Canadian Occidental Petroleum Ltd.

CANADIAN OXY

Annual Report 1985

Corporate Profile

CanadianOxy is a diversified energy and chemicals company organized in three business segments: Oil and Gas, Alternate Fuels and Chemicals. Oil and Gas operations include the exploration for and development and production of conventional oil, gas and sulphur in Canada, the United States and South America. Alternate Fuels operations include a 13.23% interest in the Syncrude Project, undeveloped oil sands leases, and minerals and coal exploratory acreage in Canada. Chemicals operations include four industrial chemical plants in western Canada and metal finishing, plastics and resins manufacturing facilities in eastern Canada. In 1985, oil and gas operations contributed 53%, alternate fuels 33% and chemicals 14% of net sales. Occidental Petroleum Corporation of Los Angeles, California, currently owns 48% of the common shares of CanadianOxy.

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Cover Photo: Syncrude plant near Fort McMurray, Alberta

Highlights of 1985

- CanadianOxy reported record net income of $115 million and sales of $641 million.
- Capital and exploration expenditures more than tripled to $296 million.
- Funds from operations before exploration expenditures increased to $311 million.
- Record production at the Syncrude plant contributed significantly to operating profits.
- The Company acquired a 13.5% interest in the San Miguel Offshore Heavy Oil Block, offshore California.
- Construction of the Mazeppa gas plant was substantially completed – start-up is scheduled for May 1986.

	1985	1984	1983
	(Dollar amounts in thousands except per share data)		
FINANCIAL			
Net Sales	**$640,719**	$635,660	$323,512
Net Income	**$115,225**	$100,787	$ 54,521
Per common share (basic)	**$ 3.41**	$ 2.96	$ 2.08
Funds from Operations before Exploration Expenditures	**$311,207**	$263,916	$137,779
Capital and Exploration Expenditures	**$296,253**	$ 91,110	$ 44,434
Long-term Debt as a % of Shareholders' Equity	**10.3%**	13.2%	34.7%
Return on Average Common Shareholders' Equity	**18.5%**	19.7%	20.6%
OPERATIONS			
Daily Net Production			
Metric Units			
Crude Oil, Condensate and NGL's (cubic metres)	**2 504**	2 707	1 842
Natural Gas (thousand cubic metres)	**3 188**	4 242	2 403
Synthetic Crude Oil (cubic metres)	**2 405**	1 721	1 991
Chlorine/Caustic Soda (tonnes)	**762**	733	773
Imperial Units			
Crude Oil, Condensate and NGL's (barrels)	**15,759**	17,037	11,594
Natural Gas (million cubic feet)	**113**	151	85
Synthetic Crude Oil (barrels)	**15,134**	10,830	12,527
Chlorine/Caustic Soda (short tons)	**839**	807	852
Proved Net Reserves			
Metric Units			
Crude Oil, Condensate and NGL's (thousand cubic metres)	**7 366**	6 447	6 463
Natural Gas (million cubic metres)	**13 436**	13 514	13 076
Synthetic Crude Oil (thousand cubic metres)	**25 267**	23 901	15 970
Imperial Units			
Crude Oil, Condensate and NGL's (thousand barrels)	**46,353**	40,550	40,670
Natural Gas (billion cubic feet)	**476.9**	479.6	464.1
Synthetic Crude Oil (thousand barrels)	**159,003**	150,403	100,499

Note: Includes Canada-Cities from August 1, 1983 and 100% of COPCO from February 24, 1984.

Dollar amounts in this report are stated in Canadian Dollars unless otherwise specified.

Letter to the Shareholders

THOMAS D. JENKINS

With the recent fall in the world price of oil from above $30 to below $12 in a matter of weeks, it could be easy to be gloomy and overly pessimistic. CanadianOxy is not.

CanadianOxy has just completed its most successful year ever. Net income rose to $115 million or $3.41 per common share, up from $2.96 per share in 1984, an increase in per share earnings of 15%. Dividends increased from 46.5¢ per share to 64¢ per share, an increase of 38%.

Capital and exploration expenditures were $296 million compared with $91 million in 1984 and $44 million in 1983. Funds from operations before exploration expenditures climbed 18% to $311 million. Long-term debt declined to $68 million.

Financially a most successful year!

Operations were also excellent. Crude oil proved reserves rose 14% from 1984, synthetic crude reserves increased 6%, and natural gas reserves remained approximately the same as in 1984. CanadianOxy is one of very few Canadian oil and gas companies which have managed to maintain or improve their reserve positions over the last three years.

To a large extent the success achieved in 1985 may be attributed to record-breaking production at the Syncrude oil sands plant. In April the 200 millionth barrel of synthetic crude was produced at the plant. However, retrieving and marketing bitumen continues to be both costly and capital intensive. Syncrude is currently revising its capital and operating plans to reflect the drop in income from the decline of world oil prices. We believe Syncrude will meet the challenge and will continue to be a viable and significant producer of energy for Canada.

In early 1985 CanadianOxy purchased, from the Cities Service division of Occidental, a 13.5% interest in a new heavy oil field offshore southern California. It is anticipated a platform will be

J. ANGUS McKEE

set in late 1986 with production scheduled to commence in 1987. A substantial portion of the purchase and of the property has been financed advantageously by way of a deferred purchase agreement and low cost long-term financing.

Oil and gas production from the United States Gulf Coast was restricted due to unstable markets and lower takes. Four hurricanes closed down production facilities during the year and contributed to the reduction in oil and gas sales. Despite a decline in proved reserves, deliveries of natural gas were enhanced in the first part of 1986, as a result of substantially lower prices for gas in the United States.

CanadianOxy's Mazeppa gas plant southeast of Calgary is nearing completion. The $85 million facility, in which CanadianOxy has approximately a 50% share, will be among the most advanced, efficient and environmentally acceptable sour gas plants in North America. Mazeppa will produce about 600 thousand cubic metres (21 million cubic feet) per day of pipeline gas, 127 cubic metres (800 barrels) per day of condensate and 578 tonnes (570 long tons) per day of sulphur.

The Chemicals Division continues to be an important contributor to the profits of CanadianOxy. In March 1986, we announced an expansion and modernization of the Company's sodium chlorate plant in Brandon, Manitoba. This multi-million dollar investment will further enhance the Chemicals Division's ability to serve the pulp and paper industry in central Canada and the northern tier states of the United States.

The Chemicals Division is also increasing its investment in manufacturing and marketing of specialty chemicals in eastern Canada, including metal treatment products, plastic compounds, adhesives and other advanced products for high growth markets.

CanadianOxy, like all companies which derive a substantial portion of their earnings from the oil industry, faces major difficulties with the precipitous drop of oil prices. CanadianOxy has a strong capital base, very little debt and in 1985, in anticipation of a difficult 1986, reorganized its management activities. To meet the projected adverse conditions, the Company will substantially reduce its 1986 capital and exploration expenditures compared with 1985. CanadianOxy is well positioned to overcome adversity.

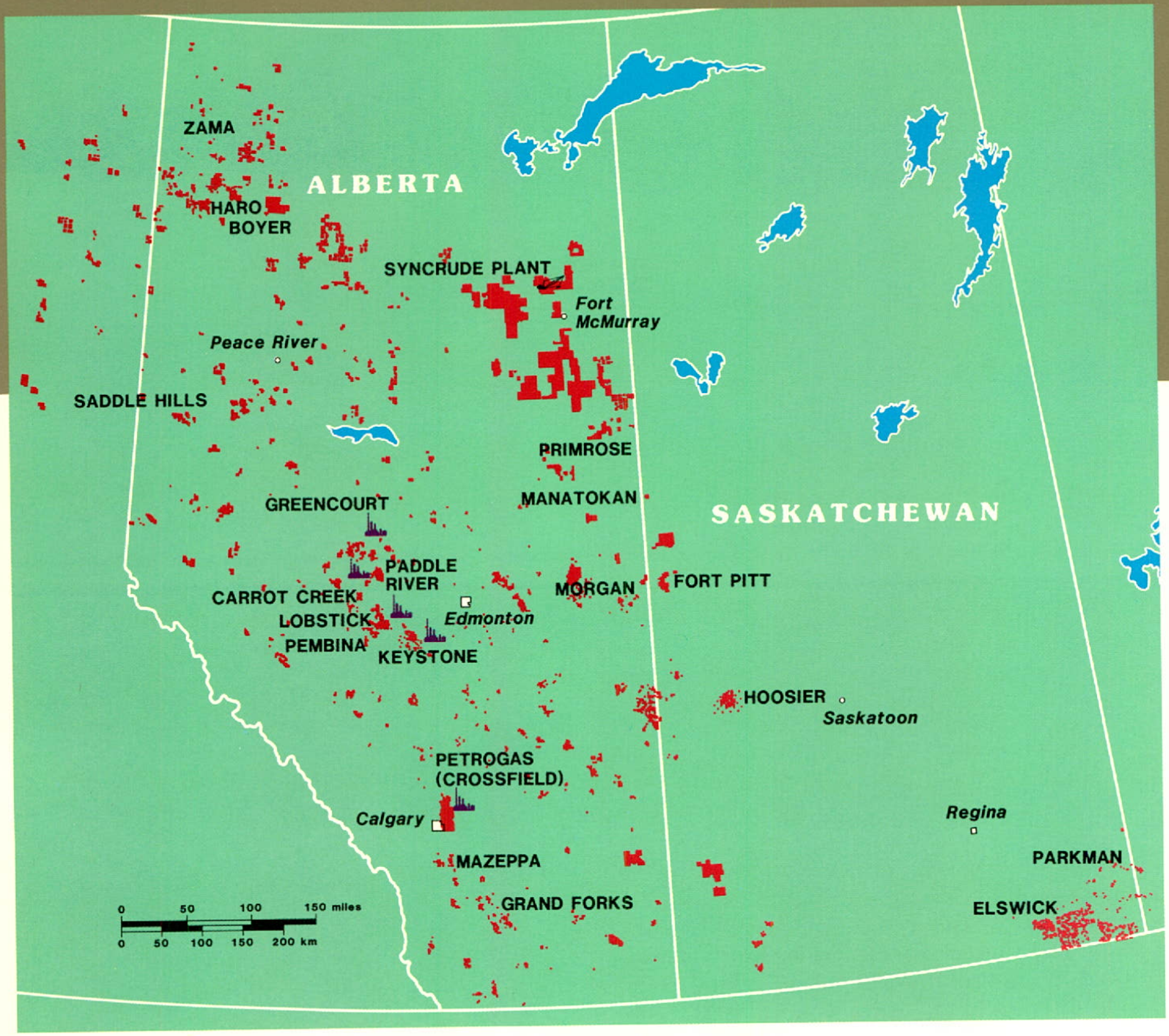
1986 and 1987 will be difficult but they present both a challenge and an opportunity for your Company. The challenge is to cope with the problems, the opportunity is to continue CanadianOxy's growth. We believe your Company and its employees will rise to the challenge. We look forward with confidence.

Respectfully submitted,

Thomas D. Jenkins
Chairman of the Board

J. Angus McKee
President and
Chief Executive Officer

Oil and Gas



CANADIAN LAND HOLDINGS - Oil and Gas

Company interest blocks

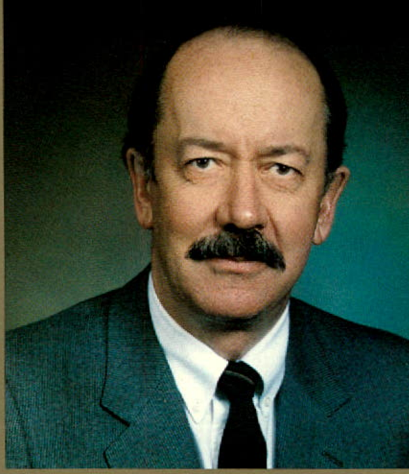
Major gas plants

CanadianOxy is engaged in oil and gas exploration, development and production in Canada, the United States and South America.

In 1985, declining oil and gas production revenues were due to lower market demand in the United States and slightly lower gas prices in Canada. Net sales decreased by 11% from 1984 to $338.2 million. Operating profits were reduced 24% from 1984 to $118.7 million.

Capital and exploration expenditures rose substantially, over 300% to $235.6 million in 1985. The increase in spending is primarily due to the development and construction of the Mazeppa, Morgan and Manatokan projects in Canada and the San Miguel project offshore California. Increased exploration and development drilling activity, in both Canada and the United States, also contributed significantly to the increased level of spending. The allocation of capital and exploration expenditures among Canada, the United States and South America during the last three years is shown in the accompanying table.

Additional information pertaining to the Company's oil and gas producing activities can be found in the Supplementary Financial Information on page 38.



CHARLES R. MIKKELBORG
Senior Vice President, Oil and Gas

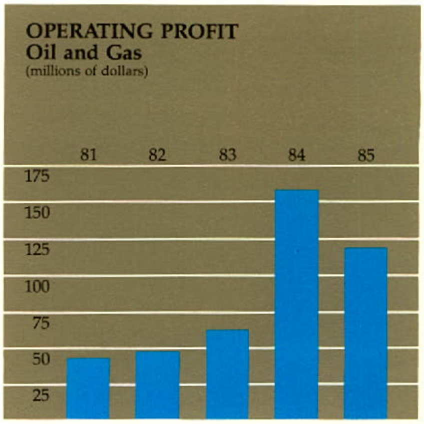
OIL AND GAS OPERATIONS[1]

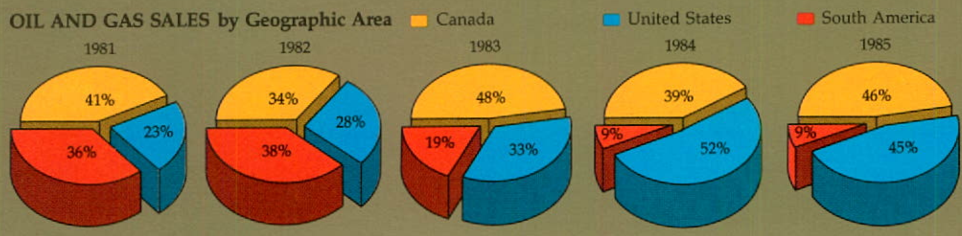
	1985	1984	1983
	(Amounts in thousands)		
Net Sales:			
Natural Gas	**$149,804**	$184,754	$ 73,905
Crude Oil and Condensate	**168,211**	180,191	74,119
Natural Gas Liquids	**4,958**	5,423	3,429
Sulphur	**15,276**	9,434	6,818
	$338,249	$379,802	$158,271
Operating Profit (Loss):			
Canada	**$ 61,795**	$ 66,738	$ 31,950
United States	**60,022**	80,662	27,969
South America	**(3,068)**	9,217	3,176
	$118,749	$156,617	$ 63,095
Capital and Exploration Expenditures:[2]			
Canada	**$130,034**	$ 49,690	$ 17,887
United States	**104,282**	6,807	3,123
South America	**1,273**	2,482	1,448
Total Capital and Exploration Expenditures	**235,589**	58,979	22,458
Less Current Year Exploration Expenditures	**30,081**	16,830	7,303
Net Capital Expenditures	**$205,508**	$ 42,149	$ 15,155
Net Property, Plant and Equipment:			
Canada	**$304,875**	$219,097	$209,368
United States	**254,247**	184,977	53,918
South America	**134,924**	137,716	136,697
	$694,046	$541,790	$399,983

Notes:

(1) *The above table includes the results of operations of Canada-Cities from August 1, 1983 and 100% of COPCO from February 24, 1984.*

(2) *Capital and exploration expenditures exclude fixed asset additions resulting from corporate acquisitions totalling $180,552,000 in 1984 and $161,980,000 in 1983.*



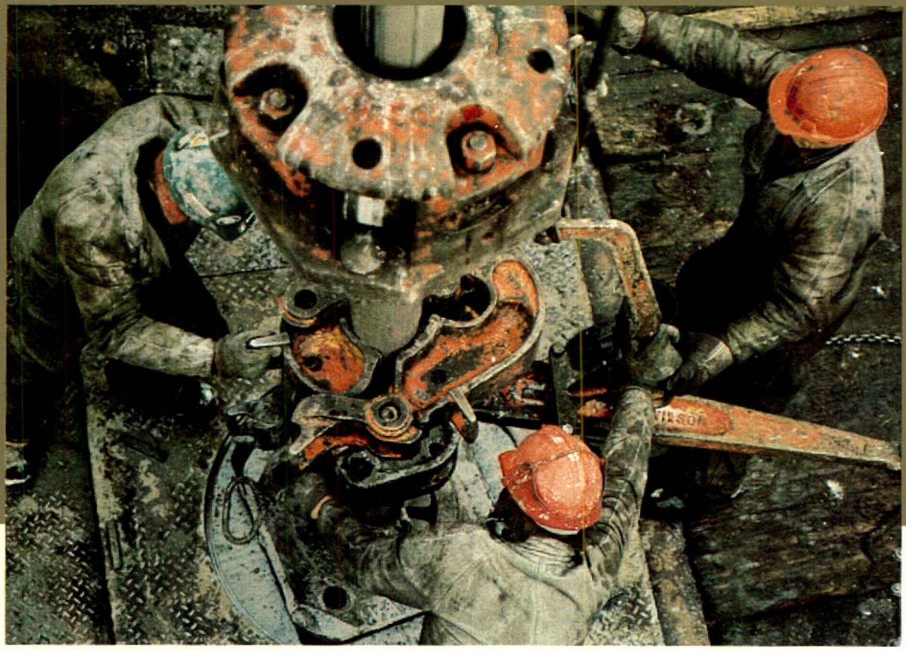


OIL AND GAS LAND HOLDINGS

	1985		1984	
	Gross	**Net**	**Gross**	**Net**
		(thousands of hectares)		
Metric Units				
Canada[1]				
Alberta	**1 383**	**701**	1 651	860
Saskatchewan	**249**	**88**	237	78
British Columbia	**124**	**45**	175	92
Other	**134**	**16**	216	26
United States				
West Coast	**2**	**1**	–	–
Gulf Coast	**71**	**17**	55	12
Bolivia	**302**	**38**	302	38
Peru[2]	**8**	**2**	8	2
	2 273	**908**	2 644	1 108

	1985		1984	
	Gross	**Net**	**Gross**	**Net**
		(thousands of acres)		
Imperial Units				
Canada[1]				
Alberta	**3,459**	**1,752**	4,080	2,125
Saskatchewan	**614**	**218**	586	193
British Columbia	**306**	**112**	432	227
Other	**331**	**39**	534	64
United States				
West Coast	**6**	**1**	–	–
Gulf Coast	**177**	**41**	136	30
Bolivia	**746**	**93**	746	93
Peru[2]	**19**	**4**	19	4
	5,658	**2,260**	6,533	2,736

Notes:
(1) Canadian land holdings exclude Hudson Bay, Alberta oil sands, New Brunswick oil shale, and Alberta and British Columbia coal.
(2) The Company's interest reflects a 21% share of the petroleum service contract for Talara.



Drilling in western Canada.

CANADA

LAND

CanadianOxy continues to maintain a large land inventory in western Canada with more than 1.8 million gross hectares (4.4 million gross acres). Approximately $12 million was spent in land acquisitions covering 71 185 gross or 45 461 net hectares (175,898 gross or 112,334 net acres) during 1985 in prospective areas. The accompanying map and chart reflect the Company's land holdings.

EXPLORATION AND DEVELOPMENT

In 1985, CanadianOxy participated in the drilling of 56 exploratory wells, resulting in 13 cased as oil wells, 18 cased as gas wells and 25 dry holes. In addition, 29 wells were drilled at no cost to CanadianOxy through joint venture agreements resulting in 5 oil wells, 1 gas well and 23 dry holes.

The Company had two Devonian oil discoveries at Eaglesham, in the Peace River Arch area of Alberta. These wells are currently producing allowables of 8.7 and 14.3 cubic metres (55 and 90 barrels) per day, before royalties. CanadianOxy has an interest in approximately 31 500 hectares (78,750 acres) in this Devonian play.

In northern Alberta, CanadianOxy has continued geological and geophysical evaluation of its large holdings, 105 000 hectares (262,500 acres) in the Talbot-Peelho area. Test well drilling and additional seismic are planned for 1986.

CanadianOxy participated in a multiwell program at Chard-Liege-Leismer of the Fort McMurray region. This shallow gas exploratory and development program has had a success rate of 87%, resulting in significant gas reserves. Continued drilling is planned in 1986.

In west central Alberta, CanadianOxy has been successful north of the Kakwa field in the Bilbo-Musreau area, where the Pembina et al Bilbo 13-11 was completed as a Cardium oil well. The Company has an interest in approximately 8 700 hectares (21,750 acres) in this play.

In the Carrot Creek-Pembina area the Company has drilled, cased and tested the Pembina 11-13 Jurassic gas discovery. The Company has 100% interest in 7 168 hectares (17,920 acres) in this area.

In southeastern Saskatchewan, the Company participated in a successful exploratory program resulting in five new Mississippian oil discoveries at Pinto, Colgate and Elswick.

In 1985, CanadianOxy participated in a total of 152 gross (50.8 net) development wells (excluding 80 heavy oil and pool infill wells). This resulted in 103 oil wells, 30 gas wells and 19 dry holes, a success ratio of 87%. In addition, 26 farmout wells were drilled, at no cost to CanadianOxy, resulting in 12 oil wells, 1 gas well and 13 dry holes.

At Mazeppa, 6 Crossfield Member sour gas wells were drilled and cased. These wells tested an average of 56 thousand cubic metres (2 million cubic feet) of gas per well per day and will be produced to the new plant scheduled for completion in 1986. The Company's working interest in these wells varies from 50 to 100%.

Mazeppa gas plant, south of Calgary, under construction.

DRILLING ACTIVITY (1) (2)

	1985		1984		1983	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Canada						
Exploratory Wells						
Oil	**18**	**7.7**	16	8.5	7	1.6
Gas	**19**	**9.0**	10	4.4	5	.5
Dry or Suspended	**48**	**16.0**	31	9.9	8	2.0
	85	**32.7**	57	22.8	20	4.1
Development Wells						
Oil	**195**	**78.7**	124	23.4	31	7.3
Gas	**31**	**16.6**	25	7.6	17	6.6
Dry or Suspended	**32**	**4.5**	12	1.2	11	2.6
	258	**99.8**	161	32.2	59	16.5
	343	**132.5**	218	55.0	79	20.6
United States						
Exploratory Wells						
Gas	**1**	**.1**	–	–	–	–
Dry or Suspended	**5**	**1.6**	–	–	–	–
	6	**1.7**	–	–	–	–
Development Wells						
Oil	**4**	**1.0**	4	1.0	–	–
Gas	**1**	**.3**	–	–	1	.1
Oil/Gas	**2**	**.5**	–	–	–	–
Dry or Suspended	**3**	**1.1**	–	–	–	–
	10	**2.9**	4	1.0	1	.1
	16	**4.6**	4	1.0	1	.1

Notes:
(1) The above table excludes oil sands (Alternate Fuels), salt water disposal wells and injection wells.
(2) There was no drilling activity in South America during 1983, 1984 and 1985.


Moving slated sulphur to stockpile at Petrogas plant, near Calgary.

OIL AND GAS PRODUCTION (1) (2)

	1985		1984	
	Gross	Net	Gross	Net
Metric Units				
Pipeline Gas (thousand cubic metres)	1 408 920.0	1 163 599	1 811 341	1 455 010.0
Crude Oil and Condensate (thousand cubic metres)	1 059.7	861.5	1 117.9	894.2
Natural Gas Liquids (thousand cubic metres)	63.6	52.6	59.4	48.4
Imperial Units				
Pipeline Gas (billion cubic feet)	50.0	41.3	64.3	51.6
Crude Oil and Condensate (thousand barrels)	6,668.3	5,421.0	7,034.9	5,627.2
Natural Gas Liquids (thousand barrels)	400.5	331.1	373.8	304.5

Notes:
(1) The above table represents annual production.
(2) Gross amounts refer to production before royalties and net amounts refer to production after royalties.

PRODUCTION

CanadianOxy holds interests in 2,701 producing oil and 613 producing gas wells, for a total of 3,314 wells, primarily located in Alberta and Saskatchewan. The Company operates 583 of these wells.

Crude Oil and Condensate

Crude oil and condensate production during 1985 averaged 1 537 cubic metres (9,669 barrels) per day, before royalties. Conventional oil production represents 90% of the Company's total Canadian oil production while heavy crude from the Lloydminster area makes up the remaining 10%. About 36 cubic metres (225 barrels) per day of heavy crude was derived from partner-operated thermal enhanced recovery projects.

Almost half of the conventional oil came from the Pembina area, where the Company has embarked on a major development program of multiple well stimulations and infill drilling, and completed a gas conservation scheme at Carrot Creek. As a result, production from the Pembina area increased by 2% compared to a normal decline of up to 10%.

By year-end CanadianOxy had drilled 12 wells of a proposed 36 well infill program in the Pembina Easyford Unit No. 1 in which it has a 26% working interest. The Company's share of the aggregate, before royalties, production from the 12 wells averaged 37 cubic metres (235 barrels) of oil per day.

Natural Gas

During 1985, natural gas and natural gas liquids production before royalties averaged 2 242 thousand cubic metres (79.6 million cubic feet) and 174 cubic metres (1,097 barrels) per day respectively, representing 40% of the sales revenue derived from Canadian oil and gas.

Five areas account for 55% of the Company's natural gas production in Canada. These are the Crossfield field, the Paddle River field, the Pembina Keystone solution gas processing facility, the Primrose Kirby field in northeastern Alberta, and the Fort Pitt gas field in northwestern Saskatchewan.

Pump jacks and facilities at Manatokan steam stimulation project in Alberta.

Completion of the Mazeppa gathering system and natural gas processing plant in May 1986 is expected to add to the Company's share of daily production, before royalties, approximately 260 thousand cubic metres (9 million cubic feet) of pipeline gas, 57 cubic metres (360 barrels) of condensate and 260 tonnes (255 long tons) of sulphur. The plant facilities, gathering system and wells are expected to cost CanadianOxy approximately $44 million.

Sulphur

The strong sulphur market during 1985 contributed approximately 10% of CanadianOxy's net sales from Canadian oil and gas operations. CanadianOxy markets its own sulphur and acts as sales agent for Petrogas Processing Ltd., in which it has a 33.1% interest, and other producers. CanadianOxy's share of sulphur sales in 1985 was approximately 150 000 tonnes (148,000 long tons), split almost evenly between the North American market and the offshore market at a combined average price in excess of $125 per tonne at the plant gate.

The combined effect of increased prices and volumes resulted in a 62% increase in sales revenues. Continued high demand is expected for 1986. Production at the Mazeppa plant is expected to double CanadianOxy's sulphur output.

HEAVY OIL

CanadianOxy holds approximately 26 400 net hectares (66,000 net acres) of heavy oil lands near the Alberta/Saskatchewan border. To date, two projects have been initiated by the Company: a steam-thermal pilot project in the Manatokan/Cold Lake area of Alberta and a fireflood pilot project at Morgan, Alberta.

Manatokan

During 1985, CanadianOxy completed development work on phase I of its Manatokan steam stimulation project. The Company has drilled and completed 32 slant hole wells. This, together with the construction of steam generation and production facilities which will be completed in the spring of 1986, is expected to cost $25 million. The pilot phase will continue for up to four years and is expected to produce approximately 190 cubic metres (1,200 barrels) of bitumen per day. If the pilot operation is successful, commercial development would occur between 1991 and 1994. The owner of the mineral rights has reserved a 10% net profits interest which is convertible at its option upon completion of the pilot phase into a 50% working interest.

Morgan

Construction of the wholly-owned Morgan fireflood pilot project was completed at a cost of $8.2 million. The Company drilled and completed 10 additional wells and completed the construction of the oxygen injection and production facilities, with production expected to commence in the spring of 1986. Over the five year life of the pilot project average production is forecast at 95 cubic metres (600 barrels) per day.

CANADIAN RESERVES

Net proved reserves of oil and condensate increased by 14% due primarily to the inclusion of 400 thousand cubic metres (2.5 million barrels) of heavy oil reserves. Net proved reserves of natural gas after production declined by approximately 1%.

UNITED STATES – Gulf Coast

- Company interest blocks
- Farm-ins
- Production platforms

UNITED STATES

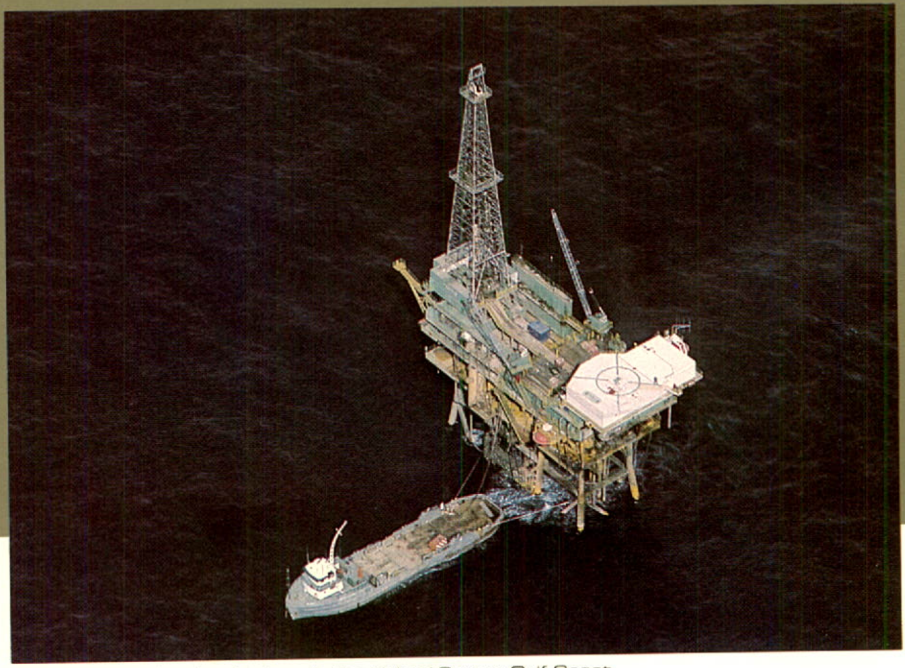
GULF COAST

CanadianOxy holds leasehold interests ranging from 3.7% to 100% in 44 Federal offshore lease blocks in the United States Gulf Coast, as shown on the accompanying map.

To date, 36 drilling and production platforms have been installed on the lease blocks. During 1985, the Company participated in the drilling of 16 wells in the Gulf Coast. Four oil wells and one gas well were drilled and successfully completed on the "H" platform at the Vermilion Block 124. CanadianOxy acquired the adjacent Block 123 to develop potential oil reserves in this area. Two wells were drilled at the South Marsh Island Block 137 but were non-commercial. At West Delta 45 two oil wells were drilled and successfully completed. By year-end, a total of 215 wells were on production and another four wells were scheduled to be on production in early 1986.

CanadianOxy's 1985 Gulf Coast production averaged 1 572 thousand cubic metres (55.8 million cubic feet) of gas per day and 919 cubic metres (5,784 barrels) of oil and condensate per day, before royalties. In the fall of 1985, the U.S. Gulf Coast experienced record production downtime due to hurricanes, a major factor in the 20% reduction in the oil and condensate production from 1984. At South Pass 78, it was necessary to replace the oil pipeline after hurricane damage rendered it inoperable. The remainder of the Company's facilities did not suffer significant damage.

Natural gas and condensate sales were down from 1984 levels as a result of competition from discount gas sales. CanadianOxy is renegotiating several of its major Gulf Coast natural gas contracts, which should make the pricing more market responsive.



Drilling and production platform in the United States Gulf Coast.

SAN MIGUEL OFFSHORE HEAVY OIL BLOCK

In April 1985, CanadianOxy purchased a 13.5% interest in the San Miguel Offshore Heavy Oil Block, offshore California, from a subsidiary of Occidental Petroleum Ltd. It is anticipated an offshore platform will be set on the lease by late 1986, with production scheduled to commence in 1987. By 1991 CanadianOxy's share of production, before royalties, will reach a peak of approximately 800 cubic metres (5,000 barrels) of oil per day. The Company's total investment in this property is expected to be $79.7 million (U.S.). This capital investment will be spent over the period 1985 to 1996 inclusive. Independent consultants have estimated CanadianOxy's share of net reserves on this project at 1.25 million cubic metres (7.9 million barrels) of proved undeveloped reserves, and an additional 625 thousand cubic metres (3.9 million barrels) of probable reserves.

UNITED STATES RESERVES

The Gulf Coast net proved reserves of crude oil and condensate, after production, increased slightly due to extensions and discoveries, and revisions. The increases in net proved gas reserves due to pool extensions and engineering revisions almost offset decreases due to production. As a result, Gulf Coast natural gas reserves declined slightly in 1985. The addition of the San Miguel net oil reserves increased the United States oil reserves by 200%.

All net reserves were determined by independent consultants.

SOUTH AMERICA

PERU

CanadianOxy (21%), Occidental Petroleum Corporation (63%) and Bridas Exploraciones y Produccion (16%), are participants in an oil field redevelopment and secondary recovery project in nine established producing oil fields near Talara, approximately 1 000 kilometres (620 miles) northwest of Lima, on the coast of Peru. Occidental is the operator of the project.

From inception of the project in August 1978 a total of 1,005 new wells have been drilled. At year-end there were 1,357 productive wells and 532 injection wells. The Company's share of total oil production was 363 cubic metres (2,290 barrels) per day in 1985.

The lengthy water injection shutdown caused by severe rainstorms in 1983 appears to have had a much longer lasting detrimental effect than originally anticipated. Insurance claims associated with this disruption have been filed; to date, $3.2 million (U.S.) has been received.

CanadianOxy is paid a service fee on its share of production which averaged $93.39 (U.S.) per cubic metre ($14.84 (U.S.) per barrel) during 1985. This service contract was rescinded by the Peruvian Government on August 29, 1985 and reinstated retroactively on December 28, 1985. Presently the service contract is under review by both parties.

Pump jack silhouetted against Alberta sunrise.

BOLIVIA

CanadianOxy (25%) and Occidental Petroleum Corporation (75%), have a production-sharing contract with YPFB, the Bolivian national oil company, in the Chaco block of southeastern Bolivia. Under this agreement, CanadianOxy is entitled to approximately 12.5% of all production from the block, net of taxes and royalties.

The initial discovery was made at Porvenir in 1978 and production facilities were completed in 1981. CanadianOxy's share of the condensate production averaged 84 cubic metres (528 barrels) per day in 1985. In July, a gas pipeline was installed, enabling CanadianOxy to begin selling 106 thousand cubic metres (3.8 million cubic feet) of natural gas per day.

SOUTH AMERICAN RESERVES

CanadianOxy's net share of the proved crude oil reserves in Peru, as established by independent consultants, was estimated at 1.5 million cubic metres (9.4 million barrels) at year-end. These amounts included a downward revision of 540 thousand cubic metres (3.4 million barrels), due to a slower rate of recovery from the waterflood response during the term of the service contract.

At year-end CanadianOxy's net share of the proved reserves for the Porvenir field in Bolivia, as estimated by independent consultants, was 430 million cubic metres (15.3 billion cubic feet) of natural gas and 89 thousand cubic metres (0.6 million barrels) of condensate.

OIL AND GAS PROVED RESERVES [1]

	1985		1984		1983	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Metric Units						
Crude Oil and Condensate						
(thousand cubic metres)						
Canada	**4 015**	**3 215**	3 653	2 809	3 845	2 973
United States	**2 362**	**1 968**	792	660	728	319
Peru[2]	**1 493**	**1 493**	2 164	2 164	2 429	2 429
Bolivia	**89**	**89**	141	141	177	177
	7 959	**6 765**	6 750	5 774	7 179	5 898
Pipeline Gas						
(million cubic metres)						
Canada	**13 492**	**10 642**	13 918	10 723	14 226	11 045
United States	**2 837**	**2 364**	2 811	2 343	3 149	1 583
Bolivia	**430**	**430**	448	448	448	448
	16 759	**13 436**	17 177	13 514	17 823	13 076
Natural Gas Liquids						
(thousand cubic metres)						
Canada	**845**	**601**	920	665	761	565
United States	**–**	**–**	10	8	–	–
	845	**601**	930	673	761	565
Imperial Units						
Crude Oil and Condensate						
(thousand barrels)						
Canada	**25,258**	**20,235**	22,984	17,675	24,185	18,700
United States	**14,861**	**12,384**	4,977	4,147	4,640	2,022
Peru[2]	**9,395**	**9,395**	13,614	13,614	15,279	15,279
Bolivia	**557**	**557**	884	884	1,115	1,115
	50,071	**42,571**	42,459	36,320	45,219	37,116
Pipeline Gas						
(billion cubic feet)						
Canada	**478.9**	**377.7**	494.0	380.6	505.0	392.0
United States	**100.7**	**83.9**	99.8	83.1	111.7	56.2
Bolivia	**15.3**	**15.3**	15.9	15.9	15.9	15.9
	594.9	**476.9**	609.7	479.6	632.6	464.1
Natural Gas Liquids						
(thousand barrels)						
Canada	**5,318**	**3,782**	5,794	4,180	4,787	3,554
United States	**–**	**–**	60	50	–	–
	5,318	**3,782**	5,854	4,230	4,787	3,554

Notes:
(1) The reserves set forth are based on estimates prepared by independent consultants.
(2) The Company receives a service fee per barrel for reserves produced in Peru.

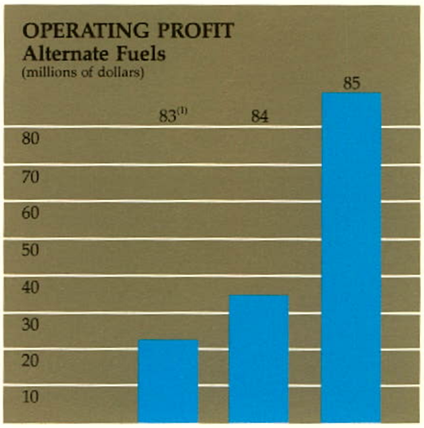
Alternate Fuels

TERRENCE H. ALLEN
Senior Vice President, Alternate Fuels

CanadianOxy holds a 13.23% interest in the Syncrude Project as well as various interests in other undeveloped oil sands leases. The Company also holds mining claims and leases including an undeveloped uranium property, and exploratory coal properties.

In 1985, net sales from alternate fuels operations were $212.1 million and operating profit was $88.8 million, an increase of 151% over 1984. This substantial increase reflects both increased revenues and business interruption insurance proceeds from the Syncrude operation. The excellent results achieved in 1985 are attributable to good operating conditions and high uninterrupted production levels at Syncrude, which experienced a record production year in 1985.

CanadianOxy management is concerned about the operating costs of the Syncrude plant in conjunction with the recent decline in world crude oil prices. Syncrude is currently investigating methods of decreasing such costs.



ALTERNATE FUELS OPERATIONS[1]

	1985	1984	1983
	(Amounts in thousands)		
Net Sales:			
Synthetic Crude Oil	**$208,738**	$167,293	$ 72,792
Sulphur	**3,380**	1,713	442
	$212,118	$169,006	$ 73,234
Operating Profit (Loss):			
Oil Sands	**$ 89,232**	$ 43,423	$ 24,666
Minerals and Coal	**(420)**	(7,984)	(2,203)
	$ 88,812	$ 35,439	$ 22,463
Capital Expenditures: [2]			
Oil Sands	**$ 47,126**	$ 25,572	$ 14,082
Minerals and Coal	**104**	190	710
	$ 47,230	$ 25,762	$ 14,792
Net Property, Plant and Equipment:			
Oil Sands	**$299,201**	$268,360	$256,082
Minerals and Coal	**539**	554	7,523
	$299,740	$268,914	$263,605

Notes:
(1) The table and graph above include the results of operations since the acquisition of Canada-Cities August 1, 1983.
(2) Capital expenditures exclude fixed asset additions resulting from the Canada-Cities acquisition in 1983 totalling $247,649,000.

Syncrude plant near Fort McMurray, Alberta.

ALTERNATE FUELS LAND HOLDINGS

	1985		1984	
	Gross	Net	Gross	Net
	(thousands of hectares)			
Metric Units				
Syncrude	39.1	5.2	39.1	5.2
Other Oil Sands	569.5	175.0	569.5	175.0
Coal	91.8	83.0	91.2	82.4
Oil Shale	1.4	1.4	1.4	1.4
	701.8	264.6	701.2	264.0
	(thousands of acres)			
Imperial Units				
Syncrude	97.8	12.9	97.8	12.9
Other Oil Sands	1,423.8	437.5	1,423.8	437.5
Coal	229.5	207.4	228.0	205.9
Oil Shale	3.5	3.5	3.5	3.5
	1,754.6	661.3	1,753.1	659.8

SYNCRUDE

The Syncrude Project, a joint venture created to extract and upgrade crude bitumen into a synthetic crude oil, is located on 39 106 hectares (97,765 acres) leased from the Province of Alberta in the Athabasca oil sands area near Fort McMurray, Alberta.

Production

During 1985, the plant's average gross daily production of synthetic crude oil was 20 431 cubic metres (128,570 barrels) per day, with CanadianOxy's share before royalties being 2 703 cubic metres (17,010 barrels) per day. This represents a 48% increase over 1984 production and a 15% increase over the best previous record. This excellent performance was a result of stable operations during 1985. In 1985, Syncrude achieved a major milestone with the production of its 200 millionth barrel of synthetic crude oil since production began in 1978.

Production of synthetic crude oil in 1984 was affected by a major fire in August and by two other less serious operating incidents in the first quarter, all of which resulted in significantly reduced production capacity.

Property damage and business interruption insurance claims for these incidents have been filed. An interim payment of $10 million was received in 1985 relative to the business interruption claim, and is reflected in 1985 income.

Dragline working mine at Syncrude plant.

ALTERNATE FUELS PRODUCTION

	1985		1984	
	Gross	Net	Gross	Net
Metric Units				
Synthetic Crude Oil (thousand cubic metres)	**986.7**	**878.0**	665.0	628.0
Sulphur (thousand tonnes)	**40.2**	**36.0**	26.2	24.9
Imperial Units				
Synthetic Crude Oil (thousand barrels)	**6,209.3**	**5,525.3**	4,184.8	3,952.0
Sulphur (thousand long tons)	**39.6**	**35.4**	25.8	24.5

Note:
Gross amounts refer to production before royalties and net amounts refer to production after royalties.

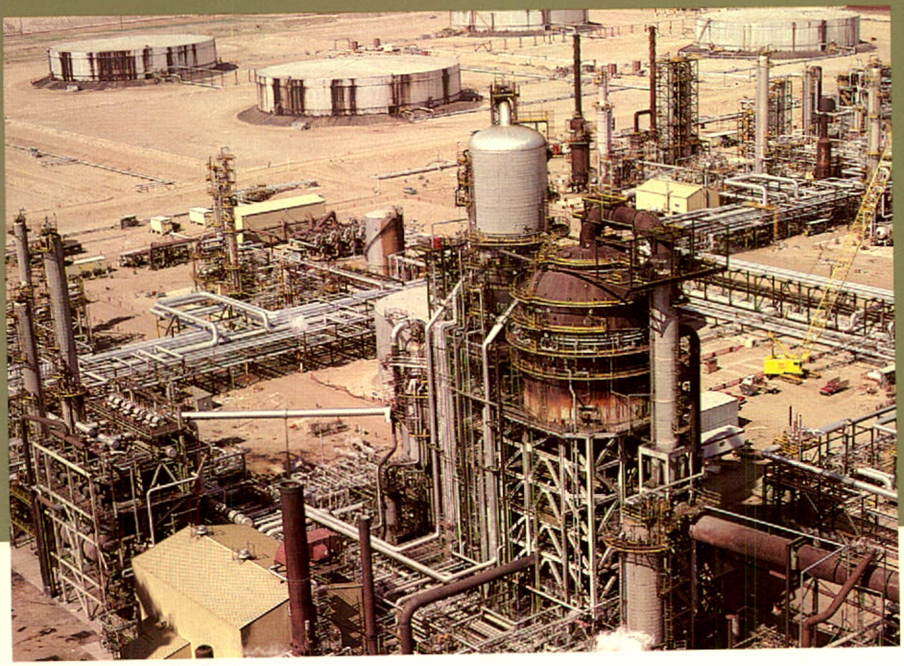
Syncrude Reserves

CanadianOxy's share of net synthetic crude oil reserves associated with the Syncrude Project over the remaining 28 year term of the current mining plan is estimated by independent consultants to be approximately 25.3 million cubic metres (159 million barrels). This represents a 5.7% increase over the 1984 net reserves, which is the result of current production estimates throughout the life of the approved production permit.

Since the joint venture payment to the Province of Alberta is based on "deemed net profits", an estimate of net reserves involves forecasting future crude oil prices and future plant operating costs.

OTHER OIL SANDS LEASES

CanadianOxy has a 25% interest in six oil sands leases covering 75 035 hectares (187,588 acres) in the vicinity of the current Syncrude operations. Since 1981, the Company and five other participants have been conducting drilling programs and engineering studies on some of the leases to determine commercial feasibility. These programs are expected to continue through 1986.



Coker at Syncrude plant.

IN-SITU OIL SANDS

CanadianOxy has a 31.6% average interest in 34 deep oil sands leases in the Athabasca deposit of northern Alberta.

The operations on the leases are subject to a farmout agreement which gives Japan Canada Oil Sands Ltd. (JACOS) a three phase option to earn a 25% interest over a period of approximately 15 years. To date, JACOS has earned a 25% interest in one-third of the leases.

A single well steam injection and production test initiated in 1984 resulted in a nominal amount of bitumen being produced and marketed in 1985, and will enter a second production cycle in 1986. A second well production test which commenced in late 1985 will also continue in 1986.

MINERALS AND COAL

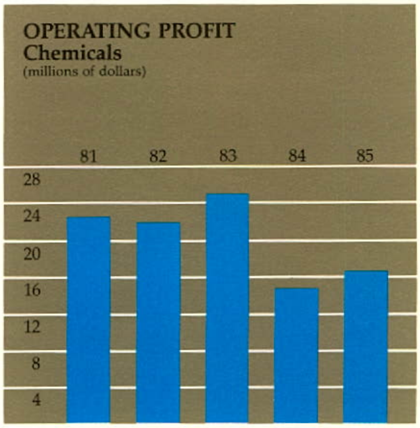
CanadianOxy holds interests in several metallic mineral claims and leases in Canada. The Company's most significant property, "Wolly", located on the eastern rim of the Athabasca basin in northern Saskatchewan, has potentially significant uranium deposits.

In January 1985, CanadianOxy and its partner Inco Limited entered into an agreement with Minatco Limited, granting Minatco an option to earn a one-third interest in the Wolly property. Minatco can earn this interest by expending $23 million on an exploration program and by preparing a feasibility study of the deposit's commercial potential. The first phase of this program requires Minatco to spend $5 million between 1985 and 1988. In 1985, Minatco completed an exploration program consisting of data compilation, geophysical surveys and diamond drill-testing of previously established and new targets. Minatco will carry out a similar program in 1986.

CanadianOxy has had a limited coal exploration program in Alberta for several years. The Company holds several bituminous thermal coal properties in Alberta as well as two on Vancouver Island. Further evaluation is required to determine their economic potential.

Chemicals

BRIAN D. THORPE
Vice President, Chemicals



CanadianOxy's Chemicals Division includes the Industrial Chemicals group in western Canada and the Specialty Chemicals group in eastern Canada.

The Industrial Chemicals group supplies bleaching chemicals to the western Canadian pulp and paper industry, and industrial chemicals to western Canada. Over 77% of the sales from chemical operations are generated by this group.

The Specialty Chemicals group supplies chemicals for metal treating and coating, and plastics and resins to the manufacturing and consumer product industries of eastern Canada.

INDUSTRIAL CHEMICALS

Industrial chemical operations comprise two chlor-alkali plants, one in North Vancouver and the other in Nanaimo, British Columbia, and three sodium chlorate manufacturing plants in Squamish and Nanaimo, British Columbia and Brandon, Manitoba. The Company supplies more than 50% of the chlorine and caustic soda sold in British Columbia.

CanadianOxy is also a major producer of muriatic acid in western Canada and presently supplies more than 40% of the product used in Alberta and British Columbia. A principal use of muriatic acid is in the completion and stimulation of both new and existing oil and gas wells.

Total production capacities at the North Vancouver and Nanaimo plants for chlorine, caustic soda and muriatic acid are approximately 168 500, 187 000 and 22 700 tonnes (185,700, 206,000 and 25,000 short tons) per year, respectively. Sodium chlorate is produced at the Squamish, Nanaimo and Brandon plants where the combined annual capacity is 29 300 tonnes (32,300 short tons). During 1985, production of chlor-alkali and sodium chlorate was approximately 81% of capacity. Overall production of industrial chemicals rose by 5% over 1984 levels, as a result of some recovery in the pulp and paper industry.

During the past year, electrical rate incentives allowed CanadianOxy's North Vancouver operation to contract new business which the Company expects will lead to better plant utilization in 1986.

CanadianOxy owns and operates two chemical barges to deliver chlorine and caustic soda to its coastal customers and to its bulk chemical terminal adjacent to the Westar Timber pulp mill near Prince Rupert. A new chlorine pipeline from the terminal to the mill went into operation in 1985.

In 1986, CanadianOxy will begin an $11 million project to expand and modernize its sodium chlorate plant in Brandon, Manitoba. The plant's annual production should increase approximately 45%.

SPECIALTY CHEMICALS

The Specialty Chemicals group manufactures the metal finishing Parker product lines in Rexdale, Ontario and markets them primarily in Ontario and Quebec. Continued strength of the automotive sectors improved Parker division operating results in 1985.

Loading caustic product onto barge at North Vancouver plant.

Durez Plastics products are used by the automotive, tire, communications, appliance and foundry industries. Although production decreased by 16% in 1985, net sales were down by only 5%.

Due to declining markets during 1985, CanadianOxy sold the Sel-Rex business which supplied chemicals and process technology to the electronics, telecommunications and decorative jewelry industries.

ENVIRONMENT AND SAFETY

The Chemicals Division of CanadianOxy has an active environmental and safety program at all of its operations. Approximately $4 million will be spent on programs which began in 1985 and are scheduled for completion in 1987. The North Vancouver plant chlorine storage facilities will be upgraded for greater protection from earthquakes at a cost of approximately $3 million. The Nanaimo and North Vancouver plants will install both computerized modelling systems which will monitor potential releases to the atmosphere, and asbestos handling systems.

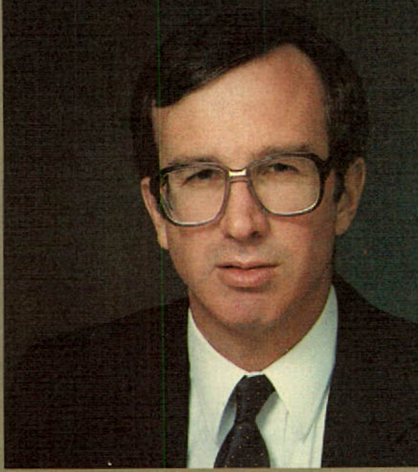
Since 1972, the North Vancouver plant has been the regional control centre for the North America-wide Chlorine Emergency Plan (CHLOREP).

CHEMICALS	**1985**	**1984**	**1983**
	(Amounts in thousands)		
OPERATIONS			
Net Sales:			
Industrial Chemicals	**$69,616**	$65,508	$70,465
Plastics and Resins	**9,618**	10,124	10,045
Metal Finishing	**11,118**	11,220	11,497
	$90,352	$86,852	$92,007
Operating Profit	**$16,645**	$14,655	$25,041
Capital Expenditures	**$ 9,827**	$ 4,899	$ 6,633
Net Property, Plant and Equipment	**$47,433**	$41,360	$39,864
PRODUCTION			
Industrial Chemicals			
Metric Units (thousands of tonnes)			
Caustic Soda	**147.6**	143.1	149.6
Chlorine	**130.4**	124.3	132.5
Sodium Chlorate	**24.0**	22.7	24.2
Imperial Units (thousands of short tons)			
Caustic Soda	**162.7**	157.7	165.0
Chlorine	**143.7**	137.0	146.1
Sodium Chlorate	**26.4**	25.1	26.6

Through this plan, the Company participates with other chlorine producers to provide professional and responsive action in the event of a chlor-alkali related emergency anywhere in the area.

The Transportation of Dangerous Goods Act became law in Canada on July 1, 1985 and all appropriate personnel have been trained and certified in accordance with the stipulated regulations. The training programs were also used to assist CanadianOxy's customers and transportation carriers.

Financial Review



JOHN E. EBRIGHT
Acting Vice President, Finance

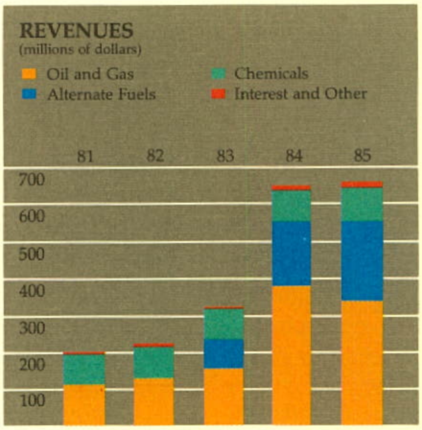
MANAGEMENT'S DISCUSSION AND ANALYSIS

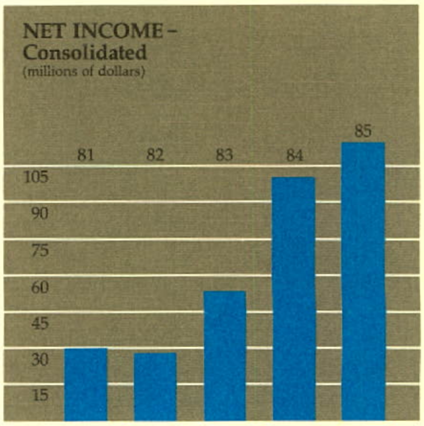
RESULTS OF OPERATIONS

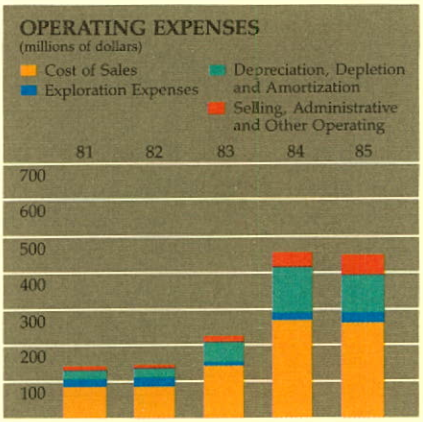
In 1985, CanadianOxy recorded its highest net income and sales in history. Net income was $115.2 million on sales of $640.7 million compared with net income of $100.8 million on sales of $635.7 million in 1984, an increase of 14% in net income. Net income for 1983 was $54.5 million on sales of $323.5 million. Results of operations reflect the acquisition of Canada-Cities Service, Ltd. (Canada-Cities) in August 1983 and CanadianOxy Offshore Production Co. (COPCO) in February 1984.

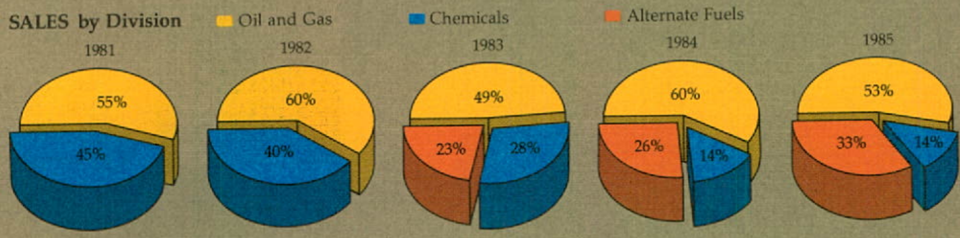
Oil and Gas

Net sales for the division were $338.2 million in 1985 compared to $379.8 million in 1984 and $158.3 million in 1983. Operating profit declined to $118.7 million from $156.6 million in 1984. In 1983, operating profit was $63.1 million. The lower operating profits in 1985 compared with 1984 were attributable to a decrease in margin in the U.S. Gulf Coast due to significantly lower gas volumes sold, which were partially offset by slightly higher gas prices; in Bolivia, lower condensate volumes and an increase in the provision for doubtful accounts; and in Peru, lower sales volumes, crude oil prices and increased depletion. Canadian earnings were slightly lower in 1985 than in 1984 reflecting higher exploration expenditures as a result of expanded exploration programs carried out in 1985. The increase in operating profits in 1984 compared with 1983 reflects a full year's operating results from the acquisition of Canada-Cities and ten months' results from the acquisition of COPCO.









Operating profits for U.S. operations declined to $60.0 million from $80.7 million in 1984. The 1983 operating profit was $28.0 million. In addition to lower gas volumes sold, production operations were interrupted for several weeks when hurricane activity caused minor damage to several platforms and major damage to one of the oil pipelines.

In Peru, production and the service fee declined moderately. As a result, sales revenues declined to $16.8 million from $18.8 million in 1984 and $21.1 million in 1983. In 1985 an operating loss of $5.5 million was experienced compared to an operating profit of $1.5 million in 1984, reflecting increased depletion due to a downward revision of proved reserves that are estimated to be produced within the contract period. In August 1985, the Peruvian government rescinded the service contract and in December 1985 declared that the service contract in effect prior to August 1985 would continue in full force, however, certain provisions of the contract are currently under review.

Alternate Fuels

Record sales of $212.1 million were achieved in 1985 representing an increase of 26% over 1984 sales revenues of $169.0 million. Sales in 1983 were $73.2 million. Operating profit for the division was a record $88.8 million compared to $35.4 million reported in 1984, an increase of 151%. Operating profit in 1983 was $22.5 million.

In 1985, the Syncrude plant achieved a record level of production of 20 431 cubic metres (128,571 barrels) per day as compared with 13 735 cubic metres (86,434 barrels) per day in 1984 and 17 761 cubic metres (111,770 barrels) per day in 1983. CanadianOxy has a 13.23% interest in the plant.

Partially offsetting the production increase were lower synthetic crude oil prices in 1985. In 1984 a serious fire caused a complete shutdown of the plant for five weeks and limited production to 50% of capacity for approximately three months. The 1985 operating profit also reflects a $10.0 million business interruption payment arising from the 1984 fire.

Chemicals

The industrial and specialty chemicals continue to face strong competition in the marketplace. Sales revenues were $90.4 million in 1985 compared with $86.9 million in 1984 and $92.0 million in 1983. Operating profits were $16.6 million in 1985, $14.7 million in 1984 and $25.0 million in 1983. Sales volumes and prices of industrial chemicals were slightly higher in 1985. The decline in operating profits from 1983 to 1984 reflected lower sales prices due to increased competition for market share and slightly higher manufacturing and operating expenses.

In 1985, the industrial chemical sales volumes were restricted due to poor international markets for Canadian pulp and paper. Specialty chemicals continued to enjoy increased sales growth tied to their automotive metal treating chemical markets.

Corporate

Net corporate expenses decreased to $20.5 million compared to $33.1 million in 1984 reflecting an increase in interest income of $2.5 million, and capitalized interest of $7.3 million compared with 1984. The increase in capitalized interest is attributable to the San Miguel property, the Syncrude capacity addition program and the Mazeppa gas plant. Gross interest expense declined by $3.7 million in 1985 reflecting lower interest rates and decreased average debt outstanding.

RONALD C. WRIGHT
Vice President, Administration

LIQUIDITY AND CAPITAL RESOURCES AND EXPENDITURES

During 1985, CanadianOxy continued to maintain a strong balance sheet with a long-term debt to shareholders' equity percentage of 10.3% compared with 13.2% in 1984 and 34.7% in 1983. This improvement was made despite an increase in capital and exploration expenditures from 1984 of 225%.

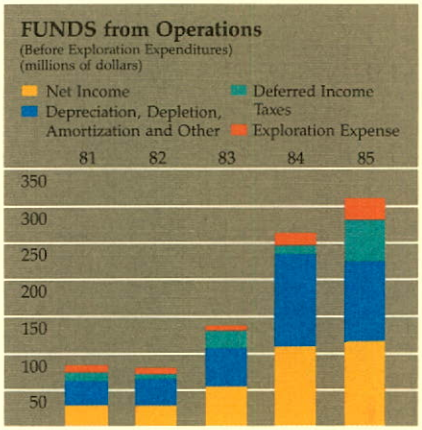
CanadianOxy was able to fund a major capital expenditure program in 1985 while at the same time calling its redeemable preferred shares at a cost of $17.2 million and reducing long-term debt by $9.0 million.

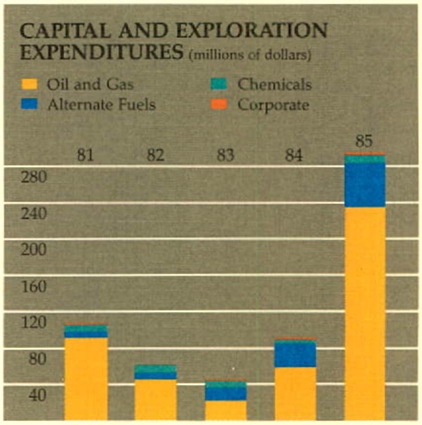
Funds from operations before exploration expenditures were $311.2 million, an increase of 18% compared to $263.9 million in 1984. Funds from operations in 1983 were $137.8 million.

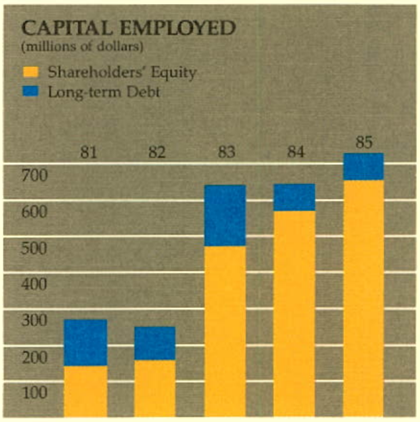
Capital and exploration expenditures increased substantially in 1985 to $296.3 million compared with $91.1 million and $44.4 million in 1984 and 1983 respectively. Total oil and gas expenditures in 1985 were $235.6 million. The increase in capital spending during 1985 is due to a more active oil and gas exploration and development program, a direct result of the Western Accord, the Mazeppa gas plant, CanadianOxy's share of capital additions to the Syncrude plant and the San Miguel property.

During 1985, CanadianOxy completed the purchase of an oil property (San Miguel) for $52.5 million (U.S.), of which $42.5 million (U.S.) was financed under a deferred purchase agreement. Under the terms of the agreement payment of principal and interest will be made from CanadianOxy's share of net operating income from the property.

At December 31, 1985, CanadianOxy had working capital of $28.2 million, up from $17.6 million at the end of 1984, and available but unused domestic and foreign lines of committed bank credit of approximately $492 million. At December 31, 1985, CanadianOxy had cash and short-term investments of $29.4 million. Long-term debt was $67.6 million compared with $75.9 million in 1984 and $166.4 million in 1983.







RECENT DEVELOPMENTS

Since December 31, 1985 oil prices have fallen from $26.30 (U.S.) per barrel at December 31, 1985 to $13.26 (U.S.) per barrel at February 28, 1986 for light crude oil, as reported by the New York Mercantile Exchange, a drop of 50%. This decline has had a material adverse effect on the earnings in 1986 of the Oil and Gas and Alternate Fuels divisions. If these declines continue, the recoverability of cost of the Oil and Gas and Alternate Fuels properties would also be adversely affected. During 1986, capital and exploration expenditures may have to be substantially reduced from the 1985 level due to the resulting decline in oil prices.

In addition, insurance coverage in 1986 for certain properties has changed as deductible amounts and premiums have increased substantially.

INFLATION

General inflation in 1985 and 1984 according to the Canadian Consumer Price Index was 4.0% and 4.4%, respectively.

In accordance with CICA recommendations the Company reports the Effect of Changing Prices in the Supplementary Financial Information on pages 44 and 45.

ENERGY PRICING AGREEMENTS

The "Western Accord on Energy Pricing and Taxation" dated March 28, 1985, provides for Canada to move from a system of government administered pricing of oil to market related pricing.

On October 31, 1985, the federal and three western provincial governments signed an agreement on Natural Gas Markets and Prices. This agreement became effective November 1, 1985 and provides a one year transition period from administered prices to negotiated prices. Until October 31, 1986, the Alberta Border Price remains fixed at its current level. However, export gas prices may be determined through buyer-seller negotiation effective November 1, 1985 and must meet only an adjacent border price test as established by the National Energy Board.

Report of Management

The management of CanadianOxy is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures and exercises its best judgment in order that such statements reflect fairly the consolidated financial position, results of operations and changes in financial position of CanadianOxy.

In order to gather and control financial data, CanadianOxy has established accounting and reporting systems supported by internal controls and an internal audit program. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the records are reliable for preparing consolidated financial statements and other data, and maintaining accountability for assets.

John E. Ebright

John E. Ebright
Acting Vice President, Finance
and Chief Financial Officer

February 10, 1986.

Auditors' Report

**To the Shareholders of
Canadian Occidental Petroleum Ltd.:**

We have examined the consolidated balance sheets of Canadian Occidental Petroleum Ltd. (a Canada corporation) as at December 31, 1985 and 1984 and the related consolidated statements of income, changes in financial position, shareholders' equity, and industry segments and geographic areas for the three years ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Canadian Occidental Petroleum Ltd. as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for the three years ended December 31, 1985 in accordance with generally accepted accounting principles applied, except for the change made as of January 1, 1984, in the method of accounting for investment tax credits as explained in Note 2 to the consolidated financial statements, on a consistent basis.

Arthur Andersen & Co.

**Arthur Andersen & Co.,
Chartered Accountants**

Calgary, Alberta,
February 10, 1986.

Consolidated Statements of Income

FOR THE THREE YEARS ENDED DECEMBER 31, 1985

	1985	1984	1983
		(Amounts in thousands)	
Revenues			
Net sales	$640,719	$635,660	$323,512
Interest and other income	25,597	19,743	5,020
	666,316	655,403	328,532
Costs and Expenses			
Cost of sales	264,213	273,280	144,677
Selling, administrative and other operating	57,233	45,849	26,553
Depreciation	13,366	12,773	9,923
Depletion and amortization	85,449	111,554	38,897
Exploration	31,829	16,830	7,314
Interest (Note 7)	10,546	21,555	12,718
	462,636	481,841	240,082
Income Before Provision For Income Taxes	203,680	173,562	88,450
Provision For Income Taxes (Note 12)	88,455	72,775	33,929
Net Income	$115,225	$100,787	$ 54,521
Basic Earnings Per Common Share	$ 3.41	$ 2.96	$ 2.08
Fully Diluted Earnings Per Common Share	$ 3.39	$ 2.94	$ 1.90

See accompanying notes to consolidated financial statements

Consolidated Balance Sheets

DECEMBER 31, 1985 and 1984

	1985	1984
	(Amounts in thousands)	
Assets		
Current Assets		
Cash	$ 29,360	$ 31,225
Accounts receivable (Notes 4 and 6)	122,134	129,386
Inventories and supplies (Note 5)	34,280	37,712
Prepaid expenses	4,558	4,116
Total current assets	190,332	202,439
Property, Plant and Equipment (Note 6)	1,046,402	854,421
Natural Gas Underlifts	31,445	23,646
Other Assets (Note 6)	18,073	9,484
	$1,286,252	$1,089,990
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 152,593	$ 118,733
Income taxes payable	–	50,464
Dividends payable	5,351	4,597
Current portion of long-term debt (Note 7)	4,190	11,030
Total current liabilities	162,134	184,824
Long-Term Debt (Note 7)	67,582	75,852
Deferred Liabilities and Credits		
Income taxes	187,631	133,947
Deferred purchase agreement (Note 9)	63,807	–
Natural gas overlifts	34,503	20,110
Advances from gas purchasers	33,206	46,836
Dismantlement provision	58,204	44,711
Investment tax credits and other	20,474	11,104
Total deferred liabilities and credits	397,825	256,708
Shareholders' Equity		
Redeemable preferred shares (Note 8)	–	16,875
Common shares (Note 8)	272,676	272,765
Contributed surplus	17,716	20,448
Retained earnings	334,103	241,550
Cumulative foreign currency translation adjustment	34,216	20,968
Total shareholders' equity	658,711	572,606
Commitments and Contingencies (Note 9)		
	$1,286,252	$1,089,990

APPROVED ON BEHALF OF THE BOARD:

, Director　　　　, Director

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Financial Position

FOR THE THREE YEARS ENDED DECEMBER 31, 1985

	1985	1984	1983
		(Amounts in thousands)	
Sources of Working Capital:			
Net income	$115,225	$100,787	$ 54,521
Amounts not requiring an outlay of working capital			
Depreciation, depletion and amortization	98,815	124,327	48,820
Provision for dismantlement	10,533	12,751	742
Deferred income taxes	57,644	12,832	24,722
Other	(1,091)	(3,611)	1,671
Funds from operations	281,126	247,086	130,476
Add current year exploration expenditures	30,081	16,830	7,303
Funds from operations before exploration expenditures	311,207	263,916	137,779
Proceeds from –			
Long-term debt, net of financing costs	–	355,009	366,048
Overlifts (underlifts) and gas advances	(9,694)	15,755	2,461
Common share issue, net of costs	–	–	189,143
Deferred purchase agreement	61,812	–	–
Other	4,614	10,511	3,459
	367,939	645,191	698,890
Uses of Working Capital:			
Acquisitions, net of working capital (Note 3)	–	115,876	390,111
Reduction in long-term debt	9,014	452,926	219,683
Capital and exploration expenditures	296,253	91,110	44,434
Dividends	22,672	17,314	11,228
Purchase of redeemable preferred shares	17,213	1,385	789
Purchase of common shares	3,545	831	–
Other	8,659	2	2,501
	357,356	679,444	668,746
Increase (Decrease) in Working Capital	10,583	(34,253)	30,144
Increase (Decrease) in Non-Cash Working Capital			
Accounts receivable and prepaid expenses	(18,716)	44,932	42,784
Inventories and supplies	(3,432)	(1,349)	12,262
Accounts payable and accrued liabilities	(33,860)	(28,381)	(54,473)
Income taxes	62,370	(50,464)	8,798
Dividends payable	(754)	(1,143)	(1,111)
Current portion of long-term debt	6,840	(10,101)	5,785
	12,448	(46,506)	14,045
Increase (Decrease) in Cash	(1,865)	12,253	16,099
Cash – Beginning of year	31,225	18,972	2,873
Cash – End of year	$ 29,360	$ 31,225	$ 18,972
Working Capital – End of year	$ 28,198	$ 17,615	$ 51,868

See accompanying notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

FOR THE THREE YEARS ENDED DECEMBER 31, 1985

	Redeemable Preferred Shares (Note 8)	Common Shares (Note 8)	Contributed Surplus	Retained Earnings	Cumulative Foreign Currency Translation Adjustment
			(Amounts in thousands)		
At December 31, 1982	$ 19,062	$ 9,291	$ 21,005	$114,784	$ 8,444
Common share issue	–	189,143	–	–	–
Exercise of stock options for cash	–	1,380	–	–	–
Conversion of subordinated debentures	–	73,100	–	–	–
Purchased for cancellation	(802)	–	13	–	–
Deferred financing costs	–	(1,131)	–	–	–
Net income	–	–	–	54,521	–
Common share dividends	–	–	–	(9,372)	–
Preferred share dividends	–	–	–	(1,856)	–
Translation adjustment	–	–	–	–	1,409
At December 31, 1983	18,260	271,783	21,018	158,077	9,853
Exercise of stock options for cash	–	1,211	–	–	–
Purchased for cancellation	(1,385)	(261)	(570)	–	–
Net income	–	–	–	100,787	–
Common share dividends	–	–	–	(15,539)	–
Preferred share dividends and other	–	32	–	(1,775)	–
Translation adjustment	–	–	–	–	11,115
At December 31, 1984	**16,875**	**272,765**	**20,448**	**241,550**	**20,968**
Exercise of stock options for cash	**–**	**1,008**	**–**	**–**	**–**
Purchased for cancellation	**–**	**(1,151)**	**(2,394)**	**–**	**–**
Redemption of preferred shares	**(16,875)**	**–**	**(338)**	**–**	**–**
Net income	**–**	**–**	**–**	**115,225**	**–**
Common share dividends	**–**	**–**	**–**	**(21,403)**	**–**
Preferred share dividends and other	**–**	**54**	**–**	**(1,269)**	**–**
Translation adjustment	**–**	**–**	**–**	**–**	**13,248**
At December 31, 1985	**$ –**	**$272,676**	**$ 17,716**	**$334,103**	**$ 34,216**

See accompanying notes to consolidated financial statements

Industry Segments and Geographic Areas

FOR THE THREE YEARS ENDED DECEMBER 31, 1985

INDUSTRY SEGMENTS

	1985	1984	1983
	(Amounts in thousands)		
Net sales			
Oil and gas	$ 338,249	$ 379,802	$158,271
Alternate fuels	212,118	169,006	73,234
Chemicals	90,352	86,852	92,007
	640,719	635,660	323,512
Interest and other income	25,597	19,743	5,020
Total revenues	$ 666,316	$ 655,403	$328,532
Operating profit			
Oil and gas	$ 118,749	$ 156,617	$ 63,095
Alternate fuels	88,812	35,439	22,463
Chemicals	16,645	14,655	25,041
	224,206	206,711	110,599
Interest expense	(10,546)	(21,555)	(12,718)
Corporate expenses	(9,980)	(11,594)	(9,431)
Income before provision for income taxes	$ 203,680	$ 173,562	$ 88,450
Identifiable assets			
Oil and gas	$ 839,884	$ 691,629	$524,799
Alternate fuels	335,829	305,875	297,809
Chemicals	71,437	71,545	64,039
	1,247,150	1,069,049	886,647
Corporate assets	39,102	20,941	35,142
Total assets	$1,286,252	$1,089,990	$921,789
Depreciation, depletion and amortization			
Oil and gas	$ 77,311	$ 100,390	$ 38,790
Alternate fuels	16,727	20,023	6,970
Chemicals	3,626	3,253	2,648
Corporate	1,151	661	412
	$ 98,815	$ 124,327	$ 48,820
Additions to property, plant and equipment			
Oil and gas	$ 205,508	$ 42,149	$ 15,155
Alternate fuels	47,230	25,762	14,792
Chemicals	9,827	4,899	6,633
Corporate	3,607	1,470	551
	$ 266,172	$ 74,280	$ 37,131

Industry Segments and Geographic Areas

FOR THE THREE YEARS ENDED DECEMBER 31, 1985

GEOGRAPHIC AREAS[1]

	1985	1984	1983
	(Amounts in thousands)		
Net sales[2]			
Canada	$ 456,365	$ 402,513	$241,758
United States	152,247	199,375	51,570
South America	32,107	33,772	30,184
	640,719	635,660	323,512
Interest and other income	25,597	19,743	5,020
Total revenues	$ 666,316	$ 655,403	$328,532
Operating profit (loss)			
Canada	$ 167,252	$ 116,832	$ 79,454
United States	60,022	80,662	27,969
South America	(3,068)	9,217	3,176
	224,206	206,711	110,599
Interest expense	(10,546)	(21,555)	(12,718)
Corporate expenses	(9,980)	(11,594)	(9,431)
Income before provision for income taxes	$ 203,680	$ 173,562	$ 88,450
Identifiable assets			
Canada	$ 768,848	$ 644,669	$602,862
United States	318,903	260,335	127,347
South America	159,399	164,045	156,438
	1,247,150	1,069,049	886,647
Corporate assets	39,102	20,941	35,142
Total assets	$1,286,252	$1,089,990	$921,789

Oil and Gas operations include the exploration for, and development and production of oil, natural gas and sulphur. The Alternate Fuels division is engaged in the production of synthetic crude oil from oil sands and the exploration for, and evaluation of mineral, coal and oil sands deposits. The Chemicals operations consist of the manufacture and marketing of industrial chemicals (principally chlorine, caustic soda, sodium chlorate and muriatic acid), metal finishing chemicals, plastic resins and moulding materials. There are no significant sales between segments. Investments in foreign countries are subject to the actions of those countries, which could significantly affect CanadianOxy's operations and investments in those countries.

Notes:

(1) Included in the Consolidated Balance Sheets are liabilities of approximately $28 million and $34 million at December 31, 1985 and 1984, respectively, which pertain to operations based outside the United States and Canada.

(2) Export sales are immaterial.

Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. These consolidated financial statements would not be materially different if they had been prepared using generally accepted accounting principles in the United States. Certain reclassifications have been made to prior years' consolidated financial statements to conform with the current year's presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Occidental Petroleum Ltd. and its subsidiary companies (CanadianOxy). All subsidiaries are wholly owned. All material intercompany accounts and transactions have been eliminated. Substantially all exploration, development and production activities related to oil and gas and alternate fuels are conducted jointly with others and accordingly, the accounts reflect only CanadianOxy's proportionate interest in such activities.

Inventories and Supplies

Inventories and supplies are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out and average cost basis.

Property, Plant and Equipment

CanadianOxy follows the successful efforts method of accounting for exploration and development activities. Acquisition costs of resource properties and exploratory drilling costs are capitalized. The cost of exploratory wells found to be dry and all other exploration costs are expensed. All costs of development wells are capitalized.

The capitalized cost of resource properties, producing wells, gas plants and the Syncrude plant are depleted or depreciated using the unit-of-production method, over remaining proved reserves as evaluated by independent engineers. Producing and non-producing properties are periodically evaluated and, if conditions warrant, an impairment reserve is provided. The cost of other plant and equipment is capitalized and depreciated using the straight-line method based on the estimated useful life of the asset. Improvements that increase capacity or extend the service life of these assets are capitalized.

The unit-of-production method is used to provide for future dismantlement costs of the U.S. Gulf Coast production platforms. The costs are based on independent engineering estimates.

Natural Gas Underlifts and Overlifts

Natural gas underlifts and overlifts represent gas lifted and sold above or below CanadianOxy's working interest share in U.S. Gulf Coast properties. Settlement will be in kind when the liftings are equalized or in cash when production ceases.

Income Taxes

Deferred foreign withholding taxes have not been provided on the undistributed earnings of foreign incorporated subsidiaries as it is CanadianOxy's intention, generally, to reinvest such earnings permanently.

Earnings per Common Share

Basic earnings per common share are based on the weighted average number of shares outstanding during each year after deducting dividends on preferred shares.

Fully diluted earnings per share are determined on the assumption that all outstanding convertible debentures have been converted and stock options having a dilutive effect have been exercised.

Foreign Currency Translation

Foreign operations have the United States dollar as their primary currency. Assets and liabilities are translated into Canadian dollars using exchange rates at the balance sheet dates. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from the translation process are shown as a separate component of shareholders' equity.

Transactions and balances denominated in a currency other than the primary currency are translated into the primary currency using the temporal method.

Capitalized Interest

Interest is capitalized on all qualifying assets until put into service using either the interest rate on borrowings specifically associated with the asset or, if no such specific borrowings exist, the weighted average interest rate on all borrowings.

Investment Tax Credits

Investment tax credits are recorded as deferred credits in the year the qualifying expenditures are made and are amortized in a manner consistent with the depletion, depreciation and amortization of the related asset.

2. CHANGE IN ACCOUNTING POLICY

In the fourth quarter of 1984, CanadianOxy changed its method of accounting for investment tax credits by adopting prospectively the recommendations issued by the Canadian Institute of Chartered Accountants. The change was made effective January 1, 1984 and resulted in a decrease of $4,600,000 ($0.14 per share) to 1984 net income.

3. ACQUISITIONS

On December 21, 1983 CanadianOxy acquired, from a subsidiary of Occidental Petroleum Corporation (Occidental), 30% of the capital stock of CanadianOxy Offshore Production Co., formerly Cities Offshore Production Co. (COPCO), for cash of $44.7 million. On February 24, 1984 the remaining 70% of the outstanding capital stock of COPCO was acquired for cash of $116.1 million. Subsequent to February 24, 1984, the purchase method of accounting was used and 100% of COPCO's results of operations have been consolidated. The total cost of the acquisition was $161 million, representing total assets, non-current liabilities, and equity in earnings prior to February 24, 1984 of $181 million, $16 million and $4 million, respectively.

Effective August 1, 1983 CanadianOxy acquired all the outstanding shares of Canada-Cities Service, Ltd. (Canada-Cities), from Occidental for cash of $354 million. The purchase method of accounting was used and the results of operations have been consolidated since acquisition. Total assets and liabilities acquired were $418 million and $64 million, respectively.

The following presents selected unaudited financial information for CanadianOxy, COPCO and Canada-Cities on a pro forma basis, assuming the companies had been combined for the years ended December 31, 1984 and 1983: revenues of $686 million and $650 million, net income of $103 million and $98 million and basic earnings per share of $3.03 and $3.78, respectively.

4. ACCOUNTS RECEIVABLE

	1985	1984
	(Amounts in thousands)	
Trade (See Note 6)	$ 113,870	$ 116,650
Non-trade	3,837	12,559
Receivable from affiliates	–	1,637
Income taxes refundable	11,906	–
	129,613	130,846
Allowance for doubtful accounts	(7,479)	(1,460)
	$ 122,134	$ 129,386

5. INVENTORIES AND SUPPLIES

	1985	1984
	(Amounts in thousands)	
Finished products	$ 5,002	$ 6,810
Work in process	8,469	6,069
Supplies	20,809	24,833
	$ 34,280	$ 37,712

6. PROPERTY, PLANT AND EQUIPMENT

	1985	1984
	(Amounts in thousands)	
Oil and gas	$1,009,580	$ 777,635
Alternate fuels	341,157	295,221
Chemicals	94,926	85,384
Corporate	6,996	3,461
Total capitalized costs	1,452,659	1,161,701
Accumulated depreciation, depletion and amortization	406,257	307,280
Net book value	$1,046,402	$ 854,421

Notes to Consolidated Financial Statements (continued)

CanadianOxy has oil and gas assets located in Peru and Bolivia. These assets and the related operations are subject to risks of dealing with foreign governments, including risks of increases in taxes and royalties, payment delays, renegotiation of contracts and currency exchange losses. At December 31, 1985, CanadianOxy's aggregate net assets in Peru and Bolivia were approximately $126 million, including $13.6 million of accounts receivable ($7.9 million long-term) from the Bolivian government, portions of which are in arrears and/or have been rescheduled.

In August 1985, the Peruvian government rescinded a service contract whereby CanadianOxy is paid a fee on its share of oil production. In December 1985, the Peruvian government declared that the service contract in effect prior to August 1985 would continue in full force but certain provisions of the contract are currently under review. It is impossible at this time to determine the ultimate impact of any changes to the service contract.

In management's opinion, the items discussed above should not have a material adverse effect upon the consolidated financial position of CanadianOxy.

Significant recent declines in the price of oil have had a material adverse effect on oil and gas and alternate fuels earnings in 1986 and, if continuing, would also have a material adverse effect on the value of these properties.

7. LONG-TERM DEBT

	1985	1984
	(Amounts in thousands)	
Retractable debentures, unsecured (a)	$55,000	$60,000
Petroleum production credit agreement (b)	16,772	19,815
Advance payments, interest free	–	7,067
	71,772	86,882
Amounts due within one year, included in current liabilities	4,190	11,030
	$67,582	$75,852

(a) **Retractable debentures**

Retractable debentures were issued in the amount of $60 million under a trust indenture dated February 23, 1984 at an interest rate of 12⅜% per annum until February 28, 1989. Thereafter, CanadianOxy will be permitted to set a new rate of interest for each of the five year periods commencing March 1, 1989 and 1994. CanadianOxy may redeem the debentures in whole or in part on March 1, 1989 and 1994, and on such dates any holder of the debentures may require CanadianOxy to redeem their debentures at 100% of the principal amount. During 1985, the Company acquired $5 million (face value) of the original debenture issue at a cost of $5.2 million as an investment for future resale.

(b) **Petroleum production credit agreement**

A $15 million (U.S.) petroleum production credit agreement is repayable from production revenues from the Talara project in Peru. The loan is repayable in ten equal semi-annual installments that commenced February 28, 1985. Interest rates approximate U.S. bank prime plus 1½%. At December 31, 1985, the principal amount outstanding was $12 million (U.S.) and the interest rate was 10.5%.

Required long-term debt repayments are $4.2 million in each of 1986, 1987 and 1988, and $59.2 million in 1989. Interest expense on long-term debt was $10.2 million, $18.2 million and $12.5 million (net of interest capitalized of $7.5 million, $0.2 million and $1.0 million) in 1985, 1984 and 1983, respectively.

CanadianOxy had available but unused domestic and foreign lines of committed bank credit of $492 million at December 31, 1985.

8. CAPITAL

(a) **Authorized capital**

Authorized share capital consists of an unlimited number of common shares of no par value and an unlimited number of Class A preferred shares of no par value issuable in series.

(b) **Issued capital**

	Common	Preferred
	(Number of shares)	
At December 31, 1982	20,766,946	762,500
Common share issue	7,500,000	–
Exercise of stock options	123,079	–
Conversion of subordinated debentures	4,956,464	–
Purchased for cancellation	–	(32,100)
At December 31, 1983	33,346,489	730,400
Exercise of stock options	93,055	–
Conversion of subordinated debentures	2,166	–
Purchased for cancellation	(31,900)	(55,400)
At December 31, 1984	**33,409,810**	**675,000**
Exercise of stock options	**70,588**	**–**
Conversion of subordinated debentures	**3,656**	**–**
Purchased for cancellation	**(140,800)**	**(675,000)**
At December 31, 1985	**33,343,254**	**–**

On October 1, 1985 CanadianOxy redeemed all issued and outstanding 10% Cumulative Redeemable Class A Preferred Shares, First Series, at a redemption price of $25.50 per share for $17.2 million.

(c) **Stock options**

Options to purchase common shares have been granted to certain officers and key employees. Under the stock option plan, options granted are contingent upon continued employment and are exercisable on a cumulative basis until 1995.

	Common Shares
At December 31, 1984	**291,397**
Options granted	**2,500**
Options exercised	**(70,588)**
Options cancelled	**(21,850)**
At December 31, 1985	**201,459**

At December 31, 1985, 44,289 common shares were reserved for the granting of additional options and options for 127,241 shares were exercisable at prices from $10.125 to $27.75 per share.

(d) **Purchase of common shares for cancellation**

The Board of Directors has authorized the continuation of the purchase for cancellation of sufficient outstanding common shares to offset the dilution caused by the exercise of stock options. A notice filed with the Toronto Stock Exchange has placed the maximum repurchase amount at 249,000 common shares, expiring October 31, 1986. In the year ended December 31, 1985, 140,800 shares were purchased for cancellation for $3.5 million.

9. COMMITMENTS AND CONTINGENCIES

(a) **Lease commitments**

Expense for operating leases was $7.8 million in 1985, $8.6 million in 1984 and $4.3 million in 1983. At December 31, 1985 future net minimum lease payments for operating leases aggregated $59.8 million, of which $6.8 million is due in 1986, $6.5 million in 1987, $6.2 million in 1988, $6.5 million in 1989, $6.5 million in 1990, and $27.3 million thereafter.

(b) **Expenditure commitment resulting from the acquisition of Canada-Cities**

Under the terms of the purchase agreement of Canada-Cities, it was agreed with the Government of Canada that during the period January 1, 1984 to December 31, 1988 CanadianOxy would make total expenditures of $300 million on or for oil and gas exploration and development in Canada. As at December 31, 1985 CanadianOxy remains committed to spend $41 million in satisfaction of this obligation.

(c) **Commitment for an offshore production platform**

CanadianOxy has entered into a contract for the fabrication of an offshore production platform for its San Miguel property, offshore California, which is expected to be delivered and accepted in late 1986 (the acceptance date).

Notes to Consolidated Financial Statements (continued)

Canadian Oxy's share of the purchase is $20 million (U.S.) of which $1 million (U.S.) is due in 1986 with the balance to be secured by promissory notes totalling $19 million (U.S.). The principal amount of these notes is to be paid in sixteen equal semi-annual installments of $1.2 million (U.S.) commencing thirty months from the acceptance date. Interest is charged at the rate of 9% per annum on the outstanding principal balance, commencing on the acceptance date and payable semi-annually starting six months later.

(d) **Deferred purchase agreement**

In 1985 CanadianOxy acquired from Occidental a joint interest in an oil property located offshore California. Under the terms of a deferred purchase agreement, payment of $42.5 million (U.S.) plus accrued interest is to be made only from 45% of CanadianOxy's share of net operating income from the property. Interest is based on the London Inter-Bank Offered Rate as of April 1 each year plus 1% and is compounded quarterly. At December 31, 1985 the interest rate was approximately 10.6%.

(e) **Other commitments and contingencies**

CanadianOxy has a number of lawsuits and claims pending by and against third parties and insurers. The ultimate result of such lawsuits and claims cannot be ascertained at this time. Benefits or costs are recorded as they are received or become determinable. Management is of the opinion that the adverse determination of any of these lawsuits or claims would not have a material adverse effect upon the consolidated financial position of CanadianOxy or the results of its operations.

CanadianOxy and other Syncrude participants have entered into long-term purchase agreements to secure pipeline capacity and electrical power. Management believes the probability of CanadianOxy being required to make payments under the above agreements without receiving commensurate benefits is remote.

10. RELATED PARTY TRANSACTIONS

The following table outlines transactions with Occidental other than the acquisitions described in Notes 3 and 9. All were at competitive prices.

	1985	1984	1983
	(Amounts in thousands)		
Sales of product to Occidental	**$ 7,580**	$ 10,278	$ 27,398
Purchases of product and equipment	**6,534**	9,411	8,615
Engineering, technical, marketing, and other services received	**7,438**	3,141	1,673

At December 31, 1985 the amount due to affiliates was $418,000.

11. EMPLOYEE PENSION PLAN

CanadianOxy has a non-contributory pension plan which covers substantially all employees. At December 31, 1985 this plan was fully funded. Pension expense for 1985, 1984 and 1983 was $1,532,000, $7,220,000, and $868,000 respectively, which includes past service costs. The 1984 expense includes a payment of $5.1 million in satisfaction of the full unfunded liability of the plan.

The actuarial present value of accrued plan benefits and the market value of the plan assets as at June 30, 1985 and 1984 were as follows:

	1985	1984
	(Amounts in thousands)	
Actuarial value of accrued plan benefits		
Vested	**$ 15,734**	$ 14,086
Non-vested	**329**	292
	$ 16,063	$ 14,378
Assumed rate of return used to calculate actuarial value of plan benefits	**7.0%**	7.0%
Market value of plan assets	**$ 28,969**	$ 17,990

In addition, the Company has a non-contributory executive retirement plan which provides supplemental benefits to the extent that benefits under the pension plan are limited by statutory guidelines.

12. INCOME TAXES

The Canadian and foreign components of income and taxes thereon are as follows:

	1985	1984	1983
	(Amounts in thousands)		
Income before provision for income taxes			
Canadian	**$151,398**	$ 96,485	$ 54,434
Foreign	**52,282**	77,077	34,016
	$203,680	$173,562	$ 88,450
Income taxes			
Current			
Canadian	**$ 13,998**	$ 19,426	$ 377
Foreign	**16,813**	40,517	8,830
	30,811	59,943	9,207
Deferred			
Canadian	**42,329**	13,438	21,750
Foreign	**15,315**	(606)	2,972
	57,644	12,832	24,722
Total			
Canadian	**56,327**	32,864	22,127
Foreign	**32,128**	39,911	11,802
	$ 88,455	$ 72,775	$ 33,929

The following table reconciles the difference between the actual and the expected rate of income taxes based on Canadian statutory rates.

	1985	1984	1983
	% of Pre-Tax Income	% of Pre-Tax Income	% of Pre-Tax Income
Expected tax rate	**49.0**	49.0	49.0
Effect on rate from:			
Royalties, rentals and similar payments to provincial governments	**10.3**	13.3	13.8
Petroleum and gas revenue tax	**7.4**	6.8	7.3
Depletion allowance on oil and gas income	**(8.4)**	(7.9)	(7.6)
Resource allowance and provincial tax rebates	**(16.1)**	(18.7)	(19.1)
Higher (lower) tax rates on foreign operations	**3.2**	1.2	(2.0)
Other	**(2.0)**	(1.8)	(3.0)
Actual tax rate	**43.4**	41.9	38.4

Income tax expense is computed on the basis of revenues and expenses recorded in the Consolidated Statement of Income. Deferred income tax balances arise primarily from differences in the treatment for financial statement purposes compared to statutory treatment for tax purposes.

	1985	1984	1983
	(Amounts in thousands)		
Exploration and development expenses	**$ (7,531)**	$ (3,070)	$ 354
Depreciable property, plant and equipment	**70,244**	30,711	18,780
Natural gas underlifts (overlifts)	**(3,125)**	(4,485)	1,760
Deferred dismantlement costs	**(5,009)**	(5,851)	(245)
Other	**3,065**	(4,473)	4,073
Provision for deferred income taxes	**$ 57,644**	$12,832	$24,722

Supplementary Financial Information

Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1985 and 1984 is as follows:
(Amounts in thousands of dollars, except per share data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	1985	1984	1985	1984	1985	1984	1985	1984[1]
Net sales	$182,917	$119,804	$165,558	$179,927	$142,042	$159,023	$150,202	$176,906
Operating profit:								
Oil and gas	$ 32,769	$ 40,626	$ 33,272	$ 27,017	$ 34,161	$ 38,110	$ 18,547	$ 50,864
Alternate fuels	29,595	(5,125)	38,338	27,483	11,840	1,428	9,039	11,653
Chemicals	5,551	(183)	3,963	4,676	3,667	6,037	3,464	4,125
	67,915	35,318	75,573	59,176	49,668	45,575	31,050	66,642
Corporate expense and interest	5,548	9,175	4,275	8,425	6,592	8,566	4,111	6,983
Income taxes	25,143	11,889	34,286	24,721	18,798	10,893	10,228	25,272
Net income	$ 37,224	$ 14,254	$ 37,012	$ 26,030	$ 24,278	$ 26,116	$ 16,711	$ 34,387
Per common share:								
Basic earnings	$ 1.10	$ 0.41	$ 1.10	$ 0.77	$ 0.71	$ 0.77	$ 0.50	$ 1.01
Dividends declared[3] [4]	$ 0.16	$ 0.09	$ 0.16	$ 0.125	$ 0.16	$ 0.125	$ 0.16	$ 0.125
Toronto Stock Exchange								
– high	$ 30.25	$ 30.88	$ 32.00	$ 31.38	$ 30.00	$ 29.13	$ 27.50	$ 29.25
– low	$ 24.50	$ 27.50	$ 26.88	$ 26.00	$ 25.50	$ 25.00	$ 22.88	$ 24.00
American Stock Exchange								
– high (U.S. dollars)	$ 21.50	$ 24.25	$ 23.75	$ 24.00	$ 21.88	$ 22.13	$ 19.75	$ 22.00
– low (U.S. dollars)	$ 18.75	$ 22.00	$ 19.63	$ 20.63	$ 18.88	$ 19.00	$ 16.75	$ 18.50

Notes:

(1) In the fourth quarter of 1984 CanadianOxy adopted prospectively the method of accounting for investment tax credits described in Note 2 to the Consolidated Financial Statements.

(2) As of December 31, 1985 there were 2,662 registered holders of common shares and 33,343,254 shares outstanding.

(3) In February, 1986, the Board of Directors declared the regular quarterly dividend on the common shares of 16 cents per share, payable April 1, 1986 to shareholders of record on March 14, 1986.

(4) The Income Tax Act of Canada requires that the Company deduct a withholding tax from all dividends remitted to non-residents. In accordance with the Canada-United States Tax Treaty, the withholding tax is 15% on dividends remitted by the Company to residents of the United States.

Oil and Gas Producing Activities (Unaudited)

The following oil and gas information is provided in accordance with the United States "Statement of Financial Accounting Standards No. 69, Disclosures about Oil and Gas Producing Activities."

A. RESERVE QUANTITY INFORMATION (Unaudited)

Reserves of oil include condensate and natural gas liquids. Conventional crude oil and natural gas reserve estimates are determined through analysis of geological and engineering data, which has demonstrated with reasonable certainty that they are recoverable from known oil and gas fields under economic and operating conditions at December 31 of each year. The calculation of reserves of crude oil at the Syncrude plant is based on CanadianOxy's participating interest in the production permit, as amended in 1984 by the province of Alberta. Reserves of heavy oil are those estimated to be recoverable from the existing experimental pilot plants.

The net proved reserves of crude oil and natural gas are determined by deducting the mineral owners' or governments' share or both and are calculated using current royalty regulations.

The Syncrude joint venture payment to the Province of Alberta is based on "deemed net profits", therefore estimates of net reserves entail assumptions as to future crude oil prices and plant operating costs. Reserves data do not include the reserves contained in the oil sands other than those attributable to CanadianOxy's share in the Syncrude plant.

The reserves set forth are CanadianOxy's net reserves, after royalties, and are based on estimates prepared by McDaniel and Associates Consultants Ltd. in Canada (excluding Syncrude), Ryder Scott Company Petroleum Engineers in the United States, DeGolyer and MacNaughton in Peru and Bolivia, and Foster Research for the Syncrude plant.

(Oil and synthetic crude oil in thousands of cubic metres, natural gas in millions of cubic metres)

	Total			Canada			United States		South America[1]	
	Oil	Gas	Synthetic crude oil	Oil	Gas	Synthetic crude oil	Oil	Gas	Oil	Gas
Proved Developed and Undeveloped Reserves:										
At December 31, 1982	3 735	7 013	–	636	5 466	–	191	1 099	2 908	448
Revisions of previous estimates	(83)	147	–	(20)	(50)	–	32	197	(95)	–
Improved recovery	111	–	–	111	–	–	–	–	–	–
Purchases of reserves in place [2]	3 178	6 423	16 275	3 019	5 860	16 275	159	563	–	–
Extensions and discoveries	–	169	–	–	169	–	–	–	–	–
Production	(478)	(676)	(305)	(207)	(394)	(305)	(64)	(282)	(207)	–
At December 31, 1983	6 463	13 076	15 970	3 539	11 051	15 970	318	1 577	2 606	448
Revisions of previous estimates	406	509	8 559[3]	325	165	8 559[3]	207	344	(126)	–
Improved recovery	47	–	–	47	–	–	–	–	–	–
Purchases of reserves in place [4]	286	1 211	–	–	–	–	286	1 211	–	–
Extensions and discoveries	207	213	–	48	157	–	159	56	–	–
Production	(962)	(1 495)	(628)	(485)	(650)	(628)	(302)	(845)	(175)	–
At December 31, 1984	6 447	13 514	23 901	3 474	10 723	23 901	668	2 343	2 305	448
Revisions of previous estimates	(167)	566	2 244	260	102	2 244	126	464	(553)	–
Improved recovery [5]	400	–	–	400	–	–	–	–	–	–
Purchases of reserves in place [6]	1 251	–	–	–	–	–	1 251	–	–	–
Sale of reserves in place	(9)	–	–	(9)	–	–	–	–	–	–
Extensions and discoveries	346	542	–	148	480	–	198	62	–	–
Production	(902)	(1 186)	(878)	(457)	(663)	(878)	(275)	(505)	(170)	(18)
At December 31, 1985	**7 366**	**13 436**	**25 267**	**3 816**	**10 642**	**25 267**	**1 968**	**2 364**	**1 582**	**430**
Proved Developed Reserves:										
December 31, 1983	6 447	12 506	15 970	3 539	10 481	15 970	318	1 577	2 590	448
December 31, 1984	6 433	13 476	23 901	3 474	10 723	23 901	667	2 315	2 292	438
December 31, 1985	**6 093**	**13 424**	**25 267**	**3 816**	**10 642**	**25 267**	**709**	**2 361**	**1 568**	**421**

Supplementary Financial Information (continued)

Notes:
1. *Includes reserves in Peru for which CanadianOxy is compensated pursuant to a service contract with the Peruvian government.*
2. *Purchases of reserves in place in 1983 consist of the Canada-Cities properties and CanadianOxy's 30% interest in COPCO.*
3. *The increase in synthetic crude oil reserves for 1984 reflects the approval of the Alberta Energy Resources Conservation Board to extend the Syncrude plant lease from December 31, 2004 to December 31, 2013.*
4. *Purchases of reserves in place in 1984 consist of the remaining 70% of COPCO's reserves.*
5. *Reflects the inclusion of recoverable reserves underlying heavy oil thermal recovery pilots.*
6. *Purchases of reserves in place in 1985 consist of the San Miguel property.*

CanadianOxy has sulphur reserves produced as a by-product from its Syncrude and natural gas operations. Net proved reserves as of December 31, 1982, 1983, 1984 and 1985 were approximately 1.7, 2.3, 2.7 and 2.5 million tonnes respectively.

B. CAPITALIZED COSTS (Unaudited)
(In millions of dollars)

	Proved Properties	Unproved Properties	Accumulated Depreciation Depletion and Amortization	Capitalized Costs
At December 31, 1985:				
Canada	**$ 323**	**$51**	**$ 69**	**$305**
United States	**442**	**–**	**188**	**254**
South America	**194**	**–**	**59**	**135**
Total Oil and Gas	**959**	**51**	**316**	**694**
Canada (synthetic crude oil)	**328**	**–**	**29**	**299**
Total	**$1,287**	**$51**	**$345**	**$993**
At December 31, 1984:				
Canada	$ 224	$54	$ 59	$219
United States	318	–	133	185
South America	182	–	44	138
Total Oil and Gas	724	54	236	542
Canada (synthetic crude oil)	282	–	14	268
Total	$1,006	$54	$250	$810
At December 31, 1983:				
Canada	$ 199	$56	$ 46	$209
United States	115	–	61	54[1]
South America	169	–	32	137
Total Oil and Gas	483	56	139	400
Canada (synthetic crude oil)	261	–	5	256
Total	$ 744	$56	$144	$656

Note:
(1) Excludes CanadianOxy's share of COPCO's net capitalized costs of $38 million.

C. COSTS INCURRED (Unaudited)
(In millions of dollars)

		Oil and Gas				Canada (synthetic crude oil)
	Total	Canada	United States	South America	Total	
Year ended December 31, 1985:						
Property acquisition costs						
Proved properties	$ 71	$ –	$ 71	$ –	$ 71	$ –
Unproved properties	12	12	–	–	12	–
Exploration costs	46	32	14	–	46	–
Development costs	153	86	19	1	106	47
	$282	$130	$104	$ 1	$235	$ 47
Year ended December 31, 1984:						
Property acquisition costs						
Proved properties	$ 1	$ 1	$ –	$ –	$ 1	$ –
Unproved properties	5	5	–	–	5	–
Exploration costs	26	25	1	–	26	–
Development costs	53	19	6	2	27	26
Acquisition of COPCO's properties	142	–	142	–	142	–
	$227	$ 50	$149	$ 2	$201	$ 26
Year ended December 31, 1983:						
Property acquisition costs						
Unproved properties	$ 3	$ 3	$ –	$ –	$ 3	$ –
Exploration costs	10	9	–	1	10	–
Development costs	24	6	3	1	10	14
Acquisition of Canada-Cities' properties	410	162	–	–	162	248
	$447	$180	$ 3 (1)	$ 2	$185	$262

Note:
(1) Excludes CanadianOxy's share of COPCO's net capitalized costs of $38 million.

Supplementary Financial Information (continued)

D. RESULTS OF OPERATIONS FOR PRODUCING ACTIVITIES (Unaudited)

(In millions of dollars)

	Total	Oil and Gas: Canada	Oil and Gas: United States	Oil and Gas: South America	Oil and Gas: Total	Canada (synthetic crude oil)
Year ended December 31, 1985:						
Revenues						
Net sales	$550	$154	$152	$ 32	$338	$212
Production costs	200	37	39	14	90	110
Exploration expenses	32	24	8	–	32	–
Depreciation, depletion and amortization	94	20	45	12	77	17
Other operating expenses (income)	16	11	–	9	20	(4)
	208	62	60	(3)	119	89
Income tax expense	93	29	30	3	62	31
Results of operations	$115	$ 33	$ 30	$ (6)	$ 57	$ 58
Year ended December 31, 1984:						
Revenues						
Net sales	$549	$147	$199	$ 34	$380	$169
Production costs	210	29	52	17	98	112
Exploration expenses	17	16	1	–	17	–
Depreciation, depletion and amortization	113	23	67	10	100	13
Other operating expenses (income)	8	12	(2)	(2)	8	–
	201	67	81	9	157	44
Income tax expense	86	25	40	7	72	14
Results of operations	$115	$ 42	$ 41	$ 2	$ 85	$ 30
Year ended December 31, 1983:						
Revenues						
Net sales	$215	$ 76	$ 36	$ 30	$142	$ 73
Sales to affiliates	16	–	16	–	16	–
Total	231	76	52	30	158	73
Production costs	84	19	8	14	41	43
Exploration expenses	7	6	–	1	7	–
Depreciation, depletion and amortization	44	13	16	10	39	5
Other operating expenses (income)	9	6	1	1	8	1
	87	32	27	4	63	24
Income tax expense	33	15	8	3	26	7
Results of operations	$ 54	$ 17	$ 19	$ 1	$ 37	$ 17

E. STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS AND CHANGES THEREIN (Unaudited)

For purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods during which they are expected to be produced. Future cash flows were computed by applying year-end prices to CanadianOxy's share of estimated annual future production from proved oil and gas reserves, net of royalties. Future development and production costs were computed by applying year-end costs to be incurred in producing and further developing the proved reserves. Future income tax expenses were computed by applying, generally, year-end statutory tax rates (adjusted for permanent differences, tax credits, and allowances) to the estimated net future pre-tax cash flows. The discount was computed by application of a 10 percent discount factor. The calculations assume the continuation of existing economic, operating, and contractual conditions. However, such arbitrary assumptions have not proven to be the case in the past. Other assumptions of equal validity would give rise to substantially different results. The amounts for 1984 and 1983 have been restated to reflect CanadianOxy's share in the Syncrude plant.

(In millions of dollars)

		Oil and Gas				Canada
	Total	Canada	United States	South America	Total	(synthetic crude oil)
At December 31, 1985:						
Future cash inflows	**$8,983**	**$2,002**	**$ 744**	**$ 375**	**$3,121**	**$5,862**
Future production and development costs	**(5,243)**	**(687)**	**(286)**	**(119)**	**(1,092)**	**(4,151)**
Future income tax	**(1,426)**	**(478)**	**(211)**	**(144)**	**(833)**	**(593)**
Future net cash flows	**2,314**	**837**	**247**	**112**	**1,196**	**1,118**
10% discount factor	**(1,293)**	**(401)**	**(64)**	**(36)**	**(501)**	**(792)**
Standardized measure	**$1,021**	**$ 436**	**$ 183**	**$ 76**	**$ 695**	**$ 326**
At December 31, 1984:						
Future cash inflows	$9,824	$1,685	$ 484	$ 452	$2,621	$7,203
Future production and development costs	(6,116)	(639)	(184)	(162)	(985)	(5,131)
Future income tax	(1,441)	(479)	(138)	(156)	(773)	(668)
Future net cash flows	2,267	567	162	134	863	1,404
10% discount factor	(1,308)	(260)	(12)	(43)	(315)	(993)
Standardized measure	$ 959	$ 307	$ 150	$ 91	$ 548	$ 411
At December 31, 1983:						
Future cash inflows	$6,448	$1,626	$ 191	$ 491	$2,308	$4,140
Future production and development costs	(3,732)	(649)	(34)	(212)	(895)	(2,837)
Future income tax	(1,108)	(524)	(72)	(149)	(745)	(363)
Future net cash flows	1,608	453	85	130	668	940
10% discount factor	(811)	(217)	(16)	(39)	(272)	(539)
	797	236	69	91	396	401
CanadianOxy's share of COPCO's standardized measure	56	–	56	–	56	–
Standardized measure	$ 853	$ 236	$ 125	$ 91	$ 452	$ 401

Supplementary Financial Information (continued)

CHANGES IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS (Unaudited)
(In millions of dollars)

	Total		
Oil and Gas	**1985**	1984	1983
Beginning of year	**$ 548**	$ 452	$ 349
Sales and transfers of oil and gas produced, net of production costs	**(248)**	(263)	(111)
Changes in estimated future development costs	**(57)**	(1)	(4)
Net changes in prices and production costs	**207**	(13)	(166)
Extensions, discoveries, and improved recovery, less related costs	**50**	18	5
Development costs incurred during the period which reduced future development	**74**	27	7
Revisions of previous quantity estimates	**29**	125	24
Accretion of discount	**55**	45	35
Purchase of minerals in place	**71**	168	415
Sale of minerals in place	**(1)**	–	–
Net change in income taxes	**(22)**	(8)	(180)
Other	**(11)**	(2)	78
End of year	**695**	548	452
Synthetic crude oil			
Beginning of year	411	401	–
Net change	(85)	10	401[1]
End of year	326	411	401
Total	**$ 1,021**	$ 959	$ 853

Note:
(1) Reflects the acquisition of Canada-Cities in 1983.

Effects of Changing Prices (Unaudited)

The following information is intended to help the reader appreciate the impact of changes in specific prices on reported results of operations and financial position for 1985. In general terms, in times of inflation the replacement cost of fixed assets and inventories increases without a corresponding increase in the depreciation and cost of sales amounts charged to income in the historical cost statements. By adjusting depreciation and cost of sales using the replacement cost of fixed assets and inventories, historical net income is reduced by an amount representing the cost of maintaining existing operating capacity.

The opinion of the Canadian Institute of Chartered Accountants is that there is value in preparing supplementary information on changing prices using appropriate indices. The resultant estimates are not intended to be an approximation of the replacement cost of current reserves but are an indication of what it might cost if past activities were repeated at today's prices. It should be noted that a significant number of assumptions and estimates are made in the preparation of changing prices information. Different and equally valid assumptions and estimates might culminate in significantly different results.

While CanadianOxy supports improvements in accounting principles and disclosure of information to investors and the financial community, management's opinion is that changing price disclosures have limited use.

CONSOLIDATED STATEMENT OF OPERATIONS ADJUSTED FOR CHANGING PRICES FOR THE TWO YEARS ENDED DECEMBER 31, 1985

	As Reported in the Primary Financial Statements		As Adjusted for Changes in Specific Prices Expressed in Average 1985 Dollars	
	(in thousands of dollars)			
	1985	1984	1985	1984
Total revenues	$ 666,316	655,403	$ 666,316	681,662
Cost of sales	264,213	273,280	265,150	288,179
Depreciation, depletion and amortization	98,815	124,327	114,148	167,395
Other costs and expenses	99,608	84,234	99,608	87,609
	462,636	481,841	478,906	543,183
Income before provision for income taxes	203,680	173,562	187,410	138,479
Provision for income taxes	88,455	72,775	88,455	75,691
Net income	$ 115,225	100,787	$ 98,955	62,788
Other information:				
Inventory	$ 34,280	37,712	$ 36,324	41,342
Property, plant and equipment (net)	$1,046,402	854,421	$1,330,924	1,138,351
Increase in specific prices of inventories and property, plant and equipment			$ 47,708	60,851
Effect of increase in general inflation			(52,583)	(37,021)
Increase (decrease) in specific prices net of inflation[1]			$ (4,875)	23,830
Financing adjustment[2]:				
Based on the amount of changes during the reporting period in the specific prices of inventory and property, plant and equipment			$ 8,766	9,880
Based on the price adjustments made to income during the reporting period			$ 2,989	6,896

FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(in thousands of average 1985 dollars except for per share amounts)

	1985	1984	1983	1982	1981
Total revenues	$ 666,316	681,662	356,564	250,506	256,471
Historical financial information adjusted for changes in specific prices:					
Net income	$ 98,955	62,788	32,789	7,767	6,983
Basic earnings per common share	$ 2.92	1.81	1.22	0.26	0.21
Shareholders' equity	$ 945,277	847,364	744,141	421,083	423,048
Increase (decrease) in the specific prices net of inflation[1]	$ (4,875)	23,830	10,292	(31,984)	40,860
Other information:					
Purchasing power gain from holding net monetary liabilities[3]	$ 6,807	5,218	7,580	14,131	18,915
Dividends per common share	$ 0.64	0.48	0.39	0.41	0.46
Market price per common share at year-end	$ 24.74	27.29	28.45	17.72	14.66
Average Canadian consumer price index	127.2	122.3	117.2	110.8	100.0

Notes:

(1) *Changes in specific prices: The indices used to restate historical cost information are related to the type of assets and inventories acquired as opposed to a general measure of inflation such as the consumer price index. These indices reflect changes in supply and demand for specific goods and services and embody the impact of inflation.*

(2) *Financing adjustment: The use of debt to finance assets reduces the amount of the change in specific prices that must be charged to earnings attributable to common shareholders. The financing adjustment represents the amount of specific price changes which have been financed by debt based upon CanadianOxy's debt to equity ratio.*

(3) *Purchasing power gain from holding net monetary liabilities: This represents the benefit to CanadianOxy of being in a net monetary liability position during a period of inflation.*

Five Year Financial Review

(Amounts in thousands except share and per share data)

	1985	1984[1][2]	1983[2]	1982	1981
Earnings and Working Capital from Operations					
Net sales:					
Oil and gas	**$ 338,249**	$ 379,802	$158,271	$126,493	$109,167
Alternate fuels	**212,118**	169,006	73,234	–	–
Chemicals	**90,352**	86,852	92,007	84,975	89,211
	640,719	635,660	323,512	211,468	198,378
Interest and other income	**25,597**	19,743	5,020	6,740	3,250
Total revenues	**$ 666,316**	$ 655,403	$328,532	$218,208	$201,628
Operating profit:					
Oil and gas	**$ 118,749**	$ 156,617	$ 63,095	$ 49,795	$ 44,659
Alternate fuels	**88,812**	35,439	22,463	(3,192)	(4,312)
Chemicals	**16,645**	14,655	25,041	21,945	22,207
	224,206	206,711	110,599	68,548	62,554
Corporate expenses and interest	**20,526**	33,149	22,149	14,949	15,644
Income taxes	**88,455**	72,775	33,929	24,247	16,871
Net income	**$ 115,225**	$ 100,787	$ 54,521	$ 29,352	$ 30,039
Earnings per common share:					
Basic	**$ 3.41**	$ 2.96	$ 2.08	$ 1.32	$ 1.35
Fully diluted	**$ 3.39**	$ 2.94	$ 1.90	$ 1.21	$ 1.24
Funds from operations	**$ 281,126**	$ 247,086	$130,476	$ 70,583	$ 72,213
Funds from operations before exploration expenditures	**$ 311,207**	$ 263,916	$137,779	$ 81,111	$ 85,623
Financial Position					
Working capital	**$ 28,198**	$ 17,615	$ 51,868	$ 21,724	$ 33,523
Net property, plant and equipment	**$1,046,402**	$ 854,421	$705,073	$296,394	$282,592
Total assets	**$1,286,252**	$1,089,990	$921,789	$391,065	$371,670
Long-term debt	**$ 67,582**	$ 75,852	$166,434	$ 93,170	$131,551
Redeemable preferred shares	**$ –**	$ 16,875	$ 18,260	$ 19,062	$ 20,315
Common shareholders' equity	**$ 658,711**	$ 555,731	$460,731	$145,080	$124,541
Return on investment[3]					
Total assets	**9.7%**	9.5%	9.4%	7.5%	8.7%
Common shareholders' equity	**18.5%**	19.7%	20.6%	20.4%	24.8%
Capital and Exploration Expenditures					
Oil and gas	**$ 235,589**	$ 58,979	$ 22,458	$ 45,966	$ 90,956
Alternate fuels	**47,230**	25,762	14,792	2,678	5,346
Chemicals	**9,827**	4,899	6,633	12,960	8,786
Corporate	**3,607**	1,470	551	–	378
Total	**296,253**	91,110	44,434	61,604	105,466
Less current year exploration expenditures	**30,081**	16,830	7,303	10,528	13,410
Net capital expenditures	**$ 266,172**	$ 74,280	$ 37,131	$ 51,076	$ 92,056
Shares and Dividends					
Common shares outstanding (millions)	**33.3**	33.4	33.3	20.8	20.7
Number of common shareholders	**2,662**	3,039	3,508	2,851	3,114
Dividends declared per common share	**$ 0.64**	$ 0.465	$ 0.36	$ 0.36	$ 0.36

Notes:

(1) In 1984, CanadianOxy adopted prospectively the method of accounting for investment tax credits described in Note 2 to the Consolidated Financial Statements.

(2) Includes Canada-Cities from August 1, 1983 and 100% of COPCO from February 24, 1984.

(3) Return on investment is calculated on the applicable average monthly investment. The calculation of return on total capital excludes interest expense.

Five Year Operating Review

	1985	1984	1983	1982	1981
Oil and Gas					
Production (gross before royalties)					
Metric units					
Gas . . . 10^3m^3	**1 408 920**	1 811 341	850 552	646 590	617 229
Crude oil, condensate and liquefied petroleum gas . . 10^3m^3	**1 123.3**	1 177.3	555.9	376.2	345.2
Imperial units					
Gas . . . MMcf	**50,008**	64,291	30,189	22,950	22,288
Crude oil, condensate and liquefied petroleum gas . . . M/Bbls.	**7,068.8**	7,408.7	3,498.4	2,367.4	2,172.2
Proved reserves (gross before royalties)					
Metric units					
Gas . . . 10^3m^3	**16 759 000**	17 177 000	17 823 000	8 423 000	8 208 200
Crude oil, condensate and liquefied petroleum gas . . 10^3m^3	**8 804**	7 680	7 940	3 998	3 521
Imperial units					
Gas . . . MMcf	**594,900**	609,700	632,600	298,600	291,300
Crude oil, condensate and liquefied petroleum gas . . . M/Bbls.	**55,389**	48,313	50,006	25,158	22,146
Land holdings					
Metric units (thousand hectares)					
Gross hectares . . .	**25 184**	25 554	26 557	31 378	39 937
Net hectares . . .	**3 197**	8 744	9 151	10 654	10 597
Imperial units (thousand acres)					
Gross acres . . .	**62,080**	63,003	65,502	77,335	76,232
Net acres . . .	**7,902**	21,567	22,581	26,270	26,125
Alternate Fuels					
Production (gross before royalties)(1)					
Metric units					
Synthetic crude oil . . . 10^3m^3	**986.7**	665.0	358.4	–	–
Imperial units					
Synthetic crude oil . . . M/Bbls.	**6,209.3**	4,184.8	2,255.5	–	–
Proved reserves (gross before royalties)(1)					
Metric units					
Synthetic crude oil . . . 10^3m^3	**30 930**	30 524	20 121	–	–
Imperial units					
Synthetic crude oil . . . M/Bbls.	**194,640**	192,086	126,624	–	–
Land holdings					
Metric units (thousand gross hectares)					
Syncrude . . .	**39.1**	39.1	39.1	–	–
Imperial units (thousand gross acres)					
Syncrude . . .	**97.8**	97.8	97.8	–	–
Chemicals					
Production					
Metric units					
Caustic soda . . . $10^3/t$	**147.6**	143.1	149.6	145.1	155.7
Chlorine . . . $10^3/t$	**130.4**	124.3	132.5	128.9	136.6
Imperial units					
Caustic soda . . . M/Tons	**162.7**	157.7	165.0	159.9	171.7
Chlorine . . . M/Tons	**143.7**	137.0	146.1	142.1	150.6

Note:

(1) These amounts pertain to the Company's interest in the Syncrude Project. The 1983 reserve amounts are based upon the original 25-year mining plan and the 1984 and 1985 reserve amounts are based upon the Alberta Energy Resources Conservation Board's approval to extend the project life by nine years to December 31, 2013.

Directors and Officers

DIRECTORS

John J. Dorgan [2]
Executive Vice President, Finance,
Occidental Petroleum Corporation,
Los Angeles, California

Dr. Armand Hammer [1]
Chairman of the Board
and Chief Executive Officer and
a director of Occidental
Petroleum Corporation,
Los Angeles, California

J. Howard Hawke [1, 2, 3, 4]
Chairman of the Board,
Bache Securities Inc., stockbrokers,
Toronto, Ontario

David A. Hentschel [3]
Chairman of the Board and President,
Cities Service Oil and Gas
Corporation, Tulsa, Oklahoma

Dr. Ray R. Irani [1, 4, 5]
President, Chief Operating Officer
and a director of
Occidental Petroleum Corporation,
Los Angeles, California

Thomas D. Jenkins [1, 2, 4]
Executive Vice President,
Occidental Petroleum Corporation;
Chairman of the Board,
Occidental Oil and Gas
Corporation,
Houston, Texas

Leo L. LeClerc [1, 4, 5]
President,
Leo L. LeClerc & Associates Ltd.,
business consultants,
Edmonton, Alberta

J. Angus McKee [1, 2, 4]
President and Chief
Executive Officer,
Canadian Occidental
Petroleum Ltd.,
Calgary, Alberta

Zoltan Merszei [3]
Vice Chairman of the Board and
a director of Occidental
Petroleum Corporation,
Los Angeles, California

Richard L. Reeson
Secretary and Manager,
Law Department,
Canadian Occidental
Petroleum Ltd.,
Calgary, Alberta

John A. Rhind [1, 2, 5]
Chairman of the Board and a
director of Confederation Life
Insurance Company,
Toronto, Ontario

John M. Robertson, Q.C. [3]
Partner in
Fenerty, Robertson, Fraser & Hatch,
barristers and solicitors,
Calgary, Alberta

His Excellency The Honourable Maurice Sauve, P.C., C.C. [3, 4]
Corporation director,
Montreal, Quebec

[1] Member of the Executive Committee
[2] Member of the Finance Committee
[3] Member of the Audit Committee
[4] Member of the Compensation Committee
[5] Member of the Nominating Committee

OFFICERS

Thomas D. Jenkins
Chairman of the Board

J. Angus McKee
President and Chief
Executive Officer

Terrence H. Allen
Senior Vice President,
Alternate Fuels

Charles R. Mikkelborg
Senior Vice President,
Oil and Gas

John E. Ebright
Acting Vice President
Finance

Thomas R. Fountain
Vice President – Engineering
– Oil and Gas Division

H. Thomas Irwin
Vice President
– Oil Sands

James A. Nicholson
Vice President and Controller

Robert H. Orthlieb
Vice President – Production
– Oil and Gas Division

George E. Putnam
Vice President – Marketing
and Business Analysis
– Oil and Gas Division

Norman R. Richards
Vice President – Financing Projects

Douglas E. Shier
Vice President – Exploration
– Oil and Gas Division

Brian D. Thorpe
Vice President – Chemicals

Ronald C. Wright
Vice President – Administration

Gary J. Beagle
Treasurer

Richard L. Reeson
Secretary

Robert W. Kangas
Assistant Controller

Paul C. Hebner
Assistant Secretary

David W. Parsons
Assistant Secretary

Corporate Information

COMPANY PLANTS/OFFICES

Head Office
1500, 635 - 8th Avenue Southwest
Calgary, Alberta, Canada T2P 3Z1

SUBSIDIARY COMPANIES

CanadianOxy Chemicals Ltd.
CanadianOxy Metal Finishing Ltd.
CanadianOxy Offshore Holdings Co.
CanadianOxy Offshore Production Co.
Canadian Occidental (Bolivia) Ltd.
Canadian Occidental of California, Inc.
Canadian Occidental (Peruana) Ltd.
Canadian Occidental International Ltd.
Canadian Occidental Services Ltd.
Jefferson Minerals Corporation
CanadianOxy Holdings B.V.
CanadianOxy Petroleum Royalties Ltd.
CanadianOxy Insurance Management Inc.
CanadianOxy Pipeline Facilities Inc.
CanadianOxy Offshore International Ltd.

AFFILIATED COMPANY

Petrogas Processing Ltd.

TRADEMARKS

Occidental Petroleum Corporation or its subsidiaries hold the OXY and DUREZ trademarks.

COMMON SHARES

Transfer Agents and Registrars
National Trust Company
Calgary, Toronto, Montreal, Regina, Winnipeg and Vancouver and the offices of its agent, Canada Permanent Trust Company in Halifax

Manufacturers Hanover Trust Company
New York, N.Y.

Listed
American Stock Exchange
Toronto Stock Exchange
Symbol "CXY"

$60 MILLION RETRACTABLE DEBENTURES DUE 1999 (Eurodollar Offering)

Trustee
Canada Permanent Trust Company
Calgary, Alberta, Canada

Listed
London Stock Exchange

AUDITORS

Arthur Andersen & Co.
Calgary, Alberta, Canada

ANNUAL MEETING

The Annual General Meeting of the Shareholders will be held at the Westin Hotel, Calgary, Alberta, Canada, on Tuesday, May 6, 1986 at 11:00 a.m.

FORM 10-K

A copy of the 1985 Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge, upon written request to the Secretary.

METRIC CONVERSION TABLE

(Approximate values)

To convert	to	Multiply by
cubic metres (m^3)		
of oil or liquids	barrels (bbl)	6.29
of natural gas	cubic feet	35.49
tonnes (t)	long tons (lt)	0.98
tonnes (t)	short tons (tons)	1.10
metres (m)	feet (ft)	3.28
kilometres (km)	miles (mi)	0.62
hectares (ha)	acres (ac)	2.47
kilograms (kg)	pounds (lb)	2.21

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