reliability and reduce cash operating costs. The oil sands plant experienced two interruptions in 1992 during which the value of preparedness was demonstrated. See "Management's Discussion and Analysis".

In addition to ongoing preventive and predictive maintenance programs, full plant maintenance shutdowns are planned every three years. Management has recently decided to re-schedule part of the 1993 shutdown into 1994. This decision is expected to reduce the related cash expenditures from approximately \$45 million to \$32 million in 1993. Production is expected to average approximately 59,000 barrels per day in 1993, inclusive of the shutdown period.

Improvements in the co-ordinating and scheduling of maintenance and operations include an operations-wide group which provides integrated coordination of maintenance planning with production; a Production Committee, which focuses on optimizing output; and the development of comprehensive maintenance planning and work scheduling systems.

The following table shows daily production and cash operating costs of Oil Sands Group for the years indicated.

	Year ended December 31	
	1992	1991
Daily production (thousands of barrels)	58.5	60.6
Cash operating costs (\$ per barrel)	16.75	15.75
Cash costs (\$ per barrel)*	19.50	19.00

* Cash costs include cash operating costs and sustaining capital.

In 1992, cash costs increased to \$19.50 per barrel primarily due to the interruptions that added \$1.25 per barrel and lower production levels. See "Management Discussion & Analysis" for details. The 1991 cash cost per barrel of \$19.00 includes \$1.50 per barrel related to a conveyor extension. The level of sustaining capital expenditures fluctuates from year to year and prior year expenditures are not necessarily indicative of future years' spending levels.

In October 1987, a major fire in the extraction facility forced the shutdown of the plant. Partial operations resumed in January 1988 and full production was restored by late March 1988. Expenditures to clean up, rebuild and make improvements to the extraction plant totalled approximately \$60 million. Proceeds totalling approximately \$25 million were received under Suncor's insurance claim to partially offset this cost. Steps were taken to reduce the risk of a recurrence by upgrading certain of the operating procedures, equipment and facilities involved. On October 6, 1989, Suncor commenced an action in the Court of Queen's Bench of Alberta against a number of defendants for damages arising out of the fire. The claim is in the amount of \$110 million plus prejudgment interest and costs. The damages are claimed for the spread of the fire throughout the motor control center and into the extraction plant. Suncor asserts that the fire was spread by electrical cable with polyvinylchloride ("PVC") jacket. Suncor pleads that the dangerous propensity of PVC jacketed cables in grouped configurations either was known, or should have been known, by the defendants and that they had a duty to warn Suncor which would have taken remedial steps if it had been so warned. The litigation raises a number of complex issues and is still in relatively

primary stages of discovery. Based upon present information and advice, Suncor's management believes that the prosecution of the claim has merit, but it is premature to assess the likely outcome.

Investing activities are expected to more than double in 1993, primarily due to expenditures associated with the change in the mining method as noted in the "Outlook" section. A plan involving a number of specific actions at the plant has been initiated with a view to achieving consistent production of an average of 64,000 barrels per day in 1994. Some of the major projects, largely scheduled for completion during the planned 1993 plant maintenance shutdown, are modification of coker heaters to reduce downtime for decoking, coker unit modifications to control fouling and increase on-stream time and improved diluent recovery and reduction of emissions. In addition, \$6 million will be spent in the upgrading plant, which combined with higher volumes from truck and shovel mining should increase production capacity to a level of 68,000 barrels per day by the end of 1994.

Suncor's mine plan, which includes plans for the optimum recovery of bitumen under the physical, technological, environmental and economic constraints associated with the mining operation, requires approval annually by the Energy Resources Conservation Board of Alberta ("ERCB"). Due to the change in mining technology the mine plan for 1993 has been modified with the modifications approved by the ERCB.

Leasehold Interests and Royalties

Suncor's current oil sands mining operations are conducted on a site of approximately 6,100 acres covered by two oil sands leases granted by the Province of Alberta known as Lease 86 and Lease 17. Lease 86 and Lease 17 are adjacent and located on the west bank of the Athabasca River, about 20 miles (32 kilometres) north of Fort McMurray. Lease 86 expires in the year 2008, Lease 17 expires in 2000 and each is renewable as long as the plant or other works are in operation. Suncor owns the surface area of the land on which most of its plant facility is located.

Lease 86 covers approximately 4,500 acres. At December 31, 1992, approximately 67 percent of Suncor's proved reserves of synthetic crude oil were located on the property covered by Lease 86. Lease 17 covers approximately 1,600 acres adjacent to Lease 86. At December 31, 1992, Lease 17 contained approximately 33 percent of Suncor's proved reserves of synthetic crude oil. In 1992, Lease 86 accounted for 92 percent of Suncor's production. Suncor expects that mining operations on both Lease 86 and Lease 17 will be completed in approximately 2003.

The Province of Alberta is entitled to royalties under the leases at rates which the Province establishes from time to time. Under the royalty structure, which commenced on July 1, 1987, the royalty paid to the Province of Alberta was calculated as the greater of two percent of revenues or 15 percent of the sum of revenues minus allowed operating and capital costs. This royalty payment changed significantly on January 1, 1992 to the greater of five percent of revenues or 30 percent of the sum of revenues minus allowed operating and capital costs. The royalty is payable in the form of synthetic crude oil, but the Crown may request that Suncor dispose of the Crown share of synthetic crude oil on its behalf and pay the proceeds to the Crown. The Crown currently chooses the latter option. The change to the higher rate in 1992 increased the royalty expense by \$14 million. See "Outlook".

Norcen International Ltd. has a gross overriding royalty pursuant to an agreement dated March 1, 1989 (the "Norcen Royalty"). The Norcen Royalty is based on a graduated scale expressed as a percentage of gross revenue from production of the lease. As of December 31, 1992, under the Norcen Royalty, no payment is required if synthetic crude prices are below \$17.87 per barrel. Payment of one and one half percent of gross revenue is required if the synthetic crude price ranges from \$17.87 to \$18.87 per barrel. For every \$1.00 per barrel increase in the price of synthetic crude in the range of \$18.87 to \$23.87 per barrel, the percentage rate of the royalty increases by one half percent. For every \$1.00 per barrel increase in the price of synthetic crude in the range of \$23.87 to \$34.87 per barrel, the percentage rate of the royalty increases by a further one quarter percent until a maximum royalty of seven percent is reached. All synthetic crude prices are calculated on a monthly average basis and the crude price break points are adjusted annually on March 1 by a contractually determined inflation component.

Royalties were as follows for the years indicated.

	<u>Year ended</u> <u>December 31</u>	
	<u>1992</u>	<u>1991</u>
	(\$ millions)	
Crown Royalty (1)	23	10
Norcen Royalty (2)	18	20

(1) Payable with respect to Lease 86 and Lease 17.

(2) Payable with respect to Lease 86.

During the year, Suncor acquired two additional nearby leases; these leases are subject to both Crown and third party royalties. See "Outlook". Suncor also holds Leases 98 and 14 which are two other potentially mineable oil sands leases in the Athabasca area approximately 25 miles (40 kilometres) from the oil sands plant.

Synthetic Crude Oil Gross Proved Reserves

Suncor engaged Coles Gilbert Associates Ltd. ("CGA"), independent petroleum consultants, to report on its reserves of synthetic crude oil as of December 31, 1992. The independent CGA assessment does not take into account the economic aspects of future production. The reported proved reserves are those considered with a high degree of certainty to be mineable using current and planned future mining methods and are based on the ERCB approved pit limit. This includes the impact of the reserve transfer agreement with Syncrude Canada Ltd. of October, 1992. Future improvements in the extraction and upgrading process have not been considered. Small amounts of bitumen reserves associated with the tailings pond pump project have been included. On-site fuel consumption has been deducted. On that basis, CGA determined that the gross proved reserves of synthetic crude oil as of December 31, 1992 were 256 million barrels before deduction of Crown and applicable royalties on the leases currently being mined.

Production

The following table summarizes Suncor's synthetic crude oil operations for the years indicated.

	<u>Year ended</u> <u>December 31</u>	
	<u>1992</u>	<u>1991</u>
Overburden removed (millions of cubic yards)	14.6	12.8
Oil sands mined (millions of tons)	44.3	45.1
Average bitumen content of oil sands mined (percent by weight)	11.9	11.9
Average crude yield of oil sands mined (barrels per ton)	0.48	0.49
Partially and fully processed synthetic crude oil production(1) (millions of barrels)	21.4	22.1

(1) Before royalties and after plant usage.

Revenues from Synthetic Crude Oil

Under an agreement made in 1965 at the outset of the oil sands project, which has been amended from time to time, Shell Canada Products Limited ("Shell") is entitled to purchase approximately 25 percent plus 2,950 barrels daily of Suncor's synthetic crude oil production attributable to Lease 86. The agreement was renewed in December 1992 and is renewable, at Shell's option, for further five-year periods. In 1992, 5.9 million barrels were sold to Shell. The price at which synthetic crude oil is sold to Shell is based on the average price of three Alberta reference crude oils and approximates the price received from other customers.

Sales to Shell in 1992 of both Suncor synthetic crude oil and refined petroleum products represented approximately ten percent of Suncor's consolidated revenues. Shell is the only customer whose purchases account for ten percent or more of the consolidated revenue of Suncor.

A major portion of Suncor's synthetic crude oil production is used in connection with its Sarnia refining operations. During 1992, the refinery processed approximately 38 percent of Suncor's synthetic crude oil production. The balance, after sales to Shell and the Sarnia refinery, is sold to others under contracts terminable by short notice or on a spot basis.

Total revenue for Oil Sands Group was \$491 million in 1992 compared with \$519 million in 1991. The following table provides information as to Suncor's synthetic crude oil sales revenues and costs for the years indicated.

	Year ended December 31	
	1992	1991
	(\$ per barrel)	
Average sales revenue of synthetic crude oil (including partially processed) (1).....	22.99	22.95
Average cost of synthetic crude oil produced (2).....	21.68	19.76

(1) 1992 includes the sale of 830,000 barrels of distillate at a price of \$17.05 per barrel.

(2) Includes all operating (including non-cash) costs and royalties; excludes corporate office overhead and interest.

Operating costs to produce synthetic crude oil are substantially higher than lifting costs to produce conventional crude oil due to the nature of the operations required to produce synthetic crude oil. The costs associated with synthetic crude are largely fixed for the same reason and as a result, operating costs per unit are largely dependent on levels of production. Oil Sands announced changes in 1992 to operations that should significantly reduce future operating and capital costs by \$5 to \$7 per barrel. See "Outlook" for details.

Labour Relations

Oil Sands Group employs directly approximately 1,800 people, of whom approximately 1,000 are unionized. During 1992, Oil Sands signed a new two-year collective agreement with the Communications, Energy and Paper Workers Union of Canada (CEP) which expires on May 1, 1994. The agreement provides for wage increases of three percent in 1992 and two percent in 1993. Constructive relations exist between the CEP and management and they are working together to ensure fair treatment for union employees whose jobs will be eliminated by the adoption of more efficient operations.

As the strategic changes discussed under the following "Outlook" section are implemented in 1993, approximately 400 jobs will be eliminated from the Oil Sands Group workforce. The estimated costs associated with these terminations were provided for in the 1992 asset restructuring charge.

Suncor also uses the services of various outside contractors to provide contract maintenance support in certain areas of the plant. These contractors employ approximately 400 workers, most of which are trade union members. The collective agreement for the union workers of the largest of these contractors expires in late 1993.

Outlook

During 1992, Suncor carried out an in depth evaluation of the heavy oil business in Canada and Suncor's position within that business. The conclusions from this study, relative to Suncor's oil sands business, were:

1. The upgrader should remain profitable because the value of the light sweet synthetic crude oil output is increasing and because light/heavy oil price differentials remain higher than historical levels.
2. Significant structural and operational changes are possible within the bitumen producing business, which should result in it becoming a low cost bitumen supplier.
3. More stringent environmental air standards coming into effect in mid-1996 can be met by a change in utilities plant operations utilizing a different technology (Fluidized Bed Combustion or FBC) that not only reduces emissions at least 75 percent, but does so at a reduced cost and with more efficient utilization of natural resources.

Translating these conclusions into actions and results should lower Oil Sands Group total cash costs (operating and sustaining capital) in 1992\$ by \$5 to \$7 per barrel by 1996. At the same time average production should increase to about 68,000 barrels per day, from the current level of about 60,000 barrels per day.

This should translate into cash improvements of \$125 million to \$175 million per year, with the changes starting to take place in late 1993.

The most important component of the strategy was the decision to purchase a new system of trucks, shovels and high capacity sizers to replace the 25-year old bucketwheel excavator system. The primary benefits of this

change should result from an integrated mining and overburden operation requiring fewer workers, the ability to provide a more consistent oil sands feed to the extraction operation and shorter haulage distances. This change will entail an outlay of up to \$100 million with the majority of the expenditures to be made in 1993.

The FBC technology to be used in the utility plant has already been proven in commercial operations. In order to confirm the engineering assessments and the preliminary cost estimate of \$270 million (excluding any interest costs incurred during construction), Suncor will be investing up to \$10 million in 1993. As well, Suncor has finalized a memorandum of understanding with Atco Ltd.'s subsidiary, Canadian Utilities Limited, through CU Power Canada Limited to jointly develop and operate this new plant. Suncor and CU expect to make the final decision to proceed or not during the second half of 1993.

Productivity savings throughout the Oil Sands operation are also expected as a result of the simplification of the operation.

As a result of these decisions, certain assets were written down and additional costs were provided for, resulting in a third quarter restructuring charge to earnings of \$85 million.

The reserves on Suncor's current developed leases are expected to be fully mined by 2003. Suncor has acquired two additional nearby undeveloped leases that would allow the production of an additional one billion barrels of light sweet synthetic crude oil and should extend the life of the operation beyond 2040. Although final studies and evaluations of the new leases have not been completed, it is estimated that the cost to develop the first of the leases for mining will be approximately \$100 million (1992\$) commencing in 1997 and spread over three years, subject to Board and regulatory approvals.

During 1992 the Government of Alberta agreed to provide Suncor with an adjustment to the Crown Royalty payment mechanism, in conjunction with approved capital environmental spending for odour and sulphur dioxide emission reductions commencing January 1, 1992 and ending December 31, 1997. The relief provides reduction of payments in these years which will depend on a combination of crude oil pricing, timing and the actual amount of spending which occurs. The current minimum payment of five percent of gross revenues will be reduced by 50 percent of spending on the approved capital programs to a maximum reduction of four percent of gross revenues. The royalty reduction earned in 1992 was \$1 million, with an expected savings of \$5 million in 1993.

On an ongoing basis, current and future financial results are influenced by synthetic crude oil prices and production levels. Although partial or complete losses of production have occurred in the past (and will likely occur in the future) and operating conditions can be exacerbated by cold weather, management and employees continue to work to improve the level of day-to-day operational reliability. Maintaining high production levels is an important factor in keeping unit costs low, since the majority of cash operating costs are fixed.

Capital Expenditures

Continued operation of the oil sands plant requires ongoing capital expenditures. Main feed conveyor systems have been extended at a total cost of \$48 million over the three year period ended in 1992. These extensions are required as mining activities have moved further away from the processing facilities. Equipment, including mobile equipment, must be replaced as it wears out. It is expected that as a result of strategic decisions made in 1992 (see "Outlook"), Oil Sands' cash costs, including sustaining capital expenditures will be reduced in the future. These actions are expected to reduce sustaining capital from the \$50-\$60 million range to an estimated level of \$40 million per year by mid-1996. These expenditures are made on an on-going basis primarily to refurbish or enhance the plant facilities.

The following table summarizes capital expenditures by Oil Sands Group for the years indicated.

	Year ended December 31	
	1992	1991
	(\$ millions)	
Conveyor extension	13	33
Mine and mobile equipment	15	19
Gas oil unfiner rebuild	13	—
Upgrading, utilities and other plant	22	22
Capitalized interest	<u>2</u>	<u>2</u>
Total	<u>65</u>	<u>76</u>

Environmental Compliance

Oil Sands Group has all licences required to operate including a clean water licence and a clean air licence which expire on August 1, 1994 and November 1, 1994 respectively, and a development and reclamation approval, which expires on April 25, 1995. Oil Sands Group anticipates that all necessary licences will either be renewed or extended upon expiry.

Site reclamation costs at Oil Sands Group have been estimated and are being recorded over the estimated remaining life of the reserves by charges against earnings on a unit of production basis reflecting primarily the cost of the reclamation plan submitted to the Province of Alberta. The reclamation plan is comprehensive and includes the tailings ponds reclamation and all surface reclamation and remediation at the site. As a result of an asset useful life review late in 1992, Suncor's management has ceased providing for plant decommissioning until such time as decommissioning can be foreseen. The plan includes moving the fine tailings and the water in the four active tailings ponds and pumping drainage water to a fifth pond designed for these purposes, filling in the four original ponds with coarse tailings sand and rehabilitating these areas. Based on small scale testing to date, biological processes are expected to cleanse the water in the fifth pond so that it will eventually support aquatic life. Oil Sands Group is currently conducting research and development to demonstrate and verify results from pilot testing on a substantially larger scale.

While the proposed method of reclamation for the cleansing of the water in the fifth tailings pond has not yet been demonstrated on a large scale, Oil Sands Group expects to demonstrate the viability of this method of reclamation prior to the renewal of its development and reclamation approval in 1995 as well as continue its investigation of other viable alternatives. Oil Sands Group is also developing methods to improve bitumen recovery which will decrease the amount of hydrocarbons discharged into the tailings ponds. As part of its reclamation plan, Oil Sands Group performs ongoing surface reclamation involving both replacement of muskeg and revegetation.

Oil Sands Group estimates that the total cost for reclamation of the site will be approximately \$179 million (1992 dollars). This estimate is primarily based on the current development and reclamation approval which will expire in 1995. Further groundwater and soil testing is planned to more accurately determine the extent and cost of portions of the reclamation plan. If such testing reveals additional contamination requiring remediation, or more stringent regulatory requirements are imposed, or the proposed method of reclamation for the cleansing of the water in the fifth tailings pond is not viable, the reclamation costs could increase significantly. Actual expenditures will occur gradually over a period currently expected to be 10 to 15 years.

Suncor's 1992 earnings reflect a before tax charge of approximately \$10 million for future reclamation costs. As of December 31, 1992, approximately \$110 million of the estimated \$179 million reclamation costs has been accrued in Suncor's consolidated financial statements.

As discussed in the "Outlook" section, Oil Sands will be assessing the adoption of new technology to meet more stringent sulphur dioxide emission guidelines that come into effect in mid-1996.

In 1991, Oil Sands received an emission control order from the Province of Alberta in response to odour emanating from the tailings ponds. Oil Sands Group complied with the order by monitoring sources of odorous emissions to identify problem areas and using the monitoring results to develop solutions. Implementation of changes to address these issues which involves improving its diluent quality and the capability for diluent recovery

are expected to solve the problem at a cost of approximately \$8 million by the end of 1993. Although not all the odours are expected to be eliminated, the potential for odourous emissions should be significantly reduced.

RESOURCES GROUP

Suncor is active in the exploration, acquisition, development and production of crude oil and natural gas in Canada and the marketing of natural gas and crude oil in North America through Resources Group. Suncor's strategy is to significantly increase the reserve and production base within the next five years and to improve the quality of the asset base by enhancing reservoir recoveries, by divesting properties that are no longer a strategic fit and by improving the overall effectiveness and efficiency of the organization. Suncor concentrates on conventional crude oil and natural gas activities in western Canada with increasing emphasis on natural gas. Additionally, in situ recovery methods are evaluated and, when economically viable, will be used to initiate production from major heavy oil reserve holdings.

The following table sets forth earnings, cash provided from operating activities and capital and exploration expenditures of Resources Group for the years indicated.

	<u>Year ended</u> <u>December 31</u>	
	<u>1992</u>	<u>1991</u>
	(\$ millions)	
Earnings*	11	4
Cash flow provided from operations	75	73
Capital and exploration expenditures	120	118

*Excluding the impact of a 1992 asset restructuring charge of \$152 million as explained in the "Overview" section of "Management's Discussion and Analysis".

Since deregulation of crude oil prices in 1985, Resources Group has taken action to improve its competitive position by reducing the size of its exploration program and focusing on fewer areas. Finding costs decreased from an average of \$7.46 per BOE in the years 1987 to 1989 to an average of \$4.89 per BOE in the years 1990 to 1992.

A natural gas marketing function was established in 1986 enabling Resources Group to develop in-house direct marketing expertise to exploit opportunities resulting from deregulation of natural gas. The gas marketing group sells natural gas acquired from other producers in addition to Suncor's natural gas production.

Resources Group also reduced its administrative costs by reducing management layers and decreasing the employee base from approximately 372 in 1988 to 260 employees in 1992. Through these efforts, administrative costs of Resources Group declined from \$2.56 per BOE in 1988 to \$1.91 per BOE in 1992 and productivity increased from 59 BOE per employee per day to 109 BOE per employee per day over the same period. Management believes that Resources Group is capable of operating a significantly larger property portfolio with minor increases in overhead costs.

Improved exploration results have been achieved due to a geographically focused program. During 1991 and 1992, Resources Group continued to add selectively to its crude oil and natural gas portfolio. In 1991, the exploration and acquisition programs added proved and probable reserves equalling more than 240 percent of Resources Group's 1991 production on a BOE basis. In 1992, exploration and acquisition programs added proved and probable reserves equalling more than 350 percent of 1992 production on a BOE basis.

New production from both exploration and acquisition provided a further reduction in unit overhead costs.

Exploration, Development and Acquisitions

Over the last two years, Resources Group spent approximately \$240 million on exploration, development and acquisition programs directed towards developing large natural gas and light crude oil production capability. Exploration has been focused in selected areas. In this way, the productivity of the exploration teams and the ability to develop a competitive advantage in a given region are enhanced. In 1992, the exploration program found gross proved and probable reserves of approximately 7.3 million BOE which represented 71 percent of 1992 production.

Natural gas exploration is concentrated in the Slave Point/Keg River formations of northeast British Columbia, in the Triassic/Mississippian reservoirs located in the Peace River Arch areas of Alberta and British

Columbia and in the Swan Hills formation of central Alberta. Oil exploration is focused on the Triassic and Devonian formations in northwest Alberta and northeast British Columbia. In southwest Alberta, exploration for sweet crude in the Cretaceous formation is underway using horizontal drilling technology.

In 1992, Suncor participated in the drilling of 21 gross exploration status wells (13 net). Oil and gas was found in ten gross wells (six net) for a success rate of 50 percent. In addition, Resources Group farmed out 19 prospects on which five oil and gas discoveries were made by others. Suncor retains varying interests in these discoveries.

No wells were drilled on Resources Group's frontier lands in 1992. Suncor continues to hold interests in frontier properties, including 27 long term "significant discovery licences", which have currently uneconomic resources of 1.5 trillion cubic feet of natural gas and 50 million barrels of oil. Suncor has no plans to develop these resources in the foreseeable future.

Effective January 1, 1992, Suncor acquired a majority operating interest in the Simonette area of west central Alberta. With a 90 percent working interest, Suncor was positioned to control the optimization of this oil and gas producing property by reducing operating expenses, enhancing production operations and taking advantage of third party processing opportunities. On a BOE basis at year end, the acquisition represented about seven percent of Resources Group's proven reserves and daily production. Cash consideration paid for the acquisition was \$28 million.

In an asset exchange completed in December but effective July 1, 1992, Suncor acquired a 37.5 percent interest in the Stolberg gas unit in the foothills area of western Alberta. Suncor originally had a 28 percent working interest and became operator of this deep gas property. Suncor acquired proven reserves of 6.5 MMBOE in Stolberg and two other less significant properties in consideration for the conveyance to the other party of 1.8 MMBOE, and the payment of \$6 million cash. The properties conveyed by Suncor were minor nonoperated interests in central Alberta compared to the long-term proven reserves and significant probable gas reserves acquired in the foothills area. The net production impact of this asset exchange was a gain to Suncor of 220 BOE per day.

A third major acquisition incorporating six oil and gas properties in the Medicine River area was completed at year-end 1992 for \$7 million and was effective December 15th, 1992. The production impact was small for 1992 but on a daily basis the properties acquired produce nearly 400 barrels per day (BPD) of crude and natural gas liquids and 2 million cubic feet per day (MMCF/D) of gas. Five of the six properties acquired were already operated by Suncor. The proven reserves associated with this acquisition represented 1.7 MMBOE.

In 1992, major Suncor development projects were located at Glacier, Rosevear, Pine Creek, Youngstown, Medicine River and Mountain Park in Alberta and at Adsett and Blueberry in British Columbia. Work on these properties comprised well tie-ins, compression installation and development well drilling. The result was a substantial increase in proved producing reserves net to Suncor of 143 billion cubic feet (BCF) of natural gas and 3.8 million barrels of oil and natural gas liquids.

Conventional Oil

The following table shows estimates of Suncor's proved crude oil reserves before royalties as prepared by CGA (see "Reserves") and Suncor's average daily production of crude oil before royalties represented by the major conventional oil fields identified in the table. The fields specified in the table represent over 70 percent of Suncor's proved reserves and gross production.

Fields	Proved Reserves		1992 Average Daily	
	Before Royalties at December 31, 1992		Production Before Royalties	
	(millions of barrels)	(%)	(barrels of oil per day)	(%)
Medicine River.....	4.86	15.5	1,390	12.7
Oungre	4.85	15.5	856	7.8
Simonette	2.39	7.6	800	7.3
Swan Hills	2.15	6.8	523	4.8
Pembina	2.07	6.6	734	6.7
Steelman	1.69	5.4	403	3.7
Youngstown	1.64	5.2	1,580	14.4
Blueberry.....	1.60	5.1	413	3.8
Provost	0.90	2.9	608	5.6
Boundary Lake.....	0.86	2.7	268	2.4
Mitsue.....	0.67	2.2	328	3.0
Other (1)	<u>7.67</u>	<u>24.5</u>	<u>3,042</u>	<u>27.8</u>
	<u>31.37</u>	<u>100</u>	<u>10,945</u>	<u>100</u>

(1) Includes fields in which Suncor holds overriding royalty interests.

(2) The reserves and production in this table do not include natural gas liquids.

Most of the large conventional oil fields in the western provinces have been in production for a number of years and the rate of production in these fields is subject to natural decline. In some cases, additional amounts of crude oil can be recovered by using various methods of enhanced oil recovery, infill drilling and production optimization schemes.

The most commonly used enhanced oil recovery mechanism is waterflooding where water is injected into the reservoir to pressurize the formation. Waterflood programs are used in six of Suncor's top 11 oil producing fields. At Mitsue and Swan Hills, Alberta sophisticated miscible flooding is employed involving high pressure natural gas and solvent injection into the reservoir. At the end of 1992, approximately 75 percent of Suncor's proved conventional oil reserves were under enhanced oil recovery programs.

Some reserves are capable of production using primary methods which utilize the reservoir's natural pressure. Primary recovery methods are used at five of Suncor's top 11 producing fields. Suncor has employed horizontal and directional drilling techniques in order to increase oil recovery, reduce development costs and minimize environmental disturbance. Horizontal drilling techniques have been applied at the Oungre field in Saskatchewan and to a lesser extent at Provost, Alberta and Hoffard, British Columbia. In 1992 the Bonanza field in Alberta successfully produced oil through horizontal wells. Suncor plans to continue to apply this technology where technically and economically feasible.

Natural Gas

Over the years since natural gas deregulation in 1985, Suncor has focused exploration, development and acquisition programs on increasing natural gas production. In 1992, development projects at Glacier, Adsett and Blueberry — as previously mentioned — provided important contributions to this gas expansion strategy. New production was brought on stream at Glacier, and Adsett; and in Blueberry, gas production was dramatically increased. These three projects added some 26 million cubic feet daily to Suncor gas production by the end of 1992.

The following table shows estimates of Suncor's proved natural gas reserves before royalties as prepared by CGA (see "Reserves") and Suncor's average daily production before royalties represented by the major natural gas fields identified in the table. The fields specified in the table represent 80 percent of Suncor's proved reserves and over 60 percent of gross production.

Fields	Proved Reserves		1992 Average Daily	
	Before Royalties at December 31, 1992		Production Before Royalties	
	(billions of cubic feet)	(%)	(millions of cubic feet per day)	(%)
Stolberg	94.6	15.3	6.6	4.5
Rosevear	90.6	14.7	32.3	22.0
Glacier (1)	76.6	12.4	2.9	2.0
Blueberry	47.8	7.7	3.3	2.2
Simonette	40.5	6.6	7.4	5.0
Pine Creek	40.0	6.5	5.4	3.7
Bonanza	26.5	4.3	5.6	3.8
Adsett (1)	24.7	4.0	4.7	3.2
Mountain Park	17.8	2.9	5.4	3.7
East Mel	15.7	2.5	4.1	2.8
Calling Lake	11.9	1.9	6.3	4.3
Liege	7.6	1.2	8.2	5.6
Other (2)	<u>122.7</u>	<u>20.0</u>	<u>54.6</u>	<u>37.2</u>
	<u>617.0</u>	<u>100</u>	<u>146.8</u>	<u>100</u>

(1) Commenced production in 1992.

(2) Includes fields in which Suncor holds overriding royalty interests.

By December 1991, Suncor operated major gas processing plants at South and North Rosevear, Pine Creek, Thorsby and Liege with a total design capacity of approximately 135 MMCF/D. Suncor also has varying working interests in natural gas processing plants operated by other companies.

The acquisition of new plant capacity at Simonette and plant capacity additions at South Rosevear and Pine Creek increased total Suncor-operated plant capacity to 175 MMCF/D by the end of 1992. This provides Suncor with control of strategically located plant capacity and opportunities to generate significant processing revenues and scale related reductions in unit operating costs. Increasing environmental concerns and regulation of new plant construction are likely to make these plant assets increasingly valuable.

Non-Conventional Heavy Oil

In 1985, Suncor purchased the right to earn an ownership interest in 48 sections of oil sands leases called the Burnt Lake Heavy Oil Project in the Cold Lake area of Alberta for \$79 million. In 1986, a project was commenced and Suncor earned a 79.1 percent working interest in four sections of oil sands leases. These sections were chosen for their relatively high reservoir quality. Suncor believes Burnt Lake is one of the highest quality non-conventional heavy oil reservoirs in Canada. The project was suspended that same year due to falling heavy oil prices. Work resumed on the development of a steam in situ recovery project in 1988 but was again suspended in 1989 in response to lower and uncertain heavy oil prices. Over the last three years, approximately \$6 million was spent on testing "cold" production technology and other activities associated with potential project development.

In 1992, the decision was made to write-off the \$143 million carrying value of the Burnt Lake heavy oil project due to concerns about the long-term outlook for North American heavy oil prices and recent mixed "cold" production testing results (refer to Note 1 in the consolidated financial statements). Resources Group, in cooperation with partners, will continue testing technology to identify methodology with potential for future economic development of the property.

Resources Group has various interests in heavy oil leases in Cold Lake and the Athabasca regions of Alberta with heavy oil resources of 19 billion barrels. These properties are carried at little or no book value. Suncor has no current plans to develop any of these leases. Current crude oil prices and technology results in unattractive economics for major heavy oil development projects.

Land Holdings

The following table sets forth the undeveloped and developed lands in which Resources Group held petroleum and natural gas interests at the end of 1992 and 1991, except as indicated in notes (3) and (4) below. Undeveloped lands are lands on which no producing well or well capable of production has been drilled and developed lands are lands on which such a well has been drilled.

	Licences, Reservations, Permits and Exploration Agreements (1)				Leases (1)			
	Gross Acres (2)		Net Acres (2)		Gross Acres (2)		Net Acres (2)	
	1992	1991	1992	1991	1992	1991	1992	1991
	(thousands)				(thousands)			
<i>Undeveloped Lands</i>								
Western Provinces (3)								
British Columbia	137.3	123.2	89.0	84.9	162.8	154.3	113.9	92.2
Alberta (4)	341.1	398.3	173.6	206.2	418.8	426.0	217.5	213.2
Saskatchewan	55.4	60.5	55.4	60.4	15.6	15.6	7.2	7.2
Total	<u>533.8</u>	<u>582.0</u>	<u>318.0</u>	<u>351.5</u>	<u>597.2</u>	<u>595.9</u>	<u>338.6</u>	<u>312.6</u>
Frontier (Canada Lands)								
Northwest Territories	—	47.4	—	35.5	—	—	—	—
Mackenzie Delta	—	—	—	—	6.7	6.7	3.0	3.0
Beaufort Sea	29.6	241.9	1.1	12.6	34.6	34.6	3.7	3.7
Arctic Islands	—	—	—	—	391.7	391.7	55.7	55.7
Offshore Labrador	—	—	—	—	62.2	62.2	6.2	6.2
Total	<u>29.6</u>	<u>289.3</u>	<u>1.1</u>	<u>48.1</u>	<u>495.2</u>	<u>495.2</u>	<u>68.6</u>	<u>68.6</u>
<i>Developed Lands</i>								
Western Provinces (3)								
British Columbia	2.6	2.6	1.9	1.8	123.8	129.4	43.8	45.9
Alberta (4)	24.2	10.0	13.0	3.9	727.4	801.7	338.5	347.4
Saskatchewan	—	—	—	—	24.2	26.9	19.4	21.6
Manitoba	—	—	—	—	—	2.6	—	1.4
Total	<u>26.8</u>	<u>12.6</u>	<u>14.9</u>	<u>5.7</u>	<u>875.4</u>	<u>960.6</u>	<u>401.7</u>	<u>416.3</u>
Frontier (Canada Lands)								
Northwest Territories	—	—	—	—	14.0	14.0	14.0	14.0
Mackenzie Delta	—	—	—	—	7.1	7.1	2.9	2.9
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21.1</u>	<u>21.1</u>	<u>16.9</u>	<u>16.9</u>

(1) No deduction has been made from Crown licences, reservations, permits or exploration agreements to reflect that only a portion of these areas may be converted to lease or production licence. Crown licences, reservations and permits are acquired from the provincial governments through competitive bidding and exploration agreements are acquired from the federal government by undertaking work commitments. These confer upon the holder exploration rights and the right to lease or apply for a production licence for the crude oil and natural gas rights under portions of the lands covered. The extent of such rights differs in each jurisdiction and between various areas in a single jurisdiction. The holder is generally required to make cash payments or undertake specified work in order to retain such rights. Leases in general confer upon the lessee the right to explore for and remove crude oil and natural gas from the property with the lessee paying all the development and operating costs and being entitled to the production, subject to rental, tax and royalty.

(2) "Gross acres" means all acres in which Suncor has an interest. "Net acres" means gross acres after deducting interests of others.

(3) Includes 202,014 gross developed acres and 13,917 gross undeveloped acres (1991 — 276,882 and 18,732) in western Canada in which Suncor held overriding royalty interests at the end of the years indicated and from which it received revenues of about \$3.1 million in 1992 and \$3.1 million in 1991.

(4) Not included in the table are the oil sands (including non-conventional heavy oil) leases comprising 221,876 gross (148,136 net) undeveloped acres and 68,666 gross (7,654 net) developed acres at the end of both years.

Certain of Suncor's interests in undeveloped lands are subject to reduction under farm-out agreements whereby others may earn interests by undertaking exploration or development work. Conversely, Suncor is a party to farm-in agreements whereby it may earn interests in land held by others by undertaking such work.

Drilling

The following table sets forth the gross and net exploratory and development wells which were completed, capped or abandoned in which Suncor participated during the years indicated, all in western Canada.

	Year ended December 31			
	1992		1991	
	Gross	Net	Gross	Net
Exploratory Wells				
Oil	1	0	3	2
Gas	9	6	6	3
Dry	<u>11</u>	<u>7</u>	<u>18</u>	<u>10</u>
Total	<u>21</u>	<u>13</u>	<u>27</u>	<u>15</u>
Development Wells				
Oil	49	15	74	23
Gas	6	2	11	6
Dry	<u>11</u>	<u>3</u>	<u>9</u>	<u>3</u>
Total	<u>66</u>	<u>20</u>	<u>94</u>	<u>32</u>
Total	<u>87</u>	<u>33</u>	<u>121</u>	<u>47</u>

Not included are wells completed under farm-out agreements on Suncor properties, since Suncor did not incur cash expenditures in connection with such wells. In addition to the above wells, Suncor had interests in 3 gross (1 net) exploratory wells in progress at the end of 1992.

Reserves

CGA has reported on Suncor's reserves of crude oil, natural gas and natural gas liquids. The following table sets forth CGA's determination of Suncor's estimated recoverable reserves based on constant year end prices and costs with no escalation into the future as of the dates indicated. The accuracy of any reserve estimate is a function of the quality and quantity of available data and of engineering interpretation and judgment. While reserve and production estimates presented in this Annual Information Form are considered reasonable, the estimates should be accepted with the understanding that reservoir performance subsequent to the date of the estimate may justify revision, either upward or downward.

	Gross		Net	
	Crude oil and natural gas liquids (millions of barrels)	Natural gas (billions of cubic feet)	Crude oil and natural gas liquids (millions of barrels)	Natural gas (billions of cubic feet)
<i>Proved:</i>				
December 31, 1991	39	490	32	407
Revisions	1	33	0	2
Acquisitions	8	122	6	89
Other additions	2	36	1	28
Production	(5)	(54)	(4)	(43)
Sales	(3)	(10)	(1)	(8)
December 31, 1992	<u>42</u>	<u>617</u>	<u>34</u>	<u>475</u>
<i>Proved Producing:</i>				
December 31, 1991	33	309	28	256
Revisions	2	90	0	61
Acquisitions	8	107	6	79
Other additions	2	31	2	24
Production	(5)	(54)	(4)	(43)
Sales	(2)	(9)	(1)	(7)
December 31, 1992	<u>38</u>	<u>474</u>	<u>31</u>	<u>370</u>
<i>Probable additional:</i>				
December 31, 1991	<u>16</u>	<u>240</u>	<u>13</u>	<u>198</u>
December 31, 1992	<u>18</u>	<u>366</u>	<u>15</u>	<u>285</u>

- (1) Proved reserves are those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir. Proved producing reserves are those proved reserves that are actually on production or, if not producing, that could be recovered from existing wells or facilities and where the reason for the current nonproducing status is the choice of the owner rather than the lack of markets or some other reason. An illustration of such a situation is where a well or zone is capable of production but is shut-in because its deliverability is not required to meet contract commitments. Probable additional reserves are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.
- (2) Gross reserves represent the aggregate of Suncor's working interest in reserves including the royalty interest of governments and others in such reserves and Suncor's royalty interest in reserves of others. Net reserves are gross reserves less the royalty interest share of others including governments. Royalties can vary depending upon selling prices, production volumes, timing of initial production and changes in legislation. Net reserves have been calculated, following generally accepted guidelines, on the basis of prices and the royalty structure in effect at year end and anticipated production rates. Such estimates by their very nature are inexact and subject to constant revisions.
- (3) No amounts have been included for non-conventional reserves.

Production

The following table sets out Suncor's gross and net production during the years indicated. Gross production is that attributable to Suncor's share of production before deduction of applicable royalties and interests owned by others. Net production is gross production less such royalties and other interests.

	Year ended December 31			
	1992		1991	
	Gross	Net	Gross	Net
<i>Crude Oil (thousands of barrels)</i>				
Alberta	2,864	2,235	2,475	2,056
British Columbia	414	312	293	254
Saskatchewan	671	479	818	607
Manitoba	48	39	67	53
Total	<u>3,997</u>	<u>3,065</u>	<u>3,653</u>	<u>2,970</u>
<i>Natural Gas Liquids (thousands of barrels)</i>				
Alberta	911	632	470	352
British Columbia	18	16	33	27
Saskatchewan	1	1	1	1
Total	<u>930</u>	<u>649</u>	<u>504</u>	<u>380</u>
Total Liquids	<u>4,927</u>	<u>3,714</u>	<u>4,157</u>	<u>3,350</u>
<i>Natural Gas (millions of cubic feet)</i>				
Alberta	45,128	34,661	32,161	24,844
British Columbia	8,259	7,357	5,952	5,384
Saskatchewan	341	303	213	193
Total	<u>53,728</u>	<u>42,321</u>	<u>38,326</u>	<u>30,421</u>

As of December 31, 1992, Suncor had interests in 3,021 gross (378 net) producing oil wells in 47 oil fields. Of the gross wells, 1,626 gross (191 net) were in Alberta, 1,066 gross (159 net) in Saskatchewan, and 329 gross (28 net) in British Columbia. Suncor had interests in 346 gross (108 net) natural gas wells in 56 gas fields. Of the gross wells, 289 gross (94 net) were in Alberta, 29 gross (12 net) were in British Columbia and 28 gross (2 net) were in Saskatchewan at the end of 1992. At the end of the year, 514 gross oil wells and 157 gross gas wells were shut-in.

Sales and Sales Revenues

In 1992, total revenue for Resources Group was \$167 million, consisting of \$89 million from crude oil and natural gas liquid sales, \$65 million from natural gas sales, \$9 million from pipeline revenue and \$4 million from other sales. This compares to total revenue of \$139 million in 1991, consisting of \$75 million for crude oil and natural gas liquids sales, \$50 million for natural gas sales, \$9 million for pipeline revenue and \$5 million from other sales. The following table shows sale prices and lifting costs in connection with Suncor's crude oil and natural gas operations for the years indicated.

	Year ended December 31	
	1992	1991
Average sales price		
Crude oil (\$ per barrel)	20.71	20.59
Natural gas liquids (\$ per barrel)	16.40	14.86
Natural gas (\$ per thousand cubic feet)	1.22	1.31
Average lifting costs of oil and gas (\$ per BOE of gross production)	3.42	3.63

Marketing, Pipeline and Other Operations

Suncor's crude oil production is used in its refining operations, exchanged for other crude oil with Canadian or U.S. refiners or sold to Canadian and U.S. purchasers, including certain subsidiaries of Sun Company, Inc. ("Sun"). Sales are generally made under contracts which are terminable by relatively short notice or on a spot basis.

Prior to deregulation of the Canadian natural gas industry in 1985, western Canadian natural gas production was sold primarily to large supply aggregators for resale into eastern Canadian and U.S. markets ("system sales"). With deregulation, it became feasible for producers to make sales arrangements directly with the end user ("direct sales").

Resources Group's natural gas production developed prior to 1986 is generally sold under long-term system sales contracts. Proceeds received by producers under these sales arrangements are determined on a net-back basis, whereby each producer receives revenue equal to its proportionate share of sales less regulated transportation charges and a marketing fee. Most of Resources Group's system sales volumes are contracted to Western Gas Marketing Limited and Pan-Alberta Gas Ltd. These companies resell this natural gas primarily to eastern Canadian and midwest and eastern U.S. markets. To ensure maximum sales, Suncor has been moving volumes not purchased by these companies to direct markets.

Suncor also entered into a long term contract with Alberta and Southern Gas Co. Ltd. ("A&S") for the sale of natural gas commencing in 1990 into the California market. A&S resells most of its supply to a natural gas transmission company which resells to a large public utility serving northern California. Contracts between Canadian producers and A&S have been the focal point of regulatory attention by the California Public Utilities Commission ("CPUC") which regulates public utilities in that state. The CPUC is of the belief that utility ratepayers in California would be in a better position if the utility purchased a greater percentage of its natural gas requirements directly from Canadian producers under short-term contracts rather than through A&S under long term supply arrangements. This could lower the average price of Canadian natural gas sold into the California market. Canadian producers believe that a reduction of purchases by the utility would be inconsistent with contracts that are in place relative to A&S supply. This issue is the subject of negotiations between producers, A&S, the utility, regulators, and various levels of government in both Canada and the U.S. In 1992, Suncor sold 12 MMCF/D of its proprietary gas to A&S.

Resources Group recognized that through deregulation it had the opportunity to expand its proprietary sales of natural gas, to exercise greater control of distribution to the U.S. market in anticipation of an over-supply of gas in Canada and to diversify its market risk. As a result, direct natural gas marketing has been a priority for Resources Group since 1986. In 1992, direct gas sales represented 69 percent of Resources Group's total natural gas sales, including brokered sales.

Resources Group's natural gas production developed after 1985 is generally marketed under direct sales arrangements to customers in eastern Canada and the U.S. midwest. Contracts for these direct sales arrangements are generally for a term of one year and incorporate pricing which is either fixed over the term of the contract or determined on a monthly basis in relation to a specified market reference price. The pricing reference for direct sales to eastern Canadian customers is usually the Alberta border at Empress, Alberta, with the customer being responsible for the transportation of the purchased volume from the point of sale to its facility. The price reference for sales to Resources Group's midwest U.S. customers is usually Ventura, Iowa, a delivery point on the Northern Border Pipeline system. Resources Group is responsible for transportation arrangements to this point of sale.

To ensure ongoing direct sales access to U.S. markets, Resources Group has entered into several long term pipeline transportation contracts. Suncor contracted for 50 MMCF/D of firm capacity on the Northern Border Pipeline for a 15 year term which commenced November 1, 1988. Suncor subsequently increased its firm capacity commitment on Northern Border to 100 MMCF/D by participating in an expansion of the pipeline which was completed on November 1, 1992. Subsequently, 25 MMCF/D has been contracted to another party for 12 years. Resources Group has also contracted for approximately 40 MMCF/D on the Pacific Gas Transmission ("PGT") proposed pipeline expansion and related facilities to access markets in California. The PGT contract covers a term of 30 years commencing upon completion of the expansion project (expected for the fourth quarter of 1993).

Suncor consumes a significant volume of natural gas in its oil sands plant at Fort McMurray and in its Sarnia refinery. Resources Group contracts for the supply of natural gas to each facility. Natural gas consumption at the oil

sands plant in 1992 was 21.4 MMCF/D and in 1991 was 20.7 MMCF/D. Natural gas consumption at the refinery in 1992 was 17.6 MMCF/D and in 1991 was 23.1 MMCF/D.

The Albersun pipeline is a facility owned and operated by Suncor, which was originally constructed in 1968 to transport natural gas to the oil sands plant. It extends approximately 180 miles (288 kilometres) south of the plant and connects with the NOVA intraprovincial pipeline system. The Albersun pipeline has the capacity to move in excess of 100 MMCF/D of natural gas. Suncor contracts and controls most of the gas on the system under delivery based contracts. The pipeline moves gas both north and south for Suncor and other shippers. In 1992, throughput on Albersun was 102 MMCF/D and transportation and compression revenues were approximately \$9 million.

The following table summarizes the volumes of gas marketed directly or indirectly by Resources Group for the last two years.

	Year ended December 31	
	1992	1991
	(millions of cubic feet per day)	
<i>Sales for Suncor's Own Account (Proprietary):</i>		
System	69.0	39.5
Direct	<u>77.8</u>	<u>65.5</u>
Total	146.8	105.0
<i>Sales on Behalf of Other Parties (Brokered):</i>		
Direct	<u>76.8</u>	<u>82.6</u>
<i>Total Proprietary and Brokered</i>	<u>223.6</u>	<u>187.6</u>
<i>Direct Sales (included in the above):</i>		
Oil sands	21.4	20.7
Sarnia refinery	17.6	23.1
Other domestic	61.8	73.0
U.S. sales	<u>53.8</u>	<u>31.3</u>
<i>Total Direct Sales</i>	<u>154.6</u>	<u>148.1</u>

Resources Group arranges for the marketing of its own sulphur production as well as sulphur production from Suncor's Oil Sands Group. In 1992 production from the two groups totalled 204.2 thousand long tons and generated gross revenues of \$5.3 million. Suncor's sulphur is sold into markets in Canada, the U.S. and offshore. Offshore sales in 1992 were arranged through Prism Sulphur Corporation, a producer owned consortium of which Suncor was a founding member. Offshore sulphur prices declined significantly during 1992 and contributed to a decline of 61 percent in revenue versus 1991.

Capital and Exploration Expenditures

The following table summarizes costs incurred, including exploration expenditures, in Resources Group for the years indicated.

	Year ended December 31	
	1992	1991
	(\$ millions)	
Exploration	31	31
Acquisitions	47	50
Development	37	30
Other	3	4
Capitalized Interest	<u>2</u>	<u>3</u>
	<u>\$120</u>	<u>\$118</u>

Environmental Compliance

Resources Group has all licences required to operate including clean water licences and clean air licences. Resources Group anticipates that all necessary licences will either be renewed or extended upon expiry.

SUNOCO GROUP

Suncor conducts its refining and marketing of petroleum products and petrochemicals through its principal subsidiary, Sunoco Inc., and its subsidiaries (the operations collectively referred to as "Sunoco Group"). Sunoco Inc. is incorporated under the laws of Ontario and is wholly owned by Suncor.

During the recent period of low industry returns and declining demand, Sunoco Group has been able during the last five years to increase the proportion of its sales of gasoline and other higher margin refined products in its product mix. This increase has been in part due to the flexibility of its Sarnia refinery configuration, its ability to process synthetic crude oil and its management focus on becoming a niche regional marketer.

The following table sets forth earnings, cash provided from operating activities and capital expenditures of Sunoco Group for the years indicated.

	Year ended	
	December 31	
	1992	1991
	(\$ millions)	
Earnings	9	28
Cash flow provided from operations	51	55
Capital and joint venture expenditures	30	67

During the last decade, the demand for refined petroleum products has declined significantly in response to private and public sector initiatives at oil conservation, more fuel efficient vehicles, taxation policies, lower alternate energy prices, economic conditions and environmental concern over the burning of fossil fuels. Sunoco Group sells refined products on both a wholesale and retail basis primarily in Ontario and Quebec, where demand for all such products declined by 15 percent and 31 percent, respectively, in the period 1980 to 1990 primarily in the fuel oil and heavy fuel oil segments. Since 1990, demand has declined in both Ontario and Quebec. As a result of these demand declines, the industry has refining and marketing overcapacity which has resulted in low and volatile margins. However, in the period 1980 to 1990, demand for the transportation fuels segment of the refined product market, where Sunoco Group's business is focused declined only nine percent in Quebec and increased by one percent in Ontario. During 1991, Ontario and Quebec demand for transportation fuels declined by approximately four percent and six percent, respectively. In 1992 demand in Ontario remained flat and increased in Quebec by approximately two percent.

Recognizing the trend toward lower fuel oil and heavy fuel oil demand, between 1982 and 1984 Sunoco Group invested \$304 million in a hydrocracker to improve its Sarnia refinery in order to upgrade its product slate (especially transportation fuels and petrochemicals) and to permit the use of significant amounts of synthetic crude. This improvement has resulted in the production of reduced levels of lower value by-products, primarily heavy fuel oil.

To improve efficiency, Sunoco Group has upgraded 60 percent of the plant to computer process control and lowered its inventory requirements substantially through feedstock arrangements, scheduling and other inventory management techniques.

During the last five years, Sunoco Group has lowered the costs of its distribution network. Substantial progress has been made in upgrading existing facilities, entering into joint ventures with other petroleum companies and closing obsolete high cost terminals. Sunoco Group has also discontinued or sold non-core, low return businesses and focused attention on its core business and markets.

Sunoco Group is continuing a long-term program to reduce, upgrade and enhance its service station network. Over the next few years, Sunoco Group expects to reduce substantially the number of station sites while concentrating on expanding its high volume core network and its ancillary revenue and merchandising income. To secure gasoline volumes and profitability, Sunoco Group has entered into long-term management contracts to supply a number of independent chains and in 1991, entered into a joint venture agreement with United Co-

operatives of Ontario ("UCO") which has a significant presence in rural Ontario. The agreement includes a long-term exclusive supply arrangement that represented approximately ten percent of Sunoco Group's 1992 total sales volumes.

Since 1988, Sunoco Group's total volume of refined products sold has increased by approximately 11 percent while the number of Sunoco Inc.'s permanent employees has declined by 21 percent, resulting in an 41 percent increase in sales volume per employee.

Public announcements by some downstream competitors indicate that they have plans to address the overcapacity in the Canadian downstream business by closing a number of refineries, bulk plants and service stations over the next few years.

The Canadian downstream business of the major integrated oil companies has averaged approximately a four percent return over the last five years. These unacceptable economic returns have led management to initiate a review in 1993 to assess the viability of the North American refining and marketing business, the critical success factors of industry leaders, the assessment of which businesses can be profitable and how Sunoco must be positioned to provide acceptable levels of profitability and cash flow. Suncor is uncertain as to what, if any changes (including any financial impact), may result from this study.

Refining

Located in Sarnia, the Sunoco Group refinery has a complex and efficient configuration. Economic refining capacity is approximately 70,000 barrels of crude oil per day. The refinery has cracking capacity of 40,200 barrels per day arising from a catalytic cracker and a hydrocracker. The hydrocracker, which is capable of processing approximately 24,000 barrels per day, adds flexibility by producing premium distillate and naphthas. An alkylation unit, capable of processing 5,500 barrels per day, complements a petrochemical plant for flexibility in gasoline, octane and petrochemical production. The performance of the refinery has been enhanced through the addition of more computer process control. During 1991 and 1992, the refinery had its highest levels of capacity utilization in the last five years. Two maintenance turnarounds scheduled this year will reduce capacity utilization for 1993.

The refinery has considerably greater flexibility to vary the gasoline/distillate ratio than other Ontario and Quebec refineries. In addition, the refinery manufactures high value petrochemicals, a capability possessed by only a few Ontario and Quebec refiners.

Average daily crude input was 64,000 barrels per day in 1991 and 1992. The average utilization rate of the refinery, based upon crude unit processing capacity and input to crude units was 91 percent in both 1992 and 1991. The refinery utilization rate for cracking was 90 percent in 1992 and 92 percent in 1991.

Approximately 40 percent of the cracking capacity at the refinery is attributable to the catalytic cracker, an older technology. Sunoco Group believes that it is capable of operating the unit throughout the 1990's, but given its age and potential environmental issues, various alternatives are being explored. Such alternatives include replacement, assessing joint venture opportunities with other manufacturers, establishing alternate feedstock arrangements or shutting down the unit. Other than an estimated \$17 million in environmental upgrades for this unit which may be necessary over the next few years if environmental legislation becomes more stringent, it is not anticipated that significant expenditures will be required until late in this decade.

Sunoco Group's refining operation uses both synthetic and conventional crude oil. In 1992, 64 percent of the crude oil refined at the Sarnia refinery was synthetic crude oil, compared with 68 percent in 1991, the remainder being conventional crude oil. The value of synthetic crude oil to Sunoco Group has been further enhanced through small expenditures to debottleneck facilities thereby increasing production of jet fuel and minimizing lower value products. Of the synthetic crude, approximately 54 percent in 1992 was from Suncor's oil sands plant production compared to 62 percent in 1991, with the balance purchased from others under month-to-month contracts. Conventional crude oil refined by Sunoco Group comes mainly from the production of Suncor and others in western Canada, supplemented from time to time with crude oil from the United States which is purchased or obtained in exchange for Canadian crude. Crude oil from other countries can also be delivered to Sarnia via pipeline from the United States Gulf Coast providing additional flexibility and security of supply. The market for crude oil generally is conducted on a spot basis or under contracts terminable by short notice.

Suncor's gross crude oil production as a percentage of crude oil refined for Sunoco Group's account equalled 111 percent for 1992, compared with 112 percent for 1991.

The Interprovincial Pipeline from Sarnia to Montreal was shut down in 1991. For economic reasons, this line was restarted to transport crude in a west to east direction in 1992. However, the volume transported was well below capacity. A group of Ontario refiners has proposed reversing the flow in the pipeline between Montreal and Sarnia to allow an alternate means of transporting foreign sourced crude oil into Ontario. The National Energy Board in hearings will consider issues surrounding this matter. If this reversal were to occur, it may be less economic to transport western Canadian crude oil to the Sarnia refinery and may have an adverse impact on Suncor. Management believes, along with the majority of western Canadian crude oil producers, that there is sufficient western Canadian crude oil to meet demand requirements for the foreseeable future and that the reversal at this point is premature.

The refinery produces transportation fuels, heating oils, heavy fuel oils, petrochemicals and liquified petroleum gases. Production of transportation fuels is optimized through an exchange agreement with a neighbouring petrochemical refinery in which feedstocks more suitable for gasoline blending are taken by Sunoco Group in exchange for feedstocks more suitable for petrochemical cracking. Sunoco Group's petrochemical facilities, with a design capacity of 10,000 barrels per day, produce benzene, toluene and mixed xylenes and recover orthoxylene from mixed xylenes.

Sunoco Group uses reciprocal product exchanges with other refiners to minimize transportation costs, balance product availability in particular locations, and optimize refinery utilization. The largest exchange is with another regional refinery which receives products in Ontario from Sunoco Group and which supplies a similar volume of products to Sunoco Group in Quebec. Suncor's Sarnia Refinery also has a refinery feedstock and component purchase, sale and exchange agreement with a nearby refinery petrochemical complex. This has been a long standing agreement. These arrangements expire in 1993 and management expects that they can be renewed or replaced on acceptable terms. On occasion, Sunoco Group purchases refined products to supplement its own refinery production.

Marketing

Sunoco Group markets transportation fuels (including gasoline, diesel, jet fuel and propane), heating oils, liquified petroleum gases, residual fuel oil and asphalt feedstock primarily under the Sunoco brand to retail, industrial, commercial and wholesale customers and refiners, primarily in Ontario and Quebec. In addition, petrochemicals are marketed in North America and Europe through a Sun/Suncor joint venture.

Sunoco Group has increased its gasoline sales volume by 14 percent since 1988 and increased its other transportation fuels volume (including jet fuel) by 75 percent, despite limited demand growth in the overall transportation fuels market. In addition, Sunoco Group's transportation fuels volume, which generally has higher margins than other refined products, has increased from 62 percent of its total refined product volumes in 1988 to 70 percent in 1992. During 1993, Sunoco Group expects to significantly increase its production of jet fuel with the completion of increased jet fuel capacity at the Sarnia Refinery. This increase in emphasis on transportation fuels has contributed to Sunoco Group's earnings and competitive position over the period.

Sunoco Group is a niche marketer offering the consumer a unique choice of products. In 1986, Sunoco Group introduced the first super premium unleaded gasoline into the Ontario and Quebec markets, SUNOCO GOLD[™]. In 1991, this product was reformulated and renamed Sunoco Ultra Clean 94. Through Sunoco Ultra Clean 94, Sunoco Group believes it has greater penetration of the higher margin high octane gasoline market than its competitors. Sunoco Group uses a blend pump which permits multiple grades of unleaded gasoline to be mixed from two grades in underground storage, resulting in a savings in tankage costs, reduced inventory levels and wider consumer choice.

Sunoco Group currently operates 47 car washes (51 last year) at its higher volume sites. Sunoco Group was the first in Canada to introduce a new system of brushless car washes utilizing high pressure water and detergents, marketed under the AQUASHINE[™] and TOUCHFREE[™] brands. Sunoco Group plans to upgrade its retail product and services by improving its merchandising at selected sites, adding mini-marts and car washes.

Sunoco Group sells transportation fuels and other products through a network of approximately 650 retail outlets, which compares to approximately 725 outlets in December 1991. Of this total, approximately 485 retail outlets bear the Sunoco brand and are owned or leased by Sunoco Group or its dealers and 165 bear other private brands. Sunoco Group's primary market is southern Ontario and major urban markets in Quebec.

Sunoco Group continues to upgrade existing sites, selectively add new, higher volume retail gasoline locations and close low volume retail gasoline locations as part of a strategy to increase average site throughput of its retail network. This strategy was developed in 1991 to help re-evaluate direction leading to a more cost effective and focused retail organization. Consistent with this strategy, Sunoco has identified up to 190 service stations to be closed in 1993 and 1994. The cost of these closures, net of anticipated gains on disposition, of \$2 million (after tax) has been provided for in the 1992 financial results. Additional rationalization is possible pending the outcome of the strategic review in 1993. Such closures are not expected to have a significant impact on refined product sales as management will continue to work to increase sales through its remaining retail network and other channels of distribution. Over the last five years average retail Sunoco gasoline volumes have increased five percent while the number of service stations has decreased 18 percent.

In December 1991, Sunoco Group entered into a joint venture effective September 27, 1991 with UCO to form a 50/50 joint venture company called UCO Petroleum Inc. ("UPI") to market petroleum and propane products in rural Ontario. The agreement includes a long-term supply arrangement under which Sunoco Group will supply UPI with its refined product needs. UPI is a leading marketer in areas geographically adjacent to Sunoco's core markets. The major markets of UPI are the farming community in rural Ontario and co-operatives which are members of UCO, as well as a network of 69 gas bars. UPI provides Sunoco Group access to a new and complementary market.

Sunoco Group also markets toluene, mixed xylenes, benzene and orthoxylyene in Canada, the United States and Europe through a petrochemical marketing and distribution arrangement with Sun. This arrangement, established in 1992, covers petrochemicals produced at Sunoco's Sarnia and the Sun subsidiary's Toledo refineries. These petrochemicals are used in manufacturing plastics, rubber and synthetic fibres, as industrial and agricultural solvents and as gasoline octane enhancers. All Sunoco Group's benzene production is sold directly by pipeline to other petrochemical manufacturers in Sarnia. Sunoco Group also sells liquified petroleum gases to various industrial users and to resellers.

During 1991, Sunoco Group sold its chemicals shipping business for proceeds of \$17 million. Sunoco Group is entitled to future residual royalties from this sale. This business was not seen as a core component of Sunoco Group's strategy and not material to Sunoco's earnings.

The following table sets forth the average daily volumes of refined products sold by Sunoco Group for the years indicated.

	<u>Year ended</u> <u>December 31</u>	
	<u>1992</u>	<u>1991</u>
	(thousands of M ³ per day)	
Transportation Fuels		
Gasolines — Retail	4.0	4.0
— Other	3.0	2.9
Other (1)	<u>2.4</u>	<u>2.3</u>
	9.4	9.2
Petrochemicals	1.1	1.1
Heating oils	1.2	0.9
Heavy fuel oils (3)	0.7	0.6
Other (2)(3)	<u>1.0</u>	<u>1.0</u>
Total	<u>13.4</u>	<u>12.8</u>

(1) Includes diesel fuel, propane for vehicle use and jet fuel.

(2) Includes lubricants, refinery feedstocks and liquified petroleum gases.

(3) These products generally sell below crude cost.

Sales to third parties of gasolines and other transportation fuels represented 68 percent of Suncor's consolidated sales and other operating revenues in 1991 and 1992.

Transportation and Distribution

Sunoco Group employs a variety of transportation modes to deliver products by pipeline, water, rail and road. It owns and operates petroleum transportation, terminal and dock facilities in support of its refining and marketing activities. Such assets include storage facilities and bulk distribution plants in Ontario and Quebec and a 55 percent interest in a refined products pipeline between Sarnia and Toronto.

Sunoco Group's major mode of transportation for gasolines, diesel, jet fuel and heating oils from the Sarnia refinery to its core markets in Ontario is Sun-Canadian Pipe Line Company Limited. The pipeline serves terminals in London, Hamilton and Toronto, and has a capacity of 116,000 (18,500 m³) barrels per day of which 80 percent was utilized in 1992. The line was originally built in 1953 and expanded in 1974. Ownership of the pipeline company is divided between Suncor with a 55 percent interest and another refiner with a 45 percent interest. The pipeline operates as a private facility for its owners and provides a low cost method of distribution.

Sunoco Group also has direct pipeline access to petroleum markets in the Great Lakes region of the United States by way of connection to a Sun subsidiary's pipeline system at Sarnia. This link, which allows for the efficient import and export of transportation fuels, heating oil, chemicals, liquified petroleum gases and intermediate feedstocks, allows Sunoco to better achieve high refinery utilization, and to quickly capitalize on purchase and sales opportunities primarily in the Michigan and Ohio markets of the United States.

During the last few years, Sunoco Group has rationalized and modernized its distribution system. In 1990, Sunoco Group signed a joint venture agreement with another regional oil company to build and operate a \$25 million storage and distribution terminal in North York, Ontario. The new automated terminal, which is now operational, will improve the efficiency of Sunoco Group's distribution system in the Metropolitan Toronto market. In 1992 Sunoco Group's London terminal was expanded and fully automated with state-of-the-art technology. Sunoco Group now provides fuel terminal services in London to other oil companies. A terminalling arrangement has been reached to lift products from another oil company's Hamilton terminal enabling Sunoco to explore alternative uses for its Hamilton Terminal.

The impact of Sunoco Group's efforts to upgrade and automate its key distribution facilities and to close and decommission less economically attractive facilities has resulted in an improvement in the average throughput and unit costs of its facilities. In 1988, average throughput at Sunoco Group terminals was 475 thousand cubic metres per year which increased to 610 thousand cubic metres per year in 1992. At the same time, by the negotiation of exchange and throughput arrangements with other refiners and marketers, Sunoco Group has been able to achieve facility efficiencies while retaining long term access to terminal facilities in all its major markets at a level sufficient for its current and foreseeable needs.

Capital Expenditures

The following table sets forth Sunoco Group's capital and joint venture expenditures in respect of refining and marketing operations for the years indicated.

	Year ended December 31	
	1992	1991
	(\$ millions)	
Refining	19	20
Marketing	10	18
Joint Venture Investments/Advances	1	29
Total	<u>30</u>	<u>67</u>

Environmental Compliance

Sunoco Group has all licences required to operate its refinery and other business assets, including land, water and air licences. Sunoco Group expects that all necessary licences will be renewed or extended on expiry. While environmental standards are quickly evolving, Sunoco Group's refinery is currently in compliance in all material respects with existing regulations as a result of investments and management's actions. At service stations in Ontario, environmental risks have been reduced by the recent completion of a mandated tank replacement and upgrade program. In Quebec, Sunoco Group has begun a similar program.

Since 1988, Sunoco Group has closed approximately 140 gasoline retail sites, eight regional bulk plants, a lubricants plant in Toronto, the South Toronto terminal and the Sarnia terminal. All of these facilities have been remediated or management believes adequate provision has been made to comply with current legislation requirements for decommissioning. The earnings charge for 190 sites identified for closures before the end of 1994, including decommissioning costs, is \$2 million after tax (net of anticipated gains on disposition) and was included in 1992 results.

As Sunoco Group pursues its plan to improve the efficiency of its marketing and distribution network, it is anticipated that other terminals, plants and retail sites may close. It is possible that further remediation will be required but the cost and timing of such remediation cannot be reasonably estimated until environmental assessments have been completed and the means of remediation determined. Remediation costs, which will be incurred over an extended period of time, may be substantial.

EMPLOYEES

As at December 31, 1992, Suncor had approximately 2,798 full-time employees and 494 part-time and other employees which are counted on a full-time equivalent basis. The following table shows the distribution among the operating groups for the past two years.

	Year ended December 31	
	1992	1991
Oil Sands Group	1,779	1,812
Resources Group	257	247
Sunoco Group	709	826
Corporate	53	46
Total	2,798	2,931
Sunoco Group retail service stations	494	532

In addition to the Suncor employees, independent contractors supply a range of services to the operating, maintenance and support functions.

Approximately 1,000 Oil Sands Group employees are represented by a labour union. See "Oil Sands Group — Labour Relations". Approximately 200 employees at Suncor's Sarnia refinery and approximately 70 employees in Resources Group's field operations are represented by employee associations. Relations with these associations have been constructive for many years.

In early 1993, hourly paid operating and maintenance employees at Sun-Canadian Pipe Line Company Limited applied for certification with the Canada Labour Relations Board. No decision has been made in this matter as of March 18, 1993.

GOVERNMENT REGULATION

The oil and gas industry in Canada operates under federal, provincial and municipal legislation and regulations governing various aspects of its activities all of which are matters of public record.

Environmental Regulation

Environmental legislation applies to all aspects of Suncor's operations. These regulatory regimes are laws of general application which apply to Suncor in the same fashion as they apply to other companies and enterprises in the energy resources industry. They require Suncor to obtain air, water and waste management licences and impose certain standards and controls on activities relating to oil and gas exploration, development and production, and refining and distribution of petroleum products and petrochemicals, including plant design, reclamation projects, drilling activity, decommissioning of closed facilities and well control, oil spills, leaks from transportation and storage facilities and emission standards. Environmental assessments may be required before initiating new projects or undertaking significant changes to existing projects. As societal standards evolve, Suncor is committed to meeting its responsibilities to protect the environment wherever it operates. Suncor expects to make increased expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the

environment. These laws will likely have an effect on methods of production, distribution and manufacturing of products, as well as on the nature of those products, for example cleaner burning gasolines. Failure to comply with such laws may result in the suspension or revocation of necessary licenses and authorizations, imposition of remediation orders, civil liability for damages sustained by others as a result of such failure to comply and the imposition of fines and penalties. Environmental concern and regulations are also likely to result in lower growth rates in demand for most petroleum products.

Investment Canada Act

The Investment Canada Act came into force on June 30, 1985 and replaced The Foreign Investment Review Act. The Investment Canada Act requires the approval of the Government of Canada with respect to certain acquisitions of control of Canadian businesses, which may in certain circumstances include the acquisition of natural resource properties, by an entity that is not controlled by Canadians. By virtue of Sun being its majority shareholder, Suncor is considered to be an entity not controlled by Canadians. Where a new, unrelated business in Canada is established by entities not controlled by Canadians, notification only, and not Government of Canada approval, is required unless the new business is related to Canada's cultural heritage or national identity.

ITEM 4 SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information, except for the quarterly data, for each of the years in the five year period ended December 31, 1992 is derived from Suncor's consolidated financial statements. The consolidated financial statements for each of the years in the five year period ended December 31, 1992 have been examined by Coopers & Lybrand, Chartered Accountants, whose report thereon appears in the Annual Report to Shareholders for the year ended December 31, 1992. The information set forth below should be read in conjunction with Management's Discussion and Analysis, Suncor's consolidated financial statements and related notes and other financial information included in the Annual Report to Shareholders for the year ended December 31, 1992.

	Year ended December 31 (1)				
	1992	1991	1990	1989	1988
	(\$ millions except per share amounts)				
Revenues (excluding federal sales tax)	1,539	1,566	1,657	1,399	1,263
Net earnings (loss)	(228)	77	124	57	(44)
Per common share	(4.19)	1.42	2.27	1.05	(0.84)
Cash flow provided from operations	193	303	254	206	98
Per common share	3.55	5.57	4.67	3.79	1.80
Capital and exploration expenditures	214	232	179	141	214
Dividends per share:					
Preferred Shares, Series A	1.44	1.92	1.92	1.92	1.92
Common Shares					
Cash dividends	1.04	1.05	0.40	—	0.39
Dividends paid in common shares	—	—	—	0.40	—
	As at December 31				
	1992	1991	1990	1989	1988
	(\$ millions)				
Total assets	1,947	2,238	2,259	2,065	2,043
Long-term borrowings (2)	180	141	222	223	296
Preferred Shares, Series A	—	6	6	7	7
Common shareholders' equity	936	1,220	1,200	1,098	1,042

(1) As more fully described in Note 2 to Suncor's consolidated financial statements, certain figures have been restated to reflect changes in accounting policy.

(2) Includes current portion.

	Three months ended							
	Dec. 31 1992	Sept. 30 1992	June 30 1992	Mar. 31 1992	Dec. 31 1991	Sept. 30 1991	June 30 1991	Mar. 31 1991
	(\$ millions except per share amounts) (unaudited)							
Revenues	429	388	361	361	402	378	398	388
Net earnings (loss)	9	(228)	(15)	6	5	27	13	32
Per common share	0.18	(4.20)	(0.28)	0.11	0.10	0.49	0.25	0.58
Cash flow provided from operations*	53	61	24	55	66	69	69	99
Per common share	0.98	1.12	0.44	1.01	1.21	1.27	1.27	1.82

* The third quarter 1992 figure has been restated to conform with the presentation adopted in the fourth quarter.

DIVIDEND POLICY AND RECORD

Suncor's board of directors has established a policy of paying dividends on a quarterly basis. A dividend for the first quarter of 1993 has been declared of \$0.26 per common share payable on March 17, 1993 to shareholders of record on February 26, 1993. This policy will be reviewed from time to time in light of Suncor's financial position, its financing requirements for growth, its cash flow and other factors considered relevant by Suncor's board of directors.

The following table sets forth the per share amount of dividends paid by Suncor during the last five years.

	Year ended December 31				
	1992	1991	1990	1989	1988
Preferred Shares, Series A	1.44	\$1.92	\$1.92	\$1.92	\$1.92
Common Shares					
Cash dividends	1.04	\$1.05	\$0.40	—	\$0.39
Dividends paid in Common Shares	—	—	—	\$0.40	—

ITEM 5 MANAGEMENT'S DISCUSSION AND ANALYSIS

The information required by this item is incorporated herein by reference to pages 21 to 33 in the Company's 1992 Annual Report to Shareholders.

ITEM 6 MARKET FOR THE SECURITIES OF THE ISSUER

Prior to March 18, 1992 the common shares were not listed on any stock exchange in Canada or elsewhere but were part of the over-the-counter automated trading system of the Canadian Dealing Network, a subsidiary of the Toronto Stock Exchange. On March 18, 1992 (following the completion of a public offering by Sun Company, Inc. and Ontario Energy Corporation of a portion of their direct and indirect holdings of common shares of Suncor) the common shares of Suncor were listed on each of the Toronto Stock Exchange, the Montreal Stock Exchange, The Alberta Stock Exchange and the Vancouver Stock Exchange. The public offering by Sun Company, Inc. and the Ontario Energy Corporation was effected on an instalment receipt basis. Prior to full payment therefor on or before March 18, 1993, the common shares so sold were represented by instalment receipts. Such instalment receipts were listed and posted on each of the foregoing stock exchanges; common shares were listed on all exchanges but only posted for trading on The Alberta Stock Exchange. As of March 18, 1993, the common shares are posted for trading on all four named exchanges.

ITEM 7 DIRECTORS AND OFFICERS

Directors

Suncor's Articles stipulate that there shall be no more than 15 nor fewer than 8 directors, as the board of directors may determine from time to time. The board of directors currently consists of 13 directors. The term of office of each director is from the date of the meeting at which he is elected until the next annual meeting of shareholders or until a successor is elected or appointed.

<u>Name and Municipality of Residence</u>	<u>Director Since (1)</u>	<u>Principal Occupation</u>
ROBERT M. AIKEN, JR. (2) Berwyn, Pennsylvania	1990	Senior Vice President and Chief Financial Officer, Sun Company, Inc.
HARRY BOOTH, C.A. (2) Calgary, Alberta	1984	Retired Chairman and Chief Executive Officer, Alberta Natural Gas Company Ltd (a company with natural gas transportation and petrochemical interests)
MAX B. E. CLARKSON Toronto, Ontario	1977	Professor Emeritus and Director, Centre for Corporate Social Performance and Ethics, Faculty of Management, University of Toronto
ELEANOR R. CLITHEROE Oakville, Ontario	1992	Deputy Minister of Finance of the Ontario Ministry of Finance
BRYAN P. DAVIES (2) Toronto, Ontario	1991	Vice President, Business Affairs and Chief Administrative Officer at the University of Toronto
GEORGE DAVIES Toronto, Ontario	1991	Deputy Minister of the Ontario Ministry of Transportation
RICHARD L. GEORGE Oakville, Ontario	1991	Chairman, President and Chief Executive Officer, Suncor Inc.
ARDAGH S. KINGSMILL, Q.C. (2) Toronto, Ontario	1964	Partner, McCarthy Tétrault (a law firm)
DAVID E. KNOLL Chester Springs, Pennsylvania	1991	Senior Vice President, Marketing, Sun Company, Inc.
MICHAEL M. KOERNER, C.M. Toronto, Ontario	1977	President, Canada Overseas Investments Ltd. (a venture capital investment management company)
BILL N. RUTHERFORD Berwyn, Pennsylvania	1988	Former Senior Vice President, Human Resources and Administration, Sun Company, Inc.
J. A. GUY SAINT-PIERRE, O.C. (2) Montreal, Quebec	1980	President and Chief Executive Officer, The SNC Group Inc. (a company with operations in engineering, construction and defence manufacturing)
W. ROBERT WYMAN West Vancouver, British Columbia	1987	Chairman of the Board, Finning Ltd. (a company with heavy duty construction and related equipment marketing and leasing operations)

(1) Suncor was formed by the amalgamation of Sun Oil Company Limited and Great Canadian Oil Sands Limited on August 22, 1979. Each director has served as a director of Suncor or one of the amalgamating companies since the date shown, with the exception of Mr. Kingsmill, who was not a director of either amalgamating company for the periods October 18, 1968 to March 28, 1969 and June 23, 1971 to April 25, 1974.

(2) Member of Audit Committee.

In addition to the Audit Committee of the Board of Directors of Suncor, the Suncor Board has constituted a Board Policy and Strategic Planning Committee, Human Resources and Compensation Committee and an Environment, Health and Safety Committee.

Except as otherwise indicated below, each director has been engaged for the past five years in the specified principal occupations or in other executive or employment capacities with the companies, firms or government

ministries or agencies referred to, or with affiliates, or predecessors thereof or other government agencies. Prior to July, 1992 Eleanor R. Clitheroe was Assistant Deputy Minister, Office of the Ontario Treasury, Ontario Ministry of Treasury and Economics; and prior to February, 1990 she was Vice-President, Corporate Treasury at the Canadian Imperial Bank of Commerce. Prior to February, 1992 Mr. Bryan P. Davies was Deputy Treasurer of Ontario and Deputy Minister of Economics; prior to September 1989, he was the Deputy Minister of the Ontario Ministry of Housing; prior to September 1988, he was the Deputy Minister of the Ontario Ministry of Financial Institutions and prior to April 1986, he was the Deputy Minister of the Ontario Ministry of Citizenship and Culture. Mr. Kingsmill was a partner in the law firm of Tilley, Carson & Findlay prior to April 1988. Mr. Saint-Pierre was President and Chief Executive Officer of Ogilvie Mills Ltd. and Senior Vice President of John Labatt Limited prior to January 1989. Mr. Wyman was Chairman and Chief Executive Officer, British Columbia Hydro and Power Authority prior to June, 1992; he was Vice-Chairman of RBC Dominion Securities, Inc. prior to March 1991; and he was Chairman of the Board of Pemberton Securities Inc. prior to June 1989.

Officers

<u>Name and Municipality of Residence</u>	<u>Position</u>	<u>Officer Since (1)</u>
RICHARD L. GEORGE Oakville, Ontario	Chairman, President and Chief Executive Officer	1991
MICHAEL W. O'BRIEN Toronto, Ontario	Executive Vice President, Sunoco Group	1986
EDYTHE A. PARKINSON Fort McMurray, Alberta	Executive Vice President, Oil Sands Group	1991
BARRY D. STEWART Calgary, Alberta	Executive Vice President, Resources Group	1991
TIMOTHY R. HUGHES Toronto, Ontario	Senior Vice President, Finance	1993
PETER T. SPELLISCY Etobicoke, Ontario	Senior Vice President, Human Resources and Administration	1984
DONALD R. BROWN, Q.C. Toronto, Ontario	Vice President, General Counsel and Secretary	1988
ANTHONY A. L. WRIGHT Toronto, Ontario	Treasurer and Assistant Secretary	1969

(1) Includes service as an officer of Sun Oil Company Limited or Great Canadian Oil Sands Limited, which amalgamated to form Suncor Inc.

The principal occupation of each officer is the office held with Suncor. Each officer has been engaged for the past five years in the specified principal occupation or employment capacities with Suncor or with affiliates or with predecessors thereof, other than as follows: Ms. Parkinson was Manager, Edmonton Refinery of Petro-Canada Inc. prior to September 1988, was General Manager, Refining — Western Region of Petro-Canada Inc. prior to January 1990 and was Vice President, Supply and Services of Ontario Hydro prior to September 1991; Mr. Stewart was Senior Vice President, Western Region, Products Division of Petro-Canada Inc. prior to January 1989, and was President, Products Division of Petro-Canada Inc. prior to September 1990.

As of March 18, 1993, the directors and senior officers of Suncor, as a group, beneficially owned, directly or indirectly, less than one percent of the issued common shares of Suncor.

ITEM 8 ADDITIONAL INFORMATION

Additional information, including directors' and executive officers' remunerations and indebtedness, principal holders of Suncor's securities, options to purchase securities and interests of insiders in material transactions is contained in Suncor's Management Proxy Circular dated March 18, 1993 for the annual meeting of shareholders to be held on April 29, 1993. Additional financial information is provided on pages 35 to 51 and in the Auditors' Report on page 34 of Suncor's Annual Report to Shareholders for the year ended December 31, 1992. The foregoing information is incorporated herein by reference.

Copies of the documents set out below may be obtained without charge by any person upon request, to the Secretary, Suncor Inc., 36 York Mills Road, North York, Ontario, M2P 2C5:

1. The Suncor Annual Information Form together with one copy of any pertinent information incorporated by reference;
2. The current Suncor annual report containing financial statements for the most recently completed financial year and the report of the auditors relating thereto together with any subsequent interim financial statements;
3. Suncor's most recent management proxy circular; and
4. Any other documents incorporated by reference into the most recent preliminary short form prospectus or the short form prospectus if securities are in the course of distribution pursuant to such documents.



Over 50% recycled
paper including 19% post
consumer fibre.
Plus de 50 p. 100
de papier recyclé dont 10 p.
100 de fibres post
consommation.

PRINTED IN CANADA
BOWNE