



Canadian Occidental Petroleum Ltd.

1984 Annual Report

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 Gulf Coast 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 1984, oil and gas operations contributed 60%, alternate fuels 26% 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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METRIC CONVERSION TABLE

To convert from	to	Multiply by
cubic metres (m ³)	barrels (bbl)	6.293
thousand cubic metres (10 ³ m ³)	thousand cubic feet (Mcf)	35.494
tonnes (t)	long tons (lt)	0.984
metres (m)	feet (ft)	3.281
kilometres (km)	miles (mi)	0.621
hectares (ha)	acres (ac)	2.471
kilograms (kg)	pounds (lb)	2.205

Highlights of 1984



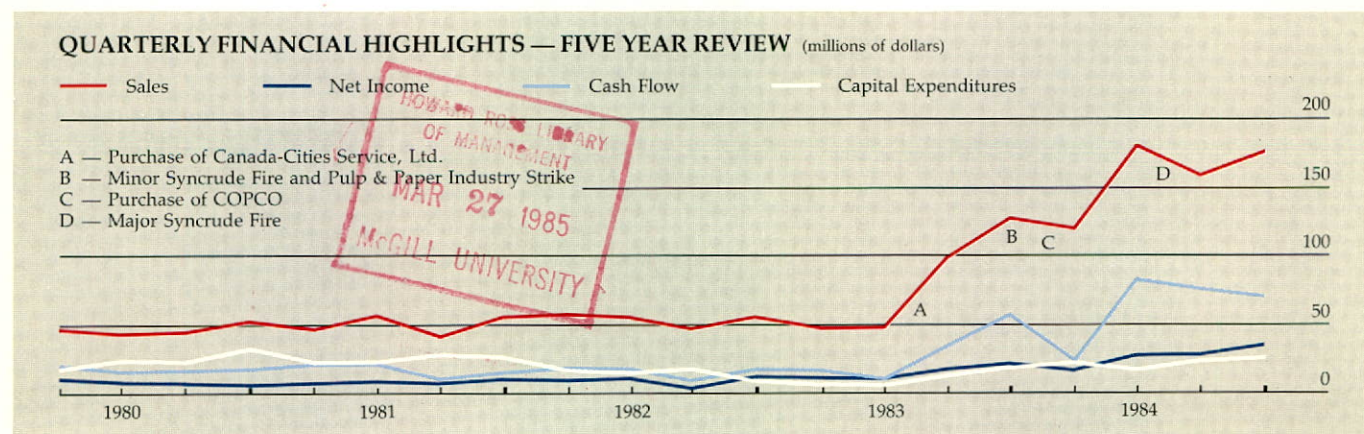
The acquisition of Canada-Cities Service, Ltd. ("Canada-Cities"), in August 1983, and Cities Offshore Production Co. ("COPCO"), in December 1983 and February 1984, dramatically changed the corporate complexion of CanadianOxy. These acquisitions substantially increased conventional oil and gas reserves, production and land holdings in Canada and the United States. Through Canada-Cities, CanadianOxy acquired a 13.23% interest in the Syncrude oil sands plant and interests in heavy oil lands. In 1984, CanadianOxy reported significantly improved earnings over previous years despite serious operating problems encountered at the Syncrude plant and a labour dispute in the pulp and paper industry which caused a shutdown of the Company's electro-chemical plants for 10 weeks. Working capital generated from operations in 1984 almost doubled compared to the prior year, allowing CanadianOxy to fund its substantially increased capital spending program for oil and gas exploration and development, to fund the COPCO acquisition and to significantly reduce long-term debt.

	1984	1983	% Increase (Decrease)
	(thousands of dollars except per share data)		
FINANCIAL			
Net Sales	\$635,660	323,512	96
Net Income	\$100,787	54,521	85
Per common share (basic)	\$ 2.96	2.08	42
Working Capital Generated from Operations before Exploration Expenditures	\$263,916	137,779	92
Capital and Exploration Expenditures	\$ 91,110	44,434	105
Return on Sales	15.9%	16.9%	(6)
Return on Average Total Assets	9.5%	9.4%	1
Return on Average Total Capital Employed	17.2%	16.0%	8
Equity as % of Total Capital Employed	88%	74%	19
Debt as % of Total Capital Employed	12%	26%	(54)
Return on Average Common Shareholders' Equity	19.7%	20.6%	(4)

OPERATIONS

Daily Production (Gross Before Royalties)			
Crude Oil, Condensate and LPG's (m ³)	3 217	1 523	111
Natural Gas (10 ³ m ³)	4 949	2 330	112
Synthetic Crude Oil (m ³)	1 817	982	85
Sulphur (t)	366	332	10
Industrial Chemicals (t)	819	870	(6)
Specialty Chemicals (10 ³ kg)	29	28	4
Proven Reserves (Gross Before Royalties)			
Crude Oil, Condensate and LPG's (10 ³ m ³)	7 680	7 410	4
Natural Gas (10 ⁶ m ³)	17 177	15 953	8
Synthetic Crude Oil (10 ³ m ³)	30 524	20 122	52
Sulphur (10 ³ t)	1 970	1 906	3

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



Letter to the Shareholders:



J. Angus McKee and Thomas D. Jenkins.

Nineteen-eighty four was a record year! Net income increased 85% to over \$100 million, net sales increased 96% to \$636 million and cash flow increased 89% to over \$247 million. In addition, a major milestone in the Company's history was achieved during the year with total assets having surpassed \$1 billion.

While the excellent financial results achieved in 1984 are primarily due to activities which commenced in 1983, namely the acquisitions of Canada-Cities Service, Ltd. ("Canada-Cities") and Cities Offshore Production Co. ("COPCO"), the past twelve months have been a critical period in the Company's development. The rate of growth that CanadianOxy has achieved over the last two years has dramatically altered the Com-

pany's composition, through the tripling of its assets, the addition of over 200 Canada-Cities' employees, the moving to new office premises and business expansions into the production of synthetic crude oil at the Syncrude plant and several enhanced oil recovery projects. Any change of this magnitude requires considerable adaptation on behalf of employees, not only with respect to how they handle their new responsibilities, but with respect to how they confront future challenges and work towards making visions a reality.

CanadianOxy is a company of great potential; it is financially sound, it has a strong land position, both in conventional oil and gas and heavy oil lands, and most importantly, it has an excellent employee base.

Early in the year, we introduced a program entitled "Better Ways". The primary purpose of this program was to encourage employee participation in corporate management practices. Employee response was enthusiastic and encouraging with over one hundred and thirty recommendations being submitted, almost all of which were thoughtful and helpful. Not only did this provide a vehicle for employees to put forth their ideas, but it enabled management to identify potential problem areas.

Another major task we have undertaken is the building of an integrated computer information system. We feel that computerization will play a key role in our efforts to become a more effective and efficient organization. Any change, particularly when related to technology, takes a great deal of time and effort to implement. We anticipate that this project will require 3 - 5 years to achieve our goals. Once again, employee participation in making our computerization project a success has been exceptional.

From an operational viewpoint, there were several events of interest which occurred in 1984. The most significant event was the Company's decision to play a major role in the development of heavy oil in western Canada. The Company is currently working on two heavy oil projects, Manatokan and Morgan. At the Manatokan project, which is a steamflood pilot in the Cold Lake area of Alberta, drilling of the planned 32 wells commenced in early 1985. Construction of steam generation and production facilities will commence in the spring of 1985. Subject to regulatory approvals, drilling operations and surface facilities construction are expected to commence in mid-April at the Morgan fireflood pilot, in the Lloydminster area of Alberta. These projects are discussed in more detail under "Heavy Oil" on page 9 of this report.

Canadian exploration and development activities during the year were very successful. We have been able to replace our production for the year and thereby hold our Canadian reserves relatively constant. In Canada, the Company participated in the drilling of 57 exploration wells, resulting in 16 oil wells, 10 gas wells and 31 dry holes, representing an exploration success rate of 46%. Of the 161 development wells in which the Company participated, 124 were oil wells, 25 were gas wells and 12 were dry holes, representing a development drilling success rate of 93%.

Following evaluation of extensive seismic programs and well site surveys conducted in Hudson Bay by CanadianOxy and its joint venture partners during the summers of 1982 through 1984, CanadianOxy has decided not to participate in the drilling of a proposed well in the Bay. Consequently, CanadianOxy has agreed to transfer to its joint venture partners a 23¹/₃% interest, retaining a 10% working interest. CanadianOxy will be carried for, and will not bear any of the costs of, drilling and completing the first well drilled under the exploration agreement.

Site clearing and road construction commenced in late 1984 for CanadianOxy's natural gas processing plant and gathering system in the South Okotoks/Mazeppa area, southeast of Calgary. This \$95 million plant and facilities will produce about 600 thousand cubic metres per day of pipeline gas, 127 cubic metres per day of condensate and 580 tonnes per day of sulphur. CanadianOxy will be operator and have an approximate 60% interest in the project. Plant construction is expected to commence in the spring of 1985, with completion scheduled for mid-1986.

In the United States Gulf Coast, the major event of the year was the completion of the COPCO acquisition in February, 1984. This acquisition substantially enhanced the Company's position in the United States and added twenty-three production platforms in seven producing fields which averaged during 1984, approximately 1 003 cubic metres per day of oil and condensate and 2 100 thousand cubic metres per day of natural gas. The Company originally anticipated that at these production levels the properties would have a short reserve life. While proven gas reserves had declined by approximately 25% at the end of 1984 compared to the prior year-end, proven oil reserves after production were substantially unchanged due to successful drilling, well workover projects and engineering adjustments during the year.

In the Alternate Fuels division, the Syncrude plant experienced a major explosion and fire in August, 1984, which caused the plant to be completely shut down for approximately five weeks and partially shut down for an additional three months. The shutdown had a significant detrimental effect on the Company's financial results for the year and resulted in production from the plant averaging only 13 735 cubic metres per day, compared to 17 761 cubic metres per day in the prior year. Property damage and business interruption insurance claims are currently being prepared and will be filed in 1985. While the Company's insurance claims will be for a substantial portion of the lost revenue, the actual amount of insurance proceeds to be received is dependent upon final settlement of the claims and therefore no amounts have been reflected in the 1984 financial results.

In the Chemicals division, results were adversely affected by a ten-week lock-out and subsequent strike in the pulp and paper industry, which caused a shutdown of CanadianOxy's westcoast electro-chemical plants in the first quarter of 1984. Following the strike, deferred demand enabled CanadianOxy to operate its chemical plants at near capacity, allowing the Company to recover some of its lost production.

From a financing viewpoint, the major events of the year were the completion of a successful \$60 million (Cdn.) Euro-dollar debenture issue in February 1984 and the paying down of a substantial portion of long-term debt. At year-end, \$76 million in long-term debt was outstanding, making our debt to equity ratio 1:8.

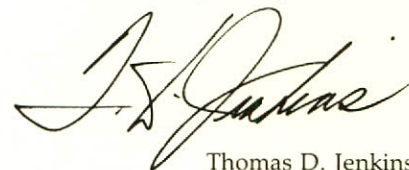
Looking ahead to 1985, we expect to substantially increase our capital expenditures from \$91 million in 1984 to over \$200 million in 1985. A substantial portion of these expenditures will be for Canadian exploration and development activities, as well as the Company's share of expenditures for Syncrude. We plan to spend over \$30 million on heavy oil development, over \$100 million on conventional exploration and development in Canada and the United States and in excess of \$50 million on Syncrude, representing CanadianOxy's share of the 5-year, \$1.6 billion capital expenditure program.

CanadianOxy faces some difficult challenges in the years to come. Its growth rate over the past few years will be difficult to sustain in the future. However, it is our objective to achieve a positive growth rate and competitive rate of return for the Company's shareholders in the years to come. To this end, management recognizes the key operating areas of the Company which need to be addressed to achieve its goals. One such area is the U.S. Gulf Coast, where oil and gas reserves are historically short-lived. The Company expects to substantially offset its reserves decline in the Gulf Coast through increased exploration and development. In Canada, the Company expects to increase its oil and gas production, while still striving to maintain its reserves at their present level.

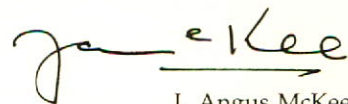
In light of CanadianOxy's excellent financial results for 1984 and its positive outlook for 1985, the Board of Directors announced a 28% increase in the quarterly common share dividend, increasing it from twelve and one-half cents to sixteen cents per share, effective April 1, 1985.

Once again, we would like to thank our employees for their continued dedicated efforts in achieving the Company's objectives. The ability of our employees to surmount the challenges they have confronted over the past few years is indicative of their potential to meet and exceed the challenges of the future. We look forward to 1985 with confidence in our ability to grow as a Company and to reward our shareholders for their investment in CanadianOxy.

Respectfully submitted,

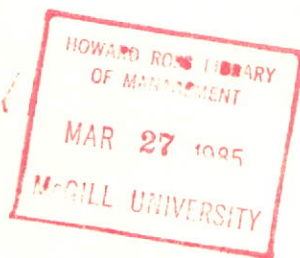


Thomas D. Jenkins
Chairman of the Board

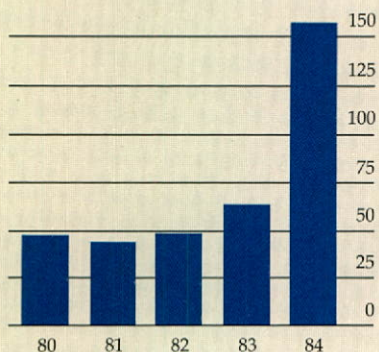


J. Angus McKee
President and
Chief Executive Officer

Calgary, Alberta
February 28, 1985



OPERATING PROFIT Oil and Gas (millions of dollars)



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

In 1984, net sales from oil and gas operations increased from \$158.3 million in 1983 to \$379.8 million and operating profit more than doubled to \$156.6 million. The improvement in net sales and operating profit is primarily attributable to the acquisitions of Canada-Cities, effective August 1, 1983, and COPCO, effective February 24, 1984.

Exploration expenditures, including lease acquisition costs, were \$32.1 million, which is a 152% increase from the prior year. Development expenditures

were \$26.9 million compared to \$9.8 million in 1983. The increase in exploration and development expenditures reflects CanadianOxy's more active oil and gas program, particularly in Canada. The allocation of these expenditures between Canada, the United States and South America during the past five years is shown in the table below. The Company anticipates that it will substantially increase its exploration and development expenditures in 1985.

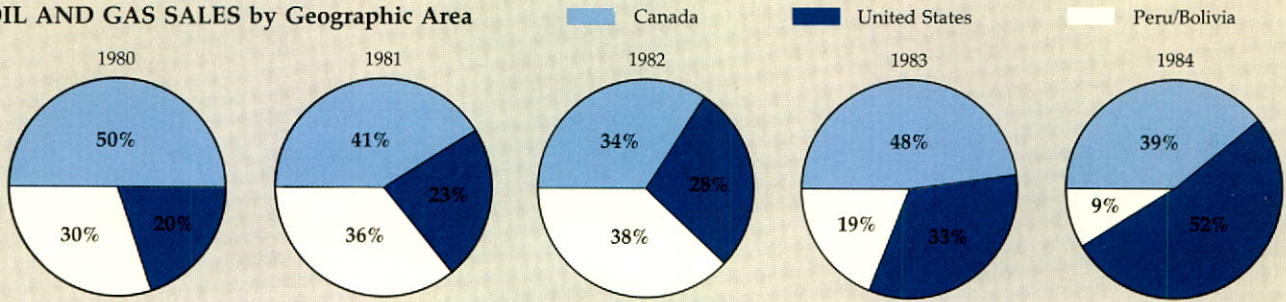
Refer to the Supplementary Financial Information commencing on page 36 for additional information pertaining to the Company's oil and gas producing activities.

OIL AND GAS OPERATIONS ⁽¹⁾

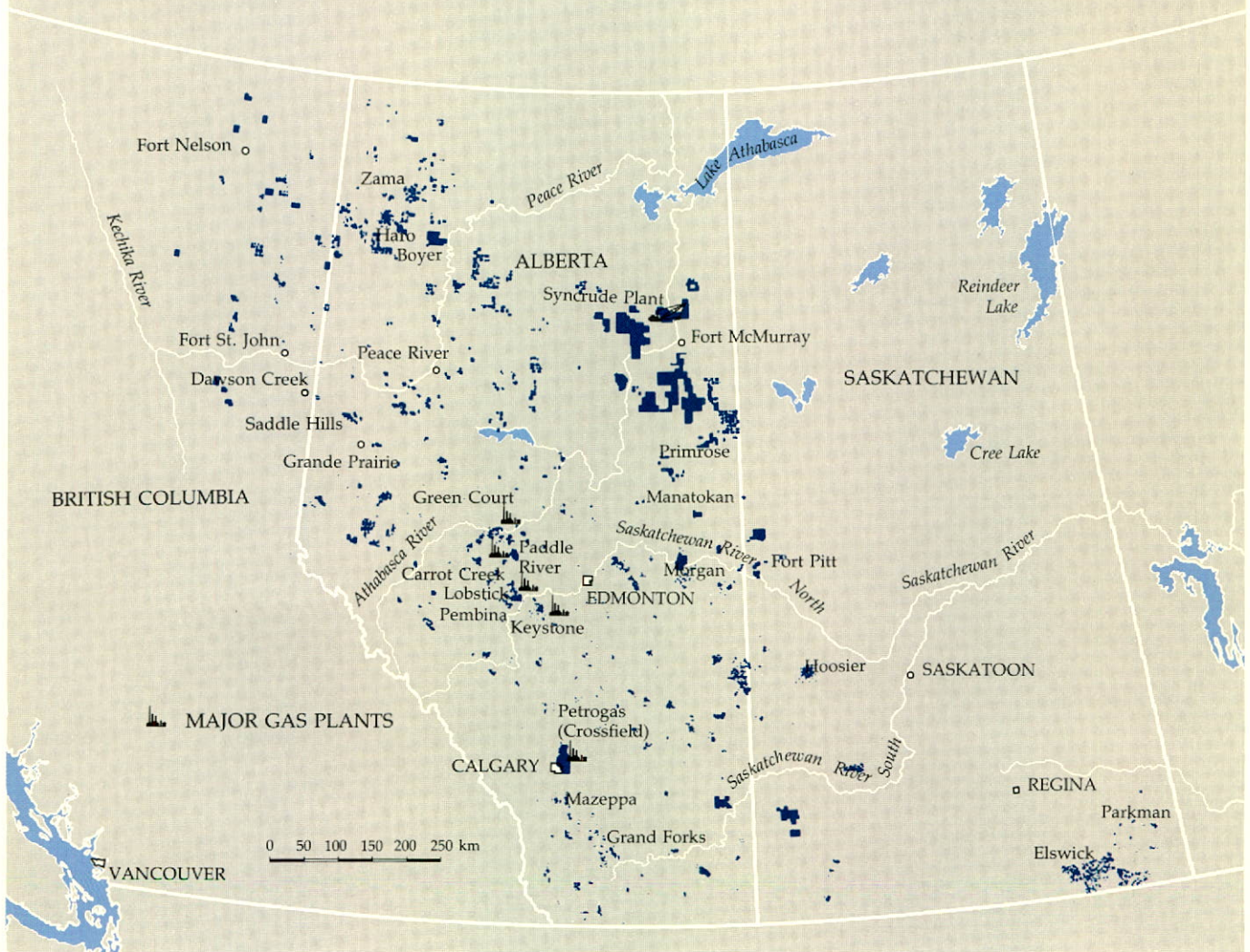
	1984	1983	1982	1981	1980
	(Amounts in Thousands)				
Net Sales:					
Natural Gas	\$184,754	73,905	55,107	48,219	47,467
Crude Oil and Condensate	180,191	74,119	59,576	47,099	32,728
Liquefied Petroleum Gas	5,423	3,429	1,810	2,082	2,354
Sulphur	9,434	6,818	10,000	11,767	11,611
	<u>\$379,802</u>	<u>158,271</u>	<u>126,493</u>	<u>109,167</u>	<u>94,160</u>
Operating Profit:					
Canada	\$ 66,738	31,950	16,717	17,805	27,229
United States	80,662	27,969	16,820	8,716	7,626
South America	9,217	3,176	16,258	18,138	14,200
	<u>\$156,617</u>	<u>63,095</u>	<u>49,795</u>	<u>44,659</u>	<u>49,055</u>
Capital and Exploration Expenditures: ⁽²⁾					
Acquisition of Oil and Gas Rights	\$ 5,309	2,984	939	4,212	7,009
Exploration	26,778	9,724	11,626	16,948	17,611
Development	26,892	9,750	33,401	69,796	61,390
	<u>\$ 58,979</u>	<u>22,458</u>	<u>45,966</u>	<u>90,956</u>	<u>86,010</u>
By geographic area:					
Canada	\$ 49,690	17,887	13,016	27,187	26,906
United States	6,807	3,123	9,313	11,434	12,172
South America	2,482	1,448	23,637	52,335	46,932
Total Capital and Exploration Expenditures	<u>\$ 58,979</u>	<u>22,458</u>	<u>45,966</u>	<u>90,956</u>	<u>86,010</u>
Less Current Year Expenditures					
Charged to Exploration Expenses	16,830	7,303	10,528	13,410	9,231
Net Capital Expenditures	<u>\$ 42,149</u>	<u>15,155</u>	<u>35,438</u>	<u>77,546</u>	<u>76,779</u>
Net Property, Plant and Equipment:					
Canada	\$219,097	209,368	49,815	51,028	41,076
United States	184,977	53,918	61,015	64,443	63,796
South America	137,716	136,697	139,890	130,979	87,769
	<u>\$541,790</u>	<u>399,983</u>	<u>250,720</u>	<u>246,450</u>	<u>192,641</u>

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 SALES by Geographic Area



CANADIAN LAND HOLDINGS — Oil and Gas



CANADA

LAND

CanadianOxy has a very strong land position in western Canada consisting of 2.1 million gross hectares or 1.0 million net hectares.

During 1984, CanadianOxy acquired 8 exploration licences covering 10 944 gross or 7 547 net hectares at a cost of approximately \$900 thousand. The majority of these licences are in the Belloy

and Pembina areas of Alberta.

The accompanying map illustrates the Company's land holdings in western Canada.

OIL AND GAS LAND HOLDINGS

	1984		1983	
	Gross Hectares	Net Hectares	Gross Hectares	Net Hectares
Petroleum and Natural Gas				
Alberta	1 650 776	860 261	1 791 651	983 188
Saskatchewan	237 079	77 536	312 047	88 905
British Columbia	174 711	91 836	191 424	105 599
Ontario	51 595	14 308	66 877	16 577
Hudson Bay ⁽¹⁾	22 911 238	7 637 095	22 911 238	7 637 095
N.W.T.	49 613	4 614	217 050	130 957
Yukon	—	—	1 748	605
East Coast Offshore	113 760	5 972	113 760	5 972
Louisiana Offshore	24 620	9 479	2 568	295
Texas Offshore	29 684	1 742	29 684	1 742
Bolivia	301 875	37 734	301 875	37 734
Brazil	—	—	607 866	139 302
Peru ⁽²⁾	7 637	1 602	7 637	1 602
	<u>25 552 588</u>	<u>8 742 179</u>	<u>26 555 425</u>	<u>9 149 573</u>
Bituminous Shale				
New Brunswick	1 439	1 439	1 439	1 439
	<u>25 554 027</u>	<u>8 743 618</u>	<u>26 556 864</u>	<u>9 151 012</u>

- Notes:
- (1) The Hudson Bay acreage is held under an exploration agreement which provides for the retention of up to 11.3 million gross hectares by the drilling of two wells. CanadianOxy has entered into an agreement dated January 1, 1985 whereby the Company's 33.3% working interest in the exploration agreement was reduced to 10%.
- (2) The Company's interest reflects a 21% share of the petroleum service contract for Talara.

EXPLORATION AND DEVELOPMENT

During 1984, CanadianOxy participated in the drilling of 57 exploration wells, resulting in 16 oil wells, 10 gas wells and 31 dry holes, representing a success rate of 46%; and 161 development wells, resulting in 124 oil wells, 25 gas wells, and 12 dry holes, representing a success rate of 93%. Of these wells, 17 exploratory and 19 development wells were drilled by others, under various farmout and option agreements at no cost to CanadianOxy.

At Grand Forks, in southern Alberta, the Company participated in the drilling of 5 wells which resulted in two oil discoveries, one of which has produced oil at rates up to 72 cubic metres per day. CanadianOxy has a 100% working interest in this well and holds various interests in 1 080 gross hectares in the immediate area. Seismic surveys and additional drilling are planned for 1985.

Three exploratory wells drilled in southeastern Saskatchewan resulted in one oil discovery at Elswick, which was completed for an initial potential of 7 cubic metres of oil per day. One successful



Drilling crew making drill pipe connection on rig at Drayton Valley, Alberta.

DRILLING RECORD IN CANADA

	1984		1983		1982		1981		1980	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory Wells										
Oil Wells	16	8.5	7	1.6	—	—	1	0.1	2	1.6
Gas Wells	10	4.4	5	.5	2	0.7	12	2.0	20	3.5
Dry Holes	31	9.9	8	2.0	4	2.7	11	3.6	8	3.0
	<u>57</u>	<u>22.8</u>	<u>20</u>	<u>4.1</u>	<u>6</u>	<u>3.4</u>	<u>24</u>	<u>5.7</u>	<u>30</u>	<u>8.1</u>
Development Wells										
Oil Wells	124	23.4	31	7.3	—	—	4	1.1	2	0.8
Gas Wells	25	7.6	17	6.6	12	3.2	22	6.3	16	6.4
Dry Holes	12	1.2	11	2.6	4	2.2	5	1.5	10	2.4
	<u>161</u>	<u>32.2</u>	<u>59</u>	<u>16.5</u>	<u>16</u>	<u>5.4</u>	<u>31</u>	<u>8.9</u>	<u>28</u>	<u>9.6</u>
	<u>218</u>	<u>55.0</u>	<u>79</u>	<u>20.6</u>	<u>22</u>	<u>8.8</u>	<u>55</u>	<u>14.6</u>	<u>58</u>	<u>17.7</u>

Notes:

- (1) In general, an exploratory well is a well drilled either in search of a new and as yet undiscovered pool of oil or natural gas, or with the intent of greatly extending a pool already partly developed. All other wells are development wells.
- (2) Gross wells means the total number of wells drilled in which CanadianOxy has an interest. Net wells represents the aggregate participating interests of the Company (other than royalty interests) in the gross wells.
- (3) In 1980, 1981, 1982, 1983 and 1984 CanadianOxy earned gross overriding royalty interests in 24, 17, 3, 18 and 36 farmout wells respectively (included in gross wells above), some of which are convertible to working interests at the Company's option on the payout of certain well costs. Upon payout, the net productive well totals in the table will increase by 4.50 gas wells in 1980, by 2.79 gas wells and 0.2 oil wells in 1981, by 1 gas well in 1982, by 1.51 gas wells and 1 oil well in 1983 and by .5 gas wells and 4.9 oil wells in 1984.

follow-up well was drilled and completed as a Mississippian oil well. The Company has a 25% working interest in 512 hectares in this area. It is anticipated that several offset wells will be drilled in the Elswick area in 1985.

In the Carrot Creek area of central Alberta, the Company participated in a dual zone oil discovery which was completed for an initial production potential of 12 cubic metres of oil per day. CanadianOxy has a 40% working interest in the well and 704 hectares in the immediate area.

In the Peace River Arch area of Alberta, the Company conducted extensive seismic surveys and participated in the drilling of two discoveries. The wells have been cased and tested. The Peoria 6-20 well is a multizone gas/oil discovery and the Bezanson well is a Devonian gas/condensate discovery. CanadianOxy has extensive land holdings in this very active area of the Peace River Arch.

The Company participated in two Keg River discoveries in the Zama Basin of northwestern Alberta. Of significance is the 8-34 well in which CanadianOxy has a 35% working interest. The well has been completed at a stabilized flow rate of 54 cubic metres of oil per day.

In the mature producing areas of Parkman, Wapella and Star Valley in southeastern Saskatchewan, the Company participated in the drilling of 41 oil wells. CanadianOxy's working interest in the wells varies from 10 to 20%.

At Saddle Hills, in west central Alberta, CanadianOxy participated in the drilling of 20 oil wells in the continuing development of the shallow Doe Creek oil pool. The Company plans to drill an additional 10 wells in this area in 1985. CanadianOxy has a 16²/₃% interest in these lands as well as varying interests in an additional 1 536 undeveloped hectares in the immediate area.

In October 1981, CanadianOxy and two joint venture participants were granted oil and gas exploration rights in Hudson Bay by the Federal Government. The participants each had a one-third participating interest in the project, with CanadianOxy acting as operator. The exploration agreement, effective January 1, 1983, extends for five years and now covers approximately 23 million hectares. Extensive seismic programs were carried out during the summers of 1982 and 1983 and well site surveys were conducted in 1984. Following evaluation of the results of these programs, CanadianOxy has decided not to participate in the drilling of a proposed well in the Hudson Bay. Consequently, CanadianOxy has agreed to transfer to

its joint venture partners a 23¹/₃% interest, retaining a 10% working interest. CanadianOxy will be carried for and will not bear any of the costs of drilling and completing the first well drilled under the exploration agreement.

The Company also participated with several other companies in the negotiation of an exploration agreement on 113 760 hectares of Canada Lands on the edge of the Nova Scotia Continental Shelf. Concurrently, the rights were farmed out to Petro-Canada Exploration, Inc. which commenced drilling a 4 125 metre well in December, 1984, at a cost of approximately \$57 million. CanadianOxy holds a 2.1% working interest in the lands.

Net proven reserves in Canada at the end of 1984 were estimated to be 2 809 thousand cubic metres of crude oil and condensate, 10 723 million cubic metres of natural gas, 665 thousand cubic metres of liquefied petroleum gas and 1.7 million tonnes of sulphur. Net proven reserves of oil and condensate after production declined 6% from the prior year primarily due to a reclassification of a portion of condensate to liquefied petroleum gas. As a result, net proven reserves of liquefied petroleum gas increased 18% from the 1983 year-end. Net proven reserves of natural gas declined 3% and sulphur reserves remained substantially unchanged.

PRODUCTION AND SALES

Crude oil and condensate accounted for approximately 50% of CanadianOxy's net sales from Canadian oil and gas operations in 1984. During the year, CanadianOxy's share of oil and condensate production before royalties averaged 1 555 cubic metres per day. About 48% of the conventional oil and condensate production is from the Pembina area, in Alberta, where the Company holds interests in 1,044 wells. Approximately 26% of the oil and condensate production is in Saskatchewan, where the Company has interests in 1,003 wells. The remaining production is derived from 734 wells located in Alberta and Ontario, and condensate recovered from the Company's interests in 43 natural gas processing plants and compression-dehydration facilities.

Heavy crude oil production from the Lloydminster area of eastern Alberta and western Saskatchewan accounts for about 11% or 170 cubic metres per day of total Canadian oil production, of which about 36 cubic metres per day is heavy oil recovered from enhanced oil recovery projects.

Natural gas and liquefied petroleum gas accounted for approximately 44% of

CanadianOxy's net sales from Canadian oil and gas operations in 1984. During the year, CanadianOxy's average natural gas, liquefied petroleum gas and sulphur production before royalties averaged 2 196 thousand cubic metres per day, 162 cubic metres per day and 294 tonnes per day, respectively.

The Company's significant gas producing areas in Canada are the Calgary Crossfield field, the Paddle River field, the Pembina Keystone solution gas processing facility and the Primrose Kirby field in Alberta and the Fort Pitt gas processing facility in Saskatchewan. These five areas together account for 55% of the Company's natural gas production in Canada.

CanadianOxy currently has approximately 90% of its gas reserves contracted to major Canadian gas purchasers. In terms of approximate percentage distribution of production, Westcoast Transmission Company Limited ("Westcoast") takes 22%; Northwestern Utilities Limited 26%; TransCanada PipeLines Limited 19%; Pan-Alberta Gas Ltd. 16%; Alberta and Southern Gas Co. Ltd. 4%; Saskatchewan Power Corporation 6%; and other gas purchasers 7%.

Gas produced from the Crossfield field is processed at a plant owned by Petrogas Processing Ltd., located about five kilometres northeast of Calgary. The Company owns 33.1% of Petrogas and is the manager and operator of the plant and the related field production facilities. Westcoast is the major purchaser of the pipeline gas production. The current Westcoast contract provides for delivery of an average daily volume of 2 510 thousand cubic metres per day from the Crossfield field and expires on the earlier of December 31, 1987 or when Westcoast has taken delivery of 28 billion cubic metres of gas. At current load factors, CanadianOxy expects the contract to expire during 1986. TransCanada PipeLines Limited has agreed to purchase additional quantities of gas following the termination of the Westcoast contract. CanadianOxy is investigating potential gas marketing possibilities in Alberta, eastern Canada and the United States.

Westcoast has failed to take the full annual contract obligation since 1978, having taken on average only 80% of the contracted quantity during this period. To date, no take or pay payments have been made by Westcoast. Petrogas has initiated legal proceedings

OIL AND GAS PRODUCTION AND SALES

	1984	1983	1982	1981	1980
Production					
(gross before royalties)					
<i>Metric Units</i>					
Pipeline Gas (thousand cubic metres)	1 811 341	850 552	646 590	617 229	615 066
Crude Oil and Condensate (thousand cubic metres)	1 117.9	522.3	357.6	321.4	285.8
Liquefied Petroleum Gas (thousand cubic metres)	59.4	33.6	18.6	23.8	27.0
Sulphur (thousand tonnes)	107.7	107.9	94.0	112.4	109.5
<i>Imperial Units</i>					
Pipeline Gas (Bcf)	64.3	30.2	23.0	22.3	22.2
Crude Oil and Condensate (thousand barrels)	7,034.9	3,286.7	2,250.3	2,022.3	1,798.6
Liquefied Petroleum Gas (thousand barrels)	373.8	211.7	117.1	149.9	169.7
Sulphur (thousand long tons)	106.0	106.2	92.5	110.6	107.8
Sales					
Sulphur					
<i>Metric Units</i>					
(thousand tonnes)					
North American	55.8	61.1	96.2	117.9	98.7
Offshore	70.8	53.5	56.9	77.9	139.4
	<u>126.6</u>	<u>114.6</u>	<u>153.1</u>	<u>195.8</u>	<u>238.1</u>
<i>Imperial Units</i>					
(thousand long tons)					
North American	54.9	60.1	94.6	116.0	97.2
Offshore	69.7	52.6	56.1	76.7	137.2
	<u>124.6</u>	<u>112.7</u>	<u>150.7</u>	<u>192.7</u>	<u>234.4</u>

Note:
The above table includes Canada-Cities' production from August 1, 1983, 100% of COPCO production from February 24, 1984 and crude oil production in Peru on which the Company receives a service fee.

against Westcoast with respect to the outstanding take or pay payments.

Site clearing and road construction commenced in late 1984 for CanadianOxy's natural gas processing plant and gathering system in the South Okotoks/Mazeppa area, 30 kilometres southeast of Calgary. This \$95 million plant and facilities will produce about 600 thousand cubic metres per day of pipeline gas, 127 cubic metres per day of condensate and 580 tonnes per day of sulphur. CanadianOxy will be operator and have an approximate 60% interest in the project. Plant construction is expected to commence in the spring of 1985 with completion anticipated in mid-1986.

In the Pembina area, CanadianOxy's major source of conventional oil production, the 100% owned Ellerslie gas conservation project was completed in late June, at a cost of \$1.5 million. The project oil allowable increased 40% to 48 cubic metres of oil per day with a further doubling of the production anticipated when full project status is achieved in 1985.

Construction commenced during the fourth quarter of 1984 on another gas conservation and production facility at CanadianOxy's 100%-owned Carrot Creek area. The new facilities, which were completed in the first quarter of 1985 at a cost of \$1.3 million, treat and compress solution gas and will result in incremental sales of 20 cubic metres per day of oil and condensate and 30 thousand cubic metres per day of natural gas.

Sulphur marketing activities during 1984 contributed approximately 6% of CanadianOxy's net sales from Canadian oil and gas operations. CanadianOxy markets sulphur both for its own account and as agent for Petrogas and others. In 1984, CanadianOxy's share of sales were 55 838 tonnes in the North American market and 70 756 tonnes in the overseas markets at an average price of \$83.68 per tonne, F.O.B. plant. The sulphur market strengthened considerably in 1984, resulting in higher sales volumes, particularly in the offshore markets and higher prices in both the offshore and North American markets. It is anticipated that the sulphur market will continue to be strong in 1985.

HEAVY OIL

CanadianOxy holds approximately 36 000 net hectares of heavy oil lands near the Alberta/Saskatchewan border. The Company is developing a steamflood pilot project in the Manatokan/Cold Lake area of Alberta and a fireflood pilot project at Morgan, in the Lloydminster area of Alberta, and participates in two operating fireflood thermal projects, operated by others, in eastern Alberta and western Saskatchewan.

In late 1984, CanadianOxy commenced work on phase II of its Manatokan project, which is an expansion of the original 5 well pilot program. This steamflood pilot project consists of the drilling of 32 wells in twelve 4-hectare, 5-spot patterns and the construction of steam generation and production facilities. The Company expects to spend approximately \$22 million on this project during 1985. The pilot phase of the project will continue for up to four years and is expected to produce approximately 190 cubic metres of bitumen per day by 1986. If the pilot operation is successful, commercial development would occur between 1991 and 1994.

CanadianOxy will bear the full cost of the pilot project. The company owning the mineral rights has reserved a 10% net profits interest which is convertible at its option into a 50% working interest upon completion of the pilot phase. Original oil in place for the project area is estimated at 120 million cubic metres. If the project reaches the commercial development phase, production could average 2 540 cubic metres of bitumen per day over the 39 year life of the project.

At the Morgan fireflood pilot project, in which CanadianOxy has a 100% interest and is operator, preliminary design work commenced in late 1984. Subject to regulatory approvals, field work will commence in early 1985 with the drilling of 10 wells in four 4-hectare, 5-spot patterns. Limited production is expected to commence in mid-1985 and to average 80 cubic metres of oil per day over the term of the pilot project. Original oil in place at the Morgan project is estimated at 7.6 million cubic metres of oil. Commercial development of the project could result in production of up to 480 cubic metres per day.



Slant drilling at Manatokan steamflood pilot project in Alberta.

UNITED STATES

CanadianOxy holds leasehold interests ranging from 3.7% to 100% in 33 Federal offshore lease blocks in the U.S. Gulf Coast. Fifteen of these lease blocks were acquired through the purchase of Cities Offshore Production Co. ("COPCO"), which was completed in February 1984. At that time, COPCO became a wholly-owned subsidiary and its name was changed to CanadianOxy Offshore Production Co. The accompanying map indicates the location of these lease blocks.

To date, 36 drilling and production platforms have been installed on the lease blocks and 339 successful development wells have been drilled. During 1984, the Company participated in the drilling of 4 oil wells in the Gulf Coast. By year-end, a total of 222 wells were on production and another 14 wells were scheduled to be on production in early 1985.

CanadianOxy's share of production from the Gulf Coast during 1984 averaged 3 068 thousand cubic metres of gas per day and 1 143 cubic metres of oil and condensate per day, before royalties, based on 311 production days for the COPCO properties and a full year's production from CanadianOxy's other Gulf Coast properties. The net prices received for the two categories of pipeline gas production during December, 1984 were \$136 (U.S.) per thousand cubic metres and \$86 (U.S.) per thousand cubic metres and for the oil production is \$173 (U.S.) per cubic metre.

During 1984, well completions were conducted on the platform serving High Island 582 and production commenced by year-end. At the Vermilion Block 124, the "H" platform was set in September and a rig was placed on the platform to complete 3 oil wells, which commenced production in December. The drilling of a fourth well was in progress at year-end and at least two more wells are planned for early 1985. Successful workovers were performed on four High Island platforms, the Main Pass 288 platform and the West Delta 45 platform. In addition, the Company entered into five exploratory farm-in agreements covering Federal offshore leases and purchased a direct interest in another lease in the Gulf Coast.

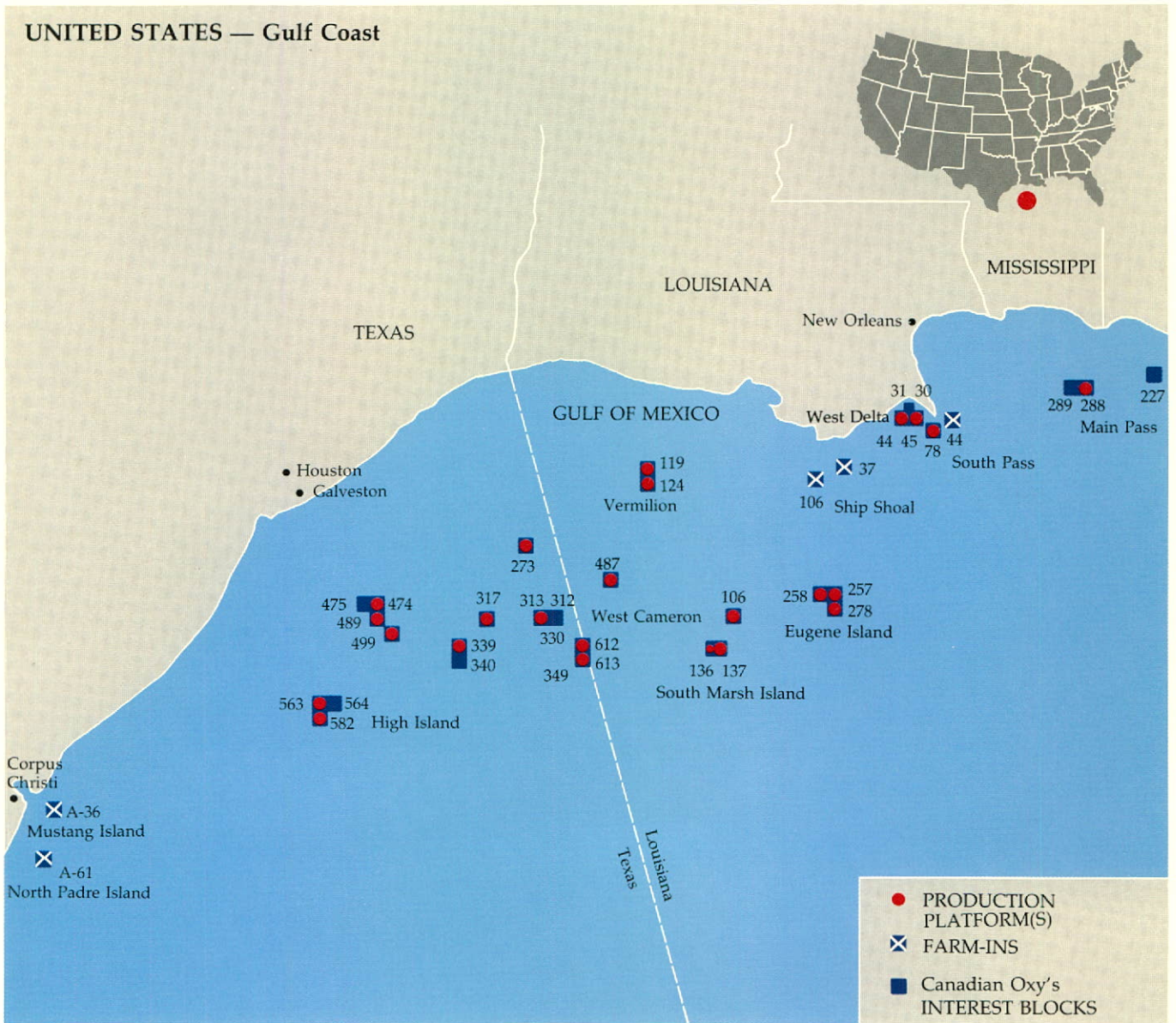
CanadianOxy's share of net proven reserves for the United States Gulf Coast as of December 31, 1984 was 660 thousand cubic metres of crude oil and condensate and 2 343 million cubic metres of pipeline gas. The significant increase over the prior year in net proven reserves of oil, condensate and natural gas is due to the inclusion of reserves of COPCO, which became wholly-owned in February 1984. Comparing 1984 year-end net proven reserves with 1983 and

including 100% of COPCO at the prior year-end, net proven reserves of crude oil and condensate declined 1.5% and natural gas 20%, after production. While net proven reserves of oil and condensate at the COPCO properties increased compared to the prior year, due to discoveries and engineering adjustments, the increase was offset by the declining reserves at the Company's High Island and South Pass properties.



Drilling and production platform in the United States Gulf Coast.

UNITED STATES — Gulf Coast



DRILLING RECORD IN THE UNITED STATES (GULF OF MEXICO)

	1984		1983		1982		1981		1980	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory Wells										
Oil Wells	—	—	—	—	—	—	—	—	—	—
Gas Wells	—	—	—	—	—	—	—	—	—	—
Oil/Gas Wells	—	—	—	—	—	—	—	—	—	—
Dry Holes	—	—	—	—	—	—	4	.12	—	—
	—	—	—	—	—	—	4	.12	—	—
Development Wells										
Oil Wells	4.0	1.0	—	—	3	.15	—	—	2	.11
Gas Wells	—	—	1	.05	3	.21	6	.32	11	.37
Oil/Gas Wells	—	—	—	—	2	.11	6	.60	2	.40
Dry Holes	—	—	—	—	—	—	2	.13	5	.23
	4.0	1.0	1	.05	8	.47	14	1.05	20	1.11
	4.0	1.0	1	.05	8	.47	18	1.17	20	1.11

PERU

CanadianOxy (21%), Occidental (63%) and Bidas Exploraciones y Produccion (16%), S.A., an Argentinian private oil company, are participants in an oil field redevelopment and secondary recovery project in nine established producing oil fields near Talara, approximately 1 000 kilometres northwest of Lima, on the coast of Peru. Occidental is the operator of the project.

From inception of the project in August 1978, the Oxy Group has drilled a total of 1,005 new wells. At year-end, there were 1,403 productive wells (both producing and capable of production) and 509 injection wells.

CanadianOxy's share of oil production from the Talara area averaged 401 cubic metres per day during 1984. Severe weather conditions occurred in the Talara area from January to June, 1983 and caused a shutdown of the water injection operations for eight months. Nearly 150 inches of rainfall occurred compared to the normal precipitation level of less than one inch per annum. This severe operating disruption appears to have had a more longlasting detrimental effect than originally anticipated

and response to the waterflood operations has not yet recovered to its prior level. CanadianOxy has received payments totalling \$3.2 million (U.S.) in partial settlement of its insurance claims resulting from the weather disturbance.

Under a service contract with the Peruvian government, CanadianOxy is paid a service fee on its 21% share of the oil production. The basic service fee is subject to adjustment for certain changes in crude oil prices, Peruvian income tax rates and unit production costs. The basic service fee averaged \$99.43 (U.S.) per cubic metre during 1984.

Occidental's independent consulting engineers estimated as of December 31, 1984 a total of 10.3 million cubic metres of proven reserves of crude oil are recoverable from the Talara project in the contract period. CanadianOxy's net share of the reserves was 2.2 million cubic metres of crude oil. Probable additional reserves may result from the waterflood project. However, any estimate of probable additional reserves is subject to various factors almost all of which are theoretical and uncertain until actual response to water injection in each field is evaluated.

BOLIVIA

Occidental (75%) and CanadianOxy (25%), as contractors, hold a production-sharing contract with YPF, the Bolivian national oil company, covering approximately 300 000 hectares at the Porvenir field in the Chaco Basin of eastern Bolivia. Under this agreement, the Contractors are entitled to approximately 50% of all production from the contract area, net of taxes and royalties.

Gas cycling and liquids extraction facilities were completed in October, 1981, whereby condensate is produced and sold while conserving most of the natural gas by re-injection into the reservoir. The plant is serviced by ten wells, of

which six are producing and four are used for gas re-injection. During 1984, CanadianOxy's 12.5% share of the plant condensate production was averaging 108 cubic metres per day with about 3.1 million cubic metres per day of natural gas being re-injected into the reservoir. Plans are underway to install a gas pipeline and commence selling some of the gas, currently being re-injected, in the second quarter of 1985.

Until mid-1982, the condensate was sold to YPF for domestic consumption at a price related to the official sales price for Arabian Light crude oil. Because of the excess of oil supply over domestic demand in Bolivia, and its shortage of U.S. dollars, Occidental and CanadianOxy were authorized to export some of their production during 1982 and 1983 and YPF was authorized to reschedule payment to the Oxy Group in those years. At the end of 1984, CanadianOxy's share of this receivable was approximately \$600,000 (U.S.) for 1982 and \$1.5 million (U.S.) for 1983.

During 1984, Occidental and CanadianOxy were not permitted to export their full 50% share of production. An agreement was reached with YPF whereby the Contractors would accept future delivery of manufactured goods in settlement of production payments for the first six months of 1984. Occidental and CanadianOxy have invoiced YPF for the condensate production for the last six months of 1984 in accordance with the contract terms.

The Company's net share of the proven reserves for the Porvenir field as at December 31, 1984 is estimated to be 448 million cubic metres of natural gas and 141 thousand cubic metres of condensate.

OIL AND GAS RESERVES

(as at December 31, 1984)

	Proven		Probable		Total Proven and Probable	
	Gross	Net	Gross	Net	Gross	Net
<i>Metric Units</i>						
Crude Oil and Condensate (thousand cubic metres)						
Canada	3 653	2 809	1 404	1 121	5 057	3 930
U.S. Gulf Coast.....	792	660	75	62	867	722
Peru	2 164	2 164	971	971	3 135	3 135
Bolivia	141	141	—	—	141	141
	<u>6 750</u>	<u>5 774</u>	<u>2 450</u>	<u>2 154</u>	<u>9 200</u>	<u>7 928</u>
Pipeline Gas (million cubic metres)						
Canada	13 918	10 723	3 125	2 565	17 043	13 288
U.S. Gulf Coast.....	2 811	2 343	744	620	3 555	2 963
Bolivia	448	448	—	—	448	448
	<u>17 177</u>	<u>13 514</u>	<u>3 869</u>	<u>3 185</u>	<u>21 046</u>	<u>16 699</u>
Liquefied Petroleum Gas (thousand cubic metres)						
Canada	920	665	63	42	983	707
U.S. Gulf Coast.....	10	8	4	4	14	12
	<u>930</u>	<u>673</u>	<u>67</u>	<u>46</u>	<u>997</u>	<u>719</u>
Sulphur (thousand tonnes)						
Canada	1 970	1 693	1	1	1 971	1 694
	<u>1 970</u>	<u>1 693</u>	<u>1</u>	<u>1</u>	<u>1 971</u>	<u>1 694</u>
<i>Imperial Units</i>						
Crude Oil and Condensate (thousand barrels)						
Canada	22,984	17,675	8,833	7,056	31,817	24,731
U.S. Gulf Coast.....	4,977	4,147	471	393	5,448	4,540
Peru	13,614	13,614	6,105	6,105	19,719	19,719
Bolivia	884	884	—	—	884	884
	<u>42,459</u>	<u>36,320</u>	<u>15,409</u>	<u>13,554</u>	<u>57,868</u>	<u>49,874</u>
Pipeline Gas (billion cubic feet)						
Canada	494.0	380.6	110.9	91.0	604.9	471.6
U.S. Gulf Coast.....	99.8	83.1	26.4	22.0	126.2	105.1
Bolivia	15.9	15.9	—	—	15.9	15.9
	<u>609.7</u>	<u>479.6</u>	<u>137.3</u>	<u>113.0</u>	<u>747.0</u>	<u>592.6</u>
Liquefied Petroleum Gas (thousand barrels)						
Canada	5,794	4,180	396	261	6,190	4,441
U.S. Gulf Coast.....	60	50	28	23	88	73
	<u>5,854</u>	<u>4,230</u>	<u>424</u>	<u>284</u>	<u>6,278</u>	<u>4,514</u>
Sulphur (thousand long tons)						
Canada	1,939	1,666	1	1	1,940	1,667
	<u>1,939</u>	<u>1,666</u>	<u>1</u>	<u>1</u>	<u>1,940</u>	<u>1,667</u>

Note:
The above table excludes the inventory of 135 130 tonnes (132,968 long tons) of sulphur held at year-end. The Company receives a service fee per barrel for reserves produced in Peru.

Alternate Fuels



CanadianOxy holds a 13.23% interest in the Syncrude Project as well as varying interests in undeveloped oil sands leases. It also holds mineral claims and coal leases, including an undeveloped uranium property.

Net sales from alternate fuels operations in 1984 were \$169 million and operating profit was \$35.4 million, reflecting revenues from the Syncrude plant and after deducting \$9.0 million for exploration and resource evaluation activities in coal, minerals and other oil sands. Results in 1984 were severely affected by a major explosion and fire at the Syncrude Plant in August, 1984 which caused the plant to be completely shut down for approximately five weeks and partially shut down for an additional three months. The fire is described in more detail later in this section.



Syncrude plant near Fort McMurray, Alberta.

ALTERNATE FUELS OPERATIONS ⁽¹⁾

	1984	1983	1982	1981	1980
	(Amounts in Thousands)				
Net Sales:					
Synthetic Crude Oil	\$167,293	72,792	—	—	—
Sulphur	1,713	442	—	—	—
	<u>\$169,006</u>	<u>73,234</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating Profit (Loss):					
Oil Sands	\$ 43,423	24,666	—	—	—
Minerals and Coal	(7,984)	(2,203)	(3,192)	(4,312)	(2,293)
	<u>\$ 35,439</u>	<u>22,463</u>	<u>(3,192)</u>	<u>(4,312)</u>	<u>(2,293)</u>
Capital Expenditures: ⁽²⁾					
Oil Sands	\$ 25,572	14,082	—	—	—
Minerals and Coal	190	710	2,678	5,346	5,711
	<u>\$ 25,762</u>	<u>14,792</u>	<u>2,678</u>	<u>5,346</u>	<u>5,711</u>
Net Property, Plant and Equipment:					
Oil Sands	\$268,360	256,082	—	—	—
Minerals and Coal	554	7,523	8,485	7,942	6,316
	<u>\$268,914</u>	<u>263,605</u>	<u>8,485</u>	<u>7,942</u>	<u>6,316</u>

Notes:

(1) The above table includes the results of operations of Canada-Cities from August 1, 1983.

(2) Capital expenditures exclude fixed asset additions resulting from the Canada-Cities acquisition in 1983 totalling \$247,649,000.

SYNCRUDE

The Syncrude Project, a joint venture created for the purpose of mining shallow deposits of oil sands and extracting and upgrading crude bitumen into a synthetic crude oil, is located on 39 106 hectares leased from the Province of Alberta in the Athabasca oil sands area near Fort McMurray, Alberta.

During 1984, the Syncrude Project recorded average daily production of 13 735 cubic metres per day compared to 17 761 cubic metres per day in the prior year. This 23% decrease in production in 1984, compared to 1983, was attributable to the aforementioned fire. On August 15, 1984, a section of pipe carrying heated bitumen ruptured resulting in a fire that caused extensive physical damage to one of the plant's two bitumen-to-oil processing units (cokers) and caused the other coker to be taken out of service. Efforts to bring the least damaged coker back into service were unsuccessful, resulting in a five-week total shutdown of the plant. One coker returned to service on September 21, 1984 and the plant resumed production at about 50% capacity. In late December, the damaged coker was repaired and successfully started up and by the end of 1984 the plant was producing 20 975 cubic metres of oil per day, with CanadianOxy's share before royalties being 2 775 cubic metres per day.

Production for the year was also affected by a shutdown of both coker units for a portion of the first quarter of 1984. The first coker unit was shut down in December, 1983, for unscheduled maintenance caused by a series of boiler failures. It was successfully started up in early February, 1984. The second coker unit, shut down for repair and maintenance following a small fire in January, 1984, was successfully started up in early March, 1984.

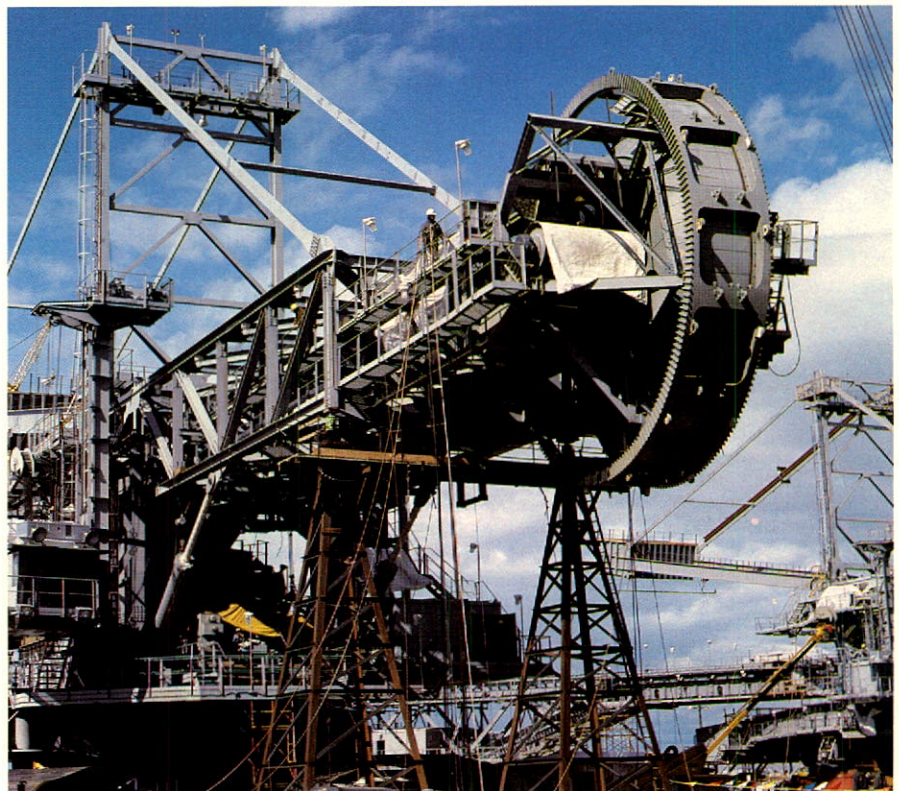
Property damage and business interruption insurance claims will be filed during 1985. While the Company's insurance claims will be for a substantial portion of the lost revenue, the actual amount of insurance proceeds to be received is dependent upon final settlement of the claims and therefore no amounts have been reflected in the 1984 financial statements.

Under an agreement dated February 4, 1975, the Province of Alberta as lessor of the oil sands leases waived its right to royalties or other payment in lieu of royalties, and entered into a joint venture with the participants. Under the agreement, the Alberta Crown receives 50% of the deemed net profits of the Syncrude Project, which at the Province's option may be converted to a 7.5% gross production royalty at any one time after March 1, 1984. Both the 50% of deemed net profits and the 7.5% gross production royalty are subject to change at the option of the Province of Alberta after March 1, 1989. They are also subject to change if substantial changes in circumstances occur which were not reasonably within the contemplation of the parties to the original agreement which was effective in 1975.

During 1983, the Syncrude participants negotiated an amendment to the original royalty agreement with the Government of Alberta. The amended agreement provides for an accelerated write-off of all qualifying capital expenditures in the calculation of the deemed net profits of the Syncrude Project for a five-year period commencing January 1, 1983.

As part of their 5-year, \$1.6 billion capital expenditure program, the Syncrude participants, in 1984, received the approval of the Alberta Energy Resources Conservation Board to increase the permitted yearly synthetic crude oil production to 8 million cubic metres and extend the approved project life by nine years to December 31, 2013. The proposed expansion project would result in an estimated increase in plant production, over current capacity, of 2 957 cubic metres of oil per day by the end of the five-year program. The amount and timing of the proposed capital expenditures are at the discretion of the Syncrude participants.

The Company's share of gross synthetic crude oil reserves associated with the Syncrude Project, calculated by independent consultants to be produced over the remaining 29-year term of the current mining plan, is estimated to be approximately 30.5 million cubic metres as at December 31, 1984. Since the joint venture payment to the Province of Alberta is based on "deemed net profits", any estimate of net reserves entails making various assumptions as to future crude oil prices and future plant operating costs.



Bucketwheel at Syncrude plant.

OTHER OIL SANDS LEASES

CanadianOxy has a 25% interest in six oil sands leases covering 75 035 hectares in the vicinity of the current Syncrude operations. The Company and five other participants are exploring and evaluating these leases for commercial quantities of oil sands. Based on drilling programs conducted in the early 1970's, the Company estimates that these six leases hold 4.3 billion cubic metres of bitumen in place. Since 1981, the participants have been conducting drilling programs and engineering feasibility studies on certain of the leases. This program is expected to continue until 1986.

IN-SITU OIL SANDS

CanadianOxy has a 31.6% average interest in 34 deep oil sands leases in the Athabasca deposit of northern Alberta. These leases cover 494 493 hectares and the Company estimates that they contain approximately 19 billion cubic metres of bitumen in place. CanadianOxy's share, assuming the exercise of all farmout options, is estimated to be 4.8 billion cubic metres.

Initial exploration of these deep oil sands holdings commenced in 1956. Since that time the participants have pursued active research on various recovery processes including steam injection and electrical pre-heating stimulation. In late 1984, a single well steam injection and

production test was initiated and will be continued in 1985.

Beginning in 1978, operations on the deep oil sands leases were conducted through a joint venture among Canada-Cities, Esso Resources Canada Limited and Petro-Canada Exploration, Inc., subject to a farmout agreement with Japan Canada Oil Sands Ltd. ("Jacos"). The farmout agreement gives Jacos a three phase option to earn a 25% interest in the deep oil sands over a period of approximately 15 years. Phase I has been completed and Jacos has earned a 25% interest in approximately one-third of the deep oil sands leases. Late in 1983, Jacos exercised its option to participate in Phase II of the farmout upon completion of which it will have earned a 25% interest in a further one-third of the deep oil sands leases.

MINERALS AND COAL

CanadianOxy holds various metallic mineral claims and leases in Canada. The Company's most significant property, "Wolly", is located on the eastern rim of the Athabasca basin in northern Saskatchewan. In 1979 and 1982, CanadianOxy and its equal partner, Inco Limited, announced potentially significant uranium discoveries, named the "McClellan" deposit and the "JEB" deposit.

In January, 1985, CanadianOxy and Inco entered into an agreement with Minatco Limited, granting Minatco an option to earn a one-third interest in the Wolly property, including the McClellan and JEB deposits. Minatco can earn such interest by spending \$23 million in carrying out an extensive exploration program and by preparing a feasibility study as to commercial development of the property. The first phase of this program requires Minatco to spend \$5 million on the property during the period 1985 to 1988. During 1985, Minatco will drill certain well-defined but previously untested targets, at an estimated cost of \$1 million.

In addition, the Company holds several bituminous thermal coal properties, one of which is located on Vancouver Island and several of which are located in Alberta. Further evaluation of these properties is required to determine their commercial potential.

ALTERNATE FUELS PRODUCTION

(Gross Before Royalties)

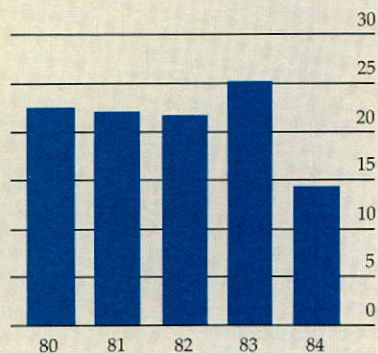
	<u>1984</u>	<u>1983</u>
<i>Metric Units</i>		
Synthetic Crude Oil (thousand cubic metres)	665.0	358.4
Sulphur (thousand tonnes)	26.2	13.4
<i>Imperial Units</i>		
Synthetic Crude Oil (thousand barrels)	4,184.8	2,255.5
Sulphur (thousand long tons)	25.8	13.1

Note:

The above table represents the Company's share of production from the Syncrude Project from August 1, 1983. Prior to this date, there was no production for the Alternate Fuels division.

OPERATING PROFIT

Chemicals
(millions of dollars)



The Company's chemical operations include the Industrial Chemicals division in western Canada and the Specialty Chemicals group in eastern Canada.

The Industrial Chemicals division consists of four electro-chemical plants; three in British Columbia and one at Brandon, Manitoba. This division manufactures chlorine, caustic soda, sodium chlorate and muriatic acid. Over 75% of net sales from the chemical operations are generated by this division. The Specialty Chemicals group includes the Metal Finishing division and the Durez Plastics division. The Metal Finishing division manufactures and markets the Parker and Sel-Rex product lines in Canada. Parker products are used by industry in the treating, cleaning and finishing of metals and plastics. Sel-

Rex products supply precious metal electroplating chemicals and process technology, primarily to the electronics and decorative jewellery industries. The Durez Plastics division is a manufacturer and marketer of phenolic moulding compounds and industrial and foundry resins.

Sales from chemical operations were \$86.9 million in 1984 compared with \$92.0 million in 1983 and operating profit was \$14.7 million compared to \$25.0 million in the prior year. The decline in sales and operating profit is primarily due to a 10-week lock-out and subsequent strike in the pulp and paper industry, which caused a shut down of CanadianOxy's west coast electro-chemical plants, and to increased manufacturing costs and operating expenses.

CHEMICAL OPERATIONS

	1984	1983	1982	1981	1980
	(Amounts in Thousands)				
Net Sales:					
Industrial Chemicals	\$65,508	70,465	67,408	67,065	67,596
Plastics and Resins	10,124	10,045	6,144	7,122	7,500
Metal Finishing	11,220	11,497	11,423	15,024	19,384
	<u>\$86,852</u>	<u>92,007</u>	<u>84,975</u>	<u>89,211</u>	<u>94,480</u>
Operating Profit	<u>\$14,655</u>	<u>25,041</u>	<u>21,945</u>	<u>22,207</u>	<u>22,515</u>
Capital Expenditures:					
Industrial Chemicals	\$ 4,345	6,511	12,732	8,526	4,133
Plastics and Resins	362	83	79	103	196
Metal Finishing	192	39	149	157	295
	<u>\$ 4,899</u>	<u>6,633</u>	<u>12,960</u>	<u>8,786</u>	<u>4,624</u>
Net Property, Plant and Equipment:					
Industrial Chemicals	\$38,397	37,039	33,040	23,543	17,946
Plastics and Resins	1,882	1,779	1,936	2,112	2,256
Metal Finishing	1,081	1,046	1,146	1,152	1,113
	<u>\$41,360</u>	<u>39,864</u>	<u>36,122</u>	<u>26,807</u>	<u>21,315</u>

INDUSTRIAL CHEMICALS

The industrial chemical operations comprise two chlor-alkali plants at North Vancouver and Nanaimo, B.C. and three sodium chlorate manufacturing plants at Squamish and Nanaimo, B.C. and Brandon, Manitoba. Industrial chemical products — chlorine, caustic soda, sodium chlorate — are manufactured by an electro-chemical process using salt and electricity. The products are used primarily as bleaching chemicals by the pulp and paper industry in western Canada. The Company supplies approximately 50% of the chlorine and caustic soda sold in British Columbia.

CanadianOxy is also a major producer of muriatic acid in western Canada. The Company presently supplies more than 40% of the muriatic acid used in Alberta and British Columbia. A principal use of muriatic acid (also known as hydrochloric 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 per year, respectively. Sodium chlorate is produced at the Squamish, Nanaimo and Brandon plants where the combined annual capacity is 29 300 tonnes. During 1984, production of chlor-alkali and sodium chlorate was at about 73% capacity. For the months May to December 1984, following the shutdowns, the plants operated at 83% capacity.

CanadianOxy owns and operates two chemical barges to deliver chlorine and caustic soda to its coastal customers. During 1984, the Hyak King rail car barge was expanded at a cost of \$750,000 which will result in improved transportation efficiencies and customer service.

CanadianOxy owns and operates a bulk chemical terminal at Watson Island, B.C., adjacent to the Westar Timber pulp mill. During 1984, a new chlorine pipeline was built at a cost of \$1 million. This line will provide improved service to the customer and significantly

reduce the risk of an accidental chlorine release.

In February, 1984, the District Council of North Vancouver adopted a by-law which could have restricted any future expansion or modification of existing chemicals manufacturing plants. This by-law was similar to a by-law adopted by the District Council in 1982 which was subsequently quashed by the Courts in 1983. In March, 1984 CanadianOxy again initiated Court proceedings to challenge the validity of the new by-law. The Court quashed the by-law in mid-1984 and subsequently the municipality initiated appeal proceedings which are not expected to be heard until the fall of 1985.

Since 1972, the North Vancouver plant has been the regional control centre for the North America-wide Chlorine Emergency Plan (CHLOREP). 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. In addition, the Company estimates that it will spend \$1.9 million in 1985 and \$1.1 million in 1986 towards the furtherance of its policy to meet or exceed all applicable safety and environmental standards at its chemical plants.

SPECIALTY CHEMICALS

The Metal Finishing division is comprised of two business groups, Parker and Sel-Rex. Products are manufactured in Rexdale, Ontario and marketed primarily in Ontario and Quebec.

The Parker group has operated in Canada for 35 years and remains the leading supplier of conversion coatings, cleaners and metal drawing lubricants. It manufactures, under a licence agreement, over 190 products in Canada for the treating, cleaning, coating and finishing of steel, aluminum and other metals and plastics used in many industrial products, including automotive bodies and parts, agricultural equipment, nuts and bolts and extruded aluminum.

The Sel-Rex group is a major Canadian supplier of gold salts and other precious metal electro-plating chemicals and process technology to the electronics, telecommunications and decorative jewellery industries.

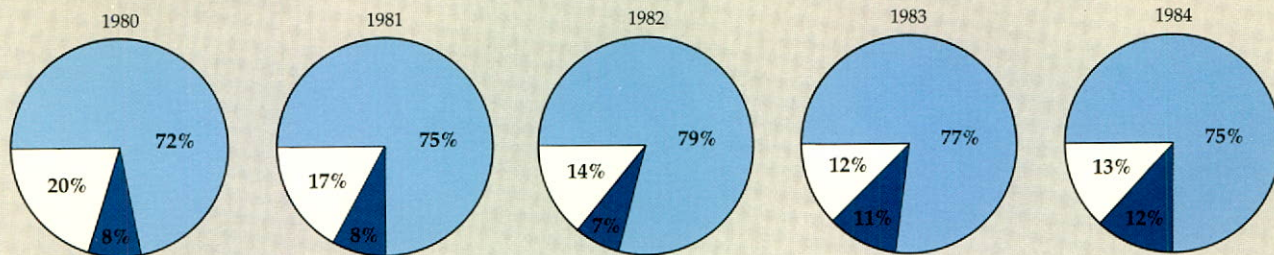
The Durez Plastics division, located at Fort Erie, Ontario, is a major Canadian manufacturer of phenol-formaldehyde industrial resins and moulding compounds. Durez products are used by the automotive, tire, communications, appliance and foundry industries.



Unloading salt at North Vancouver plant.

CHEMICAL SALES by Product Line

Industrial Chemicals Plastics and Resins Metal Finishing



CHEMICALS PRODUCTION

1984 1983 1982 1981 1980

Industrial Chemicals

Metric Units (thousands of tonnes)

Caustic Soda	143.1	149.6	145.1	155.7	182.7
Chlorine	124.3	132.5	128.9	136.6	160.8
Sodium Chlorate	22.7	24.2	20.2	21.3	21.4
Muriatic Acid	9.7	11.3	11.6	14.9	22.5

Imperial Units (thousands of tons)

Caustic Soda	157.7	165.0	159.9	171.7	201.4
Chlorine	137.0	146.1	142.1	150.6	177.3
Sodium Chlorate	25.1	26.6	22.2	23.5	23.6
Muriatic Acid	10.7	12.4	12.8	16.4	24.8

Specialty Chemicals

Durez Plastics

Metric Units (thousands of kilograms)

Moulding Materials	4 190	4 778	1 977	2 695	2 983
Industrial and Foundry Resins	2 479	1 583	2 031	2 579	2 392

Imperial Units (thousands of pounds)

Moulding Materials	9,237	10,533	4,358	5,941	6,576
Industrial and Foundry Resins	5,465	3,490	4,477	5,686	5,273

Metal Finishing

Metric Units (thousands of kilograms)

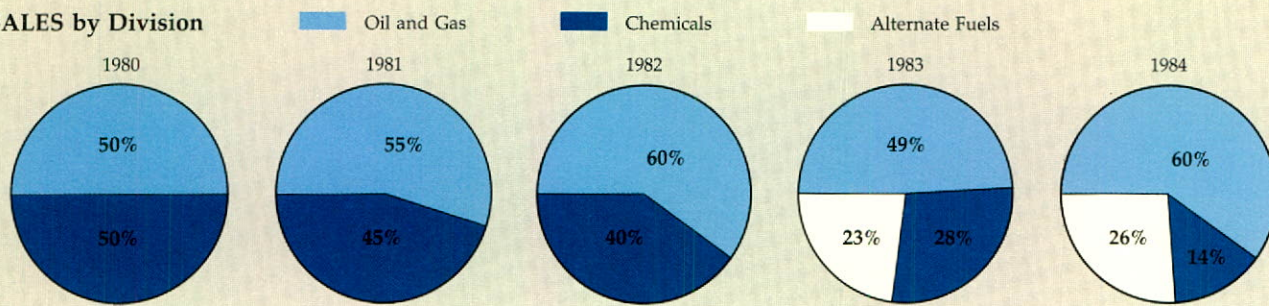
Metal Finishing Chemicals	4 056	4 041	3 040	3 790	3 937
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Imperial Units (thousands of pounds)

Metal Finishing Chemicals	8,942	8,909	6,702	8,355	8,679
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Precious Metal Salts (troy ounces)	6,420	6,974	11,314	14,472	17,331
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SALES by Division



MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS CONSOLIDATED REVENUES AND NET INCOME

CanadianOxy achieved record levels of net sales revenues and net income in 1984. This reflects a full year's operating results from the acquisition of Canada-Cities Service, Ltd. ("Canada-Cities"), and ten months' results from the acquisition of Cities Offshore Production Co. ("COPCO"). These acquisitions have increased the assets of CanadianOxy to more than one billion dollars, which is a significant milestone in the history of the Company.

Total revenues in 1984 were \$655.4 million, an increase of 99% and 200% over 1983 and 1982, respectively. Consolidated net income was \$100.8 million which compares very favourably to earnings of \$54.5 million and \$29.4 million in 1983 and 1982, respectively.

The aforementioned acquisitions are the principal reason for the improved financial results. Other significant variances affecting our 1984 net sales, expenses and operating profit are more fully discussed in relation to our major business and geographic segments.

OIL AND GAS

Canada

In 1984, net sales rose by \$70.1 million or 92% to \$146.7 million. Operating profit was \$66.7 million which was \$34.8 million or 109% higher than the 1983 reported amount of \$31.9 million. Operating profit in 1982 was \$16.7 million. Cost of sales and operating expenses were \$80.0 million in 1984, an increase of 79% over 1983.

The increase in net sales, costs and operating profit, reflects the full year effect of the former Canada-Cities operations and new production brought on stream during the year. Higher average selling prices for conventional crude oil, natural gas and sulphur also had a positive effect on sales revenues and operating profit.

U.S. Gulf Coast

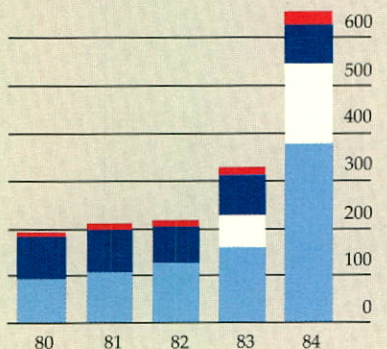
Results of operations in the U.S. Gulf Coast reflect the inclusion of ten months' operating results of COPCO. Total net sales in 1984 were \$199.4 million and operating profit was \$80.7 million. Of these totals, COPCO contributed \$147.4 million to sales revenues and \$49.7 million to the operating profit. In 1983 and 1982, operating profits from the Gulf Coast were \$28.0 million and \$16.8 million, respectively.

South America

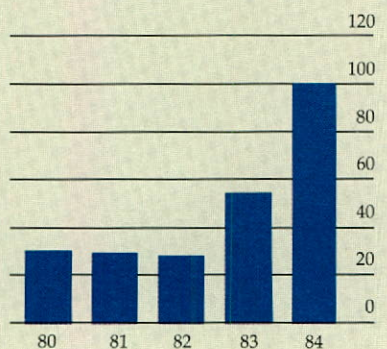
Net sales increased slightly from \$30.2 million in 1983 to \$33.8 million in 1984, primarily due to increased production and the sale of 1983 inventory in Bolivia. This was offset to some degree by slightly lower oil production in Peru and a lower average selling price in both Peru and Bolivia. Operating profit increased to \$9.2 million from \$3.2 million in 1983, due to the receipt of insurance proceeds for Peru in 1984 and exploration expenses in Brazil incurred in 1983.

REVENUES (millions of dollars)

Oil & Gas
Alternate Fuels
Chemicals
Interest & Other

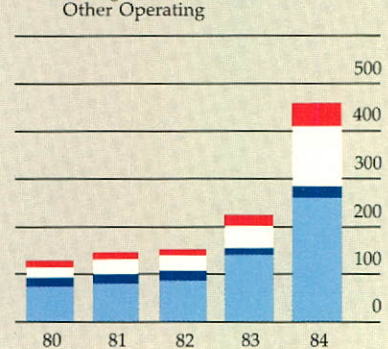


NET INCOME — Consolidated (millions of dollars)



OPERATING EXPENSES (millions of dollars)

Cost of Sales
Exploration Expenses
Depreciation, Depletion & Amortization
Selling, Administrative & Other Operating



ALTERNATE FUELS

Net sales from the Syncrude operation contributed \$169.0 million in 1984, which is an increase of \$95.8 million or 131% over the \$73.2 million in 1983.

After deducting cost of sales of \$125.1 million and operating expenses of \$8.5 million, the division had an operating profit of \$35.4 million compared to \$22.5 million in 1983. Included in the above costs and expenses are \$9.0 million relating to coal, minerals and other oil sands exploration and research activities.

The increase in sales and operating profits is attributable to a full year's results in 1984 compared to only five months in 1983. A major explosion and fire in August, 1984, caused the plant to be completely shut down for approximately five weeks and only 50% operational for an additional three months. Property damage and business interruption insurance claims will be filed in 1985. While the Company's insurance claims will be for a substantial portion of the lost revenues, the actual amount of insurance proceeds to be received is dependent upon final settlement of the claims and therefore no amounts have been reflected in the 1984 financial statements.

CHEMICALS

Net sales in 1984 declined by \$5.1 million or approximately 6% to \$86.9 million. Net sales were \$92.0 million and \$85.0 million in 1983 and 1982, respectively. Sales were adversely affected by

a 10-week strike and lockout in the B.C. pulp and paper industry which is the major customer for industrial chemicals. In addition, the recession which has plagued the markets for both industrial and specialty chemicals for the past three years continued to adversely affect the chemicals division. Demand weakened and selling prices were reduced in order to maintain market share in the face of strong competition. Production volumes, particularly for industrial chemicals, declined from 1983 levels. Of the \$5.1 million decline in sales revenues, approximately \$3.3 million or 65% was caused by reduced volumes and \$1.8 million or 35% by lower prices.

Manufacturing costs and operating expenses increased \$5.2 million or 8% to \$72.2 million due to inflation, salaries, wages, benefits, and maintenance and repairs.

As a result of these factors, divisional operating profit declined from \$25.0 million in 1983 to \$14.7 million in 1984.

CORPORATE COSTS

Net corporate expenses, which include general and administrative costs, interest expense, interest income and foreign exchange were \$33.1 million compared to \$22.1 million in 1983 and \$14.9 million in 1982. A portion of the increase represents the greater need for corporate services required by the increased size of the Company. Virtually all corporate functions for Canada-Cities and COPCO had previously been performed by their former parent company, Cit-

ies Service Company in Tulsa, Oklahoma. This included such functions as finance, treasury, tax, legal, accounting and computer services. Consequently, these departments in CanadianOxy have had to expand to meet the increased need for support services.

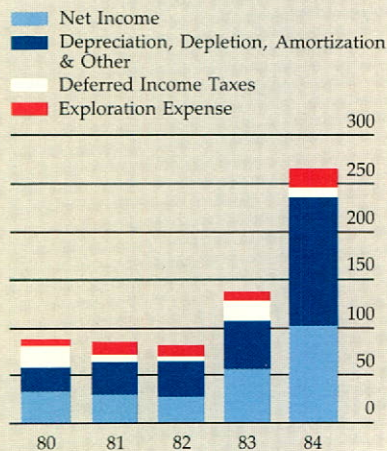
Although long-term debt was significantly lower at year-end 1984 compared to year-end 1983, interest and related finance charges increased \$8.1 million to \$21.8 million in 1984 from \$13.7 million in 1983 as the average debt outstanding for 1984 was higher. Corporate borrowings are more fully explained under the section, Liquidity and Capital Resources.

INCOME TAXES

Income tax expense increased to \$72.8 million from \$33.9 million and \$24.2 million in 1983 and 1982, respectively. In 1984, the method of accounting for investment tax credits was changed causing the tax provision for 1984 to increase by \$4.6 million. A more detailed explanation is given in Notes 1 and 2 to the Consolidated Financial Statements. The significant increase in the current portion of the tax provision to \$59.9 million compared to \$9.2 million in 1983 is more fully analyzed in Note 16 to the Consolidated Financial Statements. The effective income tax rate is influenced by the earnings mix between countries and provinces, as a result of varying tax rates.

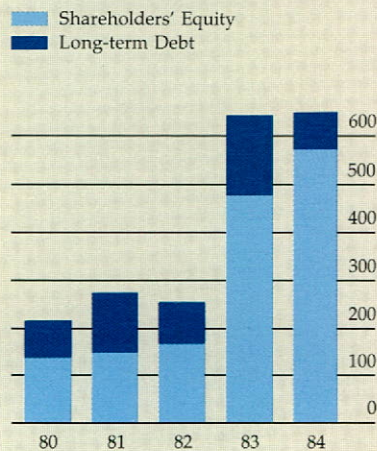
CASH FLOW From Operations

(Before Exploration Expenditures)
(millions of dollars)



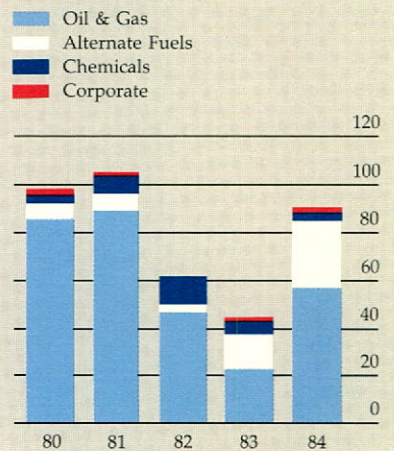
CAPITAL EMPLOYED

(millions of dollars)



CAPITAL AND EXPLORATION EXPENDITURES

(millions of dollars)



LIQUIDITY AND CAPITAL RESOURCES

Working capital generated from operations before exploration expenditures was \$263.9 million, an increase of 92% over the \$137.8 million reported in 1983. The comparable figure in 1982 was \$81.1 million.

At the end of 1983, long-term debt was \$166.4 million. Early in 1984, the Company completed a \$60 million (Cdn.) Eurodollar Retractable Debenture issue and borrowed funds to finance the remaining 70% of the COPCO acquisition. The net proceeds of \$58.5 million from the Eurodollar issue were used to retire long-term debt. Operating cash flow was used to repay debt as well as fund the Company's capital and exploration expenditures totalling \$91.1 million in 1984. By year-end, long-term debt outstanding consisted of the Eurodollar debentures and the Peruvian production credit agreement aggregating \$75.9 million.

Dividend payments increased to \$17.3 million from \$11.2 million in 1983 as a result of the 7.5 million common share issue in August, 1983 and the conversion of debentures into approximately 4.4 million common shares in October, 1983, combined with the increased dividend rate per common share which occurred in the second quarter of 1984. Other uses of funds, including natural gas underlifts, declined from \$11.5 million in 1983 to \$7.2 million in 1984.

Working capital at year-end was \$17.6 million.

Non-cash working capital decreased by \$47.2 million primarily due to an increase in current income taxes payable. At year-end, net cash and certificates of deposit were \$30.8 million compared to \$17.8 million and \$1.6 million in 1983 and 1982, respectively. During the year, the \$400 million secured revolving credit facility was replaced with a \$200 million unsecured facility. The Company also has an unsecured credit facility of \$150 million in U.S. dollars. These long-term credit facilities were unused at year-end. In addition, CanadianOxy has unsecured operating lines of credit totalling \$82 million.

Capital expenditures are expected to increase significantly to over \$200 million in 1985, compared to \$91.1 million in 1984, \$44.4 million in 1983 and \$61.6 million in 1982.

The Oil and Gas division's share of this budget is well in excess of \$100 million and is to be directed principally to oil exploration in western Canada, continued exploration and development on the United States Gulf Coast properties, major engineering projects such as the Mazeppa sour gas plant and the Morgan and Manatoka enhanced oil recovery projects, and continued development of existing producing lands.

The Alternate Fuels division is projected to spend in excess of \$50 million in 1985, being primarily CanadianOxy's 13.23% share of Syncrude's 5-year, \$1.6 billion

capital expenditure program. The amount and timing of these expenditures are at the discretion of the Syncrude participants.

The Chemicals division and general corporate requirements will account for the spending of approximately \$10 million on various capital improvements.

The Company can fund these planned capital expenditures and meet all financial obligations from anticipated internal cash flows. CanadianOxy's substantial unused lines of credit will enable it to take advantage of any other attractive investment opportunities.

INFLATION

The recession, which affected 1982 and 1983, continued to affect 1984. On a consolidated basis, the costs of many of the services and materials required in the oil and gas industry increased by slightly more than 5% as a result of the higher value of the United States dollar and the general Canadian inflation rate of 4%.

World prices for oil and gas have weakened and CanadianOxy has experienced price declines in some of its markets. However, there has been no change in the price received for the synthetic oil produced by Syncrude, which is sold at 'world' price.

The Company reports the Effects of Changing Prices (Unaudited) in the Supplementary Financial Information on Pages 36 and 37.

PAYMENTS TO GOVERNMENTS

The following table highlights payments made to federal, provincial and municipal governments and charged against income. The table excludes deferred income taxes, land bonuses and sales and excise taxes on materials purchased by the Company.

	1984	1983	1982
	(Amounts in thousands)		
Current Income Taxes	\$ 59,943	9,207	21,465
Royalties and Revenue Taxes	111,717	44,053	17,420
Property, Mineral and Other Taxes	28,646	9,771	6,909
Lease Rentals	2,983	2,150	1,423
Payroll Taxes	4,635	1,067	813
Total	<u>\$207,924</u>	<u>66,248</u>	<u>48,030</u>

Management's Responsibility for Financial Statements

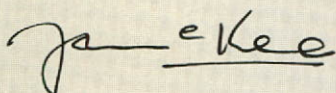
Management is responsible for the integrity of the financial data reported by the Company and its subsidiaries. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data in accordance with generally accepted accounting principles in Canada which are consistently applied, with any exceptions specifically described in the notes to the consolidated financial statements. 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 the Company.

In order to gather and control financial data, the Company has established accounting and reporting systems supported by internal controls and an internal audit program. In establishing systems of internal control, management weighs the cost of such systems against the benefits that it believes can be derived. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data, and maintaining accountability for assets.

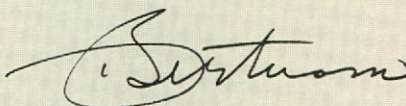
Arthur Andersen & Co., Chartered Accountants, have been engaged to examine the Company's consolidated balance sheet as of December 31, 1984 and 1983, and the related consolidated statements of income and retained earnings and changes in financial position for the years ended December 31, 1984, 1983 and 1982. Their report, which is included herein, is based on procedures considered by them to be sufficient to provide reasonable assurance that the consolidated financial statements are not materially misleading and do not contain material errors.

The Audit Committee of the Board of Directors is responsible for reviewing and monitoring the Company's financial reports and accounting practices to ascertain that they are within acceptable limits of sound practice in such matters. The majority of the members of the committee are outside directors. At regular meetings, the Audit Committee discusses audit and financial reporting matters with representatives of financial management, the internal auditors and Arthur Andersen & Co.

On behalf of Management,



J. Angus McKee
President and Chief
Executive Officer



David Bertram
Senior Vice President
Finance and Administration
and Chief Financial Officer

February 11, 1985

Auditors' Report

To the Shareholders of
Canadian Occidental Petroleum Ltd.:

We have examined the consolidated balance sheet of Canadian Occidental Petroleum Ltd. (a Canada Corporation) and Subsidiary Companies as of December 31, 1984 and 1983, and the related consolidated statements of income and retained earnings and changes in financial position for the three years ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Canadian Occidental Petroleum Ltd. and Subsidiary Companies as of December 31, 1984 and 1983, and the results of their operations and the changes in their financial position for the three years ended December 31, 1984, in accordance with generally accepted accounting principles, which, except for the changes (with which we concur) in the methods of accounting for investment tax credits and foreign currency translation as explained in Note 2 to the consolidated financial statements, have been applied on a consistent basis.

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES
Consolidated Statement of Income and Retained Earnings

FOR THE THREE YEARS ENDED DECEMBER 31, 1984

	<u>1984</u>	<u>1983</u>	<u>1982</u>
	(Amounts in thousands)		
Revenues (Notes 12, 13 and 15)			
Net sales	\$635,660	323,512	211,468
Interest and other	<u>19,743</u>	<u>5,020</u>	<u>6,740</u>
	<u>655,403</u>	<u>328,532</u>	<u>218,208</u>
Costs and Expenses (Notes 12, 14 and 15)			
Cost of sales	273,280	144,677	91,131
Selling, administrative and other operating	45,849	26,553	12,822
Depreciation	12,773	9,923	5,780
Depletion and amortization	111,554	38,897	26,165
Exploration	16,830	7,314	15,708
Interest (Note 8)	21,792	13,717	14,642
Less interest capitalized	<u>(237)</u>	<u>(999)</u>	<u>(1,639)</u>
	<u>481,841</u>	<u>240,082</u>	<u>164,609</u>
Income Before Income Taxes	<u>173,562</u>	<u>88,450</u>	<u>53,599</u>
Income Taxes (Note 16)			
Current	59,943	9,207	21,465
Deferred	<u>12,832</u>	<u>24,722</u>	<u>2,782</u>
	<u>72,775</u>	<u>33,929</u>	<u>24,247</u>
Net Income	100,787	54,521	29,352
Retained Earnings — Beginning of year	<u>158,077</u>	<u>114,784</u>	<u>94,862</u>
	258,864	169,305	124,214
Dividends — preferred	(1,775)	(1,856)	(1,968)
— common	<u>(15,539)</u>	<u>(9,372)</u>	<u>(7,462)</u>
Retained Earnings — End of year	<u>\$241,550</u>	<u>158,077</u>	<u>114,784</u>
Basic Earnings Per Common Share (Note 17)	<u>\$ 2.96</u>	<u>2.08</u>	<u>1.32</u>
Fully Diluted Earnings Per Common Share (Note 17)	<u>\$ 2.94</u>	<u>1.90</u>	<u>1.21</u>

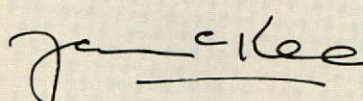
CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

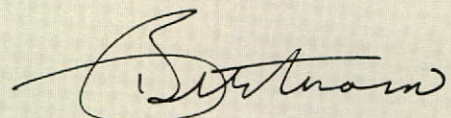
Consolidated Balance Sheet

DECEMBER 31, 1984 and 1983

	<u>1984</u>	<u>1983</u>
	(Amounts in thousands)	
Assets		
Current Assets		
Cash	\$ 31,225	18,972
Accounts receivable (Note 4)	129,386	87,239
Inventories and supplies (Note 5)	37,712	39,061
Prepaid expenses	<u>4,116</u>	<u>1,331</u>
Total current assets	202,439	146,603
Investments (Note 6)	7,152	51,674
Natural Gas Underlifts	23,646	17,440
Property, Plant and Equipment (Note 7)	854,421	705,073
Other Assets	<u>2,332</u>	<u>999</u>
	<u>\$1,089,990</u>	<u>921,789</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term loans	\$ 423	1,150
Accounts payable and accrued liabilities	118,310	89,202
Income taxes payable	50,464	—
Dividends payable	4,597	3,454
Current portion of long-term debt (Note 8)	<u>11,030</u>	<u>929</u>
Total current liabilities	184,824	94,735
Long-Term Debt (Note 8)	75,852	166,434
Deferred Liabilities and Credits		
Income taxes	133,947	131,439
Natural gas overlifts	20,110	5,694
Deferred revenue	46,836	38,417
Dismantlement costs	44,711	5,105
Investment tax credits	9,123	—
Other	<u>1,981</u>	<u>974</u>
	<u>517,384</u>	<u>442,798</u>
Shareholders' Equity		
Capital (Note 9)	289,640	290,043
Contributed surplus (Note 10)	20,448	21,018
Retained earnings	241,550	158,077
Foreign currency translation adjustment	<u>20,968</u>	<u>9,853</u>
Total shareholders' equity	<u>572,606</u>	<u>478,991</u>
Commitments and Contingencies (Note 11)	<u>\$1,089,990</u>	<u>921,789</u>

APPROVED ON BEHALF OF THE BOARD:

 , Director

 , Director

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES
Consolidated Statement of Changes in Financial Position

FOR THE THREE YEARS ENDED DECEMBER 31, 1984

	1984	1983	1982
	(Amounts in thousands)		
Source of Funds:			
Net income	\$100,787	54,521	29,352
Amounts not requiring an outlay of working capital —			
Depreciation, depletion and amortization	124,327	48,820	31,945
Provision for dismantlement	12,751	742	1,053
Deferred income taxes	12,832	24,722	2,782
Other	(3,611)	1,671	5,451
From operations	<u>247,086</u>	<u>130,476</u>	<u>70,583</u>
Add current year exploration expenditures	16,830	7,303	10,528
From operations before exploration expenditures	<u>263,916</u>	<u>137,779</u>	<u>81,111</u>
Proceeds from —			
Long-term debt, net of financing costs	355,009	366,048	2,464
Natural gas overlifts	13,824	3,946	1,748
Deferred revenue	6,940	6,738	23,497
Sale of property, plant and equipment	2,007	455	242
Common share issue, net of costs	—	189,143	—
Other	8,504	3,004	1,910
	<u>650,200</u>	<u>707,113</u>	<u>110,972</u>
Use of Funds:			
Acquisitions net of working capital (Note 3)	115,876	390,111	—
Reduction in long-term debt	452,926	219,683	41,227
Capital and exploration expenditures	91,110	44,434	61,604
Dividends	17,314	11,228	9,430
Natural gas underlifts	5,009	8,223	9,217
Purchase of preferred shares	1,385	789	989
Purchase of common shares	831	—	—
Other	2	2,501	304
	<u>684,453</u>	<u>676,969</u>	<u>122,771</u>
Increase (Decrease) in Working Capital	<u>(34,253)</u>	<u>30,144</u>	<u>(11,799)</u>
Less Changes in Non-Cash Working Capital			
Accounts receivable	42,147	44,650	(724)
Inventories and supplies	(1,349)	12,262	(2,556)
Prepaid expenses	2,785	(1,866)	2,222
Accounts payable and accrued liabilities	(29,108)	(54,600)	(358)
Income taxes payable	(50,464)	8,798	(8,692)
Dividends payable	(1,143)	(1,111)	31
Current portion of long-term debt	(10,101)	5,785	(143)
	<u>(47,233)</u>	<u>13,918</u>	<u>(10,220)</u>
Increase (Decrease) in Cash Less Short-Term Loans	<u>12,980</u>	<u>16,226</u>	<u>(1,579)</u>
Cash Less Short-Term Loans — Beginning of year	<u>17,822</u>	<u>1,596</u>	<u>3,175</u>
Cash Less Short-Term Loans — End of year	<u>\$ 30,802</u>	<u>17,822</u>	<u>1,596</u>
Working Capital — End of year	<u>\$ 17,615</u>	<u>51,868</u>	<u>21,724</u>

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars, except for share and per share amounts)

1. ACCOUNTING POLICIES

The significant accounting policies are presented as follows to assist in reviewing the consolidated financial statements. The accounting policies are based on generally accepted accounting principles in Canada. While differences exist between generally accepted accounting principles used in these financial statements as compared to generally accepted accounting principles in the United States, the current year and cumulative effect of these differences is, in the opinion of management, immaterial.

In the Consolidated Balance Sheet, redeemable preferred shares have been included as part of "Shareholders' Equity". Securities and Exchange Commission regulations in the United States require that redeemable preferred shares in the amount of \$16,875,000 as at December 31, 1984 and \$18,260,000 as at December 31, 1983, be disclosed as a separate item apart from Common Shareholders' Equity.

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Occidental Petroleum Ltd. and its subsidiary companies (CanadianOxy) which are all wholly-owned. Investments in companies owned less than 50% in which CanadianOxy has significant influence are accounted for using the equity method. All intercompany accounts and transactions have been eliminated on consolidation.

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 by applying exchange rates in effect at the transaction date. At each balance sheet date the recorded amounts of monetary assets and liabilities are adjusted using the exchange rate at that date. Any resulting exchange gains and losses are included in earnings in the current period except for unrealized exchange gains and losses on long-term monetary items which are deferred and amortized over the remaining life of the asset or liability.

Inventories and Supplies

Inventories and supplies are stated at the lower of cost or market. Cost is determined on a FIFO (first-in, first-out) or average cost basis.

Investments

CanadianOxy's investment in Petrogas Processing Ltd. (33.1%) is accounted for by the equity method, whereby the investment is carried at cost plus the related equity in undistributed earnings.

Property, Plant and Equipment

(a) Oil and gas exploration and development activities

The successful efforts method of accounting for oil and gas exploration and development activities is followed. Lease acquisition costs and the costs of drilling and equipping development wells and successful exploratory wells are capitalized. Geological, geophysical and lease carrying costs are expensed as incurred. The cost of exploratory dry holes are expensed at the time of abandonment.

The costs of producing acreage, successful exploratory wells and all development wells together with related equipment are depleted and depreciated on the unit-of-production method using proved developed reserves. The cost of non-producing acreage is amortized considering past experience and other relevant factors which might impair the cost.

(b) Alternate fuels

The cost of the Syncrude leases, plant and extraction facilities other than mobile equipment are depleted and depreciated on the unit-of-production method using estimated recoverable reserves during the licence period. Other property and equipment is depreciated on the straight-line method over its estimated useful life. Maintenance and repairs, overburden removal and ongoing reclamation costs are expensed as incurred. Future reclamation costs are accrued on the unit-of-production method.

(c) Chemical plants and other equipment

Initial costs, renewals and betterments which extend the economic useful life of the assets are capitalized and depreciated on the straight-line method over their estimated useful lives. Maintenance and repairs are expensed as costs are incurred.

Natural Gas Underlifts and Overlifts

Natural gas underlifts and overlifts relate to the U.S. Gulf Coast properties. Underlifts represent CanadianOxy's working interest share of natural gas produced and sold by other joint venture partners in excess of their working interest share of total production. Overlifts represent natural gas sold by CanadianOxy belonging to other joint venture partners. These amounts will be settled in future periods by receiving or making payment in cash or in kind. Revenue is recorded based on CanadianOxy's working interest share of natural gas produced.

Joint Ventures

Substantially all exploration 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.

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.

Income Taxes

The tax allocation method of accounting is used with respect to all differences between the time when costs and revenues are recognized for tax purposes and when they are recorded in the Consolidated Statement of Income.

No income tax provision is made in the accounts for the undistributed earnings of foreign incorporated subsidiaries as such investments are expected to continue and there is no present intention to repatriate the earnings. At December 31, 1984 undistributed earnings of these subsidiaries amounted to \$51,244,000.

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.

Deferred Revenue

Payments received under natural gas "take or pay" contracts are deferred. The amounts will be recorded in earnings when the gas is delivered.

Deferred Dismantlement Costs

Provision is made for future costs of dismantling production platforms in the U.S. Gulf Coast using the unit-of-production method. The costs are based on engineering estimates.

2. CHANGES IN ACCOUNTING POLICY

In the fourth quarter of 1984 CanadianOxy adopted prospectively the method of accounting for investment tax credits described in Note 1 effective January 1, 1984. Similarly, in 1983 CanadianOxy adopted prospectively the method of foreign currency translation described in Note 1 effective January 1, 1983. These changes in accounting policy are in response to recommendations of the Canadian Institute of Chartered Accountants.

The effect of the change in the method of accounting for investment tax credits is to decrease earnings in 1984 by \$4,600,000 (\$0.14 per share). The effect of the 1983 change in the method of accounting for foreign currency translation was to decrease earnings in 1983 by \$650,000 (\$0.03 per share).

3. ACQUISITIONS

(a) CanadianOxy Offshore Production Co. (COPCO)

On December 21, 1983 CanadianOxy acquired, from a subsidiary of Occidental Petroleum Corporation, 30% of the capital stock of Cities Offshore Production Co. for a net cash consideration of U.S. \$35,750,000 (Cdn. \$44,687,000). On February 24, 1984 the remaining 70% of the outstanding capital stock of COPCO was acquired for an adjusted net cash purchase price of U.S. \$93,250,000 (Cdn. \$116,115,000). Prior to February 24, 1984, CanadianOxy's 30% share of COPCO's net income was accounted for by the equity method and earnings of \$4,124,000 have been included as "Interest and other". Subsequent to that date, the purchase method of accounting was used and 100% of COPCO's results of operations have been consolidated. The name of this subsidiary was changed to CanadianOxy Offshore Production Co. on March 1, 1984.

COPCO has an interest in fifteen leases in seven producing oil and gas fields in the U.S. Gulf Coast.

Details of the acquisition are as follows:

Purchase of 30% interest in 1983	\$ 44,687
Purchase of 70% interest in 1984	116,115
Total purchase price	<u>\$160,802</u>

The total purchase price is allocated as follows:

Non-current assets acquired	\$180,552
Non-current liabilities assumed	15,865
	<u>164,687</u>
Working capital acquired	239
Equity in earnings to February 24, 1984	(4,124)
Cost of acquisition	<u>\$160,802</u>

(b) **Canada-Cities Service, Ltd. (Canada-Cities)**

Effective August 1, 1983 CanadianOxy acquired all the outstanding shares of Canada-Cities from Occidental Petroleum Corporation for a cash price of \$353,871,000. The purchase method of accounting was used and the results of operations have been consolidated since acquisition. Canada-Cities amalgamated with CanadianOxy January 1, 1984.

These financial statements include Canada-Cities results of operations since August 1, 1983.

Details of the acquisition are as follows:

Non-current assets acquired	\$410,238
Non-current liabilities assumed	64,814
	<u>345,424</u>
Working capital acquired	8,447
Cost of acquisition	<u>\$353,871</u>

The following table presents selected financial information for CanadianOxy, COPCO and Canada-Cities assuming the three companies had been combined for each of the years ended December 31, 1984 and 1983.

This pro forma information does not purport to represent the results which actually would have been obtained had the acquisitions occurred at the beginning of the years presented or which may be obtained in the future.

	Pro Forma (Unaudited)	
	1984	1983
Revenues	\$686,105	650,491
Net Income	\$102,926	97,783
Earnings per share		
Basic	\$ 3.03	3.78
Fully diluted	\$ 3.01	2.94
4. ACCOUNTS RECEIVABLE		
	1984	1983
Trade	\$115,190	69,661
Non-trade	12,559	11,407
Receivable from affiliates	1,637	1,749
Income taxes refundable	—	4,422
	<u>\$129,386</u>	<u>87,239</u>
5. INVENTORIES AND SUPPLIES		
	1984	1983
Inventories in Canada:		
Finished products	\$ 6,681	3,397
Raw materials	3,499	3,734
Work in process	6,069	8,656
	<u>16,249</u>	<u>15,787</u>
Finished products in:		
United States	78	—
South America	51	687
	<u>129</u>	<u>687</u>
Supplies in:		
Canada	12,984	13,193
South America	8,304	9,394
United States	46	—
	<u>21,334</u>	<u>22,587</u>
	<u>\$ 37,712</u>	<u>39,061</u>
6. INVESTMENTS		
	1984	1983
Petrogas Processing Ltd.	\$ 7,152	6,987
COPCO	—	44,687
	<u>\$ 7,152</u>	<u>51,674</u>

7. PROPERTY, PLANT AND EQUIPMENT

	1984		1983	
	Cost	Accumulated Depreciation, Depletion and Amortization	Cost	Accumulated Depreciation, Depletion and Amortization
Oil and gas: (Successful efforts method)				
Canada	\$ 277,742	58,645	255,280	45,912
United States	317,644	132,667	114,544	60,626
South America	182,249	44,533	169,492	32,795
	<u>777,635</u>	<u>235,845</u>	<u>539,316</u>	<u>139,333</u>
Alternate fuels	295,221	26,307	274,718	11,113
Chemicals	85,384	44,024	80,998	41,134
Corporate	3,461	1,104	2,444	823
	<u>\$1,161,701</u>	<u>307,280</u>	<u>897,476</u>	<u>192,403</u>
Net book value		<u>\$854,421</u>		<u>705,073</u>

8. LONG-TERM DEBT

	1984	1983
Retractable debentures, unsecured (a)	\$60,000	—
Petroleum production credit agreement (b)	19,815	18,657
Advance payments, interest free (U.S.\$5,350,000 at December 31, 1984 and U.S.\$747,000 at December 31, 1983)	7,067	929
Revolving term loans (c)	—	147,777
	<u>86,882</u>	<u>167,363</u>
Principal amount due within one year, included in current liabilities	11,030	929
	<u>\$75,852</u>	<u>166,434</u>

(a) Retractable debentures

The \$60,000,000 retractable debentures were issued under a trust indenture dated February 23, 1984. The interest rate on the debentures is 12½% per annum until February 28, 1989. Thereafter, CanadianOxy will have the right to set a new rate of interest for each of the five year periods commencing March 1, 1989 and 1994. The debentures may be redeemed in whole or in part at the option of CanadianOxy 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.

(b) Petroleum production credit agreement

On September 1, 1982 a U.S. \$15,000,000 petroleum production credit agreement was entered into with a consortium of international banks. This loan is repayable only from production revenues from the Talara project in Peru. The loan is repayable in ten equal semi-annual installments commencing February 28, 1985. Interest rates under this agreement vary depending on the currency and year in which the funds are outstanding and approximate U.S. bank prime plus 1½%. At December 31, 1984 the average interest rate under this credit agreement was 13.125%.

(c) Revolving term loans

Under existing term loan agreements, CanadianOxy has available one facility for \$200,000,000 in Canadian funds or U.S. funds equivalent and another for \$150,000,000 in U.S. funds. These facilities are unsecured and contain certain restrictive covenants. The interest rates contain certain options depending on the currency and vary, based on the prime lending rates. At December 31, 1984 the prime rates were in effect. In addition, CanadianOxy has unsecured operating lines of credit totalling \$82,000,000.

Long-term debt repayments are as follows:

1985	\$11,030
1986	3,963
1987	3,963
1988	3,963
1989	63,963
	<u>\$86,882</u>

Interest expense on long-term debt amounted to \$18,230,000, \$12,455,000, and \$13,734,000 for 1984, 1983, and 1982, respectively.

9. 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	Amount	Number of Shares	Amount
December 31, 1981	20,718,116	\$ 8,938	812,600	\$20,315
Exercise of stock options for cash	44,765	293	—	—
Conversion of subordinated debentures	4,065	60	—	—
Purchased for cash	—	—	(50,100)	(1,253)
December 31, 1982	20,766,946	9,291	762,500	19,062
Common share issue, net of costs of \$5,857,000	7,500,000	189,143	—	—
Exercise of stock options for cash	123,079	1,380	—	—
Conversion of subordinated debentures	4,956,464	73,100	—	—
Unamortized deferred financing costs, net of income taxes	—	(1,131)	—	—
Purchased for cash	—	—	(32,100)	(802)
December 31, 1983	33,346,489	271,783	730,400	18,260
Exercise of stock options for cash	93,055	1,211	—	—
Conversion of subordinated debentures	2,166	32	—	—
Purchased for cash	(31,900)	(261)	(55,400)	(1,385)
December 31, 1984	33,409,810	\$272,765	675,000	\$16,875

(c) Class A preferred shares

The 10% Cumulative Redeemable Class A Preferred Shares, First Series, with annual dividends of \$2.50 per share payable quarterly, are redeemable at the option of CanadianOxy during 1985 at a price of \$25.50 per share plus all accrued and unpaid dividends. The redemption price declines annually by \$0.25 per share until 1987, at which time the shares may be redeemed at their issue price. During each calendar quarter, CanadianOxy is obligated to purchase for cancellation in the open market, if available, 12,500 Class A Preferred Shares at a price not exceeding \$25 plus cost of purchase. Should this obligation not be satisfied in any calendar quarter it will continue through the next seven calendar quarters but not thereafter. In satisfaction of this obligation CanadianOxy purchased 55,400 shares during 1984, 32,100 shares in 1983 and 50,100 shares in 1982.

(d) 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 over a period of five or ten years from the date of the grant. At December 31, 1984, 24,959 common shares were reserved for the granting of additional options and options for 142,306 shares were exercisable at prices from \$10.125 to \$27.75 per share.

The following summarizes the stock option transactions:

	1984	1983	1982
Options outstanding — Beginning of year	360,086	365,655	338,510
Granted	35,000	125,230	77,850
Exercised and issued	(93,055)	(123,079)	(44,765)
Cancelled	(10,634)	(7,720)	(5,940)
Options outstanding — End of year	291,397	360,086	365,655
Options outstanding — Price range per share			
Minimum	\$ 10.125	5.917	5.917
Maximum	\$ 27.750	27.750	17.125
Options exercised — Price range per share			
Minimum	\$ 5.917	5.917	4.917
Maximum	\$ 27.750	17.125	13.625

(e) Purchase of common shares for cancellation

The Board of Directors has authorized 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 342,000 common shares, expiring October 31, 1985. As at December 31, 1984, 31,900 shares had been purchased pursuant to this notice for an aggregate of \$831,000.

10. CONTRIBUTED SURPLUS

	1984	1983	1982
Balance — Beginning of year	\$21,018	21,005	20,741
Gains on redemption of Class A Preferred Shares, First Series	—	13	264
Excess purchase price of common shares over the assigned value of such shares...	(570)	—	—
Balance — End of year	<u>\$20,448</u>	<u>21,018</u>	<u>21,005</u>

11. COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

Various operating, transportation and office facilities are leased under contracts, none of which are capital leases. A portion of the minimum annual rental payments is recovered by charges to or credits from third parties and is treated as a reduction of the lease expense. The actual rental payments for 1982, 1983, 1984 and estimates for subsequent years are summarized below (excluding oil and gas and mineral leases):

	1982	1983	1984	1985	1986	1987	1988	1989	Remainder
Minimum Rental Payment	\$3,617	4,284	8,645	9,755	7,435	6,685	6,740	7,125	34,500

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

Under the terms of the purchase agreement of Canada-Cities, CanadianOxy has agreed to assume certain undertakings made to the Government of Canada by Occidental Petroleum Corporation pertaining to the future operation of the business and assets of Canada-Cities, including an undertaking that during the period January 1, 1984 to December 31, 1988 CanadianOxy will make total expenditures of \$300,000,000 on or for oil and gas exploration and development in Canada. During 1984, \$79,451,000 was spent towards the satisfaction of this commitment.

(c) Other commitments and contingencies

CanadianOxy and its affiliate Petrogas Processing Ltd., have a number of lawsuits and claims pending by and against third parties. While the ultimate result of such lawsuits and claims cannot be ascertained at this time, the management of CanadianOxy is of the opinion that the adverse determination of any of these lawsuits or claims would not have a material adverse effect upon the financial position of CanadianOxy or the results of its operations.

CanadianOxy as a joint venture participant has filed business interruption and property damage claims relating to losses suffered as a result of the severe flooding in Peru in 1983. During 1984, \$4,080,000 was received as interim payments in respect of these claims. Due to disputes concerning the amount of the deductible no amounts other than the interim payments received have been recorded in the accounts.

In addition, CanadianOxy will be filing business interruption insurance claims related to its share of lost production from the Syncrude operation. During 1984 the Syncrude plant experienced operating problems resulting in a shut-down of one of the plant's two coker units in January and both coker units in August. In both instances the 30-day deductible period of the business interruption policy was exceeded. An interim payment of \$1,500,000 relating to the January occurrence was received in 1984. No other amounts have been recorded as expected proceeds under the business interruption insurance policy. Property damage costs are covered by insurance held by Syncrude and the estimated claim has been recorded.

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.

12. RELATED PARTY TRANSACTIONS

The acquisitions of COPCO and Canada-Cities (as described in Note 3), were from Occidental Petroleum Corporation (Occidental), and were at fair market value. In addition, CanadianOxy receives engineering, technical, administrative and marketing services of a routine nature, pays royalties and licence fees on production processes, pays a management fee for the field operation of certain U.S. Gulf Coast properties, and is charged for its share of overhead and other costs associated with South American joint ventures by Occidental. CanadianOxy also purchases product and equipment from and sells product to Occidental. All of these transactions are at competitive prices.

The following table outlines charges (to) from Occidental in respective of transactions other than the corporate acquisitions noted above:

	1984	1983	1982
Sales	\$(10,278)	(27,398)	(10,423)
Purchases of product and equipment	9,411	8,615	3,241
Engineering, technical, administrative and marketing services	1,581	925	1,938
Management fees	1,230	—	—
Royalties and licence fees	(32)	374	312
Other	362	374	(125)

13. FOREIGN EXCHANGE

For 1984, 1983 and 1982 foreign exchange gains amounted to \$950,000, \$1,447,000 and \$3,820,000, respectively and are included in "Interest and other" in the Consolidated Statement of Income.

14. EMPLOYEE PENSION PLAN

CanadianOxy has a non-contributory pension plan which covers all employees. Effective January 1, 1984, the Board of Directors approved the addition of post retirement survivors' benefits to the plan.

The total pension expense for 1984, 1983 and 1982 was \$7,220,000, \$868,000 and \$976,000 respectively, which includes past service costs. In 1984 the Company paid an additional amount of \$5,122,000 resulting in no unfunded liability at December 31, 1984.

The actuarial present value of accumulated plan benefits and the market value of the plan assets as at June 30, 1984, August 1, 1983 and June 30, 1982 were as follows:

	1984	1983	1982
Actuarial value of accumulated plan benefits			
Vested	\$14,086	9,484	6,737
Non-vested	292	270	198
	<u>\$14,378</u>	<u>9,754</u>	<u>6,935</u>
Assumed rate of return used to calculate actuarial value of plan benefits	7.0%	7.0%	7.0%
Market value of plan assets	<u>\$17,990</u>	<u>16,772</u>	<u>9,255</u>

15. BUSINESS SEGMENT INFORMATION

(a) Information about operations in different industries

	Total			Oil and Gas			Alternate Fuels			Chemicals		
	1984	1983	1982	1984	1983	1982	1984	1983	1982	1984	1983	1982
Net sales	\$ 635,660	323,512	211,468	379,802	158,271	126,493	169,006	73,234	—	86,852	92,007	84,975
Operating profit (loss)	\$ 206,711	110,599	68,548	156,617	63,095	49,795	35,439	22,463	(3,192)	14,655	25,041	21,945
Identifiable assets	\$1,069,049	886,647	385,988	691,629	524,799	317,046	305,875	297,809	8,550	71,545	64,039	60,392
Depreciation, depletion and amortization ..	\$ 123,666	48,408	31,497	100,390	38,790	25,854	20,023	6,970	2,131	3,253	2,648	3,512
Additions to property, plant and equipment \$	72,810	36,580	51,076	42,149	15,155	35,438	25,762	14,792	2,678	4,899	6,633	12,960

CanadianOxy's 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 and the exploration for and evaluation of mineral and coal deposits. The Chemical 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.

(b) Information about operations in different geographic areas

	Total			Canada			United States			South America		
	1984	1983	1982	1984	1983	1982	1984	1983	1982	1984	1983	1982
Net sales	\$ 635,660	323,512	211,468	402,513	241,758	127,668	199,375	51,570	35,213	33,772	30,184	48,587
Operating profit	\$ 206,711	110,599	68,548	116,832	79,454	35,470	80,662	27,969	16,820	9,217	3,176	16,258
Identifiable assets	\$1,069,049	886,647	385,988	644,669	602,862	143,432	260,335	127,347	79,196	164,045	156,438	163,360

(c) Reconciliation to Consolidated Statement of Income and Balance Sheet

	1984	1983	1982
Net sales	\$ 635,660	323,512	211,468
Interest and other income	19,743	5,020	6,740
Total revenues	<u>\$ 655,403</u>	<u>328,532</u>	<u>218,208</u>
Operating profit	\$ 206,711	110,599	68,548
Add (Deduct):			
Interest income	1,814	775	1,656
Corporate expenses	(13,408)	(10,206)	(3,602)
Interest expense	(21,555)	(12,718)	(13,003)
Income taxes	(72,775)	(33,929)	(24,247)
Net income	<u>\$ 100,787</u>	<u>54,521</u>	<u>29,352</u>
Identifiable assets	\$1,069,049	886,647	385,988
Corporate assets	20,941	35,142	5,077
Total assets	<u>\$1,089,990</u>	<u>921,789</u>	<u>391,065</u>

16. INCOME TAXES

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

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Income before income taxes			
Canadian	\$ 96,485	54,434	15,257
Foreign	<u>77,077</u>	<u>34,016</u>	<u>38,342</u>
	<u>173,562</u>	<u>88,450</u>	<u>53,599</u>
Income Taxes			
Current			
Canadian	19,426	377	2,307
Foreign	<u>40,517</u>	<u>8,830</u>	<u>19,158</u>
	<u>59,943</u>	<u>9,207</u>	<u>21,465</u>
Deferred			
Canadian	13,438	21,750	3,400
Foreign	<u>(606)</u>	<u>2,972</u>	<u>(618)</u>
	<u>12,832</u>	<u>24,722</u>	<u>2,782</u>
Total			
Canadian	32,864	22,127	5,707
Foreign	<u>39,911</u>	<u>11,802</u>	<u>18,540</u>
	<u>72,775</u>	<u>33,929</u>	<u>24,247</u>
Net Income	<u>\$100,787</u>	<u>54,521</u>	<u>29,352</u>

The following table reconciles the difference between the income tax expense recorded and the expected tax expense obtained by applying the expected tax rate to income before income taxes.

	<u>1984</u>		<u>1983</u>		<u>1982</u>	
	<u>Amount</u>	<u>% of Pre-Tax Income</u>	<u>Amount</u>	<u>% of Pre-Tax Income</u>	<u>Amount</u>	<u>% of Pre-Tax Income</u>
Expected tax expense	\$85,045	49.0	43,341	49.0	26,264	49.0
Effect on taxes from:						
Royalties, rentals and similar payments to provincial governments	23,040	13.3	12,164	13.8	5,039	9.4
Petroleum and gas revenue tax	11,821	6.8	6,442	7.3	1,899	3.5
Depletion allowance on oil and gas income	(13,710)	(7.9)	(6,697)	(7.6)	(394)	(0.7)
Resource allowance and provincial tax rebates	(32,384)	(18.7)	(16,869)	(19.1)	(7,127)	(13.3)
Higher (lower) tax rate on foreign operations	2,136	1.2	(1,818)	(2.0)	5,305	9.9
Reduced rate of tax on manufacturing and processing income	(47)	—	(324)	(0.4)	(493)	(0.9)
Other	<u>(3,126)</u>	<u>(1.8)</u>	<u>(2,310)</u>	<u>(2.6)</u>	<u>(6,246)</u>	<u>(11.7)</u>
Income tax expense recorded	<u>\$72,775</u>	<u>41.9</u>	<u>33,929</u>	<u>38.4</u>	<u>24,247</u>	<u>45.2</u>

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. The amount of deferred income tax expense related to these various timing differences is as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Exploration and development expenses	\$ (3,070)	354	(3,262)
Depreciable property, plant and equipment	30,711	18,780	1,960
Natural gas underlifts (overlifts)	(4,485)	1,760	2,263
Deferred dismantlement costs	(5,851)	(245)	(484)
Other	<u>(4,473)</u>	<u>4,073</u>	<u>2,305</u>
	<u>\$12,832</u>	<u>24,722</u>	<u>2,782</u>

17. EARNINGS PER COMMON SHARE

Basic earnings per common share are based on the weighted average number of shares outstanding of 33,406,987, 25,358,889 and 20,733,733 in 1984, 1983 and 1982, respectively, and after deducting dividends on the preferred shares which were \$1,775,000, \$1,856,000 and \$1,968,000 in 1984, 1983 and 1982, respectively.

Fully diluted earnings per share are determined on the assumption that all outstanding convertible debentures and stock options had been converted or exercised at the beginning of the year.

18. COMPARATIVE FIGURES

Certain amounts for prior years on the Consolidated Balance Sheet, Consolidated Statement of Income, Consolidated Statement of Changes in Financial Position and certain Notes to the Consolidated Financial Statements have been reclassified to conform with the current year's presentation.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1984 and 1983 is as follows:

(Thousands of dollars, except for per share data)

	QUARTER ENDED							
	March 31		June 30		September 30		December 31	
	1984	1983	1984	1983	1984	1983	1984 ⁽¹⁾	1983 ⁽²⁾
Net sales	<u>\$119,804</u>	<u>49,468</u>	<u>179,927</u>	<u>49,646</u>	<u>159,023</u>	<u>98,218</u>	<u>176,906</u>	<u>126,180</u>
Operating profit: ⁽³⁾								
Oil and gas	\$ 40,626	13,519	27,017	10,234	38,110	14,337	50,864	25,005
Alternate fuels	(5,125)	(748)	27,483	(496)	1,428	13,151	11,653	10,556
Chemicals	(183)	5,979	4,676	6,090	6,037	7,009	4,125	5,963
	<u>35,318</u>	<u>18,750</u>	<u>59,176</u>	<u>15,828</u>	<u>45,575</u>	<u>34,497</u>	<u>66,642</u>	<u>41,524</u>
Less:								
Corporate expense and interest	9,175	3,403	8,425	3,099	8,566	9,345	6,983	6,302
Income taxes	<u>11,889</u>	<u>5,547</u>	<u>24,721</u>	<u>3,368</u>	<u>10,893</u>	<u>8,849</u>	<u>25,272</u>	<u>16,165</u>
Net income	<u>\$ 14,254</u>	<u>9,800</u>	<u>26,030</u>	<u>9,361</u>	<u>26,116</u>	<u>16,303</u>	<u>34,387</u>	<u>19,057</u>
Earnings per common share:								
Basic	<u>\$ 0.41</u>	<u>0.45</u>	<u>0.77</u>	<u>0.42</u>	<u>0.77</u>	<u>0.63</u>	<u>1.01</u>	<u>0.58</u>
Fully diluted	<u>\$ N/A⁽⁴⁾</u>	<u>0.40</u>	<u>0.76</u>	<u>0.37</u>	<u>0.77</u>	<u>0.56</u>	<u>1.00</u>	<u>0.57</u>

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

(2) In the fourth quarter of 1983 CanadianOxy adopted prospectively the method of translation for its foreign investments described in Notes 1 and 2 to the Consolidated Financial Statements.

(3) Amounts reported as divisional operating profits and corporate expense and interest have been restated due to including corporate overhead allocations as corporate rather than divisional expenses.

(4) Calculation not applicable as results are anti-dilutive.

Supplementary Financial Information

Effects of Changing Prices (Unaudited)

There is general recognition that historical cost financial statements do not measure the ability of a company to maintain its financial and operating capabilities as no adjustment is made for the impact of changing prices. In general terms, in times of inflation the replacement cost of fixed assets and inventories increase 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.

A problem exists in the application of this theory to the oil and gas industry in that there is no reliable method for arriving at the replacement cost of non-renewable resources. Notwithstanding this limitation, it is the opinion of the Canadian Institute of Chartered Accountants that there may be some 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 would culminate in significantly different results.

While CanadianOxy supports improvements in accounting principles and disclosure of information to investors and the financial community, we are of the opinion that, until a method of determining reliable replacement costs for resource based assets is developed, changing price disclosures in relation to the oil industry have limited use.

CONSOLIDATED STATEMENT OF OPERATIONS ADJUSTED FOR CHANGING PRICES FOR THE TWO YEARS ENDED DECEMBER 31, 1984

	As Reported In The Primary Financial Statements		As Adjusted For Changes in Specific Prices Expressed in Average 1984 Dollars	
	1984	1983	1984	1983
	(in thousands of dollars)			
Net sales and other revenues	\$655,403	328,532	654,984	342,987
Cost of sales	273,280	144,677	277,078	153,841
Depreciation, depletion and amortization	124,327	48,820	160,947	73,564
Selling, administration, other operating and exploration expenses ...	62,679	33,867	62,679	35,357
Interest	21,555	12,718	21,555	13,278
	<u>481,841</u>	<u>240,082</u>	<u>522,259</u>	<u>276,040</u>
Income before income taxes	173,562	88,450	132,725	66,947
Provision for income taxes	72,775	33,929	72,775	35,422
Net income	<u>\$100,787</u>	<u>54,521</u>	<u>59,950</u>	<u>31,525</u>
Other information:				
Inventory	\$ 37,712	39,061	39,750	42,178
Property, plant and equipment (net)	<u>\$854,421</u>	<u>705,073</u>	<u>1,094,499</u>	<u>949,492</u>
Increase in specific prices of inventories and property, plant and equipment			\$ 58,507	47,233
Less effect of increase in general inflation			35,595	37,337
Increase in specific prices net of inflation (Note 1)			<u>\$ 22,912</u>	<u>9,896</u>
Financing adjustment (Note 2):				
Based on the amount of changes during the reporting period in the specific prices of inventory and property, plant and equipment			\$ 9,499	9,935
Based on the price adjustments made to income during the reporting period			<u>\$ 6,630</u>	<u>5,341</u>

**FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA
ADJUSTED FOR EFFECTS OF CHANGING PRICES**
(in thousands of average 1984 dollars except for per share amounts)

	1984	1983	1982	1981	1980
Net sales and other revenue	\$654,984	342,987	241,120	246,793	261,757
Historical financial information adjusted for changes in specific prices:					
Net income	\$ 59,950	31,525	7,468	6,714	14,589
Basic earnings per common share (Note 3)	\$ 1.74	1.17	0.25	0.20	0.52
Shareholders' equity, less preferred shares	\$797,847	697,215	385,800	386,436	395,785
Increase (decrease) in the specific prices net of inflation (Note 1)	\$ 22,912	9,896	(30,752)	39,286	65,810
Other information:					
Purchasing power gain from holding net monetary liabilities (Note 4)	\$ 5,017	7,288	13,587	18,186	15,053
Cash dividends per common share	\$ 0.47	0.38	0.40	0.44	0.37
Market price per common share at year-end	\$ 26.13	30.13	17.39	13.06	20.46
Average Canadian consumer price index	122.4	117.2	110.8	100.0	88.9

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. For 1984 the increase in the specific cost of oil and gas materials and supplies and chemical plant costs was in excess of general inflation by \$22,912,000.*
- (2) *Financing adjustment: The use of debt to finance assets reduces the amount of the increase in specific prices that must be charged to earnings attributable to common shareholders. The financing adjustment represents the amount of specific price increases which have been financed by debt based upon CanadianOxy's debt to equity ratio.*
- (3) *Basic earnings per common share adjusted for changing prices: This amount is calculated as net income adjusted for changing prices less preferred share dividends divided by the average number of common shares outstanding during the year.*
- (4) *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.*

Oil and Gas Producing Activities (Unaudited)

The following supplementary information on oil and gas producing activities is provided to promote an understanding of the nature of the reserves owned and the extent to which the operating capability, in terms of the availability of reserves, is being maintained.

It should be noted that CanadianOxy's interest in the Syncrude synthetic crude oil project is not reflected in the following oil and gas producing activities. CanadianOxy has gross proven oil sands reserves of approximately 30 524 000 m³ of synthetic crude oil and 1 270 000 tonnes of sulphur based on the reserves to be produced over the licence period of the project ending in the year 2013.

The reader should be cautioned that the standardized measure of discounted future net cash flow (Schedule E) does not purport to be an estimate of future results of operations, or a measure of the fair value of CanadianOxy's conventional reserves, but is instead meant to be a standardized measure of reserves to promote comparability between companies. This table was prepared using the following methodology:

- (a) All calculations are based on the assumption of the continuation of existing economic, operating and contractual conditions.
- (b) The reserve base used includes only proved reserves excluding probable and possible reserves.
- (c) Estimates are made of quantities of proved reserves and the periods during which they are expected to be produced.
- (d) Future cash inflows were computed by applying year-end prices to the Company's share of estimated annual future production from proved oil and gas reserves, net of royalties.
- (e) Future development and production costs were computed by estimating the expenditures to be incurred by developing and producing the proved oil and gas reserves at the end of the year based on year-end costs.
- (f) Future income tax expenses were computed by applying, generally, year-end statutory tax rates (adjusted for permanent differences, tax credits, allowances and tax bases of the properties carried forward) to the estimated net future pre-tax cash flows.
- (g) The resulting cash flows are reduced by a ten percent discount factor.

Due to differences in the definition and categorization of costs, some of the following amounts may not agree with amounts under similar headings in the notes to the Consolidated Financial Statements.

A. PROVED OIL AND GAS RESERVES ⁽¹⁾

	Total Worldwide			Canada			United States		South America ⁽²⁾	
	Oil	Gas	Sulphur	Oil	Gas	Sulphur	Oil	Gas	Oil	Gas
Proved Developed and Undeveloped Reserves:										
Balance at December 31, 1981	3 242	6 677	1 826	652	5 184	1 826	159	1 099	2 431	394
Revisions of previous estimates	(142)	562	(41)	48	254	(41)	48	254	(238)	54
Improved recovery	985	—	—	—	—	—	—	—	985	—
Extensions and discoveries	—	310	—	—	310	—	—	—	—	—
Production	(350)	(536)	(83)	(64)	(282)	(83)	(16)	(254)	(270)	—
Balance at December 31, 1982	3 735	7 013	1 702	636	5 466	1 702	191	1 099	2 908	448
Revisions of previous estimates	(83)	147	(33)	(20)	(50)	(33)	32	197	(95)	—
Improved recovery	111	—	—	111	—	—	—	—	—	—
Purchases of reserves in place ⁽³⁾	3 178	6 423	96	3 019	5 860	96	159	563	—	—
Extensions and discoveries	—	169	—	—	169	—	—	—	—	—
Production	(478)	(676)	(97)	(207)	(394)	(97)	(64)	(282)	(207)	—
Balance at December 31, 1983	6 463	13 076	1 668	3 539	11 051	1 668	318	1 577	2 606	448
Revisions of previous estimates	406	509	132	325	165	132	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)	(107)	(485)	(650)	(107)	(302)	(845)	(175)	—
Balance at December 31, 1984	6 447	13 514	1 693	3 474	10 723	1 693	668	2 343	2 305	448
Proved Developed Reserves:										
December 31, 1982	3 719	6 421	1 702	636	4 874	1 702	191	1 099	2 892	448
December 31, 1983	6 447	12 506	1 668	3 539	10 481	1 668	318	1 577	2 590	448
December 31, 1984	6 433	13 476	1 693	3 474	10 723	1 693	667	2 315	2 292	438
Crude oil in 10 ³ m ³										
Natural Gas in 10 ⁶ m ³										
Sulphur in thousands of metric tonnes										

Notes:

1. The reserves set forth are CanadianOxy's net reserves, after royalties, and are based on estimates prepared by McDaniel and Associates Consultants Ltd. in the case of Canada, Ryder Scott Company Petroleum Engineers in the case of the United States, and DeGolyer and MacNaughton in the case of Peru and Bolivia.
2. Includes reserves in Peru for which CanadianOxy is compensated pursuant to a service contract with the Peruvian government.
3. 1983 purchases of reserves in place consist of the Canada-Cities' properties and CanadianOxy's 30% interest in COPCO.
4. 1984 purchases of reserves in place consist of the remaining 70% of COPCO's reserves.

B. CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES

	Total			Canada			United States			South America		
	1984	1983	1982	1984	1983	1982	1984	1983	1982	1984	1983	1982
Proved oil and gas properties	\$723,611	483,124	328,753	224,092	199,436	67,602	317,644	114,544	99,645	181,875	169,144	161,506
Unproved oil and gas properties	54,024	56,192	16,946	53,650	55,844	16,598	—	—	—	374	348	348
	<u>777,635</u>	<u>539,316</u>	<u>345,699</u>	<u>277,742</u>	<u>255,280</u>	<u>84,200</u>	<u>317,644</u>	<u>114,544</u>	<u>99,645</u>	<u>182,249</u>	<u>169,492</u>	<u>161,854</u>
Accumulated depreciation, depletion and amortization	235,845	139,333	94,979	58,645	45,912	34,385	132,667	60,626	38,630	44,533	32,795	21,964
Net properties	<u>\$541,790</u>	<u>399,983</u>	<u>250,720</u>	<u>219,097</u>	<u>209,368</u>	<u>49,815</u>	<u>184,977</u>	<u>53,918</u>	<u>61,015</u>	<u>137,716</u>	<u>136,697</u>	<u>139,890</u>
CanadianOxy's share of COPCO's net capitalized costs		\$ 38,041						38,041				

C. COSTS INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION AND DEVELOPMENT ACTIVITIES

	Total Worldwide	Canada	United States	South America
Year ended December 31, 1982:				
Property acquisition costs				
Unproved properties	\$ 939	939	—	—
Exploration costs	11,626	6,715	—	4,911
Development costs	33,063	5,024	9,313	18,726
	<u>\$ 45,628</u>	<u>12,678</u>	<u>9,313</u>	<u>23,637</u>
Year ended December 31, 1983:				
Property acquisition costs				
Unproved properties	\$ 2,984	2,984	—	—
Exploration costs	9,724	9,089	—	635
Development costs	9,750	5,814	3,123	813
Acquisition of Canada-Cities' conventional properties	161,980	161,980	—	—
	<u>184,438</u>	<u>179,867</u>	<u>3,123</u>	<u>1,448</u>
CanadianOxy's share of COPCO's net capitalized costs (30%)	38,041	—	38,041	—
	<u>\$222,479</u>	<u>179,867</u>	<u>41,164</u>	<u>1,448</u>
Year ended December 31, 1984:				
Property acquisition costs				
Proved properties	\$ 1,127	1,127	—	—
Unproved properties	5,309	5,309	—	—
Exploration costs	25,651	24,463	1,182	6
Development costs	26,892	18,791	5,625	2,476
Acquisition of COPCO's conventional properties (70%)	142,511	—	142,511	—
	<u>\$201,490</u>	<u>49,690</u>	<u>149,318</u>	<u>2,482</u>

D. RESULTS OF OPERATIONS FOR PRODUCING ACTIVITIES

	Total			Canada			United States			South America		
	1984	1983	1982	1984	1983	1982	1984	1983	1982	1984	1983	1982
Revenues:												
Net sales	\$379,802	142,356	121,133	146,655	76,517	42,693	199,375	35,655	29,853	33,772	30,184	48,587
Sales to affiliates . . .	—	15,915	5,360	—	—	—	—	15,915	5,360	—	—	—
Total net sales	379,802	158,271	126,493	146,655	76,517	42,693	199,375	51,570	35,213	33,772	30,184	48,587
Production costs	97,702	41,079	33,999	28,566	18,823	10,961	52,263	7,638	5,623	16,873	14,618	17,415
Other operating expenses (income)	8,263	6,759	—	12,435	6,251	—	(2,229)	491	—	(1,943)	17	—
Exploration expenses	16,830	7,314	15,708	15,642	6,717	10,548	1,182	11	—	6	586	5,160
Depreciation, depletion and amortization	100,390	38,790	25,854	23,274	12,939	3,658	67,497	16,161	12,741	9,619	9,690	9,455
	156,617	64,329	50,932	66,738	31,787	17,526	80,662	27,269	16,849	9,217	5,273	16,557
Income tax expense	71,581	25,757	24,456	24,987	14,502	6,432	39,265	8,063	6,740	7,329	3,192	11,284
Results of operations	\$ 85,036	38,572	26,476	41,751	17,285	11,094	41,397	19,206	10,109	1,888	2,081	5,273

E. STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

	Total			Canada			United States			South America		
	1984	1983	1982	1984	1983	1982	1984	1983	1982	1984	1983	1982
Future cash inflows	\$2,620,979	2,307,709	1,531,819	1,685,081	1,625,774	715,072	483,888	191,270	189,538	452,010	490,665	627,209
Future production and development costs	(985,332)	(894,814)	(437,602)	(639,448)	(648,682)	(194,559)	(183,476)	(34,249)	(34,788)	(162,408)	(211,883)	(208,255)
Future income tax	(773,088)	(744,925)	(486,852)	(478,588)	(523,532)	(218,133)	(138,190)	(72,458)	(54,149)	(156,310)	(148,935)	(214,570)
Future net cash flows	862,559	667,970	607,365	567,045	453,560	302,380	162,222	84,563	100,601	133,292	129,847	204,384
10% annual discount for estimated timing of cash flows	(315,143)	(272,213)	(258,686)	(260,574)	(217,014)	(164,651)	(12,274)	(15,820)	(20,831)	(42,295)	(39,379)	(73,204)
Standardized measure of discounted future net cash flows	547,416	395,757	348,679	306,471	236,546	137,729	149,948	68,743	79,770	90,997	90,468	131,180
CanadianOxy's share of COPCO's standardized measure of discounted future net cash flows	—	56,213	—	—	—	—	—	56,213	—	—	—	—
	\$ 547,416	451,970	348,679	306,471	236,546	137,729	149,948	124,956	79,770	90,997	90,468	131,180

The following are the principal sources of change in the standardized measure of discounted future net cash flows.

	Total			Canada			United States			South America		
	1984	1983	1982	1984	1983	1982	1984	1983	1982	1984	1983	1982
Beginning of year	\$451,970	348,679	312,231	236,546	137,729	130,679	124,956	79,770	68,903	90,468	131,180	112,649
Sales and transfers of oil and gas produced, net of production costs	(262,697)	(110,437)	(92,495)	(102,806)	(51,443)	(31,733)	(145,088)	(43,441)	(29,590)	(14,803)	(15,553)	(31,172)
Changes in estimated future development costs	(405)	(3,785)	(67,930)	(4,035)	2,476	(5,227)	690	(5,627)	(6,741)	2,940	(634)	(55,962)
Net changes in prices and production costs	(13,450)	(165,435)	(27,523)	15,491	(74,142)	6,521	(58,847)	(709)	(6,902)	29,906	(90,584)	(27,142)
Extensions, discoveries, and improved recovery, less related costs	17,660	5,078	86,476	7,515	1,491	7,845	10,145	3,587	—	—	—	78,631
Development costs incurred during the period which reduced future development	26,892	7,104	79,526	18,791	3,084	5,024	5,625	3,123	9,313	2,476	897	65,189
Revisions of previous quantity estimates	125,201	23,568	30,217	46,303	6,284	12,862	88,623	32,292	35,862	(9,725)	(15,008)	(18,507)
Accretion of discount	45,197	34,868	31,223	23,655	13,773	13,068	12,495	7,977	6,890	9,047	13,118	11,265
Purchase of minerals in place	167,800	414,776	—	—	346,887	—	167,800	67,889	—	—	—	—
Net change in income taxes	(7,666)	(180,123)	(11,429)	28,424	(187,720)	(5,310)	(52,959)	(27,243)	(3,271)	16,869	34,840	(2,848)
Other	(3,086)	77,677	8,383	36,587	38,127	4,000	(3,492)	7,338	5,306	(36,181)	32,212	(923)
End of year	<u>\$547,416</u>	<u>451,970</u>	<u>348,679</u>	<u>306,471</u>	<u>236,546</u>	<u>137,729</u>	<u>149,948</u>	<u>124,956</u>	<u>79,770</u>	<u>90,997</u>	<u>90,468</u>	<u>131,180</u>

Five Year Financial Review

(Amounts in thousands except share and per share data)

	1984 ⁽¹⁾	1983 ⁽²⁾	1982	1981	1980
Earnings and Working Capital from Operations					
Net sales:					
Oil and gas	\$ 379,802	158,271	126,493	109,167	94,160
Alternate fuels	169,006	73,234	—	—	—
Chemicals	86,852	92,007	84,975	89,211	94,480
	<u>635,660</u>	<u>323,512</u>	<u>211,468</u>	<u>198,378</u>	<u>188,640</u>
Interest and other	19,743	5,020	6,740	3,250	1,452
Total revenues	<u>\$ 655,403</u>	<u>328,532</u>	<u>218,208</u>	<u>201,628</u>	<u>190,092</u>
Operating profit:					
Oil and gas	\$ 156,617	63,095	49,795	44,659	49,055
Alternate fuels	35,439	22,463	(3,192)	(4,312)	(2,293)
Chemicals	14,655	25,041	21,945	22,207	22,515
	<u>206,711</u>	<u>110,599</u>	<u>68,548</u>	<u>62,554</u>	<u>69,277</u>
Less:					
Corporate expenses and interest	33,149	22,149	14,949	15,644	9,343
Income taxes	72,775	33,929	24,247	16,871	29,614
Net income	<u>\$ 100,787</u>	<u>54,521</u>	<u>29,352</u>	<u>30,039</u>	<u>30,320</u>
Earnings per common share:					
Basic	\$ 2.96	2.08	1.32	1.35	1.34
Fully diluted	\$ 2.94	1.90	1.21	1.24	1.30
Working capital generated from operations	\$ 247,086	130,476	70,583	72,213	77,508
Working capital generated from operations before exploration expenditures	\$ 263,916	137,779	81,111	85,623	86,739
Financial Position					
Working capital	\$ 17,615	51,868	21,724	33,523	24,840
Net property, plant and equipment	\$ 854,421	705,073	296,394	282,592	221,599
Total assets	\$1,089,990	921,789	391,065	371,670	302,919
Long-term debt	\$ 75,852	166,434	93,170	131,551	92,474
Redeemable preferred shares	\$ 16,875	18,260	19,062	20,315	21,873
Common shareholders' equity	\$ 555,731	460,731	145,080	124,541	101,853
Return on investment ⁽³⁾					
Total assets	% 9.5	9.4	7.5	8.7	11.6
Total capital	% 17.2	16.0	13.3	14.8	17.5
Common shareholders' equity	% 19.7	20.6	20.4	24.8	30.3
Capital and Exploration Expenditures					
Oil and gas	\$ 58,979	22,458	45,966	90,956	86,010
Alternate fuels	25,762	14,792	2,678	5,346	5,711
Chemicals	4,899	6,633	12,960	8,786	4,624
Corporate	1,470	551	—	378	1,163
Total	<u>91,110</u>	<u>44,434</u>	<u>61,604</u>	<u>105,466</u>	<u>97,508</u>
Less current year expenditures charged to exploration expense	<u>16,830</u>	<u>7,303</u>	<u>10,528</u>	<u>13,410</u>	<u>9,231</u>
Net capital expenditures	<u>\$ 74,280</u>	<u>37,131</u>	<u>51,076</u>	<u>92,056</u>	<u>88,277</u>
Shares and Dividends					
Number of common shares outstanding	33,409,810	33,346,489	20,766,946	20,718,116	20,553,513
Number of common shareholders	3,039	3,508	2,851	3,114	3,000
Dividends declared per common share	\$ 0.465	0.36	0.36	0.36	0.27

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

(2) In the fourth quarter of 1983, CanadianOxy adopted prospectively the method of translation for its foreign investments described in Notes 1 and 2 to the Consolidated Financial Statements.

(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

	1984	1983	1982	1981	1980
Oil and Gas					
Production (gross before royalties)					
<i>Metric units</i>					
Gas	1 811 341	850 552	646 590	617 229	615 066
Crude oil, condensate and liquefied petroleum gas	1 177.3	555.9	376.2	345.2	312.8
Sulphur	107.7	107.9	94.0	112.4	109.5
<i>Imperial units</i>					
Gas	64,291	30,189	22,950	22,288	22,210
Crude oil, condensate and liquefied petroleum gas	7,408.7	3,498.4	2,367.4	2,172.2	1,968.3
Sulphur	106.0	106.2	92.5	110.6	107.8
Proven reserves (gross before royalties)					
<i>Metric units</i>					
Gas	17 177 000	15 953 000	8 423 000	8 208 200	8 335 000
Crude oil, condensate and liquefied petroleum gas	7 680	7 410	3 998	3 521	3 770
Sulphur	1 970	1 906	1 944	2 114	2 182
<i>Imperial units</i>					
Gas	609,700	566,300	298,600	291,300	296,000
Crude oil, condensate and liquefied petroleum gas	48,313	46,616	25,158	22,146	23,724
Sulphur	1,939	1,876	1,913	2,081	2,148
Well data					
Net wells — Gas	158.7	195.4	99.3	94.0	84.1
Net wells — Oil	776.0	738.5	321.2	272.2	330.7
Land holdings					
<i>Metric units (thousand hectares)</i>					
Gross hectares	25 554	26 557	31 378	30 937	2 340
Net hectares	8 744	9 151	10 654	10 597	1 023
<i>Imperial units (thousand acres)</i>					
Gross acres	63,003	65,502	77,335	76,232	5,836
Net acres	21,567	22,581	26,270	26,125	2,549
Alternate Fuels					
Production (gross before royalties) ⁽¹⁾					
<i>Metric units</i>					
Synthetic crude oil	665.0	358.4	—	—	—
Sulphur	26.2	13.4	—	—	—
<i>Imperial units</i>					
Synthetic crude oil	4,184.8	2,255.5	—	—	—
Sulphur	25.8	13.1	—	—	—
Proven reserves (gross before royalties) ⁽¹⁾					
<i>Metric units</i>					
Syncrude — synthetic crude oil ..	30 524	20 121	—	—	—
<i>Imperial units</i>					
Syncrude — synthetic crude oil ..	192,086	126,624	—	—	—
Land holdings					
<i>Metric units (thousand gross hectares)</i>					
Syncrude	39.1	39.1	—	—	—
Other oil sands	569.5	569.5	—	—	—
<i>Imperial units (thousand gross acres)</i>					
Syncrude	97.8	97.8	—	—	—
Other oil sands	1,424.2	1,424.2	—	—	—
Chemicals					
Production					
<i>Metric units</i>					
Industrial chemicals	299.8	317.6	305.8	328.5	387.4
Specialty chemicals	10 725	10 402	7 048	9 064	9 312
<i>Imperial units</i>					
Industrial chemicals	330.5	350.1	337.0	362.2	427.1
Specialty chemicals	23,644	22,932	15,537	19,982	20,528

(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 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.

Shareholders' Information



TRADING RANGE OF COMMON SHARES

The common shares are traded on the Toronto Stock Exchange and the American Stock Exchange. As of December 31, 1984 there were 3,039 registered holders of common shares and 33,409,810 shares outstanding. The following is the trading range, as reported by each of these exchanges, during the past two years:

	Toronto Stock Exchange (\$Cdn.)		American Stock Exchange (\$U.S.)	
	High	Low	High	Low
1983 First Quarter	16.63	12.88	13.50	10.38
Second Quarter	24.50	13.25	19.88	10.88
Third Quarter	29.75	23.88	24.13	19.50
Fourth Quarter	29.00	24.50	23.00	20.38
1984 First Quarter	30.88	27.50	24.25	22.00
Second Quarter	31.38	26.00	24.00	20.63
Third Quarter	29.13	25.00	22.13	19.00
Fourth Quarter	29.25	24.00	22.00	18.50

DIVIDENDS

The Company has paid the following quarterly dividends on its common shares during the past two years:

Payment Date	Record Date	Amount (Cdn. funds)
1983 January 1	December 3, 1982	9.0¢
April 1	March 4, 1983	9.0¢
July 1	June 3, 1983	9.0¢
October 1	September 2, 1983	9.0¢
1984 January 1	December 2, 1983	9.0¢
April 1	March 9, 1984	9.0¢
July 1	June 8, 1984	12.5¢
October 1	September 7, 1984	12.5¢
1985 January 1	December 7, 1984	12.5¢

In February, 1985, the Board of Directors announced a 28% increase in the quarterly dividend on the common shares to sixteen cents per share, payable April 1, 1985 to shareholders of record on March 13, 1985. The Company expects to continue the payment of regular quarterly dividends on its common shares.

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.

VALUATION DAY PRICE

For Canadian capital gains tax purposes, the Department of National Revenue has published a December 22, 1971 Valuation Day price of \$3.04 for the common shares of the Company (after giving effect to the 3-for-1 stock split in 1979).

COMMON SHARES

Transfer Agents and Registrars

The National Victoria and Grey Trust Company
Calgary, Toronto, Montreal, Winnipeg and Vancouver and the offices of its agent, Canada Permanent Trust Company, in Halifax and Regina.

Manufacturers Hanover Trust Company
New York, N.Y.

Listed

American Stock Exchange
Toronto Stock Exchange
Symbol "CXY"

10% CLASS A PREFERRED SHARES

Transfer Agent and Registrar

Canada Permanent Trust Company
Calgary, Toronto, Montreal, Halifax, Winnipeg and Vancouver

Listed

Toronto Stock Exchange
Montreal Stock Exchange
Symbol "CXY PRA"

\$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

INVESTOR RELATIONS

E. J. Lambert
Canadian Occidental Petroleum Ltd.
1500, 635 - 8th Avenue Southwest
Calgary, Alberta, Canada
T2P 3Z1
(403) 234-6700

ANNUAL MEETING

The Annual General Meeting of the Shareholders will be held at the King Edward Hotel, Toronto, Ontario, Canada, on Thursday, May 9, 1985 at 11:00 a.m.

FORM 10-K

The Company files an annual report on Form 10-K with the Securities and Exchange Commission of the United States. A copy of the report will be sent without charge to any shareholder upon request. Such requests should be in writing addressed to the Secretary.

Corporate Information

Canadian Occidental Petroleum Ltd.
(a Canadian corporation)

DIRECTORS

David Bertram [1, 2]

Senior Vice President, Finance and Administration,
Canadian Occidental Petroleum Ltd.,
Calgary, Alberta

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

Dr. Ray R. Irani [1]

President and Chief
Operating Officer,
Occidental Petroleum Corporation,
Los Angeles, California

Thomas D. Jenkins [1, 2, 3, 4]

Executive Vice President,
Occidental Petroleum Corporation;
Chairman of the Board,
Occidental Oil and Gas Corporation,
Houston, Texas

Leo L. LeClerc [1, 3]

President,
Leo L. LeClerc & Associates Ltd.,
business consultants,
Edmonton, Alberta

David R. Martin [3]

Executive Vice President,
Occidental Petroleum Corporation;
President,
Occidental Oil and Gas Corporation,
Bakersfield, California

J. Angus McKee [1, 2, 4]

President and Chief
Executive Officer,
Canadian Occidental Petroleum Ltd.,
Calgary, Alberta

Zoltan Merszei [4]

Vice Chairman of the Board and
a director of Occidental
Petroleum Corporation,
Los Angeles, California

John A. Rhind

Chairman of the Board and
Chief Executive Officer,
Confederation Life
Insurance Company,
Toronto, Ontario

John M. Robertson, Q.C. [3]

Barrister and Solicitor
Fenerty, Robertson, Fraser & Hatch,
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

OFFICERS

Thomas D. Jenkins

Chairman of the Board

J. Angus McKee

President and Chief
Executive Officer

Terrence H. Allen

Senior Vice President,
Alternate Fuels

David Bertram

Senior Vice President, Finance
and Administration

Charles R. Mikkelborg

Senior Vice President,
Oil and Gas

Thomas R. Fountain

Vice President — Engineering
— Oil and Gas Division

H. Thomas Irwin

Vice President
— Oil Sands

James A. Nicholson

Vice President and Controller

William G. O'Rourke

Vice President, Counsel and Secretary

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

Gary J. Beagle

Treasurer

Robert W. Kangas

Assistant Controller

Paul C. Hebner

Assistant Secretary

Richard L. Reeson

Assistant Secretary

COMPANY PLANTS/OFFICES

Head Office

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

Oil and Gas

Alsike, Alberta
Balzac, Alberta
Drayton Valley, Alberta
Lloydminster, Alberta
Rodney, Ontario
St. Paul, Alberta

Minerals

Rexdale, Ontario

Chemicals

Brandon, Manitoba
Fort Erie, Ontario
Nanaimo, British Columbia
North Vancouver, British Columbia
Rexdale, Ontario
Squamish, British Columbia

SUBSIDIARY COMPANIES

CanadianOxy Chemicals Ltd.
(a British Columbia corporation)

CanadianOxy Metal Finishing Ltd.
(a Canadian corporation)

CanadianOxy Offshore Holdings Co.
(a Delaware corporation)

CanadianOxy Offshore Production Co.
(a Delaware corporation)

Canadian Occidental (Bolivia) Ltd.
(an Alberta corporation)

Canadian Occidental of California, Inc.
(a Delaware corporation)

Canadian Occidental (Peruana) Ltd.
(an Alberta corporation)

Canadian Occidental International Ltd.
(an Alberta corporation)

Canadian Occidental Services Ltd.
(an Alberta corporation)

Jefferson Minerals Corporation
(a Delaware corporation)

CanadianOxy Holdings B.V.
(a Netherlands corporation)

CanadianOxy Petroleum Royalties Ltd.
(an Alberta corporation)

AFFILIATED COMPANY

Petrogas Processing Ltd.

TRADEMARKS

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

