

Canada Southern Petroleum Ltd.



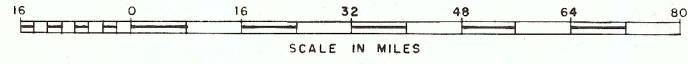
1972 Annual Report

Year Ended June 30

MANAGEMENT
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CANADA SOUTHERN PETROLEUM LTD.

ARCTIC ISLANDS



ONE TOWNSHIP
(25,040 ACRES)

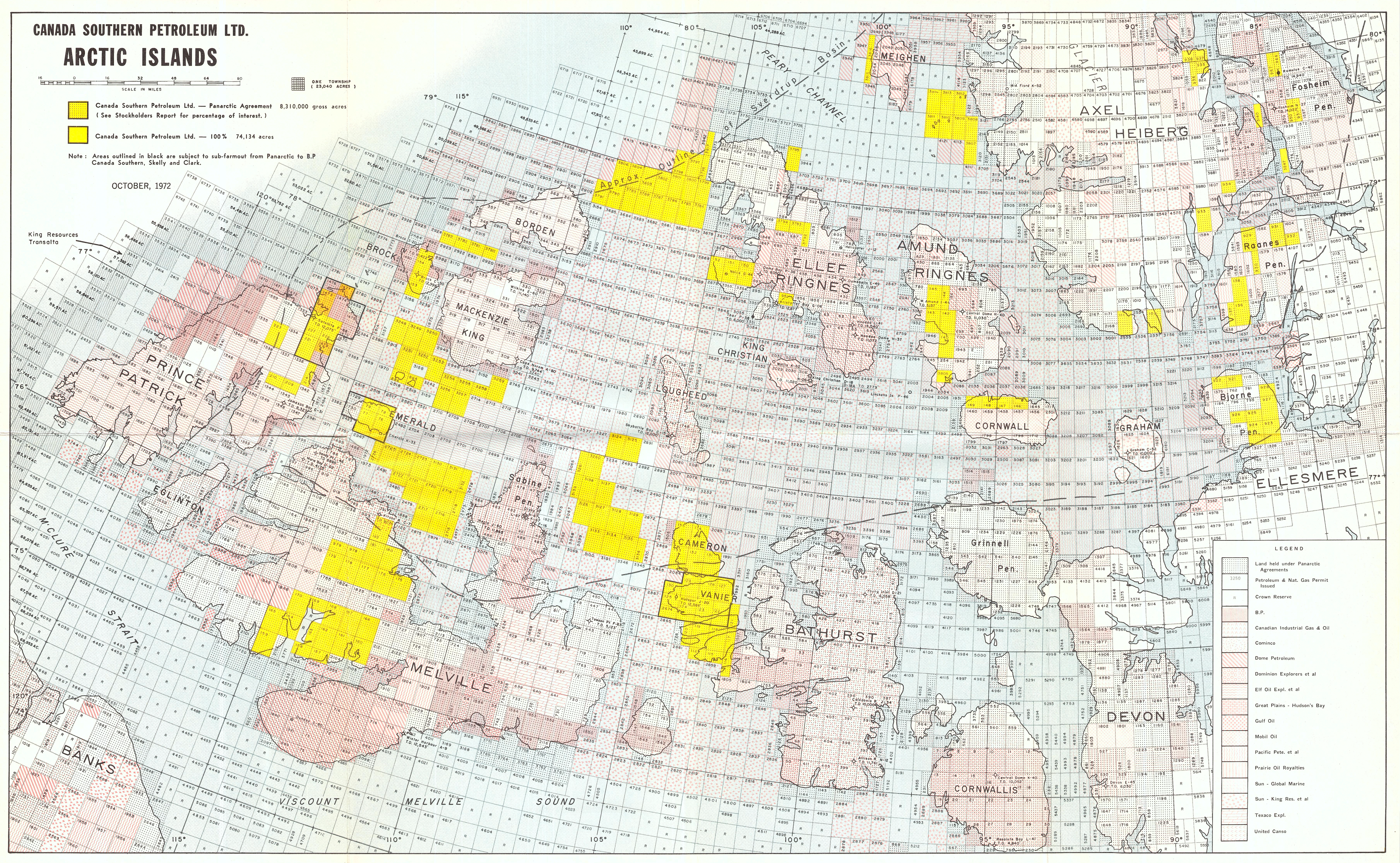
Canada Southern Petroleum Ltd. — Panarctic Agreement 8,310,000 gross acres
(See Stockholders Report for percentage of interest.)

Canada Southern Petroleum Ltd. — 100% 74,134 acres

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

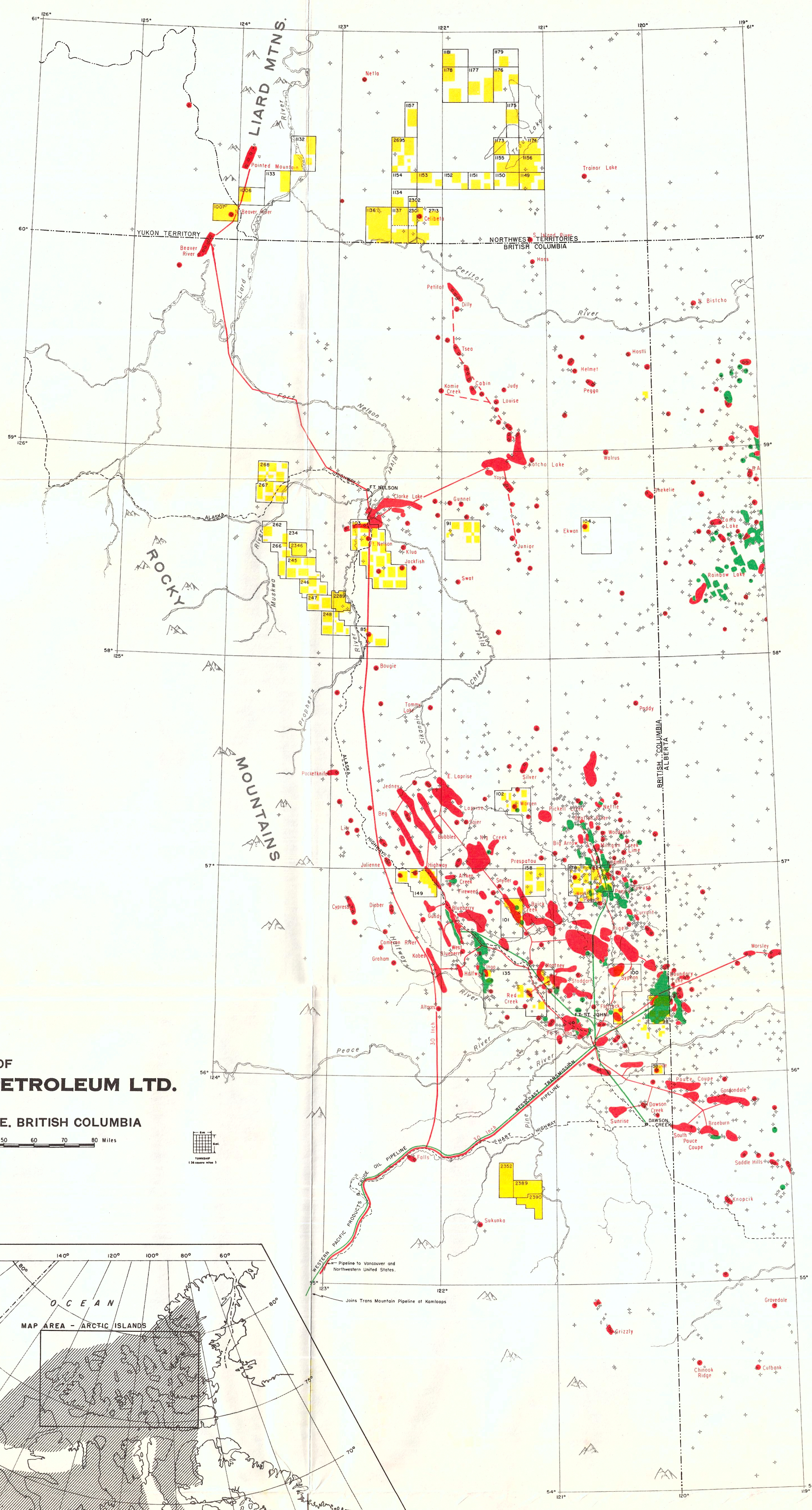
OCTOBER, 1972

King Resources
Transalta



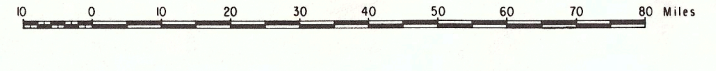
LEGEND

- Land held under Panarctic Agreements
- Petroleum & Nat. Gas Permit Issued
- Crown Reserve
- B.P.
- Canadian Industrial Gas & Oil
- Cominco
- Dome Petroleum
- Dominion Explorers et al
- Elf Oil Expl. et al
- Great Plains - Hudson's Bay
- Gulf Oil
- Mobil Oil
- Pacific Pete. et al
- Prairie Oil Royalties
- Sun - Global Marine
- Sun - King Res. et al
- Texaco Expl.
- United Canso

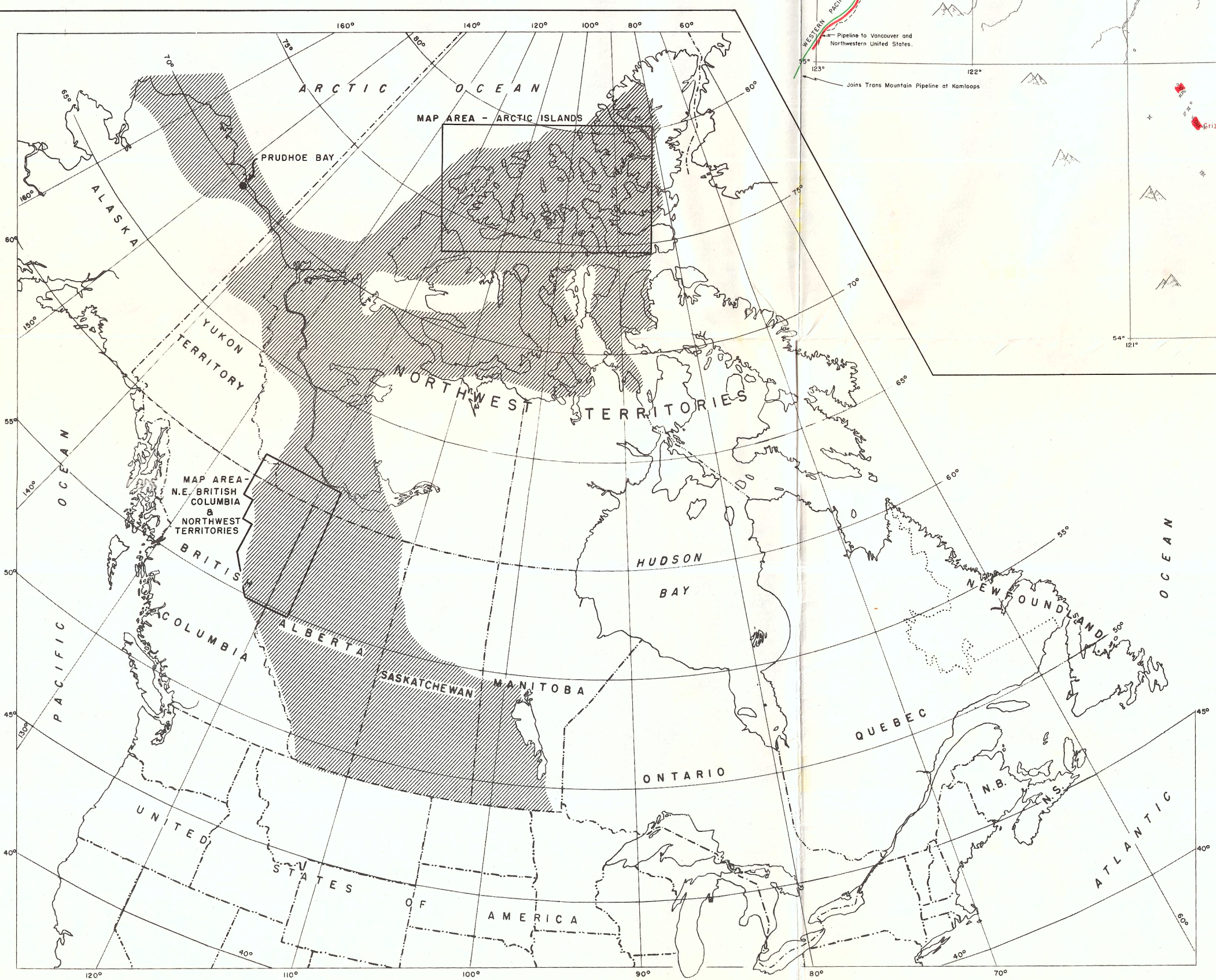


- Oil Well
- * Gas Well
- ⬇ Suspended
- ⬇ Abandoned
- Drilling and/or Testing
- Location
- Oil Field
- Gas Field
- Oil Pipeline
- Gas Pipeline
- Gas Pipeline—Proposed/Under Construction
- Canada Southern Pet. Interest Lands

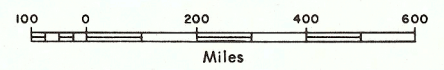
**HOLDINGS OF
CANADA SOUTHERN PETROLEUM LTD.
IN
NORTHWEST TERRITORIES & N.E. BRITISH COLUMBIA**



OCTOBER, 1972



CANADA



Approximate area of major sedimentary basins of Western Canada & Arctic Regions to depth of 1,200 feet of water.

Canada Southern Petroleum Ltd.

Board of Directors

ALAN S. ANDERSON
JOHN W. BUCKLEY
BENJAMIN W. HEATH
M. A. REASONER
WILLIAM SHIELDS, JR.

Officers

JOHN W. BUCKLEY
Chairman of the Board and President
ROLAND J. RICHARDSON
Vice President and Controller
M. A. ASHTON
Vice President and Exploration Manager
GEORGE PILKINGTON
Secretary and Assistant Treasurer
ARTHUR B. O'DONNELL
Treasurer
K. ROSS JORDAN
Assistant Secretary

Auditors

Arthur Young, Clarkson, Gordon & Co.

Transfer Agents

Montreal Trust Company, 15 King Street West, Toronto, 1, Ontario, Canada
The First Jersey National Bank, 2 Montgomery Street, Jersey City, N.J. 07303, U.S.A.
United California Bank, 108 West 6th Street, Los Angeles, Calif. 90054, U.S.A.

Inquiries or requests for additional information concerning Canada Southern Petroleum Ltd.
should be addressed to the Company in care of
The First Jersey National Bank, P.O. Box 960, Jersey City, N.J. 07303, U.S.A.,
or to 940 Eighth Avenue South West, Calgary, Alberta, T2P 1G2, Canada

Canada Southern Petroleum Ltd.

To the Shareholders:

The period under review has been noteworthy for the impetus to an accelerated Arctic Islands oil search provided through the recovery on Company-interest lands of the first crude oil in the Canadian Arctic, for the heightened potential of our Arctic Islands holdings stemming from still other exploratory successes in this vast theatre, for a high percentage of well completions on Company properties in British Columbia, and for the progress of negotiations looking to the inception of increased exploratory activity centered on our extensive Company-interest permits offshore New Zealand.

The single most important event of the past year was the recovery by Panarctic Oils Ltd. at its Romulus C-42 well drilled on Canada Southern Permit No. 966 on Ellesmere Island of the first crude oil encountered in the Arctic Archipelago. Panarctic, as noted in previous reports, is the Canadian Government-private industry consortium to which the Company has consigned a significant portion of its Arctic Islands acreage. The Romulus C-42 discovery, which took place on February 24, 1972, was followed two months later with Panarctic's announcement of a second oil occurrence on Ellef Ringnes Island, some 300 miles to the west in the central Sverdrup basin.

This combination of hydrocarbon discoveries in the easterly and central areas of the Canadian Arctic is viewed not only as a spur to heightened exploration for oil as well as gas throughout the Sverdrup basin but as indicating favorable prospects for further exploratory activity on Ellesmere Island.

The Arctic gas search, meanwhile, continued unabated, culminating in the drilling early this

autumn of the Panarctic group's Drake B-44 extension gas well on Melville Island's north-easterly Sabine Peninsula, scene of Panarctic's first Arctic gas discovery in 1968 and of the prolific Drake F-16 step-out well, completed in June 1972 with a recorded absolute open flow of 265 million cubic feet per day.

The new find on Melville Island, according to Canadian official sources, provided indication that a huge pool of gas exists on the island, possibly extending under the adjoining sea. If such extension is validated through future exploration, the implications for Canada Southern could prove potentially significant since the Company holds extensive 50%-owned permit blocks situated at distances ranging from approximately eight to 22 miles off both the east and west coasts of the Sabine Peninsula.

The Drake B-44 gas find is regarded in informed quarters as highly important not only for its substantiation of the existence on Melville Island of a major gas field but also for its incremental boost of proven Arctic Islands gas reserves to a present level of nearly 15 trillion cubic feet.

This reserve figure takes on added significance when viewed in the context of Canada's policy governing the export of natural gas to the United States. The annual demand for natural gas in the United States by the year 1980 is estimated to exceed 30 trillion cubic feet, with domestic United States supplies likely to make up no more than two-thirds of anticipated yearly demand levels. While the growing gap in the United States demand-supply equation as regards this premium fuel continues to be met

in large part through Canadian gas exports, Canada's National Energy Board heretofore has ruled that Canada's natural gas reserves are insufficient to permit increased exports of gas to the United States.

The presence therefore of natural gas deposits aggregating nearly 15 trillion cubic feet in Canada's Arctic Islands, added to the impressive hydrocarbon potential of this vast area and the enormity of the exploratory search now under way with the active encouragement and financial participation of the Canadian Government, suggests that the day may not be far distant when Arctic Islands gas may be flowing south to United States markets. This possibility was enhanced by the action of the Canadian Government this past summer in conducting aerial reconnaissance surveys of two potential gas pipeline routes from the center of the Arctic Islands area to eastern United States markets.

Drilling activity in the Arctic Islands during the 1972-73 season may find as many as 12 rigs at work. Panarctic is currently drilling two wells on Company-interest lands, one of which, located on Ellef Ringnes Island, will probably be abandoned after having reached total depth of 5,791 feet, the other being a 12,100-foot test on Emerald Island at a location 80 miles northwest of the prolific Drake Point (Melville Island) gas wells.

In British Columbia, of 17 development or extension wells drilled on Company-interest lands during fiscal 1972, eight were completed as gas wells and four as oil wells. Additional drilling is planned for these properties during the current year. In the neighboring Yukon

and Northwest Territories, the Company's position was enhanced through the completion by Westcoast Transmission Company Ltd. of its pipeline extension to the Pointed Mountain field north of Beaver River. Further drilling presently is under consideration both for the Beaver River area and for the Celibeta-Trout Lake district, which lies to the east of the Beaver River and Pointed Mountain fields.

Canada Southern's property interests offshore New Zealand were the object of intensive study during the past year based on seismic and other evaluative data assembled firsthand by the Company's technical advisers and supplied in part by New Zealand Petroleum Company Ltd., owner of onshore property bordering the Company-interest Westland concession off South Island. Negotiations looking to a possible joint exploration venture on one or more of the New Zealand concessions have reached a stage where agreement with a major company on such a project may be announced shortly.

The succeeding pages provide additional information concerning the Company's property interests in the Canadian Arctic Islands, British Columbia, the Yukon and Northwest Territories, and offshore New Zealand, as well as audited financial statements for the year ended June 30, 1972.

On behalf of the Board of Directors,


Chairman of the Board

November 1, 1972

OPERATIONS REVIEW

PETROLEUM

CANADA

British Columbia

In the year under review 17 wells were drilled on Canada Southern-interest lands in British Columbia, of which eight were completed as gas wells and four as oil wells. Nearly all the completions were development wells or extensions of existing fields. No significant discoveries were made.

It is anticipated that further drilling on these lands will be undertaken during the coming winter and that the Company will acquire additional property inter-

ests in this province under its agreement with Phillips Petroleum Company whereby Canada Southern has the right to participate in certain land acquisitions made by that company.

Yukon and Northwest Territories

During the past year, Westcoast Transmission Company Ltd. completed the building of its large-diameter gas pipeline extension from Fort Nelson to the Pointed Mountain field north of Beaver River and within the Northwest Territories. This line actually crosses the Company's former Permit No. 1007 (CSP, 45% carried interest), and is situated in close proximity to the Canada Southern et al. North Beaver River YT I-27 well. Consideration presently is being given to the initiation this winter of further seismic surveys and drilling operations on Company property

Canada Southern Petroleum Ltd.

Status of Carried Interest Agreements as of June 30, 1972

Permit No.	Cumulative to June 30, 1970	
	Gross Expenditures	Production Proceeds
Pacific Agreement		
Ex. Permits 100-104	\$14,955,170	\$7,958,140
Phillips Agreement		
Ex. Ps. 267 & 268 (Block A)	1,540,982	
Ex. Ps. 262, 234, 266, 245-247 (Block B)	2,033,369	
Ex. P. 149 (Block C)	5,229,251	277,594
Ex. P. 158 (Block E)	581,851	
Ex. P. 178 (Block F)	2,030,817	1,994,922
Ex. P. 224 (Block G)	4,502,897	6,426,157
Dome-Pan American Agreement		
Ex. Ps. 1007, 1132 & 1133	81,111	
Ex. Ps. 1136, 2713, 1137, 2301, 1153	325,009	
Ex. Ps. 1149, 1156, 1178, 1181	1,029,166	

*Block F net proceeds from production became payable to the Company in July 1970 and by June 30, 1972 the Company's share amounted to \$213,036, including \$99,034 in fiscal 1971 and \$114,002 in fiscal 1972.

**Block G net proceeds from production became payable to the Company in December 1968 and by June 30, 1972 the Company's share amounted to \$1,028,278, including \$276,767 in fiscal 1971 and \$243,301 in fiscal 1972.

interests in the North Beaver River area. Present plans also call for the drilling of at least one well this winter in the Celibeta-Trout Lake area.

Arctic Islands

Drilling and seismic activity continued at a high level in the Arctic Islands during the past year, resulting in further discoveries by the Panarctic group, two of which were oil strikes. One of these, the Panarctic Romulus C-42 well, was drilled on Permit No. 966 in which Canada Southern retains a 20% interest. Panarctic has not indicated whether it intends to evaluate this discovery further, but present indications are that the find may not be commercial. The discovery of oil and gas in this northerly area of Ellesmere Island is viewed as highly significant, however, since the prospects of finding hydrocarbon accumulations in

the eastern Arctic previously had been suspect after igneous material had been encountered in part of the section.

Additionally, Ellesmere and the eastern islands as a group are favorably situated from the point of view of access by tankers. Preliminary studies of possible harbors already have taken place, and it is likely that these locations may become accessible to tankers for eight to 10 months of the year.

Elsewhere in the Arctic, three other tests drilled during the year on Canada Southern-interest acreage were unsuccessful. However, another well drilled by the Panarctic consortium on its Ellef Ringnes Island property, the Kristoffer G-06 test, was reported as a major gas discovery. This find holds important implications for Canada Southern, since it is located less than one mile from Permit No. 95 in which the Company holds a 6-2/3% interest.

Year Ended June 30				Cumulative to June 30, 1972			Company Interest	
1971		1972					Cost to	
Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Net Expenditures	Convert to a Working Interest	
							%	
\$683,991	\$ 620,038	\$1,071,366	\$ 554,113	\$16,710,527	\$9,132,291	\$7,578,236	21.25	\$1,610,375
37,748		56,950		1,635,680		1,635,680	27.75	453,901
71,665		122,598		2,227,632		2,227,632	27.75	618,168
214,681	(887)	10,400	(841)	5,454,332	275,866	5,178,466	50.00	2,589,233
24,425		27,490		633,766		633,766	50.00	316,883
35,314	462,981	41,912	459,503	2,108,043	2,917,406	(809,363)	27.75	*
135,535	1,164,566	278,341	1,172,315	4,916,773	8,763,038	(3,846,265)	27.75	**
92,627		50,129		223,867		223,867	45.0	100,740
74,945		37,472		437,426		437,426	45.0	196,842
42,488		14,556		1,086,210		1,086,210	45.0	488,794

Company-interest properties included in Panarctic Agreements

	<u>Islands</u>	<u>Gross Acres</u>	<u>Interest to be retained by Company</u>	
			<u>% Working Interest</u>	<u>Net Acres</u>
TriCeeTee Agreement				
	Prince Patrick, Brock, Melville, Emerald, Vanier, Ellef Ringnes, Amund Ringnes, Cornwall, Axel Heiberg, etc.	3,687,097	6.667(1)(5)	245,819(5)
CSP-Clark-Skelly				
	Eight Bears	57,210	8.000(2)	4,577
CSP-B.P.				
	Melville	62,650	17.500(3)	10,964
CSP				
	Axel Heiberg, Ellesmere	709,234	20.000(4)	141,847
CSP				
	Offshore areas, Sverdrup basin	3,650,607	50.000(6)	1,825,304
		<u>8,166,798</u>		<u>2,228,511</u>

(1) Convertible to 5.0% carried interest or 1.333% overriding royalty.

(2) Convertible to 6.0% carried interest or 1.60% overriding royalty.

(3) Convertible to 13.125% carried interest or 3.50% overriding royalty.

(4) Convertible to 15.0% carried interest or 4.0% overriding royalty.

(5) Does not include the Company's additional interests to be acquired under the sub-farmout agreement covering permits on portions of Vanier, Prince Patrick and Emerald Islands.

(6) Area divided into seven blocks, each convertible to 30.0% carried interest, which may be reconverted to 30.0% working interest at CSP's option.

Other 1971-72 drilling successes holding particular significance for Canada Southern were the Panarctic Thor P-38 well on Thor Island, close to Ellef Ringnes, which flowed oil to the surface from a thin section, and the Panarctic Drake F-16 well, completed in June with an absolute open flow of 265 million cubic feet of gas per day, which served to extend by six miles

the Drake Point gas field on Sabine Peninsula of Melville Island. In addition, Panarctic's latest Melville Island gas find, the Panarctic Drake B-44 well, located approximately 12 miles east and south of the Drake Point discovery well and six miles east and south of the Drake Point F-16 success, underscored further the extent of this prolific gas field.

There are strong indications that drilling activity in the Arctic Islands will witness a further acceleration over the coming year, with up to 12 rigs under contract. As many as 50 additional test wells may be drilled by the end of 1973, and of these, perhaps as many as 10 may be located on or near Canada Southern-interest properties.

The drilling of two wells already is under way on Company-interest lands. The Panarctic Noice G-44 well located on Permit No. A-151 on Ellef Ringnes Island has reached total depth and will probably be abandoned. The second well is the Panarctic Emerald K-33 test situated on Permit A-76 on Emerald Island. In addition, a well is being drilled presently on Axel Heiberg Island at a location within 10 miles of Canada Southern's Permit No. 3140, and the drilling of still another well has been commenced at a site approximately 10 miles north-northeast of the Romulus C-42 discovery, or about two miles east of the northeastern corner of Canada Southern-interest Permit No. 966 on Ellesmere Island.

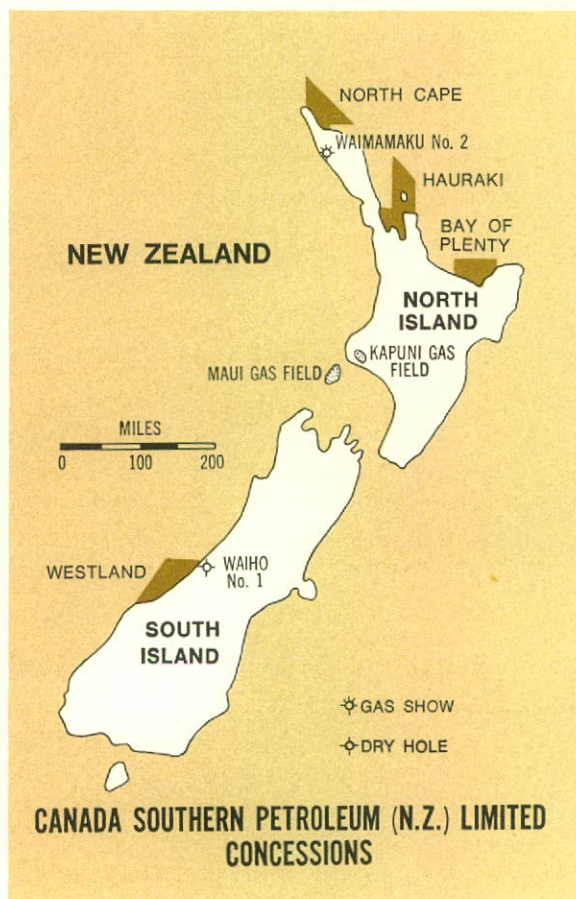
Under an agreement entered into with Panarctic Oils Ltd. in January 1972, Panarctic stands to earn an undivided 50% interest in 3,650,607 acres in wholly-owned permits acquired by the Company in 1968 and located mainly in the Sverdrup basin. Under terms of the agreement, Panarctic is required to maintain the properties in good standing through the anniversary date of the permits in 1977, and to drill at least two wells on or adjacent to Company permits. Moreover, in the event of favorable developments from seismic surveys, two additional wells will be drilled by Panarctic. Following upon the conclusion of the above agreement, the Company continued to hold 74,134 acres of 100%-owned permits in the Arctic Islands.

NEW ZEALAND

Exploratory efforts over the past year were again focused primarily within the large Westland concession area covering 1,344,000 acres lying offshore New Zealand's South Island. Seismic data previously acquired by the Company's technical advisers and correlated with data developed by New Zealand Petroleum Company Ltd. (NZP), a contiguous permit holder, were augmented during the year with additional information supplied by NZP.

Further relevant geologic information became available during recent months as a result of the drilling at an onshore site adjacent to the north-eastern boundary of the Westland block of NZP's Waiho No. 1 exploratory well. This well was abandoned in July of this year at a depth of 12,298 feet after failing to find hydrocarbons. Evaluation of information acquired in the drilling of this well, as related to formations extending to and underlying the Westland block, is now under way.

The Company's New Zealand holdings have been the object of continuing interest by other companies intent upon possible participation in joint exploration ventures covering one or more of these offshore properties. Negotiations looking to the consummation of such a venture in partnership with a major company are presently in an advanced stage.



MINERALS

Borealis Exploration Limited

Borealis' mining interests in northern Canada presently cover 513 claims distributed as follows: Baffin Island, 35; Melville Peninsula, 233; Hayes River, 30; and Hood River, 215. Each claim covers approximately 50 acres.

Canada Southern, as previously reported, owns a 20% direct interest in the Melville Peninsula properties, which, on the basis of prior exploration and

evaluation, contain an estimated 4.36 billion long tons of iron ore. This 20% direct interest is in addition to the Company's 4.19% stock interest in Borealis Exploration Limited.

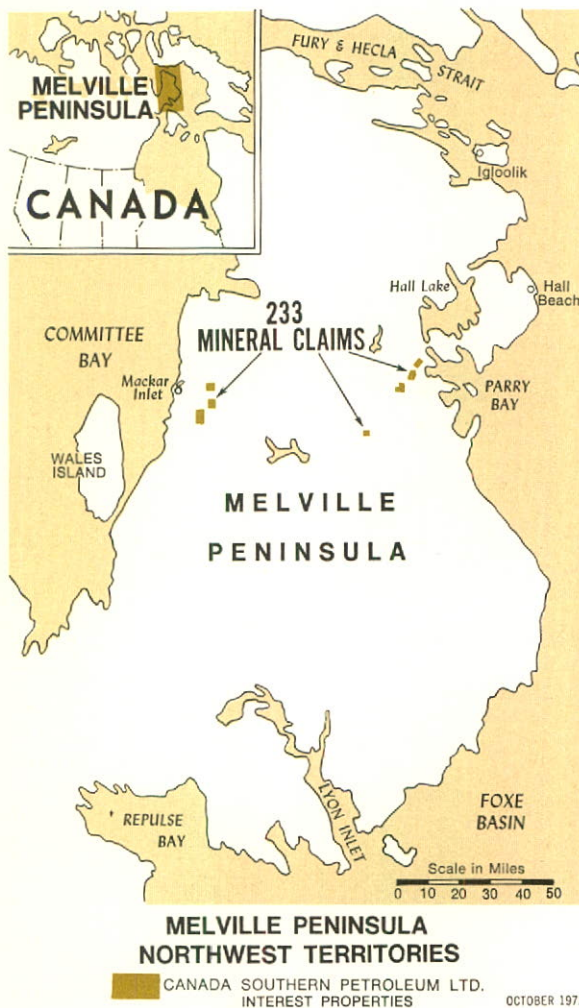
The Canadian Government has under way a "Great Plains Project," which is investigating a series of possibilities for stimulating mineral development in the Canadian northland.

Among the projects under consideration is the possibility of developing a deep water port which could handle ice-breaker freighters of up to 155,000 tons. According to members of the project committee, such vessels, if developed, would be able to operate at least for a 10-months season within waters such as those near certain Canada Southern-interest areas.

Other Mining Projects

The Company participated in two mining exploration projects in the Yukon and Northwest Territories during the year. On one of these, located in the Yukon, no finds of particular economic significance have been made to date. In the Perry River region of the Northwest Territories the Company acquired a 60% working interest in 100 claims and conducted geological and geophysical exploration on the lands. Due to bad weather conditions, not all the work planned could be completed. On adjoining claims it is understood that drilling on a promising copper and nickel showing may take place later this year should circumstances permit.

The Company continues to hold a 50% undivided working interest in a copper sulfide prospect located at Nemeiben Lake, some 15 miles northwest of La Ronge in northern Saskatchewan. This property, acquired by Canada Southern pursuant to a 1970 agreement with Uranium Valley Mines Limited, was found through exploration involving geological mapping, trenching and diamond drilling to contain ore occurrences suggesting considerable potential for extension to depth. Drilling required to define the vertical limits of the ore body is under consideration.



Canada Southern Petroleum Ltd.

ACREAGE SUMMARY—JUNE 30, 1972

	Gross Acreage in Which Interest is Held	Net Acreage		
		Held Under Lease	Held Under Permit	Total
CANADA				
Petroleum				
British Columbia				
Pacific Agreement				
Working Interest	126,937	26,641		26,641
Carried Interest	184,490	39,205		39,205
Phillips Agreement-Carried Interest . .	193,799	63,874		63,874
Other				
Working Interest	87,349	39,065	5,427	44,492
Carried Interest	24,572	410		410
Total British Columbia	617,147	169,195	5,427	174,622
Yukon & Northwest Territories				
Liard Basin				
Dome-Pan Am Agreement—Carried Interest	202,255	91,016		91,016
Other	330,428	229,708		229,708
Total Liard Basin.	532,683	320,724		320,724
Arctic Islands				
Panarctic Agreements— (see table, page 6)				
TriCeeTee	3,687,097		245,807	245,807
Other	4,622,903		3,836,602	3,836,602
Total Panarctic Agreements.	8,310,000		4,082,409	4,082,409
CSP—100%	74,134		74,134	74,134
Total Arctic Islands	8,384,134		4,156,543	4,156,543
Foxe Basin (*)	123,937		519	519
Total Canada (Petroleum)	9,533,964	489,919	4,162,489	4,652,408
Minerals				
Northwest Territories (*)	31,715		6,721	6,721
Total Canada	9,565,679	489,919	4,169,210	4,659,129
AUSTRALIA (Petroleum)	76,800		3,840	3,840
NEW ZEALAND (Petroleum)	5,268,480		1,317,120	1,317,120
Grand Total	14,910,959	489,919	5,490,170	5,980,089

(*) Includes interests held through the Company's 4.19% stock interest in Borealis Exploration Limited and the Company's 20% interest in the Melville Peninsula iron ore prospect acquired in October 1970.

Canada Southern Petroleum Ltd. (A Canadian corporation)

CONSOLIDATED BALANCE SHEET

(Expressed in Canadian dollars)

June 30, 1972 and 1971

ASSETS AND DEFERRED EXPENDITURES

	<u>1972</u>	<u>1971</u>
Current assets:		
Cash	\$ 54,523	\$ 45,804
Bank deposit receipts.	2,650,000	3,820,000
Accounts receivable	86,749	114,685
Accrued interest	28,789	45,978
Refundable deposits and prepaid expenses	4,987	33,437
Total current assets	<u>2,825,048</u>	<u>4,059,904</u>
Investments and advances:		
Borealis Exploration Limited, at cost:		
8% unsecured debentures, maturing March 31, 1978– interest accruing thereon after March 31, 1973	225,000	225,000
4.19% of common stock	84,000	84,000
Canada Southern Petroleum (N.Z.) Limited, 25% of capital stock, at equity, and advances of \$49,292 and \$31,788, respectively	49,409	31,905
PXP Steam Power Units, Ltd., 50% of capital stock, at equity, and advances of \$31,050	31,052	–
Other	6,575	6,575
Oil, gas and mineral permits, leases and interests, including well, geological and geophysical, lease rental and dry hole costs	7,300,850	6,787,883
Other exploratory expenses and general and administrative expenses deferred	3,725,779	3,843,620
Land, building and equipment, at cost less accumulated deprecia- tion of \$266,006 and \$255,558, respectively	91,256	102,283
	<u>\$14,338,969</u>	<u>\$15,141,170</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND CAPITAL

	<u>1972</u>	<u>1971</u>
Current liabilities:		
Accounts payable and accrued liabilities:		
The Catawba Corporation	\$ 19,665	\$ 33,651
Other	95,538	137,166
Current portion of mortgage loan	22,564	21,198
Total current liabilities	<u>137,767</u>	<u>192,015</u>
Deferred income	13,500	35,325
7% mortgage loan, maturing February 1974 (secured by land and building), less portion included above	15,753	38,100
Capital:		
Capital stock, par value \$1 per share:		
Authorized—15,000,000 shares		
Outstanding—8,591,520 and 8,585,706 shares, respectively	8,591,520	8,585,706
Capital in excess of par value	14,077,210	14,079,353
	<u>22,668,730</u>	<u>22,665,059</u>
Deductions from capital	8,496,781	7,789,329
	<u>14,171,949</u>	<u>14,875,730</u>
Commitments and contingent liabilities (Note 3)	<u>\$14,338,969</u>	<u>\$15,141,170</u>

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

Canada Southern Petroleum Ltd. (A Canadian corporation)

(Expressed in Canadian dollars)

Year ended June 30, 1971 and 1972

CONSOLIDATED STATEMENT OF OIL, GAS AND MINERAL PERMITS, LEASES AND INTERESTS

	<u>Balance June 30, 1970</u>	<u>Additions and transfers</u>
Oil and gas permits, leases and interests (including excess of cost of investment in certain subsidiaries over net assets acquired)	\$ 2,459,753	\$272,422
Cost of standing wells	1,551,989	14,605
Geological and geophysical expenses	1,277,519	63,040
Dry hole costs	156,904	49,965
Lease rentals	818,459	159,963
Costs related to mineral permits	100,001	186,344
	<u>\$ 6,364,625</u>	<u>\$746,339</u>

CONSOLIDATED STATEMENT OF OTHER EXPLORATORY EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED

Portion of organization, corporate, general and administrative expenses incurred by predecessor company prior to April 20, 1954	\$ 1,956,162	
Expenses of the Company since April 20, 1954:		
Salaries and employee benefits	2,236,269	\$157,275
Financial, technical and other services under contract	2,112,466	179,986
Shareholders' reports and capital stock expenses	997,688	110,067
Legal services	951,523	69,697
Building maintenance and rent	647,669	53,042
Depreciation, depletion and amortization	365,036	17,352
Interest and exchange	349,738	5,957
Lease operating costs and royalties	341,329	5,625
Geological and engineering	276,151	13,711
Transportation	180,503	7,948
Auditing services	147,913	18,164
Communications	124,914	5,893
Pipeline feasibility costs	117,248	-
Public relations	50,025	10,675
Miscellaneous	360,665	29,467
	<u>11,215,299</u>	<u>684,859</u>
Less income:		
Interest	693,145	317,694
Proceeds under carried interest agreement	451,542	328,477
Oil and gas sales	713,116	12,029
Rent	644,756	39,300
Technical and administrative services rendered	185,860	5,019
Payments received from Phillips Petroleum Company on assigned properties less refund	37,425	-
Other	132,874	488
	<u>2,858,718</u>	<u>703,007</u>
Total before abandonments and sales	8,356,581	(18,148)
Less portion of above expenses considered allocable to interests abandoned or sold	3,918,450	
	<u>\$ 4,438,131</u>	<u>\$ (18,148)</u>

The accompanying notes are an integral part of these statements.

<u>Abandonments and sales</u>	<u>Proceeds under carried interest agreement</u>	<u>Balance June 30, 1971</u>	<u>Additions and transfers</u>	<u>Abandonments and sales</u>	<u>Balance June 30, 1972</u>
\$ 72,007	\$22,282	\$ 2,637,886	\$ (173,209)	\$254,546	\$ 2,210,131
4,062	—	1,562,532	(22,009)	—	1,540,523
29,698	8,040	1,302,821	180,330	58,361	1,424,790
48,922	—	157,947	801,661	31,038	928,570
150,987	17,002	810,433	194,261	192,147	812,547
(29,919)	—	316,264	68,025	—	384,289
<u>\$275,757</u>	<u>\$47,324</u>	<u>\$ 6,787,883</u>	<u>\$1,049,059</u>	<u>\$536,092</u>	<u>\$ 7,300,850</u>
		\$ 1,956,162			\$ 1,956,162
		2,393,544	\$ 185,024		2,578,568
		2,292,452	206,405		2,498,857
		1,107,755	120,534		1,228,289
		1,021,220	55,429		1,076,649
		700,711	47,112		747,823
		382,388	15,226		397,614
		355,695	4,142		359,837
		346,954	7,467		354,421
		289,862	8,611		298,473
		188,451	11,829		200,280
		166,077	18,175		184,252
		130,807	7,270		138,077
		117,248	—		117,248
		60,700	17,171		77,871
		390,132	20,704		410,836
		<u>11,900,158</u>	<u>725,099</u>		<u>12,625,257</u>
		1,010,839	246,181		1,257,020
		780,019	357,303		1,137,322
		725,145	18,453		743,598
		684,056	36,623		720,679
		190,879	3,825		194,704
		37,425	—		37,425
		133,362	105		133,467
		<u>3,561,725</u>	<u>662,490</u>		<u>4,224,215</u>
		8,338,433	62,609		8,401,042
		4,494,813		\$180,450	4,675,263
<u>\$576,363</u>		<u>\$ 3,843,620</u>	<u>\$ 62,609</u>	<u>\$180,450</u>	<u>\$ 3,725,779</u>

Canada Southern Petroleum Ltd. (A Canadian corporation)

**CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**

(Expressed in Canadian dollars)

Year ended June 30, 1972 and 1971

	<u>1972</u>	<u>1971</u>
Source of working capital:		
Income, excluding amortization of deferred income of \$21,825 and \$23,100, respectively	\$ 640,665	\$ 679,907
Proceeds under carried interest agreement credited to oil, gas and mineral permits, leases and interests	—	47,324
Exercise of stock purchase warrants	8,552	15,105
Exercise of stock options	14,450	—
Proceeds from sales of equipment	9,090	18,148
Tax refund relating to Act Oils Limited	—	14,883
	<u>672,757</u>	<u>775,367</u>
Disposition of working capital:		
Additions to oil, gas and mineral permits, leases and interests	1,049,059	746,339
Additions to other exploratory expenses and general and administrative expenses deferred, excluding depreciation of building and equipment of \$12,424 and \$14,289, respectively	712,675	670,570
Investment in and advances to PXP Steam Power Units Ltd.	31,052	—
Investments in and advances to Canada Southern Petroleum (N.Z.) Limited and others	17,504	31,546
Expenses of capital stock offering	19,331	27,399
Decrease in 7% mortgage loan (non-current)	22,347	20,432
Net additions to building and equipment	1,397	701
	<u>1,853,365</u>	<u>1,496,987</u>
Decrease in working capital	<u>\$ 1,180,608</u>	<u>\$ 721,620</u>
Change in working capital consists of:		
Increase (decrease) in current assets:		
Cash	\$ 8,719	\$ (51,580)
Bank deposit receipts	(1,170,000)	(880,000)
Accounts receivable and accrued interest	(45,125)	2,013
Refundable deposits and prepaid expenses	(28,450)	(2,898)
	<u>(1,234,856)</u>	<u>(932,465)</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(55,614)	(212,143)
Current portion of mortgage loan	1,366	1,298
	<u>(54,248)</u>	<u>(210,845)</u>
Decrease in working capital	<u>\$ 1,180,608</u>	<u>\$ 721,620</u>

The accompanying notes are an integral part of this statement.

Canada Southern Petroleum Ltd. (A Canadian corporation)

CONSOLIDATED STATEMENT OF CAPITAL STOCK AND CAPITAL IN EXCESS OF PAR VALUE

(Expressed in Canadian dollars)

Year ended June 30, 1971 and 1972

	Number of shares	Capital stock, \$1 par value	Capital in excess of par value	Total
Balance at June 30, 1970	8,581,931	\$8,581,931	\$14,095,422	\$22,677,353
Exercise of stock purchase warrants	3,775	3,775	11,330	15,105
Expenses of capital stock offering			(27,399)	(27,399)
Balance at June 30, 1971	<u>8,585,706</u>	<u>8,585,706</u>	<u>14,079,353</u>	<u>22,665,059</u>
Exercise of stock purchase warrants	1,714	1,714	6,838	8,552
Exercise of stock options	4,100	4,100	10,350	14,450
Expenses of capital stock offering			(19,331)	(19,331)
Balance at June 30, 1972	<u><u>8,591,520</u></u>	<u><u>\$8,591,520</u></u>	<u><u>\$14,077,210</u></u>	<u><u>\$22,668,730</u></u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 1972

1. Summary of significant accounting policies

The accompanying consolidated financial statements include the accounts of Canada Southern Petroleum Ltd. (Canada Southern) and its wholly-owned subsidiaries, Act Oils Limited (Act Oils), Rampart Petroleum Ltd. and Trans-Border Holdings Limited, hereafter referred to collectively as the Company.

The properties in which the Company has interests are in an exploratory or development stage and, accordingly, all expenditures (less income) have been capitalized or deferred, except that costs and expenses applicable or considered allocable to areas abandoned and other losses, net of profits on sales of certain interests and the excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition, have been deducted from capital.

Realization of the amounts represented by investments and advances, oil, gas and mineral permits, leases and interests and other exploratory expenses and general and administrative expenses deferred aggregating \$11,422,665 and \$10,978,983 at June 30, 1972 and 1971, respectively, is dependent upon future developments, since the properties represented by these assets and deferred expenditures are substantially unexplored or undeveloped.

No provision for amortization of the amount carried for oil, gas and mineral permits, leases and interests or for other exploratory expenses and general and administrative expenses deferred is included in the accompanying consolidated financial statements. Depreciation has been provided for building and equipment by the straight-line method based on estimated useful lives. Depreciation of well equipment and amortization of intangible drilling costs pertaining to producing wells is computed by the unit-of-production method.

The Company follows the equity method of accounting for companies in which it owns 25% or more of the outstanding voting stock.

2. Investments and advances

Borealis Exploration Limited (Borealis), in consideration of the Company's agreeing to forego interest for the period ending March 31, 1973 on the 8% unsecured debentures of \$225,000 and agreeing to assist in maintaining Borealis' books and records at the Company's expense for the period ending March 31, 1972, issued to the Company 90,000 fully-paid and nonassessable shares of its common stock. These shares were valued at \$84,000, based on the above-mentioned considerations, which amount has been treated as deferred income in the accompanying consolidated financial statements, of which amount \$21,825 and \$23,100 was taken into income as a reduction of other exploratory expenses and general and administrative expenses deferred during the year ended June 30, 1972 and 1971, respectively. The Company's equity in net assets of Borealis was approximately \$24,633 and \$24,590 at June 30, 1972 and 1971, respectively. These net assets consist primarily of deferred exploratory and administrative costs. Borealis is engaged in mineral exploration in northern Canada. In fiscal 1971 the Company acquired from Borealis a 20% direct interest in certain Melville Peninsula mining claims at a cost of \$99,550.

Canada Southern Petroleum (N.Z.) Limited is engaged in exploration of concessions offshore New Zealand's North and South Islands.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 1972

In December 1971, the Company and United Canso Oil & Gas Ltd. (United Canso) each acquired 50% of the capital stock of PXP Steam Power Units Ltd., a newly organized company holding the Canadian rights to a steam power unit being developed by Pritchard Steam Power Pty. Ltd. of Melbourne, Australia.

3. Properties and related exploratory and other expenses

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

At June 30, 1972, much 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, 1972, the accumulated expenditures by the operators attributable to the Company's carried interests substantially exceeded the amounts recouped from production, except for two blocks which have reached payout status. The Company's share of profits from these blocks was \$357,303 and \$375,801 for the year ended June 30, 1972 and 1971, respectively, which amounts have been credited to oil, gas and mineral permits, leases and interests and/or other exploratory expenses and general and administrative expenses deferred in the accompanying consolidated financial statements.

The Company's share of the cost of a standing well, completed as a discovery on a permit in the Yukon during the year ended June 30, 1965 at which time the Company had a 45% working interest, amounted to \$1,121,125 at June 30, 1972 and 1971. It is anticipated that a significant amount of rework will be necessary to bring this well to production.

Most of the Company's interests in the Arctic Islands are subject to agreements with Panarctic Oils Ltd. The latter company has earned interests of 80% in a significant portion of the properties and may earn a 50% interest in seven additional blocks by carrying out a specified exploratory program.

Lease rentals, work requirements and deposits in connection with the properties and property interests held by the Company at June 30, 1972 approximate \$450,000 for the year ending June 30, 1973.

4. The Catawba Corporation

The amounts shown in the consolidated statement of other exploratory expenses and general and administrative expenses deferred for financial, technical and other services under contract represent charges from The Catawba Corporation (Catawba). Canada Southern's current (expiring July 1973) and prior contracts with Catawba have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by Canada Southern during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. Catawba provides similar services to Magellan Petroleum Corporation, Borealis Exploration Limited, Canada Southern Petroleum (N.Z.) Limited, United Canso Oil & Gas Ltd. and Magellan Petroleum New Zealand Limited. Certain of the stockholders, officers and employees of Catawba are directors, officers and/or shareholders of Canada Southern and of the other companies mentioned above.

Canada Southern Petroleum Ltd.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 1972

5. Deductions from capital, stock purchase warrants, and stock options and reservations

Deductions from capital for the year ended June 30, 1972 and 1971 are summarized as follows:

	<u>1972</u>	<u>1971</u>
Losses on abandonments or sales of interests:		
Prior years (including losses on former operations in the United States) . . .	\$13,667,082	\$12,833,110
Current year	707,452	833,972
	<u>14,374,534</u>	<u>13,667,082</u>
Profits on sales of certain interests	4,953,479	4,953,479
Excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition, including income tax refund of \$14,883 recorded in fiscal 1971	924,274	924,274
	<u>5,877,753</u>	<u>5,877,753</u>
Deductions from capital	<u>\$ 8,496,781</u>	<u>\$ 7,789,329</u>

At June 30, 1972, there were stock purchase warrants outstanding for the purchase of 612,690 shares of the Company's capital stock. These warrants entitle the holder to purchase shares of the Company's capital stock at a price of \$5.00 for each share purchased on or before December 31, 1972 and \$5.75 per share from January 1 to December 31, 1973. During the two years ended June 30, 1972, warrants to purchase 5,489 shares were exercised with proceeds to the Company of \$23,657.

On April 11, 1967, the Company's shareholders approved an incentive stock option plan authorizing the Board of Directors to grant options on 300,000 shares of the Company's capital stock. Under this plan, through June 30, 1972, options to purchase shares had been granted to The Catawba Corporation for 150,000 shares and to officers, employees and Canadian counsel for 71,000 shares. During the two years ended June 30, 1972, an assignee of The Catawba Corporation exercised options on 4,100 shares at \$3.50 (U.S.) per share, as compared with market prices ranging from \$5.375 to \$6.50 (U.S.) per share on the dates of exercise.

Stock options outstanding at June 30, 1972 are summarized as follows:

<u>Optionee</u>	<u>Date of grant</u>	<u>Expiration date</u>	<u>Number of shares</u>	<u>Option price (per share)</u>	<u>Market price (per share) at date of grant</u>
				(in U.S. dollars)	
The Catawba Corporation . . .	Jan. 8, 1968	Jan. 7, 1973	140,389	\$3.50	\$3.50
Officer	Jan. 8, 1968	Jan. 7, 1973	15,000	3.50	3.50
Employees	Jan. 8, 1968	Jan. 7, 1973	7,300	3.50	3.50
Canadian counsel	June 25, 1969	June 24, 1974	10,000	8.00	8.00
Officer	June 9, 1971	June 8, 1976	3,000	4.75	4.75
			<u>175,689</u>		

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 1972

At June 30, 1972, all of the above-mentioned options on 175,689 shares were exercisable. In addition, there were 79,000 shares reserved for future option grants at June 30, 1972. There were no other changes in stock options during the two years ended June 30, 1972.

The Company's by-law No. 6 provides that no person (as defined in such by-law) shall vote more than 1,000 shares.

6. Compensation and allocated expenses

The Company has a contributory pension plan which is in effect for all employees and is administered by an insurance company. Contributions by the Company to the pension plan on behalf of all employees were \$10,526 and \$9,447 for the year ended June 30, 1972 and 1971, respectively.

Certain employees and office facilities are shared with United Canso Oil & Gas Ltd. and certain of the general and administrative expenses represent allocated portions of common expenses. Compensation of directors, officers and senior employees allocated to or paid directly by Canada Southern, including contributions to a pension plan on their behalf, amounted to \$107,387 and \$104,995 for the year ended June 30, 1972 and 1971, respectively. Of these amounts, \$2,656 and \$5,025 were on behalf of directors and \$87,666 and \$52,878 were on behalf of officers. At June 30, 1972, there were five directors and five officers, of which one was also a director.

AUDITORS' REPORT

The Board of Directors and Shareholders

Canada Southern Petroleum Ltd.

We have examined the accompanying consolidated balance sheet of Canada Southern Petroleum Ltd. at June 30, 1972 and 1971 and the related consolidated statements of oil, gas and mineral permits, leases and interests, of other exploratory expenses and general and administrative expenses deferred, of changes in financial position and of capital stock and capital in excess of par value for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to such adjustment as would result from failure to recover in the future the amounts at which investments and advances, oil, gas and mineral permits, leases and interests and other exploratory expenses and general and administrative expenses deferred are carried in the consolidated balance sheet (see Note 1), the statements mentioned above present fairly the consolidated financial position of Canada Southern Petroleum Ltd. at June 30, 1972 and 1971 and the consolidated changes in oil, gas and mineral permits, leases and interests, in other exploratory expenses and general and administrative expenses deferred, in financial position and in capital stock and capital in excess of par value for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

New York, N.Y.
September 5, 1972

