C

CANADIAN OXY

Canadian Occidental Petroleum Ltd.

1979 Annual Report

METRIC CONVERSION

Canada's petroleum and chemical industries 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, during 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 sales 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 (lbs)	2.205

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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.

ANNUAL MEETING

The Annual and Special General Meeting of the Shareholders will be held at the Royal York Hotel, Toronto, Ontario, Canada, on Wednesday, May 14, 1980, at 11:00 a.m.

Relocation of Head Office

Effective May 1, 1980 the head office of the company is moving to:

1900, 700 - 4th Avenue S.W.
Calgary, Alberta
T2P 3J5

profile of CanadianOxy

The Company

Canadian Occidental Petroleum Ltd. ("CanadianOxy") was formed on July 12, 1971 through a reorganization which combined the oil, gas and sulphur operations of its predecessor Jefferson Lake Petrochemicals of Canada Ltd. and the Canadian oil, gas and chemical operations of Occidental Petroleum Corporation ("Occidental") of Los Angeles, California. Occidental, through its wholly-owned subsidiary, Hooker Chemical Corporation, beneficially owns 81 percent of the common shares of CanadianOxy.

Its Business

CanadianOxy's principal business segments are oil and gas and chemicals. The company also markets sulphur and explores for minerals.

The oil and gas operations include the exploration for and production of petroleum and natural gas in western Canada, the United States Gulf Coast and various foreign countries. Historically, most of CanadianOxy's oil and gas revenues have been generated from the production and processing of natural gas, natural gas liquids and sulphur from the Crossfield field, near Calgary, Alberta.

Since 1972, CanadianOxy has spent $67 million (U.S.), as a partner with other companies, in the acquisition, exploration and development of working interests in Federal leases offshore Louisiana and Texas. Natural gas or oil has been discovered on 19 lease blocks, resulting in substantial gas and oil reserves. Ten permanent drilling and production platforms have been installed and natural gas production has commenced from five of these platforms. Development work is continuing from the other five platforms.

Early in 1978, the company expanded its oil and gas operations through participation in five separate exploration and development projects outside North America. These included a major oil field redevelopment and secondary recovery project in Peru and exploratory drilling in Bolivia, Colombia and other areas.

CanadianOxy's chemical operations consist of the manufacture and marketing of industrial chemicals, metal finishing chemicals, and plastic resins and moulding materials. The Industrial Chemicals division has four plants in western Canada which manufacture chlorine, caustic soda, sodium chlorate and muriatic acid. These plants produce more than half of the chlor-alkali products consumed in British Columbia and are major suppliers to the pulp and paper industry.

The Parker division manufactures and markets many chemical products used by industry in the treating, cleaning and finishing of metals. The Sel-Rex division supplies precious metal electro-plating chemicals and process equipment, 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.

directors

DONALD L. BAEDER
Executive Vice President,
Occidental Petroleum Corporation;
President and Chief Operating Officer,
Hooker Chemical Corporation,
Houston, Texas

PAUL A. BAILLY
President, Occidental Minerals
Corporation, a subsidiary of
Occidental Petroleum Corporation,
Lakewood, Colorado

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

DR. ARMAND HAMMER
Chairman of the Board
and Chief Executive Officer,
Occidental Petroleum Corporation,
Los Angeles, California

J. HOWARD HAWKE
Chairman of the Board,
Bache Halsey Stuart
Canada Ltd., stockbrokers,
Toronto, Ontario
Director of Jannock Limited

THOMAS D. JENKINS
Executive Vice President, Occidental
Petroleum Corporation;
President and Chief
Operating Officer,
Occidental Oil and Gas Corporation
and The Permian Corporation,
subsidiaries of Occidental
Petroleum Corporation,
Houston, Texas

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

ROBERT S. MacALISTER
Chairman of the Board,
President and Chief Executive Officer,
Canadian Occidental Petroleum Ltd.,
Calgary, 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,
President, Chief Operating Officer
and a Director, Occidental Petroleum
Corporation,
Los Angeles, California

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

EXECUTIVE COMMITTEE
Dr. Armand Hammer — Chairman
J. Howard Hawke
Robert S. MacAlister
Zoltan Merszei
Robert A. Teitsworth

FINANCE COMMITTEE
Zoltan Merszei — Chairman
J. Howard Hawke
Robert S. MacAlister
Robert A. Teitsworth

AUDIT COMMITTEE
J. Howard Hawke — Chairman
Leo L. LeClerc
Robert S. MacAlister
John M. Robertson, Q.C.

officers

ROBERT S. MacALISTER
Chairman of the Board, President
and Chief Executive Officer

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

NORMAN R. RICHARDS
Treasurer

G. GERALD HOFFOS
Controller

PAUL C. HEBNER
Assistant Secretary

RICHARD L. REESON
Assistant Secretary

financial and operating highlights

	1979	1978	Increase (Decrease)
FINANCIAL			
Revenues	**$126,211,000**	$ 92,432,000	37%
Income before Extraordinary Item	**$ 19,922,000**	$ 13,433,000	48%
*Per common share	**$0.77**	$0.45	71%
Extraordinary Item	**$ 893,000**	—	—
Per common share	**$0.04**	—	—
Net Income	**$ 20,815,000**	$ 13,433,000	55%
*Per common share	**$0.81**	$0.45	80%
Cash Flow from Operations	**$ 36,361,000**	$ 19,548,000	86%
*Per common share	**$1.57**	$0.75	109%
Working Capital	**$ 13,448,000**	$ 21,594,000	(38%)
Capital Expenditures (including exploration expenses)	**$ 74,110,000**	$ 42,642,000	74%
Long-term Debt	**$ 42,194,000**	$ 12,603,000	235%
Shareholders' Equity	**$123,633,000**	$110,969,000	11%
Common Dividends (*per share):			
Regular	**$0.205**	$0.193	6%
Special tax deferred	**—**	$0.643	—
Return on Investment:			
Total Assets	**11.2%**	7.8%	44%
Common Shareholders' Equity	**22.7%**	11.8%	92%
Total Capital	**15.6%**	9.9%	58%
PRODUCTION — IMPERIAL UNITS			
Crude Oil and Natural Gas Liquids (barrels)	**849,125**	625,807	36%
Pipeline Gas (thousands of cubic feet)	**19,130,978**	14,288,274	34%
Sulphur (long tons)	**121,079**	125,853	(4%)
Caustic Soda (tons)	**191,755**	198,043	(3%)
Chlorine (tons)	**169,208**	174,519	(3%)
Sodium Chlorate (tons)	**23,048**	14,967	54%
Muriatic Acid (tons)	**18,595**	14,666	27%
Moulding Materials (thousands of pounds)	**7,202**	5,532	30%
Industrial and Foundry Resins (thousands of pounds)	**5,896**	5,959	(1%)
Metal Finishing Chemicals (thousands of pounds)	**10,236**	9,483	8%
PRODUCTION — METRIC UNITS			
Crude Oil and Natural Gas Liquids (cubic metres)	**134,935**	99,452	36%
Pipeline Gas (thousand cubic metres)	**529,798**	396,375	34%
Sulphur (tonnes)	**123,022**	127,872	(4%)
Caustic Soda (tonnes)	**173,957**	179,662	(3%)
Chlorine (tonnes)	**153,503**	158,321	(3%)
Sodium Chlorate (tonnes)	**20,909**	13,578	54%
Muriatic Acid (tonnes)	**16,869**	13,305	27%
Moulding Materials (thousands of kilograms)	**3,267**	2,509	30%
Industrial and Foundry Resins (thousands of kilograms)	**2,674**	2,703	(1%)
Metal Finishing Chemicals (thousands of kilograms)	**4,643**	4,302	8%
SHAREHOLDERS AND EMPLOYEES			
Number of Common Shares Outstanding*	**20,490,774**	20,414,424	—
Number of Common Shareholders	**2,663**	2,433	9%
Number of 10% Class A Preferred Shares Outstanding	**1,000,000**	1,000,000	—
Number of 10% Class A Preferred Shareholders	**1,262**	1,312	(4%)
Number of Employees	**559**	534	5%

**Per common share amounts are stated after deducting the preferred share dividends. 1978 per common share amounts for earnings and common dividends and number of common shares outstanding have been restated for the 3-for-1 common share split in 1979.*

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).

chairman's message

CanadianOxy had an excellent year in 1979, achieving record sales revenues, net income and cash flow from operations. The efforts of our employees made this excellent result possible and they will be challenged to meet the progressive goals we have set for ourselves for 1980. Their successful response to the targets we set in 1979, in spite of various difficulties, gives me confidence in planning for our future.

Company earnings in 1979 were $20,815,000, including the extraordinary gain on the sale of surplus land. This was an increase of 55 percent over 1978's $13,433,000. After deducting $4,286,000 preferred share dividends, net earnings available to common shareholders were $0.81 per common share versus $0.45 for the previous year. The per share amounts reflect the three-for-one stock split in 1979.

Cash flow from operations was $36,361,000 compared to $19,548,000 a year earlier, or $1.57 per common share against $0.75 per common share in 1978. Total revenues increased 37 percent to $126,211,000, compared to $92,432,000 in 1978.

Our chemical sectors all had especially gratifying performances in 1979. The industrial chemical plants, primarily serving the pulp and paper industry, had record sales revenues and record profits due to the strong market demand for Canadian paper products and in spite of several labour disputes affecting our customers. Oxy Metal Finishing (Parker and Sel-Rex) had markedly improved sales revenues and earnings, up 66 percent and 52 percent, respectively, over the prior year. Durez Plastics sales revenues rose 35 percent and earnings increased by 190 percent.

In the domestic petroleum division, the improved revenues and profits reflected both increased production volumes and higher selling prices received for natural gas. A significiant contribution came from a 23 percent increase in sulphur sales volumes, commanding steadily improving prices worldwide. Competition for drilling rigs and a short winter drilling season combined to limit our planned drilling activity last year. Consequently, necessary steps have been taken to assure equipment availability to carry out an aggressive drilling program in 1980. We are also expanding our exploration program in Canada in anticipation that the economic incentives will continue to justify the risks and investment. This year we have budgeted $29 million for domestic exploration, up from $7.6 million spent last year.

In the Gulf Coast area, gas production from our various field interests began flowing in significant amounts and by year-end our production share reached 30 MMcf per day. We expect this to continue to increase in 1980 as more wells are completed in fields already producing and as two additional fields are tied to pipelines.

The Talara oil field redevelopment and secondary recovery project, in Peru, progressed greatly with the drilling of some 300 new wells and, at year-end, most of the required new field facilities were at an advanced stage of construction. Production response to work completed thus far was excellent and CanadianOxy's contract share (net of taxes and royalty) at year-end was about 1,130 barrels per day. We had not received Peru's official approval of the assignment of our interest from Occidential Petroleum Corporation by December, 1979 when the Peruvian government precipitated renegotiation of all petroleum contracts, with emphasis on production sharing and income tax provisions. Negotiations are proceeding satisfactorily and work at Talara is continuing, reflecting our belief that any revision of contract terms will permit an acceptable return on the investment being made.

In Colombia, one test well drilled on the San Fernando Block in the prior year was abandoned in 1979. On the Sogamoso Block, CanadianOxy will join in the redrilling and proper testing of the original well, which was suspended in 1978 without proper testing due to mechanical problems.

In Bolivia, an appraisal well on the Porvenir structure successfully found the productive zone and provided the necessary confirmation for negotiating a development agreement with the government. We are confident that a satisfactory agreement will be reached and that development will proceed in 1980.

Last year we announced a potentially commercial uranium discovery in northern Saskatchewan. Appraisal of this discovery is proceeding with all possible speed considering the difficult regional ground characteristics and the need to exercise proper care for the environment. While much more work must be done to assess the full economic worth of the discovery, our confidence that it is a commerical find is increased. This confidence is bolstered by our belief that nuclear energy will necessarily provide a growing segment of worldwide energy requirements in the coming years.

The strong performance in 1979 and the momentum we carry into 1980 encouraged the Board to increase the common share annual dividend rate from $0.19-1/3 to $0.24 per share. We are emerging from the decade of the 70's with a strong, growing, energetic company looking ahead to the opportunities and challenges of the 80's.

There are challenges enough already upon us with the advent of the 80's. The powerful economic direction that emanates from the federal government and which must factor in all business decision-making has not been a reliable compass for many months. In some very specific matters of taxation, gas exports and petroleum pricing there has been no certainty upon which to base investment decisions in a business that otherwise is risky enough. We have a massive gas surplus in Canada which threatens to smother exploration activity. Exploration is the seed from which all petroleum activity grows. When exploration ceases the whole business begins to wither. It takes several years to re-establish health in the business even if the human and equipment resources are attracted back and are available. Canada has much to gain and nothing to lose by opening up larger markets for its surplus gas.

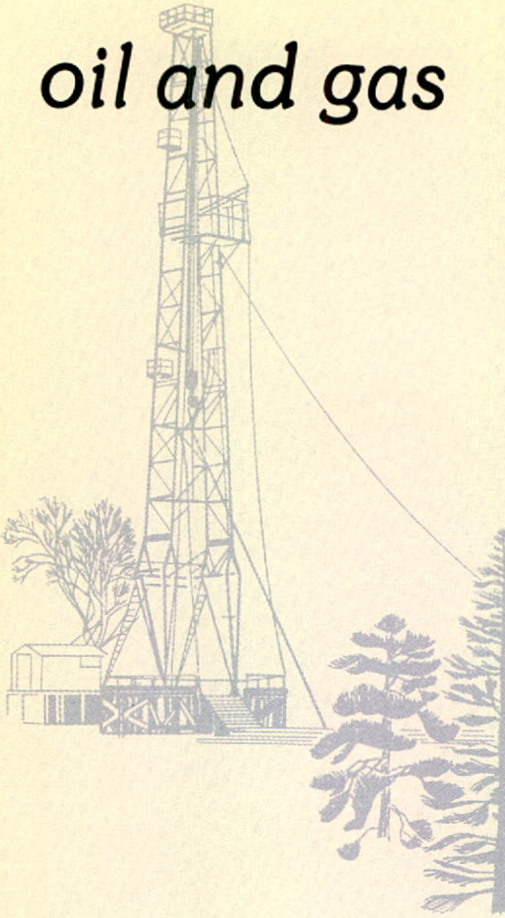
The company's on-going business expansion programs have entailed increased capital investments, requiring us to seek outside financing during the past year. Late in 1979 the company withdrew a $75 million Canadian convertible debenture issue and subsequently arranged ample bank lines of credit to assure proper financing of our current programs and flexibility to take advantage of new opportunities. Thus the company looks forward to 1980 and beyond with great enthusiasm.

Respectfully submitted,

Chairman of the Board,
President and Chief
Executive Officer

Calgary, Alberta
March 27, 1980

oil and gas



Net sales revenues from CanadianOxy's oil and gas operations totalled $45 million in 1979, an increase of $19 million over the prior year. Net income from oil and gas operations increased to $9 million in 1979 from $6 million the previous year.

The 75 percent increase in sales revenues and 50 percent increase in earnings were due primarily to additional production and higher prices in western Canada, the United States Gulf Coast and the Talara oil field project in Peru.

Net sales of natural gas increased by 55 percent or $10.4 million to $29.2 million in 1979. The main contributor was greatly increased production from the United States Gulf Coast, averaging 30 million cubic feet per day in December, 1979, compared to 1.5 million cubic feet per day at the end of the previous year. Several of the company's Canadian gas properties also commenced production during 1979.

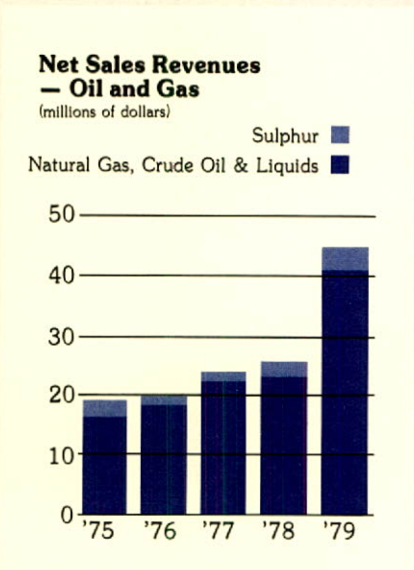
Crude oil sales revenues increased four-fold from $1.7 million in 1978 to $8.3 million in 1979. This was due primarily to the addition of production from the oil field development and secondary recovery project at Talara, Peru. There, the company's share of crude oil production reached 1,130 barrels per day by December, 1979, whereas no production was recorded from this property in the prior year, because it was still in the initial development stage.

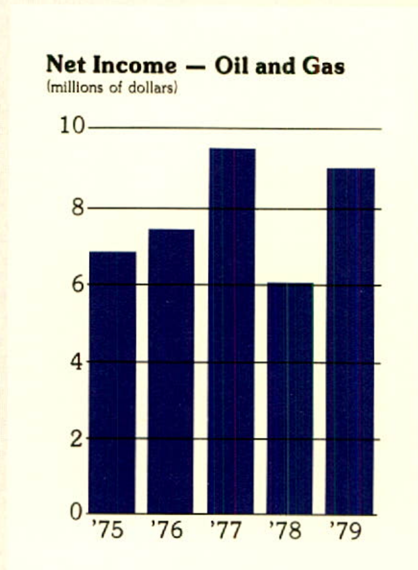
In Canada, the average wellhead price for Alberta crude oil has increased from $11.75 per barrel in January, 1978 to $12.75 in July, 1978, to $13.75 in July, 1979 and to $14.75 in January, 1980.

The Toronto City gate price of natural gas has increased from $2.00 per Mcf on August 1, 1978 to $2.15 in August, 1979 and to $2.30 on February 1, 1980. The export price of natural gas has increased from $2.16 (U.S.) per Mcf in January, 1979 to $3.45 (U.S.) in November, 1979 and to $4.47 (U.S.) on February 17, 1980.

As a result of the foregoing, the average sales prices received for the company's Canadian production increased from $1.55 per Mcf in 1978 to $1.77 per Mcf in 1979 for natural gas; from $11.30 to $12.28 per barrel for crude oil; and from $12.09 to $13.09 per barrel for condensate.

Due to improved demand in both the North American and the offshore markets, sulphur sales volumes and revenues increased by 23 percent and 82 percent, respectively, during the year. The average plant selling price has





increased from $16 per long ton in 1977 to about $30 per long ton in 1979.

Exploration and development expenditures totalled $69 million in 1979, compared to $39 million the prior year. Exploration costs, including lease acquisition costs, were $11.6 million, of which $6.6 million was expensed during the current year. In the previous year, exploration costs were $18 million, of which $11 million were expensed. $58 million was spent on development projects, compared to $21 million the prior year. For 1980, the company is forecasting its total exploration and development expenditures to be in excess of $100 million.

Permanent Drilling and Production Platform.

OIL AND GAS OPERATIONS

	1979	1978	1977	1976	1975
			(Amounts in Thousands)		
Net Sales Revenues					
Natural Gas	**$ 29,227**	$18,859	$17,832	$14,179	$12,323
Natural Gas Liquids	**3,348**	2,907	3,028	2,629	2,694
Crude Oil	**8,333**	1,692	1,459	1,372	1,131
Sulphur	**4,526**	2,482	1,816	1,413	2,863
	$ 45,434	$25,940	$24,135	$19,593	$19,011
Net Income	**$ 8,970**	$ 5,972	$ 9,582	$ 7,396	$ 6,770
Capital Expenditures					
Acquisition of Oil and Gas Rights	**$ 2,128**	$ 2,539	$ 1,613	$ 874	$ 649
Exploration	**9,425**	15,501	5,943	5,526	2,995
Development	**57,614**	21,303	8,877	4,726	2,300
Total Capital Expenditures	**69,167**	39,343	16,433	11,126	5,944
Less Current Year Expenditures Charged to Exploration Expenses	**6,564**	11,126	3,964	3,470	1,990
Additions to Property, Plant and Equipment	**$ 62,603**	$28,217	$12,469	$ 7,656	$ 3,954
Net Property, Plant and Equipment					
Canada	**$ 26,181**	$21,691	$15,543	$13,097	$12,470
United States	**61,213**	50,695	41,153	34,409	29,999
Peru	**45,261**	6,652	—	—	—
Bolivia	**2,575**	1,840	—	—	—
Colombia	**—**	1,303	—	—	—
	$135,230	$82,181	$56,696	$47,506	$42,469

LAND

The table sets forth the land holdings as at December 31, 1979 with comparative totals for 1978.

CanadianOxy continues to maintain a large land inventory of exploratory acreage, particularly in the Province of Alberta. These land holdings give the company many excellent opportunities to participate in developing exploration plays.

The slight decrease in the gross and net acreage from last year resulted from the conversion to lease of certain petroleum and natural gas reservations and the assignment to other companies of interests earned under farmout agreements.

	1979		1978	
	Gross Acres	**Net Acres**	**Gross Acres**	**Net Acres**
Petroleum and Natural Gas				
Alberta (a)	**2,413,144**	**1,686,744**	2,665,224	1,923,517
Saskatchewan	**203,395**	**48,284**	254,581	69,102
British Columbia	**76,410**	**20,608**	62,334	18,672
Arctic (b)	**175,994**	**—**	175,994	—
East Coast Offshore (c)	**281,304**	**—**	281,304	—
Louisiana Offshore	**6,420**	**737**	6,420	737
Texas Offshore	**82,851**	**4,928**	82,851	4,923
Bolivia	**1,491,899**	**186,488**	1,491,899	186,488
Colombia	**620,171**	**77,522**	664,795	83,100
Peru	**19,093**	**1,962**	19,073	1,962
	5,370,681	**2,027,273**	5,704,475	2,288,501
Bituminous Shale				
New Brunswick (d)	**499,684**	**499,684**	499,684	499,684
	5,870,365	**2,526,957**	6,204,159	2,788,185

(a) Includes reservations of which approximately 50 percent may be retained as leases.

(b) The company's interest in 175,994 acres in the Arctic is a three percent gross overriding royalty.

(c) The company's interest in the 281,304 acres in the East Coast is a 1.75 percent gross overriding royalty.

(d) Up to a maximum of 50 percent of the bituminous shale licence may be retained as leases.

EXPLORATION AND DEVELOPMENT

Canada

Fourteen exploratory wells were drilled on CanadianOxy lands during 1979, resulting in five gas wells and nine abandonments. The company directly participated in the drilling of nine of these wells, while the remaining five were drilled by others under various farmout and option agreements at no cost to CanadianOxy. Thirty-seven development wells resulted in 24 gas wells, two oil wells and 11 abandonments. One additional well was drilled as a service well. The table on page 9 shows the company's Canadian drilling record over the past five years. The reduced drilling activity in 1979 was due primarily to a scarcity of drilling rigs throughout the year. This problem should be partly alleviated during the next two years through use of a drilling rig now under contract to the company.

Three exploratory wells in the Alberta Deep Basin were cased as indicated gas wells and one additional well, drilling at year end, was cased in early January, 1980. The production testing of these wells was postponed until early 1980 because access to the well locations is difficult until after the ground becomes frozen.

Two significant land purchases were made at Crown sales during the year. A 4,160-acre (1 664 hectare) licence was purchased at Erith (Coalbranch), in the Deep Basin in partnership with Getty Oil (Canada) Ltd. at a total cost of $1.7 million. CanadianOxy has a one-third interest in this prospect. A 9,000 foot well is planned to test these lands in 1980. Secondly, a licence of 3,840 acres (1 536 hectares) was purchased at Jerd, in the Northern Foothills, in partnership with CDC Oil and Gas Corporation at a cost of $2.3 million. CanadianOxy has a 35 percent interest in these lands. A well is planned to be drilled on this prospect as soon as seismic studies are completed.

Under a farmout from CanadianOxy, Amoco Canada Petroleum drilled a 17,000-foot wildcat well at Kakwa, which is also in the Alberta Deep Basin. The well was cased to 12,000 feet as an indicated gas well late in the year, although testing was postponed until early 1980. Amoco has purchased 13,100 acres of nearby land for approximately $9 million. Under the contract terms, CanadianOxy will have the right to acquire a 50 percent interest in these lands following the completion of the testing program, by reimbursing Amoco for one-half of the acquisition costs.

Furthermore, Amoco exercised its option to drill a second well to 15,000 feet on the lease block in order to earn a 50 percent interest in the remaining 24,000 acres held by CanadianOxy. This well was spudded early in 1980 and will be drilling throughout most of the year.

Under a farmout agreement, Paramount Resources continued exploratory drilling on the company's lands at Liege, Alberta. Four gas wells were drilled in 1979 completing the exploratory phase of the program.

Successful development wells were drilled in the Haro field, in northern Alberta; at West Willingdon, in central Alberta; and at the Okotoks and Crossfield fields, near Calgary. In addition, a marginal gas and oil well was drilled in the Deep Basin area of northern Alberta and is currently suspended.

Natural gas production commenced from the company-operated Eaglesham gas plant in August, 1979. CanadianOxy's 48 percent share of the production from three wells in this field averaged about 1.7 million cubic feet (48 10^3m^3) per day during the balance of the year. In early January, 1980 the plant was damaged by fire. However, the loss was substantially insured and repair to the plant is scheduled for completion by mid-1980.

The partner-operated Boyer field, in the Paddle Prairie area of Alberta, commenced gas production in February, 1979. The company's 50 percent share of the production from 30 wells in this field was averaging approximately four million cubic feet (113 10^3m^3) per day at the year-end.

Production and pipeline facilities were being installed at West Willingdon, Alberta in late 1979. CanadianOxy has a 29 percent interest in 12 gas wells on this 15,000-acre block and production is scheduled to commence early in 1980.

CanadianOxy holds a bituminous oil shale licence in New Brunswick covering approximately 500,000 acres and has until April, 1980 to complete its evaluation and select up to one-half of the acreage as ten-year leases. The initial exploratory work has outlined an area of approximately 1,000 acres of shale deposit for possible development. This shale deposit has surface exposure. The principal zone dips downward at an angle of approximately 40 degrees and has a relatively constant thickness of about 250 feet. The hydrocarbon content in the principal zone is estimated by the company to be approximately 8 percent to 10 percent. The company plans to commission a feasibility study during 1980 to determine the commercial feasibility of bringing the property into production by surface mining and surface retorting of the crude bitumen.

DRILLING RECORD IN CANADA

	1979		1978		1977		1976		1975	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Exploratory										
Oil Wells	**—**	**—**	—	—	1	0.5	1	—	—	—
Gas Wells	**5**	**1.5**	25	8.0	27	7.8	19	4.5	9	1.0
Dry Holes	**9**	**2.9**	26	13.3	29	13.1	22	8.6	20	7.1
	14	**4.4**	51	21.3	57	21.4	42	13.1	29	8.1
Development										
Oil Wells	**2**	**.6**	1	—	1	—	—	—	2	—
Gas Wells	**24**	**6.7**	12	5.3	25	10.5	19	9.0	3	1.5
Dry Holes	**11**	**2.4**	2	0.1	2	—	3	1.0	2	0.6
	37	**9.7**	15	5.4	28	10.5	22	10.0	7	2.1
	51	**14.1**	66	26.7	85	31.9	64	23.1	36	10.2

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 1975, 1976, 1977, 1978 and 1979 CanadianOxy earned gross overriding royalty interests in 9, 12, 17, 10 and 24 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 2.0 gas wells and 0.25 oil wells in 1975, by 5.5 gas wells and 0.2 oil wells in 1976, by 6.1 gas wells in 1977, by 1.95 gas wells in 1978 and by 1.25 gas wells in 1979.

United States

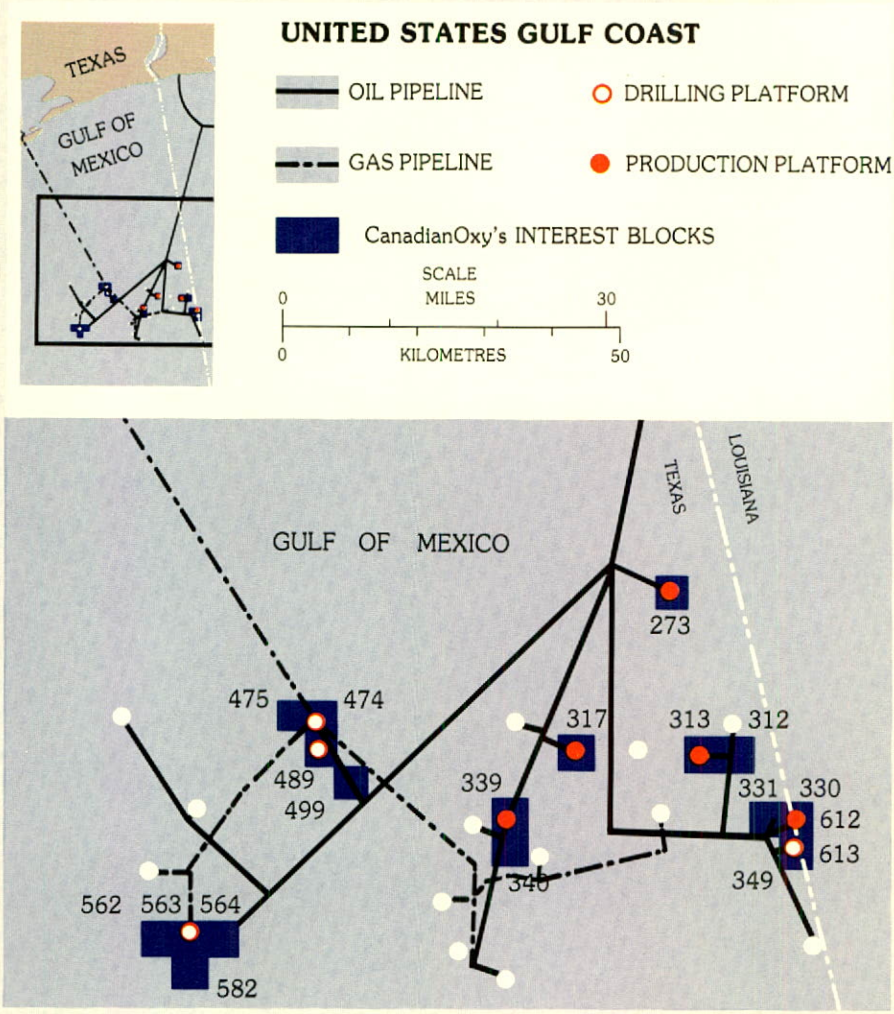
A wholly-owned subsidiary, Canadian Occidental of California, Inc., has interests in 20 offshore Gulf Coast leases ranging from 3.7 percent to 20 percent. There are ten permanent drilling and production platforms located on these leases. At the year-end, five of these platforms were on production, with CanadianOxy's share averaging about 30 million cubic feet of natural gas per day. Drilling operations had been completed from two other platforms and the wells were being completed for production while awaiting pipe line tie-in to the nearby gathering system. Development drilling is continuing from three platforms, which are scheduled to commence production in 1980/81. One additional 18-well platform is being fabricated for Block 582, offshore Texas, and is scheduled to be set on location by mid-1980.

During the year, 37 development wells were drilled, resulting in 21 gas wells, 7 oil/gas wells and 9 dry holes. By the year-end there were a total of 56 gas wells on production and 76 gas and/or oil wells awaiting completion and connection to the nearby gathering system.

CanadianOxy's total investment in the Gulf Coast area is $67 million (U.S.), of which $18.5 million (U.S.) was provided by pipeline companies as interest-free advances. Monthly repayments of these advances are required until April, 1984. The company expects that its share of the additional capital expenditures required to complete the development of these properties will be approximately $15 million (U.S.)

DRILLING RECORD IN THE UNITED STATES (GULF OF MEXICO)

	1979		1978		1977		1976		1975	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Exploratory										
Oil Wells......	**—**	**—**	—	—	—	—	—	—	1	.06
Gas Wells.....	**1**	**.06**	1	.05	—	—	4	.28	5	.27
Oil/Gas Wells..	**—**	**—**	—	—	—	—	1	.05	—	—
Dry Holes.....	**1**	**.06**	—	—	1	.05	2	.06	3	.18
	2	**.12**	1	.05	1	.05	7	.39	9	.51
Development										
Oil Wells......	**—**	**—**	8	.45	2	.11	—	—	—	—
Gas Wells.....	**20**	**1.09**	30	2.21	19	1.16	17	1.06	1	.06
Oil/Gas Wells..	**7**	**.63**	5	.26	11	.63	6	0.33	—	—
Dry Holes.....	**8**	**.56**	7	.44	10	.59	4	0.21	—	—
	35	**2.28**	50	3.36	42	2.49	27	1.60	1	.06
	37	**2.40**	51	3.41	43	2.54	34	1.99	10	.57

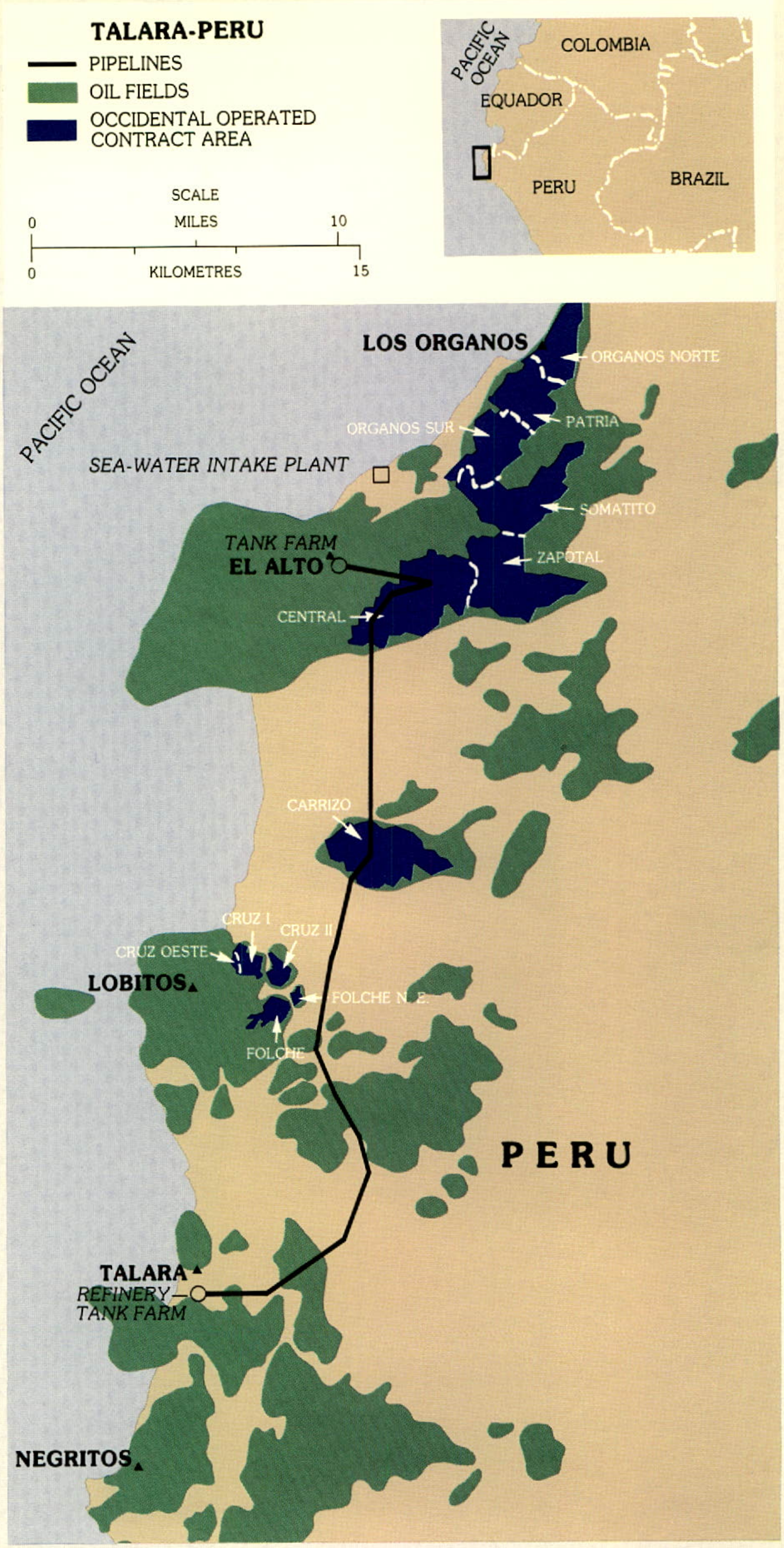


Peru

In April 1978, the Peruvian national oil company, Petroperu, signed a contract with Occidental Petroleum Corporation and Bridas Exploration & Production, S.A. (the "Contractors") authorizing them to conduct a secondary recovery waterflood project in the Talara area over a 15-year term. Occidental's original participating interest in this project was 84 percent with Bridas holding the remaining 16 percent. In early 1978, Occidental agreed to assign to CanadianOxy 25 percent of its interest, equal to a 21 percent participating interest in the Talara contract, subject to the approval of the Peruvian government. Formal application has been made for such approval, and although it has not been received, the respective managements of Occidental and CanadianOxy are of the opinion that it will be in due course.

By an agreement dated November 5, 1979, Occidental has agreed that if the consent of the Peruvian government to the proposed assignment to CanadianOxy is not obtained by December 31, 1980, this company may at its option elect either: (i) to acquire 25 percent of the fully participating shares of the Occidental subsidiary which holds the Talara contract; or (ii) to receive a refund of all advances made by the company to the Talara project together with a return thereon.

The Talara contract requires the Contractors to complete two consecutive two-year programs which will entail the drilling of 355 new wells, the reworking of 579 existing wells, the construction of a seawater treatment plant, the installation of water injection facilities and an oil pipeline system, and the addition of new oil production equipment. Under the agreement, the Contractors were to receive 49 percent, net of Peruvian



income taxes and royalties, of all increased oil production over a designated level. Petroperu was to receive all production up to the designated level and 51 percent of the balance.

In August, 1978, Occidental, as operator for the Contractors, assumed operation of the 11 contract fields which were then producing about 6,000 barrels per day. By December 31, 1979 the Contractors had drilled 310 new wells, of which 249 were completed and on production. During December, gross production from all wells averaged 15,631 barrels per day with the Contractors' 49 percent share of the increased oil production averaging 5,379 barrels per day. The 21 percent contract share applicable to CanadianOxy was approximately 1,130 barrels per day. Occidental estimates that peak production will occur in early 1983.

The Contractors now plan to drill about 800 additional new wells through 1982 and to expand the other project facilities as necessary. Total capital expenditures for the completion of the project are estimated to be approximately $430 million (U.S.), of which $190 million (U.S.) has already been spent. Through December 31, 1979, CanadianOxy's 21 percent share of the net investment in the Talara project would be approximately $40 million (U.S.). CanadianOxy estimates that upon completion of the project, its total investment will be approximately $90 million (U.S.).

On December 7, 1979 the Peruvian government published new decree laws establishing the bases for the renegotiation of production sharing contracts and the Peruvian income taxes applicable to such contracts. The preambles to the new laws recited that existing contracts should be renegotiated to conform to the new bases. Conforming to these bases would require a contractor to pay its income taxes from its share of production at an effective tax rate of 68.5 percent of taxable income. The Talara contract is subject to these negotiations. Renegotiation of the Talara contract has commenced between representatives of Occidental Petroleum Corporation, Petroperu and the Peruvian government. In the meantime, the Contractors are continuing with the project in accordance with their contractual commitments. However, certain discretionary expenditures are being deferred pending clarification of future contract terms.

Bolivia

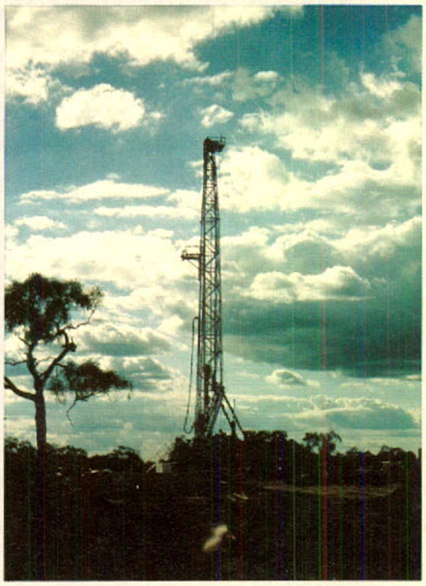
Occidental Petroleum Corporation holds a production-sharing contract with YPFB, the Bolivian national oil company, covering approximately 1.5 million acres in the Chaco Basin of eastern Bolivia. Occidental is entitled to approximately 50 percent of production, net of taxes, from the contract area. CanadianOxy agreed to a 25 percent participation in the project, subject to obtaining the approval of YPFB and the Bolivian government. If the requisite approval is not obtained by December 31, 1981, CanadianOxy will be entitled, under an agreement with Occidental, similar to that for Peru, to elect to receive a corresponding indirect equity interest or a refund of its investment and a return thereon.

In 1978 the initial exploratory well drilled on the Chaco Block, Porvenir No. 1, resulted in a significant natural gas/condensate discovery. The discovery was confirmed in early 1979 by a step-out well, drilled about two miles away.

The Porvenir discovery is in close proximity to a major natural gas pipeline supplying Bolivian gas to Argentina. However, since this pipeline is presently being used to capacity, Occidental plans to initiate gas cycling operations whereby the condensate would be produced and sold while conserving most of the natural gas by re-injection into the reservoir. Subject to the execution of certain contracts with YPFB pertaining to the transportation and sale of the condensate and natural gas, the Oxy group plans to commence development operations in the Porvenir field during 1980.

International Exploration

In Colombia, CanadianOxy had a 25 percent participation with Occidental in two exploration blocks on which three wells had been drilled in 1978 and subsequently abandoned. Due to mechanical difficulties, one well, which encountered heavy oil on the Sogamoso Block, was not fully tested before abandonment. The Oxy group intends to re-drill this well in 1980 in view of continuing increases in world oil prices. The San Fernando Block was surrendered in 1979 in exchange for an adjacent block of exploratory lands, known as the Cantimplora Block. The Oxy group drilled a dry exploratory well on this block early in 1980.



Drilling Rig in Bolivia.

RESERVES

The accompanying table shows CanadianOxy's proven and probable reserves at the year-end. All of these reserve figures are as estimated by independent petroleum consultants. Gross reserves represent the company's working interest share in total reserves. Net reserves are after deduction of estimated royalties.

The company's net proven and probable pipeline gas reserves in Canada declined from 249 Bcf in 1978 to 193 Bcf in 1979. Although production accounted for 13 Bcf of the decline, the main reason for the adjustment was the more conservative criteria used by the company's independent petroleum consultants in estimating reserves in 1979 than were used by the company's engineers the prior year. The natural gas/condensate discovery in Bolivia offset a substantial portion of the reduction in Canadian pipeline gas reserves. The development of crude oil reserves in Peru has increased the company's proven and probable oil reserves by nine million barrels.

	Proven		Probable		Total Proven & Probable	
	Gross	Net	Gross	Net	Gross	Net
Imperial Units						
Pipeline Gas (Bcf)						
Canada	221	172	27	21	248	193
U.S.	48	40	9	7	57	47
Bolivia	26	26	3	3	29	29
Crude Oil (thousand barrels)						
Canada	2,167	1,175	—	—	2,167	1,175
U.S.	729	607	170	142	899	749
Peru	9,045	9,045	—	—	9,045	9,045
Natural Gas Liquids (thousand barrels)						
Canada	3,065	2,405	62	38	3,127	2,443
U.S.	85	70	40	34	125	104
Bolivia	2,725	2,725	350	350	3,075	3,075
Sulphur (thousand long tons)						
Canada	2,125	1,867	5	4	2,130	1,871

	Proven		Probable		Total Proven & Probable	
	Gross	Net	Gross	Net	Gross	Net
Metric Units						
Pipeline Gas (million cubic metres)						
Canada	6,246	4,873	784	594	7,030	5,467
U.S.	1,364	1,138	241	201	1,605	1,339
Bolivia	712	712	86	86	798	798
Crude Oil (thousand cubic metres)						
Canada	345	187	—	—	345	187
U.S.	116	97	27	22	143	119
Peru	1,438	1,438	—	—	1,438	1,438
Natural Gas Liquids (thousand cubic metres)						
Canada	487	382	10	6	497	388
U.S.	14	11	6	5	20	16
Bolivia	433	433	55	55	488	488
Sulphur (thousand tonnes)						
Canada	2,160	1,897	4	4	2,164	1,901

Note: The table excludes the inventory of 408,134 long tons (414,684 metric tonnes) of sulphur held at year-end.

PRODUCTION AND SALES

The accompanying table summarizes production and sales volumes, before deduction of royalties, for each of the past five years. The sales volumes for pipeline gas, crude oil and natural gas liquids are essentially the same as those for production.

In Canada, substantially all CanadianOxy's natural gas, natural gas liquids and sulphur production is in Alberta and most of its crude oil production is in Saskatchewan. Its working interest share of Canadian production during 1979 averaged 41 million cubic feet per day of pipeline gas, 1,665 barrels per day of crude oil and natural gas liquids and 332 long tons per day of sulphur.

Pipeline gas production and sales increased in 1979, due to the commencement of production from new fields, particularly the Boyer (Paddle Prairie) and Eaglesham fields.

The company's main source of production revenue continues to be the Crossfield field, northeast of Calgary, where CanadianOxy operates 60 gas wells for itself and others. Five field compressors installed in late 1978 improved production and sales volumes. All gas produced from this field is processed at a plant owned by Petrogas Processing Ltd. located about three miles northeast of Calgary. CanadianOxy owns 30.9 percent of the shares of Petrogas and is the manager and operator of the plant. As such, it provides the management, supervisory and technical personnel to run the plant and the related field-production facilities. Due to declining production from the field, the Petrogas plant now has some surplus capacity to process gas. In order to utilize this surplus capacity, Petrogas commenced processing gas for other producers in the area on a fee basis during 1979.

OIL AND GAS — PRODUCTION AND SALES

	1979	1978	1977	1976	1975
Production					
(gross before royalties)					
Imperial Units					
Pipeline Gas (Bcf)	**19.1**	14.3	16.4	16.4	18.0
Crude Oil (thousand barrels)	**492.8**	291.2	300.9	338.4	370.8
Natural Gas Liquids (thousand barrels)	**356.3**	334.6	410.9	429.1	471.7
Sulphur (thousand long tons)	**121.1**	125.9	134.2	167.2	202.8
Metric Units					
Pipeline Gas (thousand cubic metres)	**529,798**	396,375	455,368	455,720	500,368
Crude Oil (thousand cubic metres)	**78.3**	46.3	47.8	53.8	58.9
Natural Gas Liquids (thousand cubic metres)	**56.6**	53.2	65.3	68.2	74.9
Sulphur (thousand tonnes)	**123.0**	127.9	136.4	169.9	206.1
Sales					
Sulphur					
Imperial Units (thousand long tons)					
North American	**79.1**	55.7	46.0	40.8	83.1
Overseas	**107.1**	95.4	82.4	49.0	55.5
	186.2	151.1	128.4	89.8	138.6
Metric Units (thousand tonnes)					
North American	**80.4**	56.6	46.8	41.5	84.5
Overseas	**108.8**	96.9	83.7	49.8	56.4
	189.2	153.5	130.5	91.3	140.9

Sulphur marketing contributed approximately 10 percent of CanadianOxy's net sales from oil and gas operations in 1979. The company markets sulphur both for its own account and as agent for Petrogas and others. During the year 1979, CanadianOxy sold 594,000 long tons of sulphur of which 565,000 long tons were sold as agent for Petrogas and others and 29,000 long tons were for its own account. CanadianOxy's share of total sales was 186,000 long tons, which exceeded its production by 65,000 long tons. CanadianOxy commenced marketing sulphur from inventory in 1978 and, based on the company's market forecast, its sulphur inventory of 408,000 long tons as at December 31, 1979 will be reduced significantly over the next few years.

CanadianOxy sells sulphur directly to a wide variety of consumers throughout Canada and in the United States and indirectly in overseas markets. Sulphur sales, which were adversely affected by the business recession in North American and world markets during 1975 and 1976, began a recovery in late 1977, particularly in international markets. The average plant selling price increased to about $30 per long ton from $16 per long ton in 1977.

CanadianOxy leases railroad tank cars for the transportation of liquid sulphur to North American customers. In anticipation of increased sulphur sales, the company has recently agreed to lease an additional 75 railroad tank cars which will bring its total fleet to 305 cars by mid-1980.

In the United States Gulf Coast, natural gas production increased from 1.5 million cubic feet per day at the end of 1978 to about 30 million cubic feet per day in December, 1979. The average wellhead price received for this production increased from $1.76 per Mcf ($63.81 per cubic metre) in December, 1978 to $2.10 per Mcf ($75.83 per cubic metre) at year-end 1979.

By December, 1979, CanadianOxy's contract share of the net secondary oil production at Talara, Peru had built up to approximately 1,130 barrels per day. No production revenues were recorded from this property in 1978, because the project was still in the initial development stage. All crude oil production from this project is being purchased by the national oil company, Petroperu, at the official sales price of Arabian light petroleum. This price was $24 (U.S.) per barrel at the year-end.

Gas Processing and Sulphur Recovery Plant, near Calgary.

minerals exploration

The Minerals division, based in Toronto, is engaged in the exploration for, and evaluation of, metallic mineral deposits across Canada.

During 1979, about 82 percent of the division's budget was spent on uranium exploration with the balance on the search for precious and base metal deposits. A series of joint venture agreements with other companies will allow stepped-up exploration for uranium deposits in Saskatchewan, the Yukon and New Brunswick. Although the company had an extensive uranium exploration program in British Columbia, the government recently announced a seven-year moratorium on uranium exploration in that province. This has curtailed further work on these claims.

The most significant mineral potential uncovered by exploration to date is at Wolly, a 100-square mile property on the easterly rim of the Athabasca Basin, in northern Saskatchewan. In April, 1979, the company and its equal partner Inco Metals Company announced a potentially significant uranium discovery, named the McClean Lake deposit, on this property about five miles west of Wollaston Lake.

During 1979, 92 vertical holes were drilled in the vicinity of the McClean Lake deposit. Of these drill holes, 35 have intersected uranium mineralization. Using an arbitrary limit of 0.2 percent average U_3O_8 content over at least 10 feet thickness as a reasonable minimum indication of commercial mineralization, we now have 23 holes with continuous intercepts varying between 10 feet and 63 feet with average grades ranging between 0.25 percent and 27.8 percent U_3O_8. Two of these holes yielded particularly high assay values. One drill hole intersected a 17-foot section containing 12.7 percent U_3O_8 and another intersected a 33-foot section containing 27.8 percent U_3O_8.

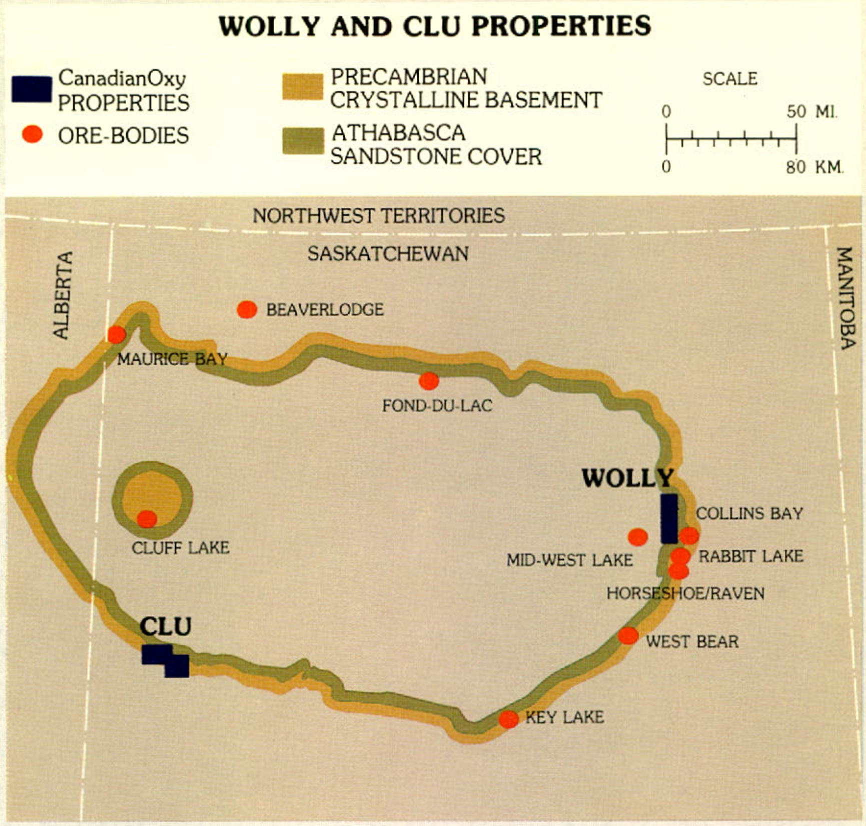
The drilling to date indicates that the deposit is 2,200 feet long and varies in width up to 200 feet, with some possible discontinuities within that length and some possibilities of greater widths at several places. The mineralization occurs at depths from 500 to 575 feet and, where closely spaced holes have been drilled, the mineralization appears to be continuous between holes. The incomplete pattern of drill hole spacing and the irregular distribution of assay values prevents reliable estimation of overall tonnage and average grade at this time. Future delineation drilling at the McClean Lake deposit will be designed to provide greater detail of the tonnage, grade and geometry of the mineralization. This work is scheduled to start in June, 1980.

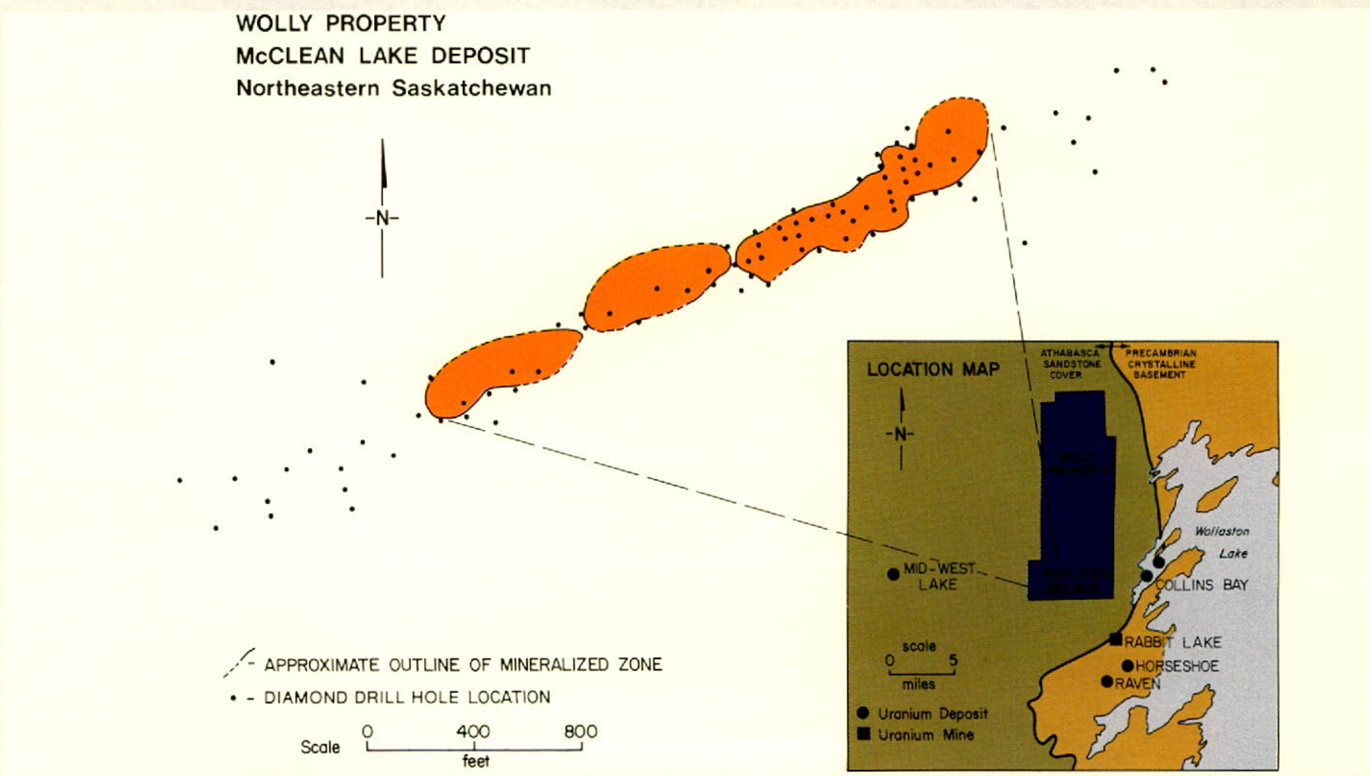
	Percentage Interest	Gross Acres
Northwest Territories	100%	1,498
Yukon Territory	100%	31,482
	33%	37,596
	19%	4,472
	7%	9,984
British Columbia	100%	41,097
	33%	50,416
Saskatchewan	100%	63,960
	50%	637,090
Quebec	100%	1,764
New Brunswick	60%	22,080
	7.4%	80
		901,519

Winter Drilling at McLean Lake.

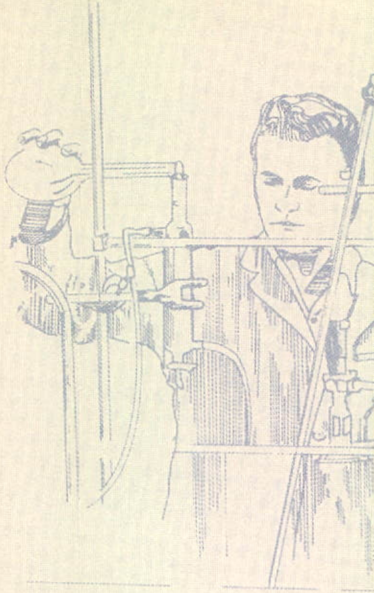
The drilling to date has not exhausted the possibilities of a further extension of the length of the McClean Lake mineralization within and beyond the 4,000 foot gross length probed. Much of the ground in the Wollaston Lake vicinity is covered by swamps and lakes and these areas are best accessed for exploration in winter, after freeze-up has provided a solid surface for men and equipment. Thus, work programs are planned separately for summer and winter according to the terrain, and a particular prospect such as McClean Lake may take several seasons to fully evaluate. In addition, there are other targets previously outlined or suspected on this 100-square mile property which will be tested by drilling programs in 1980 and beyond.

The accompanying table summarizes the acreages held across Canada on December 31, 1979. All of these properties are in the exploratory stage, and no revenues are generated by them.





chemicals



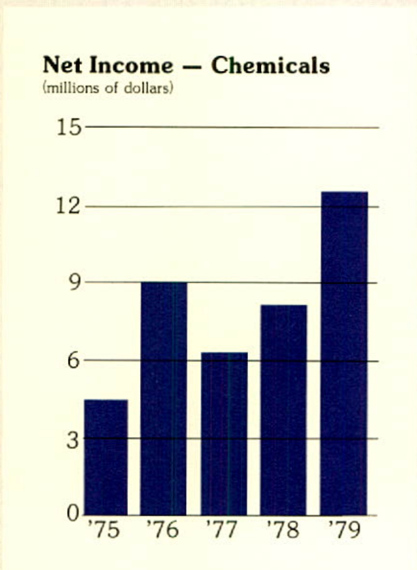
CanadianOxy's chemical operations comprise the Industrial Chemicals division, in western Canada, and the Metal Finishing division and Durez Plastics division, in eastern Canada.

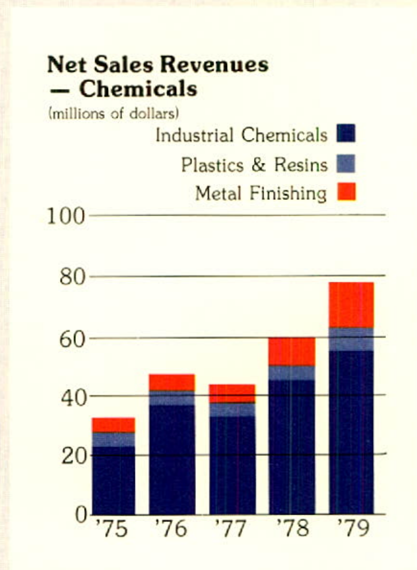
In western Canada, the company operates three electro-chemical plants in British Columbia and a fourth plant in Brandon, Manitoba. Their primary business is the manufacture and supply of bleaching chemicals to the pulp and paper industry.

The Eastern Chemical division consists of three separate manufacturing operations at Rexdale and Fort Erie, Ontario. The Rexdale plant manufactures the Parker product line of metal finishing products and the Sel-Rex line of precious metal chemical plating compounds. The Durez plant at Fort Erie produces a wide range of phenol-formaldehyde plastic moulding compounds and resins.

Combined chemical sales revenues increased 30 percent to $78.9 million in 1979. Net income, which included an $893,000 after tax gain on the sale of surplus land, rose by 54 percent to $12.7 million as compared to 1978. Each of the divisions and plants had record sales revenues and operating profits in the year despite some lost production and sales due to labour disputes in the British Columbia pulp and paper industry, last summer.

The accompanying tables illustrate the continued financial growth of the combined chemical operations over the five-year period 1975 - 1979.





CHEMICAL OPERATIONS

	1979	1978	1977	1976	1975
			(Amounts in Thousands)		
Net Sales Revenues					
Industrial Chemicals	**$56,024**	$45,935	$32,836	$36,565	$22,922
Plastics and Resins	**7,403**	5,499	4,153	5,059	4,329
Metal Finishing	**15,437**	9,287	7,196	5,577	5,395
	$78,864	$60,721	$44,185	$47,201	$32,646
Net Income	**$12,663**	$ 8,204	$ 6,304	$ 9,083	$ 4,455
Capital Expenditures	**$ 2,644**	$ 2,406	$ 2,298	$ 564	$ 2,683
Net Property, Plant and Equipment	**$20,094**	$20,665	$22,369	$22,715	$24,786

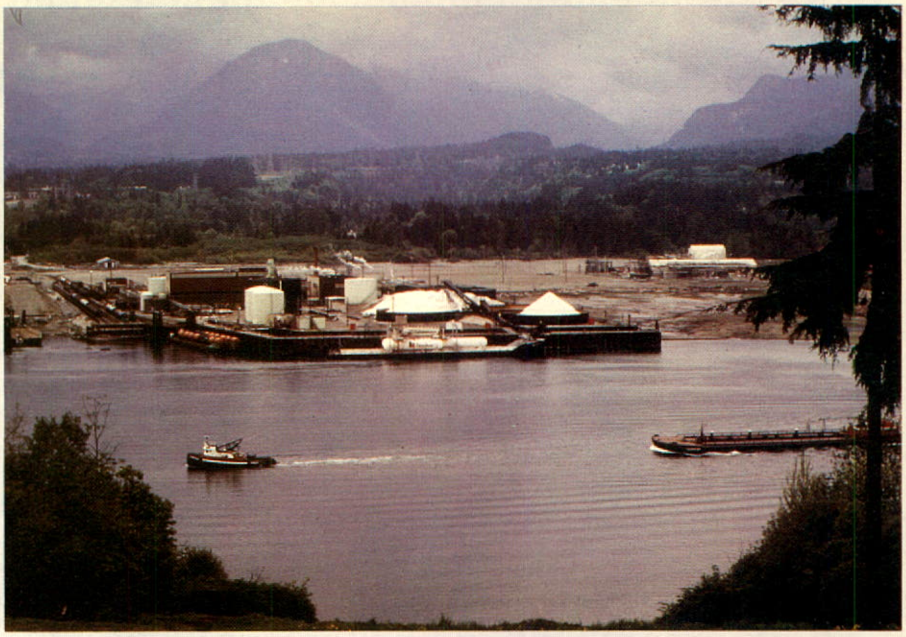
INDUSTRIAL CHEMICALS

This major division, with headquarters in North Vancouver, comprises two chlor-alkali plants at North Vancouver and Nanaimo, B.C., and two sodium chlorate manufacturing plants at Squamish, B.C. and Brandon, Manitoba.

The North Vancouver plant was built in 1957 and has been expanded as required to meet growth in market demand. The designed annual capacity of the plant is approximately 154,000 tons of chlorine, 171,000 tons of caustic soda and 25,000 tons of muriatic acid. Virtually all of the chlor-alkali production from the North Vancouver plant is shipped to pulp mill customers by the company's bulk storage chemical barge, rail tanker barge and fleet of 202 leased rail tank cars and hopper cars. The North Vancouver plant operated at virtually full capacity during 1979, except for several weeks during the summer when certain of the customers' pulp mill operations were disrupted by strikes.

The Nanaimo plant, built in 1964, has a designed annual capacity of approximately 33,000 tons of chlorine and 36,000 tons of caustic soda. All of the chlorine and about two-thirds of the caustic soda production is delivered by pipeline to the adjacent Harmac pulp mill owned by MacMillan Bloedel Limited. Apart from being shut down during part of July and August, due to strikes at the Harmac pulp mill, the Nanaimo plant operated at virtually full capacity during 1979.

Seven principal customers, operating 10 of the 17 British Columbia pulp mills, account for 82 percent of the company's sales of industrial chemicals. Because of the strikes at customers' pulp mills, there was a three percent decline in the production of chlorine and



North Vancouver Plant.

CHEMICALS PRODUCTION

	1979	1978	1977	1976	1975
Industrial Chemicals					
Imperial Units (thousands of tons)					
Caustic Soda	**191.8**	198.0	177.3	207.4	147.2
Chlorine	**169.2**	174.5	154.7	181.1	126.9
Sodium Chlorate (Notes 1 and 2)	**23.0**	15.0	9.1	7.1	—
Muriatic Acid	**18.6**	14.7	8.7	4.2	2.4
Metric Units (thousands of tonnes)					
Caustic Soda	**174.0**	179.7	160.8	188.2	133.5
Chlorine	**153.5**	158.3	140.3	164.3	115.1
Sodium Chlorate (Notes 1 and 2)	**20.9**	13.6	8.3	6.4	—
Muriatic Acid	**16.9**	13.3	7.9	3.8	2.2
Durez Plastics					
Imperial Units (thousands of pounds)					
Moulding Materials	**7,202**	5,532	3,018	3,521	2,824
Industrial and Foundry Resins	**5,896**	5,959	5,273	6,019	4,077
Metric Units (thousands of kilograms)					
Moulding Materials	**3,267**	2,509	1,369	1,597	1,281
Industrial and Foundry Resins	**2,674**	2,703	2,392	2,730	1,849
Oxy Metal Finishing					
Imperial Units (thousands of pounds)					
Metal Finishing Chemicals	**10,236**	9,483	9,132	8,258	6,860
Metric Units (thousands of kilograms)					
Metal Finishing Chemicals	**4,643**	4,302	4,142	3,746	3,112

Notes:
1. *Includes production from the Brandon plant commencing July 1, 1978.*
2. *CanadianOxy did not produce sodium chlorate prior to acquisition of the Squamish plant in November, 1975.*

caustic soda for the year. Chlorine sales volume was also reduced by five percent but caustic soda sales equalled 1978 levels.

During the year, the chlor-alkali sales contracts pertaining to four major pulp mills were extended to at least 1988. These, like the company's other major sales contracts, contain price escalation clauses to cover future increases in the company's manufacturing costs.

An expansion project, doubling the manufacturing capacity of the muriatic acid unit to 25,000 tons per year, was completed in July, 1979. This enabled the company to record a 30 percent increase in its production and sales of this product. A principal use for muriatic acid (also known as hydrochloric acid) is in the completion and treatment of oil and gas wells. The company now supplies more than 40 percent of the muriatic acid used in Alberta and British Columbia.

During the year, the production capacity of the sodium chlorate manufacturing plant at Squamish was increased by 30 percent, to in excess of 12,000 tons per year. The production from this plant is sold to four major pulp mills in British Columbia, where it is used as a pulp bleaching agent. After completion of the plant expansion in June, the plant operated at approximately 88 percent of capacity.

The sodium chlorate manufacturing plant at Brandon operated at near its design capacity of 12,000 tons per year and contributed to the company's earnings. However, one of the plant's principal customers, accounting for about one-third of the plant's sales, has announced plans to build its own sodium chlorate plant, for completion in late 1980. Consequently, the company is seeking alternate export markets for the production from this plant.

The division was again awarded contracts to supply road salt (sodium chloride) to the B.C. Department of Highways and some 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 dioxide, another pulp bleaching agent. These sales are complementary to our chemical business, since salt is the basic raw material in the manufacture of electro-chemicals such as chlorine, caustic soda, muriatic acid and sodium chlorate.

The District of North Vancouver recently 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. Although this plant has an excellent record in regard to toxic exposure, most of the consultant's recommendations to improve the safety features of the plant have been, or are being, implemented. There will continue to be an on-going program to improve the environmental and safety features of all our plants as new technology and equipment become available, and $3.5 million has been allocated for this purpose during 1980.

The division employs 239 persons or approximately 43 percent of the company's employees. Of this group, 60 percent are hourly unionized employees. The labour contracts for the North Vancouver, Nanaimo, Squamish and Brandon plants extend until November, 1980; June, 1981; March, 1981 and February 1981, respectively.

DUREZ PLASTICS

The Durez division with its plant and office at Fort Erie, Ontario has a staff of 47 employees. It is a major Canadian manufacturer of phenol-formaldehyde industrial and foundry resins, and moulding compounds.

The products are sold under the DUREZ trade name and are consumed by a wide variety of end-users. Customers include the automotive, tire, communications, appliance, electrical and foundry industries.

After operating at less than half capacity in 1977, there has been a marked improvement in sales revenues and earnings throughout 1978 and 1979. Sales volumes increased by more than 12 percent during 1979, due primarily to a buoyant export market for moulding compounds.

Significant expenditures were made to improve the environmental and pollution control aspects of the plant operations, which have substantially eliminated all known potential problems in this area.

Automotive parts moulded from Durez moulding compounds.

METAL FINISHING

Our subsidiary Oxy Metal Finishing of Canada Ltd. has its office and plant in Rexdale (Toronto), Ontario. The staff of 31 employees are involved with two separate complementary metal finishing product groups, Parker and Sel-Rex.

1979 was an excellent operating year for this division, with sales revenues increasing by more than 66 percent to $15.4 million. This was partly due to significant increases in the price of gold, a major raw material for the Sel-Rex product group. Sales volumes also improved, 9 percent for Parker products and 31 percent for Sel-Rex products.

A $180,000 waste treatment facility was successfully completed in the third quarter of 1979.

With regard to employee safety, our excellent record continued. This division has not had a lost time accident since 1972.

Parker

This group has operated in Canada since 1948 as the leading manufacturer and supplier of metal finishing chemicals. Parker manufactures and markets over 190 products for the treating, cleaning, forming, coating and finishing of steel, aluminum and other metals used in the manufacture of many industrial products, including automotive parts and bodies, metal siding, appliances, steel furniture, electrical parts, and agricultural equipment.

The key success factors for Parker include excellent field service, proprietary technology and quality products available on very short notice. Also, new products are continually being developed to meet special applications.

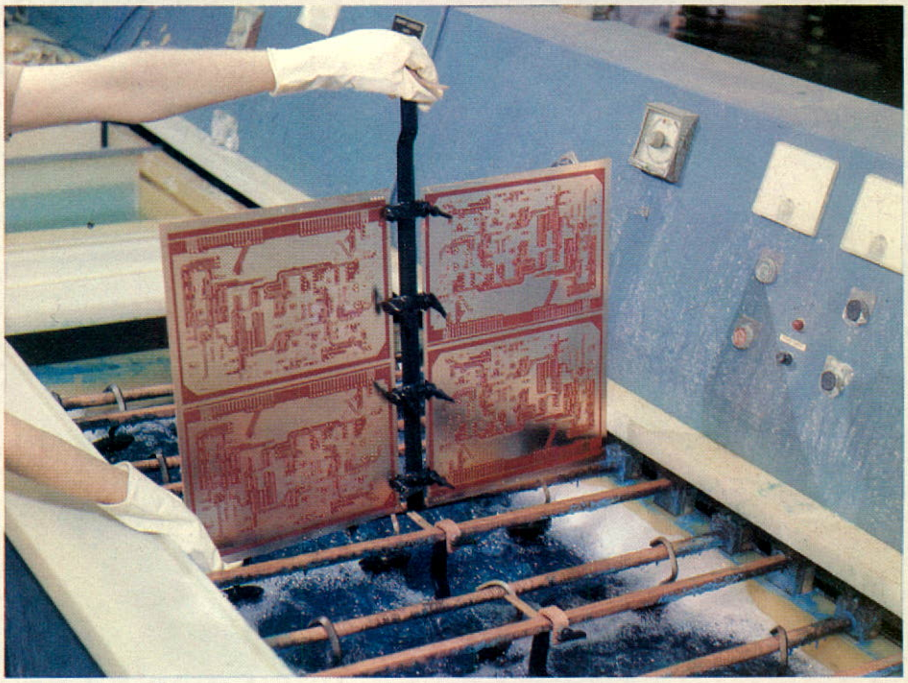
The Parker product group achieved record levels for both sales revenues and sales volumes during 1979.

Sel-Rex

The Sel-Rex group is the major Canadian supplier of precious metal electroplating chemicals and process technology to the electronics, telecommunications and decorative (mainly jewellery) industries.

Sel-Rex products are used in the manufacture of connectors, transistors, printed circuits, integrated circuits and numerous other long-life devices where the reliability is enhanced by the use of precious metal plating. Typical applications in the decorative industry are the plating of watches, optical goods, flatware, and hollow ware. The largest sales volume is in gold plating chemical processes designed to meet the specific service requirements of our customers, such as wearability, thickness, colour and hardness.

The sales volumes of Sel-Rex gold plating processes increased 31 percent over the prior year, which in turn was ahead 17 percent over 1977.



Sel-Rex Precious Metal Plating.

financial review

SUMMARY OF OPERATIONS	1979	1978	1977	1976	1975
Net sales and other income:					
Gas, crude oil and liquids	**$ 40,908**	23,458	22,319	18,180	16,148
Sulphur	**4,526**	2,482	1,816	1,413	2,863
Industrial chemicals	**56,024**	45,935	32,836	36,565	22,922
Plastics and resins	**7,403**	5,499	4,153	5,059	4,329
Metal finishing	**15,437**	9,287	7,196	5,577	5,395
Total net sales	**124,298**	86,661	68,320	66,794	51,657
Interest and other income	**1,913**	5,771	6,835	4,352	3,055
Total revenues	**126,211**	92,432	75,155	71,146	54,712
Cost of products sold	**62,055**	45,496	34,133	31,915	24,427
Selling, administrative and other operating expenses	**8,828**	6,499	6,061	5,442	4,420
Exploration expenses	**8,224**	11,131	4,501	3,470	1,990
Depreciation, depletion and amortization	**12,211**	6,775	6,134	5,145	5,014
Interest on long-term debt	**864**	206	254	290	329
Loss on partial retirement of plant	**—**	796	—	—	—
Provision for income taxes	**14,107**	8,096	8,918	9,633	7,721
Income before extraordinary items	**19,922**	13,433	15,154	15,251	10,811
Extraordinary items	**893**	—	—	641	—
Net income	**$ 20,815**	13,433	15,154	15,892	10,811
Net income (loss) by business segments:					
Oil and gas	**$ 8,970**	5,972	9,582	7,396	6,770
Minerals exploration	**(818)**	(743)	(732)	(587)	(414)
Chemicals	**12,663**	8,204	6,304	9,083	4,455
	$ 20,815	13,433	15,154	15,892	10,811
*Per common share (after preferred share dividends):					
Income before extraordinary items	**$ 0.77**	0.45	0.54	0.66	0.45
Extraordinary items	**0.04**	—	—	0.03	—
Net income	**$ 0.81**	0.45	0.54	0.69	0.45

Dollar amounts are in thousands, except for the per share data.
**Per common share amounts for the years 1975 to 1978 have been restated for the 3-for-1 common share split in 1979.*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Comparison of 1979 to 1978

Net income increased by $7,382,000 or 55 percent, reflecting improved earnings in both the oil and gas operations and the chemical operations. Oil and gas earnings were up $2,998,000 or 50 percent and chemical earnings by $4,459,000 or 54 percent. The earnings from the chemical operations included an extraordinary gain of $893,000 on the sale of surplus land.

Revenues increased by $33,779,000 or 37 percent to a total of $126,211,000. All sources of revenue were well ahead of the previous year, with the exception of interest and other income. Interest and other income declined by $3,858,000 because of a reduction in surplus cash available for investment.

Sales revenues from oil and gas operations increased by $19,494,000 or 75 percent because of increased production of pipeline gas, crude oil, natural gas liquids and sulphur, and higher selling prices for all products. Pipeline gas sales volumes were up by 29 percent reflecting additional production from the U.S. Gulf Coast and a higher demand by pipeline companies in Canada. Sales of crude oil and natural gas liquids increased primarily because of the added crude oil production at Talara, Peru.

Sales revenues for industrial chemicals increased by $10,089,000 or 22 percent, due largely to higher selling prices. Total product volumes were comparable to 1978; however strikes in the pulp and paper industry and British Columbia Railway caused some curtailment of production and sales.

Sales of plastics and resins increased by $1,904,000 or 35 percent, reflecting a 12 percent increase in volumes and improved product selling prices. In the metal finishing operations, sales revenues increased by $6,150,000 or 66 percent. Sales volumes for Parker and Sel-Rex products increased by 9 percent and 31 percent, respectively. The marked increase in the price of gold resulted in much higher selling prices for precious metal plating solutions.

Cost of products sold increased by $16,559,000 or 36 percent in 1979. In the oil and gas operations, costs were up $4,251,000 primarily as a result of bringing new properties into production in the U.S. Gulf Coast, Talara, Peru and western Canada. Also, plant and well operating costs in Canada increased due to higher maintenance and labour costs. Costs in the industrial chemical operations increased by $5,946,000 due to higher plant energy, maintenance and labour costs; the added costs of operating the Brandon chlorate plant for a full year versus six months in 1978; and additional purchases of finished product for resale. In the plastics and resins operations, costs increased by $1,191,000, because of increased production volumes; the higher cost of raw materials (particularly phenol); an increase in maintenance and labour costs; and the higher cost of operating materials and supplies. In the metal finishing operations, costs increased by $5,171,000, due to increased production volumes and higher costs of raw materials (particularly gold), operating labour and supplies.

Selling, administrative and other operating expenses increased by $2,329,000 or 36 percent as a result of generally higher sales volumes, increased salaries, additional manpower, and the effects of inflation on other routine expenses. Included in other operating expenses for 1979 were foreign exchange losses of $618,000. In 1978, foreign exchange gains of $591,000 were included in revenues.

Exploration expenses in 1979 decreased by $2,907,000, primarily as a result of reduced foreign exploration activity.

The provision for depreciation, depletion and amortization in 1979 increased by $5,436,000 or 80 percent due primarily to the higher production volumes of pipeline gas and crude oil.

Interest on long-term debt increased by $658,000 in 1979 because of additional bank borrowings.

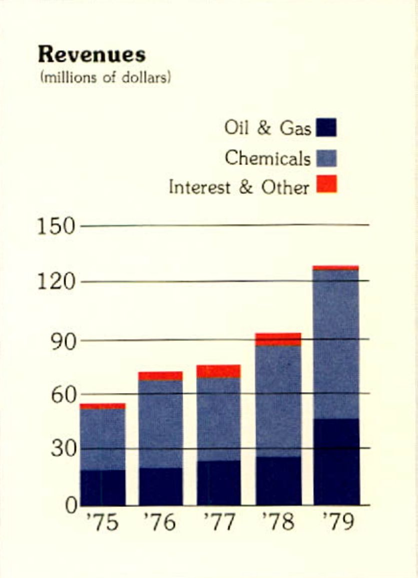
In 1979, the provision for income taxes increased by $6,011,000 as a result of the higher pre-tax profits. The overall effective rate in 1979 was 41.4 percent compared to 37.6 percent in 1978. This increase in the effective tax rate reflects a change in the contribution to pre-tax profits by the various business segments, which are taxed at different rates. In 1979, foreign taxes of $3,746,000 are included with respect to the operations in the U.S. Gulf Coast and Talara, Peru at rates higher than equivalent Canadian income taxes.

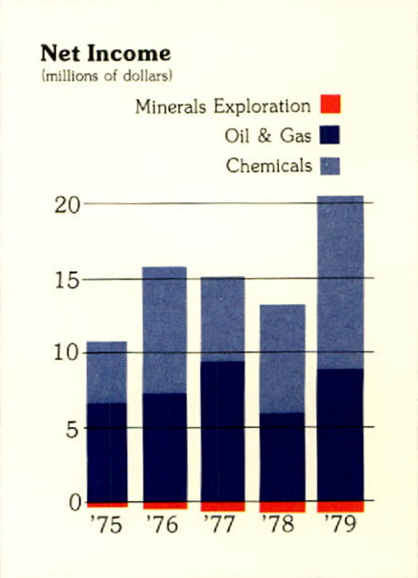
Comparison of 1978 to 1977

Consolidated net income decreased by $1,721,000 or 11 percent in 1978. Earnings from oil and gas operations declined by $3,610,000 primarily because of higher write-offs of exploration costs. This was partially offset by a $1,900,000 increase in earnings from chemical operations.

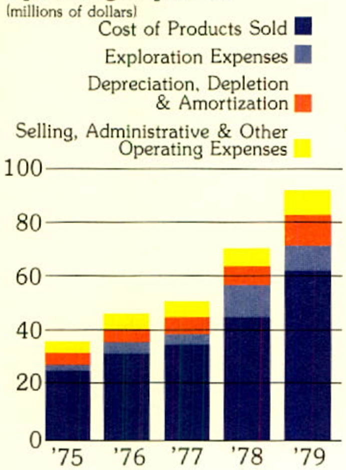
Revenues in 1978 totalled $92,432,000, an increase of $17,277,000 or 23 percent. The most significant improvement was in industrial chemicals where increased sales volumes and higher selling prices resulted in an increase of $13,099,000 or 40 percent. In the prior year, sales of industrial chemicals had been affected by a five-week strike at the North Vancouver plant.

Plastics and resin sales increased by $1,346,000 or 32 percent, primarily as a result of a 32 percent increase in volumes. Sales of metal finishing products were up by $2,091,000, mainly because of improved volumes for Parker and

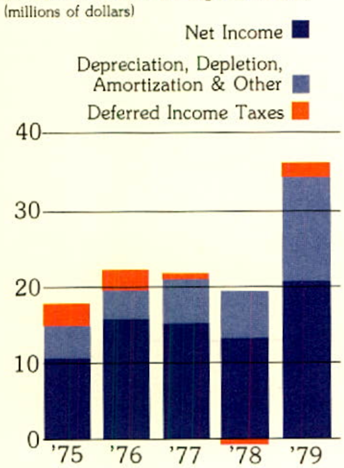




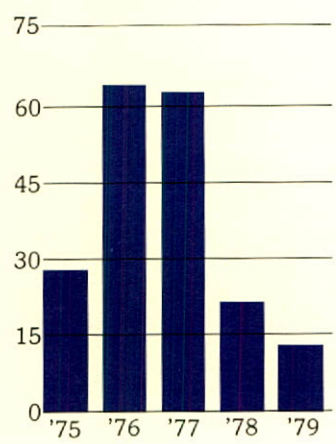
Operating Expenses
(millions of dollars)



Cash Flow from Operations
(millions of dollars)



Working Capital
(millions of dollars)



Sel-Rex (4 percent and 17 percent, respectively). Also, an increase in the price of gold resulted in higher selling prices for precious metal plating solutions.

Sales revenues from oil and gas operations increased by $1,805,000, primarily as the result of improved prices and additional sulphur sales volumes. Sales volume of natural gas was down by 13 percent because of reduced demand by pipeline companies.

Selling, administrative and other operating expenses increased by $438,000 or 7 percent in 1978, due to staff additions, higher salaries and the effects of inflation on other routine expenses.

The write-off of exploration expenses increased by $6,630,000 in 1978, primarily as a result of dry hole costs outside North America.

The shutdown of the chlor-alkali portion of the Brandon plant necessitated a $796,000 write-down of the plant investment. The plant continues to operate for the manufacture of sodium chlorate.

The provision for income taxes was $822,000 less than in 1977 as a result of lower pre-tax profits. The overall effective tax rate in 1978 was 37.6 percent, compared to 37.0 percent in 1977. The change in effective tax rate reflects a change in the relative contribution to pre-tax profits by the various business segments, which are taxed at different rates.

Cost of products sold increased by $11,363,000 or 33 percent in 1978. Costs increased by $8,414,000 in the industrial chemical operations due to a 23 percent increase in sales volumes and higher plant maintenance costs. In order to meet the increased market demand, finished product was purchased for resale. This added to overall costs since the price of purchased product was higher than our manufacturing cost for similar product. The substantial increase in sales volumes of plastics and resins was the major contributing factor to cost increases of $999,000. In the metal finishing operations, costs increased by $1,409,000 as a result of higher sales volumes coupled with a substantial increase in the price of gold. Cost of product sold for oil and gas operations increased by $541,000, principally due to higher plant and well operating costs.

CHANGES IN FINANCIAL POSITION

Cash flow (working capital) generated from operations amounted to $36,361,000 in 1979, an increase of $16,813,000 over 1978. This increase was a result of the improvement in pre-tax earnings together with the higher non-cash outlay for depreciation, depletion and amortization, deferred income taxes and other charges.

During 1979, the company arranged a normal operating line of credit for $15,000,000 with a Canadian chartered bank. In addition, a five-year revolving credit agreement was arranged with another chartered bank under which the company may borrow up to $30,000,000 in Canadian or U.S. funds with semi-annual repayments commencing in May, 1983. The interest rates under these lines of credit fluctuate with changes in bank interest rates in effect from time to time depending upon the currency and nature of the loans. At December 31, 1979, $26,500,000 had been drawn against the five-year revolving credit agreement and the full $15,000,000 operating line was still available. Early in 1980, the credit limit under the five-year revolving credit agreement was increased to $80,000,000 and the company expects to draw down a substantial portion of these funds during 1980.

Working capital at December 31, 1979 amounted to $13,448,000, a decrease of $8,146,000 from the prior year. This reduction was due primarily to a significant increase in capital expenditures.

REDEMPTION OF 9.25% PREFERRED SHARES

On December 20, 1979, the company invited tenders to purchase for cancellation all of the 9.25% Preferred Shares, Series A (aggregate par value $7,500,000 U.S.) and Series B (aggregate par value $10,500,000 Cdn.) at a purchase price equal to the par value plus all accrued dividends. All of the $7,500,000 (U.S.) Series A and $100,000 (Cdn.) of the Series B were tendered for cancellation after the year-end. The company then issued notices redeeming all of the remaining 9.25% Preferred Shares, Series B, effective April 11, 1980.

DIVIDENDS

Regular quarterly common share dividends totalled $4,195,000 or 20.5 cents per share compared with $3,938,000 or 19.3 cents per share in 1978. The board of directors increased the regular quarterly dividend on the common shares to six cents per share (formerly 4.8 cents per share) effective January 1, 1980.

Preferred share dividends were paid on a regular quarterly basis and amounted to $4,286,000 compared with $4,275,000 in 1978 with the small increase attributable to the difference in the exchange rate affecting those preferred shares denominated in United States currency.

CAPITAL EXPENDITURES

Capital expenditures (including exploration expenses) amounted to $74,110,000 compared with $42,642,000 in 1978.
The following table summarizes the capital expenditures by business segment:

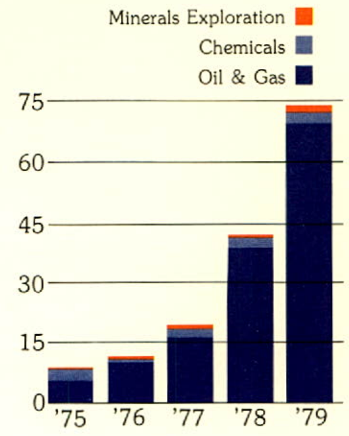
	1979	1978
	(Amounts in thousands)	
Oil and Gas —		
Canada	**$12,106**	$13,167
United States	**14,073**	9,762
Foreign	**42,988**	16,414
	69,167	39,343
Minerals Exploration	**2,299**	893
Chemicals	**2,644**	2,406
Total capital expenditures	**74,110**	42,642
Less current year expenditures charged to exploration expenses	**6,564**	11,126
Additions to property, plant and equipment	**$67,546**	$31,516

TRADING RANGE OF COMMON SHARES

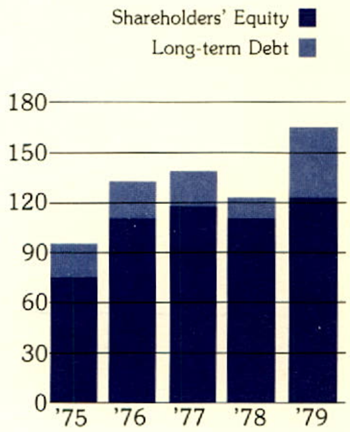
The common shares are traded on the Toronto Stock Exchange and the American Stock Exchange. The following is the trading range of the common shares on each of these exchanges during the past two years after giving effect to the three-for-one stock split on November 13, 1979:

	Toronto Stock Exchange ($Cdn) High	Toronto Stock Exchange ($Cdn) Low	American Stock Exchange ($U.S.) High	American Stock Exchange ($U.S.) Low
1978				
First quarter	6.21	5.25	5.58	4.63
Second quarter	7.75	5.08	7.08	4.50
Third quarter	8.25	6.13	7.38	5.33
Fourth quarter	7.00	5.83	5.83	4.92
1979				
First quarter	8.83	6.33	7.42	5.33
Second quarter	15.00	8.08	12.67	7.16
Third quarter	16.50	12.33	13.83	10.53
Fourth quarter	15.83	10.75	13.42	9.50

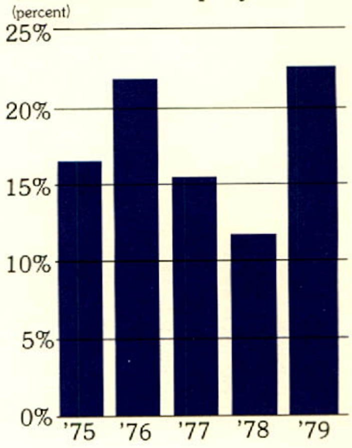
Capital Expenditures
(millions of dollars)



Capital Employed
(millions of dollars)



Return on Common Shareholders' Equity
(percent)



CANADIAN OCCIDENTAL PETROLEUM LTD.
and Subsidiary Companies

consolidated balance sheet

December 31, 1979 and 1978

ASSETS

	1979	1978
	(Amounts in thousands)	
CURRENT ASSETS		
Cash	**$ 331**	$ 702
Certificates of deposit	**1,639**	21,735
Accounts receivable	**28,101**	20,545
Inventories (Note 1)	**5,977**	4,491
Materials and supplies (Note 1)	**13,591**	9,034
Prepaid expenses	**670**	546
Total current assets	**50,309**	57,053
INVESTMENT IN PETROGAS PROCESSING LTD.	**7,772**	8,080
PROPERTY, PLANT AND EQUIPMENT, at cost less accumulated depreciation, depletion and amortization of $64,693 in 1979 and $53,472 in 1978 (Note 2)	**158,028**	104,529
OTHER ASSETS		
Deferred foreign exchange costs	**1,067**	1,785
Sulphur inventory, in excess of one year's sales volumes	**1,123**	1,400
Other	**411**	286
	2,601	3,471
	$218,710	$173,133

APPROVED ON BEHALF OF THE BOARD:

, Director

, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
	(Amounts in thousands)	
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 18,888**	$ 12,249
Payable to affiliates	**11,028**	9,797
Income taxes payable	**2,217**	1,752
Dividends payable	**2,297**	2,051
Current portion of long-term debt (Note 3)	**2,431**	9,610
Total current liabilities	**36,861**	35,459
LONG-TERM DEBT (Note 3)	**42,194**	12,603
DEFERRED INCOME TAXES (Note 4)	**16,022**	14,102
SHAREHOLDERS' EQUITY (Notes 5, 7 and 17)		
Preferred shares, $25 par value		
Authorized: 1,000,000 shares		
Issued and outstanding:		
300,000 shares — Series A	**7,419**	7,419
420,000 shares — Series B	**10,500**	10,500
Class A preferred shares, $25 par value		
Authorized: 1,000,000 shares		
Issued and outstanding:		
1,000,000 shares — First Series	**25,000**	25,000
Common shares, 33⅓¢ par value		
Authorized: 45,000,000 shares		
Issued and outstanding:		
20,490,774 shares in 1979 and 20,414,424 in 1978	**6,830**	6,805
Capital in excess of par value	**20,363**	20,058
Retained earnings	**53,521**	41,187
Total shareholders' equity	**123,633**	110,969
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)		
	$218,710	$173,133

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

CANADIAN OCCIDENTAL PETROLEUM LTD.
and Subsidiary Companies

consolidated statement of income

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(Amounts in thousands)	
REVENUES (Notes 8 and 9)		
Net sales	**$124,298**	$86,661
Interest and other	**1,913**	5,771
	126,211	92,432
COSTS AND EXPENSES (Notes 8, 9, 10 and 11)		
Cost of products sold	**62,055**	45,496
Selling, administrative and other operating expenses	**8,828**	6,499
Exploration expenses	**8,224**	11,131
Depreciation	**3,986**	3,348
Depletion and amortization	**8,225**	3,427
Interest on long-term debt	**864**	206
Loss on partial retirement of plant	**—**	796
	92,182	70,903
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	**34,029**	21,529
INCOME TAXES (Note 4)		
Current	**12,187**	9,087
Deferred	**1,920**	(991)
	14,107	8,096
INCOME BEFORE EXTRAORDINARY ITEM	**19,922**	13,433
EXTRAORDINARY ITEM (Note 16)	**893**	—
NET INCOME	**$ 20,815**	$13,433
EARNINGS PER COMMON SHARE (Note 6):		
Before extraordinary item	**$ 0.77**	$ 0.45
Extraordinary item	**0.04**	—
Net income	**$ 0.81**	$ 0.45

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

CANADIAN OCCIDENTAL PETROLEUM LTD.
and Subsidiary Companies

consolidated statement of changes in financial position

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(Amounts in thousands)	
WORKING CAPITAL WAS PROVIDED BY:		
Operations —		
Income before extraordinary item	**$ 19,922**	$ 13,433
Add: amounts not requiring an outlay of working capital —		
Depreciation, depletion and amortization	**12,211**	6,775
Deferred income taxes	**1,920**	(991)
(Profit) loss on sale of fixed assets	**(378)**	862
Other	**2,686**	(531)
Working capital generated from operations	**36,361**	19,548
Proceeds from —		
Long-term debt	**26,500**	—
Redemption of Petrogas Processing Ltd. debentures	**—**	1,298
Sale of property, plant and equipment, net	**1,429**	247
Other	**646**	646
Reclassification of debt from current to long-term	**5,233**	—
	70,169	21,739
WORKING CAPITAL WAS USED FOR:		
Additions to property, plant and equipment	**67,546**	31,516
Reduction in long-term debt	**2,142**	8,588
Dividends	**8,481**	21,351
Other	**146**	1,742
	78,315	63,197
DECREASE IN WORKING CAPITAL	**$ (8,146)**	$(41,458)
Increase (Decrease) in Current Assets —		
Cash and certificates of deposit	**$(20,467)**	$(34,985)
Accounts receivable	**7,556**	8,402
Inventories	**6,043**	9,187
Prepaid expenses	**124**	183
	(6,744)	(17,213)
Increase (Decrease) in Current Liabilities —		
Accounts payable and accrued liabilities	**6,639**	5,076
Payable to affiliates	**1,231**	9,797
Income taxes payable	**465**	327
Dividends payable	**246**	87
Current portion of long-term debt	**(7,179)**	8,958
	1,402	24,245
DECREASE IN WORKING CAPITAL	**(8,146)**	(41,458)
WORKING CAPITAL — January 1	**21,594**	63,052
WORKING CAPITAL — December 31	**$ 13,448**	$ 21,594

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

CANADIAN OCCIDENTAL PETROLEUM LTD.
and Subsidiary Companies

consolidated statement of shareholders' equity

For the Years Ended December 31, 1979 and 1978

	Preferred Shares Par Value of $25	Common Shares Par Value of 33-1/3c	Capital In Excess of Par Value	Retained Earnings
		(Amounts in thousands)		
BALANCES, December 31, 1977 . . .	$42,919	$6,781	$32,757	$36,176
Common shares issued.	—	24	230	—
Net income.	—	—	—	13,433
Common share dividends (Note 7)	—	—	(12,929)	(4,147)
Preferred share dividends.	—	—	—	(4,275)
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

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

CANADIAN OCCIDENTAL PETROLEUM LTD.
and Subsidiary Companies

statement of significant accounting policies

December 31, 1979 and 1978

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Occidental Petroleum Ltd. and its Subsidiary Companies, all of which are 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 and 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 share of these earnings is deducted in calculating "cost of products sold" in the Consolidated Statement of Income and does not materially change "cost of products sold".

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

See Note 2 for additional information regarding international joint ventures.

Inventories

Inventories 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, 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 is charged or credited to the accumulated depreciation, after considering salvage value or proceeds from sale, 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

Oil and Gas properties are accounted for on the successful efforts method.

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 provision. The cost of undeveloped leases which become 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 cost of unsuccessful exploratory wells is written off at the time of abandonment.

Costs of drilling and equipping successful exploratory wells together with all development wells and related facilities are capitalized, and depletion and depreciation are calculated on the unit-of-production method based on estimated 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 proven the capitalized costs will be depleted on the unit-of-production method using the estimated recoverable mineral reserves.

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 recorded as a reduction of income tax expense in the year utilized.

Foreign Currency Translations

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 taxes 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.

(d) 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 income.

CANADIAN OCCIDENTAL PETROLEUM LTD.
and Subsidiary Companies

notes to consolidated financial statements

December 31, 1979 and 1978

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

1. INVENTORIES AND MATERIALS AND SUPPLIES

Current inventories and materials and supplies as of December 31, 1979 and 1978 are comprised of the following:

	1979	1978
Inventories:		
Finished products	**$ 2,540**	$2,268
Raw materials	**2,529**	1,611
Work in process	**908**	612
	$ 5,977	$4,491
Materials and supplies:		
Canada	**$ 1,857**	$1,848
Peru, Bolivia and Colombia	**11,734**	7,186
	$13,591	$9,034

2. PROPERTY, PLANT AND EQUIPMENT

	1979		**1978**	
	Cost	**Accumulated Depreciation, Depletion and Amortization**	**Cost**	**Accumulated Depreciation, Depletion and Amortization**
Chemical operations	**$ 51,620**	**$31,526**	$ 49,355	$28,690
Minerals exploration	**4,921**	**2,217**	2,810	1,127
Oil and gas operations				
— Canada	**49,643**	**23,462**	42,758	21,067
— United States	**67,344**	**6,131**	53,283	2,588
— Peru	**46,618**	**1,357**	6,652	—
— Bolivia	**2,575**	**—**	1,840	—
— Colombia	**—**	**—**	1,303	—
	$222,721	**$64,693**	$158,001	$53,472

The U.S. Gulf Coast Offshore properties and Peru Secondary Recovery project are in the development stage. Drilling is continuing and when all development work has been completed the aggregate expenditures will approximate $80 million in the Gulf Coast and $107 million in Peru. The expenditures for 1979 and 1978 in Bolivia and for 1978 in Colombia relate to capitalized exploratory wells.

The Company is participating with Occidental Petroleum Corporation ("Occidental") to the extent of 25% of Occidental's interest in the secondary recovery operation in the Talara area of Peru and exploratory drilling projects in Bolivia and Colombia.

The investments in Peru and Bolivia are subject to government approval. On November 5, 1979, Occidental entered into agreements with the Company agreeing that if requisite governmental approvals to assignments to the Company of certain property interests in Peru and Bolivia are not obtained by December 31, 1980 and 1981, respectively, the Company may elect to acquire an equivalent percentage interest in the equity of the Subsidiaries of Occidental which hold the property interests or to receive a refund of its investment in the project in question and a return thereon at least equal to the income it would have received had the assignment become effective. If the Company elects to receive the equity interest, the accounting treatment will be changed to the equity method on a retroactive basis. If the Company elects to receive a refund appropriate adjustments to the accounting treatment will be made. Occidental is presently renegotiating its production-sharing agreements in Peru. (See Note 4 for additional information regarding the renegotiation and a new income tax law in Peru).

3. LONG-TERM DEBT

	1979	1978
Revolving credit loans, unsecured (a)	**$26,500**	$ —
Advance payments, interest free (b) —		
Offshore Louisiana ($4,760,000 U.S. as of December 31, 1979 and $7,000,000 U.S. as of December 31, 1978)	**5,594**	8,305
Offshore Texas ($10,663,000 U.S. as of December 31, 1979 and $11,547,000 U.S. as of December 31, 1978)	**12,531**	13,699
Manitoba Development Corporation mortgage loan payable in monthly installments of $59,000 including interest at 10%, to April 1979	**—**	209
	44,625	22,213
Amount due within one year, included in current liabilities (c)	**2,431**	9,610
	$42,194	$12,603

(a) By agreement dated November 30, 1979, the Company entered into a 5 year revolving credit agreement with a Canadian chartered bank under which the Company may borrow up to $30 million Canadian or U.S. during the first three and one-half years, at fluctuating interest rates varying with changes in the interest rates in effect from time to time depending on the currency and nature of the loans. The line of credit will be reduced in four approximately equal semi-annual amounts commencing May, 1983. The amount outstanding at December 31, 1979 was in Canadian dollars at an interest rate of 15%.

(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 has been reclassified to long-term debt as at December 31, 1979.

(c) Minimum principal payments on the long-term debt for the five years after December 31, 1980 are $3,359,000 in 1981, $6,166,000 in 1982, $17,339,000 in 1983, $15,330,000 in 1984 and nil in 1985.

(d) The debt of the Company as at December 31, 1979 and 1978 did not contravene any of the borrowing restrictions placed on the Company.

(e) In addition to the long-term debt described herein, the Company has an unused short-term line of credit with another Canadian chartered bank in the amount of $15 million Canadian.

4. INCOME TAXES

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.

	1979		1978	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Expected tax expense	**$16,674**	**49.0**	$10,549	49.0
Effect on taxes from:				
Royalties, rentals and similar payments to provincial governments	**3,289**	**9.7**	2,694	12.5
Depletion allowance on oil and gas income	**(1,407)**	**(4.1)**	(821)	(3.8)
Resource allowance and provincial tax rebates	**(3,795)**	**(11.2)**	(2,819)	(13.1)
Reduced rate of tax on manufacturing and processing income	**(776)**	**(2.3)**	(773)	(3.6)
Equity in earnings of affiliate	**151**	**0.4**	(364)	(1.7)
Other	**(29)**	**(0.1)**	(370)	(1.7)
Actual tax expense	**$14,107**	**41.4**	$ 8,096	37.6

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

	1979	1978
Exploration and development expenses	**$1,512**	$ (780)
Depreciable fixed assets	**10**	(597)
Other	**398**	386
	$1,920	$ (991)

Based upon current projections of capital expenditures and operations, it is not expected that cash outlays for income taxes will materially exceed the income tax expense with respect to the three fiscal years subsequent to 1979.

The production-sharing agreement for Talara, Peru, with the Peruvian national oil company, Petroperu, provides for the contractors to conduct the secondary recovery operations at their sole cost and expense. In return, the contractors receive 49% of all increased oil production over a designated level, net of taxes. Petroperu receives all production up to the designated level and 51% of the balance, from which contractors' Peruvian income taxes are discharged. Contractors' income tax returns to be filed for 1978 and 1979 will reflect income taxes at a rate of 50%. Peruvian revenues and income taxes included in the Company's Consolidated Financial Statements have been calculated on the above basis.

In December, 1979 the Peruvian government published decree laws establishing the bases for renegotiating production-sharing agreements and Peruvian income taxes applicable to such agreements. The new laws contemplate that contractors would be obligated to pay their own income taxes in kind from their share of production at an effective rate of 68.5% of Peruvian taxable income. The renegotiated agreements may result in a new provision for sharing production and are to contain provisions adjusting the contractors' agreed share of production as sales prices or volumes vary from the stipulated levels.

The new tax laws provide for retroactive effect, of the tax provisions discussed above, to 1978 and 1979. Petroperu has notified Occidental that, because of the new tax law, Petroperu is excused from discharging the balance of Occidental's 1979 income taxes of which management believes approximately $1.4 million is the Company's share. It is the opinion of Occidental's Peruvian legal counsel that newly enacted tax laws in Peru cannot be unilaterally applied retroactively, and that the taxes for 1978 and 1979 either have been discharged or are the obligation of Petroperu. In the opinion of the management of the Company, based upon the advice of Occidental's Peruvian legal counsel, the satisfaction of the Peruvian income taxes will not be adversely changed retroactively.

5. CAPITAL STOCK AND STOCK OPTIONS

On December 20, 1979, the Company invited tenders to purchase for cancellation any or all of the 9.25% Cumulative Preferred Shares, Series A ($ U.S.) (aggregate par value $7,500,000 U.S.) and Series B ($ Cdn.) (aggregate par value $10,500,000) pursuant to the provisions attached thereto. The purchase price, equal to the par value of such shares plus all accrued and unpaid dividends, is payable within sixty days after such shares are deposited in response to the invitation for tenders. At December 31, 1979, none of these shares had been tendered for purchase. (See Note 17 Subsequent Events.)

The 10% Cumulative Redeemable Class A Preferred 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 by 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 par. During each calendar quarter, commencing October 1, 1977, 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.

Supplementary letters patent dated November 13, 1979 were issued subdividing the authorized and issued Common Shares on a three-for-one basis. Throughout the audited financial statements and the notes hereto, all references to Common Shares have been adjusted to reflect this subdivision on a retroactive basis.

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, 1979, 304,129 shares were reserved for issuance under outstanding options at prices from $3.293 to $13.625 per share. These options are exercisable at various dates to December, 1984. During the twelve months ended December 31, 1979, 124,300 options were granted, and at December 31, 1979, options for 108,249 shares were exercisable at prices from $3.293 to $6.167 per share. During 1979 options for 76,350 shares were exercised at prices from $2.333 to $6.167 per share and during 1978 options for 72,903 shares were exercised at prices from $2.333 to $6.00 per share.

6. EARNINGS PER COMMON SHARE

Net income per common share is based on the weighted average number of shares outstanding of 20,455,124 in 1979 and 20,371,734 in 1978 and after deducting dividends on the preferred shares which were $4,286,000 in 1979 and $4,275,000 in 1978. The exercise of all outstanding options would have no material effect on the calculation.

7. TAX DEFERRED DIVIDENDS

In October 1978 a special tax deferred dividend of $209,000 or $.01 per share was paid out of Undistributed Income and has been charged to Retained Earnings in the Consolidated Statement of Shareholders' Equity. In December 1978 a special tax deferred dividend of $12,929,000 or $.633 per share was paid out of 1971 Capital Surplus On Hand. As this dividend represented a return of capital to the shareholders, it was charged against Capital in Excess of Par Value in the Consolidated Statement of Shareholders' Equity.

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 receive royalties and licence fees on production processes. In addition, specialized services (engineering and technical consultation for new construction, modifications and process improvements) are also rendered. As operator of the foreign joint ventures outside North 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. (See Note 2 for additional information regarding the foreign joint ventures).

The Company, through a credit line agreement, charges Occidental with the interest differential between 5½% and the cost of certain of its liabilities. The principal amount on which this is based varies from time to time and is directly related to an amount the Company could otherwise borrow from Occidental at 5½%. The interest charged to Occidental is reflected in the accounts as a reduction in the Company's interest costs.

The chemical operations of the Company periodically purchase product and equipment from and sell product to Hooker Chemical Corporation (a subsidiary of Occidental). These purchases and sales are at competitive prices.

During 1974, the Company purchased a chlor-alkali and sodium chlorate plant at Brandon, Manitoba from a third party. A subsidiary of Hooker Chemical Corporation had previously assigned to the Company its agreement to purchase the plant. The consideration for this assignment was $1,047,000, which was included in the total purchase price of $4,073,000. From 1974 to July 1, 1978 the plant was leased to a subsidiary of Hooker Chemical Corporation at a minimum annual rental of $816,000. Effective July 1, 1978 the Company assumed operation of the Brandon plant and shut down the chlor-alkali portion due to lack of markets for the product. The sodium chlorate portion of the plant continues to operate.

The following table outlines the charges from (charges to) Occidental and subsidiaries for advisory and counselling services and specialized services; the interest differential charged by the Company to Occidental; the purchases made from and the sales made to Hooker Chemical Corporation; and the operator's charges paid to Occidental under the foreign joint venture agreements.

	1979	1978
Advisory and counselling services	**$ 460**	$ 555
Specialized services	**132**	141
Interest differential	**(142)**	(110)
Purchases	**5,083**	4,566
Sales	**(1,567)**	(1,118)
Operator's charges	**938**	844

9. FOREIGN EXCHANGE

Foreign exchange losses for 1979 amounted to $618,000 and are included in "selling, administrative and other operating expenses" in the Consolidated Statement of Income. For 1978, foreign exchange gains amounted to $591,000 and are included in "interest and other" in the Consolidated Statement of Income.

10. DIRECTORS AND OFFICERS

	1979	1978
Number of Directors (including past directors)	**14**	16
Remuneration as Directors	**$ 56**	$ 43
Number of Officers (including past officers)	**11**	15
Remuneration as Officers	**$902**	$667
Number of Officers who are Directors	**2**	2

11. 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 $732,000 at December 31, 1979 and $795,000 at December 31, 1978. Pension costs included in the Consolidated Statement of Income were $741,000 and $686,000 in 1979 and 1978, respectively.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Various operating, transportation and office facilities are leased to the Company under lease contracts. 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 minimum rental payments for 1978, 1979 and the next five years are summarized below (excluding oil and gas and mineral leases).

	1978	1979	1980	1981	1982	1983	1984
Minimum Rental Payment....	$2,469	$2,618	$3,059	$2,779	$2,224	$1,692	$1,143

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1979 and 1978 is as follows:

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	1979	1978	1979	1978	1979	1978	1979	1978
Net sales	**$26,626**	$19,776	**$27,523**	$19,614	**$30,454**	$21,603	**$39,695**	$25,668
Gross profit	**11,695**	9,959	**11,837**	8,781	**12,476**	8,017	**16,475**	10,596
Income before extraordinary item ...	**3,608**	4,713	**4,488**	1,382	**5,316**	4,053	**6,510**	3,285
Extraordinary item.....	**—**	—	**—**	—	**893**	—	**—**	—
Net income...........	**3,608**	4,713	**4,488**	1,382	**6,209**	4,053	**6,510**	3,285
Earnings per common share:								
Before extraordinary item	**$ 0.12**	$ 0.18	**$ 0.17**	$ 0.01	**$ 0.21**	$ 0.15	**$ 0.27**	$ 0.11
Extraordinary item...	**—**	—	**—**	—	**0.04**	—	**—**	—
Net income.........	**$ 0.12**	$ 0.18	**$ 0.17**	$ 0.01	**$ 0.25**	$ 0.15	**$ 0.27**	$ 0.11

14. SECURITIES AND EXCHANGE COMMISSION OF THE UNITED STATES

The Company's annual report on Form 10K filed with the Securities and Exchange Commission of the United States (a copy of which is available upon request) contains specific information with respect to the following matters:

(a) The effect of constant dollar accounting on the financial statements of the Company. Constant dollar accounting is as defined by the U.S. Financial Accounting Standards Board Statement 33.

(b) Year-end replacement costs of inventories and productive capacity (generally buildings, machinery and equipment), and the approximate effect which replacement cost would have on the computation of cost of products sold and depreciation expense for the years 1979 and 1978.

(c) The effect of reserve recognition accounting on the financial statements of the Company. Reserve recognition accounting is as defined by the U.S. Securities and Exchange Commission in their Accounting Series Release No. 269.

15. BUSINESS SEGMENT INFORMATION

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

	Oil & Gas		Minerals Exploration		Industrial & Other Chemicals		Total	
	1979	**1978**	**1979**	**1978**	**1979**	**1978**	**1979**	**1978**
Net sales	**$ 45,434**	$25,940	**$—**	$—	**$78,864**	$60,721	**$124,298**	$86,661
Income before extraordinary item	**8,970**	5,972	**(818)**	(743)	**11,770**	8,204	**19,922**	13,433
Extraordinary item	**—**	—	**—**	—	**893**	—	**893**	—
Net income	**8,970**	5,972	**(818)**	(743)	**12,663**	8,204	**20,815**	13,433
Identifiable assets	**178,102**	135,635	**3,131**	1,719	**37,477**	35,779	**218,710**	173,133
Depreciation, depletion and amortization	**7,860**	2,720	**1,236**	1,024	**3,115**	3,031	**12,211**	6,775
Additions to property, plant and equipment	**62,603**	28,217	**2,299**	893	**2,644**	2,406	**67,546**	31,516

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

	Canada		United States		International		Total	
	1979	**1978**	**1979**	**1978**	**1979**	**1978**	**1979**	**1978**
Net sales	**$111,272**	$86,331	**$ 6,330**	$ 330	**$6,696**	$ —	**$124,298**	$86,661
Income before extraordinary item	**21,234**	16,936	**21**	17	**(1,333)**	(3,520)	**19,922**	13,433
Extraordinary item	**893**	—	**—**	—	**—**	—	**893**	—
Net income	**22,127**	16,936	**21**	17	**(1,333)**	(3,520)	**20,815**	13,433
Identifiable assets	**86,753**	80,687	**63,829**	68,701	**68,128**	23,745	**218,710**	173,133
Depreciation, depletion and amortization	**7,247**	6,555	**3,607**	220	**1,357**	—	**12,211**	6,775
Additions to property, plant and equipment	**12,586**	11,991	**14,061**	9,731	**40,899**	9,794	**67,546**	31,516

16. EXTRAORDINARY ITEM

The extraordinary item of $893,000 in 1979 reflects a $1,063,000 gain on the sale of surplus land at North Vancouver after deducting a $170,000 provision for income taxes.

17. SUBSEQUENT EVENTS

Subsequent to December 31, 1979 all of the 9.25% Cumulative Preferred Shares Series A with a par value of $7,500,000 U.S., were tendered for cancellation. The Company must redeem the tendered shares sixty days after receipt thereof and, based on the exchange rate in effect on February 1, 1980, the Canadian dollar equivalent approximates $8,700,000.

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 an 81% owned subsidiary of Hooker Chemical Corporation) and Subsidiary Companies as of December 31, 1979 and 1978, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. 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, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Calgary, Alberta
February 1, 1980

five year financial data

	1979	1978	1977	1976	1975
Income before extraordinary items	**$ 19,922**	13,433	15,154	15,251	10,811
Extraordinary items	**893**	—	—	641	—
Net income	**$ 20,815**	13,433	15,154	15,892	10,811
*Per common share (after preferred share dividends):					
Income before extraordinary items	**$ 0.77**	0.45	0.54	0.66	0.45
Extraordinary items	**0.04**	—	—	0.03	—
Net income	**$ 0.81**	0.45	0.54	0.69	0.45
Cash flow from operations	**$ 36,361**	19,548	22,141	22,554	17,940
*Per common share (after preferred share dividends)	**$ 1.57**	0.75	0.88	1.01	0.80
Common share dividends:					
Regular	**$ 4,195**	3,938	3,659	3,377	2,533
*Per share	**$ 0.205**	0.193	0.18	0.167	0.125
Special tax deferred	**$ —**	13,138	—	—	—
*Per share	**$ —**	0.643	—	—	—
Preferred share dividends	**$ 4,286**	4,275	4,217	2,008	1,677
Capital expenditures:					
Oil and gas	**$ 69,167**	39,343	16,433	11,126	5,944
Minerals exploration	**2,299**	893	1,002	849	597
Chemicals	**2,644**	2,406	2,298	564	2,683
Total capital expenditures	**74,110**	42,642	19,733	12,539	9,224
Less current year expenditures charged to exploration expenses	**6,564**	11,126	3,964	3,470	1,990
Additions to property, plant and equipment	**$ 67,546**	31,516	15,769	9,069	7,234
Net property, plant and equipment:					
Oil and gas — Canada	**$ 26,181**	21,691	15,543	13,097	12,470
— United States	**61,213**	50,695	41,153	34,409	29,999
— Peru	**45,261**	6,652	—	—	—
— Bolivia	**2,575**	1,840	—	—	—
— Colombia	**—**	1,303	—	—	—
	135,230	82,181	56,696	47,506	42,469
Minerals exploration	**2,704**	1,683	1,814	1,610	1,391
Chemicals	**20,094**	20,665	22,369	22,715	24,786
	$158,028	104,529	80,879	71,831	68,646
Working capital	**$ 13,448**	21,594	63,052	64,546	28,268
Total assets	**$218,710**	173,133	166,131	159,358	116,182
Long-term debt	**$ 42,194**	12,603	21,191	21,842	18,174
Shareholders' equity	**$123,633**	110,969	118,633	111,129	76,599
Return on investment:					
Total assets	**11.2%**	7.8%	9.6%	11.5%	9.8%
Common shareholders' equity	**22.7%**	11.8%	15.5%	21.9%	16.5%
Total capital	**15.6%**	9.9%	11.3%	14.1%	12.0%

Dollar amounts are in thousands, except for the per share data.
Return on investment is calculated on applicable average monthly investment.
**Per common share amounts for earnings and common share dividends for the years 1975 to 1978 have been restated for the 3-for-1 common share split in 1979.*

five year operating data

		1979	1978	1977	1976	1975
PROVEN RESERVES (GROSS BEFORE ROYALTIES):						
Imperial Units						
Pipeline gas	MMCF	**295,000**	314,000	296,000	295,000	327,000
Crude oil & natural gas liquids	M/Bbls.	**17,816**	5,376	6,152	7,215	7,698
Sulphur	M/L.T.	**2,125**	2,272	2,396	2,721	2,851
Metric Units						
Pipeline Gas	10^3m^3	**8,322,000**	8,847,000	8,340,000	8,311,000	9,213,000
Crude oil & natural gas liquids	10^3m^3	**2,833**	855	978	1,147	1,224
Sulphur	10^3t	**2,160**	2,308	2,434	2,765	2,897
PRODUCTION (GROSS BEFORE ROYALTIES):						
Imperial Units						
Pipeline gas	MMCF	**19,131**	14,288	16,410	16,422	18,031
Crude oil & natural gas liquids	M/Bbls.	**849.1**	625.8	711.8	767.5	842.5
Sulphur	M/L.T.	**121.1**	125.9	134.2	167.2	202.8
Caustic soda	M/Tons	**191.8**	198.0	177.3	207.4	147.2
Chlorine	M/Tons	**169.2**	174.5	154.7	181.1	126.9
Sodium chlorate	M/Tons	**23.0**	15.0	9.1	7.1	—
Muriatic acid	M/Tons	**18.6**	14.7	8.7	4.2	2.4
Moulding materials	M/Lbs.	**7,202**	5,532	3,018	3,521	2,824
Industrial and foundry resins	M/Lbs.	**5,896**	5,959	5,273	6,019	4,077
Metal finishing chemicals	M/Lbs.	**10,236**	9,483	9,132	8,258	6,860
Metric Units						
Pipeline gas	10^3m^3	**529,798**	396,375	455,368	455,720	500,368
Crude oil & natural gas liquids	10^3m^3	**134.9**	99.5	113.1	122.0	133.8
Sulphur	10^3t	**123.0**	127.9	136.4	169.9	206.1
Caustic soda	10^3t	**174.0**	179.7	160.8	188.2	133.5
Chlorine	10^3t	**153.5**	158.3	140.3	164.3	115.1
Sodium chlorate	10^3t	**20.9**	13.6	8.3	6.4	—
Muriatic acid	10^3t	**16.9**	13.3	7.9	3.8	2.2
Moulding materials	10^3kg	**3,267**	2,509	1,369	1,597	1,281
Industrial and foundry resins	10^3kg	**2,674**	2,703	2,392	2,730	1,849
Metal finishing chemicals	10^3kg	**4,643**	4,302	4,142	3,746	3,112
WELL DATA:						
Net wells — gas		**67.8**	62.9	52.1	52.4	34.1
Net wells — oil		**156.2**	24.2	21.8	22.7	23.2
LAND HOLDINGS: (THOUSANDS OF ACRES)						
Gross acres		**5,870.4**	6,204.2	4,903.3	6,650.7	6,901.8
Net acres		**2,527.0**	2,788.2	3,421.4	4,862.9	5,185.1
EMPLOYEES		**559**	534	481	467	467

corporate information

CANADIAN OCCIDENTAL PETROLEUM LTD.
(a Canadian corporation)

HEAD OFFICE
1900, 700 Fourth Avenue Southwest
Calgary, Alberta, Canada T2P 3J5

Key Personnel
- R. R. Campbell, Drilling Superintendent
- W. W. Chalmers, Director of Sulphur Marketing
- R. L. Courreges, Mgr. Employee Relations
- D. C. Gordon, Chief Geophysicist
- J. J. Hofbauer, Mgr. Environment & Safety
- J. Meronek, Mgr. Purchasing & Office Services
- R. H. Orthlieb, Mgr. Corporate Planning & Business Development
- R. T. Peirce, Mgr. Exploration
- P. G. Sawchuk, Mgr. Management Information Systems
- G. D. Simpson, Mgr. Petroleum Engineering
- J. D. Wilson, Mgr. Land

INDUSTRIAL CHEMICALS DIVISION
100 Amherst Avenue
North Vancouver, British Columbia
- L. H. Schnurstein, Vice President and General Manager
- I. P. Frederiksen, Traffic & Distribution Manager
- J. R. Gregory, Technical Manager
- C. N. Hopkins, Operations Services Manager
- R. F. Kanngiesser, Accounting Manager
- W. G. Maunder, Marketing Manager

North Vancouver Plant,
- B. D. Thorpe, Works Manager

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

MINERALS DIVISION
Suite 311
215 Carlingview Dr.
Rexdale, Ontario
- Dr. J. J. Brummer, Manager

SUBSIDIARY COMPANIES
Oxy Metal Finishing of Canada Ltd.
(a Canadian corporation)
Plant and Head Office
165 Rexdale Boulevard,
Rexdale, Ontario
- G. E. Putnam, General Mgr.
- D. L. Gardiner, Plant Mgr.
- G. R. Camelford, Accounting Mgr.
- J. W. Beatt, Business Dev. Mgr. — Parker
- G. E. Doeler, Marketing Mgr. — Sel-Rex

Hooker Chemicals (Nanaimo) Limited
(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
- T. Osadchuk, Works Mgr.

Sodium chlorate plant
Squamish, British Columbia
- J. C. Parkinson, Plant Superintendent

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

Jefferson Minerals Corporation
(a Delaware corporation)

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

Canadian Occidental International Ltd.
(an Alberta corporation)

AFFILIATED COMPANY
Petrogas Processing Ltd.
Balzac, Alberta
- W. J. van der Linden, Plant Superintendent

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

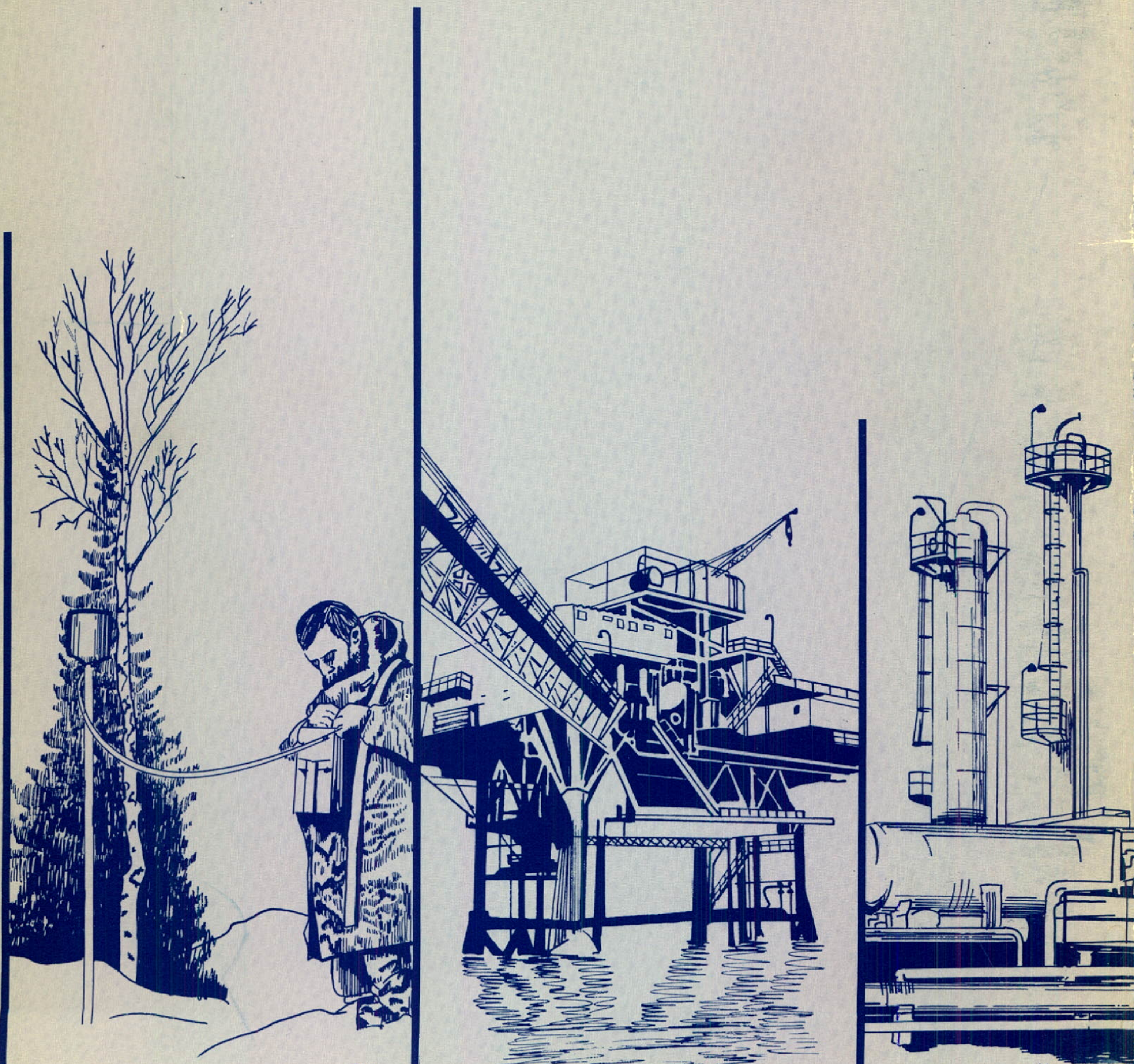
The Chase Manhattan Bank
New York, N.Y.

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"

AUDITORS
Arthur Andersen & Co.
Calgary, Alberta, Canada



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