Gulf Canada Corporation Annual Report 1985
Resources ...
the future begins

Corporate Profile

Gulf Canada Corporation

Gulf Canada Corporation of Calgary, Alberta, is a Canadian-owned natural resource company. It is engaged principally in the exploration for, and development and production of oil and natural gas, and, through its 90 per cent interest in Abitibi-Price Inc. of Toronto, Ontario, in the forest products industry. Gulf traces its history back to 1906, when The British American Oil Company, Limited was founded. In recent years it has operated as Gulf Canada Limited, a fully-integrated energy company. Gulf shares are listed and traded on the Toronto, Montreal, Vancouver and Alberta stock exchanges, and on the American Stock Exchange. As of February 10, 1986, Olympia & York of Toronto, Ontario, beneficially owned 80 per cent of the Corporation's outstanding common shares.

Oil and Gas

Gulf Canada Corporation carries out a wide range of oil and gas exploration and production activities. The Corporation is one of Canada's leading producers of crude oil, natural gas and natural gas liquids. It operates five major gas processing plants, has interests in 40 other gas plants, and is a participant in the Syncrude oil sands project. An outstanding land position in Western Canada and the frontiers, particularly off the East Coast and in the Beaufort Sea, provides a base for aggressive petroleum and natural gas exploration programs. As of December 31, 1985, Gulf employed approximately 2,200 people in its upstream oil and gas operations.

Forest Products

Abitibi-Price Inc., incorporated in 1914, is an integrated Canadian forest products company with 1985 sales of $2.5 billion. It is the world's leading producer of newsprint and uncoated groundwood papers. It also manufactures coated papers, kraft pulp, building products and lumber. Abitibi-Price has paper converting operations which produce supplies and envelopes for home, school and office, and a major distribution network for printing papers, industrial paper products and information processing supplies. At the end of 1985, the company employed 15,500 people at 40 manufacturing plants and more than 70 sales, distribution and warehouse locations in Canada and the United States. Abitibi-Price common shares are listed and traded on the Toronto, Montreal and Vancouver stock exchanges.

Gulf Canada Corporation Annual Report 1985

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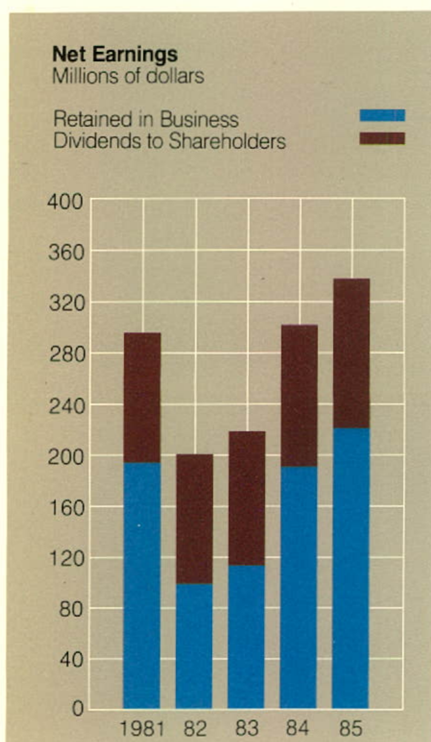
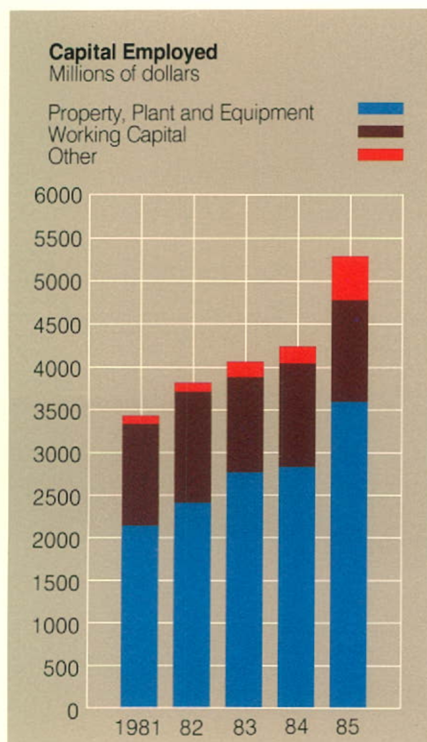
The Cover:

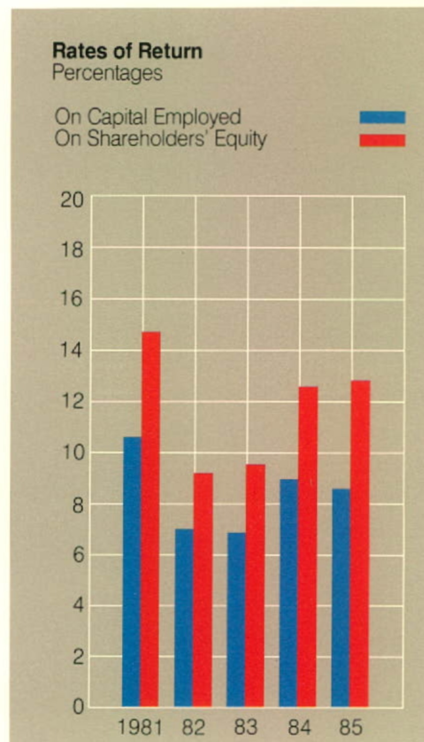
Production testing of the major Millarville gas reserve southwest of Calgary continued during 1985. Gulf Canada is considering construction of a pipeline to transport the gas to a nearby processing plant.

Financial and Operating Highlights — Gulf Canada Limited

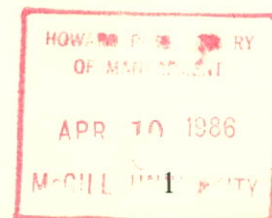
FINANCIAL *(millions of dollars)*	**1985**	1984	% Change
Net revenues from continuing operations	**3,177**	2,052	55
Earnings from continuing operations	**233**	233	—
Earnings for the year	**339**	308	10
Return on shareholders' equity	**12.8%**	12.6%	2
Return on capital employed	**8.7%**	9.0%	(3)
Per Share Data *(dollars per share)*			
Earnings from continuing operations	**1.02**	1.02	—
Earnings for the year	**1.49**	1.35	10
Dividends declared	**.52**	.50	4
Price/earnings ratio	**14**	11	27
Market Value of Common Shares			
Toronto Stock Exchange			
- Close *(dollars)*	**20⅞**	15⅜	36
- Shares traded *(millions)*	**38.6**	23.2	66







OPERATING	**1985**	1984	% Change
Gross production			
- Crude oil and natural gas liquids *(thousands of cubic metres per day)*	**17.0**	19.0	(11)
- Natural gas produced and sold *(millions of cubic metres per day)*	**8.8**	8.8	—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Report to Shareholders and Employees

It is undoubtedly an understatement to describe 1985 as an "eventful" year for Gulf Canada: a new majority owner, a major acquisition, the sale of key assets, formation of a partnership, continued successes in Western Canada and frontier drilling, and significant changes by governments to energy policies and pricing. Then, early in 1986, all these events were capped by a formal restructuring of the Corporation.

However, I am pleased to report that the end result has been well worth it. Gulf shareholders now own a "new" Gulf — Gulf Canada Corporation — active not only in oil and gas, but also in forest products, financially strong and well positioned to take advantage of business opportunities as they arise.

The first major event of 1985 was the August 2 acquisition, by Olympia & York, of Chevron Corporation's interest in Gulf Canada Limited. Olympia & York initially acquired 49.9 per cent of Gulf Canada Limited common shares, and, by year-end, had increased its holdings to 60.2 per cent. The company brings to Gulf a reputation for strong financial management and entrepreneurial success, as well as a track record of improving the value of its companies.

The acquisition resulted in the achievement of a long-standing goal of Gulf management, namely Canadianization. That brought the Corporation an immediate benefit in the form of maximum Petroleum Incentive Program grants, and it will certainly help with future frontier farm-ins and development projects. It will also permit management to make decisions based on business rationale, without the restraint of government policies relating to foreign-controlled companies.

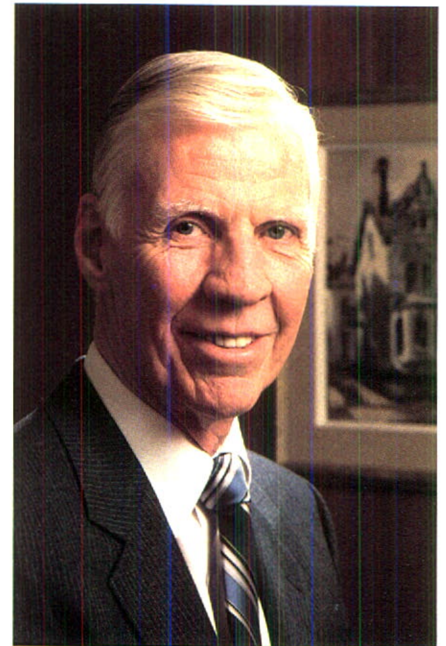
The change in ownership was also reflected in changes to the Board of Directors. I welcome H.W. Blauvelt, R.J. Butler, M.A. Cohen, B.K. Koken and G.I. Newman; and thank J.E. Lee, R.T. Savage, C.D. Shepard and L.C. Soileau III, all of whom left the Board in 1985, for their many contributions to the Corporation.

I particularly note, with regret, the death in April of J.C. Phillips, who served the Corporation so well for so many years.

I would also like to express my appreciation to all Gulf Canada Limited employees for their efforts in 1985. I know it was a difficult time for many but, on behalf of the Board, I thank employees in both the upstream and downstream sectors for their dedication, and for their valuable contributions to the Corporation's success.

Gulf made a major acquisition in 1985, obtaining 90 per cent of Abitibi-Price Inc., and I welcome that company's management and staff. Abitibi-Price is an integrated forest products firm with a history of strong management and steady growth in assets, equity and capital employed.

Gulf also arranged the sale of most of its downstream assets in 1985. Marketing and refining assets west of Quebec, excluding the Edmonton refinery and



S.K. McWalter, Chairman of the Board, President and Chief Executive Officer.

Superior Propane, were sold to Petro-Canada Inc. on September 30, and the Quebec and Atlantic operations were sold on January 1, 1986, to Ultramar Canada Inc. The Edmonton refinery and Superior Propane will be sold later this year.

Gulf's downstream assets traditionally produced low rates of return. The acquisition of Abitibi-Price replaced them with a fundamentally stronger business that provides Gulf with greater diversification in the resource sector.

In August, Gulf entered into a partnership arrangement with Norcen Energy Resources Limited. The partnership involved Gulf's upstream operations and Edmonton Refinery and Superior Propane's business. After August 31, substantially all of Gulf's exploration and production activities were carried out through the Gulf Canada Resources Partnership. Norcen withdrew March 1, 1986, and the partnership was dissolved March 3.

Early in 1986, Gulf shareholders approved an arrangement that saw the reorganization, effective February 10, 1986, of Gulf Canada Limited into Gulf Canada Corporation, a Canadian resource company with headquarters in Calgary, Alberta.

The combined effect of the arrangement, and the withdrawal of Norcen and dissolution of the partnership, could produce significant tax benefits for the Corporation.

As part of the arrangement, minority shareholders had the opportunity to exchange their Gulf Canada Limited common shares for Gulf Canada Corporation common shares plus senior preference shares, or for cash and subordinated debentures. About 62 per cent of minority shares were exchanged for cash and debentures. One result was the increase, as of the effective date, of Olympia & York's interest in Gulf Canada to 80 per cent.

The changes, obviously, have been many, and they have been significant. They have also made for a stronger Gulf Canada.

Through it all, however, the foundation of the Corporation — its basic strength — has been and remains its strong position in Western Canadian oil and natural gas. In recent years, Gulf has been a leader in exploration, development and production in the conventional oil and gas areas. In 1985, we committed two-thirds of our exploration expenditures to Western Canada, and we will continue to focus much of our activity in this area.

Of particular note were our exploration and development oil successes at Peerless Lake and Senex in north-central Alberta; and our natural gas successes at Groat and Garrington-Lanaway in central Alberta.

Gulf continued to be a leader in frontier exploration. Especially gratifying was our success at Amauligak I-65 in the Beaufort Sea. This follow-up to our 1984 oil discovery was even better than the first well, and makes us confident that the Amauligak structure, which we believe may contain reserves of between 700 and 800 million barrels, will qualify as the lead project for Beaufort Sea oil production.

The Corporation's earnings increased 10 per cent in 1985, to $339 million, or $1.49 per share, from $308 million, or $1.35 per share, in 1984. Net gains on the sale of assets, and higher earnings on investments, more than offset lower earnings from oil and gas.

During 1985, a number of government initiatives had considerable significance for Gulf.

The Western Accord, announced in March, provided for the movement of Canadian oil prices to world levels, the phasing out of the Petroleum and Gas Revenue Tax, and the elimination of several other taxes. In October, the government announced major changes to its policy for Canada Lands, including plans to eliminate the 25 per cent Crown back-in, and the governments of Canada, Alberta, British Columbia and Saskatchewan announced an agreement on natural gas pricing and exports which included a move to market pricing for gas.

For 1986, one issue transcends all others. It is the uncertainty surrounding the price of crude oil and natural gas.

This is a matter of obvious concern, to Gulf, the Canadian petroleum industry, and to governments as well. Oil and gas revenues are the lifeblood of our Corporation, and the drop in prices in early 1986 has an obvious and negative effect on our cash flow.

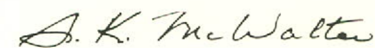
No one can accurately forecast what will happen to prices. For the longer term, we believe world prices will be sufficient to support frontier and oil sands projects. For the shorter term, however, we will work within the current depressed price structure, and plan accordingly to conserve our cash flow and maintain a healthy balance sheet.

A positive factor for the Corporation is the stabilizing effect of Abitibi-Price. This diversification is already providing us with early benefits.

Gulf Canada's long-range objective continues to be, as it has been for many years, to maximize profitable growth for the benefit of shareholders.

That is why the theme of this Annual Report, "Resources... the Future Begins", is so appropriate. Gulf Canada Corporation is now a major Canadian resource company, and, despite the current uncertainties, Gulf shareholders can look with optimism to the Corporation's exciting future.

On behalf of the Board



S.K. McWalter, Chairman, President and Chief Executive Officer

Calgary, Alberta
March 6, 1986

Gulf Canada Corporation

Gulf Canada Square, in Calgary, became the head office of Gulf Canada Corporation following the sale of refining and marketing assets, and restructuring of the Corporation as a resource company.

Gulf Canada began 1985 with Chevron Corporation of San Francisco, California, as majority shareholder.

On August 2, Olympia & York of Toronto purchased from Chevron 113.5 million, or 49.9 per cent, of the outstanding common shares of Gulf Canada. Then, on November 29, Olympia & York exercised an option on the remaining 23.5 million Gulf common shares (10.3 per cent) held by Chevron.

As a result, by December 31, 1985, Olympia & York had purchased 137 million, or 60.2 per cent, of the outstanding common shares of Gulf Canada at a total cost of $2.85 billion.

Also on August 2, Gulf purchased from Olympia & York a block of 32 million shares, or approximately 49.9 per cent of the total outstanding common shares of Abitibi-Price Inc. Subsequent purchases of additional blocks of shares, plus a public offer to purchase shares from minority shareholders, raised Gulf's ownership of Abitibi-Price to 90 per cent, at a total cost of $1.2 billion.

A third major corporate development took effect August 31, when Gulf Canada entered into an agreement with Norcen Energy Resources Limited which resulted in the reorganization of Gulf's upstream oil and gas business and its subsequent operation as a partnership known as Gulf Canada Resources, involving Gulf, two of its wholly-owned subsidiaries, and Norcen.

Gulf Canada Limited and its subsidiaries, which together held a 94 per cent interest in the Gulf Resources Partnership, contributed most of its resource assets — except for those of BeauDril Limited — the Edmonton refinery, the business of Superior Propane Limited and $10 million. Norcen contributed $300 million in cash for a six per cent interest.

Gulf was the managing partner, and substantially all of its exploration and production activities, which previously had been carried out through Gulf Canada Resources Inc., were conducted through the partnership.

In February 1986, Gulf gave notice to Norcen resulting in that company's withdrawal from the partnership March 1.

Upon withdrawing from the partnership, Norcen acquired interests in the Hebron-Ben Nevis fields off the East Coast, and in five oil and gas producing fields in Alberta, and will acquire the business of Superior Propane on June 2, 1986.

During 1985, Gulf also arranged the sale of most of its downstream holdings in two separate transactions.

On September 30, Gulf sold its refining, distribution and marketing business in Ontario, the Prairie provinces and British Columbia, Yukon and the Northwest Territories to Petro-Canada Inc. Gulf realized almost $900 million as a result of this transaction.

At that time, Petro-Canada also agreed to purchase Gulf's Edmonton refinery for $275 million plus working capital. The purchase is scheduled to close at the end of March 1986.

On January 1, 1986, Gulf sold its remaining downstream operations, in Quebec and the Atlantic provinces, to Ultramar Canada Inc. This transaction resulted in cash proceeds of about $300 million including working capital.

Proceeds from the sales of Gulf's downstream operations

will be approximately $1.5 billion.

On December 1, 1985, the Corporation relocated many of its corporate functions from Toronto to Calgary, Alberta.

And, on February 10, 1986, the effective date of the arrangement that resulted in the reorganization of Gulf Canada Limited into Gulf Canada Corporation, Gulf's corporate offices were relocated in Calgary.

The arrangement, originally announced as part of the August acquisition by Olympia & York, was developed to restructure the Corporation for increased profitability, and provide a fair price for minority shareholders not wishing to become shareholders in the new Corporation.

Shareholders were given the opportunity to exchange each common share of Gulf Canada Limited for one common and one senior preference share of Gulf Canada Corporation, or for $10.40 in cash and $10.40 principal amount of Gulf Canada Corporation subordinated debentures.

Gulf shareholders approved the arrangement at a special

The Reorganized Gulf Canada Corporation Will Concentrate on Resources

The transition in 1985 and early 1986 of the fully-integrated oil and gas company Gulf Canada Limited into the major Canadian resource company Gulf Canada Corporation has involved some significant corporate restructuring.

Gulf began 1985 with Chevron Corporation as majority owner, and with a number of operating oil and gas subsidiaries.

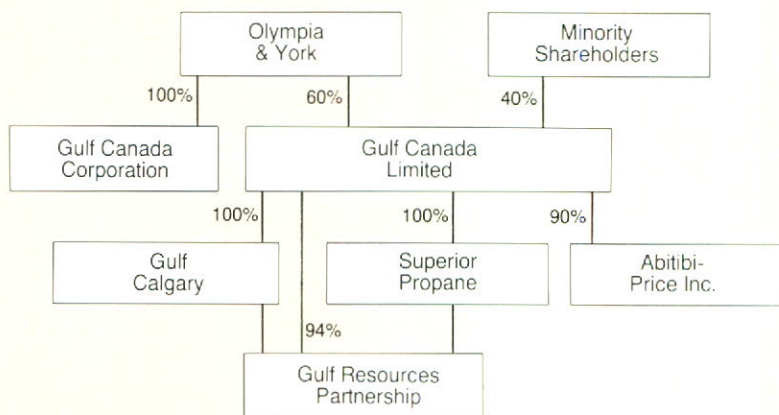
As of year-end 1985, Gulf had a new majority owner in Olympia & York; had arranged the sale of most of its downstream assets; had acquired 90 per cent ownership of Abitibi-Price Inc.; and had entered into a partnership with Norcen Energy Resources Limited.

In early 1986, further changes occurred. Effective February 10, the business of Gulf Canada Limited was reorganized into Gulf Canada Corporation, a Calgary-based company.

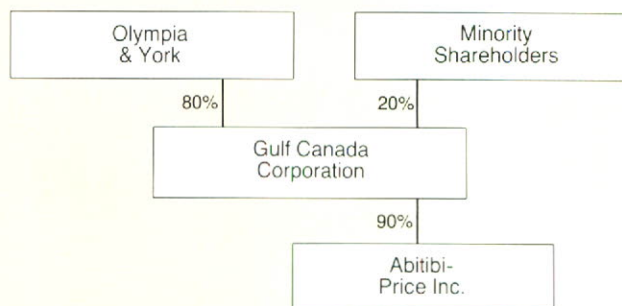
Norcen withdrew from the partnership March 1, and the partnership was dissolved March 3. Further planned organizational changes include the sale of the Edmonton refinery to Petro-Canada, and sale of the business of Superior Propane to Norcen.

The result, after all of these steps, will be a major Canadian resource company, Gulf Canada Corporation, 80 per cent owned by Olympia & York, and involved primarily in the oil and gas business, with a major forest products subsidiary.

Gulf Canada Limited as it looked at the end of 1985



Gulf Canada Corporation following completion of the various restructuring steps described



shareholders' meeting in Toronto January 31, 1986. The arrangement received subsequent court approval and, on February 10, Gulf Canada Corporation officially acquired all the shares of Gulf Canada Limited. On February 24, 1986, also pursuant to the arrangement, Gulf Canada Limited was dissolved and Gulf Canada Corporation acquired all its assets and liabilities and began carrying on the business previously conducted by Gulf Canada Limited.

As of February 3, 1986, 56 million shares, or 62 per cent of the minority common shares, had been tendered for the cash/debenture option. Olympia & York's 137 million shares and the remaining 34 million minority shares were converted into a total of 171 million common shares and 171 million senior preference shares of Gulf Canada Corporation. Therefore, as of the effective date, Olympia & York's ownership of Gulf Canada Corporation stood at 80 per cent.

The potential beneficial tax effects resulting from the arrangement, and the announced withdrawal of Norcen from the Gulf Resources Partnership, and its subsequent dissolution, could raise Gulf's after-tax earnings by more than $500 million over the first five years of the new Corporation's life.

Gulf Canada Corporation's financial statements will continue to reflect the historical costs of Gulf Canada Limited. The financial statements and financial data contained in this Annual Report relate to Gulf Canada Limited, and per share figures are based on the capital structure of Gulf Canada Limited existing at December 31, 1985.

Financial Review

EARNINGS

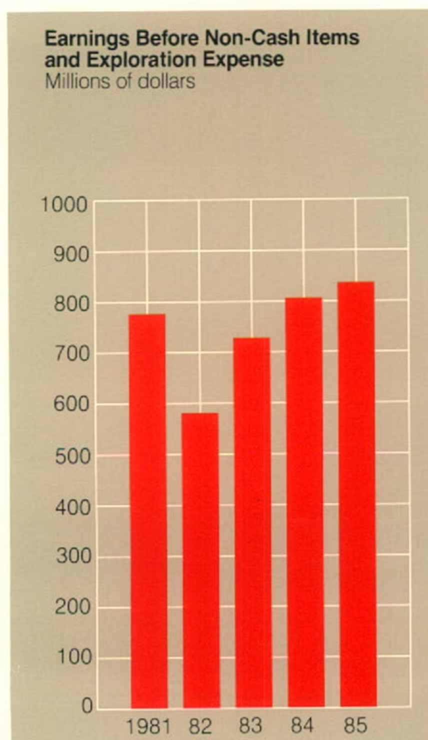
Earnings for 1985 rose 10 per cent to $339 million, or $1.49 per share, an increase of $31 million from the $308 million, or $1.35 per share, earned in 1984. Earnings for 1983 were $218 million, or 96 cents per share. Return on average capital employed was 8.7 per cent in 1985, compared with nine per cent in 1984 and seven per cent in 1983.

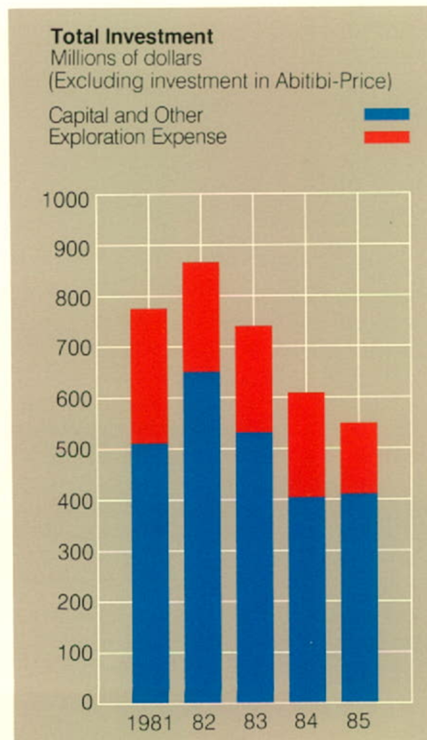
The 1985 results include a $93 million gain on formation of the Gulf Resources Partnership with Norcen Energy Resources Limited. This gain was partially offset by an after-tax loss of $80 million related to the sale of refining and marketing assets west of Quebec to Petro-Canada Inc. In addition, net write-offs related to certain unproductive assets, totalling $34 million after tax, were recorded in 1985. The 1984 and 1983 results included net charges of $13 million and $22 million, respectively, related to asset write-downs.

SEGMENTED EARNINGS

Oil and gas segment earnings of $221 million in 1985 were $30 million lower than the $251 million earned in 1984, and $21 million below the $242 million earned in 1983.

The main reasons for the decline in 1985 from 1984 were reduced crude oil volumes which more than offset higher crude oil prices following the decontrol of oil prices on June 1, 1985. Higher operating expenses, increased depreciation, depletion and amortization, and write-offs related to certain unproductive assets were partially offset by increased sulphur revenues and higher Syncrude earnings. Exploration expenses were lower, due to Gulf's newly-acquired





Canadian status which resulted in increased government grants on exploration.

Net production of crude oil and natural gas liquids, including synthetic crude oil, for the year, was 13,210 cubic metres (83,090 barrels) per day, a decline of eight per cent from 1984. Volumes in 1984 had increased 2.2 per cent over 1983.

Production from conventional fields in 1985 declined 13 per cent from 1984, due to lower allowables reflecting decreased demand, limited pipeline capacity and declining capability in mature fields.

Net production from Gulf's portion of the Syncrude operation in 1985 increased 44 per cent to 1,675 cubic metres (10,535 barrels) of oil per day.

Net natural gas produced and sold decreased slightly in 1985, to 6.7 million cubic metres (239 million cubic feet) per day from 1984, following an increase of 30 per cent in 1984 over 1983. Gulf Canada has substantial shut-in natural gas producing capability.

The corporate and other

Canadian Ownership Brought Immediate Benefits to Gulf Canada

Canadianization of Gulf Canada, a management objective for a number of years, was achieved on August 2, 1985, when 49.9 per cent of Gulf common shares were acquired by Olympia & York of Toronto.

At year-end 1985, Olympia & York held 60.2 per cent of the outstanding common shares of Gulf Canada, and Gulf's Canadian Ownership Rate had increased from 26 per cent at year-end 1984, to an estimated 94 per cent.

Canadianization is in keeping with Federal Government policy which encourages increased Canadian ownership and control of the energy industry. It also opens up a number of important benefits and opportunities not previously available to the Corporation.

One immediate benefit of increased Canadian ownership was an increase in the amount of Petroleum Incentive Program (PIP) grants available.

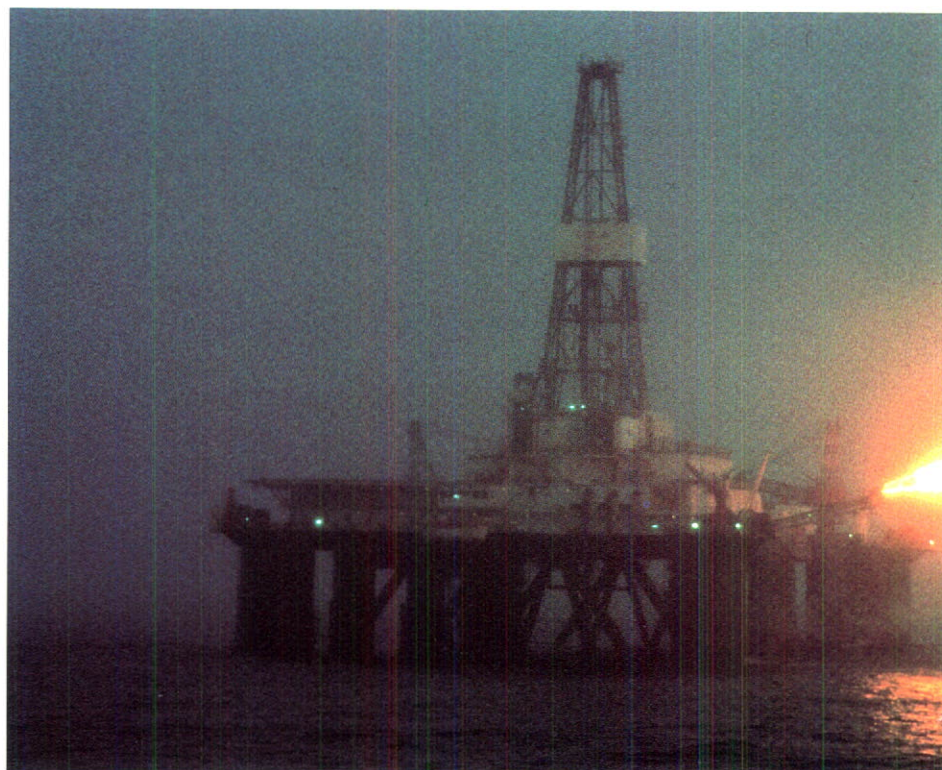
Although PIP grants, with some exceptions, are scheduled to expire at the end of March 1986, the August acquisition of Gulf shares by Olympia & York, coupled with Gulf's previous Canadian Ownership Rate, provided Gulf Canada with "Canadian status" and immediately qualified it for additional exploration incentives of approximately $100 million through March 1986.

Canadian status will also facilitate frontier development. The Federal Government reaffirmed in October that a 50 per cent Canadian ownership level will still be a requirement for some frontier projects at the production stage.

In making the announcement, the Minister of Energy, Mines and Resources specifically noted the government's desire to have this level of Canadian ownership in the Hibernia project. Canadian ownership in Hibernia had been 31.5 per cent, but the Canadianization of Gulf immediately increased it to 48.5 per cent.

Gulf's Canadianization also raised Canadian ownership of Amauligak, in the Beaufort Sea, to approximately 86 per cent.

Increased Canadianization makes



Canadian ownership of Hibernia is 48.5 per cent since Gulf's Canadianization.

segment, which includes revenues earned on the short-term investment portfolio and interest expense on long-term debt, together with results of other sundry operations, improved to a loss of $12 million in 1985, $6 million below the 1984 loss, mainly due to higher revenues from the short-term investment portfolio.

Gulf a more attractive partner in frontier exploration projects with foreign-controlled companies.

It will allow Gulf to make decisions about future prospects for growth solely on the basis of business rationale without the constraints of a foreign-controlled company.

Forest products segment earnings, reflecting the consolidation of Abitibi-Price Inc. from August 2, 1985, were $24 million.

At year-end, Gulf was still operating the business of Superior Propane.

DISCONTINUED OPERATIONS

Earnings from discontinued operations, shown separately in the statements of earnings, mainly represent Gulf's former downstream segment. The majority of this business west of Quebec was sold to Petro-Canada Inc. on September 30, 1985, and the remaining Eastern Canada portion to Ultramar Canada Inc. on January 1, 1986.

Earnings of $93 million during 1985 compared with $75 million earned in 1984, which had shown a significant improvement over the break-even performance of 1983. The 1985 earnings include a $58 million ($38 million after tax) credit related to the elimination of the reserve for unrealized profit in inventory which was no longer required. However, this gain was offset by a $60 million ($31 million after tax) provision for the shutdown of the Montreal East refinery.

Refined product sales in 1985 of 8.8 million cubic metres (55.1 million barrels) were off 20 per cent from 11 million cubic metres (69.1 million barrels) in 1984, mainly reflecting the September sale to Petro-Canada. Sales volumes in 1984 had declined 5.7 per cent from 1983.

LIQUIDITY AND EXPENDITURES

In 1985, earnings before non-cash items and exploration expenses totalled $841 million, an increase of $29 million over the $812 million reported in

Superior Propane to be sold in June 1986.

1984 which, in turn, had increased $83 million over 1983.

Non-cash working capital related to operating activities increased $130 million due to higher accounts receivable and lower liabilities for income taxes, partially offset by higher accounts payable. In 1984, non-cash working capital requirements declined $174 million, primarily due to a large increase in income taxes payable.

Capital and exploration expenditures during 1985 were $551 million, a decrease of $52 million from 1984. In addition, $1,212 million was spent during 1985, to purchase 90 per cent of the common shares of Abitibi-Price Inc. Partially offsetting this purchase were proceeds of $874 million, including the realization of working capital, from the sale of downstream assets to Petro-Canada, and Gulf's share of Norcen Energy Resources Limited's $300 million contribution to the Gulf Resources Partnership. Total investment in 1984 declined 19 per cent from $748 million in 1983, reflecting the completion of several major projects.

The Corporation anticipates that total 1986 spending will

approximate that of 1985.

Cash and short-term investments less short-term loans at year-end 1985 were $744 million, a decrease of $117 million during the year. The 1984 total of $861 million compared to $612 million at the end of 1983.

At year-end, the Corporation's long-term debt amounted to 32 per cent of total capitalization.

If the arrangement had been in effect at December 31, 1985, the Corporation's pro forma long-term debt would have amounted to slightly above 50 per cent of total capitalization. However, the Corporation's cash position could remain essentially unchanged in 1986 as proceeds from the sale of downstream assets east of Ontario, and the sale of the Edmonton refinery at the end of March, will offset the cash requirement related to the cash/debenture option in the arrangement. The existing cash balance, plus cash generated from operations, including the potential tax benefits from the arrangement, will be used to reduce a portion of the long-term debt outstanding.

Familiar Gulf Symbol Now Identifies Reorganized Resource Corporation

Many Canadians associate the name "Gulf" with quality automotive services and products, and the familiar round sign at local service stations. But the 1985 sale of Gulf's refining and marketing operations raises a number of questions about the future of the well-known Gulf trademark.

In fact, the Gulf disc — the symbol that has meant "Gulf" to motorists around the world for more than six decades — will still be a vital part of the Canadian oil and gas business.

The disc in its current orange-and-blue form was first used by Gulf Oil Corporation in Pittsburgh in 1962, although an earlier version of the word "Gulf" and the orange disc was patented in 1920.

The disc was brought to Canada by Gulf Oil Corporation's subsidiary Canadian Gulf Oil, which was acquired by The British American Oil Company Limited in 1956. The 1962 design revision of the disc was introduced into Canada in 1964 to identify a line of lubricant products. In 1969, British American, Royalite Oil Company Limited, and Shawinigan Chemicals Limited amalgamated as Gulf Oil Canada Limited, and the new company adopted the Gulf symbol.

When Chevron Corporation acquired Gulf Corporation in 1984, it also acquired rights to the trademark. And when Olympia & York acquired Chevron's interest in Gulf Canada Limited in 1985, Gulf Canada Limited acquired Canadian ownership of the symbol.

Gulf disc, which replaced B-A rondel in 1969, remains Corporate symbol.

As part of the subsequent sale of downstream assets to Petro-Canada and Ultramar, those companies were licensed to use the Gulf disc during the changeover period. So, for the next few years, Canadians could continue to encounter the Gulf disc at local service stations — although those stations are no longer affiliated with Gulf.

However, the disc is now owned exclusively in Canada by Gulf Canada, and the Corporation will continue to use it proudly to identify its oil and gas exploration, development and production activities.

Other Highlights

DOWNSTREAM OPERATIONS

On September 30, Gulf sold its downstream business, excluding the Edmonton refinery and Superior Propane, in the provinces and territories west of Quebec to Petro-Canada Inc.

The fixed assets included a refinery and lubricant plant at Clarkson, Ontario; an asphalt plant at Moose Jaw, Saskatchewan; a part-interest in a refinery at Port Moody, British Columbia; interests in various pipelines, office buildings and other real estate assets; and a marketing and distribution system involving some 1,800 retail outlets.

On January 1, 1986, Ultramar Canada Inc. purchased Gulf's refining and marketing fixed assets in Quebec and the four Atlantic provinces, including approximately 675 retail outlets.

At year-end, Gulf, as managing partner of the Gulf Resources Partnership, was still operating the Edmonton refinery and the business of Superior Propane, a Canadian marketer of propane gas and propane appliances.

Superior Propane's earnings increased over 1984, and sales volumes improved six per cent. It continued to focus and build on its strength in traditional segments of the propane market, improving productivity and efficiency of existing operations. It also improved its share in the growing transportation market.

BEAUDRIL

In 1985, BeauDril Limited, a wholly-owned Gulf subsidiary, continued to own and operate the Beaufort Sea Drilling System, which includes the mobile Arctic caisson *Molikpaq;* the conical drilling unit *Kulluk;* two icebreakers and two ice-breaking supply vessels. *Kulluk* completed two wells, one for Gulf and one under contract, and started a third, while *Molikpaq* began delineation drilling at Amauligak.

COAL

Evaluation work continued during 1985 on Gulf's Mount Klappan coal property in northwestern British Columbia. Mount Klappan has one of the world's largest deposits of high-quality surface-mineable anthracite.

Work progressed on a feasibility study for development of the area, and an on-site test pit and pilot wash plant were set up to produce trial cargoes for potential Canadian, European and Korean purchasers who wanted to test-market the anthracite.

TENSAR

The 50 per cent Gulf-interest Tensar Corporation near Atlanta, Georgia, completed its first year of full commercial operation in 1985. Tensar manufactures and sells, in North America, high-strength polymer grid structures with a wide variety of applications in the control of soil erosion and in the construction industry.

Base reinforcement applications, in which Tensar geogrids act as a direct substitute for conventional aggregate fill, were the largest single source of revenue in 1985.

Tensar further expanded its distribution network, appointing Dow Chemical Canada Inc. as its major distributor to Canadian construction markets.

RESEARCH AND DEVELOPMENT

Although the Research and Development Centre at Sheridan Park, Ontario, was part of the 1985 sale of assets to Petro-Canada, Gulf retained its Research and Development capability directed towards upstream activity.

Mount Klappan anthracite deposit is promising.

Gulf's Donor Refined Bitumen Process for upgrading heavy oil reached the large-scale demonstration phase. A 64-cubic-metre (400-barrel) per day demonstration program was approved for implementation at an existing facility in France.

The Corporation's mobile drilling and completions laboratory was used extensively in Western Canada in 1985.

A new sulphur plant catalyst regeneration procedure was developed and used at the Hanlan-Robb gas processing plant.

DONATIONS

Corporate donations for the year again increased, to $3.2 million.

Approximately 43 per cent of the total went to health and welfare organizations, including United Way/Centraide campaigns in 70 centres across Canada.

Ten post-graduate fellowships, and 51 undergraduate scholarships to dependents of Gulf employees were awarded in 1985.

Oil and Gas

In January 1986, tests of the Amauligak I-65 well in the Beaufort Sea flowed oil at the highest rates of any well in Gulf's history. Production capability of one zone was calculated at 5,554 cubic metres (34,950 barrels) per day.

Oil and gas earnings of $221 million in 1985 were below the record $251 million earned in 1984, as higher average crude oil prices, resulting from the June 1 decontrol, were more than offset by reduced crude oil volumes. Syncrude earnings and sulphur revenues increased. However, operating expenses were higher, depreciation, depletion and amortization increased, and certain unproductive assets were written off.

Capital and exploration expenditures decreased, from $478 million in 1984 to $378 million in 1985. Exploration expenses were lower, due to increased government grants resulting from the Canadianization of Gulf in August.

Western Canada

In 1985, Gulf participated in 576 gross wells in Western Canada. Of these, 98 were wildcats, 252 exploratory outpost wells, and 226 development wells. Results include 379 oil and 29 gas wells.

PRODUCTION

Gross production of conventional and synthetic crude oil and natural gas liquids (NGL) was 17,043 cubic metres (107,195 barrels) per day in 1985, down 11 per cent from 1984 levels. Natural gas produced and sold increased slightly to 8.8 million cubic metres (313 million cubic feet) per day.

Production of conventional light and medium crude oils dropped by 16 per cent to 12,140 cubic metres (76,355 barrels) per day. The decrease was a result of the continuing decline in producibility from Gulf's Western Canada reserves, and changes in market demand.

Enhanced oil recovery (EOR) projects — specifically the Gulf-operated miscible flood project at Fenn-Big Valley and the partner-operated project at South Swan Hills — continued to contribute

Financial and Operating Summary	**1985**	1984
FINANCIAL		
(millions of dollars)		
Net segment earnings after taxes	**$ 221**	$ 251
Capital and Exploration Expenditures		
Conventional Oil and Gas	**$ 154**	$ 148
Syncrude	**29**	16
Exploration	**163**	259
Beaufort Sea Drilling System	**3**	44
Other	**29**	11
Total	**$ 378**	$ 478
Capital employed at year-end	**$1,927**	$1,869
Return on average capital employed	**11.6%**	14.1%
OPERATING		
(thousands of cubic metres per day)		
Gross production		
Crude oil and natural gas liquids	**15.2**	17.8
Synthetic crude oil	**1.8**	1.2
Natural gas produced and sold *(millions of cubic metres per day)*	**8.8**	8.8

to oil production levels.

At year-end, light oil EOR projects were providing approximately seven per cent of Gulf's conventional light oil production.

Late in 1985, a third EOR project was completed at Swan Hills Unit #1. Gulf's share of incremental production over the estimated 20-year life of this partner-operated project is expected to be approximately 2 million cubic metres (12.6 million barrels).

Construction is under way on another miscible flood EOR project, at Goose River, with start-up of this Gulf-operated 54.5 per cent Gulf-interest project scheduled for 1987.

The decline in conventional crude oil sales was partially offset by increased synthetic crude oil deliveries from the Syncrude plant. Improvements to "debottleneck" the production process and improved plant reliability resulted in record production levels. Gulf's share of production was 1,812 cubic metres (11,395 barrels) per day, up 46 per cent over 1984, and 13 per cent over 1983, which was the previous record year.

Work on Syncrude's Capacity

Garrington-Lanaway Gas Reserves Will Be Linked to the Strachan Gas Plant

Natural gas was discovered by Gulf in the Garrington-Lanaway area in Alberta in 1956.

The area is in the west-central part of the province approximately 100 km (60 miles) northwest of Calgary.

Since there were no transportation and production facilities in the area at that time which were close enough to make connection of the Garrington-Lanaway reserves economic, they remained untapped for almost three decades.

However, in November 1984, the nearby Garrington-Caroline area was linked by pipeline to the Gulf-operated Strachan gas plant.

Completion of the pipeline, to Garrington-Caroline, coupled with additions to reserves made by two more successful Garrington-Lanaway wells in 1985, has at last made it feasible to develop the gas in that area.

These new reserves will be delivered to the Strachan gas plant through an additional pipeline link that will be built to the existing Garrington-Caroline pipeline.

This tie-in project will cost an estimated $15 million, and will provide approximately 600 million cubic metres (21 billion cubic feet) of established natural gas reserves with access to markets.

The project consists of a gathering system for sour gas from seven wells, and sweet gas from a nearby field battery, as well as a compressor station with the capability to extract gas liquids, and 48 km (29 miles) of gathering and transmission pipelines.

Garrington-Lanaway gas development anticipates extension of pipeline

The system is being designed to transport 1.2 million cubic metres (44 million cubic feet) per day of gas, and 280 cubic metres (1,750 barrels) per day of liquids.

Gulf's interests in the Garrington-Lanaway area wells range from 50 to 100 per cent, and the Corporation's share of production is expected to be approximately 535,000 cubic metres (19 million cubic feet) per day of gas and 120 cubic metres (750 barrels) per day of liquids.

Addition Project (CAP), was 10 per cent complete by year-end. Expected to be fully on stream in 1988, CAP facilities will add approximately 2,860 cubic metres (18,000 barrels) of daily capacity.

In January 1985, Syncrude's authorized production level, including CAP, was increased to 8 million cubic metres (50 million barrels) per year.

Sales contracts are in place for the Gulf gas, and negotiations are being conducted with other producers to transport their production through the system which will be owned 100 per cent by Gulf.

Additional seismic and drilling activity is planned for the Garrington-Lanaway area in 1986.

Gulf's share of the cost of the CAP project is estimated at $60 million, and its share of total plant production will increase to 1,967 cubic metres (12,370 barrels) per day. The project will add 7.5 million cubic metres (47 million barrels) to Gulf's established oil reserves.

Production of heavy oil was virtually unchanged from 1984, at 820 cubic metres (5,160 barrels) per day. In addition to production from Saskatchewan the heavy oil total includes production of 119 cubic metres (748 barrels) per day from Gulf's Pelican Lake in situ fireflood project in the Wabasca oil sands deposit of northeastern Alberta.

NGL production from Gulf reserves was 2,272 cubic metres (14,290 barrels) per day in 1985, down 10 per cent from 1984, due primarily to decreased sales gas from facilities producing large amounts of natural gas liquids.

The partner-operated Judy

Capacity of Syncrude plant is being expanded.

Creek ethane extractor, completed in 1985, will provide Gulf with a source of ethane and NGL for use in its EOR projects. Initially, Gulf's 26.3 per cent share of production is expected to average 650 cubic metres (4,100 barrels) per day of "ethane plus", an NGL mixture that is predominantly ethane.

Sulphur sales were 570,000 tonnes (561,000 tons) in 1985, a decline of three per cent from 1984.

During 1985, there were

1985 Land Inventory Summary

	GROSS	NET
Petroleum and Natural Gas	*(millions of hectares)*	
Western Canada	2.9	1.9
Frontier		
Beaufort Sea	1.5	0.5
Yukon and N.W.T.	1.7	0.3
Mackenzie Delta	0.5	0.3
Arctic Islands	6.9	1.1
East Coast	9.2	3.5
Total Frontier	19.8	5.7
Oil Sands		
Alberta	0.3	0.2
Total Petroleum/Natural Gas/Oil Sands	23.0	7.8
Coal	0.3	0.3

changes in crude oil marketing practices. Prior to June 1, crude oil from Crown Lands was generally sold through an Alberta Government agency at prices established by the governments of Alberta and Canada. After June 1, as a consequence of the March 28 Western Accord, producers were free to negotiate prices and terms directly with buyers.

EXPLORATION

Gulf's active exploration program in Western Canada accounted for close to two-thirds of its 1985 exploration spending. Expenditures of $128 million were slightly higher than in 1984.

Activity continued to focus on light oil prospects near existing transportation and processing facilities. The search also continued for gas that could be put on production within two to three years, and for selected gas prospects outside areas with contracts or delivery systems.

Significant discoveries in 1985 included:

Peerless-Senex: A 12-well exploratory drilling program was conducted as a follow-up to the 1984 oil discovery at Peerless

Development of Peerless Lake, Groat Follows Exploration Successes

One of 1985's most active oil "hot spots" in Alberta has been the north-central part of the province, approximately 350 km (210 miles) northwest of Edmonton.

Gulf's current focus there is Peerless/Senex, where the Corporation is involved in exploration, development and production activity.

Gulf made an oil discovery at Peerless Lake in February 1984. Since then, 20 exploratory wells — 11 of which found oil — and 10 development wells have been drilled in this play.

In 1985, work began on a central battery, treating and salt water disposal facility, and initial production began from the area.

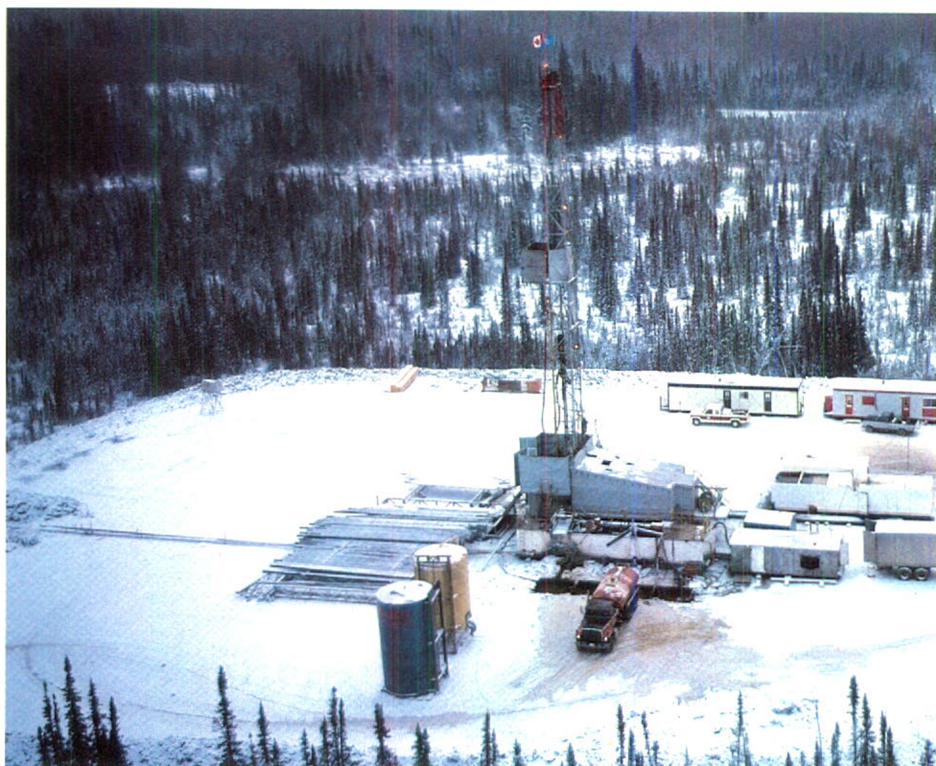
Drilling to date in the Peerless/Senex region has confirmed established oil reserves of 550,000 cubic metres (3.5 million barrels).

For the winter of 1985-86, Gulf moved a 100-person camp and three drilling rigs into the area. Up to 12 development wells and six exploration wells are planned. The central battery facility will be completed and initial production begun from 12 wells.

A field gathering system and expansion of the central facilities are also being considered.

The Peerless Lake wells are 70 per cent Gulf-interest, and the Senex wells, northwest of Peerless, are 100 per cent Gulf owned.

In terms of natural gas, Gulf's best discovery in recent years is at Groat, 200 km (125 miles) west of Edmonton.


Major oil development at Peerless Lake in northern Alberta will help maintain production levels.

The initial condensate-rich sour gas discovery was made in 1984. Four wells have now been completed in the area, and one of them, drilled by Gulf in 1985, was a 7-km (4-mile) step-out that considerably enlarged the Corporation's original estimate of the size of the field. Established natural gas liquids reserves included with the gas are estimated at 3 million cubic metres (19 million barrels).

At least one outpost well will be drilled in 1986, and then work will begin to bring this 75 per cent Gulf-interest project into production.

Lake. In 1985, there were 19 oil successes from exploratory and development drilling. Gulf has a 70 per cent interest at Peerless and 100 per cent at Senex.

Tooga: A five-well exploratory program at Tooga, south of Desan in northeastern British Columbia, resulted in three 70 per cent Gulf-interest oil discoveries.

Groat/Haddock: A successful exploratory well was completed as a follow-up to the 1984 condensate-rich, sour gas discovery at Groat, west of Edmonton. The well considerably enlarged the original estimate of the size of the field. Further exploration, development and production work is planned for this 75 per cent Gulf-interest project.

Estimates of Groat reserves increased.

DEVELOPMENT

At year-end 1985, Gulf's net proved reserves of crude oil, NGL, synthetic crude and natural gas showed a decrease from 1984, with reserve additions failing to fully offset production, and as a result of the reduction relating to Norcen's withdrawal from the partnership.

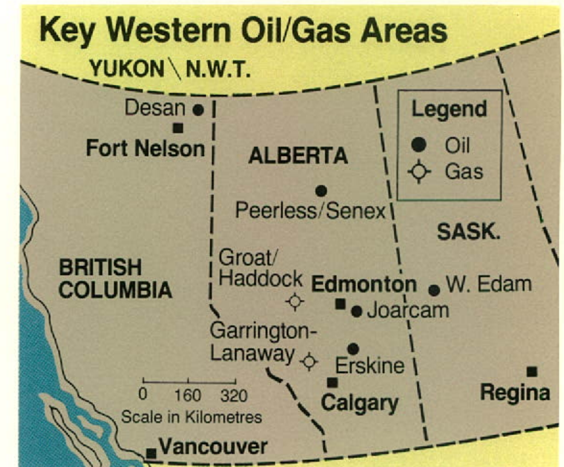
During 1985, Gulf continued to concentrate development activity on areas where reserves were capable of being rapidly tied in to existing transportation and processing facilities.

Major areas of light oil development included Peerless Lake, Joarcam, Stettler-Erskine, Westerose, Fenn-Big Valley and Zama-Virgo in Alberta, and Desan in British Columbia. Natural gas development activity focused on Strachan, Groat and Garrington-Lanaway in Alberta.

In Alberta, additions to established light oil reserves were made in several producing areas.

Following up the 1984 discovery in the Peerless Lake area of north-central Alberta, nine delineation wells added 200,000 cubic metres (1.3 million barrels). In the Joarcam area southeast of Edmonton, a 16-well program added 300,000 cubic metres (1.9 million barrels). A three-well program in the Erskine area, at Stettler, delineated a new pool adjacent to the existing pool and added 100,000 cubic metres (600,000 barrels). Other successful development wells in Alberta added 1.8 million cubic metres (11.3 million barrels) to Gulf's established reserves.

Development drilling at Desan, in northeastern British Columbia, continued during the 1984-85 winter season. Short-term production tests were conducted, central battery facilities installed, and 10 wells placed on production. Two more wells are scheduled to begin producing in early 1986.



The development plan for the Groat pool is aimed at maximizing liquid recovery from the condensate reservoir. Project start-up is expected in early 1987.

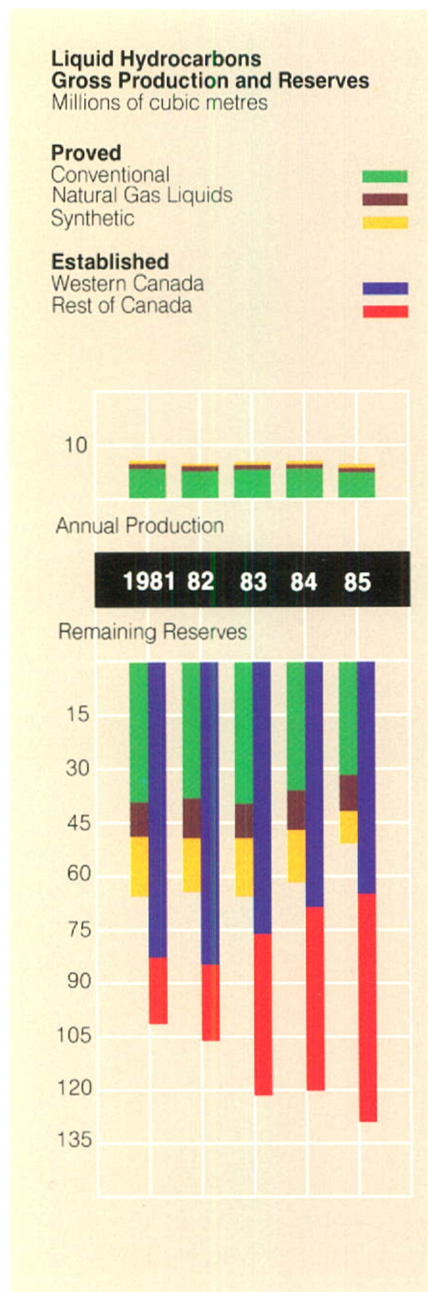
Connection of the Groat reserves will generate revenues for Gulf and enhance the Corporation's natural gas liquids supply position.

In Saskatchewan, drilling added 700,000 cubic metres (4.4 million barrels) of established reserves of heavy oil, including 600,000 cubic metres (3.8 million barrels) in the West Edam and Rush Lake areas.

Gulf also added 400,000 cubic metres (2.5 million barrels) of established light oil reserves in Saskatchewan.

Development drilling for natural gas focused on central Alberta in 1985. In the Lanaway area, two successful wells added 1.4 billion cubic metres (50 billion cubic feet) of established reserves which are to be tied into the Strachan gas plant in 1986. Other successful development wells added 1.5 billion cubic metres (53 billion cubic feet) to established natural gas reserves.

Continuing its "quick-connect" strategy, Gulf completed several small projects in 1985, linking 1.3 billion cubic metres (46 billion cubic feet) of established gas reserves to existing transportation and processing facilities. Total production from the connected projects averaged 170,000 cubic metres (6 million cubic



ESTIMATED REMAINING RESERVES

	Gross 1985/1984	Net 1985/1984
Crude Oil and Natural Gas Liquids	*(millions of cubic metres)*	
Proved (1)		
Western Canada Conventional	**40.5** / 47.2	**30.8** / 36.1
Synthetic/Syncrude (2)	**13.1** / 13.7	**12.0** / 13.0
Total Proved	**53.6** / 60.9	**42.8** / 49.1
Established (Includes Proved) (3)		
Western Canada Conventional	**53.1** / 58.8	**40.3** / 45.1
Rest of Canada (4)	**62.6** / 49.2	**48.0** / 37.6
Synthetic/Syncrude (2)	**13.1** / 13.7	**12.0** / 13.0
Total Established	**128.8** /121.7	**100.3** / 95.7
Natural Gas	*(billions of cubic metres)*	
Proved (1)		
Western Canada	**56.9** / 62.2	**43.2** / 48.9
Established (Includes Proved) (3)		
Western Canada	**82.7** / 86.7	**62.8** / 68.1
Rest of Canada (4)	**61.2** / 61.6	**46.5** / 48.4
Total Established	**143.9** /148.3	**109.3** /116.5
Sulphur	*(millions of tonnes)*	
Proved	**3.8** / 4.3	**3.5** / 3.8

Note: The estimated remaining reserves at December 31, 1985, reflect the distribution of specific resource properties to Norcen Energy Resources Limited on its withdrawal from the Gulf Resources Partnership on March 1, 1986.

(1) "Proved" gross reserves are before deducting royalties. Proved net reserves are after deducting royalties which vary depending on prices, production rates and legislative changes. Proved reserves are those which appear with reasonable certainty to be recoverable under existing economic and operating conditions.

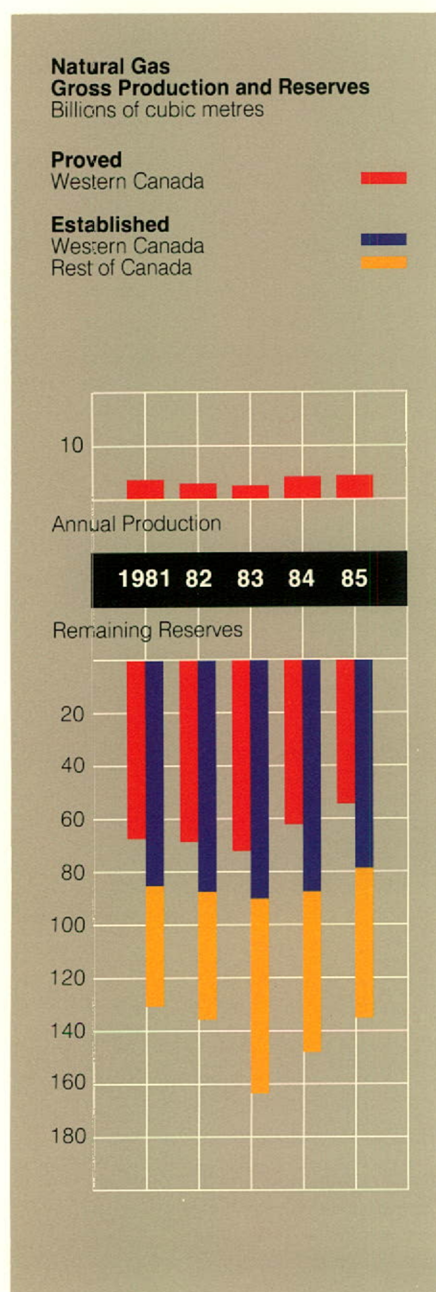
(2) Synthetic crude oil reserves resulting from Gulf Canada's interest in the Syncrude project in the Athabasca oil sands deposit are shown in gross and net volumes.

(3) The definition for "established" is the same as recommended by the Canadian Petroleum Association, National Energy Board and Alberta Energy Resources Conservation Board. Established reserves are those which appear with reasonable certainty to be recoverable under existing and anticipated economic conditions. Proved reserves are part of this category.

(4) "Rest of Canada" includes frontier reserves in areas such as Amauligak, Hibernia, Parsons Lake and Whitefish.

feet) per day in 1985.

Gulf has also been active in the preliminary assessment of several long-range mineable oil sands projects, some of which could be brought on stream in the 1990s. Gulf has a 20 per cent interest in the Other Six Leases Operating Agreement leases in the Athabasca deposit in northeastern Alberta and is also carrying out resource assessment and feasibility studies as operator of the Sandalta lease.



Frontiers

EXPLORATION

When Gulf Canada was "Canadianized" in August, it immediately became eligible for maximum Petroleum Incentive Program grants. As a result, the Corporation was able to maintain an aggressive frontier exploration program during the year while, at the same time, reducing net expenditures to $35 million.

Results in the frontiers in recent years have enabled Gulf to focus expenditures in areas of delineation drilling or step-outs from existing discoveries. The Corporation also continued to negotiate selective farm-outs in the frontiers during the year.

In 1985, Gulf was involved in five Beaufort Sea wells.

The Gulf-operated Akpak P-35 well, which was started in 1984 and completed in June 1985, encountered a water-laden reservoir and was abandoned.

Amauligak I-65, a Gulf-operated delineation well drilled as a follow-up to the 1984 oil discovery at Amauligak J-44, was spudded in September, four km (2.5 miles) northwest of the J-44 well.

Five zones were tested, with oil flowing from all zones at rates ranging from 760 cubic metres (4,800 barrels) per day to 1,200 cubic metres (7,550 barrels) per day. Calculated production capability of the five zones varied from 1,145 cubic metres (7,214 barrels) to 5,554 cubic metres (34,950 barrels) per day.

Gulf also spudded the Aagnerk E-50 well in late October. The well is 30 km (18 miles) northeast of the 1985 Adlartok P-09 oil discovery, and 20 km (12 miles) southwest of the Pitsiulak A-05 oil discovery.

Two wells were operated by others. Arluk E-90 failed to encounter hydrocarbons, but Adlartok P-09, a three per cent Gulf-interest well, flowed oil at rates of up to 372 cubic metres (2,341 barrels) per day.

Gulf also drilled two wells in the Mackenzie Delta during 1985, but both were dry and abandoned. Gulf plans to drill three exploratory wells in the Delta this winter.

Off the east coast of Newfoundland, Gulf was involved in 10 wells, all operated by others. Seven were completed in 1985, of which three were dry and abandoned, and three were still drilling at year-end.

The Mara M-54 well, in which Gulf has a 25 per cent interest, flowed oil from two zones at rates of up to 122 cubic metres (770 barrels) per day.

West Ben Nevis B-75, an 18.75 per cent Gulf-interest well, flowed oil from three zones at rates up to 954 cubic metres (5,967 barrels) per day.

North Ben Nevis P-93, a 9.4 per cent Gulf-interest well, was a cost-free farm-out. It was completed in the fall, and flowed oil at up to 626 cubic metres (3,936 barrels) per day, and natural gas at up to 474,730 cubic metres (17 million cubic feet) per day.

Whiterose J-49 was completed late in the year and flowed oil at rates up to 268 cubic metres (1,688 barrels) per day, and gas at rates up to 177,985 cubic metres (6.3 million cubic feet) per day. Gulf's working interest in this cost-free follow-up to the Whiterose N-22 oil and gas dis-

covery is 4.7 per cent.

At year-end, Terra Nova I-97, Panther P-52, and Whiterose L-61 were still drilling.

During the 1984-85 winter season, Gulf participated in two wildcat wells in the Arctic Islands, both drilled by others.

Cape Allison C-47, a 16 per cent Gulf-interest well, is a new pool discovery that tested up to 743,000 cubic metres (26.4 million cubic feet) per day of natural gas, and 408 cubic metres (2,566 barrels) of oil.

The 16 per cent Gulf-interest Drake L-06 well tested gas at rates up to 723,000 cubic metres (25.5 million cubic feet) per day. The well significantly extended the easterly limits of the Drake field, the largest gas field discovered to date in the Arctic Islands.

Plans for the 1985-86 winter season include participation in three wildcat wells drilled by others.

One, Skybattle Bay M-11, in which Gulf has an 18 per cent interest, tested natural gas at up to 31,000 cubic metres (1.1 million cubic feet) per day.

Amauligak Could Be the Lead Project for Beaufort Sea Development

In 1984, Gulf discovered oil in the Beaufort Sea at Amauligak J-44. It was an important discovery. The well, located 75 km (45 miles) northwest of Tuktoyaktuk, flowed oil from two zones and natural gas was tested from three.

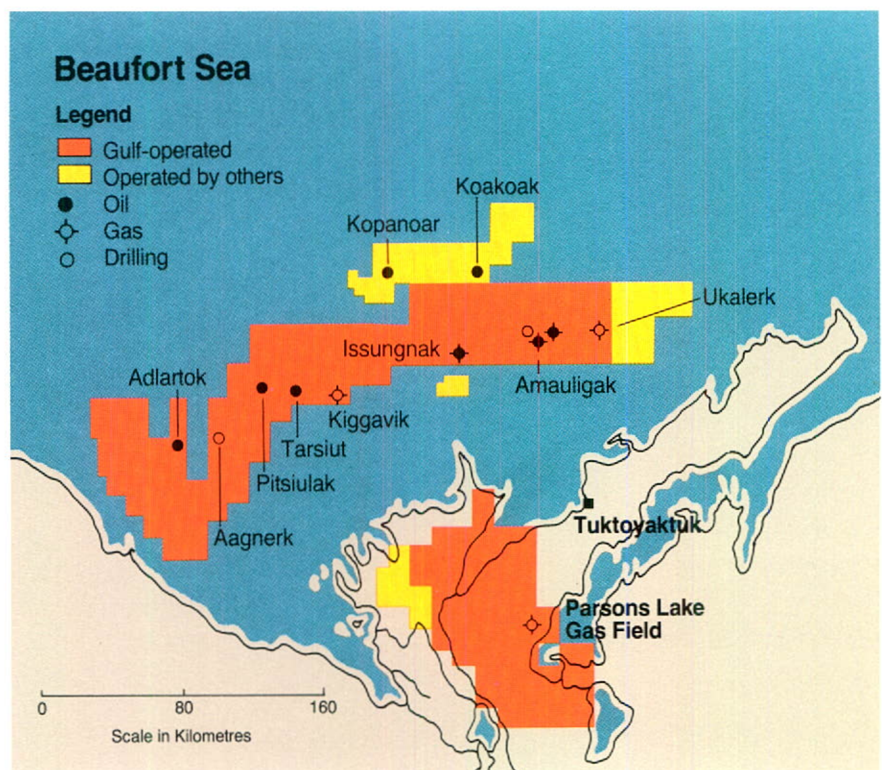
However, additional drilling was needed to fully determine the commercial potential of Amauligak. So, a subsea berm was constructed four km (2.5 miles) northwest of the discovery well, and the mobile Arctic caisson Molikpaq was moved on to location in September 1985.

Amauligak I-65 was completed to total depth of 4,126 metres (13,537 feet) in December, and the test results were excellent — better, in fact, than those of the initial discovery well. Flow rates were the highest of any well in the Corporation's history, and Amauligak I-65 was certainly the industry's best discovery to date in the Mackenzie Delta/Beaufort Sea region.

Flow rates were restricted by the capacity of the equipment, with three zones flowing oil at a maximum of about 1,112 cubic metres (7,000 barrels) per day. Calculated production capability from one zone is 5,554 cubic metres (34,950 barrels) per day.

Logs and test results indicate about 120 metres (about 400 feet) of net oil pay, and more than 45 metres (more than 150 feet) of net gas pay exist at this latest well.

Gulf believes that the Amauligak structure may contain reserves of between 110 and 125 million cubic metres (700 and 800 million barrels).



A second, directionally-drilled well from the same location in January 1986, drilled across a fault to test for reserves in addition to those estimated from the first two wells.

Gulf is operator of the program, and has a 51.8 per cent interest in the structure after the first delineation well. However, this could be reduced to 47 per cent, depending upon the level of involvement of other participants in the rest of the delineation wells.

The thick pay intervals and high

DEVELOPMENT
Gulf believes that the Amauligak structure has the potential for commercial development. Preliminary engineering studies to assess production and transportation systems applicable to the reservoir have been carried out, but considerable work remains to be done before a decision can be made to proceed with production.

Key regulatory submissions were made in 1985 concerning development of the Hibernia oil field east of Newfoundland, and a complete Environmental Impact Statement was filed.

If acceptable terms can be established and if the partners agree to proceed, the project could be on stream, possibly as early as 1992.

East coast offshore drilling program continues.

Appropriate Fiscal Regime Crucial to Hibernia

Amauligak J-44 was important discovery well.

flow rates support the Corporation's expectations that the Amauligak structure has the necessary characteristics to be the lead project for Beaufort Sea oil development. However, much work remains to be done if crude oil production from the Beaufort Sea is to become a reality in the 1990s.

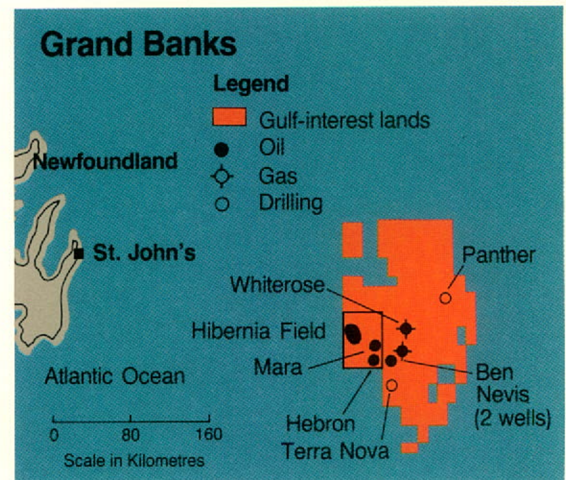
Considerable progress was made in 1985 toward bringing the Hibernia oil field, off the east coast of Newfoundland, into production.

Gulf has a 25 per cent interest in the Hibernia block which now covers 124,177 hectares (307,092 acres). Nine successful wells have been drilled, and two primary oil-producing zones defined. Production capacity of the zones in the 1979 discovery well has been estimated to be in excess of 3,200 cubic metres (20,000 barrels) per day of oil.

In 1985, on behalf of the Hibernia participants, the project operator submitted a complete Environmental Impact Statement and Development Plan to a joint federal-provincial panel. The participants also announced that their preferred choice for a production system was a bottom-founded gravity-based installation.

It would consist of a massive concrete structure resting directly on the seabed, and include all the necessary production, drilling, accommodation and oil storage facilities. The system would be designed to handle approximately 24,000 cubic metres (150,000 barrels) per day of crude oil, to be transported to market by shuttle tankers.

During 1985, public information sessions were held in various communities throughout Newfoundland. In October, the Hibernia Environmental Review Panel held community hearings in the province. The panel's mandate was to examine the



alternative development proposals contained in the Environmental Impact Statement, and make recommendations related to environmental and socio-economic aspects of the proposed development.

The panel submitted a report of its findings and recommendations to the appropriate federal and provincial ministers, and to the Canada-Newfoundland Offshore Petroleum Board in January 1986.

The Hibernia participants are optimistic that there will be a positive regulatory decision sometime in 1986. Assuming successful resolution of a satisfactory fiscal and regulatory framework for the development, Hibernia oil could begin flowing, possibly as early as 1992.

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BARKO
650

Forest Products

Abitibi-Price Inc.

The 1985 acquisition of a 90 per cent interest in Abitibi-Price Inc. provides Gulf with greater diversification in the nation's resource industry.

Abitibi-Price is an integrated Canadian forest products company with its head office in Toronto, and manufacturing operations in Canada and the United States. It is the world's leading producer of newsprint and uncoated groundwood papers.

The company also produces coated papers, kraft pulp, building products and lumber. It has paper converting operations and a major distribution network for printing papers, industrial paper products and information processing supplies.

The company's operations reflect the results of a plan of modernization, rationalization and expansion formulated in 1979. An investment of about $1 billion between 1980 and 1984 has positioned the company to take maximum advantage of opportunities in its many and varied markets.

Abitibi-Price's current five-year plan, begun in 1985, seeks to increase the returns from its natural and capital resources through selective conversion to higher value products, continued upgrading of key facilities to gain quality and marketing advantages, and the acquisition of businesses that complement the company's existing activities and provide high growth and high profit potential.

In 1985, Abitibi-Price's net earnings rose 43 per cent, from $70 million in 1984 to $100 million. Net sales also improved, from $2.1 billion the previous year to $2.5 billion.

Improved earnings resulted from generally strong performances from almost all operations, and reflected the effect of the stronger U.S. dollar and the inclusion of the earnings of two distribution

Financial and Operating Summary	**1985**	1984
FINANCIAL		
(millions of dollars)		
Net Sales	**$2,550**	$2,137
Net Earnings	**100**	70
Capital Expenditures	**202**	126
Capital Employed at Year-End	**$1,701**	$1,564
Return on Average Capital Employed	**8.0%**	6.8%
OPERATING		
(figures in thousands)		
Primary Production		
Newsprint (tonnes)	**1,699**	1,721
Groundwood papers (tonnes)	**349**	374
Kraft products (tonnes)	**105**	115
Lumber (mfbm)	**103**	181
Coated papers (tonnes)	**126**	121
Hardboard (msf-equivalent)	**1,155**	1,111

(mfbm = thousand feet board measure)
(msf = thousand square feet)

More than 10 million hectares (25 million acres) of forest land managed by Abitibi-Price Inc. provides the company's mills with wood fibre.

companies acquired in 1985.

Capital expenditures in 1985 were $202 million, as the company continued to modernize and upgrade its facilities, and make significant advances in moving to higher value products.

Plans for 1986 involve expenditures for continued product upgrading, plant modernization and expansion.

Abitibi-Price conducts its business through two operating groups — the Core Group and the Diversified Group.

Core Group

The Core Group is made up of Abitibi-Price's primary forest products operations — newsprint, groundwood papers, pulp and lumber, as well as the woodlands harvesting and reforestation operations upon which they all depend for their fibre supply.

Abitibi-Price has approximately 13 per cent of North American newsprint capacity, and six per cent of reported world capacity. About 82 per cent of its sales were made in Canada and the United States, with the rest in more than 30 countries around

Extensive Modernization Program Raises Productivity at Paper Mills

As a major world producer of newsprint, Abitibi-Price is particularly committed to ensuring that its product meets the changing quality requirements of its customers. The Core Group's Iroquois Falls, Ontario, mill is a good example of how the company's modernization program supports this commitment to excellence.

In 1983, a significant portion of the plant's facilities were upgraded when four old newsprint machines were replaced with a single world-class twin-wire machine.

"Twin-wire" refers to a new type of paper-making technology that produces the higher quality newsprint required for many modern printing techniques.

Traditional "fourdrinier" newsprint machines have a single forming surface, called a fabric or wire, on which the paper is formed from pulp by draining water through a wire mesh.

In twin-wire machines, a second wire presses the pulp from above, resulting in smooth, clean surfaces on both sides of the finished product.

World-class "twin-wire" technology has modernized Iroquois Falls, Ontario, mill.

Twin-wire formers were also installed on newsprint machines at Augusta, Georgia, at Alma, Quebec, and at Grand Falls, Newfoundland, as part of major upgrading programs.

The modernization program has resulted in higher over-all productivity in the company's nine newsprint mills, while the actual number of machines has been reduced from 24 to 19. Three of these machines are new, world-class twin-wires, while 11 others have been, or are being fitted with twin-wire formers.

Significant capital projects during 1985 included the installation of supercalenders at the Jonquière, Quebec, groundwood papers mill. This modern paper-finishing equipment will allow the company to begin production of higher-value groundwood papers early in 1986. The installation is one phase of a major product and facilities upgrading program at the Jonquière, and neighboring Alma, Quebec, mills.

the world. International marketing is handled by Abitibi-Price Sales Corporation, a wholly-owned, New York-based subsidiary.

Abitibi-Price has newsprint plants in the provinces of Newfoundland, Quebec, Ontario and Manitoba, and in the state of Georgia. Although newsprint is used primarily in the production of daily newspapers, it is finding increasing use in other commercial printing applications.

Groundwood papers are produced at two Quebec plants. Brighter and smoother than newsprint, they are used in advertising inserts and flyers, catalogues, weekend supplements and telephone directories.

Softwood kraft pulp is produced at a mill in Ontario and used in the manufacture of printing papers, packaging and tissue products. The company's market share of pulp is quite small, however, and it is actually a net buyer of this product.

The company's share of softwood lumber production is also relatively small. It manufactures lumber at plants in Ontario and Quebec, and sells the output from three sawmills and a waferboard plant owned by others.

Abitibi-Price manages more than 10 million hectares (25 million acres) of forest lands which supply company mills with the wood they require. The company is heavily involved in resource management, and conducts ongoing tree planting and other forest regeneration programs.

The Core Group accounted for 57 per cent of Abitibi-Price's net sales in 1985. Sales volumes of newsprint, the group's principal product, remained relatively stable. Although a planned price increase in the U.S. was not implemented, the stronger U.S. dollar provided higher sales proceeds, and earnings from newsprint were up from 1984. In addition, operating improvements were achieved at two groundwood papers mills which ran virtually at capacity throughout the year.

Diversified Group

The Diversified Group is an important contributor to company results. It is involved in the manufacture of coated printing papers, the distribution of printing and industrial papers and information processing supplies, the conversion of paper and other materials into industrial paper products, stationery, school supplies and envelopes, and the manufacture of hardboard and related products.

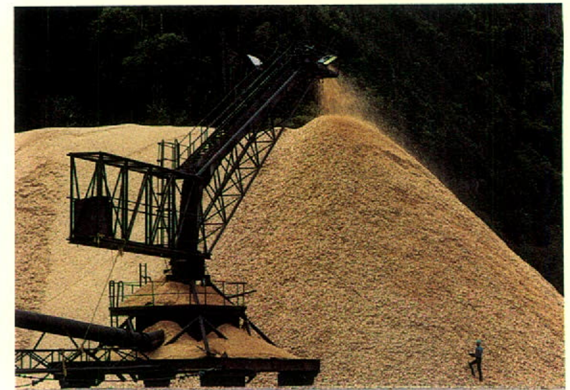
To best serve rapidly-changing markets, businesses in the Diversified Group operate in a decentralized manner, each with an independent identity and considerable autonomy.

It is Abitibi-Price's strategy to accelerate growth in this group to achieve a more equal balance with the contribution to corporate results from the Core Group.

Two 1985 acquisitions contributed to this growth. In February, the company consolidated its position as a distributor of industrial papers and related products by acquiring CIP Daxion Inc. which was then merged with the existing Price Wilson division to form a new Price Daxion division.

In April, the company completed the acquisition of Barbecon Inc. Barbecon's envelope operation, already Canada's largest,

Reforestation program renews resource.



Wood chips one fibre source for paper mills.

was merged with Abitibi-Price's Canada Envelope division to form a new envelope division, Innova. Barbecon also has an extensive printing papers distribution network.

Abitibi-Price's Provincial Papers division, with mills in Thunder Bay and Georgetown, Ontario, manufactures printing papers for use in a wide range of magazines, promotional literature and other publications with high quality requirements. During 1985, the installation of a second off-machine coater at the Thunder Bay mill resulted in that mill reaching its goal of being able to produce 100 per cent coated grades.

Through Inter City Papers Limited and Barbecon Inc.,

Abitibi-Price is the largest distributor of printing and industrial papers in Canada.

Through its Hilroy division, Abitibi-Price is the largest Canadian manufacturer of home, school and office paper supplies.

All of Abitibi-Price's manufacturing facilities for hardboard and related products are located in the United States. The company manufactures hardboard siding, panelling, and plastic products for the home construction industry.

In 1985, the Diversified Group accounted for 43 per cent of company sales, and sales and earnings showed a considerable improvement over 1984. Much of this was due to the Daxion and Barbecon acquisitions early in the year. Improved results from siding and mouldings were offset by a weakening in the volume and prices for interior wood-grain panelling. But there were also strong performances from the company's distribution and converting operations, and from its Provincial Papers division, despite pricing pressures in the last half of 1985 in markets for printing papers.

Diversified Group Contributes Accelerated Growth to Abitibi-Price Inc.

Although the Core Group's primary forest products operations account for the major portion of Abitibi-Price's sales and earnings, it is the Diversified Group that is providing accelerated growth, through internal expansion and suitable acquisitions.

One of Abitibi-Price's objectives over the next five years is to create, with the Diversified Group's growth, more of a balance between the contributions to corporate results from the two groups.

In 1985, in keeping with company strategy for the Diversified Group, two acquisitions were made. The company purchased CIP Daxion Inc., a distributor of industrial papers and allied products; and Barbecon Inc., a major distributor of printing papers in Canada and the largest envelope manufacturer in the country.

The Diversified Group has its own strategic plan, with each operation committed to being the best in its field and a leader in its particular market.

Inter City Papers Limited distributes commercial printing papers, business papers, information processing supplies, bags, folding cartons, packaging supplies, plastic and foam containers and other disposable items, foil, closures, labels, and cleaning and institutional paper supplies. It also manufactures and distributes a wide range of products such as plain and printed paper bags, folding cartons and impact-cushioned bags.

Inter City's Mississauga, Ontario, warehouse manages $10 million product inventory.

Besides being a major distributor of printing papers, Barbecon Inc., through its Innova envelope division, manufactures a wide range of envelopes, including computer diskette pouches, courier envelopes and cash dispersal envelopes for automated teller machines.

Hilroy manufactures and distributes a variety of paper-related products for school, home and office.

Provincial Papers manufactures a wide range of coated papers.

A United States subsidiary, Abitibi-Price Corporation, manufactures hardboard and related products, such as siding, decorative wall panels and prefinished plastic mouldings.

Financial Statements

Gulf Canada Limited

At special shareholders' meeting convened in Toronto in January, Peter G. Beattie made the motion to approve the arrangement to re-organize Gulf Canada.

Summary of Accounting Policies

The consolidated financial statements of the Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of numerous estimates and approximations. The more significant of the Corporation's accounting policies are:

Principles of consolidation:

The accounts of the Corporation and all subsidiary companies are included in the consolidated financial statements. Investments in joint-venture companies, owned 50 per cent or less, are accounted for on the equity basis. The Corporation's proportionate share of assets and liabilities relating to the Gulf Resources Partnership and the Syncrude project are included, along with its share of production and costs.

Inventories:

Inventories of crude oil and related products, and merchandise, are valued generally at the lower of cost applied on a first-in, first-out basis and market value determined on the basis of replacement cost or net realizable value.

Inventories of finished forest products, and related work in process, materials and operating supplies are valued at the lower of average cost and net realizable value. Inventories of pulpwood and sawlogs are valued at average cost. Cost includes the cost of material plus direct labour applied to the product and the applicable share of manufacturing overhead expense.

Oil and gas exploration and development expenditures:

The Corporation follows the successful efforts method of accounting for its exploration and development costs. The initial acquisition costs of oil and gas properties, the costs of drilling and equipping development wells and successful exploratory wells are capitalized. The costs of exploration wells classified as unsuccessful are charged to expense. All other exploration expenditures, including geological and geophysical costs and annual rentals on exploratory acreage, are charged to expense as incurred.

Forest products fixed assets:

Forest products fixed assets are recorded at cost, which includes capitalized interest and pre-production and start-up costs.

Capital leases:

Leases which transfer substantially all the benefits and risks of ownership of the leased assets are capitalized.

Depreciation, depletion and amortization:

Capitalized costs with respect to proved oil and gas properties are amortized against earnings on the unit-of-production method for each field using estimated proved recoverable oil and gas reserves. Charges are made against earnings for depreciation of investment in plant, equipment and capitalized leases, based on estimated remaining useful lives of the assets using either the straight-line or the unit-of-production method, as appropriate. Maintenance and repairs are charged to income; renewals and betterments, which extend the economic life of the assets, are capitalized.

Capitalized costs of unproved oil and gas and in situ and mineable oil sand properties are amortized on a group basis at rates determined after considering past experience, lease terms and other relevant factors.

Depreciation on forest products fixed assets is provided at rates considered adequate to amortize the cost over the productive lives of the assets. The principal asset category is primary production equipment which is depreciated on a straight-line basis.

Assets retired or otherwise disposed of, are removed from the accounts. Generally, the net capital gain or loss, after adjustment for salvage and dismantling expense, is included in earnings.

Translation of foreign currencies:

Monetary assets and liabilities of domestic companies and integrated foreign subsidiaries which are denominated in foreign funds, are translated to Canadian funds at year-end exchange rates. Non-monetary assets are translated at historical rates, and transactions included in earnings are translated at rates prevailing during the year with the exception of depreciation which is translated at historical rates. Exchange gains or losses are included in earnings with the exception of the unrealized gains or losses on translation of long-term debt payable in foreign funds which are deferred. Deferred amounts are amortized over the remaining term of the debt except for amounts relating to debt incurred to finance forest products operations which are hedged by an income stream denominated in U.S. funds.

The assets and liabilities of self-sustaining foreign subsidiaries and affiliates are translated to Canadian funds at year-end exchange rates and the resulting unrealized exchange gains or losses are deferred in shareholders' equity. The earnings statements of such operations are translated at exchange rates prevailing during the year.

Interest costs:

Interest costs are charged to expense as incurred with the exception of interest expense incurred during the construction phase of certain forest products fixed assets, which is capitalized.

Research and development costs:

Research and development costs are charged to expense as incurred.

Income taxes:

Income tax expense is computed on the basis of revenues and expenses reflected in the statements of earnings. A portion of such taxes is not currently payable as tax legislation permits the deduction of certain costs and allowances prior to the time they are recorded as expenses for financial statement purposes. The amount not currently payable is included in the statements of financial position as deferred income taxes.

Pensions:

Pension benefit costs are determined annually for the major pension plans by independent actuaries. The costs related to the current service of employees are charged to expense.

Consolidated Statements of Earnings and Retained Earnings

Gulf Canada Limited — Three Years Ended December 31, 1985

EARNINGS *(millions of dollars)*	**1985**	1984	1983
Revenues			
Crude oil, natural gas and natural gas liquids	**$1,619**	$1,646	$1,508
Forest products	**1,093**		
Other operating revenues	**350**	324	215
Net sales and other operating revenues	**3,062**	1,970	1,723
Investment and other income	**115**	82	62
Net revenues	**3,177**	2,052	1,785
Expenses			
Purchased petroleum products	**335**	319	309
Cost of sales - forest products	**879**		
Operating expenses	**394**	372	314
Exploration expenses	**139**	197	213
Selling and administrative expenses	**264**	120	103
Wellhead taxes	**176**	197	169
Depreciation, depletion and amortization	**306**	172	125
Interest on long-term debt	**142**	120	114
Minority interest	**9**		
	2,644	1,497	1,347
Earnings from continuing operations before income taxes	**533**	555	438
Income taxes (note 8)	**300**	322	221
Earnings from continuing operations	**233**	233	217
Earnings from discontinued operations (net of income taxes) (note 2)	**93**	75	1
Other non-recurring items (net of income taxes) (note 6)	**13**		
Earnings for the year	**$ 339**	$ 308	$ 218
Earnings per share from continuing operations *(dollars)*	**$ 1.02**	$ 1.02	$ .95
Earnings per share *(dollars)*	**$ 1.49**	$ 1.35	$ .96
RETAINED EARNINGS			
Balance, beginning of the year	**$2,133**	$1,939	$1,821
Add earnings for the year	**339**	308	218
	2,472	2,247	2,039
Deduct dividends	**118**	114	100
Balance, end of the year	**$2,354**	$2,133	$1,939
Dividends per share *(dollars)*	**$ .52**	$ .50	$ .44

(See the summary of accounting policies and notes to consolidated financial statements)

(Summary of Accounting Policies continued)

Costs resulting from amendments or upgrading of the plans, and which relate to service of employees in prior years, are amortized over the estimated remaining years of service of the employees involved or over periods not longer than those permitted by the various regulatory bodies.

Government compensation and incentives:

Federal and provincial government incentives, including investment tax credits, Petroleum Incentive Program grants and Alberta drilling incentive credits, are deducted from the expenditures to which they relate.

Under the oil import compensation program, which was discontinued on June 1, 1985, the Federal Government compensated eligible importers with respect to petroleum imported for consumption in Canada, provided the importing company voluntarily maintained prices for products obtained from imported petroleum at the level suggested by the government. Compensation received or recoverable under this program was reflected as a reduction of the cost of purchased crude oil. The Federal Government similarly compensated producers of synthetic crude oil produced from tar sands plants. Compensation received under this program for the Corporation's share of production from the Syncrude project was included in other operating revenues.

Consolidated Statements of Financial Position

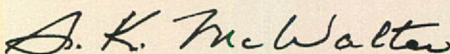
Gulf Canada Limited — December 31, 1985 and 1984

ASSETS *(millions of dollars)*	**1985**	1984
Current		
Cash and short-term investments, at cost which approximates market	**$ 775**	$ 861
Accounts receivable (note 9)	**857**	919
Inventories (note 10)	**341**	717
Materials, supplies and prepaid expenses	**137**	112
Net current assets associated with assets held for sale (note 2)	**288**	
Total current assets	**2,398**	2,609
Assets held for sale (note 2)	**249**	
Investments, long-term receivables and other assets (note 11)	**256**	140
Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization (note 12)	**3,598**	2,886
	$6,501	$5,635

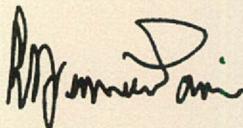
LIABILITIES AND SHAREHOLDERS' EQUITY	**1985**	1984
Current		
Short-term loans	**$ 31**	$
Accounts payable	**503**	604
Income and other taxes payable	**231**	443
Dividends payable	**32**	30
Other current liabilities (note 14)	**372**	289
Total current liabilities	**1,169**	1,366
Deferred gas production revenue	**132**	159
Long-term debt (note 15)	**1,286**	854
Deferred income taxes	**913**	718
Minority interest, including preferred shares of subsidiary of $124 million	**237**	
Shareholders' equity		
Share capital (note 16)		
Common shares issued - 227,487,030 without nominal or par value	**405**	405
Retained earnings	**2,354**	2,133
Deferred foreign currency translation gain	**5**	
Total shareholders' equity	**2,764**	2,538
	$6,501	$5,635

(See the summary of accounting policies and notes to consolidated financial statements)

On behalf of the Board:



S. K. McWalter
Director



Alfred Powis
Director

Consolidated Statements of Cash Flows

Gulf Canada Limited — Three Years Ended December 31, 1985

OPERATING ACTIVITIES *(millions of dollars)*	**1985**	1984	1983
Earnings before non-cash items and exploration expenses (note 19)	**$ 841**	$812	$729
(Increase) decrease in working capital, other than cash (note 19)	**(130)**	174	111
Deferred gas production revenue	**(27)**	(26)	13
Other (net)	**7**	2	7
	691	962	860
INVESTMENT ACTIVITIES			
Additions to property, plant and equipment	**402**	402	530
Exploration expenses	**139**	197	213
Investments and other assets	**10**	4	5
Purchase of Abitibi-Price Inc. (note 4)	**1,212**		
Short-term loans of Abitibi-Price Inc. on acquisition date	**37**		
Total investment	**1,800**	603	748
Sale of partnership interest (note 3)	**(281)**		
Sale of portion of downstream assets (note 2)	**(874)**		
Sales of other properties and investments	**(26)**	(30)	(7)
	619	573	741
DIVIDENDS			
Common shareholders	**118**	114	100
Minority shareholders of a subsidiary company	**12**		
	130	114	100
FINANCING ACTIVITIES			
Additions to long-term debt	**10**	5	25
Reductions in long-term debt	**(69)**	(31)	(14)
	(59)	(26)	11
Increase (decrease) in cash and short-term investments less short-term loans	**$ (117)**	$249	$ 30
Cash and short-term investments less short-term loans at year-end	**$ 744**	$861	$612

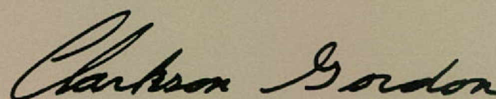
(See the summary of accounting policies and notes to consolidated financial statements)

AUDITORS' REPORT

To the Shareholders of Gulf Canada Limited:

We have examined the consolidated statements of financial position of Gulf Canada Limited as at December 31, 1985 and 1984 and the consolidated statements of earnings and cash flows for each of the years in the three year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1985 in accordance with generally accepted accounting principles consistently applied.



Toronto, Canada
February 7, 1986

Clarkson Gordon
Chartered Accountants

Notes to Consolidated Financial Statements

Gulf Canada Limited — December 31, 1985

1. **Segment data** *(millions of dollars)*	**Gulf Canada**		
	Oil and Gas		
	1985	1984	1983
Net Revenues			
Outside the enterprise	**$1,722**	$1,713	$1,501
Intersegment revenue	**59**	42	39
Total segment revenue	**$1,781**	$1,755	$1,540
Earnings			
Operating profits	**$ 623**	$ 625	$ 501
Losses and write-downs relating to properties	**(65)**	(15)	
General corporate expenses	**(34)**	(18)	(16)
Interest on long-term debt			
Minority interest			
Income taxes	**(303)**	(341)	(243)
Earnings (loss) from continuing operations for the year	**$ 221**	$ 251	$ 242
Capital employed in continuing operations			
Assets employed at December 31	**$2,342**	$2,229	$2,104
Current liabilities	**(415)**	(360)	(418)
	$1,927	$1,869	$1,686
Total investment for the year in continuing operations			
Additions to property, plant and equipment	**$ 239**	$ 281	$ 420
Exploration expenses	**139**	197	213
Investments and other assets			
Purchase of Abitibi-Price Inc.			
Short-term notes of Abitibi-Price Inc.			
	$ 378	$ 478	$ 633
Depreciation, depletion and amortization for continuing operations	**$ 246**	$ 154	$ 107

The Corporation has three principal business segments.

The oil and gas segment includes exploration, development and production activities related to crude oil, natural gas, natural gas liquids, oil sands and minerals. The forest products segment includes the business of Abitibi-Price Inc., from the date of its acquisition by the Corporation (see note 4), which business is comprised primarily of the operation of woodlands, and the manufacture and distribution of paper and wood products. Included in the operating profits of corporate and other, is net revenue from other corporate investments and other sundry operating entities, including Superior Propane Limited. Earnings from discontinued operations and capital employed in discontinued operations are detailed in note 2.

The information by segment is shown as though each segment were a separate business activity. Therefore, intersegment transfers of products are eliminated to reflect total Corporation net revenues, as reported in the consolidated statements of earnings.

The forest products segment includes revenues originating from the United States of $235 million, and export revenues from Canada of $425 million.

Limited			Abitibi-Price Inc.					
Corporate and Other			Forest Products			Total Consolidated		
1985	1984	1983	1985	1984	1983	1985	1984	1983
$ 354	$ 339	$ 284	$1,101			$3,177	$2,052	$1,785
$ 354	$ 339	$ 284	$1,101			$3,177	$2,052	$1,785
$ 71	$ 83	$ 67	$ 89			$ 783	$ 708	$ 568
						(65)	(15)	
						(34)	(18)	(16)
(125)	(120)	(114)	(17)			(142)	(120)	(114)
7			(16)			(9)		
35	19	22	(32)			(300)	(322)	(221)
$ (12)	$ (18)	$ (25)	$ 24			$ 233	$ 233	$ 217
$1,091	$1,272	$ 950	$2,531			$5,964	$3,501	$3,054
(387)	(452)	(121)	(367)			(1,169)	(812)	(539)
$ 704	$ 820	$ 829	$2,164			$4,795	$2,689	$2,515
$ 11	$ 43	$ 24	$ 102			$ 352	$ 324	$ 444
						139	197	213
6	2	3	3			9	2	3
1,212						1,212		
37						37		
$1,266	$ 45	$ 27	$ 105			$1,749	$ 523	$ 660
$ 15	$ 18	$ 18	$ 45			$ 306	$ 172	$ 125

2. Discontinued operations

On September 30, 1985, the Corporation sold to Petro-Canada Inc.(Petro-Canada), the assets used in carrying on its downstream business, including its refining, transportation and marketing operations, located in the provinces and territories west of Quebec for $311 million and a portion of the related net working capital for $300 million. The remaining net working capital of approximately $263 million was subsequently realized in cash by the Corporation. The sale of such assets resulted in a loss of $143 million ($80 million after tax). Excluded from these assets are the Corporation's Edmonton refinery and related business and the business of Superior Propane Limited. The Corporation also agreed to cause the Edmonton refinery and related business to be sold to Petro-Canada for $275 million plus an amount equal to the net working capital relating to the Edmonton refinery on a date which is the earlier of (a) one month following dissolution of the Gulf Resources Partnership (see notes 3 and 23(c)), and (b) February 27, 1987. The Corporation's share of the net book value of the Edmonton refinery has been included in Assets Held for Sale.

On December 2, 1985, the Corporation entered into an agreement with Ultramar Canada Inc. providing for the sale, effective January 1, 1986, of its downstream business located in the provinces east of Ontario as described in note 23(a).

The results of these downstream operations have been segregated as earnings from discontinued operations in the statements of earnings for the three years ended December 31, 1985, and are summarized below.

	1985	1984	1983
	(millions of dollars)		
Revenues	**$3,433**	$3,963	$3,985
Expenses			
Purchased petroleum products	**2,423**	2,847	2,987
Operating expenses	**241**	226	286
Selling and administrative expenses	**373**	436	436
Depreciation, depletion and amortization	**59**	91	82
Taxes other than income taxes	**218**	247	228
Income taxes	**26**	41	(35)
	3,340	3,888	3,984
Earnings from discontinued operations	**$ 93**	$ 75	$ 1

Assets and liabilities of discontinued operations are comprised of:

Current assets	**$399**
Current liabilities	**(111)**
	288
Property, plant and equipment (net)	**249**
Net assets employed	**$537**

Net assets employed related to discontinued operations for 1984 and 1983, are $1,580 million and $1,543 million, respectively.

Certain crude oil sales were not included in net revenues of discontinued operations, but were applied to reduce amounts for purchased petroleum products. These amounts were: 1985 - $2,227 million, 1984 - $2,375 million, 1983 - $1,970 million.

Sales of petroleum products made under purchase/sale agreements entered into with other refiners to minimize transportation costs also have not been included in net revenues of discontinued operations, but have been applied to reduce the cost of the offsetting purchased products. These amounts were: 1985 - $537 million, 1984 - $668 million, 1983 - $648 million.

Prior to August 2, 1985, Chevron Corporation owned approximately 60 per cent of the Corporation's common shares. The Corporation has had transactions in the normal course of business, at commercial terms, with Gulf Corporation (acquired by Chevron Corporation effective May 1, 1984) and its affiliates. The more significant of these transactions were for the purchase and sale of crude oil, refined products and petrochemicals; the receipt of technical and engineering services under research agreements; and hiring ocean tanker vessels. The aggregate net purchases by the Corporation in this connection, principally covering crude oil and petroleum products, were: 1985 - $18 million, 1984 - $132 million, 1983 - $110 million.

The Corporation has had transactions with Pétromont, a chemical consortium. The Corporation sold its interest in Pétromont as of March 30, 1984. The more significant of these transactions were for the purchase and sale of refined products and petrochemicals. The aggregate revenues in this connection, principally covering refined product sales, were: 1984 - $12 million, 1983 - $83 million. The aggregate purchases, principally covering petrochemicals, were: 1984 - $8 million, 1983 - $37 million.

Earnings from discontinued operations for 1985 include a provision for the shutdown of the Montreal East refinery of $60 million ($31 million after tax). In addition, earnings from discontinued operations for 1985 include a credit of $58 million ($38 million after tax) related to the elimination of unrealized profit in inventory no longer required. Earnings from discontinued operations for 1984 include a charge of $9 million ($5 million after tax) relating to the sale or closure of surplus downstream assets. Earnings from discontinued operations for 1983 include charges of $35 million ($18 million after tax) relating to the costs of proposed modifications and announced closures of certain refining operations, and $5 million ($4 million after tax) relating to the Corporation's withdrawal from Pétromont in 1984.

3. Gulf Resources Partnership

On August 31, 1985, the Gulf Resources Partnership (the partnership) was formed among the Corporation, Superior Propane Limited, Gulf Canada Calgary Limited and Norcen Energy Resources Limited (Norcen) to which the Corporation contributed substantially all its resource assets (except for those employed in the Beaufort Sea by BeauDril Limited) and its Edmonton refinery and related business. Superior Propane Limited contributed its business and Gulf Canada Calgary Limited contributed $10 million in cash. Norcen contributed $300 million in cash for an approximate six per cent interest in the partnership. The reduction in the Corporation's effective interest in the assets contributed to the partnership resulted in a gain of $179 million ($93 million after deferred taxes). Norcen may be required by the Corporation, or may elect, provided required notices are given, to withdraw from the partnership (see note 23(c)). Upon such withdrawal, the partnership will distribute to Norcen $120 million in cash and certain resource assets contributed to the partnership by the Corporation including interests in the Hebron-Ben Nevis fields located offshore eastern Canada and five oil and gas production fields in Alberta. Three months after Norcen withdraws from the partnership, Norcen is obligated to acquire for cash the business of Superior Propane Limited for a price of $120 million plus capital expenditures (net of proceeds of capital dispositions) for the period from August 31, 1985, to the date of purchase plus working capital related to the Superior Propane Limited business as at the date of purchase.

4. Acquisition of Abitibi-Price Inc.

On August 2, 1985, Olympia & York Developments Limited (O&Y) purchased approximately 49.9 per cent of the Corporation's common shares from Chevron Corporation, and acquired an option to purchase a further 10.3 per cent of the Corporation's common shares. The option was exercised by O&Y in November 1985.

Pursuant to an agreement dated August 2, 1985, with subsidiaries of O&Y, the Corporation acquired on August 2, 1985, 49.9 per cent and on August 23, 1985, a further 34.1 per cent of the common shares of Abitibi-Price Inc. (Abitibi-Price), for an aggregate cash purchase price of approximately $1,132 million. In October 1985, the Corporation raised its common share ownership of Abitibi-Price to approximately 89 per cent, at an additional cost of approximately $63 million, through a cash offer to minority shareholders. Additional shares purchased from O&Y in November 1985, at a cash cost of approximately $17 million raised the Corporation's common share ownership of Abitibi-Price to 90 per cent.

Abitibi-Price is the world's largest producer of newsprint and an integrated Canadian forest products company with manufacturing operations in Canada and the United States.

This acquisition has been accounted for by the purchase method. A summary of the assets acquired is as follows:

Net assets acquired at values assigned thereto *(millions of dollars)*:

Working capital, including short-term loans	**$ 398**
Property, plant and equipment	**1,604**
Investments, long-term receivables and other assets	**105**
Long-term debt	**(435)**
Deferred income taxes	**(224)**
Minority interest in net assets acquired	**(236)**
	$1,212

The results of Abitibi-Price have been consolidated from August 2, 1985, with earnings pro-rated between the Corporation and the minority shareholders of Abitibi-Price based on their respective interests.

5. Pro forma information

The following pro forma information gives effect to the acquisition of 90 per cent of Abitibi-Price (note 4), the formation of the Gulf Resources Partnership (note 3) and the sale of certain downstream operations to Petro-Canada (note 2) as if those transactions occurred January 1, 1985, (with respect to the year ended December 31, 1985) and January 1, 1984, (with respect to the year ended December 31, 1984):

	Pro forma year ended December 31	
	1985	1984
	(millions of dollars)	
Net revenues	**$4,578**	$4,108
Earnings from continuing operations	**$ 265**	$ 257
Earnings per share from continuing operations *(dollars)*	**$ 1.16**	$ 1.13

6. Other non-recurring items *(millions of dollars)*

Other non-recurring items net of incomes taxes included in earnings for 1985 comprise:

Gain on formation of partnership (note 3)	**$93**
Loss on sale of assets to Petro-Canada (note 2)	**(80)**
	$13

7. Provisions related to assets and properties

Expenses for 1985 and 1984, include provisions for the impairment of a coal property. These provisions are: 1985-$30 million ($15 million after tax), 1984 - $15 million ($8 million after tax). Expenses for 1985 also include write-offs of $35 million ($19 million after tax) related to certain unproductive assets.

8. Income tax *(millions of dollars)*

Total income tax expense, as reflected in the statements of earnings, represents the effective tax rate which differs from combined federal and provincial statutory tax rates. The main differences are shown in this table:

	1985		1984		1983	
	Amount	**%**	Amount	%	Amount	%
Provision for income taxes at statutory rates	**$259**	**49**	$271	49	$214	49
Add (deduct) the tax effect of:						
Inclusion in taxable income of crown royalties and other provincial payments	**150**	**28**	158	28	155	35
Resource allowance to offset inclusion of crown royalties	**(152)**	**(29)**	(150)	(27)	(149)	(34)
Inclusion in taxable income of petroleum and gas revenue tax	**73**	**14**	76	14	69	16
Depletion allowance earned by exploration and development expenditures	**(8)**	**(2)**	(21)	(4)	(62)	(14)
Manufacturing and processing incentive	**(7)**	**(1)**	(2)		(1)	
Non-taxable, reduced rate and other transactions	**(15)**	**(3)**	(10)	(2)	(5)	(2)
Provision for income taxes reflected in the statements of earnings	**$300**	**56**	$322	58	$221	50

Income taxes include deferred income taxes of $18 million in 1985, $36 million in 1984, and $58 million in 1983. These deferred income taxes relate primarily to the amount by which capital cost and other allowances claimed for tax purposes exceed depreciation, depletion and amortization recorded in the accounts.

9. Accounts receivable *(millions of dollars)*	**1985**	1984
Customers	**$696**	$765
Other receivables	**173**	166
	869	931
Less allowance for doubtful accounts	**12**	12
	$857	$919

10. Inventories *(millions of dollars)*	**1985**	1984
Crude oil and other source materials	**$ 37**	$157
Refined products and merchandise	**10**	544
Chemicals	**3**	16
Finished forest products and work in process	**164**	
Pulpwood, sawlogs and expenditures on current logging operations	**127**	
	$341	$717

11. Investments, long-term receivables and other assets *(millions of dollars)*

	1985	1984
Investments in associated and other companies		
At cost:		
With quoted market value (based on closing prices at end of each year) 1985 - $109 million, 1984 - $88 million	$ 15	$ 15
At equity:		
Investment in joint-venture companies, at cost plus equity in undistributed earnings	65	25
	80	40
Long-term receivables	53	16
Deferred foreign exchange	106	67
Other	17	17
	$256	$140

12. Property, plant and equipment *(millions of dollars)*

	Range of depreciation rates	Gross investment at cost	Accumulated depreciation, depletion and amortization	Net investment 1985	Net investment 1984
Oil and gas					
Exploration and production	(1)	$1,806	$ 719	$1,087	$1,096
Syncrude project	(1)	261	51	210	206
Oil sands and coal	(2)	67	49	18	52
Drilling system	6⅔%-20%	552	109	443	503
Pipelines	(3)	31	15	16	
		2,717	943	1,774	1,857
Forest products					
Property, plant and equipment	(4)	1,701	45	1,656	
Refined products and chemicals (note 2)					869
Capital leases	(5)	38	16	22	20
Other	2.5%-10%	238	92	146	140
		$4,694	$1,096	$3,598	$2,886

(1) Unit-of-production or group basis.
(2) Mineable oil sands properties on the group basis. Charges against earnings for the capitalized cost of coal properties are dependent upon the results of evaluation and development. The cost of equipment used in research and testing activities on these properties is depreciated over the life of the related activities.
(3) Group basis at rates from five per cent to 20 per cent.
(4) The principal asset category is primary production equipment which is depreciated on a straight-line basis over 20 years.
(5) Straight-line from three to five years.

13. Government incentive programs

The more significant government incentives earned by the Corporation are payments under the Petroleum Incentive Program and investment tax credits.

During 1985, $97 million was accrued for Petroleum Incentive Program grants, most of which has been applied to reduce the amount included in exploration expenses in the statement of earnings. In 1984 and 1983, $54 million and $46 million respectively were applied to reduce exploration expenses with $3 million and $4 million respectively being applied to reduce capitalized expenditures included in property, plant and equipment in the statement of financial position.

Investment tax credits primarily applied to reduce property, plant and equipment were: 1985 - $23 million, 1984 - $23 million, 1983 - $42 million.

14. Material transactions with related parties

Included in other current liabilities are amounts of $15 million at December 31, 1985, and $38 million at December 31, 1984, representing proceeds from the sale of a working interest in certain resource properties to the Gulf Canada Pension Fund. These amounts will be included in the Corporation's revenues as production from these properties occurs. The working interest will revert to the Corporation when the Fund has recovered its investment, plus the contracted return thereon.

Other material transactions with related parties are referred to in notes 2 and 4.

15. Long-term debt *(millions of dollars)*	**1985**	1984
Gulf Canada Limited		
7⅜% Series E sinking fund debenture payable through 1988	**$ 20**	$ 22
8⅜% notes payable through 1997 (1)	**150**	150
15½% sinking fund debenture payable through 2011 (1)	**279**	264
15.35% notes payable through 1988 (1)	**140**	132
14¾% notes due 1992 (1)	**140**	132
Notes payable through 1991 (2)	**144**	147
Capital lease obligations (3)	**11**	16
Other long-term obligations payable on varying dates	**7**	15
	891	878
Abitibi-Price Inc.		
Sinking fund debentures (secured)		
7¼% to 11% miscellaneous series, maturing 1987 to 1995	**24**	
11⅜% Series G, maturing 1995 (1)	**56**	
10.15% Series H, maturing 2000 (1)	**189**	
Other debentures (secured)		
15¾% debentures Series I, maturing 1991 (1)	**70**	
Abitibi-Price Subsidiaries		
Floating rate cumulative/term loan, maturing 1993 (1)(4)	**67**	
Other long-term debt	**54**	
	460	
	1,351	878
Less instalments due within one year included in current liabilities	**65**	24
	$1,286	$854

(1) These debts are payable in U.S. dollars. The amounts outstanding in U.S. dollars at December 31, 1985, are: 8⅜% notes - $107 million (1984 - $113 million), 15½% debenture - $200 million (1984 - $200 million), 15.35% notes - $100 million (1984 - $100 million), 14¾% notes - $100 million (1984 - $100 million), 11⅜% debenture - $40 million, 10.15% debenture - $135 million, 15¾% debenture - $50 million, term loan - $48 million.

(2) This debt is payable in U.S. dollars (amount outstanding at December 31, 1985 - $103 million, 1984 - $112 million) and was restructured effective November 1, 1985, from a loan formerly payable in Japanese Yen. The aggregate interest cost varies depending on the exchange rate of the Yen and the U.S. dollar. The average interest rate for the year ended December 31, 1985, was 15.71 per cent (1984 - 15.26 per cent).

(3) Capital lease terms vary from two to four years with interest rates averaging 13 per cent.

(4) Interest is at rates approximating U.S. base rate, U.S. dollar bankers' acceptances or the London interbank offered rate for U.S. funds borrowings and at rates approximating bank prime for Canadian funds borrowings.

Approximate annual long-term debt instalments due in the next five years are: 1986 - $65 million, 1987 - $120 million, 1988 - $153 million, 1989 - $60 million, 1990 - $60 million.

Under an agreement made as of August 2, 1985, the Corporation has arranged a committed long-term bank credit facility with several Canadian chartered banks in the amount of $1.2 billion, or the U.S. dollar equivalent. This facility may be repaid or drawn from time to time until July 31, 1990, and the outstanding balance on July 31, 1990, is required to be repaid in equal semi-annual instalments by July 31, 1995. Canadian dollar borrowings bear interest at rates based upon, at the option of the Corporation, either (i) the prime rates quoted by two Canadian chartered banks, or (ii) bankers' acceptance rates. U.S. dollar borrowings bear interest at rates based upon, at the option of the Corporation, (i) the prime rates quoted by certain reference banks, (ii) the London interbank offered rate of certain reference banks, or (iii) the cost of funds of certain reference banks. In addition, the Corporation may utilize a Euronote option for U.S. dollar borrowings.

16. Capital stock
Authorized:
Common - 250,000,000 without nominal or par value
Preferred - unlimited number without nominal or par value. The preferred shares shall rank in priority to the common shares and may be issued from time to time in series with the designation, rights, restrictions, conditions and limitations of each series as may be fixed before their issuance by the directors, subject to approval by the shareholders.

17. Pension plans
The Corporation has pension plans covering substantially all employees. Most employees of Abitibi-Price and its subsidiaries are members of company pension plans, with the majority participating in contributory plans. The contributions by employees, together with those made by the companies, are deposited with trustees and/or insurance companies according to the terms of the plan. Pensions at retirement are related to remuneration and years of service.

As of December 31, 1985, the actuarial present values of accumulated plan benefits using an actuarial rate of return of seven per cent, were *(millions of dollars):*

	Gulf Canada Limited	Abitibi-Price Inc.	Consolidated
Vested	$480	$560	$1,040
Non-vested	132	41	173
Total	$612	$601	$1,213

As of December 31, 1985, the value of the plans' net assets available for benefits were *(millions of dollars):*

	Gulf Canada Limited	Abitibi-Price Inc.	Consolidated
Actuarial estimated value	$491	$596	$1,087
Market value	$517	$673	$1,190

The unamortized prior service costs at December 31, 1985, were approximately $157 million (Gulf - $126 million, Abitibi-Price - $31 million) of which $151 million (Gulf - $120 million, Abitibi-Price - $31 million) was unfunded. These unamortized prior service costs will be charged to earnings and the unfunded amounts will be funded over periods up to 15 years.

The amounts charged to earnings (including amounts paid to government pension plans and the amortization of prior service costs) were: 1985 - $49 million (Gulf - $39 million, Abitibi-Price - $10 million), 1984 - $40 million, 1983 - $48 million.

18. Commitments, contingent liabilities and long-term obligations
The Corporation has commitments for the acquisition and construction of properties and the purchase of services, in the ordinary course of business, which are not material in relation to net assets.

The Corporation does not have contingent liabilities or unconditional purchase obligations which are material in relation to net assets.

19. Cash flow information *(millions of dollars)*	**1985**	1984	1983
Earnings before non-cash items and exploration expenses			
Earnings for the year	**$ 339**	$ 308	$218
Charges (credits) not affecting cash			
Depreciation, depletion and amortization	**365**	263	207
Deferred income taxes	**(30)**	22	71
Gain on disposal of properties	**(12)**	(4)	(4)
Other	**40**	26	24
	702	615	516
Add exploration expenses	**139**	197	213
	$ 841	$ 812	$729
(Increase) decrease in working capital, other than cash			
Accounts receivable	**$(228)**	$ (59)	$ (46)
Inventories	**25**	(69)	160
Materials, supplies and prepaid expenses	**18**	(10)	2
Accounts payable and other, excluding short-term loans	**207**	90	
Income and other taxes payable	**(152)**	222	(5)
	$(130)	$ 174	$111

20. Additional information to the consolidated statements of earnings *(millions of dollars)*

	1985	1984	1983
Research and development	**$ 26**	$ 25	$ 31
Maintenance and repairs	**172**	148	129
Operating lease rentals	**100**	101	92
Interest on short-term borrowings	**13**		1

21. Reclassifications

Certain amounts for 1984 and 1983 have been reclassified to conform with the presentation adopted for 1985.

22. Other information

As the Corporation uses capital markets in the United States, the following information is presented in conformity with United States' accounting practices. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Corporation, conform in all material respects with those in the United States except that:

(a) unrealized gains or losses on translation of long-term debt payable in foreign funds are deferred. Deferred amounts are amortized over the remaining term of the debt, except for amounts relating to debt incurred to finance forest products operations which are hedged by an income stream denominated in U.S. funds. In the United States, such gains or losses would be included in earnings in the period in which they arise and no amount would be included in the statements of financial position as deferred foreign exchange (see note 11);

(b) interest costs on oil and gas related expenditures are expensed as incurred. In the United States, certain interest costs incurred on capital outlays are required to be capitalized; and

(c) the disclosures of actuarial present values of accumulated plan benefits reported in note 17, for the majority of the plans, take into account the effect of future increases in employee compensation and an assumed rate of return of seven per cent. To meet the disclosure requirements in the United States under Financial Accounting Standard (FAS) No. 36, the effect of future increases in employee compensation are excluded and assumed rates of return of 10 per cent for retirees and eight per cent for active employees have generally been used. The following table compares the disclosure required by FAS No. 36 to that given in note 17. The amounts shown in the table are based on the estimates of independent actuaries.

	As reported in note 17	**In accordance with FAS No. 36**
	(millions of dollars)	
Actuarial present values of accumulated plan benefits as of December 31, 1985		
Vested	$1,040	$ 817
Non-vested	173	27
	$1,213	$ 844
Net assets available for benefits as of December 31, 1985	$1,190	$1,185

If the Corporation had followed the principles in (a) and (b), the consolidated earnings and earnings per share would have been as follows:

	Year ended December 31		
	1985	1984	1983
	(millions of dollars)		
Earnings, as reported	**$ 339**	$ 308	$ 218
Adjustments, net of applicable income taxes			
- unrealized foreign exchange loss	**(23)**	(25)	(3)
- interest capitalization	**(5)**	8	30
Earnings, as adjusted	**$ 311**	$ 291	$ 245
Earnings per share, as adjusted *(dollars)*	**$1.37**	$1.28	$1.08

Under accounting principles generally accepted in the United States, the gain on formation of partnership of $93 million ($0.41 per share) which has been shown separately in the statement of earnings as part of non-recurring items would be included in earnings from continuing operations with the amount of $179 million before tax included in net revenues (see note 3).

Deferred income taxes of Abitibi-Price of $224 million at the date of its acquisition by the Corporation have been carried forward as permitted under accounting principles generally accepted in Canada. Under accounting principles generally accepted in the United States such deferred income taxes would not be carried forward and the amounts assigned to the property, plant and equipment of Abitibi-Price, to which substantially all of the deferred income taxes related, would be correspondingly lower.

23. Subsequent events

(a) Effective January 1, 1986, the Corporation sold to Ultramar Canada Inc. its remaining downstream business located in the provinces of Quebec, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland, including its Montreal East refinery. Ultramar paid upon closing $120 million for fixed assets and $76 million for a portion of the net working capital related to such business. The remaining working capital, consisting of petroleum inventories having an estimated value of approximately $100 million, will be sold by Ultramar on behalf of the Corporation and the proceeds will be paid to the Corporation with interest. The transaction will result in a gain in 1986 of approximately $22 million ($14 million after tax).

(b) At a special meeting on January 31, 1986, the shareholders of the Corporation approved an arrangement under the Canada Business Corporations Act involving the Corporation and its shareholders. Under the arrangement, effective February 10, 1986, approximately 171 million shares of the Corporation will be exchanged with Gulf Canada Corporation for Gulf Canada Corporation common shares, and approximately 171 million Gulf Canada Corporation series 1 preference shares; and approximately 56.5 million shares of the Corporation will be exchanged with Gulf Canada Corporation for $587 million principal amount of Gulf Canada Corporation subordinated debentures, and $587 million in cash. As a result of these exchanges, the Corporation will become a wholly-owned subsidiary of Gulf Canada Corporation.

The consolidated financial statements have not been adjusted to reflect the effect of the arrangement.

Had the arrangement been in effect at December 31, 1985, the capitalization of the Corporation would have been as follows *(millions of dollars)*:

	Pro forma
Long-term debt (including $456 million of Abitibi-Price)	$1,873
Shareholders' equity	
Share capital	
Fixed/adjustable rate senior preference shares	67
Common shares	237
Retained earnings	1,281
Deferred foreign currency translation gain	5
Total shareholders' equity	1,590
	$3,463

Had the arrangement been effective January 1, 1985, the pro forma consolidated financial information for the year ended December 31, 1985 as disclosed in note 5 would have reflected the following:

	As reported in note 5	Pro forma
Earnings from continuing operations *(millions of dollars)*	$ 265	$ 197
Dividends per preference share *(dollars)*		$ .30
Earnings per common share from continuing operations *(dollars)*	$ 1.16	$ .85

(c) On February 7, 1986, the Board of Directors of Gulf Canada Limited approved the giving of notices which will result in the withdrawal of Norcen from the Gulf Resources Partnership on March 1, 1986. It is anticipated that the partnership will dissolve on March 3, 1986 (see notes 2 and 3).

Supplemental Oil and Gas Information (unaudited)

The following supplemental information on oil and gas activities conforms with the standards adopted by the United States Securities and Exchange Commission (SEC). It has been prepared using the guidelines developed by the Financial Accounting Standards Board.

	Year ended December 31		
RESULTS OF OIL AND GAS OPERATIONS *(millions of dollars)*	**1985**	1984	1983
Net revenues derived from proved oil and gas reserves during the year -			
Unaffiliated sales	**$1,109**	$1,210	$1,094
Internal sales	**57**	43	39
	1,166	1,253	1,133
Less: Production costs - lifting costs	**154**	154	154
- wellhead taxes	**169**	193	163
Exploration expenses*	**158**	204	217
Depreciation, depletion and amortization	**130**	104	81
Other operating expenses (net)	**58**	47	64
Income taxes	**290**	321	228
Results of operations from producing activities	**207**	230	226
Mineable oil sands, minerals and other, net of income taxes	**37**	32	26
General corporate expenses, net of income taxes	**(23)**	(11)	(10)
Total natural resources (excluding interest costs)	**$ 221**	$ 251	$ 242

COSTS INCURRED *(millions of dollars)*			
Cost incurred (capitalized and expensed during the year) for -			
Property acquisition	**$ 78**	$ 76	$ 60
Exploration*	**$ 210**	$ 278	$ 236
Development	**$ 61**	$ 68	$ 101

	At December 31	
CAPITALIZED COSTS *(millions of dollars)*	**1985**	1984
Proved properties	**$1,204**	$1,157
Unproved properties	**444**	390
Support facilities	**57**	45
Drilling system	**552**	549
Incomplete wells and facilities	**101**	144
	2,358	2,285
Less related accumulated depreciation, depletion and amortization	**828**	686
Net capitalized costs	**$1,530**	$1,599

*Includes depreciation on support facilities and on the drilling system.

NET RESERVES OF CRUDE OIL AND NATURAL GAS LIQUIDS AND NATURAL GAS

The reserve information set out below is based on estimates made by Gulf Canada. In presenting this data, the Corporation wishes to emphasize that estimates, by their very nature, are inexact and subject to continual changes and revisions. Estimates of newly-discovered reserves are even more imprecise than those of producing properties, and an accurate determination of reserves at a given point in time may not be possible because of the time needed for development drilling, testing and other studies of the reservoirs. Accordingly, Gulf Canada believes that these estimates will change as future information becomes available.

Net reserves are estimated after deduction of royalties which can vary depending on prices, production volumes, and timing of initial production. Due to the uncertainty of future royalty rates, the net reserves have been calculated on the basis of average royalty rates experienced.

The figures presented are believed to be reasonable estimates of reserves which may be expected to be recoverable commercially at current prices and costs under existing regulatory practices and with existing conventional equipment and operating methods.

All of Gulf Canada's crude oil and natural gas reserves are located in Canada. Approximately 90 per cent of the proved crude oil reserves and 90 per cent of the proved natural gas reserves are located in the Province of Alberta.

The sales of reserves in place shown in the tables relate primarily to the resource properties that were distributed to Norcen on their withdrawal from the partnership on March 1, 1986. (See note 3 to the consolidated financial statements.)

Net reserves shown in the tables do not include any reserves from the oil sands deposits known to exist under leased acreage at Wabasca, Cold Lake and Peace River, and the oil sands deposits in the Athabasca area. Particularly, they do not include permitted production of synthetic crude oil attributable to Gulf Canada's 9.03 per cent interest in the Syncrude Project in the Athabasca oil sands which, at December 31, 1985, was 12.0 million cubic metres (75.6 million barrels).

These tables also do not include any discoveries in the frontier areas, since either the technology required to commercially produce and transport reserves is in the process of being developed, or else commitment to, and government approvals respecting, a production system have not been reached or obtained.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

The standardized measure for calculating the present value of future net cash flows from proved oil and gas reserves is based on current costs and prices, and a 10 per cent discount factor which are mandated.

Accordingly, Gulf Canada's estimated future net cash flows at December 31, 1985, 1984 and 1983, were computed by applying the average selling price (including internal sales) of oil and gas reserves during the month of December of each respective year, to the estimated future production of proved oil and gas reserves at each year-end, less estimated future expenditures (based upon the average of each applicable year) to be incurred in developing and producing proved reserves and assuming continuation of existing economic conditions at each year-end.

	Crude Oil and Natural Gas Liquids			Natural Gas		
	1985	1984	1983	**1985**	1984	1983
Net proved developed and undeveloped	*(Millions of cubic metres/barrels)*			*(Billions of cubic metres/cubic feet)*		
Net reserves on Jan. 1	**36.1 /227**	36.6 /230	33.1 /208	**48.9 /1,734**	50.9 /1,808	50.2 /1,783
Additions from drilling	**1.7 / 11**	1.2 / 8	1.1 / 7	**1.7 / 58**	1.4 / 50	2.4 / 85
Revisions of previous estimates	**(0.9)/ (6)**	3.1 / 20	6.5 / 41	**(3.1)/ (106)**	(0.9)/ (36)	0.2 / 7
Added through improved recovery			0.6 / 4			
Sale of reserves in place	**(1.9)/ (12)**			**(1.8)/ (63)**		
Production	**(4.2)/ (26)**	(4.8)/ (31)	(4.7)/ (30)	**(2.5)/ (88)**	(2.5)/ (88)	(1.9)/ (67)
End of Year	**30.8 /194**	36.1 /227	36.6 /230	**43.2 /1,535**	48.9 /1,734	50.9 /1,808
Net proved developed						
Beginning of year	**35.1 /221**	36.3 /228	32.8 /206	**37.3 /1,323**	39.6 /1,407	34.6 /1,228
End of year	**29.8 /188**	35.1 /221	36.3 /228	**33.4 /1,184**	37.3 /1,323	39.6 /1,407

Although these calculations have been prepared in accordance with the standards described above, it should be emphasized that, due to the number of assumptions and estimates required in the calculations, the amounts shown are not indicative of the amount of net revenue which Gulf Canada expects, or may expect, to receive in future periods. They are also not indicative of the current value or future earnings which may be realized from the production of proved reserves.

It should also not be assumed that the estimates of the standardized measure of future net cash flows represent fair market value of the reserves or of the oil and gas properties.

Although the calculations are based on existing economic conditions at each year-end, such economic conditions have changed, and may continue to change significantly due to events such as the continuing changes in foreign crude oil availability and prices, and changes in government policies and regulations.

International prices for crude oil declined sharply in the early weeks of 1986. The lower price has been experienced by Gulf, but is not reflected in the accompanying tables.

While the calculations are based on Gulf Canada's understanding of the established guidelines, there are numerous other equally valid assumptions under which these estimates could be made which would produce significantly different results.

Standardized Measure at December 31

(millions of dollars)	**1985**	1984	1983
Future cash inflow - Sales and transfers	**$10,962**	$11,557	$12,545
Future development costs	**(613)**	(634)	(589)
Future production costs	**(5,431)**	(4,967)	(6,511)
	4,918	5,956	5,445
Future income taxes	**(3,060)**	(3,446)	(3,370)
Future net cash flows	**1,858**	2,510	2,075
10% annual discount for estimated timing of cash flows	**(699)**	(1,165)	(779)
Standardized measure of discounted net cash flows	**$ 1,159**	$ 1,345	$ 1,296

Changes in the Standardized Measure During the Year

(millions of dollars)	**1985**	1984	1983
Sales and transfers of oil and gas produced, net of production costs	**$ (842)**	$ (906)	$ (816)
Development costs incurred during the year	**55**	67	47
Extensions, discoveries and improved recovery, less related costs	**202**	163	166
Revisions of previous quantity and timing estimates	**(334)**	316	513
Price and cost changes			
- selling and transfer prices	**617**	(228)	717
- production costs	**(192)**	326	(773)*
- development costs	**26**	(63)	(43)
Accretion of discount	**317**	314	304
Sale of reserves in place	**(145)**	-	-
Other	**35**	40	(13)
Change in income taxes	**75**	20	(50)
Net change	**(186)**	49	52
Balance at beginning of year	**1,345**	1,296	1,244
Balance at end of year	**$ 1,159**	$ 1,345	$ 1,296

*Includes $346 million for the cost of injection fluids.

Supplemental Inflation Accounting Information (unaudited)

This supplemental inflation-adjusted financial information and that relating to reserve quantities, as well as certain exploration and development costs included in the Supplemental Oil and Gas Information (pages 42-44), has been prepared, with certain exceptions, in accordance with the recommendations of The Canadian Institute of Chartered Accountants (CICA). The dispositions and acquisitions of the Corporation during 1985, and its restructuring in early 1986, have a significant impact on the presentation of the effects of changing prices on the Corporation. The supplemental inflation-adjusted financial information has been prepared for earnings from, and inventories and property, plant and equipment employed in continuing operations only. Inflation-adjusted information relating to discontinued operations is not relevant since the Corporation does not intend to replace the assets employed in these operations. The capital restructuring which took place in 1986 results in a significantly different debt-to-equity ratio than that which existed at December 31, 1985. Any financing adjustment calculated for the year ended December 31, 1985, would be based on a transitional capital structure, and has consequently not been presented. Because of the changes in the nature of the business operations of the Corporation, comparative information for 1984 has not been provided.

While the information on the effects of changing prices was prepared using valid assumptions, equally valid alternative current cost assumptions could produce materially different results. Therefore, comparisons with disclosures of other companies may not be meaningful.

The current cost earnings table indicates that reported historical cost earnings from continuing operations of $233 million becomes an estimated $44 million when adjusted for the effects of inflation. This difference can be attributed to several factors:

- Replacement of inventories related to the oil and gas business at the time of sale in 1985, at an estimated additional cost of $7 million, results in a current cost for purchased petroleum products of $342 million.
- Replacement of inventories related to the forest products business at the time of sale in 1985, at an estimated additional cost of $20 million, results in a current cost of sales for forest products of $899 million.
- Depreciation, depletion and amortization would increase by $168 million, based on the estimated current costs of the Corporation's property, plant and equipment. These current costs were estimated by applying various specific indices to historic carrying values, and by assuming the duplication of existing assets in the same locations. The property, plant and equipment of Abitibi-Price has been assigned a current cost equal to the Corporation's 1985 acquisition price for the assets. Consideration was not given to possible benefits from replacing assets with different types, or to possible operating cost efficiencies with replacement assets. These current cost estimates do not represent appraised values or market selling prices for the assets, nor the cost of, or manner by which these assets may eventually be replaced. It is worth noting that, in most instances, oil and gas reserves can only be replaced at much higher costs.

Although current-cost earnings from continuing operations for 1985, before income taxes, are much lower than the reported historical amount, no adjustment was made to the income tax expense reported in the historical-cost financial statements. On this basis, the Corporation's overall effective tax rate increases dramatically.

During inflationary periods, monetary assets lose purchasing power. However, monetary obligations are easier to meet. In 1985, the Corporation's monetary obligations exceeded its cash, short-term investments, accounts receivable and net current assets associated with assets held for sale, but the purchasing power required to repay the net amounts owed declined by $21 million.

	As reported in the historical statements	Current cost basis
(millions of dollars)	1985	1985
EARNINGS FROM CONTINUING OPERATIONS		
Net revenues	$3,177	$3,177
Purchased petroleum products	335	342
Cost of sales — forest products	879	899
Operating and other expenses	1,115	1,115
Depreciation, depletion and amortization	306	474
Minority interest	9	3
	2,644	2,833
Earnings from continuing operations before income taxes	533	344
Income taxes - current	282	282
- deferred	18	18
	300	300
Earnings from continuing operations	$ 233	$ 44
OTHER INFORMATION — CONTINUING OPERATIONS		
BALANCE SHEET ITEMS		
Inventory	$ 341	$ 349
Property, plant and equipment - net	$3,598	$4,474
Net assets (common shareholders' equity)	$2,764	$3,594
INCREASE IN SPECIFIC PRICES		
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year		$ 172
Effect of general inflation		150
Excess of increase in specific prices over the effect of general inflation		$ 22

Quarterly Summaries (unaudited)

QUARTERLY SUMMARY 1985	1	2	3	4
Financial *(millions of dollars)*				
Net revenues from continuing operations	515	485	943	1,234
Gross profit from continuing operations (1)	274	257	357	390
Net earnings from continuing operations	57	60	48	68
Per common share *(dollars per share)*	.25	.27	.21	.29
Net earnings	97	74	74	94
Per common share *(dollars per share)*	.43	.32	.33	.41
Shareholders' Statistics *(dollars per share)*				
Equity per share - book value	11.45	11.65	11.85	12.15
Market value per share:				
Toronto Stock Exchange				
- High	19 4/8	21	20 2/8	21 1/8
- Low	14 2/8	16 7/8	17 2/8	19 6/8
- Close	18 3/8	16 7/8	19 6/8	20 7/8
American Stock Exchange *(U.S.$)*				
- High	14 1/8	15 2/8	14 7/8	15 1/8
- Low	11	12 3/8	12 7/8	14 2/8
- Close	14	13 4/8	14 4/8	15
Dividends declared *(millions of dollars)* (2)	30	29	30	29
Per common share *(dollars per share)*	.13	.13	.13	.13
Price/earnings ratio at quarter-end (3)	13	11	14	14
Shareholders at quarter-end *(thousands)*	34.5	32.4	28.6	25.9
Shares traded *(millions)* (4)				
-Toronto Stock Exchange	6.8	8.4	11.5	11.9
-American Stock Exchange	7.4	8.8	9.0	3.9

(1) Gross profit equals net sales and other operating revenues less estimated costs associated with products sold.

(2) Dividends paid on common shares owned by non-residents of Canada are generally subject to a 25 per cent Canadian withholding tax. However, for recipients to whom the existing tax treaty between the United States and Canada is applicable, the rate is 15 per cent.

(3) Closing TSE share price divided by annualized earnings.

(4) The outstanding common shares of the Corporation are listed on the Toronto, Montreal, Vancouver and Alberta stock exchanges, and on the American Stock Exchange.

QUARTERLY SUMMARY 1984	1	2	3	4
Financial *(millions of dollars)*				
Net revenues from continuing operations	485	482	507	578
Gross profit from continuing operations (1)	262	275	259	286
Net earnings from continuing operations	62	71	46	54
Per common share *(dollars per share)*	.27	.31	.20	.24
Net earnings	73	69	87	79
Per common share *(dollars per share)*	.32	.30	.38	.35
Shareholders' Statistics *(dollars per share)*				
Equity per share - book value	10.51	10.69	10.94	11.16
Market value per share:				
Toronto Stock Exchange				
- High	20	19 5/8	20 3/8	19 6/8
- Low	16 3/8	16 5/8	14 2/8	15 1/8
- Close	18 3/8	16 7/8	19 6/8	15 3/8
American Stock Exchange *(U.S.$)*				
- High	16	15 3/8	15 3/8	15
- Low	13 1/8	12 5/8	10 7/8	11 4/8
- Close	14 4/8	12 6/8	15 1/8	11 4/8
Dividends declared *(millions of dollars)* (2)	25	30	30	29
Per common share *(dollars per share)*	.11	.13	.13	.13
Price/earnings ratio at quarter-end (3)	14	14	13	11
Shareholders at quarter-end *(thousands)*	37.1	36.1	35.2	34.0
Shares traded *(millions)* (4)				
-Toronto Stock Exchange	6.9	4.3	7.7	4.3
-American Stock Exchange	8.3	6.2	7.0	5.0

Five Year Financial Summary

STATEMENTS OF EARNINGS *(millions of dollars)*	**1985**	1984	1983	1982	1981
Revenues					
Crude oil, natural gas and natural gas liquids	**$1,619**	$1,646	$1,508	$1,270	$1,147
Forest products	**1,093**				
Other operating revenues	**350**	324	215	149	137
Net sales and other operating revenues	**3,062**	1,970	1,723	1,419	1,284
Investment and other income	**115**	82	62	134	83
Net revenues	**3,177**	2,052	1,785	1,553	1,367
Expenses					
Purchased petroleum products	**335**	319	309	284	262
Cost of sales - forest products	**879**				
Operating and other expenses	**797**	689	630	585	653
Wellhead taxes	**176**	197	169	147	85
Depreciation, depletion and amortization	**306**	172	125	105	83
Interest on long-term debt	**142**	120	114	108	51
Minority interest	**9**				
	2,644	1,497	1,347	1,229	1,134
Earnings for the year from continuing operations before income taxes	**533**	555	438	324	233
Income taxes	**300**	322	221	181	139
Earnings from continuing operations	**233**	233	217	143	94
Earnings from discontinued operations (net of income taxes)	**93**	75	1	58	205
Other non-recurring items (net of income taxes)	**13**				
Earnings for the year (1)	**$ 339**	$ 308	$ 218	$ 201	$ 299
Per share *(dollars)*					
Earnings from continuing operations	**$ 1.02**	$ 1.02	$ 0.95	$ 0.63	$ 0.41
Earnings for the year	**$ 1.49**	$ 1.35	$ 0.96	$ 0.88	$ 1.31
Dividends declared	**$ 0.52**	$ 0.50	$ 0.44	$ 0.44	$ 0.44
Year-end closing market value-TSE	**$20\frac{7}{8}$**	$15\frac{3}{8}$	$17\frac{4}{8}$	$14\frac{5}{8}$	$18\frac{4}{8}$
Common shares outstanding at year-end *(millions)*	**227**	227	227	227	227

STATEMENTS OF FINANCIAL POSITION *(millions of dollars)*	**1985**(2)	1984	1983	1982	1981
Current assets	**$2,398**	$2,609	$2,222	$2,328	$2,258
Current liabilities	**1,169**	1,366	1,054	1,079	980
Working capital	**1,229**	1,243	1,168	1,249	1,278
Assets held for sale	**249**				
Investments and other assets	**256**	140	119	118	105
Net property, plant and equipment	**3,598**	2,886	2,771	2,469	2,105
Capital employed	**5,332**	4,269	4,058	3,836	3,488
Deferred gas production revenue	**132**	159	185	172	93
Long-term debt	**1,286**	854	833	813	751
Deferred income taxes	**913**	718	696	625	519
Minority interest	**237**				
Shareholders' equity (net assets)	**$2,764**	$2,538	$2,344	$2,226	$2,125
Total assets	**$6,501**	$5,635	$5,112	$4,915	$4,468

STATEMENTS OF CASH FLOWS *(millions of dollars)*	**1985**	1984	1983	1982	1981
Operating activities					
Earnings before non-cash items and exploration expenses	**$ 841**	$812	$729	$ 584	$ 784
Decrease (increase) in working capital other than cash	**(130)**	174	111	115	(245)
Deferred gas production revenue	**(27)**	(26)	13	79	21
Other (net)	**7**	2	7	6	5
	691	962	860	784	565
Investment activities					
Total investment	**1,800**	603	748	878	783
Sales of properties and investments	**(1,181)**	(30)	(7)	(124)	(20)
	619	573	741	754	763
Dividends	**130**	114	100	100	100
Financing activities					
Additions to long-term debt	**10**	5	25	166	450
Reductions in long-term debt	**(69)**	(31)	(14)	(10)	(9)
	(59)	(26)	11	156	441
Increase (decrease) in cash and short-term investments less short-term loans	**$ (117)**	$249	$ 30	$ 86	$143

NOTES:

(1) Variances between accounting principles generally accepted in Canada and the United States, as they apply to the Corporation, for the three years ended December 31, 1985, are described in Note 22 to the consolidated financial statements on page 40. These variances did not have a significant effect on earnings for the two years ended December 31, 1982.

(2) The results for 1985 include the Corporation's share of Abitibi-Price since the date of acquisition, and the sale of the downstream operations, as described in notes 2 and 4 to the consolidated financial statements.

FINANCIAL RATIOS	**1985**	1984	1983	1982	1981	1980	1979	1978	1977	1976
Return on capital employed	**8.7%**	9.0%	7.0%	7.0%	10.4%	15.3%	13.3%	9.9%	11.4%	11.9%
Return on shareholders' equity	**12.8%**	12.6%	9.5%	9.2%	14.8%	21.3%	18.8%	13.8%	15.1%	15.3%
Current ratio	**2.1**	1.9	2.1	2.2	2.3	2.0	1.8	1.8	1.8	1.9
Long-term debt to total capitalization	**31.8%**	25.2%	26.2%	26.7%	26.1%	14.1%	16.9%	19.8%	20.6%	12.7%
Earnings coverage of interest	**6x**	7x	5x	4x	13x	27x	18x	12x	15x	37x

Definitions

Return on capital employed: Net after-tax earnings plus after-tax interest expense as a percentage of average capital employed for the year. Capital employed is calculated by deducting current liabilities from total assets.

Return on shareholders' equity: Net after-tax earnings as a percentage of average shareholders' equity for the year. Shareholders' equity is composed of the book value of common shares.

Current ratio: Ratio of total current assets to total current liabilities.

Long-term debt to total capitalization: Long-term debt as a percentage of long-term debt and shareholders' equity.

Earnings coverage of interest: Pre-tax earnings and pre-tax interest expense as a multiple of pre-tax interest expense.

Five Year Operations Review

	1985	1984	1983	1982	1981
	Gross/Net	Gross/Net	Gross/Net	Gross/Net	Gross/Net
Production		*(thousands of cubic metres per day)*			
Crude oil and natural gas liquids	**15.2/11.5**	17.8/13.2	17.2/12.8	17.0/12.1	18.0/12.2
Synthetic crude oil	**1.8/ 1.7**	1.2/ 1.1	1.6/ 1.3	1.2/ 1.0	1.7/ 1.5
		(millions of cubic metres per day)			
Natural gas	**8.8/ 6.7**	8.8/ 6.8	7.4/ 5.2	7.8/ 5.6	8.4/ 6.0
Wells drilled (1)					
Exploratory					
- Oil	**160/ 95**	147/ 94	141/ 90	104/ 56	126/ 64
- Gas	**25/ 13**	33/ 18	49/ 25	54/ 27	52/ 20
- Dry	**184/128**	184/119	109/ 72	156/ 78	188/ 98
Development					
- Oil	**219/ 36**	188/ 45	76/ 23	31/ 13	14/ 4
- Gas	**4/ 1**	5/ 2	4/ 1	4/ 1	10/ 2
- Dry	**3/ 2**	4/ 1		10/ 5	4/ 4
Total	**595/275**	561/279	379/211	359/180	394/192
Wells (bore holes) capable of producing at year-end (1)	**7,714/2,111**	7,368/1,981	7,099/1,883	6,833/1,746	6,804/1,727

(1) In accordance with regulations issued by the United States Securities and Exchange Commission.

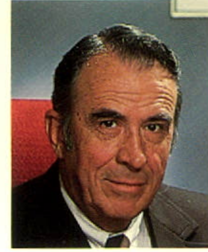
	1985	1984	1983	1982	1981
Sales volumes		*(cubic metres per day)*			
Natural gas *(millions)*	**9.0**	9.0	7.8	8.1	8.6
Crude oil *(thousands)*	**11.0**	12.4	13.2	12.0	11.1
Natural gas liquids *(thousands)*	**3.4**	3.3	4.2	4.6	4.8
Discontinued operations		*(thousands of cubic metres per day)*			
Crude oil processed	**33.6**	35.7	33.2	33.5	41.8
Per cent of daily refinery capacity utilized	**74%**	79%	75%	73%	89%
Sales volumes		*(thousands of cubic metres per day)*			
Refined products	**24.0***	30.0	31.8	31.4	36.2
		(millions of kilograms per day)			
Chemicals	**2.1**	2.3	1.8	3.0	2.5

*Reflects the September 30, 1985, sale of refining and marketing assets west of Quebec to Petro-Canada.

Directors

( ) Year appointed Director
[1] Member Executive Committee
[2] Member Audit Committee
[3] Member Compensation Committee
[4] Member Pension Fund Investment Committee
[5] Member Nominating Committee
(Effective February 7, 1986)

E.H. Crawford (1974) [1,5]
President and Chief Executive Officer, The Canada Life Assurance Company, Toronto, Ontario. Chairman: Canadian Enterprise Development Corporation Limited. Director: Canadian Imperial Bank of Commerce; Moore Corporation Limited.



Gérard Plourde, O.C. (1965) [1,3,5]
Chairman, UAP Inc., Montreal, Quebec. Director: Alliance Mutual Life Insurance; Bell Canada; Bell Canada Enterprises Inc.; The Molson Companies Limited; Northern Telecom Ltd.; Rolland Inc.; Steinberg Inc.; The Toronto Dominion Bank.

J.D. Allan (1979) [1,2]
Chairman, President, and Chief Executive Officer, Stelco Inc., Toronto, Ontario. Director: C-I-L Inc.; Moore Corporation Limited; Rockwell International of Canada Ltd.; The Toronto Dominion Bank.

E.F. Crease (1974) [2,4]
Chairman, Alfred J. Bell & Grant Limited, Halifax, Nova Scotia; Halifax-Dartmouth Industries Limited. Director: Bank of Canada; Canada Permanent Mortgage Corporation; Canada Trust Company.

Alfred Powis, O.C. (1970) [1,3]
Chairman, and Chief Executive Officer, Noranda Inc., Toronto, Ontario. Director: Brascan Limited; Brunswick Mining and Smelting Corporation Limited; Canadian Imperial Bank of Commerce; MacMillan Bloedel Limited; Ford Motor Company of Canada, Limited; Brenda Mines Limited; Placer Development Limited; Sears Canada Inc.; Sun Life Assurance Company of Canada; Kerr Addison Mines Limited.

M.N. Anderson (1983) [2,5]
Chairman and Chief Executive Officer, Cominco Ltd., Vancouver, British Columbia. Director: AMCA International Limited; Fording Coal Limited; The Toronto Dominion Bank.

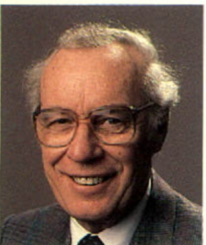
B.K. Koken (1985) [4,5]
President and Chief Executive Officer, Abitibi-Price Inc. Director: The Donwood Institute.

Kathleen M. Richardson (1977) [4,5]
Director, James Richardson & Sons Limited, Winnipeg, Manitoba. Director: Barclays Bank of Canada; Sun Life Assurance Company of Canada.

H.W. Blauvelt (1985) [2,3]
Charlottesville, Virginia. Business Consultant. Director: Abitibi-Price Inc.; Bankers Trust New York Corporation; Colgate-Palmolive Company; CRY02 Corporation; General Re Corporation.

Dr. D.S.R. Leighton (1977) [2,5]
Vice-Chairman of the Board, Nabisco Brands Ltd., Toronto, Ontario. Director: A.I.L.-Alberta Investments Ltd.; Cambridge Shopping Centres Ltd.; Camco Inc.; G.S.W. Inc.; John Wiley and Sons Limited; Lornex Mining Corporation; Montreal Trustco, Inc.; Rio Algom Limited; Scott's Hospitality Inc.; Telemedia, Inc.

J.L. Stoik (1976) [1,3]
Maple, Ontario. Director: Newgrade Energy Inc.; The Toronto Dominion Bank.



R.J. Butler (1985) [2,4]
Chairman, Urban Transportation Development Corporation Ltd., Toronto, Ontario. Director: Annuity Life Insurance Company; Innopac Inc.; Nordair; Silcorp Limited; Torstar Corporation; United International Ventures.

S.K. McWalter (1984) [1,4,5]
Chairman, President and Chief Executive Officer, Gulf Canada Corporation, Calgary, Alberta. Director: Abitibi-Price Inc.; The Canada Life Assurance Company.

W.H. Young (1973) [3,4]
Chairman, The Hamilton Group Limited, Oakville, Ontario. Director: Stelco Inc.; Gore Mutual Insurance Company; National Trust Company.

M.A. Cohen (1985) [1,3,5]
President and Chief Operating Officer, Olympia & York Enterprises Limited. Director: Abitibi-Price Inc.

G.I. Newman (1985) [1,2,4]
Executive Vice-President, Olympia & York Developments Limited. Director: Abitibi-Price Inc.; Block Bros. Industries Ltd.; Dixie Federal Savings & Loan; Landmark Land Company, Inc.; O & Y Enterprises Prefco Limited; Royal Trustco Limited; Royal Trust Corporation of Canada; Trilon Financial Corporation; Trizec Corporation Ltd.

Corporate Information

GULF CANADA CORPORATION
401-9th Avenue S.W.
P.O. Box 130, Station M.
Calgary, Alberta T2P 2H7

Directors
J.D. Allan, Toronto
M.N. Anderson, Vancouver
H.W. Blauvelt, Charlottesville, VA
R.J. Butler, Toronto
M.A. Cohen, Toronto
E.H. Crawford, Toronto
E.F. Crease, Halifax
B.K. Koken, Toronto
Dr. D.S.R. Leighton, Canmore, Alta.
S.K. McWalter, Calgary
G.I. Newman, Toronto
Gérard Plourde, O.C., Montreal
Alfred Powis, O.C., Toronto
Kathleen M. Richardson, Winnipeg
J.L. Stoik, Toronto
W.H. Young, Hamilton

Secretary
G.A. Holland

Director Emeritus
Beverley Matthews, C.B.E., Toronto

Officers:
S.K. McWalter, Chairman, President and Chief Executive Officer
M. Bregazzi, Vice-President, Development
C.K. Caldwell, Vice-President, Exploration
L.G. Dodd, Vice-President, Finance, and Chief Financial Officer
G.A. Holland, Vice-President, General Counsel and Corporate Secretary
D.R. Motyka, Vice-President, Production
K.C. Reeves, Vice-President, Manufacturing
W.G. Russell, Vice-President, Marketing
A.R. Sello, Vice-President and Controller
J.R. Tysall, Vice-President and Treasurer
E.E. Walker, Vice-President, Administration

Production Offices
Calgary, Alberta
Edmonton, Alberta
Stettler, Alberta
Battleford, Saskatchewan
Estevan, Saskatchewan

Major Operated Gas Plants
Hanlan-Robb, Alberta
Morrin-Ghost Pine, Alberta
Nevis, Alberta
Rimbey, Alberta
Strachan, Alberta

Accounting/Data Processing Centre
Calgary, Alberta

Operated Pipelines
Fort Saskatchewan
Gulf Alberta
Gulf Saskatchewan
Rimbey
Saskatoon
Valley

Refinery
Edmonton, Alberta
(To be sold March 1986)

Principal Subsidiaries/Divisions
(Wholly-owned unless otherwise indicated)

ABITIBI-PRICE INC.
(90 per cent owned)

Toronto-Dominion Centre
Toronto, Ontario M5K 1B3
Bernd K. Koken, President and Chief Executive Officer

BEAUDRIL LIMITED
Gulf Canada Square
401-9th Avenue S.W.
Calgary, Alberta T2P 2H7
S.K. McWalter, President

THE TENSAR CORPORATION
(50 per cent owned)
1210 Citizens Parkway
P.O. Box 986
Morrow, Georgia, 30260
D.G. Fehrman, President and Chief Executive Officer

SUPERIOR PROPANE LIMITED
8474 Keele St.
Concord, Ontario, L4K 2S5
J.D. DeGrandis, President, Chairman of the Board and Chief Executive Officer
(To be sold June 1986)

Principal Investments not Consolidated

Peace Pipe Line Ltd.
(12.70 per cent owned).

Rimbey Pipe Line Co. Ltd.
(40.40 per cent owned).

Interprovincial Pipe Line Limited
(6.46 per cent owned).

Shareholder Information

Annual Meeting
The annual meeting of shareholders will be held in the Concert Hall of the Royal York Hotel, Toronto, Ontario, at 2:00 p.m. EST, Tuesday, April 22, 1986.

Auditors
The auditors of Gulf Canada Limited are Clarkson Gordon. The auditors of Gulf Canada Corporation are Clarkson Gordon and Price Waterhouse.

Common and Preference Shares
As of February 10, 1986, Gulf Canada Corporation had a total of 171.0 million issued Common and Series 1 Preference Shares, of which approximately 80 per cent were beneficially owned by Olympia & York, Toronto, Ontario. The Common and Series 1 Preference Shares are listed and traded on the Toronto, Montreal, Vancouver and Alberta stock exchanges in Canada, and on the American Stock Exchange in the United States.

Registrars and Transfer Agents
The registrars and transfer agents for the Gulf Canada Corporation Common Shares and Series 1 Preference Shares are The Canada Trust Company at its principal offices in Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal, Saint John, N.B., Charlottetown, Halifax and St. John's, Newfoundland in Canada; and Registrar and Transfer Company, 10 Commerce Drive, Cranford, New Jersey, 07016 in the United States.

Changes of address or inquiries regarding shares or dividends should be directed to:

The Canada Trust Company
20 Eglinton Avenue West,
Toronto, Ontario M4R 2E2
Attention: Corporate Services Department

Dividend Payments
Quarterly dividend cheques for Gulf Canada Corporation Common Shares are mailed out a few days prior to the payable dates, which are the first of January, April, July and October. The quarterly dividend was 13 cents per share for each quarter in 1985. For Gulf Canada Corporation Series 1 Preference Shares, there will be a cash dividend payable on June 1, 1986, and quarterly dividends between June 1, 1986, and March 1, 1988, payable on the first day of September, December, March and June. After March 1, 1988, preference shareholders will be entitled to receive monthly dividends.

Abitibi-Price Inc. Annual Report
A copy of the Abitibi-Price Inc. Annual Report is available on request from:

Abitibi-Price Inc.
Toronto-Dominion Centre
Toronto, Ontario M5K 1B3

Additional Information
Additional information about Gulf Canada Corporation, including a copy of the 1985 Report on Form 10-K as filed with the United States Securities and Exchange Commission, is available on request from:

Gulf Canada Corporation
Public Affairs Department
P.O. Box 130, Station M
Calgary, Alberta, T2P 2H7
(Telephone: 403-233-4000)

Rapport annuel
Le présent rapport annuel est disponible en français en écrivant à l'adresse suivante:

Corporation Gulf Canada
Service des Affaires publique
C.P. 130, Succursale M
Calgary (Alberta) T2P 2H7

Metric Measure: Adoption of Metric
In 1979, the Canadian petroleum industry began using the International System of Units, commonly called the metric system, to report figures related to length, area, volume and mass. All figures in the graphs and tables in this Annual Report are in metric measure.

Table of Basic Conversion Factors*

Traditional to metric	Metric to traditional
Length	
1 mile = 1.609 kilometres (km)	1 km = 0.621 mile
1 foot = 0.305 metre (m)	1 m = 3.281 feet
Area	
1 acre = 0.405 hectare (ha)	1 ha = 2.471 acres
Volume	
1 gallon (Can.) = 4.546 litres (L)	1 L = 0.220 gallon (Can.)
1 barrel = 0.159 cubic metre (m^3)	1 m^3 = 6.290 barrels
1 MCF = 28.174 cubic metres (m^3) (natural gas)	1 m^3 = 0.035 MCF
Mass	
1 pound = 0.454 kilogram (kg)	1 kg = 2.205 pounds
1 long ton = 1.016 tonnes (t) (2,240 pounds)	1 t = 0.984 long ton
1 short ton = 0.907 tonne (t) (2,000 pounds)	1 t = 1.102 short tons

*International System of Units (SI) conversion factors used by the Canadian Petroleum Association in its statistical handbook effective January 1, 1979.

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Gulf