TOTAL

TOTAL PETROLEUM (NORTH AMERICA) LTD.

1988 ANNUAL REPORT

HOWARD ROSS LIBRARY
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HIGHLIGHTS

	1988	1987
Operating		
Crude oil, condensate, and natural gas liquids production (barrels per day)	**12,810**	13,575
Natural gas sales (thousands of cubic feet per day)	**60,144**	49,249
Proved crude oil reserves (barrels)	**32,031,000**	39,895,000
Proved gas reserves (thousands of cubic feet)	**269,138,000**	339,420,000
Refinery input (barrels per day)	**191,334**	172,745
Refined product sales (barrels per day)	**192,962**	177,940
Financial (U.S. dollars)		
Total revenue	**$1,833,540,000**	$1,747,009,000
Net income (loss)	**72,749,000**	(26,823,000)
Net income (loss) per share	**2.55**	(1.35)
Cash flow from operations before changes in working capital components	**163,633,000**	50,596,000
Capital expenditures	**116,898,000**	131,941,000
Shareholders' equity	**380,061,000**	308,296,000
Total debt	**210,340,000**	375,765,000
Total assets	**962,903,000**	1,014,053,000

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The year 1988 was saddened by the death of one of our directors, Arthur W. Winter, on November 2. Mr. Winter had a long and distinguished career in the independent refining and marketing sector of the Petroleum Industry, beginning in Mt. Pleasant, Michigan, in the 1930s, close to the birthplace of our Company in the United States. We express our gratitude to Mr. Winter for his contributions to the progress of the Company as well as for his kindness and his thoughtfulness. He will be long remembered as an esteemed colleague and a true gentleman.

Corporate Profile

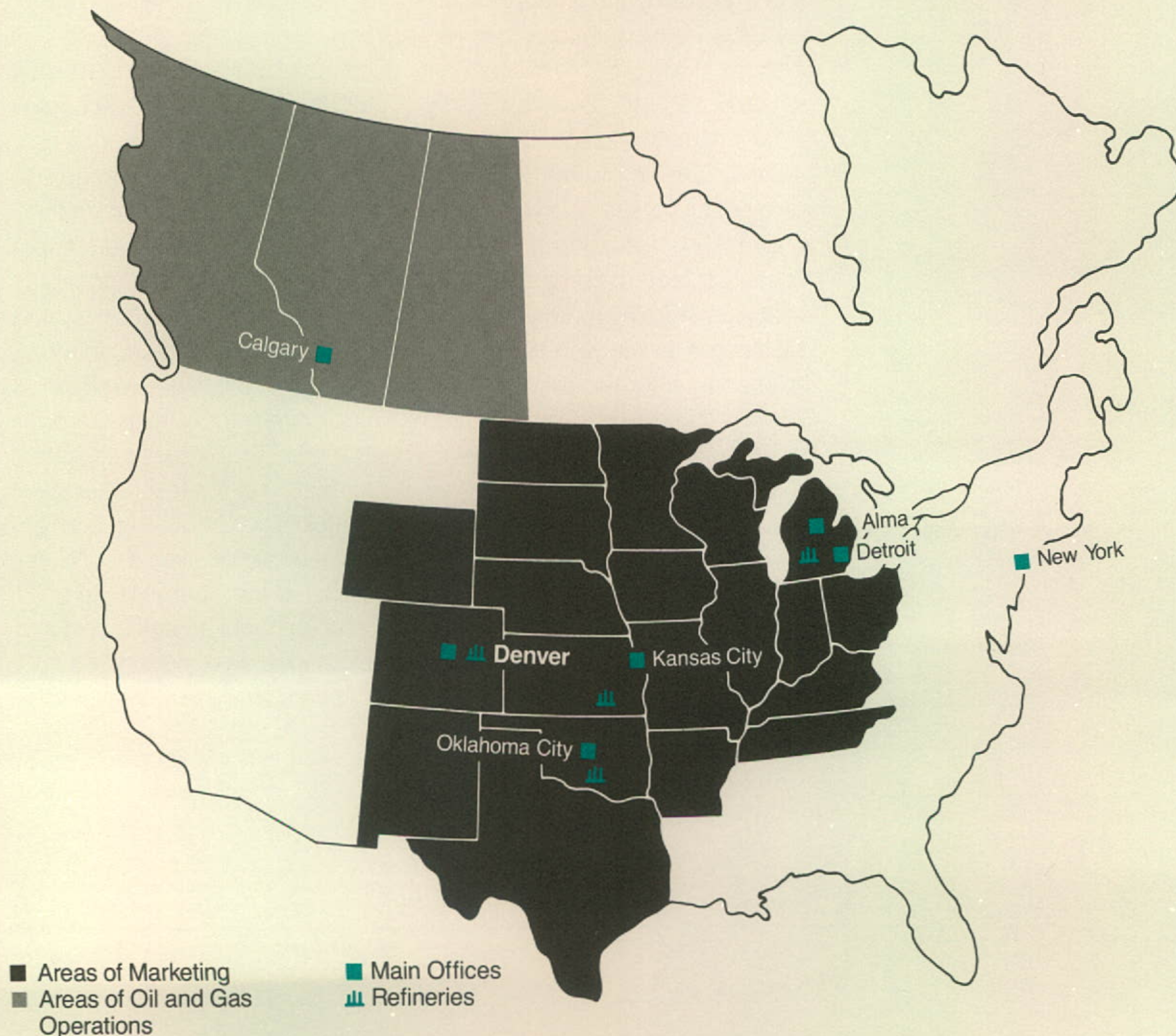
Total Petroleum (North America) Ltd. is a company with petroleum products operations in the Central United States and oil and gas operations in Western Canada. The Company employs approximately 5,400 people. Corporate headquarters are located in Denver, Colorado.

The Company operates four refineries having a combined capacity of approximately 190,000 barrels of crude oil per day in Alma, Michigan; Ardmore, Oklahoma; Arkansas City, Kansas; and Denver, Colorado.

The Company markets petroleum products in 20 states through more than 500 Company-operated self-service stations with convenience stores and through independent distributors, under the brand names APCO, TOTAL, and VICKERS.

In Canada, crude oil and natural gas liquids production averages 7,400 barrels per day and natural gas sales average 29 million cubic feet per day.

The Company's shares are listed on the American, Toronto, Montreal, and Pacific stock exchanges. TOTAL Compagnie Française des Pétroles of Paris, France owns 51% of the voting shares.



To Our Shareholders

"Gratifying" and "eventful" are appropriate descriptions of the year 1988 for Total Petroleum (North America) Ltd., in sharp contrast to "disappointing" and "frustrating" used to preface the 1987 Annual Report.

The year 1988 was gratifying because, in accordance with an apparently established historical pattern, the depressed refining margins of 1987 and early 1988 gave way towards midyear to a sharp rebound of substantial strength and duration. Because of this rebound, the Company's cash flow from operations (before changes in working capital components) was $163.6 million, the second highest on record, compared to $50.6 million in 1987, while net income for the year was $72.7 million, also the second highest on record, compared to a net loss of $26.8 million in 1987. Net income for the year 1988 includes an after-tax gain of $15.7 million on the sale of all oil and gas producing assets in the United States.

The financial position of the Company improved dramatically, as debt decreased from $376 million at December 31, 1987 to $210 million at December 31, 1988 and the debt to debt plus equity ratio decreased from 55% to 36%. This improvement resulted from the strong cash flow and from asset sales of $134 million, while capital expenditures of $117 million remained comparable to 1987.

The year 1988 was eventful because the Company continued and concluded a thorough long-term assessment of the segments of the business in which it had grown, in order to determine where it should concentrate its financial and human resources in order to be successful in the current and foreseeable competitive environment. The strategic decisions which resulted from this assessment were to concentrate growth in oil and gas exploration and development in Western Canada, and in retail gasoline marketing in the Central United States. The Company's favorable competitive position as a "niche" refiner in the Central United States should be enhanced and expanded as opportunities become available. The assess-

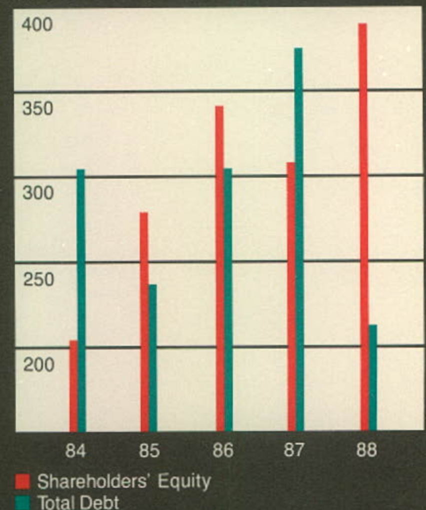
ment also concluded that oil and gas operations in the United States did not offer sufficient prospects for a profitable future to justify the commitment of significant additional resources and, therefore, should be disposed of at the right price.

The actions of Management during 1988 reflected these strategies.

Oil and Gas – Canada

TOTAL started oil and gas operations in Canada in the mid-1950s. Early on, it acquired and developed interests in long-life fields such as Swan Hills, Boundary Lake, and Bonnie Glen, all of which are still contributing a significant part of our cash flow. In 1977, our land position placed us at the heart of the emerging Elmworth Deep Basin gas play. In addition to a number of gas discoveries, TOTAL made the initial oil discovery at Wembley in 1978. For the next ten years, the Elmworth-Wembley area accounted for the majority of our activity and generated a steady increase of reserves, culminating in 1986 when the large Wembley gas plant was put on stream. This long-range project to develop long-term reserves spanned such diverse periods as the price explosion of 1979-1980, the National Energy Program years of 1981-1985, and the price collapse of 1986. TOTAL, like the rest of the Industry, had doubts at various times about the viability of its operations in the changing fiscal and political environments, but excesses were eventually corrected and the global economic results over the good and bad times have been satisfactory. Over the twelve-year period 1977-1988, TOTAL's exploration and development expenditures in Canada approximated 85% of Canadian cash flow; yet reserves net of production about doubled in volume and increased in unit value while reserve life remained at approximately 20 years.

Recognizing these positive long-term trends, we decided in 1987 to step up our exploration and development programs again, with particular focus on the favorable long-range outlook for the natural gas market.



Exploration and development expenditures in 1988 increased to $20.6 million from $14.9 million in 1987. Reserve additions replaced 1.6 times the year's production, giving a net increase of 2.8 million barrels of oil equivalent ("BOE"). More than 50% of the reserves added in 1988 consisted of condensate and natural gas liquids ("NGL"). The three-year moving average cost of reserve additions has been under $3 per BOE for the past three years, a very competitive performance. A recent independent survey of the cost of reserve additions of 41 companies in Canada, including majors and independents for the four years 1984-1987, ranked TOTAL as number two.

During 1988, TOTAL continued to focus on natural gas, both in exploration and production. Successful wells were drilled at Progress in Central Alberta where a gas plant will be constructed and operated by TOTAL in 1989. Efforts to acquire and develop reserves in British Columbia continued in order to enable us to participate in a long-term contract for deliveries to California commencing in late 1989. Exploration programs were initiated in Central and Southern Alberta, increasing our diversification of prospects. More than 20% of the exploration expenditures in 1988 were for land acquisitions in order to replenish our acreage portfolio.

Production volumes for crude oil, condensate, and natural gas liquids in 1988 of approximately 7,400 barrels per day remained comparable to the 1987 level. However, natural gas production in 1988 of 29.4 million cubic feet per day exceeded 1987 production by 45%. The increase was mainly due to the start-up of the TOTAL-owned and operated gas plant at Knopcik, in the general Elmworth-Wembley area, and to the commencement of production of a well at Grassy, British Columbia. Cash flow from gas production increased 40% over 1987, but due to the decline of the price of oil, TOTAL's overall cash flow from Canadian production decreased by 13%.

The Peace River Fertilizer Plant, in which TOTAL took a 50% equity participation in 1987, encountered start-up difficulties. Upon thorough examination of the technical, financial, and managerial problems and their alternative solutions, TOTAL assumed operatorship of the joint venture on November 1, 1988, and has since appointed a contract plant operator and entered into a marketing agreement with an established regional distributor. The plant has maintained steady operation since December, with TOTAL supplying approximately three million cubic feet per day of natural gas, and will be capable of delivering fertilizer for the spring season.

In 1989, we will continue our efforts to expand our oil and gas operations in Canada. Exploration and development expenditures are projected at $30 million, a 45% increase over 1988. Most of the increase relates to a waterflood project in the Wembley area and to the construction of, or participation in, four gas plants. These plants will not contribute to 1989 cash flow, but gas production should increase again by over 30% from 1989 to 1990.

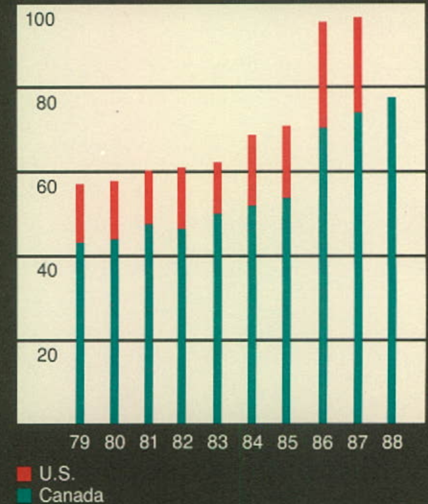
Recently, the Industry in Canada has experienced a number of mergers and takeovers which are leading to restructurings and to a redistribution of assets. TOTAL remains alert to the opportunities thus created to accelerate our growth in a manner consistent with our existing assets and operations and with our financial resources.

Oil and Gas–United States

In the United States, TOTAL started oil and gas operations in the early 1970s in Michigan, near the oil fields that supplied its first refinery. With the goal of becoming a partially integrated petroleum company in the U.S., and with the incentive of rising prices, the Company built up production and reserves through a combination of acquisitions, and exploration and development in Michigan, as well as in the Gulf Coast, Mid-Continent, and Rocky Mountain areas.

Oil and Gas Reserves

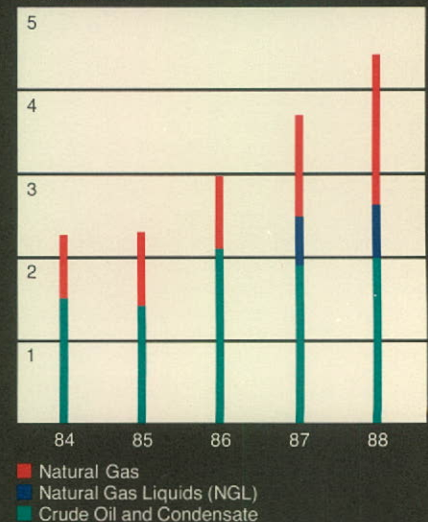
Millions of Barrels of Oil Equivalent (BOE):
6 MCF of gas equals 1 barrel of oil



Canadian reserves have consistently accounted for about ¾ of the Company's reserves. After the 1988 sale of U.S. reserves, the Company's reserves are still higher than they were in 1985.

Oil and Gas Sales in Canada

Millions of BOE



The recent increases of NGL and natural gas sales reflect the coming on stream of gas plants in the Elmworth-Wembley area, bringing to market reserves resulting from ten years of successful exploration and development.

After the price collapse of 1986, the economic viability of TOTAL's oil and gas operations in the U.S. was seriously challenged. Economical exploration prospects in our traditional onshore areas became more scarce. TOTAL did not have a long-established historical production base providing low unit costs and high volumes over which to spread the overhead. Reserves had a short life and production was on the decline, if not made up through exploration or acquisitions. An initial response to the challenge of 1986 was to acquire low cost reserves in the wake of the price collapse, within our financial capabilities: TOTAL's reserves in the U.S. increased 70% in 1986.

As we continued to weigh alternative strategies, it became increasingly apparent, in 1987 and 1988, that certain companies were placing high market values on oil and gas reserves because of their own strategic circumstances. On May 10, 1988, the Board decided to offer for sale TOTAL's oil and gas producing assets in the United States. As stated in the announcement, "... in reaching its decision, TOTAL's Board considered the long-term potential and the competitive position of the Company's various business segments. It concluded that a sale of its U.S. oil and gas assets in the current market would strengthen the Company's financial position and enable it to place increased emphasis on oil and gas operations in Canada and retail marketing in the U.S., while continuing to strengthen its competitive position in the refining sector in the U.S."

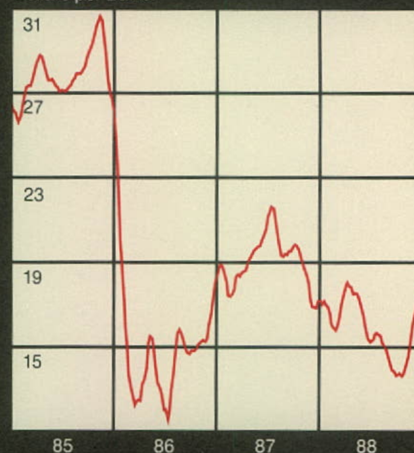
For the sale, oil and gas producing properties were divided into several regional packages which might have specific attraction for specific buyers, thereby helping to maximize value. This strategy was successful since several competitive bids were received for each package. Ultimately, 98% of our U.S. oil and gas producing assets were sold to nine principal buyers and the remainder to various other parties.

The gross sales proceeds were $151.9 million. The financial statements indicate net sales proceeds of $132.8 million. The difference results from adjustments for the net cash flow received between the effective dates (July 1, 1988 for the most part) and the closing dates – the majority of which occurred late in the fourth quarter – and adjustments for selling expenses and severance costs. Proved reserves as of July 1, 1988 were 9.7 million barrels of oil and 76 billion cubic feet of natural gas, i.e., 22.4 million BOE (6 MCF of gas equals one barrel of oil) or 17.3 million BOE (10 MCF of gas equals one barrel of oil). The sales proceeds amounted to $6.80/BOE (6 to 1) or $8.80/BOE (10 to 1).

As we closed the oil and gas operations in the U.S., we were unfortunately unable to offer suitable positions in other parts of the Company to most of the personnel in that area. Consequently, 70 employees were terminated. The Company wishes to express its gratitude to those employees for their dedication and their conscientious efforts in assisting with the sale.

As pointed out when we announced the sale of our U.S. oil and gas assets, TOTAL's proved reserves in the U.S. at December 31, 1987 represented about 23% of the Company's total, with the balance located in Canada. At December 31, 1988, after the sale of the U.S. oil and gas assets, the Canadian reserves alone were higher than the Company's total reserves three years earlier. This illustrates the importance of our long-established reserves in Canada, and our success in making them grow. We will now turn increased attention, and devote increased resources, to seeking growth opportunities in Canada, as discussed in the Canadian section of this report.

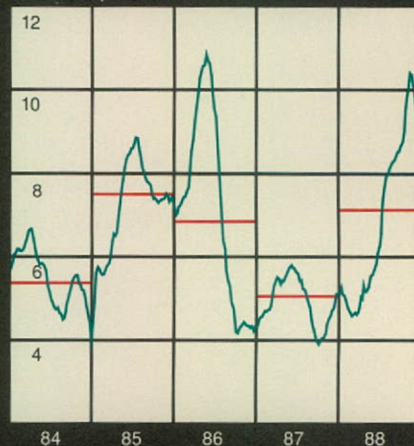
Spot Prices of Crude Oil
Dollars per Barrel



West Texas Intermediate (WTI)
Four-Week Moving Average

Rapid and ample fluctuations of crude oil prices make the planning and management of raw material supply and costs a critical factor.

Refining Margin Indicator
Cents per Gallon
U.S. Gulf Coast Spot Product Prices
(⅔ gasoline, ⅓ fuel oil)
less WTI Spot Crude Oil Price



Three-Month Moving Average
Yearly Average

The extreme short-term volatility of margins, with variations by a factor of three within twelve-month periods, reflects the volatility of crude oil prices and the different supply-demand forces affecting the refined products and crude oil markets, respectively.

Longer term, a more consistent picture emerges, reflecting competitive factors within the refining industry.

Petroleum Products

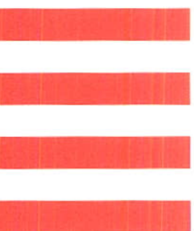
The strategic review of TOTAL's business segments in 1988 reaffirmed our commitment to refining and marketing, with continued emphasis on competitiveness and added impetus to the expansion of our retail marketing network.

Operating and financial results were excellent in 1988, primarily because of a sharp upturn of refining margins, but also because of the steady growth of sales volumes and continued improvements in operating efficiencies. Cash flow for the Petroleum Products Division reached an all-time high of $141.0 million, of which $120.1 million was realized in the second half of the year.

The volatility of refining margins continues to be the major determinant of the cash flow in a given year, as illustrated on the graphs "Refining Margin Indicator" and "Refining Gross Margin-Operating Costs-Petroleum Products Cash Flow."

Refining margins turned around at the end of the second quarter due primarily to a significant seasonal increase in gasoline demand while inventories were low. Furthermore, the Industry, challenged by the increasing octane demand, was also fighting against several unplanned refinery shutdowns and trying to restore the flexibility of its transportation system which was affected by drought-related problems on the Mississippi River. Finally, the crude oil price decline, caused by OPEC's increased production, helped to widen margins. This situation lasted through the second half of the year.

TOTAL's refineries were well prepared to respond to the increased demand and processed more than 200,000 barrels per day



("BPD") of charge, close to maximum capacity, during the second half of the year, so that we could turn the favorable market environment into record cash flow.

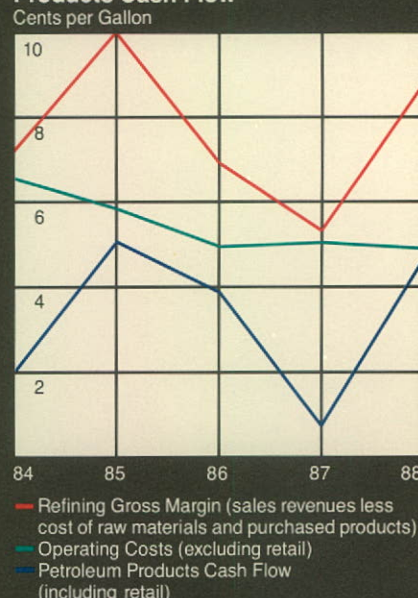
The positive geographical price differentials between our refineries' locations and the Gulf Coast, or "niche effects" which characterize our operations and which were almost absent in 1987, came back to normal in 1988 and helped significantly to improve our refineries' financial results.

The cost of raw materials is critical to the refineries' performance. TOTAL obtains approximately 60% of its crude oil supply from domestic producers at the lease, at posted prices, and buys the balance of its requirements daily on the New York Mercantile Exchange ("NYMEX") by acquiring long positions and taking physical delivery of the crude oil at Cushing, Oklahoma, the month following purchase.

Our goals are to minimize crude oil costs and the exposure to price volatility. Some of the actions taken towards these goals are highlighted below:

- Although the overall U.S. domestic crude oil production declined, we were able to increase the purchase of crude oil at the lease by 5%, providing our refineries with more stability of supply and price.
- We started buying some less expensive sour crude oil which our Mid-Continent refineries are now equipped to process in limited quantities.
- Our NYMEX purchases were accomplished at a cost below the market average price 10 out of 12 months.

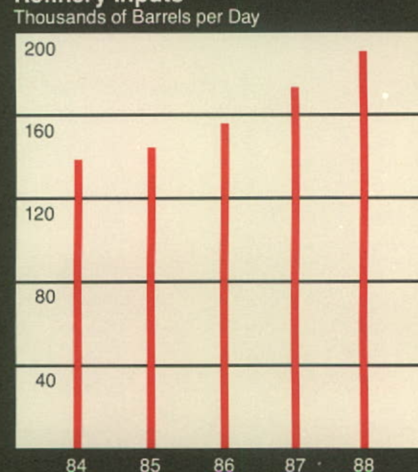
Refining Gross Margin–Operating Costs–Petroleum Products Cash Flow
Cents per Gallon



Refining Gross Margin reflects the "Refining Margin Indicator" at the Gulf Coast plus geographical differentials and refinery yields.

Cash flow variations reflect refining gross margin variations, operating costs variations and retail contribution of approximately 1 to 2 cents per gallon.

Refinery Inputs
Thousands of Barrels per Day



The steady increase of refinery inputs, at 9% per year average, reflects debottleneckings, a new crude unit at Arkansas City, and the acquisition of the Denver refinery.

TOTAL's refineries processed 191,300 BPD of charge in 1988 compared to 172,700 BPD in 1987, an increase of 11%. This increase resulted from a full year of operation of the Denver refinery (compared to seven months in 1987), some limited capacity additions in the Mid-Continent refineries, and the market incentives to operate at full capacity.

We continued to make progress in upgrading the refineries' product slate. Utilizing investments of recent years, we raised premium unleaded gasoline production by 51% compared to 1987. We plan further increases in premium unleaded production without significant additional capital expenditures.

We also increased the production and sale of high value-added products such as K-1 kerosene, dimate, propylene, mineral seal oil, and premium diesel.

A mid-grade gasoline (89 octane) was introduced in Alma, Michigan. All of the required oxygenated fuels (MTBE and ethanol blends) were purchased and made available at the Denver refinery during the winter mandate period.

Progress in improving saleable yields and reducing operating costs was slowed by the additional constraints of producing higher octane gasolines. Total saleable yield averaged 97.5% for the four refineries, up from 97.3% in 1987, while refinery operating expenses decreased by 3%.

TOTAL's retail operations experienced a very eventful year. An aggressive growth program was launched with the goal of selling 50% of our refineries' gasoline production through our Company-operated retail outlets compared to a current ratio of 40%. In the first year of the program, the number of Company-operated retail outlets increased by 74 to 504. Our Company-operated stations carry the brand name TOTAL in the Great Lakes region and VICKERS in the Mid-Continent and Rocky Mountain regions.

The product mix continued to change. High margin premium unleaded sales rose 41%, and TOTAL now sells more premium unleaded gasoline than regular leaded gasoline at its retail outlets. Average gasoline sales per station of 130,000 gallons per month are among the highest in the Industry.

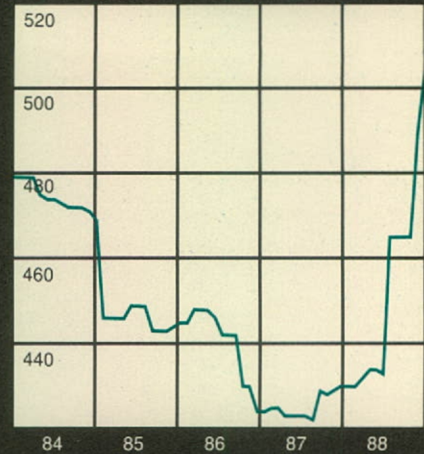
Merchandise sales at our convenience stores increased 15% to $165.3 million while gross profits rose 23% to more than $36 million. Merchandise sales per station increased 8% to $30,400 per month.

Merchandising is one of the fastest growing segments of the Company, and its contribution to cash flow is now very significant. Our prime real estate properties still have potential for further merchandise sales and profit.

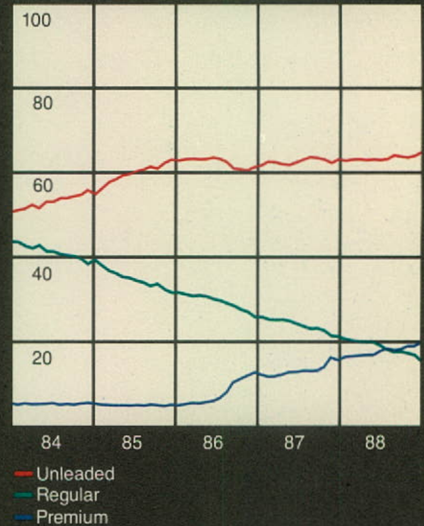
We continued programs to enhance our image with our customers and our communities. Our efforts in support of the Denver area Better Air Campaign earned us an Outstanding Achievement Award from the U.S. Environmental Protection Agency.

About 50% of our gasoline production is sold to branded jobbers who dispense it to the public through approximately 2,000 retail outlets, under the brand names TOTAL and APCO. In 1988, we intensified programs to support our jobbers with advertising, image enhancement, and remodeling.

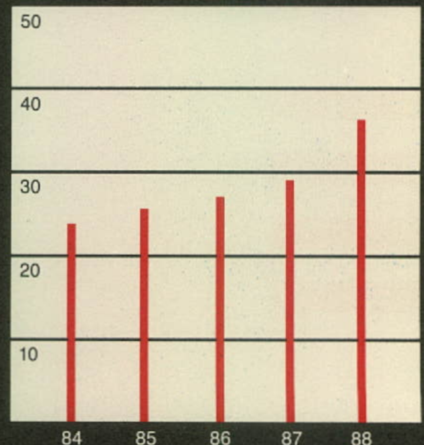
Capital expenditures in the Petroleum Products Division in 1988 reflected the shift in our strategies. Whereas, in 1987, we spent $79.4 million in refining and supply operations and $18.9 million in retail marketing, in 1988 the breakdown was $26.1 million in refining and supply and $52.4 million in retail marketing. Our major growth expenditure in 1987 was the $25.0 million acquisition of the Denver refinery, whereas in 1988 we invested $31.9 million in the acquisition of existing retail outlets, including three groups of stations in Michigan, Minnesota, and Texas/Oklahoma.



The decrease in the number of outlets from 1984 to 1987 reflects the Company's withdrawal from certain geographic areas and the elimination of uneconomic stations. The steep growth beginning in 1988 reflects our new expansion program.



Sales of premium unleaded gasoline now exceed sales of regular leaded gasoline and will continue to grow.



Merchandise gross profits have grown at an average rate of 13% per year, with significant growth in 1988 reflecting the addition of 74 stations with convenience stores.

Capital expenditures in our existing operations continued to focus on improving competitiveness. We initiated the construction of a new gas plant at the Denver refinery and two C3/C4 splitters at Arkansas City and Ardmore. These projects are designed to improve saleable yields and upgrade our product slate towards higher added value per barrel. In the retail network, we continued to remodel convenience stores and modernize our brand images.

The year 1988 has reinforced our confidence that, in spite of the volatility of the refined products markets, we will be successful over the long run by continuing to concentrate our resources and sharpen our skills in the market niches and the types of operations in which our level of performance is equal or superior to our competitors'. This requires constant questioning and searching for new and better ways to respond to customers' demands and to competitors' actions.

Financial

As indicated at the beginning of this report, TOTAL's financial position improved dramatically in 1988. Debt decreased from $376 million to $210 million, the debt to debt plus equity ratio decreased from 55% to 36%. The coverage ratio of interest by cash flow before interest and income taxes rose back to 5.9, although interest expense of $33.9 million was higher than in 1987 because most of the debt reduction occurred at year-end when the majority of the oil and gas asset sales closed.

TOTAL's financial flexibility has therefore been totally restored. Since the early 1980s, the majority of our debt has been made up of revolving lines of credit with more than fifteen banks. We have been successful in further extending the maturities to an average of eight years and have no principal repayment obligations for the next seven years. We now have over $200 million of unused committed facilities.

TOTAL is in a position to finance its capital expenditure programs as well as some acquisitions without having to negotiate additional financing.

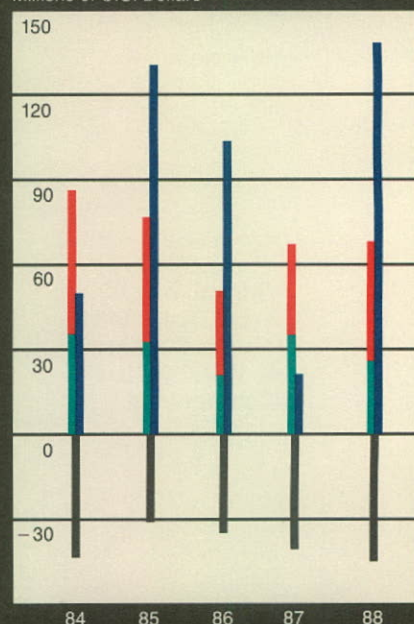
Our capital expenditure programs reflect the implementation of the strategies outlined in this report. In the absence of major acquisitions, capital expenditures in 1989 should be about $120 million, of which $30 million is for oil and gas in Canada, $40 million for refining and transportation, and $50 million for retail marketing.

After the reassessment of our activities and the rearrangement of assets that took place in 1988, the goals of Total Petroleum (North America) Ltd. and the definition of the business segments in which it is to compete and grow are well established for the foreseeable future.

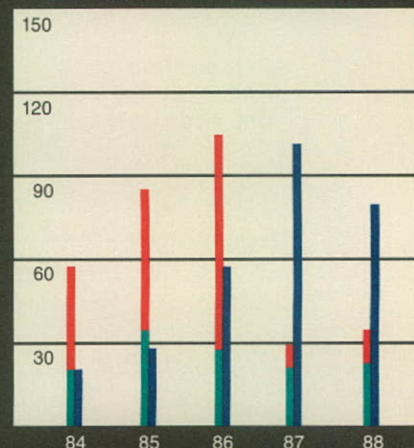
The world in general is becoming more competitive and companies of all sizes in all industries, including the Petroleum Industry, become more differentiated as they focus on what they do best. An important aspect of refocusing is a greater awareness of the customer, whether a natural gas buyer in Canada or, to an even larger extent, the motorized consuming public in the United States. Developing new attitudes and meeting the new challenges will determine how successfully the Company adapts to the competitive age. These are high priorities at TOTAL and we are encouraged by the enthusiastic response of our staff. This is but one of the reasons why we are pleased to acknowledge again the dedication and professionalism of the people of TOTAL.

In closing we want to reaffirm Management's commitment to maximize the value of our shareholders' investment in Total Petroleum (North America) Ltd. We are confident that the changes in direction effected in 1988 will contribute to this end.

Cash Flow from Operations by Segment
Millions of U.S. Dollars



Capital Expenditures by Segment
Millions of U.S. Dollars



Statement of Information by Industry Segment and Geographic Area

	Total Petroleum (North America) Ltd. and Subsidiaries					(Thousands of U.S. dollars)
		1988	1987	1986	1985	1984
Revenues	Oil and gas:					
	Canada	**44,406**	43,642	34,269	44,228	45,134
	U.S.	**84,271**	62,370	56,942	64,560	72,896
	Petroleum products	**1,703,051**	1,641,992	1,505,951	2,260,323	2,156,533
	Unallocated	**1,812**	(995)	191	3,018	(407)
		1,833,540	1,747,009	1,597,353	2,372,129	2,274,156
Cash Flow From Operations Before Changes In Working Capital Components	Oil and gas:					
	Canada	**29,462**	33,801	21,218	34,891	37,245
	U.S.	**39,063**	35,424	34,060	44,056	51,440
	Petroleum products	**141,040**	20,615	105,112	132,460	49,072
	Unallocated:					
	Interest	**(33,854)**	(30,338)	(26,554)	(26,753)	(35,843)
	Administrative	**(10,195)**	(11,740)	(10,717)	(6,601)	(3,708)
	Income taxes	**(3,695)**	3,829	2,180	(926)	(4,158)
	Other	**1,812**	(995)	191	3,018	(407)
		163,633	50,596	125,490	180,145	93,641
Operating Profit (Loss)	Oil and gas:					
	Canada	**11,259**	17,665	7,830	19,286	22,565
	U.S.	**37,352**	5,373	(4,566)	3,089	21,473
	Petroleum products	**97,474**	(9,669)	74,774	102,225	18,076
	Unallocated expenses	**(41,949)**	(43,694)	(37,701)	(30,988)	(40,424)
		104,136	(30,325)	40,337	93,612	21,690
Depreciation And Depletion	Oil and gas:					
	Canada	**9,624**	7,669	6,420	5,041	4,742
	U.S.	**24,271**	27,829	25,896	21,225	17,506
	Petroleum products	**44,230**	34,309	30,338	29,594	29,600
		78,125	69,807	62,654	55,860	51,848

	Total Petroleum (North America) Ltd. and Subsidiaries			(Thousands of U.S. dollars)		
		1988	1987	1986	1985	1984
Capital Expenditures (Includes exploration costs)	Oil and gas:					
	Canada	**20,574**	21,113	29,350	35,266	20,402
	U.S.	**14,417**	8,391	84,094	47,751	37,365
	Petroleum products:					
	Refining	**21,368**	67,485	40,618	17,464	9,005
	Marketing	**52,434**	18,863	7,071	6,415	4,458
	Supply and transportation	**4,739**	11,921	7,264	3,991	3,943
	Other	**3,366**	4,168	3,416	1,049	856
		116,898	131,941	171,813	111,936	76,029
Acquisitions (Included in Capital Expenditures above)	Oil and gas:					
	Canada	—	—	9,545	—	—
	U.S.	**2,585**	1,233	63,197	11,824	—
	Petroleum products:					
	Refining	—	25,696	—	—	2,630
	Marketing	**31,945**	3,765	1,351	953	—
	Supply and transportation	—	3,752	—	—	—
		34,530	34,446	74,093	12,777	2,630
Sales Of Properties	Oil and gas:					
	Canada	**63**	763	—	—	210
	U.S.	**132,844**	6,556	508	828	730
	Petroleum products	**978**	528	8,681	14,328	4,331
		133,885	7,847	9,189	15,156	5,271
Assets At December 31	Oil and gas:					
	Canada	**161,078**	136,406	130,100	115,387	100,184
	U.S.	**6,945**	143,537	166,736	121,425	116,918
	Petroleum products	**778,955**	716,479	607,025	630,623	625,461
	Unallocated	**15,925**	17,631	16,351	15,704	32,823
		962,903	1,014,053	920,212	883,139	875,386

SELECTED FIVE-YEAR DATA

		1988	1987	1986	1985	1984
Financial (Thousands of U.S. dollars except per share amounts)	Revenues	**1,833,540**	1,747,009	1,597,353	2,372,129	2,274,156
	Net income (loss)	**72,749**	(26,823)	37,955	88,070	12,928
	Net income (loss) per share	**2.55**	(1.35)	1.38	3.42	.31
	Dividends per Common Share (U.S. $)	**.40**	.30	—	—	—
	Dividends per Common Share (Can. $)	—	.09	.33	.24	.24
	Cash flow from operations before changes in working capital components	**163,633**	50,596	125,490	180,145	93,641
	Dividends	**16,337**	15,013	11,321	9,661	10,120
	Capital expenditures[1]	**116,898**	131,941	171,813	111,936	76,029
	Total assets	**962,903**	1,014,053	920,212	883,139	875,386
	Total long-term debt	**210,340**	375,765	304,489	237,960	308,485
	Interest expense	**33,854**	30,338	26,554	27,111	36,309
	Shareholders' equity	**380,061**	308,296	343,682	278,908	203,049
	Ratio of debt to debt plus equity	**36%**	55%	47%	46%	60%
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	**32,031**	29,928	29,073	19,940	18,844
	Production during year	**2,692**	2,568	2,083	1,467	1,532
	Average sales price per barrel	**$11.86**	$14.45	$12.41	$26.08	$26.12
	United States:					
	Proved reserves at year-end	—	9,967	11,485	6,833	7,174
	Production during year	**1,996**	2,387	2,270	1,635	1,606
	Average sales price per barrel	**$14.96**	$17.67	$13.99	$26.08	$28.75
	Natural gas (millions of cubic feet) –					
	Canada:					
	Proved reserves at year-end	**269,138**	264,746	248,623	215,041	202,702
	Sales during year	**10,750**	7,409	5,823	5,605	4,746
	Average sales price per MCF	**$1.17**	$1.22	$1.63	$2.14	$2.47
	United States:					
	Proved reserves at year-end	—	74,674	84,474	49,551	52,127
	Sales during year	**11,263**	10,567	9,821	7,954	8,246
	Average sales price per MCF	**$1.85**	$1.93	$2.46	$3.06	$3.36
Petroleum Products (Thousands of barrels except number of outlets)	Refinery input	**70,028**	63,052	57,107	53,781	51,210
	Manufactured gasoline	**42,956**	39,168	35,502	33,167	31,965
	Refined products sales	**70,624**	64,948	64,400	62,306	58,109
	Gasoline sales	**45,644**	43,233	41,944	42,338	39,133
	Company-operated retail outlets	**504**	430	422	445	470
	Jobber-operated retail outlets	**2,060**	1,538	1,493	1,497	1,377

[1]Includes exploration costs.

Management Discussion and Analysis

TOTAL's performance rebounded in 1988 to near record levels from the disappointing results of 1987. This is evidenced by:

- Net Income of $72.7 million compared to a net loss of $26.8 million in 1987 and net income of $38.0 million in 1986. The 1988 net income includes an after-tax gain of $15.7 million from the sale of the Company's oil and gas producing assets in the United States.

- Cash Flow from Operations before changes in working capital components of $163.6 million compared to $50.6 million in 1987 and $125.5 million in 1986.

- Total Debt at year-end was $210.3 million, reduced from $375.8 million at year-end 1987 and $304.5 million at year-end 1986.

- Shareholders' Equity at year-end was $380.1 million compared to $308.3 million in 1987 and $343.7 million in 1986.

- Capital Expenditures, including exploration costs, of $116.9 million compared to $131.9 million in 1987 and $171.8 million in 1986.

This strong rebound in the Company's performance in 1988 can be attributed to the substantially improved results of the Petroleum Products Division. This factor combined with the sale of TOTAL's oil and gas assets in the United States led to the significantly improved financial position of the Company.

Results of Operations The Company has two operating segments: the Oil and Gas Division and the Petroleum Products 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.

In 1988, the Company sold all of its oil and gas assets in the United States for $151.9 million based on the status of the assets at July 1, 1988. The final net proceeds of $132.8 million is after adjustment for the related cash flow from operations and capital expenditures between July 1, 1988 and the closing dates and related selling expenses. The sale resulted in a pre-tax gain of $25.3 million. The assets were sold to several purchasers in various regional packages. The decision to sell these assets was made after consideration was given to the long-term potential of exploration and production in the United States and the Company's intention to concentrate its efforts on exploration and production in Canada and refining and retail marketing in the United States.

During 1987, the Company satisfied certain pension obligations with the purchase of annuity contracts which resulted in a gain of $3.6 million. A gain of $3.5 million from the sale of service stations and a $4.0 million gain from the settlement of certain matters with the Department of Energy are included in the 1986 results.

Income tax expense for book purposes of $31.4 million in 1988 is after a benefit from the Company's remaining book tax credit carryforwards of $6.3 million resulting from the loss in the Company's United States operations in 1987. For tax purposes, there were $14.3 million of unused tax credits available at year-end 1988 to reduce future tax payments in the United States. In 1987, the income tax benefit for book purposes of $3.5 million is comprised of an income tax benefit of $6.4 million in the United States,

resulting from allowable operating loss carrybacks, and an offsetting $2.9 million of tax expense related to Canadian operations. (See Note 5 to the Consolidated Financial Statements for further discussion of income tax matters.)

The Financial Accounting Standards Board has issued the *Statement of Financial Accounting Standards No. 100,* "Accounting for Income Taxes–Deferral of the Effective Date of FASB Statement No. 96." This statement amends FASB Statement No. 96 "Accounting for Income Taxes" ("SFAS 96") to delay the effective date of that statement by one year. The Company will adopt SFAS 96 by 1990. SFAS 96 will require the recording of deferred taxes to follow the liability method as opposed to the deferred method under which the accompanying financial statements are prepared. The liability method requires deferred taxes to be adjusted to reflect changes in income tax rates. Adoption of this method is not expected to result in a significant adjustment to the Company's present deferred tax liability. In the United States, deferred taxes designated for timing differences that originated during previous periods of higher tax rates are small, and Canadian tax rates have been relatively stable. However, if tax rates or rules in the United States or Canada change, the effect of adoption may be more significant.

Following is a discussion of significant factors affecting the results of the Company's two operating segments and the Company's liquidity and capital resources. The reader may find it helpful to refer to the table of Selected Five-Year Data on page 16, the Statement of Information by Industry Segment and Geographic Area on pages 14 and 15, and the Consolidated Financial Statements which begin on page 24.

Oil and Gas Division Cash flow from operations before changes in working capital components of the Oil and Gas Division in 1988 was $68.5 million compared to $69.2 million in 1987 and $55.3 million in 1986. The decline in the price of crude oil accounted for a sizable decrease in cash flow in 1988, but was nearly offset by increased production of natural gas in Canada and a nonrecurring pre-tax gain from a litigation settlement of $10.3 million. The increase in 1987 was mainly due to increased production of oil and gas in Canada and the elimination of the Petroleum and Gas Revenue Tax and reduced royalty rates in Canada in late 1986.

Operating profit for the Oil and Gas Division was $48.6 million in 1988 compared to $23.0 million in 1987 and $3.3 million in 1986. Operating profit equals cash flow from operations before changes in working capital components less certain noncash charges, principally depletion and exploration expenses, and plus certain noncash credits. The increase in the 1988 operating profit was due mainly to the gain on the sale of the United States producing assets of $25.3 million. The increase in operating profit in 1987 was primarily due to reduced exploration expenses. Depletion was $33.9 million in 1988 compared to $35.5 million in 1987 and $32.3 million in 1986. Of these amounts, $24.3 million, $27.8 million, and $25.9 million, respectively, related to production in the United States. Exploration expense, including dry holes, was $10.5 million in 1988 compared to $9.0 million in 1987 and $19.7 million in 1986. Of these amounts, $2.7 million, $3.7 million, and $12.7 million, respectively, occurred in the United States.

The following table presents an analysis of the changes in cash flow from operations before changes in working capital components for each year presented as compared to the prior year (in thousands):

	1988 Compared to 1987			1987 Compared to 1986		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Increased (decreased) sales revenues (net of royalties) due to:						
Sales quantities	**$ 4,884**	**$(4,400)**	**$ 484**	$ 8,660	$ 2,535	$11,195
Sales prices	**(6,497)**	**(7,190)**	**(13,687)**	3,615	1,600	5,215
Other	**6**	**10,299**	**10,305**	322	—	322
	(1,607)	**(1,291)**	**(2,898)**	12,597	4,135	16,732
(Increased) decreased operating and administrative expenses	**(2,732)**	**4,930**	**2,198**	(14)	(2,771)	(2,785)
Total increase (decrease) in cash flow from operations before changes in working capital components	**$(4,339)**	**$ 3,639**	**$ (700)**	$12,583	$ 1,364	$13,947

Cash flow from operations before changes in working capital components in 1988 for Canadian operations was $29.5 million compared to $33.8 million in 1987 and $21.2 million in 1986. Production of crude oil, condensate, and natural gas liquids increased in 1988 by 5 percent, following a 23 percent increase in 1987. Natural gas production increased by 45 percent in 1988 and 27 percent in 1987. These increases were mainly due to new wells, sales to new markets, and higher sales from new gas plants. The average sales price of crude oil fell by 18 percent in 1988 to $13.92 per barrel from $17.01 per barrel in 1987. The decline in the price of natural gas leveled off in 1988, as the average sales price dropped slightly to $1.17 per MCF from $1.22 per MCF in 1987. The average sales price of crude oil increased to $17.01 per barrel in 1987 from $13.22 per barrel in 1986, but this factor was mostly offset by the decline in the average sales price of natural gas from $1.63 per MCF in 1986 to $1.22 per MCF in 1987. The decrease in cash flow attributable to increased operating and administrative expenses in 1988 includes $1.5 million of start-up costs for the Peace River Fertilizer Plant. The balance of these expenses, in terms of Canadian dollars, remained comparable to those of 1987, as the increase in the exchange rate of the Canadian dollar versus the United States dollar accounted for the remainder of the increase in expenses. In the 1987 to 1986 comparison, expenses actually declined nearly $1.0 million in terms of Canadian dollars.

Cash flow from operations before changes in working capital components in the United States was $39.1 million in 1988 compared to $35.4 million in 1987 and $34.1 million in 1986. Production of crude oil declined by 16 percent in 1988 after an increase of 5 percent in 1987. The decline was primarily due to sales of certain crude oil producing properties during 1988. Natural gas sales rose by 7 percent in 1988 and by 8 percent in 1987. These increases were due to the full year effect of prior discoveries and acquisitions, as most of the gas reserves were not sold until late in 1988. The average sales price of natural gas declined in 1988 to $1.85 per MCF from $1.93 per MCF in 1987. The average sales price of crude oil fell from $17.67 per barrel in 1987 to $14.96 per barrel in 1988, resulting in a significant drop in cash flow due to sales prices. In 1987, crude oil prices rose to $17.67 per barrel from $13.99 per barrel in 1986 which was mostly offset by the decline in the natural gas average sales price from $2.46 per MCF in 1986 to $1.93 per MCF in 1987. Operating and administrative expenses declined in 1988 due to lower production volumes and lower workover expenses. These expenses were higher in 1987 because of higher production volumes, new production put on stream, and increased workover activity.

The large increase in cash flow in the "Other" category is due to a nonrecurring gain of $10.3 million resulting from a gas contract litigation settlement.

Capital expenditures, including exploration costs, in 1988 were $20.6 million in Canada and $14.4 million in the United States for a total of $35.0 million. This compares to $29.5 million in 1987 and $113.4 million in 1986 which included acquisitions of $72.7 million. Expenditures for 1989 are expected to be about $30.0 million, reflecting the Company's strategy to place increased emphasis on exploration and development in Canada.

Production volumes in Canada have risen in the last three years contributing to an increase in cash flow; however, in 1986 and 1988, falling prices of crude oil and natural gas erased these gains. The direction of prices in 1989 is uncertain; however, the Division's increased emphasis on operations in Canada should result in continued production increases. As previously discussed, all of the assets of the Division in the United States were sold during 1988; consequently, there is not expected to be any activity affecting future results.

The Summary of Oil and Gas Activities on pages 35 through 39 provides additional information relative to costs incurred, production volumes, reserve quantities and values, as well as information presenting discounted future net cash flows and changes therein on an after-tax basis.

Petroleum Products Division Cash flow from operations before changes in working capital components of the Petroleum Products Division was $141.0 million in 1988 compared to $20.6 million in 1987 and $105.1 million in 1986. Following the decline in results of 1987, which was attributable to extremely poor refining margins, the Division's 1988 performance rebounded to a record high. This turnaround was due to a significant upturn in refining margins as well as improvements in operating efficiencies.

Operating profit of the Petroleum Products Division was $97.5 million in 1988 compared to a loss of $9.7 million in 1987 and a profit of $74.8 million in 1986. Operating profit equals cash flow from operations before changes in working capital components less certain noncash charges, principally depreciation. The improvement in operating profit was not as large as the improvement in cash flow from operations before changes in working capital components because of the increase in depreciation expense to $44.2 million in 1988 from $34.3 million in 1987 and $30.3 million in 1986. The increased depreciation expense results from increased capital expenditures in recent years.

The graphs "Refining Gross Margin–Operating Costs–Petroleum Products Cash Flow" and "Refining Margin Indicator" on pages 9 and 7, respectively, indicate the volatility of refining margins of recent years. Several factors contributed to the improved margins of 1988, which were especially strong in the second half of the year. Gasoline demand and, in particular, demand for higher octane fuels were strong while Industry inventories of gasoline remained low. This situation helped to maintain product prices. At the same time, world overproduction of crude oil caused an erosion of crude oil prices. In contrast, the poor refining margins of 1987 were primarily the result of an oversupply of petroleum products and the gradual increase in the price of crude oil.

Improvements in operating efficiencies by the Division in 1988 and 1987 included:

- Total charge stock processed by the refineries increased by 11 percent in 1988 after a 10 percent increase in 1987.

- Refinery yields improved and product mix was adjusted to maximize yields of higher margin products in both years.

- Sales volume of gasoline increased by 6 percent in 1988 and by 3 percent in 1987.

- Retail sales product mix improved, as the percentage of higher octane/higher margin products was increased in both years.

- Gross profit on sales of merchandise at service stations increased by 23 percent in 1988 and 6 percent in 1987.

- Refinery operating costs, which had been reduced from 8.1 cents per gallon in 1983 to 5.0 cents per gallon in 1986, remained at comparable levels through 1987 and 1988.

Capital expenditures for the Petroleum Products Division were $78.5 million in 1988 compared to $98.3 million in 1987 and $55.0 million in 1986. These amounts include $31.9 million in 1988 for acquisitions of service stations and costs incurred to convert those stations to Company brands and $25.0 million for the acquisition of the Denver refinery in 1987. Expenditures in the marketing area, excluding acquisitions, increased to $20.5 million in 1988 from $15.1 million in 1987 and $5.7 million in 1986 mainly for remodeling and expanding the Division's retail outlets. Expenditures in the refining and supply areas, other than acquisitions, were $26.1 million in 1988, $50.0 million in 1987, and $47.9 million in 1986, primarily for projects to improve saleable yields, upgrade product values, and reduce plant operating costs. The reduced amount in 1988 is due to completion of certain major projects in 1987.

Capital expenditures in the marketing sector, mainly for the continued expansion and upgrading of the Division's retail network, are expected to be about the same in 1989 as in 1988. Expenditures in the refining area in 1989 are expected to be in the range between 1987 and 1988 levels, again emphasizing projects to improve saleable yields and product values.

The success of the Petroleum Products Division is largely dependent upon the adequacy of Industry margins for refined products. In the past few years, the high volatility of these margins resulted in large fluctuations in the Division's results. The level that Industry margins will reach in 1989 is very difficult to predict; however, operational improvements made in recent years and planned for 1989 make the Division a strong competitor in any environment.

Liquidity and Capital Resources The Company's total debt was reduced significantly to $210.3 million in 1988 from $375.8 million in 1987 and $304.5 million in 1986. This was the lowest year-end debt level since the Company's acquisition of Vickers Petroleum Corporation in 1980. The main factors resulting in this decrease were the near record operating cash flow and the sale of the United States oil and gas assets. This stronger financial position will give the Company much more financial flexibility.

Capital expenditures, including exploration costs, were $116.9 million in 1988 compared to $131.9 million in 1987 and $171.8 million in 1986. Most of this reduction was due to smaller-sized acquisitions as capital expenditures before acquisitions of $82.4 million, $97.5 million, and $97.7 million in 1988, 1987, and 1986, respectively, have remained relatively stable. Capital expenditures in 1989 are expected to be comparable to those in 1988 with expenditures previously made in the United States oil and gas sector being diverted to the retail, refining, and Canadian oil and gas sectors in order to pursue the Company's goal of placing more emphasis in these areas. However, Management will be alert to possibilities of increasing the Company's asset base, either in oil and gas properties in Canada or in refining and marketing assets in the United States, should attractive opportunities become available.

Average outstanding debt was about 15 percent higher in 1988 than 1987 even though the year-end 1988 balance was significantly lower. This was because the Company's improved performance occurred in the second half of the year, and in addition, most of the proceeds from the sale of the United States oil and gas assets were received near the end of the year. As a result, interest expense increased to $33.9 million in 1988 from $30.3 million in 1987 and $26.6 million in 1986. The Company's effective cost of funds in 1988 was comparable to that in 1987. Although debt levels and interest rates cannot be predicted with certainty, beginning the year with a low debt level of $210.3 million should result in reduced interest costs in 1989.

At year-end 1988, the Company had available committed long-term bank lines of credit of $510.0 million, of which $292.8 million was unused, and an additional $58.4 million of unused, uncommitted short-term lines of credit. There are no maturities of debt outstanding under the long-term lines of credit prior to 1995.

A Dividend Reinvestment Plan is available to the Company's shareholders. The Plan provides holders of record of the Company's Common and Convertible Preferred Shares a simple and convenient method of reinvesting their dividends in the Company's Common Shares at a 5 percent discount from the market price. Shareholders interested in enrolling in the Plan should contact National Trust Company, 324 8th Avenue, S.W., Calgary, Alberta T2P 3B2.

Market Information and Dividends

Principal markets for the Company's Common Shares ("TPN") are The Toronto Stock Exchange and the American Stock Exchange, Inc. There were approximately 5,000 holders of the Company's Common Shares on March 6, 1989.

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

		1987				**1988**			
		1	2	3	4	**1**	**2**	**3**	**4**
Toronto Stock Exchange	High	32⅞	31⅝	28¼	25½	**20¾**	**22⅝**	**22**	**24⅝**
(Can. $)	Low	25½	25¼	24½	15⅛	**17½**	**17⅝**	**17¾**	**19½**
American Stock Exchange	High	25	24¼	21⅜	19⅝	**16½**	**18⅛**	**18¼**	**20¾**
(U.S. $)	Low	19⅛	19	18⅜	11¼	**13½**	**14½**	**14¾**	**16⅛**
Dividend per share (U.S. $)		—	.10	.10	.10	**.10**	**.10**	**.10**	**.10**
Dividend per share (Can. $)		.09	—	—	—	—	—	—	—

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 1988 and 1987 (in thousands of U.S. dollars except per share amounts):

	Quarter Ended			
1988	March 31	June 30	September 30	December 31
Revenues	**$406,718**	**$447,917**	**$487,322**	**$491,583**
Contribution to profit [1]	**(11,496)**	**21,135**	**58,882**	**69,469**
Net income (loss)	**(17,700)**	**11,531**	**39,271**	**39,647**
Net income (loss) per share	**(.79)**	**.40**	**1.37**	**1.38**
1987				
Revenues	$392,238	$410,412	$486,140	$458,219
Contribution to profit [1]	(13,207)	(747)	11,623	2,344
Net income (loss)	(12,781)	(12,482)	1,312	(2,872)
Net loss per share	(.59)	(.57)	(.01)	(.18)

[1] Income (loss) before interest charges and income taxes.

The second and fourth quarters of 1988 include pre-tax gains of $5.6 million and $19.2 million, respectively, from the sales of U.S. oil and gas assets.

The third quarter of 1988 includes a pre-tax gain of $10.3 million from a litigation settlement.

Net income per share for the third and fourth quarters of 1988 is computed after assuming conversion of Convertible Preferred Shares as they are dilutive. Accordingly, net income for these periods requires no adjustment for Preferred dividends.

The third quarter of 1987 includes a gain of $3.5 million from the settlement of certain pension obligations in accordance with Statement of Financial Accounting Standards No. 88.

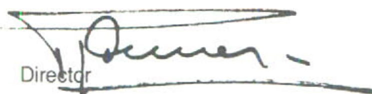
CONSOLIDATED BALANCE SHEET

	Total Petroleum (North America) Ltd. and Subsidiaries	(Thousands of U.S. dollars)	
	December 31	**1988**	1987
Assets	Cash	**$ 10,534**	$ 14,882
	Accounts and notes receivable	**142,364**	137,468
	Inventories of crude oil and products	**146,401**	135,862
	Inventories of merchandise, materials, and supplies	**24,085**	19,820
	Prepaid expenses and other	**10,226**	9,055
	Total current assets	**333,610**	317,087
	Property, plant, and equipment, net	**621,436**	690,570
	Other assets	**7,857**	6,396
		$962,903	$1,014,053
Liabilities	Accounts payable	**$203,528**	$ 208,484
	Accrued taxes	**30,579**	22,453
	Other accrued liabilities	**43,254**	35,756
	Current portion of long-term debt	**413**	320
	Total current liabilities	**277,774**	267,013
	Long-term debt	**209,927**	375,445
Deferred Credits	Deferred income taxes	**84,333**	50,604
	Other	**10,808**	12,695
		95,141	63,299
Shareholders' Equity	Capital Stock:		
	Convertible Preferred Shares	**116,599**	116,599
	Common Shares	**139,508**	131,247
	Capital surplus	**79,439**	79,439
	Retained earnings	**42,296**	(14,116)
	Foreign currency translation adjustment	**2,219**	(4,873)
		380,061	308,296
		$962,903	$1,014,053

See Notes to Consolidated Financial Statements.

Approved on Behalf of the Board:

Director



Director

CONSOLIDATED STATEMENT OF CASH FLOW

	Total Petroleum (North America) Ltd. and Subsidiaries	(Thousands of U.S. dollars)		
		1988	1987	1986
Cash Flow From Operating Activities	Net income (loss)	**$ 72,749**	$ (26,823)	$ 37,955
	Adjustments to reconcile net income (loss) to cash flow from operations:			
	Depreciation and depletion	**78,125**	69,807	62,654
	Exploration, including dry holes	**10,462**	8,992	19,698
	Deferred credits and other	**2,297**	(1,380)	5,183
	Cash flow from operations	**163,633**	50,596	125,490
	Net change in working capital components:			
	Accounts and notes receivable	**(2,837)**	(34,504)	62,767
	Inventories	**(14,804)**	(3,572)	(10,198)
	Prepaid expenses and other	**(1,171)**	(574)	(3,463)
	Accounts payable and other accrued liabilities	**2,542**	55,078	(95,719)
	Accrued taxes	**8,126**	2,679	(3,227)
	Tax benefit from the exercise of stock options	**52**	134	552
	Other, net	**(3,080)**	514	(233)
		(11,172)	19,755	(49,521)
	Net cash from operating activities	**152,461**	70,351	75,969
Cash Flow From Investing Activities	Property sales	**133,885**	7,847	5,310
	Capital expenditures, including exploration costs	**(116,898)**	(131,941)	(171,813)
	Net cash from investing activities	**16,987**	(124,094)	(166,503)
Cash Flow From Financing Activities	Additional long-term debt	**25,166**	76,528	73,452
	Payments reducing long-term debt	**(190,834)**	(5,288)	(6,923)
	Issuance of equity securities	**8,209**	233	36,754
	Dividends	**(16,337)**	(15,013)	(11,321)
	Net cash from financing activities	**(173,796)**	56,460	91,962
Net Increase (Decrease) In Cash		**(4,348)**	2,717	1,428
Cash at Beginning of Year		**14,882**	12,165	10,737
Cash at End of Year		**$ 10,534**	$ 14,882	$ 12,165

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)

		1988	1987	1986
Revenues	Net sales of refined products and merchandise	**$1,701,986**	$1,640,972	$1,497,321
	Net sales of crude oil and natural gas	**103,532**	107,211	90,801
	Gain on sales of U.S. oil and gas assets	**25,261**	—	—
	Other, net	**2,761**	(1,174)	9,231
		1,833,540	1,747,009	1,597,353
Expenses	Purchased crude oil, products, and merchandise	**1,304,548**	1,383,280	1,172,417
	Operating	**175,272**	176,954	163,360
	Exploration, including dry holes	**10,462**	8,992	19,698
	Selling and administrative	**127,143**	107,963	112,333
	Depreciation and depletion	**78,125**	69,807	62,654
	Interest	**33,854**	30,338	26,554
	Income taxes	**31,387**	(3,502)	2,382
		1,760,791	1,773,832	1,559,398
Net Income (Loss)		**$ 72,749**	$ (26,823)	$ 37,955
Per Share	Net income (loss)	**$2.55**	$(1.35)	$1.38

See Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

Total Petroleum (North America) Ltd. and Subsidiaries (Thousands of U.S. dollars)

	Convertible Preferred Shares	Common Shares	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustment	Total Shareholders' Equity
Balance on December 31, 1985	$116,599	$ 93,574	$79,439	$ 1,086	$(11,790)	$278,908
Net Income				37,955		37,955
Dividends				(11,321)		(11,321)
Foreign currency translation adjustment					834	834
Tax benefit from the exercise of stock options		552				552
Issuance of shares		36,754				36,754
Balance on December 31, 1986	116,599	130,880	79,439	27,720	(10,956)	343,682
Net loss				(26,823)		(26,823)
Dividends				(15,013)		(15,013)
Foreign currency translation adjustment					6,083	6,083
Tax benefit from the exercise of stock options		134				134
Issuance of shares		233				233
Balance on December 31, 1987	116,599	131,247	79,439	(14,116)	(4,873)	308,296
Net income				**72,749**		**72,749**
Dividends				**(16,337)**		**(16,337)**
Foreign currency translation adjustment					**7,092**	**7,092**
Tax benefit from the exercise of stock options		**52**				**52**
Issuance of shares		**8,209**				**8,209**
Balance on December 31, 1988	**$116,599**	**$139,508**	**$79,439**	**$ 42,296**	**$ 2,219**	**$380,061**

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 and taxes receivable.

The information by industry segment and geographic area for 1988, 1987, and 1986 is incorporated by reference from pages 14 and 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 approximated the book value at December 31, 1988 and 1987.

Property, Plant, and Equipment The Company follows the "successful efforts" method of accounting for its oil and gas activities whereby acquisition, development, and successful exploratory costs are capitalized. Exploratory costs for geological and geophysical work and annual lease rentals are expensed as incurred. Capitalized costs related to unproved properties are subject to a periodic review for impairment, and if necessary, a valuation allowance is provided. Depletion of capitalized costs for producing properties is provided on the units-of-production method.

Depreciation of plant and equipment 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 prospectively. 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 (Loss) Per Share The computation of net income (loss) per share is based upon the weighted average Common Shares and dilutive Common Share equivalents outstanding during the period. When the assumed conversion of Convertible Preferred Shares is not dilutive, net income (loss) is adjusted by the amount of dividends on Convertible 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, 1988, undistributed earnings of subsidiaries amounted to $84,835,000.

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

Other Matters During 1988, the Company conformed to the cash flow reporting principles set forth in the Statement of Financial Accounting Standards No. 95. Information reported in previous years in the Consolidated Statement of Changes in Financial Position has been restated to conform to the presentation in the Consolidated Statement of Cash Flow. The effect of foreign currency exchange rate fluctuations on cash balances was not significant. Included in "Dividends" for 1988 is $7,719,000 issued as Common Shares pursuant to the Company's Dividend Reinvestment Plan. Net cash from operating activities reflects cash payments for interest of $38,247,000, $26,668,000, and $23,914,000 for 1988, 1987, and 1986, respectively, and cash payments of $2,326,000 for income taxes during 1988. During 1987 and 1986, there were no income taxes paid.

During 1988, the Company sold certain United States oil and gas assets to Total Minatome Corporation for $18,200,000. Total Minatome Corporation is a wholly-owned subsidiary of TOTAL Compagnie Française des Pétroles which owns approximately 51 percent of the outstanding voting shares of the Company. The Company has received an opinion from its financial advisor, Chemical Bank, that the consideration received for the sale to Total Minatome Corporation is fair to the Company.

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

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

"Net Sales of Crude Oil and Natural Gas" for 1988 include a pre-tax gain of $10,300,000 resulting from a gas contract litigation settlement.

"Other revenues, net" in 1986 includes a pre-tax gain of $3,500,000 from the sale of service stations. In addition, a net gain of $4,000,000 from litigation settlements was recorded in 1986.

2. Sales of U.S. Oil and Gas Assets

In May 1988, the Company announced its decision to sell all of its oil and gas producing assets in the United States. As of December 31, 1988, the sales were completed. The assets were sold to several purchasers in various regional packages. The total sales price was $151,894,000 based on the status of the assets as of July 1, 1988. The gross sales price was adjusted for the related cash flow from operations and capital expenditures between July 1, 1988 and the closing dates to determine the net proceeds. The pre-tax gain recorded on these sales in 1988 was $25,261,000.

3. Property, Plant, and Equipment

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

	1988		1987	
	Gross	**Net**	Gross	Net
Oil and gas:				
Canada	**$199,743**	**$145,950**	$ 172,027	$131,421
U.S.	—	—	282,084	120,173
Petroleum products:				
Refining	**443,027**	**260,643**	422,491	267,719
Marketing	**191,195**	**138,080**	142,116	95,084
Supply and transportation	**105,240**	**65,073**	100,340	64,822
Other	**21,552**	**11,690**	20,602	11,351
	$960,757	**$621,436**	$1,139,660	$690,570

4. Debt

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

	1988	1987
Revolving credit facilities	**$202,600**	$369,026
Other loans	**7,740**	6,739
	210,340	375,765
Less current maturities	**413**	320
	$209,927	$375,445

Based on the current level of borrowings, pursuant to debt agreements, less than $1,000,000 matures annually over the next five years.

Revolving credit facilities provide for borrowings, which accrue interest at short-term market rates, and the issuance of Letters of Credit. These facilities expire throughout the period 1991 through 1998 and at year-end totaled $510,000,000 of which $292,810,000 was not utilized.

The Company had previously entered into interest rate collars, covering a notional amount of $100,000,000, in order to limit interest rate exposure. These agreements, expiring in equal amounts in 1990 and 1992, provide for receipt or payment of interest when short-term market rates exceed or fall below specified levels. The costs are amortized over the life of the agreements.

The Company had previously entered into $80,000,000 of interest rate exchange agreements in which the Company pays fixed interest rates. These agreements increased the cost on all borrowings to an effective interest rate of 9.3 percent during 1988. These agreements expire through 1991.

Uncommitted short-term lines of credit aggregating $60,000,000 are available to the Company with borrowings and Letters of Credit thereunder at mutually agreeable pricing. Of these lines, $58,430,000 were unused at December 31, 1988.

5. Taxes

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

	1988	1987	1986
Current payable:			
U.S.	**$ 5,592**	$ —	$ —
Canada	**(1,897)**	(3,829)	(2,180)
Deferred taxes:			
U.S.	**24,764**	(6,450)	5,162
Canada	**2,928**	6,777	(600)
	$31,387	$(3,502)	$ 2,382

The 1988 provision for income tax expense in the U.S. consists of both current and deferred taxes. At December 31, 1988, there are unused U.S. tax credits of approximately $14,343,000, which may be carried forward to future periods to reduce U.S. taxes which would otherwise be payable subject to certain statutory limitations. The earliest expiration year for these carryforwards is 1992.

The 1987 income tax benefit in the U.S. reflects the amount recognized through the release of previously recorded deferred taxes.

The 1986 provision for income tax expense in the U.S. consists entirely of deferred taxes.

The Canadian deferred tax provision for the years ended December 31, 1988, 1987, and 1986, results primarily from the deduction of oil and gas expenditures permitted by tax legislation. The Company has approximately $45,350,000 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):

	1988	1987	1986
Gain on sales of U.S. oil and gas assets	**$(10,846)**	$ —	$ —
Oil and gas costs	**268**	—	(6,830)
Depreciation expense	**5,400**	—	8,663
Utilization of loss and tax credit carryforwards (carryback)	**29,976**	(6,450)	—
Forward contracts	**—**	—	3,636
Other	**(34)**	—	(307)
	$ 24,764	$(6,450)	$ 5,162

The Internal Revenue Service has substantially completed its examination of the Company's U.S. tax returns for the years 1979 through 1983. The Company has successfully disposed of the significant portion of the proposed total gross adjustments referred to in previous financial statements. Management is of the opinion that an adequate provision has been made for all tax deficiencies for the years examined and that any final adjustments will not have a material effect on the financial position of the Company.

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

	1988	1987	1986
Income (loss) before income taxes:			
U.S.	**$ 98,906**	$(42,137)	$ 46,392
Canada	**5,230**	11,812	(6,055)
	104,136	(30,325)	40,337
Statutory rate	**34%**	40%	46%
Tax provision (benefit) at statutory rate	**35,406**	(12,130)	18,555
Differences:			
Canadian taxes at rates higher than U.S. rates	**840**	837	5
Operating loss not recognized	**—**	9,682	—
Investment and other tax credits	**(7,866)**	(2,280)	(15,488)
State income taxes	**2,640**	—	—
Other	**367**	389	(690)
	$ 31,387	$ (3,502)	$ 2,382

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

	1988	1987	1986
Wellhead	**$ 2,970**	$ 3,388	$ 5,159
Payroll	**8,549**	7,281	7,018
Property	**5,781**	4,321	4,255
Environmental	**4,605**	4,366	—
Other	**1,857**	1,575	1,512
	23,762	20,931	17,944
Consumer excise [1]	**295,095**	211,676	177,655
	$318,857	$232,607	$195,599

[1] Excise taxes are excluded from both revenues and expenses.

6. Capital Stock

The Company's authorized capital at December 31, 1988, 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, 1988, 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 1989 for $50.30 (Can.) per share.

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

	1988		1987		1986	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Balance at January 1	**24,297,215**	**$131,247**	24,271,182	$130,880	21,808,587	$ 93,574
Exercise of stock options	**43,875**	**490**	26,033	233	321,546	3,568
Exercise of warrants	—	—	—	—	2,141,049	33,186
Tax benefit from the exercise of stock options	—	**52**	—	134	—	552
Issuance under Dividend Reinvestment Plan	**482,287**	**7,719**	—	—	—	—
Balance at December 31	**24,823,377**	**$139,508**	24,297,215	$131,247	24,271,182	$130,880

TOTAL Compagnie Française des Pétroles, a French corporation, owns approximately 51 percent of the voting shares of the Company. Voting shares consist of both Common and Convertible Preferred Shares.

The Company has adopted a Dividend Reinvestment Plan (the "Plan") allowing shareholders to reinvest dividends to purchase additional Common Shares at 95 percent of the market price. The Plan became operational for the first quarter 1988 dividend payment. During 1988, 482,287 authorized but unissued Common Shares were purchased under the Plan.

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

Under the 1975 Stock Option Plan for Employees, the Company has authorized 1,400,000 Common Shares for options that may be granted to employees. Options to purchase 381,955 and 430,085 Common Shares were outstanding and exercisable at December 31, 1988 and 1987, respectively, at prices ranging from $8.88 (U.S.) to $18.50 (Can.). At December 31, 1988 and 1987, 168,612 and 167,322 Common Shares, respectively, were available for the granting of future options through November 30, 1990. During 1988, 43,875 options were exercised at prices ranging from $8.88 (U.S.) to $18.50 (Can.).

7. Pension Plans

The Company has several defined benefit pension plans covering most employees. Plan benefits are generally based on employees' years of service and compensations prior to retirement. Contributions are made annually to the pension plans that will at least satisfy the minimum funding requirements.

The Company maintains a nonqualified Supplemental Executive Retirement Plan to provide supplemental retirement benefits for certain key personnel selected by the Board of Directors.

Effective January 1, 1987, the Company conformed to the pension accounting principles set forth in Statements of Financial Accounting Standards Nos. 87 and 88. The effect of adopting Statement No. 87 was not significant to 1987 results. In accordance with Statement No. 88, the settlement of certain pension obligations during 1987 resulted in a gain of $3,560,000. Pension data as previously reported for 1986 has not been restated. The components of 1988 and 1987 net pension income are as follows (in thousands):

	1988	1987
Service cost benefits earned during the year	**$ 1,852**	$ 1,697
Interest cost	**4,004**	3,410
Actual return on plan assets	**(7,694)**	(2,577)
Net amortization and deferral	**999**	(4,343)
Net pension income	**$ (839)**	$(1,813)

At December 31, 1988 and 1987, the assumptions used for estimating the benefit obligations and the expected return on plan assets were as follows:

Assumed discount rates	9.0%
Assumed rates for compensation increases	7.0%
Expected return on plan assets	10.0%

The pension plan assets consist primarily of common stocks, bonds, guaranteed investment contracts, and cash equivalents. The plans' funded status and the amounts recognized in the Company's balance sheet at December 31, 1988 and 1987, are presented in the tables on the following page (in thousands):

	December 31, 1988		December 31, 1987	
	Plans For Which Assets Exceed Accumulated Benefits	**Plans For Which Accumulated Benefits Exceed Assets**	Plans For Which Assets Exceed Accumulated Benefits	Plans For Which Accumulated Benefits Exceed Assets
Actuarial present value of accumulated benefit obligations:				
Vested	**$(29,369)**	**$ —**	$(26,101)	$ —
Nonvested	**(3,868)**	**(3,934)**	(3,437)	(3,629)
Total	**$(33,237)**	**$(3,934)**	$(29,538)	$(3,629)
Plan assets at fair value	**$ 57,134**	**$ —**	$ 50,776	$ —
Projected benefit obligations	**(41,394)**	**(5,526)**	(38,276)	(5,353)
Projected benefit obligations less than (in excess of) plan assets	**15,740**	**(5,526)**	12,500	(5,353)
Unrecognized net (asset) obligation to be amortized over 15 years	**(13,891)**	**4,553**	(15,951)	5,353
Unrecognized net (gain) loss	**41**	**(447)**	3,449	—
Unrecognized prior service cost	**1,103**	**—**	1,195	—
Prepaid (accrued) pension cost	**$ 2,993**	**$(1,420)**	$ 1,193	$ —

8. Contingencies

The Company is the subject of, or party to, various lawsuits and actions involving a variety of matters. The Company believes that liabilities, if any, from the resolution of all known contingencies will not have a material effect on the financial position of the Company.

9. Canadian Accounting Principles

The Canadian Institute of Chartered Accountants 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 the benefit realized under the flow-through method and recognized it through reduced depreciation and depletion in future years. This would have resulted in decreased net income in 1988 of approximately $2,600,000. In 1987, net loss would have decreased approximately $4,300,000; and in 1986, net income would have decreased $8,300,000.

Under Canadian accounting principles, including the adjustment discussed above, net income (loss) per share in 1988, 1987, and 1986 would be:

	Net Income (Loss)	
Years	Basic	Fully Diluted
1988	**$ 2.60**	**$2.43**
1987	$(1.18)	$ (.79)
1986	$ 1.03	$1.07

Basic net income (loss) per share does not recognize the potentially dilutive effect of Common Share equivalents. The fully dilutive computation assumes net income (loss) is increased by earnings, net of tax, realized from the investment of proceeds obtained from the conversion of dilutive Common Share equivalents. The Company's Convertible Preferred Shares and options are considered Common Share 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 judgements 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 cash flow, and of shareholders' equity present fairly, in all material respects, the financial position of Total Petroleum (North America) Ltd. and its subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flow for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Denver, Colorado
January 23, 1989

SUMMARY OF OIL AND GAS ACTIVITIES

The following unaudited supplementary information is disclosed in accordance with the Statement of Financial Accounting Standards No. 69. See Note 2 of Notes to Consolidated Financial Statements regarding the sales of the oil and gas assets in the United States during 1988.

Results of Operations for Producing Activities

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

	1988			1987			1986		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
Revenues	**$45,259**	**$59,011**	**$104,270**	$46,866	$61,078	$107,944	$34,269	$56,942	$91,211
Production expenses	**13,944**	**16,370**	**30,314**	11,576	22,434	34,010	11,479	22,115	33,594
Exploration expenses	**7,726**	**2,736**	**10,462**	5,243	3,749	8,992	6,968	12,730	19,698
Depreciation and depletion	**9,624**	**24,271**	**33,895**	7,669	27,829	35,498	6,420	25,896	32,316
	13,965	**15,634**	**29,599**	22,378	7,066	29,444	9,402	(3,799)	5,603
Income tax expense (benefit)	**6,700**	**6,400**	**13,100**	11,400	3,200	14,600	5,300	(2,100)	3,200
Results of operations	**$ 7,265**	**$ 9,234**	**$ 16,499**	$10,978	$ 3,866	$ 14,844	$ 4,102	$ (1,699)	$ 2,403

1. Statutory income tax expense (benefit) is adjusted for the effects of permanent differences and tax credits.
2. Exploration expenses include geological and geophysical work, delay rentals, and unsuccessful exploratory drilling.

Capitalized Costs

Capitalized costs at December 31 related to the Company's oil and gas activities and related accumulated depreciation and depletion are as follows (in thousands):

	1988			1987		
	Canada[1]	**U.S.**	**Total**	Canada[1]	U.S.	Total
Proved properties	**$180,925**	—	**$180,925**	$158,705	$272,984	$431,689
Unproved properties	**12,472**	—	**12,472**	7,104	9,100	16,204
	193,397	—	**193,397**	165,809	282,084	447,893
Accumulated depreciation and depletion	**53,445**	—	**53,445**	40,606	161,911	202,517
Net capitalized costs	**$139,952**	—	**$139,952**	$125,203	$120,173	$245,376

[1] Excludes costs related to the Company's interest in the Peace River Fertilizer Plant of $6,346,000 and $6,218,000 for 1988 and 1987, respectively, and related accumulated depreciation of $348,000 for 1988.

Costs Incurred

The following costs were incurred in oil and gas producing activities for the years ended December 31 (in thousands):

	Canada	U.S.	Total
1988–Property acquisition:			
Proved	**$ —**	**$ 2,585**	**$ 2,585**
Unproved	**4,016**	**1,494**	**5,510**
Exploration	**7,781**	**2,629**	**10,410**
Development	**8,649**	**7,709**	**16,358**
Total	**$20,446**	**$14,417**	**$ 34,863**
1987–Property acquisition:			
Proved	$ —	$ 1,233	$ 1,233
Unproved	2,383	466	2,849
Exploration	6,562	3,422	9,984
Development	5,950	3,270	9,220
Total	$14,895	$ 8,391	$ 23,286
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

1. Exploration costs include geological and geophysical work, delay rentals, and exploratory drilling regardless of the success of such drilling.
2. Development costs include developmental drilling and equipment and facilities for extracting, treating, and storing the oil and gas.
3. Excludes costs related to the Company's interest in the Peace River Fertilizer Plant of $128,000 and $6,218,000 for 1988 and 1987, respectively.

Reserve Quantities

The following table presents the estimated quantities of net proved reserves of crude oil, including natural gas liquids ("NGLs"), and natural gas as prepared by independent petroleum consultants. Proved reserves are the estimated quantities which geological and engineering data demonstrates with reasonable certainty to be recoverable in future years from known reservoirs under economic and operating conditions existing at the date of the estimate. Reserve quantities exclude royalties. The Company cautions that there are many uncertainties inherent in estimating proved reserve quantities and in projecting future production rates and the timing of development expenditures. In addition, estimates of new discoveries are more imprecise than those of properties with an established production history. Accordingly, these estimates are expected to change in the future as additional information becomes available.

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, 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
Increase (decrease) in 1987 due to:							
Revisions of previous estimates	.48	2.25	7.78	.25	1.03	2.98	8.81
Extensions and discoveries	—	.80	15.85	.62	1.13	1.42	16.98
Production	(.58)	(1.99)	(7.41)	(2.39)	(10.57)	(4.96)	(17.98)
Purchases of reserves in place	—	—	—	.17	.64	.17	.64
Sales of reserves in place	—	(.10)	(.09)	(.16)	(2.03)	(.26)	(2.12)
Reserves at December 31, 1987	9.48	20.45	264.75	9.97	74.67	39.90	339.42
Increase (decrease) in 1988 due to:							
Revisions of previous estimates	**2.78**	**.61**	**.26**	**.56**	**6.44**	**3.95**	**6.70**
Extensions and discoveries	**.17**	**1.30**	**15.14**	**.09**	**1.47**	**1.56**	**16.61**
Production	**(.67)**	**(2.02)**	**(10.75)**	**(2.00)**	**(11.26)**	**(4.69)**	**(22.01)**
Purchases of reserves in place	—	—	—	**.16**	**1.31**	**.16**	**1.31**
Sales of reserves in place	—	**(.07)**	**(.26)**	**(8.78)**	**(72.63)**	**(8.85)**	**(72.89)**
Reserves at December 31, 1988	**11.76**	**20.27**	**269.14**	—	—	**32.03**	**269.14**
Proved developed reserves included above:							
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
December 31, 1987	9.48	20.45	264.75	9.13	69.62	39.06	334.37
December 31, 1988	**11.76**	**20.27**	**269.14**	—	—	**32.03**	**269.14**

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 Statement of Financial Accounting Standards 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. The Company cautions readers that actual future net cash flows may vary dramatically from these estimates. The volatility of crude oil prices during 1988, 1987, and 1986 reinforces the possibility that significant revisions in the computation may occur in the future.

Future cash inflows are calculated by applying year-end prices to estimated future production of net proved oil and gas reserve quantities. Price escalations are considered only to the extent provided by existing contractual arrangements. Future development and production 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 specified by existing statutes, 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 discount rate.

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

	1988			1987			1986		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
Future cash inflows	**$ 695,733**	—	**$ 695,733**	$ 685,160	$ 328,835	$1,013,995	$ 731,238	$ 343,181	$1,074,419
Future production and development costs	**(224,021)**	—	**(224,021)**	(224,463)	(118,116)	(342,579)	(197,208)	(125,055)	(322,263)
Future income tax expense	**(129,116)**	—	**(129,116)**	(169,834)	(45,917)	(215,751)	(184,687)	(48,000)	(232,687)
Future net cash flows	**342,596**	—	**342,596**	290,863	164,802	455,665	349,343	170,126	519,469
10% annual discount for estimated timing of cash flows	**(185,481)**	—	**(185,481)**	(150,116)	(56,182)	(206,298)	(187,506)	(58,770)	(246,276)
Standardized measure of discounted future net cash flows	**$ 157,115**	—	**$ 157,115**	$ 140,747	$ 108,620	$ 249,367	$ 161,837	$ 111,356	$ 273,193

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

	1988			1987			1986		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	Canada	U.S.	Total
Sales of oil and gas produced, net of production costs	**$(31,054)**	**$ (34,331)**	**$ (65,385)**	$(35,752)	$(41,767)	$(77,519)	$ (23,378)	$(40,468)	$ (63,846)
Net changes in prices, production, and development costs	**(25,422)**	**(15,971)**	**(41,393)**	(46,566)	16,107	(30,459)	(152,919)	(44,537)	(197,456)
Extensions and discoveries, less related costs	**14,488**	**2,842**	**17,330**	10,075	6,343	16,418	9,060	5,753	14,813
Revisions of previous quantity estimates	**10,491**	**6,810**	**17,301**	11,444	2,743	14,187	95,161	(6,456)	88,705
Accretion of discount	**21,947**	**13,598**	**35,545**	24,739	14,268	39,007	26,569	15,053	41,622
Net change in income taxes	**22,173**	**27,361**	**49,534**	9,982	3,964	13,946	24,825	15,734	40,559
Purchases of reserves in place	**—**	**2,629**	**2,629**	—	1,611	1,611	19,344	65,895	85,239
Sales of reserves in place	**(424)**	**(111,558)**	**(111,982)**	(597)	(4,020)	(4,617)	—	—	—
Changes in production rates and other	**4,169**	**—**	**4,169**	5,585	(1,985)	3,600	3,203	(3,055)	148
Change in standardized measure of discounted future net cash flows	**$ 16,368**	**$(108,620)**	**$ (92,252)**	$(21,090)	$ (2,736)	$(23,826)	$ 1,865	$ 7,919	$ 9,784

Directors and Officers

Directors

Name	Position
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
Kenneth R. Buckler	Vice President, Petroleum Products; Executive Vice President, Petroleum Products of Total Petroleum, Inc., Denver, Colorado
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
Vernon L. Horte	President, V.L. Horte Associates Ltd. Calgary, Alberta
Alain Le Menestrel	Treasurer, TOTAL Compagnie Française des Pétroles, Paris, France
William G. Milliken	Former Governor of Michigan Traverse City, Michigan
David L. Torrey	Vice Chairman, RBC Dominion Securities, Inc. Montreal, Quebec
Pierre Vaillaud	Senior Vice President, TOTAL Compagnie Française des Pétroles, Paris, France

Principal Officers of the Company and Subsidiaries

Name	Position
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
Michel Benezit	Vice President, Petroleum Products Planning of Total Petroleum, Inc.
Robert C. Findsen	Vice President, Raw Materials Supply of Total Petroleum, Inc.
Wilfred B. Heiland	Vice President, Retail Operations of Total Petroleum, Inc.
C. Gary Jones	Vice President, Marketing of Total Petroleum, Inc.
Ross S. Marzolf	Vice President, Petroleum Products Administration of Total Petroleum, Inc.
James H. McCoy	Vice President, Product Supply and Wholesale Sales of Total Petroleum, Inc.
Robert J. Newman	President of 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.
L. 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
Independent Accountants	Price Waterhouse Denver, Colorado
Exchange Listings (TPN)	American Stock Exchange, Inc. The Pacific Stock Exchange, Inc. The Toronto Stock Exchange The Montreal 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 Skyline Hotel, 110 9th Avenue Southeast, Calgary, Alberta, on Tuesday, May 2, 1989 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

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