# Canadian Occidental Petroleum Ltd.

## 1981 Annual Report

CANADIAN OXY

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### Head Office


1600 McFarlane Tower,
700 - 4th Avenue S.W.
Calgary, Alberta
T2P 3J5


### ANNUAL MEETING

The Annual General Meeting of the Shareholders will be held at the King Edward Hotel, Toronto, Ontario, Canada, on Tuesday, May 4, 1982 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.

### IN MEMORIAM

Harold W. Manley, former President of CanadianOxy's predecessor, Jefferson Lake Petrochemicals of Canada Ltd. from 1962 to 1968, died at the age of 76 at the home of his daughter in Metairie, Louisiana on October 29, 1981.

*Cover photograph by Mach 2 Film Productions Ltd.*

### METRIC CONVERSION

Canada commenced the changeover to "metric" on January 1, 1979. This measurement system is known as the International System of Units or SI. In this annual report, most measurements are given in SI units. However, to provide for a familiarization period and for the convenience of our U.S. shareholders the measurements are also shown in equivalent Imperial Units.

Crude oil and natural gas liquids volumes are reported in cubic metres ($m^3$), natural gas volumes in thousands of cubic metres ($10^3m^3$), sulphur volumes in tonnes (t), distances in kilometres (km) and land holdings in hectares (ha).

Some of the more commonly used conversion factors are shown in the following table:

### SI CONVERSION TABLE

| To convert from | to | Multiply by |
|---|---|---|
| cubic metres ($m^3$) | barrels (bbl) | 6.293 |
| thousand cubic metres ($10^3m^3$) | 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 |

# CanadianOxy at a Glance

CanadianOxy is a diversified resource and chemicals company. In addition to exploring for and producing petroleum and natural gas in western Canada, the United States Gulf Coast and South America, the Company also produces and markets sulphur, explores for minerals and owns coal and shale oil properties in Canada.

In 1981, oil and gas operations contributed 55% and chemicals accounted for 45% of total sales revenues.

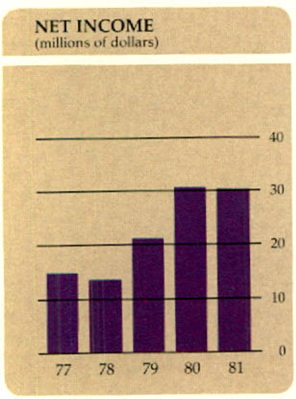
Occidental Petroleum Corporation of Los Angeles, California, currently owns 80% of the common shares of CanadianOxy. Upon full conversion of the 10% Convertible Debentures into common shares Occidental's voting interest would be reduced to approximately 65%.

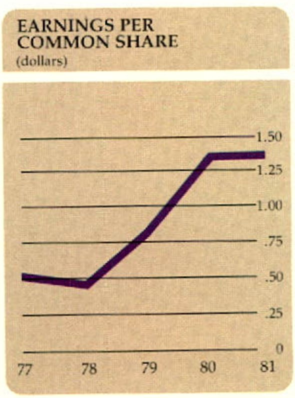


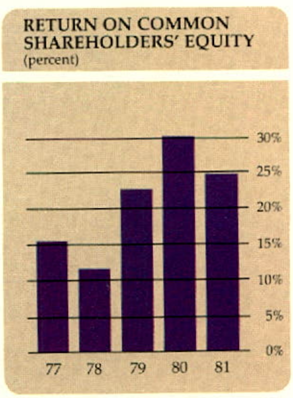
## Financial Highlights

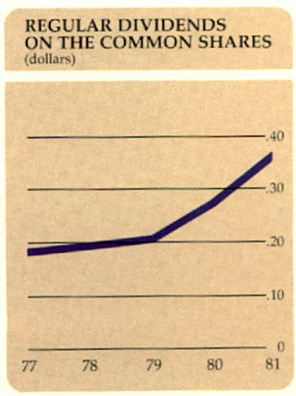
| | 1981 | 1980 | Increase (Decrease) |
|---|---|---|---|
| Net Sales | $198,378,000 | $188,640,000 | 5% |
| Net Income | $ 30,039,000 | $ 30,320,000 | (1%) |
| Per common share | $ 1.35 | $ 1.34 | 1% |
| Per common share — fully diluted | $ 1.24 | $ 1.30 | (5%) |
| Working Capital Generated from Operations | $ 72,213,000 | $ 77,508,000 | (7%) |
| Per common share | $ 3.40 | $ 3.64 | (7%) |
| Per common share — fully diluted | $ 2.86 | $ 3.46 | (17%) |
| Capital Expenditures (including exploration expenses) | $105,466,000 | $ 97,508,000 | 8% |
| Working Capital | $ 33,523,000 | $ 24,840,000 | 35% |
| Total Assets | $371,670,000 | $302,919,000 | 23% |
| Long-term Debt | $131,551,000 | $ 92,474,000 | 42% |
| Redeemable Preferred Shares | $ 20,315,000 | $ 21,873,000 | (7%) |
| Common Shareholders' Equity | $124,541,000 | $101,853,000 | 22% |
| Number of Common Shares Outstanding | 20,718,116 | 20,553,513 | 1% |
| Common Share Dividends Declared (per share) | $ 0.36 | $ 0.27 | 33% |
| Number of Common Shareholders | 3,144 | 3,000 | 5% |
| Number of 10% Class A Preferred Shareholders | 1,089 | 1,189 | (8%) |
| Number of Employees | 605 | 592 | 2% |

*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).*



# Letter to the Shareholders

*John Brading and Robert Teitsworth*

The past year presented your Company with a generally difficult business climate, caused in part by the continuing effects of the National Energy Program and also by the general economic recession, particularly in the automotive and building industries. Nevertheless, we are pleased to be able to report record revenues of $202 million. Earnings at $30 million, were virtually unchanged from the record level established last year.

Amongst the highlights of the year we would mention that in November 1981, the Petrogas plant, which is managed, operated and 30.9% owned by CanadianOxy, celebrated twenty years of operation — processing sour gas from the Crossfield field near Calgary. During these years, one trillion cubic feet of gas has been processed, with a cumulative sales value in excess of one billion dollars. Equally impressive is the fact that the anniversary ceremony was attended by 25 members of the original start-up crew, 15 of whom are still in our employ. In August another important event occurred when we were granted, with our two partners, the oil and gas exploration rights covering 29 million hectares in the Hudson Bay.

In our foreign oil and gas operations, 1981 saw the commencement of production from our investments in the Porvenir field in Bolivia, and also from South Pass Block 78, offshore Louisiana, U.S.A. Initial evidence of secondary oil production response has been recognized in several areas of the waterflood project at Talara in Peru.

At our chlor-alkali plant in North Vancouver, we commenced a program of improvement and modernization of our caustic soda facilities, and at Nanaimo, B.C., construction is underway for a new plant to manufacture sodium chlorate.

Turning to 1982, we find that the challenges of last year are still with us. In our opinion the National Energy Program and the Alberta/Ottawa pricing agreement make it economically unattractive to explore for gas. Consequently, we will maintain our domestic exploration expenditures at the same reduced level of 1981. We still will be spending about $20 million for exploration in Canada but with the thrust directed towards oil, and to the initial phase of our commitment to Hudson Bay. We are considering diverting some part of this exploration expenditure to foreign programs, in areas less thoroughly explored than western Canada where the upside potential may be greater.

The Chemicals division will be commissioning the Nanaimo sodium chlorate plant at mid-year, and we expect to operate it at capacity. Despite the difficulties being experienced by the forest products industries in western Canada, we look forward to an improvement over our 1981 results which suffered as a result of a two-month labour stoppage at our customers' pulp mills.

By mid-year, we should learn whether or not the proposal submitted by our consortium for a petrochemical project finds favour with the Government of British Columbia. We will be maintaining an active exploration program in the Minerals division, directed toward the search for precious metals. Efforts will be continued to determine the most commercially effective way to develop our valuable uranium ore-body at McClean Lake, Saskatchewan.

The Company is diversified in its activities and has domestic earnings which are soundly based upon well established oil and gas and chlor-alkali operations. Foreign oil and gas production should increase during 1982, and with the major phase of our development expenditures behind us, our present debt (inclusive of $73.3 million 10% Convertible Debentures) to equity ratio of 0.9:1.0 should further improve.

We believe that the Company is well placed both to face the problems of 1982 and to take advantage of its opportunities.

Mr. A. Russell Patrick, who has been a director since 1972, is not standing for re-election as a director this year. We would like to take this opportunity to express our appreciation for his valued contribution and wise counsel as a Board member over the past ten years.

Respectfully submitted,

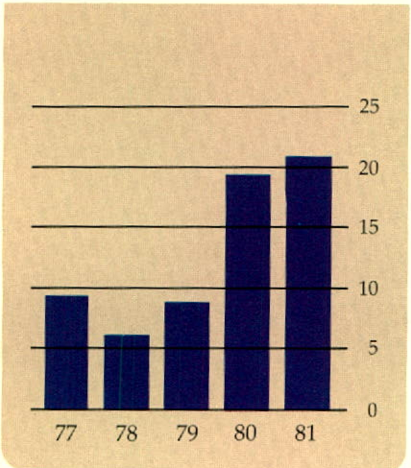
R. A. Teitsworth
Chairman of the Board

J. E. Brading
President

Calgary, Alberta
March 10, 1982

# Oil and Gas

**NET INCOME — Oil and Gas**
(millions of dollars)




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

In 1981, net sales from oil and gas operations increased by 16% to $109.2 million and net income increased by 6% to $21 million. The increased sales and earnings were primarily attributable to higher average prices in all segments of oil and gas operations and increased production volumes from the U.S. Gulf Coast, Peru and Bolivia. Earnings were further enhanced as a result of investment tax credits realized in certain foreign jurisdictions.

Net sales of crude oil and natural gas liquids increased by 40% to $49.2 million. This was due primarily to initial condensate production from the gas cycling plant in Bolivia, additional production from the U.S. Gulf Coast, and an increase in both the production volume and service fee at Talara, Peru.

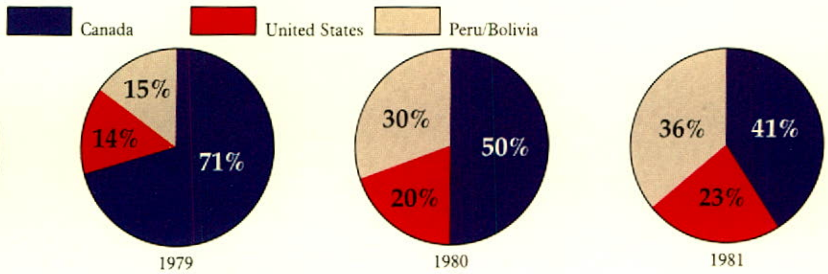
Net sales of natural gas increased slightly to $48.2 million. Increased production volumes and higher prices in the U.S. Gulf Coast were largely offset by the new Canadian Petroleum and Gas Revenue Tax and a small decrease in Canadian production.

Sulphur sales increased marginally to $11.8 million. After several years of substantially increased demand for sulphur in both the North American and offshore markets, the market began to stabilize during 1981. The average plant selling price during the year was $68 per tonne, compared to $55 per tonne last year.

Exploration and development expenditures were $91.3 million compared to $87.2 million in the prior year. Exploration costs, including lease acquisitions, were $21.1 million compared to $24.6 million in 1980. Development expenditures increased by 12% to $70.2 million. For 1982, the Company is forecasting its total exploration and development expenditures to be approximately $84 million.

| OIL AND GAS OPERATIONS | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| | | | (Amounts in Thousands) | | |
| Net Sales: | | | | | |
| Natural Gas | **$ 48,219** | $ 47,467 | $ 29,227 | $18,859 | $17,832 |
| Natural Gas Liquids | **3,889** | 4,139 | 3,348 | 2,907 | 3,028 |
| Crude Oil | **45,292** | 30,943 | 8,333 | 1,692 | 1,459 |
| Sulphur | **11,767** | 11,611 | 4,526 | 2,482 | 1,816 |
| | **$109,167** | $ 94,160 | $ 45,434 | $25,940 | $24,135 |
| Net Income | **$ 21,026** | $ 19,766 | $ 8,970 | $ 5,972 | $ 9,582 |
| Capital Expenditures: | | | | | |
| Acquisition of Oil and Gas Rights | **$ 4,212** | $ 7,009 | $ 2,128 | $ 2,539 | $ 1,613 |
| Exploration | **16,948** | 17,611 | 9,425 | 15,501 | 5,943 |
| Development | **70,174** | 62,553 | 57,614 | 21,303 | 8,877 |
| Total Capital Expenditures | **91,334** | 87,173 | 69,167 | 39,343 | 16,433 |
| Less Current Year Expenditures Charged to Exploration Expenses | **13,410** | 9,231 | 6,564 | 11,126 | 3,964 |
| Additions to Property, Plant and Equipment | **$ 77,924** | $ 77,942 | $ 62,603 | $28,217 | $12,469 |
| Net Property, Plant and Equipment: | | | | | |
| Canada | **$ 52,421** | $ 42,403 | $ 26,181 | $21,691 | $15,543 |
| United States | **64,443** | 63,796 | 61,213 | 50,695 | 41,153 |
| Peru | **107,991** | 78,896 | 45,261 | 6,652 | — |
| Bolivia | **22,988** | 8,873 | 2,575 | 1,840 | — |
| Colombia | **—** | — | — | 1,303 | — |
| | **$247,843** | $193,968 | $135,230 | $82,181 | $56,696 |

## Oil and Gas Sales by Geographic Area




# CANADA

## LAND

During the year, the Company acquired 15 parcels of land at Alberta Crown sales comprising 39,598 gross acres (23,368 net acres) at a cost to the Company of $3 million. The majority of these parcels are located in the Peace River Arch area.

In October, CanadianOxy, Ontario Energy Corporation and Sogepet Limited were granted oil and gas exploration rights by the Canadian Government covering 29 million hectares (72 million acres) in the Hudson Bay. The Exploration Agreement will extend for five years commencing January, 1982. The participants have equal working interests in the project, with CanadianOxy acting as operator.

The scheduled five-year program will consist of four separate work periods. During the first 18 months, the Group will carry out 5 000 kilometres of offshore seismic, costing approximately $8 million. Follow-up work is optional, but encouraging results will entail a second seismic program of the same duration and cost. During the fourth year of the program, drillsites will be selected and environmental studies carried out. In the fifth year, the participants will have the option to drill either one or two wells. Each well drilled will earn the Group the right to negotiate a new agreement covering 7.25 million hectares.

*Drilling in western Canada.*

## EXPLORATION AND DEVELOPMENT

During 1981, 24 exploratory wells were drilled on CanadianOxy's lands in Canada, resulting in 12 gas wells, one oil well and 11 dry holes. The Company participated directly in the drilling of 12 of these wells, while the remaining 12 were drilled by others under various farmout and option agreements at no cost to CanadianOxy. In addition, 31 development wells were drilled, resulting in 22 gas wells, four oil wells and five dry holes. The table on Page 6 shows the Company's Canadian drilling record over the last five years.

The Company revised its exploration strategy during the year, in response to a restructuring of petroleum pricing under the Canadian National Energy Program. Under the new program, net backs to producers of natural gas were reduced while expected net backs from new oil production were increased. In addition, a significant surplus of natural gas has been defined over the last few years in western Canada. Consequently, the Company is directing its exploration efforts away from gas target areas, to areas where a reasonable chance of finding oil could be expected.

## DRILLING RECORD IN CANADA

| | 1981 | | 1980 | | 1979 | | 1978 | | 1977 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| **Exploratory Wells** | | | | | | | | | | |
| Oil Wells | 1 | 0.1 | 2 | 1.6 | — | — | — | — | 1 | 0.5 |
| Gas Wells | 12 | 2.0 | 20 | 3.5 | 5 | 1.5 | 25 | 8.0 | 27 | 7.8 |
| Dry Holes | 11 | 3.6 | 8 | 3.0 | 9 | 2.9 | 26 | 13.3 | 29 | 13.1 |
| | 24 | 5.7 | 30 | 8.1 | 14 | 4.4 | 51 | 21.3 | 57 | 21.4 |
| **Development Wells** | | | | | | | | | | |
| Oil Wells | 4 | 1.1 | 2 | 0.8 | 2 | 0.6 | 1 | — | 1 | — |
| Gas Wells | 22 | 6.3 | 16 | 6.4 | 24 | 6.7 | 12 | 5.3 | 25 | 10.5 |
| Dry Holes | 5 | 1.5 | 10 | 2.4 | 11 | 2.4 | 2 | 0.1 | 2 | — |
| | 31 | 8.9 | 28 | 9.6 | 37 | 9.7 | 15 | 5.4 | 28 | 10.5 |
| | 55 | 14.6 | 58 | 17.7 | 51 | 14.1 | 66 | 26.7 | 85 | 31.9 |

*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 1977, 1978, 1979, 1980 and 1981, CanadianOxy earned gross overriding royalty interests in 17, 10, 24, 24 and 17 farmout wells, respectively (included in gross wells above), some of which are convertible to working interests at the Company's option on payout of certain well costs. Upon payout, the net well totals in the table will increase by 6.1 gas wells in 1977, by 1.95 gas wells in 1978, by 1.25 gas wells in 1979, by 4.50 gas wells in 1980 and by 2.79 gas wells and 0.2 oil well in 1981.*

The Company's oil discovery at Eaglesham in 1980 precipitated an exhaustive study of the Wabamun formation in the Peace River Arch area of northwestern Alberta. Seismic studies during 1980 and 1981 identified several drillsites and participating interests were acquired in three parcels of land in the prospect area totalling 7 104 hectares (17,760 acres). Of the two exploratory wells drilled on these lands during 1981, one is an indicated gas well and the other a dry hole. It is anticipated that extensive exploratory drilling will be carried out in the area in 1982.

In the Utikuma Lake area of north central Alberta, the Company is participating in a Devonian sand play. During the year, 370 kilometres of seismic were acquired and varying interests in two parcels of land totalling 4 096 hectares were purchased. The Company and its partners have drilled a potential gas well and one dry hole in the area and further drilling is being carried out in 1982.

CanadianOxy farmed out several gas target landholdings during the year. Three Viking gas wells were drilled under a farmout of the Company's lands in the Hamilton Lake West area. Further farmouts in this area are anticipated for 1982. In addition, leases comprising 51 200 hectares in the Winefred area of eastern Alberta have been farmed out to another company which has committed to carry out 120 kilometres of seismic in early 1982 and drill three exploratory wells in 1983. Under the farmout agreement, the drilling of 20 wells will earn the farmee a 50% interest in the lands.

Successful development wells were drilled in the Crossfield, South Okotoks, Eaglesham, Beaverhill Lake-Willingdon West, Muskeg and Medicine Hat areas in Alberta. In the South Okotoks area, a significant sour gas reserve has been delineated and, subject to government approvals, plans are underway for construction of a natural gas processing plant and pipeline gathering system.

As of December 31, 1981, the Company's net proven and probable reserves in Canada were estimated at 302 $10^3m^3$ (1.9 million barrels) of crude oil, 6 050 $10^6m^3$ (215 Bcf) of natural gas and 367 $10^3m^3$ (2.3 million barrels) of natural gas liquids and 1.8 million tonnes (1.8 million long tons) of sulphur. Net proven and probable reserves of crude oil increased by 61 $10^3m^3$ (383,000 barrels) over the prior year primarily due to follow-up drilling to the Company's 1980 Eaglesham oil discovery in the Peace River Arch area of Alberta. Reserves of pipeline gas and natural gas liquids were substantially unchanged from the prior year as discoveries and extensions replaced production. Reserves of sulphur declined by the approximate amount of production during the year.

**PRODUCTION AND SALES**

The Company's natural gas, natural gas liquids and sulphur production is primarily in Alberta and most of its crude oil production is in Saskatchewan. The Company's working interest share of Canadian production during 1981 averaged 1 023 $10^3m^3$ (36 MMcf) per day of pipeline gas, 219 $m^3$ (1,379 barrels) per day of crude oil and natural gas liquids and 308 tonnes (303 long tons) per day of sulphur.

The main source of production revenue is the Crossfield field, northeast of Calgary, where CanadianOxy operates 60 gas wells for itself and others. All gas produced from this field is processed at a plant owned by Petrogas Processing Ltd. located about five kilometres northeast of Calgary. CanadianOxy owns 30.9% of the shares of Petrogas and is the manager and operator of the plant. The plant produces approximately 2.9 $10^6m^3$ (102 MMcf) per day of sales gas, 505 $m^3$ (3,177 barrels) per day of natural gas liquids and 814 tonnes (801 long tons) per day of sulphur. 1981 marked the twentieth anniversary of operations for the Petrogas plant and cumulative product sales of over $1 billion.

*Gas Processing and Sulphur Recovery Plant, near Calgary.*

Sales gas volumes are also obtained from a CanadianOxy operated gas plant at Eaglesham and from joint interest properties at the Boyer, Haro and Beaverhill Lake-Willingdon areas of Alberta.

During the year, the Company's successful Eaglesham-Wabamun step-out oil well was placed on production at rates of 20 $m^3$ (126 barrels) per day. The original discovery well at Eaglesham was producing its allowable of 15 $m^3$ (94 barrels) per day at year-end.

Sulphur contributed approximately 11% of CanadianOxy's net sales from oil and gas operations in 1981. CanadianOxy sells sulphur directly to a wide variety of consumers throughout Canada and in the United States and indirectly in overseas markets. Market demand and sulphur prices remained strong throughout the year. The plant selling price in the North American market increased by $15 per tonne to $76 per tonne, effective May 1, 1981. The price of sulphur on the international market was approximately $92 per tonne, F.O.B. plant at the year-end.

The Company markets sulphur both for its own account and as agent for Petrogas and others. The Company's share of total sales was 195 800 tonnes, which exceeded its production by 83 400 tonnes. CanadianOxy commenced marketing sulphur from inventory in 1978 and has reduced its inventory by 303 900 tonnes since that time. Based on its market forecast, the sulphur inventory of 202 700 tonnes as at December 31, 1981 will be reduced to about 101 600 tonnes by late 1983 and then be maintained at approximately that level.

## UNITED STATES

Canadian Occidental of California Inc., a wholly-owned subsidiary, holds leasehold interests ranging from 3.7% to 20% in 18 lease blocks in the High Island and South Pass areas of the U.S. Gulf Coast. The map on page 8 illustrates the location of these lease blocks.

In the High Island area, offshore Texas, eleven drilling and production platforms have been installed and 172 development wells have been drilled to date. Drilling operations have been completed on eight platforms, which were all on production at the year-end. Development work is continuing from the other three platforms, of which one is scheduled to commence production in 1982 and the other two in 1983.

At South Pass Block 78, offshore Louisiana, twelve oil and gas wells have been drilled from the platform. There was some initial gas production through temporary production facilities during 1981. At year-end, production from this platform was shut-in to permit the installation of permanent production and pipeline tie-in facilities. Natural gas production through permanent facilities commenced in February, 1982, and oil production is scheduled to commence during the first half of 1982.

During 1981, the Company participated in the drilling of 14 Gulf Coast development wells, resulting in 6 gas wells and 6 gas/oil wells. In addition, 4 exploratory wells were drilled by others at no

*Permanent Drilling and Production Platform in the High Island area, offshore Texas.*

## DRILLING RECORD IN THE UNITED STATES (GULF OF MEXICO)

| | 1981 | | 1980 | | 1979 | | 1978 | | 1977 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| **Exploratory Wells** | | | | | | | | | | |
| Oil Wells | — | — | — | — | — | — | — | — | — | — |
| Gas Wells | — | — | — | — | 1 | .06 | 1 | .05 | — | — |
| Oil/Gas Wells | — | — | — | — | — | — | — | — | — | — |
| Dry Holes | 4 | .12 | — | — | 1 | .06 | — | — | 1 | .05 |
| | 4 | .12 | — | — | 2 | .12 | 1 | .05 | 1 | .05 |
| **Development Wells** | | | | | | | | | | |
| Oil Wells | — | — | 2 | .11 | — | — | 8 | .45 | 2 | .11 |
| Gas Wells | 6 | .32 | 11 | .37 | 20 | 1.09 | 30 | 2.21 | 19 | 1.16 |
| Oil/Gas Wells | 6 | .60 | 2 | .40 | 7 | .63 | 5 | .26 | 11 | .63 |
| Dry Holes | 2 | .13 | 5 | .23 | 8 | .56 | 7 | .44 | 10 | .59 |
| | 14 | 1.05 | 20 | 1.11 | 35 | 2.28 | 50 | 3.36 | 42 | 2.49 |
| | 18 | 1.17 | 20 | 1.11 | 37 | 2.40 | 51 | 3.41 | 43 | 2.54 |

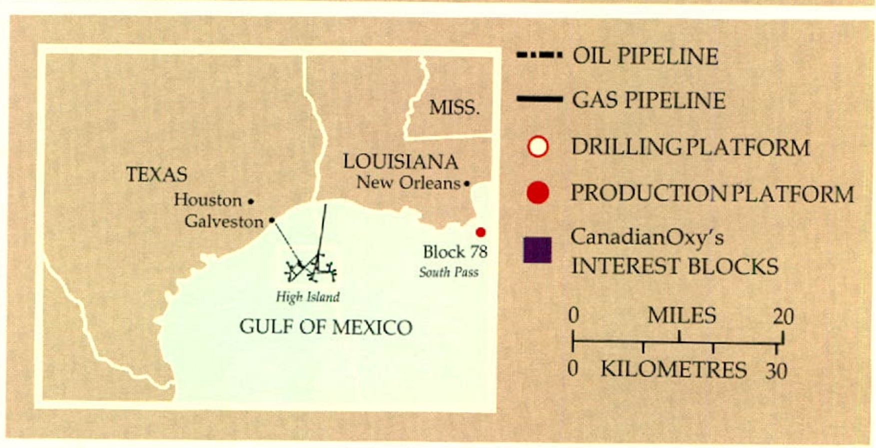
cost to CanadianOxy, all of which were dry. By the year-end, a total of 86 wells were on production and another 65 wells were awaiting completion and/or pipeline tie-in.

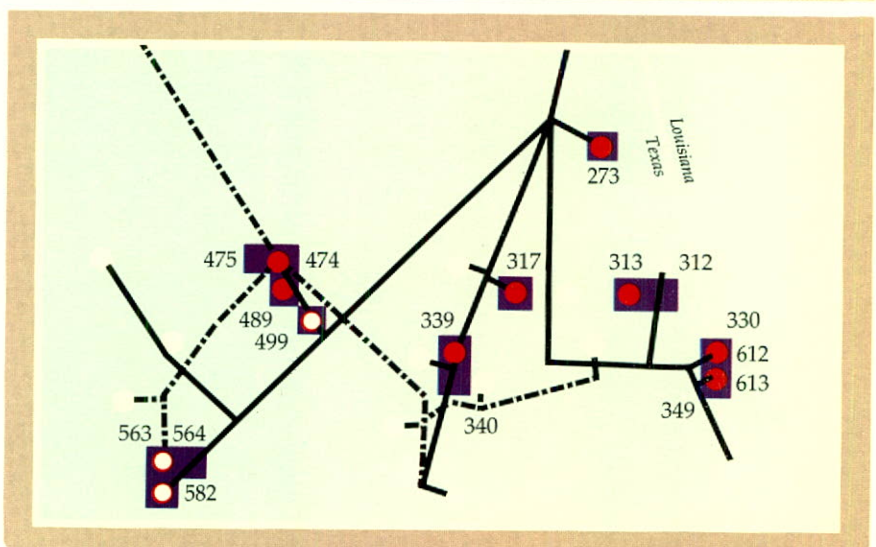
CanadianOxy's share of production was averaging 20 MMcf of gas per day and 200 barrels of oil and condensate per day at year-end. The Company expects that production rates will reach maximum levels by mid-1982, when its share is estimated to be approximately 29 MMcf per day of gas and 700 barrels per day of oil and condensate. The average wellhead price received for this gas production increased to $87.24 per thousand cubic metres ($2.42 per Mcf) in 1981 from $81.95 per thousand cubic metres ($2.27 per Mcf) in 1980.

As of December 31, 1981, the Company's net proven and probable reserves for the United States Gulf Coast were 151 $10^3m^3$ (952,000 barrels) of crude oil, 1 203 $10^6m^3$ (42.7 Bcf) of pipeline gas and 38.5 $10^3m^3$ (242,000 barrels) of natural gas liquids.

The Company's total capital expenditures in the Gulf Coast area is approximately $80 million (U.S.) of which $18.5 million (U.S.) was provided by pipeline companies as interest-free advance payments. Monthly payments to retire these advances are required until April 1984. The Company expects that its share of additional capital expenditures required to complete the development of these properties will be approximately $4 million (U.S.).

### UNITED STATES — Gulf Coast



## PERU

CanadianOxy, Occidental and Bridas Exploraciones y Produccion S.A., an Argentinian private company, are participants in an oil field redevelopment and secondary recovery project in eleven established producing oil fields near Talara, approximately 600 miles northwest of Lima, on the coast of Peru.

Under a service contract, Occidental (63%), CanadianOxy (21%) and Bridas (16%) are paid a service fee on all petroleum produced from the contract area during the contract period. The contract term extends from January, 1980 until July, 1995.

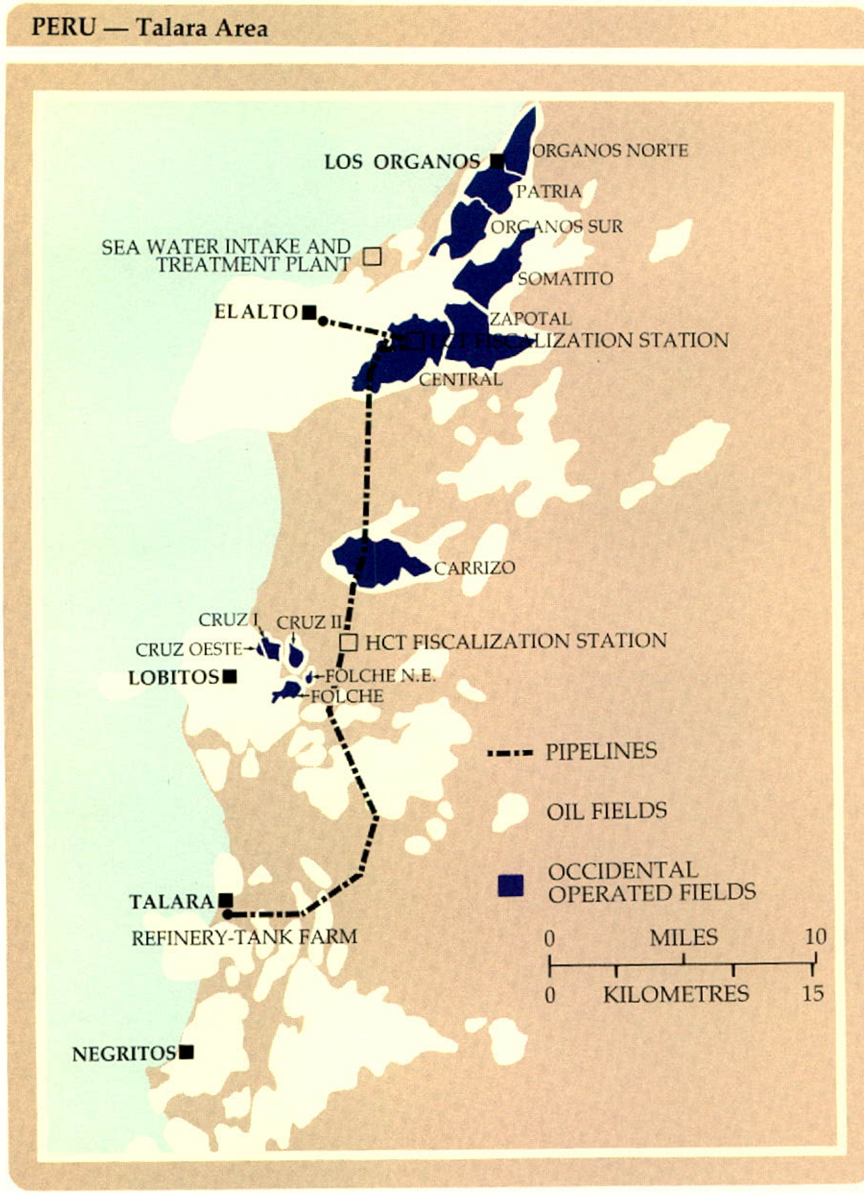
Oil production from the Talara oil fields increased from 2 860 $m^3$ (18,000 barrels) per day at the beginning of 1981 to about 2 990 $m^3$ (18,800 barrels) per day at year-end. The basic service fee, initially \$17.50 (U.S.) per barrel, is subject to adjustment for certain changes in crude oil prices, Peruvian income tax rates and production levels. As a result of changes in crude oil prices, the basic service fee increased to \$20.08 (U.S.) per barrel at the end of 1981 from \$18.96 (U.S) per barrel at the end of 1980.

The Talara contract requires the Contractors to complete, by July 31, 1982, the balance of two consecutive two-year programs which originally entailed the drilling of 355 new wells, the reworking or re-completion of 579 wells, the construction of a sea-water treatment plant, the installation of water injection facilities and an oil pipeline system, and the addition of new oil production equipment.

The waterflood operations, which commenced in August 1980, have now been implemented in seven of the eleven fields. At the year-end, water was being injected through 406 wells into the formations at the rate of 180,000 barrels per day. Although initial indications of favourable response to the waterflood have been observed in some wells, it is still too early to evaluate the full success of the waterflood operations.

The Contractors plan to drill about 180 additional new wells in 1982 and to expand the other project facilities as necessary. Total capital expenditures for the project are estimated to be approximately \$633 million (U.S.), of which approximately \$485 million (U.S.) has already been spent. Through December 31, 1981, CanadianOxy's 21% share of the capital expenditures for the Talara project amounted to approximately \$102 million (U.S.) and upon completion of the project the total is estimated to be approximately \$133 million (U.S.).

Occidental's independent consulting engineers DeGolyer and MacNaughton estimate as of December 31, 1981 a total of 59.0 million barrels of proven reserves of crude oil are recoverable from the Talara project. These reserves comprise 51.3 million barrels of proven developed reserves and 7.7 million barrels of proven undeveloped reserves. In addition, Occidental currently estimates that successful application of the full term waterflood project would result in probable additional reserves. The 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. Since the secondary recovery techniques have not been applied for sufficient periods of time to obtain and evaluate response data, there can be no assurance that the enhanced recovery scheme for any or all of the fields in the contract area will be successful.



*Drilling rig in Peru*

In December 1980, the Republic of Peru enacted a decree law creating an investment tax credit which can be claimed against future income taxes. The tax credit is in respect of qualifying investments made in Peru during 1981 and subsequent years. The amount of the credit claimed in any year cannot exceed 40% of the income tax payable in that year but any excess amount may be carried forward for up to three years to be applied against income taxes payable in those years. The Peruvian government approved the Oxy Group's 1981 investment program for the Talara project under the new reinvestment tax credit law. Consequently, CanadianOxy is entitled to a tax credit for its share of all qualifying capital expenditures on the Talara project made after April 1, 1981.

## BOLIVIA

Occidental and CanadianOxy hold a production-sharing contract with YPFB, the Bolivian national oil company, covering 745,933 acres in the Chaco Basin of eastern Bolivia. Under this agreement, the Contractors are entitled to approximately 50% of all production, net of taxes and royalties, from the contract area. The initial exploratory well drilled in 1978, Porvenir No. 1, resulted in a significant natural gas/condensate discovery. CanadianOxy's net share of the proven reserves for the Porvenir field is estimated to be 14 Bcf of natural gas and 2.9 million barrels of condensate.

In August 1980, Occidental signed an agreement with YPFB providing for the development of the Porvenir field. 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 eight wells, of which five are producing and three are used for gas re-injection. At year-end the plant was producing approximately 5,500 barrels per day of condensate and about 70 MMcfd of natural gas was being re-injected into the formations. Condensate production is expected to increase to 8,000 barrels per day during the first half of 1982. CanadianOxy's share of the production from the Porvenir field is 12.5%, net of taxes and royalties.

The condensate is sold to YPFB for domestic consumption at a price related to the official sales price for Arabian Light crude oil. At year-end, the selling price was $28.88 (U.S.) per barrel. The gas which is re-injected into the reservoir will be produced and sold in later years when additional markets are developed. As at December 31, 1981, the Company's share of the total capital expenditures was approximately $18 million (U.S.).

As soon as current negotiations are concluded with YPFB, the Oxy Group plans to construct a liquified petroleum gas recovery unit at the Porvenir gas cycling plant. It is estimated that the proposed unit would initially produce up to 300 tonnes of LPG per day, as well as recover an additional increment of condensate from the plant gas stream. Construction of the LPG plant is estimated to require about 14 months.

Two exploration wells were drilled in the Chaco Block, Bolivia, during the last quarter of 1981, of which one was abandoned in November and the other in January 1982. In October 1981, the end of the initial exploration period, the original contract area of 1.5 million acres was reduced by 50%.

*Drilling rig in Bolivia*

## RESERVES

| *Imperial Units* | Proven | | Probable | | Total Proven & Probable | |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net |
| **Crude Oil** (thousand barrels) | | | | | | |
| Canada | 2,721 | 1,759 | 209 | 142 | 2,930 | 1,901 |
| U.S. Gulf Coast | 945 | 783 | 204 | 169 | 1,149 | 952 |
| Peru | 12,404 | 12,404 | 2,184 | 2,184 | 14,588 | 14,588 |
| Bolivia | 2,239 | 2,239 | — | — | 2,239 | 2,239 |
| | 18,309 | 17,185 | 2,597 | 2,495 | 20,906 | 19,680 |
| **Pipeline Gas** (billion cubic feet) | | | | | | |
| Canada | 230.1 | 183.4 | 40.3 | 31.3 | 270.4 | 214.7 |
| U.S. Gulf Coast | 46.9 | 38.8 | 4.7 | 3.9 | 51.6 | 42.7 |
| Bolivia | 14.3 | 14.3 | — | — | 14.3 | 14.3 |
| | 291.3 | 236.5 | 45.0 | 35.2 | 336.3 | 271.7 |
| **Natural Gas Liquids** (thousand barrels) | | | | | | |
| Canada | 2,955 | 2,295 | 23 | 14 | 2,978 | 2,309 |
| U.S. Gulf Coast | 256 | 212 | 36 | 30 | 292 | 242 |
| Bolivia | 626 | 626 | — | — | 626 | 626 |
| | 3,837 | 3,133 | 59 | 44 | 3,896 | 3,177 |
| **Sulphur** (thousand long tons) | | | | | | |
| Canada | 2,081 | 1,797 | 2 | 1 | 2,083 | 1,798 |

| *Metric Units* | Proven | | Probable | | Total Proven & Probable | |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net |
| **Crude Oil** (thousand cubic metres) | | | | | | |
| Canada | 432.6 | 279.7 | 33.2 | 22.6 | 465.8 | 302.3 |
| U.S. Gulf Coast | 150.2 | 124.5 | 32.4 | 26.9 | 182.6 | 151.4 |
| Peru | 1 972.1 | 1 972.1 | 347.2 | 347.2 | 2 319.3 | 2 319.3 |
| Bolivia | 356.0 | 356.0 | — | — | 356.0 | 356.0 |
| | 2 910.9 | 2 732.3 | 412.8 | 396.7 | 3 323.7 | 3 129.0 |
| **Pipeline Gas** (million cubic metres) | | | | | | |
| Canada | 6 483.8 | 5 167.6 | 1 135.5 | 881.9 | 7 619.3 | 6 049.5 |
| U.S. Gulf Coast | 1 321.5 | 1 093.3 | 132.4 | 109.9 | 1 453.9 | 1 203.2 |
| Bolivia | 402.9 | 402.9 | — | — | 402.9 | 402.9 |
| | 8 208.2 | 6 663.8 | 1 267.9 | 991.8 | 9 476.1 | 7 655.6 |
| **Natural Gas Liquids** (thousand cubic metres) | | | | | | |
| Canada | 469.9 | 364.8 | 3.6 | 2.2 | 473.5 | 367.0 |
| U.S. Gulf Coast | 40.7 | 33.7 | 5.7 | 4.8 | 46.4 | 38.5 |
| Bolivia | 99.5 | 99.5 | — | — | 99.5 | 99.5 |
| | 610.1 | 498.0 | 9.3 | 7.0 | 619.4 | 505.0 |
| **Sulphur** (thousand tonnes) | | | | | | |
| Canada | 2 114 | 1 826 | 2 | 1 | 2 116 | 1 827 |

*Note: The table excludes the inventory of 202 700 tonnes (199,457 long tons) of sulphur held at year-end.*

## PRODUCTION AND SALES

| | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| **Production** | | | | | |
| (gross before royalties) | | | | | |
| *Imperial Units* | | | | | |
| Pipeline Gas (Bcf) | **22.3** | 22.2 | 19.1 | 14.3 | 16.4 |
| Crude Oil (thousand barrels) | **1,899.1** | 1,661.2 | 492.8 | 291.2 | 300.9 |
| Natural Gas Liquids (thousand barrels) | **273.1** | 307.1 | 356.3 | 334.6 | 410.9 |
| Sulphur (thousand long tons) | **110.6** | 107.8 | 121.1 | 125.9 | 134.2 |
| *Metric Units* | | | | | |
| Pipeline Gas (thousand cubic metres) | **617 229** | 624 414 | 529 798 | 396 375 | 455 368 |
| Crude Oil (thousand cubic metres) | **301.8** | 264.0 | 78.3 | 46.3 | 47.8 |
| Natural Gas Liquids (thousand cubic metres) | **43.4** | 48.8 | 56.6 | 53.2 | 65.3 |
| Sulphur (thousand tonnes) | **112.4** | 109.5 | 123.0 | 127.9 | 136.4 |
| **Sales** | | | | | |
| Sulphur | | | | | |
| *Imperial Units* | | | | | |
| (thousand long tons) | | | | | |
| North American | **116.0** | 97.2 | 79.1 | 55.7 | 46.0 |
| Overseas | **76.7** | 137.2 | 107.1 | 95.4 | 82.4 |
| | **192.7** | 234.4 | 186.2 | 151.1 | 128.4 |
| *Metric Units* | | | | | |
| (thousand tonnes) | | | | | |
| North American | **117.9** | 98.7 | 80.4 | 56.6 | 46.8 |
| Overseas | **77.9** | 139.4 | 108.8 | 96.9 | 83.7 |
| | **195.8** | 238.1 | 189.2 | 153.5 | 130.5 |

*Note: The above table includes crude oil production in Peru of 1,503,303 barrels (238 885 m³) in 1981 and 1,364,917 barrels (216 894 m³) in 1980, on which the Company receives a service fee.*

| LAND | 1981 | | 1980 | |
|---|---|---|---|---|
| | Gross Acres | Net Acres | Gross Acres | Net Acres |
| **Petroleum and Natural Gas** | | | | |
| Alberta | **2,706,630** | **1,745,195** | 2,590,028 | 1,720,160 |
| Saskatchewan | **156,523** | **47,769** | 159,520 | 48,284 |
| British Columbia | **238,281** | **180,991** | 84,607 | 18,866 |
| Hudson Bay | **71,929,411** | **23,976,518** | — | — |
| East Coast Offshore (a) | **278,042** | — | 281,304 | — |
| Louisiana Offshore | **6,420** | **737** | 6,420 | 737 |
| Texas Offshore | **79,971** | **4,640** | 82,851 | 4,928 |
| Bolivia | **745,933** | **93,241** | 1,491,866 | 186,483 |
| Colombia | — | — | 620,171 | 65,616 |
| Peru (b) | **19,073** | **4,005** | 19,073 | 4,005 |
| | **76,160,284** | **26,053,096** | 5,335,840 | 2,049,079 |
| **Bituminous Shale** | | | | |
| New Brunswick | **72,022** | **72,022** | 499,684 | 499,684 |
| | **76,232,306** | **26,125,118** | 5,835,524 | 2,548,763 |

*(a) The Company's interest in the 278,042 acres in the East Coast is a 1.75 percent gross overriding royalty.*
*(b) The Company holds a 21% interest in a petroleum services contract at Talara, Peru.*

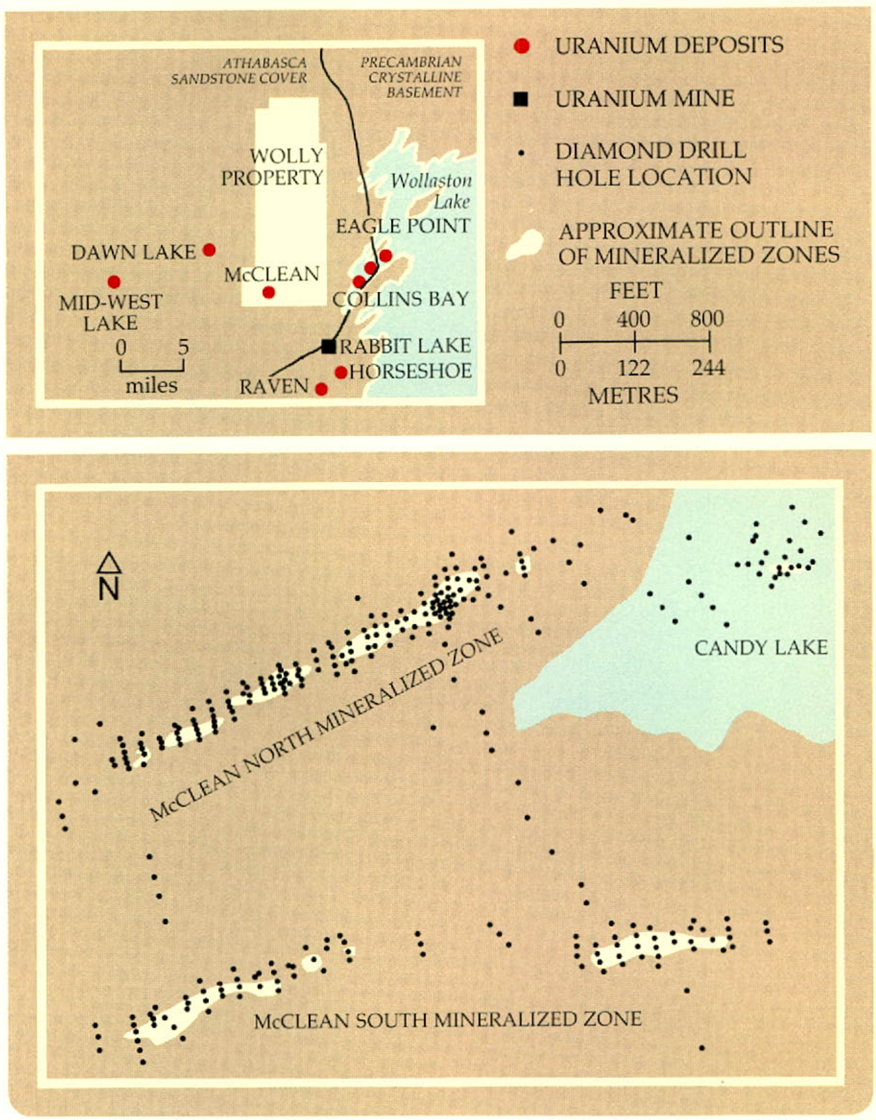
*Drilling at McClean Lake, Saskatchewan.*

The Minerals division, based in Toronto, explores for metallic mineral deposits across Canada. During 1981, 67% of the division's exploration funds were spent on the search for precious metals, with the remainder used exploring for uranium and base metals. Field work was carried out on properties in the Yukon, British Columbia, Saskatchewan, Ontario, Quebec and New Brunswick.

The Company's most significant property comprises about 25 900 hectares (64,000 acres) located on the easterly rim of the Athabasca basin in northern Saskatchewan. In April 1979, CanadianOxy and its equal partner, Inco Metals Company, announced a potentially significant uranium discovery on this property. The discovery, named the McClean deposits, is located about eight kilometres west of Wollaston Lake, Saskatchewan. Delineation drilling on the McClean deposits during 1980 outlined geological reserves of about 353 800 tonnes (390,000 tons) of mineralized material averaging 1.8% uranium oxide ($U_3O_8$) and containing approximately 6 400 tonnes (14 million pounds) of $U_3O_8$.

Pre-feasibility, hydrogeological and environmental base-line studies were carried out on the project during 1981. Based on the results of these studies, an underground method for mining the deposits has been selected. A feasibility study is scheduled to commence during 1982 to determine whether the property can be brought into commercial production.

**McCLEAN DEPOSITS — Northeastern Saskatchewan**



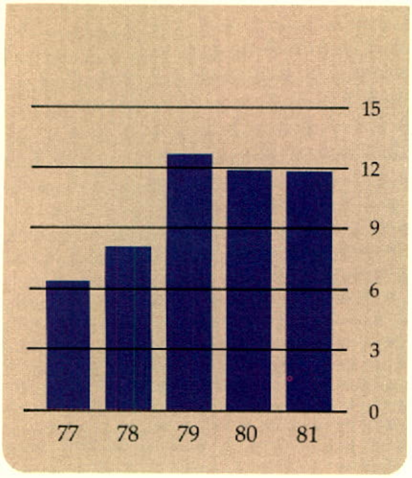

Further geophysical surveys are planned for the McClean area to help define new drill targets. Also, there are other targets previously outlined or indicated on the 260 square kilometre (100 square mile) property which will be tested by drilling programs in 1982 and beyond. The planned capital expenditures for this area in 1982 are approximately \$1.8 million, of which CanadianOxy would contribute 50%.

The map above illustrates the approximate outline of the mineralized zones and the location of the drillholes at the McClean deposit.

The accompanying table shows the acreages held by the Company at year-end.

| | Percentage Interest | Gross Acres |
|---|---|---|
| Yukon ......... | 100% | 25,116 |
| | 33% | 29,640 |
| | 19% | 5,408 |
| | 7% | 7,514 |
| British Columbia | 100% | 32,284 |
| | 33% | 68,696 |
| Saskatchewan ... | 50% | 333,050 |
| Ontario ........ | 100% | 31,720 |
| Quebec ........ | 100% | 14,559 |
| New Brunswick . | 60% | 23,760 |
| | | 571,747 |

**NET INCOME — Chemicals**
(millions of dollars)




The Company's chemical operations include the Industrial Chemicals division, the Metal Finishing division and the Durez Plastics division.

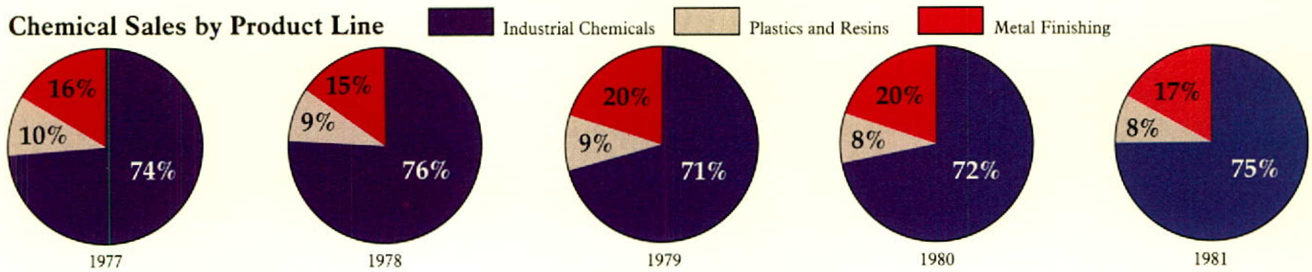
The Industrial Chemicals division is comprised of four electro-chemical plants; three in British Columbia and one at Brandon, Manitoba. This division manufactures chlorine, caustic soda, sodium chlorate and muriatic acid. More than 70% of net sales from the chemical operations are generated by this division. 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. Sel-Rex products supply precious metal electroplating chemicals and process technology, primarily to the electronics and jewellery industries. The Durez Plastics division is a manufacturer and marketer of phenolic moulding compounds and industrial and foundry resins.

Sales from chemical operations declined by 6% to $89.2 million in 1981. Net income of $11.9 million equalled that of the prior year. Sales from the Industrial Chemicals division in 1981 were substantially the same as in 1980, despite a major pulp mill strike in British Columbia during the summer which caused a two-month shut-down of the Company's major electro-chemical plants. Sales in the Plastics and Metal Finishing divisions declined by 5% and 22%, respectively, due to continued depressed economic conditions in the automotive and construction industries.

## CHEMICAL OPERATIONS

| | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| | | | (Amounts in Thousands) | | |
| Net Sales: | | | | | |
| Industrial Chemicals | **$67,065** | $67,596 | $56,024 | $45,935 | $32,836 |
| Plastics and Resins | **7,122** | 7,500 | 7,403 | 5,499 | 4,153 |
| Metal Finishing | **15,024** | 19,384 | 15,437 | 9,287 | 7,196 |
| | **$89,211** | $94,480 | $78,864 | $60,721 | $44,185 |
| Net Income Before Extraordinary Item | **$11,894** | $11,910 | $11,770 | $ 8,204 | $ 6,304 |
| Extraordinary Item | **—** | — | 893 | — | — |
| Net Income | **$11,894** | $11,910 | $12,663 | $ 8,204 | $ 6,304 |
| Capital Expenditures: | | | | | |
| Industrial Chemicals | **$ 8,526** | $ 4,133 | $ 1,951 | $ 2,185 | $ 2,134 |
| Plastics and Resins | **103** | 196 | 266 | 114 | 42 |
| Metal Finishing | **157** | 295 | 427 | 107 | 122 |
| | **$ 8,786** | $ 4,624 | $ 2,644 | $ 2,406 | $ 2,298 |
| Net Property, Plant and Equipment: | | | | | |
| Industrial Chemicals | **$23,543** | $17,946 | $16,862 | $17,823 | $19,454 |
| Plastics and Resins | **2,112** | 2,256 | 2,307 | 2,249 | 2,348 |
| Metal Finishing | **1,152** | 1,113 | 925 | 593 | 567 |
| | **$26,807** | $21,315 | $20,094 | $20,665 | $22,369 |

## Chemical Sales by Product Line




## CHEMICALS PRODUCTION

| | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| **Industrial Chemicals** | | | | | |
| *Imperial Units (thousands of tons)* | | | | | |
| Caustic Soda | **171.7** | 201.4 | 191.8 | 198.0 | 177.3 |
| Chlorine | **150.6** | 177.3 | 169.2 | 174.5 | 154.7 |
| Sodium Chlorate (Note 1) | **23.5** | 23.6 | 23.0 | 15.0 | 9.1 |
| Muriatic Acid | **16.4** | 24.8 | 18.6 | 14.7 | 8.7 |
| *Metric Units (thousands of tonnes)* | | | | | |
| Caustic Soda | **155.7** | 182.7 | 174.0 | 179.7 | 160.8 |
| Chlorine | **136.6** | 160.8 | 153.5 | 158.3 | 140.3 |
| Sodium Chlorate (Note 1) | **21.3** | 21.4 | 20.9 | 13.6 | 8.3 |
| Muriatic Acid | **14.9** | 22.5 | 16.9 | 13.3 | 7.9 |
| **Durez Plastics** | | | | | |
| *Imperial Units (thousands of pounds)* | | | | | |
| Moulding Materials | **5,941** | 6,576 | 7,202 | 5,532 | 3,018 |
| Industrial and Foundry Resins | **5,686** | 5,273 | 5,896 | 5,959 | 5,273 |
| *Metric Units (thousands of kilograms)* | | | | | |
| Moulding Materials | **2 695** | 2 983 | 3 267 | 2 509 | 1 369 |
| Industrial and Foundry Resins | **2 579** | 2 392 | 2 674 | 2 703 | 2 392 |
| **Metal Finishing** | | | | | |
| *Imperial Units (thousands of pounds)* | | | | | |
| Metal Finishing Chemicals | **8,355** | 8,679 | 10,236 | 9,483 | 9,132 |
| *Metric Units (thousands of kilograms)* | | | | | |
| Metal Finishing Chemicals | **3 790** | 3 937 | 4 643 | 4 302 | 4 142 |
| Precious Metal Salts *(troy ounces)* | **14,472** | 17,331 | 22,963 | 17,555 | 15,032 |

*Note 1: Includes production from the Brandon plant commencing July 1, 1978.*

## INDUSTRIAL CHEMICALS

The Company's industrial chemical operations comprise two chlor-alkali plants at North Vancouver and Nanaimo, B.C. and two sodium chlorate manufacturing plants at Squamish, B.C. and Brandon, Manitoba. Industrial chemical products — chlorine, caustic soda, sodium chlorate and muriatic acid — 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 more than 50% of the chlorine and caustic soda sold in British Columbia.

Construction is proceeding on a new sodium chlorate plant, adjacent to the Company's existing chlor-alkali plant at Nanaimo, B.C.. The new facility is designed to produce approximately 7 500 tonnes per year of solution sodium chlorate. The technology and design of the plant will minimize the electrical energy consumed in the manufacturing process and eliminate contaminants in the effluent system by recycling all process water through a closed system. The project is scheduled for completion in mid-1982 at an estimated cost of $6.7 million.

*Chlorine cells at North Vancouver plant.*

CanadianOxy has initiated a major project to modernize and increase the efficiency of the caustic processing facilities at its North Vancouver chemical plant. The planned modifications are designed to replace obsolete equipment, reduce energy consumption, lessen maintenance costs, and improve working conditions. The project is scheduled for completion in early 1983 at an estimated cost of $14 million.

CanadianOxy is 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 treatment of both new and existing oil and gas wells.

The Industrial Chemicals division was again awarded contracts in 1981 to supply road salt to the B.C. Department of Highways and several municipalities. Other forms of this salt, such as brine solutions and slurried product, are sold by contract to the pulp mill industry for use in the manufacture of chlorine, caustic soda and sodium chlorate.

In February, 1980, the District of North Vancouver released a consultant's report analyzing the potential risks to the nearby communities associated with the manufacture and transportation of hazardous chemicals. The Company's chlor-alkali plant, being a large chlorine manufacturer, was singled out in the report and prominently referred to in the press coverage thereof. While the consultant found the plant operationally safe and well-run, a number of recommendations were made for measures to reduce the chance of chlorine escape from willful sabotage or from severe earthquake. To the extent feasible the Company has adopted and implemented these measures and is carrying forward engineering studies on the remainder as part of its permanent risk reduction program. The ongoing expenditure program for accident prevention and safety margin improvement at this plant has been allocated $1.3 million for 1982.

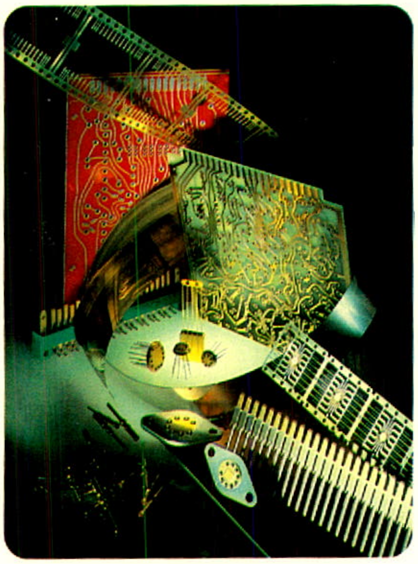
Total production capacities at the North Vancouver and Nanaimo plants for chlorine, caustic soda and muriatic acid are approximately 169 600, 187 800 and 22 700 tonnes per year, respectively. Sodium chlorate is produced at the Squamish and Brandon plants where the combined annual capacity is 21 800 tonnes. During 1981, production of chlorine and caustic soda was at about 81% capacity due to the two-month shut down of the North Vancouver and Nanaimo plants during the pulp mill strikes.

Labour contracts for the Brandon, Nanaimo, North Vancouver and Squamish plants extend to February, June, November 1983 and March 1984, respectively.

## DUREZ PLASTICS

The Durez Plastics division, located at Fort Erie, Ontario, is a major Canadian manufacturer of phenol-formaldehyde industrial resins and moulding compounds. The Durez product line services the automotive, tire, communications, appliance and foundry industries. Due to the economic recession plaguing these industries, particularly the automotive and appliance industries, sales volumes in this division declined by 11%. Profit margins increased by 14% primarily due to improved operating efficiency and tighter cost control.

*Plastics manufactured from Durez moulding compounds.*



*Sel-Rex Precious Metal Plating.*

### METAL FINISHING

CanadianOxy Metal Finishing Ltd. is a wholly-owned subsidiary which operates from office and production facilities in Rexdale, Ontario. The division manufactures and markets two main product lines, Parker and Sel-Rex. This division achieved a milestone of 500,000 man-hours, or nine years, with no lost-time accidents.

The Parker group has operated in Canada since 1948 and remains the leading supplier of conversion coatings, cleaners and metal drawing lubricants. It manufactures over 190 products in Canada for the treating, cleaning, coating and finishing of steel, aluminum and other metals used in many industrial products, including automotive parts and bodies, metal siding, appliances, steel furniture, electrical parts, agricultural equipment, nuts and bolts and extruded aluminums.

Parker production volumes declined by 4% in 1981 due to the persisting economic slowdown, particularly in the automotive and housing areas and to the major steel industry strike in eastern Canada.

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. Precious metal electro-plating chemicals are used by the electronics industry to enhance the strength and reliability of printed circuit boards and connector devices. Decorative applications include jewellery, watches, flatware, hollow ware, souvenirs and metal furniture.

Sel-Rex production volumes declined by 16% in 1981 as a result of lower consumer sales in the decorative industry and more restrictive use of gold in the electronics industry.

# Business Development

### PETROCHEMICALS

In December, 1981, CanadianOxy, Dome Petroleum Limited, Westcoast Transmission Company Limited, and the Mitsubishi Companies of Japan filed with the government of British Columbia a proposal to construct a major petrochemical complex. The project involves the construction of a plant on the Westcoast Transmission system to extract ethane and propane from the natural gas to provide feedstock for a proposed 272 000 tonne (600 million pound) per year ethylene plant. The ethylene would be up-graded to petrochemical derivatives such as vinyl chloride monomer, ethylene dichloride and polyethylene in plants located on tidewater. These ethylene derivatives represent basic building blocks for a wide variety of plastics and will be marketed primarily in Japan and other Pacific Rim countries. Anticipated completion date for the project would be late 1986 at a possible total investment of $1.4 billion. Once in operation, the project would employ up to 650 operating personnel in British Columbia. This and several other competing proposals are currently being reviewed by the Government. It is anticipated that those applicants who are deemed to offer the greatest potential benefits to the Province will be invited to file a formal application for an Energy Project Certificate in mid-1982.

### COAL

CanadianOxy has carried on a limited coal exploration program in Alberta and British Columbia for several years. During 1980 and 1981, the Company acquired several bituminous thermal coal properties, most of which are located in the Coalspur field, near Hinton, Alberta.

The Company's most prospective coal property is located in the Corral Creek area on the northern tip of the Coalspur field. Exploration and pre-feasibility studies conducted on this property during 1981 indicate that an underground method for mining the coal would be the most viable extractive process. Further definitive exploration and feasibility studies must be conducted on the property in order to discern whether or not it is commercial.

### SHALE OIL

In May 1981, the Company was granted a 10-year bituminous shale oil lease covering 29 147 hectares (72,022 acres) in New Brunswick. These lands were selected from the 202 219 hectare (499,684 acre) licence previously held. The prior exploratory work had outlined an area of approximately 1,000 acres of shale deposit for possible future development. Under the new lease, the Company has committed to carry out escalating levels of exploration and evaluation studies, starting with a minimum expenditure of $145,000 during the first year. CanadianOxy currently does not regard the deposit as commercial, since this would require a combination of price, royalty and tax terms at least as favourable as commercial tar sands projects.

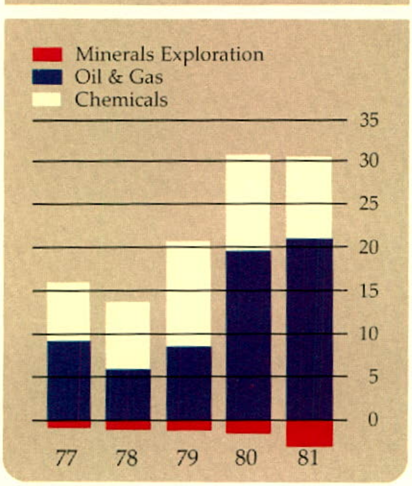
# Financial Review

### SELECTED FINANCIAL DATA
(Dollars in thousands, except per share data)

The following table summarizes selected consolidated financial data and is qualified in its entirety by more detailed information contained in the Consolidated Financial Statements appearing elsewhere in this report.

| | 1981 | 1980 | Increase (Decrease) | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|---|
| Net Sales | **$198,378** | $188,640 | 5% | $124,298 | $ 86,661 | $ 68,320 |
| Income before Extraordinary Item | **$ 30,039** | $ 30,320 | (1%) | $ 19,922 | $ 13,433 | $ 15,154 |
| Per common share — primary | **$ 1.35** | $ 1.34 | 1% | $ 0.77 | $ 0.45 | $ 0.54 |
| — fully diluted | **$ 1.24** | $ 1.30 | (5%) | $ 0.77 | $ 0.45 | $ 0.54 |
| Extraordinary Item | **—** | — | — | $ 893 | — | — |
| Per common share — primary | **—** | — | — | $ 0.04 | — | — |
| Net Income | **$ 30,039** | $ 30,320 | (1%) | $ 20,815 | $ 13,433 | $ 15,154 |
| Per common share — primary | **$ 1.35** | $ 1.34 | 1% | $ 0.81 | $ 0.45 | $ 0.54 |
| — fully diluted | **$ 1.24** | $ 1.30 | (5%) | $ 0.81 | $ 0.45 | $ 0.54 |
| Working Capital Generated from Operations (Cash Flow) | **$ 72,213** | $ 77,508 | (7%) | $ 36,361 | $ 19,548 | $ 22,141 |
| Per common share — primary | **$ 3.40** | $ 3.64 | (7%) | $ 1.57 | $ 0.75 | $ 0.88 |
| — fully diluted | **$ 2.86** | $ 3.46 | (17%) | $ 1.57 | $ 0.75 | $ 0.88 |
| Working Capital | **$ 33,523** | $ 24,840 | 35% | $ 13,448 | $ 21,594 | $ 63,052 |
| Total Assets | **$371,670** | $302,919 | 23% | $218,710 | $173,133 | $166,131 |
| Capital Expenditures (before exploration write-off) | **$105,466** | $ 97,508 | 8% | $ 74,110 | $ 42,642 | $ 19,733 |
| Long-term Debt | **$131,551** | $ 92,474 | 42% | $ 42,194 | $ 12,603 | $ 21,191 |
| Redeemable Preferred Shares | **$ 20,315** | $ 21,873 | (7%) | $ 42,919 | $ 42,919 | $ 42,919 |
| Common Shareholders' Equity | **$124,541** | $101,853 | 22% | $ 80,714 | $ 68,050 | $ 75,714 |
| Common Share Dividends Declared (per share): Regular | **$ 0.36** | $ 0.27 | 33% | $ 0.205 | $ 0.193 | $ 0.18 |
| Special | **—** | — | — | — | $ 0.643 | — |

**NET INCOME**
(millions of dollars)



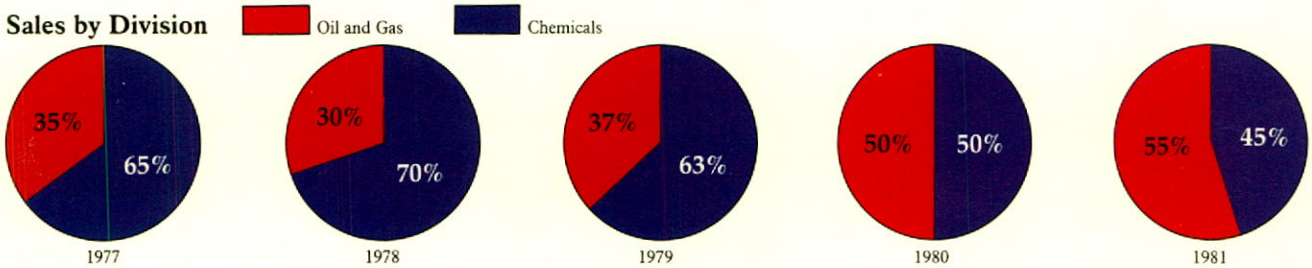

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

CanadianOxy's net income decreased slightly to $30.0 million whereas net sales reached a record $198.4 million in 1981, compared to the record net income of $30.3 million on sales of $188.6 million in 1980. Net income was $20.8 million (including an extraordinary item of $0.9 million) on sales of $124.3 million in 1979. The significant increases in sales and net income for both 1981 and 1980, compared to 1979, were due principally to increased production from foreign oil and gas operations, additional sales volumes of sulphur and higher selling prices for most products. Earnings in 1981 were further enhanced as a result of investment tax credits realized in certain foreign jurisdictions which significantly reduced the overall effective tax rate for the year compared to 1980 and 1979.

Oil and Gas division earnings were $21.0 million in 1981 compared to $19.8 million in 1980 and $9.0 million in 1979. The substantial increase in earnings in 1980 and 1981 was the consequence of steadily increasing production and prices from the U.S. Gulf Coast and Talara,

## Sales by Division




Peru. In addition, a buoyant market for Canadian sulphur in both of these years resulted in significantly higher sales volumes and prices.

In the U.S. Gulf Coast, daily production in 1981 averaged 23.6 MMcf (21.7 MMcf in 1980) of gas and 295 barrels (151 barrels in 1980) of oil, with the increase in natural gas due primarily to initial production from Block 78, offshore Louisiana. Prices, on average, were 6% higher than in 1980. During 1981, the Company was able to utilize more of its U.S. investment tax credits, because of higher pre-tax earnings, thus reducing the effective tax rate compared to previous years.

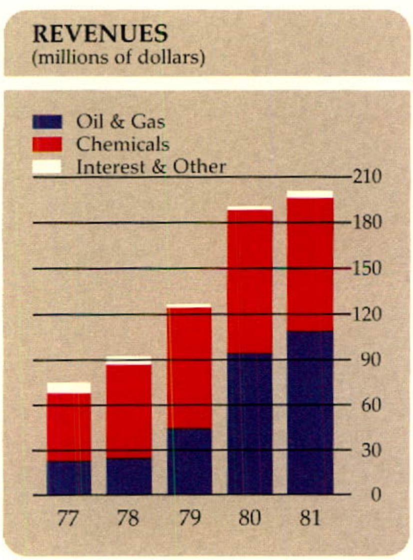
Oil production from Talara, Peru, for the account of CanadianOxy averaged 4,120 barrels (3,710 barrels in 1980) per day and the respective service fee (per barrel) increased by 18% over the average for 1980. In addition, earnings were aided in 1981 by the effect of investment tax credits in Peru which were made available as a result of our capital investment program.

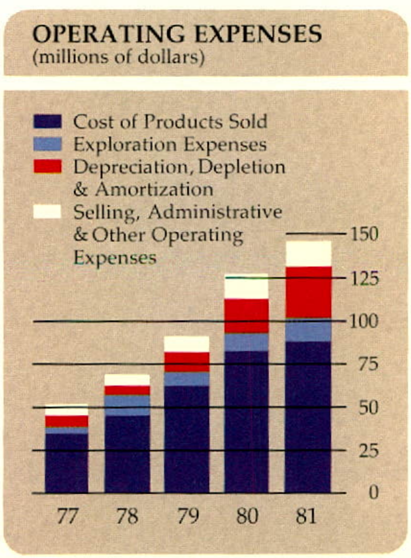
Canadian oil and gas production was lower in 1981 compared to both 1980 and 1979. Daily average production in 1981 was 36.1 MMcf (38.5 MMcf in 1980) for pipeline gas and 1,378 barrels (1,580 barrels in 1980) of crude oil and natural gas liquids. The decrease in production was due to lower demand by the gas purchasers and normal production decline in certain fields. Average wellhead prices for pipeline gas, crude oil and natural gas liquids were higher compared to 1980 and 1979, however, the earnings effect was more than offset by the petroleum and natural gas revenue tax which amounted to $2,348,000 in 1981.

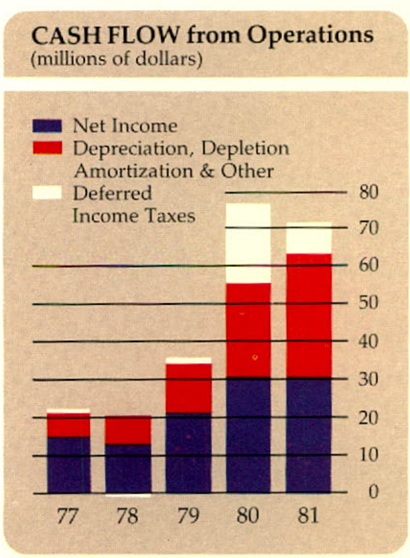
Oil and Gas division earnings in both 1981 and 1980 were also adversely affected by higher exploration write-offs and increased operating and interest costs. Exploration write-offs were higher in both years due to an increased level of seismic and drilling activity. Interest costs were significantly higher because of an increase in the average debt outstanding, due to increased capital spending, and higher average interest rates. In addition, operating costs and the charge for depreciation, depletion and amortization increased substantially due principally to the higher production levels in the foreign operations.

Chemical division earnings were $11.9 million in 1981, unchanged from 1980 and compared to $11.8 million in 1979 (before including an extraordinary gain of $0.9 million). Earnings were adversely affected in 1981 by a strike in the British Columbia pulp and paper industry which caused a two-month shutdown of the Company's major electrochemical plants.

In the industrial chemicals area, production of chlorine and caustic soda was 15% lower in 1981 than in 1980 and 11% less than in 1979, as a result of the aforementioned shutdown. Sodium chlorate production was comparable in 1981 with 1980 and 1979 whereas the production of muriatic acid was 34% below the 1980 level and 12% lower than in 1979. The reduction in muriatic acid was a direct result of reduced drilling



and workover activity, primarily in the petroleum industry in Alberta, where acid is used in the completion and stimulation of oil and gas wells. Offsetting these adverse market conditions, were higher selling prices for all products.

In addition, manufacturing costs in 1981 showed a nominal increase because of the lower production levels coupled with improved production efficiency due to improved operating conditions at the North Vancouver plant. Also market demand in 1980 and 1979 required the purchase of product for resale, however, this need was significantly reduced in 1981.

Metal finishing chemicals and plastics and resins were adversely affected in 1981 and 1980 due to the recessionary conditions existing in the automotive, construction and electro-plating industries. Sales volumes of treating chemicals and precious metals, after being lower by 14% and 25%, respectively, in 1980 compared to 1979, decreased by 5% and 16%, respectively, in 1981 from 1980. Conversely, higher selling prices for treating chemicals in 1981, compared to the previous years, substantially offset the decline in volumes as well as the higher cost of labour, raw materials and overhead. In the precious metals area, the reduction in the price of gold reduced sales as well as costs, however, unit margins were maintained on the lower volumes. Sales volumes for plastics and resins decreased by 11% in 1981, after being down 11% in 1980 compared to 1979. Higher selling prices were not sufficient to offset the lower volumes and increased cost of raw materials, labour and overhead.

In the Minerals division, the net loss was \$2.9 million in 1981 compared to \$1.4 million in 1980 and \$0.8 million in 1979. The increased loss reflects the higher level of minerals exploration in 1980 and 1981 and the resultant charge to income.

## LIQUIDITY AND CAPITAL RESOURCES

Since 1978, the Company's total assets have more than doubled with an increase of 23% in 1981 and 39% in 1980. The majority of this growth has resulted from new investment in property, plant and equipment, particularly in oil and gas development projects in Peru, Bolivia and the United States Gulf Coast. Capital and exploratory expenditures in 1981 amounted to \$105.5 million compared to \$97.5 million in 1980 and \$74.1 million in 1979.

The expanded asset base has been a major contributing factor to the growth in earnings over the same period of time. As a result, the financial position of the Company has improved with funds from operations exceeding \$70 million in both 1981 and 1980, compared to \$36.4 million in 1979. This enlarged operating base has also brought about an increase in current assets and working capital. CanadianOxy ended 1981 with working capital of \$33.5 million compared to \$24.8 million in 1980.

During this growth period, funds from operations were deficient in meeting all the working capital requirements. To cover the excess funds requirement, CanadianOxy arranged an \$80 million five-year revolving credit agreement in 1979-1980 along with a short-term bank credit line for \$15 million. Additional short term credit lines of \$42 million were added in 1980 together with a public offering of \$75 million in 10% Convertible Subordinated Debentures. At the end of 1981, there was still available \$28 million under the revolving credit agreement and \$56 million in short term. In 1982, CanadianOxy anticipates that funds from operations will be somewhat higher, however, the amount still will not be sufficient to meet all the working capital requirements. The cash shortfall will be readily handled with the available unused bank credit lines.

CanadianOxy's capital and exploratory budget for 1982 is approximately \$109 million. Of this amount \$84 million is to be spent in oil and gas operations, \$22 million in chemical operations and \$3 million in minerals and coal exploration.

## IMPACT OF INFLATION AND CHANGING PRICES

Due to the high rate of inflation in recent years, the usefulness of financial statements has deteriorated, as reported results of operations and financial position are based on historical costs. Therefore, they do not reflect the changes in the purchasing power of the dollar (general inflation) or changes in specific prices. The decline in the purchasing power of the dollar due to general inflation, needs to be considered in properly assessing a company's results of operations and financial position.

The information appearing under the heading "Supplementary Information on the Effects of Changing Prices (Unaudited)" on Page 41 is responsive to the effort by the accounting profession to reflect the impact of inflation. This information presents the adjustments to the reported earnings of CanadianOxy for the effects of general inflation and, alternatively, changes in specific prices relating to fixed assets and inventories. The tables in this supplementary information indicate that CanadianOxy's reported net income for 1981 of \$30.0 million would have been \$15.3 million when adjusted for the impact of general inflation and \$5.5 million when adjusted for changes in specific prices. However, the adjusted information does show that at the end of 1981 CanadianOxy benefits from the effect of general inflation by \$17.2 million as its net cash liabilities will be repayable in the future with dollars of diminished purchasing power.

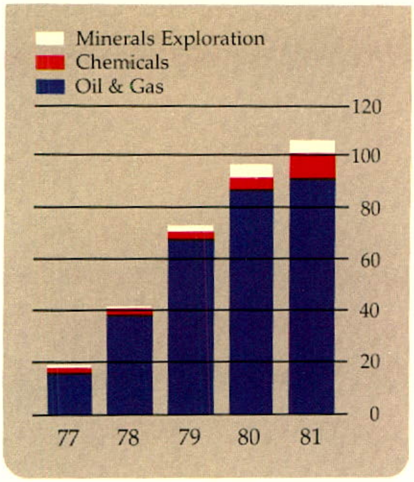
## RESERVE RECOGNITION ACCOUNTING

The Securities and Exchange Commission in the United States requires disclosure of financial information for oil and gas producers in accordance with its rules, referred to as Reserve Recognition Accounting. These rules require the reporting of estimated future net revenues from proved oil and gas reserves, the present value of those net revenues and a supplementary earnings summary reflecting annual changes in present value.

The Commission has acknowledged the uncertainty involved in the estimation process. These uncertainties and some of the guidelines laid down in the regulations make the results of questionable practical value although they do have theoretical appeal.

Results of oil and gas producing activities on the basis of reserve recognition accounting are disclosed on Page 39.

CAPITAL EXPENDITURES
(millions of dollars)




## CAPITAL EXPENDITURES

Capital expenditures (including exploration expenses) totalled $105,466,000 compared with $97,508,000 in 1980 and $74,110,000 in 1979. The following table summarizes the capital expenditures by business segment:

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| | (Amounts in thousands) | | |
| Oil and Gas | | | |
| Canada | **$27,565** | $28,069 | $12,106 |
| United States | **11,434** | 12,172 | 14,073 |
| Foreign | **52,335** | 46,932 | 42,988 |
| | **91,334** | 87,173 | 69,167 |
| Minerals Exploration | **5,346** | 5,711 | 2,299 |
| Chemicals | **8,786** | 4,624 | 2,644 |
| Total Capital Expenditures | **105,466** | 97,508 | 74,110 |
| Less Current Year Expenditures Charged to Exploration Expenses | **13,410** | 9,231 | 6,564 |
| Additions to Property, Plant and Equipment | **$92,056** | $88,277 | $67,546 |

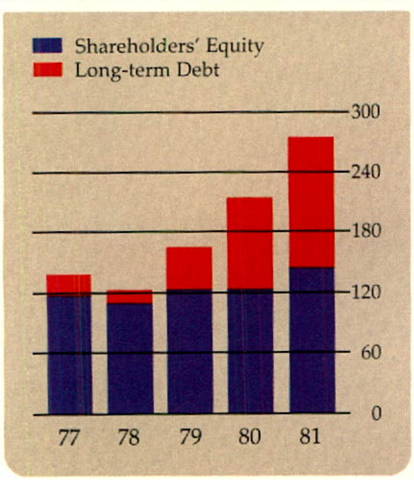
## QUARTERLY FINANCIAL RESULTS (Unaudited)

Although CanadianOxy's earnings for the year 1981 were comparable with 1980, the comparative quarterly results varied significantly between the two years. As indicated in the table of quarterly financial data below, sales and net income during 1981 were affected by; the timing differences in exploration write-offs; the strike in the British Columbia pulp and paper industry; changes in production levels for oil and gas operations; the petroleum and gas revenue tax which became effective in 1981; and the recognition of investment tax credits in Peru which were not approved until the third quarter of 1981.

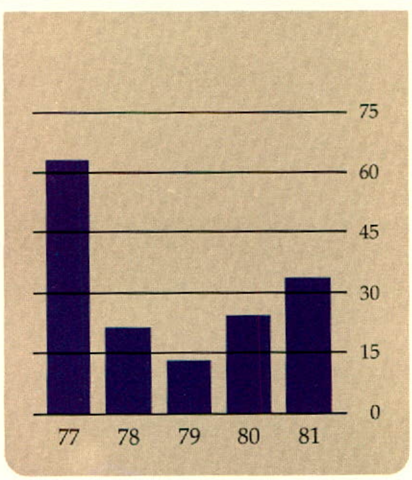
| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31 | | June 30 | | September 30 | | December 31 | |
| | 1981 | 1980* | 1981 | 1980* | 1981 | 1980* | 1981 | 1980* |
| Net sales | **$48,195** | $47,181 | **$54,095** | $44,011 | **$43,458** | $45,702 | **$52,630** | $51,746 |
| Gross profit | **25,120** | 24,167 | **25,646** | 19,830 | **15,208** | 21,354 | **21,291** | 23,515 |
| Net income | **7,327** | 9,505 | **8,655** | 7,768 | **5,291** | 7,212 | **8,766** | 5,835 |
| Per common share: | | | | | | | | |
| Primary | **$ 0.33** | $ 0.41 | **$ 0.39** | $ 0.35 | **$ 0.23** | $ 0.33 | **$ 0.40** | $ 0.25 |
| Fully diluted | **$ 0.30** | $ 0.41 | **$ 0.35** | $ 0.35 | **$ 0.23** | $ 0.33 | **$ 0.36** | $ 0.21 |

* *Restated for the change in accounting policy regarding capitalized interest. See Note 1. The effect of the accounting change was to increase net income by $664,000, $781,000, $595,000 and $577,000, and earnings per common share by $0.03, $0.04, $0.03 and $0.03 per share for the first, second, third and fourth quarters of 1980 respectively.*

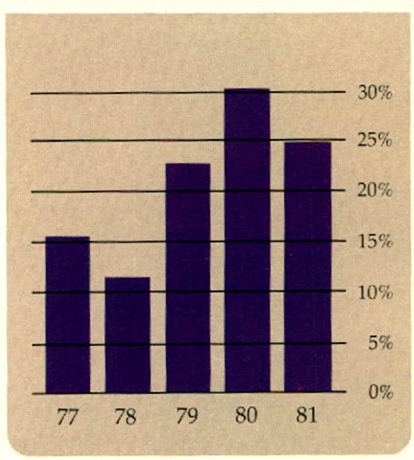
CAPITAL EMPLOYED
(millions of dollars)




WORKING CAPITAL
(millions of dollars)




RETURN ON COMMON SHAREHOLDERS' EQUITY
(percent)



## TRADING RANGE OF COMMON SHARES

The common shares are traded on the Toronto Stock Exchange and the American Stock Exchange. As of December 31, 1981, there were 3,144 record holders of common shares and 20,718,116 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 |
| 1980 | First Quarter | 17.00 | 11.50 | 14.50 | 9.25 |
| | Second Quarter | 16.13 | 11.50 | 14.00 | 9.75 |
| | Third Quarter | 15.50 | 12.75 | 13.50 | 10.88 |
| | Fourth Quarter | 15.50 | 12.63 | 13.00 | 10.13 |
| 1981 | First Quarter | 17.50 | 15.13 | 14.63 | 12.50 |
| | Second Quarter | 18.88 | 15.88 | 16.13 | 12.50 |
| | Third Quarter | 17.50 | 10.00 | 14.38 | 8.00 |
| | Fourth Quarter | 13.63 | 10.50 | 11.00 | 9.00 |

## 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) |
|---|---|---|---|
| 1980 | January 1 | December 3, 1979 | 6.0¢ |
| | April 1 | March 3, 1980 | 6.0¢ |
| | July 1 | June 6, 1980 | 6.0¢ |
| | October 1 | September 5, 1980 | 7.5¢ |
| 1981 | January 1 | December 5, 1980 | 7.5¢ |
| | April 1 | March 4, 1981 | 9.0¢ |
| | July 1 | June 5, 1981 | 9.0¢ |
| | October 1 | September 4, 1981 | 9.0¢ |
| 1982 | January 1 | December 4, 1981 | 9.0¢ |

In February, 1982, the Board of Directors declared the regular quarterly dividend on the common shares of 9¢ per share, payable April 1, 1982 to shareholders of record on March 12, 1982. 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.

## 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.

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| | (Amounts in thousands) | | |
| Current Income Taxes | **$ 8,333** | $ 7,376 | $12,187 |
| Royalties and Revenue Taxes | **12,400** | 8,887 | 4,932 |
| Property, Mineral and Other Taxes | **5,119** | 3,350 | 2,825 |
| Lease Rentals | **1,475** | 1,263 | 1,246 |
| Payroll Taxes | **683** | 563 | 460 |
| Total | **$28,010** | $21,439 | $21,650 |

# Management's Responsibility for Financial Statements

The management of CanadianOxy 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 in all material respects. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures and exercises its best judgement 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, CanadianOxy has established accounting and reporting systems supported by internal controls and an extensive 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 its 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 CanadianOxy's balance sheet as of December 31, 1981, and 1980, and the related statements of income, shareholders' equity, and changes in financial position for the years ended December 31, 1981, 1980, and 1979. Their report, which is included herein, is based on procedures considered by them to be sufficient to provide reasonable assurance that the 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. With the exception of Mr. John E. Brading, President, the membership of the committee consists of outside directors. At periodic 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

John E. Brading
President

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

February 5, 1982

# 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, 1981 and 1980, and the related consolidated statements of income, shareholders' equity and changes in financial position for the three years ended December 31, 1981. 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, 1981 and 1980, and the results of their operations and the changes in their financial position for the three years ended December 31, 1981, in accordance with generally accepted accounting principles applied on a consistent basis, except for the change (with which we concur) in accounting for capitalized interest cost as described in Note 1 to the consolidated financial statements.

Calgary, Alberta
February 5, 1982.

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

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

# Consolidated Balance Sheet

**DECEMBER 31, 1981 and 1980**

## Assets

| | 1981 | 1980 |
|---|---|---|
| | (Amounts in thousands) | |
| **Current Assets** | | |
| Cash and term deposits | $ 4,204 | $ 2,691 |
| Accounts receivable | 42,701 | 35,529 |
| Income taxes refundable | — | 3,666 |
| Receivable from affiliates | 612 | — |
| Inventories and supplies (Note 2) | 29,355 | 26,930 |
| Prepaid expenses | 975 | 615 |
| Total current assets | 77,847 | 69,431 |
| **Investment in Petrogas Processing Ltd.** | 7,938 | 7,980 |
| **Property, Plant and Equipment,** at cost | 398,047 | 307,538 |
| Less accumulated depreciation, depletion and amortization | 115,455 | 85,939 |
| (Note 3) | 282,592 | 221,599 |
| **Other Assets** | | |
| Deferred financing costs | 2,281 | 2,430 |
| Deferred foreign exchange costs | 726 | 847 |
| Other | 286 | 632 |
| | 3,293 | 3,909 |
| | $371,670 | $302,919 |

The consolidated financial statements, including the statement of significant accounting policies and notes, have been reviewed by the audit committee of the board of directors, the majority of whom are outside directors, with management and the external auditors, and have been approved by the board of directors on the recommendation of the audit committee.

APPROVED ON BEHALF OF THE BOARD:

, Director

, Director

## Liabilities and Shareholders' Equity

| | 1981 | 1980 |
|---|---|---|
| | (Amounts in thousands) | |
| **Current Liabilities** | | |
| Bank loans (Note 4) | $ 1,029 | $ 3,747 |
| Accounts payable and accrued liabilities | 34,244 | 34,174 |
| Payable to affiliates | — | 1,093 |
| Income taxes payable | 106 | — |
| Dividends payable | 2,374 | 2,085 |
| Current portion of long-term debt (Note 4) | 6,571 | 3,492 |
| Total current liabilities | 44,324 | 44,591 |
| **Long-term Debt** (Note 4) | 131,551 | 92,474 |
| **Deferred Credits and Other Liabilities** | | |
| Deferred income taxes (Note 5) | 46,797 | 38,259 |
| Deferred revenue | 925 | 3,159 |
| Other | 3,217 | 710 |
| | 50,939 | 42,128 |
| **Shareholders' Equity** | | |
| Capital stock (Note 6) | | |
| Class A preferred shares | | |
| First series — issued and outstanding: 812,600 shares in 1981 and 874,900 shares in 1980 | 20,315 | 21,873 |
| Common shares | | |
| Issued and outstanding: 20,718,116 shares in 1981 and 20,553,513 shares in 1980 | 8,938 | 6,931 |
| Contributed surplus | 20,741 | 20,559 |
| Retained earnings | 94,862 | 74,363 |
| Total shareholders' equity | 144,856 | 123,726 |
| **Commitments and Contingent Liabilities** (Note 11) | | |
| | $371,670 | $302,919 |

The accompanying Statement of Significant Accounting Policies and Notes are an integral part of this Balance Sheet.

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

# Consolidated Statement of Income

**FOR THE THREE YEARS ENDED DECEMBER 31, 1981**

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| | | (Amounts in thousands) | |
| **Revenues** (Notes 8 and 9) | | | |
| Net sales | $198,378 | $188,640 | $124,298 |
| Interest and other | 3,250 | 1,452 | 1,913 |
| | 201,628 | 190,092 | 126,211 |
| **Costs and Expenses** (Notes 8, 9, 10 and 11) | | | |
| Cost of products sold | 87,525 | 81,441 | 62,055 |
| Selling, administrative and other operating expenses | 13,921 | 11,307 | 8,828 |
| Exploration expenses | 14,071 | 11,683 | 8,224 |
| Depreciation | 4,302 | 3,997 | 3,986 |
| Depletion and amortization | 26,142 | 17,999 | 8,225 |
| Interest expense (Note 4) | 12,497 | 7,448 | 864 |
| Less interest capitalized | (3,740) | (3,717) | — |
| | 154,718 | 130,158 | 92,182 |
| **Income Before Income Taxes and Extraordinary Item** | 46,910 | 59,934 | 34,029 |
| **Income Taxes** (Note 5) | | | |
| Current | 8,333 | 7,376 | 12,187 |
| Deferred | 8,538 | 22,238 | 1,920 |
| | 16,871 | 29,614 | 14,107 |
| **Income Before Extraordinary Item** | 30,039 | 30,320 | 19,922 |
| **Extraordinary Item** (Note 12) | — | — | 893 |
| **Net Income** | $ 30,039 | $ 30,320 | $ 20,815 |
| **Earnings Per Common Share** (Note 7) | | | |
| Before extraordinary item | $ 1.35 | $ 1.34 | $ 0.77 |
| Extraordinary item | — | — | 0.04 |
| Net income | $ 1.35 | $ 1.34 | $ 0.81 |
| **Fully Diluted Earnings Per Common Share** (Note 7) | | | |
| Before extraordinary item | $ 1.24 | $ 1.30 | $ 0.77 |
| Extraordinary item | — | — | 0.04 |
| Net income | $ 1.24 | $ 1.30 | $ 0.81 |

The accompanying Statement of Significant Accounting Policies and Notes are an integral part of this Statement.

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

# Consolidated Statement of Changes in Financial Position

**FOR THE THREE YEARS ENDED DECEMBER 31, 1981**

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| | | (Amounts in thousands) | |
| **Working Capital was provided by:** | | | |
| Operations — | | | |
| Income before extraordinary item | $ 30,039 | $ 30,320 | $ 19,922 |
| Add: Amounts not requiring an outlay of working capital — | | | |
| Depreciation, depletion and amortization | 30,444 | 21,996 | 12,211 |
| Deferred income taxes | 8,538 | 22,238 | 1,920 |
| Prior years' drilling expenditures written off in the current year | 661 | 2,452 | 1,660 |
| Other | 2,531 | 502 | 648 |
| Working capital generated from operations | 72,213 | 77,508 | 36,361 |
| Proceeds from — | | | |
| Long-term debt, net of financing costs | 47,000 | 72,719 | 26,500 |
| Sale of property, plant and equipment | 275 | 532 | 1,429 |
| Deferred revenue | 236 | 3,159 | — |
| Other | 721 | 1,008 | 646 |
| Reclassification of debt from current to long-term | — | — | 5,233 |
| | 120,445 | 154,926 | 70,169 |
| **Working Capital was used for:** | | | |
| Additions to property, plant and equipment | 92,056 | 88,277 | 67,546 |
| Reduction in long-term debt | 6,268 | 24,720 | 2,142 |
| Dividends declared | 9,540 | 8,252 | 8,481 |
| Redemption of preferred shares | 1,376 | 22,258 | — |
| Drawdown of deferred revenue | 2,470 | — | — |
| Other | 52 | 27 | 146 |
| | 111,762 | 143,534 | 78,315 |
| **Increase (Decrease) in Working Capital** | $ 8,683 | $ 11,392 | $ (8,146) |
| Increase (Decrease) in Current Assets | | | |
| Cash and term deposits | $ 1,513 | $ 721 | $(20,467) |
| Accounts receivable | 7,172 | 7,428 | 7,556 |
| Income taxes refundable | (3,666) | 3,666 | — |
| Receivable from affiliates | 612 | — | — |
| Inventories and supplies | 2,425 | 7,362 | 6,043 |
| Prepaid expenses | 360 | (55) | 124 |
| | 8,416 | 19,122 | (6,744) |
| Increase (Decrease) in Current Liabilities | | | |
| Bank loans | (2,718) | 3,747 | — |
| Accounts payable and accrued liabilities | 70 | 15,286 | 6,639 |
| Payable to affiliates | (1,093) | (9,935) | 1,231 |
| Income taxes payable | 106 | (2,217) | 465 |
| Dividends payable | 289 | (212) | 246 |
| Current portion of long-term debt | 3,079 | 1,061 | (7,179) |
| | (267) | 7,730 | 1,402 |
| **Increase (Decrease) in Working Capital** | 8,683 | 11,392 | (8,146) |
| **Working Capital** — Beginning of year | 24,840 | 13,448 | 21,594 |
| **Working Capital** — End of year | $ 33,523 | $ 24,840 | $ 13,448 |

The accompanying Statement of Significant Accounting Policies and Notes are an integral part of this Statement.

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

# Consolidated Statement of Shareholders' Equity

**FOR THE THREE YEARS ENDED DECEMBER 31, 1981**

| | Preferred Shares | Common Shares | Contributed Surplus | Retained Earnings |
|---|---|---|---|---|
| | | (Amounts in thousands) | | |
| **Balances,** December 31, 1978 | $ 42,919 | $ 6,805 | $ 20,058 | $ 41,187 |
| Common shares issued | — | 25 | 305 | — |
| Net income | — | — | — | 20,815 |
| Common share dividends | — | — | — | (4,195) |
| Preferred share dividends | — | — | — | (4,286) |
| **Balances,** December 31, 1979 | 42,919 | 6,830 | 20,363 | 53,521 |
| Common shares issued | — | 101 | 182 | — |
| Net income | — | — | — | 30,320 |
| Redemption of preferred shares (Note 6) | (21,046) | — | 14 | (1,226) |
| Common share dividends | — | — | — | (5,543) |
| Preferred share dividends | — | — | — | (2,709) |
| **Balances, December 31, 1980** | **21,873** | **6,931** | **20,559** | **74,363** |
| **Common shares issued** | **—** | **312** | **—** | **—** |
| **Net income** | **—** | **—** | **—** | **30,039** |
| **Redemption of preferred shares (Note 6)** | **(1,558)** | **—** | **182** | **—** |
| **Conversion of subordinate debentures (Note 4)** | **—** | **1,695** | **—** | **—** |
| **Common share dividends** | **—** | **—** | **—** | **(7,441)** |
| **Preferred share dividends** | **—** | **—** | **—** | **(2,099)** |
| **Balances, December 31, 1981** | **$ 20,315** | **$ 8,938** | **$ 20,741** | **$ 94,862** |

The accompanying Statement of Significant Accounting Policies and Notes are an integral part of this Statement.

# Statement of Significant Accounting Policies

**Principles of Consolidation**

The consolidated financial statements include the accounts of Canadian Occidental Petroleum Ltd. and its Subsidiary Companies which are all wholly-owned. All intercompany accounts and transactions have been eliminated on consolidation.

The investment in Petrogas Processing Ltd. (30.9 per cent) is accounted for on the equity basis. Petrogas Processing Ltd., which is operated by the Company, owns the plant and other facilities for the processing of gas from the Crossfield field. The processing costs are recovered through a service charge to the producers. Canadian Occidental, being a producer, allocates its share of the service charge as a cost of the natural gas sold and sulphur recovered. Canadian Occidental's equity share is included in calculating "cost of products sold" in the Consolidated Statement of Income and does not materially change "cost of products sold".

Substantially all exploration and production activities related to oil and gas are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

**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 basis.

**Depreciation**

Depreciation of plant and equipment, excluding items related to oil and gas properties, is provided using the straight-line method based on estimated useful lives. Rates of 2 to 3 per cent per annum are used to depreciate chemical plant administration buildings, and 5 to 6½ per cent are used for chemical plants and equipment.

Property additions and major improvements and betterments are capitalized at cost. Maintenance and repairs are charged to expense as incurred. Upon the retirement of plant and equipment, the cost, net of salvage value or proceeds from sale, is charged or credited to accumulated depreciation; except upon disposal of an entire property unit, in which case the gain or loss is recorded in the Consolidated Statement of Income.

**Oil and Gas**

The successful efforts method of accounting is used for oil and gas operations.

Under this method, lease acquisition costs are capitalized and lease carrying costs are expensed. The capitalized costs of significant undeveloped leases are reviewed at least annually and, when necessary, a provision for impairment is made to earnings based on drilling and other available data. Other undeveloped lease costs are aggregated and a regular amortization charge is made to earnings based on the approximate average lease term. When undeveloped leases are surrendered the original costs are charged against the accumulated amortization. The cost of an undeveloped lease which becomes productive is transferred to a proven property account and depleted on the unit-of-production method based on estimated proved reserves of oil and gas.

Geological and geophysical costs are expensed as incurred and the costs associated with unsuccessful exploratory drilling are written off when the wells are abandoned.

Costs of successful exploratory wells together with all development wells and related equipment and facilities are capitalized and depletion and depreciation are calculated on the unit-of-production method based on proved developed reserves of oil and gas.

**Minerals Exploration Costs**

Minerals exploration costs are capitalized as incurred and a regular amortization charge is made. When a complete project is abandoned, the capitalized cost is charged to the accumulated amortization. As projects are proved productive the capitalized costs will be depleted on the unit-of-production method using the recoverable mineral reserves.

**Capitalized Interest**

Interest incurred during the construction period of major projects is capitalized and amortized over the life of the asset.

**Deferred Financing Costs**

Deferred financing costs are amortized over the terms of the related financing agreements.

**Deferred Revenue**

Deferred revenue represents amounts received from gas purchasers for gas sold but not yet delivered under contractual take or pay provisions. These amounts will be recognized in future years' income when the gas quantities are actually delivered.

**Income Taxes**

The tax allocation basis 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. Investment tax credits are applied as a reduction of income tax expense in the period in which it is determined that the amounts will be realized.

**Foreign Currency Translation**

Accounts denominated in foreign currency are translated as follows:

(a) Current assets (except for inventory and prepaid expenses), current liabilities and long-term debt at the year-end exchange rates.

(b) Inventory, prepaid expenses, property, plant and equipment, other assets and deferred credits and other liabilities at historical rates.

(c) Revenue and expense items at the monthly average rate of exchange during the year except for depreciation, depletion and amortization which are at historical rates.

Unrealized gains or losses related to long-term debt are deferred and amortized over the life of the debt. All other gains or losses are included in the Consolidated Statement of Income.

**Reconciliation With United States Generally Accepted Accounting Principles**

The Consolidated Financial Statements have been prepared in Canadian dollars and in conformity with generally accepted accounting principles in Canada. The only material differences between the accounting principles used and United States generally accepted accounting principles are as follows:

(1) In the Consolidated Financial Statements the gain or loss resulting from the conversion of foreign long-term debt into Canadian dollars has been amortized over the life of the debt. If the gains or losses had been calculated in accordance with United States generally accepted accounting principles (FASB #8), the gain or loss resulting from the foreign currency translation would have been recorded in the Consolidated Statement of Income and would have resulted in additional foreign exchange gains of $121,000, $220,000 and $718,000 in 1981, 1980 and 1979, respectively.

(2) In the Consolidated Balance Sheet, Redeemable Preferred Shares have been included as part of "Shareholders' Equity". Under generally accepted accounting principles in the United States, redeemable preferred shares in the amount of $20,315,000 as at December 31, 1981 and $21,873,000 as at December 31, 1980 would be disclosed as a separate item apart from Common Shareholders' Equity.

# Notes to Consolidated Financial Statements

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

## 1. CHANGE IN ACCOUNTING POLICIES

In 1980 the Company changed its policy regarding capitalization of interest on major construction projects to coincide with the rules specified by the Financial Accounting Standards Board in the United States in its Statement of Accounting Standards Number 34 which was published in October 1979.

Under this policy the Company capitalizes interest on all qualifying assets 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 of the Company. Previously, interest costs were capitalized during the construction phase only if specific borrowings were associated with the project.

The results of operations for 1979 were not restated for this change since the difference in the net income was not material.

## 2. INVENTORIES AND SUPPLIES

Current inventories and supplies as of December 31, 1981 and 1980 are comprised of the following:

| | 1981 | 1980 |
|---|---|---|
| Inventories in Canada: | | |
| Finished products | $ 4,169 | $ 3,056 |
| Raw materials | 3,582 | 4,007 |
| Work in process | 1,072 | 720 |
| | 8,823 | 7,783 |
| Supplies in: | | |
| Canada | 4,646 | 2,738 |
| Peru | 11,446 | 13,746 |
| Bolivia | 4,161 | 2,551 |
| Colombia | 279 | 112 |
| | 20,532 | 19,147 |
| | $29,355 | $26,930 |

## 3. PROPERTY, PLANT AND EQUIPMENT

| | 1981 | | 1980 | |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation, Depletion and Amortization | Cost | Accumulated Depreciation, Depletion and Amortization |
| Chemical operations | $ 64,252 | $ 37,445 | $55,954 | $34,639 |
| Minerals exploration | 15,560 | 7,618 | 10,488 | 4,172 |
| Oil and gas operations | | | | |
| Canada | 84,138 | 31,717 | 68,326 | 25,923 |
| United States | 90,509 | 26,066 | 79,074 | 15,278 |
| Peru | 120,351 | 12,360 | 84,823 | 5,927 |
| Bolivia | 23,237 | 249 | 8,873 | — |
| | 318,235 | 70,392 | 241,096 | 47,128 |
| | $398,047 | $115,455 | $307,538 | $85,939 |

## 4. LONG-TERM DEBT

| | 1981 | 1980 |
|---|---|---|
| Revolving credit loans, unsecured (a) | $ 52,000 | $ 5,000 |
| Advance payments, interest free (b) — | | |
| Offshore Louisiana ($2,520,000 U.S. as of December 31, 1981 and $3,640,000 U.S. as of December 31, 1980) | 2,999 | 4,326 |
| Offshore Texas ($8,251,000 U.S. as of December 31, 1981 and $9,794,000 U.S. as of December 31, 1980) | 9,818 | 11,640 |
| Convertible subordinated debentures (c) | 73,305 | 75,000 |
| | 138,122 | 95,966 |
| Amount due within one year, included in current liabilities (d) | 6,571 | 3,492 |
| | $131,551 | $92,474 |

(a) By agreement dated November 30, 1979 and subsequent amendment dated March 10, 1980, the Company entered into a five year revolving credit agreement with a Canadian chartered bank under which the Company may borrow up to $80 million Canadian or U.S. during the first three and one-half years, at floating interest rates which vary from time to time depending on the currency and nature of the loans. The revolving credit amount reduces in four approximately equal semi-annual amounts commencing May 1983. The amounts outstanding at December 31, 1981 and December 31, 1980 were in Canadian dollars at interest rates of 16.79% and 18.25% respectively.

(b) Two pipeline companies have advanced funds to cover exploration and development of the U.S. Gulf Coast offshore leases in return for the exclusive right to purchase the Company's share of natural gas production. The repayment of these advances has been guaranteed by Hooker Chemical Corporation. The offshore Texas advance is repayable over a five year period from the date of first production which occurred in August 1978. Under the original terms of the offshore Louisiana advance the full amount of the advance became due and payable if production did not commence by April 1979. At December 31, 1978, production was not expected to commence by April 1979 and accordingly the advance was included in current liabilities. The unused portion of the offshore Louisiana advance in the amount of $1,400,000 U.S. was repaid in April 1979. The balance was renegotiated at that time and is repayable over a five year period which commenced in April 1979. Accordingly the balance of the advance was reclassified to long-term debt as at December 31, 1979.

(c) On October 17, 1980 the Company issued $75 million 10% Convertible Subordinated Debentures with a maturity date of September 30, 2000.

The debentures are convertible on and after February 5, 1981 and up to the close of business on September 30, 1990 into common shares on the following basis: if converted on or before September 30, 1985 at $14.75 per share; if converted thereafter at $16.75 per share. During 1981, $1,695,000 of debentures were converted into 114,893 common shares at $14.75 per share.

The debentures are not redeemable before September 30, 1983. They are redeemable prior to September 30, 1985, only if certain specified conditions are met.

The debentures are subject to mandatory and optional sinking fund requirements commencing September 30, 1991 and they contain restrictions against payment of dividends or other capital distributions, other than the existing preferred shares, which would reduce Consolidated Shareholders' Equity below $85 million.

(d) Minimum principal payments on the long-term debt for the five years after December 31, 1982 are $17,913,000 in 1983, $40,333,000 in 1984, and NIL in 1985, 1986 and 1987.

(e) The debt of the Company as at December 31, 1981 and 1980 did not contravene any of the borrowing restrictions placed on the Company.

(f) Interest expense on long-term debt amounted to $10,278,000, $6,168,000, and $864,000 for 1981, 1980, and 1979 respectively.

(g) In addition to the long-term debt described herein, the Company has available short-term lines of credit with other financial institutions in the amount of $57 million Canadian, of which $56 million is unused.

## 5. INCOME TAXES

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

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| Income after extraordinary items (gross) and before income taxes | | | |
| Canadian | $18,939 | $37,869 | $35,073 |
| Foreign | 27,971 | 22,065 | 19 |
| | 46,910 | 59,934 | 35,092 |
| Income Taxes | | | |
| Current | | | |
| Canadian | 1,778 | 7,369 | 10,689 |
| Foreign | 6,555 | 7 | 1,668 |
| | 8,333 | 7,376 | 12,357 |
| Deferred | | | |
| Canadian | 6,052 | 4,918 | (159) |
| Foreign | 2,486 | 17,320 | 2,079 |
| | 8,538 | 22,238 | 1,920 |
| Total | | | |
| Canadian | 7,830 | 12,287 | 10,530 |
| Foreign | 9,041 | 17,327 | 3,747 |
| | 16,871 | 29,614 | 14,277 |
| Net Income | $30,039 | $30,320 | $20,815 |
| Income tax expense is included in the consolidated financial statements as follows: | | | |
| Taxes on income before extraordinary items | $16,871 | $29,614 | $14,107 |
| Taxes on extraordinary items (Note 12) | — | — | 170 |
| | $16,871 | $29,614 | $14,277 |

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.

| | 1981 | | 1980 | | 1979 | |
|---|---|---|---|---|---|---|
| | Amount | % of Pre-Tax Income | Amount | % of Pre-Tax Income | Amount | % of Pre-Tax Income |
| Expected tax expense | $22,986 | 49.0 | $29,368 | 49.0 | $16,674 | 49.0 |
| Effect on taxes from: | | | | | | |
| Royalties, rentals and similar payments to provincial governments | 4,244 | 9.0 | 4,208 | 7.0 | 3,289 | 9.7 |
| Petroleum and gas revenue tax | 1,152 | 2.5 | — | — | — | — |
| Depletion allowance on oil and gas income | (91) | (0.2) | (1,083) | (1.8) | (1,407) | (4.1) |
| Resource allowance and provincial tax rebates | (4,964) | (10.6) | (4,714) | (7.9) | (3,795) | (11.2) |
| Corporate surtax | 212 | 0.5 | 564 | 1.0 | — | — |
| Higher tax rate on foreign operations | 4,003 | 8.5 | 3,603 | 6.0 | 585 | 1.7 |
| Investment tax credits | (9,750) | (20.8) | (204) | (0.3) | (266) | (0.7) |
| Reduced rate of tax on manufacturing and processing income | (532) | (1.1) | (1,156) | (1.9) | (776) | (2.3) |
| Other | (389) | (0.8) | (972) | (1.7) | (197) | (0.7) |
| Income tax expense recorded | $16,871 | 36.0 | $29,614 | 49.4 | $14,107 | 41.4 |

Deferred income tax balances arise primarily from differences in the treatment for financial statement purposes compared to statutory treatment for tax purposes with respect to exploration and development expenses, depreciable fixed assets and investment tax credits. The amount of deferred income tax expense related to these various timing differences is as follows:

| | **1981** | 1980 | 1979 |
|---|---|---|---|
| Exploration and development expenses | **$10,198** | $20,409 | $1,512 |
| Depreciable fixed assets | **1,481** | (12) | 10 |
| Investment tax credits | **(3,231)** | — | — |
| Other | **90** | 1,841 | 398 |
| | **$8,538** | $22,238 | $1,920 |

As a result of current and prior years' exploration activities in Bolivia, Colombia, Indonesia and the Philippines the Company has accumulated foreign exploration and development costs which are available to offset future foreign or Canadian source income of the Subsidiary Company which has accumulated the costs. The Company has recorded deferred tax debits amounting to $7,311,000 as a result of these expenditures. It is the Company's intention to utilize the foreign exploration and development costs to offset future taxable income.

## 6. CAPITAL STOCK

### (a) Continuance under the Canada Business Corporations Act

The Company was continued under the Canada Business Corporations Act on June 4, 1980. As a consequence, the Common Shares of the Company were changed from 45,000,000 authorized shares with a par value of $33^{1}/_{3}$¢ to an unlimited number of authorized shares without par value. The Class A Preferred Shares have been changed from 1,000,000 authorized shares with a par value of $25 to an unlimited number of authorized shares without par value.

### (b) Preferred Shares

In March and April 1980, the Company purchased for cancellation all of the outstanding 9.25% Cumulative Preferred Shares, Series A (U.S. $) and Series B (Cdn. $). A foreign exchange loss of $1,226,000 resulted on the redemption of the Series A and this amount was charged directly to Retained Earnings.

### (c) Class A Preferred Shares

The 10% Cumulative Redeemable Class A Shares, First Series, with dividends payable quarterly, are not redeemable by the Company before January 1, 1982, except in certain limited circumstances. Thereafter the 10% Class A Preferred Shares are redeemable at the option of the Company at prices which begin at $26.25 per share plus all accrued and unpaid dividends and which decline annually until 1987, when the Class A Preferred Shares may be redeemed at $25 per share. During each calendar quarter, the Company 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 the Company purchased 62,300 Class A Preferred Shares, First Series during 1981 and 125,100 shares in 1980 at a price not exceeding $25 plus cost of purchase.

### (d) Convertible Debentures

The Company has reserved 4,969,852 common shares for issuance upon conversion of the 10% Convertible Subordinated Debentures.

### (e) Stock Options

Options to purchase common shares of the Company have been granted to certain officers and 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 years from the date of the grant.

At December 31, 1981, 1980, and 1979, options to purchase 333,110, 298,690 and 304,129 common shares, respectively, were outstanding at exercise prices from $4.917 to $17.125, $4.917 to $14.625 and $3.293 to $13.625 per share, respectively. At December 31, 1981, 38,765 common shares were reserved for the granting of additional options and options for 159,480 shares were exercisable at prices from $4.917 to $17.125 per share. During 1981, 1980 and 1979 options for 52,890, 64,959, and 76,350 common shares, respectively, were exercised at prices from $5.00 to $13.625, $3.293 to $13.625, and $2.333 to $6.167 per common share, respectively.

The following summarizes the stock option transactions:

| | **1981** | 1980 | 1979 |
|---|---|---|---|
| Options outstanding — beginning of year | **298,690** | 304,129 | 261,879 |
| Granted | **93,700** | 66,000 | 124,300 |
| Exercised | **(52,890)** | (64,959) | (76,350) |
| Cancelled | **(6,390)** | (6,480) | (5,700) |
| Options outstanding — end of year | **333,110** | 298,690 | 304,129 |

## 7. EARNINGS PER COMMON SHARE

Net income per common share is based on the weighted average number of shares outstanding of 20,649,265, 20,534,024, and 20,455,124 in 1981, 1980, and 1979, respectively, and after deducting dividends on the preferred shares which were $2,099,000, $2,709,000, and $4,286,000 in 1981, 1980 and 1979, respectively.

Fully diluted earnings per share were determined on the assumption that all outstanding convertible debentures and stock options had been converted or exercised.

### 8. INTERCOMPANY TRANSACTIONS

Occidental Petroleum Corporation ("Occidental") and subsidiaries render technical, administrative and marketing services of a routine nature to the Company and its subsidiaries and receives royalties and licence fees on production processes. Engineering, technical and other specialized services are also rendered for new construction, modifications and process improvements. In addition, the Company periodically purchases product and equipment from and sells product to Occidental. These purchases and sales are at competitive prices.

As operator of the foreign joint ventures in South America, Occidental incurs normal head office costs associated with managing the joint ventures which cannot be specifically identified and charged to the projects. Based on the terms of the various joint venture agreements Occidental charges the projects with these indirect costs and the Company, as a participant in the joint ventures, absorbs a portion of these indirect costs.

The following table outlines the charges from (charges to) Occidental and subsidiaries:

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| Advisory and counselling services | **$ 1,146** | $ 761 | $ 460 |
| Engineering, technical and specialized services | **1,391** | 187 | 132 |
| Purchases | **5,985** | 6,422 | 5,083 |
| Sales | **(12,167)** | (3,921) | (1,567) |
| Other | **(157)** | (179) | (142) |
| Operator's charges | **5,403** | 1,970 | 938 |

### 9. FOREIGN EXCHANGE

For 1981, foreign exchange gains amounted to $1,174,000 and are included in "interest and other" in the Consolidated Statement of Income. Foreign exchange losses for 1980 and 1979 amounted to $139,000 and $618,000 respectively and are included in "selling, administrative and other operating expenses" in the Consolidated Statement of Income.

### 10. EMPLOYEE PENSION PLAN

The Company has a non-contributory pension plan which covers all employees. Past service costs are being funded over a fifteen year period. The unfunded amount was estimated to be $1,929,000, $1,757,000 and $732,000 at December 31, 1981, 1980 and 1979, respectively. Pension costs included in the Consolidated Statement of Income were $1,267,000, $1,193,000 and $741,000 in 1981, 1980 and 1979, respectively.

The actuarial present value of accumulated plan benefits and the net assets of the plan available for plan benefits as of June 30, 1981 and 1980 were as follows:

| | 1981 | 1980 |
|---|---|---|
| Actuarial value of accumulated plan benefits | | |
| Vested | **$5,562** | $4,098 |
| Non-vested | **170** | 112 |
| | **$5,732** | $4,210 |
| Assumed rate of return used to calculate actuarial value of plan benefits | **7.0%** | 7.0% |
| Net assets available for plan benefits | **$8,957** | $6,971 |

### 11. COMMITMENTS AND CONTINGENT LIABILITIES

(a) **Lease Commitments**

Various operating, transportation and office facilities are leased to the Company under lease 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 1979, 1980, 1981 and estimates for subsequent years are summarized below (excluding oil and gas and mineral leases).

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | Remainder |
|---|---|---|---|---|---|---|---|---|---|
| Minimum Rental Payment | $2,618 | $3,502 | $3,842 | $3,470 | $2,865 | $2,265 | $1,784 | $1,427 | $3,881 |

(b) **Other Contingencies and Commitments**

At December 31, 1981, commitments made for major capital expenditures on Canadian oil and gas projects, the Peru development project, the Vancouver caustic modernization program and the new chlorate plant at Nanaimo totalled approximately $66 million.

The Company also has certain other contingent liabilities and commitments arising in the ordinary course of business. In the opinion of the management of Canadian Occidental, such contingent liabilities and commitments will not result in any significant financial liability to the Company.

## 12. EXTRAORDINARY ITEM

The extraordinary item of $893,000 in 1979 is net of tax of $170,000 and consists of a gain recorded on the sale of surplus land at North Vancouver.

## 13. BUSINESS SEGMENT INFORMATION

### A. Information about the Company's Operations in Different Industries

| | Total | | | Oil & Gas | | | Minerals Exploration | | | Industrial & Other Chemicals | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1981** | 1980 | 1979 | **1981** | 1980 | 1979 | **1981** | 1980 | 1979 | **1981** | 1980 | 1979 |
| Net sales | **$198,378** | $188,640 | $124,298 | **$109,167** | $ 94,160 | $ 45,434 | **$ —** | $ — | $ — | **$ 89,211** | $ 94,480 | $78,864 |
| Operating profit (loss) | **60,429** | 66,677 | 38,208 | **43,802** | 47,555 | 18,450 | **(4,312)** | (2,293) | (1,280) | **20,939** | 21,415 | 21,038 |
| Identifiable assets | **364,751** | 300,727 | 216,179 | **304,111** | 251,196 | 175,571 | **8,220** | 6,840 | 3,131 | **52,420** | 42,691 | 37,477 |
| Depreciation, depletion and amortization | **29,959** | 21,765 | 12,166 | **23,030** | 16,316 | 7,815 | **3,717** | 2,098 | 1,236 | **3,212** | 3,351 | 3,115 |
| Additions to property, plant and equipment | **91,678** | 87,114 | 67,423 | **77,546** | 76,779 | 62,480 | **5,346** | 5,711 | 2,299 | **8,786** | 4,624 | 2,644 |

The Company's Oil and Gas operations include the exploration for and development and production of oil, natural gas and sulphur. The Minerals division is engaged in the exploration for and evaluation of metallic mineral 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 intersegment sales.

### B. Information about the Company's Operations in Different Geographic Areas

| | Total | | | Canada | | | United States | | | South America | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1981** | 1980 | 1979 | **1981** | 1980 | 1979 | **1981** | 1980 | 1979 | **1981** | 1980 | 1979 |
| Net sales | **$198,378** | $188,640 | $124,298 | **$126,841** | $141,448 | $111,272 | **$32,138** | $18,853 | $ 6,330 | **$ 39,399** | $ 28,339 | $ 6,696 |
| Operating profit (loss) after income taxes | **37,341** | 34,823 | 22,220 | **18,471** | 27,262 | 23,749 | **6,317** | 4,182 | (178) | **12,553** | 3,379 | (1,351) |
| Identifiable assets | **364,751** | 300,727 | 216,179 | **134,619** | 129,164 | 84,222 | **74,161** | 67,174 | 63,829 | **155,971** | 104,389 | 68,128 |

### C. Reconciliation to Consolidated Statement of Income and Balance Sheet

| | **1981** | 1980 | 1979 |
|---|---|---|---|
| Net sales | **$198,378** | $188,640 | $124,298 |
| Interest and other income | **3,250** | 1,452 | 1,913 |
| Total revenues | **$201,628** | $190,092 | $126,211 |
| Operating profit before income taxes | **$ 60,429** | $ 66,677 | $ 38,208 |
| Income taxes on segmented items | **(23,088)** | (31,854) | (15,988) |
| Operating profit after income taxes | **37,341** | 34,823 | 22,220 |
| Corporate expenses | **(5,439)** | (3,613) | (3,982) |
| Interest expense (net of capitalized interest) | **(8,757)** | (3,731) | (864) |
| Interest income | **677** | 601 | 667 |
| Income tax on non-segmented items | **6,217** | 2,240 | 1,881 |
| Extraordinary item | **—** | — | 893 |
| Net income | **$ 30,039** | $ 30,320 | $ 20,815 |
| Identifiable assets | **$364,751** | $300,727 | $216,179 |
| Corporate assets | **6,919** | 2,192 | 2,531 |
| Total assets | **$371,670** | $302,919 | $218,710 |

## 14. OIL AND GAS COSTS AND REVENUES

a. **Capitalized costs relating to oil and gas properties and related accumulated depreciation, depletion and amortization as at December 31, 1981 and 1980.**

| | Total | | Canada | | United States | | Peru | | Bolivia | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1981** | 1980 | **1981** | 1980 | **1981** | 1980 | **1981** | 1980 | **1981** | 1980 |
| **Proved Properties:** | | | | | | | | | | |
| Lease exploration costs and lease and well equipment | **$280,539** | $212,465 | **$57,549** | $42,011 | **$88,193** | $76,758 | **$120,351** | $84,823 | **$14,446** | $8,873 |
| Gas plant | **10,417** | 1,694 | **1,626** | 1,694 | **—** | — | **—** | — | **8,791** | — |
| Other | **2,282** | 1,979 | **2,282** | 1,979 | **—** | — | **—** | — | **—** | — |
| | **293,238** | 216,138 | **61,457** | 45,684 | **88,193** | 76,758 | **120,351** | 84,823 | **23,237** | 8,873 |
| **Unproved Properties:** | | | | | | | | | | |
| Lease exploration costs | **24,997** | 24,958 | **22,681** | 22,642 | **2,316** | 2,316 | **—** | — | **—** | — |
| TOTAL PROPERTIES | **318,235** | 241,096 | **84,138** | 68,326 | **90,509** | 79,074 | **120,351** | 84,823 | **23,237** | 8,873 |
| LESS: Depreciation, depletion and amortization | **70,392** | 47,128 | **31,717** | 25,923 | **26,066** | 15,278 | **12,360** | 5,927 | **249** | — |
| NET PROPERTIES | **$247,843** | $193,968 | **$52,421** | $42,403 | **$64,443** | $63,796 | **$107,991** | $78,896 | **$22,988** | $8,873 |

b. **The following tables set forth, by geographical areas, costs incurred relating to Canadian Occidental's oil and gas producing activities (whether capitalized or expensed):**

| | Total World-wide | Canada | United States | Peru | Bolivia | Colombia | Philip-pines | Indo-nesia |
|---|---|---|---|---|---|---|---|---|
| **Year ended December 31, 1981:** | | | | | | | | |
| **Property acquisition costs —** | | | | | | | | |
| **Unproved properties** | **$ 4,155** | **$ 4,155** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** |
| **Exploration costs** | **16,948** | **14,559** | **—** | **—** | **1,131** | **1,258** | **—** | **—** |
| **Development costs** | **69,853** | **8,473** | **11,434** | **35,528** | **14,418** | **—** | **—** | **—** |
| **Production costs** | **27,115** | **8,817** | **6,006** | **11,049** | **1,243** | **—** | **—** | **—** |
| | **$118,071** | **$36,004** | **$17,440** | **$46,577** | **$16,792** | **$1,258** | **$ —** | **$ —** |
| **Provision for depreciation, depletion, amortization** | **$ 23,030** | **$ 5,560** | **$10,788** | **$ 6,433** | **$ 249** | **$ —** | **$ —** | **$ —** |
| Year ended December 31, 1980: | | | | | | | | |
| Property acquisition costs — | | | | | | | | |
| Unproved properties | $ 7,009 | $ 7,009 | $ — | $ — | $ — | $ — | $ — | $ — |
| Exploration costs | 17,611 | 15,949 | 282 | — | 51 | 1,334 | (6) | 1 |
| Development costs | 61,390 | 3,952 | 11,886 | 38,205 | 7,347 | — | — | — |
| Production costs | 15,713 | 6,994 | 1,562 | 7,157 | — | — | — | — |
| | $101,723 | $33,904 | $13,730 | $45,362 | $ 7,398 | $1,334 | $ (6) | $ 1 |
| Provision for depreciation, depletion, amortization | $ 16,316 | $ 2,390 | $ 9,356 | $ 4,570 | $ — | $ — | $ — | $ — |
| Year ended December 31, 1979: | | | | | | | | |
| Property acquisition costs — | | | | | | | | |
| Unproved properties | $ 2,122 | $ 2,122 | $ — | $ — | $ — | $ — | $ — | $ — |
| Exploration costs | 9,548 | 5,617 | 910 | — | 2,835 | 362 | 19 | (195) |
| Development costs | 57,491 | 4,361 | 13,164 | 39,966 | — | — | — | — |
| Production costs | 9,941 | 6,670 | 249 | 3,022 | — | — | — | — |
| | $ 79,102 | $18,770 | $14,323 | $42,988 | $ 2,835 | $ 362 | $ 19 | $ (195) |
| Provision for depreciation, depletion, amortization | $ 7,767 | $ 2,869 | $ 3,541 | $ 1,357 | $ — | $ — | $ — | $ — |

Total exploration costs expensed for the years ended December 31, 1981, 1980 and 1979 were $13,410,000, $9,231,000 and $6,564,000 respectively.

c. **The following table sets forth oil and gas net revenues for the three years ended December 31, 1981.**

| | Total | Canada | United States | Peru | Bolivia |
|---|---|---|---|---|---|
| **1981** | **$82,052** | **$35,698** | **$19,246** | **$26,056** | **$ 1,052** |
| 1980 | $77,946 | $39,975 | $16,789 | $21,182 | — |
| 1979 | $35,493 | $25,738 | $ 6,081 | $ 3,674 | — |

Net revenues are after royalty payments and lifting costs.

# Supplementary Financial Information

(Unaudited)

**Proved Developed and Undeveloped Reserves**

The Company's net interests in quantities of proved developed and undeveloped reserves of crude oil, including condensate and natural gas liquids (in millions of barrels) and natural gas (in billions of cubic feet) and sulphur (in thousands of long tons) at December 31, 1981, 1980, 1979 and 1978 and changes in such quantities during 1981, 1980, and 1979 were as follows:

| | Total Worldwide | | | Canada | | | United States | | Peru (1) | Bolivia | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Oil | Gas | Sulphur | Oil | Gas | Sulphur | Oil | Gas | Oil | Oil | Gas |
| Proved Developed and Undeveloped Reserves: | | | | | | | | | | | |
| Balance at December 31, 1978 | 3.9 | 242 | 1,930 | 3.1 | 202 | 1,930 | 0.8 | 40 | — | — | — |
| Revisions of previous estimates | 0.8 | (15) | 58 | 0.9 | (17) | 58 | (0.1) | 2 | — | — | — |
| Extensions and discoveries | 12.1 | 22 | — | — | — | — | — | 2 | 9.3 | 2.8 | 20 |
| Production | (0.6) | (17) | (121) | (0.4) | (13) | (121) | — | (4) | (0.2) | — | — |
| Sales of proved reserves | — | — | — | — | — | — | — | — | — | — | — |
| Balance at December 31, 1979 | 16.2 | 232 | 1,867 | 3.6 | 172 | 1,867 | 0.7 | 40 | 9.1 | 2.8 | 20 |
| Revisions of previous estimates | 6.4 | 6 | 99 | 0.2 | 6 | 99 | — | — | 6.2 | — | — |
| Extensions and discoveries | 0.6 | 19 | — | 0.4 | 14 | — | 0.2 | 5 | — | — | — |
| Production | (1.8) | (18) | (108) | (0.4) | (12) | (108) | — | (6) | (1.4) | — | — |
| Sales of proved reserves | — | — | — | — | — | — | — | — | — | — | — |
| **Balance at December 31, 1980** | **21.4** | **239** | **1,858** | **3.8** | **180** | **1,858** | **0.9** | **39** | **13.9** | **2.8** | **20** |
| **Revisions of previous estimates** | **0.7** | **(1)** | **(37)** | **0.3** | **(2)** | **(37)** | **0.2** | **7** | **—** | **0.2** | **(6)** |
| **Extensions and discoveries** | **0.3** | **16** | **87** | **0.3** | **16** | **87** | **—** | **—** | **—** | **—** | **—** |
| **Production** | **(2.0)** | **(17)** | **(111)** | **(0.3)** | **(10)** | **(111)** | **(0.1)** | **(7)** | **(1.5)** | **(0.1)** | **—** |
| **Sales of proved reserves** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **Balance at December 31, 1981** | **20.4** | **237** | **1,797** | **4.1** | **184** | **1,797** | **1.0** | **39** | **12.4** | **2.9** | **14** |
| Proved Developed Reserves: | | | | | | | | | | | |
| December 31, 1978 | 3.8 | 192 | 1,930 | 3.1 | 159 | 1,930 | 0.7 | 33 | — | — | — |
| December 31, 1979 | 9.0 | 178 | 1,862 | 3.5 | 140 | 1,862 | 0.7 | 38 | 4.8 | — | — |
| December 31, 1980 | 14.9 | 202 | 1,858 | 3.8 | 166 | 1,858 | 0.9 | 36 | 10.2 | — | — |
| **December 31, 1981** | **17.9** | **220** | **1,797** | **4.0** | **168** | **1,797** | **0.9** | **38** | **10.8** | **2.2** | **14** |

*Notes:*

1. *Consists of reserves in Peru for which the Company is compensated pursuant to a service contract.*
2. *The reserves set forth are based on estimates prepared by D & S Consultants (1974) Ltd. in the case of Canada (other than estimates of reserves in the Crossfield field which were prepared by McDaniel and Associates Consultants Ltd.), Ryder Scott Company Petroleum Engineers in the case of the United States, and DeGolyer and MacNaughton in the case of Peru and Bolivia.*
3. *Since December 31, 1981, there has been no major discovery or other favorable or adverse event which has caused or might be expected to cause a significant change in the foregoing estimates of reserves.*

**Estimated Future Net Revenues**

The following tables summarize, as of December 31, 1981, the estimated future net revenues for proved reserves of oil and gas (including condensate, natural gas liquids and sulphur) as of that date and the present values of the estimated future net revenues as of December 31, 1981, December 31, 1980, December 31, 1979 and December 31, 1978, using a discount factor of 10%.

Future net revenues are computed by applying prices in effect at December 31, 1981 to the Company's share of estimated future production of proved oil and gas reserves net after royalties and less estimated future expenditures (based on constant costs at such date) to be incurred in developing and producing proved reserves. The calculation assumes the continuation of existing economic conditions.

Constant costs are based on year-end 1981 values and include production costs, future development, abandonment, pipeline and other tariff costs. No deduction has been made for depreciation, depletion and amortization, foreign or Canadian taxes, indirect costs, corporate overhead or interest expense.

Prices at December 31, 1981 were used except in cases where the sales contracts provide for price escalations and excluding Peru. Estimated future net revenues from the Company's share of the proved reserves for Peru are based upon the service fee, in effect at January 1, 1982, of $19.85 (U.S.) per barrel and adjusted for the estimated average daily production levels ranging from 100% of the basic fee up to 60,000 barrels per day to 80% of the basic fee in respect of production in excess of 80,000 barrels per day, as specified in the service contract.

The calculation of the information in the following tables conforms with the instructions of the Securities and Exchange Commission. Other assumptions and conditions of equal validity could have been used and would give rise to substantially different results. Because the instructions incorporate assumptions without historical bases, creating questionable estimates, the Company recommends that reliance not be placed upon the estimates in making any judgment of the potential value of the Company's rights to recover the estimated reserves. Estimated future net revenues are not equivalent to estimated future results of operations.

**Estimated Future Net Revenues from Proved Reserves as of December 31, 1981**
(millions of dollars)

| | Canada | | United States | | South America (1) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Dev. | Dev. & Undev. | Dev. | Dev. & Undev. | Dev. | Dev. & Undev. | Dev. | Dev. & Undev. |
| 1982 | $ 31.6 | $ 30.5 | $ 29.9 | $ 28.6 | $ 31.1 | $ 19.7 | $ 92.6 | $ 78.8 |
| 1983 | 36.6 | 36.7 | 29.5 | 29.1 | 30.9 | 34.0 | 97.0 | 99.8 |
| 1984 | 34.0 | 33.8 | 23.2 | 23.9 | 27.8 | 33.5 | 85.0 | 91.2 |
| Remainder | 351.8 | 377.6 | 61.1 | 62.8 | 209.8 | 233.1 | 622.7 | 673.5 |
| Total | $454.0 | $478.6 | $143.7 | $144.4 | $299.6 | $320.3 | $897.3 | $943.3 |

*Note:*
1. *Includes reserves in Peru for which the Company is compensated pursuant to a service contract.*

**Present Value of Estimated Future Net Revenues from Proved Reserves Discounted at 10%**
(millions of dollars)

| | Canada | | United States | | South America (1) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Dev. | Dev. & Undev. | Dev. | Dev. & Undev. | Dev. | Dev. & Undev. | Dev. | Dev. & Undev. |
| Dec. 31, 1978 | $ 94.3 | $105.1 | $ 42.0 | $ 45.1 | $ — | $ — | $136.3 | $150.2 |
| Dec. 31, 1979 | 161.8 | 172.9 | 69.7 | 71.4 | — | — | 231.5 | 244.3 |
| Dec. 31, 1980 | 193.5 | 201.7 | 88.7 | 92.6 | 110.8 | 182.0 | 393.0 | 476.3 |
| **Dec. 31, 1981** | **219.3** | **224.7** | **108.5** | **108.6** | **193.2** | **202.2** | **521.0** | **535.5** |

*Note:*
1. *Includes reserves in Peru for which the Company is compensated pursuant to a service contract.*

## RESERVE RECOGNITION ACCOUNTING
(Unaudited)

In 1979, the United States Securities and Exchange Commission ("SEC") acting in accordance with the Energy Policy and Conservation Act of 1975 issued proposed rules for the disclosure of financial information for oil and gas producers. This proposal, called Reserve Recognition Accounting would require oil and gas producers to recognize the value of proved reserves as assets at the time of discovery. Earnings would be recognized as a result of new discoveries, revisions to estimates of proved reserves, changes in prices and costs and the passage of time.

In proposing the new accounting method the SEC has acknowledged the uncertainty associated with estimates of proved reserves and differing viewpoints with regard to the determination of value. Nevertheless, the SEC is requiring the disclosures which follow as a first step in the development of Reserve Recognition Accounting.

Under Reserve Recognition Accounting, estimates are made of quantities of proved reserves and the periods during which they are expected to be produced. Future gross revenues from estimated future production of proved reserves are then estimated on the basis of current prices with no provision for future increases except that future prices are increased for fixed and determinable escalation provisions in contracts. Future net revenues are then calculated by reducing such estimated future gross revenues by the estimated future costs of developing and producing the proved reserves, based on current costs and without provision for future changes in costs. The present value of such future net revenues is then determined by application of a 10% discount factor.

**Summary of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting**
**For the Years Ended December 31, 1981, 1980 and 1979**
(thousands of dollars)

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| Present value of estimated future net revenues (a) attributable to: | | | |
| Extensions and discoveries, gross (b) | **$ 23,258** | $270,332 | $ 4,413 |
| Revisions of previous estimates (c) | | | |
| Increase in prices | **103,362** | 74,217 | 53,073 |
| Petroleum gas revenue tax | **(33,522)** | (14,706) | — |
| Changes in reserves, development costs, production costs & other | **(32,845)** | (13,157) | 35,882 |
| Interest factor — accretion of discount (d) | **47,599** | 24,434 | 15,024 |
| | **84,594** | 70,788 | 103,979 |
| Less related exploration, development & production costs (e): | | | |
| Exploration costs, including impairments (actual) | **(16,953)** | (17,204) | (6,633) |
| Present value of estimated future development and production costs related to extensions, discoveries and other additions | **(6,701)** | (118,925) | (1,027) |
| | **(23,654)** | (136,129) | (7,660) |
| Additions to proved reserves less related exploration, development and production costs | **84,198** | 204,991 | 100,732 |
| Provision for domestic and foreign income taxes (f) | **(45,572)** | (107,673) | (33,497) |
| Results of oil and gas producing activities on the basis of reserve recognition accounting (g) | **$ 38,626** | $ 97,318 | $ 67,235 |

**Statement of Changes in Present Value of Estimated Future Net Revenues from Proved Oil and Gas Reserves**
**For the Years Ended December 31, 1981, 1980 and 1979**
(thousands of dollars)

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| Present value of estimated future net revenues before income tax liability, beginning of year | **$475,989** | $244,332 | $150,243 |
| Revisions of previous estimates, net of related estimated future development and production costs | **84,594** | 70,788 | 103,979 |
| Extensions and discoveries, gross | **23,258** | 270,332 | 4,413 |
| Less related estimated future development and production costs | **(6,701)** | (118,925) | (1,027) |
| Actual development costs incurred | **43,025** | 88,318 | 18,545 |
| Less actual revenues of oil and gas produced, net of production costs | **(84,604)** | (78,856) | (31,821) |
| Present value of estimated future net revenues before income tax liability, end of year | **$535,561** | $475,989 | $244,332 |

**Notes:**

(a) Estimated Future Net Revenues

Future net revenues are computed by applying current prices at December 31, 1981, 1980 and 1979 to CanadianOxy's share of estimated yearly future production of proved oil and gas reserves, net of product royalties, less estimated future expenditures (based on current costs) to be incurred in developing and producing proved reserves. The resulting future annual net revenues are reduced by applying an SEC mandated 10% discount factor. The calculation assumes the continuation of existing economic conditions, which has not proved to be the case in the past, as both gross revenues and expenditures have fluctuated widely.

Current costs are based on year-end values and include production costs, future development, abandonment, pipeline and other tariff costs. No deduction has been made for depreciation, depletion and amortization, indirect costs, corporate overhead or interest expense.

These calculations conform with SEC instructions, however, other assumptions and conditions could have been used and would give rise to substantially different results. Estimated future net revenues are not equivalent to estimated future results of operations because the instructions incorporate assumptions without historical basis, creating questionable estimates. CanadianOxy recommends against reliance upon the estimates in making any judgement on the potential value of the Company's rights to recover the estimated reserves.

Under Reserve Recognition Accounting, operating results depend on additions to proved reserves from new field discoveries and extensions and revisions to reserves proved in prior years as a result of price, development or other changes and on costs incurred in exploration and development activities.

(b) Additions to Proved Reserves — Extensions and Discoveries

Extensions or discoveries represent proved reserves added outside an existing defined field or a reserve not previously anticipated within a defined field. A revision is a change in reserves within an existing defined field or immediately adjacent field which generally is a result of new information on rock and fluid properties.

(c) Revisions of Previous Estimates

Revisions are primarily due to changes in economic conditions and revised proved reserve quantity estimates. Oil and gas prices showed a substantial increase during the year. Changes in reserves, development costs, production costs, and other were principally due to a lower estimate in production costs and accumulated production profile offset by a downward revision in reserves.

(d) Interest Factor — Accretion of Discount

Interest factor — accretion of discount was computed by applying a 10% discount factor to the beginning balance of the present value of estimated future net revenues in recognition of the increase in value resulting from the passage of time.

(e) Exploration, Development and Production Costs

The costs of acquiring non-producing acreage and the cost of drilling exploratory and exploratory-type stratigraphic test wells are initially capitalized until the properties are evaluated and determination of the existence of proved reserves is made or the property is deemed non-productive, at which time they are charged to expense. Annual lease rentals and exploration expenses, including geological and geophysical expenses and exploratory dry hole costs, are expensed as incurred.

Estimated future development and production costs relating to proved reserves are deducted from the valuation of proved reserves at the time of discovery. Subsequent revisions to estimated future development and production costs are included as revisions in the earnings summary.

At December 31, 1981, $21,032,000 of property acquisition costs, $3,970,000 uncompleted exploratory well costs and $46,462,000 of development costs primarily relating to the waterflood project in the Talara region of Peru have been deferred. During the year $2,533,000 of valuation allowances associated with these properties were provided. The aggregate amount of valuation allowances at the end of the year amounted to $15,978,000.

(f) Provision for Domestic and Foreign Income Taxes

The provision for domestic and foreign income taxes has been calculated using the same methods and tax rates as are used in the 1981, 1980 and 1979 historical financial statements, with the exception of taxes on Canadian production which reflect the impact of the Petroleum Gas Revenue Tax.

(g) Results of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting.

Operating profit before income tax reflected in the primary financial statements for oil and gas producing activities is $43,802,000 as compared to the Summary of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting of $84,198,000.

## SUPPLEMENTARY INFORMATION ON THE EFFECTS OF CHANGING PRICES
(Unaudited)

In September 1979, the Financial Accounting Standards Board in the United States issued Statement No. 33, "Financial Reporting and Changing Prices" which requires certain large publicly held companies to present supplementary information concerning the effects of changing prices on their financial statements.

The Statement requires that certain financial information reported in the primary financial statements be adjusted for the effects of changes in the purchasing power of the dollar (general inflation) and changes in specific prices of goods and services (current costs).

The user should be cautioned, however that this supplementary data is being presented on an experimental basis and is not intended as a precise measure of the effects of inflation on CanadianOxy.

The notes following the supplementary financial data are necessary for a clear understanding and assessment of the financial information presented.

## Consolidated Statement of Operations Adjusted for Changing Prices
**For the Year Ended December 31, 1981**
(In thousands of average 1981 dollars)

| | As Reported in the Primary Financial Statements | As Adjusted for General Inflation | As Adjusted for Changes in Specific Prices |
|---|---|---|---|
| Net sales and other revenues | $201,628 | $201,628 | $201,628 |
| Cost of sales (Note a) | 87,525 | 89,297 | 90,293 |
| Selling, administrative and other operating expenses | 27,992 | 27,992 | 27.992 |
| Depreciation, depletion and amortization (Note a) | 30,444 | 43,417 | 52,230 |
| Interest expense | 8,757 | 8,757 | 8,757 |
| Provision for income taxes (Note c) | 16,871 | 16,871 | 16,871 |
| Net Income | $ 30,039 | $ 15,294 | $ 5,485 |
| Effective tax rate | 36.0% | 52.5% | 75.5% |
| Purchasing power gain from holding net monetary liabilities (Note b) | | $ 17,168 | $ 17,168 |
| Increase in specific prices of inventory, plant and equipment | | | $ 81,321 |
| Less effect of increase in general inflation | | | 49,225 |
| Excess of increase in specific prices over increase in general inflation | | | $ 32,096 |

## Five-Year Comparison of Selected Financial Data Adjusted for Effect of Changing Prices
(in average annual dollars)

| | Year ended December 31, 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| | (in thousands, except per share and consumer price index data) | | | | |
| Net sales and other revenue | **$201,628** | $190,092 | $126,211 | $92,432 | $75,155 |
| Historical cost information adjusted for general inflation: | | | | | |
| Net income | **15,294** | 22,432 | 13,325 | — | — |
| Earnings per common share (2) | **0.64** | 0.96 | 0.44 | — | — |
| Net assets at year-end (Note d) | **264,301** | 208,531 | 178,371 | — | — |
| Historical cost information adjusted for current costs: | | | | | |
| Net income | **5,485** | 10,595 | 12,958 | — | — |
| Earnings per common share (2) | **0.16** | 0.38 | 0.42 | — | — |
| Net assets at year-end | **345,872** | 319,232 | 259,046 | — | — |
| Increases or (decreases) in the current cost amounts of inventory and property, plant and equipment, net of inflation | **32,096** | 47,792 | 34,138 | — | — |
| Other information: | | | | | |
| Purchasing power gain from holding net monetary liabilities (Note b) | **17,168** | 6,736 | 2,505 | — | — |
| Cash dividends per common share | **0.360** | 0.270 | 0.205 | 0.836 (1) | 0.180 |
| Market price per common share at year-end | **$ 11.000** | $ 15.375 | $ 13.875 | $ 6.333 | $ 6.167 |
| Average consumer price index | **236.9** | 210.6 | 191.2 | 175.2 | 160.8 |

The accompanying notes are an integral part of this comparison.

(1) Includes special tax deferred dividends of $0.643 per common share.

(2) Earnings per common share are after deducting dividends on the preferred shares which were $2,099,000 in 1981, $2,709,000 in 1980 and $4,286,000 in 1979.

Notes to Supplementary Information on the Effects of Changing Prices

(a) Basis of Preparation

The Statement requires restatement of certain financial information which is most affected by changing prices, such as the effect of general inflation and specific current prices on inventories, property, plant and equipment, cost of sales, depreciation, depletion and amortization expense and monetary assets and liabilities.

Revenues and expenses as adjusted for general inflation were determined by adjusting the historical amounts of revenues and expenses reported in the primary financial statements to dollars of the same purchasing power by the application of the change in the Consumer Price Index as provided by Statistics Canada. Revenues and expenses as adjusted for current costs were determined by adjusting the historical amounts of revenues and expenses reported in the primary financial statements to current cost dollars by the application of specific indices. Namely, United States Bureau of Labor Statistics — Oil Field Machinery and Tools and Statistics Canada — Manufacturers of Industrial Chemicals (Inorganic).

The historical amount of cost of sales related to inventories, which was determined substantially under the FIFO method, was adjusted for general inflation and current costs using the Consumer price index and specific indices referred to above. The remaining historical amounts of revenues and expenses did not require restatement. The method used in calculating constant and current cost depreciation remained unchanged from that used in the primary financial statements.

(b) Purchasing Power Gain from Holding Net Monetary Liabilities During the Year

Inflation affects monetary assets, such as cash and receivables, which lose purchasing power during inflationary periods since these assets will purchase fewer goods and services over time. However, holders of monetary liabilities benefit during such periods because the amount of money required to settle the obligations represents dollars of diminished purchasing power.

(c) Provision for Domestic and Foreign Income Taxes

The Statement requires that the provision for income taxes not be adjusted for the effects of general inflation. However, the effective tax rate of 36.0% on net income reported in the primary financial statements becomes an effective tax rate of 52.5% on net income adjusted for the effects of general inflation. This indicates a 45.8% overpayment of income taxes when the effects of general inflation are considered.

(d) Five-Year Comparison of Selected Financial Data

As described in Note (a), the determination of net assets represents a partial restatement of financial information for the effects of general inflation. Other assets and liabilities totaling approximately $8,100,000 have not been adjusted for general inflation.

# Ten Year Financial Review

**(Amounts in thousands except per share data)**

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| Net sales: | | | |
| Oil and gas | $ 109,167 | 94,160 | 45,434 |
| Industrial chemicals | 67,065 | 67,596 | 56,024 |
| Plastics and resins | 7,122 | 7,500 | 7,403 |
| Metal finishing | 15,024 | 19,384 | 15,437 |
| | $ 198,378 | 188,640 | 124,298 |
| Income (loss) before extraordinary item | $ 30,039 | 30,320 | 19,922 |
| Extraordinary item | — | — | 893 |
| Net income (loss) | $ 30,039 | 30,320 | 20,815 |
| Earnings per common share: (1) | | | |
| Income before extraordinary item | $ 1.35 | 1.34 | 0.77 |
| Extraordinary item | — | — | 0.04 |
| Net income | $ 1.35 | 1.34 | 0.81 |
| Working capital generated from operations | $ 72,213 | 77,508 | 36,361 |
| Per common share (1) | $ 3.40 | 3.64 | 1.57 |
| Number of common shares used for per share calculations (1) | 20,649,265 | 20,534,024 | 20,455,124 |
| Common share dividends declared (per share) (1) | | | |
| Regular | $ 0.36 | 0.27 | 0.205 |
| Special | $ — | — | — |
| Preferred share dividends | $ 2,099 | 2,709 | 4,286 |
| Capital expenditures: | | | |
| Oil and gas | $ 91,334 | 87,173 | 69,167 |
| Minerals exploration | 5,346 | 5,711 | 2,299 |
| Chemicals | 8,786 | 4,624 | 2,644 |
| Total | 105,466 | 97,508 | 74,110 |
| Less current year expenditures charged to exploration expenses | 13,410 | 9,231 | 6,564 |
| Additions to property, plant and equipment | $ 92,056 | 88,277 | 67,546 |
| Working capital | $ 33,523 | 24,840 | 13,448 |
| Net property, plant and equipment | $ 282,592 | 221,599 | 158,028 |
| Total assets | $ 371,670 | 302,919 | 218,710 |
| Long-term debt | $ 131,551 | 92,474 | 42,194 |
| Redeemable preferred shares | $ 20,315 | 21,873 | 42,919 |
| Common shareholders' equity | $ 124,541 | 101,853 | 80,714 |
| Return on investment: (2) | | | |
| Total assets | % 8.7 | 11.6 | 11.2 |
| Total capital | % 14.8 | 17.5 | 15.6 |
| Common shareholders' equity | % 24.8 | 30.3 | 22.7 |

* *Net income and certain other captions reflect retroactive restatements for accounting changes for adoption of successful efforts accounting for oil and gas operations (1977-1972) and provision for deferred income taxes (1973-1972).*

(1) *Per common share amounts and number of shares for the years 1972 to 1978 reflect 3:1 share split in 1979.*

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

| 1978 | 1977* | 1976* | 1975* | 1974* | 1973* | 1972* |
|---|---|---|---|---|---|---|
| 25,940 | 24,135 | 19,593 | 19,011 | 10,682 | 6,946 | 6,037 |
| 45,935 | 32,836 | 36,565 | 22,922 | 22,397 | 19,295 | 16,222 |
| 5,499 | 4,153 | 5,059 | 4,329 | 5,724 | 3,611 | 3,088 |
| 9,287 | 7,196 | 5,577 | 5,395 | 5,459 | 3,851 | 2,669 |
| 86,661 | 68,320 | 66,794 | 51,657 | 44,262 | 33,703 | 28,016 |
| 13,433 | 15,154 | 15,251 | 10,811 | (574) | 584 | 2,002 |
| — | — | 641 | — | — | — | — |
| 13,433 | 15,154 | 15,892 | 10,811 | (574) | 584 | 2,002 |
| 0.45 | 0.54 | 0.66 | 0.45 | (0.03) | 0.03 | 0.10 |
| — | — | 0.03 | — | — | — | — |
| 0.45 | 0.54 | 0.69 | 0.45 | (0.03) | 0.03 | 0.10 |
| 19,548 | 22,141 | 22,554 | 17,940 | 9,704 | 8,470 | 7,430 |
| 0.75 | 0.88 | 1.01 | 0.80 | 0.48 | 0.42 | 0.37 |
| 20,371,734 | 20,325,462 | 20,264,472 | 20,257,539 | 20,256,723 | 20,256,723 | 20,256,723 |
| 0.193 | 0.18 | 0.167 | 0.125 | — | — | — |
| 0.643 | — | — | — | — | — | — |
| 4,275 | 4,217 | 2,008 | 1,677 | 53 | — | — |
| 39,343 | 16,433 | 11,126 | 5,944 | 10,769 | 29,093 | 6,138 |
| 893 | 1,002 | 849 | 597 | 547 | 586 | 653 |
| 2,406 | 2,298 | 564 | 2,683 | 7,765 | 650 | 2,862 |
| 42,642 | 19,733 | 12,539 | 9,224 | 19,081 | 30,329 | 9,653 |
| 11,126 | 3,964 | 3,470 | 1,990 | 4,808 | 1,809 | 1,680 |
| 31,516 | 15,769 | 9,069 | 7,234 | 14,273 | 28,520 | 7,973 |
| 21,594 | 63,052 | 64,546 | 28,268 | 22,806 | 11,987 | 10,753 |
| 104,529 | 80,879 | 71,831 | 68,646 | 67,265 | 65,927 | 45,075 |
| 173,133 | 166,131 | 159,358 | 116,182 | 104,849 | 87,920 | 65,465 |
| 12,603 | 21,191 | 21,842 | 18,174 | 18,846 | 21,559 | 175 |
| 42,919 | 42,919 | 42,919 | 17,919 | 17,919 | — | — |
| 68,050 | 75,714 | 68,210 | 58,680 | 52,074 | 52,955 | 52,371 |
| 7.8 | 9.6 | 11.5 | 9.8 | (0.6) | 0.8 | 3.2 |
| 9.9 | 11.3 | 14.1 | 12.0 | 1.3 | 1.5 | 3.9 |
| 11.8 | 15.5 | 21.9 | 16.5 | (1.2) | 1.1 | 3.9 |

# Ten Year Operating Review

| | | 1981 | 1980 | 1979 |
|---|---|---|---|---|
| **PRODUCTION** (gross before royalties) | | | | |
| *Imperial Units* | | | | |
| Pipeline gas | Mmcf | **22,288** | 22,210 | 19,131 |
| Crude oil & natural gas liquids | M/Bbls. | **2,172.2** | 1,968.3 | 849.1 |
| Sulphur | M/L.T. | **110.6** | 107.8 | 121.1 |
| Caustic soda | M/Tons | **171.7** | 201.4 | 191.8 |
| Chlorine | M/Tons | **150.6** | 177.3 | 169.2 |
| Sodium chlorate | M/Tons | **23.5** | 23.6 | 23.0 |
| Muriatic acid | M/Tons | **16.4** | 24.8 | 18.6 |
| Moulding materials | M/Lbs. | **5,941** | 6,576 | 7,202 |
| Industrial and foundry resins | M/Lbs. | **5,686** | 5,273 | 5,896 |
| Metal finishing chemicals | M/Lbs. | **8,355** | 8,679 | 10,236 |
| *Metric Units* | | | | |
| Pipeline gas | $10^3m^3$ | **617 229** | 624 414 | 529 798 |
| Crude oil & natural gas liquids | $10^3m^3$ | **345.2** | 312.8 | 134.9 |
| Sulphur | $10^3/t$ | **112.4** | 109.5 | 123.0 |
| Caustic soda | $10^3/t$ | **155.7** | 182.7 | 174.0 |
| Chlorine | $10^3/t$ | **136.6** | 160.8 | 153.5 |
| Sodium chlorate | $10^3/t$ | **21.3** | 21.4 | 20.9 |
| Muriatic acid | $10^3/t$ | **14.9** | 22.5 | 16.9 |
| Moulding materials | $10^3/kg$ | **2 695** | 2 983 | 3 267 |
| Industrial and foundry resins | $10^3/kg$ | **2 579** | 2 392 | 2 674 |
| Metal finishing chemicals | $10^3/kg$ | **3 790** | 3 937 | 4 643 |
| **PROVEN RESERVES** (gross before royalties) | | | | |
| *Imperial Units* | | | | |
| Pipeline gas | Mmcf | **291,300** | 296,000 | 295,000 |
| Crude oil & natural gas liquids | M/Bbls. | **22,146** | 23,724 | 17,816 |
| Sulphur | M/L.T. | **2,081** | 2,148 | 2,125 |
| *Metric Units* | | | | |
| Pipeline gas | $10^3m^3$ | **8 208 200** | 8 335 000 | 8 322 000 |
| Crude oil & natural gas liquids | $10^3m^3$ | **3 521** | 3 770 | 2 833 |
| Sulphur | $10^3/t$ | **2 114** | 2 182 | 2 160 |
| **WELL DATA** | | | | |
| Net Wells — gas | | **94.0** | 84.1 | 67.8 |
| Net Wells — oil | | **272.2** | 330.7 | 156.2 |
| **LANDHOLDINGS** (thousand acres) | | | | |
| Gross Acres | | **76,232.3** | 5,835.5 | 5,870.4 |
| Net Acres | | **26,125.1** | 2,548.8 | 2,527.0 |
| **EMPLOYEES** | | **605** | 592 | 559 |

| 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 |
|---|---|---|---|---|---|---|
| 14,288 | 16,410 | 16,422 | 18,031 | 18,099 | 19,043 | 18,966 |
| 625.8 | 711.8 | 767.5 | 842.5 | 789.7 | 831.7 | 840.9 |
| 125.9 | 134.2 | 167.2 | 202.8 | 219.1 | 241.1 | 237.4 |
| 198.0 | 177.3 | 207.4 | 147.2 | 195.1 | 188.7 | 158.9 |
| 174.5 | 154.7 | 181.1 | 126.9 | 171.2 | 166.1 | 141.3 |
| 15.0 | 9.1 | 7.1 | — | — | — | — |
| 14.7 | 8.7 | 4.2 | 2.4 | 6.1 | 6.0 | 4.8 |
| 5,532 | 3,018 | 3,521 | 2,824 | 5,640 | 7,342 | 7,618 |
| 5,959 | 5,273 | 6,019 | 4,077 | 5,124 | 5,862 | 3,924 |
| 9,483 | 9,132 | 8,258 | 6,860 | 7,917 | 7,791 | 6,860 |
| | | | | | | |
| 396 375 | 455 368 | 455 720 | 500 368 | 501 219 | 527 362 | 525 229 |
| 99.5 | 113.1 | 122.0 | 133.8 | 125.5 | 132.2 | 133.6 |
| 127.9 | 136.4 | 169.9 | 206.1 | 222.7 | 245.0 | 241.3 |
| 179.7 | 160.8 | 188.2 | 133.5 | 177.0 | 171.2 | 144.2 |
| 158.3 | 140.3 | 164.3 | 115.1 | 155.3 | 150.7 | 128.2 |
| 13.6 | 8.3 | 6.4 | — | — | — | — |
| 13.3 | 7.9 | 3.8 | 2.2 | 5.5 | 5.4 | 4.4 |
| 2 509 | 1 369 | 1 597 | 1 281 | 2 558 | 3 330 | 3 456 |
| 2 703 | 2 392 | 2 730 | 1 849 | 2 324 | 2 659 | 1 780 |
| 4 302 | 4 142 | 3 746 | 3 112 | 3 591 | 3 534 | 3 112 |
| | | | | | | |
| 314,000 | 296,000 | 295,000 | 327,000 | 335,000 | 291,000 | 278,000 |
| 5,376 | 6,152 | 7,215 | 7,698 | 7,360 | 7,255 | 7,680 |
| 2,272 | 2,396 | 2,721 | 2,851 | 2,999 | 3,153 | 3,317 |
| | | | | | | |
| 8 847 000 | 8 340 000 | 8 311 000 | 9 213 000 | 9 277 000 | 8 059 000 | 7 699 000 |
| 855 | 978 | 1 147 | 1 224 | 1 170 | 1 153 | 1 220 |
| 2 308 | 2 434 | 2 765 | 2 897 | 3 048 | 3 204 | 3 371 |
| | | | | | | |
| 62.9 | 52.1 | 52.4 | 34.1 | 33.5 | 28.5 | 27.7 |
| 24.2 | 21.8 | 22.7 | 23.2 | 22.9 | 22.8 | 20.6 |
| | | | | | | |
| 6,204.2 | 4,903.3 | 6,650.7 | 6,901.8 | 7,462.0 | 6,444.6 | 6,675.4 |
| 2,788.2 | 3,421.4 | 4,862.9 | 5,185.1 | 5,556.3 | 4,583.6 | 4,950.4 |
| 534 | 481 | 467 | 467 | 439 | 418 | 401 |

# Directors

**A. Robert Abboud**
President, Chief Operating Officer and a director of
Occidental Petroleum Corporation,
Los Angeles, California
*Director of Inland Steel Co. and Hart, Schaffner and Marx*

**David Bertram**
Senior Vice President, Finance and Administration,
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Calgary, Alberta

**John E. Brading**
President,
Canadian Occidental Petroleum Ltd.,
Calgary, Alberta

**John J. Dorgan**
Executive Vice President, Finance,
Occidental Petroleum Corporation,
Los Angeles, California

**Dr. Armand Hammer**
Chairman of the Board
and Chief Executive Officer,
Occidental Petroleum Corporation,
Los Angeles, California
*Director of Financial General Bankshares, Inc.*

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Chairman of the Board,
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Canada Ltd., stockbrokers,
Toronto, Ontario
*Director of Jannock Limited*

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

**J. Angus McKee**
President,
J. Angus McKee & Associates Limited,
a financial, management and
advisory services company,
Toronto, Ontario
*Director of Taro Industries Ltd.*

**Zoltan Merszei**
Vice Chairman of the Board and a director of Occidental Petroleum Corporation;
Chairman of the Board
and Chief Executive Officer,
Hooker Chemical Corporation,
Houston, Texas

**William G. O'Rourke**
Vice President, Counsel and Secretary,
Canadian Occidental Petroleum Ltd.,
Calgary, Alberta

**A. Russell Patrick**
Retired, formerly Minister of Mines & Minerals of the Province of Alberta,
Edmonton, Alberta

**John M. Robertson, Q.C.**
Barrister and Solicitor,
Fenerty, Robertson, Fraser & Hatch,
Calgary, Alberta

**Robert A. Teitsworth**
Executive Vice President and a Director,
Occidental Petroleum Corporation;
Chairman of the Board and Chief Executive Officer, Occidental Oil and Gas Corporation,
Bakersfield, California
*Director of Varco International Inc.*

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David Bertram
John E. Brading
J. Howard Hawke
J. Angus McKee
Zoltan Merszei
Robert A. Teitsworth

**Finance Committee**
John J. Dorgan — Chairman
David Bertram
J. Howard Hawke
J. Angus McKee
Robert A. Teitsworth

**Audit Committee**
J. Howard Hawke — Chairman
John E. Brading
Leo L. LeClerc
John M. Robertson, Q.C.

# Officers

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Chairman of the Board

**John E. Brading**
President

**David Bertram**
Senior Vice President, Finance and Administration

**John J. McLaughlin**
Senior Vice President — Chemicals

**George S. Horne**
Vice President of Operations
— Oil and Gas Division

**Charles R. Mikkelborg**
Vice President of Exploration
— Oil and Gas Division

**William G. O'Rourke**
Vice President, Counsel and Secretary

**Robert H. Orthlieb**
Vice President, Planning and Business Development

**Norman R. Richards**
Treasurer

**J. A. (Nick) Nicholson**
Controller

**Paul C. Hebner**
Assistant Secretary

**Richard L. Reeson**
Assistant Secretary

# Corporate Information

**Canadian Occidental Petroleum Ltd.**
(a Canadian corporation)

**Head Office**
1600, 700 Fourth Avenue Southwest
Calgary, Alberta, Canada T2P 3J5

Key Personnel
R. R. Campbell, Drilling Superintendent
W. W. Chalmers, Director of Sulphur Marketing
I. D. Cumming, Mgr. Employee Relations
D. C. Gordon, Chief Geophysicist
J. J. Hofbauer, Mgr. Environment & Safety
E. J. Lambert, Investor Relations Co-ordinator
J. Meronek, Mgr. Purchasing & Office Services
R. T. Peirce, Mgr. Exploration
P. G. Sawchuk, Mgr. Management Information Systems
G. D. Simpson, Mgr. Petroleum Engineering
R. R. Williams, Mgr. Engineering — Chemicals
J. D. Wilson, Mgr. Land

**Industrial Chemicals Division**
100 Amherst Avenue
North Vancouver, British Columbia
L. H. Schnurstein, Vice President — Special Projects
B. D. Thorpe, General Manager
I. P. Frederiksen, Traffic & Distribution Manager
J. R. Gregory, Technical Manager
C. N. Hopkins, Operations Services Manager
R. D. Hicks, Accounting Manager
W. G. Maunder, Marketing Manager

North Vancouver Plant,
T. Osadchuk, Works Manager

Brandon Plant
Brandon, Manitoba
O. A. Sackney, Plant Superintendent

**Minerals Division**
180 Attwell Drive, 4th Floor
Rexdale, Ontario
Dr. J. J. Brummer, Manager

**Subsidiary Companies**
CanadianOxy Metal Finishing Ltd.
(a Canadian corporation)
Plant and Head Office
165 Rexdale Boulevard,
Rexdale, Ontario
G. E. Putnam, General Mgr.
D. L. Gardiner, Plant Mgr.
D. Dickson, Accounting Mgr.
J. W. Beatt, Business Dev. Mgr. — Parker
J. L. Ross, Sales Manager — Parker
G. E. Doeler, Marketing Mgr. — Sel-Rex

CanadianOxy Chemicals Ltd.
(a British Columbia corporation)

Durez Plastics Division
Dunlop Street, Fort Erie, Ontario
G. E. Putnam, General Mgr.
J. C. Walton, Plant Mgr.
J. J. Hood, Product Mgr.
R. S. Clendening, Accounting Mgr.

Chlor-alkali plant
Nanaimo, British Columbia
B. W. Thornton, Works Mgr.
Sodium chlorate plant
Squamish, British Columbia
P. Groenveld, Plant Superintendent

Canadian Occidental of California, Inc.
(a California 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)

**Affiliated Company**
Petrogas Processing Ltd.
Balzac, Alberta
W. J. van der Linden, Plant Manager

**Trademarks**
Occidental Petroleum Corporation or its subsidiaries hold the OXY, HOOKER, PARKER, SEL-REX and DUREZ trademarks.

**Common Shares**

**Transfer Agents**
National Trust Company, Limited
Calgary, Toronto, Montreal, Winnipeg and Vancouver

Citibank, N.A.
New York, N.Y.

**Registrars**
National Trust Company, Limited
Calgary, Alberta

The Chase Manhattan Bank
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"

**10% Convertible Subordinated Debentures**

**Trustee**
National Trust Company, Limited
Calgary, Alberta

**Auditors**
Arthur Andersen & Co.
Calgary, Alberta, Canada

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