TOTAL PETROLEUM (NORTH AMERICA) LTD.

TOTAL

Annual Report 1971

TOTAL PETROLEUM (NORTH AMERICA) LTD.

Annual Report

1971

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, May 10, 1972.

Facts at a Glance

	1971	1970
Proven oil and condensate reserves (bbls.)	34,447,800	36,201,647
Oil and condensate production (bbls.)	1,696,569	1,486,547
Proven gas reserves (M cubic feet)	164,575,000	168,872,000
Natural gas sales (M cubic feet)	4,128,975	3,847,422
Net land holdings (acres)	4,436,335	4,608,843
Crude oil refined (bbls.)	11,084,578	10,641,645
Refined product sales (bbls.)	14,015,976	12,019,762
Net earnings	$ 2,166,000	$ 1,841,000
Cash flow from operations	7,550,000	6,054,000
Total revenues and other income	88,337,000	75,410,000
Working capital	14,107,000	13,637,000
Shareholders' equity	72,113,000	67,588,000
Total assets	134,254,000	125,199,000

TOTAL PETROLEUM (NORTH AMERICA) LTD.

DIRECTORS

Reid Brazell	Frankfort, Michigan
Henri J. Champin	Paris, France
F. Campbell Cope	Montreal, Quebec
Etienne L. Dalemont	Paris, France
J. Camille Genton	Paris, France
James W. Glanville	New York, N.Y.
John S. Poyen	Calgary, Alberta
Stephen D. Saboff	Alma, Michigan
David L. Torrey	Montreal, Quebec
Henri Vautrin *	Paris, France

*Resigned March 21, 1972. Replaced by Philippe Dunoyer de Segonzac.

OFFICERS

Etienne L. Dalemont	Chairman of the Board
John S. Poyen	President and Chief Executive Officer
Stephen D. Saboff	Executive Vice-President - Refining & Marketing
Bernard C. Duval	Vice-President - Exploration
Stanley B. Laing	Vice-President - Finance
William G. Tucker	Secretary
Paul H. Gutknecht	Treasurer
Don W. Godfrey	Assistant Secretary
Colin S. MacDonald	Assistant Treasurer

HEAD OFFICE

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

REGISTRARS

THE ROYAL 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

U.S. MAIN OFFICE

EAST SUPERIOR STREET
ALMA, MICHIGAN 48801

TRANSFER AGENTS

MONTREAL TRUST COMPANY
Calgary, Toronto and Montreal, Canada.

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
New York, N.Y., U.S.A.

AUDITORS

PRICE WATERHOUSE & CO.

PRINCIPAL SUBSIDIARY

TOTAL LEONARD, INC.

TOTAL PETROLEUM (NORTH AMERICA) LTD.

PRESIDENT'S REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, it is my pleasure to present herewith the Annual Report and Financial Statements of Total Petroleum (North America) Ltd. and its subsidiaries for the fiscal year ended December 31, 1971.

Financial

Net income for the year amounted to $2,166,000 or $.19 per Common share, up from net income of $1,841,000 or $.15 per Common share in 1970. Earnings per share were calculated after deduction of dividends of $.70 per share in each yearly period on the Company's Preferred Series A shares. The weighted average number of Common shares outstanding was 6,826,777 in 1971 and 6,572,915 in 1970.

In June, 1971, 413,237 Common shares were issued to acquire the $3,200,000 promissory note of a subsidiary company.

Exploration and Development

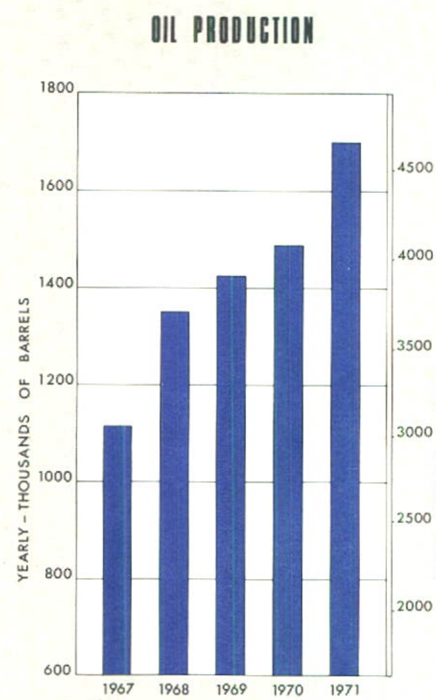
In the exploration and development of its properties during 1971 your Company and its subsidiaries drilled or participated in the drilling of twenty wells and held interests in an additional six farmout wells undertaken by other companies without cost to TOTAL. This drilling program resulted in five oil wells and two gas wells, in which your Company holds varying percentage interests. Four wells were still drilling at year-end.

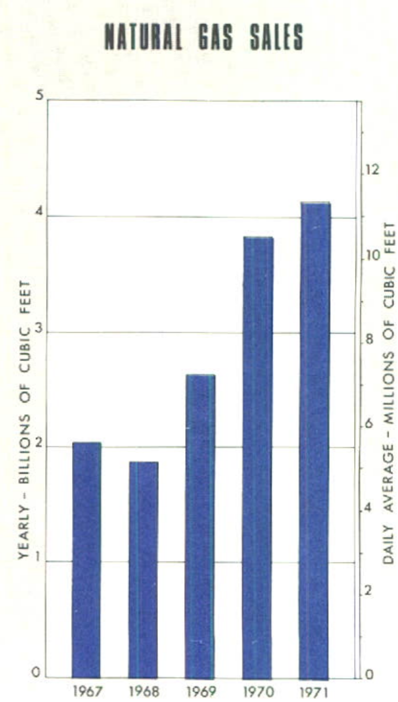
Southern Alberta and Saskatchewan

The successful oil wells were drilled in the Oungre and Enchant areas of Saskatchewan and Alberta, respectively. In addition, a gas well was completed in the Enchant area. To date, a total of six oil wells and one gas well have been drilled in Enchant where the Company's interests range from 6¼% to 12½%. The field limits have not yet been established and further development is indicated.

Northeastern British Columbia and Alberta Foothills

Two wells which were drilled as follow-ups to the Company's 1970 Mississippian gas discovery in the Grassy area of northeast British Columbia both proved unproductive. Information





from these tests is now being studied to better understand the complex structures and to determine the course of future exploration in this region. In the Varrick area (northwest of Grassy) your Company commenced a 10,700 foot Devonian test at the end of the year to evaluate a 100,000-acre block of farmin lands and permit holdings.

Michigan

Exploratory drilling in which your Company participated on a pooling basis with two major exploration companies near the end of the year resulted in an indicated Niagaran Reef discovery located in Kalkaska County, Michigan, in which your Company has a net 14.2% interest. The well has in excess of 100 feet of gas condensate pay and testing to date under restricted choke has produced flows of 2.6 million cubic feet of gas and 250 barrels of condensate per day. Your Company holds interests ranging from 50% to 75% in approximately 100,000 acres located along the Niagaran Reef Trends of Michigan on which seismic work was carried out during 1971 resulting in the mapping of many favourable anomalies. Arrangements have been finalized to broaden your Company's exposure on this highly prospective trend through a joint venture agreement with a group of companies possessing excellent technical qualifications and record of accomplishment.

Frontier Areas

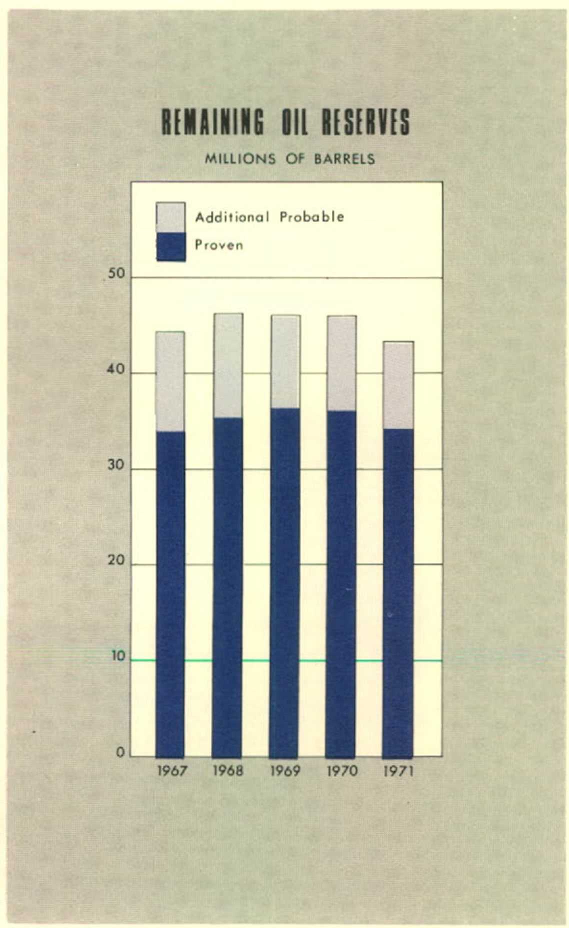
Two more discoveries (one oil and one wet gas) were made during 1971 in the Mackenzie Delta region of the Arctic Slope by the company responsible for the IOE Atkinson H-25 oil discovery in early 1970, and an active drilling program currently being pursued by that company has resulted in another two promising gas and condensate wells since the start of 1972. Your Company's holdings are well situated in the vicinity of these discoveries and, in view of the complexities of the geology of the area, the environmental problems and the very high exploration costs involved, it is fortunate that we are able to benefit by the accumulation of technological and geological information resulting from competitor operations which are increasing in intensity in this area.

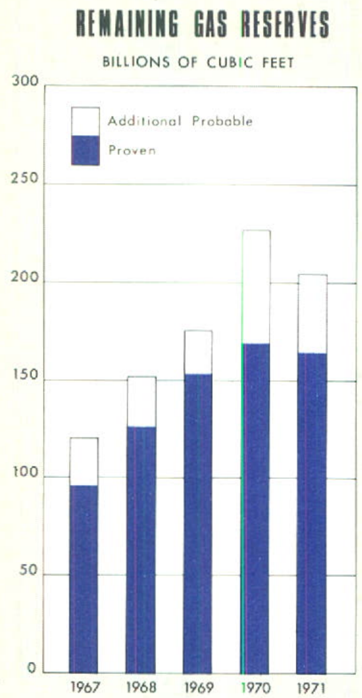
Off the coast of Labrador, where your Company holds 5% interest in exploration permits covering approximately 33 million acres, adverse sea and ice conditions forced suspension of offshore drilling during 1971 before reaching sufficient depth to evaluate prospective beds. Eastcan Exploration Ltd. (with a 28⅓% interest in the play and affiliated with your Company, being a subsidiary of Compagnie Française des Pétroles) has now assumed operatorship of the joint project and is actively assessing the exploration potential of the area, evaluating suitable offshore drilling capabilities, environmental safeguards and engineering technology before further drilling is undertaken.

Production and Reserves

Your Company's oil and gas production totals were both higher than those of the previous year. Crude oil and condensate production for the year totalled 1,696,569 barrels for an average of 4,648 barrels per day, an increase of approximately 14% over the comparative figures for 1970. Natural gas sales increased by slightly over 7% to a total of 4.12 billion cubic feet for the year or an average of 11.31 million cubic feet per day.

A revision of the calculated recoverable reserves in several of the producing areas in which your Company has interests (particularly the





Zama field) has necessitated a downward adjustment in the Company's aggregate proven and probable oil reserves remaining at the end of 1971. As a result, after providing for the year's production of 1,696,569 barrels, your Company's remaining proven oil reserves at year end were estimated to be 34,447,800 barrels with additional probable reserves of 8,953,739 barrels. These totals compare with 36,201,647 barrels of proven and 9,871,416 barrels of probable oil reserves estimated at the end of 1970, representing an aggregate decrease of approximately 6%.

Estimates of remaining gas reserves were also adjusted downward (particularly with respect to the additional probable reserves) due mainly to the fact that results of further drilling in the Grassy area of northeast British Columbia have not as yet increased established reserves to the extent previously anticipated. After making allowance for 1971 production of 4.12 billion cubic feet, your Company's estimated proven developed gas reserves totalled 164.57 billion cubic feet with additional probable reserves of 40.23 billion cubic feet at year end, as compared to 168.87 billion cubic feet of proven and 58.35 billion cubic feet of probable gas reserves estimated at the end of the previous year.

Refining

Crude oil refined during 1971 set a new record of 11,084,578 barrels. No major turnarounds (shutdowns for maintenance) were scheduled for 1971. Adequate quantities of crude oil were available, while 1970 operations had been penalized by import quotas for Canadian crude oil.

During July, 1971 the Mt. Pleasant, Michigan refinery was closed because it had become uneconomic to operate. This facility produced high quality petroleum chemicals, but declining and shifting markets for the products and increased operating expenses forced the closing. Many employees from the Mt. Pleasant refinery were transferred to company divisions where opportunities for continued employment exist.

Construction of the new Platformer is on schedule so it should be in operation June 1, 1972. The Platforming unit will increase manufacturing capacity of present gasolines by approximately 40%. The new unit will increase the "octane pool" significantly and will enable your Company to manufacture the lead-free gasolines that have been proposed by the United States Environmental Protection Agency. Purchase of gasoline from others will be significantly reduced when the unit is complete. The construction of the new cooling tower was completed which will provide additional cooling water capacity for the new Platformer. Prefractionating facilities will be added to the 25,000 barrels per day Crude Unit to increase crude oil and condensate processing capacity. This equipment should be completed and in operation by September, 1972.

Additional facilities were added as part of your Company's continuing effort to improve the environment. Construction of a waste oil incinerator is near completion and will provide a clean economical method of disposal of certain gas and liquid waste products. A smokeless flare will be constructed in 1972 to serve the refinery and reduce air pollution. TOTAL Leonard again received an "A" rating from the State of Michigan for water pollution control equipment and management.

Supply and Transportation

Storage capacity was increased by 110,000 barrels at the Detroit terminal, and equipment to allow driver loading of transports was also installed. Similar equipment was installed at the Bay City terminal. Automation of the loading rack operation reduces operating expenses and improves service.

Substantial new reserves of crude oil have been discovered by other companies in Michigan, primarily in the northern portion of lower Michigan. Your Company is a major user of this production which helps to reduce our need for Canadian crude oil. The Company's crude oil supply position is good and the quota for import of Canadian crude oil should be adequate in 1972.

Crude oil costs were substantially higher in 1971, largely because of the Continent-wide well-head price increase of late 1970, and partly because the Canadian dollar has risen to near parity with the U.S. dollar from the $.925 pegged price prevailing before June, 1970.

Marketing

Sales Volume

1971 marked the seventh consecutive year of refined product sales volume increases. Sales increased approximately 2 million barrels, or 16% over the previous year.

Gasoline sales, which account for over 50% of the total refined product sales, increased approximately 36% over 1970. The significant increase in gasoline sales was due primarily to the acquisition of 142 stations in the Detroit metropolitan area in December, 1970.

Sales of aviation fuels, railroad diesel fuels, industrial fuels and asphalts also increased during the past year. Asphalt sales volumes reached an all-time high in the history of your Company.

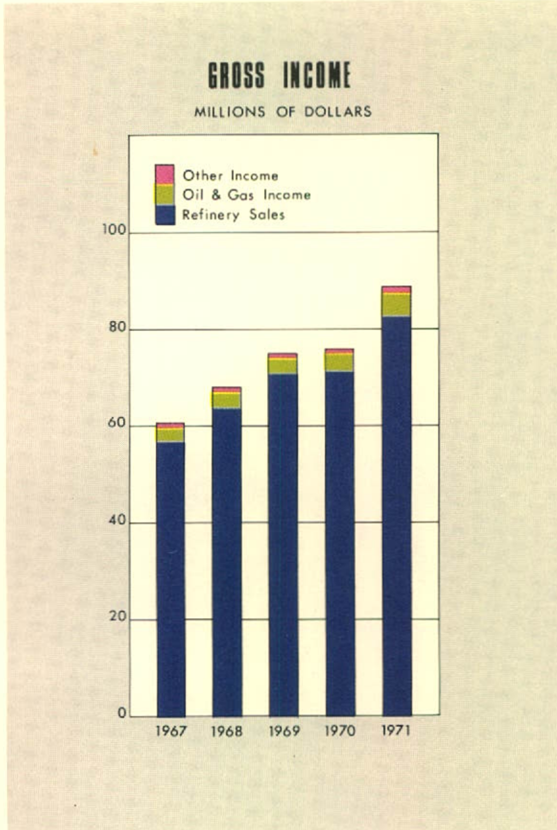
Sales of petrochemicals and naphthas declined approximately 26% in 1971 with the closing of the Mt. Pleasant refinery in July, 1971. Your Company will continue to market a selected few naphthas that will be refined at the Alma plant.

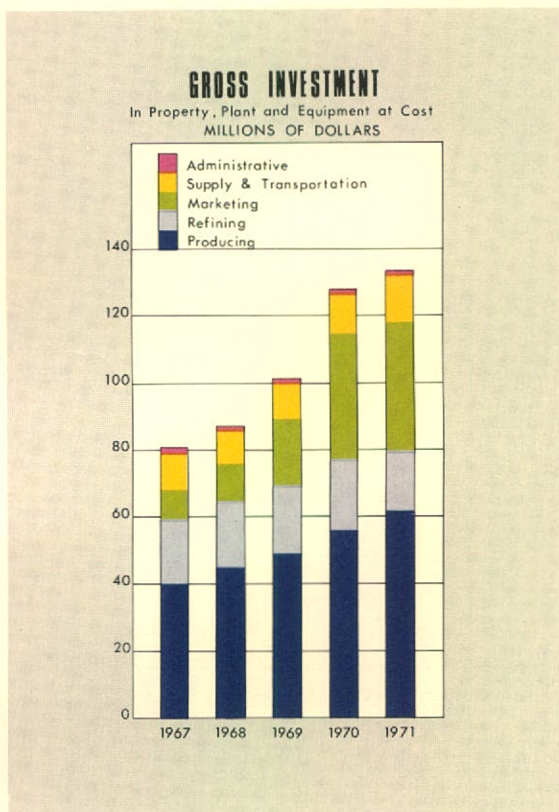
Marginal service stations continued to be weeded out and replaced by new, better located stations.

Product Prices

Gasoline price wars during 1971 continued unabated and extended into many areas previously unaffected by retail gasoline price fluctuations. The Detroit metropolitan area, where the Company sells almost one half of its gasoline, is considered by the petroleum industry to be the most fiercely competitive gasoline market in the country. Allowances to our dealers to enable them to compete, and below normal prices at Company operated stations, cost the Company millions of dollars during 1971.

The bottom of the barrel, asphalts and residual fuels, were a bright spot in dollar realizations during 1971.





Wage and Price Freeze

Neither Phase 1 nor Phase 2 of President Nixon's wage and price freeze affected the Company's operations adversely. Gasoline prices were at "normal" during most of the base period, therefore the Company could raise prices to that level if market conditions should permit.

Brand Name Change

"TOTAL", your Company's new brand name, was very successfully introduced during 1971. The first "TOTAL" signs appeared in Detroit with the changeover of the 142 acquired stations and the 75 existing stations in the Detroit metropolitan area. Changeover in the remainder of the State was completed at the end of August, 1971.

TOTAL Low Lead, an anti-pollution gasoline, was introduced concurrently with the brand name change. This new gasoline, although priced below regular grade, meets all current recommended anti-pollution requirements for automotive fuels.

Self-Service

Your Company is operating the first self-serve station in Michigan on a special test permit issued by the Michigan State Fire Marshal on September 28, 1971. Self-serve gasoline dispensing is now legal in approximately 37 states and we expect that self-service will be legalized in Michigan during 1972. Test studies show that many motorists like the "save time — save money" concept offered by self-service. Service station labor expenses are reduced substantially in self-service stations. TOTAL Leonard plans to expand self-service operations when the law permits.

Advertising and Sales Promotion

During 1971 Advertising and Sales Promotion activities were directed to the introduction of "TOTAL" in the state of Michigan. This introduction required identification changes for more than 600 stations located throughout the state. Our advertising theme featured "TOTAL" as "The International Gasoline", and to tie in with our international image free world maps were distributed with a minimum gasoline purchase. Full-page newspaper ads announced the arrival of "TOTAL", supported with a heavy concentration of television and radio commercials. Station display materials also conveyed the international image with travel stickers affixed to all station gasoline pumps. In addition, following the free world map offer, a series of miniature flags of the world were given to customers to continue the international theme. A "TOTAL" credit card promotion was an integral part of the brand change, resulting in a 200% increase in credit card accounts. Dealer enthusiasm was high and sales volumes increased under the new sign.

In November your Company again sponsored the "TOTAL" international Press On Regardless Road Rally conducted by the Detroit Region Sports Car Club of America. Entries were received from throughout the United States, Canada, and the United Kingdom. The 1971 rally was conducted on three successive nights over a 1500 mile course. As in past years, the event was a challenge to the driving teams. The rally received a great deal of publicity on television, radio and in newspapers. This is the second year the rally has been sanctioned as an international Rally. Due to the success and performance of this event the 1972 rally has been sanctioned as a World Championship. This is the first U.S. rally to win such recognition and puts it in the same grouping as the Monte Carlo Rally held in Europe.

General

At a meeting of the Board of Directors held on November 23, 1971, Mr. Reid Brazell (who at the request of the Board had stayed beyond normal retirement) retired from the offices of Chairman of the Board and Chief Executive Officer, although continuing as a director of the Company. At the same meeting, Mr. Etienne L. Dalemont was elected Chairman of the Board and Mr. John S. Poyen was elected President and Chief Executive Officer of the Company.

On behalf of the officers, employees and shareholders of the Company, the directors wish to express their gratitude and appreciation for the very valuable service and leadership rendered by Mr. Brazell since the merger of Total Petroleum and Leonard Refineries, Inc. in 1970 as well as during his 35 years with Leonard prior to the merger.

Your directors wish also to express their appreciation of the efforts of the Company's employees, the support of the shareholders and the continued loyalty and confidence accorded to the Company by its customers during the past year.

Submitted on behalf of the
Board of Directors

John S. Poyen

March 30, 1972. *President*

FIVE YEAR STATISTICAL REVIEW

	1971	1970	1969	1968	1967
OPERATION					
Proven Oil and Condensate Reserves (bbls.) . . .	34,447,800	36,201,647	36,729,033	35,771,142	34,094,411
Probable Oil Reserves (bbls.)	8,953,739	9,871,416	9,536,524	10,683,678	10,555,002
Oil and Condensate Production (bbls./year) .	1,696,569	1,486,547	1,421,357	1,351,430	1,114,339
Proven Gas Reserves (Thousands of Cu. Ft.) .	164,575,000	168,872,000	153,454,000	126,689,000	96,980,000
Probable Gas Reserves (Thousands of Cu. Ft.) .	40,230,000	58,359,000	22,040,000	25,916,000	23,743,000
Natural Gas Sales (Mcf/year)	4,128,975	3,847,422	2,636,178	1,873,821	2,041,339
Gross Land Holdings (acres)	38,615,713	38,493,422	110,971,379	110,864,874	8,957,427
Net Land Holdings (acres)	4,436,335	4,608,843	8,599,946	8,424,542	2,956,728
Crude oil run to stills (barrels)	11,084,578	10,641,645	10,657,527	10,693,798	9,998,805
Refined product sales (barrels)	14,015,976	12,019,762	11,811,619	10,830,690	10,045,524
Service stations owned or leased long term . . .	330	342	197	220	231
Total outlets	918	905	767	750	756
FINANCIAL (U.S. Dollars)					
Total Revenues	$88,337,000	$75,410,000	$75,181,000	$68,108,000	$60,574,000
Cash flow from operations .	$ 7,550,000	$ 6,054,000	$ 6,211,000	$ 6,142,000	$ 5,403,000
Net Income	$ 2,166,000	$ 1,841,000	$ 2,493,000	$ 2,829,000	$ 2,512,000


ARCTIC OCEAN
BEAUFORT SEA
PRUDHOE BAY
ALASKA
U.S.A.
CANADA
YUKON
Inuvik
Norman Wells
Whitehorse
BANKS ISLAND
VICTORIA ISLAND
MELVILLE IS.
BATHURST IS.
SVERDRUP ISLANDS
PRINCE OF WALES IS.
ARCTIC
NORTHWEST TERR
Yellowknife
Fort Simpson
Fort Nelson
Fort St. John
ALBERTA
BRITISH COLUMBIA
PACIFIC OCEAN
Edmonton
SASKATCHEWAN
MANITO
Calgary
Vancouver
Victoria
WASHINGTON
Regina
CANADA
U.S.A.
Winnipeg
MONTANA
Areas in which Total holds Oil & Gas Rights


ELLESMERE
ISLAND
AXEL
EIBERG
IS.
GREENLAND
BAFFIN BAY
DEVON ISLAND
SOMERSET
IS.
DAVIS
STRAIT
BAFFIN
ISLAND
CIRCLE
ITORIES
ATLANTIC
OCEAN
Churchill
HUDSON BAY
LABRADOR
BA
NEWFOUNDLAND
St. John's
JAMES
BAY
QUEBEC
ONTARIO
TOTAL
Marketing & Refining
Headquarters
NEW
BRUNSWICK
P.E.I.
Quebec
Fredericton
NOVA SCOTIA
Halifax
SABLE
IS.
Montreal
Ottawa
MICHIGAN
Toronto
NEW YORK
Alma
Detroit
New York

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 of December 31, 1971 and 1970 and the related statements of consolidated income and retained earnings and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1970 financial statements of certain subsidiaries which aggregated 62%, 95% and 39%, respectively, of 1970 total assets, revenues and net income. These statements were examined by other independent accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in 1970 for such subsidiaries, is based solely upon such report.

In our opinion, based on our examinations and the 1970 report of other independent accountants referred to above, the accompanying consolidated financial statements present fairly the financial position of Total Petroleum (North America) Ltd. and its subsidiaries at December 31, 1971 and 1970, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Detroit, Michigan
February 15, 1972

Price Waterhouse & Co.
Chartered Accountants

TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

Consolidated Statements of Income and Retained Earnings

(United States dollars)

INCOME

	Year ended December 31	
	1971	**1970**
Revenue:		
Net sales of refined products	$83,000,000	$71,323,000
Net sales of crude oil and natural gas	4,570,000	3,637,000
Other income	767,000	450,000
	88,337,000	75,410,000
Expenses:		
Purchased crude oil, products and merchandise	54,273,000	44,214,000
Operating	11,765,000	11,865,000
Marketing and administrative	13,620,000	11,065,000
Depreciation, depletion and amortization	5,395,000	4,397,000
Interest on long term debt	3,061,000	1,473,000
Other interest	324,000	388,000
United States income taxes (Notes 1 and 4)	(2,267,000)	167,000
	86,171,000	73,569,000
Net income for the year	$ 2,166,000	$ 1,841,000
Net income per Common share (Note 6)	$.19	$.15

RETAINED EARNINGS

	1971	1970
Balance, beginning of year	$11,477,000	$10,414,000
Net income for the year	2,166,000	1,841,000
	13,643,000	12,255,000
Deduct —		
Dividends on Series A Preferred shares	863,000	217,000
Dividends on shares of Total Leonard, Inc. prior to merger	—	561,000
	863,000	778,000
Balance, end of year	$12,780,000	$11,477,000

TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(United States dollars)

Assets

	December 31 1971	December 31 1970
CURRENT ASSETS:		
Cash	$ 3,072,000	$ 5,161,000
Short term investments, at cost	1,867,000	2,912,000
Accounts and notes receivable, less allowance for doubtful accounts of $877,000 (1970 - $582,000)	9,832,000	8,758,000
Income tax refunds receivable (Note 4)	1,697,000	—
Platformer construction advances (Note 8)	2,335,000	—
Inventories of purchased crude oil, products and merchandise (Note 1)	12,083,000	10,031,000
Materials and supplies (Note 1)	1,003,000	978,000
Prepaid expenses and deposits	1,530,000	1,180,000
	33,419,000	29,020,000
LONG TERM RECEIVABLES AND OTHER ASSETS:		
Notes receivable	2,783,000	3,047,000
Other assets and deferred charges	469,000	472,000
	3,252,000	3,519,000
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 2)	133,420,000	127,850,000
Less - Accumulated depreciation, depletion and amortization	35,837,000	35,190,000
	97,583,000	92,660,000
	$134,254,000	$125,199,000

APPROVED ON BEHALF OF THE BOARD:

John S. Poyen — Director

Stephen D. Saboff — Director

Liabilities

	December 31	
	1971	**1970**
CURRENT LIABILITIES:		
Notes payable to banks	$ 5,010,000	$ 3,500,000
Accounts payable and other accrued liabilities	8,443,000	7,569,000
Accrued taxes	2,261,000	1,905,000
Current portion of long term debt (Note 3)	3,598,000	2,409,000
	19,312,000	15,383,000
LONG TERM DEBT (Note 3)	40,399,000	37,725,000
DEFERRED CREDITS:		
Deferred production income and other	1,432,000	3,500,000
Deferred United States income taxes (Notes 1 and 4)	959,000	970,000
	2,391,000	4,470,000
MINORITY INTEREST IN SUBSIDIARIES	39,000	33,000
SHAREHOLDERS' EQUITY:		
Capital stock (Note 5) —		
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 —		
1,230,037 Series A Preferred shares	24,601,000	24,845,000
7,021,044 Common shares	6,517,000	6,087,000
Contributed surplus (Note 5)	28,215,000	25,179,000
Retained earnings	12,780,000	11,477,000
	72,113,000	67,588,000
COMMITMENTS (Note 8)		
	$134,254,000	$125,199,000

TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

Consolidated Statements of Changes In Financial Position

(United States dollars)

	Year ended December 31	
	1971	**1970**
Financial resources were provided by:		
Operations:		
Net income for the year	$ 2,166,000	$ 1,841,000
Income charges (credits) not affecting working capital in the period:		
Depreciation, depletion and amortization	5,395,000	4,397,000
United States deferred income taxes	(11,000)	(184,000)
Working capital provided by operations	7,550,000	6,054,000
Sales of future production	—	3,765,000
Issue of common shares (Note 5)	3,222,000	—
Additional long term borrowings	10,140,000	26,183,000
Sales of properties	839,000	1,180,000
Other	293,000	—
Total financial resources provided	22,044,000	37,182,000
Financial resources were used for:		
Capital expenditures —		
Petroleum and natural gas interests and production equipment	5,984,000	7,123,000
Refining, marketing and transportation	5,003,000	22,131,000
Other	170,000	298,000
Long term debt paid or reclassified to current liabilities	7,466,000	3,083,000
Reductions of deferred income	2,088,000	351,000
Merger expenses	—	697,000
Dividends paid	863,000	778,000
Other	—	372,000
Total financial resources used	21,574,000	34,833,000
Increase in working capital	$ 470,000	$ 2,349,000
Changes in components of working capital:		
Working capital, beginning of year	$13,637,000	$11,288,000
Increase (decrease) in current assets:		
Cash and short term investments	(3,134,000)	928,000
Accounts and notes receivable	1,074,000	(2,113,000)
Income tax refunds receivable	1,697,000	—
Platformer construction advances	2,335,000	—
Inventories	2,052,000	1,738,000
Other	375,000	178,000
	4,399,000	731,000
(Increase) decrease in current liabilities:		
Notes payable to banks	(1,510,000)	1,072,000
Accounts payable and other accrued liabilities	(874,000)	233,000
Accrued taxes	(356,000)	185,000
Current portion of long term debt	(1,189,000)	128,000
	(3,929,000)	1,618,000
Working capital, end of year	$14,107,000	$13,637,000

TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

Notes To Consolidated Financial Statements

1. Accounting Policies:

The significant accounting policies followed by Total Petroleum and its subsidiaries are presented here to assist the reader in reviewing the financial information contained in this report.

Principles of Consolidation — The consolidated financial statements include the accounts of all subsidiaries.

The Company presents the consolidated financial statements 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 assets and liabilities are translated at the rate of exchange in effect at year end except that Property, Plant and Equipment and noncurrent liabilities are translated at the prevailing rates at dates of acquisition. Operating results for the year are translated at the monthly average rate of exchange during the year; depreciation, depletion and amortization included in operating results are translated at historical rates.

Inventories of purchased crude oil, products and merchandise are carried at the lower of cost (first-in, first-out) or net realizable value. Materials and supplies inventories are carried at average cost or less.

Property, Plant and Equipment is carried at cost.

All costs of exploring for and developing oil and gas reserves are capitalized and charged to operations over the life of estimated future production (proven reserves) on the unit-of-production method. This method has been followed consistently by the Company since 1965 and by subsidiaries since dates of acquisition. Proceeds of disposals are applied in full against such costs.

Depreciation and amortization are provided using the straight-line method based on estimated useful lives of the assets.

Income Taxes — Income taxes included in the consolidated financial statements are computed on the basis of:

(i) claiming exploration and development expenditures to the extent they are allowable deductions for tax purposes in the year in which they are incurred regardless of the treatment followed in the accounts. (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 income reported in the accounts. However, management does not consider it appropriate in the particular circumstances of the companies to apply this method to these items. This view is accepted by accounting authorities in the United States and conforms with general practice in the oil and gas industry in Canada);

(ii) providing deferred taxes for other items under the tax allocation method of accounting for income taxes whereby the provision for income taxes each year is computed on the basis of the depreciation and certain other charges recorded in the accounts rather than the related amounts claimed as deductions in the companies' tax returns.

Investment tax credits, which were not material in 1971 and 1970, are applied as a reduction of income tax expense in the period earned.

EXCISE TAXES collected from customers are excluded from the Consolidated Statements of Income.

PENSION PLANS cover substantially all of the Company's employees. Current cost and accruals for prior service costs (accrued over periods from 21 to 30 years) are funded currently.

2. PROPERTY, PLANT AND EQUIPMENT:

Property, Plant and Equipment classified by functional groupings is as follows (see also Note 3):

	1971	1970
Petroleum and natural gas interests	$ 57,944,000	$ 52,214,000
Production equipment	3,613,000	3,711,000
Refining	17,665,000	20,807,000
Marketing	39,229,000	38,050,000
Supply and Transportation	13,549,000	12,085,000
Other	1,420,000	983,000
	133,420,000	127,850,000
Less, Accumulated depreciation, depletion and amortization *	35,837,000	35,190,000
	$ 97,583,000	$ 92,660,000

*Including accumulated depletion related to petroleum and natural gas interests of $11,459,000 and $9,231,000 at December 31, 1971 and 1970, respectively.

3. LONG TERM DEBT:

The following summarizes the consolidated long term debt:

Note payable on December 1, 1975 at prime rate plus 1¾% (secured by certain oil and gas properties)	$10,000,000
Note payable, due in monthly instalments of $83,000 plus interest at prime rate plus 1% to July 1976 (certain oil and gas properties pledged, subordinated to other debt)	4,516,000
First real estate mortgage notes (lien on acquired property) due in quarterly instalments of $125,000 from 1973 to 1977 and $175,000 from 1978 to 1982, at prime rate plus 1%	6,000,000
Notes payable in annual instalments of $600,000 to March 1, 1977, at 5⅝%	3,600,000
Term loan, due in quarterly instalments of $187,500 to October 1, 1973, at prime rate plus ⅜%	1,500,000
Note payable on June 30, 1975 (subordinated to other debt) at 12%	4,000,000
Other secured debt, at 4% to 9¾%	13,701,000
Other notes payable, at 6% to 8½%	680,000
	43,997,000
Less, 1972 maturities	3,598,000
	$40,399,000

Minimum annual maturities of long term debt for the next five years are:

1972 - $ 3,598,000 1973 - $4,050,000 1974 - $3,114,000
1975 - $17,128,000 1976 - $2,700,000

4. INCOME TAXES:

At December 31, 1971 Total Petroleum had approximately $32,900,000 of drilling, exploration and lease acquisition costs and $3,700,000 of undepreciated costs remaining to be carried forward (without limit as to time) to be applied against future income for Canadian tax purposes.

If the Company had followed the income tax allocation method of accounting with respect to exploration and development expenditures (Note 1), a deferred tax provision of $2,296,000 in 1971 and $461,000 in 1970 would have been charged against income in the respective years and in 1970 a deferred tax provision of $117,000, related to merger expenses, would have been credited to contributed surplus. The accumulated deferred income taxes at December 31, 1971 would have been increased by $2,516,000.

Due principally to the deduction for United States income tax purposes of certain exploration and development expenditures, the Company's United States subsidiary will report a loss on its 1971 income tax returns. Such loss will be carried back to prior years in which taxable income was reported and taxes paid in such years will be refunded to the Company.

5. Capital Stock, Contributed Surplus and Share Options:

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

	Series A Preferred Shares	
	Number of Shares	*Par Value*
Issued upon the merger with Total Leonard, Inc. at October 2, 1970	1,246,507	$24,930,000
Conversion to Common shares	4,250	85,000
Balance, December 31, 1970	1,242,257	24,845,000
Conversion to Common shares	12,220	244,000
Balance, December 31, 1971	1,230,037	$24,601,000

	Common Shares		
	Number of Shares	*Par Value*	*Contributed Surplus*
Balance, January 1, 1970	6,571,957	$6,079,000	$25,799,000
Conversion of Series A Preferred shares	8,500	8,000	77,000
Expenses of 1970 merger	—	—	(697,000)
Balance, December 31, 1970	6,580,457	6,087,000	25,179,000
Redemption of long term debt	413,237	403,000	2,797,000
Exercise of stock options	2,910	3,000	19,000
Conversion of Series A Preferred shares	24,440	24,000	220,000
Balance, December 31, 1971	7,021,044	$6,517,000	$28,215,000

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 $20 per share.

The following options of officers and employees to purchase Common shares of the Company were outstanding at December 31, 1971:

Granted	*Expires*	*Number of Shares*	*Option price per Share*
July 23, 1968	July 22, 1973	76,800	$8.16 (U.S.)
January 15, 1969	January 14, 1974	17,350	7.25 (Can.)
March 18, 1969	March 16, 1974	11,600	7.97 (U.S.)
December 4, 1969	January 14, 1974	3,250	7.25 (Can.)
March 31, 1971	March 30, 1976	30,000(1)	6.00 (Can.)
		139,000	

(1) Represent all options granted during 1971.

(2) Options to purchase 39,740 Common shares were cancelled during 1971 due to terminations of employment.

Of the foregoing, 58,500 shares are under option to directors and officers of the Company. 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.

6. Earnings Per Share:

Earnings available to Common shares are net income for the year reduced by payments of dividends to the Series A Preferred shareholders. Such payments aggregated $863,000 in 1971 and $217,000 in 1970. In addition, pro forma preferred dividends of $655,000 in 1970, attributable to the period in 1970 prior to the issuance of the preferred shares, are included as if paid.

The weighted average number of Common shares outstanding was 6,826,777 and 6,572,915 in 1971 and 1970, respectively. Common share equivalents (Series A Preferred shares and share options) are anti-dilutive in each of the years presented.

7. Pension Plans:

Effective in 1971, the pension plans for employees of Total Leonard, Inc. were revised to become non-contributory, cover additional employees and increase retirement benefits. In connection with these revisions the actuarial assumption for earnings on invested funds was increased from 4% to 5% per annum and the periods for funding of prior service costs were extended by 10 and 18 years.

Pension expense for all plans was $575,000 in 1971 and $429,000 in 1970. Unfunded prior service costs aggregated $2,104,000 at December 31, 1971.

8. Commitments:

Capitalized long-term lease commitments at December 31, 1971 were approximately $8,580,000 of which $5,500,000 relates to a sale-leaseback of a platformer not yet in service at that date. Beginning with the completion of construction and for 15 years thereafter, this lease provides for annual rentals of approximately $600,000, plus taxes, insurance and other expenses. No gain or loss will be realized as a result of this transaction. Construction costs to December 31, 1971 amounted to $2,335,000.

Rentals paid, excluding land rents associated with exploration, development and production activities, totalled $947,000 in 1971 as compared to $697,000 in 1970. Rental income from lease of service stations to independent operators was $1,458,000 in 1971 and $485,000 in 1970.

9. Statutory Information:

The total direct remuneration of directors and officers of the Company in 1971 was as follows:

	Directors		*Officers*		*Officers who are also Directors*
	Number	*Amount*	*Number*	*Amount*	
Total Petroleum (North America) Ltd.	11	$17,500	6	$133,900	2
Total Leonard, Inc.	—	—	4	178,600	2
	11	$17,500	10	$312,500	4


TOTAL