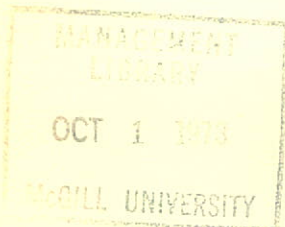


TOTAL PETROLEUM (NORTH AMERICA) LTD.

TOTAL

Annual Report
1970



TOTAL PETROLEUM (NORTH AMERICA) LTD.

Facts at a Glance

	<u>1970</u>	<u>1969</u>
Proven oil and condensate reserves (bbls.)	36,201,647	36,729,033
Oil and condensate production (bbls.)	1,486,547	1,421,357
Proven gas reserves (MM. cubic feet)	168,872	153,454
Natural gas sales (M cubic feet)	3,847,422	2,636,178
Net land holdings (acres)	4,608,843	8,599,946
Crude oil refined (bbls.)	10,641,645	10,657,527
Refined product sales (bbls.)	12,019,762	11,811,619
Net earnings	\$ 1,841,000	\$ 2,493,000
Cash flow from operations	6,054,000	6,211,000
Total revenues and other income	75,410,000	75,181,000
Working capital	13,637,000	11,288,000
Shareholders' equity	67,588,000	67,222,000
Total assets	\$125,199,000	\$100,211,000

TOTAL PETROLEUM (NORTH AMERICA) LTD.

DIRECTORS

REID BRAZELL	Alma, Michigan
H. J. CHAMPIN	Paris, France
F. C. COPE	Montreal, Quebec
E. L. DALEMONT	Paris, France
J. C. GENTON	Paris, France
J. W. GLANVILLE	New York, N.Y.
W. T. HAMILTON*	Calgary, Alberta
S. D. SABOFF	Alma, Michigan
D. L. TORREY	Montreal, Quebec
H. VAUTRIN	Paris, France

OFFICERS

REID BRAZELL	Chairman of the Board (Chief Executive Officer)
W. T. HAMILTON*	President
S. D. SABOFF	Vice-President
J. H. LAHERRERE	Vice-President - Exploration
S. B. LAING	Vice-President - Finance
W. G. TUCKER	Secretary
P. H. GUTKNECHT	Treasurer

* - Resigned January 31, 1971

HEAD OFFICE

639 FIFTH AVENUE S.W.
CALGARY 1, ALBERTA, CANADA

U.S. MAIN OFFICE

EAST SUPERIOR STREET
ALMA, MICHIGAN 48801

REGISTRARS

THE ROYAL TRUST COMPANY
Calgary, Toronto and Montreal, Canada.
MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
New York, N.Y., U.S.A.

TRANSFER AGENTS

MONTREAL TRUST COMPANY
Calgary, Toronto and Montreal, Canada.
MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
New York, N.Y., U.S.A.

EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
AMERICAN STOCK EXCHANGE

AUDITORS

PRICE WATERHOUSE & CO.

ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held at the head office of the Company, 639 Fifth Avenue, Southwest, Calgary, Alberta, at 10:00 a.m. on Wednesday, March 31, 1971.

TOTAL PETROLEUM (NORTH AMERICA) LTD.

Report To The Shareholders:

The highlight of 1970 was the creation of Total Petroleum (North America) Ltd. by the merger of French Petroleum Company of Canada Ltd. and Leonard Refineries, Inc. Total Petroleum is a fully integrated exploration, production, refining and marketing company with a significant interest in every phase of the oil and gas business.

The merger was accounted for as a pooling of interests so that all financial statements reflect the combined operation for the full years of 1969 and 1970. Net income for the year 1970 was \$1,841,000 as compared to \$2,493,000 in 1969.

Results for the year were adversely affected by gasoline price wars, restrictive crude oil import quotas, both Canadian and offshore, and increased crude oil and operating costs. Management is working diligently to improve the performance of the company and is optimistic that results will be better in 1971.

Operating volumes were higher in all areas with crude oil processing near maximum capacity and sales approximately 13% higher than refining capacity. This reflects the attainment of one of the company's goals, allowing flexibility to eliminate low price sales, to take advantage of more attractive purchase opportunities and to have the choice of either manufacturing or purchasing products.

In December of 1970, your company acquired 142 service stations and other assets from the Citrin family in Detroit, Michigan. Since the purchase was made near the end of the year, revenues and earnings for 1970 do not reflect this transaction. In addition to the assets, we acquired a competent team of people who will contribute to the future progress of the company.

In October of 1970, Mr. J. d'Eyssautier and Mr. J. S. Byrn resigned from the Board of Directors. In January 1971, Mr. W. T. Hamilton resigned as a Director and as President. We wish to express our thanks and appreciation to these men for their important contributions to the success of the company.

Once again, your directors wish to express their appreciation for the high degree of effort and cooperation given by all of the employees, the continued support of our shareholders and the loyalty and confidence accorded us by our customers.

Submitted on behalf of the Board of Directors



Chairman of the Board

March 5, 1971

TOTAL PETROLEUM (NORTH AMERICA) LTD.

Financial

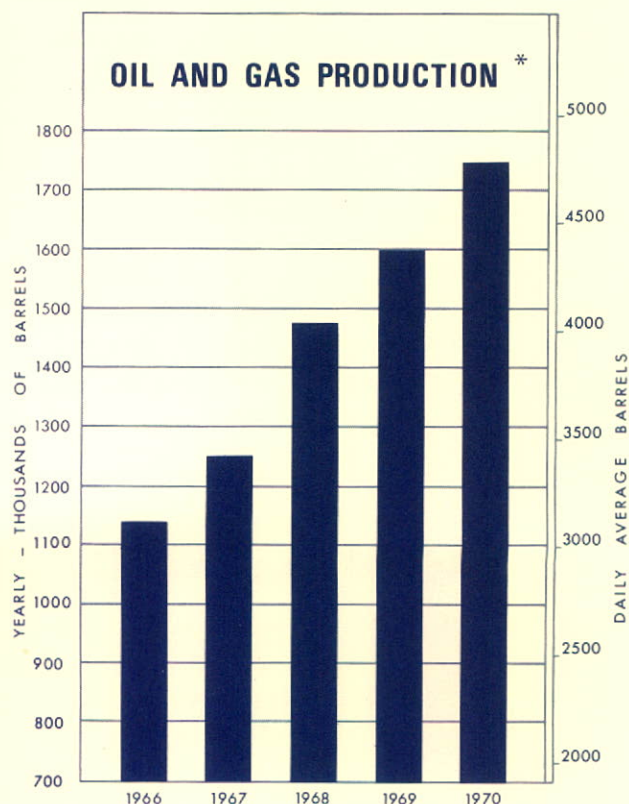
Net income for the year was \$1,841,000 or \$.15 per Common share, as compared with net income of \$2,493,000 or \$.28 per Common share in 1969. Earnings per share were calculated assuming \$.70 per share dividends in each period on the Series A Preferred shares and using the weighted average number of common shares (6,572,915 in 1970 and 5,821,332 in 1969).

The decrease in net income was a result of gasoline price wars and inflationary factors - increased wages and salaries, higher crude oil costs and increased costs of most supplies and services. Positive action has been taken to make operations as efficient as possible at the lowest possible cost. With the cost of doing business increasing constantly, we search continuously for better operating methods.

Production and Reserves

The total crude oil and condensate produced by your Company and its subsidiaries during 1970 amounted to 1,486,547 barrels, representing an increase of 4.5% over the comparative total for the previous year. Natural gas sales increased by 46%, averaging 10.541 million cubic feet per day as compared to 7.222 million cubic feet per day in 1969. Equating natural gas production to crude oil and condensate on the basis of 15,000 cubic feet per barrel, your Company's combined production averaged 4,775 barrels per day in 1970, compared with an average of 4,375 barrels per day calculated on the same basis for the previous year. All production of the Company's subsidiaries, Leonard Refineries, Inc. and Camerina Oil & Gas Ltd., is included in the foregoing figures.

After providing for the year's production of 1,486,547 barrels, your Company's estimated proven oil reserves at the end of 1970 amounted to 36,201,647 barrels with estimated additional probable reserves bringing the total to 46,073,063



* NATURAL GAS PRODUCTION EQUATED TO CRUDE OIL AND CONDENSATE ON THE BASIS OF 15,000 CUBIC FEET PER BARREL.

barrels. This compares with a corresponding estimated aggregate of 46,265,557 barrels at the end of the previous year.

The Company's estimated proven developed gas reserves, after making allowance for the year's production of 3,847 million cubic feet, totalled 168,872 million cubic feet at the end of 1970, representing an increase of 10% over the comparative reserve estimate at the end of the preceding year. Estimated additional probable gas reserves at the end of the year amounted to 58,359 million cubic feet.

Exploration and Development

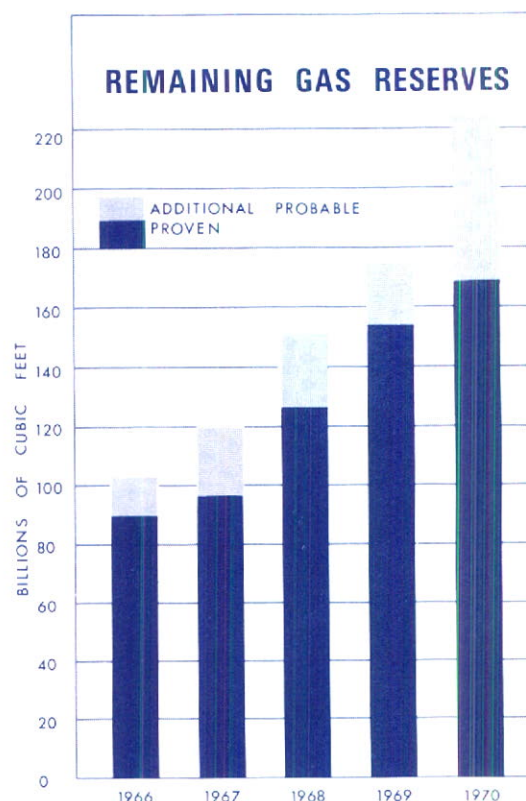
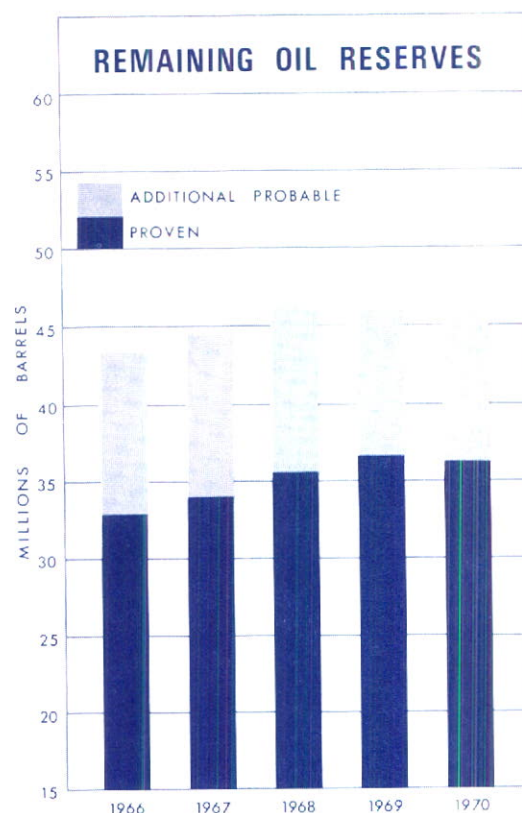
During 1970 your Company and its subsidiaries drilled or participated in the drilling of thirty wells and held interests in an additional four

farmout wells which were drilled without cost to the Company other than acreage contribution. This drilling program resulted in three oil wells, two gas wells and two potential gas wells in which your Company holds varying percentage interests, three wells still drilling at year-end and the remainder proving non-productive.

The successful oil wells are located in the Senex, Enchant and Carson Creek areas of Alberta, while the two gas wells are situated in the Brazeau area of Alberta and the Grassy Creek region of British Columbia, respectively. The potential gas wells are located in the Rainbow South and Greencourt areas of Alberta.

The Grassy Creek well (ARCO Pacific Grassy a-75-D 94-G-7) represents a significant Mississippian gas discovery located in the Foothills structural belt, 100 miles northwest of Fort St. John in northeast British Columbia. On test the calculated open flow rate at this well was 163 million cubic feet of gas per day from a gross pay section of 526 feet at a depth of 5,800 feet. A development well, located 1½ miles south of the discovery is presently being drilled by your Company and its partners in this area. Your Company has a 30% interest in the discovery well and 5,526-acre block on which it is located. In addition, your Company holds a 100% interest in leases comprising 2,072 acres and a Drilling Reservation comprising 10,531 acres, all located within a 6-mile radius of the discovery well.

With respect to offshore operations, your Company will be participating to the extent of its 5% interest in a drilling program to be conducted this coming summer in the waters off the coast of Labrador. The drilling vessel which has been engaged for this purpose is expected to arrive at St. Johns, Newfoundland from the Mediterranean early in June. In the Banks Island region of the Arctic, where your Company has an option to purchase 22.5% interest in shallow offshore permits covering approximately two million acres, further seismic work will be carried out this year.



Land

As shown in the following geographical table and on the maps accompanying this report, the land holdings of your Company and its subsidiaries amounted to 4,608,843 net acres as compared to 8,599,946 net acres at the end of the previous year. This substantial decrease was attributable primarily to the conversion of the Company's holdings of over four million net acres of permits

in the Hudson Bay area from a working interest to a gross overriding royalty interest during 1970. Apart from this, the level of your Company's overall land holdings has remained relatively constant, with reductions in certain areas considered non-prospective after evaluation being largely offset by the acquisition of new acreage in regions of prospective interest.

TOTAL PETROLEUM (NORTH AMERICA) LTD.
and subsidiary companies
LAND HOLDINGS AT DECEMBER 31, 1970

	(Acres)					
	<i>Petroleum and Natural Gas Leases</i>		<i>Reservations, Permits and Licenses</i>		<i>Total</i>	
	Gross	Net	Gross	Net	Gross	Net
British Columbia	137,319	62,147	1,139,032	665,170	1,276,351	727,317
Alberta	785,167	390,608	508,471	402,002	1,293,638	792,610
Saskatchewan	26,645	9,270	—	—	26,645	9,270
Yukon	—	—	449,624	292,612	449,624	292,612
Northwest Territories	—	—	1,724,222	933,162	1,724,222	933,162
Arctic	—	—	591,145	118,229	591,145	118,229
Labrador	—	—	32,955,920	1,647,796	32,955,920	1,647,796
Montana	91,060	34,148	—	—	91,060	34,148
Michigan	84,817	53,699	—	—	84,817	53,699
	<u>1,125,008</u>	<u>549,872</u>	<u>37,368,414</u>	<u>4,058,971</u>	<u>38,493,422</u>	<u>4,608,843</u>

Refining

Crude oil refined was slightly less than in the previous year. This decrease was due primarily to problems associated with the allocation of crude oil imported from Canada into the United States. Regulations controlling these imports have been liberalized for 1971 and we anticipate that sufficient crude oil will be available to maintain maximum refinery throughput.

We continually look for ways to reduce operating costs in order to improve our refining profitability. During the past year we made substantial savings through better utilization of manpower, as well as improved gasoline blending efficiencies.

Additional facilities have been installed as part of our constant effort to improve the environment. In 1964, stabilization ponds were installed

which treated water leaving the refinery. The water took about ten days to pass through the ponds. During the past year we completed a major expansion of these facilities. The water now flows slowly for 40 days through eight different stabilization ponds where it is cleaned and aerated before being released to the Pine River.

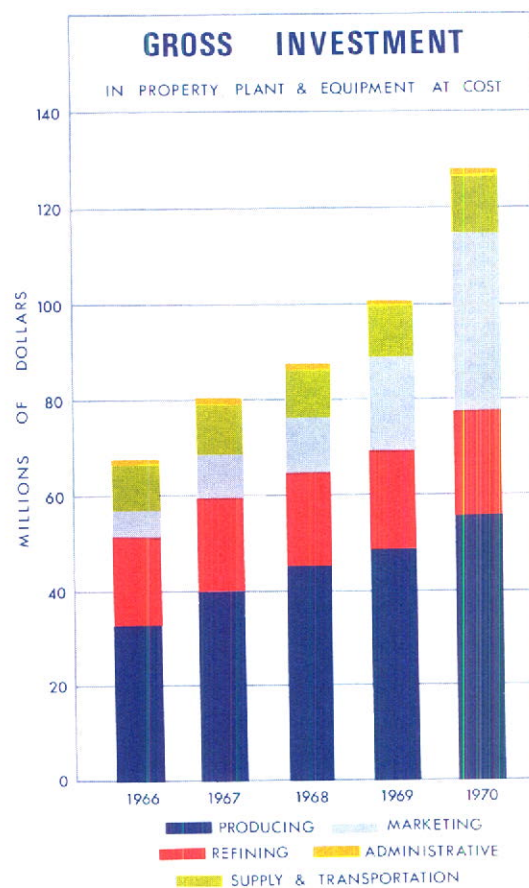
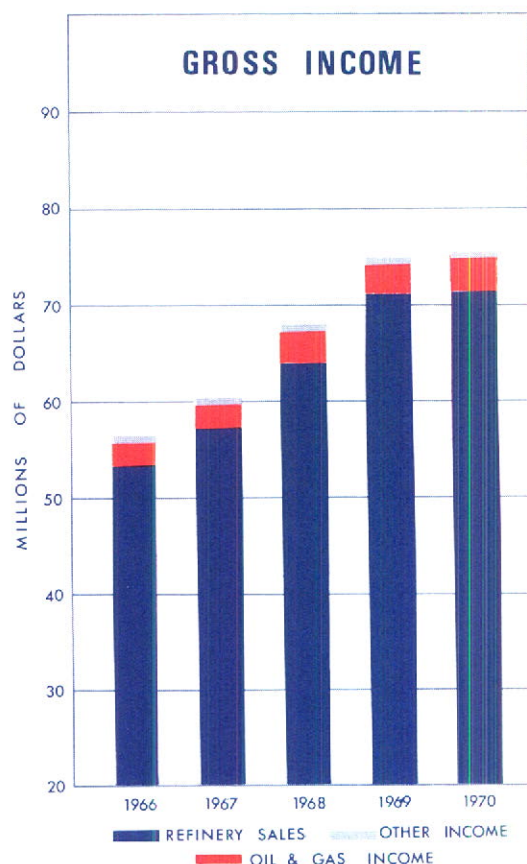
For the seventh consecutive year we received an "A" rating from the State of Michigan for our water pollution control equipment and management.

A Merox Process Unit was completed and put on stream during the past year to make additional reduction of air-water pollution. This unit has also improved the quality of the alkylate gasoline blending component used in premium gasoline. Equipment has been purchased and put into operation which analyzes samples of air for sulphur dioxide content. We recently began a program using this equipment to periodically analyze the air within the refinery and the surrounding community. Our results to date indicate that sulphur dioxide levels in these areas are well below those discussed as goals for the year of 1974. This program is conducted with the complete knowledge and cooperation of State of Michigan authorities.

We have received final engineering design from Universal Oil Products Company for a new 10,000 Barrels per day catalytic reformer (Platformer). Completion of this unit is planned for the spring of 1972. The new unit will increase our gasoline manufacturing by approximately 80 million gallons per year and will give us the capability to meet octane requirements for several years, with or without the use of tetraethyl lead.

Marketing

During 1970 petroleum product sales exceeded one-half billion gallons, the sixth consecutive year of refined product sales increases, and 13% above manufacturing capacity. Leonard is a principal supplier of paving and industrial



asphalts in Michigan and sales of asphalt, one of your company's most profitable products, increased again for the third consecutive year. Significant sales volume increases were also made in naphthas and aviation fuels. Sales of PowerMix (refinery blended 2-cycle fuel) have approximately doubled during the past three years with most of the increase attributed to the rapidly growing winter sport of "snowmobiling". Changes in the energy market and air pollution controls have caused a dramatic increase in demand for our low-sulphur fuels.

All-time highs in asphalt sales have been forecast for 1971. The new record in sales will be achieved partly through a new use for our paving asphalt. Leonard has been selected as a primary supplier of asphalt to line the world's largest pumped storage hydroelectric power plant being constructed on the shore of Lake Michigan near Ludington, Michigan. Water will be pumped by huge electric motors into an asphalt-lined reservoir during "off-peak" hours. The water is stored in the reservoir and will be released to flow through turbines generating electricity during peak electrical demand.

Leonard acquired certain assets of Citrin Oil Company, one of the nation's largest and most successful jobbers, on December 22, 1970. 142 modern retail gasoline outlets and other assets were purchased. The addition of the Citrin gasoline distribution will substantially increase branded gasoline sales and will give us the needed market penetration to effectively compete in the Detroit Metropolitan market, which has over 50% of the gasoline sales of the state of Michigan.

"TOTAL" will replace Leonard as your company's primary brand name. Design and development work was started during the past year and a new advertising agency was engaged to help develop a new "total service" advertising and promotion program. The brand name change will include gasolines, motor oils and other related products as well as all station identification. Petroleum products under the "TOTAL" brand are

presently sold in over 50 countries on five continents. We will begin the name change to "TOTAL" this spring and the program will be completed in the next 18 months.

For the fourth year Leonard sponsored the annual "Press On Regardless" Road Rallye, which obtained international sanction for 1970. This was the first international rallye to be held in the United States in 14 years. The competition starts and ends in Alma with entries from 19 states and Canada. The event is run in two night stages on the back roads of northern Michigan. Leonard gasolines are used exclusively.

Each year the "Press On Regardless" Rallye has grown in stature and has again been sanctioned as an international event for 1971. In 1972, the competition will become part of the International Manufacturers Championship series, a combination of rallyes held on the European Continent and within the Western Hemisphere. There are only 6 championship rallyes held in the world, and we anticipate a great deal of publicity for our products through the various news media that will cover such an event.

Anti-pollution and anti-littering promotional activities continue to be part of the Leonard program, as they have been for the past 15 years. Our service stations continue to distribute litter bags and our dealers and jobbers are encouraged to continue to be concerned in all areas that affect our ecology.

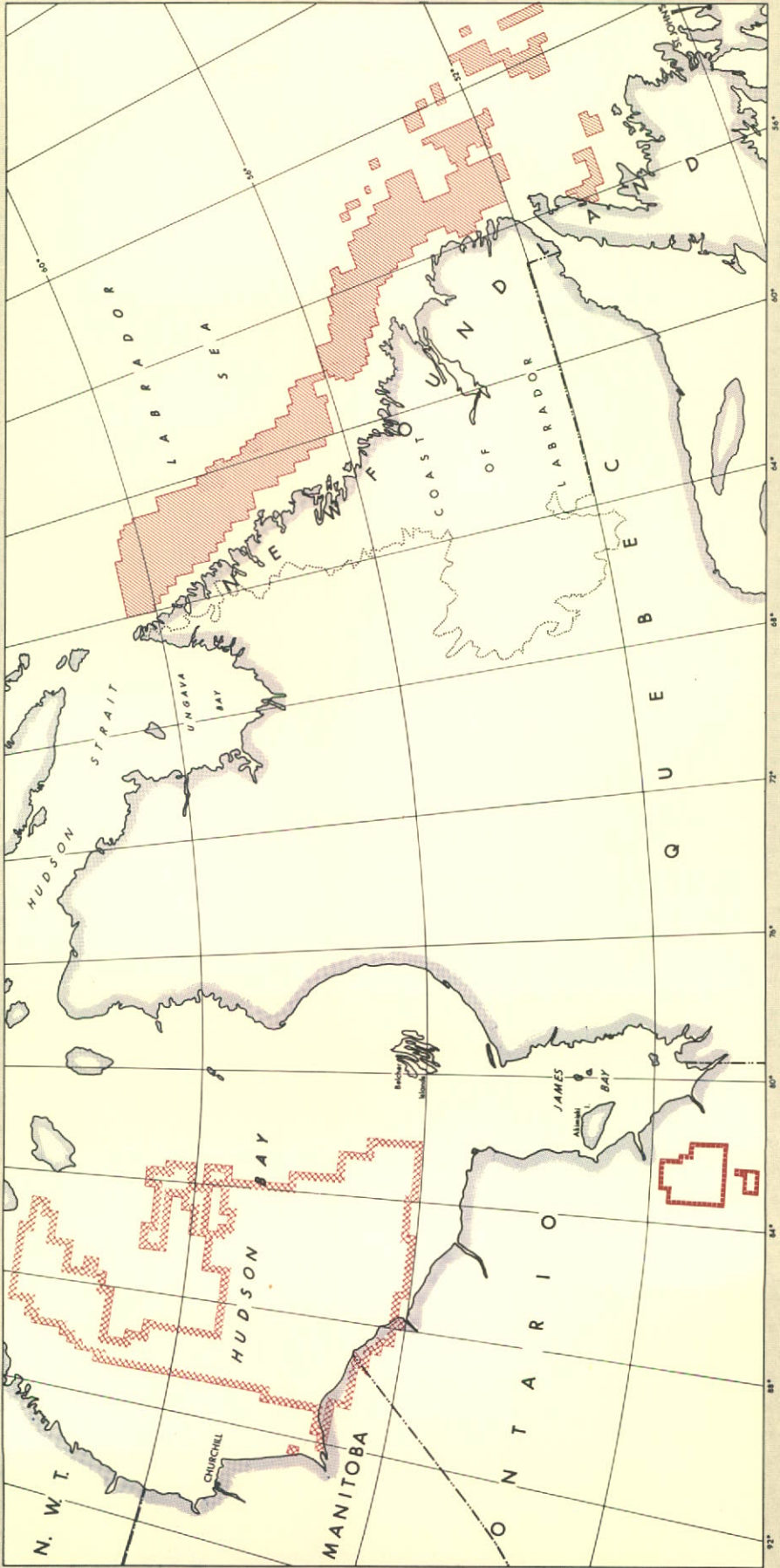
Supply and Transportation

Pipeline terminal facilities in Bay City, Lansing and Traverse City continue to play an important role in reducing the Company's distribution costs. The automation of the Bay City terminal was delayed; however, this work should be completed early in 1971. A refined products terminal in the Detroit area was one of the properties acquired from Citrin Oil Company. This terminal will reduce Leonard's distribution costs in southeastern Michigan.

FIVE YEAR STATISTICAL REVIEW

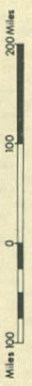
	1970	1969	1968	1967	1966
OPERATION					
Proven Oil and Condensate Reserves (bbls.)	36,201,647	36,729,033	35,771,142	34,094,411	33,104,751
Probable Oil Reserves (bbls.)	9,871,416	9,536,524	10,683,678	10,555,002	10,402,814
Oil and Condensate Production (bbls./year)	1,486,547	1,421,357	1,351,430	1,114,339	1,008,652
Proven Gas Reserves (Millions of Cubic Feet)	168,872	153,454	126,689	96,980	90,172
Probable Gas Reserves (Millions of Cubic Feet)	58,359	22,040	25,916	23,743	14,080
Natural Gas Sales (Mcf/year)	3,847,422	2,636,178	1,873,821	2,041,339	1,958,150
Gross Land Holdings (acres)	38,493,422	110,971,379	110,864,874	8,957,427	5,524,324
Net Land Holdings (acres)	4,608,843	8,599,946	8,424,542	2,956,728	2,340,990
Crude oil run to stills (barrels)	10,641,645	10,657,527	10,693,798	9,998,805	9,901,185
Refined product sales (barrels)	12,019,762	11,811,619	10,830,690	10,045,524	9,858,857
Service stations owned or leased long term	342	197	220	231	238
Total outlets	905	767	750	756	764
FINANCIAL (U.S. Dollars)					
Total Revenues	\$75,410,000	\$75,181,000	\$68,108,000	\$60,574,000	\$56,508,000
Cash flow from operations	\$ 6,054,000	\$ 6,211,000	\$ 6,142,000	\$ 5,403,000	\$ 5,069,000
Net Income	\$ 1,841,000	\$ 2,493,000	\$ 2,829,000	\$ 2,512,000	\$ 2,502,000

**LAND HOLDINGS OF
TOTAL PETROLEUM (NORTH AMERICA) LTD
AND SUBSIDIARY COMPANIES**



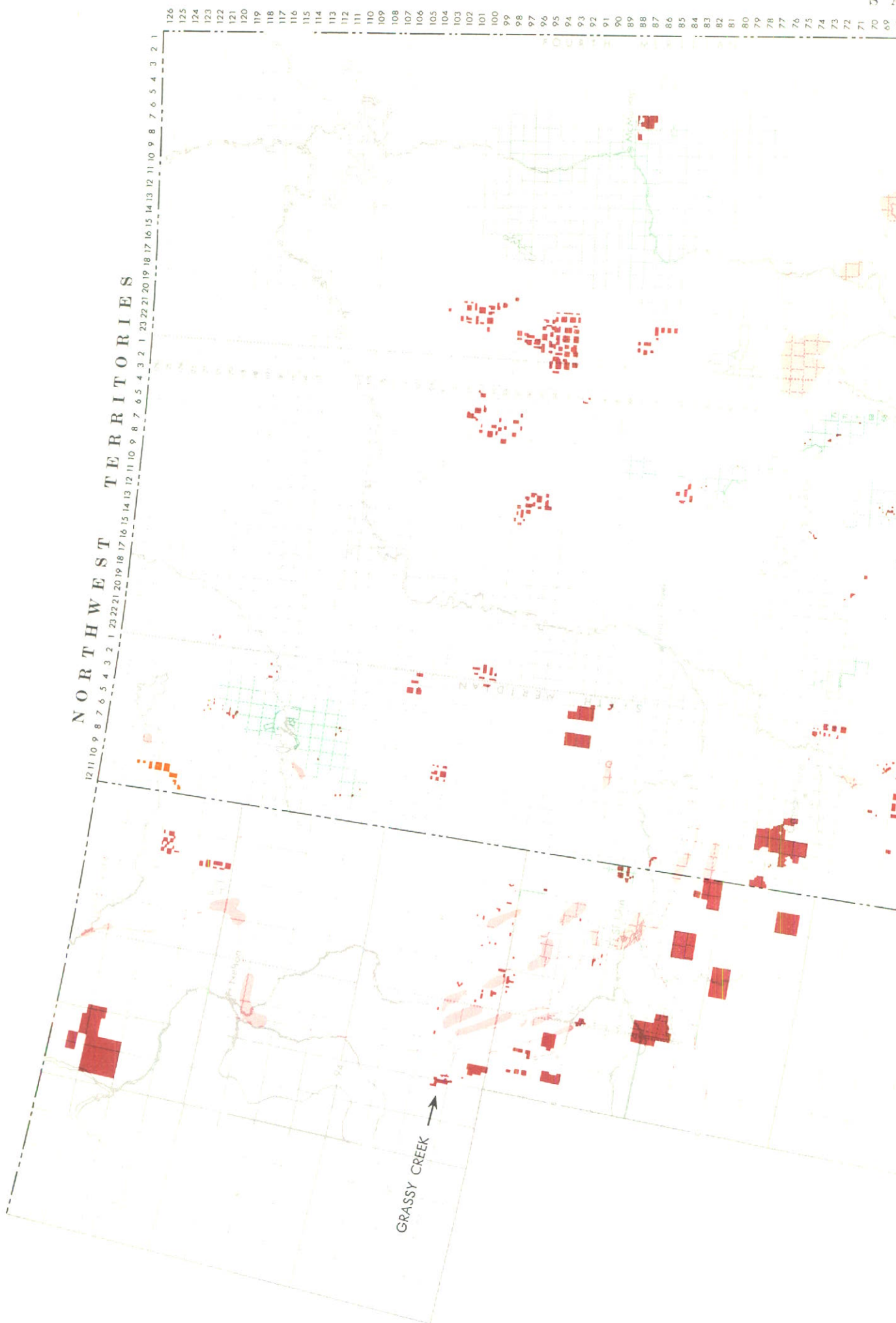
LAND HOLDINGS OF TOTAL AND SUBSIDIARIES AS OF DEC. 31, 1970.

<p>LABRADOR HUDSON BAY JAMES BAY</p>	<p>LEONARD 2% INTEREST CAMERINA (GROSS OVERRIDING ROYALTY) TOTAL (GROSS OVERRIDING ROYALTY)</p>
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HUDSON BAY & LABRADOR AREAS

NORTH WEST TERRITORIES





PROVINCE OF ALBERTA AND PORTIONS OF BRITISH COLUMBIA

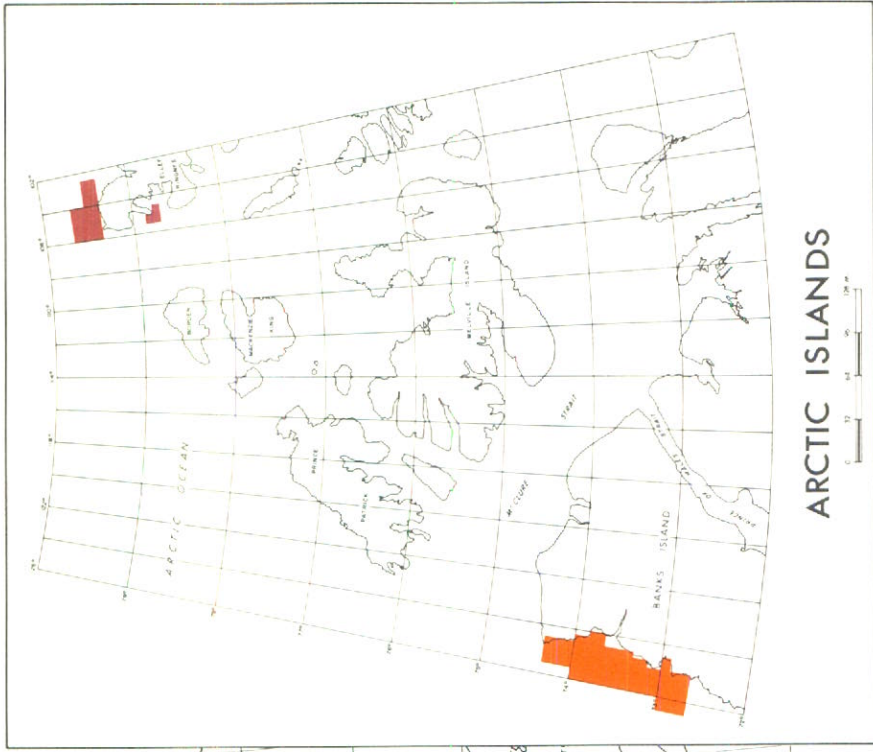


REFERENCE

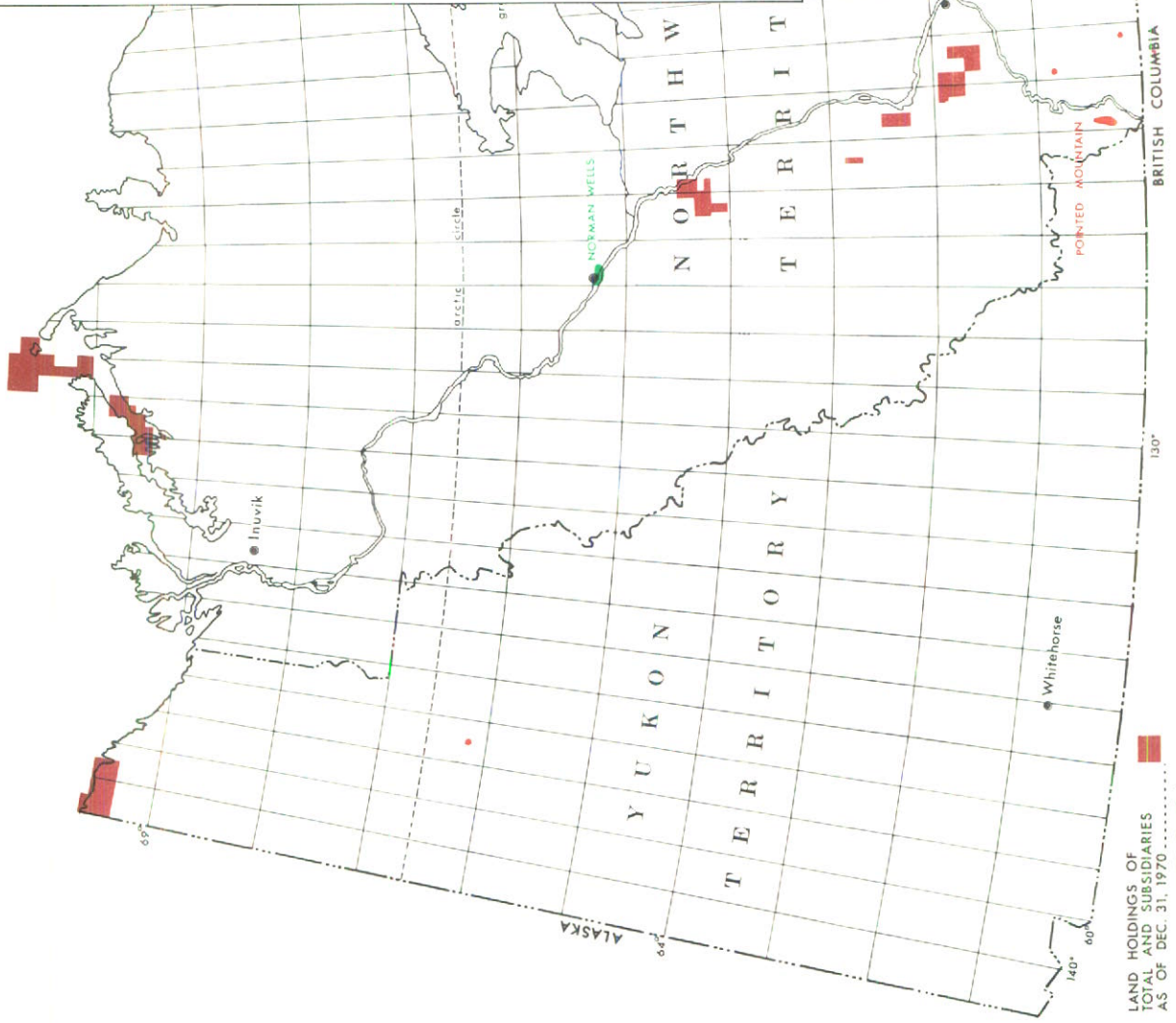
- LAND HOLDINGS OF TOTAL AND SUBSIDIARIES AS OF DEC. 31, 1970. - - - - -
- LANDS HELD UNDER OPTION AS OF DEC. 31, 1970. - - - - -
- OIL FIELD - - - - -
- OIL PIPELINE - - - - -
- GAS FIELD - - - - -
- GAS PIPELINE - - - - -

U. S. A.

ARCTIC OCEAN



ARCTIC ISLANDS



- LAND HOLDINGS OF TOTAL AND SUBSIDIARIES AS OF DEC. 31, 1970
- LANDS HELD UNDER OPTION AS OF DEC. 31, 1970
- OIL PRODUCTION
- GAS PRODUCTION

YUKON and NORTHWEST TERRITORIES



TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

**Consolidated Statements of Income
and Retained Earnings**

For The Years Ended December 31, 1970 and 1969 (Note 2)
(United States dollars)

INCOME

Revenue:	1970	1969
Net sales of refined products and other operating income	\$71,323,000	\$71,553,000
Sales of crude oil and natural gas	3,637,000	3,149,000
Investment income	149,000	48,000
Other income	301,000	431,000
	<u>75,410,000</u>	<u>75,181,000</u>
Expenses:		
Purchased crude oil, products and merchandise	44,214,000	43,778,000
Operating expenses	11,865,000	11,433,000
Marketing and administrative	11,065,000	11,029,000
Depreciation, depletion and amortization (Note 3)	4,397,000	3,791,000
Interest on long term debt	1,473,000	1,111,000
Other interest expense	388,000	249,000
United States income taxes (Note 5)	167,000	1,297,000
	<u>73,569,000</u>	<u>72,688,000</u>
Net income for the year	<u>\$ 1,841,000</u>	<u>\$ 2,493,000</u>
Net income per share of Common stock (Note 7)	<u>\$.15</u>	<u>\$.28</u>

RETAINED EARNINGS

Balance (deficit), beginning of year	\$(6,940,000)	\$(7,720,000)
Retained earnings of Leonard Refineries, Inc. and subsidiaries at January 1 (Note 2)	17,354,000	16,549,000
Balance, beginning of year, as adjusted	10,414,000	8,829,000
Net income for the year	1,841,000	2,493,000
	<u>12,255,000</u>	<u>11,322,000</u>
Deduct—		
Share issue costs	—	160,000
Dividend on Series A Preferred shares	217,000	—
Dividends on shares of Leonard Refineries, Inc. prior to merger	561,000	748,000
	<u>778,000</u>	<u>908,000</u>
Balance, end of year	<u>\$11,477,000</u>	<u>\$10,414,000</u>



TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1970 and 1969

(United States dollars)

Assets

	1970	1969 (Note 2)
CURRENT ASSETS:		
Cash and short term deposits	\$ 5,161,000	\$ 7,050,000
Short term investments, at cost	2,912,000	95,000
Accounts and notes receivable, less allowance for doubtful accounts of \$582,000 (1969 - \$521,000)	8,758,000	10,871,000
Inventories of purchased crude oil, products and merchandise, at the lower of cost (first-in, first-out) or net realizable value	10,031,000	8,293,000
Materials and supplies, at average costs or less	978,000	865,000
Prepaid expenses and deposits	1,180,000	1,115,000
	<u>29,020,000</u>	<u>28,289,000</u>
LONG TERM RECEIVABLES AND OTHER ASSETS:		
Notes receivable	3,047,000	2,669,000
Other assets and deferred charges	472,000	568,000
	<u>3,519,000</u>	<u>3,237,000</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
(Note 3)	127,850,000	100,456,000
Less - Accumulated depreciation, depletion and amortization	35,190,000	31,771,000
	<u>92,660,000</u>	<u>68,685,000</u>
APPROVED ON BEHALF OF THE BOARD:		
	Director	
	Director	
	<u>\$125,199,000</u>	<u>\$100,211,000</u>

Liabilities

	1970	1969 (Note 2)
CURRENT LIABILITIES:		
Notes payable to banks (\$2,000,000 secured)	\$ 3,500,000	\$ 4,572,000
Accounts payable and accrued liabilities	7,569,000	7,802,000
Income and other taxes	1,905,000	2,090,000
Current portion of long term debt	2,409,000	2,537,000
	<u>15,383,000</u>	<u>17,001,000</u>
 LONG TERM DEBT (Note 4)	 37,725,000	 14,625,000
 DEFERRED CREDITS:		
Deferred production income	3,414,000	—
Unrealized profit on currency exchange (Note 2)	86,000	—
Deferred United States income taxes (Note 5)	970,000	1,154,000
	<u>4,470,000</u>	<u>1,154,000</u>
 MINORITY INTEREST IN SUBSIDIARIES	 33,000	 209,000
 SHAREHOLDERS' EQUITY:		
Capital stock (Note 6)—		
Authorized—		
5,000,000 Preferred shares of \$20 (U.S.) par value each, issuable in series, of which 1,303,000 shares have been designated as \$.70 (U.S.) Non-Cumulative Preferred shares, Convertible Series A		
12,000,000 Common shares of the par value of \$1 (Can.)		
Outstanding—		
1,242,257 Series A Preferred shares	24,845,000	24,930,000
6,580,457 Common shares	6,087,000	6,079,000
Contributed surplus (Note 6)	25,179,000	25,799,000
Retained earnings	11,477,000	10,414,000
	<u>67,588,000</u>	<u>67,222,000</u>
 COMMITMENTS (Note 9)		
	<u>\$125,199,000</u>	<u>\$100,211,000</u>

TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

Consolidated Statements of Source and Disposition of Funds

For The Years Ended December 31, 1970 and 1969 (Note 2)

(United States dollars)

Source:	1970	1969
Net income for the year	\$ 1,841,000	\$ 2,493,000
Add or (deduct)—		
Depreciation, depletion and amortization	4,397,000	3,791,000
United States deferred income taxes (Note 5)	(184,000)	(73,000)
	<hr/>	<hr/>
Funds obtained from operations	6,054,000	6,211,000
Sales of future production	3,765,000	—
Reductions of deferred income	(351,000)	(1,388,000)
	<hr/>	<hr/>
	9,468,000	4,823,000
Issue of common shares	—	7,584,000
Additional long term borrowings	26,183,000	6,242,000
Advances from Compagnie Française des Petroles	—	2,012,000
Sales of properties	1,180,000	1,277,000
Other	86,000	—
	<hr/>	<hr/>
TOTAL SOURCE OF FUNDS	36,917,000	21,938,000
	<hr/>	<hr/>
Disposition:		
Capital expenditures—		
Petroleum and natural gas interests and production equipment	7,123,000	6,388,000
Refining, marketing and transportation	22,131,000	8,457,000
Other	298,000	27,000
Long term debt paid or reclassified to current liabilities	3,083,000	3,470,000
Repayment of advances from Compagnie Française des Petroles	—	2,012,000
Merger expenses	697,000	—
Dividends paid—		
On Series A Preferred shares	217,000	—
On shares of Leonard Refineries, Inc. prior to merger	561,000	748,000
Net increase in non-current notes receivable	378,000	791,000
Other	80,000	222,000
	<hr/>	<hr/>
TOTAL DISPOSITION OF FUNDS	34,568,000	22,115,000
	<hr/>	<hr/>
Increase (decrease) in working capital during year	2,349,000	(177,000)
Working capital, beginning of year	11,288,000	11,465,000
Working capital, end of year	<u>\$13,637,000</u>	<u>\$11,288,000</u>

TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1970 and 1969

1. CHANGE IN NAME OF COMPANY:

The name of the company was changed to Total Petroleum (North America) Ltd. from French Petroleum Company of Canada Ltd. by supplementary letters patent dated October 2, 1970.

2. PRESENTATION OF FINANCIAL STATEMENTS:

On September 30, 1970 the shareholders of the Company and of Leonard Refineries, Inc. approved a plan and agreement of merger as a result of which the outstanding shares of Leonard were replaced by Series A Preferred shares of Total Petroleum on a one-for-one basis. The merger has been accounted for as a pooling of interests and accordingly the accounts of Leonard and its subsidiaries have been included with those of Total Petroleum and its previously acquired subsidiary for the full year in the 1970 consolidated statements of income and retained earnings and source and disposition of funds. Moreover, the 1969 figures shown herein for comparative purposes have been restated from those previously reported to also include the accounts of the Leonard companies. All but two of such Leonard companies are wholly owned.

The policy has been adopted of presenting the consolidated financial statements of the Company and its subsidiaries in United States dollars because the majority of the transactions, and the major portion of the working capital and long term debt of the consolidated companies, are in that currency. Canadian dollar balances in current assets and current liabilities at December 31, 1970 have been converted at the rate prevailing at the year end and profit and loss accounts, other than depreciation and depletion, have been converted at the monthly average rate of exchange since May 31, 1970, at which date the market for Canadian dollars was freed from its pegged rate. Transactions prior to that date, and balances as at December 31, 1969, have been translated on the basis of \$1.00 Canadian to \$.925 U.S., the approximate rate of exchange prevailing through the period from May 1, 1962 to May 31, 1970. Additions to property, plant and equipment after May 31, 1970 have been translated at the monthly average rate of exchange and depreciation and depletion have been provided on the U.S. dollar costs of capital assets. The unrealized foreign exchange profit has been excluded from income.

3. PROPERTY, PLANT AND EQUIPMENT:

	<i>December 31, 1970</i>		<i>December 31, 1969</i>	
	<i>Gross investment, at cost</i>	<i>Accumulated depreciation, depletion and amortization</i>	<i>Gross investment, at cost</i>	<i>Accumulated depreciation, depletion and amortization</i>
Petroleum and natural gas interests	\$ 52,214,000	\$ 9,231,000	\$ 45,472,000	\$ 7,640,000
Production equipment	3,711,000	1,527,000	3,418,000	1,428,000
Refining	20,807,000	13,875,000	20,301,000	12,993,000
Marketing	38,050,000	3,392,000	19,213,000	2,891,000
Supply and transportation	12,085,000	6,666,000	11,158,000	6,345,000
Other	983,000	499,000	894,000	474,000
	<u>\$127,850,000</u>	<u>\$35,190,000</u>	<u>\$100,456,000</u>	<u>\$31,771,000</u>

The full cost method of accounting for petroleum and natural gas interests has been followed by the Company since January 1, 1965 and by its subsidiaries from dates of acquisition. Under this method all amounts expended with respect to the acquisition, retention, exploration for and development of oil and gas properties including exploration overhead have been capitalized, whether productive or unproduc-

tive, as representing the cost of the companies' reserves. Proceeds of disposals have been applied in full against such costs. Depletion has been provided by the unit of production method based on total costs in relation to estimates of proven reserves of oil and gas.

Depreciation and amortization is computed by the straight-line method at rates based on the estimated useful lives of the assets.

The provisions for depletion, depreciation and amortization were made up as follows:

	<i>Year ended December 31,</i>	
	<i>1970</i>	<i>1969</i>
Depletion	\$1,591,000	\$1,300,000
Depreciation and amortization	2,806,000	2,491,000
	<u>\$4,397,000</u>	<u>\$3,791,000</u>

On December 22, 1970 a subsidiary of Leonard Refineries, Inc. acquired the service station and terminal properties of a large distributor of a major oil company. The cost of the property, the related debt obligations, and operating results of the nine day period, are included in the financial statements.

4. LONG TERM DEBT:

The following summarizes the long term debt of the Company and its subsidiaries, excluding amounts payable within one year:

	<i>December 31,</i> <i>1970</i>	<i>December 31,</i> <i>1969</i>
Leonard Refineries, Inc.—		
Notes payable in annual instalments of \$600,000 from March 1, 1972 to 1977, at 5½%	\$ 3,600,000	\$ 4,200,000
Term loan, due in quarterly instalments of \$187,500 from January 1, 1972 to October 1, 1973, at prime rate (presently 6%) plus ¾%	1,500,000	2,250,000
Note payable on June 30, 1975 (subordinated to other term debt), at 12%	4,000,000	—
Other notes payable, at 6% and 8½%	501,000	608,000
Subsidiaries of Leonard Refineries, Inc.—		
Note payable to bank on December 1, 1975, at prime rate plus 1¾% (guaranteed by Total Petroleum (North America) Ltd. and secured by certain of its oil and gas properties)	10,000,000	—
First real estate mortgage notes (lien on acquired property) due in quarterly instalments of \$192,000 from 1973 to 1977 and \$268,000 from 1978 to 1982, at prime rate plus 1% (guaranteed by Total Petroleum (North America) Ltd.)	9,200,000 (A)	—
Other mortgage notes and other debt, at from 4% to 9¾% (effective rate 7.66%)	8,924,000	7,567,000
	<u>\$37,725,000</u>	<u>\$14,625,000</u>

(A) Total Petroleum (North America) Ltd. has an option to redeem notes of the aggregate principal of \$3,200,000 at any time prior to December 22, 1971 in exchange for the issue of Common shares of an equivalent market value.

Minimum annual maturities of long term debt for the next five years are: 1971 - \$2,409,000; 1972 - \$2,400,000; 1973 - \$3,131,000; 1974 - \$2,136,000 and 1975 - \$15,820,000.

5. INCOME TAXES:

For Canadian income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and depreciation in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts. As a result of claiming the amounts booked for depreciation plus an amount in excess of that booked for drilling, exploration and lease acquisition costs, no Canadian income taxes are payable for the years 1969 and 1970. At December 31, 1970, approximately \$31,500,000 (Can.) of drilling, exploration and lease acquisition costs and \$3,400,000 (Can.) of undepreciated costs remain to be carried forward (without limit as to time) to be applied against future income for Canadian tax purposes; the corresponding figures at December 31, 1969 were \$31,500,000 and \$3,200,000 respectively.

United States income taxes reflected in the consolidated financial statements pertain to the accounts of Leonard Refineries, Inc. and its subsidiaries. For United States income tax purposes these companies compute depreciation on the declining-balance basis (which exceeds in the earlier years of asset life the provisions booked by the straight-line method) and they also claim intangible drilling costs in excess of the amounts charged to income.

The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants recommends the income tax allocation method of accounting whereby the income tax provision is based on the income for accounting purposes. However, management does not consider it appropriate to apply this method to differences in the timing of deductions for tax and accounting purposes with respect to drilling, exploration and lease acquisition costs as provided under Canadian income tax legislation. This view conforms with general practice in the oil and gas industry in Canada and is accepted in principle by accounting authorities in the United States.

If Total Petroleum and its Canadian subsidiary had followed the income tax allocation method of accounting, a deferred tax provision of \$344,000 would have been made in 1970, representing a charge to income of \$461,000 and a credit to contributed surplus of \$117,000 in respect of merger expenses; in 1969 the provision would have been \$389,000, representing a charge to income of \$443,000 and a credit to retained earnings of \$54,000 in respect of share issue costs. The accumulated deferred income tax liability at December 31, 1970 would have been \$220,000.

6. CAPITAL STOCK, CONTRIBUTED SURPLUS AND SHARE OPTIONS:

On October 2, 1970 the Company's capital was altered by (a) changing its issued and unissued Common shares without par value into Common shares of \$1 (Can.) par value (thereby creating a distributable surplus of \$44,311,000) and (b) creating 5,000,000 Preferred shares of \$20 (U.S.) par value of which 1,303,000 shares were designated as \$.70 (U.S.) Non-Cumulative Preferred shares, Convertible Series A. Pursuant to the plan and agreement of merger referred to in Note 2, 1,246,507 Series A Preferred shares became issuable to the shareholders of Leonard Refineries, Inc.

Each Series A Preferred share is convertible at any time, at the option of the holder, into Common shares of Total Petroleum at the rate of two Common shares for each Series A Preferred share converted, such rate of conversion being subject to adjustment in specified circumstances. Series A Preferred shares may be redeemed by the Company after December 31, 1975 at their paid-up amount plus any declared and unpaid dividends.

Changes in issued capital stock and contributed surplus are summarized below:

	<i>Series A Preferred Shares</i>		
	<i>Number of shares</i>	<i>Par value</i>	
Issuable as of October 2, 1970 upon the merger with Leonard Refineries, Inc.	1,246,507	\$24,930,000	
Less — Converted to Common shares	4,250	85,000	
Balance, December 31, 1970	<u>1,242,257</u>	<u>\$24,845,000</u>	
	<i>Common Shares</i>		
	<i>Number of shares</i>	<i>Amount</i>	<i>Contributed surplus</i>
Common shares at December 31, 1968	5,569,457	\$42,806,000	\$ —
Issued in 1969 in public offering	1,000,000	7,575,000	—
Issued in 1969 upon exercise of stock option	2,500	9,000	—
	<u>6,571,957</u>	<u>50,390,000</u>	<u>—</u>
Adjustment on change of shares of no par value to shares of \$1 (Can.) par value	—	(44,311,000)	44,311,000
Excess of par value of Series A Preferred shares over capital stock and capital surplus of Leonard Refineries, Inc.	—	—	(18,512,000)
	<u>6,571,957</u>	<u>6,079,000</u>	<u>25,799,000</u>
Issued in 1970 upon conversion of Series A Preferred shares	8,500	8,000	77,000
Expenses of the merger	—	—	(697,000)
Balance, December 31, 1970	<u>6,580,457</u>	<u>\$ 6,087,000</u>	<u>\$25,179,000</u>

The following options of officers and employees to purchase Common shares of the Company were outstanding at December 31, 1970:

<u>Granted</u>	<u>Expires</u>	<u>Number of shares</u>	<u>Option price per share</u>
July 23, 1968	July 22, 1973	83,800	\$8.16 (U.S.)
January 15, 1969	January 14, 1974	50,600	7.25 (Can.)
March 18, 1969	March 17, 1974	14,000	7.97 (U.S.)
December 4, 1969	January 14, 1974	3,250	7.25 (Can.)
		<u>151,650</u>	

Of the foregoing, 58,500 shares are under option to directors and officers of the Company. Subsequent to December 31, 1970 an option on 20,000 shares granted to an officer and director on January 15, 1969 was cancelled upon his resignation. The options expressed in United States dollars are a substitute for options to purchase Leonard Common stock held at the effective date of the merger and are subject to the same basic terms and conditions as the plan under which the Leonard options were granted. All of the outstanding options are exercisable cumulatively during the duration of the options and may be exercised only so long as the holders continue in the employ of the Company and its subsidiaries. At December 31, 1970, 2,484,514 Common shares were reserved for conversion of the Series A Preferred shares.

7. EARNINGS PER SHARE:

Earnings available to the Common shares are net income for the periods reduced by assuming the payment of dividends to the Series A Preferred shareholders of \$.70 per share in each period (\$872,000). The weighted average number of Common shares outstanding was 6,572,915 in 1970 and 5,821,332 in 1969.

Common share equivalents (Series A Preferred shares and share options) are anti-dilutive in both periods.

8. PENSION PLANS:

Total pension expense under the several plans covering substantially all employees of the Company and its subsidiaries was \$429,000 in 1970 and \$339,000 in 1969. Unfunded prior years' service costs for employees of Leonard Refineries, Inc. amount to \$150,000 and are being paid over 25 years. A \$269,000 past service liability of Total Petroleum, as a result of a change in benefits in 1969, is payable over a period of 21 years. The companies' policy is to fund accrued pension costs.

9. COMMITMENTS:

Rentals paid for service stations, office space, pipeline rights of way, computer and other equipment totalled \$697,000 in 1970 as compared to \$539,000 in 1969. Rental income from sublease of service stations to independent operators was \$485,000 in 1970, \$356,000 in 1969.

Capitalized long term lease commitments at December 31, 1970 were approximately \$2,335,000, at December 31, 1969, \$670,000.

10. REMUNERATION OF DIRECTORS AND OFFICERS:

The remuneration received in 1970 by ten directors and two past directors, and by seven officers, of the Company, including amounts received from subsidiary companies, is as follows:

	<u>Directors</u>		<u>Officers</u>		<u>Officers who are also Directors</u>
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>
Total Petroleum	12	\$14,000	4	\$112,000	1
Leonard Refineries, Inc.	5	7,500	3	141,000	2
		<u>\$21,500</u>		<u>\$253,000</u>	

Auditors' Report

TO THE SHAREHOLDERS OF
TOTAL PETROLEUM (NORTH AMERICA) LTD.

We have examined the consolidated balance sheets of Total Petroleum (North America) Ltd. and its subsidiaries as at December 31, 1970 and 1969 and the consolidated statements of income and retained earnings and source and disposition of funds for the years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Leonard Refineries, Inc. and its subsidiaries whose accounts are consolidated herein; such statements were examined by certified public accountants whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the accounts included for Leonard Refineries, Inc. and its subsidiary companies, is based solely upon such report.

In our opinion, based on our examination and the aforementioned report of certified public accountants, the accompanying consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and 1969 and the results of their operations and the source and disposition of their funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta.
February 15, 1971.

Price Waterhouse Co.
Chartered Accountants.

