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UNION OIL COMPANY OF CANADA LIMITED 1979 ANNUAL REPORT



The Company

Union Oil Company of Canada Limited was incorporated under the laws of Canada in 1921 and became a public company in 1961 when, in exchange for 83% of the then issued common stock, Union Oil Company of California conveyed its Canadian oil and gas properties to the Company. In 1962 and 1963 Union of Canada expanded its operations with the acquisitions of Williamson Oil and Gas Ltd. and E. H. Vallat Ltd. In 1965 the Company acquired the Canadian oil and gas properties of the Pure Oil Company from Union Oil Company of California in exchange for additional shares of the Company which increased Union of California's interest to its present level of 86.4%.

The Company's primary business is exploration for hydrocarbons, coal and other minerals in traditional and frontier regions of Canada; and production of crude oil, natural gas, natural gas liquids and sulphur in Western Canada.

Union's objective is to achieve profitable growth through natural resource exploration and development in Canada, with emphasis on the energy fuels: petroleum, coal and uranium.

Annual Meeting

The Annual and Special General Meeting of Shareholders of Union Oil Company of Canada Limited will be held in the Glenview Room of the Calgary Convention Centre, Calgary, Alberta on Friday, March 28, 1980 at 10:00 A.M. A Notice of Meeting, Proxy Statement and Information Circular, and Proxy are being mailed to shareholders with this report.

Cover

A well drilling on Union's Wapiti prospect in the British Columbia foothills.

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Highlights

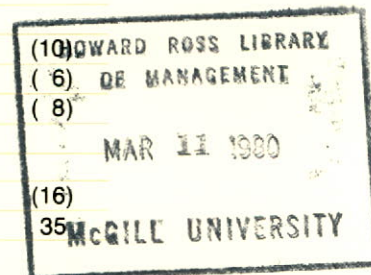
	1979	1978	Percent Increase (Decrease)
Financial			
Total revenues	\$103,086,000	\$ 91,835,000	12
Cash flow from operations	49,588,000	42,377,000	17
per share	3.43	2.94	
Earnings from operations	19,253,000	13,597,000	42
per share	1.33	0.94	
Dividends	5,775,000	7,206,000	(20)
per share	0.40	0.50	
Capital expenditures and exploration expense	58,592,000	59,282,000	(1)
Working capital at year end	27,004,000	22,253,000	21
Average shareholders' equity	\$115,850,000	\$105,731,000	10
Return from operations on shareholders' equity (percent)	16.6	12.9	29

Operating (Imperial Units)

Gross daily production			
Crude oil and natural gas liquids (bbls)	25,609	25,576	—
Natural gas (mcf)	72,932	64,479	13
Sulphur (long tons)	173	167	4
Gross proven reserves at year end			
Crude oil and natural gas liquids (thousands of bbls)	100,461	112,132	(10)
Natural gas (mmcf)	621,036	659,379	(6)
Sulphur (thousands of long tons)	711	772	(8)
Land holdings at year end (thousands of net acres)			
Petroleum	3,741	4,470	(16)
Mineral	488	361	35

Operating (Metric SI Units)*

Gross daily production			
Crude oil and natural gas liquids (cubic metres)	4 069	4 064	—
Natural gas (thousands of cubic metres)	2 055	1 817	13
Sulphur (tonnes)	176	170	4
Gross proven reserves at year end			
Crude oil and natural gas liquids (thousands of cubic metres)	15 964	17 819	(10)
Natural gas (millions of cubic metres)	17 497	18 577	(6)
Sulphur (thousands of tonnes)	723	785	(8)
Land holdings at year end (thousands of net hectares)			
Petroleum	1 514	1 809	(16)
Mineral	197	146	35



To Our Shareholders

Nineteen seventy-nine, although a period of political and regulatory uncertainty, was a good year for your Company. Improved financial results included higher levels of revenue, cash flow and net earnings. Progress was made in the continuing effort to broaden and diversify petroleum and mineral exploration.

Effective January 1, 1979, the Company modified its successful efforts method of accounting to reflect recommendations published by the Securities and Exchange Commission in the United States. For comparative purposes all prior period figures have been restated to conform to the Company's revised accounting policies.

Net earnings were \$19.3 million, or \$1.33 per share, an improvement of 42% over 1978. Cash flow rose 17% to \$49.6 million, or \$3.43 per share. Dividends totalling \$0.40 per share were declared in 1979, compared with \$0.50 per share in the prior year.

Total revenues were up 12% to \$103.1 million due to improved product prices and higher natural gas production. Total expenses, excluding income taxes, increased 4% to \$64.2 million.

Return on assets employed was 13.2% compared with 10.3% for the preceding year and return on shareholders' equity increased to 16.6% from 12.9% in 1978.

During 1979 capital expenditures and exploration expense totalled \$58.6 million, \$5.9 million of which was recovered from Alberta and Saskatchewan government incentive programs, resulting in net spending of \$52.7 million, as compared to a net outlay in 1978 of \$55.8 million.

To more rapidly evaluate a large land inventory, the Company continued a policy of supplementing internally generated cash flow by negotiating farmout agreements with other companies. This program resulted in an additional \$48 million in exploratory drilling on Company acreage.

Gross production of crude oil and natural gas liquids averaged 25,609 barrels per day, essentially unchanged from the level established in 1978. Gross natural gas sales rose 13% to 72.9 million cubic feet per day. Natural gas sales continue to be below capacity due to a growing surplus and major buyers being oversupplied. Unfortunately, the natural gas surplus in Western Canada may continue to grow for a further indefinite period. In December 1979, following a hearing held during the summer, the National Energy Board authorized new exports of natural gas to the United States totalling 3.75 trillion cubic feet. The authorized volume is less than half the amount requested by the ten companies that took part in the hearing. Further, the new exports were allocated among the companies in a manner which may seriously delay construction of facilities required to transport approximately half of the authorized volume.

Union's 1979 exploration and development projects were concentrated in the western provinces and were highlighted by oil and natural gas discoveries on the Kakwa-Cutbank prospect in the Alberta Deep Basin. In total the Company participated in 115 exploratory and development wells of which 70 were completed for oil and gas production. Due to personnel and equipment shortages, an additional 25 exploratory wells had not been tested and evaluated for reserve potential at year end.

Proven reserves declined 8% in 1979; however, from an exploration point of view there is little doubt that the drilling program discovered reserves in excess of 1979 reductions for production and engineering adjustments. There is a time lag of several years before new discoveries are sufficiently delineated by more drilling, or confirmed by production history, to be reported as proven reserves.

Eighty-six thousand acres of Union's Beaufort Sea land holdings have been committed to a farmout option agreement. In return for an option to drill on Company land by 1982, the farmee will give Union all information and 25% of the work credits from a well to be drilled in 1980 offsetting the farmout lands. The work credits will maintain all 556,000 acres of the Company's Beaufort Sea acreage in good standing for several years. Further, an offshore drilling system will be made available in the period 1984 - 1986, which may be used to evaluate other Beaufort Sea lands.

At present, conventional oil and natural gas exploration in the established producing regions of Western Canada accounts for 94% of Union's capital expenditures and exploration expense. In the medium and longer term, natural resources differing in form and source will become profitable and important to growth. As part of the Company's investment in the future, expenditures for coal exploration and development and heavy oil research totalled \$2.7 million in 1979.

Evaluation of the Obed/Marsh thermal coal project continued with completion of engineering studies and an application to the Alberta Energy Resources Conservation Board for approval to develop a mine. In addition, coal lease applications were accepted by the Alberta

government covering 257,000 acres of land considered highly prospective for thermal and metallurgical coal.

Pilot studies continued at the Buffalo Creek heavy oil test site and plans are being developed to expand this operation following completion of the current project.

As the 1980's commence, Union is in a good position for continued growth as a natural resource exploration and development company. An excellent inventory of exploratory land is continually being supplemented with new acquisitions. Equally important, the Company is fortunate in having a staff which, in both numbers and talent, is well balanced to manage our spending programs. The Company believes one of the most serious problems of the 1980's will be a growing shortage of skilled people as our industry expands to meet the challenge of crude oil self-sufficiency for Canada.

If there is one message that must be brought to all Canadians it is that this country has the resources to become independent of foreign crude oil. Foreign supplies are not dependable and Canada cannot afford the staggering increase in cost as imports grow. Self-sufficiency must be achieved, and, with an all-out effort, the goal may be reached by 1990. The most vital ingredient, although unpopular, is higher prices for crude oil and natural gas. Higher prices will encourage conservation and, more importantly, can provide the funds to replace the lower cost, older reserves presently being produced. Today's energy pricing cannot be based on past finding costs but must reflect estimated replacement cost. Replacement cost will be high but every possible source must be pursued — the established producing regions, frontier

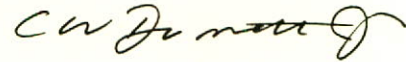
areas, oil sands deposits, and enhanced recovery schemes from known reservoirs. This undertaking cannot be accomplished by governments or any one organization. The task will require a complete commitment by all Canadians. Time is critically short and Canada cannot afford politically imposed delays and bureaucratic attempts to fine tune industry cash flows.

Energy is, and will probably continue to be throughout the 1980's, the dominant political issue; but it is an issue that must become nonpartisan. Politicians who choose to ignore the harsh reality of the world energy scene will be doing all Canadians an extreme disservice. Industry cannot be overly influenced by short-term political and regulatory uncertainty, but must have confidence that supportive, rather than restrictive, policies will be provided in the medium and longer term — policies that will place the necessary funds in the hands of industry rather than into excessive taxes and royalties.

In 1980 your Company will explore to the maximum extent possible. The outlook is for further improvement in financial results and increased spending.

The Directors extend their special thanks to the hard-working group of employees whose efforts and resourcefulness have contributed materially to the progress made in 1979.

ON BEHALF OF THE BOARD



C. W. DUMETT, JR.
President

February 21, 1980

Petroleum Exploration and Development

Petroleum exploration and development operations in 1979 were highlighted by oil, condensate and natural gas discoveries in the Kakwa-Cutbank area of the Deep Basin in western Alberta. Activity was concentrated in Alberta, although major programs were undertaken in British Columbia and Saskatchewan. The growing natural gas surplus in Western Canada has led to a more critical analysis of natural gas exploration and greater emphasis on prospects with oil potential. Negotiations were concluded which will be of substantial benefit in evaluating and maintaining the Company's Beaufort Sea acreage.

Exploration and development expenditures totalled \$50.1 million in 1979, up from \$49.7 million the previous year. Drilling and seismic expenditures increased 56% and 15% respectively, while investment in exploratory land was down 48%. In addition an estimated \$48 million was spent by other companies drilling exploratory wells under farmout agreements to earn interests in Union lands.

In 1979 Union participated in the completion of 115 exploratory and development wells, resulting in 41 oil wells, 29 gas wells, 2 service wells and 43 abandonments. Of the abandoned wells, 21 were drilled under farmout arrangements at no cost to Union. The status of an additional 25 wells was not determined at

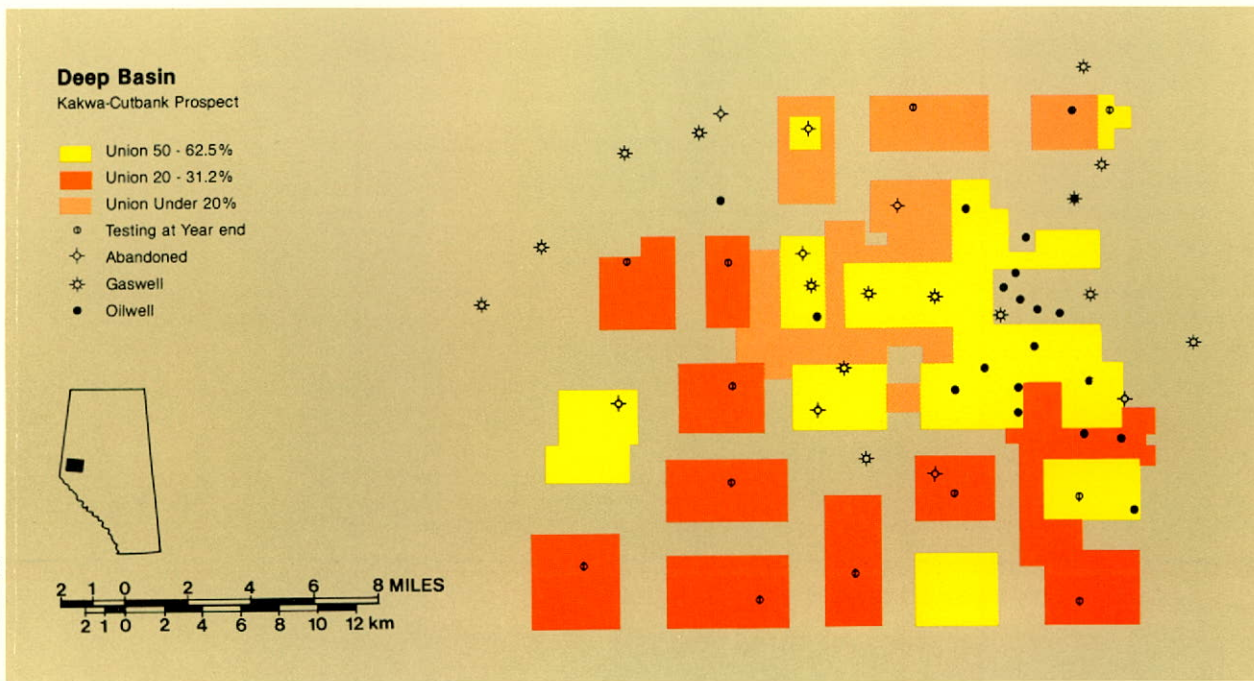
year end as testing was delayed due to shortages of well-site personnel and service equipment.

Geophysical programs were conducted in Alberta, British Columbia, Saskatchewan, and the Beaufort Sea, resulting in the acquisition of 6,900 miles of seismic data. This data, together with existing seismic coverage and geological information, have defined several new project areas which will be explored in 1980.

During the year the Company acquired a total of 29,480 net acres of petroleum and natural gas rights at a cost of \$9.9 million. The largest blocks of new lands were in the Kakwa-Cutbank and Coalcamp-Bearberry areas of Alberta.

Deep Basin Project

The most important project in 1979 was the exploration and development of Union's land holdings in the Deep Basin trend of Alberta and British Columbia where the Company holds varying interests in over 300,000 acres. The focus of this activity was the Kakwa-Cutbank prospect in west-central Alberta where the Company participated in 34 wells, resulting in 12 oil wells, 4 natural gas wells, 6 abandonments and 12 wells which had not been tested at year end. This program produced important



discoveries of oil, condensate and natural gas which, when fully evaluated, will add materially to the Company's assets. The productive zones established to date are the Cardium formation at 6,000 feet and several deeper Cretaceous and Jurassic reservoirs at depths of up to 11,000 feet. The Company improved its strong acreage position in the area with the purchase of an average 30% interest in 25,600 acres at a net cost of \$4.5 million. The prospect is illustrated on the map on page 5. Ten wells were drilled on other Deep Basin prospects resulting in 2 natural gas wells, 5 abandonments and 3 wells to be tested in early 1980. Several years of exploration and development will be required to assess the reserve potential of the multiple pay zones on Union's Deep Basin lands.

Foothills Projects

The Company and its partners continued the search for major natural gas reserves with an extensive drilling program in the Alberta and British Columbia foothills. Two wells drilled in 1978 on the Wildhorse and Narraway prospects in Alberta were tested and abandoned in 1979. Further drilling on both prospects is scheduled for 1980. In the Coalcamp-Bearberry area of southern Alberta the Company acquired a 20% interest in 17,000 acres for \$3.2 million and now holds an average 18% interest in 24,800 acres. At year end one well had reached a total depth of 10,000 feet on the prospect and another was drilling. Union holds interests ranging from 19% to 22% in 12,600 acres in the Nose Creek area of Alberta where a 15,000 foot well reached total depth in late 1979 and will be tested in 1980. In British Columbia the Company was testing an 11,000 foot well and drilling a second well at year end on its 132,000 acre Wapiti prospect where it holds interests ranging from 50% to 100%. Also at year end a 25% interest well was drilling toward a 16,000 foot objective on the Gwillim Lake prospect in British Columbia.

Devonian Reef Projects

An important part of Union's exploration program is the search for oil and natural gas in Devonian age reefs in central Alberta and northeastern British Columbia. During 1979 Union and its partners drilled the first well on a 21,800 acre block at West Pembina. The well failed to find production in the Devonian section and was plugged back as a potential Cretaceous gas well. Additional seismic work and a second well are scheduled for 1980. During the year substantial land holdings were acquired in other areas where opportunities have been identified to explore for Devonian reef oil. Several wells will be drilled on these new lands in 1980.

Beaufort Sea Project

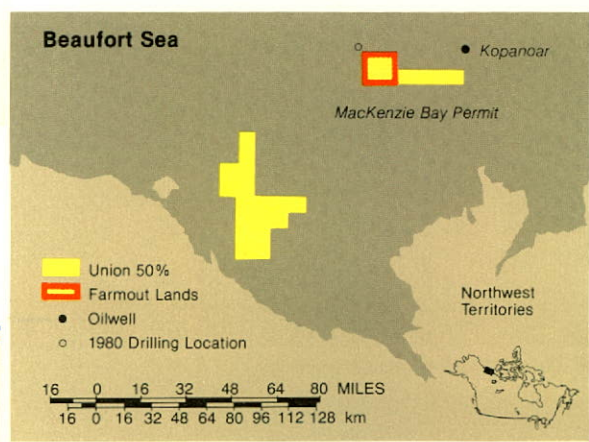
Union holds a 50% working interest in 556,000 acres in the Beaufort Sea. In 1979 a farmout agreement was negotiated with an offsetting operator whereby Union granted the farmee an option to drill on a portion of the Company's 176,000 acre MacKenzie Bay permit by 1982. The farmee will earn an interest ranging from 33.3% to 50% in 86,686 acres. In return Union will receive all information and 25% of the work credits from an exploratory well to be drilled by the farmee in the summer of 1980 on a large anticlinal structure contiguous to this permit. The work credits will maintain Union's acreage for several years. A map of this area is shown below. Further, an offshore drilling system will be made available to Union in the mid-1980's to evaluate other Beaufort Sea lands.

Outlook

Exploration expenditures are forecast to exceed the level set in 1979. Major programs will be concentrated in the western provinces, with increasing emphasis on prospects with oil potential. The growing natural gas surplus, uncertain market conditions and inadequate pricing in certain provinces necessitate a prudent approach to natural gas exploration. Regional exploration studies will continue with a view to increasing the Company's representation in frontier areas.

Petroleum Land Holdings at December 31, 1979 (acres)

	Permit/Reservation/License		Leasehold		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	564,007	421,143	1,873,958	1,197,754	2,437,965	1,618,897
British Columbia	568,636	318,987	893,670	412,355	1,462,306	731,342
Manitoba	—	—	1,960	890	1,960	890
Saskatchewan	28,597	28,597	160,455	62,739	189,052	91,336
Federal Lands	1,652,353	1,187,685	246,244	111,235	1,898,597	1,298,920
Total	2,813,593	1,956,412	3,176,287	1,784,973	5,989,880	3,741,385



Drilling Operations

	1979		1978	
	Gross	Net	Gross	Net
Exploratory wells				
Oil	5	3.3	2	0.9
Gas	9	3.6	21	7.9
Dry	38	19.5	33	15.1
Total	52	26.4	56	23.9
Development wells				
Oil	36	13.3	33	10.8
Gas	20	4.3	11	6.8
Service	2	.3	4	.7
Dry	5	2.1	9	2.1
Total	63	20.0	57	20.4

Petroleum Production

Crude oil and natural gas liquids production was essentially unchanged from the prior year but natural gas sales increased 13%. Total barrel equivalent reserves declined 8%.

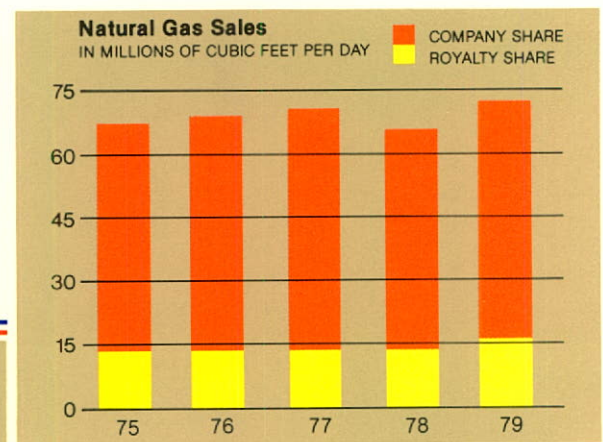
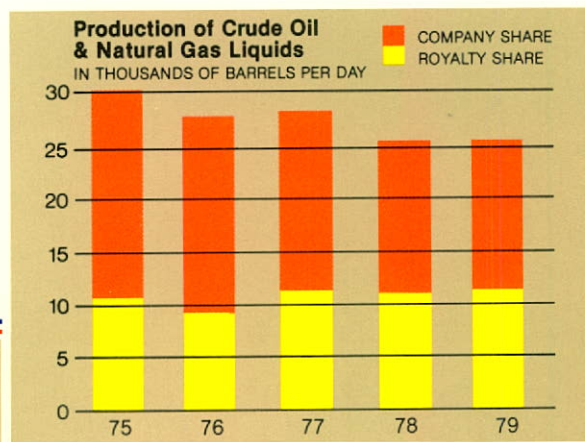
Production and Sales

During 1979 gross crude oil and natural gas liquids production averaged 25,609 barrels per day as compared to 25,576 barrels per day in 1978. New oil production was added at Kakwa-Cutbank in Alberta, the Crush unit in British Columbia and the West Beverley and Hastings fields in Saskatchewan.

Oil production commenced late in the year from the Kakwa-Cutbank area, approximately 50 miles south of Grande Prairie, Alberta. Both high gravity crude oil and natural gas with condensate were discovered in the Cardium formation in early 1979. Union and partners have 12 wells capable of oil production, 4 of which have been completed in two zones. Current field capacity is in excess of 3,000 barrels per day; however, allowable production will be restricted to about 500 barrels per day until gas conservation and pressure maintenance facilities are installed. Although more development drilling is required to fully delineate the Cardium reservoirs, gross crude oil and condensate in place under Union interest lands is estimated to be approximately 40 million barrels. A small fraction of this total will be considered proven reserves at this time. Union's interest in these reserves, following unitization, will be in the range of 50% to 55%.

Gross sales of natural gas increased 13% to 72.9 million cubic feet per day. In Alberta gas sales were restricted because major buyers were oversupplied and purchased about 12% less than their minimum contract volumes. In British Columbia purchases were close to contract minimums.

A significant increase in the Company's natural gas production in the early 1980's will depend, to a large extent, on new exports of natural gas to the United States. In December 1979, following a summer hearing, the National Energy Board authorized new export volumes based on the most restrictive of its three methods of determining a Canadian surplus. The total authorized was 3.75 trillion cubic feet, less than half the amount requested by the various applicants at the hearing. This volume was not only lower than expected but was allocated among the applicants in a way that may seriously delay construction of facilities required to transport about half the total.



Following price increases of \$1.00 per barrel on July 1, 1979, and January 1, 1980, the reference price of 42° gravity crude oil in Edmonton will be \$15.28 per barrel. The Toronto reference price for domestic natural gas will be \$2.30 per thousand cubic feet following the \$0.15 increase on August 1, 1979 and a further \$0.15 increase announced for February 1, 1980. The border price for natural gas exported to the United States increased several times during the year: following an increase scheduled for February, 1980, the price will be \$4.47 U.S. per thousand cubic feet.

Crude Oil and Natural Gas Liquids Production

	Average Gross		Average Net	
	Barrels/Day		Barrels/Day	
	1979	1978	1979	1978
Alberta				
Kaybob South	7,604	6,386	4,421	3,793
Red Earth	2,699	2,755	1,683	1,723
Sturgeon Lake South	2,168	2,285	1,171	1,259
Virginia Hills	1,628	1,896	906	1,036
Other	1,953	1,882	1,427	1,339
	16,052	15,204	9,608	9,150
British Columbia				
Milligan	607	541	406	367
Aitken	598	620	327	336
Peejay	228	247	173	181
Other	466	575	353	401
	1,899	1,983	1,259	1,285
Saskatchewan				
Cantuar	1,247	1,168	645	610
Batrum	1,182	1,000	709	636
Fosterton	570	610	265	282
Verlo	529	603	226	272
Suffield	505	562	230	269
Success	405	467	183	227
Other	3,016	3,764	1,495	1,869
	7,454	8,174	3,753	4,165
Manitoba				
	204	215	176	184
Total	25,609	25,576	14,796	14,784

Natural Gas Sales

	Average Gross		Average Net	
	Mcf/Day		Mcf/Day	
	1979	1978	1979	1978
Alberta				
Kaybob South	16,896	13,861	9,407	7,772
Dunvegan	6,211	5,714	3,277	3,056
Crossfield	2,839	2,405	2,418	2,047
Youngstown	2,697	3,759	1,814	2,536
Other	13,697	11,361	10,158	8,328
	42,340	37,100	27,074	23,739
British Columbia				
Clarke Lake	14,016	14,254	14,016	14,254
Aitken	6,196	5,907	6,088	5,810
Kotcho	2,625	2,588	2,625	2,588
Willow	1,364	1,201	1,300	1,154
Silverberry	1,120	1,006	1,120	1,006
Other	4,128	1,307	3,916	1,271
	29,449	26,263	29,065	26,083
Saskatchewan				
	1,143	1,116	1,051	1,052
Total	72,932	64,479	57,190	50,874

Production Facilities

Expenditures on production facilities were \$4.4 million in 1979. The largest expenditures were for gas compression and modification and upgrading of facilities on the Company's older producing properties in Alberta and British Columbia.

Heavy Oil

Operations at the Buffalo Creek nonconventional heavy oil pilot project continued during 1979. This test is evaluating production and recovery performance from the Grosmont carbonate formation using a wet-combustion recovery process. The project is located 60 miles west of Fort McMurray and is funded 50% by the Alberta Oil Sands Technology and Research Authority, 25% by another company and 25% by Union. While test results continue to provide encouragement, larger and more costly field testing programs will be necessary to determine the commercial significance of this deposit.

Reserves

The Company's gross proven reserves at year end, as calculated by staff reservoir engineers, are summarized in the accompanying table. These figures include both developed and undeveloped reserves. Developed reserves are quantities that can be recovered with existing equipment and operating methods. Undeveloped reserves are the volumes estimated to be recoverable from wells to be drilled on proven acreage, from recompletion of existing wells, or from the installation of new facilities.

Reserves on undrilled acreage are limited to drilling units where it can be demonstrated with reasonable certainty that there is continuity of production. Reserves are not attributed to a contemplated fluid injection or other improved recovery technique, unless such technique has proved effective in the area and in the same reservoir. Potential nonconventional heavy oil reserves at Buffalo Creek and other northern Alberta properties are not included.

Gross proven reserves reflect the Company's ownership interest before deducting royalties. Reporting on a gross basis provides more reliable year end reserve data and facilitates year to year comparison of performance. Net

reserve projections are less reliable as a result of frequent changes in basic royalty rates and supplementary royalties which may vary with price and production rates. An approximation of net reserves may be obtained by using ratios of net to gross 1979 production from the totals provided in the tables on page 9.

In 1979 gross crude oil and natural gas liquid reserves declined 10% to 100.5 million barrels while natural gas reserves declined 6% to 621 billion cubic feet. A major downward revision was made to oil reserves of the Virginia Hills Unit No. 1 as a result of the pool's waterflood performance. An engineering study at Kaybob South indicates that water encroachment has significantly reduced the volume of recoverable natural gas. The overall result is an 8% decline in total barrel equivalents.

Outlook

Production of crude oil and natural gas liquids should remain at approximately the level established in 1979 as new production is expected to balance decline in older fields. Natural gas sales may decline marginally as the current industry surplus is expected to increase.

Gross Proven Reserves

	Crude Oil & Natural Gas Liquids (Thousands of Barrels)	Natural Gas (Millions of Cubic Feet)	Sulphur (Thousands of Long Tons)	Total Barrel Equivalents* (Thousands of Barrels)
Reserves at December 31, 1978	112,132	659,379	772	212,189
Additions	1,769	19,565	—	4,689
Production	(9,347)	(26,620)	(63)	(13,454)
Engineering adjustments	(4,093)	(31,288)	2	(8,758)
Reserves at December 31, 1979	100,461	621,036	711	194,666
Total barrel equivalents* (thousands of barrels)	100,461	92,692	1,513	194,666
By region at December 31, 1979				
Alberta	72,667	427,681	711	138,013
British Columbia	3,299	177,893	—	29,850
Manitoba	588	—	—	588
Saskatchewan	23,907	8,733	—	25,211
Northwest Territories	—	6,729	—	1,004

NOTE: *The ratios developed for converting natural gas and sulphur to equivalent barrels of crude oil and natural gas liquids are related to average net value of the product during the year:

1 barrel = 6.70 MCF of natural gas = 0.47 long tons of sulphur.

Mineral Exploration and Development

Expenditures for mineral exploration and development totalled \$2.1 million in 1979 as the Company continued its aggressive exploration program in Canada for coal, uranium, and base metals.

Coal lease applications covering 257,000 acres of Crown lands in west-central Alberta were accepted by the Alberta government. This land block, which is shown in the accompanying illustration, provides the Company with an excellent opportunity to explore for reserves of both thermal and metallurgical coal.

Exploration

The Company continued its active participation in uranium exploration, drilling three properties in British Columbia and one in Manitoba. No significant ore intersections were encountered in the British Columbia program, but follow-up drilling is planned in 1980. Modest encouragement on the Manitoba prospect will lead to further investigation in the coming year. Geophysical surveys and geological mapping were conducted over 135,000 acres of uranium claim blocks in the Athabasca Basin of northern Saskatchewan. Further evaluation, including drilling, will be carried out on these prospects in

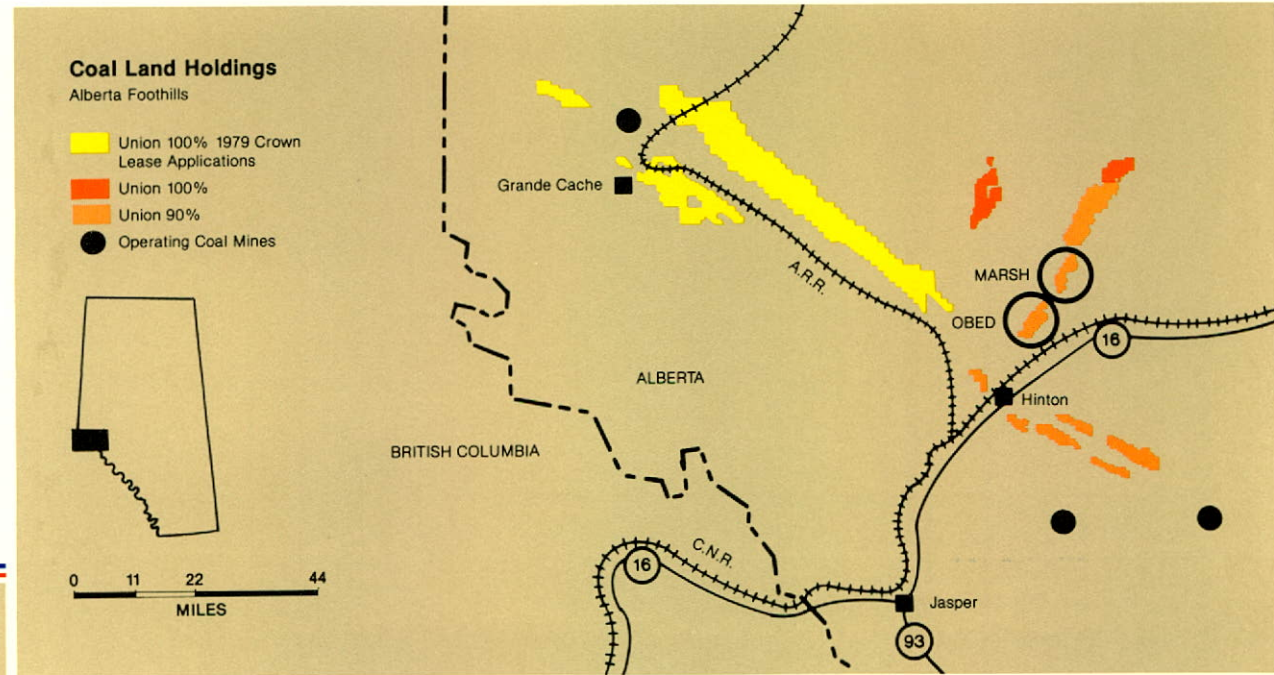
1980 to locate the source of radioactive boulders identified during 1979.

A percussion drilling program totalling 21,000 feet was completed on the Carmi property — a 13,000 acre molybdenum prospect in southern British Columbia. Further drilling is planned for 1980 to more accurately define the open-pit potential and to evaluate deeper geophysical anomalies which have not been drilled.

During 1979 the Company completed a detailed surface exploration program consisting of geological mapping and geochemical and geophysical surveys on a lead-zinc joint venture in the Anvil district of the Yukon Territory. This prospect will be drilled in 1980.

Development

Evaluation of the Obed/Marsh thermal coal property, 15 miles northeast of Hinton, Alberta, progressed favourably in 1979. A detailed mine plan was completed, together with the design of the coal preparation plant, overland conveyor, coal storage, and unit train loadout system.



The mine plan has been developed to produce 3 million tons of clean coal annually from the Obed lease for a period of nearly 40 years. The Marsh block will be kept in reserve and can be mined at a rate of 1 million tons per year for 18 years, when market conditions warrant.

An Environmental and Socioeconomic Impact Assessment and Cost Benefit Analysis was completed and submitted to the Alberta Department of the Environment in July. The technical application for a mine permit to develop the Obed property was submitted to the Alberta Energy Resources Conservation Board in October, and the formal hearing will be held at Hinton in February, 1980.

Market studies reveal a growing offshore demand for thermal coal in the Pacific Rim countries and Europe during the early 1980's. Increased oil prices and uncertainties of supply have created an unprecedented conversion of oil-fired power and cement plants to coal-burning facilities. Obed coal is of a low sulphur, high volatile quality, ideally suited to power generation and cement kiln use. With comparatively easy access to the large reserves at Obed and the minimum infrastructure requirements, the marketplace now recognizes this project as a reliable source for long-term supplies of thermal coal.

Mineral Land Holdings at December 31, 1979 (acres)

	Coal		Uranium		Base Metals		Precious and Specialty Metals		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	348,500	342,006	—	—	—	—	—	—	348,500	342,006
British Columbia	—	—	45,671	30,216	5,236	1,658	18,158	12,747	69,065	44,621
Manitoba	—	—	2,238	1,455	—	—	—	—	2,238	1,455
Ontario	—	—	—	—	1,280	427	—	—	1,280	427
Saskatchewan	—	—	155,116	80,733	—	—	—	—	155,116	80,733
Federal Lands	—	—	—	—	39,437	12,247	7,038	6,827	46,475	19,074
Total	348,500	342,006	203,025	112,404	45,953	14,332	25,196	19,574	622,674	488,316

Administration

At December 31, 1979, the Company employed 384 people, an increase of 36 during the year. Salaries, wages and employee benefits totalled \$10.4 million, an increase of 16% over the previous year.

Continuing emphasis was given to employee recruitment, managerial development and compensation programs to meet the needs of a growing company in a constantly changing business environment. The effects of high inflation added to the complexities of a sound administration and steps were taken to protect real incomes by adjusting salaries and benefits accordingly.

During 1979 the Company's recruiting personnel visited universities, colleges and technical schools across Canada in search of qualified, professional people. Thirty-eight permanent and temporary employees were hired as a result of these visits. Temporary employees received on-the-job training in various Company operations and it is expected that many will return on a permanent basis following graduation.

The Company encourages its employees to upgrade their technical, supervisory and management skills through extension courses and workshops. During the year, 54 employees participated in the Company's fully sponsored Educational Assistance Program and 244 enrolled in various in-house and outside training programs.

Data processing facilities were upgraded to provide additional scientific and general purpose computing capabilities. New equipment and data systems were acquired to provide increased technical support to geophysical, geological, engineering and general business programs.

In response to a growing need to furnish factual information to the general public and various levels of government regarding Canadian oil and gas exploration and development, financial and employee support was extended to the Canadian Petroleum Association, the Independent Petroleum Association of Canada and the Petroleum Resources Communication Foundation.

Union's continued efforts to disclose significant information to the shareholders resulted in its Annual Report again receiving a third place award in the petroleum section of the 1978 Awards Program sponsored by The Financial Post. The report also received a third place award in the senior exploration and production companies category of a similar program sponsored by Oilweek Magazine.

Financial Summary and Analysis

The Company's 1979 earnings, cash flow and revenues increased over the previous year. The 1978 figures shown in the financial statements have been restated where applicable, as have those for 1978 and prior years which are included in the Ten Year Financial and Operating Summary on pages 26 and 27. The restatements conform to the accounting policies described on page 22.

Earnings and Cash Flow

Net earnings for 1979 were \$19.3 million, 41.6% higher than \$13.6 million in 1978. Net earnings per share were \$1.33 compared with \$0.94 per share last year. Cash flow from operations rose 17.0% to \$49.6 million, or \$3.43 per share.

The graph below shows revenues, cash flow and net earnings for the past five years. For comparative purposes, the results of the refining and marketing operations have been removed for the years 1975 and 1976. The assets of the refining and marketing divisions were sold during 1976.

Return on average shareholders' equity was 16.6% compared with 12.9% in 1978. Return on average assets employed (calculated by dividing net earnings by total assets less current liabilities) was 13.2% compared with 10.3% for the previous year. A five-year history of return on shareholders' equity and assets employed is shown in the second graph below.

1979 financial results for each quarter were:

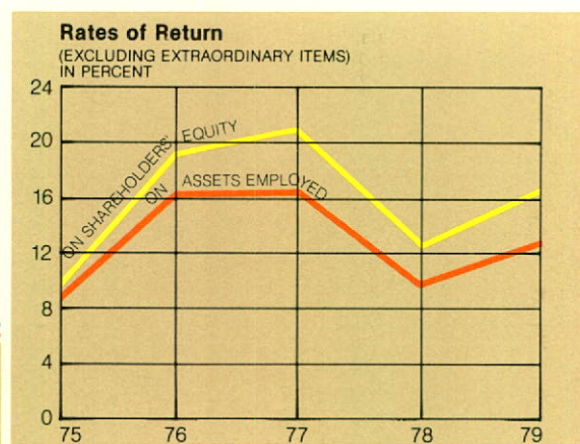
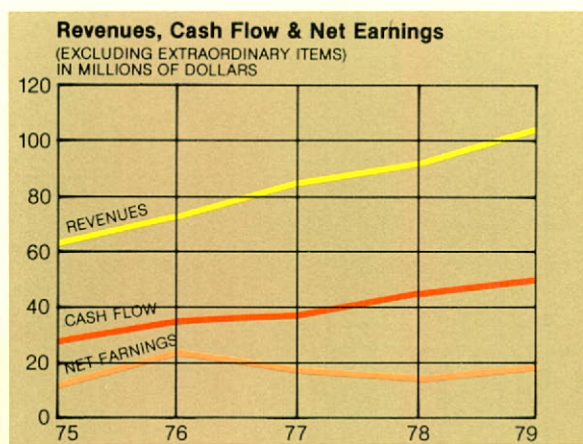
	Revenues	Cash Flow	Net Earnings
First quarter	\$ 25,463,000	\$12,963,000	\$ 5,839,000
Second quarter	24,408,000	12,056,000	4,372,000
Third quarter	24,482,000	11,680,000	3,042,000
Fourth quarter	28,733,000	12,889,000	6,000,000
Total	\$103,086,000	\$49,588,000	\$19,253,000

The first graph on the following page compares Union's net earnings with total payments made by the Company to governments in the form of royalties, rentals, income taxes and other direct taxes. Payments do not include land bonuses, sales taxes, customs duties and payroll taxes. That graph illustrates the significant increase in contributions made by the Company's operations to the revenues of various levels of government.

Revenues

Total revenues of \$103.1 million were 12.3% higher than 1978. Production revenue was \$99.7 million compared with \$87.5 million the previous year, an increase of 13.9%. The increase in production revenue is the result of higher product prices and greater natural gas production.

Tables showing production volumes sold from the Company's major properties during 1979 and 1978 are provided in the Petroleum Production section.



The table below sets out the Company's sources of revenue by province:

	1979	1978	Percent Increase (Decrease)
Crude oil and natural gas liquids			
Alberta	\$ 45,524,000	\$39,755,000	15
British Columbia	5,523,000	5,179,000	7
Saskatchewan-			
Manitoba	17,699,000	17,891,000	(1)
	68,746,000	62,825,000	9
Natural gas			
Alberta	19,517,000	15,432,000	26
British Columbia	10,207,000	8,303,000	23
Saskatchewan-			
Manitoba	261,000	230,000	13
	29,985,000	23,965,000	25
Sulphur			
Alberta	951,000	724,000	31
Total production revenue	99,682,000	87,514,000	14
Interest and other income			
	3,404,000	4,321,000	(21)
Total	\$103,086,000	\$91,835,000	12
Production revenue by province			
Alberta	\$ 65,992,000	\$55,911,000	18
British Columbia	15,730,000	13,482,000	17
Saskatchewan-			
Manitoba	17,960,000	18,121,000	(1)
Total	\$ 99,682,000	\$87,514,000	14

In 1979 the Company received \$1.6 million from gas purchasers who did not take delivery of the minimum contract volumes during the year. These payments for undelivered gas are recorded as deferred revenue and will not be included in the Company's current revenue until such time as the gas is delivered.

Union's 1979 average selling price for crude oil and natural gas liquids was \$12.73 per barrel; for natural gas, \$1.44 per thousand cubic feet; and for sulphur, \$19.06 per long ton. A comparison of average selling prices received by the Company during the past five years is illustrated in the graph below.

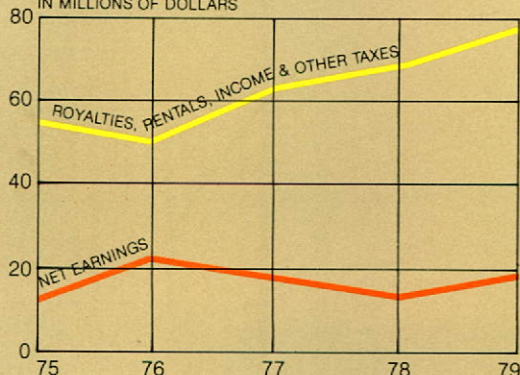
Expenses

Total expenses, excluding income taxes, reached \$64.2 million compared with \$61.7 million during 1978, an increase of 4.1%.

Net exploration expenses (after deducting provincial incentives of \$1.9 million, and including mineral operations and rentals on unproven lands) were \$12.0 million, down 8.1%. The costs of dry holes and abandonments totalled \$13.7 million, up 136.7% from \$5.8 million in the previous year. This reflects the Company's expanded exploration program and inflationary increases in the cost of drilling and service work. Provision for amortization of unproven lands decreased 44.6% to \$8.6 million. The lower provision was the result of reduced investment in unproven lands and an unusually high provision in 1978 following the retroactive adoption of the new accounting policies referred to in Note 8 to the financial statements.

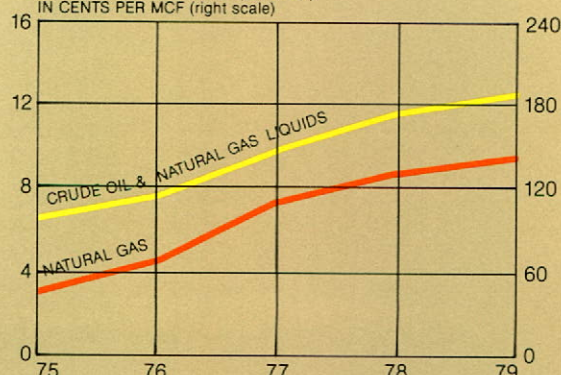
Royalties, Rentals, Taxes & Net Earnings

(EXCLUDING EXTRAORDINARY ITEMS)
IN MILLIONS OF DOLLARS



Average Selling Prices

IN DOLLARS PER BARREL (left scale)
IN CENTS PER MCF (right scale)



Production expenses of \$18.8 million rose 8.1% from \$17.4 million in 1978. Approximately 12% of this amount was for new production coming on stream and for specific programs to enhance production rates. The balance is due to inflation and higher costs of operating older fields. As indicated in the graph below, costs of producing oil and natural gas have risen by 101% and 196%, respectively, over the past five years. Combined provisions for depletion and depreciation advanced 17.0% to \$5.6 million. This increase was mainly attributable to engineering adjustments to proven reserves at December 31, 1978.

General and administrative expenses were \$5.4 million in 1979 compared with \$5.0 million in 1978, up 8.3%. This increase was due primarily to higher payroll and employee related costs.

Income Taxes

Total provision for income taxes in 1979 was \$19.6 million compared with \$16.6 million in 1978. Note 1 to the financial statements sets out the reasons for the effective rate of tax being in excess of the expected rates set out in the income tax legislation and the impact of assessing tax against the producers on government royalties and other levies. Concern must be expressed over the possibility that agreements between the federal government and the provinces which allocate increasing shares of revenues to the governments might result in even greater tax assessments against

the producers. In such an event it would be difficult for producers to maintain current levels of spending, let alone increase those levels to the extent necessary to develop new reserves in the future.

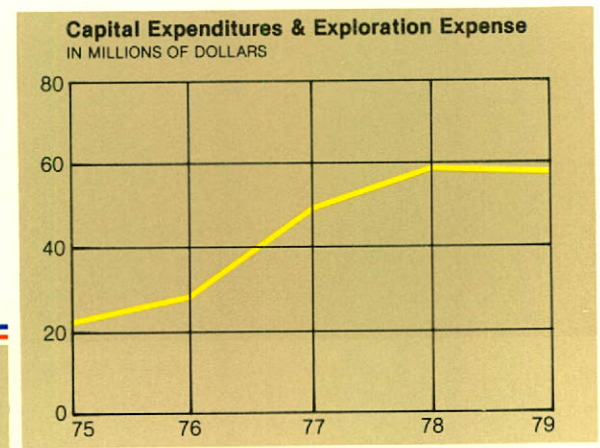
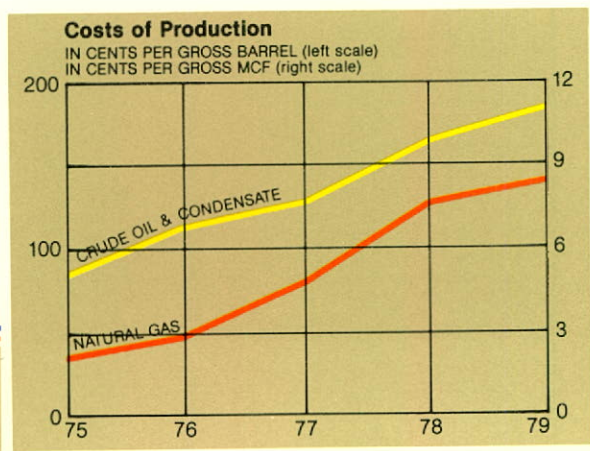
Dividends

Dividends of \$0.40 per share were paid in 1979 compared with \$0.50 per share in the previous year.

Capital Expenditures and Exploration Expense

Capital expenditures and exploration expense, before deducting provincial incentives, totalled \$58.6 million, down from \$59.3 million in 1978. The decrease resulted from lower exploratory land acquisition costs. Expenditures for exploratory drilling and seismic increased 40.1% to \$23.6 million.

The graph below shows expenditures over the past five years. A summary of capital expenditures is provided in the Ten Year Financial and Operating Summary on pages 26 and 27.



Working Capital

Working capital was \$27.0 million at December 31, 1979, compared with \$22.3 million at December 31, 1978. Included in year end working capital are cash and short term deposits of \$13.3 million, up from \$10.5 million on January 1, 1979.

Changes in Accounting Policies

As a result of new accounting policy recommendations being issued in the United States relating to the "Successful Efforts" method of accounting for oil and gas exploration and development expenditures, the Company has reviewed its accounting policies and effective January 1, 1979 adopted a revised successful efforts policy of accounting for oil and gas exploration and development expenditures. Details of the changes are discussed in the Summary of Accounting Policies and Note 8 to the financial statements.

Union will continue to review any proposals in Canada and the United States regarding changes in accounting practices. Further modifications can be expected when new accounting methods become generally accepted practice. Proposals currently under review include the United States Securities and Exchange Commission's publications regarding "Reserve Recognition Accounting" and various methods being suggested for reporting on the effects of inflation on profits.

Outlook

Planned 1980 capital expenditures and exploration expense are anticipated to exceed those reached in 1979 by more than 15%. Revenues, cash flow and earnings are projected to increase in 1980. Forecasts must be viewed with caution because of the unprecedented political uncertainty presently facing the energy industry.

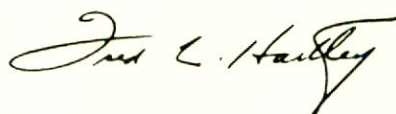
UNION OIL COMPANY OF CANADA LIMITED
and its wholly owned subsidiary

Consolidated Balance Sheet

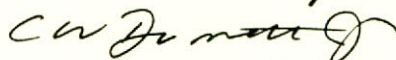
December 31

	1979	1978
Assets		
Current Assets		
Cash and short term deposits	\$ 13,323,000	\$ 10,467,000
Accounts receivable	33,482,000	32,450,000
Inventories		
Sulphur	218,000	218,000
Materials and supplies	6,324,000	6,153,000
Prepaid expenses	427,000	292,000
	53,774,000	49,580,000
Property, Plant and Equipment, at cost (Notes 2, 3 and 8)	234,614,000	210,382,000
Less: Accumulated amortization, depletion and depreciation	109,085,000	97,614,000
	125,529,000	112,768,000
Other Assets		
Long term receivables	227,000	239,000
Investment in noncontrolled companies, at cost	989,000	990,000
Operating and performance deposits	1,399,000	1,132,000
	2,615,000	2,361,000
	\$181,918,000	\$164,709,000

Approved by the Board of Directors



Director



Director

See Summary of Accounting Policies and Notes to the Financial Statements

	1979	1978
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 26,770,000	\$ 27,327,000
Deferred Gas Contract Revenue	2,637,000	1,019,000
Deferred Income Taxes (Notes 1 and 8)	29,786,000	27,389,000
	59,193,000	55,735,000
Shareholders' Equity		
Share Capital (Note 4)		
Authorized		
22,500,000 shares without par value		
Issued and fully paid		
1979 — 14,445,134 shares	5,341,000	
1978 — 14,413,044 shares		5,068,000
	5,341,000	5,068,000
Retained Earnings (Note 8)	117,384,000	103,906,000
	122,725,000	108,974,000
	\$181,918,000	\$164,709,000

UNION OIL COMPANY OF CANADA LIMITED
and its wholly owned subsidiary

Consolidated Statement of Earnings

Year ended December 31

	1979	1978
Revenues		
Sales of crude oil, natural gas, natural gas liquids and sulphur	\$ 99,682,000	\$ 87,514,000
Interest and other income	3,404,000	4,321,000
Total revenues	103,086,000	91,835,000
Expenses		
Production	18,799,000	17,394,000
Exploration — petroleum	9,825,000	10,696,000
— minerals	548,000	654,000
Rentals on unproven lands	1,662,000	1,746,000
Amortization of unproven lands	8,617,000	15,566,000
Depletion	708,000	1,092,000
Depreciation	4,882,000	3,684,000
Dry holes and abandonments	13,731,000	5,800,000
General and administrative	5,447,000	5,030,000
Total expenses	64,219,000	61,662,000
Earnings from operations before income taxes	38,867,000	30,173,000
Income taxes — current (Note 1)	17,217,000	13,938,000
— deferred (Note 1)	2,397,000	2,638,000
	19,614,000	16,576,000
Net Earnings		
(per share — 1979 \$1.33; 1978 \$0.94)	\$ 19,253,000	\$ 13,597,000

Consolidated Statement of Retained Earnings

Year ended December 31

	1979	1978
Balance at beginning of year — as previously reported	\$127,913,000	\$113,705,000
Prior years adjustments (Note 8)	(24,007,000)	(16,190,000)
Balance at beginning of year — restated	103,906,000	97,515,000
Net earnings for the year	19,253,000	13,597,000
	123,159,000	111,112,000
Dividends paid	(5,775,000)	(7,206,000)
Balance at end of year	\$117,384,000	\$103,906,000

See Summary of Accounting Policies and Notes to the Financial Statements

UNION OIL COMPANY OF CANADA LIMITED
and its wholly owned subsidiary

Consolidated Statement of Changes in Financial Position

Year ended December 31

	1979	1978
Source of Funds		
Total revenues	\$103,086,000	\$ 91,835,000
Less expenditures involving the outlay of funds	53,498,000	49,458,000
Funds provided from operations	49,588,000	42,377,000
Disposal of property, plant and equipment	—	1,212,000
Issue of shares (Note 4)	273,000	94,000
Deferred gas contract revenue	1,618,000	1,019,000
	51,479,000	44,702,000
Use of Funds		
Capital expenditures	44,675,000	45,797,000
Less provincial incentives (Note 3)	(3,976,000)	(3,063,000)
Net increase (decrease) in other assets	254,000	(429,000)
Dividends paid	5,775,000	7,206,000
	46,728,000	49,511,000
Increase (decrease) in working capital	4,751,000	(4,809,000)
Working capital at beginning of year	22,253,000	27,062,000
Working capital at end of year	\$ 27,004,000	\$ 22,253,000
Consisting of:		
Current assets	\$ 53,774,000	\$ 49,580,000
Less current liabilities	26,770,000	27,327,000
	\$ 27,004,000	\$ 22,253,000

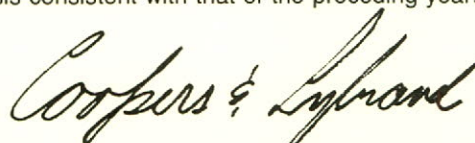
See Summary of Accounting Policies and Notes to the Financial Statements

Auditors' Report

To the Shareholders of Union Oil Company of Canada Limited

We have examined the consolidated balance sheet of Union Oil Company of Canada Limited and its wholly owned subsidiary as at December 31, 1979, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for oil and gas exploration and development expenditures referred to in the Summary of Accounting Policies and in Note 8 to the financial statements, on a basis consistent with that of the preceding year.



Chartered Accountants

Calgary, February 8, 1980

Summary of Accounting Policies

Changes in Accounting Policies

During 1978, the Securities and Exchange Commission in the United States issued new rules regarding accounting for oil and gas exploration and development costs to be adopted by 1979 with retroactive effect. Although the Company is not required to conform to these rules and there are no similar rules in effect in Canada, it was decided that it would be appropriate for the Company to adopt a revised policy relating to the "Successful Efforts" method of accounting for oil and gas exploration and development expenditures with effect from January 1, 1979.

Accordingly, the 1978 figures included in these financial statements and statistical information provided elsewhere in this annual report have been restated, where appropriate, to conform to the revised policies which are outlined in this summary.

Principles of Consolidation

The consolidated financial statements include the accounts of Union Oil Company of Canada Limited and its wholly owned subsidiary Union Oil Holdings Limited.

Inventories

Valuation of inventories is at or below average cost but does not exceed net realizable value.

Leasehold Costs

Oil and Gas —

The purchase cost of such rights are capitalized and amortized over the estimated period of retention of those rights, except that, for those rights that have been impaired by activity in the area, a more rapid amortization may be effected. When unproven lands become productive the original costs are transferred to proven lands and charged against earnings by an annual provision for depletion calculated on a unit of production basis.

Minerals —

Costs of acquisition of coal and mineral rights, including a portion of the costs of field exploration work carried out to earn such rights or which result in the acquisition of such rights, are capitalized. Such costs are amortized over the estimated period of retention of those rights.

Exploration and Development Costs

Costs of drilling exploratory and development wells are initially capitalized. Once the results are determined, the costs of unsuccessful wells are expensed. The costs of successful wells are charged against earnings by an annual provision for depreciation calculated on a unit of production basis. The costs of geological and geophysical surveys or purchase of data are expensed as incurred.

Research and Development

Expenditures on the Company's in situ heavy oil projects, other than for wells drilled to delineate the extent of deposits which are treated as exploration and development costs, are treated as research and development costs and are expensed as incurred.

Depletion and Depreciation

The costs of proven lands are charged against earnings as depletion which is calculated on a unit of production basis using in the calculation developed and undeveloped reserves.

Costs of drilling successful wells and costs of production equipment and facilities are capitalized and subsequently charged to expense as depreciation which is calculated on a unit of production basis using in the calculation only proven developed reserves.

Costs of general facilities and gas processing plants are depreciated on a straight line and declining balance basis respectively over the estimated useful life of the facility. The rates currently used range from 5% to 25%.

Joint Ventures

Substantially all of the Company's exploration and production activities are conducted jointly with others and the accounts reflect only the Company's proportionate interest in such activities.

Income Taxes

The Company follows the tax allocation basis of accounting for deferred income taxes which arise as a result of recording amortization, depletion and depreciation for accounting purposes at rates other than those allowed for income tax purposes.

Notes to the Financial Statements

Note 1 — Income Taxes

Total provisions for income taxes were \$19,614,000 in 1979 (\$16,576,000 in 1978). After giving effect to various assessments and allowances, the provision for income taxes may vary from an "expected" provision calculated by applying the statutory federal income tax rate to the earnings before income taxes for the year. The principal items which create a difference between amounts actually provided and the "expected" provision are shown below:

	1979		1978	
	Amount	% of Earnings Before Income Taxes	Amount	% of Earnings Before Income Taxes
"Expected" federal tax	\$17,878,000	46.0	\$13,880,000	46.0
Incremental provincial taxes	846,000	2.2	736,000	2.4
Royalties and other payments to governments	31,578,000	81.2	26,638,000	88.3
Resource allowance	(16,531,000)	(42.5)	(13,916,000)	(46.1)
Provincial rebate plans	(4,800,000)	(12.3)	(4,074,000)	(13.5)
Provincial incentives	(2,738,000)	(7.0)	(1,765,000)	(5.8)
Depletion allowance on Canadian production profits	(6,610,000)	(17.0)	(4,928,000)	(16.3)
Investment tax credit	(411,000)	(1.1)	(604,000)	(2.0)
Other	402,000	1.0	609,000	1.9
Total	\$19,614,000	50.5	\$16,576,000	54.9

The Company provides for income taxes in accordance with the income tax allocation basis of accounting and has provided in the accounts for income taxes deferred by reason of deducting exploration expenditures, development expenditures and capital cost allowances for taxable income purposes at rates which vary from the corresponding write-offs and depreciation recorded in the accounts. Any excess of such costs not used in one year may be carried forward to be deducted in calculating future taxable income. To calculate current income taxes, the Company has deducted the maximum amounts allowed. At December 31, 1979, there were approximately \$37,700,000 of unclaimed exploration and development costs and approximately \$8,700,000 of unclaimed capital costs carried forward. The comparable figures at December 31, 1978, were \$33,700,000 and \$7,600,000.

In 1979, costs deducted for purposes of calculating taxable income exceeded those charged against earnings in the accounts with the result that income taxes were deferred to the extent of \$2,397,000 (\$2,638,000 in 1978).

Note 2 — Property, Plant and Equipment

	December 31, 1979			Net Investment December 31, 1978
	Gross Investment at Cost	Accumulated Amortization, Depletion and Depreciation	Net Investment	
Unproven lands — petroleum	\$ 47,687,000	\$ 23,215,000	\$ 24,472,000	\$ 27,384,000
— mineral	4,219,000	1,076,000	3,143,000	2,631,000
Proven lands	46,944,000	26,865,000	20,079,000	15,203,000
Work in progress — petroleum	2,168,000	—	2,168,000	2,904,000
— mineral	406,000	—	406,000	777,000
Oil and gas wells and facilities	107,510,000	43,498,000	64,012,000	52,462,000
Gas plants and facilities	21,401,000	12,478,000	8,923,000	9,035,000
Other facilities and equipment	4,279,000	1,953,000	2,326,000	2,372,000
Total	\$234,614,000	\$109,085,000	\$125,529,000	\$112,768,000

Note 3 — Government Assistance

Following enactment in 1974 of federal income tax legislation which assessed income taxes against the resource industries on amounts paid to governments as royalties and other levies, each of the three western provinces initiated incentive programs to encourage exploration and development within their borders. Revised programs were continued through 1979 by two of the provinces. The amounts which accrued during 1979 under the programs totalled \$5,872,000 (\$3,460,000 in 1978). Of that total, \$1,896,000 (\$397,000 in 1978), was credited directly to operating costs, \$1,955,000 (\$1,238,000 in 1978) was initially credited to capital accounts which were subsequently written off during the year and \$2,021,000 (\$1,825,000 in 1978) remained credited to capital accounts at year end.

Note 4 — Share Capital

During 1979, 32,090 no par value shares were issued for cash pursuant to stock options granted in 1970, 1974, 1976 and 1978. The total consideration of \$273,624 was credited to share capital.

At December 31, 1979, options to purchase no par value shares of the Company were outstanding as follows:

Date of Grant	Held by			Option Price
	Officers (one of whom is a director)	Employees		
March 8, 1974	—	2,550		\$11.95
December 6, 1976	51,800	20,715		7.76
September 23, 1977	—	5,400		10.35
June 5, 1978	2,560	—		12.83
November 27, 1978	—	2,400		15.86
Total	54,360	31,065		

Option prices are 90% of the market price at the date of grant.

Note 5 — Remuneration of Directors and Officers

During the year there were five directors and eight officers, two of whom served also as directors. Aggregate direct remuneration payable by the Company and its consolidated subsidiary to the directors and officers of the Company amounted to \$540,119 of which \$5,500 was paid as directors' fees.

At December 31, 1979, a balance of \$115,300 was outstanding on a loan made to an officer in 1977 to assist him with the purchase of a personal residence.

Note 6 — Commitments and Contingencies

In accordance with relevant regulations, the Company has issued noninterest bearing demand notes which are on deposit with the Governments of Canada, Alberta and Saskatchewan to guarantee the performance of exploratory work in respect of certain Crown oil and gas and mineral rights granted to the Company. These demand notes totalled \$510,000 at December 31, 1979.

The Company is contingently liable for the payment of principal (to a maximum of \$1,990,000 at December 31, 1979) and interest in respect to certain debentures of a pipeline company of which Union Oil Company of Canada Limited is a shareholder.

Note 7 — Employees' Retirement Plan

The Company has a retirement plan covering essentially all employees. This plan is funded by the Company. Actuaries for the plan estimated that at December 31, 1979, plan liabilities exceeded plan assets by approximately \$400,000. The underfunding resulted from changes made to the provisions of the plan from time to time and is being funded and charged against earnings over a maximum period of fifteen years as required by applicable legislation. During 1979 the Company contributed \$732,000 (\$718,000 in 1978) to the retirement plan.

Note 8 — Prior Years Adjustments

As outlined in Note 9 of the 1978 Annual Report and the Summary of Accounting Policies in this report, the Company decided it was appropriate to adopt revised policies relating to the "Successful Efforts" method of accounting for oil and gas exploration and development expenditures effective January 1, 1979. As a result of the revised policies being adopted with retroactive effect, the investment in unproven lands was reduced by \$33,439,000, deferred income taxes were reduced by \$9,992,000, other accounts were increased by a net amount of \$2,207,000 and retained earnings were reduced by \$21,240,000.

In addition, due to a change in Revenue Canada's assessment practices relating to certain of the Company's operations and due to changes in the method of calculating deferred income taxes, retained earnings were further reduced by \$2,767,000 bringing the total reduction of retained earnings to \$24,007,000. Of the \$24,007,000, \$7,817,000 is applicable to 1978 and has been charged to income for that year. The remaining \$16,190,000 is applicable to years prior to January 1, 1978 and has been charged to retained earnings at that date. Those retained earnings were previously reported as \$113,705,000.

Note 9 — Comparative Figures

Certain 1978 figures provided for purposes of comparison have been restated to conform to the presentation used in the current year.

Ten Year Financial and Operating Summary

Financial

(In thousands of dollars, except where otherwise stated).
(Per share figures for years prior to 1972 have been restated for comparison to give effect to the three for one share split in November of 1972).

	1979	1978	1977	1976
Income from all sources	\$103,086	\$ 91,835	\$ 82,398	\$104,595
Less: Cash operating expenses	36,281	35,520	27,371	59,384
Current income taxes	17,217	13,938	17,442	11,791
Cash flow from operations	49,588	42,377	37,585	33,420
Dollars per share	3.43	2.94	2.61	2.32
Noncash expense	27,938	26,142	14,110	11,174
Provision for deferred income taxes	2,397	2,638	3,980	555
Net earnings from operations	19,253	13,597	19,495	21,691
Dollars per share	1.33	0.94	1.35	1.51
Nonrecurring profit on sale of assets	—	—	—	7,227
Working capital	27,004	22,253	27,062	24,026
Total assets employed	155,148	137,382	126,487	106,742
Shareholders' equity	122,725	108,974	102,488	86,723
Dollars per share	\$ 8.50	\$ 7.56	\$ 7.12	\$ 6.02
Return from operations on average shareholders' equity (percent)	16.6	12.9	20.6	19.6
Return from operations on average assets employed (percent)	13.2	10.3	16.7	16.6
Number of shares outstanding	14,445,134	14,413,044	14,400,990	14,399,190
Number of shareholders	1,191	1,242	1,292	1,053
Dividends paid	\$ 5,775	\$ 7,206	\$ 3,744	\$ 3,024
Dollars per share	0.40	0.50	0.26	0.21
Market price of shares — high	40.75	19.75	16.87	13.25
— low	\$ 19.25	\$ 13.87	\$ 8.75	\$ 7.12
Capital expenditures and exploration expense				
Development drilling	\$ 10,656	\$ 6,831	\$ 4,792	\$ 3,614
Oil, gas and gas plant facilities	4,430	4,623	1,689	1,961
Exploratory drilling	16,238	10,433	9,225	6,842
Mineral exploration and development	1,295	1,310	1,471	668
Acquisition of oil and gas properties	9,855	18,963	14,025	6,242
Acquisition of mineral properties	277	635	533	63
Heavy oil research	1,500	2,532	2,342	12
Refining and marketing	—	—	—	126
Other	424	470	372	33
Total capital expenditures	44,675	45,797	34,449	19,561
Exploration expense (including rentals)	13,917	13,485	9,798	7,690
Total	\$ 58,592	\$ 59,282	\$ 44,247	\$ 27,251

Operating

Average gross daily production				
Crude oil and natural gas liquids (bbls)	25,609	25,576	27,974	27,399
Natural gas (mcf)	72,932	64,479	69,016	68,461
Sulphur (long tons)	173	167	198	228
Gross proven reserves				
Crude oil and natural gas liquids (thousands of bbls)	100,461	112,132	117,578	126,727
Natural gas (mmcf)	621,036	659,379	632,582	595,692
Sulphur (thousands of long tons)	711	772	885	1,000
Petroleum land holdings (thousands of net acres)	3,741	4,470	6,069	6,494
Mineral land holdings (thousands of net acres)	488	361	255	308
Number of employees	384	348	303	272

1975	1974	1973	1972	1971	1970
\$ 91,727	\$ 85,518	\$ 65,259	\$ 53,407	\$ 47,790	\$ 40,703
47,206	40,956	32,121	29,379	25,067	23,668
16,635	8,254	—	—	—	—
27,886	36,308	33,138	24,028	22,723	17,035
1.94	2.52	2.30	1.67	1.58	1.19
15,202	21,478	24,913	13,926	13,699	11,097
(813)	6,517	2,531	2,863	2,724	1,823
13,497	8,313	5,694	7,239	6,300	4,115
0.94	0.58	0.40	0.50	0.44	0.29

1,048	—	—	—	—	1,257
55,107	48,990	34,741	23,533	16,779	4,976
154,821	149,508	134,640	126,315	116,424	107,003
134,147	128,241	119,888	114,093	106,803	100,366
\$ 9.32	\$ 8.91	\$ 8.33	\$ 7.93	\$ 7.43	\$ 6.99

10.3	6.7	4.9	6.6	6.1	4.0
8.9	5.9	4.4	6.0	5.6	3.8
14,399,190	14,399,190	14,395,440	14,385,940	4,793,710	4,789,430
992	983	915	858	917	1,041
\$ 8,639	\$ —	\$ —	\$ —	\$ —	\$ —
0.60	—	—	—	—	—
9.50	14.00	21.25	20.37	16.62	15.37
\$ 7.00	\$ 6.75	\$ 12.50	\$ 13.67	\$ 14.00	\$ 9.12

\$ 3,368	\$ 1,517	\$ 4,177	\$ 1,515	\$ 2,089	\$ 2,130
3,168	2,861	2,021	2,812	2,350	3,412
1,267	9,971	13,552	5,944	3,220	2,444
620	529	232	—	—	—
1,962	5,455	1,110	6,067	1,457	1,629
22	—	—	—	—	—
3,396	809	170	—	—	—
754	1,937	1,105	660	1,705	2,544
15	290	85	521	248	798
14,572	23,369	22,452	17,519	11,069	12,957
6,165	6,631	4,058	5,403	4,425	5,879
\$ 20,737	\$ 30,000	\$ 26,510	\$ 22,922	\$ 15,494	\$ 18,836

30,119	39,097	43,042	41,877	40,629	39,556
66,742	80,809	72,853	65,698	54,263	50,525
270	308	308	347	317	289
137,031	128,157	147,739	163,833	175,786	185,051
622,833	626,586	640,795	633,472	600,076	555,889
1,205	979	1,192	1,338	1,428	1,489
6,423	8,430	6,221	5,288	5,519	5,681
262	1,041	995	—	—	—
337	360	352	371	357	329

Directors

C. S. Brinegar, 1975

*Senior Vice President
Union Oil Company of California
Los Angeles, California*

R. A. Burke, 1962

*Senior Vice President
Union Oil Company of California
Los Angeles, California*

C. W. Dumett, Jr., 1975

*President
Union Oil Company of Canada Limited
Calgary, Alberta*

Fred L. Hartley, 1964

*Chairman and President
Union Oil Company of California
Los Angeles, California*

J. M. Tory, Q.C., 1970

*Barrister & Solicitor
Tory, Tory, DesLauriers & Binnington
Toronto, Ontario*

Date following the name indicates
the year first elected director.

Officers and Senior Management

Fred L. Hartley

Chairman of the Board

C. W. Dumett, Jr.

President

E. J. Connor

Vice President, Production

D. B. Jarrett

Vice President, Administration

E. D. B. Laudeman

Vice President, Exploration

J. L. Maclagan

Vice President, Finance, Treasurer

R. G. Byers

General Counsel, Secretary

J. J. Bohnet

Comptroller, Assistant Secretary

D. B. Leitch

General Manager, Minerals

Head Office

335 Eighth Avenue S.W.
Calgary, Alberta

Transfer Agent and Registrar

The Royal Trust Company,
Calgary, Montreal, Toronto,
Winnipeg, Vancouver

Subsidiary

Union Oil Holdings Limited

Stock Exchange Listings

The shares of the Company are listed
on the Toronto, Montreal, Vancouver
and Alberta Stock Exchanges

Auditors

Coopers & Lybrand

Incorporated under the Laws of Canada



UNION OIL COMPANY OF CANADA LIMITED

P.O. Box 999,
Calgary, Alberta T2P 2K6