1986 Annual Report

TOTAL

Total Petroleum (North America) Ltd.

Highlights

	1986	1985*
Operating		
Crude oil production (barrels per day)	**11,926**	8,521
Natural gas sales (thousands of cubic feet per day)	**42,860**	37,147
Proved crude oil reserves (barrels)	**40,550,000**	26,770,000
Proved gas reserves (thousands of cubic feet)	**333,090,000**	264,590,000
Refinery input (barrels per day)	**156,458**	147,344
Refined product sales (barrels per day)	**176,438**	170,701
Financial (U.S. Dollars)		
Total revenue	**$1,597,353,000**	$2,372,129,000
Net income	**37,955,000**	88,070,000
Net income per share	**1.38**	3.42
Funds provided by operations ("cash flow")	**125,490,000**	180,145,000
Capital expenditures	**171,813,000**	111,936,000
Shareholders' equity	**343,682,000**	278,908,000
Total assets	**920,212,000**	883,139,000

*Certain data has been restated as described in Note 2 of Notes to Consolidated Financial Statements.

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Corporate Profile

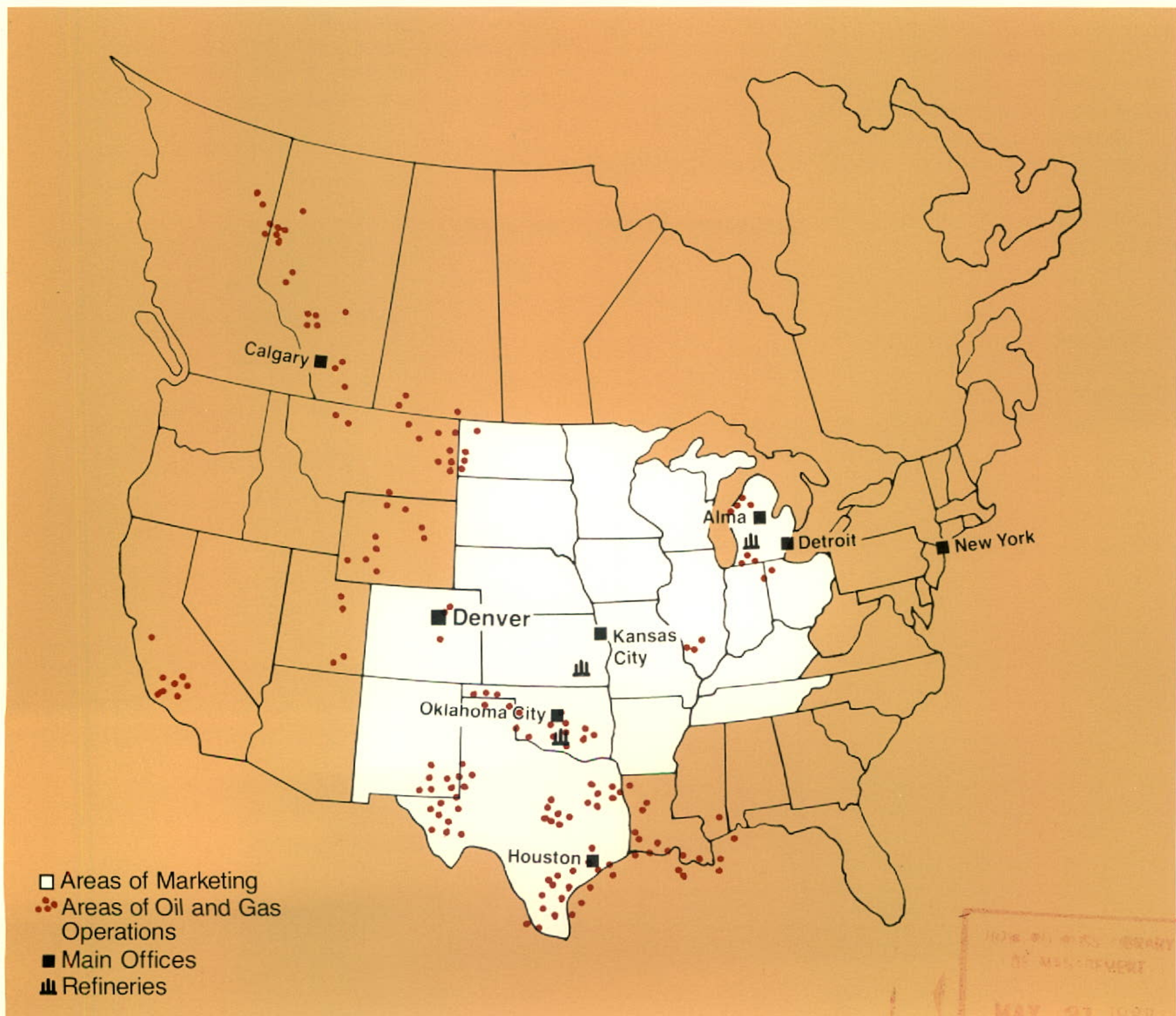
Total Petroleum (North America) Ltd. is an integrated petroleum company with oil and gas operations in the United States and Canada and petroleum products operations in the central United States. Corporate headquarters are located in Denver, Colorado.

Crude oil and natural gas production currently averages approximately 12,000 barrels per day and 50 million cubic feet per day, of which about 60% is in the United States and 40% in Canada. Oil and gas reserves have increased steadily in recent years through exploration, development and acquisitions.

The Company operates three refineries having a combined rated capacity of 154,000 barrels of crude oil per day in Alma, Michigan; Arkansas City, Kansas; and Ardmore, Oklahoma.

The Company markets petroleum products in 19 states through Company-operated self-serve stations with convenience stores and through independent distributors, under the brand names APCO, BEST, TOTAL and VICKERS.

The Company's shares are listed on the American, Toronto, Montreal and Pacific stock exchanges. TOTAL Compagnie Française des Pétroles of Paris, France owns approximately 45% of the voting shares.



McGILL UNIVERSITY

To Our Shareholders

The year 1986 was another time of shock for the Petroleum Industry, comparable — in reverse — to the shock of 1973.

Crude oil prices decreased by one-half, natural gas prices continued their decline and demand for petroleum products increased modestly. The financial results of the entire Industry were negatively affected and the financial health of a number of companies was seriously impaired.

TOTAL sailed through the storm on a rather steady course, and emerged as a stronger company at the end of this turbulent year.

Cash flow reached $125 million in 1986, a 30% drop from the record $180 million of 1985, but a 33% increase over the $94 million of 1984, and the second highest in the Company's history. These relatively stable results in a highly unstable environment reflect the benefit of our diversification among Canadian oil and gas, U.S. oil and gas, U.S. Mid-Continent refining, and retail marketing, as well as continuing progress in being more efficient and competitive.

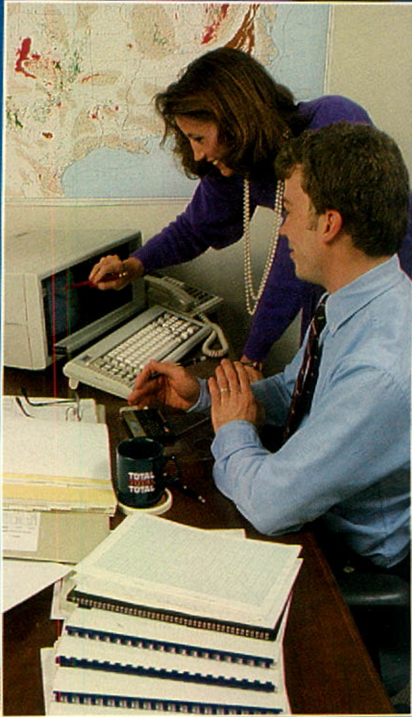
We took advantage of the opportunity of low prices to make acquisitions which significantly increased our oil and gas reserves. As a result, capital expenditures in 1986 were $172 million — also the second highest ever — of which $73 million was invested in oil and gas acquisitions, and a record $55 million in upgrading our refining and marketing assets.

Capital expenditures were 90% covered by cash flow and funds received from the exercise of Warrants at mid-year. Debt at year-end was $304 million and increased only by the approximate amount of additional working capital requirements. In the course of the year, TOTAL secured additional lines of credit and lengthened the maturities. Compared to year-end 1985, we have increased the funds available to the Company and improved our financial flexibility.

In summary, during 1986, in spite of the volatile environment, TOTAL has made progress towards the long-term goals stated a year ago.

- Our competitive position as a refiner and marketer has continued to improve in our market "niches", partly as a result of sizeable capital expenditures.
- We have set in motion the strategy of "expansion in modules" in the oil and gas acquisition sector.
- We have strengthened our financial position.

Sailing through stormy waters requires an experienced and dedicated crew. It is fitting to acknowledge at this point that the patient and steady progress of TOTAL over the past several years is predominantly due to the competence, the teamwork, and the loyalty of TOTAL employees in all departments and all locations. This Annual Report is especially dedicated to them. They are all represented by those of their colleagues who are displayed on the pages of this report while doing their jobs.



Petroleum Products

Funds provided by operations (cash flow) of the Petroleum Products Division in 1986 were $105 million, the second highest in the Company's history behind the record $132 million of 1985.

In 1986, as in 1985, the Petroleum Products Division continued to provide approximately two-thirds of the Company's operating cash flow before unallocated expenses.

The first two graphs on page 12 show:

- the weekly spot prices of crude oil and gasoline in 1985 and 1986.
- the quarterly cash flow of TOTAL's Petroleum Products Division split between refining-wholesale and retail, showing the cyclicality of refining cash flow, and the greater stability of retail cash flow.

Over the short-term, refining cash flow is influenced primarily by the short-term variations of the spot prices of crude oil and refined products, principally gasoline. These variations have been extreme in 1986. In addition to responding to crude oil price fluctuations, prices of refined products are influenced by short-term supply-demand balance and inventory levels. The latter two factors had a negative impact in late 1986, and brought about the low phase of the margin cycle which has extended into the first quarter of 1987.

In such a highly volatile price environment, refinery operations must be very flexible. Crude oil supply is also critical. We continue to divide our supplies between about 60% of crude oil purchased at the lease and 40% purchased on the spot market.

Over the long-term, refining and marketing margins and cash flow should continue to be determined primarily by competitive factors within the U.S. Refining Industry and within each company.

Industry factors continue to be favorable. Excess refining capacity has been virtually eliminated, particularly in TOTAL's Mid-Continent area. Furthermore, a shortage of gasoline production capacity seems to be developing because of increased octane requirements caused by the end of the lead phasedown period and by increased demand for unleaded premium gasoline. As a result, gasoline imports may increase in the short-term to meet the demand. For the long-term, the Industry is responding to these changing market requirements by investing in octane-upgrading facilities. The near-term octane shortages and the need to remunerate additional capital investment are expected to have a positive effect on gasoline margins. Finally, the incentive remains for integrated major oil companies to maximize "downstream" cash flow after the severe curtailments of "upstream" cash flow caused by the decline of crude oil prices.

TOTAL's competitive position is a permanent concern of the Petroleum Products Division.

Overall unit operating costs of our refining, supply and wholesale operations have continued their three-year declining trend, as illustrated on the fourth graph on

page 12. It should be noted that, whereas refinery gross margins were lower in 1986 than in 1983, the Petroleum Products Division cash flow, nevertheless, increased in unit terms from 0.5¢/gallon to 4.0¢/gallon, and in absolute terms from $11 million to $105 million. This significant increase is the result of a 40% decrease of unit operating costs — excluding retail — from 8.0¢/gallon to 5.0¢/gallon and of a three and a half times increase of the retail cash flow from $11 million to $38 million. One of the reasons for the continued decrease of unit operating costs is the continued increase of refinery throughput and refined products sales in a stagnant market as illustrated on the third graph on page 12. Average refinery throughput during 1986 was at an all-time high of 156,000 barrels per day (BPD), compared to 124,000 BPD three years earlier. Likewise, refined products sales in 1986 were at an all-time high of 176,000 BPD, compared to 138,000 BPD three years earlier. Another major factor of cost reduction was the decrease of energy consumption and, recently, of energy costs.

We monitor the competitive performance of our refineries through Industry surveys made by independent consultants. Obviously, all surviving refineries have made significant progress in efficiency over the past few years. The surveys indicate that from 1982 to 1985, we have made more progress than our competition in the areas of saleable yield, operating costs and energy consumption, and that in the 1985 ranking of fifteen multi-refinery companies based on nine criteria, we were above the median for six of those nine criteria.

In order to improve our competitive position and to keep pace with changing market requirements, we had to step-up our capital expenditures significantly. In 1986, a total of $41 million was invested in our three refineries, as much as in the previous four years combined. The main emphasis was on octane-upgrading capabilities and yield improvements. Major projects completed or initiated during 1986 included two isomerization units at Ardmore and Alma designed to increase unleaded gasoline production, and a new crude unit at Arkansas City providing energy savings, asphalt production flexibility, increased capacity and reduced maintenance costs, for a total investment of $25 million.

A similar amount is budgeted for 1987, with continued emphasis on improving yields and upgrading product values. The main investment criterion continues to be a payout of less than three years.

A competitive advantage we have often referred to is the geographical location of our refineries in Michigan, Kansas and Oklahoma, close to domestic crude oil production and to our product markets, and away from the major refining centers of the Gulf Coast where most of the "incremental barrels" are refined. The statistical observation of crude oil and product price differentials over the past several years indicates that, compared to a Gulf Coast refinery, our refineries have a gross margin advantage estimated at about $50 million a year.

Retail marketing operations continue to prove themselves a steady contributor and stabilizer of the Petroleum Products cash flow, as well as a major ingredient of our competitive strength. Sales of gasoline through our retail network represent about 50% of our gasoline production.

The second graph on page 12 illustrates the contribution of retail marketing to the Petroleum Products cash flow. It should be noted, in particular, that retail marketing has been a cushion against the wholesale price drop of the first quarter that accompanied the massive drop of crude oil prices. As a result, retail marketing contributed a record $38 million, or 36%, of the Petroleum Products cash flow in 1986.

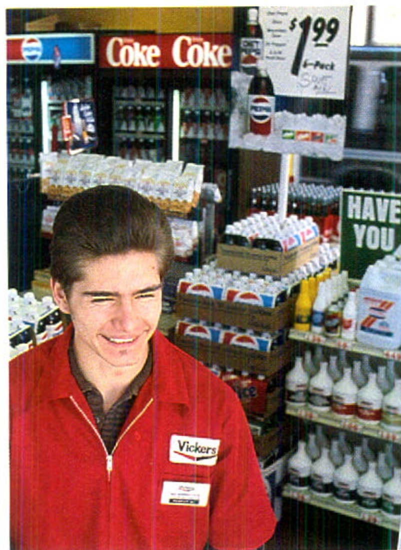
We also monitor the competitive position of our retail marketing operations through Industry surveys made by independent consultants. The most recent survey covered high volume self-service stations and convenience stores of ten national and regional marketers. TOTAL ranked first to fourth on all criteria, including profit per station, operating expenses, staff productivity, administrative expenses and credit card expenses.

The 1985 long-range plan to strengthen the competitive position of our retail marketing is proceeding on schedule, with one exception: we have not been able to acquire groups of retail outlets as planned. Several opportunities were examined but did not materialize for environmental or competitive reasons. We will continue our efforts in this direction.

Oil and Gas

The oil price shock of 1986 had the most dramatic impact on TOTAL's Oil and Gas operations. Cash flow declined by only 30% compared to 1985 because the decline of revenue per barrel and thousand cubic feet was partly offset by increased production. But the direction of our future operations was drastically altered.

Highest on the list of downward reappraisals was exploration and development in the U.S. Our finding costs of the 1982-85 period were about $11 per barrel of oil equivalent ("BOE") and showed no signs of an improving trend. Even with a price forecast of $20 per barrel and taking into account the reduction of land, drilling and service costs, the potential returns are not sufficient to justify the risks of a broad-based exploration program. We have reduced exploration and development expenditures in the U.S. from $36 million in 1985 to $21 million in 1986, and plan a further phasedown in 1987 as we restrict our programs to a few selected low cost, low risk ventures. As a consequence of this reappraisal, we faced the painful necessity of reducing our exploration and development staff by about 40%.



The 1986 exploration program did, however, produce one significant discovery in the Powder River Basin of Wyoming, where TOTAL drilled five successful wells with a total initial production of 1,800 BPD, in which TOTAL has an average working interest of 72% after payout.

Exploration and development in Canada also had to be reevaluated. However, as pointed out in previous years, our finding costs in Canada have been in the range of $5 per BOE — less than half those in the U.S. — because of the better geologic opportunities remaining in Canada and because of our better historical competitive position. Beyond the finding costs, the economics of exploration and development in Canada have always been largely determined by royalties and taxes levied by the provincial and federal governments out of the "cushion" existing between a relatively low technical cost — compared to the U.S. — and the market price. When the world market price collapsed in early 1986, the economics of exploration, which had been recently improved by the "Western Accord" in early 1985, became questionable again. But in the latter part of 1986, the provincial and federal governments, consistent with the historical pattern, reduced their share of the "cushion" through various incentives, and tax and royalty reductions, thereby continuing to allow the Industry to earn a return based on competitive finding costs.

In 1986, during the period of adjustment to lower prices, we also reduced exploration and development expenditures in Canada to $20 million from $35 million in 1985. But, contrary to the U.S., we plan the continuation of exploration programs, and only minor staff reductions have been effected.

Another consequence of the oil price drop of 1986 has been to considerably lower the market values of oil and gas reserves. The future price expectations implicit in the market values seemed conservative enough, so that we viewed 1986 as a window of opportunity to acquire long-life oil and gas reserves, and stepped up the acquisition program initiated in 1985. After reviewing over 160 property packages in the U.S., we made nine acquisitions for a total of $63 million, at an average cost of $4.50 per BOE. The two largest transactions were:

• the $41 million acquisition of AMR Energy Corporation, including a variety of oil and gas properties with an average reserve/production ratio of 8.5 years.

• the $15 million acquisition of Forest Oil Corporation's interest in the Gomez, West Texas gas field, with a reserve/production ratio of 10 years.

The average reserve/production ratio of our U.S. oil and gas reserves at year-end 1985 was 5 years. The 1986 acquisitions increased our oil and gas reserves in the U.S. by 70% and significantly lengthened their average life.

In Canada we did not look for acquisitions as actively as in the U.S. However, we took the opportunity to acquire Sulpetro's interest in the Wembley Halfway "B" Gas Unit in Alberta for approximately $10 million, increasing our interest in the Wembley gas complex to 21%.

The coming on-stream of the Wembley gas plant and associated gathering facilities in 1986 brought into the "reserve" category significant volumes of gas and natural gas liquids previously unaccounted for. This development is typical of the untapped potential of our acreage in the Wembley-Hythe area where similar projects may materialize in the future as we gain increased access to markets. The combination of revisions, acquisitions and new discoveries resulted in a 26% increase of our oil and gas reserves in Canada.

A new dimension has been introduced into the oil and gas business in recent years and is steadily gaining in importance, namely, the marketing of natural gas. The advent of gradual decontrol in the U.S., and more recently in Canada, and increased competition among fuels and among producers have created a situation where producers can no longer count on well operators and long-term contracts to sell their gas. On the other hand, this situation creates opportunities for producers to aggressively market natural gas.

These opportunities are especially significant in Canada where we own large amounts of undeveloped reserves. The reserve/production ratio at year-end 1986 was 43 years. We have created a gas marketing department with the mission of securing new gas contracts — domestic or export, with end-users or pipelines. A first success was achieved in 1986 through a contract in the industrial market in Alberta which led to the construction of a new gas plant built and operated by TOTAL, the Hythe-Rock Creek gas plant with a throughput of 8 million cubic feet per day.

In the U.S. we do not own large shut-in gas reserves. However, marketing our existing reserves requires a more active involvement in sales and transportation. In addition, the current restructuring of the gas markets provides profitable opportunities in the purchase, sale and gathering of natural gas. Our goal for 1987 is to become more active in these areas.

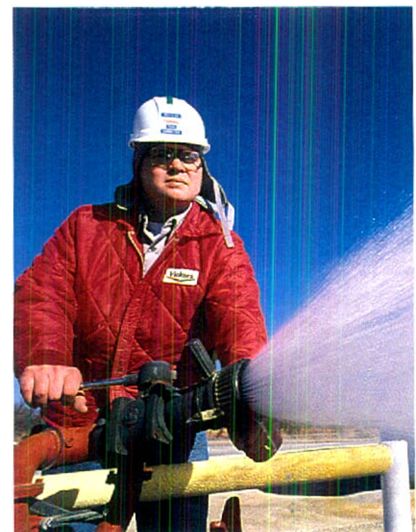
This review of our oil and gas operations illustrates how profoundly this segment of our business has been altered in 1986. The strategic goals are unchanged: to build long-term assets and generate cash flow from the sale of oil and gas. But the means to achieve these goals were adjusted to changing worldwide, national and company circumstances. The events of 1986 raise questions about the replenishment of oil and gas reserves in North America, particularly in the U.S. But within the scope and the time frame of an individual company such as TOTAL, there are still opportunities to operate profitably in this business if one has the expertise and follows appropriate strategies.

As 1987 begins, it appears that OPEC — which, since the early 1970s has inherited the de facto responsibility of managing the ever-present worldwide oil surplus — has embarked on a path of price stabilization somewhere between the excesses of the early eighties and the over-correction of 1986.

Our goals for 1987 are:

- to maximize revenue from our existing reserves.
- to seek economically attractive acquisitions.
- to proceed cautiously with limited exploration programs, principally in Canada.

As in 1986, these goals imply a flexible and opportunistic approach to capital expenditures.



Financial

TOTAL's financial position, which had received a significant boost from the record cash flow of 1985, was strengthened further in 1986.

The financial statements have been restated to reflect the change of accounting method for oil and gas from "full cost" to "successful efforts". This more conservative method of accounting was adopted in view of the decrease of oil prices that occurred in 1986 and the uncertainty of future prices. The change resulted in a reduction of shareholders' equity of $81 million at December 31, 1985.

A year ago we stated that debt reduction was no longer a major corporate objective. Instead our strategy put renewed emphasis on seeking opportunities to expand in our areas of competitive strengths, with the help of our regained financial flexibility.

As mentioned earlier, this strategy resulted in capital expenditures of $172 million in 1986. Equity financing in the amount of $33 million was received in mid-1986 by the exercise of Warrants issued in conjunction with a Common Stock offering in 1983. Proceeds from the Warrant exercise together with cash flow of $125 million covered more than 90% of our capital expenditures.

Debt, however, increased $66 million, from $238 million to $304 million, primarily to meet increased working capital requirements caused by the drop of crude oil and product prices.

In spite of the higher debt, interest expense of $27 million remained the same as in 1985 because of lower interest rates. The coverage ratio of interest expense by cash flow before interest and income taxes, although lower than in 1985, was still a satisfactory 5.6.

Because of the restatement of prior years' equity, the ratio of debt to debt plus equity at year-end 1985 increased from 39% to 46% and remained practically unchanged at 47% at year-end 1986.

TOTAL's financial flexibility was further improved in 1986, by negotiating additional revolving credit facilities and extending the maturities. At year-end 1986, we had $475 million of committed lines, of which $168 million were unused and available, compared to $381 million of committed lines at year-end 1985, of which $103 million were unused and available. We have also improved our flexibility to borrow either in the U.S. or in Canada. The average maturity of our revolving credit facilities was extended from approximately three years to over seven years, and we have no principal repayment requirements for the next seven years.

. . .

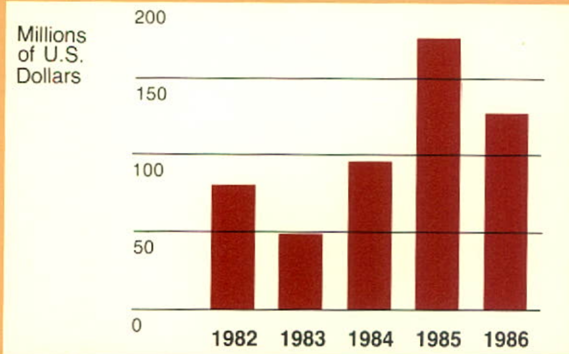
The events that affected the Petroleum Industry in 1986 have not fundamentally altered the strategies evolved by TOTAL over the last few years, nor affected its financial capabilities.

Our basic strategy has been to maintain and upgrade our assets and operations in the "niches" where we have established a competitive position, as a strong regional refiner and marketer in the Mid-Continent U.S., and as a medium-size onshore oil and gas producer in Western Canada and the continental U.S. In 1986 we have expanded our goals to include growth in modules of moderate size.

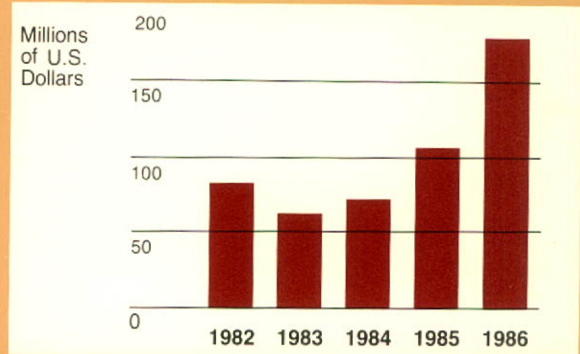
Looking beyond the lasting, as well as cyclical changes in the environment that occurred in 1986, we have made further progress towards making TOTAL a stronger Company. We feel encouraged to pursue our goals even more aggressively and to look for growth opportunities in all segments of our business.

We take this opportunity again to express our gratitude to our shareholders for their support and to renew our pledge to continue to work to enhance the value of their investment in Total Petroleum (North America).

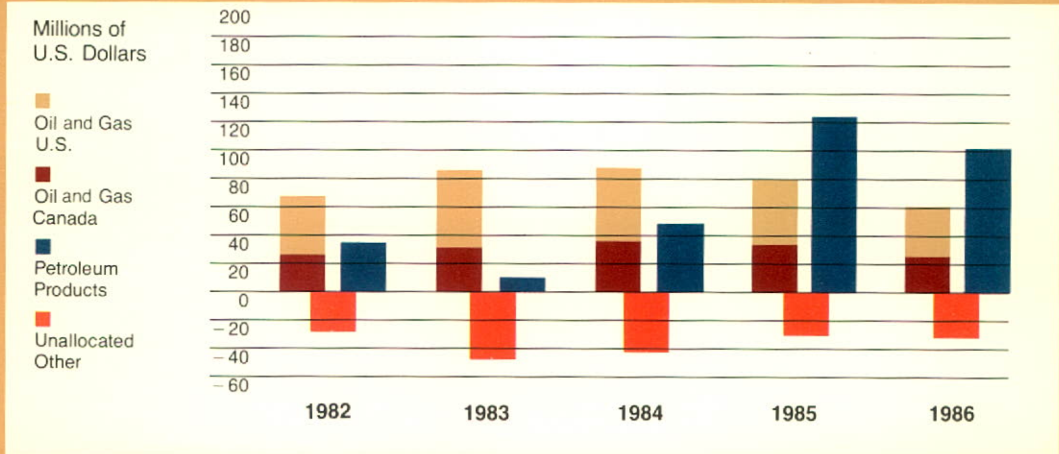
Funds Provided by Operations



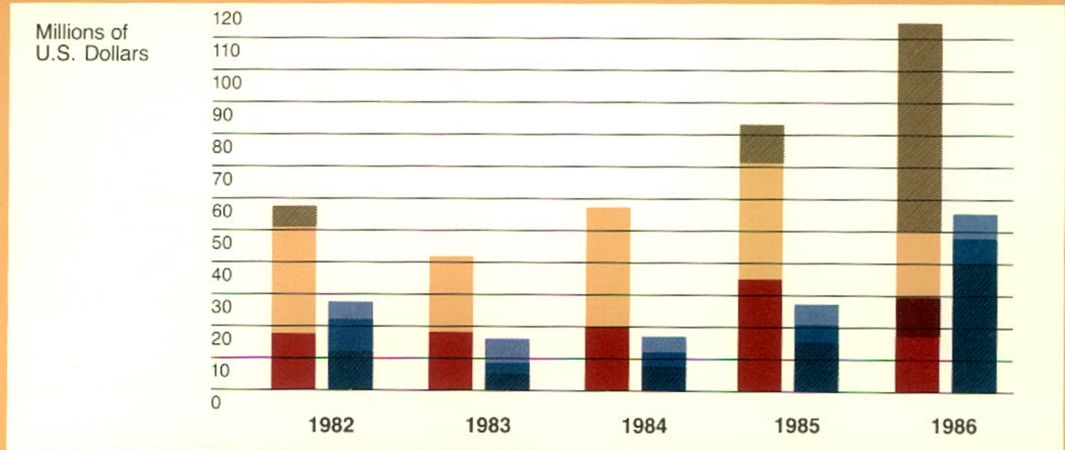
Capital Expenditures



Funds Provided by Operations by Segment



Capital Expenditures by Segment



U.S. Exploration and Development

Canada Exploration and Development

U.S. Acquisitions

Canada Acquisitions

Marketing

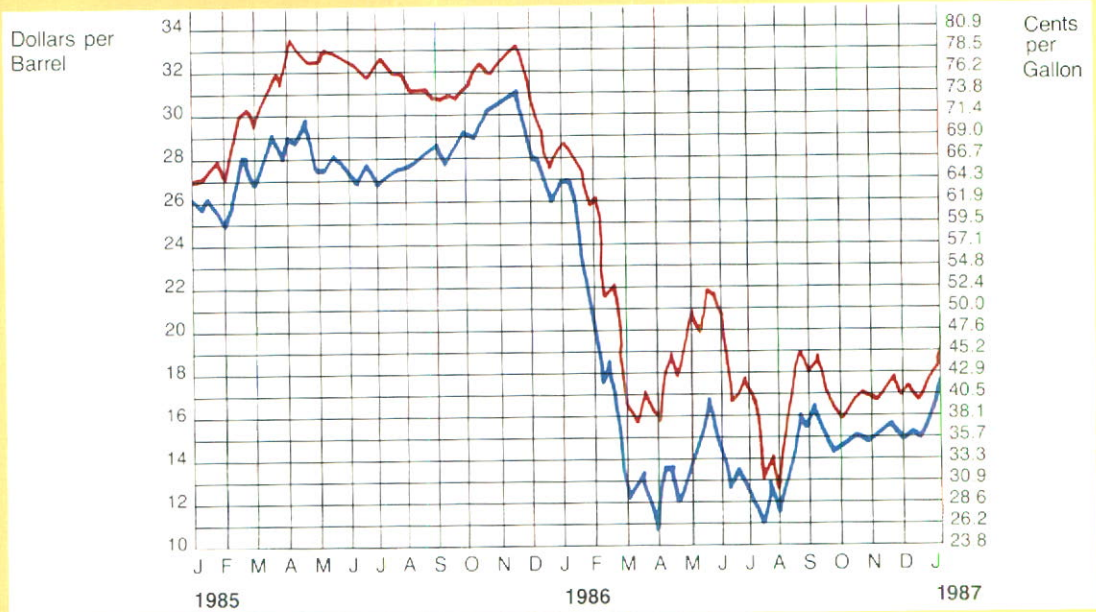
Pipeline/Transportation

Refining

Petroleum Products

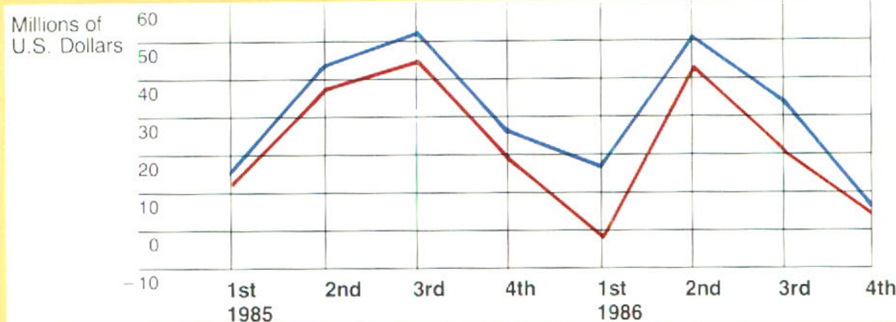
Spot Prices

- Regular Gasoline (U.S. Gulf Coast)
- Crude Oil WTI (Cushing)



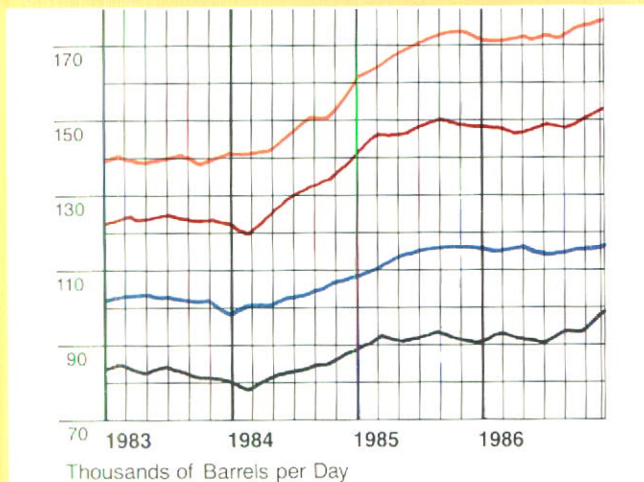
Quarterly Cash Flow

- Refining/Wholesale Plus Retail
- Refining/Wholesale



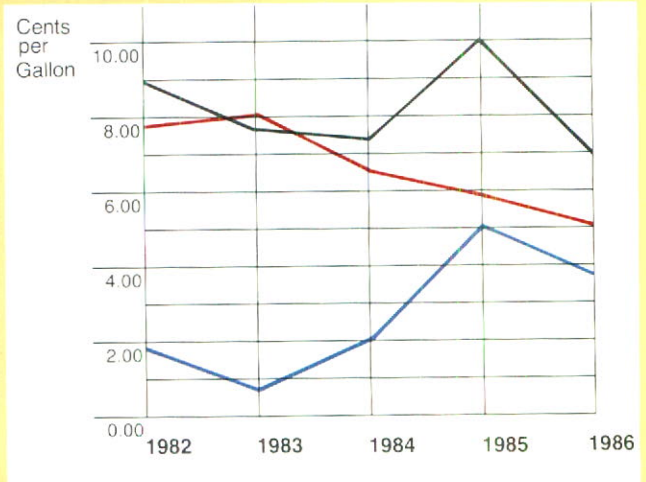
Refined Product Sales and Refinery Input

Twelve Month Moving Average



- Refined Product Sales
- Refinery Input
- Gasoline Sales
- Gasoline Production

Gross Margin — Operating Costs — Petroleum Products Cash Flow



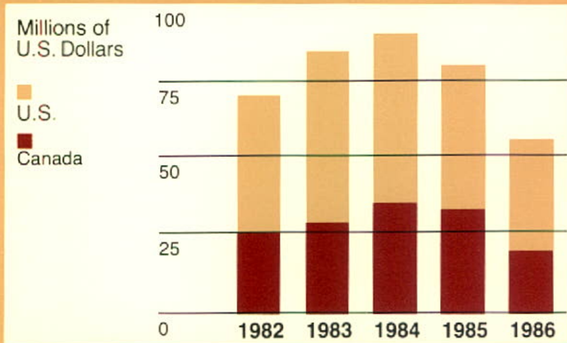
- Gross Margin[a*]
- Operating Costs[a]
- Petroleum Products Division Cash Flow[b]

a-Excluding Retail
b-Including Retail

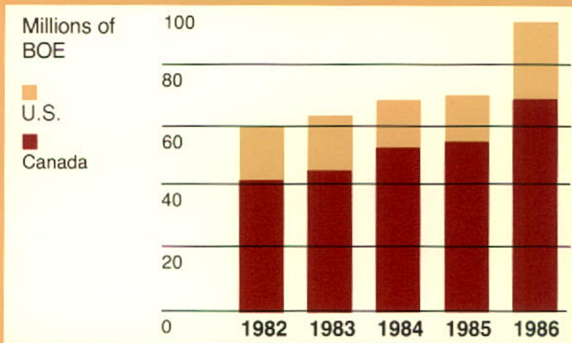
*Sales Revenues Less Cost of Raw Materials and Purchased Products

Oil and Gas

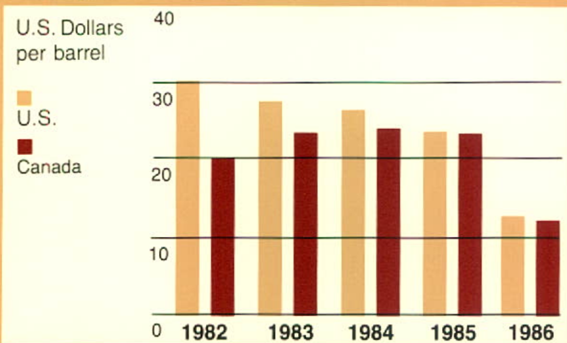
Production Cash Flow



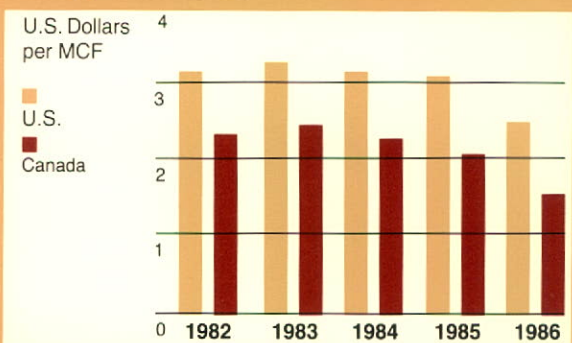
Oil and Gas Reserves



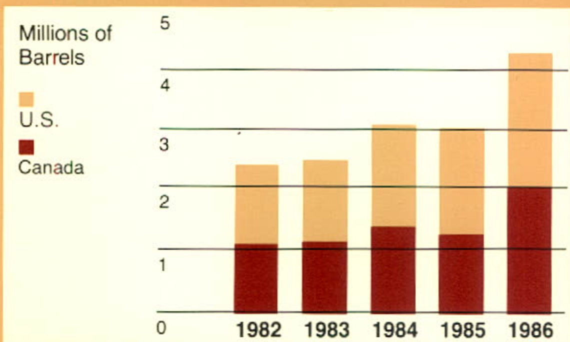
Average Price of Oil



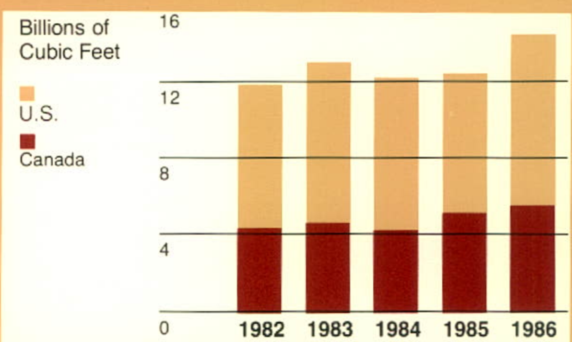
Average Price of Gas



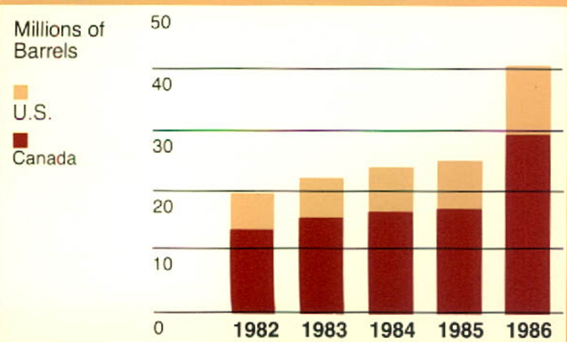
Oil Production



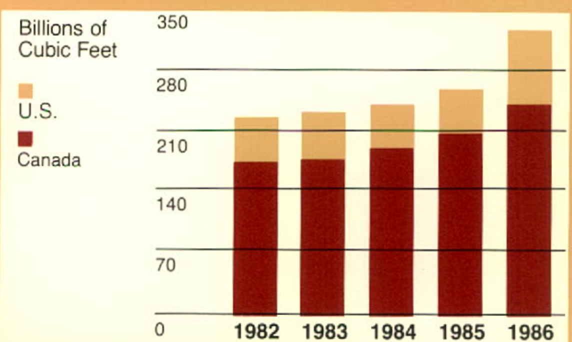
Gas Sales



Oil Reserves



Gas Reserves



Note 1: Oil Production, Gas Sales and Oil and Gas Reserves are on a revenue interest basis, net of royalties.

Note 2: BOE: Barrel of oil equivalent (6MCF of gas = 1 barrel of oil).

Selected Five-Year Data

		1986	1985*	1984*	1983*	1982*
Financial (Thousands of U.S. dollars except per share amounts)	Revenues	**$1,597,353**	$2,372,129	$2,274,156	$2,071,957	$2,233,056
	Net income (loss)	**37,955**	88,070	12,928	(37,912)	7,687
	Net income (loss) per share	**1.38**	3.42	.31	(2.32)	.07
	Dividends per Common share (Can. $)	**.33**	.24	.24	.24	.30
	Funds provided by operations	**125,490**	180,145	93,641	48,120	83,299
	Cash dividends	**11,321**	9,661	10,120	10,283	10,604
	Capital expenditures(1)	**171,813**	111,936	76,029	60,844	83,181
	Total assets	**920,212**	883,139	875,386	843,691	937,976
	Long-term debt	**299,200**	233,648	303,938	313,114	339,853
	Long-term debt and short-term obligations	**304,489**	237,960	308,485	324,427	383,971
	Interest expense	**26,554**	27,111	36,309	41,959	54,793
	Shareholders' equity	**343,682**	278,908	203,049	201,758	194,828
	Ratio of debt to debt plus equity	**47%**	46%	60%	61%	64%
Operating Oil and Gas (Stated in U.S. dollars and revenue interest quantities)	Crude oil, condensate, and natural gas liquids (thousands of barrels) —					
	Canada					
	Proved reserves at year-end	**29,073**	19,940	18,844	16,143	13,635
	Production during year	**2,083**	1,467	1,532	1,209	1,128
	Average sales price per barrel	**$12.41**	$26.08	$26.12	$26.00	$20.70
	United States					
	Proved reserves at year-end	**11,485**	6,833	7,174	6,241	6,397
	Production during year	**2,270**	1,635	1,606	1,315	1,314
	Average sales price per barrel	**$13.99**	$26.08	$28.75	$29.75	$31.94
	Natural gas (millions of cubic feet) —					
	Canada					
	Proved reserves at year-end	**248,623**	215,041	202,702	195,927	192,289
	Sales during year	**5,823**	5,605	4,746	4,953	4,679
	Average sales price per MCF	**$1.63**	$2.14	$2.47	$2.55	$2.49
	United States					
	Proved reserves at year-end	**84,474**	49,551	52,127	48,725	49,266
	Sales during year	**9,821**	7,954	8,246	8,883	8,092
	Average sales price per MCF	**$2.46**	$3.06	$3.36	$3.26	$3.11
Petroleum Products (Thousands of barrels)	Refinery input	**57,107**	53,781	51,210	45,245	44,803
	Manufactured gasoline	**35,502**	33,167	31,965	29,545	29,622
	Refined products sales	**64,400**	62,306	58,109	50,232	49,632
	Gasoline sales	**41,944**	42,338	39,133	36,158	36,667

*Certain financial data has been restated as described in Note 2 of Notes to Consolidated Financial Statements.
(1)Includes exploration costs.

Statement of Information by Industry Segment and Geographic Area

	Total Petroleum (North America) Ltd. and Subsidiaries					(Thousands of U.S. dollars)
		1986	1985*	1984*	1983*	1982*
Revenues	Oil and gas					
	Canada	**$ 34,269**	$ 44,228	$ 45,134	$ 37,772	$ 30,247
	U.S.	**56,942**	64,560	72,896	70,855	70,556
	Petroleum products	**1,505,951**	2,260,323	2,156,533	1,964,262	2,099,470
	Unallocated	**191**	3,018	(407)	(932)	32,783
		$1,597,353	$2,372,129	$2,274,156	$2,071,957	$2,233,056
Funds Provided By Operations	Oil and gas					
	Canada	**$ 21,218**	$ 34,891	$ 37,245	$ 30,798	$ 25,151
	U.S.	**34,060**	44,056	51,440	54,063	45,679
	Petroleum products	**105,112**	132,460	49,072	11,544	39,809
	Unallocated					
	Interest	**(26,554)**	(26,753)	(35,843)	(40,742)	(53,054)
	Administrative	**(10,717)**	(6,601)	(3,708)	(4,613)	(5,209)
	Income taxes	**2,180**	(926)	(4,158)	(1,998)	(1,860)
	Other	**191**	3,018	(407)	(932)	32,783
		$ 125,490	$ 180,145	$ 93,641	$ 48,120	$ 83,299
Operating Profit (Loss)	Oil and gas					
	Canada	**$ 7,830**	$ 19,286	$ 22,565	$ 20,227	$ 17,279
	U.S.	**(4,566)**	3,089	21,473	26,839	11,107
	Petroleum products	**74,774**	102,225	18,076	(20,165)	11,939
	Unallocated expenses, net	**(37,701)**	(30,988)	(40,424)	(47,505)	(27,219)
		$ 40,337	$ 93,612	$ 21,690	$ (20,604)	$ 13,106
Capital Expenditures	Oil and gas(1)					
	Canada	**$ 29,350**	$ 35,266	$ 20,402	$ 19,602	$ 18,801
	U.S.	**84,094**	47,751	37,365	21,310	36,946
	Petroleum products					
	Refining	**40,618**	17,464	9,005	3,503	11,811
	Supply and transportation	**7,264**	3,991	3,943	4,059	9,642
	Marketing	**7,071**	6,415	4,458	9,736	4,393
	Other	**3,416**	1,049	856	2,634	1,588
		$ 171,813	$ 111,936	$ 76,029	$ 60,844	$ 83,181
Depreciation and Depletion	Oil and gas					
	Canada	**$ 6,405**	$ 4,983	$ 3,720	$ 2,818	$ 2,934
	U.S.	**24,404**	16,725	14,220	13,172	14,850
	Petroleum products	**30,338**	29,594	29,600	30,128	27,870
		$ 61,147	$ 51,302	$ 47,540	$ 46,118	$ 45,654
Assets at December 31	Oil and gas					
	Canada	**$ 130,100**	$ 115,387	$ 100,184	$ 101,917	$ 98,876
	U.S.	**166,736**	121,425	116,918	109,793	117,131
	Petroleum products	**607,025**	630,623	625,461	613,167	675,312
	Unallocated	**16,351**	15,704	32,823	18,814	46,657
		$ 920,212	$ 883,139	$ 875,386	$ 843,691	$ 937,976

*Certain financial data has been restated as described in Note 2 of Notes to Consolidated Financial Statements.
(1)Includes exploration costs.

Management Discussion and Analysis

TOTAL's performance in 1986, although not equaling the record levels of 1985, continued to remain strong as indicated by:

- Funds Provided by Operations were $125.5 million compared to $180.1 million in 1985 and to $93.6 million in 1984.
- Net Income was $38.0 million compared to $88.1 million in 1985 and to $12.9 million in 1984.
- Capital Expenditures, including expensed exploration costs, were $171.8 million versus $111.9 million in 1985 and $76.0 million in 1984.
- Shareholders' Equity increased to $343.7 million from $278.9 million at year-end 1985 and from $203.0 million at year-end 1984.
- Total Debt increased to $304.5 million from $238.0 million at year-end 1985 but was comparable to the year-end 1984 level of $308.5 million.
- Interest Expense was reduced to $26.6 million from $27.1 million in 1985 and from $36.3 million in 1984.

The principal reason for TOTAL's relatively strong performance of 1986 can be attributed to the results of the Petroleum Products Division, since low crude oil prices severely limited the results of the Oil and Gas Division.

Results of Operations: The Company has two operating segments: the Petroleum Products Division and the Oil and Gas Division. Certain administrative expenses and amounts included in "revenues, other net" are incurred at the corporate level and, accordingly, are not allocated to the divisions. Interest and income taxes also are not allocated. Significant factors that affected the results of the Company's two operating segments are reviewed later in this discussion. There are several factors not directly related to the operating segments that are important for an understanding of the Company's results and are discussed below.

Results of operations for 1986 as presented in the Consolidated Financial Statements are based on the "successful efforts" method of accounting for the Company's oil and gas operations. Management believes that this method, as compared with the "full cost" method previously used, results in a more conservative presentation of oil and gas activities and is the more appropriate method in light of current and uncertain future crude oil prices. Results of prior years have been restated to reflect the change to this method; therefore, all prior years' results referenced in this discussion are those after restatement. Funds provided by operations were unaffected by this change.

Gains from the sale of service stations of $3.5 million and $5.6 million are included in the 1986 and 1985 results, respectively. Also included in the 1986 results is a net gain of approximately $4.0 million from the settlement of certain matters with the Department of Energy which are discussed in Note 8 of the Consolidated Financial Statements. Results in 1984 include a gain from the liquidation of LIFO inventories of $5.3 million.

Included in the 1985 and 1984 results are extraordinary credits of $33.4 million and $4.8 million, respectively, which reflect the benefits to the Company from utilization of operating loss carryforwards in the United States. For tax purposes, the Company has a net operating loss and unused tax credits available to reduce future tax payments. For book purposes, all such benefits have been recognized except for approximately $2.4 million of tax credits. (See Note 5 of the Consolidated Financial Statements for further discussion of income tax matters.)

The Financial Accounting Standards Board has issued an Exposure Draft, "Proposed Statement of Financial Accounting Standards — Accounting for Income Taxes." The Exposure Draft, if promulgated, would require the Company to record deferred taxes under the liability method beginning in 1988 as opposed to the currently applicable deferred method. Income recognized due to the reduction in U.S corporate tax rates would be immaterial because deferred taxes designated for timing differences in the United States at December 31, 1986, are relatively small. The effect of the rate reduction on deferred taxes to be recorded at the transitional rate for the year 1987 is unknown at this time. The Exposure Draft would also require that the Company record deferred taxes on the undistributed earnings of foreign subsidiaries beginning in 1991.

This requirement, if retained in the final statement, would result in additional deferred taxes recorded in the accounts of the Company.

In 1987, the Company will implement the Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The implementation of this statement will not have a significant impact on the Company's results.

As evidenced by the events of 1986, the future of the Petroleum Industry is always difficult to foresee. Although 1986 crude oil prices were at their lowest levels since the late 1970s, margins in the downstream refining and marketing segment of the business did not reach their 1985 levels. The environment in which TOTAL will operate in 1987 is uncertain. As the year begins, it appears that crude oil prices are firming, which should result in additional funds provided by the Oil and Gas Division. However, petroleum products margins, and hence the Petroleum Products Division's funds provided, are difficult to predict.

A discussion of significant factors affecting the results of the Company's two operating segments and the Company's liquidity and capital resources begins below. The reader may find it helpful to refer to the table of Selected Five-Year Data on page 14, the Statement of Information by Industry Segment and Geographic Area on page 15, and the Consolidated Financial Statements, which begin on page 21.

Petroleum Products Division: Funds provided by operations of the Petroleum Products Division were $105.1 million in 1986 compared to $132.5 million in 1985 and to $49.1 million in 1984. The principal cause of the decline in 1986 was lower margins for petroleum products prevalent in the Industry. These lower margins were primarily the result of the extreme fluctuations in the price of crude oil and the negative impact of supply/demand imbalances and high inventory levels of refined products.

Internal improvements, which accounted for much of the gain in the Division's funds provided by operations in 1984 and 1985, continued to benefit results in 1986. The graph "Gross Margin — Operating Costs — Petroleum Products Cash Flow" on page 12 indicates the magnitude of the reductions in operating costs since 1982. These costs fell again from 5.9 cents per gallon in 1985 to 5.0 cents per gallon in 1986. This improvement is partly the result of the continued increase in refinery throughput to 156,000 barrels per day in 1986 versus 147,000 barrels per day in 1985 and compares to only 140,000 barrels per day in 1984. Refined product sales increased to 176,000 barrels per day in 1986 compared to 171,000 barrels per day in 1985 and 159,000 barrels per day in 1984. Other reasons for this cost improvement were reduced energy consumption and reduced energy costs.

Retail marketing was a significant contributor to the Division's cash flow, providing $38.4 million in 1986 compared to $18.5 million in 1985. Movements in retail prices of gasoline tend to lag wholesale price changes, thereby helping to offset the reduced wholesale margins during periods of falling prices, as occurred in the past year.

Capital expenditures for the Petroleum Products Division in 1986 were $55.0 million, an increase of $27.1 million over the 1985 level. Most of these expenditures, $40.6 million, were made at the Division's three refineries mainly for octane-upgrading and yield-enhancing projects. The Division expects capital expenditures to continue at a comparable level in 1987. Emphasis will continue to be placed on fast payout projects at the refineries designed to improve yields and to upgrade product values and also on projects to upgrade the Division's retail facilities.

As seen in the past few years, the success of the Petroleum Products Division is largely contingent upon Industry margins which are the result of short-term variations between the market prices of crude oil and refined products. The fluctuations in these variations were extreme in 1986. It is difficult to predict these variations for 1987; however, considering TOTAL's ability to keep refining operations flexible, the increased octane-producing capabilities at the refineries, and the more favorable outlook for the downstream operations of the Industry as a whole, 1987 should be a year of continued progress for the Division.

Oil and Gas Division: Funds provided by operations of the Oil and Gas Division decreased in 1986 to $55.3 million from $78.9 million in 1985 and from $88.7 million in 1984. The principal factor contributing to these declines was significantly lower prices received for crude oil.

The following table presents an analysis of the changes in funds provided by the Division for each year presented compared to the prior year:

(Thousands of U.S. Dollars)	1986			1985		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Increased (decreased) sales revenues (net of royalties) due to:						
Sales quantities	**$ 5,018**	**$ 15,743**	**$ 20,761**	$ (603)	$(1,434)	$(2,037)
Sales prices	**(14,851)**	**(23,150)**	**(38,001)**	(414)	(6,959)	(7,373)
Other income	**(127)**	**(211)**	**(338)**	111	57	168
	(9,960)	**(7,618)**	**(17,578)**	(906)	(8,336)	(9,242)
(Increased) decreased operating and administrative expenses	**(3,713)**	**(2,378)**	**(6,091)**	(1,448)	952	(496)
Total decrease in funds provided	**$(13,673)**	**$ (9,996)**	**$(23,669)**	$(2,354)	$(7,384)	$(9,738)

Funds provided by Canadian production were $21.2 million in 1986 compared to $34.9 million in 1985 and $37.2 million in 1984. Average sales prices of crude oil declined from $26.08 per barrel in 1985 to $12.41 per barrel in 1986, a decline of over 50 percent, resulting in a significant reduction in cash flow. In order to make Canadian gas more competitive with the United States markets, Canadian federal and provincial government pricing regulations were adjusted in 1985, which led to the decline in funds provided because of reduced sales prices in 1986 and 1985. Crude oil production volume increased by 42 percent in 1986 mainly due to increased allowables in the Wembley area of East Elmworth and to natural gas liquids production from the Wembley area. In 1985, crude oil volumes declined by 5 percent, primarily because of volume limitations imposed by pipeline companies. Gas production volumes increased by 4 percent in 1986 and by 13 percent in 1985, mainly because of the more competitive price of natural gas resulting from the change in government pricing regulations. Cash flow was reduced by increased operating expenses in both years due to expenses for enhanced recovery projects and to start-up of the Wembley unit in 1986.

Funds provided by United States production were $34.1 million in 1986 compared to $44.1 million in 1985 and $51.4 million in 1984. Lower prices of crude oil and natural gas accounted for a significant decline in cash flow in both 1986 and 1985. Average sales prices of crude oil declined from $26.08 per barrel in 1985 to $13.99 per barrel in 1986. Production of crude oil was increased by 39 percent in 1986 due mainly to acquisitions. Crude oil volumes in 1985 were up only slightly over 1984. The major acquisitions in 1986 were that of AMR Energy Corporation and Forest Oil Corporation's interest in the Gomez, Texas, gas field, which added reserves of 5.8 million barrels of crude oil and 37.1 BCF of natural gas. Natural gas sales volumes were 23 percent higher in 1986, after a slight decline in 1985. Again, most of this increase was attributable to production from acquisitions. The reduction in cash flow caused by increased operating and administrative expenses is due mainly to the additional expenses incurred from higher production volumes and acquired operations, partially offset by reduced windfall profits tax.

Depreciation and depletion increased by 42 percent to $30.8 million because of higher production volumes.

Capital expenditures for the Oil and Gas Division in 1986 were $29.3 million in Canada and $84.1 million in the United States, a total of $113.4 million. Capital expenditures exclusive of acquisitions were $19.8 million in Canada and $20.9 million in the United States, a total of $40.7 million. This compares to $71.2 million in 1985 and $57.8 million in 1984. Reflected here is the Company's strategy to build its oil and gas reserves when they can be found or acquired at costs consistent with current economics. Capital expenditures for exploration and development in 1987 will continue on a declining trend; however, the final amount, including acquisitions, will depend upon the availability of reserves compatible with this strategy.

Results of the Oil and Gas Division in 1986 were limited by the severe drop in worldwide crude oil prices. The Division expects production volumes to rise in 1987 with the effect of a full year's production from the property additions made during 1986. If prices

stabilize at levels of early 1987 or rise further, funds provided by the Oil and Gas Division could rebound significantly.

The Summary of Oil and Gas Activities on pages 31 through 35 provides additional information relative to Oil and Gas operations.

Liquidity and Capital Resources: Total debt increased in 1986 to $304.5 million from $238.0 million at the end of 1985.

There are four major factors resulting in the year-end 1986 debt level:

- Internally generated funds were $125.5 million in 1986.
- Capital expenditures in 1986 were $171.8 million including exploration costs, an increase of $59.9 million over 1985 levels. Most of this increase was due to acquisitions of oil and gas properties of $72.7 million. Excluding acquisitions in each year, capital expenditures in 1987 are expected to be approximately the same as in 1986. However, management will be alert to opportunities to increase the Company's asset base, either in oil and gas properties or in refining and marketing assets, should attractive acquisitions become available.
- Approximately 2,140,000 warrants to purchase the Company's Common Stock at a price of $15.50 (U.S.) per share were exercised at mid-year. This provided the Company with additional capital of $33.2 million.
- Working capital increased by approximately $50 million. Although it is a goal of management to keep working capital at a minimum level, the drop in crude oil and petroleum product prices prevented this. Normally, a full month of crude oil purchases is included as accounts payable in current liabilities compared to about one-half month of product sales as accounts receivable in current assets. The decline in prices substantially reduced this net source of noninterest-bearing funds. If prices return to higher levels in the future, working capital, and hence debt, should be reduced.

More favorable terms and improved pricing negotiated by the Company, in addition to generally lower market rates, offset the effect of higher outstanding debt to reduce interest expense to $26.6 million in 1986 from $27.1 million in 1985 and from $36.3 million in 1984.

TOTAL's financial flexibility was improved in 1986 by negotiating additional revolving credit facilities and by extending credit facility maturities. At December 31, 1986, the Company had committed lines of $475 million, of which $168 million was unused and available, compared to committed lines of $381 million at December 31, 1985, of which $103 million was unused and available. The average maturity of the revolving credit facilities was extended from approximately three years to over seven years with no principal repayment requirements during the next seven years.

Market Information and Dividends

Principal markets for the Company's Common Shares ("TPN") are The Toronto Stock Exchange and the American Stock Exhange, Inc. There were approximately 3,000 holders of record of the Company's Common Shares on March 6, 1987.

The high and low sales prices of the Common Shares and the dividend paid during each quarterly period were as follows:

		1986				1985			
		1	2	3	4	1	2	3	4
Toronto Stock Exchange	**High**	**24¾**	**30¾**	**27⅞**	**27**	17⅛	17⅜	20	23
(Can. $)	**Low**	**19⅛**	**19⅛**	**20⅝**	**21½**	11⅜	15⅜	16⅛	19⅞
American Stock Exchange	**High**	**17⅝**	**22⅜**	**20¼**	**19⅝**	12¼	12⅞	15	16¾
(U.S. $)	**Low**	**13¾**	**13¾**	**14⅝**	**15⅜**	8⅝	11¼	11⅞	14⅝
Dividend per share (Can. $)		**.06**	**.09**	**.09**	**.09**	.06	.06	.06	.06

The Canadian government imposes no limitations on rights of United States persons holding equity shares in the Company. The Canada-United States reciprocal tax convention provides for a 15 percent withholding tax rate on dividends paid to United States shareholders.

Quarterly Results

The following summarizes certain quarterly financial information for 1986 and 1985 (in thousands of U.S. dollars except per share amounts):

As Restated for Accounting Change (Note 2)	Quarter Ended			
1986	March 31	June 30	September 30	December 31
Revenues	**$458,370**	**$401,364**	**$369,970**	**$367,649**
Contribution to profit*	**8,821**	**25,025**	**22,773**	**10,272**
Net income	**3,191**	**17,157**	**15,107**	**2,500**
Net income per share	**.08**	**.64**	**.53**	**.04**
1985				
Revenues	$564,318	$618,644	$590,294	$598,873
Contribution to profit*	10,854	41,232	45,531	23,106
Income before extraordinary item	1,892	19,387	23,960	9,455
Net income	1,892	32,963	39,366	13,849
Income per share before extraordinary item	.02	.75	.93	.37
Net income per share	.02	1.28	1.53	.53

As Previously Reported	Quarter Ended			
1986	March 31	June 30	September 30	December 31
Revenues	**$458,370**	**$401,364**	**$369,970**	—
Contribution to profit*	**11,707**	**27,380**	**21,448**	—
Net income	**3,891**	**14,178**	**9,186**	—
Net income per share	**.11**	**.53**	**.32**	—
1985				
Revenues	$564,318	$618,644	$590,294	$598,873
Contribution to profit*	14,471	45,580	50,214	25,143
Income before extraordinary item	4,919	27,348	32,442	10,993
Net income	4,919	36,434	33,556	10,993
Income per share before extraordinary item	.16	1.06	1.26	.42
Net income per share	.16	1.42	1.30	.42

*Income before extraordinary item plus interest charges and income taxes.

Net income per share for the second and third quarters of 1986 and the last three quarters of 1985 is computed after assuming conversion of Preferred Shares as they are dilutive. Accordingly, net income for these periods requires no adjustment for Preferred dividends.

The third quarter of 1986 and the first quarter of 1985 include gains from the sale of service stations of $2.5 million and $4.8 million, respectively. The third quarter of 1986 also includes a nonrecurring gain of $4 million from litigation settlements.

The second quarter of 1986 includes a pre-tax inventory valuation provision of $13 million to reflect the excess of the recorded cost of crude oil and product inventories over the market prices for crude oil and products. During the fourth quarter, market prices of crude oil and products recovered, and the provision was reversed.

The second, third, and fourth quarters of 1985 include extraordinary credits of $13.6 million, $15.4 million and $4.4 million, respectively, which reflect the utilization of operating loss carryforwards.

Consolidated Balance Sheet

	Total Petroleum (North America) Ltd. and Subsidiaries	(Thousands of U.S. dollars)	
	December 31	**1986**	1985*
Assets	Cash	**$ 12,165**	$ 10,737
	Accounts and notes receivable	**104,904**	167,671
	Inventories of crude oil and products	**133,537**	125,553
	Inventories of merchandise, materials and supplies	**18,573**	16,359
	Prepaid expenses and other	**8,481**	5,018
	Total current assets	**277,660**	325,338
	Property, plant and equipment, net	**639,756**	554,021
	Other assets	**2,796**	3,780
		$920,212	$883,139
Liabilities	Accounts payable	**$161,453**	$259,772
	Accrued taxes	**19,774**	23,001
	Other accrued liabilities	**27,709**	25,109
	Current portion of long-term debt	**5,289**	4,312
	Total current liabilities	**214,225**	312,194
	Long-term debt	**299,200**	233,648
Deferred Credits	Deferred income taxes	**50,079**	45,786
	Other	**13,026**	12,603
		63,105	58,389
Shareholders' Equity	Capital Stock		
	Preferred shares	**116,599**	116,599
	Common shares	**130,880**	93,574
	Capital surplus	**79,439**	79,439
	Retained earnings	**27,720**	1,086
	Foreign currency translation adjustment	**(10,956)**	(11,790)
		343,682	278,908
		$920,212	$883,139

*Restated as described in Note 2.
See Notes to Consolidated Financial Statements.

Approved on Behalf of the Board:

Director

Director

Consolidated Statement of Changes in Financial Position

	Total Petroleum (North America) Ltd. and Subsidiaries		(Thousands of U.S. dollars)	
		1986	1985*	1984*
Funds Provided By Operations	Income before extraordinary item	**$ 37,955**	$ 54,694	$ 8,156
	Income charges not affecting funds:			
	Depreciation and depletion	**61,147**	51,302	47,540
	Exploration, including dry holes	**21,205**	34,864	26,707
	Deferred credits and other	**5,183**	5,909	6,466
	Extraordinary item — utilization of operating loss carryforwards	**—**	33,376	4,772
		125,490	180,145	93,641
Sources (Uses) of Funds Excluding Financing Activities	Property sales	**5,310**	9,761	4,471
	Accounts and notes receivable	**62,767**	5,069	(24,721)
	Inventories	**(10,198)**	(25,178)	(4,830)
	Prepaid expenses and other	**(3,463)**	(608)	(820)
	Accounts payable and accrued liabilities	**(95,719)**	(1,008)	47,352
	Accrued taxes	**(3,227)**	764	(4,146)
	Tax benefit from exercise of stock options	**552**	—	—
	Other, net	**(233)**	(302)	4,593
		(44,211)	(11,502)	21,899
Funds Used For	Capital expenditures	**150,608**	77,072	49,322
	Exploration costs	**21,205**	34,864	26,707
	Dividends	**11,321**	9,661	10,120
		183,134	121,597	86,149
Total Funds Provided (Used) Before Financing Activities		**(101,855)**	47,046	29,391
Funds Provided By (Used In) Financing Activities	Additional long-term debt	**73,452**	—	2,501
	Payments reducing long-term debt	**(6,923)**	(70,883)	(18,908)
	Issuance of equity securities	**36,754**	1,751	1,025
		103,283	(69,132)	(15,382)
	Increase (decrease) in cash	**$ 1,428**	$ (22,086)	$ 14,009

*Restated as described in Note 2.
See Notes to Consolidated Financial Statements.

Consolidated Statement of Income

	Total Petroleum (North America) Ltd. and Subsidiaries (Thousands of U.S. dollars except per share amounts)	1986	1985*	1984*
Revenues	Net sales of refined products	**$1,497,321**	$2,252,151	$2,153,877
	Net sales of crude oil and natural gas	**90,801**	108,252	117,604
	Other, net	**9,231**	11,726	2,675
		1,597,353	2,372,129	2,274,156
Expenses	Purchased crude oil, products and merchandise	**1,172,417**	1,881,762	1,847,734
	Operating	**163,360**	180,607	194,170
	Exploration, including dry holes	**21,205**	34,864	26,707
	Selling and administrative	**112,333**	102,871	100,006
	Depreciation and depletion	**61,147**	51,302	47,540
	Interest	**26,554**	27,111	36,309
	Income taxes	**2,382**	38,918	13,534
		1,559,398	2,317,435	2,266,000
Net Income	Income before extraordinary item	**37,955**	54,694	8,156
	Extraordinary item	**—**	33,376	4,772
	Net Income	**$ 37,955**	$ 88,070	$ 12,928
Per Share	Income before extraordinary item	**$1.38**	$2.12	$.09
	Net income	**$1.38**	$3.42	$.31

*Restated as described in Note 2.
See Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

Total Petroleum (North America) Ltd. and Subsidiaries (Thousands of U.S. dollars)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustment
Balance on December 31, 1983, as previously stated	$116,599	$ 90,798	$87,052	$ (160)	$ (8,908)
Effect of change in method of accounting for oil and gas activities				(87,584)	3,961
Balance on December 31, 1983, as restated*	116,599	90,798	87,052	(87,744)	(4,947)
Net income				12,928	
Dividends of $2.88 (Can.) per Preferred Share			(4,634)	(1,525)	
Dividends of $.24 (Can.) per Common Share			(2,979)	(982)	
Foreign currency translation adjustment					(2,542)
Issuance of shares		1,025			
Balance on December 31, 1984*	116,599	91,823	79,439	(77,323)	(7,489)
Net income				88,070	
Dividends of $2.88 (Can.) per Preferred Share				(5,868)	
Dividends of $.24 (Can.) per Common Share				(3,793)	
Foreign currency translation adjustment					(4,301)
Issuance of shares		1,751			
Balance on December 31, 1985*	116,599	93,574	79,439	1,086	(11,790)
Net income				**37,955**	
Dividends of $2.88 (Can.) per Preferred Share				**(5,787)**	
Dividends of $.33 (Can.) per Common Share				**(5,534)**	
Foreign currency translation adjustment					**834**
Tax benefit from the exercise of stock options		**552**			
Issuance of shares		**36,754**			
Balance on December 31, 1986	**$116,599**	**$130,880**	**$79,439**	**$ 27,720**	**$(10,956)**

*Restated as described in Note 2.
See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Accounting Policies and Other Matters The significant accounting policies followed by the Company and other matters are presented here to assist the reader in evaluating the financial information contained herein. The Company's accounting policies are in accordance with generally accepted accounting principles in the United States. Any material differences between those principles and the principles recommended by the Canadian Institute of Chartered Accountants are disclosed in Note 9 to the Consolidated Financial Statements.

Principles of Consolidation The Consolidated Financial Statements include the accounts of all subsidiaries. All intercompany accounts and transactions have been eliminated.

Business Segments The Company's operations can be divided into two business segments: Oil and Gas, and Petroleum Products. Other income (principally financial) and expenses incurred at the corporate level, including income taxes, are not allocated to the segments. Unallocated assets are cash, short-term investments and taxes receivable.

The information by Industry segment and geographic area for 1986, 1985, and 1984 is incorporated by reference from page 15 of this Annual Report.

Inventories Inventories are valued at the lower of cost or net realizable value. Cost of inventories of crude oil and products is determined by the last-in, first-out ("LIFO") method. Cost of other inventories is determined by the first-in, first-out ("FIFO") method with respect to merchandise and by the average cost method for materials and supplies. It is impractical to separate inventory values by classification. The replacement cost of inventories was approximately the book value at December 31, 1986, and $213,000,000 at December 31, 1985.

Property, Plant and Equipment During 1986, the Company changed to the "successful efforts" method of accounting for its oil and gas activities from the "full cost" method (Note 2). Under the "successful efforts" method, costs of productive wells and developmental dry holes are capitalized and amortized on the unit-of-production method. Exploratory costs including geological and geophysical costs, dry holes, and annual lease rentals are expensed as incurred. Depreciation is provided using the straight-line method based on estimated useful lives.

Maintenance and repairs are expensed as incurred except significant deferred maintenance (turnaround) at the refineries which is accrued. Major improvements are capitalized, and the assets replaced are retired.

Foreign Currency Translation Amounts recorded in foreign currencies are translated in accordance with Statement of Financial Accounting Standards No. 52. The U.S. dollar is the functional currency for all operations except for Canadian operations whose functional currency is the Canadian dollar.

Net Income Per Share The computation of net income per share is based upon the weighted average Common Shares and dilutive Common Stock equivalents outstanding during the period. When the assumed conversion of Preferred Shares is not dilutive, net income is adjusted by the amount of dividends paid on Preferred Shares.

Income Taxes The Company does not provide for taxes which would be payable upon transfer of undistributed earnings of subsidiaries since management believes that either such earnings will not be transferred in the foreseeable future or no tax expense would be incurred because of available credits or deductions. At December 31, 1986, undistributed earnings of subsidiaries amounted to $51,971,000.

Investment tax credits have been accounted for by the flow-through method.

Futures Contracts Crude oil futures are utilized as hedges against crude oil spot purchases. Gains and losses are recorded as an adjustment to the basis of inventory.

Other Matters Excise and sales taxes collected from customers are excluded from net sales of refined products.

Sáles of purchased crude oil are deducted from the related purchases.

The Company reduced certain inventory quantities in 1984 which were valued at LIFO costs prevailing in prior years. The effect of the reduction was to increase net income by $5,300,000 or $.25 per share in 1984.

"Other revenues, net" in 1986 and 1985 includes gains from the sale of service stations of $3,500,000 and $5,600,000, respectively. In addition, a net gain of $4,000,000 from litigation settlements was recorded in 1986 (Note 8).

2. Change in Accounting Policy

During the fourth quarter of 1986, the Company changed to the "successful efforts" method of accounting for its oil and gas activities from the "full cost" method. Management believes the "successful efforts" method provides a better measure of the results of the Company's exploration activities. The change in method has been applied retroactively which results in decreases in previously reported income before extraordinary item of $21,008,000 ($.82 per share) in 1985 and $3,074,000 ($.14 per share) in 1984, and an increase in previously reported net income of $2,168,000 ($.09 per share) in 1985 and a decrease of $3,525,000 ($.17 per share) in 1984. Shareholders' equity at December 31, 1983, was reduced by $83,623,000 ($3.61 per share) for the cumulative effect on earlier years.

If the "full cost" method of accounting had been used for the year ended December 31, 1986, after taking into account the earlier recognition of certain net operating loss and credit carryforwards under the "full cost" method, reported net income would have been decreased by approximately $7,541,000 ($.32 per share).

3. Property, Plant and Equipment

Property, plant and equipment at December 31 is as follows (in thousands):

	1986		1985*	
	Gross	**Net**	Gross	Net
Oil and gas	**$ 447,431**	**$268,134**	$354,571	$205,022
Refining	**355,383**	**222,929**	315,547	201,458
Marketing	**124,307**	**82,966**	124,961	86,921
Supply and transportation	**88,418**	**57,029**	81,376	53,731
Other	**17,006**	**8,698**	14,992	6,889
	$1,032,545	**$639,756**	$891,447	$554,021

*Restated as described in Note 2.

4. Debt

The following summarizes the consolidated long-term debt at December 31 (in thousands):

	1986	1985
11½% debentures	**$ 5,228**	$ 6,676
Revolving credit facilities	**294,952**	221,500
Other loans due 1986 through 2000, averaging 7.4%	**4,309**	9,784
	304,489	237,960
Current maturities	**5,289**	4,312
	$299,200	$233,648

Based on the current level of borrowings, pursuant to the debt agreements, there are no maturities of indebtedness until December 31, 1993, other than the current maturities noted above.

The revolving credit facilities provide for borrowings, which accrue interest at short-term market rates, and the issuance of Letters of Credit, the latter of which amounted to $12,300,000 at December 31, 1986. The committed long-term bank credit available to

the Company at year-end totalled $475,000,000, of which $167,800,000 was not utilized. These committed long-term lines of credit expire throughout the period 1991 through 1996.

Interest rate exchange agreements, expiring 1987 through 1991, effectively convert $60,000,000 of variable rate borrowings to fixed rate borrowings.

Uncommitted short-term lines of credit aggregating $55,000,000 are available to the Company at mutually agreeable pricing. Of these lines, $53,220,000 were unused at December 31, 1986.

5. Taxes

The provision for income tax expense is as follows (in thousands):

	1986	1985*	1984*
Current payable:			
Canadian	**$(2,180)**	$ 926	$ 4,158
Deferred taxes:			
U.S.	**5,162**	34,095	4,772
Canadian	**(600)**	3,897	4,604
	$ 2,382	$38,918	$13,534

*Restated as described in Note 2.

The 1986 provision for income tax expense in the U.S. consists entirely of deferred taxes. The extraordinary credits of $33,376,000 in 1985 and $4,772,000 in 1984 reflect the tax benefit to the Company from the utilization of operating loss carryforwards against the U.S. portion of the tax provision. All of the operating loss carryforwards have been recognized for financial statement purposes; therefore, to the extent that tax operating loss carryforwards are utilized, the tax benefit will be credited to deferred taxes.

At December 31, 1986, there is a U.S. tax net operating loss of approximately $28,100,000 and certain unused tax credits of approximately $24,800,000, which may be carried forward to future periods to reduce U.S. taxes which would otherwise be payable subject to the limitations of the Tax Reform Act of 1986. The earliest expiration year for any of these carryforward items is 1992. Book tax credit carryforwards of $2,400,000 will provide tax benefits to the extent of book income in future periods. To the extent the tax credit carryforwards in excess of $2,400,000 are utilized for tax purposes, deferred tax credits will be reinstated at the then current rate.

The Canadian deferred tax provision for the years ended December 31, 1986, 1985, and 1984, results primarily from the deduction of oil and gas expenditures permitted by tax legislation. The Company has approximately $53,300,000 of deductions available to reduce future Canadian taxable income. To the extent utilized, these carryforwards will result in a credit to deferred income taxes.

The components of U.S. deferred income taxes for the years ended December 31 are as follows (in thousands):

	1986	1985*	1984*
Oil and gas costs	**$(6,830)**	$ 181	$ —
Depreciation expense	**8,663**	909	—
Utilization of loss carryforwards	**—**	33,376	4,772
Forward contracts	**3,636**	(373)	—
Other	**(307)**	2	—
	$ 5,162	$34,095	$4,772

*Restated as described in Note 2.

As reported in the December 31, 1985, financial statements, the Internal Revenue Service ("IRS"), following its examination of the U.S. tax returns for 1979 through

1981, proposed adjustments to the Company's taxes amounting to an additional $106,600,000. The Company has received a letter from the IRS stating that one of the more significant proposed adjustments will be withdrawn. However, substantial issues remain outstanding. The examination of the 1982 and 1983 tax returns continues. After consultation with its legal counsel, it is the opinion of the Company that the provisions for all tax deficiencies are adequate, and it is remote that any final adjustments would have a material effect on the financial position of the Company.

Income (loss) before income taxes and income tax expense at rates other than the statutory U.S. income tax rate are as follows (in thousands):

	1986	1985*	1984*
Income (loss) before income taxes:			
U.S.	**$ 46,392**	$82,594	$11,083
Canadian	**(6,055)**	11,018	10,607
	40,337	93,612	21,690
Statutory rate	**46%**	46%	46%
Tax provision at statutory rate	**18,555**	43,061	9,977
Differences:			
Canadian taxes at rates higher than U.S. rates	**5**	555	4,683
Investment and other tax credits	**(15,488)**	(4,076)	—
Other	**(690)**	(622)	(1,126)
	$ 2,382	$38,918	$13,534

*Restated as described in Note 2.

Other taxes incurred by the Company are as follows (in thousands):

	1986	1985	1984
Wellhead	**$ 5,159**	$ 18,081	$ 18,430
Payroll	**7,018**	6,890	6,990
Property	**4,255**	4,010	5,034
Other	**1,512**	2,338	2,441
	17,944	31,319	32,895
Consumer excise(1)	**177,655**	170,982	176,026
	$195,599	$202,301	$208,921

(1)Excise taxes are excluded from both revenues and expenses.

6. Capital Stock

The Company's authorized capital at December 31, 1986, consists of 12,800,000 Preferred Shares and 10,000,000 Second Preferred Shares without nominal or par value, issuable in series, and an unlimited number of Common Shares without nominal or par value.

At December 31, 1986, 2,800,000 of the authorized and issued Preferred Shares were designated as $2.88 Cumulative Redeemable Convertible Preferred Shares ("Convertible Preferred Shares") with 2,798,590 shares outstanding. The holders of the Convertible Preferred Shares are entitled to receive fixed cumulative preferential cash dividends, if and when declared by the Board of Directors, at an annual rate of $2.88 (Can.) per share payable quarterly. The Convertible Preferred Shares are convertible into Common Shares at any time at the option of the holder at a conversion rate of 1.43 Common Shares for each Convertible Preferred Share. These shares may be redeemed by the Company during 1987 for $50.90 (Can.) per share.

Changes in issued Common Shares are as follows (in thousands of dollars):

	1986		1985		1984	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Balance at January 1	**21,808,587**	**$ 93,574**	21,645,489	$91,823	21,543,568	$90,798
Exercise of stock options	**321,546**	**3,568**	130,550	1,409	—	—
Exercise of warrants	**2,141,049**	**33,186**	—	—	—	—
Tax benefit from exercise of stock options	**—**	**552**	—	—	—	—
Issuance under employee savings plan	**—**	**—**	32,548	342	101,921	1,025
Balance at December 31	**24,271,182**	**$130,880**	21,808,587	$93,574	21,645,489	$91,823

TOTAL Compagnie Française des Pétroles, a French corporation, owns approximately 45 percent of the voting shares of the Company. Voting shares consist of both Common and Preferred Shares.

During 1986, 2,141,049 Warrants, which were due to expire on June 30, 1986, each with the right to purchase one share of Common Stock at $15.50 (U.S.), were exercised.

The Board of Directors passed a resolution in 1986 to increase the shares authorized for grant under the 1975 Stock Option Plan for Employees ("Plan") to 1,400,000 Common Shares through November 30, 1990. This resolution is subject to shareholders' approval. Options to purchase 91,000 Common Shares at prices ranging from $10.63 to $16.25 (Can.) were outstanding and exercisable at December 31, 1986, and 441,000 Common Shares at prices ranging from $10.63 to $18.16 (Can.) were outstanding and exercisable at December 31, 1985. At December 31, 1986 and 1985, 534,000 (including 500,000 shares subject to shareholders' approval) and 25,000 Common Shares, respectively, were available for the granting of future options.

7. Pension Plans

The Company and its subsidiaries have several pension plans covering substantially all employees. Contributions are made annually to the pension plans that will at least satisfy the minimum funding requirements established by the federal government. A comparison of the actuarial present value (at 9 percent) of accumulated plan benefits and net assets at January 1 are presented below (in thousands):

	1986	1985
Actuarial present value of accumulated plan benefits:		
Vested	**$25,786**	$24,153
Nonvested	**4,419**	3,457
	$30,205	$27,610
Net assets available for benefits	**$50,455**	$43,310

8. Contingencies

The Company was subject to alleged violations of federal price and allocation regulations administered by the Department of Energy ("DOE") during the period from January 1973 until decontrol in January 1981. During 1986, the Company and the DOE reached an agreement on all outstanding issues. The Company received a Global Consent Order from the DOE, effective August 5, 1986, releasing the Company from all civil violations during the period of regulatory control. The Company paid the DOE $5,000,000 for subsequent distribution to customers and others who may have been affected by the alleged overcharges.

Litigation involving overcharges for stripper well oil which included numerous companies, 50 states, and the federal government was also settled in 1986. The Company received approximately $9,000,000 cash and released its claim against the stripper well oil overcharge fund and private lawsuits against certain crude oil producers in accordance with the settlement agreement.

The Company believes it is remote that liabilities, if any, from the resolution of all known contingencies will have a material effect on the financial position of the Company.

9. Canadian Accounting Principles

Effective January 1, 1985, the Canadian Institute of Chartered Accountants adopted the accounting standard that requires investment tax credits to be deferred and recognized in income as the related assets are depreciated or depleted. Applying this method, the Company would have deferred recognition of the benefit realized under the flow-through method, thereby decreasing net income for 1986 and 1985 by approximately $8,300,000 and $2,400,000, respectively. The remaining difference in the timing of the recognition of tax benefit will be recognized in income in the years 1987 through 1989 as reduced depreciation and depletion.

Under Canadian accounting principles, including the adjustment discussed above, and after restating for the change in accounting method (Note 2), net income per share in 1986 and 1985 would be:

	Income Before Extraordinary Item		Net Income	
Years	Basic	Fully Diluted	Basic	Fully Diluted
1986	**$1.03**	**$1.07**	**$1.03**	**$1.07**
1985	$2.14	$1.99	$3.67	$3.24

Net income per share reportable under Canadian accounting principles for 1984 would not be significantly different from the amount reported under U.S. accounting principles.

Basic net income per share does not recognize the potentially dilutive effect of Common Stock equivalents. The fully dilutive computation assumes net income is increased by earnings, net of tax, realized from the investment of proceeds obtained from the conversion of dilutive Common Stock equivalents. The Company's Convertible Preferred Shares, Warrants, and options are considered Common Stock equivalents for the fully diluted computation.

Report of Management

The financial statements and related information in this Annual Report are the responsibility of management. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and include amounts that are based on informed judgments and management's estimates. Other financial information in the report is consistent with that in the financial statements.

Management depends upon the Company's system of internal accounting controls in meeting its responsibilities for reliable financial statements. The system provides reasonable assurance that transactions are properly recorded and executed in accordance with management's authorization and that assets are safeguarded.

The independent accounting firm, Price Waterhouse, has examined the financial statements as described in their report included herein. Their role is to render an independent professional opinion on management's financial statements to the extent required by generally accepted auditing standards.

The Audit Committee of the Board of Directors, which includes a majority of directors who are not employees of the Company, is responsible for reviewing the financial statements and the accounting principles and practices employed by the Company. The Audit Committee meets periodically with the independent accountants and management to review the work of each and to ensure that each is properly discharging its responsibilities.

The Board of Directors has approved this Report of Management.

Report of Independent Accountants

To the Shareholders of
Total Petroleum (North America) Ltd.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in financial position and of shareholders' equity present fairly the financial position of Total Petroleum (North America) Ltd. and its subsidiaries at December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for oil and gas activities as described in Note 2 of the consolidated financial statements. Our examinations of these statements 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.

PRICE WATERHOUSE

Denver, Colorado
February 2, 1987

Summary of Oil and Gas Activities

The following unaudited supplementary information is disclosed in accordance with the Statement of Financial Accounting Standards No. 69. The supplementary information has been restated for the change to the "successful efforts" method of accounting as described in Note 2 of the Consolidated Financial Statements.

Results of Operations for Producing Activities

The results of operations for oil and gas producing activities are summarized in the following table:

(in thousands)

	1986			1985			1984		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	**$34,269**	**$56,942**	**$91,211**	$44,228	$64,560	$108,788	$45,134	$72,896	$118,030
Production costs	**11,479**	**22,115**	**33,594**	8,272	19,780	28,052	6,747	20,654	27,401
Exploration costs	**6,983**	**14,222**	**21,205**	10,622	24,242	34,864	10,960	15,747	26,707
Depletion	**6,405**	**24,404**	**30,809**	4,983	16,725	21,708	3,720	14,220	17,940
	9,402	**(3,799)**	**5,603**	20,351	3,813	24,164	23,707	22,275	45,982
Income tax expense (benefit)	**5,300**	**(2,100)**	**3,200**	11,600	1,800	13,400	13,200	9,900	23,100
Results of operations	**$ 4,102**	**$ (1,699)**	**$ 2,403**	$ 8,751	$ 2,013	$ 10,764	$10,507	$12,375	$ 22,882

1. Statutory income tax expense (benefit) is adjusted for the effects of permanent differences and tax credits.
2. Canadian balances for 1985 and 1984 have been restated to conform with 1986 classifications.

Capitalized Costs

Aggregate capitalized costs related to the Company's oil and gas activities and related accumulated depletion are as follows:

Capitalized costs at December 31:		(in thousands)
	1986	1985
Proved properties	**$425,781**	$336,501
Unproved properties	**21,650**	18,070
	447,431	354,571
Accumulated depletion	**179,297**	149,549
	$268,134	$205,022

Costs Incurred

The following costs were incurred in oil and gas producing activities:

Costs incurred in the year for:			(in thousands)
	Canada	U.S.	Total
1986 — Property acquisition			
— Proved	**$ 9,571**	**$62,657**	**$ 72,228**
— Unproved	**1,319**	**3,141**	**4,460**
Exploration	**10,211**	**12,963**	**23,174**
Development	**8,249**	**5,333**	**13,582**
Total	**$29,350**	**$84,094**	**$113,444**
1985 — Property acquisition			
— Proved	$ —	$11,939	$ 11,939
— Unproved	3,289	5,897	9,186
Exploration	12,851	21,742	34,593
Development	19,126	8,173	27,299
Total	$35,266	$47,751	$ 83,017
1984 — Property acquisition			
— Proved	$ —	$ 1,462	$ 1,462
— Unproved	2,647	3,066	5,713
Exploration	10,549	16,140	26,689
Development	7,206	16,697	23,903
Total	$20,402	$37,365	$ 57,767

1. Exploration includes costs for geological and geophysical, undeveloped leaseholds, and exploratory drilling.
2. Development includes costs for developmental drilling and equipment and facilities for extracting, treating, and storing the oil and gas.

Reserve Quantities The following table presents the estimated quantities of net proved reserves of crude oil, including natural gas liquids ("NGLs"), and natural gas. Proved reserves are the estimated quantities which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under economic and operating conditions existing at the date of the estimate. The Company believes its estimates are reasonable interpretations of available information; however, future revisions may be significant.

Crude oil and NGLs in millions of barrels	Canada			U.S.		Total	
Gas in billions of cubic feet	NGLs	Oil	Gas	Oil	Gas	Oil/NGLs	Gas
Proved developed and undeveloped reserves —							
Reserves at December 31, 1983	1.18	14.96	195.93	6.24	48.73	22.38	244.66
Increase (decrease) in 1984 due to:							
Revisions of previous estimates		1.11	4.72	.47	4.11	1.58	8.83
Extensions and discoveries		1.09	6.80	2.07	7.54	3.16	14.34
Improved recovery		2.03	—	—	—	2.03	—
Production		(1.53)	(4.75)	(1.61)	(8.25)	(3.14)	(13.00)
NGLs	1.10	(1.10)	—	—	—	—	—
Reserves at December 31, 1984	2.28	16.56	202.70	7.17	52.13	26.01	254.83
Increase (decrease) in 1985 due to:							
Revisions of previous estimates		.78	5.90	(.46)	(.45)	.32	5.45
Extensions and discoveries		1.79	12.04	.74	2.75	2.53	14.79
Production		(1.47)	(5.60)	(1.64)	(7.95)	(3.11)	(13.55)
Purchases of reserves in place		—	—	1.02	3.07	1.02	3.07
NGLs	.16	(.16)	—	—	—	—	—
Reserves at December 31, 1985	2.44	17.50	215.04	6.83	49.55	26.77	264.59
Increase (decrease) in 1986 due to:							
Revisions of previous estimates	**4.10**	**2.74**	**19.33**	**(.80)**	**1.15**	**6.04**	**20.48**
Extensions and discoveries	**.14**	**1.05**	**4.18**	**.58**	**2.72**	**1.77**	**6.90**
Production	**(.28)**	**(1.80)**	**(5.82)**	**(2.27)**	**(9.82)**	**(4.35)**	**(15.64)**
Purchases of reserves in place	**3.18**	**—**	**15.89**	**7.14**	**40.87**	**10.32**	**56.76**
Reserves at December 31, 1986	**9.58**	**19.49**	**248.62**	**11.48**	**84.47**	**40.55**	**333.09**
Proved developed reserves included above —							
December 31, 1983	1.18	14.96	195.93	6.01	48.45	22.15	244.38
December 31, 1984	2.28	16.56	202.70	7.05	51.91	25.89	254.61
December 31, 1985	2.44	17.50	215.04	6.71	49.33	26.65	264.37
December 31, 1986	**9.58**	**19.49**	**248.62**	**10.90**	**82.97**	**39.97**	**331.59**

1. Prior to the activation of the Wembley Halfway "B" gas plant in 1986, Canadian NGLs were not significant; therefore, only NGL reserves existing at the close of the year have been presented for 1984 and 1985. NGLs in the United States are not significant.
2. Reserve quantities exclude royalties.

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The Standardized Measure of Discounted Future Net Cash Flows is determined in accordance with FASB Statement No. 69. Other assumptions could be used in this computation producing substantially different results. The standardized measure information is not representative of the fair market value of the Company's proved oil and gas reserves.

Future cash inflows are calculated by applying year-end prices to net proved oil and gas reserve quantities. Price escalations are considered only to the extent provided by contractual arrangements. Future production and development costs represent estimated expenditures to develop and produce proved reserves based on year-end costs. Future income tax expense is computed by applying the statutory tax rates at year-end, with consideration of future tax rates enacted by the Tax Reform Act of 1986, to the future net cash flows adjusted for the remaining tax basis of the properties, permanent differences, and tax credits. The resulting future net revenues are reduced to present value at the required 10 percent annual rate.

The Company cautions readers that actual future net cash flows may vary dramatically from these estimates. The volatility of crude oil prices during 1986 reinforces the possibility that significant revisions in the computation may be required within a short period of time.

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves at December 31

(in thousands)

	1986			1985			1984		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
Future cash inflows	**$ 731,238**	**$ 343,181**	**$1,074,419**	$ 848,244	$ 323,107	$1,171,351	$ 777,082	$ 364,123	$1,141,205
Future production and development costs	**(197,208)**	**(125,055)**	**(322,263)**	(232,420)	(114,064)	(346,484)	(227,560)	(111,577)	(339,137)
Future income tax expense	**(184,687)**	**(48,000)**	**(232,687)**	(242,000)	(65,400)	(307,400)	(278,500)	(84,400)	(362,900)
Future net cash flows	**349,343**	**170,126**	**519,469**	373,824	143,643	517,467	271,022	168,146	439,168
10% annual discount for estimated timing of cash flows	**(187,506)**	**(58,770)**	**(246,276)**	(213,852)	(40,206)	(254,058)	(155,296)	(51,491)	(206,787)
Standardized measure of discounted future net cash flows	**$ 161,837**	**$ 111,356**	**$ 273,193**	$ 159,972	$ 103,437	$ 263,409	$ 115,726	$ 116,655	$ 232,381

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

(in thousands)

	1986			1985			1984		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
Sale of oil and gas produced, net of production costs	**$ (23,378)**	**$(40,468)**	**$ (63,846)**	$(36,241)	$(47,521)	$(83,762)	$(38,628)	$(53,595)	$(92,223)
Net changes in prices, production and development costs	**(149,716)**	**(47,592)**	**(197,308)**	23,394	(17,792)	5,602	(244)	(5,987)	(6,231)
Extensions and discoveries, less related costs	**9,060**	**5,753**	**14,813**	22,885	17,932	40,817	14,494	48,249	62,743
Revisions of previous quantity estimates	**95,161**	**(6,456)**	**88,705**	(3,693)	(8,660)	(12,353)	8,004	13,171	21,175
Accretion of discount	**26,569**	**15,053**	**41,622**	22,444	17,520	39,964	22,119	15,964	38,083
Net change in income taxes	**24,825**	**15,734**	**40,559**	15,457	11,459	26,916	(4,549)	(7,157)	(11,706)
Purchases of reserves in place	**19,344**	**65,895**	**85,239**	—	13,844	13,844	—	—	—
	$ 1,865	**$ 7,919**	**$ 9,784**	$ 44,246	$(13,218)	$ 31,028	$ 1,196	$ 10,645	$ 11,841

Directors and Officers

Directors

Richard S. Aberg	Management Consultant Calgary, Alberta
Fraser H. Allen	President, Petro-Economics, Incorporated Evergreen, Colorado
Alain Brion	Senior Vice President, TOTAL Compagnie Française des Pétroles, Paris, France
Pierre Capoulade	Senior Vice President, TOTAL Compagnie Française des Pétroles, Paris, France
Louis Deny	Executive Vice President and Deputy Chairman, TOTAL Compagnie Française des Pétroles, Paris, France
Philippe Dunoyer	Chairman, President and Chief Executive Officer Denver, Colorado
Alexander D. Hamilton	Retired Chairman and Chief Executive Officer, Domtar, Inc., Montreal, Quebec
Vernon L. Horte	President, V. L. Horte Associates Ltd. Calgary, Alberta
Alain Le Menestrel	Treasurer, TOTAL Compagnie Française des Pétroles, Paris, France
David L. Torrey	Vice Chairman, Dominion Securities Pitfield, Inc., Toronto, Ontario
Pierre Vaillaud	Senior Vice President, TOTAL Compagnie Française des Pétroles, Paris, France
Arthur W. Winter	Petroleum Consultant, Littleton, Colorado

Principal Officers of the Company and Subsidiaries

Philippe Dunoyer	Chairman, President and Chief Executive Officer
Kenneth R. Buckler	Vice President, Petroleum Products; Executive Vice President, Petroleum Products of Total Petroleum, Inc.
Philippe Magnier	Vice President, Oil and Gas; Executive Vice President, Oil and Gas of Total Petroleum, Inc. and Total Petroleum Canada Ltd.
Raymond C. F. Leeks	Vice President, Finance, Treasurer and Controller
Gilbert M. Kiggins	Vice President and Secretary
Ward M. Clark	Vice President, Oil and Gas Operations of Total Petroleum, Inc.
Robert C. Findsen	Vice President, Raw Materials Supply of Total Petroleum, Inc.
Wilfred B. Heiland	Vice President, Retail Marketing of Total Petroleum, Inc.
C. Gary Jones	Vice President, Wholesale Marketing and Products Supply of Total Petroleum, Inc.
Jeffrey L. Kramer	Vice President, Petroleum Products Planning of Total Petroleum, Inc.
Lamar E. Loyd	Vice President, Oil and Gas Administration of Total Petroleum, Inc.
Ross S. Marzolf	Vice President, Petroleum Products Administration of Total Petroleum, Inc.
Louis M. McCormick	Vice President, Exploration of Total Petroleum, Inc.
Robert J. Newman	President, Total Pipeline Corporation and Total Crude Oil Transport, Inc.
Leo R. Reinkemeyer	Vice President, Refining Operations of Total Petroleum, Inc.
Thomas A. Richards	Vice President, Personnel of Total Petroleum, Inc.
Larry C. Ross	Vice President, Secretary and General Counsel of Total Petroleum, Inc.
Donald T. West	Vice President and General Manager of Total Petroleum Canada Ltd.

Corporate Information

Registrars	National Trust Company Calgary, Regina, Winnipeg, Toronto, Vancouver and Montreal, Canada
	Morgan Shareholder Services Trust Company New York, New York
Transfer Agents	National Trust Company Calgary, Regina, Winnipeg, Toronto, Vancouver and Montreal, Canada
	Morgan Shareholder Services Trust Company New York, New York
Auditors	Price Waterhouse Denver, Colorado
Exchange Listings (TPN)	Toronto Stock Exchange American Stock Exchange Montreal Stock Exchange Pacific Stock Exchange
Form 10-K	Copies of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K are available without charge upon request to the Corporate Communication Office of the Company at P. O. Box 500, Denver, Colorado 80201, U.S.A.
Annual Meeting	Shareholders are cordially invited to attend TOTAL's Annual Meeting to be held this year at the King Edward Hotel, 37 King Street East, Toronto, Ontario on Tuesday, May 12, 1987 at 11:00 a.m.
Head Office	639 Fifth Avenue, S.W. Calgary, Alberta T2P 0M9 (403) 267-3000
Principal Executive Office	Denver Place, North Tower, Suite 2201 999 18th Street Denver, Colorado 80202 (303) 291-2000
Investor Relations	70 Pine Street Suite 3310 New York, New York 10270 (212) 482-8460

Total Petroleum (North America) Ltd.

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