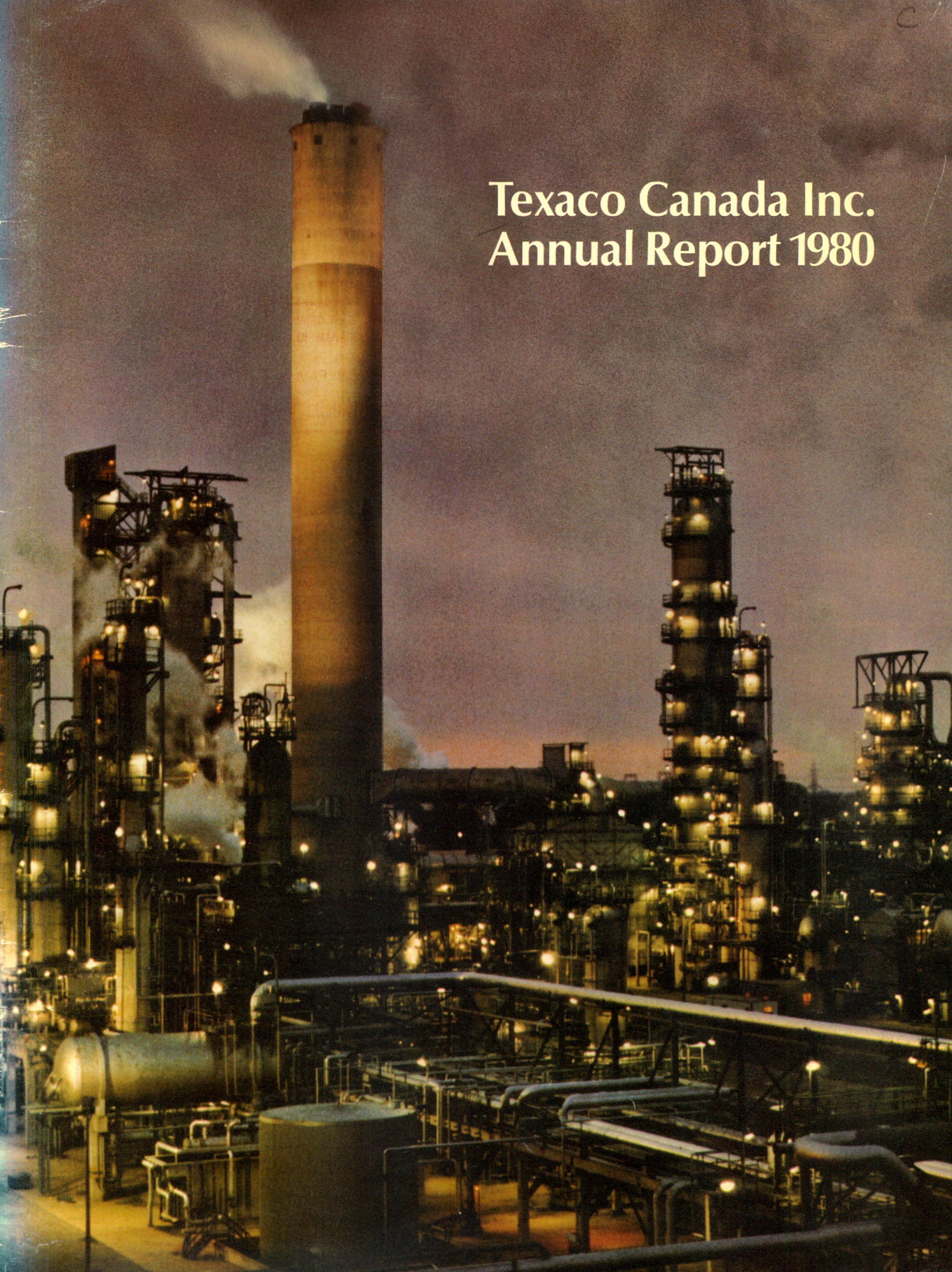


Texaco Canada Inc.
Annual Report 1980

TEXACO
Texaco Canada Inc.
90 Wynford Drive
Don Mills, Ontario M3C 1K5

Contents

The Annual Meeting of Shareholders of Texaco Canada Inc. will be held at the Company's registered office at 90 Wynford Drive, Don Mills, Ontario, on Friday, April 24, 1981, at 10:45 a.m.

On peut obtenir un exemplaire français du présent rapport annuel en s'adressant au secrétaire de la compagnie, 90 Wynford Drive Don Mills, Ontario M3C 1K5

The use in this report of such terms as *Texaco Canada, Corporation, Company, organization, we, us, our* and *its*, when referring to Texaco Canada Inc. or to its subsidiaries and affiliates either individually or collectively, is only for convenience and is not intended to be an accurate description of corporate relationships.

Cover: Panoramic view of the Company's refinery at Nanticoke, Ontario, on the shore of Lake Erie.

Subsidiary Companies

Texaco Canada Resources Ltd.
Oilship Limited
The Great Eastern Oil & Import Co. Limited
McColl-Frontenac Oil Co. Ltd.
Public Fuel Transmission Systems Limited
Lowry Fuels Limited

Principal Investments and Percentage Interest

Federated Pipe Lines Ltd.	50%
Trans-Northern Pipe Line Company	33.33%
Alberta Products Pipe Line Ltd.	20%
Montreal Pipe Line Company Limited	16%

Transfer Agents in Canada:
Montreal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Registrars in Canada:
The Royal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Transfer Agents and Registrars in the United States:
The Royal Bank & Trust Company
68 William Street, New York, N.Y.

Officers

R. W. Sparks
Chairman of the Board and Chief Executive Officer

R. M. Routhier
President

J. L. Morrison
Executive Vice-President

O. C. Cleyn
Vice-President, Eastern Canada and Region Manager

A. J. Galipeault
Vice-President and General Counsel

K. D. Keegan
Vice-President and Treasurer

J. M. Murray
Vice-President and General Manager, Refining

C. S. Ramsay
Vice-President and General Manager, Employee Relations

N. E. Taylor
Vice-President and General Manager, Marketing

S. J. Walker
Vice-President and General Manager, Supply and Distribution

J. C. Wattie
Vice-President, Personnel and Corporate Services

E. J. Little
Secretary

P. M. Taylor
Corporate Tax Officer

D. L. West
Comptroller

Highlights

Financial

	1980	1979	1978
		(Millions of dollars)	
Revenues	**$3,572**	$2,685	$1,928
Net income	**373**	264	154
Cash dividends	**92**	72	44
Funds provided by operations	**461**	387	282
Taxes and crown royalties	**1,130**	937	701
Capital and exploratory expenditures	**224**	137	186
Total capital employed at year-end	**2,066**	1,751	1,513
Common shareholders' equity at year-end	**1,280**	998	806
Working capital at year-end	**661**	478	252
Long-term debt at year-end	**85**	94	100

Rate of Return

On average total capital employed	**19.9%**	16.4%	11.5%

Per Common Share Data

Net income	**$ 2.92**	$ 2.01	$ 1.10
Cash dividends	**.585**	.42	.26
Funds provided by operations	**3.82**	3.21	2.34
Shareholders' equity at year-end	**10.62**	8.28	6.69

Operating

		(Thousands of cubic metres daily)	
Gross production of crude oil and natural gas liquids	**24.0**	26.7	19.5
Refinery runs	**29.8**	30.8	26.0
Petroleum product sales	**33.8**	32.9	30.6
		(Millions of cubic metres daily)	
Natural gas sales	**2.4**	2.2	2.0
Estimated gross proved recoverable reserves:		(Cubic metres)	
Crude oil and natural gas (millions)	**81.6**	86.3	85.7
Natural gas (billions)	**60.9**	58.8	54.8

Per common share information has been adjusted for the four-for-one split which occurred on August 15, 1980.

The Metric System

Information in this Annual Report on all company operations is provided in the International System of Units, *commonly called* the metric system. Approximate conversion factors to metric units are as follows:

One cubic metre contains about 6.29 barrels of liquids or about 35.3 cubic feet of gas.

One hectare is about 2.47 acres.

One kilometre is about 0.62 miles.

One tonne is about 2,200 pounds.

R. W. Sparks

To the Shareholders:

The most significant and far-reaching occurrence of 1980 affecting the petroleum industry in Canada was the federal government's National Energy Program, announced in late October. This program has left a cloud of uncertainty hanging over our industry.

The stated aims of the National Energy Program—security of energy supply, greater participation by Canadians in the oil and gas industry, and fairness in pricing and revenue sharing—are commendable objectives in themselves. Certain of the initiatives in the program also are commendable, notably conservation measures that include steps to substitute more plentiful forms of energy for oil as well as incentives to improve insulating standards and heating practices that are sorely needed.

But unless the program is overhauled to eliminate its restrictive and punitive features and to establish more encouraging ground rules for the industry, it will likely lead to a serious setback for Canadian energy consumers, especially from the standpoint of security of oil supply, as well as for the economy of the country.

Among its most harmful and contradictory features are the petroleum and gas revenue tax, the elimination of the depletion allowance for development expenditures and the phased withdrawal of depletion allowance for exploration expenditures. The eight per cent petroleum and gas revenue tax actually reduces cash flow at the wellhead by approximately 25 per cent. This is because government royalties are not deductible in determining the levy, and the levy is not deductible for income tax purposes.

There is general recognition of the urgent need to reduce the top-heavy national deficit, and of the federal government's desire to obtain a larger share of the oil and gas revenues. But by taking a much greater portion of the revenues that would otherwise go to the industry for reinvestment in the search for and development of new domestic supplies the program threatens to increase Canada's dependence on foreign oil and thus make unattainable its own previously announced goal of self-sufficiency by 1990. If the federal government does find it necessary to realize from the production of oil and gas the scale of revenues indicated in the budget of last October, it must reconsider major provisions of the program and a new version should feature a much more rapid increase in the wellhead price of domestic crude oil.

The federal program, as announced, provides for incentive grants to those firms continuing to explore in Canada. But these grants are on a highly selective and discriminatory basis. Moreover, the eight per cent revenue tax penalizes producers by reducing both existing cash resources available for reinvestment and the ability to raise additional capital for this purpose.

Among the most discriminatory measures in the program are the denial of benefits to companies which do not meet arbitrary definitions of what constitutes a "Canadian" corporation, and the penalties on established producers which are not controlled by Canadians. These steps have been characterized by observers outside as well as inside the petroleum industry as patently unfair and detrimental to Canada's vital energy goals and future growth.

In the case of Texaco Canada, the Canadian origins of our enterprise go back 108 years, to six years after Confederation. It has grown to become one of the major integrated companies and the second largest producer of petroleum liquids in Canada. The company's capital and exploratory expenditures over the last five years alone were close to $1 billion, and were projected to accelerate sharply, especially for exploration and development, over the next few years. But now, under the existing terms of the energy program, our spending must be scaled down after 1981.

The program strongly discourages investment in exploration and development in Canada. Our opportunities for realistic and acceptable investments in the search for and development of new indigenous energy supplies have dwindled as a result of constraints to be imposed. These constraints include such retrogressive measures as phased elimination of the depletion allowances for exploration and development on other than federal lands, introduction of a discriminatory system of grants, and the back-in privilege which will enable Petro-Canada or another Crown corporation to confiscate retroactively a 25 per cent interest in other companies' rights on federal lands.

Moreover, the pricing formula applicable to oil sands development, combined with the eight per cent tax on producing revenues, necessitates deferral of Texaco Canada's Athabasca Oil Sands "in-situ" development project on which our company has been working for several years. The eight per cent tax, in the absence of offsetting increases in the price of oil, also diminishes the incentive to invest in the exploration for and development of domestic conventional crude oil and natural gas.

In spite of such disincentives, Texaco Canada intends to pursue a selective, but modified, exploration and development program where economic opportunities remain. The Ottawa-Alberta rift over oil and gas revenue-sharing and pricing—a dispute that has been intensified by the National Energy Program—is a roadblock to energy progress. The posture adopted by the two governments of prolonged confrontation instead of compromise is not serving Canadians well. Protracted delays in reaching agreement on pricing have already upset the timing and jeopardized the viability of heavy oil conversion plants on which Canada must depend to help fill the widening gap in its domestic oil supply.

Since it was introduced, minor changes have been made in the program. They include a one-year extension of the current definition of exploration expenses to the end of 1981, and a widening of the initially proposed definition of what kinds of wells qualify for exploration as distinct from development expense write-offs.

But the National Energy Program, together with the inter-government dispute over oil and gas revenue sharing and unrealistically low domestic crude prices, has cast a cloud of uncertainty over this industry—and will affect other industries—from an investment standpoint. It is therefore not coincidental, that exploration dollars and drilling and service rigs have been moving out of Canada to more attractive opportunities in the United States.

The program will also hurt the consumer by threatening security of oil supply, by its adverse effects on the economy, and by any "special charge" on oil and gas consumption in Canada that is made by the federal government to finance an increase in public ownership of the oil industry.

The program, for the most part, is clearly excessive. For example, there is no real need for more government control of the oil industry. Governments already hold all the levers of power that determine the supply, distribution and pricing of oil and gas in this country. Federal-provincial revenue sharing is a matter that must be resolved between reasonable parties. And the legitimate aspiration for greater Canadian participation in this vital industry can be achieved through the marketplace—without disrupting the private oil industry's efficient mechanism that has worked so successfully for Canada up to now.

Canada possesses enormous potential reserves of hydrocarbons and still has a monumental opportunity to again become one of the very few industrialized nations with self-sufficiency in oil—provided that this opportunity is not squandered through excessive government control. Gigantic amounts of risk capital—including foreign capital—along with the proven expertise of established oil companies such as Texaco Canada will be needed.

It is therefore of vital necessity to the Canadian consumer and to the economy of Canada that major modifications to the National Energy Program be made as quickly as possible.

As this Annual Report goes to press the report by the federal government's Director of Investigation and Research, Combines Investigation Act, concerning the oil industry has just been released.

Texaco Canada has not engaged in any price-fixing or collusion and no grounds have been found during the nearly eight years of investigation to make any such charges. We have no reason to believe that we have been guilty of any wrongdoing. Our company competes fairly and conducts its business honourably.

At a special meeting on July 25 the shareholders approved a four-for-one split in the common shares of the company, effective in the third quarter of 1980. All per share numbers have been restated to give effect to the share split.

For 1980 the consolidated net income of Texaco Canada Inc. amounted to \$373.4 million or \$2.92 a common share. This compares with \$263.9 million or \$2.01 a share in 1979. The increase resulted from generally higher prices for crude oil, natural gas liquids, natural gas, petrochemicals and petroleum products combined with higher volumes in all but the production of crude oil.

Net funds provided by operations in 1980 were \$460.8 million, equivalent to \$3.82 per common share. Approximately two per cent of this was used to reduce the long-term debt of the company, about 20 per cent to pay dividends to preferred and common shareholders, and the balance of 78 per cent was retained in the business.

Dividend payments on common shares in 1980 totalled \$0.585 a share, compared with \$0.42 a share in 1979. The quarterly dividend was increased from the previous 10½ cents to 12½ cents in the first quarter, to 14½ cents in the third quarter and 19 cents a share in the fourth quarter.

During 1980 Paul B. Hicks, Jr. and Roland M. Routhier were elected to the Board of Directors. Concurrently William S. Barrack, Jr. and Annon M. Card resigned from the Board when they assumed new positions in the worldwide Texaco organization.

Norman E. Taylor, previously General Manager, Marketing, was elected Vice-President and General Manager, Marketing. John M. Murray, previously General Manager, Refining, was elected Vice-President and General Manager, Refining. Kenneth D. Keegan was elected Vice-President and Treasurer, succeeding George T. Plunkett.

At the request of the Board of Directors, the Chairman and Chief Executive Officer agreed to continue in that position. Previously he had indicated his intention to take early retirement as an employee of the company while continuing to serve as Chairman.

Effective February 1, 1981 Roland M. Routhier was appointed President of the corporation. He succeeded Richard B. Palmer, whose election to take early retirement at his own request was accepted by the Board with regret and with appreciation for his services. Mr. Palmer also resigned as a Director effective January 23. Mr. Routhier was previously Vice-President, Supply and Distribution, Texaco Inc., White Plains, New York.

Also effective February 1, Stuart J. Walker, previously General Manager, Supply and Distribution, was appointed Vice-President and General Manager, Supply and Distribution and Charles S. Ramsay, General Manager, Employee Relations was appointed Vice-President and General Manager, Employee Relations.

I wish to acknowledge the contribution of the highly valued men and women of Texaco Canada whose dedication, efficiency and hard work enabled the company to complete another successful operating and financial year.

On Behalf of the Board of Directors,

R. W. Sparks
Chairman of the Board and
Chief Executive Officer

Don Mills, Ontario
March 17, 1981

Energy Resources
Reserves and Mineral Interests

RESERVES

Texaco Canada's gross proved recoverable reserves of crude oil and natural gas liquids at year-end were estimated at 81.6 million cubic metres compared with 86.3 million cubic metres a year earlier, as withdrawals exceeded additions. Additions which totalled 4.2 million cubic metres, resulted primarily from new discoveries, enhanced recovery projects and pool extensions in the West Pembina area and a waterflood program in the Sunset field 85 kilometres west of Swan Hills.

The decrease in these reserves was equivalent to about 5½ per cent of total reserves at the beginning of 1980.

The company's estimated gross proved reserves of natural gas were 60.9 billion cubic metres at the end of 1980. This was an increase of 2.1 billion cubic metres over the reserves at the end of the previous year. resulting mainly from additions in the Deep Basin area.

The increase in these reserves was equivalent to about 3½ per cent of total reserves at the beginning of the year.

Estimated Proved Recoverable Reserves of Hydrocarbons as of the end of the year

	Millions of Cubic Metres			
	1980		1979	
	Gross	**Net**	Gross	Net
Crude Oil	**67.9**	**42.8**	72.0	45.6
Gas Liquids	**13.7**	**9.6**	14.3	10.2
Total	**81.6**	**52.4**	86.3	55.8
	Billions of Cubic Metres			
Natural Gas	**60.9**	**43.7**	58.8	41.7

Net reserves are after the deduction of royalties at rates which the Company believes to be in effect at the end of the applicable year.

One cubic metre of liquids is about 6.29 barrels.
One cubic metre of gas is about 35.3 cubic feet.

OIL AND GAS RIGHTS

At the end of 1980 Texaco Canada held an interest in oil, gas, and other mineral rights covering 6.5 million hectares compared with 6.9 million a year earlier. The reduction in rights resulted from the surrender of certain holdings in the Arctic islands which the company no longer wished to retain, and the selection of leases from its Beaufort Sea federal permits. Regulations pertaining to the latter do not allow the retention of more than one-half of the area held under the original permit.

In western Canada the company made major additions to its oil and gas rights through the purchase of interests in 61 000 hectares principally in the Deep Basin area of west-central Alberta. An interest in an additional 17 000 hectares in the northwest extension of the Deep Basin play in British Columbia will be earned by the company upon completion of an exploratory drilling program. Two wells have been drilled under this farm-in program, two were in progress at the end of 1980 and one more will be drilled during the winter season of 1980-1981.

OIL SANDS RIGHTS

Included in the company's oil and gas rights are some 238 000 hectares of leases and permits containing an estimated 12 billion cubic metres of bitumen. Until such time as this bitumen is economically recoverable, these oil sands deposits will not be included in the company's estimate of recoverable reserves.

COAL LEASES

The company continued to hold leases on some 52 000 hectares in central Alberta containing an estimated three billion tonnes of subbituminous coal.

URANIUM

In 1980, Texaco Canada entered into agreements and acquired mineral claims covering prospective uranium rights. Through the funding of a field exploration program, the company earned a 30 per cent interest in

Donald E. Hyer
President
Texaco Canada Resources Ltd.

170 000 hectares in the Northwest Territories. Claims were staked on 2 000 hectares in the Yukon and an agreement was made for exploration in northern Saskatchewan adjacent to the Athabasca basin.

Additional comments concerning oil sands, coal, and uranium resources appear under *Alternate Energy*, page 14.

Mineral Interests

	Thousands of Hectares As of the End of the Year	
	1980	1979
Gross Area		
Western Provinces (1)	**1 441**	1 383
Beaufort Sea	**337**	575
East Coast	**3 902**	4 014
Other (2)	**586**	902
Uranium	**172**	–
Coal	**52**	52
Total	**6 490**	6 926
Net Area (3)	**3 730**	4 153

(1) Includes oil sands
(2) Includes Arctic islands, N.W.T. and Yukon
(3) After allowing for rights shared by others

One hectare is about 2.47 acres.

Exploration and Development

EXPLORATION

In 1980 Texaco Canada utilized five geophysical crews to carry out high-priority exploration work in the Deep Basin area of Alberta and British Columbia and the West Pembina area of Alberta. Additional geophysical data purchased by the company contributed to the evaluation of highly prospective lands within the Alberta portion of the Deep Basin area.

Exploratory drilling activity was concentrated in northeastern British Columbia and in the central, west-central and southwestern regions of Alberta.

The company participated in the completion of 29 exploratory wells resulting in four oil and 13 gas discoveries. Of these finds, two oil and three gas were in the West Pembina Nisku Reef play and two oil and 10 gas were in the Deep Basin area of Alberta.

The exploratory drilling activities in which the company participated resulted in the discovery of oil or gas in 59 per cent of the exploratory wells drilled during 1980, compared with 70 per cent in the previous year.

In an attempt to secure an additional outside source of crude oil for Canada, Texaco Canada has ventured abroad in an exploration program in the Republic of Guatemala. The company is acquiring a 25 per cent interest in a 197 000 hectare petroleum operations contract in northwest Guatemala. At year-end, the initial exploratory well was being drilled.

Exploratory Drilling

	Number of Wells			
	1980		1979	
	Gross	**Net**	Gross	Net
Oil	**4**	**3.1**	4	2.2
Gas	**13**	**2.7**	12	3.5
Dry	**12**	**4.6**	7	3.0
Total	**29**	**10.4**	23	8.7

DEVELOPMENT

Texaco Canada participated in the drilling of 211 development wells during 1980 including seven which were located in the West Pembina area, 18 in the Swan Hills area, 73 in the Alderson gas field and 34 in the Deep Basin area. Of the total development wells drilled 76 were completed as oil and 131 as gas wells.

During the year, 98 per cent of all the development wells in which Texaco Canada was a participant were successfully completed as oil or gas wells. This compares with 88 per cent in 1979.

The company also participated in implementation of 10 enhanced recovery programs in the Nisku formation of the West Pembina area. It is expected that Texaco Canada will ultimately recover some 2.4 million cubic metres of additional oil as a result of these programs which include six waterflood and four hydrocarbon miscible flood projects. Drilling continues in this area and additional enhanced recovery programs are being considered.

Capital and exploratory expenditures for the company's Energy Resources programs during 1980, amounted to approximately $178 million—almost double the amount spent in the previous year.

The company has entered into a long-term agreement to supply 7.1 billion cubic metres of natural gas from its reserves in the Elmworth area to TransCanada PipeLines Limited. As a result of the continued development of this field, Texaco Canada's reserves of natural gas increased significantly. During 1980 gas processing facilities were increased in capacity to 5.7 million from 1.4 million cubic metres daily to handle additional volumes from this contract area. It is anticipated that further supply agreements will be concluded in 1981.

Two plants which were built to process natural gas from the Leismer and Valhalla gas fields came on stream during 1980. Texaco Canada's interest in these plants is 21 per cent and 28 per cent respectively. The company's combined gas contract sales rate for the two plants currently is 270 000 cubic metres daily.

Construction of a wholly-owned natural gas processing plant in the Open Creek area began during 1980. The facilities, which are designed to handle about 225 000 cubic metres daily, are scheduled for completion during the second quarter of 1981.

The company awarded a contract for the design and construction of facilities to expand its wholly-owned natural gas processing plant at Bonnie Glen. When completed in 1982, the plant will have a daily capacity of 2.8 million cubic metres of raw natural gas and 2 800 cubic metres of liquids fractionation.

Development Drilling

	Number of Wells			
	1980		1979	
	Gross	**Net**	Gross	Net
Oil	**76**	**18.3**	23	6.1
Gas	**131**	**39.9**	47	8.4
Dry	**4**	**2.5**	10	3.3
Total	**211**	**60.7**	80	17.8

Oil Sands and Frontier Developments

OIL SANDS

In 1980 the company spent about $6 million on its experimental steam flood facilities for the recovery of the deeper deposits of bitumen from the Athabasca oil sands.

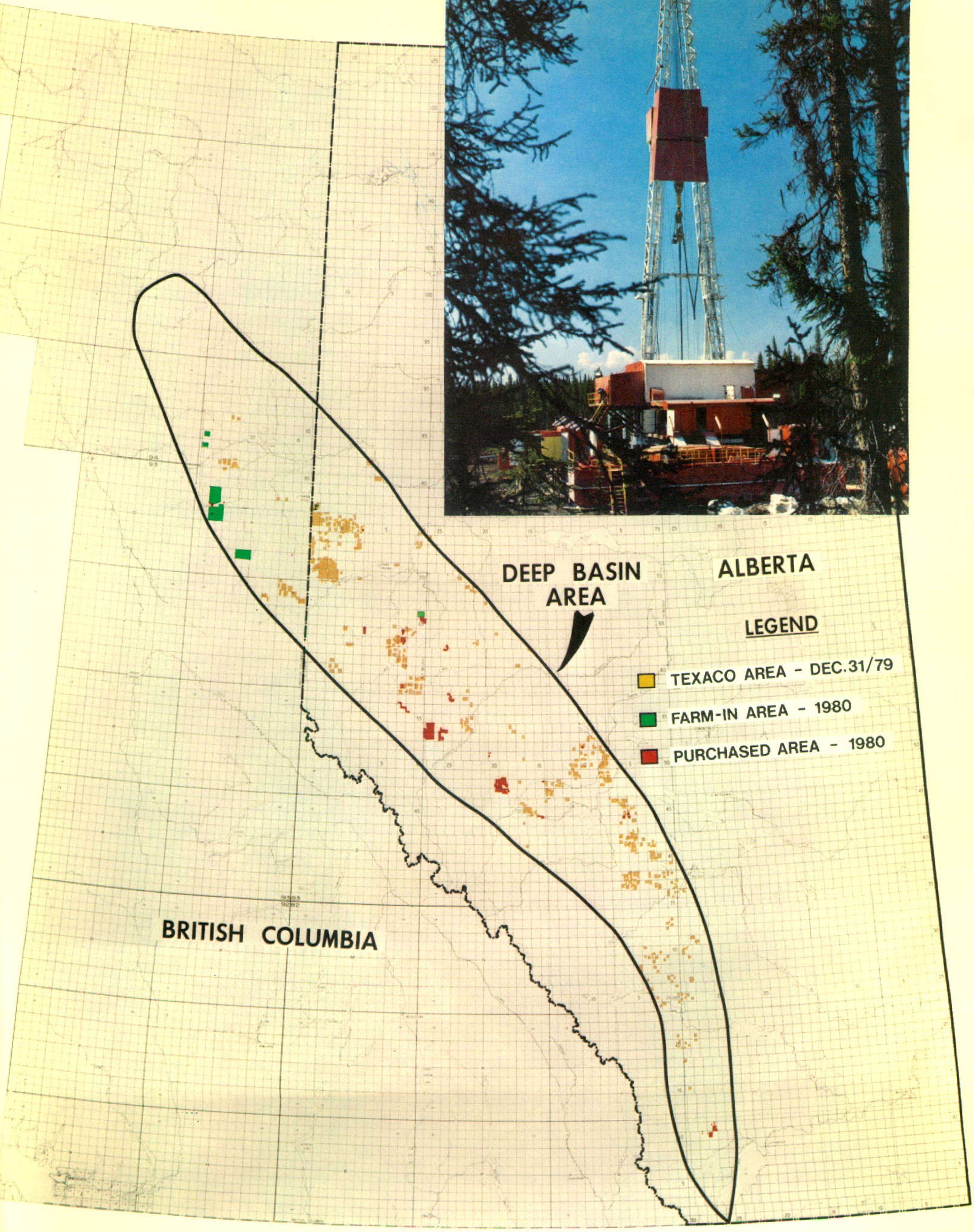
During the fourth quarter, a new recovery plan was initiated at the Fort McMurray experimental site to test the concept of improved recovery efficiency from horizontal wells. Using a new slant-hole drilling rig, the first two wells of a three-well program were completed and by year-end thermal operations were initiated. Preparatory work was also underway on a similar but deeper horizontal well pilot project at the company's Steepbank Lease located northeast of Fort McMurray.

Twenty-two core holes were drilled during the winter season of 1979-1980 to obtain further reservoir information and to comply with the terms of the company's lease agreement. Forty-one similar wells are planned for the winter of 1980-1981.

Texaco Canada is currently the largest single industrial sponsor of oil sands research at the Alberta Research Council. The company's research programs, initiated in 1972, cover physical simulation of thermal recovery processes. One current program is designed to simulate the recovery of bitumen by the use of horizontal injection and production wells. Research to date has suggested techniques for field testing.

The company also sponsors oil sands research projects at the University of Alberta, at commercial laboratories in Edmonton and with the Canadian Centre of Mineral and Energy Technology which is the energy research arm of the federal government. It also participates in research activities at universities throughout Canada which are funded by the Alberta Oil Sands Technology Research Authority.

Slant-hole rig drills horizontal holes at the company's experimental Athabasca oil sands project at Fort McMurray in Alberta.


DEEP BASIN AREA
ALBERTA
LEGEND
TEXACO AREA - DEC.31/79
FARM-IN AREA - 1980
PURCHASED AREA - 1980
BRITISH COLUMBIA

Production

BEAUFORT SEA

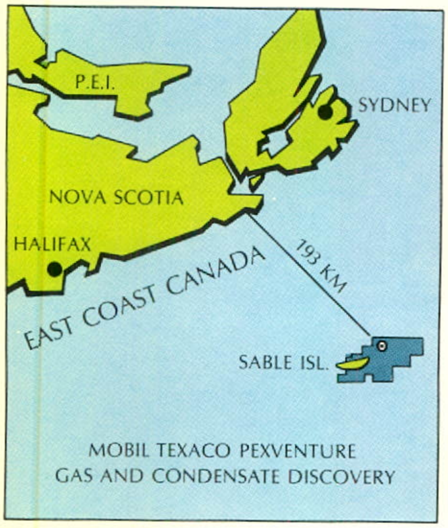
Under a farm-out agreement, the drilling of a 3 600 metre exploratory well was started in 1980 on a 106 000 hectare permit block held by Texaco Canada in the Beaufort Sea.

Seismic surveys were conducted during 1980 to further evaluate the company's additional oil and gas rights in the Beaufort Sea which comprise 231 000 hectares. Several hydrocarbon discoveries have been made in this area of the Beaufort Sea, the closest being 13 kilometres south of the westerly edge of a block held by Texaco Canada.

EAST COAST

Texaco Canada has an 18 per cent interest in the Mobil Texaco PEX Venture B-13 well located off Sable Island approximately 193 kilometres from the Nova Scotia mainland, in less than 30 metres of water. This well, which was being drilled at year-end, is a three kilometre stepout to the very significant 1979 Mobil Texaco PEX Venture D-23 gas and condensate discovery.

The company participated in two marine seismic programs during 1980 in order to further evaluate oil and gas potential and develop additional prospective drilling locations off the east coast of Canada.



CRUDE OIL & NATURAL GAS LIQUIDS

Gross production of crude oil and natural gas liquids averaged 24 000 cubic metres daily in 1980 compared with 26 700 cubic metres daily in the previous year. This decrease of 9.8 per cent reflected the return to a lower level of production from the high rates of the previous year.

Domestic production was stepped up at that time to alleviate a general shortage in the industry-wide supply of imported crude oil caused by the crisis in Iran. The production cutback occurred primarily at Bonnie Glen and Wizard Lake, the company's two most prolific fields.

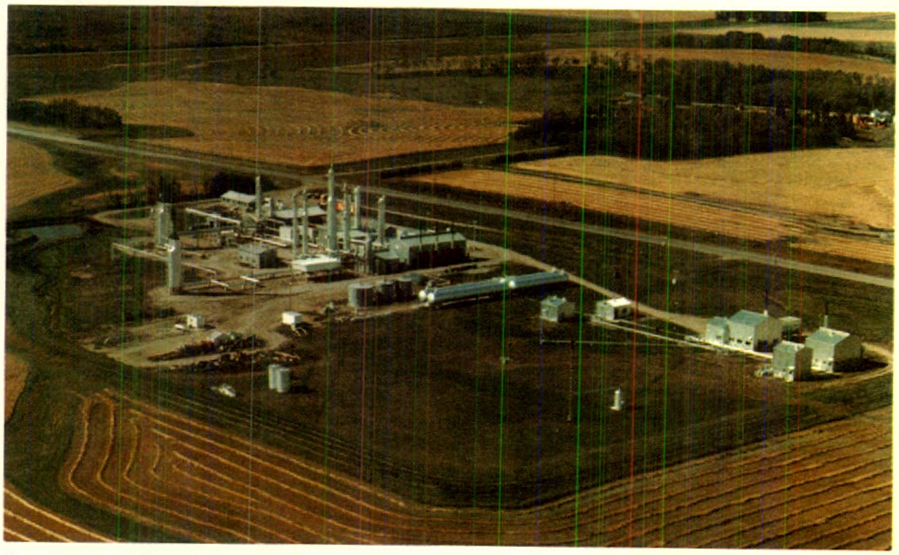
Gross Production of Crude Oil and Natural Gas Liquids

	Thousands of Cubic Metres Daily	
	1980	1979
Alberta		
Bonnie Glen	**8.7**	9.7
Wizard Lake	**7.3**	8.0
Pembina	**1.8**	2.2
Swan Hills	**1.7**	1.9
Nipisi	**.6**	.8
Other	**1.4**	1.6
Total	**21.5**	24.2
British Columbia	**.2**	.3
Manitoba and Saskatchewan	**.2**	.2
Total Crude Oil	**21.9**	24.7
Natural Gas Liquids	**2.1**	2.0
Total	**24.0**	26.7

One cubic metre is about 6.29 barrels.

NATURAL GAS SALES

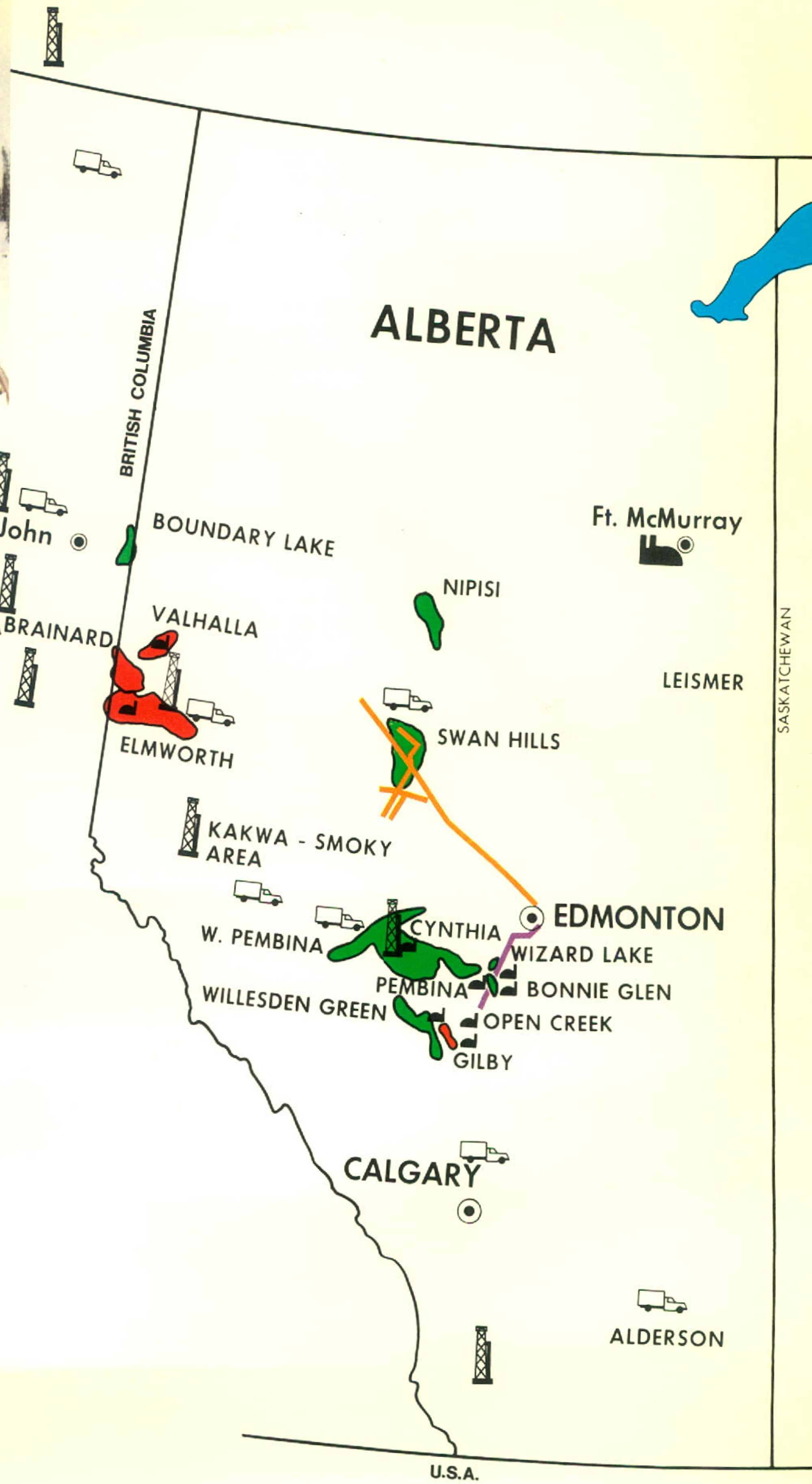
Sales of natural gas increased to 2.4 million cubic metres daily in 1980 from an average of 2.2 million in the previous year. This 10.2 per cent increase was attributable to new sales from the Elmworth, Valhalla and Leismer fields.



Gas plant at Gilby, Alberta, removes water, sulphur, and natural gas liquids from raw gas.

TEXACO CANADA RESOURCES LTD.
MAJOR OPERATION AREAS

Construction crew lays pipeline to transport oil from Pembina Nisku pools.



Petroleum Products
Refining

OPERATIONS

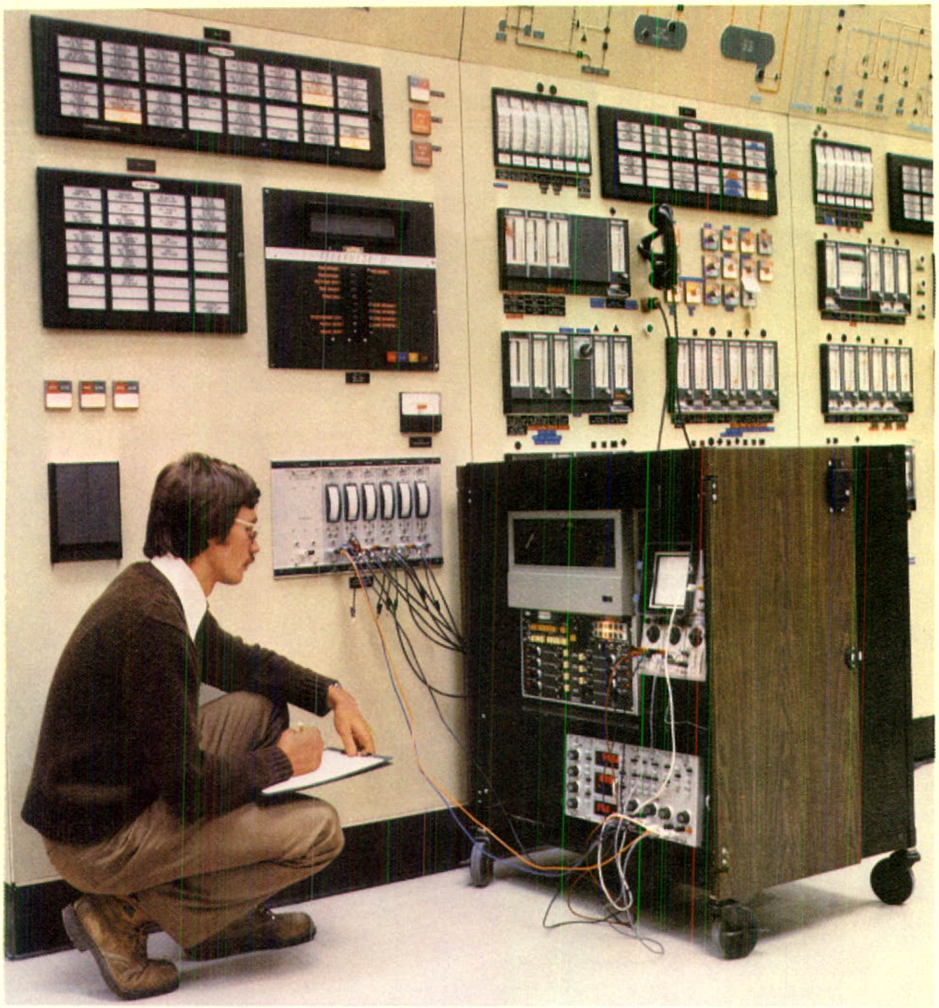
Texaco Canada's refineries utilized 88 per cent of their nominal capacity in 1980 as total crude runs averaged 29 800 cubic metres daily, three per cent less than in the previous year. At that time, product inventories were being brought up to the required level following the completion of Nanticoke refinery in the closing months of 1978.

The production of petrochemicals at Port Credit plant was increased in 1980 as a result of improvements made to the feedstock preparation facilities at Nanticoke plant. The feedstock is moved by pipeline to Port Credit plant where petrochemical products such as benzene, toluene, xylene and hexane, are extracted.

Construction of facilities to increase the crude oil refining capacity at Edmonton plant was nearing completion at the end of 1980. When finished, the nominal capacity will be about 4 450 cubic metres daily, an increase of approximately 16 per cent over the present rate of 3 820 cubic metres daily. The new facilities will enable the plant to run additional quantities of condensate and thus supply more gasoline and other light products in future without increasing the supply of heavier products for which market demand remains low in western Canada.

During 1980 some $22 million was invested in refining facilities including $14 million to increase and upgrade manufacturing capability and $8 million to improve environmental standards.

The federal government's announced intention to make natural gas from western Canada available in Quebec, east of Montreal, and in the Maritime Provinces will result in the gradual displacement in those markets of certain oil products, particularly heavy fuel oil. Extensive modifications to existing refining equipment or the construction of new facilities will be required eventually to convert the surplus supplies of heavy products in those areas to lighter grades.



Technical Advisor Mark Jeffrey uses vibration analysis machine in Nanticoke plant's main control room to monitor major rotating equipment in process units.

Texaco Canada is assessing the options available for conversion of heavy fuel oil into products which satisfy the requirements in eastern Canada. The company is a member of a study group which includes all refiners in Montreal, Petro-Canada and Soquip.

Most of the imported crude oils needed for the company's eastern refineries are becoming heavier and the sulphur content gradually is increasing. Exporting countries generally require that refiners in Canada, including Texaco Canada, accept a greater proportion of less desirable grades of crude oil in supply agreements.

Since the refineries in eastern Canada generally are not equipped to deal with any appreciable change in the critical characteristics of the crude oils, existing regulations on product quality may have to be relaxed until a solution to the upgrading of heavy fuel oil is found.

ENERGY RECLAMATION PROJECT

Greenhouse facilities heated by warm water whose energy in the past was wasted, were built by the company on the Nanticoke refinery site. Under the direction of the University of Guelph, these pilot plant facilities will be used during the next two years for experimentation and development work to determine the feasibility of employing low temperature waste heat from the processing units to grow vegetables in Canada during the winter months.

Nominal Crude Oil Capacity of Refineries as at December 31

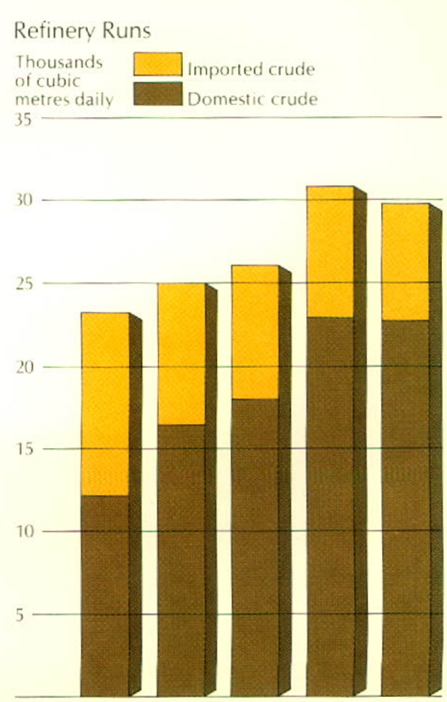
	Cubic Metres Daily	
	1980	1979
Nanticoke, Ontario	**15 100**	15 100
Montreal, Quebec	**11 840**	11 840
Edmonton, Alberta*	**3 820**	3 820
Halifax, Nova Scotia	**3 180**	3 180
Total**	**33 940**	33 940

* Under expansion to 4 450 cubic metres daily

**Does not include idle capacity at Port Credit refinery

One cubic metre is about 6.29 barrels.

New condensate tower at Edmonton plant enables the refinery to produce larger quantities of gasoline.



Marketing

The company's sales of petroleum products averaged 33 800 cubic metres daily during 1980 compared with 32 940 cubic metres daily in 1979, an increase of 2.9 per cent.

Sales of gasolines averaged 15 060 cubic metres daily, an increase of 1.6 per cent over 1979. At the end of the year there were about 3,000 retail outlets marketing Texaco-brand gasolines and other petroleum products. The company did not build any new retail outlets during 1980, but upgraded 41 to improve customer service and convenience.

Sales of light and heavy fuel oils were somewhat lower than in the previous year as a result of higher prices, conservation, increased use of natural gas, and decreased economic activity in Canada. The resulting lower volumes were more than offset by sales of all other products which continued to advance.

Prices of most petroleum products remained relatively firm throughout 1980. This continued a trend which began in the last half of 1979, towards a level of prices providing a more adequate return on the very large amount of capital employed in downstream operations. About 60 per cent of the company's gross investment in plant, property and equipment is devoted to the manufacture, distribution and sale of petroleum products.

The final phase of the program to consolidate dispatching and maintenance control functions in the company's principal distribution facilities across the country, was completed during the year. Terminals in the Maritimes and western Canada were linked to the telecommunication and data processing equipment of the Operations Centre located in the Toronto area. Terminals in Ontario and Quebec were connected to the system in earlier phases of the program which began in late 1978.

The company's retail fuel oil centres were equipped with new minicomputers, which are expected to increase the operating efficiency of the fuel oil distribution system and make further improvements in the service provided to customers.

During the year Texaco Canada continued efforts to bring the message of energy conservation to its customers. The company and its retail dealers provided programs to help motorists maintain their vehicles in efficient operating condition. Retail fuel oil customers were offered a free service which tested furnace efficiency and analyzed the insulating and heat loss properties of their homes. Improved equipment for oil burners and more efficient furnaces also were offered to assist customers in conserving fuel.

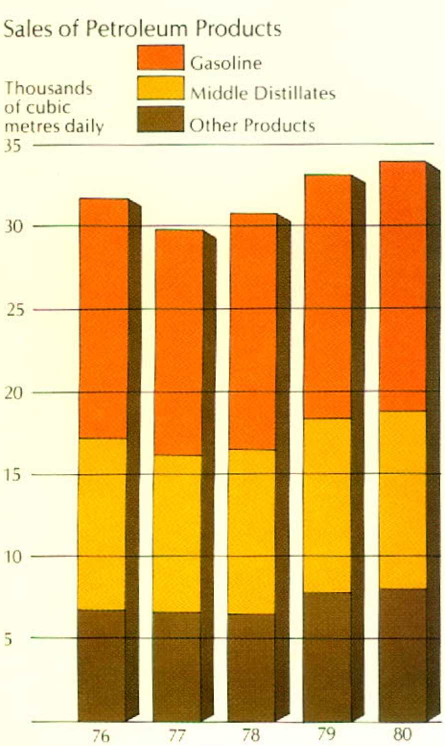
Work began on the construction of a new products terminal at Calgary, Alberta. This terminal, which will receive supplies through the Alberta Products Pipeline system from the company's refinery at Edmonton, will increase the company's efficiency and flexibility in serving the growing markets in southern Alberta

Keylock facility on the Trans Canada Highway east of Montreal provides quick refuelling for truckers.

and eastern British Columbia. Completion of the facilities is scheduled for the fall of 1981.

Texaco Canada invested about $22 million in properties, plant and equipment to improve the existing wholesale and retail distribution facilities from which Texaco products are distributed. This investment included some $2 million to further improve the environmental standards observed by the company.

New products terminal under construction in Calgary will improve the company's ability to serve growing markets in southern Alberta and eastern British Columbia.



André Beaulieu, Co-ordinator, Refined Product Distribution, dispatches a cargo of product at the company's Operations Centre in Toronto.

Supply and Distribution

The company's supply operations in 1980 required the transportation of about 65 000 cubic metres daily of petroleum. This amount included some 31 500 cubic metres daily of finished products moved to customers in company-owned and leased vehicles or in equipment owned by outside haulers. Crude oil and natural gas liquids used by the company in all of its refining and other supply operations required the transportation of approximately 33 500 cubic metres daily, mainly by pipeline.

The company's three lake and coastal tankers transported an average of 4 300 cubic metres daily, of petroleum products in 1980. Lake tankers chartered by the company carried an additional 1 200 cubic metres daily.

Trans-Northern Pipe Line Company, one-third owned by Texaco Canada, transported 25 100 cubic metres daily of petroleum products, slightly less than in the previous year. Capacity is being increased in the section of the line which serves the Ottawa area. Products can be delivered to the Ottawa terminals from refining centres in either Montreal or the Great Lakes area of Ontario.

The Alberta Products Pipe Line system, in which Texaco Canada holds a 20 per cent interest, transported 9 700 cubic metres daily of petroleum products in 1980. It is expected that a complete paralleling of the existing system will be made in the near future to provide additional capacity for the movement of products from Edmonton to Calgary.

Federated Pipe Lines Ltd., in which the company has a 50 per cent interest, carried 34 100 cubic metres daily of crude oil from the Swan Hills area to Edmonton, Alberta. This volume represented a slight decrease from the average of 36 300 cubic metres daily in 1979.

The Montreal Pipe Line Company Limited, 16 per cent owned by Texaco Canada, carried an increased volume of 22 400 cubic metres daily of imported crude oil to the refineries in Montreal from its terminal facilities in Portland, Maine.

As a result of state-to-state negotiations between Canada and Mexico, crude oils from Mexico now are being received for processing at refineries in eastern Canada. Texaco Canada will cooperate with the Canadian government's objectives in implementing this program. The company's refining facilities, however, do not lend themselves readily to the handling of Mexican crude oils due to their relatively high sulphur content and their flow characteristics which make them difficult to handle in cold weather.

Pipeline spur under construction will link Edmonton plant with the Alberta Products Pipe Line, to supply the products terminal being built in Calgary.

Alternate Energy

In the years which have elapsed since the oil crisis of 1973, Canadians have become increasingly knowledgeable about the essential role energy plays in supporting their way of life and standard of living. The magnitude of the projects needed to ensure a continuous flow of all forms of energy as well as the long lead-time required to bring new supplies on stream are matters which are less clearly defined or understood.

There is no easy way to tap Canada's vast energy resources. Development of the new supplies that will be needed in the closing years of the present decade must begin now if the country is to avoid excessive dependence in future upon costly supplies from outside sources.

During the last ten years, Texaco Canada spent about $31 million on research and development of the company's potential reserves in the oil sands deposits of northern Alberta. The company is developing some very encouraging recovery processes in its experimental plant at Fort McMurray, and believes that the technology for recovery of these deposits by other than conventional mining techniques has advanced sufficiently to justify consideration of facilities on a commercial scale. However, a project of this nature would not be economically viable without modifications to the recently announced National Energy Program in respect to pricing and revenue sharing.

Texaco Canada has substantial deposits of coal which hold promise for future development. The company is seeking to expand its reserves in anticipation of a substantially increased demand for this form of energy.

Uranium is expected to provide a significantly larger share of Canada's energy supply later this century and Texaco Canada is continuing to negotiate for the acquisition of addi-

The Environment

tional mineral rights in the Northwest Territories, Yukon Territory and Saskatchewan.

In 1980 Texaco Canada formed a new department—Alternate Energy—to explore the possibilities of converting other non-petroleum sources such as biomass, solar and wind into useable, economic forms of energy.

The company is optimistic about the contribution it can make in the discovery and development of Canada's vital energy resources, given fair and equal opportunity under an appropriate energy policy.

Texaco Canada continued its program of upgrading the quality of its air and water emissions and of improving its solid waste disposal system in various phases of operations. A capital investment of $10 million was made in 1980 to provide further improvements in environmental protection facilities.

A long-range waste water management program at the company's older plants was essentially completed during 1980. This program included the installation of intermediate oil removal units and storm water segregation and treatment facilities, where necessary, at Halifax, Montreal and Edmonton plants. Biological oxidation units were provided at Halifax and Montreal plants for control of phenolic waters.

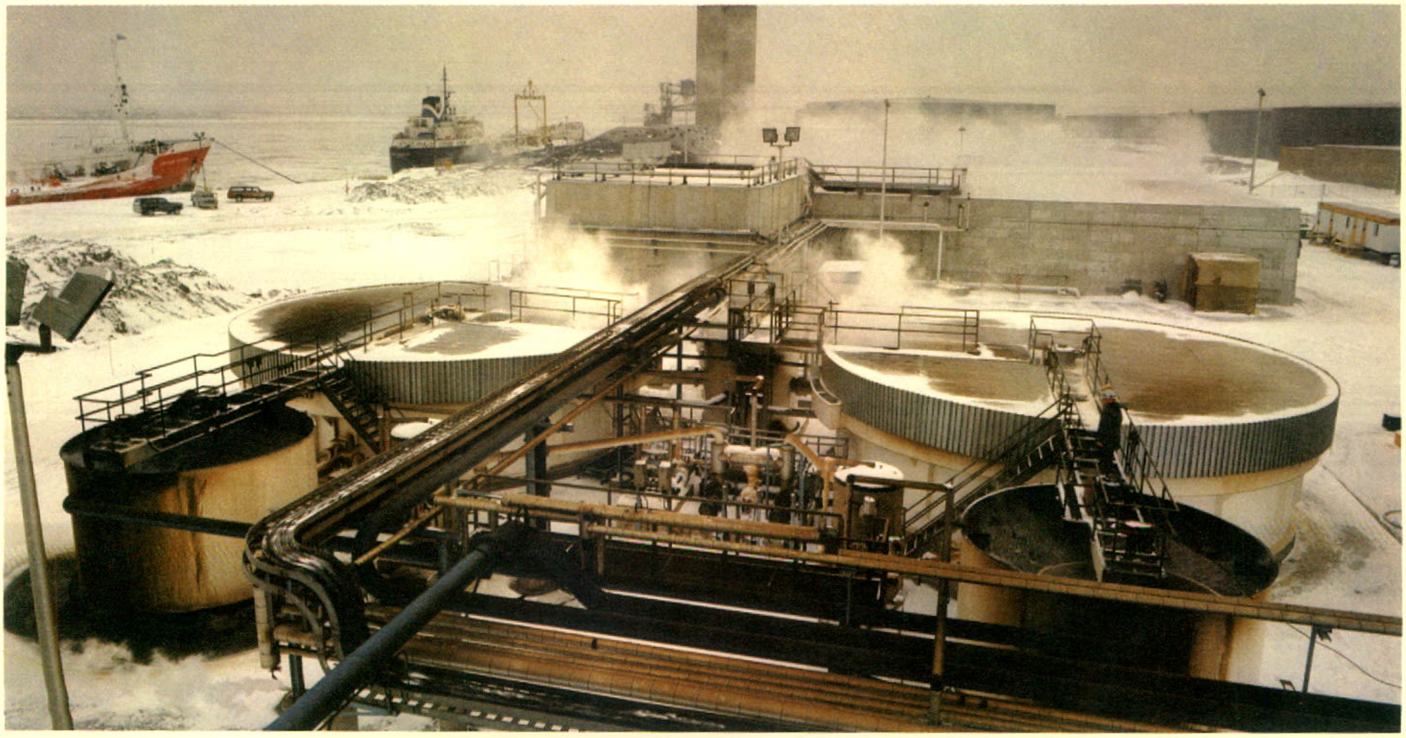
The commissioning of new cooling towers in 1980 enabled Montreal plant to eliminate virtually all of its previous daily requirement of some 175 million litres of once-through cooling water from the St. Lawrence River.

Programs to improve the quality of air emissions continued in 1980. New control facilities installed at Montreal plant resulted in a reduction of carbon monoxide emissions from the fluid catalytic cracking unit. A similar program at Edmonton plant is in progress with completion expected in 1981.

Floating roofs were installed in eight large storage tanks to further reduce petroleum vapour losses to the atmosphere at the company's sales terminals in eastern Canada and at Montreal plant.

A sludge farm for the disposal of solid wastes by bacteriological action is under construction at Nanticoke plant. Similar facilities are planned for installation at Montreal and Edmonton plants.

The pipeline terminal facilities which the company is building at Calgary will feature the most up-to-date environmental control technology. Protection of air and water is expected to represent about one-sixth of the cost of the entire project.



Water treatment facilities at Montreal plant (dissolved air flotation unit in foreground, biological oxidation unit in background) remove impurities before water is returned to the St. Lawrence River.

Public Affairs

Senior Area Supervisor Nigel Giuliany explains operation of new electronic gasoline pumps to CBC television crew.

Sharply increased interest in petroleum industry affairs resulted in greater communications between the company and the public in 1980.

Texaco Canada's views on frontier and oil sands development, energy conservation, alternate energy sources, and the need for government policies that would encourage the massive expenditures required to achieve petroleum self-sufficiency for Canada were expressed through many channels.

These included media interviews, press releases, articles in company publications, speeches, and question and answer sessions by company spokesmen before diverse audiences.

The company kept its shareholders, employees, wholesalers and retailers as well as governments, the investment community, and others interested in Texaco Canada informed of developments and progress throughout the year. It also responded to a significantly larger number of requests for information.

Texaco Canada again provided financial support to many causes in the fields of health, education, culture, and other community endeavours, either directly or through combined appeals.

Texaco Canada's sponsorship of Metropolitan Opera broadcasts on the French and English radio networks of the Canadian Broadcasting Corporation for 40 consecutive years, won the company the 1980 Financial Post Business in the Arts Award. The current season marks the 41st year, the longest-running sponsorship in the history of radio.

Employee Relations

At the end of 1980, Texaco Canada had 4,442 employees, as compared with 4,265 at the same time one year earlier. Payroll costs including benefit plans amounted to $126.2 million, an increase of 15.8 per cent over the previous year.

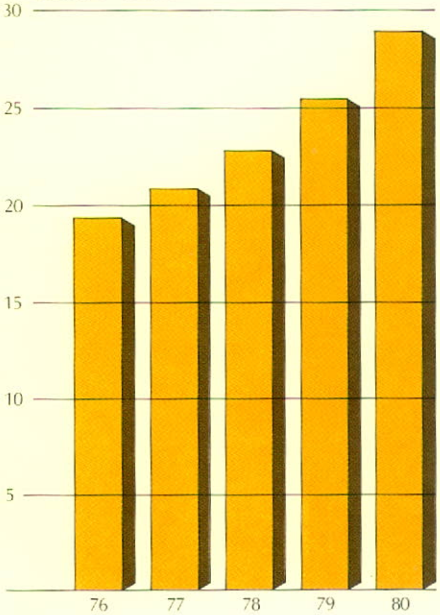
The company's Human Resources Planning and Development activities included in-house training programs for some 400 employees in the development of managerial and supervisory leadership skills.

During the year an industrial hygienist was appointed to enable the company to deal more effectively with the increasing complexities of providing a healthy working environment for employees.

Texaco Canada's Merit Scholarship Program was expanded again. Thirty-five new scholarships are now made available each year to sons and daughters of employees to attend universities in Canada. At the end of 1980, there were 89 students participating in the scholarship program. Since its inception 14 years ago, 363 scholarships have been awarded. Tuition reimbursements under the Educational Assistance Plan were made to 228 employees.

The 25-year service award was made to 103 employees in 1980. Sixty-five employees retired during the year, bringing the number of former employees on pension to 692 at year-end.

Salaries, Wages and Benefits per Employee
Thousands of dollars



Nanticoke refinery nurse Barbara Fallis gives hearing test to secretary Cheryl Dekoning at the plant's well-equipped medical centre.

Financial Review

EARNINGS

Consolidated net income of Texaco Canada for 1980 amounted to $373.4 million, compared with $263.9 million in 1979. Income per common share was $2.92 compared with $2.01 in the previous year. Higher prices for most petroleum products, petrochemicals, crude oil, natural gas and natural gas liquids combined with increased sales volumes provided the major portion of the improvement in net income.

Net income for 1980 includes a non-recurring profit of $31.1 million, or $0.26 per common share. This resulted from recognition at an earlier stage, of profits realized from the company's production of oil from Crown lands in Alberta. In the past, such profits were obtained when the products made from this oil were manufactured and marketed. Since April 1, 1980, when the Alberta Petroleum Marketing Commission assumed control of all Crown oil production in the province, the company's profits were recorded when the oil was sold to the Commission—an earlier stage than under the previous conditions.

These favourable results were more than sufficient to offset the effects of a 9.8 per cent decline in the company's production of crude oil and natural gas liquids.

REVENUES & COSTS

Revenues amounted to $3,572.0 million compared with $2,684.9 million in 1979. This gain of 33 per cent resulted mainly from the higher prices at which petroleum products were sold to recover increased costs of crude oil, combined with increased volumes and generally improved market conditions for most products.

Total costs and other deductions including income taxes were $3,198.6 million in 1980, or 32.1 per cent more than the $2,421.0 million of the previous year. While inflation continued to exert an upward pressure on costs in all phases of the company's operations, rising costs of both imported and domestic crude oil and other raw materials represented the largest, single contributing factor.

DIVIDENDS

Cash dividends paid or accrued to preferred and common shareholders in 1980 amounted to $92.1 million, equal to about 25 per cent of net income for the year. In 1979 dividends amounted to $72.3 million or 27 per cent of net income.

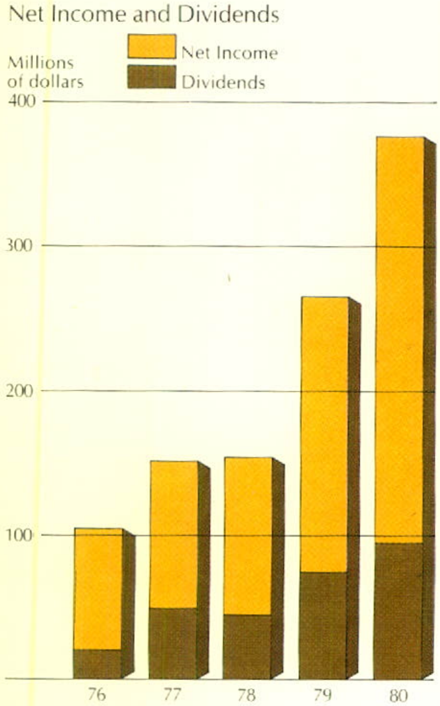
The company's common shares were split on a four-for-one basis effective August 15, 1980. The common share dividends were increased three times during the year; to 12½ cents in the first quarter, to 14½ cents in the third quarter and to 19 cents in the fourth quarter based on the number of shares outstanding after the split. Total dividends in 1980 amounted to 58½ cents per new common share. On a comparable basis, the total dividends in 1979 were 42 cents per share.

The fixed dividends paid or accrued on the company's preferred shares amounted to $21.6 million in 1980, the same as in the previous year.

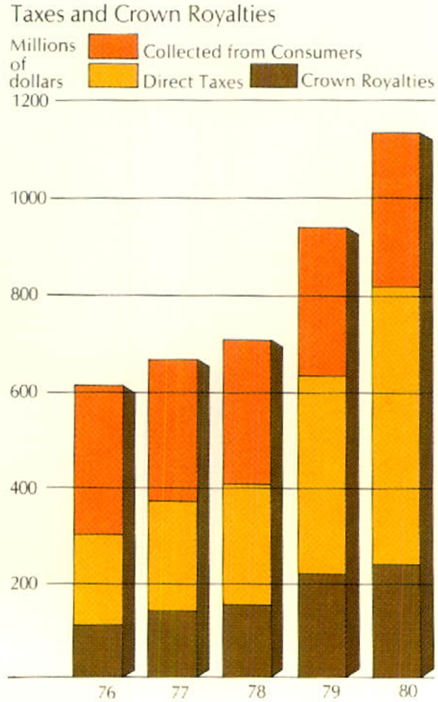
TAXES, CROWN ROYALTIES & OTHER LEVIES

Total taxes, including taxes collected from consumers for governments, crown royalties, duties and other levies—including the petroleum compensation charge—paid or

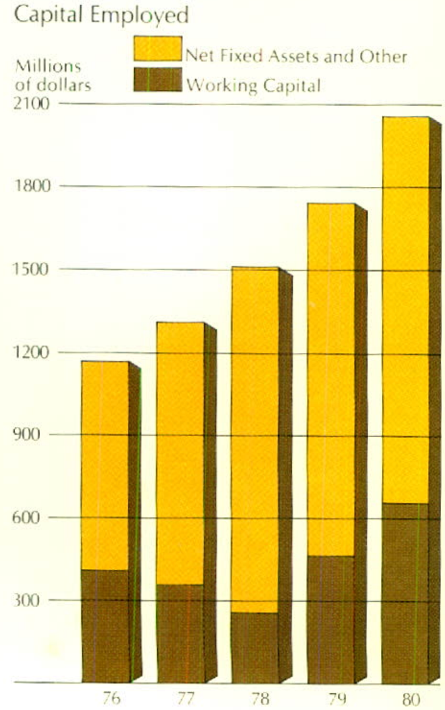
Net Income and Dividends



Taxes and Crown Royalties



Capital Employed



accrued in 1980, amounted to $1,129.6 million, an increase of $193.1 million, or 20.6 per cent, over the total of $936.5 million in 1979.

ASSETS & CAPITAL EMPLOYED

Total assets of the company were $2,603.1 million at the end of 1980 compared with $2,299.7 million at the end of 1979.

Total capital employed amounted to $2,066.1 million at December 31, 1980. The comparable amount at the end of the previous year was $1,750.7 million. Increased working capital requirements and net additions to fixed assets accounted for most of this increase of $315.4 million.

Working capital increased primarily as a result of the higher value of marketable securities and inventories of crude and petroleum products. The quantities held in inventory did not change significantly.

Net fixed assets and other investments at the end of 1980, amounted to $1,404.7 million, an increase of $131.6 million over the amount of $1,273.1 million as at December 31, 1979.

Common shareholders' equity at the end of the year was $1,280.2 million, $281.8 million greater than at the end of the previous year.

The rate of return on average capital employed reached 19.9 per cent in 1980, up from the 16.4 per cent rate applicable to 1979.

FUNDS PROVIDED BY OPERATIONS

Funds provided by operations of the company before the deduction of net exploratory expenditures charged against current earnings, totalled $492.2 million compared with $409.5 million in 1979.

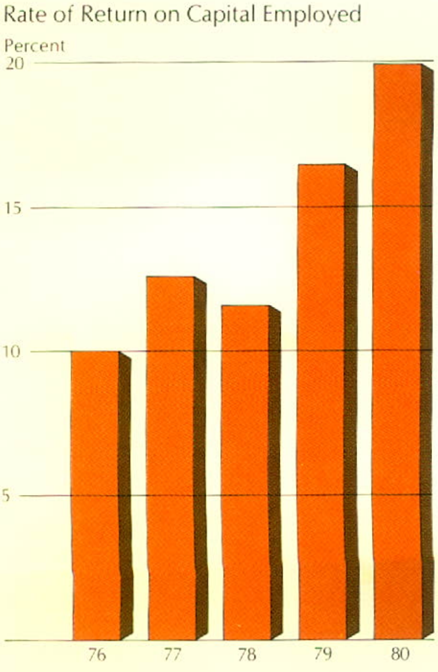
CAPITAL & EXPLORATORY EXPENDITURES

Texaco Canada made capital and exploratory expenditures of $224.2 million in 1980 compared with $136.6 million in 1979. While expenditures in the upstream segment were significantly increased in accordance with the announced intention of accelerating the effort to locate and develop new supplies of energy, not all of the programs were completed during the year and some will be carried over to 1981.

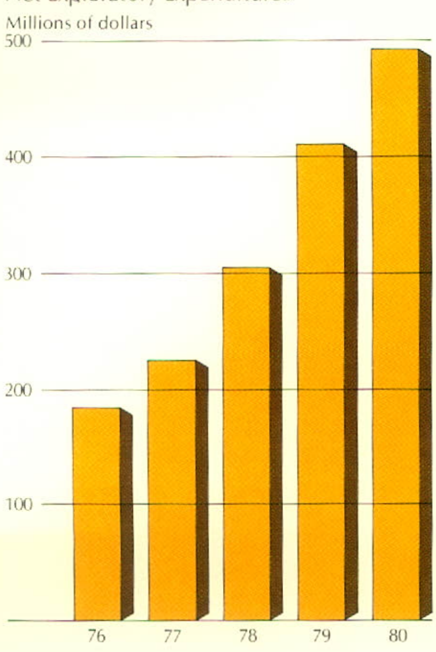
Capital and Exploratory Expenditures

	Millions of Dollars	
	1980	1979
Energy Resources	**$178.3**	$ 89.9
Manufacturing	**21.6**	25.4
Marketing	**21.7**	19.6
Other	**2.6**	1.7
Total capital and exploratory expenditures	**224.2**	136.6
Deduct: Exploratory expenditures charged against current earnings	**31.4**	26.1
Total expenditures capitalized	**$192.8**	$110.5

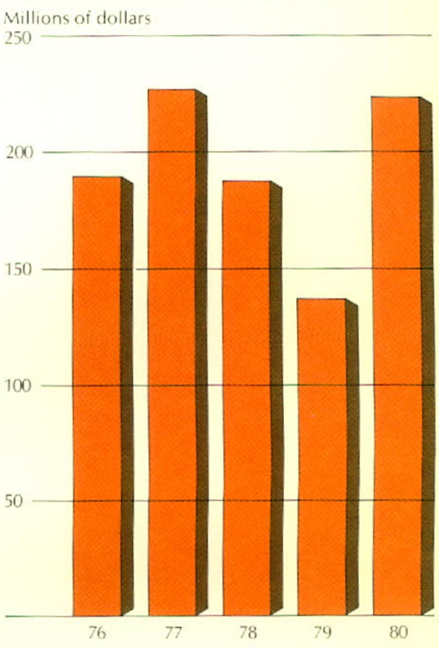
Rate of Return on Capital Employed



Funds Provided by Operations before deduction of Net Exploratory Expenditures



Capital and Exploratory Expenditures



Index to Financial Section

Description of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Texaco Canada Inc. and its subsidiary companies and are prepared in accordance with accounting principles generally accepted in Canada. Intercompany accounts and transactions are eliminated.

The premium paid on subsidiary companies' capital stock at date of acquisition is being amortized on a straight-line basis over twenty years.

Foreign currencies are translated into Canadian dollars as follows: (1) Current assets except inventories, long-term receivables, current liabilities, and capital lease obligations, at the rate in effect at the end of the period; (2) inventories, properties, plant and equipment and related depreciation and deferred charges at the rate in effect when the assets were acquired; and (3) all other income accounts at rates in effect at the time of the transaction. Gains and losses on foreign currency transactions and charges and credits arising on translation of balance sheet accounts are reflected in income currently.

Inventories

Inventories of crude oil and petroleum products and other merchandise are stated at cost, determined on the first-in, first-out method, which, in the aggregate are valued lower than market. Materials and supplies are stated at cost.

Investments and Advances

The Corporation uses the equity method of accounting for its investments in companies owned 50%, and for all significant corporate joint ventures owned less than 50%. Under this method, the Corporation's equity in net earnings or losses of these companies is reflected currently in income rather than when realized through dividends. Investments in companies accounted for by this method reflect the Corporation's equity in the underlying net assets of the companies.

Investments in other non-subsidiary companies are carried at cost, and the Corporation's interest in the net earnings of these companies is reflected in income when realized through dividends.

The Corporation has properties leased to an affiliated company. These non-mineral leases are capitalized as direct financing leases and amortized in accordance with the respective lease agreement.

Properties, Plant and Equipment and Accumulated Depreciation, Depletion, and Amortization

The Corporation follows the successful efforts method of accounting for its oil, gas exploration and producing operations. Under this method all exploratory costs, including geophysical and geological expenses, core drilling, lease rentals, and intangible drilling costs applicable to dry holes are charged to expense.

Lease acquisition costs, intangible drilling costs on productive wells, and tangible equipment costs related to the development of oil and gas reserves are capitalized and amortized. For lease acquisitions costing less than one million dollars, the portion of leasehold costs estimated to be non-productive based upon historical experience, is amortized on an average holding period basis. For lease acquisitions costing one million dollars or more the portion of leasehold costs estimated to be non-productive, is amortized over the initial exploration period. Leasehold costs which have been determined to be productive and other development costs related to producing activities, including tangible and intangible costs, are amortized on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable oil and gas reserves.

Depreciation of other properties, plant and equipment is provided generally on the group plan, using the straight-line method, with depreciation rates based upon estimated useful life applied to the cost of each class of property.

Start-up costs of new facilities are capitalized and amortized in accordance with the Corporation's depreciation policy.

The Corporation accounts for leases other than exploration and development of natural resource rights, that transfer all of the benefits and risks of ownership related to leased properties as capital leases. Included in properties, plant and equipment are leases which are amortized over the estimated useful life of the asset or lease term, as appropriate, using the straight-line method.

Normal maintenance and repairs are charged to expense as incurred. Renewals, betterments, and major repairs that materially extend the life of properties are capitalized and the assets replaced, if any, are retired.

Research and Development Costs

Research costs are charged to income as incurred. Development costs are charged as an expense of the period in which they are incurred except when the project is expected to commence commercial production within the foreseeable future. When this occurs, development costs are deferred and amortized to match related revenues.

Deferred Income Taxes

Provision is made in the Corporation's accounts to reflect the income tax effect on transactions recorded in the Corporation's financial statements in a reporting period different from the period in which they are reported for income tax purposes. The principal transactions are depreciation, intangible drilling costs and leasehold costs.

Deferred income taxes as shown in the balance sheet represent the cumulative effect of net charges made against earnings to defer these income tax effects to appropriate future periods in the Corporation's financial statements. This accounting policy allocates the income tax effect of transactions to the period in which such transactions are recorded for financial reporting purposes.

Pension Plan

A group pension plan is available to substantially all employees. Amounts charged to pension expense are based on amortizing the cost of pension benefits on an actuarial basis over the remaining estimated service of the employees involved.

Investment Tax Credits

Investment tax credits, other than tax rate reductions, are deducted from the related expenditure and amortized to income in accordance with the applicable accounting policy.

Federal Government Crude Oil Compensation Programs

Compensation received or recoverable under the programs for imported and for synthetic domestic oil for consumption in Canada is deducted from cost of crude oil purchases. In order to be eligible for compensation the Corporation has complied with Federal Government legislation.

Consolidated Statement of Income

for the years ended December 31, 1980, 1979 and 1978 (Expressed in thousands of Canadian dollars except per share data)

	1980	1979	1978
Revenues			
Sales and services			
Texaco Inc. and its subsidiary companies	**$ 23,791**	$ 15,695	$ 5,348
Others	**3,479,388**	2,622,928	1,896,741
Income from investments			
Equity in net income of non-subsidiary companies (Note 3)	**3,865**	4,003	3,029
Dividends and interest	**38,901**	18,996	3,261
Interest income—Texaco Inc. and its subsidiary companies	**16,833**	15,883	15,032
Other income	**9,238**	7,377	4,940
	$3,572,016	$2,684,882	$1,928,351
Deductions			
Cost of sales and operating expenses (Note 2)			
Purchase of crude oil and products from Texaco Inc. and its subsidiary companies	**$ 398,537**	$ 434,247	$ 309,430
* Other	**2,077,124**	1,372,600	1,038,069
Selling, general and administrative expenses	**133,694**	125,207	107,672
Maintenance and repairs	**51,285**	41,548	32,520
Dry hole costs	**9,273**	12,245	1,702
Depreciation, depletion, and amortization	**56,404**	54,719	34,438
Interest charges (Note 12)	**11,227**	8,735	15,676
Taxes, other than income taxes (Note 10)	**131,883**	98,917	93,247
	$2,869,427	$2,148,218	$1,632,754
Income before Provision for Income Taxes	**$ 702,589**	$ 536,664	$ 295,597
Provision for Income Taxes (Note 13)			
Current income taxes			
Canadian Federal	**$ 237,028**	$ 164,589	$ 35,230
Provincial	**57,269**	43,311	8,083
Deferred income taxes	**34,874**	64,869	98,192
	$ 329,171	$ 272,769	$ 141,505
Net Income	**$ 373,418**	$ 263,895	$ 154,092
**Net income per common share	**$2.92**	$2.01	$1.10

*In accordance with the Corporation's accounting policy, inventories of crude oil and petroleum products are stated at cost, determined on the first-in, first-out method. Effective April 1, 1980, the Alberta Petroleum Marketing Commission took effective control of all oil produced from Crown properties in the Province of Alberta. Commencing on this date, the Corporation values its inventories of oil produced from Crown properties in the Province of Alberta at the price paid to the Alberta Petroleum Marketing Commission, whereas in prior periods, related inventories were stated at the Corporation's cost of producing the product. This action resulted in an increase in income for the 1980 period of $31,081 equal to $0.26 per common share.

**Net income per common share is based on the average number of common shares outstanding after adjusting for the four-for-one split which occurred on August 15, 1980 (1980—120,546,211 shares, 1979—120,500,128 shares, 1978—120,472,008 shares). Conversion of the first preferred shares Series A, into common shares would not materially change the net income per common share.

See accompanying description of significant accounting policies and notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

for the years ended December 31, 1980, 1979 and 1978 (Expressed in thousands of Canadian dollars except per share data)

	1980	1979	1978
Balance at beginning of year	**$ 964,278**	$772,639	$663,778
Add–			
Net income for the year	**373,418**	263,895	154,092
Deduct–			
* Expenses related to amalgamation (net of income tax)	–	–	1,444
Dividends declared			
Preferred stock	**21,614**	21,645	12,717
Common stock	**70,520**	50,611	31,070
Balance at end of year	**$1,245,562**	$964,278	$772,639

	1980	1979	1978
Cash dividends per share			
Texaco Canada Inc.			
First Preferred, Series A	**$ 6.00**	$6.00	$4.50
Second Preferred, Series A	**7.50**	7.50	5.625
Second Preferred, Series B	**7.25**	7.25	5.4375
Common	**0.585**	0.42	0.195
*Texaco Canada Limited			
Preferred	–	–	1.00
Common	–	–	0.78
*Texaco Exploration Canada Ltd.			
Common	–	–	–

*Texaco Canada Inc. is the continuing corporation of the June 1, 1978 amalgamation of Texaco Canada Limited and Texaco Exploration Canada Ltd.

See accompanying description of significant accounting policies and notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1980 and 1979 (Expressed in thousands of Canadian dollars)

Assets	1980	1979
Current Assets		
Cash	$ 11,225	$ 12,282
Marketable securities (at cost which approximates market)	323,919	280,747
Notes and accounts receivable		
Affiliated companies	9,463	–
Other, less allowance for doubtful accounts of $3,500 in 1980, and $3,000 in 1979	443,618	403,396
Inventories (Note 2)	402,457	313,435
Prepaid expenses	7,744	16,753
Total current assets	$1,198,426	$1,026,613
Investments and Advances (Note 3)	$ 190,909	$ 188,688
Properties, Plant and Equipment (Notes 4 and 8)	$1,203,318	$1,081,154
Deferred Charges	$ 10,448	$ 3,280
Total	$2,603,101	$2,299,735

Texaco follows the "successful efforts method" of accounting for its oil and gas exploration and producing operations as outlined in the description of significant accounting policies.

See accompanying description of significant accounting policies and notes to consolidated financial statements.

Liabilities and Shareholders' Equity	1980	1979
Current Liabilities		
Long-term debt due within one year	$ 30	$ 28
Capital lease obligations due within one year	6,593	7,957
Accounts payable		
Trade	239,024	233,346
Affiliated companies	–	36,893
Accrued liabilities		
Taxes, other than income taxes	54,328	44,977
Other	70,294	41,573
Income taxes	164,887	182,382
Preferred dividends payable	1,825	1,832
Total current liabilities	$ 536,981	$ 548,988
Long-term Debt (Note 5)	$ 84,601	$ 93,848
Capital Lease Obligations (Note 8)	$ 13,436	$ 16,085
Deferred Gas Production Revenue	$ 11,111	$ –
Deferred Income Taxes	$ 384,295	$ 349,421
Redeemable Preferred Stock (Note 6)	$ 290,000	$ 290,000
Preferred Stock (Note 7)	$ 2,520	$ 2,974
Common Stock and Retained Earnings		
Common stock (Note 7)	$ 34,595	$ 34,141
Retained earnings	1,245,562	964,278
Total common stock and retained earnings	$1,280,157	$ 998,419
Total	$2,603,101	$2,299,735

Approved on behalf of the Board

, Director

, Director

Consolidated Statement of Changes in Financial Position

for the years ended December 31, 1980, 1979 and 1978 (Expressed in thousands of Canadian dollars)

	1980	1979	1978
Source			
Net income	**$373,418**	$263,895	$154,092
Depreciation, depletion, and amortization	**56,404**	54,719	34,438
Provision for income taxes—deferred	**34,874**	64,869	98,192
Excess of equity in net income of non-subsidiary companies over dividends (Note 3)	**(363)**	(780)	(162)
Unrealized net currency translation loss (gain) on long-term receivables and capital lease obligations	**(3,575)**	3,931	(4,857)
Provided by operations	**$460,758**	$386,634	$281,703
Properties, plant and equipment retirements, sales, and investment tax credits	**14,196**	30,656	4,374
Other net source (disposition)	**3,943**	2,767	(2,699)
	$478,897	$420,057	$283,378
Disposition			
*Properties, plant and equipment expenditures	**$192,764**	$110,547	$164,652
Investments and advances (net)	**(2,089)**	(8,792)	170,693
Reduction in long-term debt (Note 5)	**9,247**	6,247	26
Net reduction in capital lease obligation (Note 8)	**3,021**	13,944	5,660
Expenses related to amalgamation	**–**	–	2,625
Cash dividends—preferred stock	**21,614**	21,645	12,717
—common stock	**70,520**	50,611	31,070
	$295,077	$194,202	$387,443
Increase (decrease) in working capital	**$183,820**	$225,855	($104,065)

	1980	1979	1978
*Properties, plant and equipment expenditures			
Producing	**$146,874**	$ 63,898	$ 52,838
Manufacturing	**21,622**	25,382	94,488
Marketing	**21,692**	19,635	16,352
Marine	**225**	289	80
Pipelines	**312**	223	282
Other	**2,039**	1,120	612
Total	**$192,764**	$110,547	$164,652

See accompanying description of significant accounting policies and notes to consolidated financial statements.

	1980	1979	1978
Working Capital			
At beginning of year	**$477,625**	$251,770	$355,835
Increase (decrease) during year			
Cash	**($ 1,057)**	($ 17,378)	$ 18,123
Marketable securities (at cost)	**43,172**	269,540	1,207
Accounts and notes receivable			
Affiliated companies	**9,463**	–	(166,510)
Other, less allowance for doubtful accounts	**40,222**	150,875	(7,620)
Inventories	**89,022**	108,573	22,282
Prepaid expenses	**(9,009)**	13,083	(572)
Bank indebtedness	**–**	–	41,116
Long-term debt due within one year	**(2)**	(2)	(2)
Capital lease obligations due within one year	**1,364**	3,658	(6,158)
Accounts payable			
Trade	**(5,678)**	(100,581)	(4,710)
Affiliated companies	**36,893**	(16,836)	(2,752)
Accrued liabilities	**(38,072)**	(12,881)	(16,832)
Income taxes	**17,495**	(172,207)	20,168
Preferred dividends payable	**7**	11	(1,805)
	$183,820	$225,855	($104,065)
At end of year	**$661,445**	$477,625	$251,770

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

1. Accounting Principles Generally Accepted In Canada Compared With the United States

As stated in the Description of Significant Accounting Policies, the consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada, which principles do not materially differ from generally accepted accounting principles as established in the United States.

2. Inventories

	December 31, 1980	December 31, 1979
Crude oil	**$128,307**	$105,090
Petroleum products and other merchandise (a)	**260,240**	199,592
	388,547	304,682
Materials and supplies	**13,910**	8,753
Total	**$402,457**	$313,435

Amounts of crude oil, petroleum products and other merchandise used to determine cost of sales were as follows: December 31, 1978—$197,783, January 1, 1978—$178,806.

(a) The aggregate of merchandise items as distinguished from refined and in process oil products is not significant.

3. Investments and Advances

	December 31, 1980	December 31, 1979
Non-subsidiary companies accounted for:		
On equity basis	**$ 18,627**	$ 18,264
At cost	**937**	14
	19,564	18,278
Miscellaneous investments		
Direct financing leases—affiliated company	**162,656**	166,551
Notes, mortgages and other long-term receivables	**8,689**	3,859
Total	**$190,909**	$188,688

Texaco Canada Inc.'s equity in the net income of the non-subsidiary companies accounted for on the equity method aggregated $3,865 in 1980, $4,003 in 1979, and $3,029 in 1978. Dividends received from companies accounted for by this method amounted to $3,502 in 1980, $3,223 in 1979, and $2,867 in 1978. Undistributed earnings of these non-subsidiary companies included in Texaco Canada Inc.'s retained earnings amounted to $16,152 at December 31, 1980 and $15,789 at December 31, 1979.

As stated in the Description of Significant Accounting Policies, investments in other non-subsidiary companies are carried at cost. Texaco Canada Inc.'s equity in the underlying net assets of these companies exceeded the carrying value of the investment by approximately $1,082 and $744 as at December 31, 1980, and December 31, 1979, respectively.

4. Properties, Plant and Equipment

As at December 31,	Cost 1980	Cost 1979	Accumulated depreciation, depletion, and amortization 1980	Accumulated depreciation, depletion, and amortization 1979
Producing	**$ 629,743**	$ 485,584	**$198,025**	$176,022
Manufacturing	**691,056**	667,685	**131,545**	112,563
Marketing	**305,596**	305,105	**124,333**	120,271
Marine	**20,434**	20,240	**4,173**	3,456
Pipelines	**10,910**	10,600	**5,614**	5,367
Other	**16,354**	18,025	**7,085**	8,406
Total	**$1,674,093**	$1,507,239	**$470,775**	$426,085
Net investment	**$1,203,318**	$1,081,154		

On November 30, 1978, the Corporation announced that it had substantially reduced operations at its Port Credit refinery. However, the facility continues to serve as the Corporation's main product distribution point for Toronto, Ontario area and for the production of petrochemicals. As at December 31, 1980, the undepreciated investment in the inactive segment of the Port Credit location is not significant.

5. Long-term Debt

The Corporation had long-term debt as follows:

	December 31, 1980	December 31, 1979
10¾% debentures, 1974 series, due 1994 ($5,000 annual sinking fund requirement 1981–1993)	**$95,000**	$100,000
Other	**67**	95
	95,067	100,095
Less: Long-term debt due within one year and debentures held for sinking fund requirements (1980–$5,436, and 1979–$1,219)	**10,466**	6,247
Total	**$84,601**	$ 93,848

Annual maturities of long-term debt, including sinking fund payments and other redemption requirements, for the five years subsequent to December 31, 1980, are as follows: 1981–$5,030, 1982–$5,032, 1983–$5,005, 1984–$5,000, and 1985–$5,000.

6. Redeemable Preferred Stock

	December 31, 1980	December 31, 1979
Second Preferred Shares		
2,900,000 shares without nominal or par value, authorized and issued in series:		
Series A–$7.50 cumulative, redeemable		
Outstanding–1,700,000 shares	**$170,000**	$170,000
Series B–$7.25 cumulative, redeemable		
Outstanding–1,200,000 shares	**120,000**	120,000
Total	**$290,000**	$290,000

Notes to Consolidated Financial Statements (Continued)

(Expressed in thousands of Canadian dollars)

Second Preferred Shares, Series A, are redeemable at $100.00 a share on the last day of February, May, August and November in each twelve-month period after June 1, 1984. The Corporation shall not call for redemption, redeem, purchase or otherwise retire for value any Second Preferred Shares, Series A, at any time when any Second Preferred Shares, Series B, are outstanding unless contemporaneously therewith it shall call for redemption and redeem, purchase or otherwise acquire all outstanding Second Preferred Shares, Series B. At the option of the holders 400,000 shares may be redeemed each twelve-month period from June 1, 1984 through 1986 and 500,000 shares each twelve-month period thereafter. If certain dividend and working capital tests are met, the number of shares which may be redeemed at the option of the holders can be increased to 800,000 each twelve-month period from June 1, 1984 through 1986 and to 900,000 each twelve-month period thereafter.

Second Preferred Shares, Series B, are redeemable at $100.00 a share. There is a mandatory redemption on the last day of February and May commencing in 1982 and each year thereafter for a total of 400,000 shares each year. Subject to certain dividend and working capital tests being met, redemption may be accelerated at the option of the holders for an additional 400,000 shares after June 1, 1981 and each twelve-month period thereafter.

The Corporation shall not solely at its own option redeem or purchase any Second Preferred Shares on or before June 1, 1988.

7. Capital Stock

	December 31, 1980	December 31, 1979
Preferred Stock		
First Preferred Shares		
Unlimited number of shares without nominal or par value, authorized and issuable in series:		
Series A—$6.00 cumulative, redeemable, convertible		
Issued —37,500 shares		
Outstanding—1980, 25,198 shares, and 1979, 29,736 shares	**$ 2,520**	$ 2,974
Common Stock		
Common Shares		
Unlimited number of shares without nominal or par value and authorized:		
Issued and outstanding—1980, 120,568,864 shares, and 1979, 120,532,560 shares	**$34,595**	$34,141

First Preferred Shares, Series A, are redeemable at the Corporation's option upon a notice of not less than thirty days prior to the date fixed for redemption for an amount of $102.50 a share or can be purchased by the Corporation at a price not exceeding the redemption price of $102.50. The First Preferred Shares, Series A, will not be redeemed or purchased by the Corporation before the first day of June 1983. These shares are convertible into fully paid and non-assessable common shares on the basis of eight Common Shares for each First Preferred Share. During 1980, 4,538 shares were converted into 36,304 Common Shares.

During each of the three years ended December 31, 1980, 1979, and 1978, the following changes were reflected in the shares of first preferred stock, Series A, and in the shares of common stock of Texaco Canada Inc. (in number of shares).

	1980	1979	1978
First Preferred Stock, Series A			
Outstanding at beginning of year	**29,736**	36,840	37,500
Deduct:			
Conversion of First Preferred Shares into Common Shares	**4,538**	7,104	660
Outstanding at end of year	**25,198**	29,736	36,840
Common Stock			
Outstanding at beginning of year	**120,532,560**	120,475,728	120,470,448
Add:			
Conversion of First Preferred Shares into Common Shares	**36,304**	56,832	5,280
Outstanding at end of year	**120,568,864**	120,532,560	120,475,728

As approved by the Shareholders on July 25, 1980, the Common Shares were split four-for-one on August 15, 1980. Prior periods and the above descriptions have been restated accordingly.

8. Lease Commitments

As at December 31, 1980, the Corporation had non-cancellable leases expiring more than one year from such date covering service stations, office buildings, and other facilities. Capital leases are recorded in the Corporation's balance sheet as assets along with the related debt. All remaining lease obligations are considered to be operating leases and continue to be recorded in the Corporation's income account as rental expense. Minimum amounts payable under capital and operating leases without reduction for related rental income are expected to average approximately $8,834 annually for the next five years.

Leased capital assets included in Properties, Plant and Equipment were as follows:

	December 31, 1980	1979
Land	**$ 9,723**	$10,091
Buildings and Equipment	**32,258**	36,653
	41,981	46,744
Less: Accumulated amortization	**21,257**	22,370
Total	**$20,724**	$24,374

Future minimum lease payments for capital leases together with the present value of net minimum lease payments on December 31, 1980 are:

1981	$ 4,270
1982	3,445
1983	2,929
1984	2,393
1985	1,574
After 1985	7,710
Total minimum lease payments	$22,321
Less: Amount representing interest	5,643
Total net minimum lease payments*	$16,678

*Includes $3,242 due within one year and excludes $3,351 applicable to automotive leases cancellable within one year..

Future minimum rental commitments for all non-cancellable operating leases as of December 31, 1980 are as follows:

1981	$ 7,203
1982	6,607
1983	5,846
1984	5,180
1985	4,721
After 1985	20,761
Total	$50,318

It is expected that minimum rental income from the non-cancellable leases will average $4,650 annually for the next five years, of which an estimated $2,782 annually will relate to sub-leasing of non-cancellable capital leases.

Rental expense includes net rentals applicable to operating leases for service stations, office buildings and other facilities, and charter hire payments applicable to tankers. This excludes rentals in leaseholds to retain mineral rights.

Rental expense for the years ended December 31, 1980, 1979 and 1978 were as follows:

	1980	1979	1978
Minimum rental	**$27,422**	$25,235	$19,337
Less: Rental income on properties sub-leased to others	**22,352**	17,492	16,408
Net rental expense	**$ 5,070**	$ 7,743	$ 2,929

Notes to Consolidated Financial Statements (Continued)

(Expressed in thousands of Canadian dollars)

9. Contingent Liabilities

Under certain service station lease agreements, the Corporation is contingently liable as guarantor for loans by third parties to the lessors which total $5,177 as at December 31, 1980, compared to $6,446 at the end of the previous year. Annual payments are due by the lessors from 1981 through 1985 of $1,292, $1,332, $1,378, $1,282, and $526 respectively.

Under long-term agreements with pipeline companies, the Corporation guarantees specified revenue from crude and refined products shipped. The Corporation may be required to advance funds against future transportation charges to certain companies in which stock interests are held, in the event such companies are unable to meet specific debt obligations. The contingent liability arising from such agreements together with certain liabilities on discounted notes, etc., amount to $20,555 at December 31, 1980.

No losses are anticipated by reason of the above contingent obligations. In the opinion of the Corporation's General Counsel, while it is impossible to ascertain the ultimate legal and financial liability with respect to other contingent liabilities, including lawsuits, income taxes, claims, guarantees, etc., the aggregate amount of such liability would not be materially significant in relationship to the total consolidated assets of the Corporation and its subsidiaries.

10. Taxes, Other Than Income Taxes

The significant items comprising taxes, other than income taxes, in the income statement are set forth below:

	Year ended December 31,		
	1980	1979	1978
Property and real estate	**$ 11,685**	$ 9,870	$ 8,472
Federal sales tax	**97,524**	72,763	70,154
Franchise taxes	**6,221**	1,997	2,545
Social benefits	**2,509**	2,181	2,130
Mineral tax—oil	**12,095**	10,561	8,555
Production	**484**	338	316
Other	**1,365**	1,207	1,075
Total	**$131,883**	$98,917	$93,247

In addition, federal excise tax and provincial motor fuel and oil taxes paid (or due) to taxing authorities for the years ended December 31, 1980, 1979, and 1978, in the amounts of $317,780, $297,105, and $296,777, respectively, have not been included in the income statement.

Crude oil royalties payable in kind are not reflected in the accounts and crude oil royalties payable in cash are accounted for as purchases. Other royalties are not material in amount.

11. Pension Plan

As at December 31, 1980, costs which will be incurred in future years in respect of prior service amounted to approximately $7,557 on a present value basis. These costs are being funded by annual payments of $1,116 which will substantially amortize the liability by 1989. The assets of the plan exceed the actuarially computed value of vested benefits as of the last actuarial valuation date.

Amendments to the plan, which are effective January 1, 1981, to provide for improved retirement benefits, will result in an estimated increase in the liability of approximately four million dollars. It is anticipated that these costs will be funded by annual payments of approximately $398 which will amortize the estimated additional liability by 1995.

12. Interest Charges

Interest charges segregated between long-term debt, capitalized leases, and short-term debt included in the income statement are set forth below:

	Year ended December 31,		
	1980	1979	1978
Long-term debt	**$ 9,487**	$6,503	$10,834
Capitalized leases	**1,621**	2,162	3,978
Short-term debt	**119**	70	864
Total	**$11,227**	$8,735	$15,676

13. Income Taxes

The Corporation's accounting policy with respect to deferred income taxes is stated in the Description of Significant Accounting Policies. Deferred income taxes relate to transactions recorded in the Corporation's accounts in a period different from that in which these transactions are reported for income tax purposes. The provision for deferred income taxes for the years ended December 31, 1980, 1979, and 1978 relate to the following:

	1980	1979	1978
Intangible drilling costs	**$21,575**	$ 7,954	$11,419
Non-productive leases	**1,178**	1,848	4,788
Depreciation	**15,309**	51,384	83,454
All other	**(3,188)**	3,683	(1,469)
Total	**$34,874**	$64,869	$98,192

The effective income tax rates applicable to income before provision for current and deferred income taxes for the years ended December 31, 1980, 1979 and 1978 were 46.9%, 50.8%, and 47.9% respectively. The reasons for the difference between the effective tax rates and statutory income tax rates theoretically assumed to be applicable to pre-tax book income, were as follows:

	1980	1979	1978
Statutory Federal rate	**46.0%**	46.0%	46.0%
Less: Provincial abatement	**10.0**	10.0	10.0
	36.0	36.0	36.0
Add: Provincial tax rates	**11.7**	11.9	11.7
Total statutory rate	**47.7%**	47.9%	47.7%
Resource allowance	**(12.4)**	(16.3)	(18.8)
Depletion	**(2.5)**	(1.6)	(2.7)
Disallowed royalties	**17.6**	20.5	27.8
Provincial tax credits and rebates	**(2.3)**	(1.2)	(1.5)
Other	**(1.2)**	1.5	(4.6)
Effective income tax rate as reflected in the Corporation's accounts	**46.9%**	50.8%	47.9%

14. Segmented Financial Data

Texaco Canada Inc. and its subsidiaries, an integrated organization in the petroleum industry, is engaged in the exploration for and production of crude oil and natural gas and in the refining, transportation and marketing of crude oil and petroleum products thereof. A wholly-owned foreign subsidiary has capital assets related to the petroleum industry which it leases to an affiliated company on a long-term basis. The Corporation's sales revenues and net earnings as reflected in the consolidated statement of income are derived entirely from operations in the petroleum industry, which includes petrochemical activities and assets leased to an affiliated company associated with the petroleum industry, both of which are not material in relation to the total activities of the Corporation.

15. Research and Development Costs

The Corporation's accounting policy with respect to research and development cost is stated in the Description of Significant Accounting Policies. The amounts charged to expense aggregated $12,548 in 1980, $4,905 in 1979, and $4,877 in 1978.

Notes to Consolidated Financial Statements (Continued)

(Expressed in thousands of Canadian dollars)

16. Oil and Gas Producing Activities

Capitalized Costs

Texaco Canada Inc.'s costs relating to oil and gas exploration, development, and producing activities which were capitalized as properties, plant and equipment and related accumulated depreciation, depletion, and amortization were as follows:

	December 31, 1980	1979
Proved properties	**$514,006**	$407,611
Unproved properties	**93,823**	66,667
Support equipment and facilities	**9,740**	4,031
Gross capitalized costs	**617,569**	478,309
Related accumulated depreciation, depletion, and amortization	**190,765**	169,387
Net capitalized costs	**$426,804**	$308,922

Amounts capitalized include lease acquisition costs, intangible drilling costs applicable to productive wells, and tangible equipment costs related to the development of oil and gas reserves. These amounts, excluding amounts applicable to support equipment and facilities are categorized between those properties with proved reserves and those properties with no proved reserves. Support equipment and facilities include amounts capitalized relative to such items as drilling and construction equipment, vehicles, warehouses, camps, district or field offices and service facilities.

Costs Incurred

The following were the costs incurred by the Corporation in oil and gas producing activities during the years ended December 31, 1980, 1979 and 1978. In accordance with the United States Securities and Exchange Commission (S.E.C.) requirements, these costs incurred include costs that are capitalized or charged to expense at the time they are incurred with the exception of support equipment and facilities, for which only appropriate depreciation is included. The S.E.C. regulations also require exclusion of any related income tax effect.

The schedule also reflects the depreciation, depletion, and amortization expense for the years ending December 31, 1980, 1979 and 1978.

	1980	1979	1978
Acquisition of unproved properties	**$ 30,282**	$ 8,066	$ 18,113
Exploration costs	**63,074**	49,848	35,422
Development costs	**73,710**	34,430	24,947
Production costs	**62,045**	45,181	54,289
Total costs incurred	**$229,111**	$137,525	$132,771
Depreciation, depletion, and amortization expense	**$ 20,964**	$ 20,044	$ 13,881

As defined by the S.E.C., the various functional activities of oil and gas production and exploration operations include the following costs incurred:

Property acquisition costs, which are those incurred to purchase, lease or otherwise acquire a property.

Exploration costs, which are those incurred in identifying areas that may warrant examination and examining specific areas that are considered to have prospects of containing oil and gas reserves.

Development costs, which are those incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering, and storing the oil and gas.

Production costs, which are cash lifting costs, exclusive of payments for royalties, plus appropriate depreciation of support equipment and facilities.

The exclusion of payments for income taxes from production costs is specifically required by the S.E.C. However, it is important to note that such income taxes substantially add to the total cost of producing operations and substantially reduce the profitability and cash flow from such operations.

Net Revenues

The net revenues from net oil and gas production for the years ended December 31, 1980, 1979, and 1978, are shown in the following table:

Gross revenues from:	1980	1979	1978
Transfers within Texaco Canada Inc. and sales to unconsolidated affiliates	**$379,791**	$516,228	$315,876
Sales to unaffiliated entities	**194,858**	43,894	53,138
	574,649	560,122	369,014
Less: Production costs	**62,045**	45,181	54,289
Net revenues before income taxes	**$512,604**	$514,941	$314,725

Net revenues represent gross revenues from sales to unaffiliated entities and non-subsidiary companies, as well as transfers among departments, and subsidiaries within Texaco Canada Inc., less the related production costs (as defined in the previous section concerning costs incurred). Amounts defined as production costs do not include any expenditures connected with acquisition of, exploration for, and development of oil and gas reserves or any depreciation, depletion, and amortization of such costs that have been capitalized in the Corporation's accounts. In accordance with S.E.C. regulations, net revenue is applicable only to the net oil and gas produced by Texaco Canada Inc. and subsidiary companies. It excludes revenues applicable to oil and gas purchased from unaffiliated entities. Transfers within the Corporation are made at market prices prevailing at the time of the transaction.

In accordance with the S.E.C. regulations, the net revenues reflected in the foregoing table are before estimated income tax effects. However, since income taxes substantially add to the cost of producing operations, and substantially reduce the profitability and cash flow from such operations, net revenues should be reported on an estimated after-tax basis, therefore, net revenues on an after-tax basis are estimated at $263,479 for 1980, $260,045 for 1979, and $156,418 for 1978.

Auditors' Report

ARTHUR ANDERSEN & CO.
CHARTERED ACCOUNTANTS

To the Shareholders,
Texaco Canada Inc.:

We have examined the consolidated balance sheet of Texaco Canada Inc. and subsidiary companies as of December 31, 1980 and 1979, and the related consolidated statements of income, retained earnings and changes in financial position for the three years ended December 31, 1980, 1979 and 1978. 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, the accompanying consolidated financial statements present fairly the financial position of Texaco Canada Inc. and subsidiary companies as of December 31, 1980 and 1979, and the results of their operations and changes in their financial position for the three years ended December 31, 1980, 1979 and 1978 in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in 1979 (with which we concur) in the method of accounting for leases other than those pertaining to natural resources.

Toronto, Ontario
February 9, 1981.

Arthur Andersen & Co.

Other Oil and Gas Producing Activities

Net Proved Developed and Undeveloped Reserves

All of the Corporation's net proved reserves are located in Canada.

There are no crude oil and natural gas reserves applicable to long-term supply or similar agreements with foreign governments or authorities in which the Corporation acts as producer.

	Crude Oil and Natural Gas Liquids (millions of cubic metres)	Natural Gas (billions of cubic metres)
Net proved developed and undeveloped reserves		
*As of December 31, 1977	57.6	36.9
Increase (decrease) during 1978 attributable to:		
Revisions of previous estimates	3.3	2.2
Extensions, discoveries, and other additions	2.9	1.9
Production	(4.8)	(0.7)
*As of December 31, 1978	59.0	40.3
Increase (decrease) during 1979 attributable to:		
Revisions of previous estimates	1.1	(0.8)
Extensions, discoveries, and other additions	2.1	3.1
Production	(6.4)	(0.9)
*As of December 31, 1979	55.8	41.7
Increase (decrease) during 1980 attributable to:		
Revisions of previous estimates	(0.2)	1.8
Extensions, discoveries, and other additions	2.3	2.2
Production	(5.5)	(2.0)
*As of December 31, 1980	52.4	43.7
*Includes net proved developed reserves of Texaco Canada Inc. and subsidiary companies:		
As of December 31, 1977	57.6	34.7
As of December 31, 1978	59.0	39.9
As of December 31, 1979	55.8	41.3
As of December 31, 1980	52.4	43.3

The foregoing reserve figures are believed to be reasonable estimates consistent with current knowledge of the characteristics and extent of proved production. They include only such reserves as can reasonably be classified as proved. Net reserves represent the volume estimated to be available after deduction of royalties at rates in effect at the end of the applicable year. The estimates of natural gas reserve quantities include the volume of the percentage of natural gas liquids which may be removed at locations beyond lease and /or field separation facilities. Estimates of reserve quantities are based on sound geological and engineering principles, but by their very nature are still estimates that are subject to upward or downward revision as additional information regarding producing fields and technology becomes available. Since estimating underground reserves is not, and does not purport to be an exact science, the potential for subsequent revisions in estimates is high, particularly as such reserves increase in maturity.

Estimated Valuation of Net Proved Developed and Undeveloped Reserves

The purpose of this disclosure is to provide data, in accordance with the requirements of the United States Securities and Exchange Commission (S.E.C.), with respect to estimated future net revenues from estimated future net production of estimated net proved developed and undeveloped reserves of crude oil and natural gas liquids and of natural gas. The data provided includes information with respect to oil and gas exploration, development and producing activities on the basis of a new method of accounting proposed by the S.E.C., Reserve Recognition Accounting, widely known as RRA. In accordance with S.E.C. requirements, the RRA data are presented as supplemental disclosure on an experimental basis.

The information provided below is based on estimated underground reserves as presented in the previous section entitled "Net Proved Developed and Undeveloped Reserves" and this note should be read in conjunction with that disclosure. The estimated valuations of underground reserves are also of necessity based on estimates, and this and the previous disclosure contain appropriate caveats with respect to the use and interpretation of the data resulting from such estimates.

The following data are being presented:

Estimated future net revenues from net production of estimated net proved oil and gas reserves as of December 31, 1980.

Present value of estimated future net revenues from net production of estimated net proved oil and gas reserves as of December 31, 1980, 1979, and 1978.

Reserve Recognition Accounting

Supplemental summary on an RRA basis of additions and revisions to present value of estimated future net revenues resulting from oil and gas exploration, development and producing activities during 1980 and 1979.

Analysis of changes in estimated present value of future net revenues from December 31, 1978 to December 31, 1980, on an RRA basis.

Texaco Canada Inc. is presenting the information listed above in good faith in compliance with the regulations of the S.E.C. While the Corporation has exercised all due care in developing the data, it is necessary to caution investors and other users of this information to avoid its simplistic use. Users should carefully read the financial information presented in the following tables in conjunction with the accompanying qualifications and caveats, as well as with those included in the section entitled "Net Proved Developed and Undeveloped Reserves".

There are many variables, assumptions and imprecisions inherent in the development of estimated future net revenues to be derived from estimated production of net proved oil and gas reserves and the present values of such estimated future net revenues. As prescribed in the S.E.C. regulations, future net revenues are generally based on revenues and costs prevailing at December 31, 1978, 1979 and 1980, respectively. Accordingly, projections as of December 31, 1978, 1979 and 1980, do not give effect to events which have occurred since the year-end dates or which may occur subsequently, such as crude oil price increases, or the continuing impact of inflation. In addition, the projections of estimated future net revenues are affected by a multiplicity of factors which are subject to fluctuation, thereby unavoidably making the projections subject to the possibility of a wide range of variation. These factors include such items as revisions in the estimated quantities of producible reserves; timing of production; future technological and economic conditions; and future government actions regarding production, taxes, royalties, etc.

Since projections of future revenues and costs are highly subjective, actual net revenues and cash flow to be derived by the Corporation from future production could differ substantially from the estimated amounts set forth in the various tables in this note. Accordingly, Texaco Canada Inc. urges that extreme care be exercised in the use of the data.

Estimated Future Net Revenues

(Expressed in thousands of Canadian dollars)

The estimated future net revenues from estimated future net production of estimated net proved oil and gas reserves as of December 31, 1980 are shown in the following table:

	Developed	Undeveloped	Total
From proved reserves:			
1981	$ 591,528	$ —	$ 591,528
1982	590,950	—	590,950
1983	602,004	—	602,004
After 1983	5,597,081	17,282	5,614,363
Total	$7,381,563	$17,282	$7,398,845

Other Oil and Gas Producing Activities (Continued)

These estimates for Texaco Canada Inc. and subsidiary companies have been computed in accordance with S.E.C. requirements by applying prices and costs in effect at December 31, 1980 to estimated future production of those proved reserves of crude oil, natural gas liquids, and natural gas shown in the section entitled "Net Proved Developed and Undeveloped Reserves". As required by the S.E.C., these costs include estimated lifting costs plus estimated future expenditures to be incurred in developing the reserves, assuming continuation of existing economic conditions. These costs, however, exclude depreciation, depletion, and amortization of capitalized costs, in accordance with S.E.C. rules.

The net revenues are before recognition of estimated income tax effects, as specified in the S.E.C. regulations. However, income taxes would substantially add to the total cost of producing operations and substantially reduce the profitability and cash flow from such operations. Based on existing tax rates, the estimated effect of income taxes would be a reduction in estimated future net revenues of approximately $3,594,000.

Present Value of Estimated Future Net Revenues

(Expressed in thousands of Canadian dollars)

Shown below is the present value of the estimated future net revenues from estimated reserves as of December 31, 1980, 1979 and 1978 as calculated in the previous years. The discount rate utilized in this computation is ten per cent, as specified by the S.E.C. The use of a specified uniform discount rate does not permit recognition of such factors as differences in the degree of risk of operating in different parts of Canada and in frontier areas, the availability of financing, and the state of the economy. On this basis, the present value of estimated future net revenues is as follows:

	As of December 31, 1980		
	Developed	Undeveloped	Total
From proved reserves:			
1981	$ 562,916	$ —	$ 562,916
1982	508,849	—	508,849
1983	469,039	—	469,039
After 1983	1,971,120	5,867	1,976,987
Total	$3,511,924	$5,867	$3,517,791

	As of December 31, 1979		
	Developed	Undeveloped	Total
From proved reserves:			
1980	$ 491,449	$ 143	$ 491,592
1981	480,976	588	481,564
1982	438,081	928	439,009
After 1982	1,681,254	7,283	1,688,537
Total	$3,091,760	$8,942	$3,100,702

	As of December 31, 1978		
	Developed	Undeveloped	Total
From proved reserves:			
1979	$ 330,242	$ —	$ 330,242
1980	316,235	—	316,235
1981	306,631	—	306,631
After 1981	1,790,446	8,707	1,799,153
Total	$2,743,554	$8,707	$2,752,261

The present value amounts for each of the above years, do not give effect to the crude oil price increases which have occurred since the respective year ends, nor do they include the impact of the National Energy Program announced by the Federal Government on October 28, 1980.

Reserve Recognition Accounting

Reserve Recognition Accounting (RRA) is a new experimental method of accounting for oil and gas reserves and exploration, development and producing activities which is required by the S.E.C. for supplemental reporting purposes.

Under the RRA concept, income would be recognized when oil and gas reserves are discovered, based on the present value of estimated future net revenues to be derived from the future production of such reserves. Adjustments to income would be recorded to reflect changes in estimates of reserve quantities, of future prices, of future costs, and of timing of production. All costs associated with finding and developing reserves, together with all non-productive costs incurred (such as dry holes, exploration costs and impairments), would be reflected as charges against income. Certain costs, such as lease acquisition costs and exploratory drilling costs, would initially be deferred pending determination of whether or not reserves have been discovered. Upon such determination, these costs would be charged to expense either as a non-productive cost or as a cost of finding reserves.

The RRA method of income determination differs from the recognition of income and earnings under existing generally accepted accounting principles in two major respects. First, under RRA the value of oil and gas reserves would be recorded as income when discovered, rather than when oil and gas are produced and sold as under existing accounting principles. Second, except for certain costs which are initially deferred under RRA, all acquisition and development costs are charged off to expense as incurred rather than being capitalized and charged to expense in future periods through depreciation, depletion, and amortization.

Texaco Canada Inc. is not in accord with the principle of Reserve Recognition Accounting for the following principal reasons: Estimates of underground reserve quantities, while essential and satisfactory for other purposes, are not sufficiently reliable, verifiable and comparable for use as a basis for valuing reserves for financial statement purposes due to the unavoidable subjectivity involved in estimating reserves and the fact that such estimates by their very nature are subject to substantial upward or downward revision as additional production information and technology becomes available; RRA represents a departure from the realization concept of income recognition; RRA is a premature substitution of value accounting for historical cost accounting which has not been preceded by adequate study and research to demonstrate that a sound principle and acceptable methods of application have been developed. As a result of the foregoing deficiencies, Texaco Canada Inc. is of the opinion that value data prepared on the RRA basis are not reliable for meaningful analysis.

Summary of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting

(Expressed in thousands of Canadian dollars)

The following table summarizes oil and gas exploration and development activities on the RRA basis for the years ending December 31, 1980 and 1979.

	1980	1979
Revisions and additions to the present value of estimated proved oil and gas reserves		
Revisions of beginning of year estimates		
Change in prices	**$668,928**	$446,828
Other revisions, including changes in costs, and revisions of previous volume estimates	**(222,881)**	(79,854)
Accretion of discount	**325,574**	288,987
Extensions, discoveries and other additions from exploration and development activities during current year (net of production and development costs)	**99,611**	185,549
Total revisions and additions, present value	**$871,232**	$841,510
Less: Acquisition, exploration and development costs associated with additions and revisions to proved reserves plus all non-productive costs incurred during the current year	**59,144**	55,252
Net revisions and additions in present value of proved reserves in excess of costs	**$812,088**	$786,258
Estimated income tax effect	**426,813**	333,739
Total net revisions and additions in present value of proved reserves during the current year, after estimated income tax effect	**$385,275**	$452,519

Other Oil and Gas Producing Activities (Continued)

The reader is cautioned that the foregoing total net revisions and additions in present value of proved reserves should not be considered indicative of the Corporation's earnings or cash flow from exploration, development and producing activities during each year. Rather, this amount is merely a notional computation derived under an experimental accounting concept.

Further information with respect to the Summary of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting follows:

The present value amounts of $668,928 and $446,828 attributable to the change in prices reflects the increase in oil and gas prices which occurred during 1980 and 1979, respectively.

The accretion of discount is the amount by which the present value of estimated future net revenue from estimated net production of proved oil and gas reserves at the beginning of year increased during the current year due to the passage of time. The amount of adjustment was computed under a compound interest method which resulted in an effective rate of approximately 10.5%.

As mentioned previously, under RRA the costs applicable to property acquisition and exploratory drilling are deferred pending determination of whether or not proved reserves are found. Such costs that have been deferred on an RRA basis as of December 31, 1980 amounted to $79,127 and $47,318 as of December 31, 1979. Upon determination that reserves have or have not been found, such costs will be expensed. This deferred cost amount includes a valuation reserve of $25,799 at the end of 1980, and $20,206 at the end of 1979, which reflects allowances for impairment in value of non-productive leases provided during the current year in the amount of $6,727 for 1980, and $5,228 for 1979.

The RRA estimated income tax effect includes the following elements: taxes payable on income realized during 1980 and 1979 from operations in oil and gas exploration, development, and producing activities; as well as the change in the notional tax liability applicable to the present value of future net revenues between the beginning and end of each year.

The pre-tax profit contribution for financial reporting purposes from oil and gas producing activities that is included in the Consolidated Statement of Income is $457,165 for the year 1980, and $431,077 for the year 1979. These amounts represent the revenues received from sales of net oil and gas production, less costs and expenses incurred in the oil and gas exploration, development, and producing activities of Texaco Canada Inc. and subsidiary companies.

Summary of Changes in Present Value

(Expressed in thousands of Canadian dollars)

The following table sets forth an analysis of changes in the present value of estimated future net revenues from net production of net proved oil and gas reserves during the years ended December 31, 1980, and December 31, 1979, before estimated income tax effects. These data are presented under the caption "Present Value of Estimated Future Net Revenues" on page 38 of this report.

	1980	1979
Present value of estimated future net revenues at beginning of period	**$3,100,702**	$2,752,261
Revisions and additions as set forth in supplemental Reserve Recognition Accounting summary on page 39	**871,232**	841,510
Sale of produced oil and gas, net of production costs	**(512,604)**	(514,941)
Expenditures during year of development costs included in the present value of estimated future net revenues at beginning of period	**58,461**	21,872
Present value of estimated future net revenues at end of period	**$3,517,791**	$3,100,702

Accounting for the Effects of Inflation

In the latter part of 1979, the Canadian Institute of Chartered Accountants (C.I.C.A.) issued an exposure draft on current cost accounting for consideration by accountants and other affected or interested individuals. This exposure draft proposed that supplementary information be presented in the financial statements detailing the inflationary effects on the cost of a company's inventories and properties. These proposals differed from the disclosure requirements set forth by the United States Financial Accounting Standards Board.

The C.I.C.A. is currently analyzing the numerous comments received in response to its exposure draft before finalizing its presentation on current cost accounting. In view of the aforementioned and the fact that the Corporation is exempt from the S.E.C. disclosure requirements regarding current changing prices, the Corporation is continuing to review its alternatives in order to determine the most informative basis of presentation.

Selected Quarterly Financial Data

(Expressed in thousands of Canadian dollars except per share data)

For the three months ended:	Sales and services	Gross profit	Net income	Net income per common share
March 31, 1980	$817,463	$169,836	$93,212	$0.73
June 30, 1980	809,272	145,039	89,252	0.69
September 30, 1980	885,765	159,327	95,326	0.75
December 31, 1980	990,679	170,777	95,628	0.75
March 31, 1979	623,254	96,927	48,076	0.36
June 30, 1979	572,954	94,595	52,677	0.39
September 30, 1979	656,725	136,345	68,082	0.52
December 31, 1979	785,690	171,273	95,060	0.74
March 31, 1978	504,511	75,492	41,579	0.30
June 30, 1978	430,881	61,614	35,433	0.25
September 30, 1978	442,291	68,470	36,863	0.26
December 31, 1978	524,406	79,435	40,217	0.29

Except for interest charges and provision for current and deferred income taxes, all deductions reported in the Consolidated Statement of Income have been deducted as costs and expenses associated directly with or allocated to sales and services to arrive at gross profit.

In accordance with the Corporation's accounting policy, inventories of crude oil and petroleum products are stated at cost, determined on the first-in, first-out method. Effective April 1, 1980, the Alberta Petroleum Marketing Commission took effective control of all oil produced from Crown property in the Province of Alberta. Commencing on this date the Corporation values its inventories of oil produced from Crown property in the Province of Alberta at the price paid to the Alberta Petroleum Marketing Commission, whereas in prior periods, related inventories were stated at the Corporation's cost of producing the product. This action resulted in improved net income for the second quarter of 1980 by $25,464 equal to $0.21 a common share, the third quarter of $4,189 equal to $0.04 a common share, and the fourth quarter of $1,428 equal to $0.01 a common share.

Selected Financial Data

(Expressed in millions of Canadian dollars except per share data)

	Year ended December 31,				
	1980	1979	1978	1977	1976
Sales and services	**$3,503.2**	$2,638.6	$1,902.1	$1,710.2	$1,594.6
Net income from continuing operations	**373.4**	263.9	154.1	149.9	104.6
*Net income per common share from continuing operations	**2.92**	2.01	1.10	1.07	0.69
Total assets	**2,603.1**	2,299.7	1,762.9	1,591.7	1,348.4
Long-term debt	**$ 84.6**	$ 93.8	$ 100.1	$ 100.1	$ 100.1
Long-term capital lease obligation	**13.4**	16.1	28.9	34.5	34.4
Deferred gas production revenue	**11.1**	–	–	–	–
Redeemable preferred stock	**290.0**	290.0	290.0	290.0	290.0
Total long-term obligations	**$ 399.1**	$ 399.9	$ 419.0	$ 424.6	$ 424.5
Cash dividends declared per common share					
* Texaco Canada Inc.	**$0.585**	$0.42	$0.195	$ –	$ –
** Texaco Canada Limited	**–**	–	0.78	1.56	1.56
** Texaco Exploration Canada Ltd.	**–**	–	–	32,800.00	3,889.00

*Based on the average number of common shares outstanding after adjusting for the four-for-one split which occurred on August 15, 1980.

**Texaco Canada Inc. is the continuing corporation of the June 1, 1978, amalgamation of Texaco Canada Limited and Texaco Exploration Canada Ltd.

Five-Year Review

(Expressed in millions of Canadian dollars except where noted)

	1980	1979	1978	1977	1976
Financial Summary					
Revenues	**$3,572.0**	$2,684.9	$1,928.4	$1,734.6	$1,606.2
Net income	**373.4**	263.9	154.1	149.9	104.6
Per common share (dollars)	**2.92**	2.01	1.10	1.07	0.69
Per dollar of gross income (cents)	**10.5**	9.8	8.0	8.6	6.5
Dividends paid or accrued					
Common shares	**70.5**	50.6	31.1	48.0	19.0
First preferred shares	**0.1**	0.2	0.2	0.2	0.2
Second preferred shares					
Series A	**12.8**	12.8	7.4	–	–
Series B	**8.7**	8.7	5.1	–	–
Funds flow					
Provided by operations	**460.8**	386.6	281.7	210.9	171.0
Per common share (dollars)	**3.82**	3.21	2.34	1.75	1.42
Capital and exploratory expenditures	**224.2**	136.6	186.0	226.7	189.0
Taxes paid or accrued and deferred income taxes					
Provision for current and deferred income taxes	**329.2**	272.8	141.5	137.4	115.3
Crown royalties, import duties, and other levies including the petroleum compensation charge	**350.7**	267.7	169.4	142.4	115.3
Taxes other than income taxes	**131.9**	98.9	93.2	85.4	73.8
Taxes collected from consumers	**317.8**	297.1	296.8	302.0	306.8
Total	**$1,129.6**	$ 936.5	$ 700.9	$ 667.2	$ 611.2

	1980	1979	1978	1977	1976
Financial Condition at Year-End					
Current assets	**$1,198.4**	$1,026.6	$ 501.9	$ 635.0	$ 574.2
Current liabilities	**537.0**	549.0	250.1	279.2	170.8
Working capital	**661.4**	477.6	251.8	355.8	403.4
Properties, plant and equipment—net	**1,203.3**	1,081.2	1,056.0	930.1	747.8
Investments, long-term receivables and other assets	**201.4**	191.9	205.0	26.6	26.4
Capital employed	**2,066.1**	1,750.7	1,512.8	1,312.5	1,177.6
Long-term debt	**84.6**	93.8	100.1	100.1	100.1
Capital lease obligations	**13.4**	16.1	28.9	34.5	34.4
Deferred gas production revenue	**11.1**	–	–	–	–
Deferred income taxes	**384.3**	349.4	284.0	187.0	153.9
Redeemable preferred stock	**290.0**	290.0	290.0	290.0	290.0
Preferred stock	**2.5**	3.0	3.7	3.8	3.8
Common stock and retained earnings	**1,280.2**	998.4	806.1	697.1	595.4
Equity per common share (dollars)	**10.62**	8.28	6.69	5.79	4.94
Return on average capital employed (per cent)	**19.9**	16.4	11.5	12.6	10.0
Current working capital ratio	**2.2**	1.9	2.0	2.3	3.4

Per common share information has been adjusted for the four-for-one split which occurred on August 15, 1980.

	1980	1979	1978	1977	1976
Operations Summary (In thousands of cubic metres daily)					
Production of crude oil and natural gas liquids					
Gross	**24.0**	26.7	19.5	19.7	19.8
Net	**15.6**	17.4	13.0	13.3	13.6
Refinery runs	**29.8**	30.8	26.0	25.0	23.1
*Refinery crude oil capacity at year-end	**33.9**	33.9	41.6	26.0	25.7
Petroleum product sales	**33.8**	32.9	30.6	29.8	31.5
Natural gas sales (millions of cubic metres daily)	**2.4**	2.2	2.0	2.4	2.5
Number of Wells Drilled					
Gross	**240**	103	119	107	63
Net	**71.1**	26.5	31.2	31.8	21.4
Estimated Gross Proved Recoverable Reserves					
Oil (million cubic metres)	**81.6**	86.3	85.7	89.9	105.9
Gas (billion cubic metres)	**60.9**	58.8	54.8	53.6	55.1
Share Ownership (At year-end)					
Number of common shares outstanding	**120,568,864**	120,532,560	120,475,728	120,470,448	120,470,448
Number of common shareholders	**5,592**	4,038	4,210	4,664	4,814
Number of first preferred shares outstanding	**25,198**	29,736	36,840	37,500	37,500
Number of first preferred shareholders	**308**	409	493	534	565
Employees					
Number at year-end	**4,442**	4,265	4,419	4,413	4,418
Payroll and benefits	**$126.2**	$109.0	$101.9	$91.6	$85.8

*Refinery crude oil capacity at year-end 1980 and 1979 does not include idle capacity at the refinery at Port Credit, Ontario.

Management's Discussion and Analysis of Financial Condition and Results of Operations

On June 1, 1978, Texaco Canada Limited and Texaco Exploration Canada Ltd. were amalgamated into the single corporation now known as Texaco Canada Inc. Prior to the amalgamation, Texaco Canada had been engaged primarily in the refining and marketing of petroleum products (the downstream operations) and Texaco Exploration mainly in exploration for and development of crude oil and natural gas (the upstream operations).

NET INCOME

Texaco Canada's consolidated net income in 1980 was $373.4 million, compared with $263.9 million in 1979 and $154.1 million in 1978. This improvement in net income resulted mainly from increased production of crude oil and natural gas liquids, particularly in 1979; increased sales of petroleum products and natural gas; a general strengthening of product prices during the last half of 1979; and an increased degree of self-sufficiency in product supply which began when the new Nanticoke refinery started operations in the last quarter of 1978.

Net income for 1980 includes a non-recurring profit of $31.1 million, or $0.26 per common share, resulting from a change in the handling of the company's production of oil from Crown lands in Alberta. This change occurred on April 1, 1980, when the Alberta Petroleum Marketing Commission assumed control of all Crown oil production in the province.

Net income per common share in 1980 was $2.92, compared with $2.01 in 1979 and $1.10 in 1978. The company's common shares were split on a four-for-one basis effective August 15, 1980. All references to earnings per share for the years prior to 1980, including the above, reflect adjustment for this split.

The upward trend in the company's net income exhibited over the last three years is not expected to continue at the same rate. On October 28, 1980, the Government of Canada announced a National Energy Program which will adversely affect the entire petroleum industry. The taxation measures contained in this program, particularly the new eight per cent tax on oil and gas revenues, will adversely affect the company's net income and cash flow commencing in 1981. Also, the Province of Alberta—at the beginning of March, 1981—began reducing the daily production rate of crude oil from Crown lands in that Province.

The impact of these measures could be lessened to some extent if there is a continuation of the higher margins presently being obtained for petroleum products in most markets in Canada and by the scheduled increases in the wellhead price of domestic crude oil.

FOURTH QUARTER RESULTS

Net income for the fourth quarter of 1980 was $95.6 million, or $0.75 per common share. For the fourth quarters of 1979 and 1978, net income was $95.1 million and $40.2 million respectively, or $0.74 and $0.29 per common share.

Gross production of crude oil and natural gas liquids in the fourth quarter of 1980 amounted to 23 600 cubic metres daily, compared with 27 900 in 1979 and 21 900 in 1978; crude oil processed in the company's refineries averaged 29 000 cubic metres daily in 1980, 31 000 in 1979 and 28 500 in 1978; sales of petroleum products were 35 700 cubic metres daily in 1980, 34 700 in 1979 and 33 600 in 1978. Sales of natural gas in 1980 amounted to 2.6 million cubic metres daily, compared with 2.3 million and 1.9 million in the final quarters of 1979 and 1978 respectively.

DIVIDEND PAYMENTS

Texaco Canada's Board of Directors has declared dividends on the company's common shares in every year since 1944. From 1944 through 1951, dividends were on an annual or semi-annual basis. Since 1952 they have been declared and paid quarterly.

The total amount of dividends paid per common share in each of the last three years was 58½ cents in 1980, 42 cents in 1979 and 26 cents in 1978 restated on a basis comparable to 1980 and 1979. These dividends as a percentage of net income per common share were 20 per cent in 1980, 21 per cent in 1979 and 24 per cent in 1978.

MARKET & DIVIDEND INFORMATION

Texaco Canada's common shares are traded on the Toronto, Montreal, Alberta, Vancouver and American stock exchanges. The principal market for the shares is the Toronto Stock Exchange. Quarterly high and low prices and the dividends paid on the common shares are as follows:

	1980		
	*Price Range		Dividends
	High	Low	Paid
Quarter			
1st	$24	$19	$0.125
2nd	26½	19¼	.125
3rd	32¾	21½	.145
4th	27¼	20¼	.190

	1979		
	*Price Range		Dividends
	High	Low	Paid
Quarter			
1st	$14⅝	$11¼	$0.105
2nd	18	14⅛	.105
3rd	20⅝	16¼	.105
4th	21½	17¾	.105

*As quoted on the Toronto Stock Exchange. Price ranges in the second quarter of 1980 and earlier, have been adjusted to approximate fractional values of quotations made prior to the 4:1 stock split on August 15, 1980.

On January 31, 1981, there were 5,643 individual, financial and other institutional holders of the company's common shares. This compares with a total on December 31st of 5,592 in 1980, 4,038 in 1979 and 4,210 in 1978.

Dividends paid to United States security holders are subject to a 15 per cent Canadian withholding tax in accordance with the Canada–United States Tax Treaty currently in force. Capital gains on disposals are not taxable in Canada if the United States security holder has no permanent establishment in Canada.

A new Canada–United States Tax Treaty, signed on September 26, 1980, but not yet ratified, generally preserves the existing taxation and withholding rules as they relate to United States security holders. One exception is that holders of at least 10 per cent of voting shares will incur only a 10 per cent withholding tax on dividends.

REVENUES

Revenues in 1980 totalled $3,572.0 million, compared with $2,684.9 million in 1979 and $1,928.4 million in 1978.

Much of the increase in total revenue resulted from the higher prices at which petroleum products were sold to recover the cost of crude oil as determined under the federal government's oil pricing policy. Other factors which favourably influenced the company's revenue included increased sales volumes, a general improvement in product prices which began in the last half of 1979, and the higher interest rates earned by the company's increased reserves of cash and marketable securities in 1979 and 1980. These liquid reserves were increased to meet an anticipated expansion of capital and exploratory expenditures beyond 1980.

COSTS AND OPERATING EXPENSES

Costs and operating expenses, including selling, general and administrative expenses, amounted to $2,609.4 million in 1980, compared with $1,932.1 million in 1979 and $1,455.2 million in 1978.

Factors which contributed to increased costs included higher prices paid for supplies of crude oil, other raw material, and labour; as well as the continuing effects of general inflation.

Costs and operating expenses were equivalent to 73.1 per cent of total revenue in 1980, compared with 72.0 per cent in 1979 and 75.5 per cent in 1978.

Selling, general and administrative expenses, as a proportion of costs and operating expenses, decreased from 7.4 per cent in 1978, to 6.5 per cent in 1979 and 5.1 per cent in 1980.

OTHER EXPENSES

Depreciation, depletion and amortization charges were $56.4 million in 1980, an increase of $22.0 million over 1978. The start-up of operations at Nanticoke refinery in 1978 was mainly responsible for the increase in these non-cash charges.

Interest expense, which amounted to $11.2 million in 1980, decreased some 28 per cent since 1978. This was due to the retirement of a portion of the company's long-term debt and the acquisition of certain retail outlets previously held under capital lease agreements.

TAXES

Taxes paid or accrued by Texaco Canada, including direct taxes and taxes collected from consumers on behalf of governments, totalled $1,129.6 million in 1980, $936.5 million in 1979, and $700.9 million in 1978.

The aggregate amount of these taxes in 1980 was equivalent to about three times the net income of the company and approximately 12 times the amount that shareholders of preferred and common stock received as dividends in that year.

Direct taxes include oil and gas production taxes, sales and use taxes, property taxes, import duties and other levies, and current and deferred income taxes.

With improvements in the company's income, current and deferred income taxes continued to rise; these went from $141.5 million in 1978 to $272.8 million in 1979 and $329.2 million in 1980.

All other direct taxes increased from $262.6 million in 1978 to $366.6 million in 1979 and $482.6 million in 1980.

Taxes collected from consumers include federal excise and provincial motor fuel and oil taxes. These taxes rose from $296.8 million in 1978 to $297.1 million in 1979 and $317.8 million in 1980, an increase from 1978 through 1980 of only seven per cent. This reflects the slow growth of gasoline sales, the principal product on which such taxes apply.

LIQUIDITY

The company's liquidity position improved during the three years under review. Working capital, which represents the excess of current assets over current liabilities, amounted to $355.8 million at the beginning of 1978, and increased by nearly 86 per cent to $661.4 million at the end of 1980. At the same time the cash and marketable securities portion of working capital rose from $21.5 million to $335.1 million. This represents a rise from six per cent to 51 per cent of total working capital during the period under review.

Interest earned on investments in marketable securities increased from $2.2 million in 1978 to $37.9 million in 1980. The cost of interest which totalled $11.2 million in 1980 was less than one-third of the interest earned in that year.

In addition to the high degree of liquidity inherent in cash and marketable securities, the company's other current assets, consisting mainly of notes and accounts receivable plus inventories of crude oil and finished products, totalled $863.3 million at the end of 1980.

Although there was a substantial increase in the average value of credit sales for the period under review and a recent decrease in the pace of economic activity in Canada, the number of days outstanding for the company's accounts receivable declined as a result of operating efficiencies.

Inventories of crude oil and finished products, valued at cost, amounted to $402.5 million at the end of 1980. Owing to the ready marketability of petroleum, these inventories could be converted to cash at prices at least equal to their cost.

The company's current liabilities were $537.0 million at the end of 1980, or nearly double the amount at the beginning of the review period. Accounts payable, representing about one-third of the above increase, rose as a result of the higher cost of purchased crude oil and products. The balance of the increase resulted from sharply higher accrued liabilities for income taxes as the company moved into a current tax position after completion of Nanticoke refinery; increased liabilities for taxes other than income taxes, as a result of operations; and generally higher tax rates.

Funds provided by operations, before deduction of net exploratory expenditures, increased from $303.1 million in 1978, to $409.5 million in 1979 and $492.2 million in 1980. This growth provided the company with the means to meet current liabilities, dividend payments, and debt obligations; replace plant and equipment as required; and to expand capital and exploratory programs wherever justified or necessary.

CAPITAL RESOURCES

Assets

Total assets of the company at the end of 1980 were $2,603.1 million, compared with $2,299.7 million at the end of 1979 and $1,762.9 million one year earlier. Over the three years of the review period, commencing January 1, 1978, there has been an increase of $1,011.4 million, or 63.5 per cent, in the value of the company's total assets.

Total capital employed by the company at the close of 1980 amounted to $2,066.1 million, compared with $1,750.7 million at the end of 1979 and $1,512.8 million at the close of 1978. Since the beginning of 1978, capital employed has increased $753.6 million, or 57.4 per cent.

Common shareholders' equity which totalled $697.1 million at the beginning of 1978 increased to $806.1 million by the end of that year, to $998.4 million by the end of 1979 and to $1,280.2 million on December 31, 1980. During the three years under review, shareholders' equity increased by $583.1 million, or 83.6 per cent.

CAPITAL & EXPLORATORY EXPENDITURES

During the review period Texaco Canada made capital and exploratory expenditures of $546.8 million. These expenditures were made from funds generated by operations without recourse to financial markets. The funds were utilized in the exploration for and development of oil, gas and other energy supplies; they also covered improvement and expansion of facilities for refining, distributing, and marketing petroleum products.

Prior to announcement of the National Energy Program, the company had planned expansion of its capital and exploratory expenditures over the five year period beginning in 1981. Expectations of improved earnings and increased cash flow supported planned expenditures in excess of $2 billion through 1985. About three-quarters of this amount was intended to intensify the search for and development of new energy supplies.

As a result of the previously mentioned National Energy Program there likely will be a reduction in the level of funds provided by operations beginning in 1981. A corresponding contraction of discretionary capital and exploratory expenditures will then be required to allow for the company's other financial and operating needs.

Texaco Canada expects to continue to search for and develop new supplies of oil and gas in western Canada and to maintain its pilot plant project for the production of synthetic crude oil from the oil sands in Alberta. The company also expects to complete various capital projects already under way, but provisions of the National Energy Program preclude a more aggressive expenditure program at this time.

OTHER

Long-term debt was reduced to $84.6 million at the end of 1980 from $100.1 million three years earlier as the company retired a portion of its 10¾ per cent debentures, 1974 series, due in 1994. At present Texaco Canada does not have any plans to borrow capital during 1981.

At the end of 1980, the company had substantial unused lines of credit with banks for which no fees were charged.

Approximately 10 years ago, the company established access to the short-term commercial paper money market in the amount of $10 million. This line of credit remains in existence but has been unused for several years due to the financial strength of the company.

The company has capital and operating leases relating to retail outlets, transportation and other facilities.

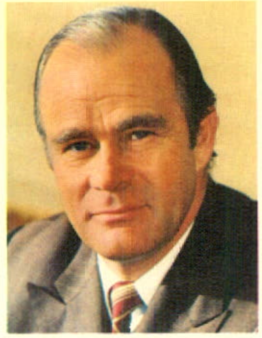
Capital leases appear as properties, plant and equipment in the asset section of the balance sheet and as capital lease obligations in the liability section of the same statement. The estimated minimum commitment for payment of rents under non-cancellable capital leases with terms of more than one year was $22.3 million at the end of 1980, compared with $27.3 million at the end of 1979 and $36.1 million at the end of 1978.

The decrease resulted largely from the acquisition of retail outlets which previously had been leased. The closing of other retail outlets, as part of the company's marketing consolidation program, also contributed to the decrease.

The use of retail outlets, transportation and other facilities was also obtained through operating leases. These obligations are identified in the Consolidated Statement of Income as rental expenses.

The company's estimated minimum commitment for payment of rent under operating leases with non-cancellable terms of more than one year was $50.3 million at the end of 1980, compared with $48.2 million at the end of 1979 and $46.4 million at the end of 1978.

Directors of Texaco Canada Inc.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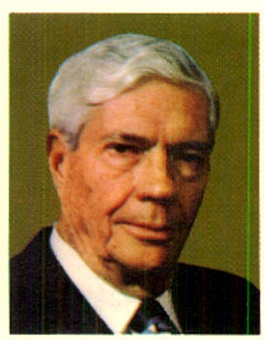
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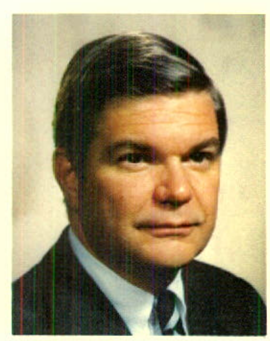
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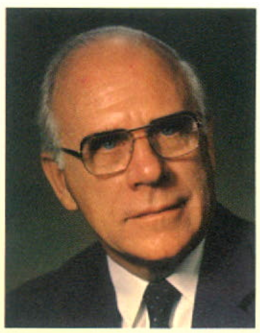

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