

CANADA SOUTHERN

A tall, dark industrial tower stands against a dark, twilight sky. From the top of the tower, a large, bright orange and yellow flame or fire plume rises vertically. The foreground is dark, with the silhouettes of trees and foliage visible on the right side.

ANNUAL REPORT
1980



CANADA SOUTHERN PETROLEUM LTD.

Directors and Executive Officers

John W. Buckley, *Chairman of the Board, President and Director* and a Director of Pantepec International, Inc.; and a Director of Coastal Caribbean Oils & Minerals, Ltd., and Pancoastal, Inc.

M. A. Reasoner, *Director and Technical Advisor* Associated with Canada Southern Petroleum Ltd. since its formation, he served as Vice President and General Manager until 1971.

John W. Bush, *Director* Vice President of Coastal Petroleum Company, and served as Chairman of the Interstate Commerce Commission and special advisor to the United States Senate Commerce Committee.

Thomas W. Donlon, *Director* Director of Pantepec International, Inc. and Pancoastal, Inc., and until his retirement in 1967 was Vice President in charge of foreign production for American Overseas Petroleum, Ltd.

Benjamin W. Heath, *Director* President and a Director of Coastal Caribbean Oils & Minerals, Ltd. and Magellan Petroleum Corporation; Chairman and a Director of Magellan Petroleum Australia Limited.

Charles J. Horne, *Vice President* Associated with Canada Southern Petroleum Ltd. since 1950, was elected Vice President in July 1976.

Arthur B. O'Donnell, *Vice President* President and a Director of Pancoastal, Inc. and a Vice President of Coastal Caribbean Oils & Minerals, Ltd., Magellan Petroleum Corporation, Pantepec International, Inc.

K. E. Noble, *Secretary-Treasurer* Associated with Canada Southern Petroleum Ltd. since 1955, was elected Treasurer in September 1975.

Auditors

Arthur Young, Clarkson, Gordon & Co.

Transfer Agents

First Jersey National Bank
2 Montgomery Street
Jersey City, N.J. 07303, U.S.A.

Montreal Trust Company
15 King Street West
Toronto, Ontario, Canada M5H 1B4

United California Bank
Box 3667 Terminal Annex
Los Angeles, Calif. 90051, U.S.A.

ON THE COVER—Photograph shows flaring of the Kotaneelee YT I-48 well during production testing operations. The well flowed gas at rates up to 50 million cubic feet per day, with an absolute open hole potential calculated at 459 million cubic feet daily.

*Photograph courtesy of
Columbia Gas Development of Canada, Ltd.*

CANADA SOUTHERN

CANADA SOUTHERN
PETROLEUM LTD.



Canada Southern capital stock is listed for trading on the Montreal, Toronto, Boston and Pacific stock exchanges. Symbol: CSW. The Company's shares also are traded in the NASDAQ over-the-counter market. Symbol: CSPEF.

Inquiries or requests for additional information concerning Canada Southern Petroleum Ltd. should be addressed to the Company in care of First Jersey National Bank, P.O. Box 960, Jersey City, N.J. 07303, U.S.A., or to 505 Eighth Avenue South West, Calgary, Alberta, Canada T2P 1G2.

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QUARTERLY REPORT
SEPTEMBER 30, 1980

Canada Southern Petroleum Ltd.

Consolidated Statement of Changes in Financial Position (unaudited)

	Three Months Ended September 30	
	1980	1979*
Source of working capital:		
Net income (loss)	\$ (1,278)	\$ 120,157
Charges to revenues not involving outlay of working capital in current period:		
Depreciation, depletion and amortization	<u>50,322</u>	66,138
Working capital provided by operations	49,044	186,295
Exercise of stock options	<u>197,500</u>	—
	<u>246,544</u>	<u>186,295</u>
Disposition of working capital:		
Additions to oil, gas and mineral properties	66,279	129,656
Deferred charge	<u>(2,845)</u>	—
	<u>63,434</u>	129,656
Increase in working capital	<u>\$ 183,110</u>	<u>\$ 56,639</u>
Increase (decrease) in working capital by component:		
Cash	\$ (40,720)	\$ (18,538)
Term deposits	210,000	(10,000)
Accounts receivable and other current assets	16,131	(16,991)
Accounts payable and accrued liabilities	<u>(2,301)</u>	<u>102,168</u>
Increase (decrease) in working capital	<u>\$ 183,110</u>	<u>\$ 56,639</u>

Note: Financial data expressed in Canadian dollars.

*Results for the three months ended September 30, 1979 have been restated to give effect to the change to the form of full cost accounting prescribed by the Securities and Exchange Commission. The effect of this change was to reduce net income by \$28,833, equivalent to \$.01 per share.

Canada Southern Petroleum Ltd.

Consolidated Statement of Income (unaudited)

	Three Months Ended September 30	
	1980	1979*
Revenues:		
Proceeds under carried-interest agreements	\$ 260,883	\$ 420,567
Interest	29,656	19,002
Oil and gas sales	<u>34,176</u>	<u>42,834</u>
	<u>324,715</u>	482,403
Costs and expenses	<u>325,993</u>	<u>362,246</u>
Income (loss) before taxes on income and extraordinary item	(1,278)	120,157
Provision for taxes on income	—	45,000
Income (loss) before extraordinary item	(1,278)	75,157
Tax benefit realized from carry forward of exploration, development, and lease acquisition costs not claimed in prior years	—	45,000
Net income (loss)	<u>\$ (1,278)</u>	<u>\$ 120,157</u>
Average number of shares outstanding	<u>8,949,715</u>	<u>8,883,465</u>
Net income (loss) per share	<u>\$—</u>	<u>\$.01</u>

Management's Analysis

Proceeds from carried interest -agreements were abnormally low in the quarter ended September 30, 1980 due to weak demand for gas and due to capital expenditures which are immediately charged -off under the Company's method of carried -interest accounting. Oil and gas sales were also adversely affected by weak demand. Interest income increased in 1980 due to additional amounts invested.

General and administrative expenses were higher in fiscal 1979 because of expenses relating to the annual meeting which was held earlier in that year. Depreciation, depletion and amortization decreased in 1980 due to decreases in production.



To the Shareholders:

Significant developments affecting Canada Southern's property interests in the Canadian Arctic Islands and the southern Yukon Territory continued to highlight your Company's operations during the year under review.

Production Testing Completed at Kotaneelee

On August 6 of this year, Columbia Gas Development of Canada Ltd., as operator of the Kotaneelee gas field in the Yukon Territory, announced that stimulation and production testing programs had been completed on the third development well in the field, YT I-48. The well was flowed at a stabilized rate of 50 million cubic feet per day from 233 feet of perforations between 11,988 feet and 12,598 feet. Based on the results of a series of flow rates, an absolute open flow rate for this well was calculated at 459 million cubic feet per day.

At the same time, Columbia advised that following stimulation of the first Kotaneelee field development well, YT B-38, was flowed at a stabilized rate of 70 million cubic feet per day from 192 feet of perforations made between the interval of 11,641 feet and 12,080 feet. Based on the results of a series of flow rates, the absolute open flow for this well was calculated at 265 million cubic feet per day.

Completion of the YT I-48 indicates a significant increase in proved reserves of the Kotaneelee field. Such conclusion is based on the well's indicated productivity and its 2,474 feet of gross pay section, pointing to a material increase in the potentially productive area of the field, both horizontally and vertically.

As previously reported, Columbia received approval of the Canadian National Energy Board several months ago to export 84.5 billion cubic feet of Kotaneelee gas to the United States over the next eight years. In view of the understandings reached earlier this year between Canadian and United States energy agencies with respect to the pricing mechanism for Canadian gas, it is anticipated that United States import authorizations will be granted before the end of this year or early in 1981. Kotaneelee gas currently is priced at \$4.47 (U.S.) per thousand cubic feet at the United States border.

In order to better appreciate the magnitude of the gas reservoir at Kotaneelee, the cross-section on page 2 is designed to graphically portray the field's

Dolomitic producing formation as established to date by the wells I-27, B-38, and I-48. This diagram includes specific information on drill stem and production tests of the section tested in each of these wells.

Please note that well B-38, the first to be drilled by Columbia Gas as operator of the property, tested only the interval of 445 feet from the top of the section, although it actually penetrated an additional 699 feet of the section to a total depth of 10,479 feet (sub-sea) without establishing a water level. In the case of I-48, this well was drilled 2,533 feet into the producing formation and drill stem tested significant volumes of gas at a depth of 11,581 feet (sub-sea). It thereby established a gross productive zone for this well of 2,474 feet, again without encountering the water level.

The horizontal line appearing on the cross-section at 11,581 feet (sub-sea) establishes the lowest depth that gas has been proven for production. Therefore, the portion above this line can be assumed to be the gross pay zone. It should be noted that the vertical scale of this cross-section is exaggerated on a 2:1 basis.

Second Whitefish Well Records Large Gas Flow

As you have been advised previously, following the drilling early last year by Panarctic Oils Ltd. of the Arctic Island's Whitefish gas discovery, well H-63, that company in late 1979 commenced the drilling of the first Whitefish stepout location, well H-63A, making use of the same ice platform used in drilling the discovery well.

Earlier this year Panarctic reported that the H-63A well, the drilling of which was begun in November, 1979, had flowed gas on a drill stem test through a restricted choke from the Isachsen formation over the interval 873.5 meters to 906 meters (2,866 feet to 2,972 feet) at the rate of 7.5 million cubic feet per day, and from the deeper Awingak formation over the interval 1,672 meters to 1,698 meters (5,486 feet to 5,571 feet) at the rate of 14.5 million cubic feet per day. At that time, Panarctic advised of its plans to continue drilling the H-63A well to a total depth of approximately 3,500 meters (11,483 feet) and to fully test all hydrocarbon potential horizons which, due to time constraints, had not been included in the H-63 testing program.

On June 17, 1980, Panarctic announced that testing of the H-63A stepout had been completed. The main gas zone, the King Christian sand, was perforated over the interval 2,085 meters to 2,112 meters (6,841



KOTANEELEE FIELD

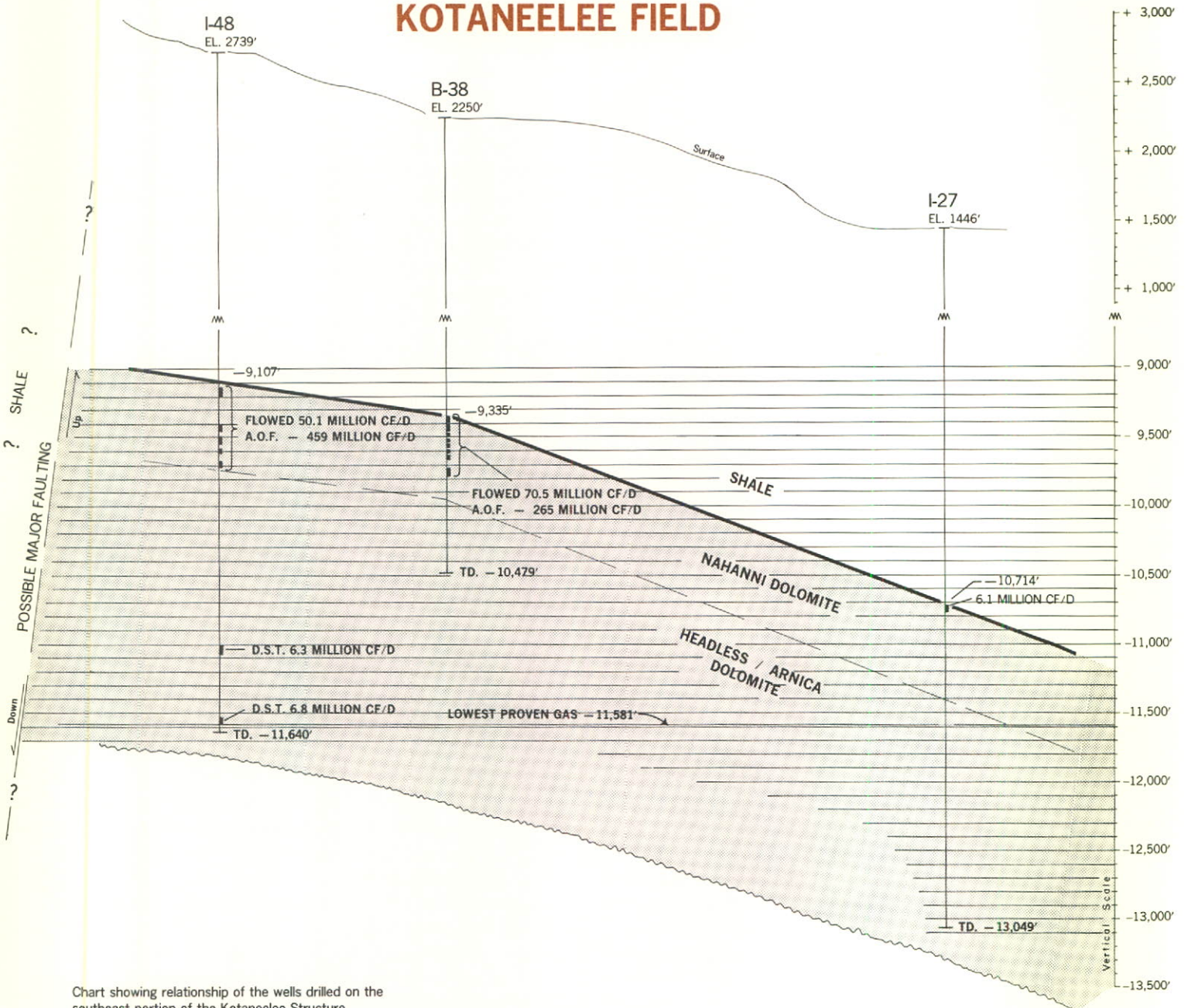
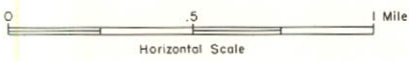


Chart showing relationship of the wells drilled on the southeast portion of the Kotaneelee Structure.
Note: All depths shown are at subsea elevations, converted to True Vertical.
A.O.F. — Absolute Open Flow Potential





feet to 6,929 feet). Production tests of this interval, which were made through tubing, recorded flow rates up to 44 million cubic feet per day, with a calculated absolute open flow potential in this zone of 144.5 million cubic feet per day. Liquid condensate separated from the gas averaged 13 barrels to 17 barrels per million cubic feet, and no formation water was produced during the tests.

Panarctic later advised that evaluations of the King Christian zone, as well as the earlier Isachsen and Awingak formations, had been completed, following which the H-63A well was abandoned as an expendable exploratory well. In this respect, it should be noted that it is common practice for all offshore exploratory wells drilled in the Arctic Islands to be abandoned pending access to markets and adoption of suitable production methods.

It is evident from these recent developments that the future of Whitefish holds major implications for Canada Southern. According to Panarctic, the bulk of the Whitefish structure appears to be located on two federal exploratory permits: Permit 1980, site of the two Whitefish wells; and, adjoining to the west, Permit 1979 (see large map enclosed with this report). From certain interpretations of existing seismic data, the structure appears to extend well into the northern portion of Permit 3124, in which Canada Southern holds a 30 per cent carried interest. Additionally, from the locations of the two Whitefish wells, it can be assumed that portions of Canada Southern's "after-acquired" rights under the south half of Permit 1980, the southeast quarter of Permit 1979, and the northeast quarter of Permit 3227, similarly fall on the Whitefish structure. The relevance of "after-acquired" rights means that the Company has the right to acquire 50 per cent of Panarctic's 6.6 per cent interest in Whitefish after such interest is earned by Panarctic.

Arctic Islands Gas Transmission Projects Being Expedited

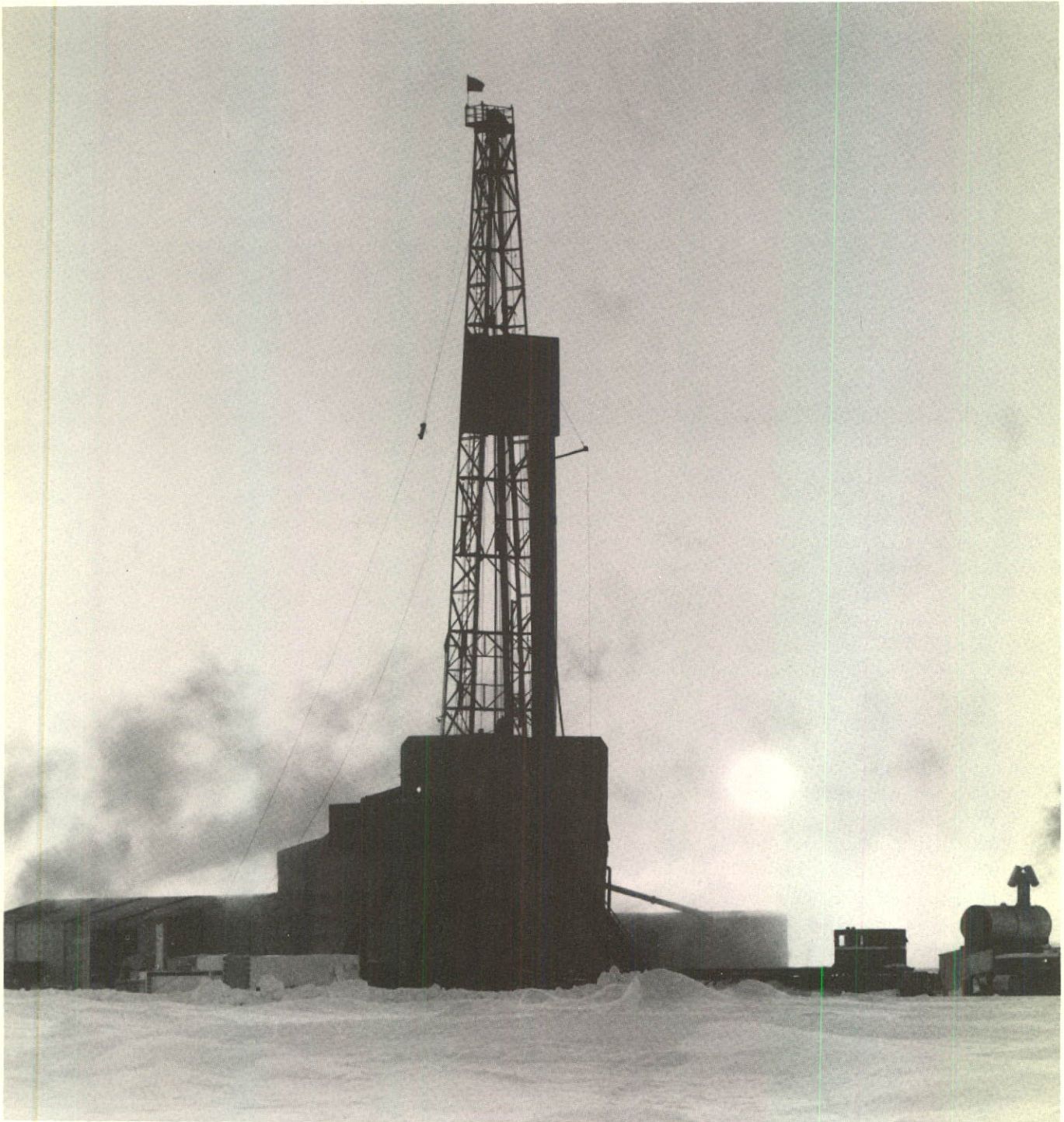
Panarctic and the Arctic Islands consortium, comprised of Petro-Canada, the Crown corporation, and a number of Canadian companies and individuals, has reported that it achieved in the past year the highest annual increase in proved and probable reserves in its history, the total climbing from less than 14 trillion cubic feet to 16 trillion cubic feet to the end of 1979. More recently, Panarctic has been quoted in the Canadian Press as considering these reserves to be in the order of 19 trillion cubic feet. Given the current success ratio of its

Arctic Islands drilling, and even a partial fulfillment of its expectations for the vast Whitefish structure, Panarctic has forecast that proved and probable gas reserves for these High Arctic areas could reach 25 trillion cubic feet by 1981. This would exceed by a substantial margin the threshold reserve figure of 21 trillion cubic feet reportedly required to justify construction of the proposed Polar gas transmission line.

Meanwhile, sponsors of the Polar Gas Project, having expended to date some \$70 million on Arctic gas transmission research, are preparing to submit new pipeline proposals for the approval of Canada's National Energy Board either late this year or early in 1981. All options to be submitted will include a "Y" line, allowing gas to be taken both from Arctic Islands fields and from the Beaufort Sea, thence south to the TransCanada pipeline system, either in Alberta or at some point to the east. Pipelines under all proposals, it is reported, would pass through Longlac, Ontario. Project sponsors, including Petro-Canada and Panarctic, say the pipeline could be in place within seven to ten years.

Concurrently with preparations for the inception of full-scale work on the Polar Gas Project when approved, plans are continuing for the commencement of the complementary Arctic Pilot Project, now expected to begin moving gas to markets in 1986. This system is designed to produce and liquefy 225 million cubic feet of natural gas per day for transport by ice-breaking tankers from Melville Island to eastern Canada. An agreement in principle for purchase of the gas supplied by the Arctic Pilot Project has been announced by Tennessee Gas Pipeline Co., a division of Tenneco Inc., Texas Eastern Transmission Corporation, Northern Natural Gas Co., a division of Internorth Inc., and Columbia Gas Transmission Corporation. This project expects to make gas available to the companies in the United States by July, 1985. With Petro-Canada as operator, the Arctic Pilot Project's remaining sponsors include The Alberta Gas Trunk Line Co. Ltd., Dome Petroleum Ltd., and Melville Shipping Ltd.

On October 11, 1980, Trans-Canada Pipelines Ltd. announced plans for a \$2.4 billion project of its own to ship liquefied natural gas (LNG) out of the Arctic Islands. Now in the technical and economic feasibility study stage, the Trans-Canada project is considering the use of three 75,000 ton, Class 10 ice-breaking LNG tankers to move gas from the northern islands of Ellef



Photograph above: Panarctic A.I.E.G. Whitefish H-63A—multiple zone gas and condensate discovery drilled from an ice platform in 277 meters of water. This well is located 40 kilometers west of Loughheed Island on lands where Canada Southern has “after acquired” rights through its agreement with Panarctic Oils Ltd.

Courtesy of Panarctic Oils & Gas, Ltd.



Ringnes and King Christian. It would also involve the construction of a 77-kilometer pipeline on Ellef Ringnes running to a liquefaction terminal on King Christian. The Trans-Canada announcement referred to a starting date of 1986, shortly after the scheduled commencement of the Arctic Pilot Project.

Australian Exploration To Begin in November

For a number of years, Canada Southern has held a small interest in properties prospective for hydrocarbons in the Amadeus basin of central Australia where drilling to date has resulted in the discovery by others of two fields, the Mereenie oil and gas field and the Palm Valley gas field. On March 14, the Company became a participant in an Australian-Canadian consortium which presently is initiating a five-year program of exploration on some 12 million acres elsewhere in the Amadeus basin. This program, which will include extensive seismic work and the drilling of at least 10 exploratory wells, calls for an estimated expenditure in excess of \$55 million, expressed in 1980 Canadian dollars. Canada Southern holds a .0323 per cent working interest in the acreage to be explored by the consortium. The exploration program is scheduled to be commenced in November, 1980.

Corporate Charter Moved to Nova Scotia

Following shareholder approval voted at the Annual General Meeting of Shareholders on October 25, 1979, Canada Southern subsequently completed the move of its corporate charter from the Canada Business Corporations Act to that of the Companies Act, Nova Scotia. Final approvals of the move became effective June 4, 1980, and the corporate activities of the Company became subject to the laws of Nova Scotia from that date.

Studies Advance for Proposed Direct Ownership Plan

In the Special Report mailed in August, 1980, you were advised that your Company's Board of Directors has under consideration the feasibility of a plan whereby Canada Southern shareholders would become the beneficiaries of direct ownership participation in certain of the Company's oil and gas producing properties. Such direct ownership of economic units of producing properties, it is believed, might confer upon Canada Southern shareholders distinct advantages both from an economic and tax point of view.

After taking cognizance of a growing industry trend involving the extension to shareholders of more

advantageous methods of participating in the ownership of producing properties, the Board of Directors initiated a comprehensive study for the purpose of shaping a framework of requisite legal, accounting, and tax measures, giving consideration also to whatever approvals may be necessary to establish such a program for the benefit of Canada Southern shareholders. That study is now in progress.

New Energy Policy

Canada's recently announced new energy policy has gained much adverse commentary within the petroleum industry. While this policy will have a significant impact on the future development of Canada's oil and gas industry, such impact cannot be analyzed fully at this time.

Other Matters

It is with deep regret that we record the death on May 17, 1980, of Mr. Paul A. Giesinger who joined the staff of Canada Southern in 1954. At the time of his death, Mr. Giesinger filled the posts of Chief Accountant and Secretary. He will be sorely missed by his host of friends, associates, and the members of his profession.

On October 6 of this year, Mr. John W. Buckley, President and Chairman of the Board of Canada Southern, was granted a leave of absence for reasons of health. During his convalescence, Mr. Buckley's duties will be handled by the undersigned and Mr. M. A. Reasoner, a director and technical advisor to the Company.

As shareholders were advised last year, it is our feeling that your Company now has established a strong base from which to achieve future earnings growth, an accomplishment that we confidently expect will be demonstrated during the forthcoming year.

The following pages of this report include audited financial information for the year ended June 30, 1980, a petroleum acreage summary, a listing of property interests in the Panarctic agreements, and the current status of our carried interest properties.

On behalf of the Board of Directors:

Charles J. Horne
Vice President

Calgary, Alberta
October 28, 1980



Petroleum Acreage Summary—June 30, 1980

	Gross Acreage in which Interest Is Held	Net Acreage		Total
		Held Under Lease	Held Under Permit	
CANADA				
British Columbia				
Pacific Agreement				
Working Interest	29,909	5,683		5,683
Carried Interest	56,975	12,108		12,108
Phillips Agreement-Carried Interest	190,637	20,493	4,235	24,728
Other				
Overriding Royalty Interest	8,583	597		597
Working Interest	18,624	3,172		3,172
Carried Interest	28,072	777		777
Total British Columbia	332,800	42,830	4,235	47,065
Alberta				
Overriding Royalty Interest	320	5		5
Yukon & Northwest Territories				
Liard Basin				
Columbia Gas Agreement				
Carried Interest	73,038	21,911		21,911
Atkinson Agreement				
Carried Interest	101,166	22,763		22,763
Dome-Pan Am Agreement				
Carried Interest	62,794	28,258		28,258
Other—Working Interest	12,720	11,448		11,448
Total Liard Basin	249,718	84,380		84,380
Arctic Islands				
Panarctic Agreements				
(see table p. 7)				
TriCee Tee	1,557,091	2,905	69,843	72,388
Other	3,237,814	—	959,708	959,708
Total Panarctic Agreements	4,794,905	2,905	1,029,191	1,032,096
Overriding Royalty Interest	26,967		388	388
B.P. Sub-Farmout	58,659		11,261	11,261
Total Arctic Islands	4,880,531	2,905	1,040,840	1,043,745
Total Canada	5,463,369	130,120	1,045,075	1,175,195
AUSTRALIA	5,947,697	—	3,848	3,848
Total	11,411,066	130,120	1,048,923	1,179,043



Company-Interest Properties in Panarctic Agreements—June 30, 1980

Properties	Gross Acres	Interest retained by Company	
		Carried Interest	Net Acres
TriCeeTee Agreement			
Prince Patrick, Melville, Emerald, Vanier, Cameron, Ellef Ringnes, Cornwall.....	1,557,091	5.0% ⁽¹⁾	77,854
Canada Southern-Clark-Skelly Agreement			
Eight Bears.....	57,210	6.0%	3,433
Canada Southern			
Ellesmere.....	22,482	15.0%	3,372
Offshore, Sverdrup Basin.....	<u>3,158,122</u>	30.0% ⁽²⁾	<u>947,437</u>
	<u>4,794,905</u>		<u>1,032,096</u>

⁽¹⁾Does not include the Company's additional interest to be acquired under the sub-farmout agreement covering permits on Vanier Island.

⁽²⁾Area divided into six blocks, each converted block by block to 30.0% carried interest, which may be reconverted block by block to 30.0% working interest at the Company's option.

Status of Carried Interest Agreements as at June 30, 1980

(excluding Panarctic agreements)

	1979		1980		Cumulative to June 30, 1980			Company Interest	
	Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Net Expenditures	%	Cost to Convert to a Working Interest
Pacific Agreement									
Ex-Permits 100-104	\$ 1,021,521	\$2,514,119	\$ 1,506,425	\$4,420,522	\$21,019,302	\$27,712,200	\$ (6,692,898)	21.25	*
Ex-Permit 135	104,479	1,218,396	499,595	1,364,970	8,322,883	12,163,668	(3,840,785)	1.67	**
Phillips Agreement									
Ex-Permit 149	53,842	(2,652)	108,670	(2,193)	5,976,428	228,945	5,747,483	50.00	\$ 2,873,742
Ex-Permit 178	55,554	1,739,467	149,736	1,429,607	3,647,297	9,801,129	(6,153,832)	27.75	***
Ex-Permit 224	140,709	2,622,486	283,836	2,506,866	8,101,080	23,314,083	(15,213,003)	27.75	****
Dome-Pan American Agreement									
Ex. Ps. 1007,1132,1133 ..	13,850,198		12,633,894	2,010,417	40,604,786	2,010,417	38,594,369	30.00	11,578,311
Ex. Ps. 1136,2713,1153 ..	27,930		27,930		658,402		658,402	45.00	296,281
Ex. Ps. 1149,1156	13,452		13,451		1,181,786		1,181,786	45.00	531,804

*Ex-Permits 100-104 net proceeds from production became payable to the Company in March, 1978, and by June 30, 1980 the Company's share amounted to \$1,422,241, including \$317,177 in fiscal 79 and \$619,246 in fiscal 80.

**Ex-Permit 135 net proceeds from production became payable to the Company in January, 1977, and by June 30, 1980 the Company's share amounted to \$64,014, including \$18,556 in fiscal 79 and \$14,423 in fiscal 80.

***Ex-Permit 178 net proceeds from production became payable to the Company in July, 1970, and by June 30, 1980 the Company's share amounted to \$1,692,174, including \$456,040 in fiscal 79 and \$348,672 in fiscal 80.

****Ex-Permit 224 net proceeds from production became payable to the Company in December, 1968, and by June 30, 1980 the Company's share amounted to \$4,191,443, including \$673,684 in fiscal 79 and \$609,580 in fiscal 80.



Consolidated Balance Sheets

(Expressed in Canadian dollars)
June 30, 1980 and 1979

	<u>1980</u>	<u>1979*</u>
Assets		
Current assets:		
Cash	\$ 122,099	\$ 99,709
Term deposits	1,120,000	734,975
Accounts receivable and other current assets	<u>262,029</u>	<u>332,054</u>
Total current assets	1,504,128	1,166,738
Oil and gas properties, at cost, using the full cost method (Notes 1 and 2):		
Costs being amortized	5,368,373	4,780,280
Less accumulated amortization	<u>1,633,004</u>	<u>1,378,674</u>
	3,735,369	3,401,606
Costs not being amortized	<u>4,349,539</u>	<u>4,330,396</u>
	8,084,908	7,732,002
Mineral properties, at cost (Notes 1 and 2)	232,370	232,370
Equipment, at cost less accumulated depreciation of \$51,360 and \$46,047 at June 30, 1980 and 1979, respectively	19,769	21,806
Deferred charge	<u>62,612</u>	<u>87,302</u>
	<u>\$ 9,903,787</u>	<u>\$ 9,240,218</u>
Liabilities and Capital		
Current liabilities:		
Accounts payable and accrued liabilities:		
Accrued legal	\$ 64,628	\$ 53,624
Other	<u>152,907</u>	<u>292,002</u>
Total current liabilities	217,535	345,626
Capital (Note 5):		
Capital stock, par value \$1 per share:		
Authorized 15,000,000 shares		
Outstanding 8,937,965 and 8,883,465 shares, respectively	8,937,965	8,883,465
Capital in excess of par value	<u>14,764,543</u>	<u>14,562,294</u>
	23,702,508	23,445,759
Accumulated deficit	<u>(14,016,256)</u>	<u>(14,551,167)</u>
	9,686,252	8,894,592
	<u>\$ 9,903,787</u>	<u>\$ 9,240,218</u>

*Restated (Note 1)
See accompanying notes.

On behalf of the Board:
/s/ John W. Buckley, *Director*
/s/ Benjamin W. Heath, *Director*



Consolidated Statement of Operations and Accumulated Deficit (Note 1)

(Expressed in Canadian dollars)

	Year ended June 30,				
	1976*	1977*	1978*	1979*	1980
Income:					
Proceeds under carried interest agreements (Note 2)	\$ 241,430	\$ 233,582	\$ 1,549,293	\$ 1,468,691	\$ 1,593,050
Interest	28,430	13,999	16,145	56,303	96,565
Oil and gas sales	75,785	144,693	309,404	223,903	262,687
Gains and (losses) on sales of equipment and properties	335,583	(1,390)	—	—	—
Rent and other	27,757	413	—	—	—
	<u>708,985</u>	<u>391,297</u>	<u>1,874,842</u>	<u>1,748,897</u>	<u>1,952,302</u>
Costs and expenses:					
General and administrative (Notes 3 and 5)	816,786	739,988	830,913	858,197	1,090,169
Abandonments (Note 2)	223,891	55	—	203,702	—
Depletion, depreciation and amortization	107,105	130,937	166,548	230,471	259,643
Lease operating costs	22,220	28,447	19,258	36,478	42,221
Write-off of investments	143,947	310,224	2,154	(15,994)	(32,648)
Rent	23,393	29,078	34,987	41,569	58,006
	<u>1,337,342</u>	<u>1,238,729</u>	<u>1,053,860</u>	<u>1,354,423</u>	<u>1,417,391</u>
Income (loss) before taxes on income and extraordinary item	(628,357)	(847,432)	820,982	394,474	534,911
Provision for taxes on income (Note 6)	—	—	255,000	209,000	205,000
Income (loss) before extraordinary item	(628,357)	(847,432)	565,982	185,474	329,911
Tax benefit realized from carryforward of exploration, development and lease acquisition costs not claimed in prior years (Note 6)	—	—	255,000	209,000	205,000
Net income (loss)	(628,357)	(847,432)	820,982	394,474	534,911
Accumulated deficit—beginning of year	(14,290,834)	(14,919,191)	(15,766,623)	(14,945,641)	(14,551,167)
Accumulated deficit—end of year	<u>\$(14,919,191)</u>	<u>\$(15,766,623)</u>	<u>\$(14,945,641)</u>	<u>\$(14,551,167)</u>	<u>\$(14,016,256)</u>
Average number of shares outstanding	<u>8,764,965</u>	<u>8,810,273</u>	<u>8,851,465</u>	<u>8,873,619</u>	<u>8,904,427</u>
Per share based on average number of shares outstanding during the period:					
Income (loss) before extraordinary item	\$(.07)	\$(.10)	\$.06	\$.02	\$.04
Extraordinary item	—	—	.03	.02	.02
Net income (loss)	<u>\$(.07)</u>	<u>\$(.10)</u>	<u>\$.09</u>	<u>\$.04</u>	<u>\$.06</u>

*Restated (Note 1)

See accompanying notes.



Consolidated Statement of Changes in Financial Position

(Expressed in Canadian dollars)

	Year ended June 30,				
	1976*	1977*	1978*	1979*	1980
Source of working capital:					
Net income (loss)	\$(628,357)	\$(847,432)	\$ 820,982	\$ 394,474	\$ 534,911
Charges (credits) to revenues not involving outlay of working capital in current periods:					
Depreciation, depletion and amortization	107,105	130,937	166,548	244,514	259,643
Write-off of investments	142,769	308,999	—	—	—
Abandonments	223,891	—	—	200,211	—
(Gains) and losses on sales of equipment and properties	(335,583)	1,390	—	—	—
Working capital (used in) provided by operations	(490,175)	(406,106)	987,530	839,199	794,554
Net proceeds from sales of capital stock	—	177,454	—	—	—
Exercise of stock options	—	—	—	137,600	256,749
Proceeds from sales of equipment or properties	588,765	281	115,000	—	—
Bank loan	—	392,000	—	—	—
	98,590	163,629	1,102,530	976,799	1,051,303
Disposition of working capital:					
Additions to oil, gas and mineral properties	247,133	204,566	249,497	641,616	607,236
Increase in investments	10,204	16,625	—	—	—
Expenses of capital stock offerings	103,616	—	—	—	—
Decrease in bank loan (noncurrent)	—	—	144,000	248,000	—
Deferred charge	—	—	—	87,302	(24,690)
Other	8,091	329	15,982	8,769	3,276
	369,044	221,520	409,479	985,687	585,822
Increase (decrease) in working capital	\$(270,454)	\$ (57,891)	\$ 693,051	\$ (8,888)	\$ 465,481
Increase (decrease) in working capital by component:					
Cash	\$ (8,168)	\$ (28,396)	\$ 61,383	\$ 15,587	\$ 22,390
Term deposits	(310,025)	100,000	30,000	410,000	385,025
Accounts receivable and other current assets	10,205	42,829	602,803	(403,297)	(70,025)
Bank loan payable	—	(99,688)	(36,000)	144,000	—
Accounts payable and accrued liabilities	37,534	(72,636)	34,865	(175,178)	128,091
Increase (decrease) in working capital	\$(270,454)	\$ (57,891)	\$ 693,051	\$ (8,888)	\$ 465,481

*Restated (Note 1)

See accompanying notes.



Consolidated Statement of Capital Stock and Capital in Excess of Par Value

(Expressed in Canadian dollars)
Years ended June 30, 1979 and 1980

	Number of shares	Capital stock, \$1 par value	Capital in excess of par value	Total
Balance at June 30, 1978	8,851,465	\$8,851,465	\$14,456,694	\$23,308,159
Exercise of stock options	32,000	32,000	105,600	137,600
Balance at June 30, 1979	8,883,465	8,883,465	14,562,294	23,445,759
Exercise of stock options	54,500	54,500	202,249	256,749
Balance at June 30, 1980	8,937,965	\$8,937,965	\$14,764,543	\$23,702,508

See accompanying notes.

Notes to Financial Statements

(Expressed in Canadian dollars)
June 30, 1980

1. Summary of significant accounting policies and current developments

The accompanying consolidated financial statements include the accounts of Canada Southern Petroleum Ltd. (Canada Southern) and its wholly-owned subsidiary, Canpet, Inc., hereafter referred to collectively as the Company.

The Company, which is engaged primarily in one industry, exploration for and development of oil and gas properties, principally in Canada, follows the full cost method of accounting for oil and gas properties, whereby all costs associated with the exploration for and the development of oil and gas reserves are capitalized. Proceeds received from disposal of properties are credited against accumulated costs. Depletion of net costs accumulated in the Canada cost center (excluding the Arctic Islands and Kotaneelee Area) is provided on the composite unit-of-production method based on estimated recoverable proven reserves. Expenditures incurred in the Arctic Islands and Kotaneelee Area have been excluded from the capitalized costs in the Canada cost center to be amortized pending the commencement of payouts, if any, of the Company's carried interests in those major development projects (Note 2).

The Securities and Exchange Commission (SEC) has recommended development of an accounting method that recognizes valuations of proved oil and gas reserves in the balance sheets and income statements of oil and gas producers. Until the new method Reserve Recognition Accounting (RRA) is applicable to primary financial statements, the SEC will allow either successful efforts accounting as prescribed by Statement of Financial Accounting Standards (SFAS) No. 19 or a form of full cost accounting as prescribed by the SEC. According to

the SEC, "The feasibility of RRA, however, is not assured because of the inherent imprecision of reserve valuations and, therefore, the ultimate method of reporting is not yet determinable." The Company during the fiscal year ended June 30, 1980 changed its method to conform to the form of full cost accounting prescribed by the SEC. As a result of the change, the carrying value of oil and gas properties has been reduced and accumulated deficit has been increased by \$424,703 at June 30, 1979. The consolidated statement of operations and accumulated deficit and the consolidated statement of changes in financial position have been restated to give retroactive effect to the change. The effect of this change on net income (loss) previously reported is as follows:

Period	Decrease in net income	Decrease in net income per share of capital stock
Year ended June 30, 1976	\$ 53,533	\$—
1977	98,990	.02
1978	117,435	.02
1979	98,551	.02

Acquisition costs, exploration and development expenditures and other costs related to mineral properties are capitalized until such time as it is determined whether commercially exploitable reserves exist. Costs associated with properties which are determined to be unsuccessful or are abandoned are charged to income. Costs associated with commercially exploitable prospects will be amortized or depreciated on a unit-of-production method.

Depreciation has been provided for equipment other than well equipment by the straight-line method based on estimated useful lives. Depreciation of well equipment and amortization of intangible drilling costs



1. Summary of significant accounting policies and current developments (cont'd)

pertaining to producing wells are computed by the unit-of-production method.

Transactions for settlement in U.S. dollars have been converted at average monthly exchange rates. During the five years ended June 30, 1980, exchange gains and losses have not been significant.

For Canadian income tax purposes, the Company may claim as a tax deduction exploration, development and lease acquisition costs in the year incurred, and capital cost allowances (depreciation) in amounts which may exceed those provided in the accounts (see Note 6).

In October, 1979, the Company became subject to the Canadian Business Corporations Act and, effective June 4, 1980, was continued under the Nova Scotia Companies Act.

The Securities and Exchange Commission issued an order dated April 11, 1978 directing that an examination and private investigation by the Staff of the Commission be made of the Company, The Catawba Corporation ("Catawba") (see Note 3) and Catawba's other client companies. The SEC has expressed interest in investigating, among other things, the Australian hydrocarbon reserves of the various companies, the relationship between those companies and Catawba and the fees and royalties paid by them to Catawba to determine whether possible violations of the Securities Exchange Act of 1934 and/or the Investment Company Act of 1940 may have occurred. During fiscal 1979 and 1980 the Company furnished the Commission with certain documents requested by its Staff pursuant to a subpoena issued by the Commission, and certain directors and officers of the Company voluntarily appeared before the Commission to discuss matters relating to the investigation.

Although the Commission has not formally advised the Company or any of its officers or directors of its conclusions or recommendations, the Company has been advised by the staff of the Commission that the investigation

Year ended June 30,	Property acquisition costs	Exploration costs	Development costs	Production costs	Aggregate depreciation depletion, amortization and valuation provisions
1979	—	\$714,485	\$ 20,163	\$36,478	\$222,668
1980	—	271,348	335,888	42,221	254,330

These costs exclude costs relating to carried interests.

Amortization expense per equivalent physical unit of production for fiscal 1980 was \$.72.

The Company's properties and property interests are located in British Columbia, the Yukon and Northwest Territories, the Arctic Islands and Alberta in Canada, and in Australia.

has been substantially completed and it is likely that the staff will recommend to the Commission that a civil injunctive action be commenced against the Company and certain of its officers and directors. The Company believes that any enforcement action which the commission might bring upon such recommendation will not have a material adverse effect upon the Company's business or financial position.

2. Properties and related exploratory and other expenses

Oil and gas properties by cost center are as follows:

	1980	1979
Canada:		
Costs being amortized	\$5,368,373	\$4,780,280
Less accumulated amortization	<u>1,633,004</u>	<u>1,378,674</u>
	3,735,369	3,401,606
Costs not being amortized:		
Arctic Islands	2,794,571	2,776,020
Kotaneelee Area	<u>1,431,464</u>	<u>1,430,872</u>
Total	7,961,404	7,608,498
Australia:		
(Costs not being amortized).	<u>123,504</u>	<u>123,504</u>
	\$8,084,908	\$7,732,002

Current valuations of proved reserves exceed related book value plus expected development costs.

Amounts represented by oil and gas properties and mineral properties, aggregating \$3,150,445 and \$3,131,894 at June 30, 1980 and 1979, respectively, are substantially unexplored or undeveloped.

Costs incurred in oil and gas producing activities (all in Canada) in which the Company has working interests were set forth below:

At June 30, 1980, substantially all of the acreage located in British Columbia and the Yukon and Northwest Territories was covered by carried (net profits) interest agreements. These carried interest agreements provide that profits are not payable to the Company until expenditures by the operators have been recouped from production. Also, the Company may at any time elect to convert its position from a carried interest to a working



interest by paying its share of the expenditures not recouped by profits from production. At June 30, 1980 and 1979, the accumulated expenditures by the operators attributable to all of the Company's carried interests in these areas exceeded the amounts recouped from production by approximately \$15,300,000 and \$10,800,000, respectively. The aforementioned amount for 1980 differs from the amount previously reported in the Form 10-K because of additional information received after the filing of the Form 10-K. Two blocks, in which the Company's interest is 27.75%, have reached payout status. The Company's share of profits from these blocks was \$241,430, \$222,065, \$1,043,967, \$1,129,724 and \$958,252 for the five years ended June 30, 1980, which amounts have been credited to income. In fiscal 1980 and 1979, the Company received income of \$634,809 and \$338,967, respectively, from other carried interests.

The Company has a 30% carried interest in the Kotaneelee Field in the Yukon Territory. Four wells have been completed. The original discovery well was drilled in 1964 and required a significant amount of rework, which was completed in 1979. Approval has been granted by the Canadian National Energy Board to export a maximum of 84.5 billion cubic feet (Bcf) from the Kotaneelee Field over a period of eight years. During the first five years, the maximum amount will be 13 Bcf per year or 39.2 million cubic feet per day. Authorization by US authorities for importation of this gas has not yet been received.

Most of the Company's interests in the Arctic Islands are subject to carried interest agreements with

Panarctic Oils Ltd. The Company's carried interests range from 5% to 30%. Panarctic Oils Ltd. has requested that the Company consider converting some of its carried interests to working interests. The Company is studying the request.

3. The Catawba Corporation (Catawba)

For the four years ended June 30, 1979, the Company was charged \$362,320, \$309,171, \$300,069 and \$381 for financial, technical and other services rendered by Catawba. By virtue of Catawba's contracts with Canada Southern and the services Catawba performed pursuant thereto, and the fact that certain officers and directors of Canada Southern were also officers, directors or shareholders of Catawba, Catawba may have been deemed a "parent" of and to "control" Canada Southern, as such terms are defined in the Securities Act of 1933, as amended. By agreement between Canada Southern and Catawba dated May 10, 1978, the parties agreed to terminate as of May 31, 1978 their contract dated as of August 1, 1973. Certain of the directors, officers and employees of Catawba who were also directors or officers of Canada Southern have severed their relationships with Catawba. In view of the termination of the Catawba contract and the severing of these relationships, the Company believes that the statement that Catawba may be "deemed" to be a 'parent' of and to 'control' Canada Southern is no longer applicable.

4. Capital and stock options

Stock options outstanding at June 30, 1980 are summarized as follows:

Optionee	Date of grant	Expiration date	Number of shares	Option price		Market price at date of grant	
				Per share	Aggregate	Per share	Aggregate
Officers and director	5/11/79	5/10/84	54,500	\$ 5.00	\$ 272,500	\$ 5.00	\$ 272,500
Employees	5/11/79	5/10/84	7,500	5.00	37,500	5.00	37,500
Officer and consultants	5/12/80	5/11/85	50,000	14.40	720,000	14.40	720,000
			<u>112,000</u>		<u>\$1,030,000</u>		<u>\$1,030,000</u>

The options granted May 11, 1979 and May 12, 1980 were granted under an incentive option plan on 300,000 shares adopted by the Board of Directors on December 13, 1978. All options were exercisable on the date of grant. There were 156,000 and 206,000 shares reserved for future option grants at June 30, 1980 and 1979, respectively. During fiscal 1980, officers and employees exercised options on 22,500 shares at \$4.30 and 32,000 shares at \$5.00, an aggregate of \$256,250, compared with market prices ranging from \$20.78 to

\$22.00, an aggregate of \$1,178,476. There were no other changes in stock options during the two years ended June 30, 1980.

Upon exercise of options, the excess of the proceeds over the par value of the shares issued is credited to capital in excess of par value. No charges are made against income in accounting for options.

The letters patent, as supplemented, of the Company provide that no person (as defined) shall vote more than 1,000 shares.



5. Compensation

The Company has a contributory pension plan which is in effect for all employees and is administered by an insurance company. Benefits payable on retirement to employees are guaranteed by annuities purchased by the insurance company. The Company's policy is to fund pension costs accrued, except that total prior service cost for the plan was prepaid in 1979. Contributions by the Company to the pension plan on behalf of all employees were \$11,759, \$29,075, \$33,274, \$33,957, and \$33,867 for the five years ended June 30, 1980.

Compensation of directors, officers and senior employees allocated to and paid directly by Canada Southern, including contributions to a pension plan on their behalf, amounted to \$276,134 and \$324,349 for the years ended June 30, 1979 and 1980, respectively. Of these amounts, \$84,519 and \$100,849 were on behalf of directors and \$191,615 and \$223,500 were on behalf of officers. At June 30, 1980, there were five directors and four officers, of which one was also a director.

6. Income taxes and extraordinary item

The amount of income tax expense for fiscal 1980 is lower than the amount computed by multiplying pretax income by the statutory Canadian rate of 46% due to deductions for depletion and resource allowances.

For the three years ended June 30, 1980, the Company realized tax benefits of \$255,000, \$209,000 and \$205,000, respectively, for Canadian income tax purposes from carryforward of exploration, development and lease acquisition costs not claimed in prior years. At June 30, 1980, the following amounts remained to be carried forward indefinitely to reduce future taxable income:

Drilling, exploration and lease acquisition costs	\$13,243,336
Undepreciated capital costs .	455,321
Capital losses (can only be used against future years capital gains).....	150,000

The tax benefits attributable to the above accumulated expenditures will not be reflected in the financial statements until such benefits are realized.

7. Possible direct ownership participations

In August 1980, the Board of Directors announced that consideration was being given to the feasibility of a plan whereby the Company's shareholders

would become the beneficiaries of direct ownership participations in certain of the Company's oil and gas producing properties.

8. Oil and gas revenue and reserve information (unaudited)

The following information has been supplied in compliance with regulations prescribed by the SEC. However, current reserve, production and cost estimates are subject to rapid and unanticipated change. Therefore, these estimates may not accurately reflect future net income to the Company.

The Company has no proved oil and gas reserves in Australia and no revenues from oil and gas production in that country. All amounts below relate to Canada.

(a.) Revenues from producing oil and gas:

Year ended June 30,	
1979.....	\$1,692,594
1980.....	1,855,736

(b.) Estimated net quantities of proved oil and gas reserves:

	Oil (bbls.)	Gas (bcf)
Proved reserves:		
July 1, 1978.....	471,001	52.822
Revisions of previous estimates	295,205	(2.170)
Extensions, discoveries and other additions	—	—
Production	(81,481)	(1.980)
June 30, 1979.....	684,725	48.672
Revisions of previous estimates	11,314	(0.008)
Extensions, discoveries and other additions	92,008	17.819
Production	(65,657)	(2.355)
June 30, 1980.....	722,390	64.128
Proved developed reserves:		
July 1, 1978.....	471,001	37.622
June 30, 1979.....	684,725	33.595
June 30, 1980.....	679,740	54.070

(c.) Future net revenues from estimated production of proved oil and gas reserves:



(i.) Estimated future net revenues:

	<i>For the fiscal year ended 6/30/81</i>	<i>For the fiscal year ended 6/30/82</i>	<i>For the fiscal year ended 6/30/83</i>	<i>For the remaining fiscal years for which reserves are projected</i>
Proved reserves.	\$1,765,000	\$8,436,000	\$15,539,000	\$146,997,000
Proved developed reserves	1,760,00	8,387,000	15,165,000	137,618,000

(ii.) Present value (discounted at 10%) of estimated future net revenues.

	<i>Proved reserves</i>	<i>Proved developed reserves</i>
June 30, 1979	\$31,908,000	\$24,599,000
June 30, 1980	\$86,252,000	\$82,419,000

Current prices used in the foregoing estimations were based upon selling prices at the wellhead in June, 1980. Current costs were based upon estimates made by consulting engineers in June, 1980. Values are predicated upon timely approval by U.S. authorities of import of gas from the Kotaneelee field.

(d.) Summary of oil and gas producing activities:

	<i>(Thousands)</i>
Additions and revisions to estimated proved reserves:	
Additions to estimated proved reserves.	\$23,563
Revisions to estimates of reserves proved in prior years:	
Changes in prices.	35,344
Subtotal	<u>58,907</u>
Less:	
Present value of estimated future development and production costs attributable to additions to estimated proved reserves	2,100
Other costs net of income	737
Development costs	607
	<u>3,444</u>
Net additions	55,463
Provision for income taxes	26,400*
Results of oil and gas producing activities on the basis of RRA.	<u>\$29,063</u>

*This provision for income taxes is only for purposes of RRA. The statutory income tax rate was applied to net

additions. All tax carryforward benefits and statutory depletion for development costs were assumed to be applicable to the estimated value of proved reserves at the beginning of the year.

(e.) Summary of change in present value of estimated future net revenues:

	<i>(Thousands)</i>
Present value at June 30, 1979.	<u>\$31,908</u>
Increases during year:	
Additions and revisions	58,907
Less related estimated future developments and production costs attributable to additions to estimated proved reserves.	2,100
	<u>56,807</u>
Decrease during year:	
Sales of oil and gas, net of production costs.	1,856
Development costs incurred.	607
	<u>2,463</u>
Present value at June 30, 1980.	<u>\$86,252</u>

Report of Independent Public Accountants

The Shareholders

Canada Southern Petroleum Ltd.

We have examined the accompanying consolidated balance sheets of Canada Southern Petroleum Ltd. at June 30, 1980 and 1979 and the related consolidated statements of operations and accumulated deficit and consolidated changes in financial position for each of the five years in the period ended June 30, 1980 and of capital stock and capital in excess of par value for the two years ended June 30, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the consolidated financial position of Canada Southern Petroleum Ltd. at June 30, 1980 and 1979, the consolidated results of operations and the consolidated changes in financial position for each of the five years in the period ended June 30, 1980 and the consolidated changes in capital stock and capital in excess of par value for the years ended June 30, 1980 and 1979, in conformity with generally accepted accounting principles applied on a consistent basis during the period after restatement to give retroactive effect to the change, with which we concur, in the method of accounting for oil and gas properties as described in Note 1 to the financial statements.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

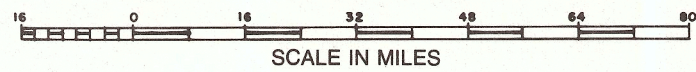
Hartford, Connecticut

September 3, 1980, except as to the last paragraph of Note 1 to the financial statements, as to which the date is September 18, 1980, and the last paragraph of Note 2 to the financial statements, as to which the date is September 26, 1980.

CANADA SOUTHERN PETROLEUM LTD.

ARCTIC ISLANDS

Map to accompany 1978 Annual Report

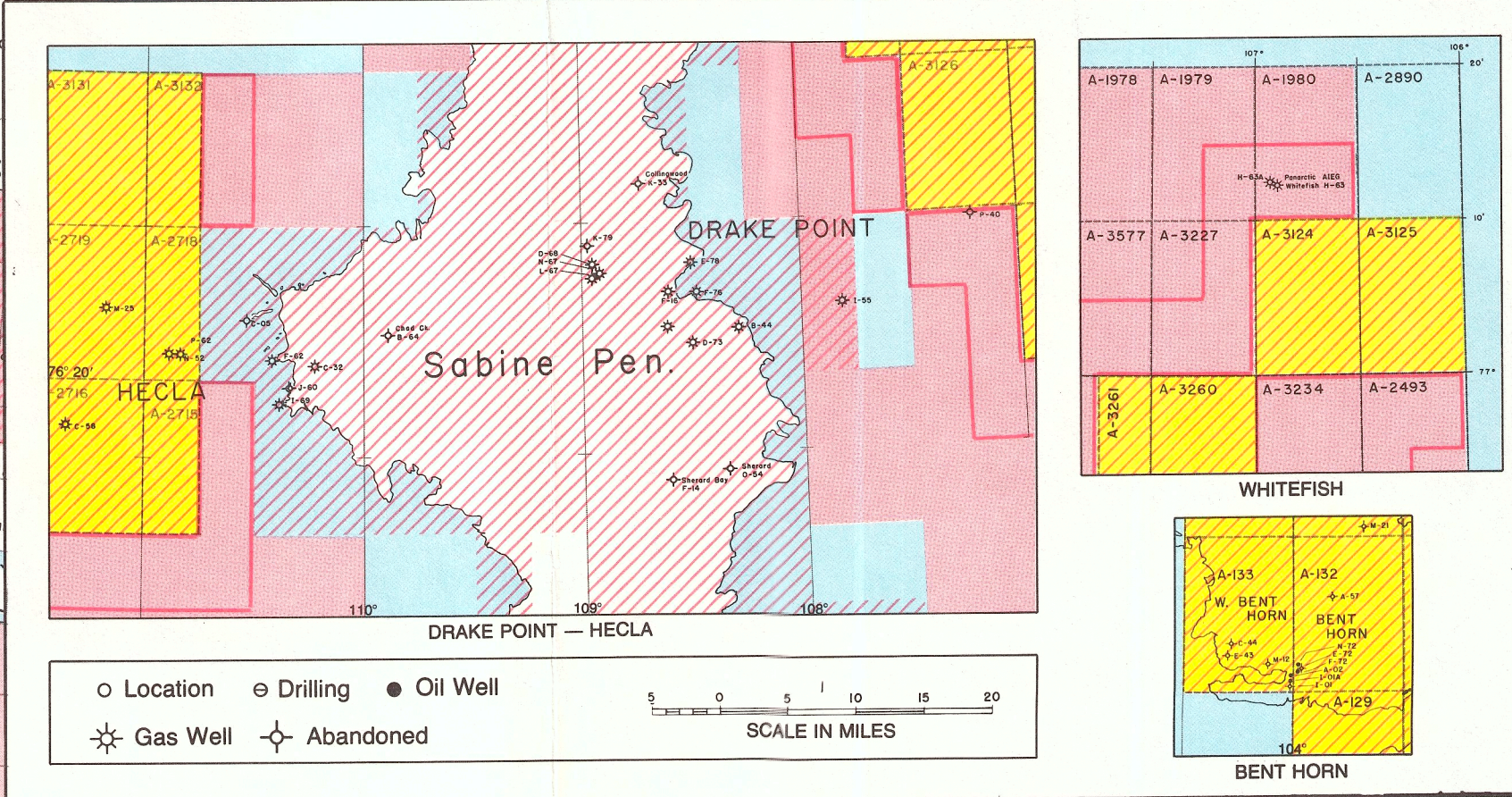
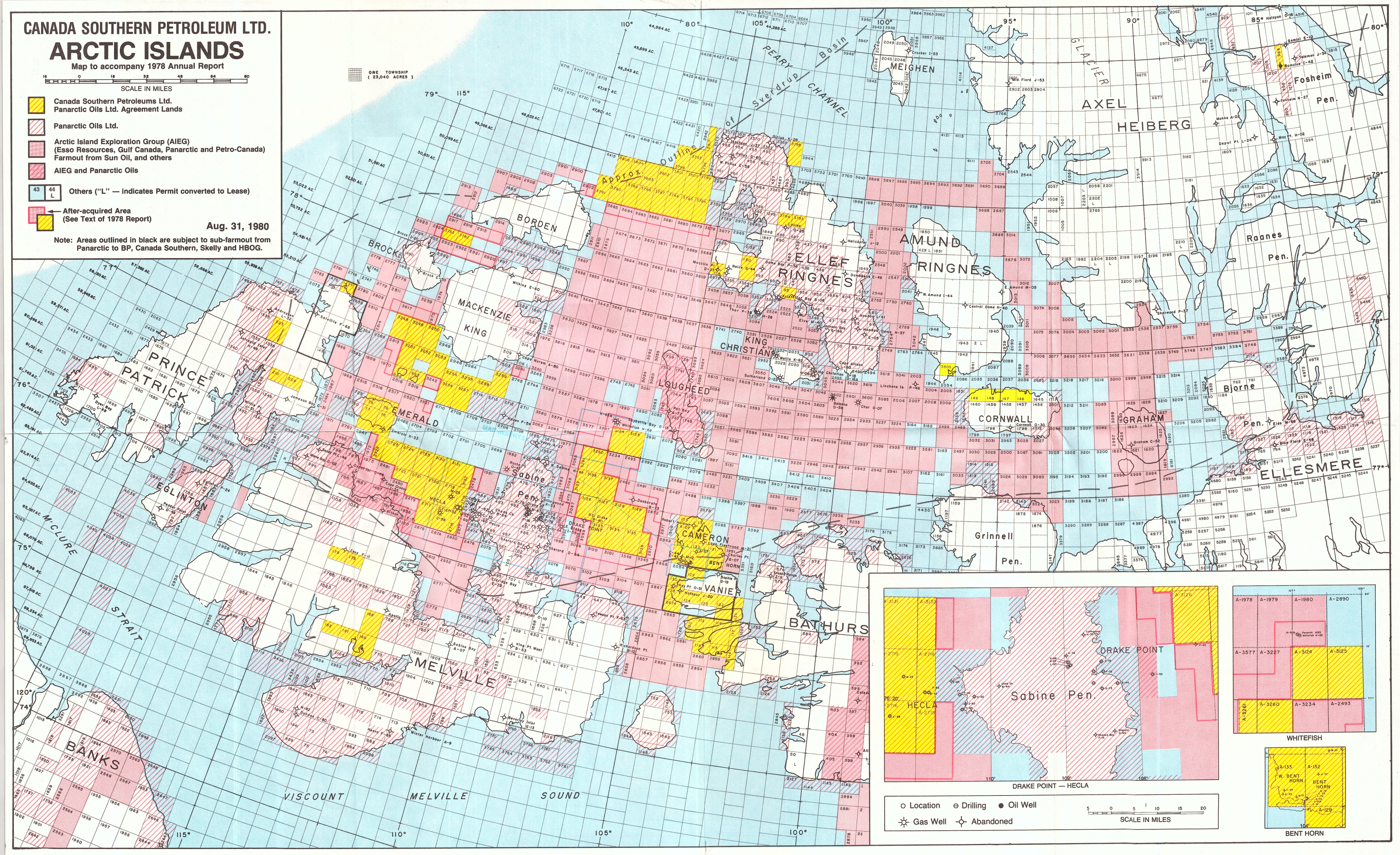


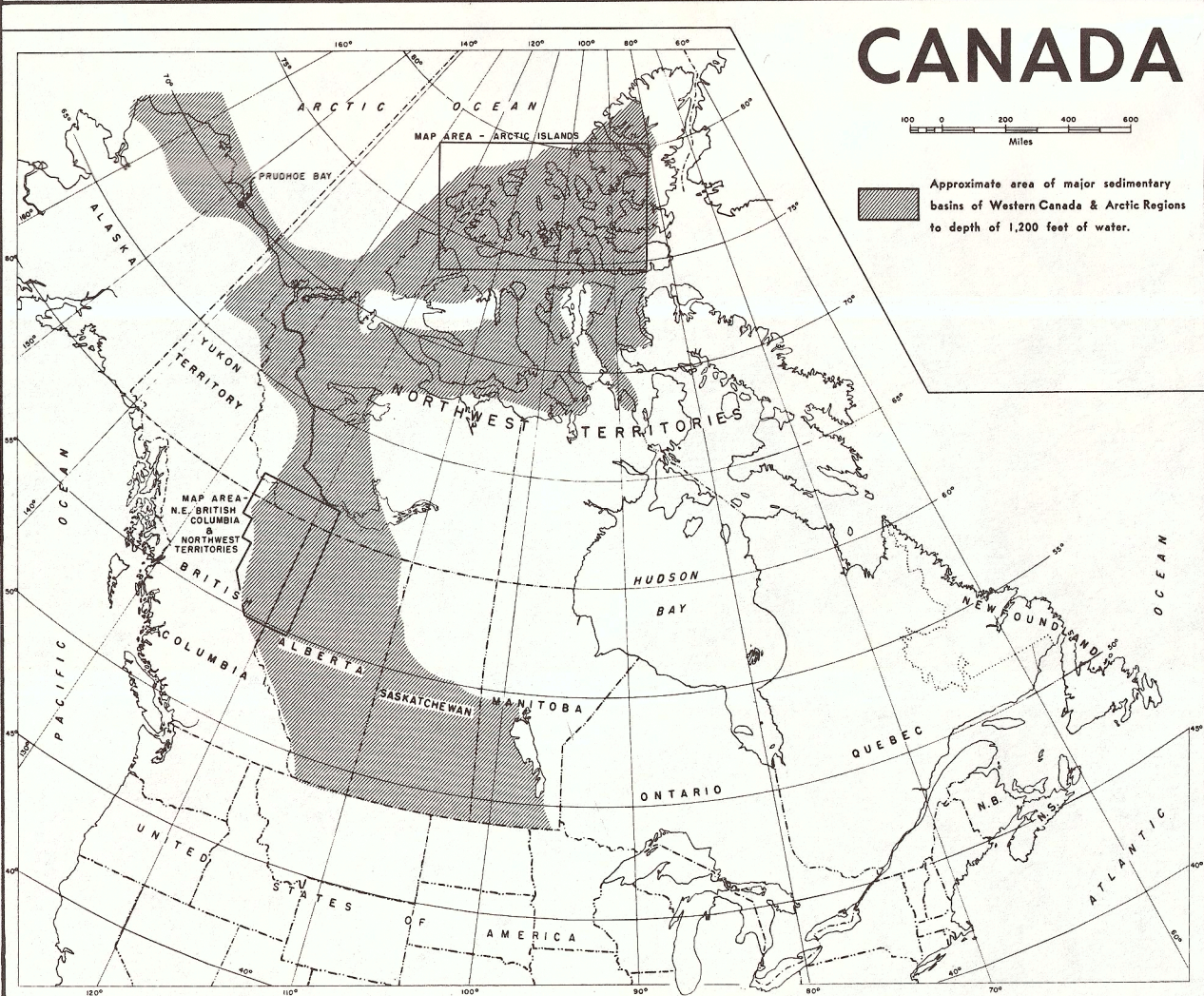
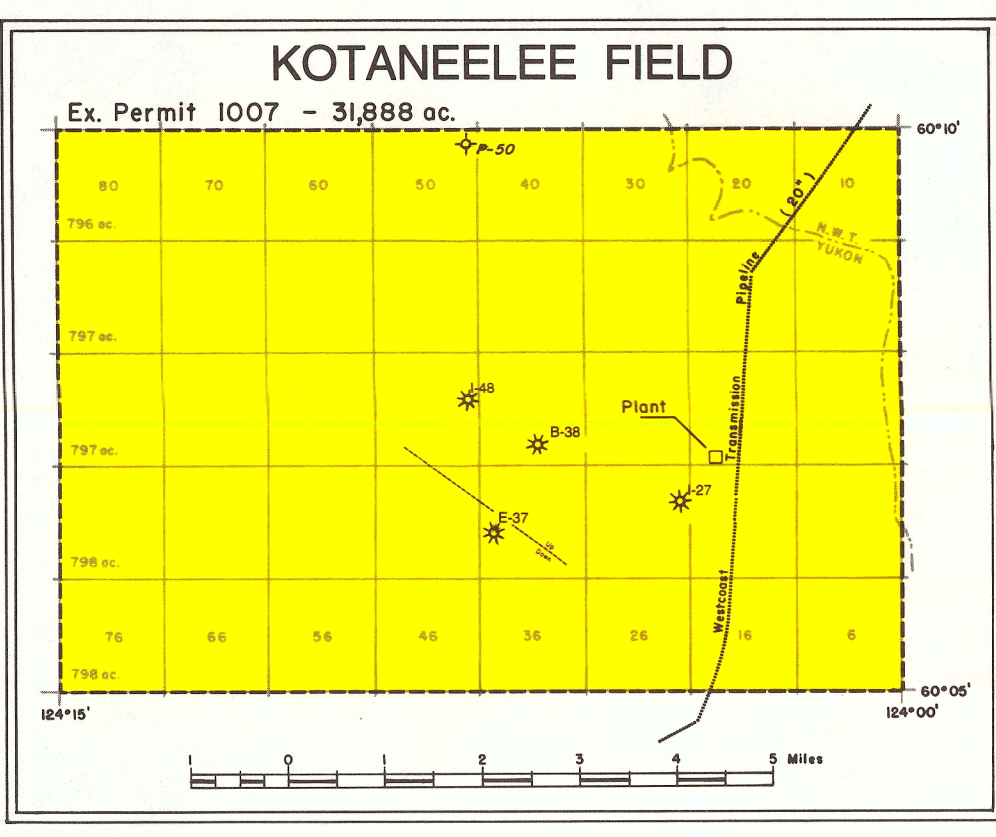
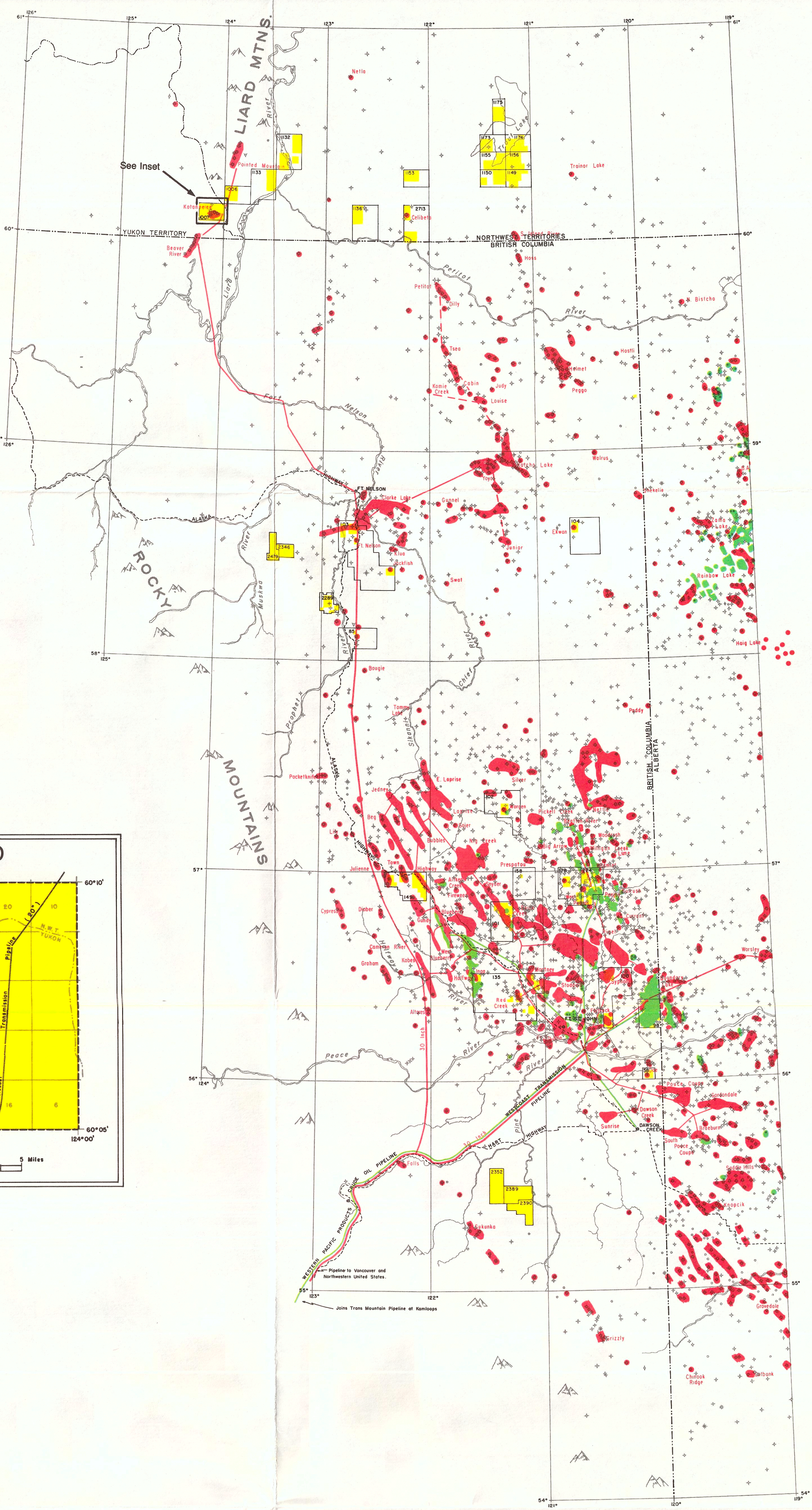
ONE TOWNSHIP (23,040 ACRES)

- Canada Southern Petroleum Ltd. Panarctic Oils Ltd. Agreement Lands
- Panarctic Oils Ltd.
- Arctic Island Exploration Group (AIEG) (Esso Resources, Gulf Canada, Panarctic and Petro-Canada) Farmout from Sun Oil, and others
- AIEG and Panarctic Oils
- 43 L Others ("L" — indicates Permit converted to Lease)
- After-acquired Area (See Text of 1978 Report)

Aug. 31, 1980

Note: Areas outlined in black are subject to sub-farmout from Panarctic to BP, Canada Southern, Skelly and HBOG.





HOLDINGS OF CANADA SOUTHERN PETROLEUM LTD. IN NORTHWEST TERRITORIES & N.E. BRITISH COLUMBIA

- 0 10 20 30 40 50 60 70 80 Miles
- Oil Well
 - * Gas Well
 - ⊕ Suspended
 - ⊖ Abandoned
 - Drilling and/or Testing
 - Location
 - Oil Field
 - Gas Field
 - Oil Pipeline
 - Gas Pipeline
 - Gas Pipeline—Proposed/Under Construction

Canada Southern Petrol. Interest Lands

Aug. 31, 1980

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Supplementary and Market Information

Canada Southern Petroleum Ltd. was incorporated in 1954 (under the Canada Corporations Act) pursuant to the reorganization of Canada Southern Oils Inc. its predecessor company. The Company became subject to the Canadian Business Corporations Act in 1979; and the corporate charter subsequently was continued under the Companies Act, Nova Scotia, effective June 4, 1980.

The Company's shares of capital stock are listed and traded under the symbol "CSW" on the Toronto and Montreal stock exchanges in Canada and on the Pacific and Boston stock exchanges in the United States. The Company's shares are also traded under the symbol "CSPEF" in the NASDAQ over-the-counter market.

The total sales volume on the Pacific Stock Exchange for the years 1978 and 1979 amounted to 1,708,588 shares and 5,706,800 shares, respectively, and a quarterly price range for such shares during 1979 and 1980 follows (prices expressed in U.S. dollars):

1979	1st quarter	2nd quarter	3rd quarter	4th quarter
High	4 15/16	6 1/8	6 13/16	11 1/2
Low	4	4 1/8	4 13/16	5 1/2

Management's Discussion and Analysis

1980 vs. 1979

Proceeds from carried interest agreements and oil and gas sales were higher because of improved prices. Interest income increased as a result of increased availability of investment funds.

General and administrative expenses increased in 1980 principally as a result of increased stockholders' expenses. The Company in both fiscal 1980 and fiscal 1979 made partial recoveries relating to an investment in a project previously written-off.

There were no abandonments in fiscal 1980. Rent expense increased due to the opening of an office by a subsidiary.

The Company pays no income taxes because of the carryforward of exploration, development, and lease acquisition costs not claimed in prior years.

1980	1st quarter	2nd quarter	3rd quarter	*4th quarter
High	26 5/8	16 1/4	19 1/8	16 7/8
Low	9	11	12 7/8	13 3/4

*through Oct. 21

The total sales volume on the Toronto Stock Exchange for the years 1978 and 1979 amounted to 6,377,018 shares, and 7,676,377 shares, respectively, and a quarterly price range for such shares during 1979 and 1980 follows (prices expressed in Canadian dollars):

1979	1st quarter	2nd quarter	3rd quarter	4th quarter
High	5.87	7.00	7.12	13.25
Low	4.95	5.00	5.50	6.25

1980	1st quarter	2nd quarter	3rd quarter	*4th quarter
High	30.50	18.62	22.00	20.00
Low	9.62	13.12	15.12	16.37

*through Oct. 21

1979 vs. 1978

The Company recorded its second consecutive profitable year in 1979, although revenues were down slightly because oil and gas sales and carried-interest proceeds were adversely affected by weak demand and refinery shutdowns early in the year. Interest income rose as the amount invested in time deposits increased and interest rates improved.

Increases in general and administrative expenses related to salaries and employee benefits as well as to legal and stockholders' expenses. Lease operating costs in 1979 increased due to inflationary pressures. The Company in the same year made a partial recovery relating to an investment in a project previously written off. The abandonments in 1979 included a mineral project in Saskatchewan. Depletion, depreciation, and amortization was higher in 1979 as higher cost properties were added to the amortization base.

CANADA SOUTHERN
PETROLEUM LTD.

