GULF OIL CANADA LIMITED
1977 ANNUAL REPORT

Gulf Oil Canada Limited 1977 Annual Report

Contents

Annual Meeting

The Annual Meeting of Shareholders will be held in the Concert Hall of the Royal York Hotel, Toronto, at 2:00 p.m. E.S.T., Thursday, April 27, 1978.

Front Cover

It takes thousands of valves, big and small, to keep crude oil, natural gas and petroleum products flowing to 23 million Canadians from coast to coast. Eleven thousand Gulf Canada people, some of whom are pictured in this report, are doing their best to keep these valves open and provide Canadians with high quality petroleum products at the lowest possible cost.

Disponible en français sur demande.

Highlights of operations

Financial	1977	1976
	Millions of dollars	
Earnings for the year	$ 185.0	$ 165.9
Taxes and other government revenues generated	$ 793.6	$ 738.5
Total dividends declared	$ 49.2	$ 45.5
Shareholders' equity at year-end	$1,288.0	$1,152.1
Capital expenditures	$ 385.1	$ 260.2
Working capital	$ 538.4	$ 473.7
Long-term debt	$ 332.7	$ 167.1
Return on average capital employed	11.4%	11.9%
Per Share Data		
Earnings for the year	$ 4.07	$ 3.65
Total dividends declared	$ 1.08	$ 1.00
Shareholders' equity at year-end	$ 28.31	$ 25.32
Operating		
	Barrels per day	
Crude and natural gas liquids produced		
— gross	115,000	118,000
— net	76,000	81,000
Crude oil processed by and for the Company	339,000	295,000
Petroleum products sold	286,000	262,000
	Thousands of cubic feet per day	
Natural gas produced and sold		
— gross	417,000	440,000
— net	302,000	323,000
	Pounds per day	
Petrochemical sales	2,542,000	2,392,000

Report to the shareholders

Continuing record levels of spending by the oil and gas industry provided a vital injection into the otherwise slow Canadian economy during 1977 when over $5 billion was spent on exploration, development and production activities. In refining and marketing, low growth in the industrial sector and conservation on the part of consumers reduced the market potential for petroleum products and total energy in general.

During 1977 more oil was produced than was found with the result that Canada's crude oil reserve position declined for the eighth consecutive year. The picture was brighter for natural gas with discoveries exceeding production. Slow growth in domestic demand for natural gas, combined with export controls, resulted in gas production being below industry deliverability.

In the spring, the federal government announced that Canadian crude prices would rise by four dollars over two years in increments of one dollar every six months and that the price of natural gas would rise by an equivalent amount. This decision reaffirmed an essential aspect of the national energy strategy: to approach world price levels in Canada for crude oil and to move the price of gas to an appropriate competitive relationship with oil. However, two uncertainties still remain. First, since world energy prices are a moving target, dependent in part on the Organization of Petroleum Exporting Countries' decisions and the value of the Canadian dollar, the extent of the price increases that will be required in the future to meet world prices remains flexible. Moreover, Canada cannot afford to price its industries out of their important export markets by establishing domestic energy prices significantly above those of its major trading partner. This uncertainty could be reduced when the United States adopts a comprehensive energy policy.

In the meantime, however, the clear signal provided by the government's 1977 pricing decision allows the oil and gas industry to plan for reinvestment of the additional revenues in further exploration and development activities.

Last summer the long-awaited northern pipeline decision was made by the government of Canada after extensive consideration of the difficult trade-offs involved. Approval of the Alaska Highway route led to deferral of development of natural gas reserves in the Mackenzie Delta. Operators in the region, including Gulf Canada, were understandably disappointed when faced with an indefinite delay in bringing their Delta gas reserves into production. As a result of the pipeline decision, industry spending in the frontiers has been concentrated on further exploration rather than on developing known reserves. In particular, aggressive exploration programs were pursued in both the Beaufort Sea and in the Arctic Islands. In the offshore East Coast area, drilling activities remained suspended while a federal-provincial resource agreement was being negotiated. Although some progress has been made, it remains doubtful that exploration activities will resume this summer.

Activity in the conventional oil and gas regions of Western Canada intensified significantly. In this area, the stable royalty and tax structure, the reaffirmation of Canada's world-price policy, and the proximity to established transportation systems, helped to make 1977 a record year in terms of lease sales and drilling activity. The prospects for new oil development opportunities brightened with the reported successes in the West Pembina area of Alberta. The industry again added significantly to Canada's natural gas reserves, resulting in an increasing gas surplus in Alberta. Until new markets are found for this gas — either in Canada or the U.S. — industry's level of investment in exploration and production facilities is likely to drop.

Meanwhile, our industry is pursuing every opportunity to develop the tar sands and heavy oil reserves in Western Canada. Construction of the Syncrude Athabasca tar sands plant in northern Alberta is nearing completion and industry-government discussions have begun regarding another similar project. At the same time, development of in-situ techniques for recovery of heavy oil progressed to the point where commercial production proposals were under consideration by the end of the year.

Investments in the exploration, development and transportation of Canada's energy resources provided an important boost to the economies of the western provinces. As a result, demand for refined petroleum products remained strong, and supply and demand were in relative balance in the West during the past year. In the East, however, profit margins continued to be depressed, reflecting the combination of slow demand growth, excess refining capacity and severe price competition. Product prices were generally well below the limits set by the Anti-Inflation Board. While the current price competition provides a short-term benefit to consumers, in the longer term low prices and inadequate margins inhibit the additional investments necessary to maintain an efficient refining and marketing system, discourage energy conservation, and limit the substitution of Canadian natural gas for low-cost imported crude oil.

If Canada is to reduce its dependency on imported oil, new initiatives will be required to ensure that domestic natural gas is substituted for crude oil wherever possible. This substitution is currently limited by the low residual fuel oil prices in Eastern Canada resulting from excess refining capacity and product export restrictions.

During the past year a great deal of progress has been made in Canada in approaching a common understanding of the course to be followed to satisfy the future energy requirements of Canada. While important problems and uncertainties remain to be resolved, industry and governments are responding to the challenge not only to find and develop more energy supplies in Canada, but to reduce the growth in demand through more efficient use.

Consolidated net earnings for 1977 amounted to $185.0 million, or $4.07 per share, compared with $165.9 million, or $3.65 per share, for 1976.

For the first time the Annual Report is showing a breakdown of earnings by major business segments. Further details and comments on financial and operating results are given later in this report.

Since the last Annual Report, Dr. David S.R. Leighton, of Banff, and Kathleen M. Richardson, of Winnipeg, have been elected to the Board of Directors, succeeding Robert A. Butler and Beverley Matthews. Mr. Matthews, who served with distinction as a Director for over 22 years, was appointed Director Emeritus.

A realignment of responsibilities in the senior management of the Company became effective in October. Board Chairman and Chief Executive Officer, C.D. Shepard, and President and Chief Operating Officer, J.L. Stoik, now form a two-man Senior Executive who, together with four group heads, make up a six-man Executive Council responsible for directing and co-ordinating the Company's operations.

L.P. Blaser continues as Executive Vice-President. Former Senior Vice-President J.C. Phillips was appointed Executive Vice-President and W.P. Wilder, a former president of Wood Gundy Limited and, more recently Chairman of Canadian Arctic Gas Pipeline Limited, joined the Company as Executive Vice-President.

In recognition of the major importance to the Company of its resource operations in Western Canada, Calgary-based Vice-President of Exploration and Production, S.G.B. Pearson, moved to Toronto as Senior Vice-President. Subsequently, Exploration and Production became separate departments based in Calgary headed by R.H. Carlyle, Vice-President — Exploration, and E.M. Lakusta, Vice-President — Production.

Following 30 years of distinguished Company service, D.S. Lyall, Vice-President responsible for Treasury and Taxation, will retire April 30, 1978.

This Annual Report is more than a review of the past year; it is also a report of promise and confidence for the future of Gulf Canada. As in the past, our future success will depend in large measure on the energy and initiative of our employees and on the strong support of our shareholders, dealers and customers.

On behalf of the Board,

C.D. Shepard
Chairman of the Board.

J.L. Stoik
President.

Toronto, Ontario, March 29, 1978.

Financial review

Earnings

Earnings amounted to $185.0 million, or $4.07 per share, compared with $165.9 million, or $3.65 per share, for the year 1976.

Details of net revenues which rose $402.9 million to $2,356.5 million are shown in Table I. Expenses before taxes increased $381.7 million, due largely to the higher costs of purchased crude oil, products and merchandise, and increased exploration, operating and administrative expenses. Income taxes declined somewhat as a result of the depletion and frontier exploration allowances earned through the high-cost exploration programs carried out during the year. Total taxes, together with royalties and other amounts paid to or collected on behalf of governments, are shown in Table II.

Financial position

Funds provided from operations totalled $335.7 million — an increase of $58.4 million over 1976. Nevertheless, it was necessary to supplement these funds with new long-term financing of $180.6 million to cover heavy capital expenditures and additional investment in receivables and inventories, and at the same time maintain a strong cash position entering 1978. The major portion of the new financing involved the sale of $125 million U.S. 8⅜ per cent 20-year notes and further drawdowns on the Syncrude loan from the government of Alberta. Table III provides details of the capital expenditures which totalled $385.1 million, compared with $260.2 million in 1976. Dividends declared during 1977 were $49.2 million, or $1.08 per share. Actual payments to shareholders amounted to $1.06 per share as the dividend for the last quarter is not paid until January 1 of the following year.

Segmented information

In Table IV the Company is providing for the first time a breakdown of earnings by major business segments. The results of the segments are shown as though each were a separate business activity and, therefore, reflect the effect of transactions between them. General administration and other common costs have been allocated to each of the segments on an appropriate and consistent basis and income taxes calculated in accordance with tax legislation applicable to each. Interest on long-term debt has not been allocated to the business segments and is shown separately.

The Natural Resources segment includes the exploration for, and production of crude oil, natural gas, natural gas liquids, participation in the Syncrude project, and Gulf Canada's interest in uranium and other mineral activities. The Refined Products and Chemicals segment includes the manufacture, distribution and sale of petroleum and chemical products, the business of the Company's wholly-owned subsidiary Superior Propane Limited, the operation of Company-owned pipelines and other transportation facilities, together with the merchandising activities of the Company's Marketing department. Investment and sundry income reflects primarily the after-tax earnings from short-term investments, dividends and gain on disposal of fixed assets.

Table I — Net Revenues

	1977	1976	1975
	(millions of dollars)		
Refined products	$1,650.8	$1,317.0	$1,169.7
Natural gas and natural gas liquids	353.9	316.5	275.2
Chemicals	136.8	125.7	101.8
Other operating revenues	180.6	164.9	154.5
Investment and sundry income	34.4	29.5	28.7
Total	$2,356.5	$1,953.6	$1,729.9

Table II — Taxes and Other Government Revenues

	1977	1976	1975
	(millions of dollars)		
From Gulf Canada			
Income taxes — current	$ 46.5	$ 84.7	$ 125.1
— deferred	64.2	37.6	18.6
Other taxes	124.8	111.1	98.1
Petroleum and natural gas lease payments	46.4	18.2	8.0
* Crown royalties, less incentive credits	163.9	140.3	116.3
	$ 445.8	$ 391.9	$ 366.1
Collected for governments			
Gasoline, fuel, excise and export taxes	$ 347.8	$ 346.6	$ 301.7
Total	$ 793.6	$ 738.5	$ 667.8

* Included in purchased crude oil, products and merchandise in the consolidated statement of earnings.

Table III — Expenditures on Property, Plant and Equipment

	1977	1976	1975
	(millions of dollars)		
Production	$ 121.0	$ 52.7	$ 27.1
Syncrude project	102.6	97.4	67.0
Transportation	1.2	14.1	7.0
Refining	113.0	57.4	27.6
Petrochemicals	1.9	2.8	5.6
Marketing	34.2	31.8	29.7
Other	11.2	4.0	1.1
Total	$ 385.1	$ 260.2	$ 165.1

Table IV — Major Business Segments

	Net earnings after tax		Capital employed at December 31	
	1977	1976	1977	1976
	(millions of dollars)			
Natural resources	$ 139.3	$ 127.2	$ 619.4	$ 472.3
Refined products and chemicals	41.1	29.4	1,154.4	954.8
Investment and sundry income	16.3	13.5	131.4	112.4
Interest on long-term debt	(11.7)	(4.2)	N/A	N/A
Total	$ 185.0	$ 165.9	$1,905.2	$1,539.5

Natural resources

Gulf Canada's natural resource operations include the exploration, development and production of crude oil and natural gas, the development of synthetic crude oil, the development of in-situ heavy oils, and the exploration and development of coal and uranium.

Natural resource spending has increased dramatically over the past five years, even without the massive Syncrude project. Excluding Syncrude, exploration and capital expenditures have increased about fivefold since 1971, exceeding $225 million in 1977, or about double 1976. With Syncrude expenditures in 1977 of $103 million, total upstream spending hit record levels of about $330 million.

As shown in Table IV in the financial review, after-tax earnings from natural resources in 1977 were $139.3 million compared with $127.2 million in 1976 and reflected price increases as well as lower income taxes resulting from higher levels of reinvestment, although volumes decreased and exploratory write-offs increased about 70 per cent. The high level of investment in the upsteam sector was directed to exploration and non-conventional oil projects, as well as to the delineation of new reserves and maintaining or optimizing production levels.

During 1977 Gulf Canada's natural resource operations continued to be highly exploration oriented, with exploration spending of $152 million double the 1976 level. Due to such factors as improved wellhead economics, fiscal stability and the need to evaluate land leases due to expire in the early 1980's, most of this acivity occurred in Western Canada. Gulf Canada was a particularly active driller, spudding almost 150 Company-operated development and exploratory wells and completing over 130 miles of hole, an increase of 40 per cent over 1976.

Petroleum exploration

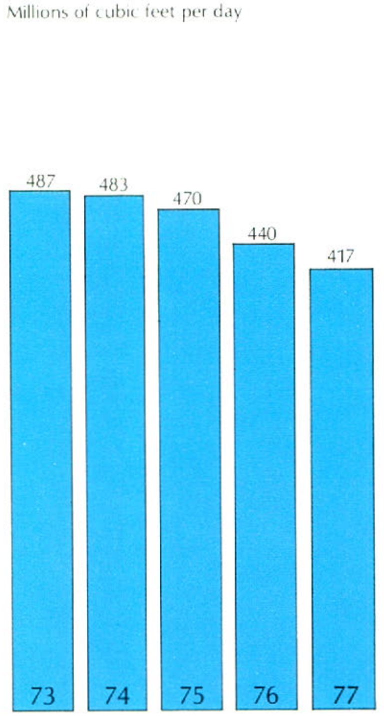
Gulf Canada has a broad land representation, which is a major asset in the Company's exploration future, with 113 million gross acres, over four times its net position of 25 million acres. The Company has maintained a strong position in Western Canada, and during the year strategic additions were made in British Columbia, the Alberta Foothills and in the West Pembina oil play. Gulf Canada is also well represented in the most prospective frontier areas such as the Mackenzie-Beaufort, Arctic Islands and the Atlantic Offshore.

Western Canada exploration

Higher spending in Western Canada during 1977 involved the acquisition of almost 387,000 net acres, and the drilling of 42 gross and 28 net exploratory wells. Industry activity in Alberta and British Columbia has increased significantly, and land sale bonuses have more than tripled, with high prices prevalent in prospective areas. The West Pembina oil play has rekindled interest in Alberta's oil prospects and Gulf Canada, in partnership with others, has been successful in acquiring several valuable properties in this area. Gulf Canada believes gas has excellent long-term potential and the Company, already successful in the Alberta foothills and deep plains, remains active in these areas as well as in British Columbia.

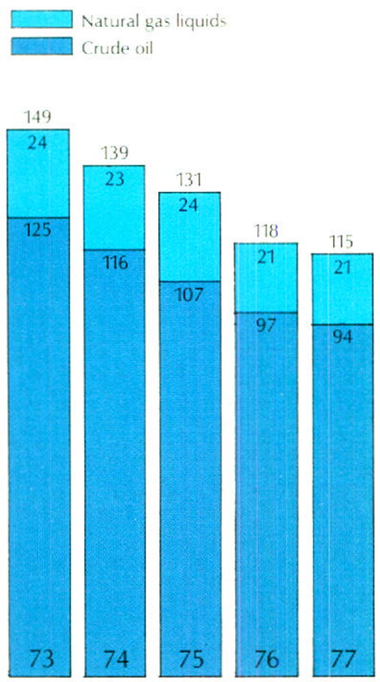
Gross natural gas produced and sold

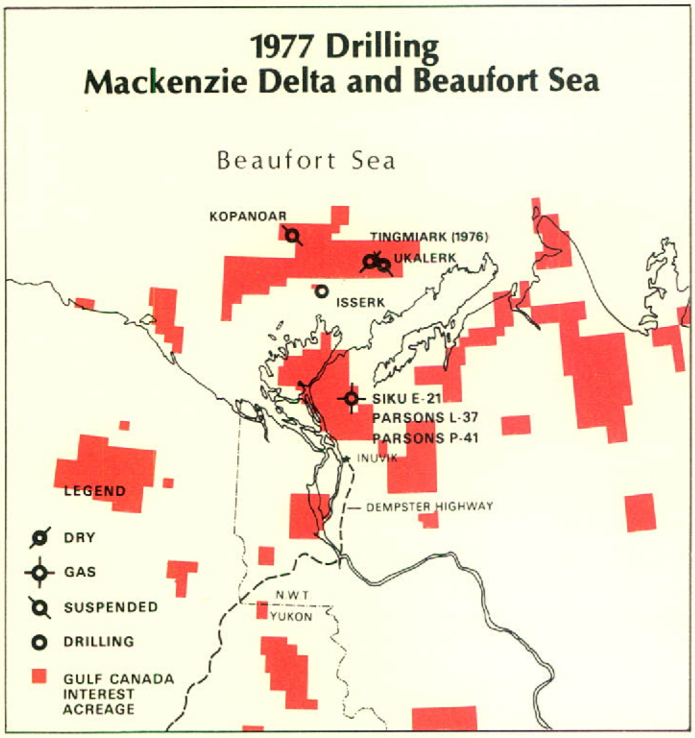
Millions of cubic feet per day



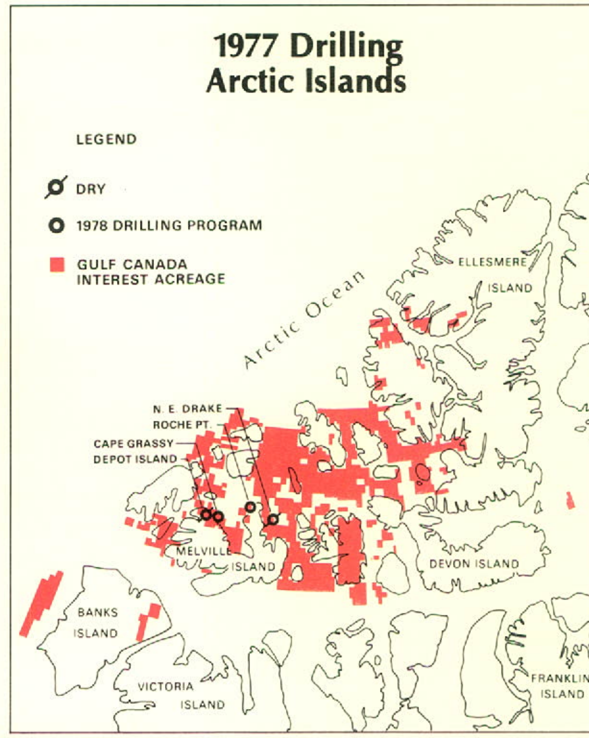
Gross crude oil and natural gas liquids produced

Thousands of barrels per day

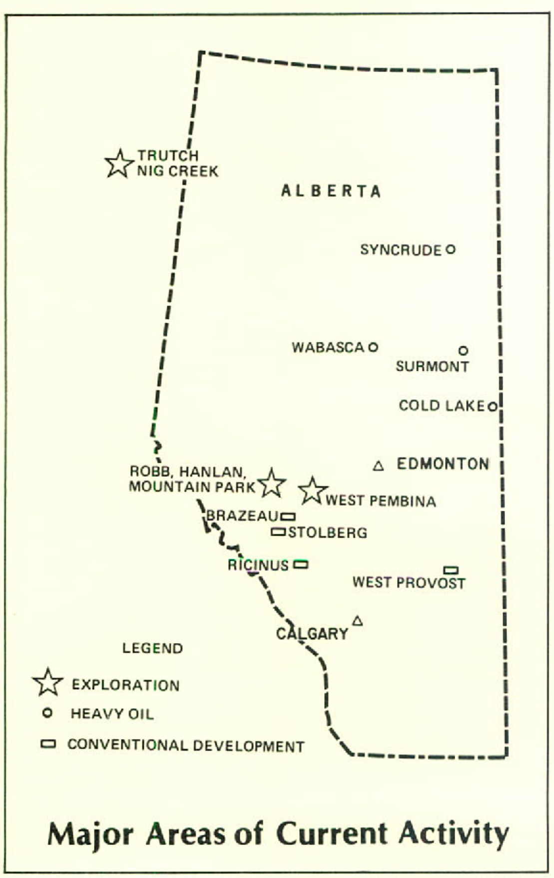




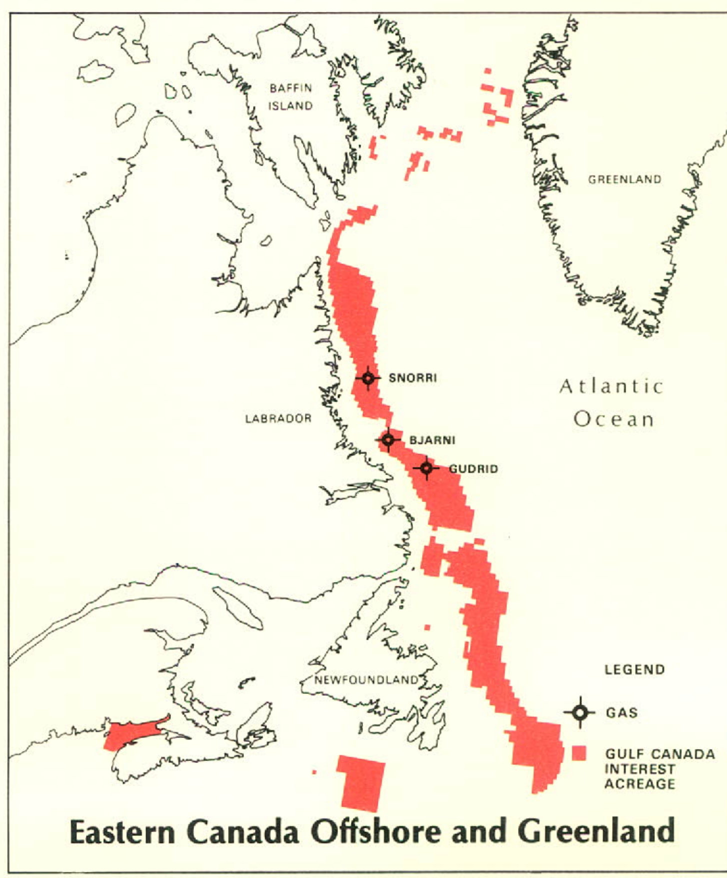
1977 Drilling Mackenzie Delta and Beaufort Sea



1977 Drilling Arctic Islands



Major Areas of Current Activity



Eastern Canada Offshore and Greenland

The 42 gross interest wildcats drilled in Western Canada during the year resulted in 17 oil and gas discoveries, for a success ratio of over 40 per cent. In the Robb-Hanlan area, Gulf Canada has an interest in four gas wells and two delineation wells are currently underway. In British Columbia, major seismic programs over the past two years resulted in five wildcat wells being drilled in 1977, of which four were discoveries.

In the last quarter of 1977, Gulf Canada acquired from Alberta Energy Company Ltd. a large block of acreage in the Suffield area involving both a 250-mile seismographic and 26-well drilling commitment. Work has started on this program and one well was completed by year-end.

Frontier exploration

Beaufort Sea

The extension of Delta sediments into the Beaufort Sea has major potential for large accumulations of oil and gas. Gulf Canada and Gulf Oil Corporation share equally a 33.69 per cent interest in the 350,000-acre Hutchinson block surrounding the 1976 Tingmiark wildcat as well as the Ukalerk structure five miles to the southeast, which was drilled in 1977. Ukalerk was suspended below 7,500 feet after flowing gas on test at 16.5 million cubic feet per day. Gulf Canada's acreage position was further broadened by a farm-in from Hunt International Petroleum immediately to the north and offsetting existing acreage. By drilling the Kopanoar wildcat to 9,000 feet, the Company earned a 25 per cent interest in 129,000 acres

Natural Resource Capital and Exploration Spending

	1977	1976
	(millions of dollars)	
Exploration		
Western Canada	$108	$ 34
Frontiers	44	42
Total	152	76
Conventional development	41	33
Non-conventional		
Tar sands		
Syncrude	103	97
In-situ heavy oil	36	7
Total	139	104
Total spending	$332	$213
Drilling activity	(gross wells)	
Exploration	50	40
Development	123	84
Total	173	124

and has a continuing option to earn 25 per cent in an additional 236,000 acres. Both Kopanoar and Ukalerk were drilled by specialized drill ships capable of operating in the ice-infested waters of the Beaufort Sea. Because of the short drilling season, neither project was completed and further drilling is planned in 1978. Gulf Canada also has a significant interest in 38 sections of pooled acreage in the shallower waters of the Beaufort Sea. The Company has a 21.75 per cent interest in a well being drilled at Isserk E-27, which is authorized as a 14,000-foot test located on an artificial earth island in about 40 feet of water.

Mackenzie Delta

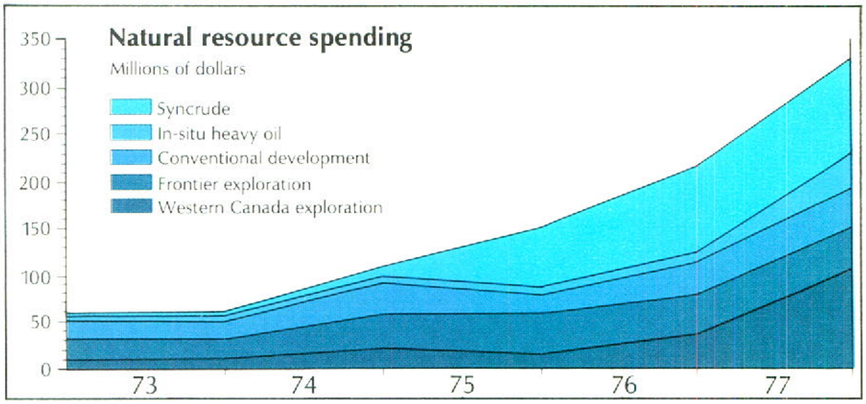
Gulf Canada has a 75 per cent interest in two trillion cubic feet of probable gas reserves at Parsons Lake and Ya-Ya, almost one-third of the total probable gas estimated for the Delta. The Company has spent well over $100 million to date in the area. At Parsons Lake, gas has been tested at 14 wells, including three successful delineation wells completed in 1977. In addition, light oil was discovered in 1976 at the Kamik D-48 test. The federal government decision with respect to the northern pipeline routing will defer the development of the Mackenzie Delta gas reserves for an indefinite period. Due to this decision and other uncertainties around land tenure and the fiscal regime, future activities will be geared only to lease maintenance until a Delta pipeline is ensured.

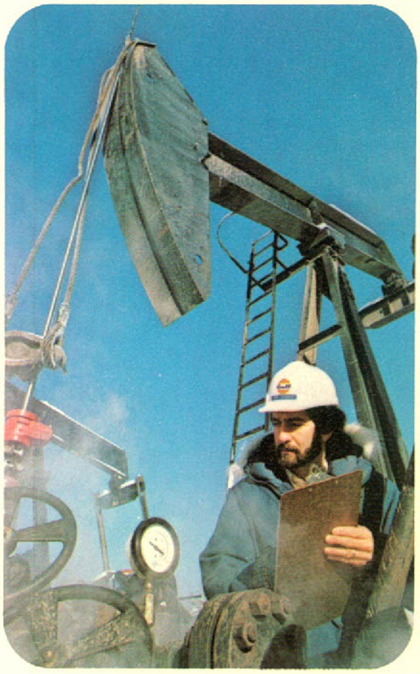
Arctic Islands

In this frontier area, Gulf Canada concluded negotiations in late 1976 to participate at 25 per cent in a farm-in of the holdings of Sun Oil Company Limited and Global Arctic Islands Limited. Over the next three to five years this program will earn the group an interest in 33 million gross acres with Gulf Canada earning 2.7 million net acres. In 1977 wells were abandoned at N.E. Drake Point and Depot Island, while two projects are currently drilling.

East Coast

On the East Coast, Gulf Canada has a working interest in approximately 60 million acres, of which over 40 million acres are off the coast of Labrador. Offshore Labrador appears to be the only





Clockwise from top: geologists, northern Saskatchewan; production engineer, Cold Lake, Alberta; gas plant engineer, Strachan, Alberta.

area of Canada's east coast with major oil and gas potential, and is geologically attractive with three indicated discoveries to date. However, in 1977 Gulf Canada and partners were faced with not only the jurisdictional dispute between the federal and Newfoundland governments, but also the severity of draft regulations proposed by Newfoundland. As a result, all drilling operations were suspended and only limited seismic and engineering feasibility studies were carried out.

Conventional production operations and development

In 1977 Gulf Canada's gross production of crude oil and natural gas liquids continued to decline and averaged 115,000 barrels daily, down three per cent from 1976. Part of this decrease reflected reduced industry demand through export restrictions consistent with the federal government's policy of helping to protect future Canadian requirements by eliminating all light and medium crude exports by 1981. Some of the decline in production was also due to equipment problems in major fields. An anticipated increase in total demand should result in Gulf Canada's crude oil production remaining at near current levels in 1978.

The decline in gross natural gas produced and sold was more severe than in oil, dropping some 23 million cubic feet per day or five per cent, and averaging 417 million cubic feet per day. This decrease reflected not only lower deliverability from older fields, but also the current oversupply situation in Western Canada. The Company's level of gas sales is sensitive to the current surplus in Alberta, which affects both the timing and extent of production from reserves either now on stream or waiting for markets.

Despite the continued decline of oil and gas volumes, after-tax realization improved because of higher prices at the wellhead. However, provincial royalties and income tax substantially reduced funds available for reinvestment. In December, 1977, the provincial and federal governments' share of the value received by Gulf Canada at the wellhead exceeded 77 per cent on production from crown leases.

Gross Natural Gas Sales

	1977	1976
	(millions of cubic feet per day)	
Major Fields		
Strachan	68	70
Westerose South	68	69
Nevis Unit	18	26
Gilby Starrs	20	25
Rimbey Unit	18	20
Other	239	245
Total production	431	455
Less: from purchased raw gas	14	15
Produced and sold	417	440

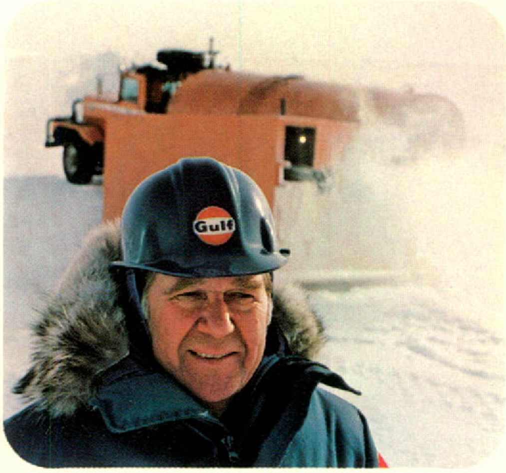
Acreage Position as of December 31, 1977

	Gross	Net
	(millions of acres)	
Western Canada	7.2	4.6
Northwest Territories	9.6	4.7
Beaufort Sea	1.9	.5
Arctic Islands	35.0	1.8
East Coast and Greenland	59.5	13.4
Total	113.2	25.0

Gross Crude and Natural Gas Liquids Production

	1977	1976
	(thousands of barrels per day)	
Major fields		
South Swan Hills	22	24
Fenn Big Valley	13	13
Swan Hills	13	14
Redwater	6	6
Westerose	5	5
Other	35	35
Total	94	97
Plus natural gas liquids	21	21
Total production	115	118

The Company continued to take steps to arrest the decline of oil and gas production from older fields and to place previously uneconomic oil and gas reserves on stream. At Stolberg in the foothills, Gulf Canada is participating in a central dehydration station and a pipeline to an existing processing facility to handle this gas. Construction of new facilities is also underway at East Kaybob and Brazeau. At Strachan, a recently-completed large bore infill well has improved deliverability and additional compression is planned to further decrease the rate of decline. In the field of enhanced recovery, extension of the waterflood area and a miscible flood pilot test are scheduled for South Swan Hills, while water injection has begun at West Wilmar and West Provost to produce additional oil not recoverable through conventional methods.



Clockwise from top: geologist, Calgary; drilling superintendent, Swimming Point, Northwest Territories; drilling crew, near Cochrane, Alberta.

Non-conventional oil

Oil Sands

A major portion of Gulf Canada's recent spending has been directed towards its 16.75 per cent interest in the $2.1-billion Syncrude project, which will extract synthetic crude from the Athabasca tar sands. Plant capacity will be 125,000 barrels per day, and the present permit will allow production of one billion barrels over 25 years. This joint industry-government project is scheduled to be on stream by the summer of 1978 and at year-end 1977 was nearing completion.

In-situ Heavy Oil

Gulf Canada also has a 100 per cent interest in three other areas in Alberta where the sands are buried too deeply to permit mining recovery. At Cold Lake, Company leases cover a major heavy oil deposit estimated to contain two billion barrels of oil. Here, a pilot operation was started up in November using steam to heat the oil and reduce viscosity so that it will flow to the wellbore. At Wabasca, steam stimulation experiments were carried out and construction of a fireflood pilot test facility is now underway. In 1977 Gulf Canada spent $9 million on heavy oil testing operations and facilities, more than double the 1976 level.

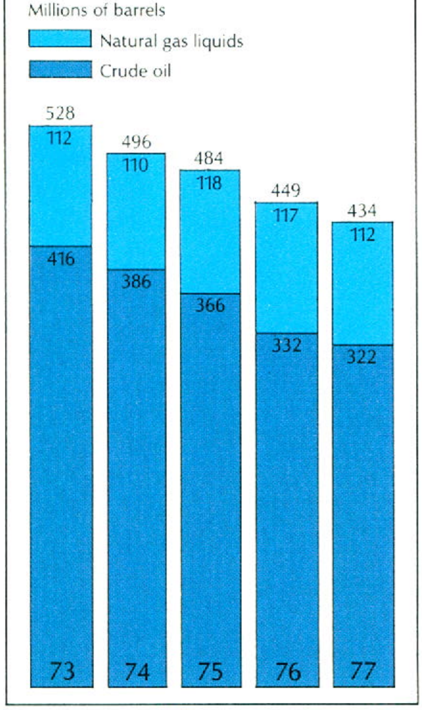
The Company recognizes the importance of environmental planning in heavy oil development, and carried out studies involving broadly based field research in areas where operations are ongoing.

In late December Gulf Canada acquired a 100 per cent working interest from Numac Oil and Gas Ltd. in almost 119,000 acres overlying a prime heavy oil deposit in the Athabasca region. Located near the eastern edge of the oil sands deposit, the acreage is underlain by thick continuous sands, in places exceeding 100 feet, and has excellent porosity. It is clearly within the prime area of in-situ deposits in the Athabasca region and will give Gulf Canada a strategic land position in this long-term energy source.

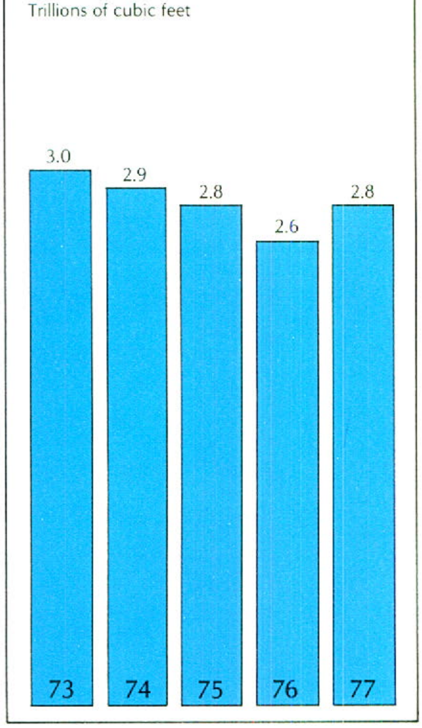
Mineral exploration and development

Gulf Canada continued its program to find and develop uranium, base metal and coal deposits. The Company has a 5.1 per cent interest in a uranium mine and mill complex operated by Gulf Minerals Canada Limited at Rabbit Lake in northern Saskatchewan, and a ten per cent interest in prospective mineral lands in Saskatchewan. In addition, the Company has a 50 per cent interest in all other activities undertaken by Gulf Minerals. In 1977 the mine produced five million pounds of uranium oxide "yellow cake," well above design rate of 4.5 million pounds. It is anticipated that this higher production will be continued in 1978 to meet sales commitments.

Estimated gross reserves conventional crude oil and natural gas liquids



Estimated gross reserves Western Canada natural gas



Estimated Recoverable Reserves

	Gross(1) 1977	Gross(1) 1976	Net(2) 1977	Net(2) 1976
Proven reserves				
Western Canada				
Crude oil and natural gas liquids (millions of barrels)	434	449	296	316
Natural gas (4) (trillions of cubic feet)	2.8	2.6	2.1	2.0
Other reserves				
Syncrude (millions of barrels)	191	191	(3)	
Sulphur (millions of long tons)	4.2	4.5	4.0	4.2

(1) Gross reserves are before deducting royalties. The reserve estimates include only those volumes considered to be proven and which appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions.

(2) Government royalty rates can vary depending on prices, production volumes, the timing of initial production and changes in legislation. Net reserves have been calculated on the basis of the royalty rates experienced in late 1977.

(3) Synthetic crude oil reserves resulting from Gulf Canada's interest in the Syncrude Canada Ltd. project are shown in gross barrels only. The Alberta government's share from the Syncrude project is 50 per cent of net profits, as defined in an agreement between the project participants and the government, with an option to convert to a 7.5 per cent gross royalty. On either basis, the Alberta government has the right to take its share in kind. These reserves will be extracted by mining and processing tar sands.

(4) Natural gas reserves in the Mackenzie Delta are not included as their recovery depends on approval and construction of a pipeline to transport the gas to markets. Gulf Canada's share of gross reserves in the Parsons Lake area of the Mackenzie Delta are estimated to be approximately 1.3 trillion cubic feet.

From top: nurse, Montreal East refinery; technician, Calgary pipe line terminal; bosun and first mate, *MV Gulf Gatineau*.

Refined products and chemicals

Net earnings from refined products and chemicals' operations amounted to $41.1 million, a return of only four per cent on average employed capital, compared with $29.4 million and three per cent in 1976. These earnings include some inventory holding gains related to the regulated price increases which were allowed 60 days following the rise in crude oil prices on January 1 and July 1. The inadequate returns from these operations results from severe market competition which continues to preclude full recovery of higher crude and operating costs.

Refining

All refineries, except Port Moody, recorded larger throughput in 1977. In total, a record 123.7 million barrels were processed compared to 107.6 million barrels in 1976. Point Tupper refinery, up 7.3 million barrels over 1976 as a result of higher sales, accounted for the largest increase.

The $210-million lube oil expansion project at Clarkson refinery was 65 per cent complete at year-end, with a peak labor force of over 2,000 onsite. The new facilities, scheduled to be on stream the latter part of 1978, will quadruple the refinery's production of lubricating oils and will produce 30 per cent of Canada's needs.

Computers for use in process control are being installed at Edmonton and Port Moody refineries. At Clarkson, a new sulphur plant is planned to improve the refinery's environmental acceptability.

Marketing

The market for petroleum products was intensely competitive throughout 1977, particularly in Eastern Canada because of its large surplus of refining capacity. Industry demand grew about two per cent, continuing the pattern started in 1975 and reflecting the effects of conservation and the generally depressed economy.

The results of downstream operations improved over the previous year but were still far short of an

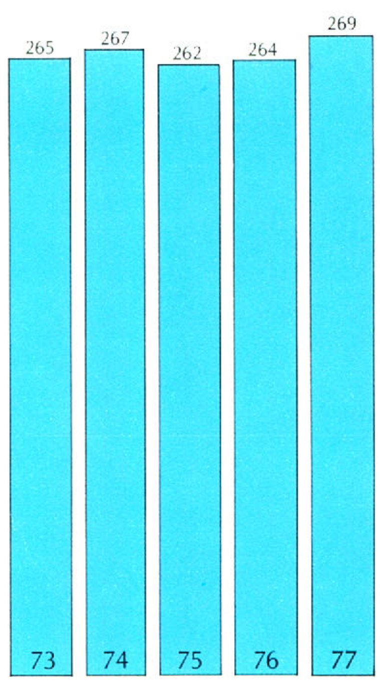
Refining Capacity

	Barrels per calendar day
Point Tupper, Nova Scotia	81,000
Montreal East, Quebec	77,300
Clarkson, Ontario	79,100
Moose Jaw, Saskatchewan*	13,300
Calgary, Alberta*	8,700
Edmonton, Alberta	74,500
Kamloops, British Columbia	7,700
Port Moody, British Columbia	37,200
Total	378,800

*Asphalt plants

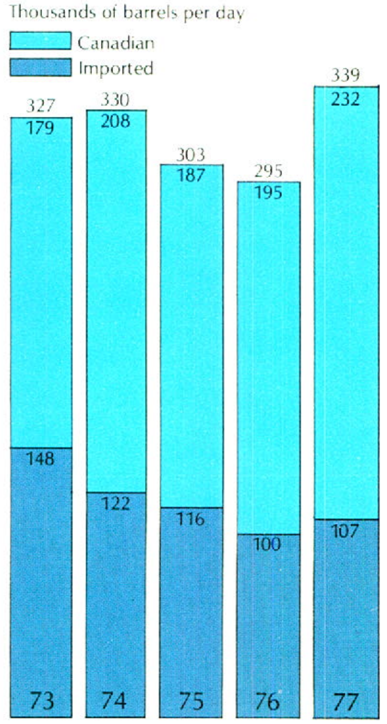
Crude oil and petroleum products transported

Millions of barrels



Crude oil processed by and for the Company

Thousands of barrels per day



Clockwise from top: tank car loader, Calgary asphalt plant; senior driver, Corner Brook, Newfoundland; process engineer, Clarkson refinery.

acceptable return on the capital employed. Primary emphasis in marketing is to achieve the lowest possible costs of operation in the price-depressed environment.

Demand for Futura unleaded gasoline exceeded that of the premium fuel in all areas of Canada because of the growing number of vehicles equipped with catalytic mufflers which require the use of the unleaded product. Distribution of unleaded gasoline has now been extended to all markets since this fuel is expected to represent a growing share of the total demand in the next few years.

Gulf Canada accelerated its program of phasing out smaller retail outlets and replacing them with a fewer number of large-volume facilities. Many of the newer outlets are of the self-serve design, some equipped with service bays. The Company also introduced a number of "Hurry-Lube" facilities where motor oil can be changed in a few minutes without leaving the car at the station for an extended period.

Superior Propane improved its profits in 1977 under difficult marketing conditions, including lower prices offered by competing fuels as a result of market oversupply. Sharply higher rail costs, together with the increased cost of producing propane, reduced demand and switched some consumers to alternative fuels.

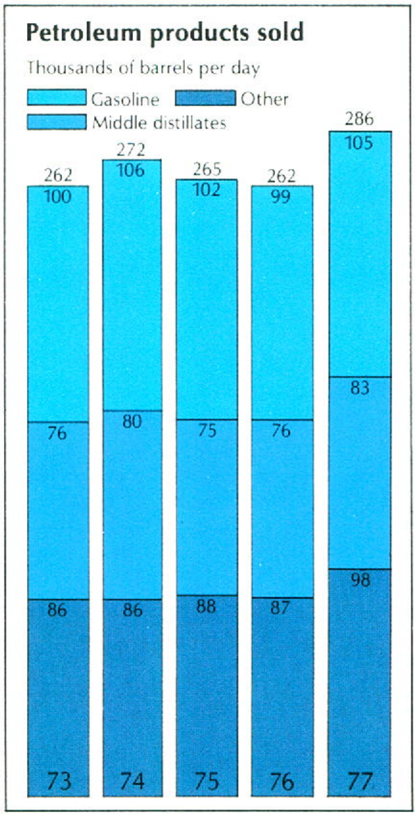
As government subsidies on other fuels are either reduced or eliminated, it is expected that propane will again become more competitive in the energy marketplace and that consumption will resume its traditional growth pattern.

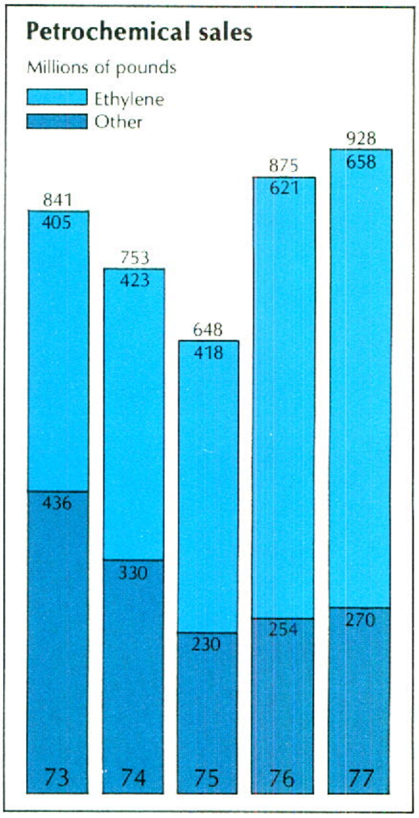
Chemicals

Olefins sales volumes improved in 1977 while aromatics and inorganic volumes decreased in the face of stiff competition.

In the olefins sector, Gulf Canada began supplying feedstocks in mid-year to the newly-built polypropylene plant of Hercules Canada at Varennes, Quebec.

In early 1977 the Company announced its decision, based on economic reasons, to shut down the 75-year-old calcium carbide and acetylene black plants at Shawinigan, Quebec, along with the supporting Bedford quarry. This decision was subsequently reconsidered in light of an overall program which included federal and provincial support, possible new markets for carbide, a revised schedule for environmental improvements, a re-negotiated hydro contract, and a revised labor contract designed to increase productivity. The continued operation of the plants will be based on a year-by-year review.





Clockwise from top: industrial marketing salesman, Ontario; research engineer, Sheridan Park, Ontario; Servico manager, Moncton, New Brunswick.

Other activities

Research and development

Several research projects relating to heavy oil recovery are currently underway in cooperation with the new energy resources section of the Production Department.

A hydrotreating pilot plant has been built to support the lube oil expansion program at Clarkson refinery. Closely resembling the Clarkson facility except that its capacity is only one-half a barrel per day, the plant is used for product formulation studies prior to start-up.

At the request of three governments, sulphur asphalt test roads were built in Ontario, Alberta and Michigan to further demonstrate the performance of Gulf Canada's sulphur asphalt process.

Realty

The final addition to the Company's regional office at Mount Pleasant and Davisville, Toronto, was completed in mid-December and employees, previously housed in several locations, are now occupying the new facilities.

Construction of Gulf Canada Square, the office and commercial complex in Calgary, was started in the latter half of 1977 and will be ready for occupancy in late 1979. The building, to cover an area of two city blocks, will include a 20-storey office tower to accommodate the Company's Calgary staff which is presently located in several buildings. The development will employ a unique energy system which stores and utilizes heat generated by the occupants, lighting and equipment, and will enable the complex to operate on less than half as much energy as other structures of conventional design.

During the year 51 houses were built and sold by Gulf Development of LaPrairie, Inc. in the first phase of the planned residential community project south of Montreal. In view of increasing construction costs and reduced development activity, emphasis is now being placed on selling the land to other companies for development.

Human resources

At the year's end the Company and its affiliates had 11,000 employees, 7,800 of them Gulf Canada staff. About 40 per cent of the total had marked ten or more years of continuous service, with 15 per cent having 20 years or more.

Gulf Canada recognizes the valuable investment in training and experience which is represented in each career employee. To preserve and enhance this investment, various human resource programs are carried out to develop and improve personal skills, maintain a high level of morale, and encourage long-term service. For example, during 1977 the first phase of a Company-wide program to provide women with equal job access was initiated. The program emphasizes better use of the skills of existing female employees and encourages qualified females to apply for careers with Gulf Canada.

One-year labor agreements providing for an eight per cent increase in 1977 were negotiated with the OCAW and all other bargaining groups. During the year 29 submissions requesting approval of wage and salary settlements were made to the Anti-Inflation Board, with 21 being cleared by year-end. Improvements were made to the group life insurance and retirement income plans, including increased payments to annuitants and to those on long-term disability.

As a participant in the tar sands project, Gulf Canada provided Syncrude Canada with eleven permanent staff and 21 employees on loan.

The President's Safety Incentive Award was won by 1,681 employees in 19 units across Canada, and 240 men and women were honored at 25-year service award dinners.

Corporate affairs and public relations

Regular communications with governments and key interest groups on a wide range of energy issues contributed to improved understanding in Company-government relations during 1977.

A continuous monitoring and analysis of external factors in the social, economic, political and competitive environments identified key issues for inclusion in the corporate planning process. Comprehensive studies of two current issues — energy conservation and Quebec's current position — were undertaken; the Company's approach on the latter subject was outlined in a submission to the Task Force on Canadian Unity.

Gulf Canada accelerated its program to promote the use of the French language in its Quebec operations. Additional courses in French were provided to 17 groups of employees, and the Company continued to ensure the availability of all corporate manuals and documents in French through its translation program.

The Public Relations Department continued to assist the executive and other departments with programs designed to improve the regard of various publics toward the Company and the industry.

As a new community relations program for the Kamloops refinery, the Company provided a "Gulf Community Caravan" to serve as a mobile headquarters for public-interest events within a 100-mile radius of that city. Community relations programs were continued at Clarkson in connection with the current expansion, and at other major refineries and chemical plants.

Public communications during the year stressed the importance of energy conservation, forward-looking energy policies and the fact that taxes and royalties account for more than half the retail price of gasoline.

A series of corporate messages on televison emphasized the high costs, risks and long lead-times involved in frontier exploration and development projects that will be required to meet Canada's future energy needs.

To obtain employee opinion on a wide range of Company and industry-related subjects, an attitude survey was undertaken by the same independent research organization which had conducted the initial survey in 1973. The most recent ratings improved in most categories, and positive action is being directed to any areas requiring special attention. As with the earlier study, the results were conveyed to all employees through Company publications and its internal videotape network.

Accounting developments

The significant accounting policies of the Company are set out in Note 1 to the financial statements.

In recent years there has been an intense debate over the variations in the financial accounting and reporting practices followed by oil and gas producing companies. In the United States, the Financial Accounting Standards Board has moved to establish uniformity by issuing a statement, effective for 1979 reporting, which will require oil and gas companies to follow a form of successful efforts accounting similar in most respects to the current practices followed by Gulf Canada. If adopted in Canada, the effect on the Company's financial statements would not be significant.

The Research Committee of the Canadian Institute of Chartered Accountants recently issued an exposure draft regarding accounting for leases. The draft would require that a lease which transfers substantially all of the benefits and risks incident to the ownership of property should be accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee. The Company leases various assets and certain of these would qualify as capital leases. Such capitalization would have little effect on earnings and the increase in net assets and liabilities would not be material.

Inflation and higher costs

The 1977 earnings represent a rate of return of 11.4 per cent on average capital employed, compared with 11.9 per cent in 1976 and 14.5 per cent in 1975. Generally speaking, these rates of return are based on historical dollar investments and do not provide a realistic return on the Company's investment when related to current dollars.

In this regard, the task continues within the business community, governments and the accounting profession to develop appropriate methods of accounting for inflation. We are concerned that the problems of the resource industries, and particularly those charged with providing future sources of energy, cannot be solved by any restatements of historical results. Indications are that replacement of current crude oil and natural gas reserves will involve extremely costly projects in remote frontier areas and the equally expensive development of synthetic or heavy oil reserves. Although changes in income tax regulations and provincial incentives have provided some additional funds for reinvestment in new energy supplies, governments continue to take an exceptionally high portion of increases in crude oil and natural gas prices.

We have carried out further work on current value accounting and updated the replacement cost information as required by Gulf Oil Corporation for reporting to the Securities and Exchange Commission. Unfortunately, there is presently no acceptable method of determining the replacement cost of oil and gas reserves which represent a major portion of Gulf Canada's assets. We do not believe that disclosure of incomplete information can be of use to shareholders or other users of the financial statements. The search for a satisfactory method to measure the impact of inflation on the current and future operations of resource companies is continuing.

Investment in inventories of crude oil, products and merchandise amounted to $483 million at December 31, 1977 — up $125 million during the year. This increase was equally divided between higher costs and larger volumes. The government is to be commended for the three per cent inventory allowance provided in the most recent budget which served to reduce 1977 taxes by $5.1 million and helped defray some of the higher costs in inventories. The balance of the higher costs in inventories, however, had to be provided from earnings or new borrowings, and there is further need to increase this allowance in line with the general inflation rate. If cost of goods sold had been calculated using the estimated replacement cost at the time when the sales were made, earnings before income taxes would have been reduced in the range of $50 million.

Gulf Oil Canada Limited

Consolidated statement of financial position

December 31, 1977

Assets

	1977	1976
Current:	(millions of dollars)	
Cash	$ 15.3	$ 3.1
Marketable securities, at cost (approximates market value)	158.8	131.1
Accounts receivable	519.4	455.8
Inventories of crude oil, products and merchandise	483.3	357.9
Materials, supplies and prepaid expenses	30.0	31.5
Total current assets	1,206.8	979.4
Investments, Long Term Receivables and Other Assets:		
Investments in associated and other companies (note 5)	20.5	15.5
Deposits, long term receivables and other assets (note 2)	49.7	41.6
	70.2	57.1
Property, Plant and Equipment at Cost less accumulated depreciation, depletion and amortization (note 6)	1,296.6	1,008.7
	$2,573.6	$2,045.2

(See accompanying notes to consolidated financial statements)

Liabilities

	1977	1976
	(millions of dollars)	
Current:		
Short term loans	$ 25.6	$ 25.9
Accounts payable and accrued liabilities (note 11)	534.6	404.7
Income and other taxes payable	67.1	50.8
Current portion of long term debt	28.8	13.0
Dividends payable	12.3	11.3
Total current liabilities	668.4	505.7
Long Term Debt and Other Long Term Liabilities (note 8)	332.7	167.1
Deferred Income Taxes	284.5	220.3

Shareholders' equity

	1977	1976
Capital stock (note 9)	281.0	280.9
Retained earnings	1,007.0	871.2
Total shareholders' equity	1,288.0	1,152.1
	$2,573.6	$2,045.2

On behalf of the Board:

A. Powis, Director

C.D. Shepard, Director

Auditors' Report

To the Shareholders of
Gulf Oil Canada Limited:

We have examined the consolidated statement of financial position of Gulf Oil Canada Limited as at December 31, 1977 and the consolidated statements of earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in accounting referred to in Note 2, on a basis consistent with that of the preceding year.

Toronto, Canada,
February 7, 1978.

Clarkson, Gordon & Co.,
Chartered Accountants

Gulf Oil Canada Limited

Consolidated statements of earnings

Year ended December 31, 1977

Earnings

	1977	1976
	(millions of dollars)	
Revenues:		
Gross sales and other operating revenues	$4,235.2	$3,613.8
Deduct — Crude oil sales (note 1)	(1,565.3)	(1,343.1)
— Taxes collected for governments ..	(347.8)	(346.6)
Net sales and other operating revenues	2,322.1	1,924.1
Investment and sundry income	34.4	29.5
Net revenues	2,356.5	1,953.6
Expenses:		
Purchased crude oil, products and merchandise (note 1)	1,193.1	933.0
Operating expenses	227.5	201.1
Exploration, dryhole and other frontier area expenditures (note 4)	107.9	63.2
Selling, general and administrative expenses .	300.3	276.1
Depreciation, depletion and amortization (note 7)	85.8	73.2
Interest on long term debt	21.4	7.7
	1,936.0	1,554.3
Earnings before income and other taxes	420.5	399.3
Taxes		
Taxes other than taxes on income	124.8	111.1
Income taxes (includes deferred taxes of $64.2 in 1977, $37.6 in 1976) (note 3)	110.7	122.3
	235.5	233.4
Earnings for the year	$ 185.0	$ 165.9
Earnings per share	$ 4.07	$ 3.65

Retained earnings

	1977	1976
Balance, beginning of the year	$ 871.2	$ 750.8
Add earnings for the year	185.0	165.9
	1,056.2	916.7
Deduct dividends on common shares	49.2	45.5
Balance, end of the year	$1,007.0	$ 871.2

(See accompanying notes to consolidated financial statements)

Gulf Oil Canada Limited

Consolidated statement of changes in financial position

Year Ended December 31,1977

	1977	1976
	(millions of dollars)	
Source of Funds:		
From operations*	$ 335.7	$ 277.3
Sales of properties	15.7	10.6
Long term obligations	180.6	65.6
Sales of investments	1.2	.4
	533.2	353.9
Use of Funds:		
Additions to property, plant and equipment	385.1	260.2
Reduction in long term debt	30.6	16.6
Dividends	49.2	45.5
Other (net)	3.6	(2.2)
	468.5	320.1
Increase in working capital	$ 64.7	$ 33.8
Working capital changes:		
Increase in current assets —		
Cash and marketable securities	$ 39.9	$ 56.5
Accounts receivable	63.6	30.8
Inventories and materials	123.9	56.0
	227.4	143.3
Increase (decrease) in current liabilities —		
Accounts payable and other	126.1	116.0
Income and other taxes payable	16.3	(18.7)
Current portion of long term debt	20.3	12.2
	162.7	109.5
Increase in working capital	64.7	33.8
Working capital, beginning of the year	473.7	439.9
Working capital, end of the year	$ 538.4	$ 473.7

*Earnings for the year adjusted for charges or credits not affecting working capital.

(See accompanying notes to consolidated financial statements)

Gulf Oil Canada Limited

Notes to consolidated financial statements

December 31, 1977

1. Accounting Policies

Principles of consolidation —
The accounts of the company and all subsidiary companies are included in the financial statements.

Investments in joint venture companies owned 50% or less are accounted for on the equity basis.

U.S. dollar liabilities — (see note 2)
Liabilities in U.S. dollars are translated to Canadian dollars at year end rates of exchange. Gains or losses arising on translation of short term liabilities are included in earnings. Unrealized gains or losses arising on translation of long term liabilities are deferred and amortized over the term of the liabilities.

Inventories —
Inventories of crude oil, products and merchandise are valued generally at the lower of cost applied on a "first-in, first-out" basis or market value determined on the basis of replacement cost or net realizable value. Materials and supplies are valued at cost or lower, depending on the condition of the items.

Exploration and development costs —
Exploration expenditures, including geological and geophysical costs, annual rentals on exploratory acreage and dry hole costs are charged to expense. Costs of drilling successful wells in remote frontier areas where future production is not reasonably assured, together with other frontier area expenditures, are also charged to expense.

The initial acquisition costs of oil and gas properties together with the costs of drilling and equipping successful wells (other than wells in remote frontier areas) are capitalized.

Depreciation, depletion and amortization —
Capitalized costs of oil and gas properties and drilling and equipping wells are charged against earnings on the unit-of-production method using estimated recoverable oil and gas reserves. Charges are made against earnings for depreciation of investment in plant and equipment based on the estimated remaining useful lives of the assets using either the straight-line or the unit-of-production method, whichever is appropriate.

Income taxes —
Income tax expense is computed on the basis of revenues and expenses reflected in the statement 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 statement of financial position as deferred income taxes.

Investment tax credits are applied to reduce the cost of the related fixed assets.

Pensions —
Pension costs, which are determined by independent actuaries, are charged against earnings in the year premiums or funding requirements are payable. Prior service pension costs are being funded and charged to earnings over varying periods not exceeding fifteen years.

Crude oil transactions —
In addition to its own net production, the company purchases large volumes of crude oil from other producers and sells whatever crude oil is not required for its own refineries to other companies in the oil industry. It is the company's practice to offset such crude oil sales against oil purchases and thus exclude these transactions from both net revenues and costs.

Oil import compensation program —
Under the oil import compensation program the federal government compensates eligible importers with respect to petroleum imported for consumption in Canada, provided the importing company voluntarily maintains prices for products obtained from imported petroleum at the level suggested by the government. Compensation received or recoverable under this program is reflected as a reduction of the cost of purchased crude oil.

2. Accounting Change

With effect from January 1, 1977, the company has changed its method of accounting for gains and losses arising on translation of U.S. dollar long term liabilities to Canadian dollars. Such gains or losses are now deferred and amortized over the term of the liabilities rather than being reflected currently in earnings. If such unrealized gains or losses had been reflected currently in 1977, the Canadian dollar earnings for the year would have been reduced by $6.9 million. The 1976 earnings have not been restated as the exchange loss on translation was insignificant. This change is in line with the proposed accounting recommendations contained in an exposure draft on "Accounting for Translation of Foreign Currency Transactions" issued in June 1977 by the Accounting Research Committee of the Canadian Institute of Chartered Accountants.

3. Income Tax

Total income tax expense was $110.7 million in 1977 and $122.3 million in 1976 which represents an effective tax rate of 37.5 per cent and 42.4 per cent on pre-tax earnings for 1977 and 1976 respectively. The following schedule shows the main differences between the combined Federal and Provincial statutory tax rate and these effective rates:

	1977		1976	
	(millions of dollars)			
	Amount	% of Pre-tax earnings	Amount	% of Pre-tax earnings
Provision for income taxes at statutory rates	$141.9	48.0%	$137.7	47.8%
Add (deduct) the tax effect of:				
Inclusion in taxable income of crown royalties and other provincial payments	85.0	28.7	68.3	23.7
Resource allowance to partially offset inclusion of crown royalties	(63.1)	(21.4)	(49.8)	(17.3)
Depletion allowance earned by exploration and development expenditures	(33.3)	(11.3)	(29.1)	(10.1)
Frontier exploration allowance earned by frontier drilling expenditures	(9.4)	(3.0)		
Inventory allowance to partially offset the effect of inflation	(5.1)	(1.7)		
Other	(5.3)	(1.8)	(4.8)	(1.7)
Provision for income taxes reflected in the statement of earnings	$110.7	37.5%	$122.3	42.4%

4. Exploration, Dry Hole and Other Frontier Area Expenditures

Exploration, dry hole and other frontier area expenditures include the costs of drilling successful wells in remote frontier areas in the amount of $7.0 million in 1977 ($14.2 million in 1976).

5. Investment in Associated and Other Companies

	1977	1976
	(millions of dollars)	
At cost:		
With quoted market value (based on closing prices at the end of each year) 1977 — $35.4 million: 1976 — $36.0 million ...	$ 3.9	$ 4.2
Without quoted market value	.1	.1
	4.0	4.3
At equity:		
investment in joint venture companies, at cost plus equity in undistributed earnings	16.5	11.2
	$20.5	$15.5

6. Property, Plant and Equipment

	Range of depreciation rates	Gross invest-ment at cost(1)	Accumulated depreciation, depletion and amortization	Net invest-ment 1977	Net invest-ment 1976
		(millions of dollars)			
Production ...	(3)	$ 694.7	(2) $ 330.3	$ 364.4	$ 278.6
Syncrude Project		278.0	—	278.0	180.4
Transportation .	4% to 10%	53.9	22.4	31.5	32.5
Refining and Petrochemicals	(4)	722.4	330.2	392.2	308.2
Marketing	2.5% to 10%	354.2	149.0	205.2	193.1
Other	2.5% to 10%	38.1	12.8	25.3	15.9
		$2,141.3	$ 844.7	$1,296.6	$1,008.7

(1) Additions during the year have been reduced by investment tax credits of $10.2 million ($9.4 million in 1976).
(2) Includes accumulated depletion of $46.7 million with respect to the acquisition cost of productive properties.
(3) Unit of production.
(4) Processing units on unit of production, other items from 2.5% to 10%.

7. Depreciation, Depletion and Amortization

Depreciation, depletion and amortization in the statement of earnings consists of:

	1977	1976
	(millions of dollars)	
Depreciation of plant and equipment	$66.4	$60.5
Depletion of acquisition costs of productive properties	2.5	2.6
Amortization of non-producing properties, drilling costs and other intangible assets	16.9	10.1
	$85.8	$73.2

8. Long Term Debt and Other Long Term Liabilities

	Maturity	Amount
		(million of dollars)
Debentures (1)		
5¾%, Series B	1982	$ 3.3
5¼%, Series C (2)	1982	8.0
7⅜%, Series D	1978	10.0
7⅜%, Series E	1988	33.5
8½%	1989	3.9
8½%	1990	3.5
8⅜% (2)	1997	136.7
8⅛% loan re Syncrude (3)		97.9
Interest free loans (4)		44.7
Other long term obligations	varying dates	20.0
		361.5
Less instalments due within one year included in current liabilities		28.8
		$332.7

(1) All debenture issues except Series D require sinking fund payments by the companies.

(2) Payable in U.S. dollars. Amount outstanding in U.S. dollars:
5¼% Series C 1982 $7.3 million
8⅜% Notes 1997 $125.0 million

(3) The Syncrude loan from the Government of Alberta is evidenced by an 8⅛% Convertible Debenture which, at the Government's option, may be converted into a portion of the company's equity interest in the Syncrude Project on the basis of the amount of the loan converted relative to the total cost of the project. In the event that the conversion option is not exercised, the loan is repayable in ten equal annual instalments commencing no earlier than 1984.

(4) These interest free loans, originally borrowed under the terms of an agreement for exploration and development of certain properties, are repayable in annual instalments over the years 1978 — $17.4 million and 1979 — $27.3 million.

Approximate annual instalments of long term debt due in the next five years are (millions of dollars):
1978 — $28.8, 1979 — $35.2,
1980 — $8.2, 1981 — $8.4,
1982 — $8.2

9. Capital Stock

Shares without nominal or par value:

Authorized — 68,000,000
Issued — 45,497,406

The company's incentive stock option plan provides for the granting of options to purchase common shares of the company at the market price on the day when the options are granted. Under the plan, options become exercisable after one year's continuous employment immediately following the date the options are granted and are for a period of ten years.

During 1977 no options were granted and options on 4,500 shares were exercised for an aggregate cash consideration of $84,094. At December 31, 1977, no options were outstanding.

10. Pension Plans

The company has pension plans covering substantially all employees. The contributions by employees, together with those made by the company, are deposited with insurance companies and/or trustees according to the terms of the plans. Pensions at retirement are related to remuneration and years of service. The amounts charged to earnings (including amounts paid to government pension plans and amortization of prior service costs) were $13.9 million during 1977 and $10.0 million during 1976.

The plans were amended in 1977, with a further amendment effective January 1, 1978 to provide for increases in retirement benefits. The effective unfunded prior service pension costs at December 31, 1977, after giving effect to the 1978 amendments, were approximately $60.6 million of which approximately $54.7 million represents the excess of the actuarially computed value of vested benefits over the assets of the plans. These will be funded and charged to earnings over periods up to twelve years.

11. Amounts Owing to and from Affiliated Companies

Amounts owing to and from affiliated companies, all of which arose in the normal course of business, were $152.4 million and $7.8 million, respectively at December 31, 1977 ($105.3 million and $5.1 million, respectively at December 31, 1976).

12. Commitments and Contingent Liabilities

Syncrude Project — The Company has a 16.75 per cent interest in a project (operated by Syncrude Canada Ltd.) for the extraction of oil from Athabasca oil sands leases in the Province of Alberta. Total project costs for the construction of the 125,000 barrel-a-day plant, expected to be completed in 1978, are estimated to approximate $2.1 billion. Based on these estimated project costs, the company's interest involves a commitment of $352.0 million, of which approximately $287.9 million had been expended to December 31, 1977. Part of the company's commitment is being financed through a convertible loan of $100 million from the Government of Alberta.

Through options held by the Government of Alberta in connection with the above loan and options held by the Alberta Energy Company, the company's interest in the project could be reduced to about nine per cent with a corresponding reduction in its investment. In the event of abandonment of the Syncrude Project either prior to the completion of the construction phase or after completion, the company together with the other Syncrude participants will incur certain further liabilities and commitments.

Clarkson Lube Plant — The company is engaged in the replacement and modernization of the lubricating oil facilities at Clarkson Refinery. The total cost of this new facility is estimated at $210.0 million of which approximately $152.7 million had been spent to December 31, 1977.

The company has other commitments in the ordinary course of business (for the acquisition or construction of properties and the purchase of materials and services) and contingent liabilities under various guarantees, all of which are not significant in relation to net assets.

Rentals under long term leases for real property and other facilities approximate $20 million annually. Under certain of these long term leases, the company has the option to purchase the leased assets and is obligated to make advances from time to time which will be applied against the purchase price if the option is exercised. It is estimated that such advances will aggregate approximately $20.2 million over the terms of the lease agreements (which expire in 1982) of which $12.1 million have been advanced to December 31, 1977. During the next five years such advances will aggregate approximately $8.1 million of which $1.5 million will be payable in 1978.

13. Remuneration of Directors and Officers

The aggregate remuneration in 1977 of the company's twelve directors as directors was $83,415. Three directors were also officers of the company during the same period. The aggregate remuneration during 1977 of the company's officers (including eleven past officers) as officers was $2,132,047. No directors or officers of the company received any remuneration from a subsidiary of the company.

14. Anti-Inflation Program

Under the federal government's Anti-Inflation Act (in force until December 31, 1978, except for legislation regarding shareholder dividends which terminates October 13, 1978), the company is subject to mandatory compliance with legislation which controls prices, profit margins (excluding crude oil and natural gas operations which are controlled under the Petroleum Administration Act), employee compensation and shareholder dividends. Management is of the opinion that the company is in compliance with the requirements of the anti-inflation legislation.

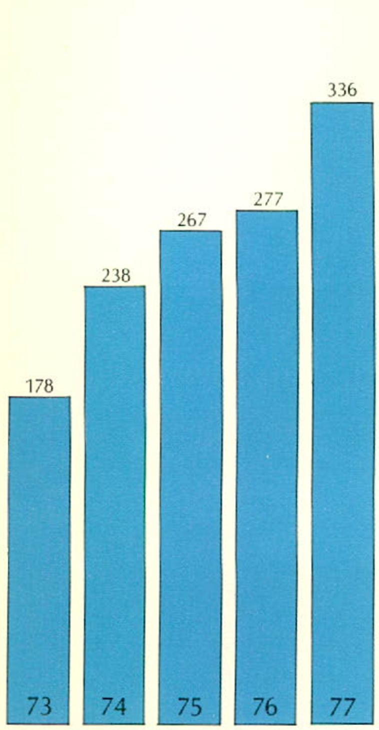
Five year financial summary

Amounts, except for unit statistics, expressed in millions of dollars

	1977	1976	1975	1974	1973
Balance Sheet					
Current assets	$1,206.8	$ 979.4	$ 836.1	$ 825.2	$ 595.2
Deduct: Current liabilities	668.4	505.7	396.2	467.5	243.7
Working capital	538.4	473.7	439.9	357.7	351.5
Property, plant and equipment — net	1,296.6	1,008.7	830.3	746.1	714.2
Investments, long term receivables and other assets	70.2	57.1	60.1	59.9	57.9
Capital employed	1,905.2	1,539.5	1,330.3	1,163.7	1,123.6
Deduct: Long term debt	332.7	167.1	115.9	102.6	196.0
Deferred income taxes	284.5	220.3	182.7	162.8	153.9
Shareholders' equity	$1,288.0	$1,152.1	$1,031.7	$ 898.3	$ 773.7
Per share	$ 28.31	$ 25.32	$ 22.68	$ 19.75	$ 17.01
Capital Expenditures					
Property, plant and equipment	$ 385.1	$ 260.2	$ 165.1	$ 115.9	$ 67.6
Earnings					
Net revenues	$2,356.5	$1,953.6	$1,729.9	$1,516.2	$1,060.0
Deduct:					
Exploration and dry hole costs	107.9	63.2	53.9	48.9	29.1
Depreciation, depletion and amortization	85.8	73.2	71.0	70.4	72.3
Purchases and other expenses	1,742.3	1,417.9	1,186.6	1,030.5	730.5
	1,936.0	1,554.3	1,311.5	1,149.8	831.9
Earnings before taxes	420.5	399.3	418.4	366.4	228.1
Taxes:					
Taxes, other than income taxes	124.8	111.1	98.1	80.9	68.0
Income taxes	110.7	122.3	143.7	124.5	59.9
	235.5	233.4	241.8	205.4	127.9
Earnings for the year	$ 185.0	$ 165.9	$ 176.6	$ 161.0	$ 100.2
Rate of Return (per cent)					
On average capital employed	11.4	11.9	14.5	14.7	10.0
On average shareholders' equity	15.2	15.2	18.3	19.3	13.6
Funds from Operations	$ 335.7	$ 277.3	$ 266.8	$ 237.8	$ 178.1
Dividends Declared	$ 49.2	$ 45.5	$ 43.2	$ 36.4	$ 31.8
Per Share					
Earnings for the year	$ 4.07	$ 3.65	$ 3.88	$ 3.54	$ 2.20
Cash dividends	$ 1.08	$ 1.00	$ .95	$ .80	$ .70

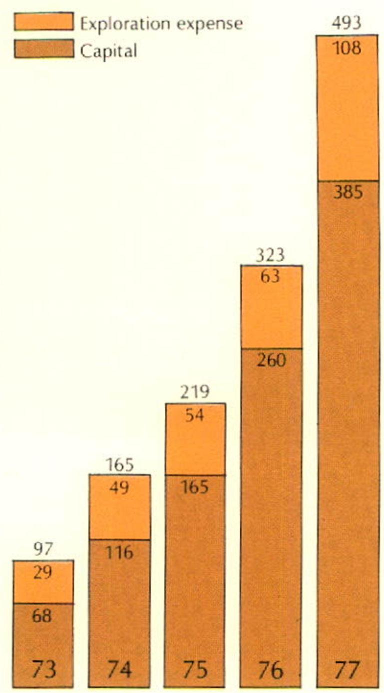
Funds from operations

Millions of dollars



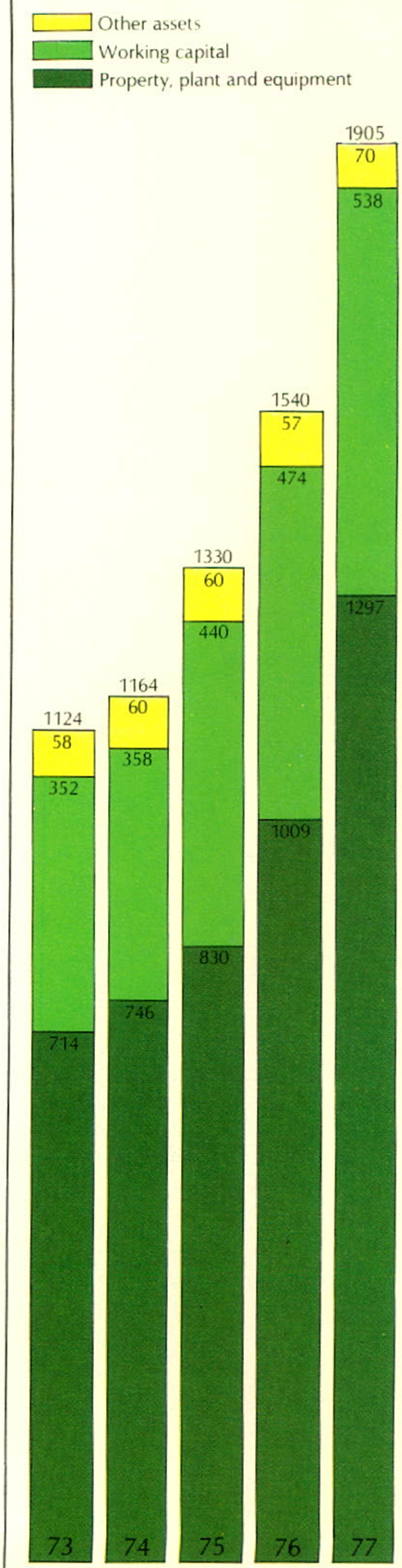
Capital and exploration expenditures

Millions of dollars



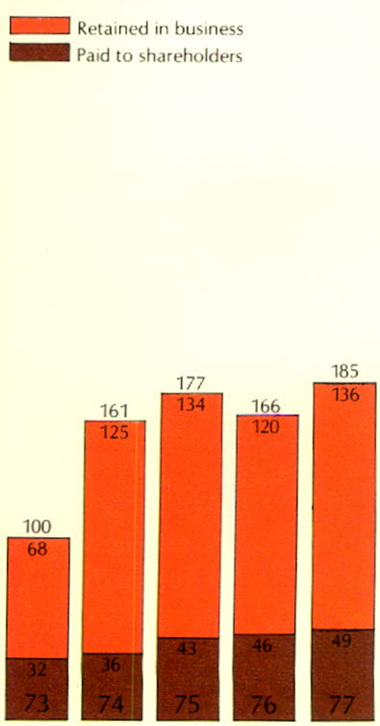
Capital employed

Millions of dollars



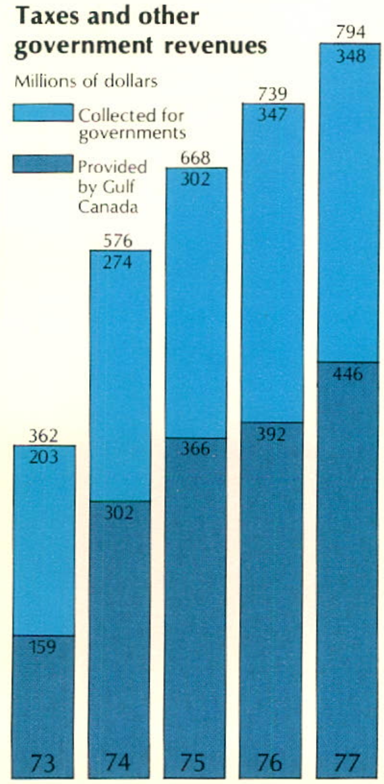
Net earnings

Millions of dollars



Taxes and other government revenues

Millions of dollars



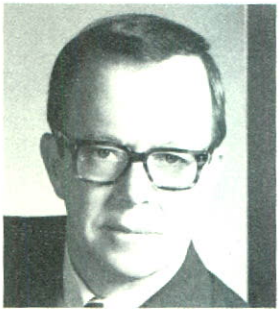
Five year summary of operations

	1977	1976	1975	1974	1973
Crude and Natural Gas Liquids Produced					
(thousands of barrels)					
Gross	42,030	43,310	47,657	50,784	54,476
Net	27,841	29,546	33,125	36,210	45,613
Per day — gross	115	118	131	139	149
— net	76	81	91	99	125
Crude Oil Processed by and for the Company					
(thousands of barrels)					
Total	123,704	108,107	110,750	120,623	119,413
Per day	339	295	303	330	327
Petroleum Products Sold					
(thousands of barrels)					
Total	104,281	96,022	96,904	99,426	95,550
Per day	286	262	265	272	262
Natural Gas Produced and Sold					
(Millions of cubic feet)					
Gross	152,063	161,071	171,603	176,473	177,789
Net	110,152	118,083	134,779	148,011	158,510
Per day — gross	417	440	470	483	487
— net	302	323	369	406	434
Petrochemical Sales					
(thousands of pounds)					
Total	927,769	875,322	647,624	752,827	841,204
Per day	2,542	2,392	1,774	2,063	2,305
Sulphur Sales					
(long tons)					
Total	343,999	254,525	202,741	272,985	203,079
Per day	942	695	556	748	556
Net Wells (Bore Holes) Capable of Producing at Year-End	1,499	1,437	1,400	1,400	1,415
Net Wells Drilled	108	59	45	37	50
Net Acreage under Lease, Reservation and Option *(thousands of acres)*	25,039	25,561	26,077	24,631	25,668

Top: oil spill crew, Sarnia, Ontario;
lower: biologists, Wabasca, Alberta.

In the area of environmental protection, the Company spent approximately $23 million during 1977, of which about 60 per cent was related to exploration and production activities. The largest portion of an estimated expenditure of $25 million for 1978 will again be directed to drilling operations. Gulf Canada employs the equal of 40 full-time personnel in environmental affairs, with over 200 employees being involved in the oil spill contingency activity.

Directors



J. Peter Gordon

Chairman and Chief Executive Officer, The Steel Company of Canada, Limited, Toronto, Ontario. Director: The International Nickel Company of Canada Limited; Bank of Montreal; Canadian General Electric Company Limited; Sun Life Assurance Company of Canada.

Kathleen M. Richardson

Director, James Richardson & Sons, Limited, Winnipeg, Manitoba.

W.H. Young

President, The Hamilton Group Limited, Burlington, Ontario. Director: The Steel Company of Canada, Limited; Gore Mutual Insurance Company; National Trust Company Limited; Drummond, McCall & Co. Ltd.

L.P. Blaser

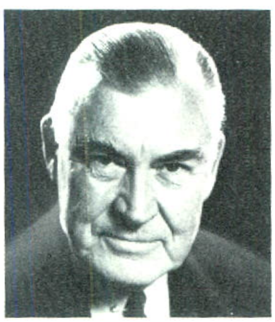
Executive Vice-President, Gulf Oil Canada Limited, Toronto, Ontario. President: Alberta Products Pipeline. Director: Interprovincial Pipe Line Limited; Trans Mountain Pipe Line Company Limited.

D.S.R. Leighton

Director, Banff Centre, Banff, Alberta.

R.G. Rogers

Chairman of the Board and Chief Executive Officer, Crown Zellerbach Canada Limited, Vancouver, British Columbia. Director: Canadian Imperial Bank of Commerce; Genstar Limited; Hilton Canada Limited.



Beverley Matthews, Q.C.

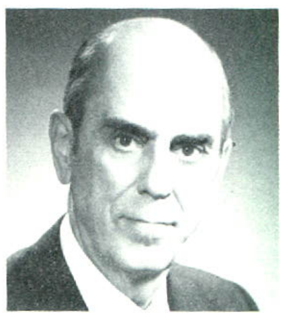
Director Emeritus, Toronto, Ontario.

E.H. Crawford

President, The Canada Life Assurance Company, Toronto, Ontario. Director: Canadian Imperial Bank of Commerce; Moore Corporation Limited; Canadian Enterprise Development Corporation Limited.

Gérard Plourde

Chairman and Chief Executive Officer, UAP Inc., Montreal, Quebec. Vice-President and Director: Alliance Compagnie Mutuelle d'assurance-vie; The Toronto-Dominion Bank. Director: Bell Canada; Editions du Renouveau Pedagogique Inc.; Northern Telecom Ltd.; The Molson Companies Limited; Rolland Paper Company Limited; Steinberg's Limited.



C.D. Shepard

Chairman of the Board and Chief Executive Officer, Gulf Oil Canada Limited, Toronto, Ontario. Director: The Toronto-Dominion Bank.

E.F. Crease

Chairman, Alfred J. Bell & Grant Limited, Halifax, Nova Scotia. Director: Canada Permanent Trust Company.

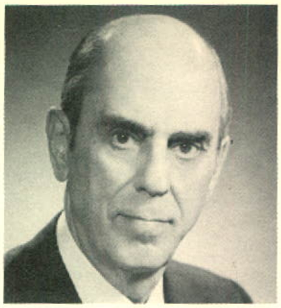
Alfred Powis

Chairman of the Board and President, Noranda Mines Limited, Toronto, Ontario. Director: British Columbia Forest Products Limited; Canadian Imperial Bank of Commerce; Placer Development Limited; Simpsons Limited; Sun Life Assurance Company of Canada.

J.L. Stoik

President and Chief Operating Officer, Gulf Oil Canada Limited, Toronto, Ontario. Member: Business and Industry Advisory Committee (BIAC) on Energy and Raw Materials to the Organization for Economic Co-operation and Development.

Officers



C.D. Shepard, Chairman of the Board and Chief Executive Officer.

J.L. Stoik, President and Chief Operating Officer.

L.P Blaser, Executive Vice-President.

J.C. Phillips, Q.C., Executive Vice-President.

W.P. Wilder, Executive Vice-President.

S.G.B. Pearson, Senior Vice-President.

R.C. Beal, Vice-President responsible for New Business Development and Chemicals.

R.H. Carlyle, Calgary, Vice-President responsible for Exploration.

J.D. DeGrandis, Vice-President responsible for Supply and Distribution.

W.H. Griffin, Vice-President responsible for Marketing.

R.E. Harris, Vice-President responsible for Human Resources and Realty.

E.M. Lakusta, Calgary, Vice-President responsible for Production.

***D.S. Lyall**, Vice-President responsible for Treasury and Taxation.

*Retiring April 30, 1978

S.K. McWalter, Vice-President responsible for Corporate Planning, Credit, Comptroller, Systems and Internal Audit.

K.C. Reeves, Vice-President responsible for Refining.

C.G. Walker, Vice-President responsible for Corporate Affairs.

W.M. Winterton, Vice-President, General Counsel and Secretary.

W.H. Burkhiser, Treasurer.

J.A. Scobie, Comptroller.

Gulf Oil Canada Limited

Officers
C.D. Shepard, Chairman of the Board and Chief Executive Officer
J.L. Stoik, President and Chief Operating Officer
L.P. Blaser, Executive Vice-President
J.C. Phillips, Q.C., Executive Vice-President
W.P. Wilder, Executive Vice-President
S.G.B. Pearson, Senior Vice-President
R.C. Beal, Vice-President
*R.H. Carlyle, Vice-President
J.D. DeGrandis, Vice-President
W.H. Griffin, Vice-President
R.E. Harris, Vice-President
*E.M. Lakusta, Vice-President
**D.S. Lyall, Vice-President
S.K. McWalter, Vice-President
K.C. Reeves, Vice-President
C.G. Walker, Vice-President
W.M. Winterton, Vice-President, General Counsel and Secretary
W.H. Burkhiser, Treasurer
J.A. Scobie, Comptroller

*Located in Calgary
**Retiring April 30, 1978

Directors
L.P. Blaser, Toronto
E.H. Crawford, Toronto
E.F. Crease, Halifax
J. Peter Gordon, Toronto
Dr. D.S.R. Leighton, Banff
Gérard Plourde, Montreal
Alfred Powis, Toronto
Kathleen M. Richardson, Winnipeg
R.G. Rogers, Vancouver
C.D. Shepard, Toronto
J.L. Stoik, Toronto
W.H. Young, Hamilton

Director Emeritus
Beverley Matthews, Q.C., Toronto

Head Office
800 Bay Street, Toronto, Ontario

Marketing Region Offices
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

Chemicals
Plants: Montreal East, Shawinigan and Varennes, Quebec

Accounting and Data Processing Centres
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

Research and Development Centre
Sheridan Park, Ontario

Exploration/Production Offices
Calgary, Edmonton and Stettler, Alberta; Estevan, Saskatchewan

Operated gas plants: Bashaw West, Gilby, Morrin-Ghost Pine, Nevis, North Buffalo Lake, North Sibbald, Pincher Creek, Rimbey, Strachan and Swalwell, Alberta.

Pipelines
Operated pipelines: Alberta Products, Gulf Alberta, Gulf Saskatchewan, Rimbey, Saskatoon, Shawinigan and Valley

Refineries
Point Tupper, Nova Scotia; Montreal East, Quebec; Clarkson, Ontario; Edmonton, Alberta; Kamloops and Port Moody, British Columbia

Asphalt Plants
Moose Jaw, Saskatchewan; Calgary, Alberta

Principal Affiliates (wholly-owned)
SERVICO LIMITED
Head Office: Quebec, Quebec
President: W.H. Griffin

SUPERIOR PROPANE LIMITED
Head Office: Toronto, Ontario
President: R.G. Samworth

Registrar
Canada Permanent Trust Company, Toronto

Transfer Agents
Canada Permanent Trust Company — Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal, Saint John, New Brunswick; Charlottetown, Halifax, St. John's, Newfoundland

Registrar and Transfer Company — New York

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