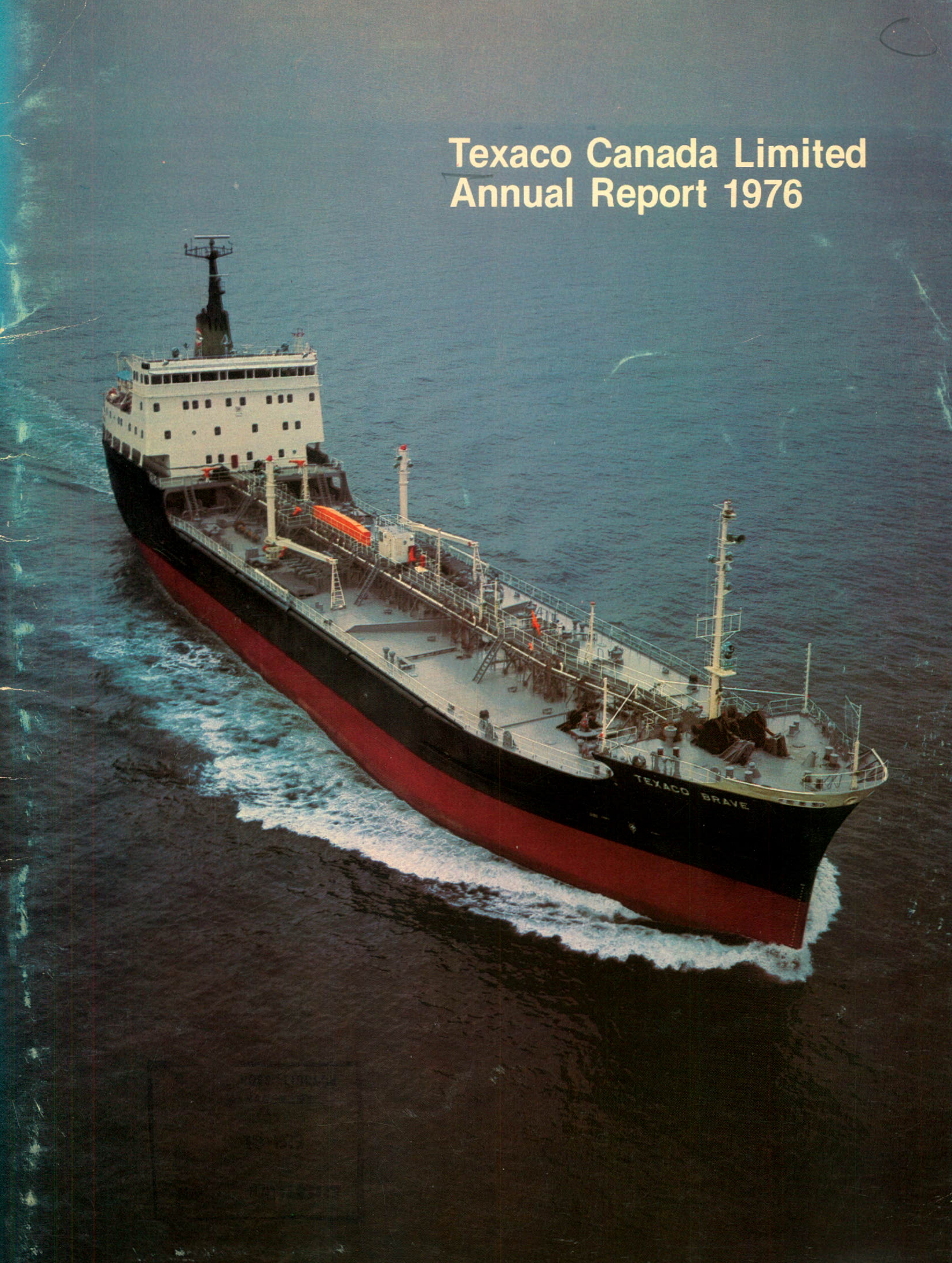
Texaco Canada Limited
Annual Report 1976



Cover: The new tanker Texaco Brave is shown undergoing sea trial. This new 9,300 deadweight ton vessel is the largest of Texaco Canada's three tankers.

Officers

R.W. Sparks
President and Chief Executive Officer

J.L. Morrison
Executive Vice-President

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

H.T. Hudson
Vice-President and Treasurer

J.G. Light
Vice-President, Refining

J.C. Wattie
Vice-President and General Manager, Marketing

A.J. Galipeault
General Counsel

E.J. Little
Secretary

D.L. West
Comptroller

Subsidiary Companies

Regent Refining (Canada) Limited
Tolhurst Petroleum Ltd.
Independent Petroleum (1970) Ltd.
Chartier Petroleum Ltd.
Vesuvio Fuel Oil Co. Limited
McColl-Frontenac Oil Co. Ltd.
Public Fuel Transmission Systems Limited
Oilship 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 %
Norfolk Oil Limited	50 %
The Great Eastern Oil & Import Co. Limited	48.94%

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

Contents

Texaco Canada Limited
90 Wynford Drive
Don Mills, Ontario M3C 1K5

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 of Canada Trust Company,
68 William Street, New York, N.Y.

The use in this report of such terms as *Texaco Canada, Company, organization, we, us, our* and *its,* when referring to Texaco Canada Limited 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.

Highlights

	1976	1975
Financial		
Gross income	**$997,383,000**	$878,390,000
Net income	**$ 28,982,000**	$ 51,135,000
Number of common shares outstanding	**9,715,359**	9,715,359
Net income per common share	**$2.97**	$5.25
Cash dividends paid on common stock	**$ 15,156,000**	$ 15,156,000
Cash dividends per common share	**$1.56**	$1.56
Shareholders' equity (end of year)	**$400,049,000**	$386,373,000
Total assets (end of year)	**$940,602,000**	$771,722,000
Working capital (end of year)	**$104,351,000**	$131,114,000
Property, plant and equipment expenditures	**$175,301,000**	$141,820,000
Operating (Barrels daily)		
Gross production of crude oil and natural gas liquids	**30,024**	33,467
Refinery runs	**145,077**	142,975
Petroleum product sales	**185,982**	181,744

This Texaco service station is in the heart of downtown Toronto. City Hall is in the background.

To the Shareholders

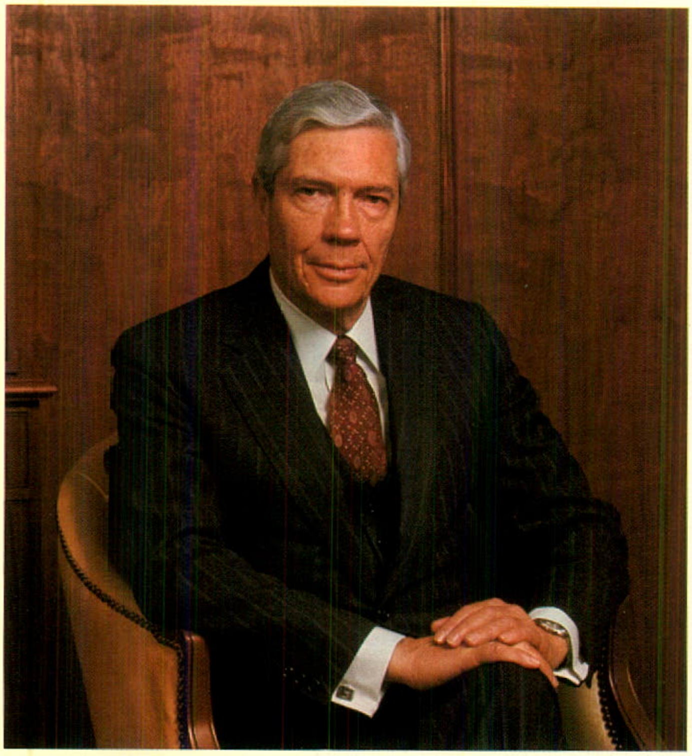
Texaco Canada's net income for 1976 amounted to $28,982,000, equal to $2.97 a common share, representing a decrease of 43.3% from the $51,135,000, or $5.25 per share in 1975.

Gross income for 1976 increased by 13.5% to $997,383,000, primarily due to higher product prices. This increase, however, was insufficient to recover fully a 20.8% rise in crude oil and other costs and expenses.

A number of factors adversely affected the company's earnings during the year. Gasoline prices across Canada were extremely soft. The weak prices for gasoline and other products were due in considerable measure to tight export controls and heavy export taxes, resulting in a surplus of refined products which would normally be exported. Controls on product prices by certain provinces restricted earnings by preventing full recovery of cost increases. Following the government decision to increase Canadian crude oil prices on July 1, 1976, a sixty day freeze was placed on petroleum product prices by most provinces and one jurisdiction, Nova Scotia, extended it to ninety days. These decisions to delay the full pass-through of approved crude cost increases led to reduced margins and once again forced the company to finance higher cost replacement inventories without the benefit of correspondingly higher product prices.

In addition, Texaco Canada had to pay higher interest charges because of increased borrowing, and extraordinary costs were incurred as a result of strikes at all refineries and some distribution terminals.

The company's gross production of crude oil and natural gas liquids declined by 10% to 30,000 barrels a day, while net production after royalty payments was down 11.9% to 19,800 barrels daily. Refinery throughput was 1.7% higher and averaged 145,100 barrels a day. Sales of petroleum products increased by 2.6% to 186,000 barrels daily.



R.W. SPARKS

During 1976 Texaco Canada became the major participant, with a 40% share interest, in a $20 million group commitment to drill in a block of over 5.5 million acres in deep waters on the Continental Slope, 150 miles east of St. John's, Newfoundland.

The company's largest and newest product tanker, the 9,300 deadweight ton Texaco Brave, was launched in October and will be delivered during March 1977.

At year-end, construction of the refinery at Nanticoke, Ontario, which will cost more than $400 million, had passed the halfway point. Completion is scheduled for mid-1978.

On July 30, 1976, Texaco Canada borrowed $75 million in Canadian funds from an affiliated company through an unsecured seven year loan agreement, at an interest rate of 10¼%. These funds were needed for general corporate purposes, mainly in connection with the Nanticoke refinery.

For the Canadian petroleum industry as a whole in 1976, production of crude oil and natural gas liquids declined by 6% to an average of 1,630,000 barrels a day, while domestic demand increased by 2% to an average of 1,790,000 barrels daily. Crude oil imports into Canada declined by about 9% to an average of approximately 740,000 barrels daily, from 816,000 barrels a day in 1975. This decline was due mainly to the movement of western Canadian crude oil to Montreal refineries for the first time, coincident with the start-up of the 520 mile Sarnia-Montreal extension of the Interprovincial Pipeline in mid-year.

Natural gas sales of 6.2 billion cubic feet a day were marginally higher than in the previous year, but represented a lower rate of increase than had generally been expected for 1976.

For 1977, while consumption of domestic crude will rise sharply, exports will diminish and production is expected to remain at approximately the same level as last year—about 1,630,000 barrels a day. Domestic consumption of Canadian crude is expected to reach 1,260,000 barrels a day. This increase of about 16% will be due mainly to the movement of western Canadian crude into the Sarnia-Montreal pipeline for refining in Quebec.

Domestic demand for petroleum and its products is expected to increase by about 3% to an average of 1,850,000 barrels daily.

Sales of natural gas are expected to average about 6.2 billion cubic feet per day, about the same as in 1976.

Some of the energy measures enacted or proposed by governments during 1976 showed signs of more realism and foresight.

The Federal Government's proposed new oil and gas regulations for frontier lands contain some constructive provisions designed to stimulate exploration in these areas, such as a maximum base royalty of 10% and the avoidance of double taxation. They also contain drawbacks which, it is hoped, will be removed before the regulations are legislated, such as an excessive amount of ministerial discretion, an unjustifiable preferred position for the government's new petroleum company, Petro Canada, and application of the excess profits tax. The Canadian Government also unveiled in 1976 its "Energy Strategy for Canada", which embodies such desirable objectives as reducing net dependence on imported oil by 1985 to one-third of total Canadian demand, doubling exploration and development in the frontier regions in the next three years, and moving domestic oil prices towards international levels.

In Alberta, where temporary incentives and higher prices led to increased drilling activity during the past year, some added emphasis has recently been placed on development of improved recovery measures. The same province, however, increased royalties on coal which could prove to be a severe disincentive to the early and economic development of coal reserves. In British Columbia the government reduced royalties and raised natural gas prices to more realistic levels, effective January 1, 1977. In Saskatchewan — where government taxes and royalties at one time amounted to over 100% of producing earnings — some relief has been provided in the form of credits related to operating costs and expenses. There is still, however, insufficient incentive to invest in exploration and development in this province.

Two more increases in the price of Canadian crude oil took place by government decree. An increase of $1.05 a barrel, effective July 1, 1976, and a further increase of 70 cents on January 1, 1977, brought the average wellhead price of domestic crude to $9.75 per barrel.

Despite these substantial price increases, the provincial and federal governments are simply not letting enough of the oil revenue dollar flow back to the producer—who took the risks, made the effort and incurred the expense that resulted in the finding and development of the oil.

The combination of excessive government taxes and royalties at the producing end, failure to allow the immediate pass-through of increased costs at the marketing end, and the other forms of taxation and restriction, is preventing the integrated oil companies from generating sufficient funds to meet capital investment requirements for exploration and development of new reserves as well as manufacturing and distribution facilities. If allowed to continue, the consequences of these governmental actions will be harmful to the consumer and counterproductive to the Canadian Government's goal of limiting Canada's reliance on outside sources of petroleum.

Canada's liquid hydrocarbon reserves have declined during each of the last seven years, and the cost of net crude oil imports in 1977 alone is expected to exceed $2 billion, with a resulting adverse effect on Canada's balance of payments position. In addition, the cost of finding and developing new oil and gas reserves in the frontier and offshore regions of Canada is vastly higher than it has been in the western provinces. It is abundantly clear, therefore, that if the future needs of Canadians are to be best served, Canada must have energy policies that permit the generation and investment of a much higher level of capital by the private oil companies.

In another area of government control, Texaco Canada was burdened in 1976 by the restraints, uncertainties and heavy administrative costs associated with conforming to the Anti-Inflation Board's guidelines.

The usefulness of these controls in restraining inflation, to the extent that they may have been useful, is now diminishing. At the same time their restrictive effect on investment is mounting. It is imperative, therefore, that the controls be dismantled as soon as feasible. Profit, price and wage controls should in no way be regarded as a substitute for the adoption by governments of realistic and responsible fiscal and monetary policies.

Roland Bock who served on the Board since 1963 did not stand for re-election at the 1976 Annual Meeting, having reached the retirement age for Board members as stipulated in the by-laws of the company. D. Fraser Bentley, Chairman of the Board, elected to take normal retirement on May 1 after more than 32 years of service and did not stand for re-election. Mr. Bentley served the company well and faithfully as General Counsel and Secretary, Vice-President, Senior Vice-President and finally as Chairman of the Board. The resignation from the Board of Alfred C. DeCrane, Jr., on July 30, was accepted with regret. Mr. DeCrane served as a Director since February, 1973.

Jacques Bock of Montreal and William S. Barrack, Jr. of New York were elected directors of the company in 1976. Mr. Bock is Vice-President and General Manager of Bock & Tétreau Limitée, Chairman of the Board of The Eagle Lumber Co. Ltd., and a Director of a number of other Canadian companies. Mr. Barrack is Vice President, Producing, Eastern Hemisphere, of Texaco Inc.

William K. Tell, Jr. was appointed a Director on July 30 to succeed Alfred C. DeCrane, Jr. Mr. Tell is Vice President, Washington, D.C., of Texaco Inc.

J. Lee Morrison was elected Executive Vice-President on April 23. Mr. Morrison was previously Vice-President and Assistant to the President. He has been a Director of the company since April 1975.

Finally, I wish to express the deep appreciation of the Board for the loyalty, efficiency and dedication of our employees across Canada, and to thank our shareholders and customers for their continued confidence and support.

A review of the company's operations in more detail, together with the financial statements for 1976, appears on the following pages.

Respectfully submitted, on behalf of the Board of Directors.

R.W. Sparks
President and Chief
Executive Officer

Don Mills, Ontario
March 8, 1977

Financial

Earnings

Consolidated net income of $29.0 million in 1976 was a decrease of $22.1 million from the 1975 earnings of $51.1 million. Net income per common share amounted to $2.97 in 1976 compared to $5.25 in the previous year.

Dividends

Cash dividends paid by the company on its common shares totalled $15.2 million or $1.56 a share in 1976, the same amount as in 1975.

Gross Income

Consolidated gross income for 1976 amounted to $997.4 million, or 13.5% higher than the $878.4 million in 1975. Sales and services contributed $989.3 million to gross income in 1976 compared with $864.5 million in 1975. Income from investments and other sources amounted to $8.1 million in 1976, compared with $13.9 million for the previous year.

Costs and Other Deductions

Costs and other deductions, excluding taxes, totalled $871.7 million in 1976. This was an increase of 21.5% over the $717.5 million in 1975.

Taxes

Federal sales tax, municipal and other taxes, and provincial and federal royalties amounted to $98.7 million in 1976, an increase of 11.8% over the $88.2 million in 1975. In addition, the company collected $306.8 million in taxes on petroleum products on behalf of provincial and federal governments during 1976 compared with $265.6 million in 1975. Current income taxes for 1976 decreased by $28.9 million from the level of the previous year.

Property, Plant and Equipment Expenditures

Expenditures for property, plant and equipment were $175.3 million in 1976, an increase of $33.5 million over the expenditures in 1975. Gross investment in property, plant and equipment at year-end of $772.8 million was 27.4% higher than the $606.5 million at the end of 1975.

New electronic automatic typing system in Travel Card Sales department, at Executive Offices.

Total Assets

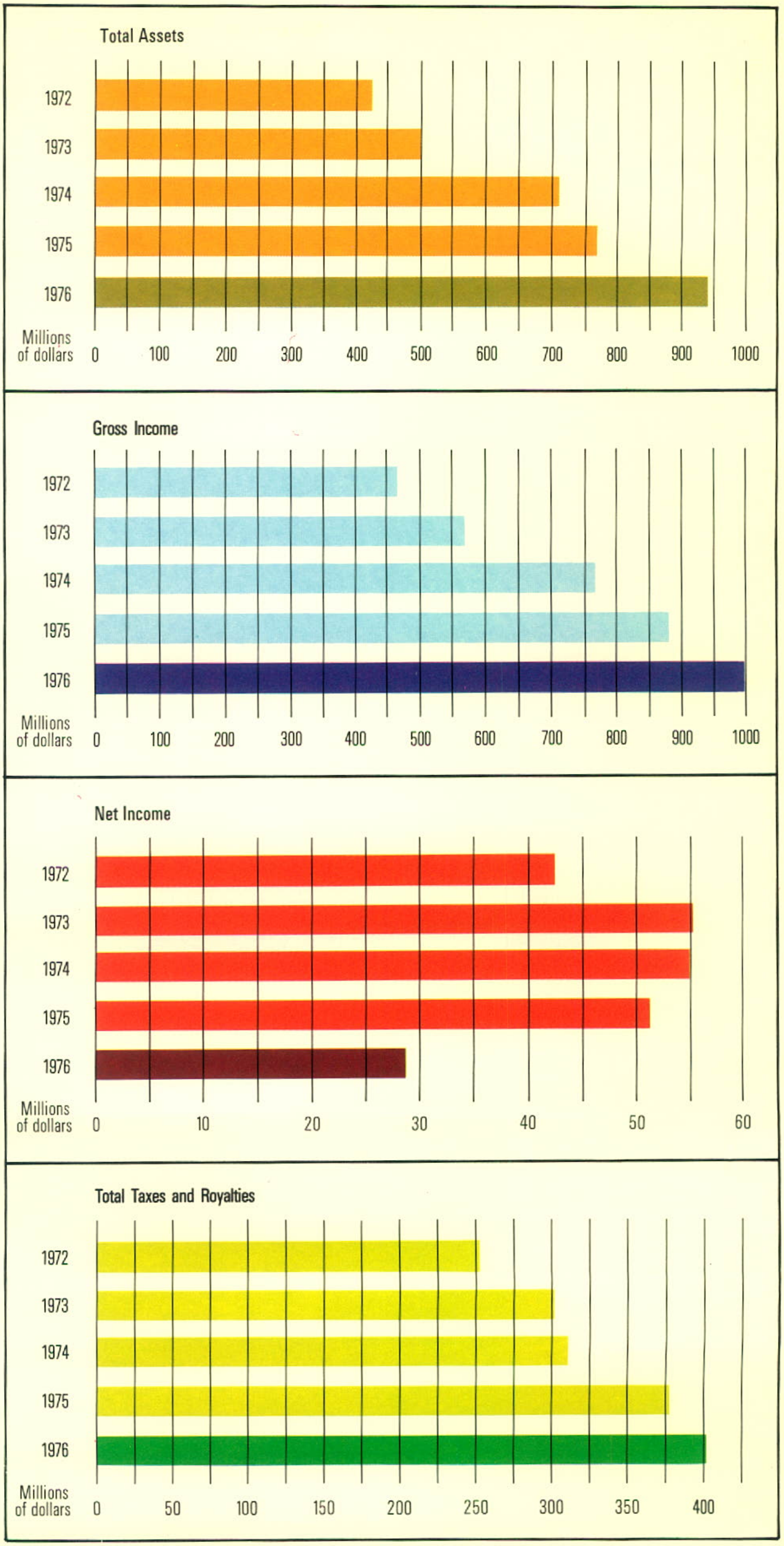
The company's total assets at year-end 1976 amounted to $940.6 million, an increase of 21.9% from the total of $771.7 million a year earlier.

Working Capital

Working capital amounted to $104.4 million at the end of 1976, a decrease of $26.7 million from the 1975 total.

Long-Term Debt

During 1976 the company increased its long-term debt with the issuance of a 10¼% note, due July 15, 1983, for $75.0 million. At year-end the long-term debt amounted to $180.5 million compared with $106.6 million a year earlier.



Review of Activities

Exploration and Production

Texaco Canada's gross production of crude oil and natural gas liquids decreased by 10% to an average of 30,000 barrels per day. This decline reflected the Federal Government's policy of a continuing reduction of Canada's crude oil exports. Net production decreased by 11.9% to 19,800 barrels per day, due to the decline in gross production and increased royalties.

The company completed seismic programs in Alberta and northeastern British Columbia during 1976, and operated a group survey off the coast of Newfoundland. Texaco Canada also carried out extensive studies of seismic data over the Scotian Shelf.

Geological studies continued with main emphasis on Alberta and British Columbia and the offshore east coast, where one particularly promising area was identified. As a result of this, Texaco Canada assumed a 40% share of a $20 million drilling commitment in a block of over 5.5 million acres, 150 miles east of St. John's, Newfoundland. Drilling could begin by 1979.

In Alberta, lease acreage was earned by farm-in drilling at Owl River and Cadotte River, and in the former area further drilling is under consideration by pooling with additional lands. One lease proven for gas was purchased in the Christina-Leismer field area.

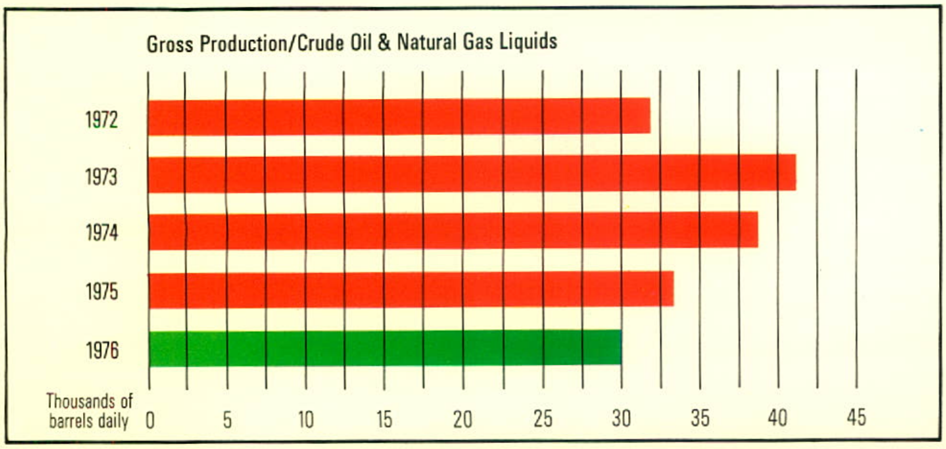
At year-end the company held a total of 2,419,000 net acres, compared with 3,108,000 net acres at the end of 1975. This reduction includes the surrenders due to lease selection at Graveyard and Moberly in British Columbia, and at West Chinchaga, Puskwaskau, Christina and Muskwa in Alberta. Major surrenders were made at Kelly-Turton in the Northwest Territories and in the Green Banks area offshore east coast. Farmouts at Sturgeon Lake, Valleyview, Elmworth and Botha River also accounted for a reduction in acreage.

Texaco Canada participated in the drilling of 17 wells during 1976. Of these, 5 were completed as oil wells, 7 as gas wells, 3 were found to be dry and 2 wells were in the drilling stage at year-end. In addition, 14 wells were drilled on lands in which the company has a royalty interest. These resulted in 1 oil well, 6 gas wells and 7 dry holes.

Additions to reserves of oil and natural gas liquids during the year were insufficient to offset production, although the life index of the company's reserves remained at approximately 13 years.

In Alberta, where Texaco Canada holds about 80,000 acres of coal leases, the company participated in a government-sponsored "in situ" combustion pilot test, which is intended to produce synthetic gas through the underground burning of coal.

Expenditures for exploration and production in 1976 increased by about 4% to $5.3 million, compared with $5.1 million in the previous year.



Opposite page: Derrick is raised in Alberta oil field.

Left: Drill crew is "tripping" drill pipe at Alberta well site.

Below: Texaco Canada engineer prepares daily drilling report.

Refining

Crude runs at the company's four refineries averaged 145,100 barrels per day in 1976 compared with 143,000 barrels per day in 1975, an increase of 1.7%.

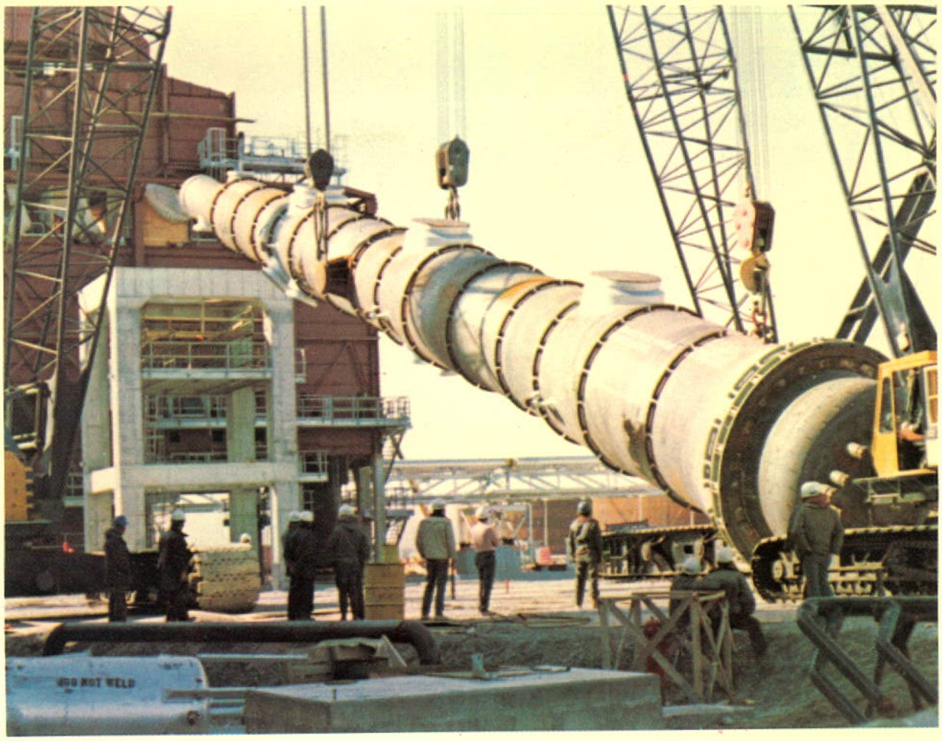
Construction of the 95,000 barrels per day refinery at Nanticoke, Ontario, is proceeding, with completion scheduled for mid-1978. At year-end the project was about 50% completed and approximately 2,200 construction workers were employed on the site. The storage tanks and principal buildings have been built, the heat exchange equipment and process heaters are in place, and most of the process vessels and 30% of the piping have been erected.

An expansion program to increase the capacity of the Montreal plant from 73,000 to 74,500 barrels per day was completed during the first half of 1976. Work began during the year on the expansion of Edmonton plant from 21,000 to 24,000 barrels a day, and this is scheduled for completion in 1977. The expansion of Halifax plant from 18,000 to 20,000 barrels a day, originally scheduled for completion in 1976, was deferred to 1977 due to construction labour difficulties in Nova Scotia.

Demand for lead-free gasoline has increased the company's requirements for high octane gasoline components. To meet this need, modifications to the catalytic reforming unit at Port Credit were completed in 1976, and similar projects at Halifax and Edmonton are expected to be finished in 1977. New tankage and pipelines for blending and shipping lead-free gasoline were also constructed at Halifax, Montreal and Port Credit refineries during 1976.

Environmental protection measures again were given high priority at all plants. A program to install vapour conservation roofs on storage tanks was continued at the refineries, and this was extended during the year to include tanks at Toronto Terminal.

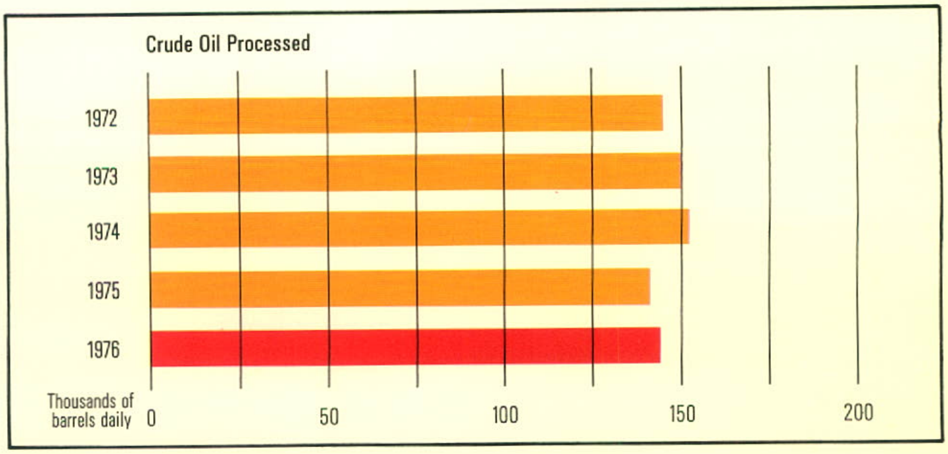
Excluding expenditures at Nanticoke, the company spent $1.5 million during 1976 in meeting new federal regulations governing the quality of refinery effluent water.



Opposite page: Aerial photo of Nanticoke refinery site shows construction about 50% completed.

Above: Stacked reactor vessel—part of the catalytic reforming unit—at Nanticoke refinery site being raised into place.

Right: New vacuum feed heater at Montreal plant. Spiral vanes at top of the 200-foot stack reduce wind vibration.



Transportation

In 1976, the company transported an average of 377,000 barrels of crude oil and petroleum products per day.

Texaco Canada's two tankers — "Texaco Chief" and "Texaco Warrior" — moved an average of 14,800 barrels of products a day, an increase of 30% over 1975. Additional quantities were carried by chartered vessels.

A new tanker, the "Texaco Brave", was launched in October with delivery scheduled during March 1977. This 9,300 deadweight ton tanker will be the largest of Texaco Canada's three ships.

Alberta Products Pipe Line Limited, 20% owned by Texaco Canada, completed and put into operation a pipeline and tank facilities at Calgary International Airport. These facilities permit the movement of jet fuels from Edmonton refineries directly to the airport, replacing truck deliveries.

Trans-Northern Pipe Line Company, one third owned, increased the capacity of its branch line to Ottawa to permit a greater volume of products to be moved to that location from Toronto refineries. Montreal refineries continue, however, to be the major source of supply to the Ottawa area.

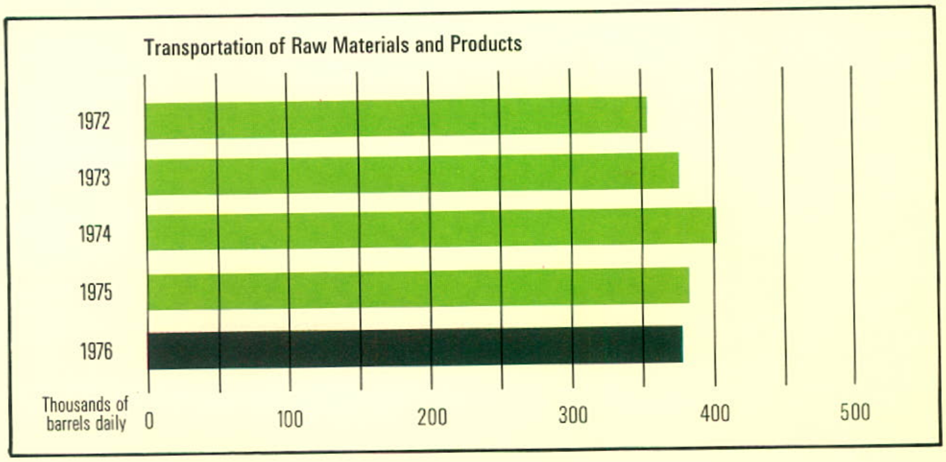
During 1976, Federated Pipe Lines Limited, 50% owned, again transported a lower volume of crude oil from the Swan Hills area to Edmonton, Alberta, than in the previous year because of further reductions in allowable exports to the United States.

The Portland-Montreal Pipe Line, in which the company has a 16% interest, carried a lower volume of crude oil to Montreal refineries from terminal facilities at Portland, Maine. This reduction was due to the displacement of offshore crude oil by western Canadian crude, which moved to Montreal refineries through the new Interprovincial Pipeline extension.

Left: Texaco Warrior and Texaco Chief loading products at the company refinery at Eastern Passage, N.S.

Jumbo railroad tank cars carrying Texaco products to distribution terminals.

Construction of Alberta Products Pipeline facilities at Calgary International Airport. The new line permits the movement of jet fuels directly from Edmonton refineries to the airport.




TEXACO
TEXACO
Tourist
Guide
Touristique
TEXACO
TEXACO

Marketing

The company's sales of petroleum products averaged 186,000 barrels a day in 1976, representing an increase of 2.6% or 4,300 barrels daily over the previous year.

Effective July 1, 1976 the Marketing Department was re-organized on a regional basis in order to introduce new marketing concepts that improve efficiency and reduce overhead costs.

During 1976, the company constructed new self-serve outlets and converted some existing outlets to meet the growing customer demand for this type of facility. Lead-free gasoline was made available through approximately half of the company's retail outlets in Canada, in anticipation of a steady growth of demand for this product.

Service to Texaco Travel Card customers was expanded by the introduction of membership in a motor club that offers a wide variety of services to credit card holders at a moderate cost. These include tourist travel routing and emergency road and towing service.

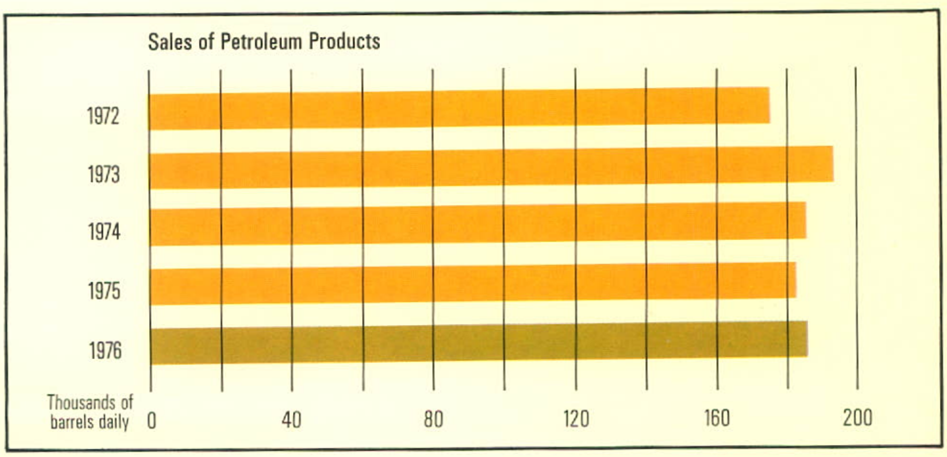
The company expanded its distribution of farm fuels and heating oils in many areas across Canada.

Texaco Canada received a "Silver Torch" award from the Olympic Committee for its contribution as a sponsor of the 1976 Summer Olympic Games in Montreal. Texaco was a major sponsor of the national television network coverage by the Canadian Broadcasting Corporation. More than 87% of Canadian viewers watched at least some of the televised presentation of the games.

As a community service, 30 colourfully dressed Texaco tourist guides patrolled Montreal streets on motor bikes, assisting tens of thousands of Olympic visitors.

Bob Hope starred in a Texaco-sponsored television "spectacular" broadcast from Montreal, which helped raise $200,000 for the Canadian and United States Olympic teams.

Left: One of 30 Texaco Canada Tourist Guides who provided assistance and information to visitors to Montreal during the 1976 Summer Olympic Games.



New self-serve station at Burlington Mall, near Hamilton, Ontario.

Fishing boat being refueled at Lunenburg, Nova Scotia.

Employee Relations

Employees of Texaco Canada and subsidiaries numbered 3,841 at year-end, compared with 3,856 at the close of 1975. Payroll and employee benefit costs rose by 13.7% to $73.7 million in 1976.

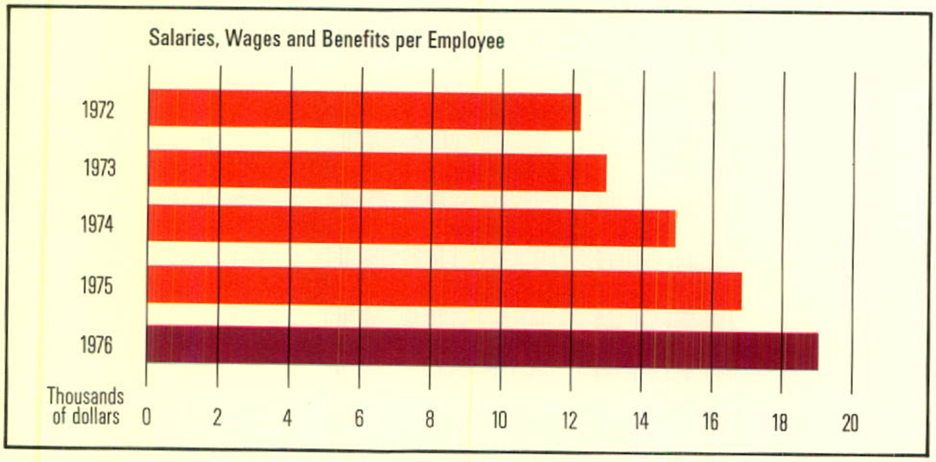
The company's employee relations programs and activities in the fields of manpower planning and development and accident prevention and loss control were continued. Administration of the compensation, labour relations and benefit plan programs became substantially more complex and costly in 1976 as a result of the company's compliance with the guidelines of the Anti-Inflation Board.

As part of Texaco Canada's ongoing manpower planning and development program, performance appraisals were conducted to identify available talent and utilize it to the best advantage. Tuition reimbursements under the Educational Assistance Program were provided to 166 employees.

The granting of another 20 scholarships to sons and daughters of employees brought to 201 the total number awarded under the Merit Scholarship Program since it began in 1966.

The safety program received continuing emphasis through the co-ordination of accident prevention and loss control on a company-wide basis.

Eighty-three employees received the 25-year service award in 1976. There were 564 active personnel with 25 or more years of company service at year-end. Sixty-eight employees retired in 1976, bringing to 512 the number of former employees on pension at year-end.



Toronto area employees and family members visit Nanticoke refinery construction site on company-sponsored tour.

Public Affairs

Texaco Canada carried out an extensive public communications program in 1976 as oil industry activities continued to attract wide public interest.

Broad distribution was given to the company's views on such matters as taxes and royalties, export licensing, energy conservation, oil reserves, the growing gap between domestic production and consumption, and the need for encouraging and stable government policies to stimulate the generation of needed investment capital.

These corporate positions were expressed in statements by company officers, briefs to governments, releases to the news media, and through company publications.

At Nanticoke, Ontario, where construction of the company's largest refinery is proceeding, the company's community relations program emphasizes two-way communication with local residents and municipal officials. Meetings, speeches, tours of the refinery site, audio-visual presentations, and interviews by the news media contributed to this program.

Day-long bus tours to Nanticoke gave many employees and family members the opportunity to visit the site of the largest project ever undertaken by the company.

Texaco Canada continued its active participation in groups working for the protection of the environment, and provided financial support for a wide variety of institutions and organizations through a selective program of corporate donations.

Texaco Canada Limited and Subsidiary Companies

Consolidated Statement of Income

for the years ended December 31, 1976 and 1975

	1976	1975
Gross Income		
Sales and services	$989,308,000	$864,543,000
Income from investments (Note 1)	4,383,000	6,084,000
Interest income from affiliated company	—	3,846,000
Other income	3,692,000	3,917,000
	$997,383,000	$878,390,000
Deductions		
Costs and operating expenses	$727,964,000	$591,658,000
Selling, general and administrative expenses	104,815,000	94,760,000
Depreciation, depletion, and amortization	19,147,000	18,053,000
Interest charges		
Long-term debt (Note 2)	14,363,000	11,179,000
Other	5,409,000	1,831,000
* Taxes, other than income taxes	64,811,000	57,514,000
Provision for income taxes — current	(4,990,000)	23,935,000
— deferred	36,882,000	28,325,000
	$968,401,000	$827,255,000
Net Income for the Year	$ 28,982,000	$ 51,135,000
Net Income per common share	$2.97	$5.25

*In addition, federal excise tax, provincial motor fuel and oil taxes collected from consumers were paid or accrued in the amounts of $306,785,000 during 1976 and $265,568,000 during 1975. The federal excise tax became effective on June 24, 1975.

See accompanying accounting policies and notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

for the years ended December 31, 1976 and 1975

	1976	1975
Balance at beginning of year	$349,259,000	$313,430,000
Add —		
Net income for the year	28,982,000	51,135,000
Deduct —		
Dividends declared		
Preferred stock ($4.00 per share in 1976 and 1975)	150,000	150,000
Common stock ($1.56 per share in 1976 and 1975)	15,156,000	15,156,000
Balance at end of year (Note 5)	$362,935,000	$349,259,000

See accompanying accounting policies and notes to consolidated financial statements.

Texaco Canada Limited and Subsidiary Companies

Consolidated Balance Sheet

December 31, 1976 and 1975

Assets

	1976	1975
Current Assets		
Cash	$ 3,283,000	$ 4,249,000
Recoverable income taxes	2,630,000	—
Marketable securities — at cost	—	5,961,000
Accounts receivable	175,408,000	175,590,000
Inventories		
Crude and refined oil products and merchandise	158,276,000	136,223,000
Materials and supplies	2,402,000	2,316,000
Total current assets	$341,999,000	$324,339,000
Investments and Advances (Note 1)	$ 33,820,000	$ 34,698,000
Property, Plant and Equipment, at cost		
Producing	$ 97,149,000	$ 93,550,000
Manufacturing	427,120,000	272,987,000
Marketing	230,370,000	222,467,000
Marine	15,041,000	14,632,000
Other	3,085,000	2,820,000
	$772,765,000	$606,456,000
Less: Accumulated depreciation, depletion, and amortization	210,913,000	198,578,000
Net property, plant and equipment	$561,852,000	$407,878,000
Deferred Charges		
Premium paid on subsidiary companies' capital stock, less amortization	$ 1,735,000	$ 2,106,000
Prepaid expenses and other deferred charges	1,196,000	2,701,000
Total deferred charges	$ 2,931,000	$ 4,807,000
	$940,602,000	$771,722,000

See accompanying accounting policies and notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	1976	1975
Current Liabilities		
Notes payable and long-term debt due within one year		
Affiliated company (Note 6)	$ 76,009,000	$ 41,017,000
Other	23,000	21,000
Accounts payable and accrued liabilities		
Affiliated companies	62,691,000	53,120,000
Other	61,401,000	52,250,000
Sales, motor fuel and sundry taxes	37,486,000	37,212,000
Income taxes	—	9,567,000
Dividends payable	38,000	38,000
Total current liabilities	$237,648,000	$193,225,000
Long-Term Debt (Note 2)	$180,533,000	$106,634,000
Deferred Income Taxes	$122,372,000	$ 85,490,000
Shareholders' Equity		
Preferred Stock		
4% Cumulative redeemable preferred shares of $100 par value (redeemable at Company's option at $102.50 on thirty days' notice)		
Authorized — 77,500 shares		
Issued — 37,500 shares	$ 3,750,000	$ 3,750,000
Common Stock and Retained Earnings		
Common shares of no par value		
Authorized — 14,926,578 shares		
Issued — 9,715,359 shares	$ 33,364,000	$ 33,364,000
Retained earnings (Note 5)	362,935,000	349,259,000
Total common stock and retained earnings	$396,299,000	$382,623,000
	$940,602,000	$771,722,000

Approved on behalf of the Board:
R.W. Sparks, Director
Stanley D. Clarke, Director

Consolidated Statement of Changes in Financial Position

for the years ended December 31, 1976 and 1975

	1976	1975
Source		
Net income	$ 28,982,000	$ 51,135,000
Depreciation, depletion, and amortization	19,147,000	18,053,000
Provision for income taxes — deferred	36,882,000	28,325,000
Excess of equity in earnings of non-subsidiary companies over dividends (Note 1)	(575,000)	(675,000)
Provided by operations	$ 84,436,000	$ 96,838,000
Additions to long-term debt (Note 2)	75,000,000	—
Book value of property, plant and equipment sold	2,324,000	2,511,000
	$161,760,000	$ 99,349,000
Disposition		
*Property, plant and equipment expenditures	$175,301,000	$141,820,000
Reduction in long-term debt (Note 2)	1,101,000	1,099,000
Dividends paid — preferred stock	150,000	150,000
— common stock	15,156,000	15,156,000
Other (net)	(3,185,000)	(924,000)
	$188,523,000	$157,301,000
Decrease in Working Capital	$ 26,763,000	$ 57,952,000
Working Capital		
At beginning of year	131,114,000	189,066,000
At end of year	$104,351,000	$131,114,000

*Property, plant and equipment expenditures		
Producing	$ 5,318,000	$ 5,119,000
Manufacturing	154,050,000	101,762,000
Marketing	15,322,000	23,979,000
Marine	409,000	10,749,000
Other	202,000	211,000
	$175,301,000	$141,820,000

See accompanying accounting policies and notes to consolidated financial statements.

Accounting Policies

Principles of Consolidation

The accounts of Texaco Canada Limited and subsidiary companies are included in the consolidated financial statements. Intercompany accounts and transactions are eliminated.

United States dollar balances included in current assets and liabilities have been translated to Canadian dollars at the rate of exchange at the end of each year. Long-term debt payable in United States dollars has been translated at rates of exchange in effect when the notes were issued.

Inventories

Inventories of crude and refined oil products and 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 Company 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 Company's equity in 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 Company's equity in the underlying net assets of the companies.

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

Depreciation, Depletion, and Amortization

Depreciation, depletion, and amortization of property, plant and equipment related to exploration and producing activities are determined on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable oil and gas reserves. With respect to exploration activities, the Company capitalizes lease acquisition costs and costs related to the exploration for, and development of, oil and gas reserves. As a result, finding and development costs are allocated to the periods in which revenue is recognized as the oil and gas reserves are produced and sold. For operations other than exploration and producing, depreciation is provided generally on the group plan with depreciation rates based upon estimated useful life applied to the cost of each class of property.

Deferred Income Taxes

Provision is made in the Company's accounts to reflect the income tax effect applicable to transactions recorded in the Company's financial statements in a reporting period different from the period in which they are reported for income tax purposes.

The deferred income taxes 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 Company'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

The Company's group pension plan is available to substantially all employees. The cost of pension benefits is amortized over the estimated service of the employees involved. As at December 31, 1976, costs which will be incurred in future years in respect of prior service amounted to approximately $8,679,000 on a present value basis. These costs are being funded by annual payments of $961,000 up to and including 1989.

Federal Government Oil Import Compensation Program

Compensation received or recoverable under the program for oil imported for consumption in Canada is deducted from cost of crude oil purchases. In order to be eligible for compensation the Company has maintained selling prices in accordance with federal government guidelines.

Notes to Consolidated Financial Statements

1. Investments and Advances

	1976	1975
Non-subsidiary companies accounted for:		
On equity basis	$ 15,722,000	$ 15,147,000
At cost	481,000	1,795,000
	$ 16,203,000	$ 16,942,000
Miscellaneous investments (at cost)		
Notes, mortgages and other long-term receivables	17,617,000	17,756,000
Total investments and advances	$ 33,820,000	$ 34,698,000

2. Long-Term Debt

The long-term debt of Texaco Canada Limited and its subsidiaries at December 31, 1976 and 1975 is as follows:

	1976	1975
10¾% debentures, 1974 series, due 1994 ($5,000,000 annual sinking fund requirement 1980 - 1993)	$100,000,000	$100,000,000
Due to affiliated company		
10¼% Note, due July 15, 1983	75,000,000	—
4% Notes, due U.S. $1,000,000 annually to 1982 (1976 U.S. $5,000,000; 1975 U.S. $6,000,000)	5,388,000	6,466,000
Other long-term obligation	145,000	168,000
Total long-term debt	$180,533,000	$106,634,000

3. Directors' and Officers' Remuneration

Fees and other remuneration paid to directors and officers were as follows:

	1976	1975
Number of directors	15	15
Number of directors who receive fees as directors	13	12
Aggregate of such fees	$ 58,000	$ 55,000
Number of officers	14	15
Aggregate remuneration	$936,000	$1,201,000
Number of officers who are also directors	3	4

4. Commitments and Contingent Liabilities

At December 31, 1976, $253,344,000 had been expended on the construction of a 95,000 barrels per day refinery at Nanticoke, Ontario. The project which is estimated to cost over $400,000,000 is expected to be completed in mid-1978.

As at December 31, 1976, the Company had non-cancellable leases expiring more than one year from such date covering service stations, office buildings, and other facilities. Minimum amounts payable under such commitments without reduction for related rental income are expected to average approximately $8,000,000 annually for the next five years.

Under certain service station lease agreements, the Company is contingently liable as guarantor for loans by third parties to the lessors which total $22,738,000 as at December 31, 1976. Annual payments are due by the lessors from 1977 through 1981 of $1,329,000, $2,393,000, $4,909,000, $3,880,000 and $3,954,000 respectively. The Company has an option to purchase these service stations for the outstanding amount of the contingent liability.

Under long-term agreements with pipeline companies in which stock interests are held, the Company guarantees specified revenue from crude and refined products shipped and in the event such companies are unable to meet debt obligations, the Company may be required to advance funds against future transportation charges. The contingent liability arising from such agreements, together with certain liabilities on bank loans, discounted notes, etc., amounted to $10,811,000 at December 31, 1976.

No losses are anticipated by reason of the above contingent obligations. In the opinion of the Company'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 is not materially important in relationship to the total consolidated assets of the Company and its subsidiaries.

5. Federal Government Anti-Inflation Legislation and Dividend Restriction

The Company has complied with all legal restraints from the inception of the Federal Government's anti-inflation legislation, and is in compliance in all activities relative to prices, profits, dividends, and compensation.

The amount of dividends which the Company may declare during 1977 will, however, be restricted by the current anti-inflation legislation.

6. Subsequent Event

Under the terms of a loan agreement with an affiliated company, an additional $30,000,000 was borrowed in January, 1977.

Auditors' Report

To the Shareholders,
Texaco Canada Limited:

We have examined the consolidated balance sheet of Texaco Canada Limited (a Canada Corporation) and subsidiary companies as of December 31, 1976 and 1975, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Texaco Canada Limited and subsidiary companies as of December 31, 1976 and 1975, and the results of their operations and changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the years.

Arthur Andersen & Co.,
Chartered Accountants

Toronto, Ontario
February 4, 1977

Texaco Canada Limited and Subsidiary Companies

Ten Year Review

Financial Summary

		Net Income (1)			Dividends Paid					Payments to Governments		
					Common		Preferred					
Year	Gross Income	Total	Per Common Share	Per Dollar of Gross Income	Total Cash	Per Share	Total Cash	Per Share	Property, Plant and Equipment Expenditures	Income, Operating Taxes and Royalties	Taxes Collected From Consumers	Total Taxes and Royalties
	Millions	Millions			Millions		Millions		Millions	Millions	Millions	Millions
1976	**$997.4**	**$29.0**	**$2.97**	**2.9¢**	**$15.2**	**$1.56**	**$0.2**	**$4.00**	**$175.3**	**$ 93.7**	**$306.8**	**$400.5**
1975	878.4	51.1	5.25	5.8	15.2	1.56	.2	4.00	141.8	112.2	265.6	377.8
1974	761.8	55.0	5.65	7.2	14.0	1.44	.2	4.00	53.8	106.0	204.7	310.7
1973	567.4	55.4	5.68	9.8	12.2	1.26	.2	4.00	31.0	89.6	212.6	302.2
1972	463.4	42.4	4.35	9.2	11.1	1.14	.2	4.00	30.6	68.1	184.4	252.5
1971	406.3	31.6	3.24	7.8	9.1	.94	.2	4.00	29.0	58.9	170.0	228.9
1970	352.8	24.7	2.53	7.0	8.5	.88	.2	4.00	23.5	52.2	159.1	211.3
1969	331.2	23.3	2.39	7.0	8.0	.82	.2	4.00	26.3	45.6	152.3	197.9
1968	310.5	21.0	2.14	6.8	7.2	.74	.2	4.00	23.4	44.3	137.6	181.9
1967	284.5	17.4	1.78	6.1	6.1	.63	.2	4.00	22.6	35.5	112.0	147.5

Financial Condition at Year End

							Common Shareholders' Equity	
Year	Current Assets	Current Liabilities	Working Capital	Current Ratio	Total Assets	Long-Term Debt	Net Book Value	Per Share at Year End
	Millions	Millions	Millions		Millions	Millions	Millions	
1976	**$342.0**	**$237.6**	**$104.4**	**1.44**	**$940.6**	**$180.5**	**$396.3**	**$40.79**
1975	324.3	193.2	131.1	1.68	771.7	106.6	382.6	39.38
1974	385.3	196.2	189.1	1.96	711.7	107.7	346.8	35.70
1973	212.2	131.0	81.2	1.62	500.3	10.1	305.9	31.48
1972	154.4	91.7	62.7	1.68	426.8	22.5	262.9	27.06
1971	144.7	90.3	54.4	1.60	401.7	32.0	231.7	23.85
1970	134.1	82.8	51.3	1.62	373.4	37.5	207.3	21.33
1969	125.0	73.7	51.3	1.70	349.4	40.5	191.2	19.68
1968	122.5	86.9	35.6	1.41	334.4	30.0	176.2	18.14
1967	105.2	68.2	37.0	1.54	305.6	34.5	162.8	16.75

Operations Summary

	in thousands of barrels daily					Shares		Shareholders		Employees	
	Production of Crude Oil and Natural Gas Liquids							Number at Year End			
Year	Gross	Net	Refinery Runs	Refinery Crude Oil Capacity	Petroleum Product Sales	Common	Preferred	Common	Preferred	Number at Year End	Payrolls and Benefits
						Thousands	Thousands				Millions
1976	**30.0**	**19.8**	**145.1**	**161.5**	**186.0**	**9,715**	**38**	**4,814**	**565**	**3,841**	**$73.7**
1975	33.5	22.5	143.0	160.0	181.7	9,715	38	5,036	589	3,856	64.8
1974	38.9	27.5	151.8	160.0	185.7	9,715	38	5,197	596	3,846	56.2
1973	41.3	35.8	149.9	156.5	193.3	9,715	38	5,173	627	3,705	48.2
1972	32.0	27.9	146.9	144.0	176.4	9,715	38	5,318	679	3,705	44.7
1971	26.4	22.9	144.6	142.0	161.3	9,715	38	5,400	715	3,608	40.5
1970	23.6	20.6	139.5	142.0	149.3	9,715	38	5,732	752	3,531	36.6
1969	21.4	18.6	134.8	129.5	141.7	9,715	38	5,898	783	3,481	33.2
1968	19.0	16.5	132.6	127.5	134.2	9,715	38	5,349	828	3,441	30.1
1967	16.5	14.4	125.4	125.5	125.9	9,715	38	5,478	859	3,424	27.7

(1) Year 1969 includes extraordinary item of $1,765,000 or $0.18 per common share representing gain on sale of an office building and land.

Texaco Products

Texaco Canada markets a wide range of top quality products in all ten provinces. These include:

AUTOMOTIVE

SKY CHIEF gasoline
FIRE CHIEF gasoline
LEAD-FREE TEXACO gasoline
HAVOLINE SUPER PREMIUM motor oil
URSA motor oil
TEXACO ANTI-FREEZE AND COOLANT
MARFAK lubricants
TEXAMATIC transmission fluids
MULTIGEAR lubricants

AVIATION

AVJET jet fuels
SATO synthetic turbine oils
Aviation gasolines
Aircraft engine oils
Aircraft hydraulic oils
Aircraft greases

MARINE

OUTBOARD MOTOR OIL
Marine bunker fuels
Marine lubricants

FUEL OILS

DIESEL CHIEF
CRYSTALITE kerosene
Home heating fuels
Industrial fuels

INDUSTRIAL

Construction and mining equipment lubricants
Farm lubricants
Forest and paper industry lubricants
GEOTEX gas engine oils
REGAL turbine oil
RANDO hydraulic oil
Metalworking lubricants and coolants
Process oils
Railway lubricants
Steel mill lubricants
Textile mill lubricants
TEXSPRAY compound

PETROCHEMICALS

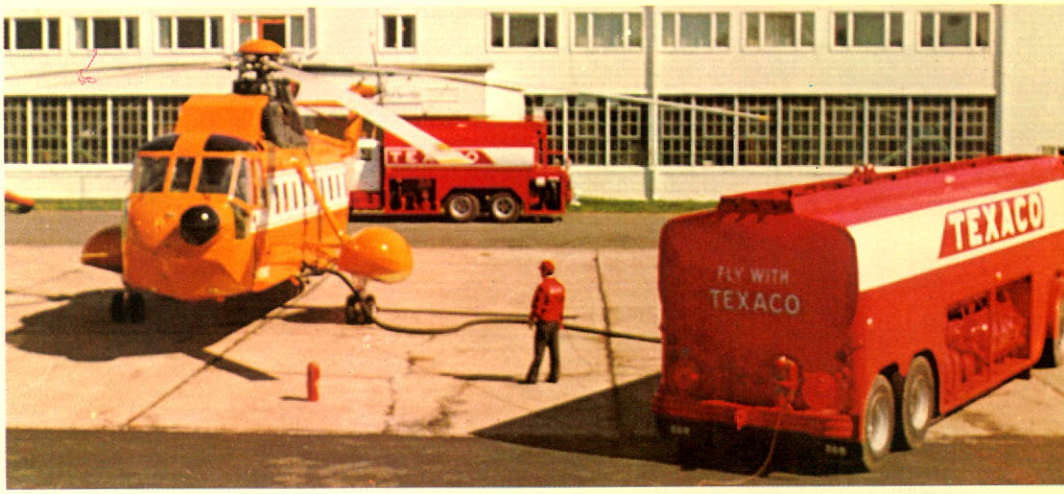
Benzene
Toluene
Xylene
Hexane
Feedstocks for chemical plants
Specialized solvents, such as:
SOLVEX
AROTEX
PARATEX

THE QUALITY LINE SPECIALTIES

OTHER

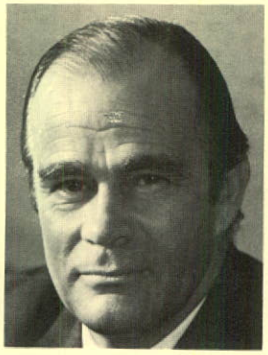
Liquefied petroleum gases
Rust proof compounds





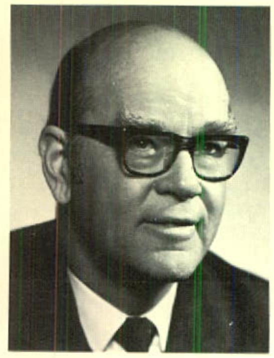
Directors of Texaco Canada Limited

William S. Barrack, Jr.
Vice President
Producing
Eastern Hemisphere
Texaco Inc.
New York

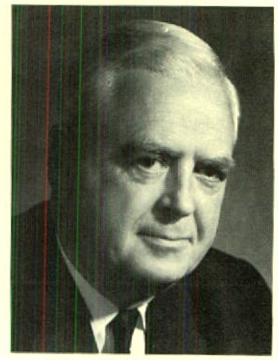


Rodrigue J. Bilodeau
Chairman of the Board and
Chief Executive Officer
Honeywell Limited
Toronto

Jacques Bock
Vice-President and
General Manager
Bock & Tétreau Limitée
Montreal



Stanley D. Clarke
President
Clarke Transportation
Canada Ltd.
Montreal

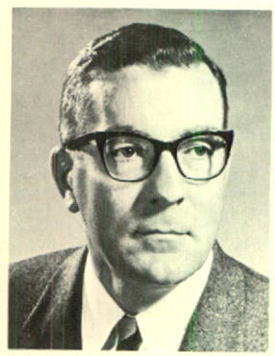


A.G. Farquharson
Retired, Formerly President
and Chief Executive Officer
Texaco Canada Limited
Bainsville, Ontario

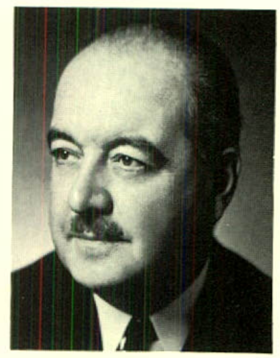
*H.J. Lang
Chairman and Chief
Executive Officer
Canron Limited
Montreal

John I. Mingay
Retired, Formerly President
and Chief Executive Officer
Texaco Canada Limited
Hilton Head Island
South Carolina

*J. Lee Morrison
Executive Vice-President
Texaco Canada Limited
Toronto



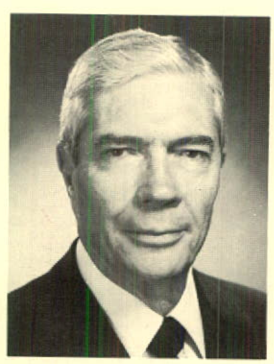
*Paul Murdock
President
Murdock Lumber Inc.
Chicoutimi, Quebec



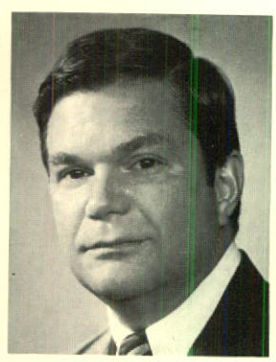
*The Hon. Victor deB. Oland
Chairman
Lindwood Holdings Limited
Halifax

Charles I. Rathgeb
Chairman and Chief
Executive Officer
Comstock International Ltd.
Toronto

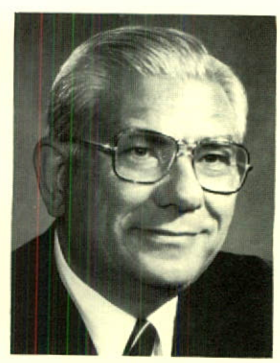
Neil M. Shaw
President and Chief
Executive Officer
Redpath Industries Ltd.
Montreal



*R.W. Sparks
President and Chief
Executive Officer
Texaco Canada Limited
Toronto



William K. Tell, Jr.
Vice President
Washington, D.C.
Texaco Inc.
Washington, D.C.

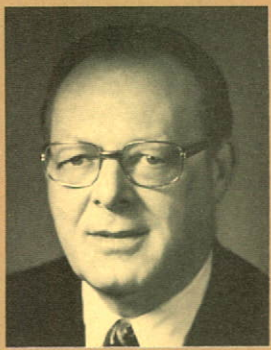


*Peter E. Wissel
Vice President
Finance and Economics
Texaco Inc.
New York

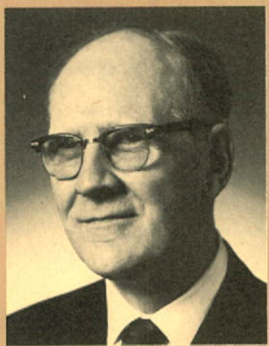
*Member of the Executive Committee.

Other Officers

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



H.T. Hudson
Vice-President and Treasurer

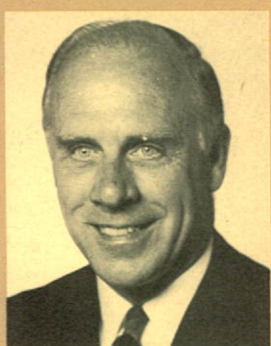


J.G. Light
Vice-President, Refining

J.C. Wattie
Vice-President and General Manager, Marketing

A.J. Galipeault
General Counsel

E.J. Little
Secretary



D.L. West
Comptroller

TEXACO