C

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1980

Commission File Number 2-67518

GULF CANADA LIMITED

(Exact name of registrant as specified in its charter)

CANADA	Inapplicable
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

130 ADELAIDE STREET WEST, TORONTO, ONTARIO, CANADA M5H 3R6

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 416-869-8600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

None

Title of Class

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

State the aggregate market value of voting stock held by non-affiliates of the registrant.

Can. $2,296 million as of February 27, 1981.

Indicate the number of shares outstanding of each of the registrant's classes of common stock.

227,487,030 Common Shares as of February 27, 1981.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's 1980 Annual Report to Shareholders are incorporated by reference in Parts I, II, III and IV of this Report, as set forth herein under "Exhibit 13" in Item 11(a)(3).

INDEX

In this Report, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars ("$"). Since June 1, 1970, the Government of Canada has permitted a floating exchange rate to determine the value of the Canadian dollar against the U.S. dollar ("US $"). The high and low spot rates for the five years ended December 31, 1980, and the period January 1, 1981 through March 17, 1981, as reported by the Bank of Canada, were as follows (expressed in U.S. dollars):

	1976	1977	1978	1979	1980	Jan. 1 through March 17, 1981
High ...	1.0389	0.9985	0.9170	0.8778	0.8767	0.8470
Low	0.9588	0.8963	0.8363	0.8320	0.8230	0.8295

On March 17, 1981 the noon buying rate in New York City, payable in Canadian dollars, as reported by the Federal Reserve Bank of New York, was US \$0.8430 = \$1. The closing spot rate for the U.S. dollar in Canada on March 17, 1981, as reported by the Bank of Canada, was US \$1 = \$1.1829.

In this report the metric measures corresponding to barrels and cubic feet, gallons, pounds, miles and acres are cubic metres, litres, kilograms, kilometres and hectares, respectively. Acres have been converted into hectares at the applicable provincial rates, which differ slightly but not by more than 1.2%.

PART I

ITEM 1. BUSINESS

The Corporation

Gulf Canada Limited, a predecessor of which was incorporated in 1906, is a Canadian corporation which was continued under the Canada Business Corporations Act in 1978. The head and principal office of the Corporation is located at 130 Adelaide Street West, Toronto, Ontario M5H 3R6 and its telephone number is (416) 869-8600. In the text of this Report, Gulf Canada Limited is referred to as the "Corporation" and, together with its subsidiaries, is referred to as "Gulf Canada". In the Consolidated Financial Statements listed in Item 11 (a) (1) of this Report (the "Consolidated Financial Statements"), Gulf Canada Limited together with its subsidiaries is referred to as the "corporation".

Gulf Canada, one of the largest integrated oil companies in Canada, is engaged in the exploration and development of oil, gas and mineral properties and the production, refining, transportation and marketing of crude oil and natural gas liquids, natural gas, petroleum products and petrochemicals.

Substantially all of Gulf Canada's natural resource assets related to the exploration for and the development and production of crude oil, natural gas, natural gas liquids and coal are owned by the Corporation's wholly-owned subsidiary, Gulf Canada Resources Inc. ("Gulf Resources"), a corporation incorporated under the laws of Canada, with head office located at Gulf Canada Square, Calgary, Alberta.

Gulf Canada Products Company ("Gulf Products"), a division of the Corporation, is responsible for the supply, refining, petrochemical, marketing and transportation operations of Gulf Canada.

Transocean Gulf Oil Company ("Transocean"), One Houston Center, Houston, Texas 77001, a Delaware corporation which is a wholly-owned subsidiary of Gulf Oil Corporation, a Pennsylvania corporation, owns of record and beneficially 137,020,500 common shares or approximately 60.23% of the outstanding common shares of the Corporation.

Financial Information by Business Segment

Note 21 to the Consolidated Financial Statements on pages 44 to 46 of the 1980 Annual Report to Shareholders, filed as Exhibit 13 hereto (the "1980 Annual Report"), which sets out certain financial information by business segment for the three years ended December 31, 1980, is incorporated by reference herein.

Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 48 and 49 of the 1980 Annual Report, which discusses by business segment certain year-to-year changes, is incorporated by reference herein.

Land Holdings

Gulf Canada has extensive oil and gas rights in western Canada and in Canada's frontier areas. The distribution of petroleum and natural gas reservations, permits and lease holdings at December 31, 1980 was as follows:

	Crown reservations and permits (1)				Leases (2)			
	Gross (3)		Net (3)		Gross (3)		Net (3)	
	Acres	Hectares	Acres	Hectares	Acres	Hectares	Acres	Hectares
	(in thousands)							
Western Canada								
Alberta (4)	1443	577	970	388	4168	1668	2359	944
British Columbia	1270	514	846	342	1029	416	679	275
Saskatchewan and Manitoba	664	269	129	52	606	245	253	103
Total western Canada	3377	1360	1945	782	5803	2329	3291	1322
Frontier areas (5)								
Mackenzie Delta	832	336	497	201	324	131	220	89
Beaufort Sea	2489	1007	981	397	227	92	147	59
Arctic Islands	20,805	8413	3577	1447	672	272	634	256
Other Northwest and Yukon Territories	1885	762	635	257	1620	655	858	347
East Coast offshore	49,587	20,051	14,943	6042	–	–	–	–
Total frontier areas	75,598	30,569	20,633	8344	2843	1159	1859	751
	78,975	31,928	22,578	9126	8646	3479	5150	2073

NOTES:

(1) Crown reservations and permits are acquired from the Government of Canada or the provinces through application or competitive bidding and confer upon the holder the right to explore for crude oil and natural gas and to lease the crude oil and natural gas rights under a specified percentage of the lands covered. The holder is generally required to make cash payments or to undertake specified amounts of work in order to retain the rights to the land. No deduction has been made from crown reservations and permits in British Columbia and Saskatchewan to reflect that only a portion of these areas may be converted to lease. Reference is made to "Government Regulation and Taxation–Land Tenure".

(2) Leases essentially confer on the lessee the right to remove crude oil and natural gas from the property with the lessee paying all development and operating costs and being entitled to the production subject to the payment of a rental and/or a reserved royalty. Of the total leased acreage, approximately 2027 thousand gross acres (820 thousand gross hectares) or 1028 thousand net acres (416 thousand net hectares) in western Canada, primarily in Alberta, are classified as developed acreage. The remaining leased acreage, and all of the Crown reservations and permits, consisting of approximately 85,465 thousand gross acres (34,588 thousand gross hectares) or 26,643 thousand net acres (10,783 thousand net hectares) are undeveloped. Developed acreage comprises the spacing units of producing wells or wells capable of production, and other acreage assignable to those wells.

(3) "Gross" acres or hectares include the interests of others and "net" acres or hectares exclude the interests of others.

(4) The Alberta leases include 97,765 gross (13,100 net) acres or 39,106 gross (5,240 net) hectares relating to the Syncrude Project and 561,237 gross (351,650 net) acres or 224,494 gross (140,660 net) hectares of other mineable and in-situ oil sands as described under "Mineable Oil Sands" and "In-Situ Oil Sands".

(5) The National Energy Program included in the October 1980 Federal Budget proposes to reserve to the Government of Canada a 25% carried interest (at no cost) in certain federal lands, which include most of the frontier areas. The acreage figures have not been discounted to reflect this carried interest. Reference is made to "Government Regulation and Taxation — Land Tenure".

Gulf Canada's land holdings shown in the table are subject to modification by exploration agreements whereby others may earn an interest in Gulf Canada's acreage by undertaking certain exploratory work ("farmouts"), and also whereby Gulf Canada may do exploratory work to earn an interest in lands held by others ("farmins").

In any case where an investment by Gulf Canada in land holdings would constitute the acquisition of a business for purposes of the Foreign Investment Review Act of Canada, the investment would be subject to approval by the Government of Canada under that Act and undertakings by Gulf Canada as to the operation and ownership of the investment could be required as a condition of approval. Reference is made to "Government Regulation and Taxation — Foreign Investment Review Act and Canadian Ownership".

Exploration and Development

Gulf Canada plays an active role in the exploration for and development of hydrocarbon reserves in Canada, with a program balanced between the near-term potential of western Canada where reserves can be brought into production more rapidly and the longer-range potential of frontier areas. Exploration and development expenditures (including production capital additions as well as drilling costs) increased from $105 million in 1976 to $398 million in 1980.

During the early 1970's, the largest share of Gulf Canada's exploration expenditures was in Canada's frontier areas. During the period 1975 through 1979, exploration expenditures in western Canada accounted for significantly more than half of the total exploration expenditures. During 1980, Gulf Canada's expenditures on exploration have been balanced between western Canada and the frontier areas.

Unless and until production can be obtained in substantial quantities from the frontier areas, it is expected that production of conventional light crude oil will decline as a percentage of total crude oil production and will be replaced primarily by production from conventional heavy oil, mineable oil sands and in-situ oil sands. Because of the heavy capital expenditures required at the outset to begin production from these latter sources, the initial effect of the shift may be a temporary reduction in the return on capital employed.

However the impact of the National Energy Program on future expenditure trends cannot be accurately determined until legislation is finalized. Reference is made to "Government Regulation and Taxation — Canadian Budget and the Proposed National Energy Program."

Drilling results for the years ended December 31, 1980, 1979 and 1978 have been as follows:

	1980		1979		1978 (1)	
	Gross	Net	Gross	Net	Gross	Net
Western Canada						
Exploratory wells						
Oil	74	40	17	9	4	2
Gas	46	27	24	13	12	6
Dry	99	54	77	41	37	20
Total	219	121	118	63	53	28
Development wells						
Oil	96	36	43	11	40	17
Gas	14	1	25	7	55	25
Dry	14	7	3	–	21	17
Total	124	44	71	18	116	59
Frontier areas (2)						
Exploratory wells						
Oil	–	–	–	–	–	–
Gas	–	–	–	–	–	–
Dry	11	2	7	2	6	2
Total	11	2	7	2	6	2
Total	354	167	196	83	175	89

NOTES:

(1) In 1979 Gulf Canada revised certain of its classification practices to conform with the uniform successful efforts method followed by other major integrated oil companies. Prior to 1979 Gulf Canada classified its outpost wells as development wells. Outpost wells completed subsequent to December 31, 1978 have been classified as exploratory. Drilling results for the 73 gross (51 net) outpost wells completed during 1978 were as follows: Oil–15 gross (11 net); Gas–39 gross (23 net); Dry–19 gross (17 net). The well numbers for 1978 have not been restated.

(2) All wells drilled in frontier areas, including wells containing oil or gas discoveries, have been classified as dry since sufficient quantities of proved oil or gas reserves at current prices have not been found to justify their completion as oil or gas wells. Reference is made to "Frontier Areas".

At December 31, 1980 Gulf Canada was participating in 100 gross wells, representing 49 net wells.

The test results and estimated potential production rates for specific oil and gas wells stated herein are not intended to indicate the rates at which such wells would be operated if brought into commercial production, or the producing life of any well or of the size of any particular reservoir. All reference to interests held by Gulf Canada herein are references to working interests.

Western Canada–Conventional Light Oil and Natural Gas

In recent years industry activity has increased in western Canada, particularly along the eastern foothills of the Rocky Mountains and in the deep basin area in Alberta and British Columbia where there have been significant discoveries. This activity results from increases in the price of crude oil and natural gas and government incentives, all of which result in higher returns to the producer at the wellhead and the increased availability of funds for exploration and production operations.

In 1980 Gulf Canada participated in 219 exploratory wells of which 120 resulted in discoveries. Significant gas discoveries were made in the Hanlan-Robb area of Alberta and in northeastern British Columbia.

The Medicine Lodge 5-25 well in the Hanlan-Robb area flowed 55 million cubic feet (1.6 million cubic metres) of gas per day under test and has a calculated open flow potential of 159 million cubic feet (4.5 million cubic metres) per day. Gulf Canada has a 68.75% interest in this discovery, which is located on a lease block that is part of Gulf Canada's large holdings in the area. During the first half of 1980, an exploratory well, the Hanlan 3-7 well (in which Gulf Canada has a 33% interest) flowed gas at 33 million cubic feet (930 thousand cubic metres) per day and has a calculated open flow potential of 48 million cubic feet (1.4 million cubic metres) per day. A further exploratory well, Blackstone 6-7 (in which Gulf Canada has a 50% interest), flowed gas at 9 million cubic feet (240 thousand cubic metres) per day. A third exploratory well, Mountain Park 11-1 (in which Gulf Canada has a 14% interest), flowed gas at 15 million cubic feet (400 thousand cubic metres) per day.

Further drilling is planned in the Hanlan-Robb area and when developed the gas will probably be tied into the proposed Hanlan-Robb gas plant. Reference is made to "Production".

Gulf Canada also has a 25% interest in the Blood 10-30 oil discovery at the Blood Indian Reserve in southern Alberta which tested at 430 barrels (68 cubic metres) of oil per day. Since the discovery, Gulf Canada has participated in drilling at 10 additional locations within 15 miles of the discovery. Of these wells six are dry and abandoned, three are potential oil wells, and one is a producing oil well. Seven additional wells are planned for 1981. Subsequent to the discovery, Gulf Canada has improved its acreage position in the area and now holds approximately 295 thousand gross acres (220 thousand net acres) or 119 thousand gross hectares (89 thousand net hectares). In addition a farmout has been concluded whereby another operator can earn approximately a 20% interest in 108 thousand gross acres (44 thousand gross hectares) of these lands or 20 thousand net acres (8 thousand net hectares).

In northeastern British Columbia, extensive seismic programs since 1977 have led to the drilling of 29 exploratory wells which resulted in 14 gas discoveries and 2 oil discoveries. As a result, a delineation drilling program is in progress. During 1980 four significant gas discoveries were made: Jackfish b-23-E (in which Gulf Canada has a 50% interest) flowed gas at 6 million cubic feet (169 thousand cubic metres) per day; July c-57-A (in which Gulf Canada has a 100% interest) flowed gas at 15 million cubic feet (423 thousand cubic metres) per day; Trutch d-6-1 (in which Gulf Canada has a 100% interest) flowed gas at 1 million cubic feet (28 thousand cubic metres) per day; and Gwillam c-27-E (in which Gulf Canada has a 25% interest) flowed gas at 3 million cubic feet (84 thousand cubic metres) per day.

Western Canada—Conventional Heavy Oil

Along the Saskatchewan-Alberta border Gulf Canada is actively involved in the development of conventional heavy oil. Heavy oil is designated as "conventional" when it can be produced by primary production methods. Although only about 5% of the oil in place is recoverable from primary production practices, it is anticipated that recovery will be substantially increased, up to approximately 30%, by enhanced recovery techniques.

Gulf Canada has been active in establishing a major position in Canada's conventional heavy oil areas. In 1978 Gulf Canada, Petro-Canada and Saskoil entered into an agreement for exploration on 500 thousand acres (202 thousand hectares) of Saskatchewan government land in the Lloydminster-type conventional heavy oil areas. Under that agreement, which requires expenditures by the three partners of up to a total of $99 million, Gulf Canada will earn a one-third interest in approximately 162 thousand lease acres (65.6 thousand hectares).

During 1979, 43 wells were drilled in this conventional heavy oil area, mostly on acreage in Saskatchewan subject to the exploration agreement mentioned above, resulting in 27 potential oil wells and four gas discoveries. During 1980, Gulf Canada participated in 108 exploratory wells, resulting in 53 potential oil wells. These potential oil wells have confirmed the existence of significant quantities of heavy oil, and limited production has commenced. Gulf Canada intends to continue actively its exploration and development operations and expects to participate in a total of 168 exploratory wells in this area in 1981.

During 1980 Gulf Canada concluded a farmin agreement on 116 thousand acres (47,000 hectares) of heavy oil property in west-central Saskatchewan. The farmin will provide Gulf Canada with a 46.5% interest for an expenditure of $40 million. A major portion of this development capital will be spent on enhanced recovery production methods. In February, 1981 Gulf Canada announced its intention to participate with four other corporations in preliminary feasibility studies which could lead to the construction and operation of a heavy crude oil upgrading project in the Province of Saskatchewan.

Frontier Areas

In Canada's frontier areas, Gulf Canada has large land holdings in the Mackenzie Delta, the Beaufort Sea, the Arctic Islands and East Coast offshore and has participated in significant discoveries in each of the areas. Production from these areas will depend, among other things, on the establishment of sufficient reserves to justify the very significant capital costs necessary for production facilities and the development of suitable transportation systems to bring such reserves to market. Exploration costs are expensed as incurred in certain frontier areas where future production from any reserves discovered is not reasonably assured because of environmental, technological or other constraints.

Mackenzie Delta. In the Mackenzie Delta area of the Northwest Territories Gulf Canada discovered the Parsons Lake gas field in 1972, in which it holds a 75% interest. Gas has been tested from 14 wells and Gulf Canada's share of recoverable gas in the reservoir is estimated at 1.3 trillion cubic feet (37 billion cubic metres). Gulf Canada considers that the Parsons Lake discoveries confirm sufficient natural gas in the Mackenzie Delta to support a major gas processing plant with a capacity to process 250 million cubic feet (7 million cubic metres) of gas per day. However, further development is contingent on approvals by appropriate government authorities and on construction of a suitable gas transportation system.

Beaufort Sea. In the Beaufort Sea Gulf Canada has interests in 2.7 million gross acres (1.1 million net acres) or 1.1 million gross hectares (456 thousand net hectares). Exploratory drilling commenced in 1976 and since that time Gulf Canada has participated in a number of exploratory wells. In the Beaufort Sea, wells are drilled in relatively shallow water depths from artificial islands, generally during the winter months. In deeper water, wells are drilled from drillships between the months of June, when the ice usually breaks up, and November, when the area becomes icebound for the winter.

In 1978 the Isserk E-27 well, in which Gulf Canada has a 28% interest, was drilled from an artificial island and under a limited test flowed gas at a calculated rate of 20 million cubic feet (570 thousand cubic metres) per day. During the summer drilling season of 1979 the Ukalerk well tested a small amount of gas. The Kopanoar M-13 well, in which Gulf Canada has a 25% interest, was drilled to total depth in the 1978 open water drilling season and, in 1979, it was extensively tested and was reported by the operator to be capable of producing 12 thousand barrels (1,900 cubic metres) of oil per day. Drilling on a step-out well, Kopanoar 2-I-44 has been suspended due to ice conditions and will be resumed in the summer of 1981. Drilling of the Tarsiut A-25 well, in which Gulf Canada has a 56.25% interest, was finished in the summer of 1979. This well was tested in 1980 and flowed oil at 800 barrels (127 cubic metres) per day. It is proposed that a follow up well be drilled after an artificial island has been constructed in 1981 in a water depth of approximately 75 feet. Drilling was completed in July 1980 at Issungnak O-61 in the Beaufort Sea from an artificial island. This well, which is located six miles (10 kilometres) north of the Isserk E-27 gas show, on acreage in which Gulf Canada's interest is 29%, flowed oil from a lower zone calculated at a rate of 2,400 barrels (382 cubic metres) per day from a closed chamber drillstem test and tested gas at a calculated flow rate in excess of 50 million cubic feet (1.4 million cubic metres) per day. An upper zone tested gas at a calculated flow rate of 14 million cubic feet (394 thousand cubic metres) per day and also has a show of oil. A second well, Issungnak 2-O-61, has been commenced from the same artificial island and will be directionally drilled to determine reservoir size and evaluate deeper formations.

Late in 1979 drilling commenced at the Koakoak 0-22 well in which Gulf Canada will earn a 25% interest in 236,000 acres (96,000 hectares) upon completion of the well. Drilling continued during 1980, has currently been suspended due to ice conditions, and will be resumed in 1981.

Arctic Islands. In the Arctic Islands Gulf Canada has an interest in 21.5 million gross acres (4.2 million net acres) or 8.7 million gross hectares (1.7 million net hectares). The majority of these lands were acquired through the Arctic Islands Exploration Group ("AIEG"), in which Gulf Canada has a 25% interest. This group was formed in 1976 to undertake a six-year $80 million exploration program which is expected to be completed during the 1980-1981 season. Gulf Canada has an interest in eight of the gas discoveries that have been made in the Arctic Islands.

In the spring of 1979 AIEG drilled the Whitefish H-63 well, a major offshore natural gas discovery in which Gulf Canada will have a 32.5% interest upon completion of the program. A 1980 offset well, the Whitefish G-63, has tested three gas-bearing zones which recorded gas flows of 7.5, 14.1 and 44 million cubic feet (211, 397 and 1,245 thousand cubic metres), respectively, per day. Initial estimates suggest recoverable gas on the order of three trillion cubic feet (85 billion cubic metres) for the Whitefish structure. In 1980 two other exploratory wells, Char G-07 and Balaena D-58, were drilled by AIEG off southern Ellef Ringnes Island. The Char G-07 well, in which Gulf Canada will earn a 7.1% interest, has encountered gas from two separate zones which flowed at rates up to 18.1 million cubic feet (510 thousand cubic metres) per day. In addition, the operator reported a small amount of light oil in the drillstem of a third zone. The Balaena D-58 well, in which Gulf Canada will earn a 7.1% interest, tested small quantities of medium to heavy crude oil from a shallow zone and flowed gas at three million cubic feet (84 thousand cubic metres) per day with a small amount of light oil from a deeper zone. Gulf Canada is participating in the drilling of three wells in the Arctic Islands during 1981 in the general Lougheed Island area. One of these wells, Skate B-80 was recently reported by the operator to have flowed oil at rates up to 775 barrels (123 cubic metres) per day and gas at a rate of 5.7 million cubic feet (160 thousand cubic metres) per day through a restricted choke on a drillstem test. Drilling has been resumed to test deeper prospective zones.

East Coast Offshore. In the East Coast offshore area, on the Grand Banks, Gulf Canada has interests in 6.4 million gross acres (2.6 million hectares). Gulf's interest in the Hibernia block, which covers 525,000 acres (212,000 hectares), is 25% and its interest in nearly all of the remainder is 18.75%. These interests are after the exercise, in 1980, of

Petro-Canada's right to acquire at no cost a 25% interest in all of these lands. A series of tests from September 1979 to January 1980 at the Hibernia P-15 well identified three principal oil-bearing zones which were calculated and reported by the operator to have a total producing capability in excess of 20 thousand barrels (3.2 thousand cubic metres) of oil per day. On a drillstem test this well flowed oil at a maximum rate from one zone of 3,725 barrels (592 cubic metres) per day. Drilling was commenced in January 1980 on the first step-out, Hibernia O-35, located 2.5 miles (4 kilometres) west of the Hibernia P-15 discovery. The Hibernia O-35 well flowed oil in seven drillstem tests, with the maximum rate from one zone being 3,108 barrels (494 cubic metres) per day. A second step-out, Hibernia B-08, located 2.7 miles (4.3 kilometres) north of the discovery was completed in January 1981 and a test yielded oil at rates up to 5,730 barrels (911 cubic metres) of oil per day, from three separate oil zones, with gas flows of 10 million cubic feet (282 thousand cubic metres) per day. A third step-out well, Hibernia G-55, located 5 miles (8 kilometres) west of the discovery failed to encounter hydrocarbon indications and was abandoned in February 1981.

Additional wells will be needed on the Hibernia structure before its commercial significance can be evaluated. If these step-out wells confirm the existence of a reservoir capable of commercial production, it is anticipated that commercial production of the Hibernia reservoir could commence within five years. The costs of a production platform and associated transportation facilities are expected to be substantial.

In January 1980, drilling was commenced on Ben Nevis I-45, a wildcat well in which Gulf Canada has an 18.75% interest, located on a separate structure approximately 23 miles (37 kilometres) southeast of Hibernia P-15. A test in July 1980 at Ben Nevis flowed oil at 1,596 barrels (254 cubic metres) per day and gas at 12 million cubic feet (338 thousand cubic metres) per day. In tests of the shallower section, one zone flowed gas at 10.3 million cubic feet per day (292 thousand cubic metres) and 261 barrels (42 cubic metres) per day of condensate. Other zones yielded small amounts of oil. In January 1981 Hebron I-13, a wildcat well in which Gulf Canada has a 25% interest, was commenced eight miles (13 kilometres) west of Ben Nevis I-45.

In September 1980, drilling was commenced on South Tempest G-88, a wildcat well in which Gulf Canada has an 18.75% interest, located on a separate structure approximately 50 miles (80 kilometres) northeast of Hibernia P-15.

As described under "Government Regulation and Taxation — Land Tenure" both the Government of Canada and the Province of Newfoundland are claiming ownership, including the right to royalty payments over most of Gulf Canada's East Coast offshore acreage interests. If a reservoir capable of commercial production were to be established this jurisdictional uncertainty, if not resolved, would delay development.

Gulf Canada holds a 10% interest in a further 13 million acres (5.2 million hectares) in the north Grand Banks area, where the Hare Bay H-13 well was drilled and abandoned in 1979. An extensive seismic survey is planned for the summer of 1981.

Off the coast of Labrador, Gulf Canada has an interest of 22% in 22.2 million acres (9 million hectares). On this acreage two gas discoveries were made in 1975 followed by a third discovery in 1976. In 1979, an exploratory program resulted in a gas well at Bjarni O-82. Another well was drilled and abandoned. Testing of a potential hydrocarbon zone in Roberval K-92 was suspended because of mechanical difficulties. In 1980, the Gilbert F-53 well and two new wells, Roberval C-02, one mile (1.6 kilometres) to the west of the Roberval K-92 well, and Ogmund F-72 failed to encounter hydrocarbon indications and were abandoned.

The balance of the 1980 program involved continued testing at Bjarni O-82 and the commencement of two new exploratory wells on the Labrador shelf, North Bjarni F-06 and Leif North I-05.

Reserves

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

Net reserves are estimated after deduction of royalties and, therefore, represent only those quantities in which Gulf Canada has rights. The Government of Canada and provincial government royalty rates can vary depending on prices, production volumes, the timing of initial production and changes in legislation. Due to the uncertainty of future royalty rates, the net reserves have been calculated on the basis of average royalty rates experienced. Estimates of proved developed reserves include only those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of proved undeveloped reserves include only those reserves which are expected to be recovered on undrilled acreage from new wells which are reasonably certain of production when drilled, or from existing wells which would require relatively major expenditures to effect recompletion.

The figures presented are believed to be reasonable estimates of reserves which may be expected to be recoverable commercially at current prices and costs under existing regulatory practices and with existing conventional equipment and operating methods. They do not include quantities which may be found by new discoveries, by extensions of the areas now classified as proved in reservoirs presently known to be productive, or by improved producing techniques not yet pilot-tested or installed. While Gulf Canada anticipates that in certain fields additional wells will continue to be drilled in order to maintain or increase the rate of production or improve the recovery performance, these factors have also been excluded from the following estimates of proved reserves.

Subject to the foregoing, estimates of net proved crude oil (including condensate and natural gas liquids) and natural gas reserves at December 31, 1980, 1979 and 1978 were as follows:

	Crude Oil		Natural Gas	
	Millions of barrels	Millions of cubic metres	Billions of cubic feet	Billions of cubic metres
1980				
Net proved developed	221	35.1	1,195	33.7
Net proved undeveloped	3	0.5	593	16.7
	224	35.6	1,788	50.4
1979				
Net proved developed	240	38.1	1,243	35.0
Net proved undeveloped	3	.5	598	16.9
	243	38.6	1,841	51.9
1978				
Net proved developed	252	40.1	1,440	40.6
Net proved undeveloped	4	.6	710	20.0
	256	40.7	2,150	60.6

Changes in net reserves of crude oil (including condensate and natural gas liquids) and natural gas during the years ended December 31, 1978, 1979 and 1980 were as follows:

	Crude Oil		Natural Gas	
	Millions of barrels	Millions of cubic metres	Billions of cubic feet	Billions of cubic metres
Net reserves – December 31, 1977	296	47.1	2,100	59.2
Additions from drilling	–	–	40	1.1
Revisions of previous estimates	(18)	(2.9)	120	3.4
Added through improved recovery	3	.5	–	–
Production	(25)	(4.0)	(110)	(3.1)
Net reserves – December 31, 1978	256	40.7	2,150	60.6
Additions from drilling	1	.1	85	2.4
Revisions of previous estimates	8	1.3	(293)	(8.3)
Added through improved recovery	12	1.9	–	–
Production	(34)	(5.4)	(101)	(2.8)
Net reserves – December 31, 1979	243	38.6	1,841	51.9
Additions from drilling	1	0.2	43	1.2
Revisions of previous estimates	12	1.9	(14)	(0.4)
Added through improved recovery	–	–	–	–
Production	(32)	(5.1)	(82)	(2.3)
Net reserves – December 31, 1980	224	35.6	1,788	50.4

All of Gulf Canada's crude oil and natural gas reserves are located in Canada. Approximately 93% of the proved crude oil reserves and 90% of the proved natural gas reserves are located in the Province of Alberta.

Since January 1, 1980 the Corporation has not filed oil and gas estimates of its reserves with any authority or agency of the United States other than the United States Securities and Exchange Commission. The Corporation is not aware of any event that is believed to have caused a significant change in its estimated proved reserves since December 31, 1980 except normal production and development activities and any future impact of the proposed National Energy Program. The effects of the National Energy Program cannot currently be determined as legislation is not expected to become final before mid-1981. It could, however, have an adverse effect on the oil and gas industry in Canada in that production from existing wells could become uneconomic sooner than previously expected. Reference is made to "Government Regulation and Taxation — Canadian Budget and the Proposed National Energy Program".

Net reserves reflected in the above tables do not include any reserves from the substantial oil sands deposits known to exist under leased acreage at Wabasca, Cold Lake and Peace River and the oil sands deposits in the Athabasca area. Reference is made to "Mineable Oil Sands" and "In-Situ Oil Sands". Particularly, they do not include permitted production of synthetic crude oil attributable to Gulf Canada's 13.4% interest in the Syncrude Project in the Athabasca oil sands which was 103 million barrels (16.4 million cubic metres) at December 31, 1980 and 107 million barrels (17.0 million cubic metres) at December 31, 1979. Reference is made to "Mineable Oil Sands — Syncrude Project".

Similarly, the above tables do not include any discoveries in the frontier areas.

Production

Gulf Canada is one of the largest producers of liquid hydrocarbons (crude oil and natural gas liquids) and natural gas in Canada. A significant part of its production volumes is taken from the Fenn Big Valley, Swan Hills, South Swan Hills, Redwater and Westerose oil fields and from the Nevis, Westerose South and Strachan gas fields, all of which are located in Alberta.

Gulf Canada operates seven gas processing plants in Alberta which process raw natural gas to produce marketable gas and to recover natural gas liquids and sulphur. These seven plants have a daily operating capacity in excess of one billion cubic feet (28.2 million cubic metres) of natural gas, of which Gulf Canada's share is approximately 50%. In addition, Gulf Canada operates a number of smaller gas handling facilities and has varying interests in 80 other gas processing plants and field gathering facilities that are operated by other parties.

Gulf Canada's gross and net production volumes are summarized in the following table:

Average Daily Production	Year ended December 31				
	1980	1979	1978	1977	1976
Crude oil and natural gas liquids					
Conventional					
thousands of barrels					
Gross	130	135	112	115	118
Net	87	93	75	76	81
thousands of cubic metres					
Gross	20.6	21.5	17.8	18.3	18.8
Net	13.8	14.8	11.9	12.1	12.9
Synthetic–net					
thousands of barrels	10	7	–	–	–
thousands of cubic metres	1.5	1.1	–	–	–
Natural gas produced and sold					
millions of cubic feet					
Gross	316	389	373	417	440
Net	224	277	271	302	323
millions of cubic metres					
Gross	8.9	11.0	10.5	11.7	12.4
Net	6.3	7.8	7.6	8.5	9.1

NOTE:

Gross production volumes reflect production volumes attributable to Gulf Canada's interest before deduction of applicable royalties. Net production is gross production less applicable royalties.

In western Canada the maximum allowable production of crude oil and natural gas is limited by statutes and regulations to quantities that are set periodically by the various regulatory authorities on the basis of sound engineering and conservation principles and market demand. Reference is made to "Government Regulation and Taxation — Production".

In January 1975 the National Energy Board ("NEB") began to limit exports of crude oil in order to provide for future Canadian requirements. The 1975 change in energy policy with respect to exports resulted in a significant decline in production of crude oil in Canada in 1975 and subsequent years. In 1979 Canada's crude oil production was significantly higher than 1978 due to shortages of foreign crude oil available for import into Canada. These shortages led the NEB to permit additional exports through crude oil swap arrangements, which resulted in the level of Canadian production coming closer to the level of Canadian consumption of crude oil.

From 1976 through 1978 Gulf Canada's production of conventional crude oil and natural gas declined, but for 1979 average daily production levels increased over 1978. Although Gulf Canada's producing capacity of conventional crude oil has been declining with the depletion of reserves in established fields, some excess capacity was available until February 1979 when crude oil swap arrangements were approved by the NEB and production levels were increased. Since that date Gulf Canada's production of crude oil has been essentially at full capacity until 1980 when production levels of crude oil were reduced due to decreasing demand. In addition, since March 1, 1981 production levels have been further reduced by the Alberta Government cutbacks. Reference is made to "Government Regulation and Taxation — Canadian Budget and the Proposed National Energy Program."

Gulf Canada's natural gas sales are made under numerous long-term contracts primarily with gas transmission companies which are regulated by the NEB and which resell in both domestic and export markets. Under such contracts, purchasers agree to purchase natural gas up to specified maximum volumes at the prices in effect at the time of delivery. In recent years, increases in natural gas reserves have exceeded Canadian consumption and, apart from short-term export licences in limited quantities, the export of natural gas to the United States has been restricted by the NEB to licensed volumes in effect prior to 1971. In late 1979, in conjunction with a number of applications for export licences, the NEB determined that reserves of natural gas surplus to Canadian needs existed and authorized the export of an additional 3.75 trillion cubic feet (106.2 billion cubic metres) over a term ending in late 1987. The new export licences represent an increase of approximately 40% over the volumes remaining under previously issued export licences. In late April 1980 the NEB authorized the export of an additional 499 billion cubic feet (14.1 billion cubic metres).

Subject to federal and provincial government approvals TransCanada PipeLines Limited and Q and M Pipe Lines Ltd. have agreed to expand gas transmission facilities to areas of Quebec, New Brunswick and Nova Scotia which are not presently served by natural gas pipelines. Subject to receipt of final approvals, it is anticipated that completion of the first phase of the pipeline to Quebec City, will not occur before the fall of 1981.

Canadian natural gas productive capacity is likely to continue to exceed domestic demand and the level of exports in the foreseeable future, resulting in shut-in volumes for Gulf Canada and other producers. Reference is made to "Government Regulation and Taxation — Production — Natural Gas Production".

Gulf Canada is making substantial capital expenditures and increasing exploration expenses to discover and develop new reserves, to place previously uneconomic gas reserves on stream and to arrest declines from older fields. Enhanced recovery programs in the conventional light oil fields in western Canada are also being actively pursued. Enhanced recovery programs include both full-scale and pilot projects involving the injection of water or hydrocarbons to increase the volume of recoverable crude oil. The following table indicates Gulf Canada's activities in these areas at December 31, 1980.

	Gross wells	Net wells
Water injection method	1006	134
Other methods	285	127

The total number of productive wells of Gulf Canada at December 31, 1980 was as follows:

Crude oil wells		Natural gas wells		Total wells	
Gross	Net	Gross	Net	Gross	Net
5442	1254	1207	377	6649	1631

NOTES:

(1) Gross wells are wells in which Gulf Canada owns an interest.

(2) Net wells are the sum of the fractional interests owned by Gulf Canada in gross wells, rounded to the nearest whole number.

(3) Of the wells shown above 156 gross (82 net) oil wells and 65 gross (47 net) gas wells have multiple completions.

The following table sets forth the average sales price (including internal transfers) of oil and natural gas produced and the average lifting cost per unit of production for each of the years ended December 31, 1980, 1979 and 1978 (excluding production from mineable oil sands):

	Year ended December 31		
	1980	1979	1978
Average sales price—oil			
Per barrel	$15.39	$12.67	$11.93
Per cubic metre	96.78	79.69	75.04
Average sales price—gas			
Per thousand cubic feet	2.51	1.83	1.58
Per thousand cubic metres	89.09	64.95	56.08
Average lifting cost per unit of production*			
Per barrel	2.21	1.54	1.64
Per cubic metre	13.88	9.69	10.32

* Lifting costs do not include depreciation, depletion and amortization of capitalized acquistion, exploration and development costs nor do they include exploration, selling, general and administrative expenses or Canadian income taxes. Average lifting costs per unit of production were computed after converting gas production into equivalent barrel/cubic metre units. This conversion was calculated by applying a factor which equates a volume of gas to a barrel (cubic metre) of oil on the basis of relative energy content.

Gulf Canada is currently involved in a project to develop additional natural gas production which includes four fields in the Hanlan-Robb area located in the foothills area of Alberta. Drilling and evaluations to date have identified proved natural gas reserves of approximately 800 billion cubic feet (23 million cubic metres). There are 18 shut-in wells capable of producing a total of 250 million cubic feet (7.0 million cubic metres) of natural gas per day. Gulf Canada's share of the Hanlan-Robb reserves is approximately 28%. The majority of the reserves for these fields has been committed to Pan-Alberta by Gulf Canada and its partners. Pan-Alberta has been granted authorization by the NEB to export an aggregate of 2.3 trillion cubic feet (65.1 billion cubic metres) of natural gas to the United States, on the condition that such exports be delivered through southern sections of the Alaska Highway Natural Gas Pipeline to be built in Alberta, Saskatchewan and southern British Columbia. Foothills Pipe Lines (Yukon) Ltd. has commenced construction of sections of the pipeline and it is anticipated that they will be completed by late 1982.

Gulf Canada as operator has selected the prime contractor, which will provide engineering, procurement and construction expertise, for the proposed Hanlan-Robb gas processing facilities. Engineering studies are presently underway on this 300 million cubic feet (8.5 million cubic metres) per day inlet sour gas processing plant plus extensive field facilities. The Alberta Energy Resources Conservation Board approval was obtained in 1980 and construction is scheduled to commence in early 1981. The future expenditures on the project are estimated to be $250 million. Gulf Canada will have an interest of approximately 37% in the project.

Mineable Oil Sands

Syncrude Project

Gulf Canada currently holds a 13.4% interest in the Syncrude Project, a $2.2 billion joint venture created for the purpose of mining shallow deposits of oil sands and extracting and upgrading the crude bitumen into a synthetic crude oil. The Syncrude Project is located on 97,765 acres (39,106 hectares) leased from the Province of Alberta in the Athabasca oil sands area.

The other participants and their interests in the Syncrude Project are: Esso Resources Canada Limited as to 25%, Canada Cities Service, Ltd. as to 17.6%, Petro-Canada Exploration Inc. (owned by the Government of Canada) as to 12%, Alberta Energy Company Ltd. (50% owned by the Province of Alberta and the remainder by private investors) as to 10%, Province of Alberta as to 8%, Hudson's Bay Oil and Gas Company Limited as to 5%, Petrofina Canada Inc. as to 5% and PanCanadian Petroleum Limited as to 4%.

In 1975 the Government of Canada and the Government of Alberta gave assurances, subject to force majeure, to the participants in the Syncrude Project that synthetic crude oil from the Syncrude Project would sell at a price which is the higher of the current international price of crude oil or the price of Canadian crude oil of similar quality at the plant gate. Assurances were also given that the production and sale of synthetic crude oil from the Syncrude Project would not be subject to prorationing or any other volumetric limitations. In addition, the Government of Canada issued the Syncrude Remission Order which provides for the forgiveness of any Government of Canada income tax otherwise payable by the participants as a result of the non-deductibility from the income of the participants of amounts receivable by the Province of Alberta as a royalty, tax or otherwise with respect to the Syncrude Project.

On March 28, 1980 the Minister of Energy, Mines and Resources of Canada gave notice to Gulf Canada that the Government of Canada believes force majeure conditions exist relating to the assurances it had given as to the prices for synthetic oil from the Syncrude Project. The notice stated that the Government of Canada will not take any immediate action to change the Syncrude access to international prices for its production and will hold discussions with the Government of Alberta and the Syncrude Project participants concerning synthetic crude oil prices. On October 28, 1980, as part of the National Energy Program, the Government of Canada proposed changes to the pricing of synthetic crude oil. Reference is made to "Government Regulation and Taxation — Crude Oil Prices".

Production of synthetic crude oil from the Syncrude Project commenced in 1978 and the design capacity of the plant is 109 thousand barrels (17.3 thousand cubic metres) per day. Subject to improvement of certain facilities, requiring estimated capital expenditures by the participants of about $300 million, the plant's design capacity is expected to be increased to 126 thousand barrels (20.0 thousand cubic metres) per day by 1984. Based on Gulf Canada's current 13.4% interest, its share of gross production would be approximately 150 million barrels (23.8 million cubic metres) over the 25-year term of the permit, assuming that production at the above level is achieved and sustained for the full term of the permit. Synthetic crude oil production has fluctuated widely, with an average of approximately 50 thousand barrels (7.9 thousand cubic metres) per day in 1979, and approximately 80 thousand barrels (12.7 thousand cubic metres) per day in 1980, reflecting disruptions of production caused by a series of start-up problems in the mine and processing facilities.

Gulf Canada's capital cost of the 13.4% interest held in the Syncrude Project as of December 31, 1980 was $306 million. Certain of the associated facilities including those for the supply of electricity and steam, pipelines and housing are provided by others. The cost of these facilities was approximately $560 million as of December 31, 1980. While this amount is not included in the capital cost of the Syncrude Project, the participants have agreed to pay for the use of those facilities and have certain contingent liabilities with respect to such cost.

Part of Gulf Canada's investment in the Syncrude Project was financed through a loan of $100 million from the Province of Alberta, which has the option at any time prior to March 1, 1984 to convert all or part of the loan (subject to a minimum of $20 million) to a portion of Gulf Canada's interest in the Syncrude Project in accordance with a formula which relates the principal amount of the loan being converted to the total cost of the Syncrude Project. The exercise of such option to the maximum extent would reduce Gulf Canada's participating interest in the Syncrude Project to 9%.

In addition, the Province of Alberta, in its capacity as lessor of the Syncrude Project oil sands leases, is entitled to 50% of the deemed net profits from the Syncrude Project, as defined in the operative agreements, which at the Government's option, may be converted to 7.5% gross production royalty at any one time after March 1, 1984. Both the 50% of deemed net profits and the 7.5% gross production royalty are subject to change at the option of the Province of Alberta after March 1, 1989. They are also subject to change if substantial changes in circumstances occur which were not reasonably within the contemplation of the parties of the original agreement which was executed in 1975.

Gulf Canada's participation in any mineable oil sands project other than the Syncrude Project is subject to an option, granted in 1958, permitting the holder to finance up to 10% of any Gulf Canada interest in the commercial development of a mineable oil sands project and thereby to receive a corresponding percentage of revenues from any such project, subject to any required governmental approvals.

Gulf Canada intends to increase its participation in mineable oil sands and in-situ oil sands as well as other minerals. In addition to the Syncrude Project, Gulf Canada is pursuing several large new projects which are subject to a wide range of uncertainties including the possibility that participation by Gulf Canada may require approval under the Foreign Investment Review Act. Reference is made to "Government Regulation and Taxation — Foreign Investment Review Act and Canadian Ownership".

Alsands Project

In August 1978 Gulf Canada joined a number of other companies in signing a Participation Agreement, forming the Alsands Project Group, under which the economic and technical feasibility of an oil sands mining plant near Fort McMurray in the Athabasca area of Alberta would be evaluated. The participants in the Alsands Project currently include Shell Canada Resources Limited as to 25%, Shell Explorer Limited as to 20%, Amoco Canada Petroleum Company Ltd. as to 10%, Petro-Canada Exploration Inc. as to 9%, Hudson's Bay Oil and Gas Company Limited, Petrofina Canada Inc., Chevron Standard Ltd. and Gulf Canada as to 8% each, and Dome Petroleum Limited as to 4%. The Alberta Government has expressed an interest in acquiring an equity position in the Alsands Project, which would reduce the present participants' interests proportionately.

The construction of the Alsands Project, estimated in September 1980 to cost $8 billion, is expected to produce about 137 thousand barrels (21.8 thousand cubic metres) per day of synthetic crude oil utilizing similar technology to that used by the Syncrude Project, including dragline mining, hot water separation of crude bitumen from sand, and a fully integrated utilities and upgrading plant. In December 1978, the Alsands Project Group submitted an application to the Alberta Energy Resources Conservation Board for regulatory approval to build the Alsands plant and in December 1979 the Board recommended approval of the Alsands Project. The Alsands Project is contingent upon obtaining acceptable federal and provincial government assurances concerning prices, tax incentives and royalties and the receipt of all other necessary permits, approvals and commitments.

On December 8, 1980, in response to the continuing conflict between the federal and provincial governments relating to energy policy, the Alsands Project Group announced that project operations would be scaled down with only those functions essential to maintaining project viability being continued. In the absence of agreement by Alberta and the federal Government by June 1981, the project may be shut down completely. At this time Gulf Canada is only committed to pay up to approximately $10 million towards the cost of preliminary work on this project. After agreement is reached on fiscal terms, construction of the Alsands plant could be completed within six years.

Sandalta Project

On October 1, 1979 Gulf Canada executed a participation agreement with Home Oil Company Limited and Canadian Superior Oil Ltd., the then holders of 87.5% and 12.5%, respectively, of an oil sands lease covering acreage in the Athabasca area of Alberta. The terms of the agreement respecting the Sandalta Project allow Gulf Canada, through a farmin arrangement, to earn up to 83.75% of the 38 thousand acre (15 thousand hectare) lease by spending approximately $42 million over the period 1979 through 1985 on exploratory drilling and technical and financial feasibility studies. As of December 31, 1980 Gulf Canada had earned a 33% interest in the lease.

In-Situ Oil Sands

To develop deep oil-bearing sands not susceptible to surface mining Gulf Canada is actively involved in the testing and development of technology for the production of crude oil from oil sands where in-situ methods such as steam injection, fireflooding or similar technologies will be required.

In early 1980 Gulf Canada received Government of Alberta approval to construct and operate an in-situ oil sands pilot plant in the Desmarais area of the Wabasca deposit. This project, referred to as the Pelican Project, is planned for start-up in mid-1981. Gulf Canada estimates the cost of this project to be $30 million, to be expended over approximately five years. Gulf Canada currently has interests in approximately 128 thousand gross acres (51.3 thousand gross hectares) in Wabasca.

Gulf Canada has a 100% working interest in oil sands leases covering approximately 120 thousand acres (48.1 thousand hectares) in the Surmont area of the Athabasca region of Alberta. A drilling program has confirmed the presence of high quality deposits of in-situ bitumen and a field test of this reservoir, utilizing a steam stimulation process, was successfully initiated in 1979. Two pilot projects, to develop a new recovery technique and evaluate production, are underway.

In September 1980 agreement was reached and work was commenced on a project jointly sponsored by Gulf Canada and the Alberta Oil Sands Technology and Research Authority. Located in the Surmont area the project is to design and test a technique to increase the recovery of hydrocarbons involving a horizontal well approach. In comparison to vertical wells from the surface, it is felt that horizontal well systems offer potential benefits of a more cost effective production scheme, significantly improved recovery of the resource and a reduction in the environmental impact upon the development area. The initial feasibility studies are estimated to cost $10 million.

Other Oil Sands Leases

Gulf Canada is engaged in a continuing review of other potential oil sands projects. Gulf Canada has a 20% interest in six other leases located within the Athabasca oil sands area, and varying interests in leases in both the Peace River and the Cold Lake oil sands deposits.

Uranium and Other Minerals

Gulf Canada holds a 5.1% interest in the Rabbit Lake uranium mine and mill complex in northern Saskatchewan, a joint venture operated by Gulf Minerals Canada Limited, which is a wholly-owned subsidiary of Gulf Oil Corporation. Production started in late 1975 and in 1980 amounted to 5.1 million pounds (2.3 million kilograms) of uranium oxide. Total remaining reserves for the Rabbit Lake deposit were estimated at the end of 1980 at 13.5 million pounds (6.1 million kilograms) of uranium oxide.

Gulf Canada holds a further 10% interest in certain undeveloped reserves in the Collins Bay area near Rabbit Lake which are owned by Gulf Minerals Canada Limited and which are estimated by Gulf Minerals Canada Limited to aggregate approximately 65 million pounds (30 million kilograms) of uranium oxide. In addition, Gulf Canada holds varying interests in other properties located nearby including the recent Eagle Point uranium discovery. The Eagle Point drilling program has only been partially completed and therefore no final economic evaluation can be made at this time.

Gulf Canada has a 50% interest in other mineral exploration activities undertaken by Gulf Minerals Canada Limited.

Coal

Although Gulf Canada is not currently engaged in any commercial production of coal, it is broadening its energy base through increasing its interests in a number of coal properties. During 1978 it acquired a 40% interest in Denison Mines Limited's Belcourt coal property (approximately 98 thousand gross acres or 40 thousand gross hectares) located in northeastern British Columbia. In the event that Gulf Canada elects not to make a payment in 1981, this interest will be reduced to 30%. Denison, on behalf of the joint venture, has conducted an exploration program over the past two years and presented a preliminary feasibility study on March 31, 1980 which indicated a potential yield of about 80 million tonnes of bituminous coal from surface mines.

Elsewhere in northern and northeastern British Columbia, Gulf Canada has acquired the coal rights to approximately 708 thousand net acres (287 thousand net hectares).

In Alberta, Gulf Canada has acquired the coal rights to 450 thousand net acres (180 thousand net hectares) and has applied for 81 thousand net acres (32 thousand net hectares) in a number of prospective thermal (steam) coal areas in the southern part of the province. Exploration currently in progress on these lands will be continued over the next few years to select the most suitable lands for retention and future mine planning.

Supply

Gulf Canada's refineries operate on Canadian crude oil, with the exception of the Montreal refinery which operates on Canadian and imported crude oil. A portion of the imported crude oil is purchased from Gulf Oil Corporation and its affiliates at competitive prices and terms. In addition, synthetic crude oil from Syncrude production is currently being processed through Gulf Canada's Montreal and Edmonton refineries.

Gulf Canada's dependence on foreign crude oil has decreased progressively since the extension in 1976 of the Interprovincial Pipe Line Limited system from Sarnia, Ontario to Montreal which carries domestic crude oil to the Montreal refinery. During 1980 crude oil processed by and for Gulf Canada was approximately 289.7 thousand barrels (46.1 thousand cubic metres) per day. Of this quantity 86% of the crude oil was domestically produced and the remaining 14% was imported from foreign sources.

To supply the feedstock requirements of its refineries, Gulf Canada supplements its own crude oil production with purchases from others. The following table sets out the average daily net crude oil supply and utilization:

Average Daily Volumes	Year ended December 31				
	1980	1979	1978	1977	1976
			(in thousands)		
Net production					
barrels	86.1	88.7	65.1	66.2	71.0
cubic metres	13.7	14.1	10.4	10.5	11.3
Net domestic purchases (1) (2)					
barrels	164.7	167.4	165.2	169.5	120.6
cubic metres	26.2	26.6	26.2	27.0	19.1
Foreign purchases					
barrels	38.9	62.3	71.1	103.2	103.8
cubic metres	6.2	9.9	11.3	16.4	16.5
Processed by and for Gulf Canada					
barrels	289.7	318.4	301.4	338.9	295.4
cubic metres	46.1	50.6	47.9	53.9	46.9

NOTES:

(1) Net domestic purchases consist of Gulf Canada's domestic purchases of crude oil less Gulf Canada's domestic and export sales of crude oil and includes changes in inventories in the respective periods.

(2) Included in 1979 new domestic purchases are imports of 9,435 barrels (1.5 thousand cubic metres) daily delivered to Point Tupper and Montreal pursuant to foreign swap arrangements.

Until late 1979 Gulf Canada purchased substantially all of its imported crude oil, aggregating approximately 62.3 thousand barrels (9.9 thousand cubic metres) per day in 1979, from Gulf Oil Corporation or an affiliated company. Such purchases were made at the official government prices of the country of origin, plus in certain cases a service fee, and in recent years such oil primarily originated in Iran and to a lesser extent Venezuela. However, in November 1979 as a result of the Iranian crisis, further deliveries of Iranian crude oil to Gulf Oil Corporation were curtailed. Thereafter, Gulf Oil Corporation notified Gulf Canada that in light of this unexpected loss of supply it would be forced to reduce its sales of crude oil to Gulf Canada and during 1980 supplied 16.8 thousand barrels (2.7 thousand cubic metres) per day.

In view of Gulf Oil Corporation's substantially reduced preferential access to foreign crude oil, and as part of Gulf Canada's program of diversifying its sources of foreign crude oil supplies, effective January 1980 Gulf Canada entered into supply agreements with the national oil company of Venezuela for a supply of 11 thousand barrels (1.7 thousand cubic metres) per day and with the national oil company of Iraq for a supply of 25 thousand barrels (4 thousand cubic metres) per day of crude oil, in each case at such country's official price at the time of loading. Gulf Canada has recently renewed its Venezuelan supply at 11 thousand barrels (1.7 thousand cubic metres) per day to the end of 1981. On September 29, 1980 Gulf Canada received notice from Iraq that because of damage to pipeline facilities and loss of crude oil production in that country due to hostilities with Iran, deliveries of crude oil were suspended until further notice. On December 31, 1980, Iraq advised of the termination of the supply contract.

The Government of Canada entered into an agreement with the Government of Mexico in 1980 for a supply of Mexican crude oil. Deliveries were expected to commence in the fourth quarter of 1980 at a rate of 30 thousand barrels (4.8 thousand cubic metres) per day increasing to a maximum of 50 thousand barrels (8 thousand cubic metres) per day by December 1980. However, PEMEX, the national oil company of Mexico, declared force majeure in December 1980, due to weather and loading facility difficulties in Mexico, and as a result, fourth quarter 1980 deliveries were reduced to 17 thousand barrels (3 thousand cubic metres) per day. January 1981 deliveries were 20 thousand barrels (3.2 thousand cubic metres) per day and resumed at planned rates in February 1981. The Government of Canada had allocated this supply among Canadian refineries in Quebec and the Maritime Provinces and has advised Gulf Canada that its allocated share would amount to 7.2 thousand barrels (1.1 thousand cubic metres) per day based on maximum delivery rates.

Under current circumstances, it is expected that Gulf Oil Corporation, pursuant to its existing supply agreement, will continue to supply Gulf Canada with the balance of its foreign crude oil requirements at the official price prevailing in the country of origin at the time of loading. That, combined with Gulf Canada's current inventory of crude oil in storage facilities located in Eastern Canada and receipt of normal volumes of crude oil from Gulf Canada's suppliers, other than Iraq, will permit continuance of refining operations in Eastern Canada at planned levels in 1981. Gulf Canada is unable to make any prediction as to the resumption of crude oil deliveries from Iraq or as to the effect which continuing hostilities may have on Gulf Canada's other sources of supply. International petroleum markets have been characterized by uncertainties as to the costs, quality and availability of supply. There can be no assurance that

Gulf Canada, either independently or through its arrangements with Gulf Oil Corporation, will have access in the future to foreign crude oil supplies at a cost, of a quality or in a quantity it may regard desirable.

The Alberta government has recently announced its intention to reduce production and supply of light sweet conventional crude oil to Eastern Canada. Reference is made to "Government Regulation and Taxation — Canadian Budget and the Proposed National Energy Program." Until the Federal and Alberta governments resolve their differences, Gulf Canada will have to replace its allocated share of the cutback (approximately 13%) with offshore crude oil or refined products at international spot prices.

As a result of the suspension of refinery operations at Point Tupper (reference is made to "Manufacturing—Refining"), arrangements were made with another refiner in the Maritime Provinces to process 15 thousand barrels (2.4 thousand cubic metres) per day of imported crude oil supplied by Gulf Canada to meet the light petroleum product demands previously served by the Point Tupper refinery. The facilities through which this crude oil will be processed will permit more efficient utilization of Gulf Canada's imported crude oil and will significantly reduce the volume of Gulf Canada's foreign crude oil purchases.

Manufacturing

Refining

Gulf Canada currently operates five refineries and two asphalt plants at locations across Canada which account for approximately 13% of Canada's refining capacity. The refineries manufacture a wide range of petroleum products including gasoline, aviation fuels, lubricating oils and greases, industrial and domestic heating oils, heavy fuel oils, kerosene and stove oils, waxes, solvents, propane, butane, coke, asphalt, petrochemical feedstocks and numerous by-products.

On September 10, 1980, Gulf Canada announced its decision to suspend indefinitely refinery operations at Point Tupper, Nova Scotia and confirmed that marketing, distribution and crude oil and products terminalling operations conducted from this location will be continued. This refinery had been shut down for normal maintenance for the month of July. Due to storage problems resulting from lack of demand, the shut down had been extended for an additional two months. This refinery, which was brought on stream in 1971, was designed as a topping plant which yielded approximately 50% residual fuels from crude oil feedstocks processed. Its production was dedicated equally to domestic markets and export markets in the United States. Following the Middle East crisis of 1973-74 the United States markets were lost and all subsequent efforts to re-establish access were unsuccessful. In recent years the domestic market for residual fuels has contracted as a result of low economic activity in the marketing areas served by the refinery and programmes designed to substitute indigenous fuels for foreign supplies. Increasingly heavier crude slates which yield proportionately greater quantities of residual fuel compounded the problem.

Average daily volumes of crude oil processed by and for Gulf Canada and the processing capacity of refineries are shown in the table below:

	Average volumes of crude oil processed per calendar day — Year ended December 31					Daily rated capacities at December 31 (3)	
	1980	1979	1978	1977	1976	1980	1976
	(thousands of barrels)						
Point Tupper, Nova Scotia (1)	18.4	56.6	47.2	66.1	46.0	–	81.0
Montreal, Quebec	64.5	60.8	64.8	72.1	63.9	77.4	77.3
Clarkson, Ontario	67.8	58.7	63.1	69.7	60.9	79.3	79.1
Moose Jaw, Saskatchewan (2)	3.1	7.3	3.9	6.3	6.3	13.2	9.3
Calgary, Alberta (2)	5.7	8.6	7.2	7.4	7.1	8.8	8.7
Edmonton, Alberta	78.9	77.5	73.3	76.2	65.2	79.9	74.5
Kamloops, British Columbia	9.3	8.9	8.9	8.7	8.5	9.4	7.7
Port Moody, British Columbia	38.2	38.3	33.0	32.3	36.2	37.1	37.2
Processed by others for Gulf	3.8	1.7	–	.1	1.3	N/A	N/A
	289.7	318.4	301.4	338.9	295.4	305.1	374.8
	(thousands of cubic metres)						
Point Tupper, Nova Scotia (1)	2.9	9.0	7.5	10.5	7.3	–	12.9
Montreal, Quebec	10.3	9.7	10.3	11.5	10.2	12.3	12.3
Clarkson, Ontario	10.8	9.3	10.0	11.1	9.7	12.6	12.6
Moose Jaw, Saskatchewan (2)	0.5	1.2	.6	1.0	1.0	2.1	1.5
Calgary, Alberta (2)	0.9	1.4	1.2	1.2	1.1	1.4	1.4
Edmonton, Alberta	12.5	12.3	11.7	12.1	10.3	12.7	11.8
Kamloops, British Columbia	1.5	1.4	1.4	1.4	1.3	1.5	1.2
Port Moody, British Columbia	6.1	6.1	5.2	5.1	5.8	5.9	5.9
Processed by others for Gulf	0.6	.2	–	–	.2	N/A	N/A
	46.1	50.6	47.9	53.9	46.9	48.5	59.6

NOTES:

(1) Refining operations suspended indefinitely on September 10, 1980.

(2) Asphalt plants.

(3) Rated capacities are based on definite specifications as to types of crude oil, the products to be obtained and the refinery process. Accordingly, actual capacities may be higher or lower than rated capacities due to changes in refinery operation.

The Clarkson refinery, located near Toronto, Ontario, includes a new lubricating oil plant which was substantially completed in 1979 at a cost of $213 million. This plant, currently producing approximately 1.3 million barrels (206.7 thousand cubic metres) per year of high quality lubricating and industrial oils using a newly developed deep hydrogenation process licenced from Gulf Oil Corporation, is expected to reach its design capacity of two million barrels (318 thousand cubic metres) per year following the further expenditure of approximately $40 million by 1982. Upon reaching design capacity, the production from this facility, representing approximately 30% of Canada's lubricating oil production capacity, is expected to displace most of Canada's imports of lubricating oils.

In February 1980 Gulf Canada announced its intention to expand its Edmonton, Alberta refinery to meet increasing market demand in western Canada. The necessary regulatory approvals have been obtained and the expansion, estimated on a preliminary basis to cost approximately $200 million, is scheduled for completion in 1983, and will increase the Edmonton refinery capacity by 45 thousand barrels (7.2 thousand cubic metres) per day to a total capacity of 125 thousand barrels (19.9 thousand cubic metres) per day. This proposed expansion is designed in part to accommodate the processing of additional volumes of synthetic crude oil.

In May 1980, Gulf Canada announced its intention to build facilities at its Montreal refinery to upgrade its production of heavy residual fuel oil into gasoline and middle distillate fuel oils. Because the industry's surplus of residual fuel in Quebec is expected to increase rapidly as a result of heavier crude oil supplies and declining markets for heavy fuel oil, Gulf Canada invited other refiners in the Montreal area to participate in a single upgrading plant on a joint venture basis in order to achieve maximum efficiency. As a result, discussions are currently being held with the Montreal refiners, all of whom have expressed positive interest in exploring the possibility of participating in such a project. Although no definitive estimate of cost is available at this time, Gulf Canada's financial participation in this venture is estimated to be in excess of $300 million. In addition, Gulf Canada is planning to expand its reforming capacity at the Montreal refinery to satisfy future gasoline quality requirements and to maximize benzene recovery for its petrochemical operations in Montreal. The cost of this improvement is estimated to be in excess of $80 million.

Petrochemicals

Gulf Canada manufactures and sells a range of chemical products including phenol, acetone and cyclohexane as well as coal-based calcium carbide, acetylene, acetylene black and electrode paste. It also operates a limestone quarry located in Bedford, Quebec which supplies limestone feedstock for both its calcium carbide production and various glass, roofing and fertilizer industries in the Montreal area. Gulf Canada also produces approximately 15 million imperial gallons (68 million litres or 18 million U.S. gallons) per year of ethyl alcohol from ethylene. Gulf Canada's petrochemicals are marketed to, among others, manufacturers of plastic polymers, nylon fibres, phenolic resins, rubber, chemicals and dry-cell batteries.

All petrochemical production units are located in the Province of Quebec with major plants in Shawinigan and Montreal. In Varennes, on behalf of Petromont Inc. (referred to below) Gulf Canada operates an olefins plant with a capacity of 500 million pounds (227 million kilograms) of ethylene per year. The Montreal refinery includes petrochemical facilities producing benzene which it uses to produce 60 million pounds (27 million kilograms) annually of phenol, used in the construction and forest products industries, and 36 million pounds (16 million kilograms) annually of acetone, primarily used in the paint industry. This site also has Canada's only cyclohexane plant, producing 29 million imperial gallons (132 million litres or 35 million U.S. gallons) per year which is sold to a single customer for use in the production of nylon.

On September 30, 1980 the Corporation concluded agreements with Union Carbide Canada Limited and the Government of Quebec to commence the operation of a major petrochemical consortium to be operated by a new company, Petromont Inc. This consortium consolidates the existing ethylene production facilities of Gulf Canada and Union Carbide in the Montreal area and will consider opportunities for future expansion. The project involved the transfer to the consortium by the Corporation of certain assets, consisting primarily of the Varennes plant located at Varennes, Quebec, for cash and the acquisition of a participating interest in the project which by 1982 will be 33.33%.

Marketing

Gulf Canada markets the following full range of petroleum products; motor gasoline including aviation fuel; middle distillates including heating, industrial and marine fuels; other products, including a full range of lubricating and industrial oils and greases, solvents and asphalts, coke, waxes, propane and butane. Gulf Canada also markets petrochemicals, including industrial chemicals and plastics; tires, batteries and accessories; automotive supplies; and propane gas appliances. Gulf Canada has a major position in all petroleum markets in Canada including retail sales to the motoring public, and sales to farm, industrial, commercial and marine customers.

The approximate average daily volumes of petroleum products sold during the five years ended December 31, 1980, together with the revenues (in millions of Canadian dollars) derived from the sale of such products during such periods, were as follows:

	Motor gasoline			Middle distillates			Other			Total		
	Thousand of barrels per day	Thousands of cubic metres per day	$ Million	Thousands of barrels per day	Thousands of cubic metres per day	$ Million	Thousands of barrels per day	Thousands of cubic metres per day	$ Million	Thousands of barrels per day	Thousands of cubic metres per day	$ Million
1976	91	14.5	528	73	11.6	379	98	15.6	431	262	41.7	1,338
1977	97	15.3	633	79	12.6	464	110	17.5	542	286	45.4	1,639
1978	96	15.2	706	75	12.0	504	98	15.6	570	269	42.8	1,780
1979	98	15.5	841	78	12.4	601	94	15.0	644	270	42.9	2,086
1980	99	15.7	1051	77	12.2	763	93	14.8	858	269	42.7	2,672

In 1978 volumes of petroleum products sold declined because Gulf Canada decided to forego business not yielding a reasonable return, but in 1979 motor gasoline and middle distillates unit volumes increased by 3% in a market where higher prices prevailed. In 1980 volumes of motor gasoline increased slightly over 1979 but were more than offset by lower middle distillate and residual fuel sales.

The retail network of company-owned and dealer-owned outlets serving the motoring public consists of approximately 2,700 locations. Gulf Canada has substantially completed its program of phasing out low volume company-owned retail outlets in favour of larger and more economically viable operations. Accordingly, the number of company-owned retail outlets has been reduced from a high of approximately 2,000 in 1969 to approximately 1,000 at present.

Servico Limited, a wholly-owned subsidiary, operates approximately 120 of the company-owned retail gasoline outlets and restaurants as well as 62 farm centres and fuel oil distributorships.

Superior Propane Limited, a wholly-owned subsidiary, is a major Canadian marketer of propane gas and propane appliances with retail outlets throughout Canada.

Transportation

Gulf Canada uses many modes of transportation, including tanker, pipeline, rail and truck, to move its crude oil and refined products. It owns and operates four crude oil and product pipelines with a total annual throughput capacity of 47 million barrels (7.5 million cubic metres). In addition, Gulf Canada operates three pipelines, owned by itself and others, with a total annual throughput capacity of 48 million barrels (7.6 million cubic metres) of crude oil and refined products. Gulf Canada also has a 16% interest in the Montreal Pipe Line Company Limited, which operates a crude oil pipeline between Montreal and Portland, Maine, a one-third interest in Trans-Northern Pipe Line Company, which owns and operates a refined products pipeline between Montreal and Clarkson, and minority interests in the capital of several other pipeline companies.

Gulf Canada owns and operates three coastal tankers to transport refined petroleum products in eastern Canada and leases a number of tankers and barges on the Great Lakes and off the east and west coasts of Canada. In addition to operating a large fleet of tank trucks, it leases and operates a fleet of railway tank cars, which transport approximately 12 million barrels (1.9 million cubic metres) of product annually.

Substantially all of Gulf Canada's imported crude oil is transported through arrangements with affiliates. Reference is made to "Certain Transactions with Gulf Oil Corporation" in Item 10 of this Report.

Research and Development

Gulf Canada is actively engaged in basic and applied research and development programs employing approximately 180 persons at its facilities located at Sheridan Park, Ontario. These activities are directed towards the improvement of petroleum and petrochemical technology, and involve the development of new products and improved resource recovery, the consideration of additional end uses for existing products, the improvement of product quality and the development of new and improved manufacturing processes. Research and development costs were $30 million in 1978, $31 million in 1979 and $45 million in 1980.

Gulf Canada has a number of separately negotiated scientific research agreements with Gulf Oil Corporation and its affiliates that may, in a given case, provide for the performance of technical and engineering work and the sharing of costs, the exchange of technical information or the assignment and licensing of patents and patent rights. In addition, Gulf Canada is engaged in certain joint pilot research projects with affiliates of Gulf Oil Corporation and has access to certain technology under licences from Gulf Oil Corporation.

Human Resources

Gulf Canada employs approximately 10,900 employees at its offices, plants, refineries and service locations across Canada. The total staff employed has remained relatively constant over the past five years. Approximately 20% are employed under collective bargaining agreements, the terms of which vary from one to two years.

Environmental Protection

Capital expenditures directed at environmental protection were $17 million in 1979 and $23 million in 1980 and are estimated at $36 million in 1981. These expenditures involve facilities in all aspects of Gulf Canada's business to reduce emissions into the air and water, to prevent and contain liquid spills, and to comply with environmental regulations.

Government Regulation and Taxation

The oil and gas industry in Canada operates under Government of Canada, provincial and municipal legislation and regulations governing all phases of exploration, development, refining and marketing, including land tenure, royalties, production rates, pricing, environmental protection, exports, income taxes and other matters. The Government of Canada (the "Government") has enacted legislation under which it has the authority (with or without provincial agreement) to regulate the price of crude oil and natural gas in interprovincial and export trade and the quantities of crude oil, natural gas and refined products which may be exported from Canada. Alberta has passed legislation for the purpose of regulating the prices of crude oil and natural gas produced in the province and the quantities of such products which may be removed from the province. Outlined below are some of the more significant aspects of current and proposed government legislation and regulations which either currently affect or, if implemented in the future as proposed, may affect Gulf Canada's operations.

Canadian Budget and the Proposed National Energy Program

On October 28, 1980 the Minister of Finance of the Government introduced a budget and The National Energy Program which, if implemented without change, will have a substantial effect on the oil and gas industry in Canada.

The three stated objectives of the program are to achieve: (i) security of energy supply in Canada and ultimate independence from the world oil market; (ii) the opportunity for all Canadians to participate in the energy industry, particularly oil and gas, and to share in the benefits of its expansion; and (iii) a petroleum pricing and revenue-sharing regime that recognizes the requirement of fairness to all Canadians no matter where they live. As to energy opportunity, the specific goals are at least 50% Canadian ownership of oil and gas production by 1990, Canadian control of a significant number of the larger oil and gas firms and an early increase in the share of the oil and gas sector owned by the Government.

In general terms, the Government's objective of security of energy supply is to be achieved by means of higher prices, new investment incentives ("Petroleum Incentive Payments") and conservation incentives.

The Government's objective of increased Canadian participation in the energy industry is to be achieved mainly by means of the Petroleum Incentive Payments that lower the cost of investment to Canadians, a Natural Gas Bank to ease the cash-flow constraint faced by small Canadian firms, a requirement of a minimum of 50% Canadian ownership for any production from lands located in northern Canada, offshore Canada and Yukon and Northwest Territories ("Canada Lands"), a major Government program to acquire one or more large foreign-owned oil and gas firms, the reservation to the Government of a 25% interest in every right granted on certain Canada Lands and strict requirements for use of Canadian goods and services in exploration, development and production programs on Canada Lands and in major non-conventional oil projects.

The Government's objective of a pricing and revenue-sharing system that is considered by the Government to be fair to all Canadians is to be achieved by giving the Government a greater share of oil and gas revenues and shifting a portion of the burden of imported oil costs from the taxpayer to the oil consumer. The Government has imposed a new natural gas and gas liquids excise tax on domestic and export sales effective November 1, 1980 for domestic sales and February 1, 1981 for gas export sales. In addition, the Government announced the imposition of a Petroleum Compensation Charge of $2.55 per barrel, effective November 1, 1980 to replace the "Syncrude Levy" which was previously $1.75 per barrel.

The Government further proposed a Petroleum and Gas Revenue Tax of 8% of net operating revenues from oil and gas production to be introduced effective January 1, 1981.

The Government of Alberta is challenging the jurisdiction of the Parliament of Canada to impose the new natural gas and gas liquids excise tax. On October 30, 1980, in response to the proposals, the Premier of Alberta announced Alberta's intention to reduce the volume of crude oil produced from Provincial Crown Lands in phases commencing March 1, 1981 to about 85% of capacity and to re-examine its commitment to new oil sands developments. Effective March 1, 1981 production was reduced by approximately 60,000 barrels (9.5 thousand cubic metres). The Premier promised to suspend the oil production cut-backs if the Government would negotiate with Alberta "a new and fair arrangement" on energy prices and revenue-sharing. Gulf Canada is currently unable to predict either the outcome of the current dispute between provincial and federal governments or whether any of the announced federal or provincial regulatory policies may be modified in the future.

The budget and The National Energy Program are contained in government papers tabled by the Minister of Finance on October 28, 1980. Legislation to give effect to all of these complex proposals has not yet been introduced and such legislation when introduced may vary from the proposals. In these circumstances, the impact of the proposals on Gulf Canada cannot be assessed at this time. However the combination of measures announced by the Government would have a material adverse effect on foreign-owned and foreign-controlled companies such as Gulf Canada.

If the proposed 8% Petroleum and Gas Revenue Tax had been in effect throughout 1980 it would have reduced Gulf Canada's net earnings by approximately $77 million or 20%. Moreover, if all of the proposals discussed below are implemented as proposed, Gulf Canada anticipates further significant negative impact on 1981 net earnings. This will reduce resource operation cash flows, curtail investment plans and cause substantial delays in further development of certain major projects.

In response to the Goverment's proposed initiatives described in detail below, and pending the enactment of definitive legislation to give effect to certain of these proposals, Gulf Canada has reduced its planned capital and exploration expenditures by $210 million in 1981 and by 15% or approximately $900 million for the five-year period commencing January 1, 1981.

Prices

While the Government can regulate the price of crude oil and natural gas in export and inter-provincial trade under the Petroleum Administration Act, in recent years pricing of crude oil and natural gas which is consumed outside the province of its production has been determined from time to time by agreement between the Government and the producing provinces. Federal-provincial pricing agreements have established a two price system for crude oil and natural gas: the lesser price being a domestic price for crude oil and natural gas consumed in Canada, the higher price being an export price for crude oil and natural gas exported from Canada.

In the period prior to August 1, 1980, in the case of oil, and November 1, 1980, in the case of natural gas, the pricing of oil and gas which was consumed outside the province of its production was determined by agreement between the Government and the producing provinces. Agreements on oil and gas pricing have not been reached since these dates.

Crude Oil Prices

The Government has not permitted prices for Canadian crude oil to rise to international levels. As of January 1, 1981 the average Alberta wellhead price was $17.75 per barrel ($111.70 per cubic metre). For purposes of illustrating the differences between domestic and international prices, set forth in the following table are the official prices of Arabian light crude, translated into Canadian dollars and exluding transportation charges from the Middle East, and the Alberta reference price for crude oil delivered to Edmonton, in each case per barrel and as of the dates indicated:

	Arabian Light Crude	Alberta Reference
January 1, 1974	$ 9.52	$ 4.11
January 1, 1975	10.41	6.81
January 1, 1976	11.58	8.31
January 1, 1977	12.22	10.15
January 1, 1978	13.98	12.26
January 1, 1979	15.93	13.23
January 1, 1980	30.26	15.29
January 1, 1981	38.24	18.28

In order to equalize prices to consumers across Canada, the Government provides compensation to refiners and others importing crude oil and refined products. The amount of compensation (the "compensated amount") is equal to the calculated difference between the average cost of imported crude oil at Montreal and the regulated price of Canadian crude oil, adjusted to include transportation costs and differences in quality.

The Government has also instituted a world price compensation subsidy equal to the compensated amount to enable synthetic crude oil to sell at the current international price in accordance with certain assurances described under "Mineable Oil Sands — Syncrude Project". On March 28, 1980 the Minister of Energy, Mines and Resources of Canada gave notice to Gulf Canada that the Government believes force majeure conditions exist relating to these assurances in respect of the Syncrude Project. Reference is made to "Mineable Oil Sands — Syncrude Project".

Until recently the policy of the Government had been to permit the average wellhead price of Canadian crude oil gradually to rise to world levels. On April 14, 1980 the Government said it would introduce a new oil-price policy based on a blended price for all oil sold in Canada, domestic or imported. The Government indicated that the blended price "will reflect the right of producing provinces and corporations to a fair return for their resources and their investment" and "will progressively incorporate" a subsidy currently paid in imported crude oil with government funds as described above.

As part of the National Energy Program the Government raised the wellhead price for a barrel of conventional light and medium oil from $16.75 to $17.75, effective January 1, 1981, and announced subsequent price increases of $1 every six months until the end of 1983. Thereafter, until the end of 1985, price increases will take place at the rate of $2.25 every six months. Commencing in 1986, the price will be raised at the rate of $3.50 every six months until it reaches its "appropriate quality-determined level" relative to the oil sands reference price.

The reference price for synthetic crude oil from oil sands has been set, effective January 1, 1981, at the lesser of $38 a barrel, escalated annually thereafter by the Canadian Consumer Price Index, or the international price. Incentives in the form of a price supplement to the wellhead price for conventional oil will be paid by the Government for oil produced using improved tertiary enhanced recovery methods. This tertiary reference price will be adjusted annually in a manner similar to the method of changing the oil sands reference price. Implementation of the incentive will be dependent upon the co-operation of the oil producing provinces. The Government may establish a reference price for frontier oil and other domestic sources when more is known about the costs of bringing these new supplies on stream and the timing of production.

As part of the establishment of a blended or made-in-Canada price, all Canadian refiners will be required to pay a Petroleum Compensation Charge. Revenues from this charge will be used to subsidize the costs of synthetic and imported oil. On January 1, 1981 this Charge was $5.05 per barrel and will be increased by $2.50 per barrel on January 1, 1982 and 1983.

Under the blended price system, Canadian oil consumers will pay prices that, while rising substantially, will remain significantly below world prices. The blended price will never exceed 85% of the international price or the average price of oil in the United States, whichever is lower.

Natural Gas Prices

The Government has the authority, under the Petroleum Administration Act (with or without provincial agreement) to regulate the price of natural gas in interprovincial and export trade and the quantities of such products to be exported from Canada. Alberta has passed legislation which enables it to regulate the amount and prices of crude oil and natural gas produced in Alberta and the amounts of crude oil and natural gas which may be removed from the province. The Natural Gas Pricing Agreement Act (Alberta) provides that the border price for gas produced in Alberta for sale outside the province shall be the price established by agreement between the federal and Alberta governments.

Under the legislation referred to above, the Government and Alberta reached certain agreements, the most recent of which expired on July 31, 1980 and since that date no new agreement has been reached. The interprovincial price is based on the eastern Canada city gate price, which was $2.60 per thousand cubic feet ($92.28 per thousand cubic metres) on March 1, 1981. The export price on March 1, 1981 was US $4.47 per thousand cubic feet (US $158.66 per thousand cubic metres) and will increase to US $5.15 per thousand cubic feet (US $182.79 per thousand cubic metres) effective April 1, 1981 at the Canada-US border.

From 1975 until October 1980 it was Government policy to set the Toronto city gate price (the price paid by distributing utilities for Alberta gas delivered at Toronto) at approximately 85% of the price of crude oil in the Toronto area on an energy equivalent basis. Under the National Energy Program and Budget it is proposed that gas prices to the consumer rise less quickly than oil prices to encourage a shift in consumption from oil to gas. Although the policy of raising eastern Canada city gate prices by 15¢ per thousand cubic feet for each $1.00 per barrel increase in the wellhead price of oil would continue, no increase in the wellhead price of gas would take place until February 1, 1982. The program also provides for a new excise tax on natural gas and natural gas liquids which is currently equal to 30¢ per thousand cubic feet effective November 1, 1980 for domestic sales and February 1, 1981 for export sales, and which will increase by 15¢ on each of July 1, 1981, January 1, 1982 and January 1, 1983 respectively.

Production

The Government, through the National Energy Board ("NEB"), controls the volume of crude oil from all sources, refined petroleum products and natural gas exported from Canada. Effective April 1, 1980, the Alberta Petroleum Marketing Commission (the "APMC"), an agency of the Government of Alberta, has become the exclusive marketer of crude oil produced from Province of Alberta crown leases. Accordingly, all such crude oil must be sold by producers to the APMC, which resells the crude oil to purchasers at prices fixed by the Government of Alberta. This change in marketing arrangements is not expected to have a significant impact on the business of Gulf Canada although it has reduced the number of crude oil transactions entered into by the Corporation. Reference is made to Note 13 to the Consolidated Financial Statements. The Government of Alberta has enacted legislation which authorizes the provincial cabinet to limit the production of crude oil in Alberta from crown leases to such quantities as it may, from time to time, deem to be in the public interest of Alberta, which quantities may be set below the levels that could otherwise be produced and sold.

The National Energy Program has stated that in the future the Government will ask the NEB to take Canadian ownership levels into account in considering export applications. It would prefer that, in granting such licences, the NEB give preference to Canadian-owned and Canadian-controlled firms. A Natural Gas Bank will be established "to purchase from Canadian-owned and Canadian-controlled firms gas that cannot find markets; to enter into joint-venture operations or to provide production loans".

The Government has announced that it wishes heavy crude oil to be upgraded rather than exported but it has stated that it will permit exports to continue "for a short time".

Crude Oil Production

In 1973 the NEB instituted a licensing system to control the volumes of crude oil and refined petroleum products exported from Canada. These measures had the effect of reducing available markets for Canadian crude oil and contributed to a reduction of Gulf Canada's net crude oil production. Because of a concern for Canada's energy self-sufficiency, the NEB instituted a policy in 1974 of reducing permissible exports on a gradual basis with a view to phasing out all exports by the end of 1981. Since November 1, 1979 the NEB has licensed only negligible volumes of Canadian light crude oil for export.

The NEB has established a policy of licensing for export all volumes of conventional heavy crude oil which are surplus to Canadian domestic requirements. The authorized level of conventional heavy crude oil exports for June 1980 was 63 thousand barrels (10 thousand cubic metres) per day.

In addition, since 1978 due to shortage of crude oil available for import into Canada the NEB has permitted additional exports of Canadian crude oil through swap arrangements pursuant to which sales of Canadian crude oil are permitted to purchasers in the north-western and mid-western United States in exchange for delivery of crude oil in eastern Canada of approximately equal value. In 1979 the volume of crude oil exports authorized under such swap arrangements averaged 42 thousands barrels (6.7 thousand cubic metres) per day. Due to a recent change in policy of the NEB the volume of exports licensed under swap arrangements has declined.

The production of crude oil from wells in western Canada is limited to amounts which are fixed from time to time by provincial regulatory authorities, including the Energy Resources Conservation Board (the "ERCB") in Alberta, and is prorated based on market demand among producing fields. Production of synthetic crude oil must also be approved by the ERCB.

Natural Gas Production

Natural gas may be exported from Canada only after authorization has been obtained from the NEB, which must be satisfied that the quantity of natural gas proposed to be exported does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada having regard to trends in discovery in Canada. During the period 1971 to 1978 the NEB did not approve any applications for long-term exports of natural gas to the United States and consequently exports were restricted to the levels prevailing prior to 1971. In February 1979 the NEB completed a re-appraisal of the supply of natural gas in relation to both reasonably foreseeable Canadian requirements and the amount of gas already committed to the United States and determined that a surplus of commercially available natural gas exists. In addition, the February 1979 report included a statement by the NEB as to new tests to be used to determine whether gas is surplus to Canadian requirements.

On December 6, 1979 the NEB announced that it had authorized new exports of natural gas to the United States totalling approximately 3.75 trillion cubic feet (106.2 billion cubic metres). These additional volumes were found to be surplus under the most restrictive tests introduced by the NEB in its February 1979 report. The new export licences, which commenced on January 1, 1980 at the earliest and terminate by December 31, 1987 at the latest, represent an increase of approximately 40% over the 9.4 trillion cubic feet (264.8 billion cubic metres) remaining under previously issued export licences. However, export authorization with respect to approximately 48% of these additional volumes was granted upon the condition that such exports be delivered through certain southern sections of the Alaska Highway Natural Gas Pipeline described under "Production". Export authorization for certain additional volumes, which was granted in late April 1980, is subject to the same condition.

In addition, natural gas and natural gas liquids may only be removed from Alberta with a permit issued by the ERCB. The production of natural gas from wells in western Canada may be limited to amounts fixed from time to time by provincial regulatory authorization.

Land Tenure

Gulf Canada has acquired oil and gas exploration and production rights from the Government, from various provincial governments and from freehold mineral owners. Most of Gulf Canada's oil and gas rights are in Government or provincial government lands. The following is a summary of the land tenure provisions relating to Government and provincial government lands, and changes proposed by the National Energy Program.

The Canada Oil and Gas Land Regulations currently govern the exploration for and development of lands located in Canada Lands, which include most of the Corporation's interests in frontier areas. The holder of an exploratory permit issued prior to August 1977 may, at his option, apply for a lease or for a special renewal permit for a term and upon conditions set by the Government. Where an application is made for a special renewal permit for any Canada Lands in respect of which no "declaration of a significant discovery" is in force, Petro-Canada, the national petroleum company owned by the Government, has the right to acquire at no cost a 10% interest in the special renewal permit where the applicant has a Canadian Participation Rate ("CPR") below 35% and an additional 1% interest for every 1% that the applicant's Canadian participation rate is below 25%, up to a maximum additional interest of 15%. As of August 22, 1980 the Corporation estimated its CPR to be 21%. The Canadian participation rate of a corporation which is not controlled by Canadians is basically the total of the direct and indirect voting equity interests held by Canadians in the corporation. The percentage of Canadian participation of each member of a group is considered in the calculation of the rate for group applicants. Reference is made to "Petroleum Monitoring Agency".

The National Energy Program proposes to impose stiffer work requirements for exploration and development rights to Canada Lands to ensure that a high level of Canadian goods and services is employed in oil and gas activities carried out on Canada Lands. On December 9, 1980, the Government introduced Bill C-48, a proposed new Canada Oil and Gas Act to regulate oil and gas interests in federally-owned petroleum and natural gas rights on Canada Lands and to replace the Canada Oil and Gas Land Regulations. In addition to outlining administrative procedures, the legislation reserves to the Government a 25% carried interest in Canada Lands at no cost to the Government until the development phase. The legislation also outlines a new royalty system calling for payment to the Government of a 10% royalty plus, after the producer has recovered his total investment and a 25% return on the investment, 40% of net profits. In addition, in order to produce from Canada Lands, Bill C-48 would require the holder of an exploration agreement to obtain a production license which can only be obtained if the beneficial Canadian ownership rate therein is 50% or more. If the Canadian ownership is less than 50% the license granted would reserve to the Government a share equal to the amount by which the Canadian ownership rate is less than 50%. Production licenses would be for a term of ten years, renewable for further ten-year terms so long as the lands are capable of production. Gulf Canada has varying interests in 78.4 million gross acres (31.7 million gross hectares) of Canada Lands which could become subject to the proposed legislation.

In Alberta provincial exploratory licences are for terms of from two to five years depending on location, and drilling is required to earn leases. All or a portion of the lands covered by the exploratory licence may be converted to lease depending upon the depth of the wells drilled. Petroleum and natural gas leases granted after July 1, 1976 have a term of five years and producing leases continue as to zones which are then considered by the Alberta Government to be capable of production in paying quantities.

In British Columbia oil and natural gas exploration rights are conferred by exploration permits, which have terms of one year and are generally renewable for up to four or seven additional terms, and by drilling reservations, which have terms of not less than one year and are renewable for up to five terms of six months. Generally an exploration permit authorizes the holder to apply for leases of up to 50% of the lands covered by the permit while a drilling reservation allows the holder to select at least 25% of the lands covered by the drilling reservation. Leases have terms of five or ten years depending on location and continue thereafter in respect of leased acreage within the spacing area for a commercial well.

In Saskatchewan, oil and natural gas exploration rights are conferred by permits, which have terms of three years and are renewable for certain further terms at the discretion of the government, and drilling reservations which have terms of one year and are renewable for two further terms. Holders of permits and drilling reservations have the right, upon certain terms and conditions, to obtain leases covering various percentages of the permit lands. Leases have terms of five years and continue thereafter as long as drilling operations are being conducted or a producing well exists on the leased acreage.

The Province of Newfoundland, as well as the Government, claims ownership of minerals offshore Newfoundland and Labrador and in October 1977 Newfoundland legislation governing exploration and development in these offshore areas was enacted. Exploratory permits are required from the Province of Newfoundland by competitive bidding. Exploratory permits have terms of from three to eight years and provide for extensions and appraisal periods. Leases may be obtained only in respect of acreage underlain by a discovery and only after a development program has been approved. Leases have a term of 15 years and are renewable for further periods of 10 years. It is a condition of every lease that, within one year of the commencement of the lease, the lessee shall enter into a participation agreement with the Newfoundland and Labrador Petroleum Board (the "NLPB") whereby the lessee shall transfer a 40% working interest in the lease to the NLPB. In accordance with the provincial regulations, the participation agreement shall contain provisions requiring the NLPB to pay 40% of all costs incurred as of that date as well as its share of future exploration and development costs and a finder's fee equal to four times the average costs of a well drilled in the lease area, and the participation agreement shall also permit NLPB to convert all or part of its 40% working interest into an identical percentage carried interest in accordance with certain terms and conditions. Permits covering the interests of Gulf Canada in the Newfoundland and Labrador offshore properties have been obtained from both the Government and the Province of Newfoundland.

Royalties and Levies

Different royalty rates are imposed by either the Government or the producing provinces in respect of production of crude oil and natural gas from government lands. In addition, some producing provinces receive revenue through the imposition of taxes on crude oil and natural gas reserves or on income derived from oil wells or by requiring producers to sell natural gas and natural gas liquids to such producing provinces at specified prices below existing market prices.

Government royalties on crude oil and natural gas vary depending on well production volumes, selling prices, recovery methods and the timing of initial production. Government royalties on natural gas liquids vary with selling prices. To encourage exploration expenditures, new crude oil and natural gas reserves when placed on production generally are subject to a lower royalty rate than older reserves. Gulf Canada's total average effective conventional crude oil royalty rate for both government and freehold production, including mineral tax, was 36.8% in 1980. Gulf Canada's total average effective royalty rate for sales of natural gas and related products for both government and freehold production, including mineral tax, was 31.1% in 1980.

The Government imposes taxes on crude oil exported from Canada based on the difference between the Canadian domestic price and the average prices of crude oil imported into the United States from countries other than Canada. A similar tax is also imposed on products refined from crude oil recovered in Canada and exported from Canada.

In Bill C-48 the Government has proposed that in addition to the basic royalty of 10%, a Progressive Incremental Royalty is to be established for Canada Lands. Such royalty is to be 40% of the net annual profit derived from the production from an oil and gas property above a 25% floor rate of return.

Canadian Income Taxes

Gulf Canada is subject to Canadian federal and provincial income taxes of general application. The general federal rate is 46% which is abated to 36% for taxable income to which provincial rates of from 10% to 16% apply. In addition there is a 5% surtax on federal corporate tax respecting income earned from January 1, 1980 to December 31, 1981.

Canadian federal and provincial income taxation of resource profits is complex and the following is a summary only of existing regulations and certain announced proposals.

In computing income to which such taxes apply, Canadian exploration expenses are deductible in the year incurred. Canadian development expenses which include the cost of natural gas and petroleum rights acquired before December 12, 1979 are deductible on a 30% reducing balance basis. Such costs, if incurred after December 11, 1979 are deductible at a maximum rate of 10% per annum on a reducing balance basis.

Payments to Canadian governments for royalties, oil and gas lease rentals, mineral taxes and other similar payments are not generally deductible for federal income tax purposes. However, a resource allowance of 25% of resource production profits is deductible and has the effect of helping to offset these non-deductible items. In addition, the provinces of Alberta, British Columbia and Saskatchewan provide for partial rebates of provincial income taxes attributable to these non-deductible amounts. Alberta also provides for a credit on account of Federal tax paid equal to 25% of royalties paid to the province, the credit being limited to $1,000,000 annually for each taxpayer or associated group.

As part of the National Energy Program, the Government has introduced legislation to impose an 8% Petroleum and Natural Gas Tax effective January 1, 1981 on net production revenue and on royalties and rentals related to the production of oil and gas in Canada. For this purpose, net production revenue will include income from crude oil and gas production and crude oil processing computed in accordance with the Income Tax Act, but no deduction will be allowed for certain amounts such as depletion, depreciation, exploration or development expenses, inventory and resource allowance, interest and other financial expenses, research expenses or government royalties. This tax will not be deductible for federal income tax purposes. Gulf Canada expects that the proposed tax, if implemented, will effect a significant reduction in its after-tax earnings. Reference is made to "Canadian Budget and the Proposed National Energy Program".

Earned depletion for oil and gas exploration and development will be eliminated or phased out except for frontier exploration, oil sands, enhanced recovery projects and heavy crude oil upgraders. Such projects will continue to earn depletion at the rate of 33⅓% of eligible expenditures. Earned depletion for exploration expenses other than on Canada Lands will remain at 33⅓% for 1981, reducing to 20 percent in 1982, 10 percent in 1983 and will be eliminated thereafter. Development expenses, other than those for projects of the type qualifying for incentive prices will not earn depletion after 1980. After 1981 the allowance for supplementary depletion will be reduced from 50% to 33⅓% of the cost of certain enhanced oil recovery equipment, with the deduction limited to 25% of resource income rather than 50% of income. This income limitation will also apply to supplementary depletion of the cost of certain oil sands facilities.

All government grants, subsidies or other assistance related to exploration and development will reduce the deduction of Canadian exploration and development expenses in the computation of taxable income as well as reduce expenditures for the purpose of computing earned depletion. After 1981 certain expenditures have been redefined as Canadian development expenses instead of Canadian exploration expenses thereby deferring permitted deductions from income and reducing earned depletion.

The processing of heavy oil in upgrading plants to a stage of light marketable crude oil or its equivalent will now be treated as a resource activity rather than as manufacturing and processing. Income from such operations will therefore constitute resource profits and be eligible for the 25% resource allowance.

Petroleum Incentives Program

The Petroleum Incentives Program, if enacted, will provide a new system of direct incentive payments for exploration and development to compensate, in certain cases, and in varying degrees, for the reduction of the depletion incentives. On February 16, 1981 the Government announced that maximum grants under the program will be available in 1981 to Canadian-controlled companies with at least 65% beneficial Canadian ownership measured by the Canadian ownership rating ("COR") administered by the Petroleum Monitoring Agency. Reference is made to "Canadian Budget and the Proposed National Energy Program" and to "Petroleum Monitoring Agency".

The Government further announced that the eligibility standard for incentive payments will rise by two percentage points annually to reach 75% in 1986. In addition, a new intermediate category of incentive payments will be available in 1981 to Canadian-controlled companies with at least a 60% COR. The standard will rise by one percentage point annually to reach 65% in 1986. The 50% COR category, originally proposed to include all Canadian-controlled applicants up to 75% COR, will continue to have a minimum limit of 50% with an upper limit of 59% in 1981, rising to 64% in 1986.

Enterprises that are at least 50% Canadian-owned and are Canadian-controlled will qualify for incentive payments equal to 10% of approved costs incurred in exploration for oil and gas anywhere in Canada in 1982 and 1983. Those payments will be increased to 15% for 1984 and subsequent years. Enterprises which are at least 65% Canadian-owned and Canadian-controlled will qualify for a 35% incentive payment for approved exploration costs incurred in 1982 and thereafter.

For exploration on Canada Lands, in addition to the payments for exploration anywhere in Canada, all enterprises will qualify for an incentive payment of 25% of approved costs incurred in 1981 and thereafter. Enterprises exploring on Canada Lands and which are at least 50% Canadian-owned and are Canadian-controlled will qualify for a further additional incentive payment equal to 10% of approved costs incurred in 1981 and thereafter. This additional incentive payment will be 20% in the case of enterprises that are at least 65% Canadian-owned and Canadian-controlled.

The extent to which the Petroleum Incentives Program will compensate for the loss of earned depletion in the case of Gulf Canada will depend on a number of factors, including the manner in which Canadian ownership and control of enterprises will be determined, the level of Canadian ownership and Canadian control of Gulf Canada and of enterprises in which Gulf Canada may participate, and the location of their exploration and development activities.

Approved capital expenditures for integrated oil sands projects, tertiary recovery projects and heavy crude oil upgraders, as well as approved costs for oil and gas development anywhere in Canada incurred after 1981 by an enterprise which is at least 50% Canadian-owned and is Canadian-controlled will qualify for an incentive payment of 10% of such expenditures or approved costs. Such incentive payments will be increased to 20% of approved costs incurred in 1981 and thereafter in the case of enterprises which are at least 65% Canadian-owned and Canadian-controlled.

Foreign Investment Review Act and Canadian Ownership

Because control of the Corporation is held by a foreign corporation, Gulf Canada is required to obtain approval under the Foreign Investment Review Act for acquisition of control of Canadian business enterprises and for the establishment of new unrelated Canadian businesses. In certain circumstances, an acquisition of natural resource properties may be considered to be an acquisition of control of a Canadian business enterprise for purposes of the Act. In addition, an acquisition of producing properties or properties at the stage of production may be considered to be an acquisition of control of a Canadian business enterprise for the purposes of the Act. Consequently, certain of Gulf Canada's investments described under "Business of Gulf Canada" and certain of its future investments may be required by Canadian government authorities to be submitted for approval under the Act.

Under the Act an investment is to be allowed if, in the opinion of the federal cabinet, the investment is likely to be of significant benefit to Canada. Each proposed investment is to be considered on its own facts. As a condition of an allowance of an investment, undertakings relating to the ownership and operation of the investment may be required. Gulf Canada cannot predict the extent to which any proposed investments may be allowed under the Act or the undertakings which may be required as a condition of such allowances.

The National Energy Program has stated that the Foreign Investment Review Act will "continue to play a key role in ensuring the Government's Canadianization goals ... Moreover, the Foreign Investment Review Agency will vigorously enforce its investment criteria in the energy sector. The Government does not want to see the oil companies use their cash flow to expand into the non-energy part of the economy. Nor does it want foreign controlled firms to buy already discovered oil and gas reserves".

In addition the Government's goal is to obtain at least 50% Canadian ownership of oil and gas production by 1990, and control of one or more of the larger foreign owned and controlled oil and gas firms. The Government has recently negotiated an acquisition of a foreign owned Canadian oil corporation reported to cost in excess of $1 billion. Any acquisitions may be financed by special charges on all oil and gas consumption in Canada. The actual rates and the dates of implementation are yet to be determined.

Petroleum Monitoring Agency

In order to provide legislative authority for the collection of certain statistics relating to Canada's petroleum industry, the Government of Canada enacted the Petroleum Corporations Monitoring Act in 1978. To date industry returns filed with the Minister of Energy, Mines and Resources under the Act have related to the financial performance of the reporting corporations. On August 1, 1980, the Minister of Energy, Mines and Resources announced the creation of a non-regulatory Petroleum Monitoring Agency for the purpose of reporting on the petroleum industry with respect to its financial position and performance including profitability, cash flow, research and development effort, reinvestment behaviour, cost of exploration, development and production and ownership and control of the industry and participants in the industry.

The Government proposes to increase the responsibilities of the Petroleum Monitoring Agency to include the measurement and determination of "Canadian ownership rate" and the determination as to whether a corporation is "Canadian controlled" for the purpose of implementing various aspects of the National Energy Program. To date legislation has not been introduced to give effect to these proposals.

Combines Investigation Act

The Combines Investigation Act, administered by the Government of Canada, seeks to maintain effective competition as a prime stimulus to the achievement of maximum production, distribution and employment in a mixed system of public and private enterprise.

In February 1973 an application for an inquiry pursuant to the Act was filed which related, among other things, to the then recent price increases carried into effect by certain Canadian oil refiners and marketers. The investigation involved many aspects of the production, refining and marketing of crude oil, petroleum and petroleum products.

On February 27, 1981 the Director of Investigation and Research under the Combines Investigation Act submitted a Statement of Evidence and Material collected in the above inquiry to the Restrictive Trade Practices Commission and notified the Commission that it is to conduct a further inquiry relating to the exploration for, and the importation, production, purchase, manufacture, storage, transportation, distribution, barter, supply and sale of crude oil, petroleum, refined petroleum products and related products.

Included in the Statement of Evidence and Material submitted to the Restrictive Trade Practices Commission are numerous allegations concerning the activities of major Canadian oil corporations, including Gulf Canada, relating to predatory or exclusionary behaviour, parallel activities that promote monopolization, the regulation of transfer prices, and a number of related matters. Also included in the statement are suggested revisions to The Combines Investigation Act in respect to the regulation of these activities in the future. It is anticipated that an inquiry will take place during 1981. Gulf Canada is currently unable to predict the effect, if any, that the above noted recommendations or the forthcoming inquiry may have on its operations.

ITEM 2. PROPERTIES

(a) Information with respect to the location and general character of Gulf Canada's principal plants and other materially important physical properties, identified by the principal business segment utilizing such properties, is included in Item 1 of this Report.

(b) **Oil and Gas Producing Activities**

Estimated quantities of oil and gas reserves are included under "Reserves" in Item 1 of this Report. Estimated future net revenue information with respect to such reserves is included in "Estimated Future Net Revenue Information and Reserve Recognition Accounting Data", accompanying the financial statements, and found on pages F-6 to F-9 of this Report.

Total gross and net productive wells, expressed separately for oil and gas, the average sales price (including internal transfers) per unit of oil and gas produced, the average lifting cost per unit of production and present activities with respect to enhanced recovery methods are included under "Production" in Item 1 of this Report.

The number of net productive and dry exploratory and development wells drilled and the number of wells in the process of drilling are included under "Exploration and Development" in Item 1 of this Report.

Total gross and net developed and undeveloped acres are included under "Land Holdings" in Item 1 of this Report.

ITEM 3. LEGAL PROCEEDINGS

The Corporation has no material legal proceedings pending or threatened against it other than a petition for leave to commence a class action, which was filed in the Superior Court of the Province of Quebec on March 6, 1981 by an individual on his own behalf, and on behalf of all consumers residing in the Province of Quebec who purchased gasoline in that Province since 1958. The petition refers to a Statement of Evidence and Material submitted to the Restrictive Trade Practices Commission on February 27, 1981, includes allegations relating to illegal price fixing practices, and seeks, inter alia, unspecified damages. Reference is made to "Government Regulation and Taxation — Combines Investigation Act". Gulf Canada is currently unable to predict the effect, if any, that this proceeding may have on its operations.

The Ministry of the Environment for the Province of Ontario has brought a charge against the Corporation alleging violation of The Environmental Protection Act of the Province of Ontario in connection with an alleged emission of a contaminant into the air on or about October 20, 1978 from the Clarkson refinery located near Toronto, Ontario. In addition, the Federal Department of Fisheries and Oceans has brought a charge against the Corporation alleging violation of The Fisheries Act of Canada in connection with an alleged emission of a deleterious substance into the Campbell River, British Columbia on or about February 27, 1980. The potential penalties, if any, arising from these two charges are not material to Gulf Canada.

ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of January 30, 1981 the only shareholder of record which owned of record or, to the knowledge of the management of the Corporation, owned beneficially, directly or indirectly, more than 5% of the outstanding common shares of the Corporation was Transocean Gulf Oil Company, One Houston Center, Houston, Texas 77001, a Delaware corporation which is a wholly owned subsidiary of Gulf Oil Corporation, a Pennsylvania corporation. Transocean owns of record and beneficially 137,020,500 common shares or approximately 60.23% of the outstanding shares of the Corporation.

Ownership of Common Shares

As of February 27, 1981, each director and all directors and officers as a group owned beneficially, directly or indirectly, the number of common shares of the Corporation and shares of Common Stock of Gulf Oil Corporation set forth in the following table. The information in the table, not being within the knowledge of the Corporation, is based upon data furnished to the Corporation by, or on behalf of, the persons referred to in the table.

	Amount beneficially owned	
	Shares of the Corporation	Shares of Gulf Oil Corporation (1)
John Dykes Allan	700	–
Lorenz Paul Blaser	1,898	–
Edward Hamon Crawford	500	–
Edward Fraser Crease	1,000	–
James Edward Lee	–	55,201
David Struan Robertson Leighton	5	–
John Charles Phillips	3,533	–
Gérard Plourde	520	4,400
Alfred Powis	1,000	–
Kathleen Margaret Richardson	5,000	–
Robert Gordon Rogers	500	–
Clarence Day Shepard	2,960	–
John Lentis Stoik	4,185	2,150
William Holton Young	500	–
23 directors and officers as a group (2)	35,333	68,616

NOTES:

(1) Shares of Gulf Oil Corporation beneficially owned include options granted but not exercised, as follows: J. E. Lee – 36,500; J. L. Stoik – 2,000; and 23 directors and officers as a group – 43,500;

(2) The directors and officers as a group own less than one-tenth of one per cent of the total number of outstanding common shares of the Corporation and less than one-tenth of one per cent of the total number of outstanding shares of Common Stock of Gulf Oil Corporation.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The outstanding common shares of the Corporation are listed on the Vancouver, Alberta, Toronto and Montreal Stock Exchanges, and are admitted to unlisted trading privileges on the American Stock Exchange.

The following table sets forth the high and low sale prices for the common shares and volume traded on the Toronto and American Stock Exchanges:*

	Toronto Stock Exchange			American Stock Exchange		
	Price Range			Price Range		
	High	Low	Volume	High	Low	Volume
	(in Canadian dollars)		(thousands)	(in U.S. dollars)		(thousands)
1979–First quarter	$ 9.93	$ 7.18	3,988	$ 8.53	$ 6.05	2,051
Second quarter	12.73	9.05	5,225	10.90	7.83	5,237
Third quarter	21.10	10.60	20,871	18.10	9.15	25,926
Fourth quarter	25.00	16.35	19,878	21.40	13.83	6,314
1980–First quarter	38.70	20.10	24,585	33.70	17.25	7,864
Second quarter	35.00	25.50	15,296	30.38	22.75	11,617
Third quarter	36.13	26.50	12,250	31.25	22.63	18,303
Fourth quarter	33.75	19.88	17,440	29.13	16.88	27,344
1981–First quarter (through March 17)	27.38	22.50	11,001	22.88	18.75	10,329

*Adjusted for the five-for-one-split of the Corporation's Common shares effective May 6, 1980.

On March 17, 1981 the closing price for the Corporation's common shares on the Toronto Stock Exchange was $23.75, and the closing price on the American Stock Exchange was US$19.88. On February 27, 1981 there were approximately 42,200 holders of record of the Corporation's common shares.

Dividend record

The Corporation has declared the following dividends on a quarterly basis on its common shares in respect of the five years ended December 31, 1980 (in Canadian dollars):

	1980	1979	1978	1977	1976
Per share*	$0.41	$0.30	$0.23	$0.22	$0.20
Total amount (millions)	$93	$68	$52	$49	$46

*Adjusted for the five-for-one split of the Corporation's common shares effective May 6, 1980.

Dividends paid on the common shares owned by non-residents of Canada are subject to Canadian withholding tax. The general rate of Canadian withholding tax on dividends is 25%. The rate of withholding tax is 10% on dividends paid on the common shares to recipients to whom the existing tax treaty between the United States and Canada is applicable. Such treaty is currently under review by such governments.

ITEM 6. SELECTED FINANCIAL DATA

The "Five Year Financial Summary" on pages 50 and 51 of the 1980 Annual Report is incorporated by reference herein.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 48 and 49 and the "Financial Review — Impact of Inflation" on pages 34 and 35 of the 1980 Annual Report are incorporated by reference herein. In addition, reference is made to "Government Regulation and Taxation" in Item 1 of this Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data included in this Report are listed in Item 11(a)(1) hereto.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Office	Principal occupation if different than office held	Director since	Office held since
JOHN DYKES ALLAN Mississauga, Ontario	55	Director	President and Chief Operating Officer, Stelco Inc. (steel production)	1979	
LORENZ PAUL BLASER Toronto, Ontario	65	Director	Retired, former President, Gulf Canada Products Company	1976	
EDWARD HAMON CRAWFORD Toronto, Ontario	55	Director	President, The Canada Life Assurance Company (life insurance)	1974	
EDWARD FRASER CREASE Halifax, Nova Scotia	63	Director	Chairman of the Board, Alfred J. Bell & Grant Limited (general insurance)	1974	
JAMES EDWARD LEE Pittsburgh, Pennsylvania	59	Director	President and a director of Gulf Oil Corporation (integrated oil company)	1980	
DAVID STRUAN ROBERTSON LEIGHTON Banff, Alberta	53	Director	Director, The Banff Centre, Fine Arts Centre and Business Management Institute (education)	1977	
JOHN CHARLES PHILLIPS Toronto, Ontario	59	Director and Chairman of the Board		1978	1979
GÉRARD PLOURDE Montreal, Quebec	65	Director	Chairman of the Board of UAP Inc. (automotive parts and accessories)	1965	
ALFRED POWIS Toronto, Ontario	50	Director	President and Chairman of the Board, Noranda Mines Limited (mining and metallurgy, manufacturing and forest products)	1970	
KATHLEEN MARGARET RICHARDSON Winnipeg, Manitoba	52	Director	Director, James Richardson & Sons, Limited (financial, grain and management holding company)	1977	
ROBERT GORDON ROGERS Vancouver, British Columbia	61	Director	Chairman of the Board, Crown Zellerbach Canada Limited (pulp and paper)	1969	
CLARENCE DAY SHEPARD Ottawa, Ontario	66	Director	Retired, former Chairman of the Board of Gulf Canada Limited	1960	
JOHN LENTIS STOIK Toronto, Ontario	61	Director, President and Chief Executive Officer		1976	1979
WILLIAM HOLTON YOUNG Ancaster, Ontario	62	Director	President, The Hamilton Group Limited (financial holding company)	1973	

Name	Age	Office and Principal Occupation	Office held since
ROBERT CLYDE BEAL Mississauga, Ontario	59	Vice-President, New Business Development and Research	1977
ROBERT TAYLOR BROWN Toronto, Ontario	59	President, Gulf Canada Products Company	1981
WALTER HOLMES BURKHISER Toronto, Ontario	56	Vice-President and Treasurer	1979

Name	Age	Office and Principal Occupation	Office held since
ROBERT HAROLD CARLYLE .... Calgary, Alberta	61	Senior Vice-President, Gulf Canada Resources Inc.	1979
JOSEPH DEFENDENTE DEGRANDIS ... Rockwood, Ontario	57	Senior Vice-President, Gulf Canada Products Company	1979
LIONEL GEORGE DODD .... Mississauga, Ontario	41	Vice-President and Controller	1979
WILLIAM HENRY GRIFFIN .... Toronto, Ontario	60	Senior Vice-President, Gulf Canada Products Company	1979
RICHARD EUGENE HARRIS .... Toronto, Ontario	59	Vice-President, Human Resources and Realty	1975
STUART KEITH MCWALTER .... Calgary Alberta	55	President, Gulf Canada Resources Inc.	1979
CLIFFORD GORDON WALKER .... Toronto, Ontario	61	Vice-President, Public Affairs	1974
ELBERT EARL WALKER .... Toronto, Ontario	50	Vice-President, Corporate Planning	1978
WILLIAM MILNE WINTERTON .... Toronto, Ontario	58	Vice-President, General Counsel and Secretary	1977

All the directors who are not officers of the Corporation have been engaged for more than five years in their present occupations or in other executive capacities with the companies or firms with which they currently hold positions. All of the officers of the Corporation have been actively engaged for more than five years in the affairs of the Corporation or its affiliates in executive capacities with the exception of L. G. Dodd who, prior to March 1, 1979, was Controller of Ford Motor Company of Canada, Limited.

Certain directors of the Corporation are also directors of other reporting companies under the Securities Exchange Act of 1934. They are as follows: L. P. Blaser – Interprovincial Pipe Line Ltd.; E. H. Crawford – Interprovincial Pipe Line Ltd. and Lakehead Pipe Line Company, Inc.; J. E. Lee – Gulf Oil Corporation, Pittsburgh National Corporation and Joy Manufacturing Company; D. S. R. Leighton – Rio Algom Limited; G. Plourde – Bell Canada and Northern Telecom Ltd.; A. Powis – Placer Development Limited; R. G. Rogers – Genstar Limited.

Directors hold office until the close of the next annual meeting of shareholders of the Corporation or until their successors are elected or appointed. All officers hold office at the pleasure of the board of directors. The executive committee of the board of directors is comprised of J. C. Phillips, G. Plourde, A. Powis, J. L. Stoik and W. H. Young.

ITEM 10. MANAGEMENT REMUNERATION AND TRANSACTIONS

Remuneration

The following table sets forth all remuneration paid by Gulf Canada during 1980 to each of the five most highly compensated directors and executive officers and to all directors and officers as a group (in Canadian dollars):

		Cash and cash-equivalent forms of remuneration	
Name of individual or number of persons in group	Capacities in which served	Salaries, fees, directors' fees, commissions and bonuses(1)	Securities or property, insurance benefits or reimbursement, personal benefits(2)
John Lentis Stoik	President and Chief Executive Officer and Director	$ 450,000	$ 12,707
John Charles Phillips	Chairman of the Board and Director	325,000	9,332
Lorenz Paul Blaser	President, Gulf Canada Products Company, and Senior Vice President and Director	315,000	10,037

Name of individual or number of persons in group	Capacities in which served	Cash and cash-equivalent forms of remuneration	
		Salaries, fees, directors' fees, commissions and bonuses(1)	Securities or property, insurance benefits or reimbursement, personal benefits(2)
Stuart Keith McWalter	President, Gulf Canada Resources Inc.	$ 255,000	$ 7,389
William Henry Griffin	Senior Vice President Gulf Canada Products Company	170,000	6,270
26 directors and officers as a group		2,995,364	115,415

NOTES:

(1) Such amounts include awards made to officers in 1980 pursuant to the Incentive Compensation Plan, which amounts were expensed in 1980 for financial reporting purposes. Awards granted under the ICP in any year are determined at the discretion of a committee of outside directors and are payable in subsequent years in a lump-sum or in not more than ten annual instalments (normally paid over a period of five years).

(2) Such amounts include the fair market value as of December 31, 1980 of common shares of the Corporation purchased by the trustee with contributions by the Corporation, and dividends paid thereon, during 1980 for the accounts of participants in the Employee Savings Plan. Such contributions equalled 75% of employee contributions, which were limited to 6% of earnings.

Directors who are not officers of the Corporation are paid an annual fee of $6,500 each for their services as directors plus $600 for each board and committee meeting attended, subject to reduction to $300 for each committee meeting held the same day as a board or other committee meeting.

The Corporation's Executive Pension Plan provides for an annual pension upon retirement based on an eligible officer's salary, ICP awards and years of service, subject to a ceiling of the lesser of (i) $1,715 for each year of service under the Plan up to a maximum of 35 years or (ii) 2% of such officer's average highest remuneration (as defined in such Plan) over any three consecutive years for each year of service up to a maximum of 35 years. The estimated annual benefits payable pursuant to the Plan upon retirement at age 65 for all levels of covered remuneration (defined as the average of salary plus one-half of the ICP award for each of the three years prior to retirement) in excess of $100,000 are $42,875, $51,450 and $60,000 for 25, 30 and 35 years-of-service, respectively.

Pursuant to contracts with certain officers, the Corporation will, subject to certain conditions, pay lump-sum Executive Retirement Allowances sufficient to purchase an annuity equal to 2% of the average of each such officer's salary plus one-half his ICP awards during the three-year period prior to his retirement times his number of years of service under the contract, reduced by the amount of his annual benefits under any pension plans then maintained by the Corporation applicable only to officers, and subject to a ceiling on the amount of such lump-sum Allowance of the lesser of (i) three times the total of his salary and ICP award at retirement or (ii) the amount of such Allowance that the Corporation may deduct for Canadian federal income tax purposes. The following table sets forth the estimated annuity upon which the lump-sum Executive Retirement Allowance would be based for the five individuals named in the above remuneration table, as well as their current years-of-service and covered remuneration under the Executive Pension Plan:

Name of Individual	Estimated Annuity Upon Which Executive Retirement Allowance Would Be Based (1)	Executive Pension Plan	
		Years-of-Service	Covered Remuneration (2)
John L. Stoik	$185,000	33	$267,617
John C. Phillips	103,050	24	197,361
Lorenz Paul Blaser	90,189	35	208,967
Stuart K. McWalter	31,329	3	156,325
William H. Griffin	12,343	5	121,850

NOTES:

(1) Assuming the individual's 1980 salary and ICP award are in effect for the three years prior to his retirement at age 65.

(2) Average of salary plus one-half of ICP award for each of the last three years.

The Corporation offers, subject to certain requirements, secured, interest-free housing loans for terms of five to ten years to any employee who, at the Corporation's request, relocates to an area of generally higher housing costs. In April

1980 the Corporation granted an interest-free mortgage loan, in the amount of $55,000 with a 10-year term, to E. E. Walker. As of February 27, 1981 $54,899 remained outstanding.

Certain Transactions with Gulf Oil Corporation

Gulf Canada engages in transactions in the ordinary course of its business with Gulf Oil Corporation and its subsidiaries and affiliates (collectively "Gulf Oil"). The aggregate amount paid or payable by Gulf Canada to Gulf Oil, principally covering crude oil purchases for 1980, was $250 million. All purchase and sales transactions are on negotiated terms which Gulf Canada believes are fair and constitute competitive prices in relation to market prices, when available. Gulf Canada has an interest in certain activities of Gulf Minerals Canada Limited in connection with the exploration, development, mining and sale of minerals. Reference is made to "Uranium and Other Minerals" in Item 1 of this Report.

Gulf Canada's transactions with Gulf Oil include purchases and sales of crude oil (reference is made to "Supply" in Item 1 of this Report) and refined petroleum products, including petrochemicals. Gulf Canada periodically utilizes ocean tankers leased or owned by Gulf Oil, or provided through arrangements made by Gulf Oil, at competitive rates. In the area of basic and applied research, Gulf Canada and Gulf Oil jointly engage, in certain instances, in pilot research projects and, to a limited extent, in the cross licensing of certain technology. Reference is made to "Manufacturing" and "Research and Development" in Item 1 of this Report. In addition, Gulf Canada and Gulf Oil provide research services to each other, generally on a cost recovery basis. From time to time, managerial and technical employees of Gulf Canada accept positions with Gulf Oil and vice versa. Reference is made to Item 9 of this Report. Gulf Canada also markets certain of its products and chemicals under trademarks owned by Gulf Oil.

On May 21, 1980, Transocean Gulf Oil Company sold 10,000,000 common shares of the Corporation via a public market secondary offering in the United States and Canada. This transaction reduced Transocean's ownership of the Corporation's common shares from 64.63% to 60.23%.

PART IV

ITEM 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Report.

1. ***Financial Statements***

(i) The following are incorporated herein by reference from the indicated pages of the 1980 Annual Report:

	Pages in 1980 Annual Report
Summary of Accounting Policies	35 and 36
Consolidated Statements of Earnings	37
Consolidated Statements of Financial Position	38
Consolidated Statements of Changes in Financial Position	39
Notes to Consolidated Financial Statements	40 to 46
Auditors' Report	46

(ii) In addition, the following supplementary report and notes, appearing on the indicated pages in this Report, are part of the financial statements of this Report:

	Page in this Report
Consent of Independent Accountants	F-1
Supplementary Notes to Consolidated Financial Statements	F-1 to F-2

(iii) The following supplementary information, appearing on the indicated pages in this Report, is intended to accompany, but not form a part of, the financial statements of this Report:

	Page in this Report
Estimated Quantities of Proved Oil and Gas Reserves (contained in "Reserves" under Item 1 of this Report)	6 to 8
Estimated Future Net Revenue Information and Reserve Recognition Accounting Data	F-6 to F-9

2. ***Financial Statement Schedules***

The following schedules, appearing on the indicated pages in this Report, are part of the financial statements of this Report:

	Page in this Report
V. Property, Plant and Equipment	F-3
VI. Accumulated Depreciation, Depletion and Amortization of Properties	F-4
VIII. Valuation Account	F-5

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

The individual financial statements of the Corporation have been omitted, since the Corporation is primarily an operating company and the subsidiaries included in the consolidated financial statements are totally owned.

Financial statements of 50% or less owned persons accounted for by the equity method have been omitted because, considered in the aggregate as a single subsidiary, they do not constitute a significant subsidiary.

3. ***Exhibits***

3. (a) Articles of Continuance of the Corporation, as amended to date (incorporated herein by reference to Exhibit 3(a) to Registration Statement No. 2-67518 and to Exhibit 2 to the Corporation's Report on Form 10-Q for the Quarter Ended June 30, 1980 (File No. 2-67518)).

(b) By-laws of the Corporation (incorporated herein by reference to Exhibit 3(b) to Registration Statement No. 2-67518).

(c) Administrative resolutions of the Board of Directors of the Corporation (incorporated herein by reference to Exhibit 3(c) to Registration Statement No. 2-67518).

4. The Corporation will furnish to the Commission, upon its request, instruments relating to outstanding long-term debt of the Corporation.

10. (a) (i) Executive Pension Plan (incorporated herein by reference to Exhibit 11(b) to Registration Statement No. 2-67518) and (ii) amendment thereto, effective January 1, 1981.

(b) (i) Form of Executive Retirement Allowance contract and resolution of Board of Directors of the Corporation with respect thereto (incorporated herein by reference to Exhibit 11(c) to Registration Statement No. 2-67518) and (ii) amendment thereto, effective January 1, 1981.

(c) Incentive Compensation Plan (incorporated herein by reference to Exhibit 11(d) to Registration Statement No. 2-67518).

(d) Alberta Crown Agreement, dated as of February 4, 1975, relating to the Syncrude Project (incorporated herein by reference to Exhibit 13(a) to Registration Statement No. 2-67518).

(e) Syncrude Project Ownership and Management Agreement, dated as of February 4, 1975 (incorporated herein by reference to Exhibit 13(b) to Registration Statement No. 2-67518).

(f) Loan Agreement, dated April 30, 1976, between the Corporation and Her Majesty the Queen in Right of the Province of Alberta (incorporated herein by reference to Exhibit 13(c) to Registration Statement No. 2-67518).

(g) (i) Alsands Group Participation Agreement (incorporated herein by reference to Exhibit 13(d) to Registration Statement No. 2-67518) and (ii) Novation Agreement, dated as of October 1, 1979 and Amending Agreement dated November 1, 1980, with respect thereto.

(h) Letter agreements relating to Amalgamated Bonanza transaction (incorporated herein by reference to Exhibit 13(e) to Registration Statement No. 2-67518).

13. 1980 Annual Report to Shareholders. Except as expressly incorporated by reference in this Report on Form 10-K, the 1980 Annual Report to Shareholders is furnished only for the information of the Securities and Exchange Commission and is not to be deemed "filed" as part of this Report. The following portions of the 1980 Annual Report to Shareholders are incorporated by reference in the indicated Items of this Report:

Portion of 1980 Annual Report	Item of this Report
Note 21 to the Consolidated Financial Statements	Item 1
Five Year Financial Summary	Item 6
Management's Discussion and Analysis of Financial Condition and Results of Operations	Item 7
Financial Review – Impact of Inflation	Item 7
Auditors' Report and Consolidated Financial Statements and Notes thereto	Item 11

22. List of the Corporation's Subsidiaries

(b) Reports on Form 8-K.

No Reports on Form 8-K were filed or required to be filed during the quarter ending December 31, 1980.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GULF CANADA LIMITED

March 20, 1981.

By: J. L. STOIK
J. L. Stoik
President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report is signed below on March 20, 1981 by the following persons on behalf of the Registrant in the capacities indicated.

J. L. STOIK (J. L. Stoik)	President, Chief Executive Officer and Director (Principal Executive Officer)
J. C. PHILLIPS Q.C. (J. C. Phillips Q.C.)	Chairman of the Board of Directors
W. H. BURKHISER (W. H. Burkhiser)	Vice President and Treasurer (Principal Financial Officer)
L. G. DODD (L. G. Dodd)	Vice President and Controller (Principal Accounting Officer)
J. D. ALLAN (J. D. Allan)	Director
L. P. BLASER (L. P. Blaser)	Director
E. H. CRAWFORD (E. H. Crawford)	Director
E. F. CREASE (E. F. Crease)	Director
JAMES LEE (J. E. Lee)	Director
DR. D. S. R. LEIGHTON (Dr. D. S. R. Leighton)	Director
GÉRARD PLOURDE (Gérard Plourde)	Director
ALFRED POWIS (Alfred Powis)	Director
KATHLEEN M. RICHARDSON (Kathleen M. Richardson)	Director
R. G. ROGERS (R. G. Rogers)	Director
C. D. SHEPARD (C. D. Shepard)	Director
W. H. YOUNG (W. H. Young)	Director

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF THE ACT BY REGISTRANTS WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT.

On or about March 25, 1981, the Registrant expects to furnish to shareholders (i) its 1980 Annual Report and (ii) its Notice of Annual Meeting and Management Proxy Circular with respect to the 1981 Annual Meeting of Shareholders to be held April 23, 1981.

Gulf Canada Limited
Annual Report 1980

Corporate Profile

With almost 40,000 shareholders and 10,900 employees, Gulf Canada Limited is one of Canada's largest fully-integrated oil companies. Founded in 1906 as The British American Oil Company Limited, its assets now total $3.7 billion. Gulf Canada Limited consists of a corporate management company located in Toronto, and upstream and downstream divisions.

Gulf Canada Limited:
The management company has responsibility for developing overall corporate strategic direction, basic policies, performance objectives, controls and measurement criteria for application throughout the Corporation.

Gulf Canada Resources Inc.:
Headquartered in Calgary, this upstream subsidiary is responsible for exploration and production activities. At the end of 1980, GCRI had an interest in 6,649 oil and gas wells in Canada. It participated in the first major discoveries in the Beaufort Sea and off Canada's east coast, and in the Syncrude Athabasca oil sands project. GCRI operates seven natural gas processing plants and has varying interests in 80 other gas plants and field gathering facilities.

Gulf Canada Products Company:
The downstream division, headquartered in Toronto, is responsible for refining, marketing, chemicals, and supply and transportation operations. It operates five refineries and two asphalt plants with a total daily crude oil processing capacity of 48,500 cubic metres – approximately 13 per cent of Canada's refining capacity. Selling products throughout Canada, it accounts for approximately 15 per cent of the country's refined product sales. Chemical operations include a major interest in a Quebec-based petrochemicals consortium.

Contents

Annual Meeting

The annual meeting of shareholders will be held in the Concert Hall of the Royal York Hotel, Toronto, at 2:00 p.m. EST, Thursday, April 23, 1981.

The Cover:

Three hundred kilometres east of Newfoundland on fog-shrouded Grand Banks, operators run production test on Hibernia B-08 well. Located four kilometres north of the Hibernia P-15 discovery well, the B-08 step-out is the third successful well drilled on the structure.

Metric conversion table

Measurement	Traditional to metric	Metric to traditional
Length	1 mile = 1.609 34 kilometres (km) 1 foot = 0.304 80 metre (m)	1 km = 0.62137 mile 1 m = 3.28084 feet
Area	1 acre = 0.404 69 hectare (ha)	1 ha = 2.47103 acres
Volume	1 gallon (Can.) = 4.546 09 litres (L) 1 barrel = 0.158 99 cubic metre (m^3) 1 MCF = 28.173 99 cubic metres (m^3) (natural gas)	1 L = 0.21997 gallon (Can.) 1 m^3 = 6.28970 barrels 1 m^3 = 0.035494 MCF
Mass	1 pound = 0.453 59 kilogram (kg) 1 long ton = 1.016 05 tonnes (t) (2,240 pounds) 1 short ton = 0.907 19 tonne (t) (2,000 pounds)	1 kg = 2.20463 pounds 1 t = 0.98420 long ton 1 t = 1.10232 short tons

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

Conversion to Metric

During 1979 the Canadian petroleum industry commenced using the International System of Units, commonly called the metric system, to report figures related to length, area, volume and mass.

All figures, graphs and tables given in this year's Annual Report are in metric measure.

10K Report Available

A copy of the 1980 Annual Report on Form 10K to be filed with the United States Securities and Exchange Commission may be obtained upon request. Requests should be directed to: Public Affairs Department, Gulf Canada Limited, 130 Adelaide Street West, Toronto, Ontario M5H 3R6

Rapport annuel

Ce rapport est disponible en français sur demande.

Financial Highlights

	1980	1979
	(millions of dollars)	
Net revenues	**4,130**	3,058
Net earnings	**380**	288
Dividends declared	**93**	68
Government royalties and taxes	**1,287**	928
Funds generated from operations	**542**	410
Capital and exploration expenditures	**572**	410
Total assets	**3,692**	3,295
Long-term debt	**315**	333
Shareholders' equity	**1,926**	1,639
Return on shareholders' equity	**21.3%**	18.8%
Return on capital employed	**15.3%**	13.3%
Per Share Data*		
	(dollars per share)	
Net earnings	**1.67**	1.27
Dividends declared	**0.41**	0.30
Funds generated from operations	**2.38**	1.80
Shareholders' equity	**8.47**	7.20
Price/earnings ratio	**14**	18
Operating	*(thousands of cubic metres per day)*	
Gross production		
– Conventional crude oil and natural gas liquids	**20.6**	21.5
– Synthetic crude oil	**1.7**	1.1
– Natural gas produced and sold *(millions)*	**8.9**	11.0
Crude oil processed by and for the Corporation	**46.1**	50.6
Sales		
– Petroleum products	**42.7**	42.9
– Chemicals *(millions of kilograms per day)*	**1.3**	1.4
Net Proved Reserves	*(millions of cubic metres)*	
– Conventional crude oil and natural gas liquids	**35.6**	38.6
– Synthetic crude oil	**16.4**	17.0
– Natural gas *(billions)*	**50.4**	51.9

Market Value of Common Shares*	**1980**	1979	1978
		(dollars per share)	
Toronto Stock Exchange – High	**38⅝**	25	7½
– Low	**19⅞**	7⅛	5⅛
– Close	**23⅜**	22⅜	7⅜
Shares traded *(thousands)*	**188.1**	123.4	87.1

*Restated to reflect five-for-one split of common shares effective May, 1980.

Report to the Shareholders

The 1980s could go down in history as "the decade that might have been" if the National Energy Program is not further amended and federal-provincial differences swiftly resolved.

J.L. Stoik, President and chief executive officer.
J.C. Phillips, Chairman of the board.

As 1980 began, it appeared that nothing but opportunity lay ahead for the Canadian petroleum industry.

With significant new oil discoveries in the Arctic and offshore frontiers, and several new oil sands plants on the drawing boards, Canada was one of the few industrialized nations in the world with the potential of achieving self-sufficiency in oil by the end of the decade.

The frontier allowance incentives, instituted in 1977, were instrumental in accelerating the pace of costly exploration in the remote frontier areas and led to major oil and gas discoveries in the Beaufort Sea and off the east coast. Unfortunately, those incentives were permitted to expire at the end of March, 1980.

Increased producer netbacks from sales of crude oil and natural gas had stimulated exploratory drilling in the western provinces to record levels and assured Canada of abundant gas reserves well into the 21st century.

The limited markets available for the new gas discoveries were creating financial problems for some of the smaller exploration companies, but the federal government was pursuing programs to substitute Canada's abundant natural gas for costly imported oil, and there was hope of additional export markets in the short term.

A consensus had formed among economists that energy developments were going to be the "engine" driving the rest of the Canadian economy to greater prosperity throughout the 1980s.

It was estimated that the proportion of the Gross National Product related to energy investment would have to increase sharply from the average levels of the 1970s to approximately six per cent during the 1980s, if complete energy independence was to be reached by the end of the decade.

The capital investment required for Canada to achieve oil self-sufficiency by 1990 was estimated at a staggering $250 billion during the decade. Nevertheless, industry spokesmen, bankers and other financial experts were confident that the necessary funds would be available from domestic and foreign sources – in view of the industry's bright outlook in a relatively stable economic and political environment with great resource potential.

Gulf Canada's reinvestment record has been impressive – averaging 95 per cent of cash flows over the past five years. Annual capital and exploration spending, which had been just below the half-billion dollar mark for several years, surpassed that level in 1980, reaching $572 million.

As one of the most successful companies in frontier exploration, Gulf Canada was gearing up to assume its full share of the increased investment required to move Canada toward oil self-sufficiency by 1990. In our long-range planning process, we had authorized expenditures in excess of $1 billion for 1981. The Corporation's 75th year in business was to have been our first billion-dollar year for capital and exploratory investment.

But all that was before the new National Energy Program (NEP) was announced in conjunction with the October 28, 1980 federal budget.

Now the 1980s are in danger of going down in Canadian history as "the decade that might have been," if the new National Energy Program is not further amended and federal-provincial energy differences swiftly resolved – including the question of offshore jurisdiction.

The primary objective of the NEP was said to be self-sufficiency in oil by 1990. However, it was soon clear to most of the nation that this all-important objective – holding the key to Canada's economic prosperity in the 1980s – had been sacrificed in favor of sharply increased government revenues and a counter-productive program to accelerate Canadianization of the industry.

The most costly aspect of the new federal policies is the eight per cent tax on the net wellhead price of oil and gas production, including provincial royalties. Since this tax is not deductible in calculating income taxes, the effective rate for a company like Gulf Canada will be approximately doubled. This tax has seriously eroded the "resource allowance" which was the measure created in 1974 to lead the way out of the last federal-provincial impasse over petroleum revenue-sharing.

The second most costly feature of the new program is the withdrawal at the end of 1980 of the 33⅓ per cent earned depletion allowance on all development activities and the staged phase-out of the 33⅓ per cent depletion on exploration by the end of 1983, except on Canada Lands where it will be retained.

Attainment of oil self-sufficiency will require a total effort by all industry participants, and foreign as well as domestic capital.

An assessment of the impact of the NEP on our resource subsidiary, Gulf Canada Resources Inc., indicated a reduction in cash flow of 30 per cent over the next five years. As a result, Gulf Canada reduced its 1981 planned resource expenditures by $210 million, and plans to decrease total spending by $900 million over five years.

The Corporation emphasized, however, that these cutbacks were not irrevocable, and could be reinstated to the extent that cash flows are improved by revisions to the NEP and associated budgetary measures.

Gulf Canada is sympathetic to the idea of policies designed to encourage increased investment by Canadians in their petroleum industry. In fact, progress toward increased Canadian ownership and control of industry assets has been quite dramatic in recent years, without any special incentives.

By the end of 1979, according to the federal government's own monitoring survey, 36 per cent of Canadian oil industry assets were under Canadian control. Projecting the recent trend for a few more years indicates that the government's 1990 objective of 50 per cent Canadian ownership of the oil industry could well be reached early in the 1980s.

Since the government's long-term objective already appears to be within easy reach, there seems little justification for the new Canadianization measures introduced as part of the NEP.

The federal back-in rights on Canada Lands, acquisition by Petro-Canada of foreign-owned companies, the immediate requirement for 50 per cent Canadian content before major energy projects can proceed, and exclusion of multinational affiliates from all but the basic 25 per cent frontier exploration incentive grants will reduce the total amount of work that can be undertaken by the industry.

Since attainment of oil self-sufficiency will require a total effort by all industry participants, and foreign as well as domestic investment capital, Canadian ownership targets should be designed to maintain maximum levels of exploration and development activity.

There is little doubt that the federal government requires additional revenues and that some of these must come from oil and gas production. But there is increasing evidence that the NEP, as currently structured, will be more costly to Canadians than it is worth. This is certainly the case when one takes into account the reduced economic activity and lost employment, as well as increased import dependence and spiralling costs for insecure foreign oil supplies.

Compared with the $5 billion Canada spent for imported oil in 1980, it has been estimated that the escalating cost of increased imports will amount to at least $56 billion during the 1981-85 period.

Since all of this money would leave the country and produce no economic benefit, an increasing number of Canadians are asking how the government can justify paying the full world price to foreign suppliers, but not to Canadian producers whose expenditures generate benefits throughout the entire economy.

As energy investment—the key to Canadian prosperity in the 1980s—began to falter with the delay or cancellation of major projects and exploration cutbacks, it became increasingly obvious that a healthy economy and security of future energy supplies must be the prime concerns of a national energy program.

Before the economic impact of the new programs becomes more serious, it is imperative that federal and provincial officials resolve differences that are delaying Canada's future development and prosperity.

Federal-provincial agreement on realistic prices and revenue-sharing would provide additional revenues for both levels of government and—under revised tax and energy policies—provide the Canadian petroleum industry with the cash flows needed to reinstate deferred or cancelled energy projects. With prompt action, the goal of oil self-sufficiency may still be attainable by the early 1990s.

Unless significant changes are made, it will be difficult for Gulf Canada to sustain the level of earnings and reinvestment achieved during 1980.

Despite the difficult and uncertain environment in which the Corporation now finds itself, we intend to continue to be

We intend to be an aggressive competitor in the industry and a major factor in Canada's developing energy future.

an aggressive competitor in the industry, and a major factor in Canada's energy future.

Management is endeavoring to enhance the growth of shareholder equity by improving operating efficiency, identifying and developing profitable new opportunities and by investigating ways to increase the Canadian ownership of major energy projects in which Gulf Canada plans to participate.

At the Annual General Meeting of Shareholders on April 24, 1980, James E. Lee, President of Gulf Oil Corporation, was elected to the Board of Directors. At the same meeting, shareholders approved a motion to split Gulf Canada's shares on a five-for-one basis, effective May 6, 1980. During the year Gulf Canada's shareholders doubled to almost 40,000, of whom approximately 30,000 are registered at Canadian addresses.

L.P. Blaser, President of Gulf Canada Products Company, retired on February 28, 1981, following 42 years' service. R.T. Brown was appointed President of Gulf Canada Products Company, effective March 1, 1981.

Consolidated net earnings in 1980 increased by $92 million to $380 million or $1.67 per share from $288 million or $1.27 per share in 1979. Earnings represented a 15.3 per cent return on employed capital, compared with 13.3 per cent in 1979.

The Corporation's progress to date reflects the significant contributions of our employees and we express sincere thanks for their continuing efforts.

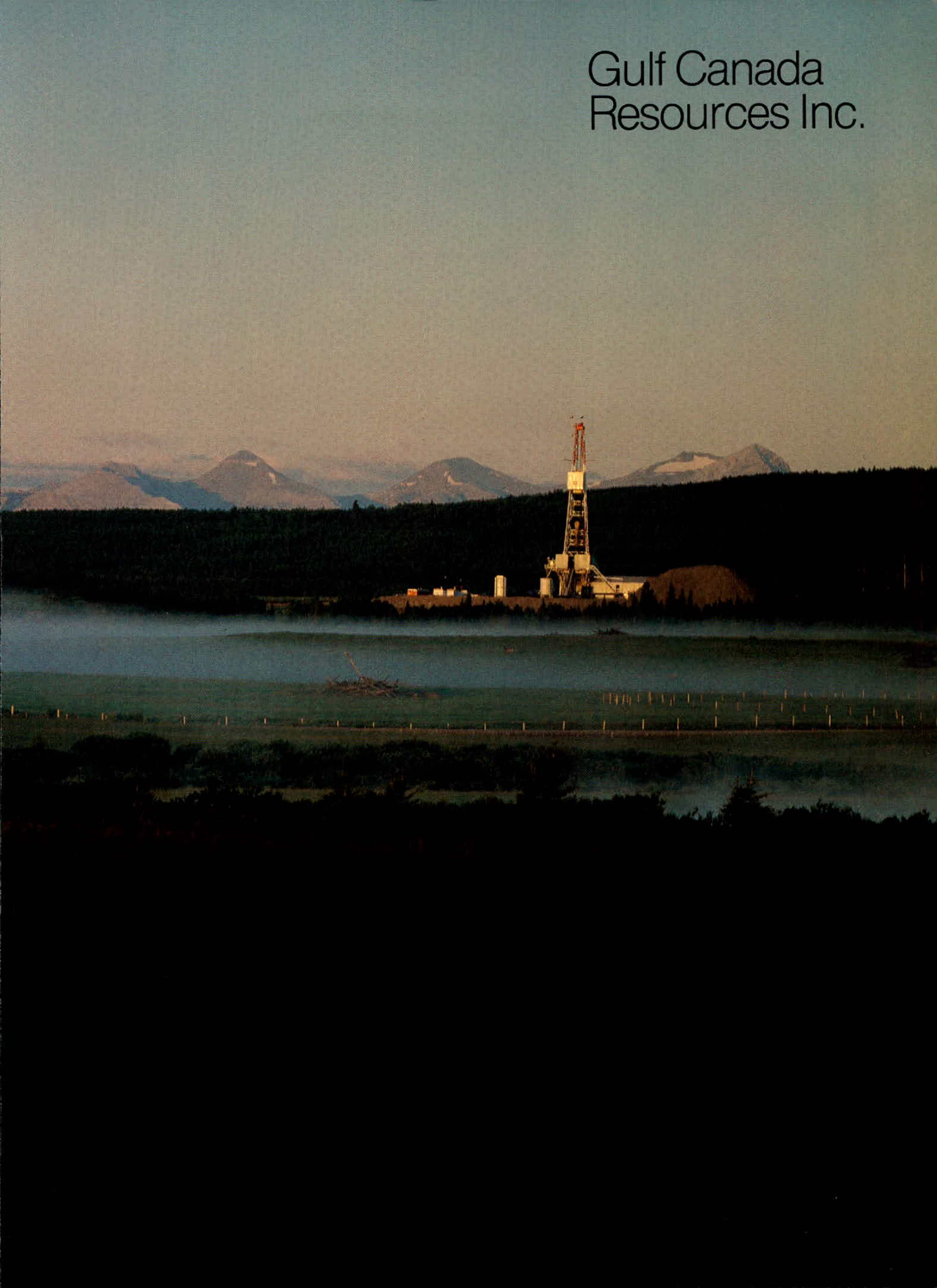
On behalf of the Board,

Chairman of the Board.

President.

Toronto, Ontario. March 20, 1981.

Gulf Canada Resources Inc.



Gulf Canada Resources Inc.

Financial and Operating Summary

Financial	1980	1979
	(millions of dollars)	
Net segment earnings after taxes	**$ 192**	$ 201
Capital and exploratory spending		
Conventional oil and gas	**$ 97**	$ 60
Syncrude	**12**	6
New energy development	**57**	16
Exploration	**287**	209
Minerals	**7**	3
Total	**$ 460**	$ 294
Capital employed at year-end	**$ 889**	$ 751
Return on average capital employed	**23.5%**	26.3%

Operating		
	(thousands of cubic metres per day)	
Gross production		
- Crude oil and natural gas liquids	**20.6**	21.5
- Synthetic crude oil	**1.7**	1.1
- Natural gas produced and sold *(millions)*	**8.9**	11.0

The level of spending of Gulf Canada Resources Inc. (GCRI) increased to $460 million compared to almost $300 million in 1979. Over half the 1980 expenditures were in exploration, up 37 per cent over 1979 due to higher activity levels in Canada's frontier areas. The balance was in conventional oil and gas development as well as outlays for new energy resources in the non-conventional heavy oil areas.

Natural resource earnings of $192 million were $9 million lower than in 1979. An overall revenue improvement due to higher product prices was offset by lower conventional oil and gas volumes and increased operating and exploration expenses. Super depletion allowance on frontier outlays expired on March 31, 1980, and was a significant factor in lower earnings.

Exploration

Exploration expenditures of $287 million in 1980 were a record for Gulf Canada Resources.

Almost half the exploration budget was spent in the frontier areas where successful wildcat and step-out wells have enhanced the importance of the frontiers as major sources of future oil and gas supply.

In western Canada, exploration activities were highlighted by several important gas discoveries in the Alberta foothills and northeastern British Columbia, and

Land Inventory Summary 1980	gross	net
Petroleum and Natural Gas	*(millions of hectares)*	
Western Canada	3.4	1.9
Frontier		
Beaufort Sea	1.0	0.4
Yukon and Northwest Territories	0.8	0.5
Mackenzie Delta	0.5	0.3
Arctic Islands	8.7	1.7
East Coast	20.1	6.0
Frontier Options	0.6	0.2
Total Frontier	31.7	9.1
Oil Sands		
Alberta	0.3	0.2
Total Petroleum/ Natural Gas/Oil Sands	35.4	11.2
Coal		
Western Canada	0.5	0.5
Minerals	0.3	0.1
Total	36.2	11.8

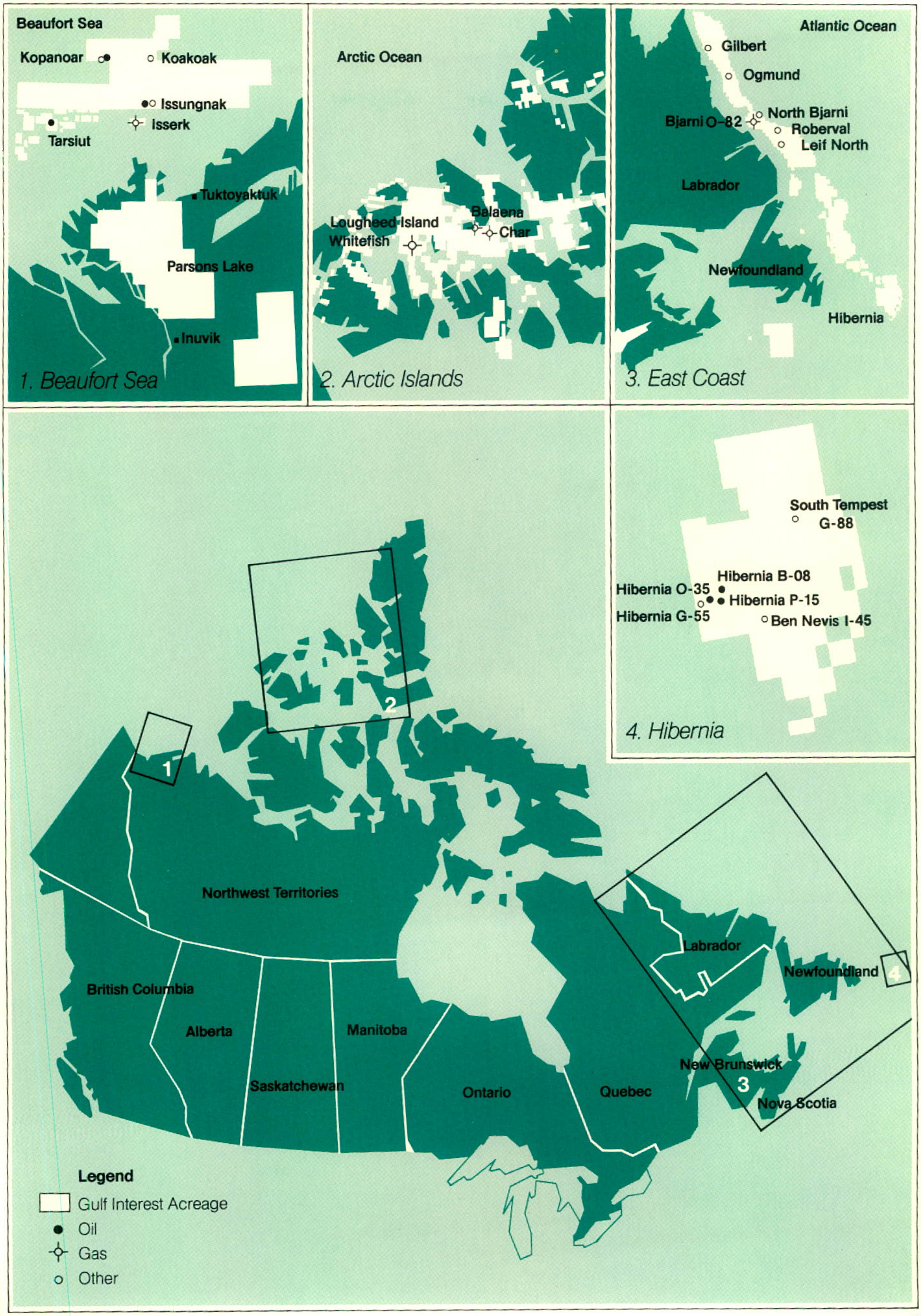
encouraging results of drilling on GCRI-interest heavy oil acreage in Saskatchewan.

Land

The company believes its interest in over 35 million hectares of land provides excellent representation in all major areas for both conventional light oil and gas, heavy oil, and tar sands.

Preceding page:

GCRI-interest wildcat well is part of broadly-based oil and gas exploration program in Alberta foothills and northeastern British Columbia.



Beaufort Sea
Kopanoar
Koakoak
Issungnak
Isserk
Tarsiut
Tuktoyaktuk
Parsons Lake
Inuvik
1. Beaufort Sea
Arctic Ocean
Lougheed Island
Whitefish
Balaena
Char
2. Arctic Islands
Atlantic Ocean
Gilbert
Ogmund
Bjarni O-82
North Bjarni
Roberval
Leif North
Labrador
Newfoundland
Hibernia
3. East Coast
South Tempest
G-88
Hibernia B-08
Hibernia O-35
Hibernia P-15
Hibernia G-55
Ben Nevis I-45
4. Hibernia
Northwest Territories
British Columbia
Alberta
Saskatchewan
Manitoba
Ontario
Quebec
Labrador
Newfoundland
New Brunswick
Nova Scotia
1
2
3
4
Legend
Gulf Interest Acreage
Oil
Gas
Other

FRONTIERS

East coast offshore

Following completion of testing of the 3,000-cubic-metres-per-day oil discovery at Hibernia on the Grand Banks in late 1979, GCRI and partners commenced a three-rig program to evaluate the 212,000-hectare Hibernia block, and explore the adjacent 2,362,000 hectares in which GCRI has interests. The first Hibernia step-out well, O-35, drilled four kilometres west of the P-15 discovery, encountered good quality oil in several zones and tested at rates up to 494 cubic metres per day in a single zone. This well established oil in the Avalon sands which were productive in the P-15 discovery. The daily production rate of O-35 is similar to that of the discovery well.

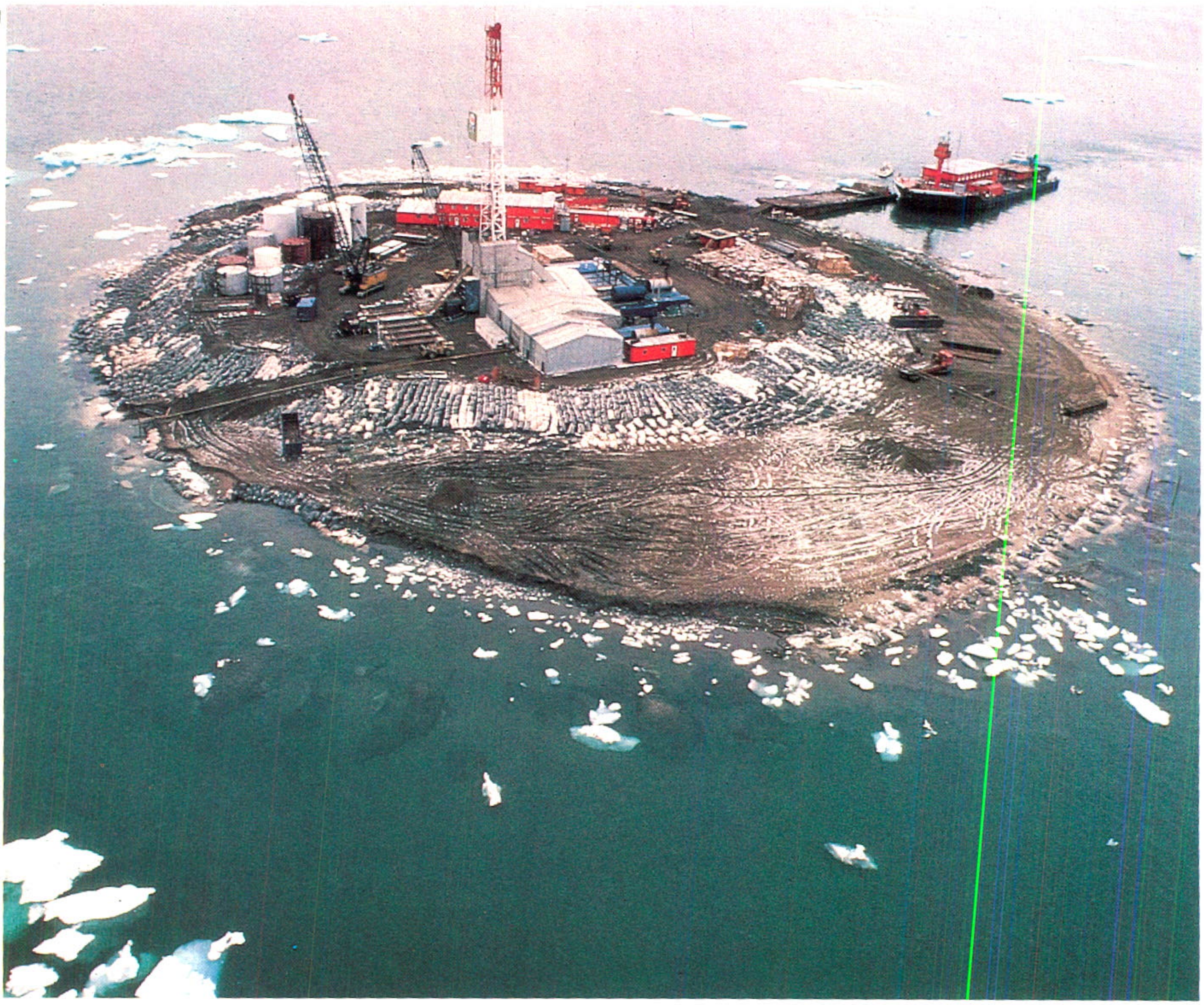
Testing of the Hibernia B-08 step-out, four kilometres north of the Hibernia discovery, was completed at year-end. The well tested oil from several zones within the Hibernia sand at rates up to 911 cubic metres per day. A number of new zones above the Hibernia sand flowed oil and gas at significant rates.

A third Hibernia step-out, G-55, eight kilometres west of the Hibernia P-15 discovery, was plugged and abandoned early in 1981 without encountering hydrocarbons.

On the 2,362,000-hectare block immediately east of Hibernia, the Ben Nevis I-45 wildcat, located on a separate structure to the Hibernia wells, yielded encouraging shows of oil. At year-end another well, South Tempest G-88, was drilling about 80 kilometres northeast of Hibernia P-15.

On the Labrador Shelf, a three-ship drilling program was conducted by the Labrador group operated by Petro-Canada. The Gilbert F-53 wildcat, commenced in 1979, was a dry hole as were Ogmund E-72 and Roberval C-02 drilled in 1980. Testing was attempted at Bjarni O-82, drilled in 1979, but was suspended because of mechanical problems. North Bjarni F-06 and Leif North I-05 were started in 1980 and will be completed at a later date.

1



Beaufort Sea

GCRI participated in drilling operations at four Beaufort Sea locations in 1980 to evaluate previous discoveries and test new structures. The program confirmed two discoveries.

The Issungnak O-61 oil and gas discovery was drilled on a separate structure from an artificial island eight kilometres north of the 1979 Isserk gas discovery. Issungnak tested oil at a calculated rate of 382 cubic metres per day, and gas at rates up to 394,000 cubic metres per day from two separate intervals. In addition to its interest in Issungnak, GCRI has interests in lands off-setting the block on three sides.

An Issungnak step-out was being directionally drilled from the artificial island at year-end and will be completed in 1981.

Approximately 80 kilometres west of Issungnak, the Tarsiut discovery flowed oil at rates up to 127 cubic metres per day.

Two wells could not be completed because of early onset of ice. Koakoak wildcat and Kopanoar I-44, a four-kilometre step-out from the 1979 discovery, will be drilled to their final objectives and tested in 1981.

Arctic islands

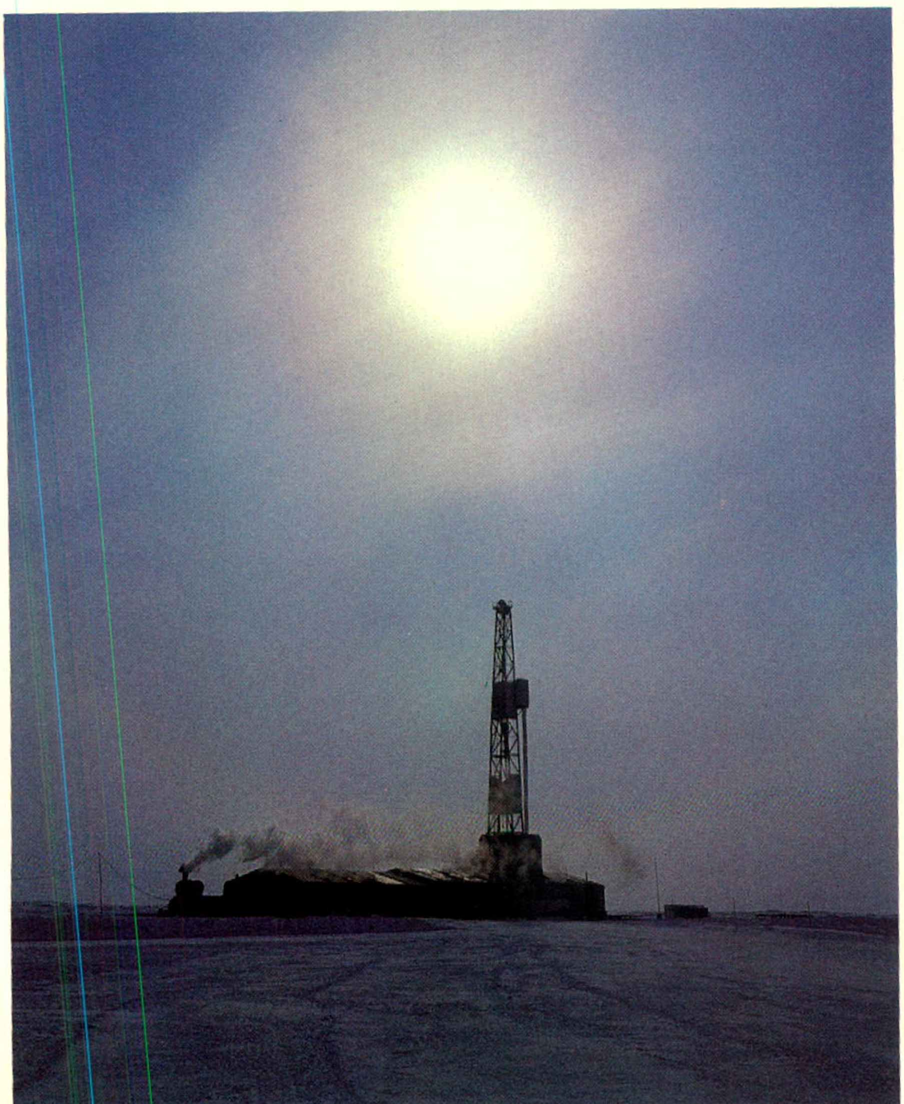
GCRI and partners drilled four Arctic island wells in 1980, the most important of which was Whitefish G-63.

The Whitefish step-out was drilled 245 metres from the original discovery to a deeper depth. The step-out confirmed a major gas discovery with gas flows up 1.25 million cubic metres per day.

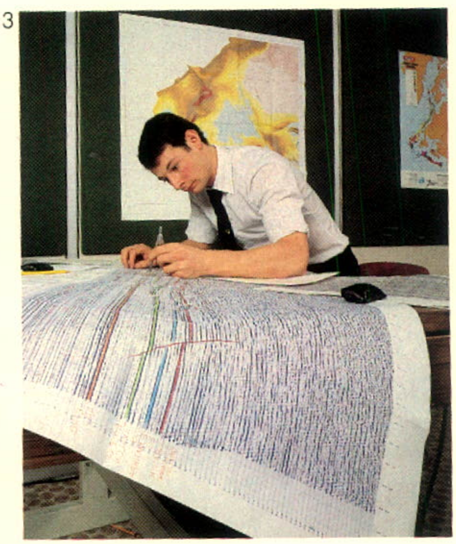
Two gas discoveries, Char and Balaena, in which GCRI is earning an interest, were drilled south of King Christian Island and had encouraging oil shows.

In 1981 GCRI plans to drill three wildcats from artificial ice islands in the general Whitefish area around Lougheed Island.

2



3



1 Drilled from an artificial island in the Beaufort Sea, the Issungnak 0-61 discovery tested oil and gas from two separate intervals.

2 The Whitefish G-63 well confirmed a major gas discovery in the Arctic islands.

3 GCRI geologist Brian Illing examines a seismic profile of the Grand Banks.

WESTERN CANADA

The company spent $154 million in western Canada exploration in 1980, a $38-million increase over 1979.

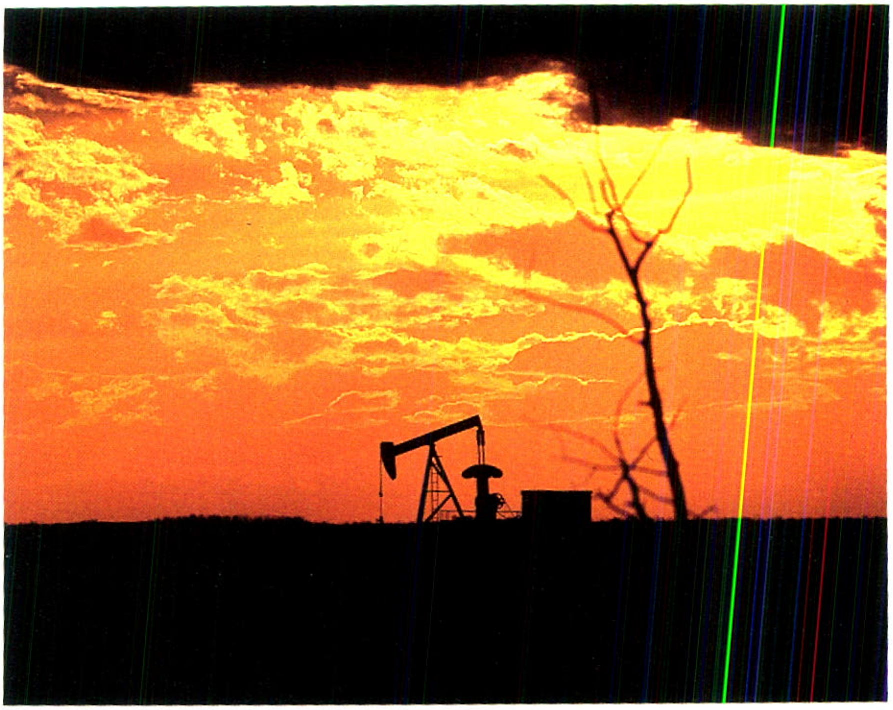
A broadly-based exploration program was carried out searching for oil and gas in the Alberta foothills and northeastern British Columbia; conventional heavy oil in Saskatchewan; and light oil prospects throughout Alberta.

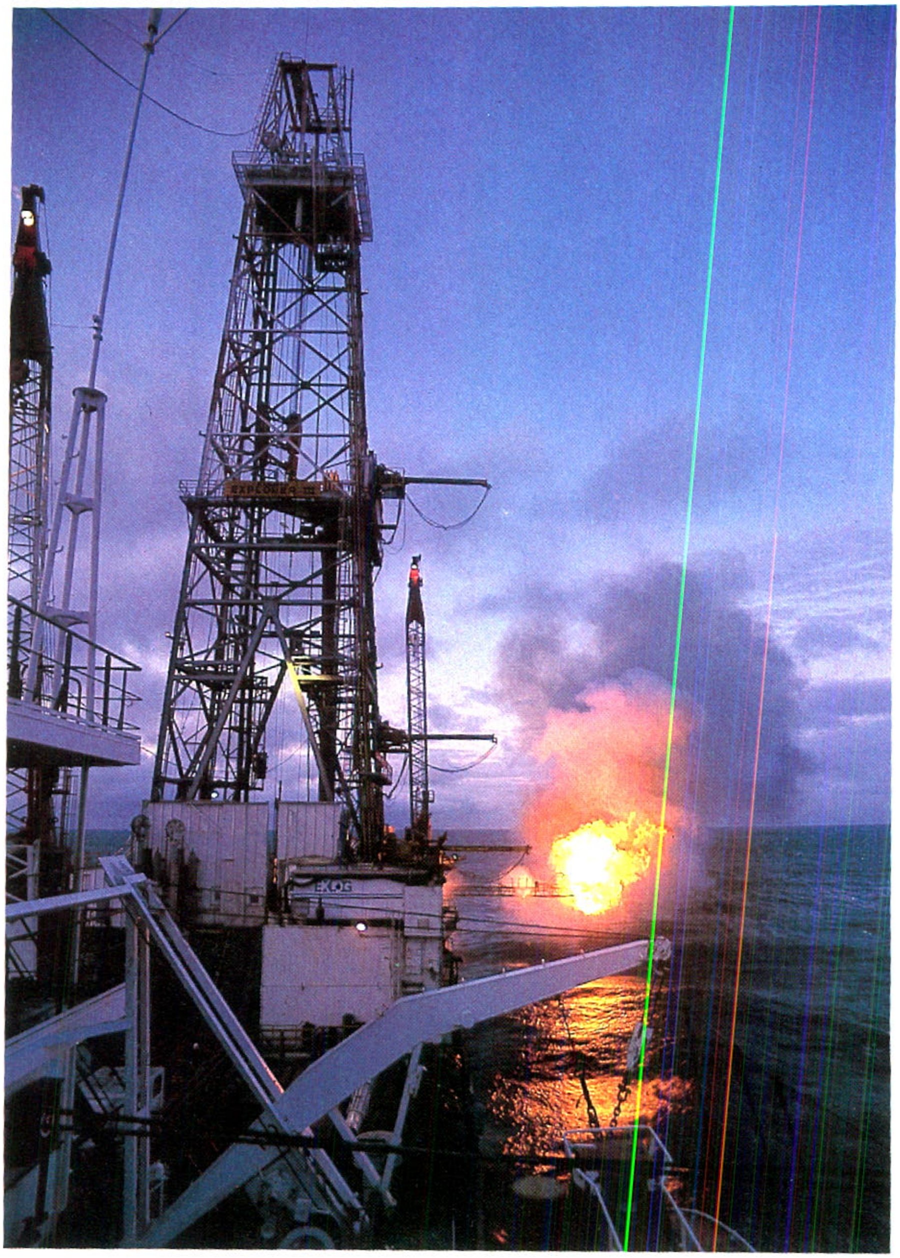
Three discovery wells were drilled in the Hanlan-Robb area of the central Alberta foothills, where the company, as operator, plans to build a gas plant. One of these discoveries, Hanlan 3-7, tested gas from a new zone at 930,000 cubic metres per day and is calculated to be capable of producing in excess of 1.4 million cubic metres per day. The company has a strong land position in this area, with a concentration of acreage surrounding the proposed plant.

In northeastern British Columbia, Gulf Canada drilled two discoveries, July and Jackfish, which yielded large gas flows. GCRI's net interest in the discoveries is 100 per cent and 50 per cent respectively.

Exploration in Saskatchewan was concentrated on new and continuing programs to explore and evaluate heavy oil acreage. Gulf Canada is now a major participant in heavy oil exploration and development programs.

The company has an extensive land base in Saskatchewan as a result of participation in the Saskatchewan Heavy Oil Project with Saskoil and Petro-Canada, together with additional farm-ins and new acreage acquisitions of both freehold and Crown Land. During 1980 108 wildcat wells were drilled, 53 of which found oil and three found gas.





Through the Saskatchewan Heavy Oil Project, additional farm-ins and acreage acquisitions, Gulf Canada is now a major participant in heavy oil exploration and development programs.

Tarsiut, one of two Beaufort Sea discoveries in which the company participated in 1980, tested oil at rates up to 127 cubic metres per day.

Production

Crude oil

Gross production of crude oil averaged 17,500 cubic metres per day during 1980, down slightly from 1979 rates because of lower demand and declines in producibility from mature conventional reservoirs. Development of the Edson field in the Alberta foothills in 1980 will result in new oil production in 1981.

At the Willmar field in southeastern Saskatchewan, an enhanced recovery field pilot entered its third phase during the summer with alternate injection of rich gas and water.

In addition, significant changes were approved and partially implemented on an enhanced recovery miscible flood project in Alberta's South Swan Hills field. In most of the project area, the rich gas injection was successful and was followed by lean gas injection. To improve recovery, miscible gas injection will be continued in seven recently-drilled wells. In the field's West Waterflood area, construction began on a tertiary miscible gas project to be started up in 1981.

Two additional company-operated enhanced recovery projects will be under construction in 1981 and, together with the projects already in operation, are expected to increase recoverable reserves.

During the year 116 gross heavy oil wells were drilled which delineated significant reserves of conventional heavy oil in Saskatchewan.

In order to improve recovery over that obtained by primary techniques, pilot thermal steam tests will be carried out on Saskatchewan heavy oil acreage. Initial single-well evaluation steam tests started in late 1980.

During 1980 Gulf Canada concluded a farm-in agreement on 47,000 hectares of heavy oil property in west-central Saskatchewan which will provide the company with a 46.5 per cent interest for an expenditure of $40 million. A major portion of development capital will be spent on enhanced recovery production methods.

Natural gas

Gross production of natural gas was 8.9 million cubic metres per day, down substantially from 1979 due primarily to reduced U.S. demand. Gas liquids production was 3,100 cubic metres per day.

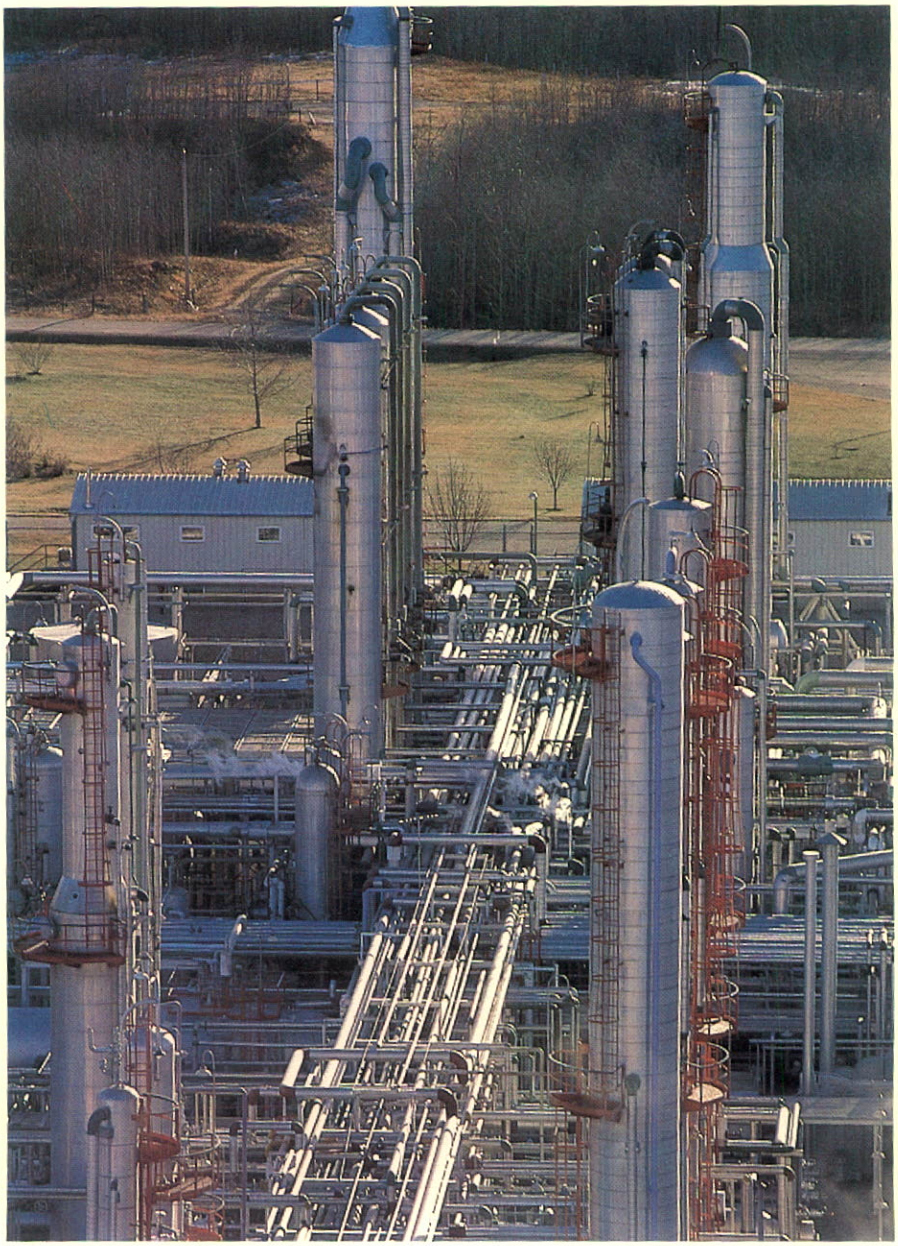
During the year the Stolberg gas field was brought on stream, producing sour gas at the contracted rate of 570,000 cubic metres per day. The field, discovered in 1958, was delineated and developed during the following 20 years at a cost of $30 million. Gulf Canada has a 37.5 per cent interest in the unit.

The Alberta Energy Resources Conservation Board approved plans to build the $250-million, 8.5 million-cubic-metre-per-day Hanlan-Robb natural gas plant near Edson, Alberta. As operator, Gulf Canada will have a 37 per cent interest in the project. The plant is scheduled to go on stream by the end of 1982, processing sour gas from the company's Hanlan-Robb discoveries. Production will be connected to the eastern leg of the Alaska Highway Natural Gas Pipeline prebuild.

Development and outpost drilling resulted in 51 net wells, of which 31 were designated as oil and 20 as gas.

Gross proved reserves of crude oil, natural gas liquids and natural gas continued to decline in 1980. The decrease in proved reserves of conventional crude oil and natural gas liquids, from 58.2 million cubic metres to 55.0 million cubic metres, was approximately the same as in 1979. Proved reserves of natural gas were down from 70.2 billion cubic metres to 69.6 billion cubic metres due to continuing depletion of older reserves.

The Rimbey Gas Plant is one of the major GCRI-operated processing facilities in Alberta.



Estimated Remaining Reserves

	gross	net
	1980/79	**1980**/79
Crude Oil and Natural Gas Liquids	*(millions of cubic metres)*	
Western Canada		
– Proved (1)	**55.0**/58.2	**35.6**/38.6
– Established (2)	**72.0**/75.0	**46.5**/*
Rest of Canada (3)		
– Established (2)	**9.0**/16.0	**7.1**/*
Natural Gas	*(billions of cubic metres)*	
Western Canada		
– Proved (1)	**69.6**/70.2	**50.4**/51.9
– Established (2)	**85.1**/84.1	**61.6**/*
Rest of Canada (3)		
– Established (2)	**45.6**/62.4	**38.8**/*
Synthetic Crude	*(millions of cubic metres)*	
Syncrude (4)		
– Proved (1)	**23.2**/23.8	**16.4**/17.0
Sulphur	*(millions of tonnes)*	
– Proved	**4.5**/4.8	**3.6**/3.9

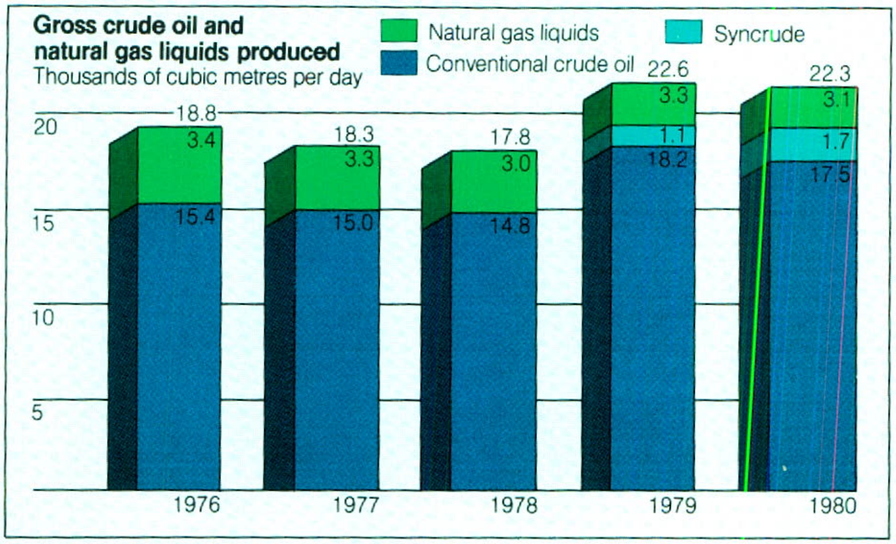
*Not available

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

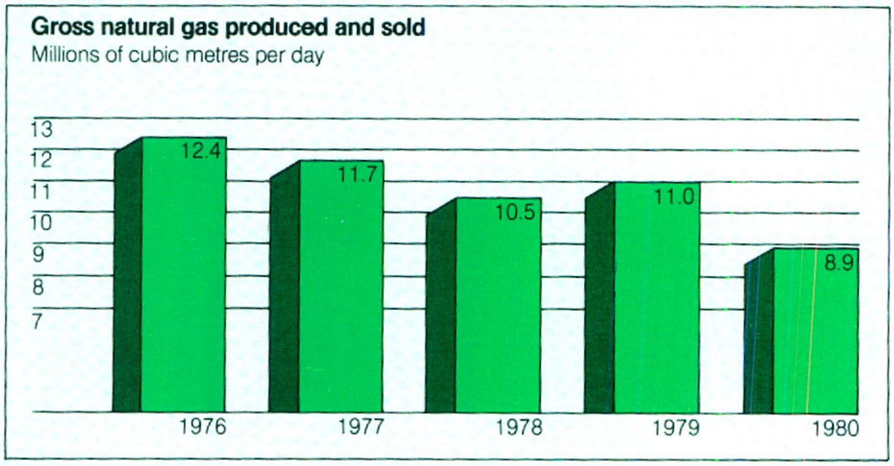
(2) The definition for the established category is the same as recommended by the Canadian Petroleum Association, the National Energy Board and the Alberta Energy Resources Conservation Board. Established reserves are those reserves which appear with reasonable certainty to be recoverable in the future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

(3) The rest of Canada includes frontier and east coast reserves in areas such as at Parsons Lake, Whitefish, Kopanoar and Hibernia.

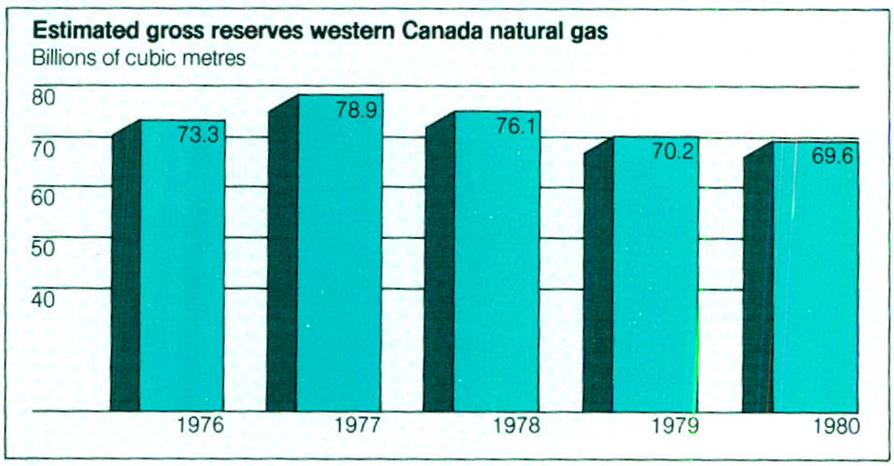
(4) Synthetic crude oil reserves resulting from Gulf Canada's interest in the Syncrude project are shown in gross and net volumes. The Alberta government's share from the Syncrude project is 50 per cent of net profits, as defined in an agreement between the project participants and the government, with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



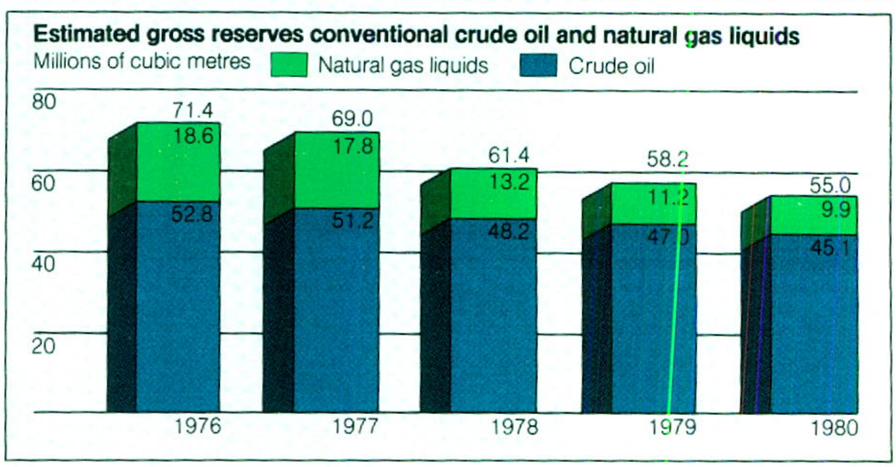
Gross crude oil and natural gas liquids produced
Thousands of cubic metres per day



Gross natural gas produced and sold
Millions of cubic metres per day



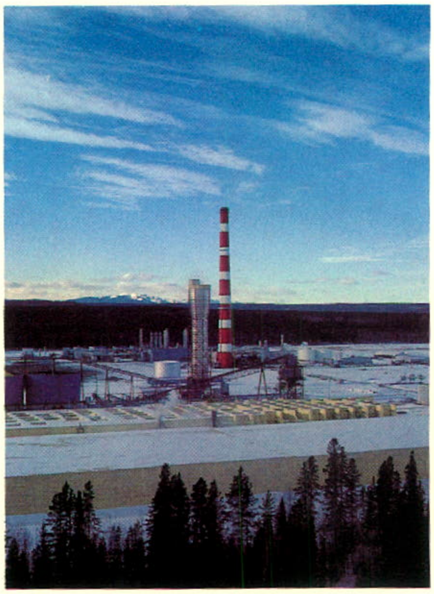
Estimated gross reserves western Canada natural gas
Billions of cubic metres



Estimated gross reserves conventional crude oil and natural gas liquids
Millions of cubic metres

1

2



Sulphur

Net sulphur volume declined slightly as a result of lower natural gas production. However, sulphur sales increased from 249,000 tonnes in 1979 to 343,000 tonnes in 1980 and reduced inventory at Strachan Gas Plant.

North America's first sulphur prilling tower at the Strachan plant began operations in the spring and by year-end was prilling 1,000 tonnes of sulphur daily for export.

New Energy Resources

In addition to managing its investment in the Syncrude operation, GCRI's oil sands activity in 1980 was focused on resource evaluation and development of improved technology to provide future energy supplies. In coal, GCRI continued its program of acquisition and evaluation of strategically located deposits.

Additional capital investment in both segments reached $69 million. GCRI's cumulative investment in the development of current and future energy supplies from oil sands and coal is now in excess of $400 million.

1 Production of synthetic crude oil at the Syncrude project, in which Gulf Canada has a 13.4 per cent interest, averaged 12,700 cubic metres per day in 1980.

2 At Strachan Gas Plant, North America's first sulphur prilling tower was producing 1,000 tonnes of prilled sulphur per day by year-end.

Mineable oil sands

Total production of synthetic crude oil by Syncrude averaged 12,700 cubic metres per day, compared to 7,900 cubic metres per day in 1979. During 1980 Syncrude operated profitably for the first time since start-up and contributed significantly to GCRI's 1980 earnings.

At year-end the Alsands Project Group—in which GCRI holds an eight per cent interest—was assessing the effect that prolonged inter-governmental disagreement will have on the project's start-up, costs and long-term feasibility. Because of unresolved differences between the federal and Alberta governments, the project consortium cancelled the $50-million 1980/81 winter work program, and significantly reduced planned 1981 expenditures. The group continued to develop design details for the proposed 22,000 cubic-metre-per-day facility, selecting a joint-venture management contractor to do detailed design and supervise construction.

In the Sandalta project, GCRI earned a 33 per cent interest in Bituminous Sands Lease No. 30 with the completion of the Phase I, 85-well exploratory drilling program, and the commencement of an additional 100-well evaluation program under Phase II. Future work will enable the company to earn up to an 83.75 per cent interest in the 15,000-hectare lease north of Fort McMurray.

Late in the year the company exercised an option and doubled its interest to 20 per cent in six other Athabasca area leases totalling 75,000 hectares. A work program is planned for 1981.

In situ oil sands

In addition to being active in mineable oil sands, GCRI is a leader in the development of technology to produce bitumen from Alberta's deeper oil sands deposits. The major portion of bitumen in the oil sands can be recovered only by in situ techniques because of its depth. Experimental techniques employ steam, solvents, or fire-flood to reduce the viscosity of the oil so it can be pumped to the surface. The company previously conducted experimental in situ pilot projects at Wabasca and Cold Lake, and currently has interests in three other similar projects.

On the Wabasca in situ acreage, construction began on a new pilot plant at nearby Pelican Lake which will use fire and steam techniques to test a deeper oil formation. Designed to initially produce 480 cubic metres of bitumen per day, the pilot will be operational by mid-1981.

A drilling program on GCRI's 48,160 hectares in the Surmont area of the Athabasca deposit has confirmed the presence of high quality bitumen deposits and steam stimulation field tests have provided encouraging results. Two pilot projects are underway on the lease: Surmont, to develop a new recovery technique; Resdeln, to evaluate production.

The Surmont project, a joint GCRI and Alberta Oil Sands Technology and Research Authority development, will test the value of horizontal wells drilled directly from the surface and underground wells drilled from tunnels constructed within or immediately above or below the oil sands formation. Site selection and engineering feasibility studies will be completed in 1981.

The nearby Resdeln project will evaluate reservoir producibility using steam stimulation from surface-drilled vertical wells. Facility construction at Resdeln was completed in 1980, and production is projected to average 64 cubic metres per day during the planned two-year operational period.

Opposite page:

At Resdeln, 32 kilometres southeast of Fort McMurray, steam stimulation from surface-drilled vertical wells will be used to evaluate reservoir production from in situ sands.

A new pilot project at Pelican Lake on the company's Wabasca in situ oil sands acreage will go into operation in mid-1981.

Coal

Since its first major coal exploration venture in 1978, the company has substantially stepped up its search for this resource. By year-end GCRI had increased its land holdings to approximately 470,000 net hectares of coal rights in western Canada. The Goodrich property in northeastern British Columbia was the principal area of land accuisition, and drilling has started to evaluate its mining potential.

GCRI's most advanced project is at Belcourt in northeastern British Columbia where Gulf Canada is a 40 per cent partner with Denison Mines Limited. A preliminary study indicated a potential yield of about 80 million tonnes of clean bituminous coal from surface mines.

Two other projects in British Columbia – at Trefi and Wapiti – were drilled. Preliminary results at Trefi, 30 kilometres west of Chetwynd, indicated a bituminous coal of medium volatility with underground mining potential. Exploration programs outlined substantial near-surface resources at the Wapiti project, 35 kilometres southwest of Dawson Creek.

The Chip Lake sub-bituminous coal project, 40 kilometres west of Alberta's Lake Wabamun coal mining district, has potential for underground mining.

GCRI research in 1980 included a small scale in situ coal burn test at the Wapiti site. An assessment is also underway to determine the application of coal conversion technologies to coal resources.

Environmental planning

As a part of the company's business planning, the production and new energy resources environmental groups provide input to operating activities to ensure the protection of the natural and human environment. Environmental assessments during 1980 were directed in particular to the Hanlan-Robb gas plant and gathering system, the Sandalta project, the Goodrich property and Saskatchewan heavy oil developments.

Minerals

Gulf Canada Limited has a 5.1 per cent interest in the Rabbit Lake uranium mine in Saskatchewan and a ten per cent interest in adjacent properties. Under a 50 per cent joint venture agreement with Gulf Minerals Canada Limited, the Corporation participates in exploring for uranium and other minerals in other parts of Canada.

Geological assistant Andrea Petzold logs coal core on Goodrich property in northeastern British Columbia.

Gulf Canada Products Company

Gulf Canada Products Company

Financial and Operating Summary

Financial	1980	1979
	(millions of dollars)	
Net segment earnings after taxes	**$ 179**	$ 72
Capital expenditures	**$ 94**	$ 47
Capital employed at year-end	**$1,463**	$1,331
Return on average capital employed	**12.8%**	5.6%
Operating		
Crude oil	*(thousands of cubic metres per day)*	
—Processed during year	**46.1**	50.6
—Capacity at year-end	**48.5**	61.4
—Capacity utilized	**88%**	82%
Sales		
Refined products	**42.7**	42.9
	(millions of kilograms per day)	
Chemicals	**1.3**	1.4

Gulf Canada Products Company, (GCPC), formed on July 1, 1979, by consolidating Gulf Canada Limited's refining, marketing, chemicals, supply/distribution and propane operations, has introduced a co-ordinated, integrated approach to the downstream business. The company has plans to spend in excess of $300 million on projects that will expand and modernize its refining capability. In addition, projects and programs were underway or planned to streamline product distribution facilities and improve the appearance of Gulf Canada service stations.

Marketing

Despite continued emphasis on conservation, Canadian industry demand for motor and diesel fuels was slightly higher in 1980. Demand for heating fuels, however, declined sharply because of conservation and conversion of homes and industry to natural gas and electricity.

Product prices rose during 1980 and profit margins improved following the tight product supply situation which developed in late 1979 and continued through 1980.

The company embarked on a national image conversion program which will see

Opposite page:

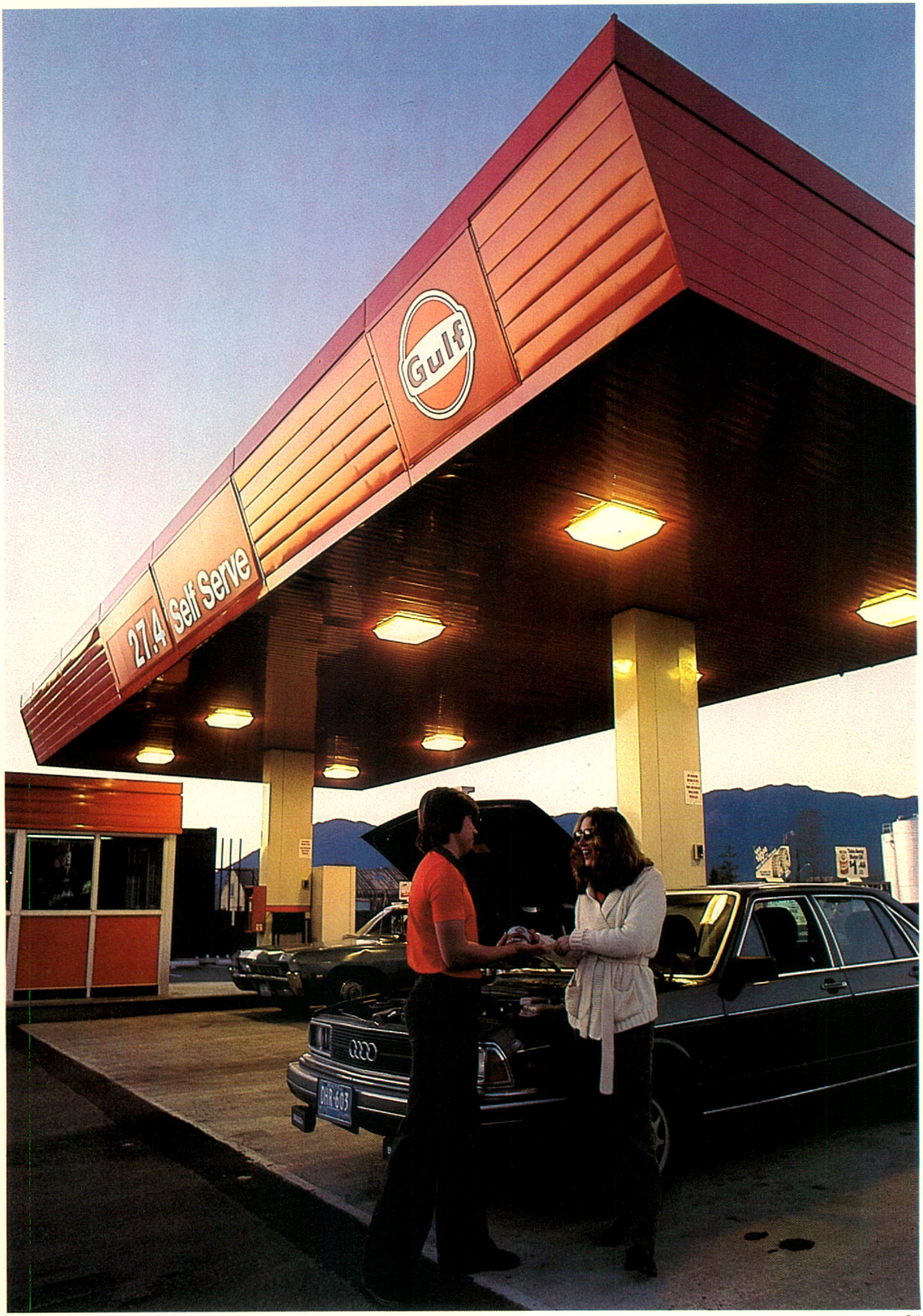
A nation-wide service station image conversion program featuring new orange/beige color scheme is scheduled for completion in 1982.

Preceding page:

In addition to planned $83-million expansion of reforming and petrochemical facilities at Montreal East Refinery, Gulf Canada is a leading participant in a consortium proposing a projected $1.8-billion heavy oil upgrader for the area.

Right:

Industrial sales represent an important segment of the company's business.


Gulf
27.4
Self Serve

most retail outlets upgraded to an orange/beige combination by 1982.

During 1980 the operations of over 250 low-volume service stations and a number of bulk plants were consolidated in fewer high-volume facilities in strategic locations to provide efficient and convenient service to the motorist at lower operating cost.

HydroTreated lubricants produced at Clarkson Refinery continued to receive wide customer acceptance. Introduced in 1979, these products are now generally recognized as having superior qualities for automotive and industrial lubrication.

Manufacturing

Plans were announced to increase capacity at Edmonton Refinery by 50 per cent, and to enhance its ability to process the synthetic crude oils which will represent an increasing share of future available feedstocks. Cost of the expansion is estimated at $200 million.

At year-end Gulf Canada was a leading participant in a consortium of industry members, together with representatives of the federal and Quebec governments, to evaluate construction of a $1.8-billion heavy fuel oil upgrader in the Montreal area. The project would permit the industry to meet the demand for gasoline and distillates in the most cost-effective manner by significantly reducing production of heavy bunker fuels and crude oil imports.

Also announced was an $83-million program to expand the reforming and petrochemical capability at Montreal East Refinery. At Clarkson, a $40-million program was underway to improve the reliability and capacity of the new lube plant.

Late in 1980 refining operations at Point Tupper Refinery were suspended indefinitely because its process configuration and yields were no longer suitable for refining imported crudes which were becoming more costly and lower in quality. However, the company continues to operate the ocean terminal and products distribution facilities there. Policies were initiated to minimize the impact of the closure on employees and the community and studies are underway to determine the suitability of the location for future projects related to the petroleum industry.

Excluding Point Tupper, refining utilization in 1980 was almost 90 per cent. Western Canada plants operated at capacity to meet continuing high demands, while eastern Canada throughput was moderately restricted by limitations on crude supply.

In its continuing conservation program, the company's manufacturing facilities reduced energy needs by five per cent below 1979 levels—a saving of 53,700 cubic metres of equivalent fuel. Several important energy conservation projects were completed, and more are planned.

Gulf Canada plans to spend $300 million on modernizing and expanding refining facilities. At Edmonton Refinery, a $200-million program will enhance ability to process synthetic crude oils.

Supply and distribution

OPEC official crude oil prices continued to rise early in 1980 in response to unsettled conditions in Iran. By the second quarter, reduced crude demand and continued high OPEC production levels resulted in a surplus position which significantly reduced the spread between official and spot prices. This environment continued until September when loss of supply resulting from the Iraq/Iran conflict caused spot market prices to move higher.

Canadian crude oil prices rose $3.00 per barrel during 1980.

A processing arrangement was made with an east-coast refiner to replace the loss of production as a result of the suspension of refinery operations at Point Tupper.

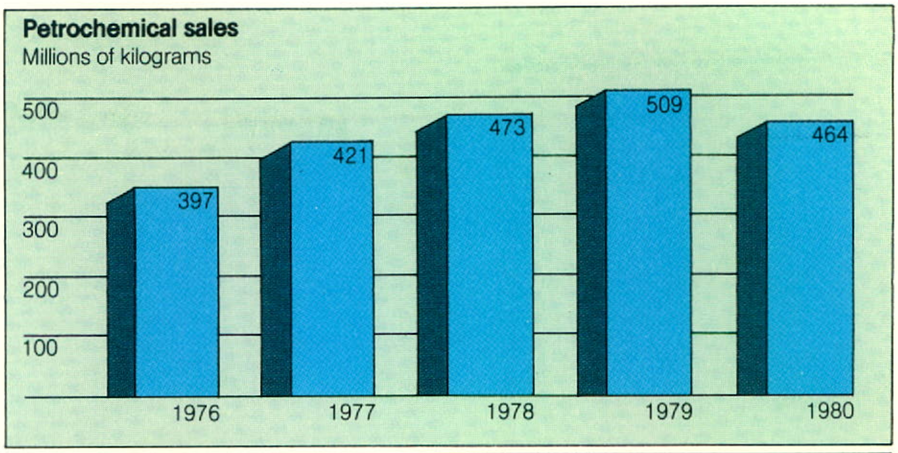
As part of Gulf Canada's program to diversify foreign crude supplies, direct purchase contracts were signed with Iraq and Venezuela in early 1980. On December 31, 1980, Gulf Canada received formal notice from Iraq that the crude oil contract was being cancelled due to hostilities with Iran. However, available crude supplies were adequate to meet existing product requirements.

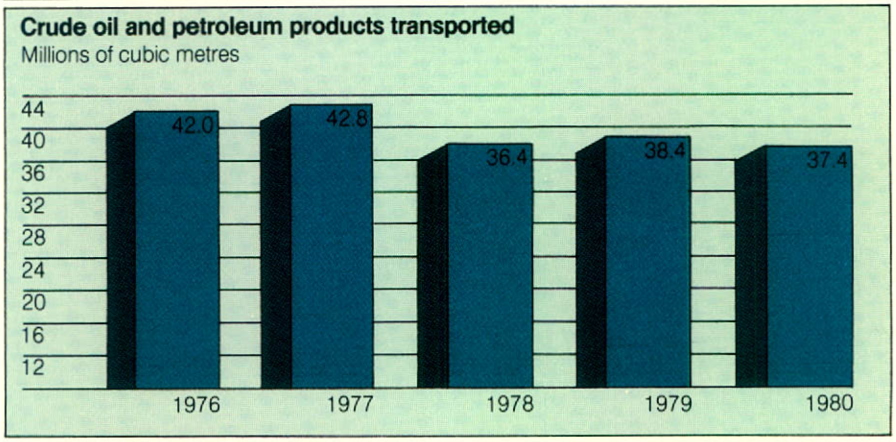
As part of Gulf Canada's ongoing program to improve distribution efficiency, a fully-automated loading facility adjacent to Montreal East Refinery will be completed in 1982.

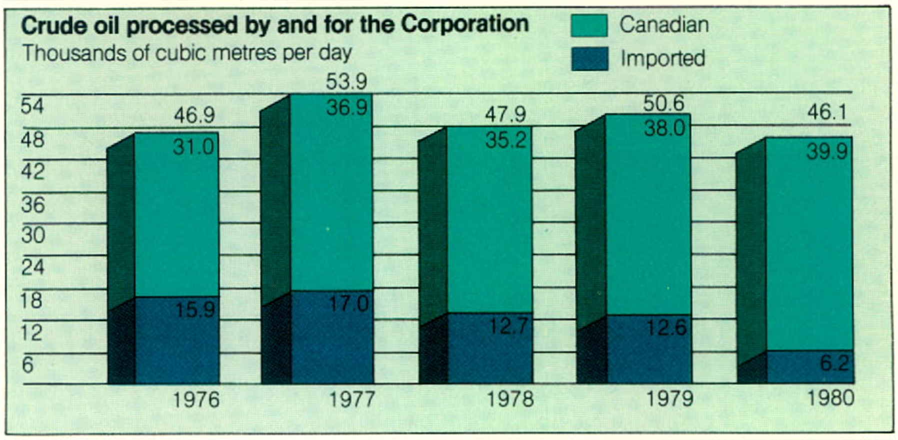
Chemicals

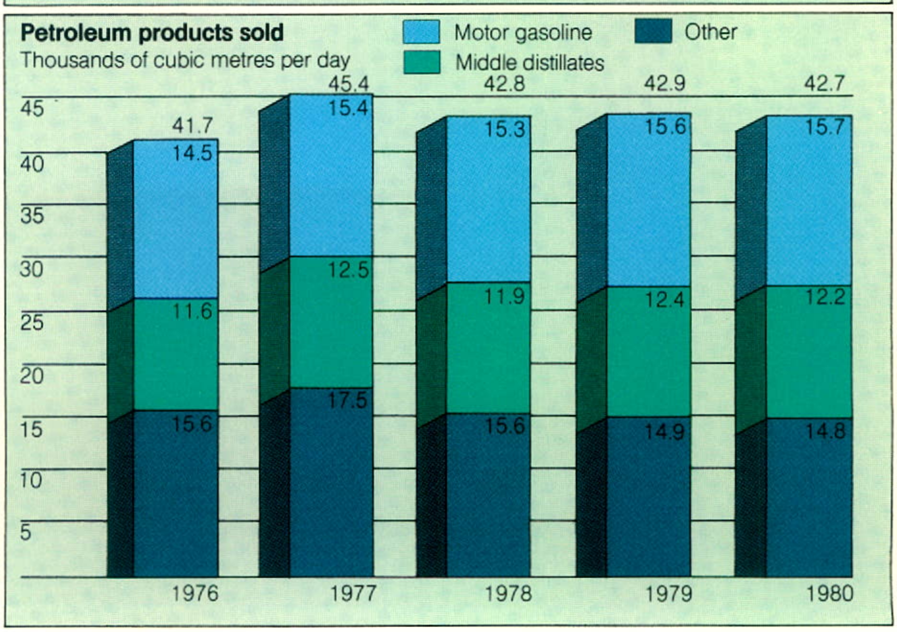
The aromatic facilities in Montreal East which produce benzene, cumene, phenol and cyclohexane operated at near capacity. Demand for phenol was beyond plant capacity, and some phenol was imported to protect the company's market share.

The inorganic chemicals plants at Shawinigan and Bedford operated at 70 per cent capacity, mainly because of start-up problems associated with a new calcium carbide furnace at Shawinigan. During the year, work began on installation of facilities at Shawinigan for production of a calcium carbide desulphurizing reagent for the steel industry.









On October 1, 1980, the company's 225-million-kilograms-per-year ethylene producing facility at Varennes became part of the new Petromont venture. This Montreal-based petrochemical consortium consists of Gulf Canada Limited, Union Carbide Canada Limited and Société générale de financement du Québec. Gulf Canada Products Company is operating the Varennes plant on behalf of Petromont.

Commercial Alcohols, a wholly-owned Montreal-based subsidiary with a synthetic ethanol plant at Varennes, operated at capacity with 60 per cent of the production being exported.

The former Varennes plant is now the cornerstone of the Petromont petrochemical consortium headed by John Dinsmore.

The *ST Gulf Canada*, delivering a cargo to St. John's, Newfoundland, terminal, is one of three company-owned-and-operated tankers moving crude oil and finished products between refineries and terminals in the Atlantic provinces and as far west as the lakehead.

Other Activities

Research and development

Research and development activities continue to focus on projects directly related to securing Canada's energy future. The Sheridan Park centre has developed significant capability for investigating and developing new technology relating to recovery and upgrading of heavy oil.

In 1980 field and laboratory studies were conducted in conjunction with production field pilot-plant experiments in enhanced recovery, heavy oil and in situ oil sands. A major activity was evaluation of a large number of processes to upgrade heavy oil and tar sands into acceptable refinery feedstocks and subsequently into marketable products.

The Corporation participated in the development of the fluid to be used in GCRI's West Willmar enhanced recovery project and is undertaking similar studies for future enhanced recovery programs.

Evaluation of uses for GCRI's coal reserves is continuing. With technology advances and government subsidies, coal could be converted to gases and liquids to provide energy for the future.

With conservation playing an increasingly important role, the Corporation has developed special conservation capabilities. For example, a custom-designed mobile combustion efficiency laboratory is conducting studies at plants across Canada.

Gulf Canada's role in energy development continues to receive priority attention. Consistent with business strategies, plans call for increased emphasis on technologies for development of new energy resources.

Environmental affairs

Capital expenditures of $22.6 million directed toward environmental conservation were associated with drilling operations, new capital projects and environmental upgrading of existing facilities.

Work continued in both upstream and downstream companies, including study for the proposed Hanlan-Robb gas plant and an environmental assessment of the Edmonton Refinery expansion.

Gulf Canada's program of systematic upgrading and replacing older underground product storage tanks will require an estimated expenditure of $17 million over the next decade. A new $4-million open-pond biological treatment facility at Montreal will further improve the quality of effluents from the refinery and phenol plant.

The Corporation continues to play a leading role in setting forth the industry's position on government environmental regulation to ensure that cost-benefit considerations remain prominent in the regulatory process.

Realty

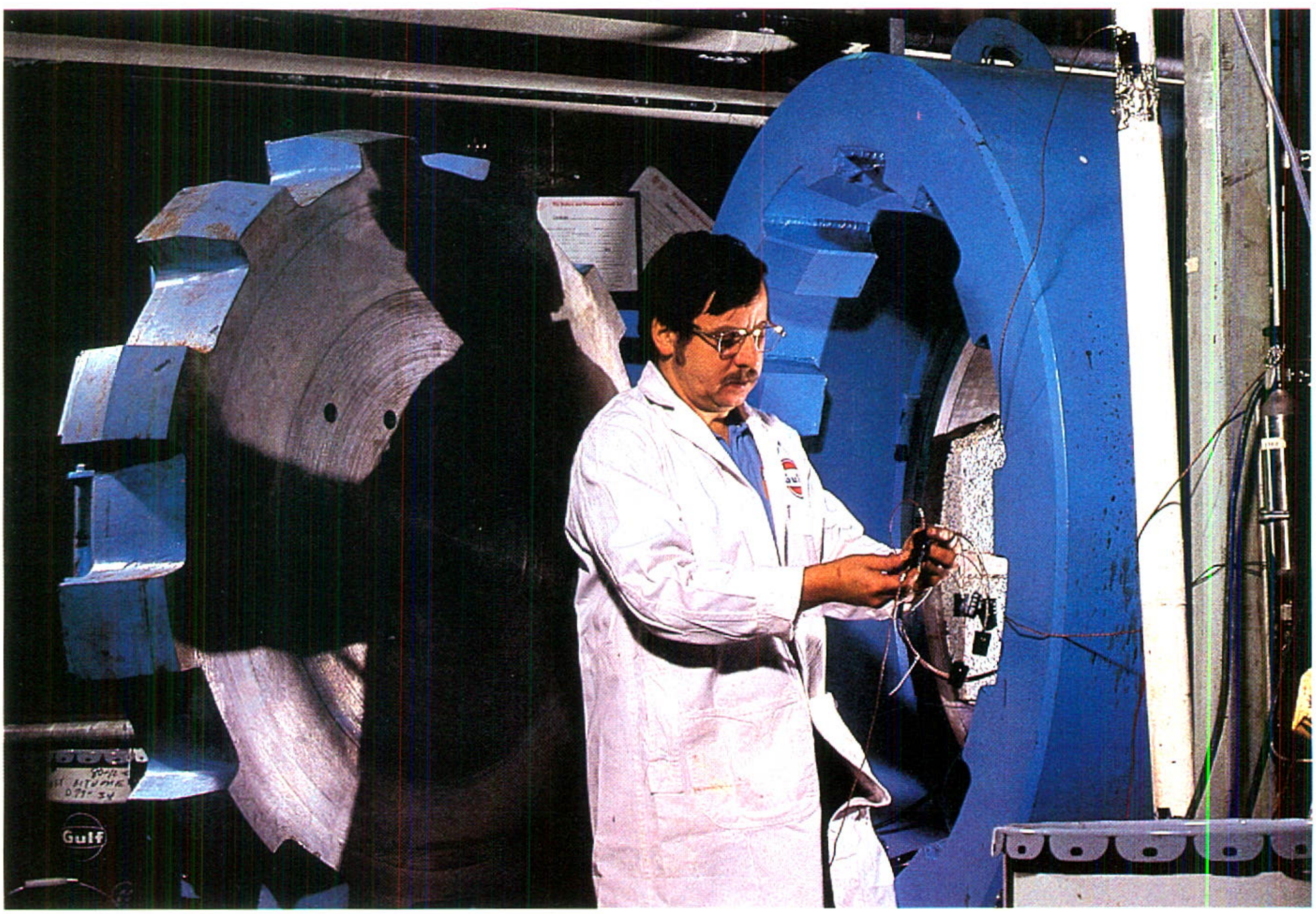
The first full year of occupancy of Gulf Canada Square in Calgary has demonstrated an energy-efficiency capability even better than predicted. Total energy consumed for office heating, cooling, lighting and general office equipment has been less than half the 20 to 25 kilowatt hours per square foot per annum required for most modern office buildings – well below the 53 kilowatt hours estimated as the average of large buildings built in the last 15 years.

Gulf Canada occupies approximately 60 per cent of the office space with the balance being fully leased. Retail space is approximately 85 per cent occupied.

Preceding page:

Among GCRI personnel involved in management training studies are John Loh (l), Kasper Lund and Bev Loney. Anticipating a continuing shortage of skilled technical and professional employees, Gulf Canada has developed a strong capability in recruitment and training.

At the Corporation's Research Centre near Toronto, technology scientist Denis Guimond uses a high-pressure simulator to find new ways of recovering heavy oil.



Human resources

A serious shortage of personnel in the skilled, technical and professional disciplines is expected to continue over the next several years. To overcome this potential difficulty in staffing new projects, Gulf Canada has established a comprehensive recruiting and training capability.

During 1980, 207 employees with 25 years of service were honored at dinners hosted by the Corporation's officers at Calgary, Montreal and Toronto. The number of employees with service credit in excess of 25 years now totals 1,632.

Pre-retirement counselling sessions for employees approaching retirement were well received.

Labor contracts for 1980 were negotiated on the basis of a 10.5 per cent wage settlement. With the merger of the Oil, Chemical and Atomic Workers (OCAW) and the Canadian Chemical Workers (CCW), the resultant Energy and Chemical Workers Union (ECWU) is now the bargaining agent at locations formerly having OCAW representation. The good relationship that existed between Gulf Canada and the OCAW is expected to continue with the new union.

Public affairs

During the year Gulf Canada continued to demonstrate a high level of social responsibility with a somewhat higher profile than in previous years.

A more pro-active process of monitoring and responding to indicated public policy actions was developed and integrated with the Corporation's long-range planning process.

As Gulf Canada continued to prosper, contributions to worthy causes were increased to a record $2.6 million for the support of community activities and public services including health, welfare, educational, cultural and youth projects.

President J.L. Stoik and Chairman J.C. Phillips (r) greeted over 200 employees, including Leopold Rivard from Shawinigan, Quebec, at 25-year service dinners.

Cassandra Cross (l), Dominic Fournier, Jennifer Dykxhorn were among 70 English- and French-speaking students taking part in Corporation's third annual cultural exchange.

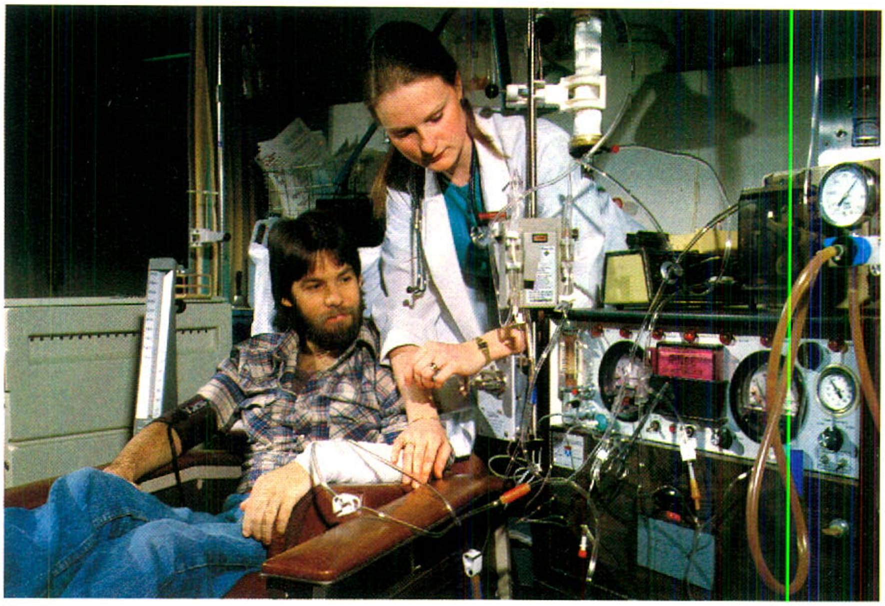
Continued support was given to the National Youth Orchestra which brings together talented young Canadians for a summer of music instruction.

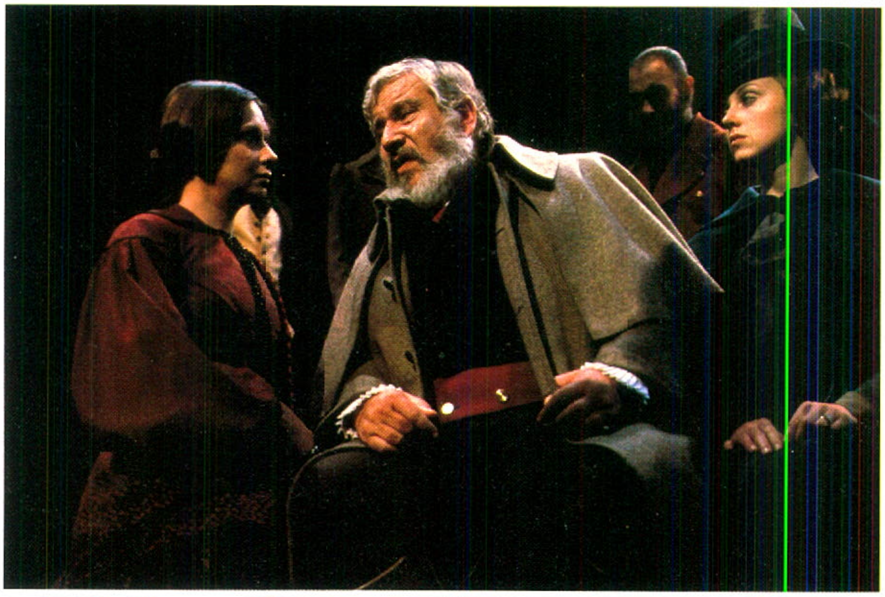
As a project for the International Year of the Disabled in 1981, a special donation of $128,000 was made to purchase 16 cars for the Multiple Sclerosis Society of Canada for transporting MS victims to and from treatment centres. In further aid of the disabled, a major pledge was made to the Canadian Paraplegic Association.

Scores of contributions to the arts in Canada included sponsorship of the highly-regarded production of King Lear at the Stratford Festival. Gulf Canada also underwrote a tour of the Canadian Opera Company and a special performance by the Canadian Brass.

The Corporation adopted a policy in 1980 to facilitate employee involvement in the political process. Employees are also encouraged to contribute to the activities of many worthy national organizations.

A total of 82 university students benefitted from Gulf Canada's fellowship/scholarship/bursary program in 1980. Nine post-graduate students received $7,500 fellowships, of which three were renewals. Under the undergraduate program for dependants of Gulf Canada employees, 15 students were receiving four-year scholarships of $1,500 annually, and 20 were awarded one-time bursaries of $500.





Unclaimed gasoline taxes were used to install 14 kidney dialysis machines in selected Canadian hospitals.

A Stratford Festival production of Shakespeare's King Lear, with Peter Ustinov in the title role, was sponsored by Gulf Canada.

The Canadian National Institute for the Blind is using Gulf Canada donation to provide tape cassettes of current Canadian magazines to the visually impaired.

Gulf Canada: 75 Years of Progress

On October 17, 1981, Gulf Canada will celebrate its 75th anniversary—a significant milestone in its corporate history.

Founder Albert L. Ellsworth, a 32-year-old Welland, Ontario businessman, had a faith in the future of the petroleum industry that was exceeded only by his faith in Canada. And the intervening 75 years have proven him right on both counts.

Canada has grown—and changed; and so has Albert Ellsworth's company.

British American Oil—the name chosen to signify British product quality from American, new-world technology—played a key role in Canada's development through two world wars and the period of unparalleled growth and prosperity that followed World War II.

In 1956, B-A acquired the assets of Canadian Gulf Oil Company, a Calgary-based exploration and production operation, from Gulf Oil Corporation in exchange for common shares. This acquisition put B-A in the forefront of exploration and production activity in western Canada.

In 1966, B-A sold its wholly-owned U.S. producing subsidiary, The British American Oil Producing Company, to concentrate its exploration and production efforts in Canada.

The most visible change came in 1969 when three respected Canadian companies—British American Oil, Royalite Oil and Shawinigan Chemicals—amalgamated to form Gulf Canada.

Royalite's roots went back to the original Dingman #1 well near Calgary, one of the first in Alberta; Royalite was also a pioneer in the Athabasca oil sands development work.

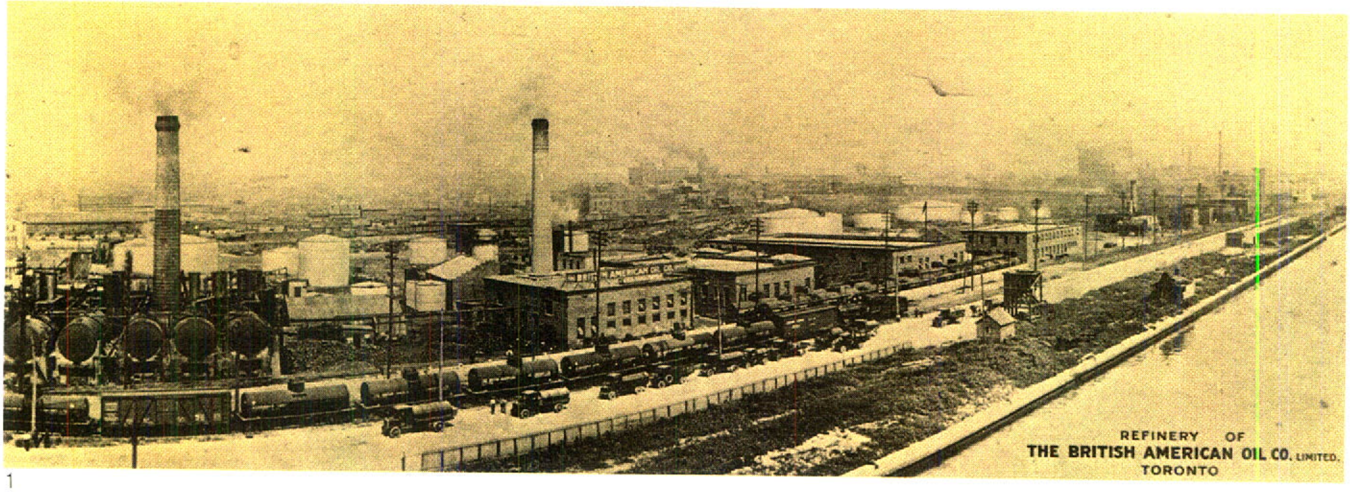
Quebec-based Shawinigan Chemicals was formed in 1898 to produce organic chemicals from limestone. It was later restructured to supply the same products from petroleum when that resource became more readily available.

Throughout its 75-year history, Gulf Canada has been a respected Canadian corporate citizen. At present, 13 of its 14-member Board of Directors are Canadians as are 24 of the 25 Gulf Canada officers.

A substantial research program is carried out at its Sheridan Park Research Centre, near Toronto, and Gulf Canada maintains exclusive world-wide patent rights for its inventions.

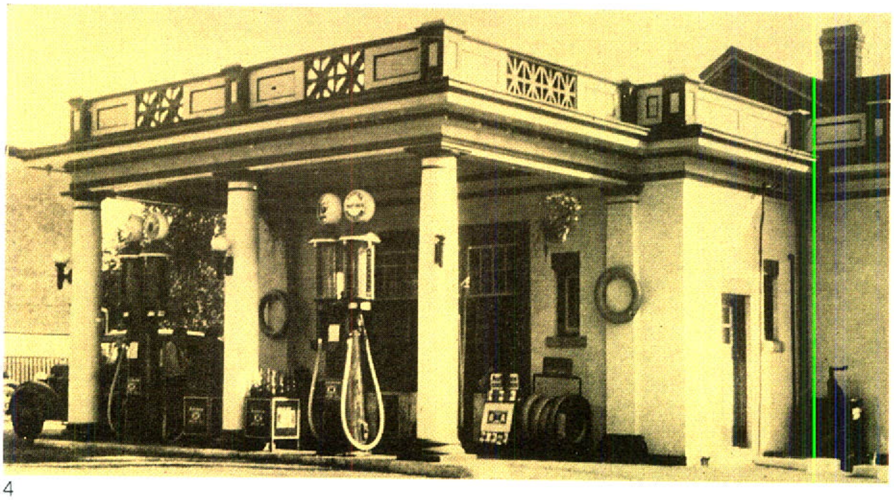
Today, Gulf Canada is an aggressive energy corporation with the two-fold challenge of meeting Canada's present energy demands and finding and developing secure energy resources for future generations.

Wooden barrels and milk cans were used to carry kerosene in the early days at the London, Ontario, branch.


REFINERY OF
THE BRITISH AMERICAN OIL CO. LIMITED.
TORONTO
1


BRITISH AMERICAN OIL Co. Limited.
GARAGE
2


BRIT SH AMERICAN OIL CO.
TORONTO
3


4

1. The Corporation's first refinery was built in 1908 on Toronto's eastern waterfront.

2. Trucks replaced horse-drawn wagons at Outremont, Quebec, warehouse in the early 1920s.

3. President Albert Ellsworth and employees marked arrival of B-A's first railway tank car.

4. Clear vision gasoline pumps were a feature of this early-day Toronto service station.

5. On Christmas day, 1935, B-A's wholly-owned U.S. producing subsidiary found a major field on Oklahoma state capitol land.

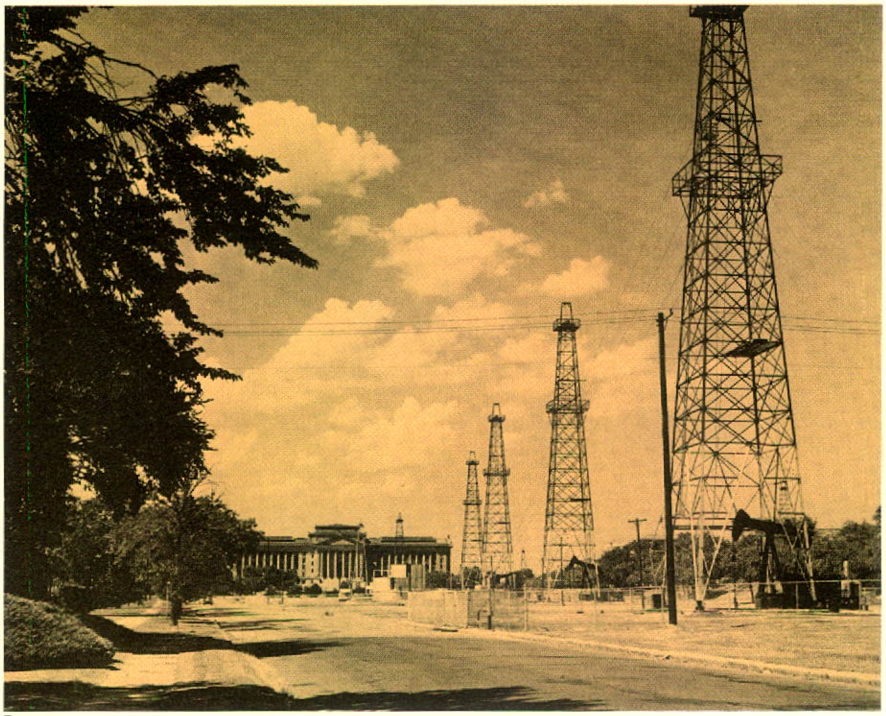
6. With acquisition of Canadian Gulf Oil Company in 1956, B-A became one of Canada's major fully-integrated oil companies.

7. Refineries manager L.E. Woolley lit first crude furnace to open Ontario's Clarkson Refinery in 1943.

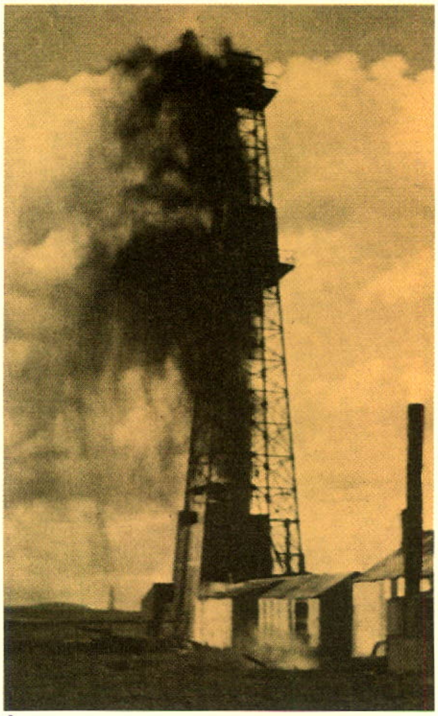
8. B-A financed discovery of important Turner Valley, Alberta, oil field in 1936.

9. The lake tanker *B A Peerless,* now the *Gulf Canada,* was launched at Collingwood, Ontario, in 1952.

7

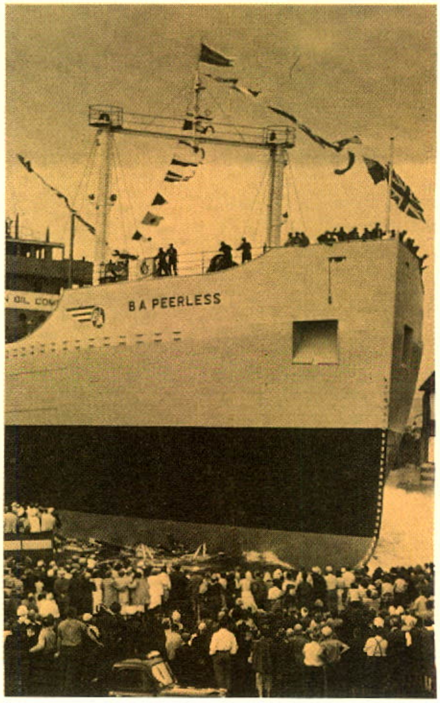


5



8

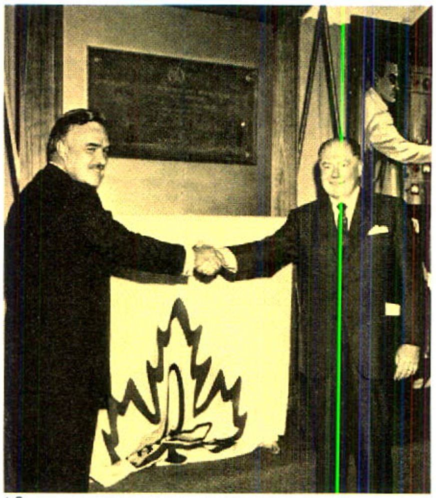
6



9

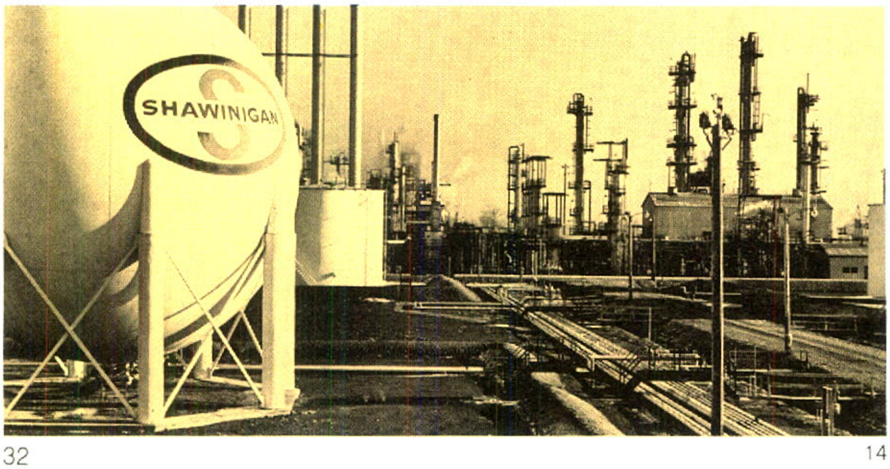
10

11



12

13



14

10. Employees joined President M.S. Beringer (r) to celebrate Corporation's 50th anniversary in 1956.

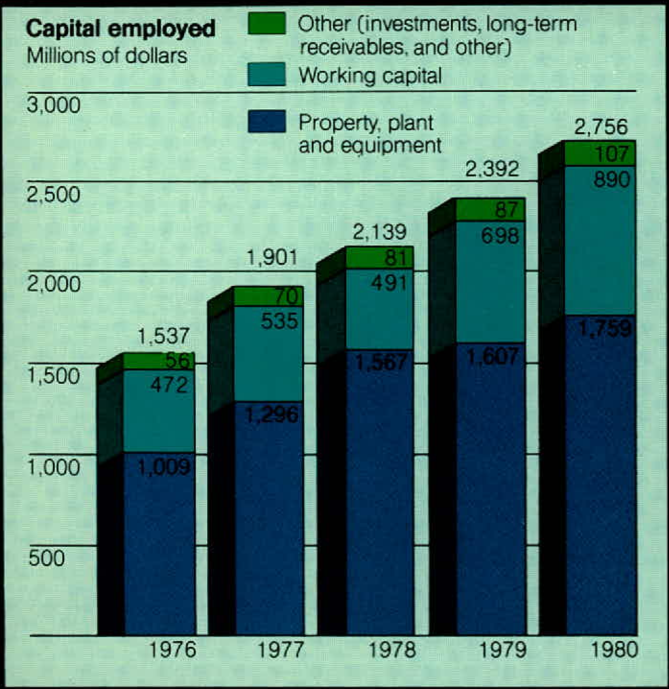
11. Alberta Premier E.C. Manning and Corporation President E.D. Brockett opened expanded Pincher Creek Gas Plant in 1958.

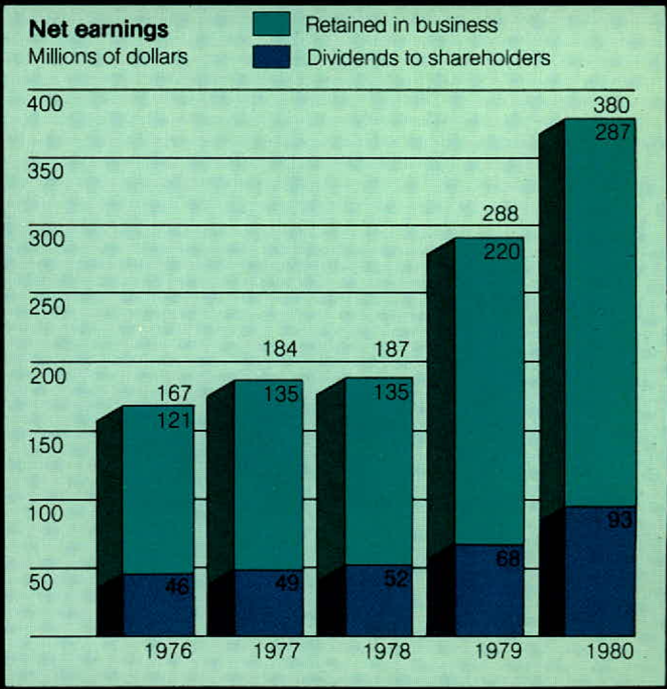
12. In 1964, Ontario Prime Minister John Robarts and B-A President E.D. Loughney opened Corporation's Research Centre near Toronto.

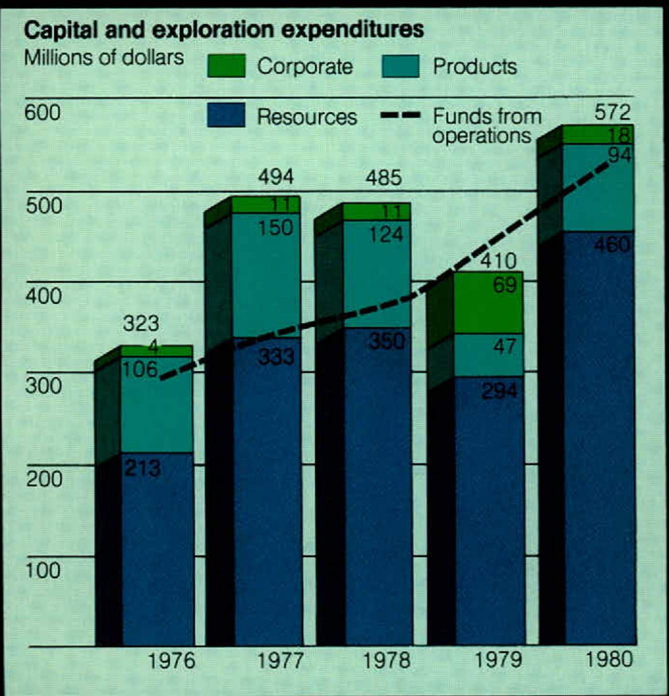
13. Royalite Oil, one of two companies amalgamating with British American in 1969 to form Gulf Canada, pioneered Athabasca oil sands work in the mid-1940s.

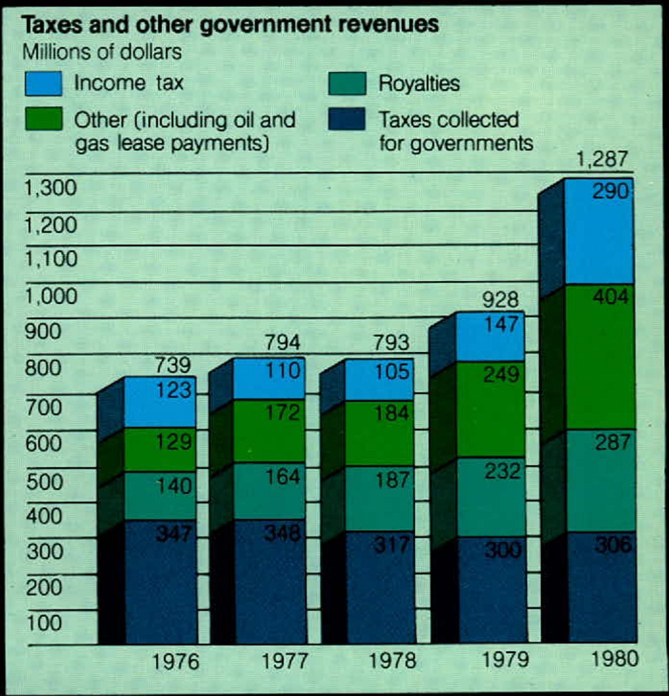
14. Shawinigan Chemicals, the other major partner forming Gulf Canada, had a history in inorganic and organic chemicals dating back to 1898.

Financial Review









Financial Review

Earnings

Earnings for the year were $380 million or $1.67 per share, compared to $288 million or $1.27 per share in 1979.

The 1980 earnings represent a 15.3 per cent return on average capital employed compared to 13.3 per cent in 1979.

Earnings from the natural resource segment fell slightly due primarily to higher exploration and dry hole expenditures which reflected the increased drilling activity this year, mainly in the frontier areas. Net production volumes of crude oil and natural gas liquids, including synthetic crude, declined three per cent to 15,358 cubic metres per day. Net natural gas volumes were down 19 per cent to 6,315 cubic metres per day mainly due to reduced Canadian and export sales. The lower production volumes together with cost increases more than offset improved earnings from the Syncrude project.

The major contribution to the higher earnings came from the refined products and chemical segments. Increased realizations due to firmer market conditions more than offset the impact of lower volumes. Petroleum products sold declined slightly to 42,701 cubic metres per day and chemical sales decreased eleven per cent to 1,246 tonnes per day.

Taxes other than taxes on income rose 72 per cent to $326 million, reflecting mainly the increases during 1980 in the Petroleum Compensation Charge which superseded the Syncrude levy. Income taxes almost doubled to $290 million as a result of higher taxable earnings, the five per cent federal surtax effective from January 1, 1980, and the expiration, on March 31, 1980, of the frontier exploration allowance. A summary of taxes and other government revenues are shown in a bar chart on page 33.

Overall revenue and cost trends are discussed in detail in the "Management discussion and analysis of financial conditions and results of operations," beginning on page 48.

Financial position

Funds from operations before exploration expenditures increased $212 million to $788 million, due mainly to higher earnings before non-cash items. Sales of properties and investments, together with deferred gas production revenue, were other sources of funds for the Corporation and totalled $91 million.

Capital and exploration spending increased 40 per cent or $162 million to $572 million. The major portion of these expenditures was incurred for land acquisitions and other projects related to the exploration and production of natural resources.

Dividends of $93 million and repayments of long-term debt of $18 million represented the other major outlays of funds.

Working capital requirements rose by $121 million as the higher crude oil and product costs were reflected in increased financing required for inventories and accounts receivable.

The net result of these changes was an increase in cash and marketable securities of $71 million.

Impact of inflation:

Gulf Canada's 1979 Annual Report provided information restated for changes in the purchasing power of the dollar. Presented below is another perspective of the impact of changing prices on earnings reflecting the increasing costs of replacement of inventories and property, plant and equipment, i.e., current costs.

In this context, Gulf Canada has estimated the approximate current cost of its property, plant and equipment by applying a variety of indices to the original cost of the assets. The Corporation has also approximated the impact of the increased cost to replace inventories at the date of sale.

The following table shows the approximate effects on reported 1980 after-tax earnings of $380 million if adjustments are made to reflect the impact of increasing costs on these items:

	Millions
Plant and Equipment	
Additional depreciation calculated on plant and equipment after restating their historical cost to current cost	$ 208
Inventories	
The additional cost of replacing goods sold	$ 130

The additional depreciation shown in the table above has been based on current cost methodology which assumes year-end replacement of all existing fixed assets with like configuration. More likely, replacement assets would incorporate improved technology and operating efficiencies, thereby reducing the impact shown above. On the other hand, the cost of replacing oil and gas reserves by exploration in frontier areas or development of unconventional reserves would likely be in excess of their indexed amounts. Partially offsetting the impact shown in the above table, is the effect of financing during a period of inflation.

Theoretically, the Corporation gains during inflation when it has debt outstanding, since only the face amount of the debt has to be repaid and then only in dollars having a reduced purchasing power from when the liability was originally incurred. This gain, as measured by applying the change in the consumer price index to net liabilities, is estimated at $70 million.

The Canadian Institute of Chartered Accountants is in the process of studying responses to its 1979 Exposure Draft on Current Cost Accounting which recommended that public companies present supplementary information on a current cost basis. Also being considered, are the findings of a CICA Task Force which dealt with the special problems arising in applying current cost concepts to oil and gas resources.

Summary of Accounting Policies

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

Principles of consolidation:

The accounts of the corporation and all subsidiary companies are included in the financial statements. Investments in joint venture companies, owned 50 per cent or less, are accounted for on the equity basis. The corporation's proportionate share of assets and liabilities relating to the Syncrude project are included along with its share of production and costs from March 1, 1979.

Inventories:

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

Oil and gas properties:

The corporation follows the successful efforts method of accounting. The initial acquisition costs of oil and gas properties together with the costs of drilling and equipping development and successful exploratory wells, other than wells in certain frontier areas, are capitalized.

Exploration expenditures, including geological and geophysical costs, annual rentals on exploratory acreage and exploratory dry hole costs are charged to expense. In certain frontier areas, conditions are such that the future production from any reserves discovered is not reasonably assured because of environmental, technological or other constraints. In these areas, all expenditures including the cost of discovery wells, are charged to expense.

Depreciation, depletion and amortization:

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

Capitalized costs of unproved oil and gas properties are amortized on a group basis at a rate determined after considering past experience, lease terms and other relevant factors. No charges are made against earnings for the capitalized costs of certain in situ oil sands and coal properties pending further evaluation and development.

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

Capital leases:

Leases which transfer substantially all the benefits and risks of ownership of the leased assets are capitalized. Capitalized leased assets are amortized against earnings based on their estimated useful lives. To December 31, 1980, such leases were not significant in relation to net assets and accordingly have not been shown separately on the statements of financial position.

Syncrude pre-production costs:

Prior to March 1, 1979, the corporation's share of all costs, net of revenues received, was capitalized and included with property, plant and equipment. Effective March 1, 1979, these capitalized pre-production costs are being amortized on a unit-of-production basis related to the corporation's share of the production and estimated recoverable reserves.

U.S. dollar liabilities:

Liabilities in U.S. dollars are translated to Canadian dollars at year-end rates of exchange. Gains or losses arising on translation of short-term liabilities are included in earnings. Unrealized gains or losses arising on translation of long-term liabilities are deferred and amortized over the remaining term of the liabilities.

Interest costs:

Interest costs are charged to income as incurred.

Research and development costs:

Research and development costs are charged to income as incurred.

Income taxes:

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

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

Pensions:

Pension benefit costs are determined annually by independent actuaries. The costs related to the current service of employees are charged to earnings. Costs resulting from amendments or upgrading of the plans, and which relate to service of employees in prior years, are amortized over the estimated remaining years of service of the employees involved.

Crude oil transactions:

In addition to its own net production, the corporation purchases crude oil from other producers and sells crude oil not required for its own refineries. These crude oil sales are reflected in the statement of earnings as a deduction from gross sales in determining net revenues. The amount shown in the statement of earnings for purchased crude oil is net of these crude oil sales. Sales of crude oil to the Alberta Petroleum Marketing Commission from April 1, 1980 are included in net sales and other operating revenues (see note 13).

Oil import compensation program:

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

The federal government similarily compensates purchasers of synthetic crude oil produced from tar sands plants.

Consolidated Statements of Earnings

Gulf Canada Limited
Three Years Ended December 31, 1980

EARNINGS	1980	1979	1978
		(millions of dollars)	
Revenues			
Gross sales and other operating revenues	**$5,888**	$5,384	$4,665
Deduct—			
Crude oil sales	**(1,552)**	(2,077)	(1,797)
Taxes collected for governments	**(306)**	(300)	(317)
Net sales and other operating revenues (note 13)	**4,030**	3,007	2,551
Investment and sundry income (note 14)	**100**	51	33
Net revenues	**4,130**	3,058	2,584
Expenses			
Purchased crude oil, products and merchandise net of crude oil sales (note 13)	**1,844**	1,406	1,328
Operating expenses	**446**	372	266
Exploration, dry hole and frontier area expenditures	**246**	166	115
Selling and administrative expenses	**431**	355	328
Taxes other than taxes on income (note 15)	**326**	190	140
Income taxes (note 16)	**290**	147	105
Depreciation, depletion and amortization	**141**	123	89
Interest on long-term debt	**26**	25	26
	3,750	2,784	2,397
Earnings for the year before Syncrude gain	**380**	274	187
Gain on sale of portion of Syncrude interest (note 17)		14	
Earnings for the year	**$ 380**	$ 288	$ 187
Earnings per share	**$1.67**	$1.27	$ .82

RETAINED EARNINGS	1980	1979	1978
Balance, beginning of the year	**$1,234**	$1,138	$1,003
Add earnings for the year	**380**	288	187
	1,614	1,426	1,190
Deduct— Dividends	**93**	68	52
— Excess of consideration applicable to shares received and cancelled over their average paid in value (note 11)		124	
Balance, end of the year	**$1,521**	$1,234	$1,138

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Financial Position

Gulf Canada Limited
December 31, 1980 and 1979

ASSETS	**1980**	1979
	(millions of dollars)	
Current		
Cash and term deposits	**$ 73**	$ 52
Marketable securities, at cost (approximates market value)	**298**	248
Accounts receivable (notes 2 and 7)	**730**	706
Inventories (note 3)	**661**	543
Materials, supplies and prepaid expenses	**64**	52
Total current assets	**1,826**	1,601
Investments, long-term receivables and other assets (note 4)	**107**	87
Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization (note 5)	**1,759**	1,607
	$3,692	$3,295

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term loans (note 6)	**$ 18**	$ 23
Accounts payable (note 7)	**538**	595
Income and other taxes payable	**227**	173
Dividends payable	**25**	18
Other current liabilities	**128**	94
Total current liabilities	**936**	903
Long-term debt (note 8)	**315**	333
Deferred gas production revenue (note 9)	**72**	37
Deferred income taxes	**443**	383
Shareholders' equity:		
Capital stock (note 10)	**405**	405
Retained earnings	**1,521**	1,234
Total shareholders' equity	**1,926**	1,639
	$3,692	$3,295

(See accompanying notes to consolidated financial statements)

On behalf of the Board:

J.L. Stoik, Director

Alfred Powis, Director

Consolidated Statements of Changes in Financial Position

Gulf Canada Limited
Three Years Ended December 31, 1980

SOURCE OF FUNDS		**1980**	1979	1978
		(millions of dollars)		
Earnings for the year		**$380**	$288	$187
Income charges (credits) not affecting funds—				
Depreciation, depletion and amortization		**141**	123	89
Deferred income taxes		**60**	28	71
Other		**(39)**	(29)	2
From operations		**542**	410	349
Add exploration expenditures		**246**	166	115
From operations before exploration expenditures		**788**	576	464
Sales of properties and investments		**26**	21	21
Sale of assets to Petromont consortium (note 14)	**$43**			
Less amount representing investment in the consortium	**(13)**	**30**		
Sale of portion of Syncrude interest			91	
Long-term debt			2	34
Deferred gas production revenue (note 9)		**35**	24	13
		879	714	532
USE OF FUNDS				
Additions to property, plant and equipment		**326**	244	370
Exploration expenditures		**246**	166	115
Total capital expenditures		**572**	410	485
Reduction in long-term debt		**18**	18	37
Dividends		**93**	68	52
Advance funding of pensions			10	
Other (net)		**4**	1	2
		687	507	576
Increase (decrease) in working capital		**$192**	$207	$(44)
WORKING CAPITAL CHANGES				
Cash and term deposits		**$ 21**	$ 33	$ (7)
Marketable securities		**50**	114	(14)
Accounts receivable and other		**24**	174	5
Inventories		**118**	150	(83)
Materials, supplies and prepaid expenses		**12**	13	9
Accounts payable and other		**21**	(171)	48
Income and other taxes payable		**(54)**	(106)	(2)
Increase (decrease) in working capital		**192**	207	(44)
Working capital, beginning of the year		**698**	491	535
Working capital, end of the year		**$890**	$698	$491

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

Gulf Canada Limited
December 31, 1980

1. Accounting policies
The more significant of the corporation's accounting policies are summarized on pages 35 and 36 of this report.

2. Accounts receivable	**1980**	1979
	(millions of dollars)	
Customers	**$591**	$580
Other receivables	**149**	135
	740	715
Less allowance for doubtful accounts	**10**	9
	$730	$706

3. Inventories	**1980**	1979
First-in, first-out	*(millions of dollars)*	
Crude oil and other source materials	**$216**	$159
Refined products and chemicals	**445**	384
	$661	$543

The inventory amounts included in purchased costs used in the computation of cost of sales were (in millions of dollars): December 31, 1980 – $661; 1979 – $543; 1978 – $393.

4. Investments, long-term receivables and other assets	**1980**	1979
Investments in associated and other companies	*(millions of dollars)*	
At cost:		
With quoted market value (based on closing prices at end of each year) 1980 – $38 million; 1979 – $43 million	**$ 3**	$ 3
At equity:		
Investment in joint venture companies, at cost plus equity in undistributed earnings	**34**	15
	37	18
Long-term receivables and other assets	**70**	69
	$107	$87

5. Property, plant and equipment

	Range of depreciation rates	**Gross investment at cost (1)**	**Accumulated depreciation, depletion and amortization**	**Net investment 1980**	Net investment 1979
Natural resources			*(millions of dollars)*		
Exploration and production	(2)	**$1,042**	**$ 436**	**$ 606**	$ 486
Syncrude project	(2)	**306**	**18**	**288**	287
In situ oil sands and coal	(3)	**113**	**13**	**100**	75
		1,461	**467**	**994**	848
Refined products					
Transportation	4%–10%	**57**	**29**	**28**	29
Refining	(4)	**756**	**367**	**389**	379
Marketing	2.5%–10%	**390**	**170**	**220**	207
		1,203	**566**	**637**	615
Chemicals	(4)	**55**	**36**	**19**	48
Other	2.5%–10%	**128**	**19**	**109**	96
		$2,847	**$1,088**	**$1,759**	$1,607

(1) Additions during the year have been reduced by investment tax credits of (millions of dollars): 1980 – $9; 1979 – $5; 1978 – $8.
(2) Unit of production.
(3) No charges are made against earnings for the acquisition costs of these properties pending further evaluation and development; cost of equipment used in research and testing activities on these properties is depreciated over the life of the related activities.
(4) Processing units on unit of production, other items from 2.5 per cent to 10 per cent.

6. Short-term loans

The weighted average interest rates of short-term loans at December 31, 1980, 1979 and 1978, respectively were 12.78 per cent, 11.97 per cent, and 8.45 per cent. Average aggregate short-term loans outstanding: 1980, $25 million; 1979, $18 million; and 1978, $28 million. The maximum aggregate amount outstanding at any month end during 1980 was $36 million; in 1979, $25 million; and in 1978, $35 million.

At December 31, 1980, the corporation had lines of credit available in the amount of $200 million. These lines have been renewed annually on May 31, and any borrowing under these lines of credit would bear interest at the prime rate.

7. Material transactions with related parties

Included in accounts receivable and accounts payable are amounts receivable from and owing to Gulf Oil Corporation and its subsidiaries, all of which arose in the normal course of business, of $16 million and $5 million, respectively, at December 31, 1980 ($7 million and $107 million, respectively, at December 31, 1979).

The more significant of the transactions the corporation has with Gulf Oil Corporation and its affiliates are for the purchase and sale of crude oil, refined products and petrochemicals; the receipt of technical and engineering services under research agreements; and hiring ocean tank vessels. The aggregate net amount paid or payable by the corporation in this connection, principally covering crude oil purchases was (millions of dollars): 1980 – $232; 1979 – $515; 1978 – $258. See also note 11 with respect to a transaction with a subsidiary of Gulf Oil Corporation.

8. Long-term debt	**1980**	1979
	(millions of dollars)	
5¾% Series B sinking fund debenture payable through 1982 to 1990	**$ 2**	$ 2
5¼% Series C sinking fund debenture payable through 1982 (1)	**4**	6
7⅜% Series E sinking fund debenture payable through 1988	**28**	30
8½% sinking fund debenture payable through 1989	**3**	3
8½% sinking fund debenture payable through 1990	**3**	3
8⅛% loan re Syncrude payable 1984 through 1994 (2)	**119**	119
8⅜% notes payable through 1997 (1)	**149**	146
Other long-term obligations payable on varying dates	**25**	39
	333	348
Less instalments due within one year included in current liabilities	**18**	15
	$315	$333

(1) These are payable in U.S. dollars. The amounts outstanding in U.S. dollars at December 31, 1980 are: 5¼% Series C debenture – $4 million, 8⅜% notes – $125 million (1979 – $5 million and $125 million, respectively).

(2) The 8⅛% loan from the Government of Alberta, which includes accrued interest of $19 million at December 31, 1980 and 1979, is evidenced by a debenture convertible by the holder into a portion of the corporation's equity interest in the Syncrude Project. (See note 12.) To the extent that the loan is converted, a proportionate amount of accrued interest will be forgiven.
In the event that the conversion option is not exercised, the loan plus accrued interest is repayable in ten equal annual instalments commencing March 1, 1985.

Approximate annual instalments of long-term debt due in the next five years are (millions of dollars): 1981 – $18; 1982 – $9; 1983 – $10; 1984 – $11; 1985 – $21.

9. Deferred gas production revenue

Deferred gas production revenue represents payments received under "take or pay" gas contracts. These amounts will be included in revenue when the gas to which the payments relate is delivered at the option of the purchaser. These amounts are shown as long-term since under current economic conditions the gas due under the take or pay contracts is not expected to be delivered within the next few years. Payments received in prior years and included in current liabilities in those years have been reclassified as long-term.

10. Capital stock

Shares without nominal or par value

Authorized:

Common – unlimited number without nominal or par value;

Preferred – unlimited number without nominal or par value. The preferred shares shall rank in priority to the common shares and may be issued from time to time in series with the designation, rights, restrictions, conditions and limitations of each series as may be fixed before their issuance by the directors.

Issued:

Common – the following is an analysis of the capital stock account for the years ended December 31, 1980 and 1979.

	Shares*	Millions of dollars
December 31, 1977 and 1978	227,487,030	$281
Add issued in respect of investment in Amalgamated Bonanza (note 11)	8,238,190	139
Less received and cancelled in respect of sale of investment in Amalgamated Bonanza (note 11)	(8,238,190)	(15)
December 31, 1979 and 1980	227,487,030	$405

*Adjusted to reflect the five-for-one split effective May 6, 1980.

11. Amalgamated Bonanza

In 1979 the corporation entered into an agreement to acquire for sale to Transocean Gulf Oil Company (Transocean), a subsidiary of Gulf Oil Corporation, all the outstanding shares of Amalgamated Bonanza Petroleum Ltd. ("Amalgamated Bonanza"). The transaction resulted in the corporation issuing common shares and paying cash for the purchase of Amalgamated Bonanza and subsequently receiving from Transocean an equal number of common shares and an equal amount of cash for the sale of Amalgamated Bonanza. The common shares received were cancelled. The total consideration in respect of the shares received and cancelled amounted to $139 million; of this amount, $15 million represented the average paid-in value of the common shares and was deducted from capital stock; the balance of $124 million was deducted from retained earnings. Transocean also paid the corporation an amount of $5 million when the transaction was closed and this is included in 1980 earnings.

12. Syncrude

The corporation is a 13.4 per cent participant in the Syncrude project constructed and operated by Syncrude Canada Ltd. to produce synthetic crude oil from oil sands in the Athabasca region of Alberta.

Part of the corporation's interest in the project was financed through a $100 million convertible loan from the Government of Alberta. For a period of five years from March 1, 1979 the Government of Alberta can convert all or part of the principal amount into an equity interest in the project based on the relationship of the amount converted to the total project costs. Should this option be exercised to the maximum extent, Gulf Canada's interest would be reduced to nine per cent.

13. Crude oil sales and purchases

Effective April 1, 1980, all of Gulf Canada's production from crown leases in Alberta has been recorded as a sale to the Alberta Petroleum Marketing Commission following the Commission's decision to utilize its legislative mandate and assume control of the distribution of all crude oil produced in the province from crown lands. Concurrently, the calculation for the elimination of inter-company profit on the company's own crude oil production in inventory was revised to take into account the changed patterns of crude oil trading and to eliminate only the profit on production from its freehold lands. These changes, which have no material effect on earnings, have resulted in an increase in "Net sales and other operating revenues" of approximately $168 million for the year ended December 31, 1980, with a corresponding increase in "Purchased crude oil" to reflect purchases from the Commission.

14. Sale of certain petrochemical assets

On September 30, 1980, the corporation entered into agreements with Union Carbide Canada Limited and the Government of Quebec to form a major petrochemical consortium in the Montreal area, with operations commencing on October 1, 1980. This project involved the transfer by the corporation of certain assets for cash and a 49 per cent participation in the project which, under the agreements, will be reduced to 33.33 per cent by October, 1982. The transfer of assets resulted in the recognition of a gain in 1980 of $17 million before income taxes ($11 million after tax). The pre-tax gain is included in investment and sundry income.

15. Taxes other than taxes on income	**1980**	1979	1978
		(millions of dollars)	
Production, transportation and usage taxes	**$121**	$ 97	$ 97
Petroleum Administration Act Levy	**155**	52	5
Property and other taxes	**50**	41	38
	$326	$190	$140

16. Income tax

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

	1980		1979		1978	
			(millions of dollars)			
	Amount	**%**	Amount	%	Amount	%
Provision for income taxes at statutory rates	**$334**	**50%**	$202	48%	$141	48%
Add (deduct) the tax effect of—						
Inclusion in taxable income of crown royalties and other provincial payments	**142**	**21**	113	27	99	34
Resource allowance to partially offset inclusion of crown royalties	**(118)**	**(18)**	(90)	(22)	(74)	(25)
Depletion allowance earned by exploration and development expenditures	**(38)**	**(6)**	(42)	(10)	(37)	(13)
Frontier exploration allowance earned by frontier drilling expenditures (expired on March 31, 1980)	**(7)**	**(1)**	(22)	(5)	(11)	(4)
Inventory allowance to partially offset the effect of inflation	**(8)**	**(1)**	(6)	(1)	(7)	(2)
Manufacturing and processing incentive	**(8)**	**(1)**	(3)	(1)	—	—
Other	**(7)**	**(1)**	(5)	(1)	(6)	(2)
Provision for income taxes reflected in the statement of earnings	**$290**	**43%**	$147	35%	$105	36%

Income taxes include deferred income taxes of $60 million in 1980, $28 million in 1979 and $71 million in 1978. These deferred income taxes are related primarily to the excess of capital cost allowances claimed for tax purposes over depreciation recorded in the accounts.

17. Gain on sale of portion of Syncrude interest

In 1979, the Alberta Energy Company Ltd. exercised its option to acquire 20 per cent of the interest of all the participants in the Syncrude project. This disposition by the corporation of a 3.35 per cent interest in the Syncrude project resulted in a gain of $14 million after the deduction of income taxes of $5 million.

18. Pension plans

The corporation has pension plans covering substantially all employees. The contributions by employees, together with those made by the corporation, are deposited with insurance companies and/or trustees according to the terms of the plan. Pensions at retirement are related to remuneration and years of service.

The amounts charged to earnings (including amounts paid to government pension plans and the amortization of prior service costs) were (millions of dollars): 1980 – $36; 1979 – $28; 1978 – $20.

As of December 31, 1980, the actuarial present values of accumulated plan benefits using an actuarial rate of return of 5¼ per cent, were (millions of dollars):

Vested	$291
Non-vested	18
Total unamortized	$309

As of December 31, 1980, the plan's net assets, valued at cost, available for benefits amounted to $228 million (at market – $250 million).

The unamortized prior service costs at December 31, 1980 were approximately $90 million which consisted of (millions of dollars):

Amounts not yet funded	$ 81
Amount funded and deferred in the accounts	9
Total	$ 90

The plans were further amended on January 1, 1981, primarily to provide for retirement benefits based on a final earnings formula. The amendments increased the actuarial present value of accumulated plan benefits (and the unfunded and unamortized prior service costs) by $123 million which will be funded and amortized over 15 years.

The unamortized costs of $213 million will be charged to earnings over periods up to 15 years. The unfunded amount of $204 million, of which approximately $69 million represents the excess of the actuarially computed value of vested benefits over the assets of the plans, will be funded over periods up to 15 years.

19. Supplementary information to the consolidated statement of earnings	**1980**	1979	1978
	(millions of dollars)		
Research and development	**$ 45**	$ 31	$ 30
Maintenance and repairs	**136**	106	82
Operating lease rentals	**62**	54	49
Interest on short-term loans	**3**	2	2

20. Commitments and contingent liabilities

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

21. Segment data

Business segment data for the corporation are shown in the following table. This information by segment is shown as though each segment were a separate business activity. Therefore, intersegment transfers of products are eliminated to reflect total corporation net revenues as reported in the consolidated statements of earnings.

The natural resources segment includes exploration, development and production activities related to crude oil, natural gas, natural gas liquids, oil sands and minerals. The refined products segment includes the manufacture, distribution and sale of petroleum products, as well as the business of Superior Propane Limited, a wholly-owned subsidiary. The chemicals segment includes the manufacture, distribution and sale of chemical products, as well as the corporation's share of the earnings from the Petromont consortium.

General administration and other common costs have been allocated to each of the segments on an appropriate and consistent basis and income taxes have been calculated in accordance with the legislation applicable to each segment. Interest on long-term liabilities has not been allocated to the business segments and is shown separately net of tax.

Revenues	**1980**	1979	1978
Natural resources		*(millions of dollars)*	
Outside the enterprise	**$ 560**	$ 305	$ 250
Intersegment revenues	**512**	551	369
Total natural resources	**1,072**	856	619
Refined products			
Outside the enterprise	**3,184**	2,433	2,111
Intersegment revenues	**136**	140	115
Total refined products	**3,320**	2,573	2,226
Chemicals			
Outside the enterprise	**275**	225	156
Intersegment revenues	**24**	29	22
Total chemicals	**299**	254	178
Corporate and other			
Outside the enterprise	**111**	95	67
Elimination of intersegment revenues	**(672)**	(720)	(506)
Total segment revenues	**$4,130**	$3,058	$2,584

Earnings	**1980**	1979	1978
Natural resources		*(millions of dollars)*	
Operating profits	**$344**	$313	$263
General corporate expenses	**(11)**	(8)	(5)
Income taxes	**(141)**	(104)	(103)
Net segment earnings—natural resources	**192**	201	155
Refined products			
Operating profits	**297**	115	67
General corporate expenses	**(48)**	(35)	(32)
Income taxes	**(113)**	(30)	(11)
Net segment earnings—refined products	**136**	50	24
Chemicals			
Operating profits	**67**	44	13
Gain on sale of chemical assets	**17**	—	—
General corporate expenses	**(6)**	(4)	(4)
Income taxes	**(35)**	(18)	(3)
Net segment earnings—chemicals	**43**	22	6
Corporate and other			
Operating profits	**39**	32	18
Income taxes	**(14)**	(10)	(1)
Net segment earnings—corporate and other	**25**	22	17
Eliminations			
Operating profits	**(3)**	(11)	(2)
Income taxes	**1**	4	—
Net eliminations	**(2)**	(7)	(2)
Net segment earnings	**394**	288	200
Gain on sale of portion of Syncrude interest (after tax)	**—**	14	—
Interest on long-term debt after tax	**(14)**	(14)	(13)
Net earnings for the year	**$380**	$288	$187

Asset Data	**1980**	1979	1978
Assets employed at December 31	*(millions of dollars)*		
Identifiable assets			
Natural resources	**$1,158**	$ 991	$ 944
Refined products	**1,925**	1,759	1,480
Chemicals	**80**	102	125
Eliminations	**(41)**	(37)	(27)
Total identifiable assets	**3,122**	2,815	2,522
Corporate assets	**570**	480	239
Total assets	**$3,692**	$3,295	$2,761
Capital and exploration expenditures			
Additions to property, plant and equipment			
Natural resources	**$ 214**	$ 128	$ 235
Refined products	**89**	43	105
Chemicals	**5**	4	19
Corporate and other	**18**	69	11
Total	**326**	244	370
Exploration expenditures	**246**	166	115
Total capital and exploration expenditures	**$ 572**	$ 410	$ 485
Depreciation, depletion and amortization			
Natural resources	**$ 66**	$ 52	$ 33
Refined products	**63**	58	48
Chemicals	**8**	10	6
Corporate and other	**4**	3	2
Total depreciation, depletion and amortization	**$ 141**	$ 123	$ 89

Auditors' Report

To the Shareholders of
Gulf Canada Limited:

We have examined the consolidated statements of financial position of Gulf Canada Limited as at December 31, 1980 and 1979 and the consolidated statements of earnings and changes in financial position for the three years ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1980 and 1979 and the results of its operations and the changes in its financial position for the three years ended December 31, 1980 in accordance with generally accepted accounting principles consistently applied.

Toronto, Canada,

February 10, 1981

Clarkson Gordon
Chartered Accountants

Quarterly Summary 1980

	1	2	3	4	Year
FINANCIAL (1)	*(millions of dollars)*				
Net revenue	909	957	1,054	1,210	4,130
Earnings before income tax	152	165	176	177	670
Net earnings	91	95	100	94	380
Per common share *(dollars per share)*	0.40	0.42	0.44	0.41	1.67
OPERATING	*(thousands of cubic metres per day)*				
Gross crude oil and natural gas liquids produced	22.8	20.4	19.1	20.2	20.6
Gross synthetic crude oil produced	0.6	2.3	2.2	1.9	1.7
Gross natural gas produced and sold *(millions)*	11.2	8.6	6.6	9.5	8.9
Crude oil processed	49.2	46.0	44.2	44.8	46.1
Petroleum products sold	44.0	38.2	41.1	47.6	42.7
Chemical products sold *(millions of kilograms)*	1.4	1.4	1.5	0.6(4)	1.3
SHAREHOLDERS' STATISTICS (2)	*(dollars per share)*				
Equity per share—book value	7.53	7.83	8.16	8.47	8.47
Market value per share:					
Toronto Stock Exchange					
—High	38⅝	35	36⅛	33¾	38⅝
—Low	20⅛	25½	26½	19⅞	19⅞
—Close	25⅞	33	28⅛	23⅜	23⅜
Dividends declared	0.08	0.11	0.11	0.11	0.41
Cash flow per share	0.59	0.64	0.55	0.60	2.38
Price/earnings ratio at quarter-end (5)	16	20	16	14	14
Shareholders at quarter-end *(thousands)*	21.8	30.5	35.0	39.9	39.9
Shares traded *(millions)*	66.0	40.0	33.4	48.7	188.1

Quarterly Summary 1979

	1	2	3	4	Year
FINANCIAL (1)	*(millions of dollars)*				
Net revenue	705	675	783	895	3,058
Earnings before income tax	84	83	144	129	440
Net earnings	53	54	99(3)	82	288
Per common share *(dollars per share)*	0.23	0.24	0.44(3)	0.36	1.27
OPERATING	*(thousands of cubic metres per day)*				
Gross crude oil and natural gas liquids produced	20.3	22.5	21.1	22.1	21.5
Gross synthetic crude oil produced	1.0	1.0	1.3	1.0	1.1
Gross natural gas produced and sold *(millions)*	11.9	10.9	9.9	11.2	11.0
Crude oil processed	48.5	49.8	49.8	54.4	50.6
Petroleum products sold	44.9	38.4	43.0	45.3	42.9
Chemical products sold *(millions of kilograms)*	1.4	1.2	1.5	1.5	1.4
SHAREHOLDERS' STATISTICS (2)	*(dollars per share)*				
Equity per share—book value	6.40	6.57	6.92	7.20	7.20
Market value per share:					
Toronto Stock Exchange					
—High	10	12¾	21⅛	25	25
—Low	7⅛	9	10⅝	16⅜	7⅛
—Close	9½	11½	19¾	22⅜	22⅜
Dividends declared	0.07	0.07	0.08	0.08	0.30
Cash flow per share	0.43	0.41	0.49	0.47	1.80
Price/earnings ratio at quarter-end (5)	10	12	16	18	18
Shareholders at quarter-end *(thousands)*	19.7	20.3	19.6	18.9	18.9
Shares traded *(millions)*	6.9	12.0	51.0	53.5	123.4

(1) Quarterly information is unaudited.
(2) Restated to reflect the 5-for-1 split of common shares effective May, 1980.
(3) Includes gain on sale of Syncrude interest of $14 million or $.06 per share.
(4) Reflects sale of the Varennes plant to the Petromont consortium.
(5) Closing share price divided by annualized earnings.

Management Discussion and Analysis

Management discussion and analysis of financial conditions and results of operations.

Revenue Trends

	1980	1979	1978	**1980/79**	1979/78
	(millions of dollars)			*(per cent increase)*	
Natural resources –					
Natural gas	**$ 304**	$ 264	$ 220	**15**	20
Crude oil and natural gas liquids	**443**	185	152	**139**	22
Refined products –					
Gasoline	**1,227**	972	825	**26**	18
Middle distillates	**841**	657	570	**28**	15
Other	**636**	483	429	**32**	13
Chemicals	**269**	230	160	**17**	44
Other operating revenue	**310**	216	195	**44**	11
Total operating revenue	**$4,030**	$3,007	$2,551	**34**	18

This table shows the trends in revenues for the years 1978 through 1980 and the year-to-year increases.

Natural gas revenues have risen mainly as a result of price increases. Sales volumes increased marginally in 1979 but showed a sharp decline of 19 per cent in 1980 due to price resistance in export markets and oversupply conditions. Approximately 20 per cent of Gulf Canada's natural gas production capacity is shut in.

Crude oil and natural gas liquid sales in 1980 include $168 million relating to crude oil sold to the Alberta Petroleum Marketing Commission (APMC) following the Commission's decision, effective April 1, 1980, to control all crude oil production from Crown Lands in Alberta. (See note 13 in "Notes to consolidated financial statements"). The remaining 1980 revenue increase over 1978 reflects higher natural gas liquids selling prices.

Revenue from refined products rose over the period 1978-80, mainly due to price firming across Canada. Improved market conditions are the result of a shift from oversupply conditions in 1978 to tight supply beginning in late 1979. Volumes in total have remained stable.

Chemical revenues also rose during the period 1978-80, reflecting higher prices in response to tight olefin markets and increasing crude oil feedstock costs. Only in the last quarter of 1980 did chemical revenues decline, reflecting a change to equity basis accounting following the sale of the Varennes plant to the Petromont consortium in exchange for a 49 per cent equity interest. Since the sale, the Corporation has accounted for its share of the earnings of the consortium in investment and sundry income. By October, 1982, the Corporation's investment in the consortium will be reduced to 33.3 per cent.

Other operating revenue increased in 1980 due mainly to the higher compensation received from the federal government to reflect world crude oil prices for production from the Syncrude project.

Cost/Revenue Relationships

	1980	1979	1978	**1980/79**	1979/78
	(per cent of net revenues)			*(per cent increase)*	
Purchased crude oil, products and merchandise net of crude oil sales	**46**	47	52	**31**	6
Operating, depreciation, depletion and amortization costs	**15**	17	14	**19**	39
Exploration, dry hole and frontier area expenditures	**6**	5	5	**48**	44
Selling and administrative expenses	**11**	12	14	**21**	8
Taxes other than taxes on income	**8**	6	5	**72**	36
Income from operations	**14**	13	10	**54**	43
Investment and other income	**2**	2	1	**54**	97
Income before taxes	**16**	15	11	**54**	49
Income taxes	**7**	5	4	**97**	40
Earnings for the year	**9**	10	7	**32**	54

This table shows cost trends as a percentage of net revenues for the years 1978 through 1980 and the year-to-year percentage changes in costs.

Purchased crude oil, products and merchandise net of crude oil sales have declined as a percentage of net revenue, reflecting the increased production of crude oil from Gulf Canada's reserves since 1978. At the same time, total purchase costs rose, mainly due to increases in crude oil prices and the recording of purchases from the APMC for the first time in 1980.

Operating expenses and depreciation, depletion and amortization costs remained relatively unchanged as a percentage of net revenue. In total, these costs increased year over year due to rising production levels in 1979 and 1980, additional capital investment during the period, and inflation. The 1979 high of 17 per cent reflected the Syncrude project and Clarkson lube plant both of which began production during 1979, and which were affected by start-up problems.

Exploration, dry hole and frontier costs remained relatively stable as a percentage of net revenue. However, the level of such costs escalated significantly each year, reflecting both increased activity and the higher cost of drilling, particularly in the Beaufort Sea and east coast offshore areas.

Selling and administrative expenses declined as a percentage of net revenue but increased significantly in 1980 in absolute terms due primarily to higher distribution costs.

Taxes, other than taxes on income, have been increasing as a percentage of net revenue reflecting mainly the significant increases in the Petroleum Compensation Charge (previously known as the Syncrude levy) and higher federal sales tax.

In summary, during the period 1978 through 1980, higher prices, firmer markets and greater crude production outpaced rising costs of operations, and resulted in income from operations increasing as a percentage of net revenue. Other income has more than doubled in the period, reflecting the increased earnings from equity and associated companies, higher interest income from short-term investments, and the gain on the sale of the Varennes plant in 1980.

Income taxes have almost doubled as a percentage of net revenues in the period, and more than doubled in absolute terms as a result of increased taxable income, a five per cent federal surtax in 1980, higher royalties which are not allowable for federal tax purposes, and the expiration of super depletion allowance from March 31, 1980.

Liquidity and Capital Commitments

Internal cash flow covered all capital requirements in 1979 and 1980. In 1980 working capital increased by $192 million to $890 million, and long-term debt declined by $18 million. Cash and marketable securities total $371 million at the end of 1980. In addition, the Corporation maintains lines of credit totalling $200 million. These credit lines have been renewed annually on May 31 and any related borrowings would bear interest at the prime rate. Interest coverage was 27 times earnings at the end of 1980. Long-term debt was 14 per cent of total capitalization at December 31, 1980.

The federal government introduced a national energy program for Canada on October 28, 1980. If implemented, the impact of this policy on foreign-owned corporations such as Gulf Canada will be significant as the provisions include an eight per cent tax on all oil and gas net production revenues and relate exploration incentives to the percentage of Canadian ownership of a particular corporation. The impact of the energy policy falls almost entirely on Gulf Canada's natural resource segment and is expected to reduce internal cash flow by approximately 30 per cent over the next five years from previously anticipated levels. More than half the decline will result from the eight-per-cent tax on production revenues, and approximately one-third from the phasing-out by 1983 of the earned depletion allowance. If the eight-per-cent tax had been in effect during 1980, the negative impact on earnings would have been $77 million.

Gulf Canada anticipates capital and exploration expenditures will approach $900 million in 1981, an increase of $328 million or 57 per cent over 1980. Of this, approximately two-thirds is planned for the natural resources segment and the remainder in the refined product and chemicals segments. This represents a change from 1980 when 80 per cent of the capital expenditures were for the resources segment. The shift is mainly due to a reduction from previously-planned resource spending in response to the National Energy Program. It is anticipated that internal cash flows, together with funds available at the end of 1980, will be sufficient to cover 1981 expenditures. In October, 1980, the Corporation filed preliminary prospectuses with regulatory authorities in Canada and the United States relating to proposed issues of long-term debentures in one or both jurisdictions depending on market conditions. The Corporation will proceed with external financing in 1981 only if capital markets improve.

Five Year Financial Summary

STATEMENT OF EARNINGS	1980	1979	1978	1977	1976
REVENUES			(millions of dollars)		
Natural gas	**$ 304**	$ 264	$ 220	$ 207	$ 173
Crude oil and natural gas liquids	**443**	185	152	146	144
Refined products					
– gasoline	**1,227**	972	825	721	589
– middle distillates	**841**	657	570	519	417
– other	**636**	483	429	411	311
Chemicals	**269**	230	160	137	126
Other operating revenue	**310**	216	195	181	164
Net sales and other operating revenues	**4,030**	3,007	2,551	2,322	1,924
Investment and sundry income	**100**	51	33	35	30
Net revenues	**4,130**	3,058	2,584	2,357	1,954
EXPENSES					
Purchased crude oil, products and merchandise net of crude oil sales	**1,844**	1,406	1,328	1,196	933
Operating expenses	**446**	372	266	228	201
Exploration, dry hole and frontier area expenditures	**246**	166	115	111	62
Selling and administrative expenses	**431**	355	328	300	276
Taxes other than taxes on income	**326**	190	140	125	111
Income taxes	**290**	147	105	110	123
Depreciation, depletion and amortization	**141**	123	89	82	73
Interest on long-term debt	**26**	25	26	21	8
	3,750	2,784	2,397	2,173	1,787
Earnings for the year before Syncrude gain	**380**	274	187	184	167
Gain on sale of portion of Syncrude interest	**—**	14*	—	—	—
Earnings for the year	**$ 380**	$ 288	$ 187	$ 184	$ 167
PER SHARE**					
Earnings	**$ 1.67**	$ 1.27	$ 0.82	$ 0.81	$ 0.73
Dividends declared	**$ 0.41**	$ 0.30	$ 0.23	$ 0.22	$ 0.20

*After deduction of $5 million income taxes.

**Years 1976–1979 have been restated for five-for-one split of common stock effective May, 1980.

STATEMENT OF FINANCIAL POSITION	1980	1979	1978	1977	1976
			(millions of dollars)		
Current assets	**$1,826**	$1,601	$1,117	$1,207	$ 980
Current liabilities	**936**	903	626	672	508
Working capital	**890**	698	491	535	472
Investments and other assets	**107**	87	81	70	56
Net property, plant and equipment	**1,759**	1,607	1,567	1,296	1,009
Capital employed	**2,756**	2,392	2,139	1,901	1,537
Long-term debt	**315**	333	350	333	167
Deferred gas production revenue	**72**	37	13	—	—
Deferred income taxes	**443**	383	357	284	221
Shareholders' equity (net assets)	**$1,926**	$1,639	$1,419	$1,284	$1,149
Total assets	**$3,692**	$3,295	$2,765	$2,573	$2,045

STATEMENT OF CHANGES IN FINANCIAL POSITION	1980	1979	1978	1977	1976
			(millions of dollars)		
SOURCES OF FUNDS					
From operations	**$ 542**	$ 410	$ 349	$ 332	$ 278
Exploration expenditures	**246**	166	115	111	62
Funds from operations before exploration expenditures	**788**	576	464	443	340
Sales of properties and investments	**56**	21	21	17	11
Sale of portion of Syncrude	**—**	91	—	—	—
Deferred gas production revenue	**35**	24	13	—	—
Long-term debt	**—**	2	34	180	66
Total sources of funds	**879**	714	532	640	417
USES OF FUNDS					
Capital and exploration expenditures	**572**	410	485	494	323
Reduction of long-term debt	**18**	18	37	31	17
Dividends	**93**	68	52	49	46
Advance funding of pensions	**—**	10	—	—	—
Other—net	**4**	1	2	3	(2)
Total uses of funds	**687**	507	576	577	384
Increase (decrease) in working capital	**$ 192**	$ 207	$ (44)	$ 63	$ 33

Financial Ratios

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Return on capital employed (1)	**15.3%**	13.3%	9.9%	11.4%	11.9%	14.5%	14.7%	10.1%	7.1%	4.8%
Return on shareholders' equity (2)	**21.3%**	18.8%	13.8%	15.1%	15.3%	18.3%	19.3%	13.1%	8.9%	5.8%
Current ratio (3)	**2.0**	1.8	1.8	1.8	1.9	2.1	1.8	2.4	2.6	2.1
Long-term debt to total capitalization (4)	**14%**	17%	20%	18%	13%	10%	10%	19%	21%	22%
Earnings coverage of interest (5)	**27x**	18x	12x	15x	37x	36x	25x	12x	7x	6x
Reinvestment ratio (6)	**89%**	78%	99%	119%	91%	115%	62%	29%	62%	88%

Definitions

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

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

(3) Current ratio: Ratio of total current assets to total current liabilities.

(4) Long-term debt to total capitalization: Long-term debt as a percentage of total assets less current liabilities.

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

(6) Reinvestment ratio: The total of capital and exploration expenditures and the increase or decrease in non-cash working capital as a per cent of the total of net earnings, exploration expenditures, depreciation and depletion allowances and deferred taxes.

Five Year Operations Review

	1980	1979	1978	1977	1976
Crude Oil and Natural Gas Liquids (1)			*(thousands of cubic metres)*		
Gross production – year	**7,552**	7,858	6,492	6,682	6,886
– per day	**20.6**	21.5	17.8	18.3	18.8
Net production – year	**5,061**	5,379	4,334	4,426	4,697
– per day	**13.8**	14.8	11.9	12.1	12.9
Net reserves	**35,600**	38,600	40,700	47,100	50,200
Natural Gas			*(millions of cubic metres)*		
Gross production – year	**3,275**	3,996	3,839	4,283	4,538
– per day	**8.9**	11.0	10.5	11.7	12.4
Net production – year	**2,307**	2,854	2,781	3,103	3,327
– per day	**6.3**	7.8	7.6	8.5	9.1
Sales – year	**3,418**	4,116	3,965	4,433	4,962
– per day	**9.3**	11.3	10.9	12.1	12.9
Net reserves	**50,400**	51,900	60,600	59,200	56,300

Wells Completed	**1980**		1979		1978		1977		1976	
Exploratory	**Gross**	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
– Oil	**79**	**41**	17	9	4	2	1	1	3	2
– Gas	**48**	**27**	24	13	14	7	19	12	17	10
– Dry	**103**	**55**	85	42	41	21	30	20	20	8
Development										
– Oil	**96**	**36**	43	11	41	17	38	22	14	10
– Gas	**14**	**1**	25	7	54	25	67	41	53	19
– Dry	**14**	**7**	3	1	21	17	18	12	17	10
Total	**354**	**167**	197	83	175	89	173	108	124	59
Wells (bore holes) capable of producing at year-end	**6,649**	**1,631**	6,646	1,578	6,588	1,546	6,546	1,499	6,407	1,437
Land Position					*(millions of hectares)*					
Crown Reservations and Permits										
Non-producing	**31.9**	**9.1**	34.0	10.4	39.6	9.4	42.7	8.5	33.9	8.8
Leases										
Non-producing	**2.6**	**1.7**	2.1	1.2	1.8	1.1	2.4	1.2	1.8	1.1
Producing	**0.9**	**0.4**	0.9	0.4	0.8	0.5	0.8	0.4	0.7	0.4
Total	**35.4**	**11.2**	37.0	12.0	42.2	11.0	45.9	10.1	36.4	10.3

	1980	1979	1978	1977	1976
Crude Oil Processed			*(thousands of cubic metres per day)*		
Point Tupper, Nova Scotia	**2.9** (2)	9.0	7.5	10.5	7.3
Montreal, Quebec	**10.3**	9.7	10.3	11.5	10.2
Clarkson, Ontario	**10.8**	9.3	10.0	11.1	9.7
Moose Jaw, Saskatchewan	**0.5**	1.2	0.6	1.0	1.0
Calgary, Alberta	**0.9**	1.4	1.2	1.2	1.1
Edmonton, Alberta	**12.5**	12.3	11.7	12.1	10.3
Kamloops, British Columbia	**1.5**	1.4	1.4	1.4	1.3
Port Moody, British Columbia	**6.1**	6.1	5.2	5.1	5.8
Processed by others for Gulf Canada	**0.6**	0.2	–	–	0.2
Total	**46.1**	50.6	47.9	53.9	46.9
Per cent of daily capacity utilized	**88%**	82%	78%	89%	78%
Refined Product Sales			*(thousands of cubic metres per day)*		
Motor gasolines	**15.7**	15.6	15.3	15.4	14.5
Middle distillates	**12.2**	12.4	11.9	12.5	11.6
Other	**14.8** (3)	14.9	15.6	17.5	15.6
Total	**42.7**	42.9	42.8	45.4	41.7
			(millions of kilograms per day)		
Chemicals	**1.3** (3)	1.4	1.3	1.2	1.1
Service Stations at Year-end	**2,716**	2,932	3,178	3,759	3,884
Employees at Year-end	**10,914**	10,400	10,604	11,149	11,088
Total Wages and Salaries *(millions)*	**$275**	$240	$222	$207	$187

(1) Excludes synthetic crude production and reserves.

(2) Refinery shut down in July, 1980 and mothballed.

(3) Includes sale of feedstocks to Varennes plant sold to Petromont after October 1, 1980; chemical sales after that date exclude ethylene sales from the Varennes plant.

Directors

Seated, left: Alfred Powis, J.L. Stoik, J.C. Phillips, Kathleen M. Richardson, Gérard Plourde. Standing, left: W.M. Winterton, secretary; L.P. Blaser, J.D. Allan, C.D. Shepard, R.G. Rogers, E.F. Crease, E.H. Crawford, D.S.R. Leighton, J.E. Lee, W.H. Young

J.D. Allan
President, Stelco Inc., Toronto, Ontario. Director: CIL Inc., The Royal Trust Company; Royal Trustco Limited; Rockwell International of Canada, Ltd.

L.P. Blaser
President, Gulf Canada Products Company, Toronto, Ontario (Retired, February 28, 1981). Director: Interprovincial Pipe Line Ltd.; Trans Mountain Pipe Line Company Ltd.; Alberta Products Pipe Line Ltd.

E.H. Crawford
President, The Canada Life Assurance Company, Toronto, Ontario. Director: Canadian Imperial Bank of Commerce; Canadian Enterprise Development Corporation Limited; Interprovincial Pipe Line Ltd.; Lakehead Pipe Line Company, Inc.; Moore Corporation Limited.

E.F. Crease
Chairman of the board, Alfred J. Bell & Grant Limited, Halifax, Nova Scotia. Director: Canada Permanent Mortgage Corporation; Canada Permanent Trust Company.

J.E. Lee
President, Gulf Oil Corporation, Pittsburgh, Pennsylvania. Director: Joy Manufacturing Company; Pittsburgh International Finance Corporation; Pittsburgh National Corporation.

D.S.R. Leighton
Director, Banff Centre, Banff, Alberta. Director: Standard Brands Limited; John Wiley and Sons Limited; Canadian Appliance Manufacturing Co. Ltd.; G.S.W. Inc.; Rio Algom Limited; Lornex Mines, Inc.; Scott's Hospitality, Inc.

J.C. Phillips, Q.C.
Chairman of the board, Gulf Canada Limited, Toronto, Ontario. Director: Bank of Nova Scotia; Canada Life Assurance Company.

Gérard Plourde
Chairman of the board, UAP Inc., Montreal, Quebec. Director: Alliance Compagnie; Bell Canada; The Molson Companies Limited; Northern Telecom Ltd.; Rolland Paper Company Limited; Steinberg's Limited; The Toronto-Dominion Bank.

Alfred Powis
Chairman of the board and president, Noranda Mines Limited, Toronto, Ontario. Director: British Columbia Forest Products Limited; Brunswick Smelting and Mining Corporation Limited; Canadian Imperial Bank of Commerce; Brenda Mines Limited; Placer Development Limited; Simpsons-Sears Limited; Sun Life Assurance Company of Canada; Kerr Addison Mines Limited.

Kathleen M. Richardson
Director, James Richardson & Sons, Limited, Winnipeg, Manitoba. Director: Sun Life Assurance Company of Canada.

R.G. Rogers
Chairman of the board, Crown Zellerbach Canada Limited, Vancouver, British Columbia. Director: Canadian Imperial Bank of Commerce; Genstar Limited; Hilton Canada Limited; Rockwell International of Canada, Ltd.

C.D. Shepard
Ottawa, Ontario.

J.L. Stoik
President and chief executive officer, Gulf Canada Limited, Toronto, Ontario. Director: The Toronto-Dominion Bank.

W.H. Young
President, The Hamilton Group Limited, Burlington, Ontario. Director: Stelco Inc.; Harding Carpets Limited; Gore Mutual Insurance Company; National Trust Company Limited; Drummond, McCall & Co. Ltd.

Beverley Matthews, Q.C.
Director Emeritus, Toronto, Ontario.

Officers
Gulf Canada Limited

Left: W.M. Winterton, J.L. Stoik, J.C. Phillips, C.G. Walker, R.E. Harris, R.C. Beal, L.G. Dodd, E.E. Walker, W.H. Burkhiser.

J.L. Stoik,
President and chief executive officer.

J.C. Phillips, Q.C.,
Chairman of the board.

R.C. Beal,
Vice-president, responsible for New Business Development and Research.

W.H. Burkhiser,
Vice-president and treasurer.

L.G. Dodd,
Vice-president and controller.

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

C.G. Walker,
Vice-president, responsible for Public Affairs.

E.E. Walker,
Vice-president, responsible for Corporate Planning.

W.M. Winterton,
Vice-president, general counsel and secretary.

Officers
Gulf Canada Products Company

Left: K.C. Reeves, M.P. Peterson, W.H. Griffin, R.T. Brown, L.P. Blaser, W.J. Hindson, J.D. DeGrandis, C.W. Fitzwilliam, R.J. Mayo, Tats Matsushita.

R.T. Brown,
President.

J.D. DeGrandis,
Senior vice-president, responsible for Planning and Control.

W.H. Griffin,
Senior vice-president, responsible for Manufacturing, Marketing, Supply and Distribution and Logistics.

C.W. Fitzwilliam,
Vice-president, Control.

W.J. Hindson,
Vice-president, Supply and Distribution.

T. Matsushita,
Vice-president, Planning.

R.J. Mayo,
Vice-president, Logistics.

M.P. Peterson,
Vice-president, Marketing.

K.C. Reeves,
Vice-president, Manufacturing.

Officers
Gulf Canada Resources Inc.

Left: D.R. Motyka, Michael Bregazzi, E.M. Lakusta, S.K. McWalter, R.H. Carlyle, C.K. Caldwell. Missing: T.B. Simms.

S.K. McWalter,
President.

R.H. Carlyle,
Senior vice-president, responsible for Exploration.

Michael Bregazzi,
Vice-president, New Energy Resources.

C.K. Caldwell,
Vice-president, Exploration Operations.

D.R. Motyka,
Vice-president, Production Operations.

T.B. Simms,
Vice-president, Finance and Planning.

Gulf Canada Limited

Officers
J.L. Stoik, President and chief executive officer
J.C. Phillips, Q.C., Chairman of the board
R.C. Beal, Vice-president
W.H. Burkhiser, Vice-president and treasurer
L.G. Dodd, Vice-president and controller
R.E. Harris, Vice-president
C.G. Walker, Vice-president
E.E. Walker, Vice-president
W.M. Winterton, Vice-president, general counsel and secretary

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

Director Emeritus
Beverley Matthews, Q.C., Toronto

Head Office
130 Adelaide St. West, Toronto, Ontario M5H 3R6

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

Chemicals
Plants: Montreal East and Shawinigan, Quebec

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

Research and Development Centre
Sheridan Park, Ontario

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

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

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

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

Asphalt Plants
Moose Jaw, Saskatchewan; Calgary, Alberta

Principal Affiliates
(Subsidiaries-wholly owned)

COMMERCIAL ALCOHOLS LIMITED
Head Office: Montreal, Quebec
President: W.A. Rogers

GULF CANADA PRODUCTS COMPANY
(A division of Gulf Canada Limited)
Head Office: 800 Bay Street, Toronto, Ontario M5S 1Y8
*L.P. Blaser, President
**R.T. Brown, Executive vice-president
J.D. DeGrandis, Senior vice-president
W.H. Griffin, Senior vice-president
C.W. Fitzwilliam, Vice-president
W.J. Hindson, Vice-president
T. Matsushita, Vice-president
R.J. Mayo, Vice-president
M.P. Peterson, Vice-president
K.C. Reeves, Vice-president
G.E. Bell, Secretary

*Retired February 28, 1981.
**Appointed Executive vice-president January 1, 1981. Succeeded L.P. Blaser as President March 1, 1981.

GULF CANADA RESOURCES INC.
Head Office: Gulf Canada Square, Calgary, Alberta T2P 2H7
S.K. McWalter, President
R.H. Carlyle, Senior vice-president
M. Bregazzi, Vice-president
C.K. Caldwell, Vice-president
D.R. Motyka, Vice-president
T.B. Simms, Vice-president and treasurer
G.A. Holland, Secretary

SERVICO LIMITED
Head Office: Quebec, Quebec
President: M.P. Peterson

SUPERIOR PROPANE LIMITED
Head Office: Toronto, Ontario
President: A.L. Goerk

PRINCIPAL INVESTMENTS NOT CONSOLIDATED

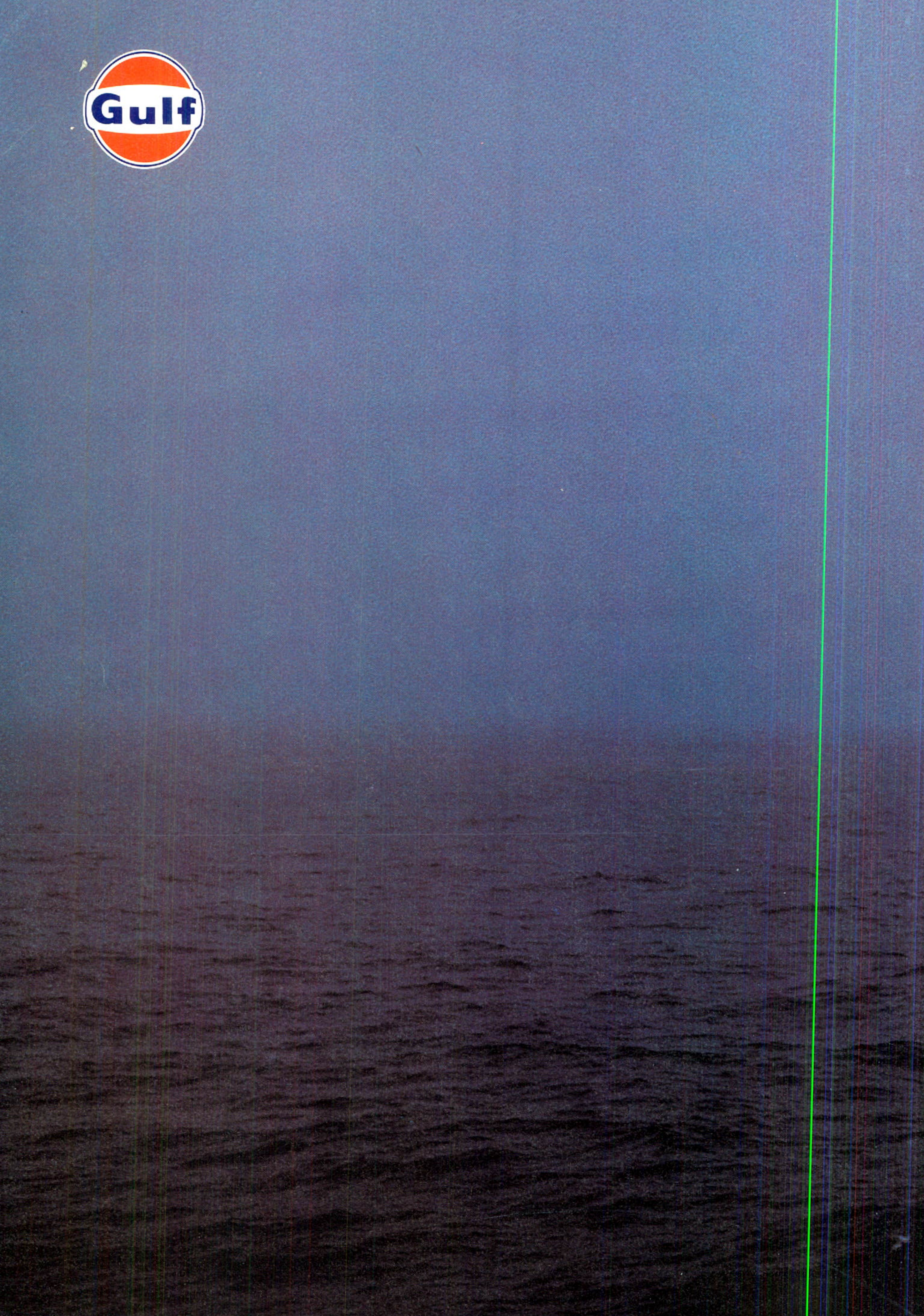
Company	Percentage ownership
Alberta Products Pipe Line Ltd.	40.00
Canada Systems Group Limited	33.33
Interprovincial Pipe Line Limited	7.01
Montreal Pipe Line Company Limited	16.00
Peace Pipe Line Ltd.	12.70
Petromont Inc. (partnership)	49.00
Rimbey Pipe Line Co. Ltd.	40.40
Trans Mountain Pipe Line Company Limited	8.57
Trans-Northern Pipe Line Company	33.33

Registrar
Canada Permanent Trust Company, Toronto

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

Registrar and Transfer Company—New York

Printed in Canada


Gulf

Consent of Independent Accountants

We consent to the incorporation by reference in this Annual Report on Form 10-K of Gulf Canada Limited of our report dated February 10, 1981 included in the 1980 Annual Report of Gulf Canada Limited.

We also extend the application of such report to the Supplementary Notes to Consolidated Financial Statements and the financial statement schedules appearing on pages F-1 to F-5 inclusive of this Report.

Toronto, Canada
February 10, 1981

CLARKSON GORDON
Chartered Accountants

Supplementary Notes to Consolidated Financial Statements

22. Oil and gas producing activities

In response to the requirements of the United States Securities and Exchange Commission (the "SEC") Gulf Canada is providing the following data with respect to its oil and gas producing activities. The SEC's definition of these activities excludes costs and revenues relating to the exploration and production of hydrocarbons from oil sands. Although costs and revenues associated with these operations, as well as certain other excluded costs, are considered to be an integral part of Gulf Canada's natural resource operations, they are not included in the amounts reflected in this note:

	1980	1979
	(millions of Canadian dollars)	
Capitalized costs at December 31:		
Proved properties	$ 740	$661
Unproved properties	299	207
	1,039	868
Less related accumulated depreciation, depletion and amortization	435	385
Net capitalized costs at December 31	$ 604	$483

	Year ended December 31		
	1980	1979	1978
	(millions of Canadian dollars)		
Costs:			
Costs (capitalized and expensed during the year) for –			
Property acquisition	$ 73	$ 55	$ 47
Exploration	237	156	103
Development	76	57	55
Lifting	102	79	73
Total costs during the year	$488	$347	$278
Depreciation, depletion and amortization charged to earnings during the year	$ 52	$ 41	$ 31
Revenues:			
Gross revenues derived from proved oil and gas reserves during the year –			
Unaffiliated sales	$423	$197	$165
Internal transfers	286	417	317
	709	614	482
Less – Lifting costs*	102	79	73
Net revenues	$607	$535	$409

* Lifting costs do not include depreciation, depletion, amortization and valuation allowances nor do they include selling, general and administrative expenses or income taxes.

23. United States accounting principles and SEC disclosures

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of the corporation, conform in all material respects with those in the United States. It should be noted that:

(a) Unrealized gains or losses arising on translation of long-term U.S. dollar liabilities are deferred and amortized over the remaining term of the liabilities. In the United States such gains or losses would be included in earnings in the period in which they arise.

(b) The gain on the sale of a portion of the Syncrude interest (note 17) was reflected net of tax in the consolidated statement of earnings in the amount of $14 million. In the United States the gain would be reflected before tax in the amount of $19 million and the related income tax of $5 million would be included in income taxes.

(c) Interest costs are expensed as incurred. In the United States, effective January 1, 1980, certain interest costs incurred on capital outlays are required to be capitalized in accordance with Financial Accounting Standards Board Statement ("FAS") No. 34. However, in 1980 this difference had no effect on earnings.

(d) Certain of the disclosures of actuarial present values of accumulated plan benefits reported in note 18 take into account the effect of future increases in employee compensation which in the United States, under FAS No. 36, are required to be excluded. The following compares the disclosure required by FAS No. 36 to that given in note 18:

	As reported in note 18	In accordance with FAS No. 36
	(millions of Canadian dollars)	
Non-vested actuarial present values of accumulated plan benefits as of December 31, 1980	$18	$6
Increase in actuarial present values of accumulated plan benefits resulting from January 1, 1981 amendment	$123	$5

These financial statements have also been prepared in accordance with Regulation S-X of the SEC except that:

(a) Amounts reported in note 7 in respect of transactions with related parties are required, under this Regulation, to be included on the face of the financial statements.

(b) Under this Regulation the following statement is required to be shown on the face of the Statements of Financial Position: "The corporation follows the successful efforts method of accounting."

INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT—AT COST

Schedule V

For the Three Years Ended December 31, 1980

(Millions of Canadian Dollars)

Classification	Balance at beginning of period	Additions at cost	Deductions: Retirements or sales	Deductions: Transfers and reclassi-fications	Balance at close of period
For the Year Ended December 31, 1980					
Natural Resources					
Exploration and production	$ 872	$173	$ 3	$ –	$1,042
Syncrude project	295	12	1	–	306
In-situ oil sands and coal	85	28	–	–	113
	1,252	213	4	–	1,461
Refined Products and Chemicals					
Transportation	56	1	–	–	57
Refining and petrochemicals	834	56	79	–	811
Marketing	366	37	13	–	390
	1,256	94	92	–	1,258
Other	112	18	2	–	128
	$2,620	$325	$ 98	$ –	$2,847
For the Year Ended December 31, 1979					
Natural Resources					
Exploration and production	$ 762	$116	$ 5	$ 1	$ 872
Syncrude project	360	6	71	–	295
In-situ oil sands and coal	79	6	1	(1)	85
	1,201	128	77	–	1,252
Refined Products and Chemicals					
Transportation	56	3	–	3	56
Refining and petrochemicals	814	22	2	–	834
Marketing	362	22	19	(1)	366
	1,232	47	21	2	1,256
Other	44	69	2	(1)	112
	$2,477	$244	$100	$ 1	$2,620
For the Year Ended December 31, 1978					
Natural Resources					
Exploration and production	$ 660	$105	$ 4	$(1)	$ 762
Syncrude project	278	82	–	–	360
In-situ oil sands and coal	32	48	–	1	79
	970	235	4	–	1,201
Refined Products and Chemicals					
Transportation	54	2	–	–	56
Refining and petrochemicals	723	93	2	–	814
Marketing	354	29	20	1	362
	1,131	124	22	1	1,232
Other	38	11	4	1	44
	$2,139	$370	$30	$ 2	$2,477

ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTIES

Schedule VI

For the Three Years Ended December 31, 1980

(Millions of Canadian Dollars)

Classification	Balance at beginning of period	Charged to earnings	Deductions: Retirements or sales	Deductions: Transfers and reclassi-fications	Balance at close of period
For the Year Ended December 31, 1980					
Natural Resources					
Exploration and production	$ 386	$ 52	$ 2	$ –	$ 436
Syncrude project	8	11	1	–	18
In-situ oil sands and coal	10	3	–	–	13
	404	66	3	–	467
Refined Products and Chemicals					
Transportation	27	2	–	–	29
Refining and petrochemicals	407	48	52	–	403
Marketing	159	20	9	–	170
	593	70	61	–	602
Other	16	4	1	–	19
	$1,013	$140	$ 65	$ –	$1,088
For the Year Ended December 31, 1979					
Natural Resources					
Exploration and production	$ 346	$ 42	$ 4	$ (2)	$ 386
Syncrude project	–	8	–	–	8
In-situ oil sands and coal	10	3	–	3	10
	356	53	4	1	404
Refined Products and Chemicals					
Transportation	25	2	–	–	27
Refining and petrochemicals	362	46	1	–	407
Marketing	153	19	12	1	159
	540	67	13	1	593
Other	14	3	–	1	16
	$ 910	$123	$17	$ 3	$1,013
For the Year Ended December 31, 1978					
Natural Resources					
Exploration and production	$ 321	$ 31	$ 3	$ 3	$ 346
Syncrude project	–	–	–	–	–
In-situ oil sands and coal	5	2	–	(3)	10
	326	33	3	–	356
Refined Products and Chemicals					
Transportation	21	4	–	–	25
Refining and petrochemicals	330	33	1	–	362
Marketing	149	18	14	–	153
	500	55	15	–	540
Other	14	1	2	(1)	14
	$ 840	$ 89	$20	$ (1)	$ 910

VALUATION ACCOUNT

Schedule VIII

(Millions of Canadian Dollars)

Accounts Receivable	Allowance for Doubtful Accounts
Balance at December 31, 1977	$ 8
1978–Charged to Costs and Expenses–Net	4(1)
–Deductions from Reserves	4(2)
Balance at December 31, 1978	8
1979–Charged to Costs and Expenses–Net	4(1)
–Deductions from Reserves	3(2)
Balance at December 31, 1979	9
1980–Charged to Costs and Expenses–Net	7(1)
–Deductions from Reserves	6(2)
Balance at December 31, 1980	$10

NOTES:

(1) Includes bad debt recoveries.

(2) Losses and payments charged to reserves.

ESTIMATED FUTURE NET REVENUE INFORMATION AND RESERVE RECOGNITION ACCOUNTING DATA

The United States Securities and Exchange Commission (the "SEC") requires the presentation of estimated future net revenues and the related present values. For the purposes of calculating these estimated future net revenues and the related present values, the SEC has mandated the use of current costs and prices and the use of a 10% discount factor in the present value calculation. Accordingly, Gulf Canada's estimated future net revenues at December 31, 1980, 1979 and 1978 were computed by applying the average selling price (including internal sales) of oil and gas during the month of December of each respective year to the estimated future production of proved oil and gas reserves as of December 31, less estimated future expenditures (based upon the average applicable year's cost) to be incurred in developing and producing proved reserves and assuming continuation of existing economic conditions at each year end.

The use of year-end prices to calculate future revenues does not recognize future price increases. Canada's oil and gas prices at year-end were lower than world prices. At year-end 1980, the domestic crude oil price was $16.75 per barrel, which was $23.35 per barrel less than the equivalent delivered world price at Montreal. Reference is made to "Government Regulation and Taxation — Prices" in Item 1 of this Report. The domestic price increase of $1 per barrel, effective January 1, 1981, and any future indicated prices or other impacts of the new National Energy Program proposed by the Government of Canada on October 28, 1980 have not been included in estimated future revenue. Reference is made to "Government Regulation and Taxation — Canadian Budget and the Proposed National Energy Program" in this Item 1 of this Report.

While Gulf Canada has prepared its calculations in accordance with the requirements of the SEC as described above, Gulf Canada wishes to emphasize that, due to the number of assumptions and estimates required in the calculations, the amounts shown are not indicative of the amount of net revenue which Gulf Canada expects, or may expect, to receive in future periods. Reserve estimates by their very nature are inexact and are subject to constant changes and revisions. Additionally, future rates of production and the related costs and prices of such production are unpredictable for numerous reasons including government regulations and are, therefore, subject to significant change. While Gulf Canada's calculations are based on existing economic conditions at each year-end, such economic conditions have changed and may continue to change significantly due to events such as the continuing increases in foreign crude oil prices, supply of crude oil from certain foreign countries, and changes in government policies and regulations. Reference is made to "Government Regulation and Taxation — Canadian Budget and the Proposed National Energy Program" in Item 1 of this Report.

In view of the imprecisions inherent in the assumptions on which these calculations are based, the SEC has adopted a rule to protect companies which are required to disclose such estimates against liability in connection with such disclosures, provided that the information presented is prepared in good faith on a reasonable basis in accordance with the established guidelines. Gulf Canada emphasizes that while the calculations are based on Gulf Canada's understanding of the SEC's guidelines, there are numerous other equally valid assumptions under which these calculations and estimates could be made which would produce significantly different results.

The estimates of future net revenues and the present values thereof set out in this section are neither indicative of, nor directly related to, the current value of, or the future earnings which may be realized from, the production of proved reserves as these calculations exclude certain additional costs such as depreciation, depletion and amortization, exploration, selling, general and administrative expenses and taxes on income. Inclusion of these additional costs would significantly decrease the estimated amounts shown below. It should not be assumed that the estimates of discounted future net revenues represent fair market value of the reserves or of the oil and gas properties.

Estimated Future Net Revenues

Gulf Canada's estimated future net revenues based upon estimated reserves at December 31, 1980 were as follows:

	1981	1982	1983	All remaining years	Total
		(millions of Canadian dollars)			
Net proved developed and undeveloped reserves	$491	$496	$527	$3,979	$5,493
Net proved developed reserves	$561	$536	$450	$2,612	$4,159

Present Value of Estimated Future Net Revenues

The present value of estimated net revenues discounted at 10% based on estimated reserves at December 31, 1980, 1979 and 1978 is as follows:

	December 31		
	1980	1979	1978
	(millions of Canadian dollars)		
Net proved developed and undeveloped reserves	\$2,948	\$2,592	\$2,589
Net proved developed reserves	\$2,550	\$2,178	\$2,326

Reserve Recognition Accounting

The SEC also requires the presentation of a Summary Statement of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting (the "RRA Summary Statement") and a Statement of Changes in Present Value of Estimated Future Net Revenues from Proved Oil and Gas Reserves (the "RRA Statement of Changes").

The RRA Summary Statement is intended to present the results of oil and gas producing activities on the basis of evaluation of discoveries, adjusted for the effects of revisions to prior year estimates and certain other items. The RRA Statement of Changes is intended to present changes in the present value of proved oil and gas reserves. Such statements bear no relationship to statements prepared on an historical cost basis in accordance with generally accepted accounting principles in the United States and Canada nor do they reflect Gulf Canada's anticipated cash flow from its oil and gas exploration, development and production activities. Also, Gulf Canada does not believe that the RRA statements realistically reflect the results of those continuing exploration activities nor the ultimate realizable value of existing reserves of oil and gas.

The most significant items reflected in the following RRA statements result from revisions to prior year estimates primarily caused by significantly increasing prices, changes in reserve estimates and production schedules and the application of the required discounting techniques.

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

	Year ended December 31	
	1980	1979
	(millions of Canadian dollars)	
Additions and revisions to estimated proved oil and gas reserves:		
Present value of additions to estimated proved reserves, gross	\$ 56	\$ 227
Present value of revisions to estimated reserves proved in prior years:		
Changes in price, net of changes in lifting costs of \$357 and \$72 million	490	541
Other changes	128	(492)
Accretion of discount	259	259
	933	535
Deductions for costs:		
Actual costs incurred, including impairments	263	185
Present value of estimated future development and lifting costs	17	34
	280	219
Additions and revisions, net of deductions	653	316
Provision for income taxes	282	108
Results of oil and gas producing activities on the basis of reserve recognition accounting	\$ 371	\$ 208

The gross present value of additions to estimated proved reserves of $56 million and $227 million primarily reflects the 1980 and 1979 reserve additions from drilling and through improved recovery techniques valued under the procedures described above. As a result of the increases in crude oil and natural gas prices over the last two years, revisions to the prices used at December 31, 1979 and 1978 in the valuation of estimated reserves have increased the value of those reserves by $847 million and $613 million during 1980 and 1979, respectively. Other changes in estimates which caused an addition of $128 million during 1980 and a reduction of $492 million during 1979 result from net adjustments to estimated reserves and future production schedules and from revisions in estimates of future development costs.

The deduction for actual costs incurred, including development, exploration, proved leasehold costs and impairments of unproved leasehold costs, excludes certain costs which have been deferred pending evaluation. Such deferred costs aggregate $299 and $207 million at December 31, 1980 and 1979 and principally represent property acquisition costs of $194 and $145 million, of which $73 and $55 million was added during 1980 and 1979, respectively. At December 31, 1980 a valuation allowance of $64 million had been recorded against these costs of which $18 million was added during 1980 and $46 million during 1979. Additional deferred costs included $41 and $16 million pertaining to uncompleted exploratory wells.

The present value of the future tax liability was calculated by applying current statutory tax rates to estimated future net revenues from proved oil and gas reserves after considering appropriate tax deductions and credits. The provision for income taxes represents the change in the present value of the future tax liability between the year-end periods adjusted for the current year's actual tax payment. The provision for 1980 and 1979 was $282 million and $108 million, respectively.

Statement of Changes in Present Value of Estimated Future Net Revenues from Proved Oil and Gas Reserves

	Year ended December 31, 1980	Year ended December 31, 1979
	(millions of Canadian dollars)	
Increases:		
Additions and revisions	$ 933	$ 535
Less related estimated future development and lifting costs	17	34
Net additions and revisions	916	501
Expenditures that reduced estimated future development costs	47	36
	963	537
Decreases:		
Sales of oil and gas, including transfers, net of lifting costs of $102 and $79 million	607	534
Net increase	356	3
Balance at beginning of year	2,592	2,589
Balance at end of year	2,948	2,592
Income tax liability	1,458	1,292
Balance at end of year, net of income tax	$1,490	$1,300

As indicated above, results of Gulf Canada's 1980 and 1979 oil and gas producing activities on the basis of RRA were $653 and $316 million, respectively, before recognition of income taxes. As reported in note 21 to the Consolidated Financial Statements, Gulf Canada's operating profit for its natural resources segment before income taxes and general corporate expense but including activities relating to the exploration and production of hydrocarbons from oil sands was $344 and $313 million for the years 1980 and 1979. In calculating historical operating profits, revenue was recognized when sales were made and was reduced by deductions for actual costs incurred and the amortization of capitalized costs. In the RRA Summary Statements, results, which excluded oil sands activities, were calculated based upon estimates of future value of current-year discoveries, and were adjusted for significant revisions to prior-year estimates of reserves, prices, costs, production schedules and certain other items. In the RRA calculations, a discount factor of 10% was applied to estimates of future revenues and costs in order to calculate the present values reflected in the statements. The present value of estimated future net revenue, before considering related income tax liabilities, was $2,948 and $2,592 million at December 31, 1980 and 1979, respectively. As reported in note 5 to the Consolidated Financial Statements, Gulf Canada's net investment in exploration and production properties was $606 and $486 million, respectively.

Since the two methods are based on totally different concepts as to the valuation of reserves, the activities included and the timing of reporting the results of oil and gas activities, the results reported in the historic financial statements bear no relationship to the RRA statements and a reconciliation between the two is not meaningful.