1971

YEAR ENDED JUNE 30

Annual Report

Canada Southern Petroleum Ltd.

Canada Southern Petroleum Ltd.

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BENJAMIN W. HEATH
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WILLIAM SHIELDS, JR.

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Chairman of the Board
and
President

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Vice President and Controller

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Treasurer

K. ROSS JORDAN
Assistant Secretary and Assistant Treasurer

Auditors

Arthur Young, Clarkson, Gordon & Co.

Transfer Agents

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

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, or to 940 Eighth Avenue South West, Calgary, Alberta, Canada

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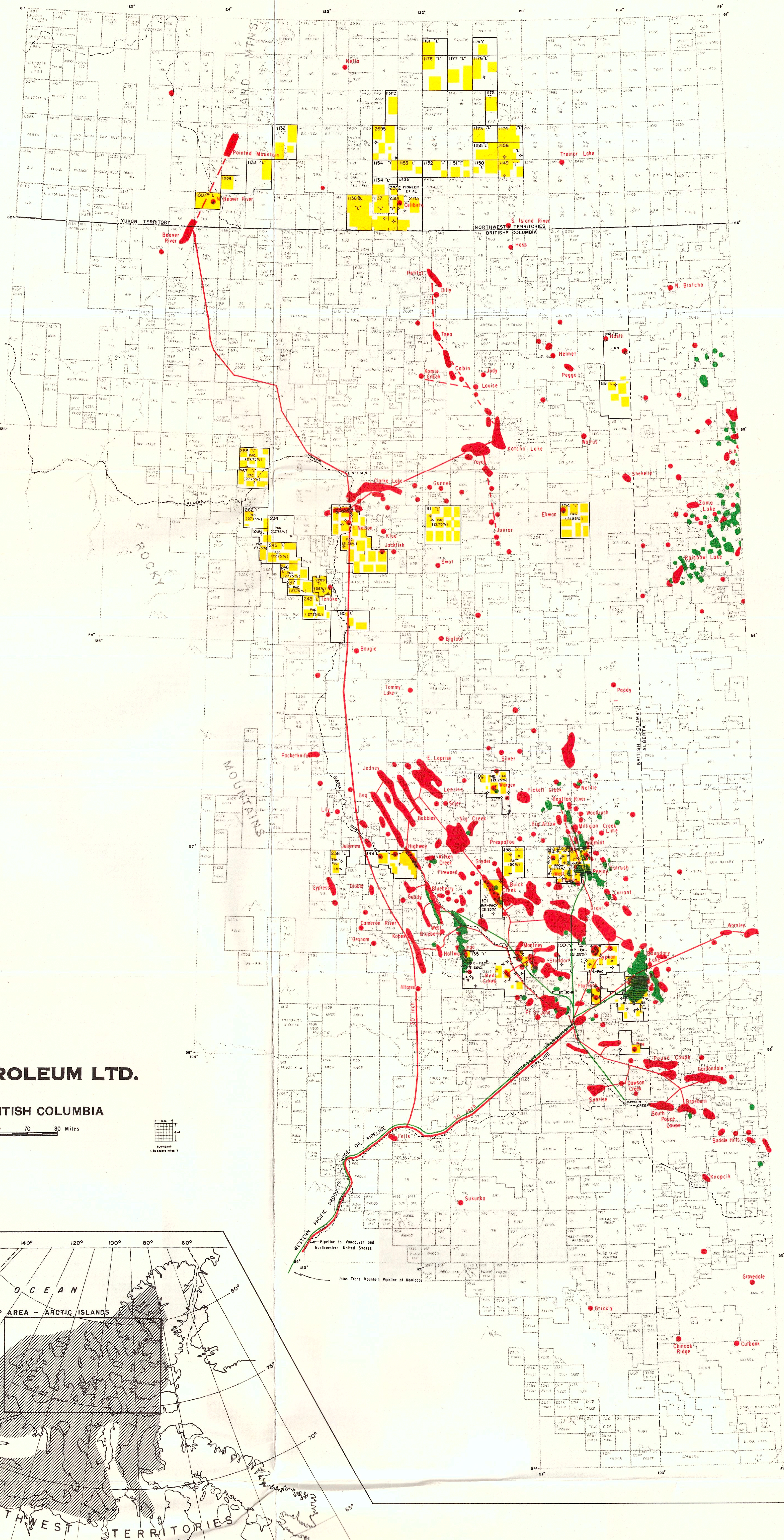
*Deceased October 31, 1971

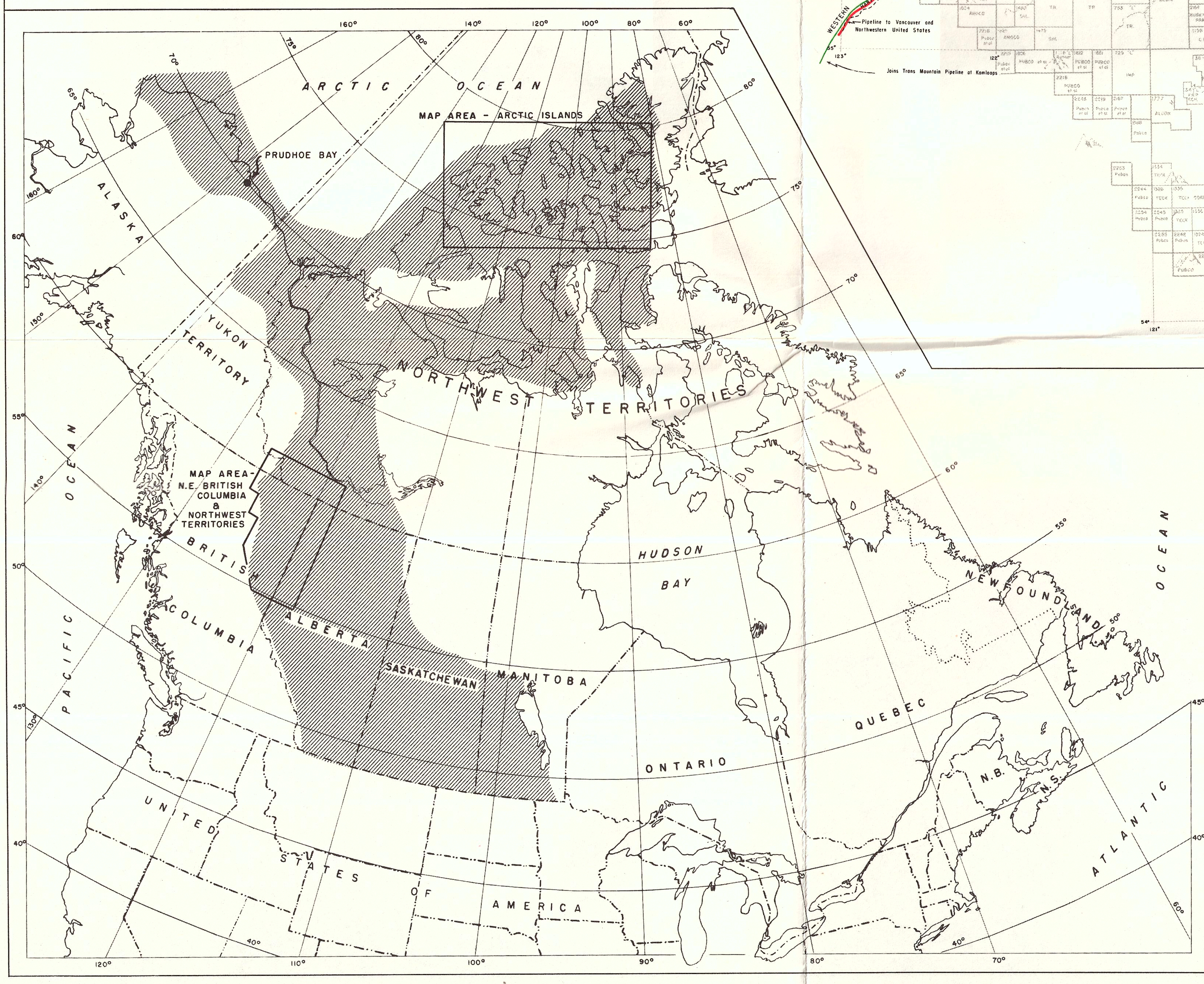
HOLDINGS OF
CANADA SOUTHERN PETROLEUM LTD.
IN
NORTHWEST TERRITORIES & N.E. BRITISH COLUMBIA

OCTOBER, 1971

- 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 Pete. (Percentage of Interest Shown in Brackets)

98 "L" . . . "L" indicates permit converted to lease.



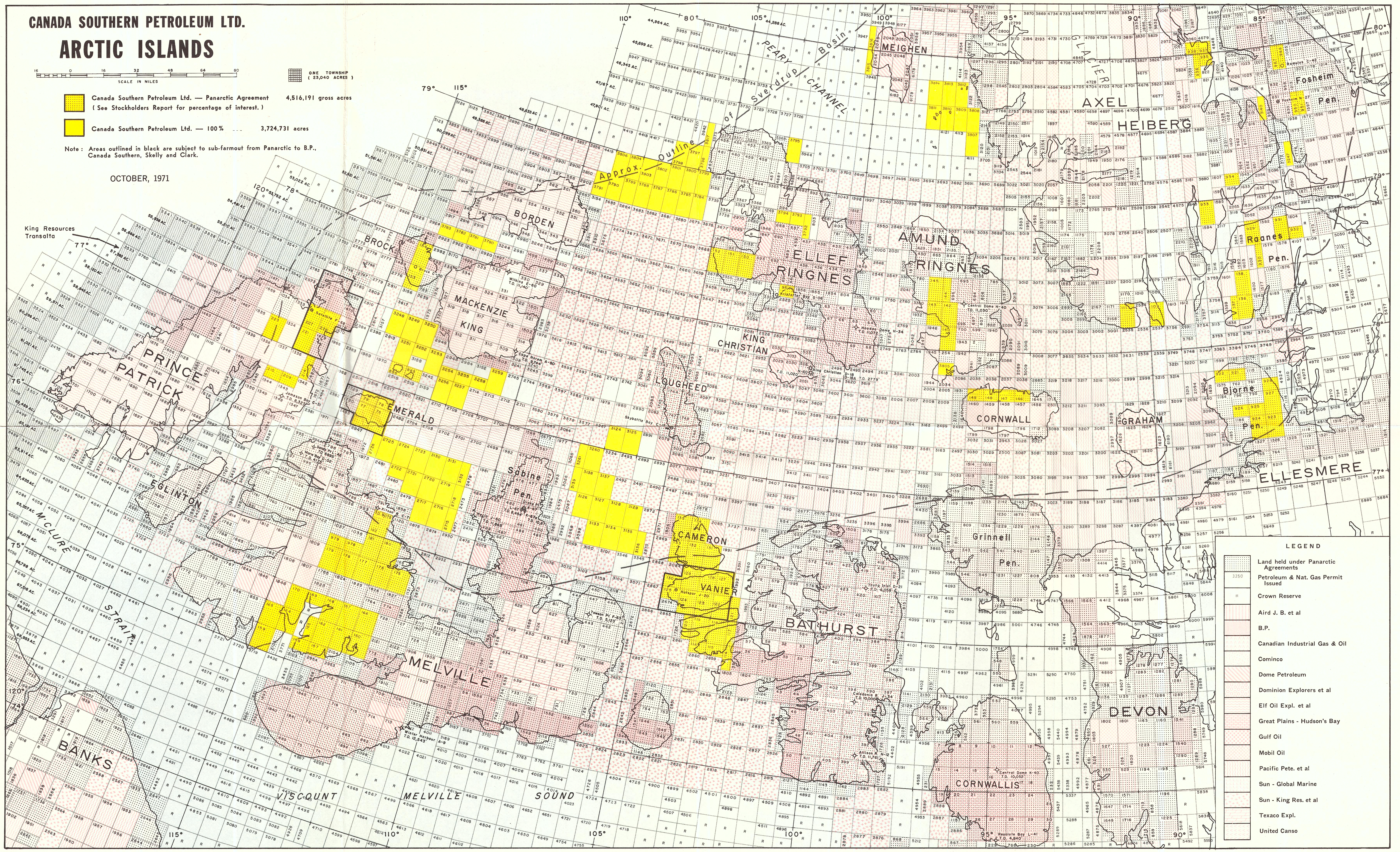


CANADA

Miles

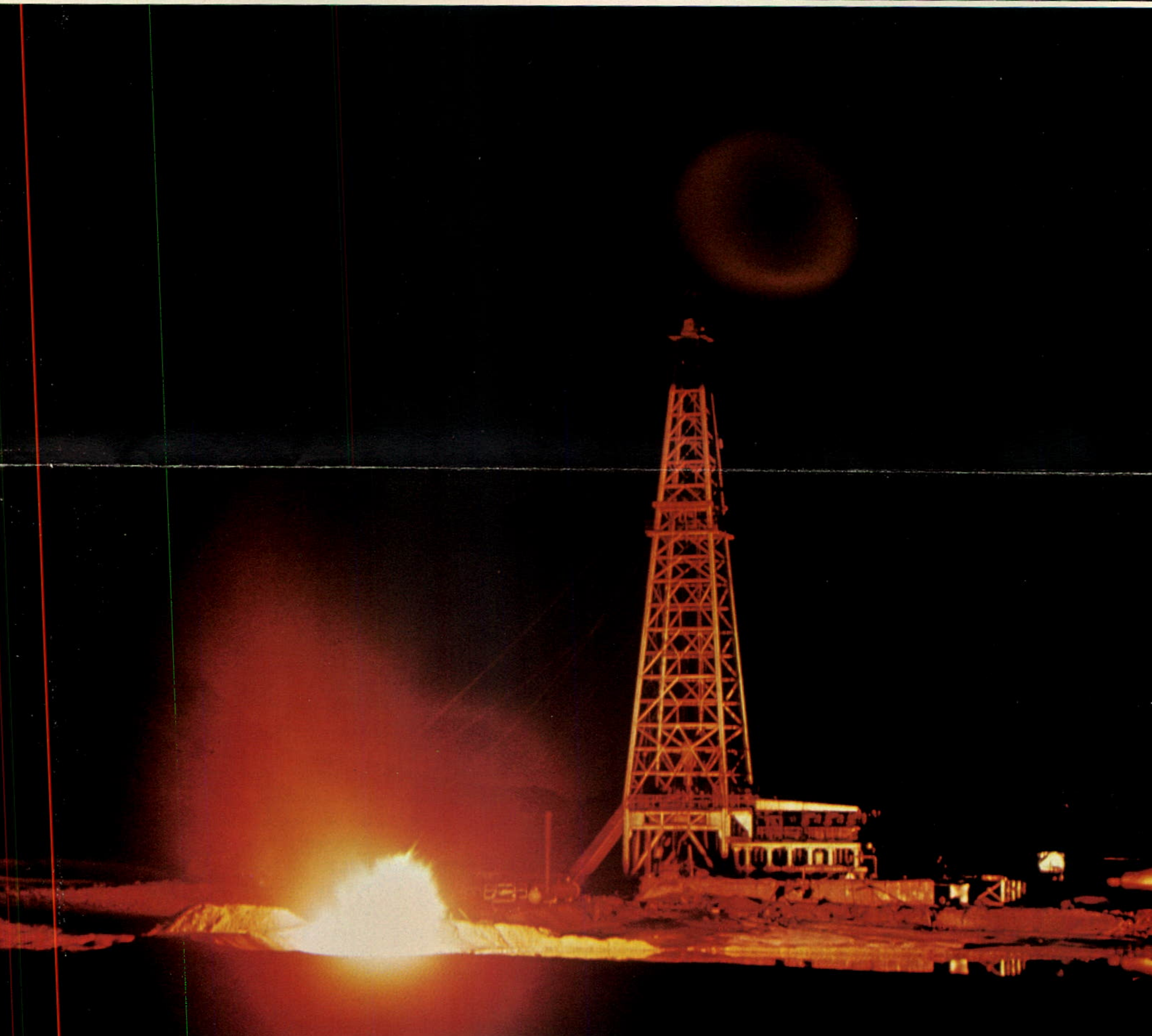
Approximate area of major sedimentary basins of Western Canada & Arctic Regions to depth of 1,200 feet of water.

LITHOGRAPHED IN CANADA BY THE WESTERN PRINTING & LITHOGRAPHING CO. LTD., CALGARY, ALBERTA


CANADA SOUTHERN PETROLEUM LTD.
ARCTIC ISLANDS
SCALE IN MILES
ONE TOWNSHIP (23,040 ACRES)
Canada Southern Petroleum Ltd. — Panarctic Agreement 4,516,191 gross acres
(See Stockholders Report for percentage of interest.)
Canada Southern Petroleum Ltd. — 100% 3,724,731 acres
Note : Areas outlined in black are subject to sub-farmout from Panarctic to B.P., Canada Southern, Skelly and Clark.
OCTOBER, 1971
King Resources Transalta
LEGEND
Land held under Panarctic Agreements
Petroleum & Nat. Gas Permit Issued
Crown Reserve
Aird J. B. et al
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
Sun - Global Marine
Sun - King Res. et al
Texaco Expl.
United Canso
Approx. Outline of Sverdrup Basin
PEARY CHANNEL
MEIGHEN
AXEL HEIBERG
Fosheim Pen.
BORDEN
BROCK
ELLEF RINGNES
AMUND RINGNES
Raanes Pen.
MACKENZIE KING
KING CHRISTIAN
PRINCE PATRICK
LOUGHEED
EMERALD
CORNWALL
GRAHAM
Bjorne Pen.
ELLESMERE
EGLINTON
Sabine Pen.
CAMERON
VANIER
Grinnell Pen.
M'CLURE STRAIT
BATHURST
MELVILLE
DEVON
BANKS
VISCOUNT MELVILLE SOUND
CORNWALLIS

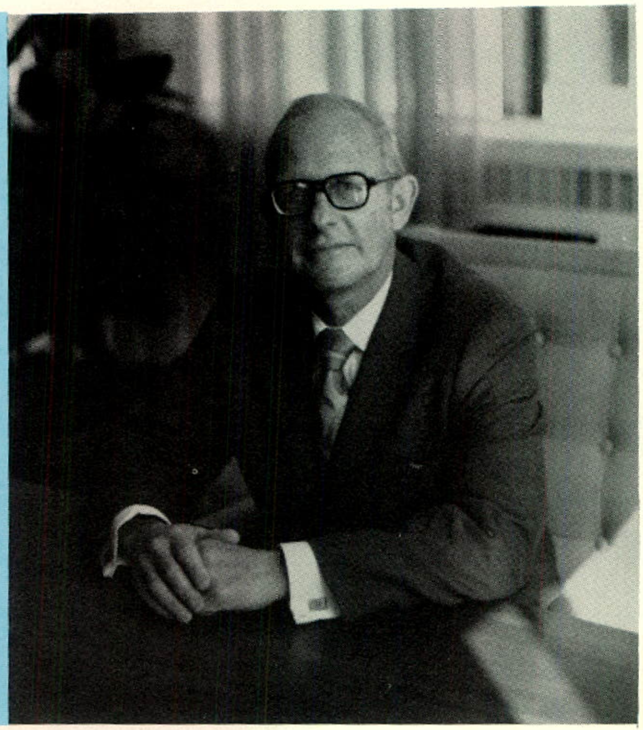
OIL & GAS JOURNAL

PUBLISHED WEEKLY



Best Arctic Islands targets face drill

Charles R. Hetherington, an ex-pipeliner, directs Panarctic Oils' fascinating search—probably the world's most closely watched exploration campaign—for elephant oil and gas finds on top of the world. And he is supremely confident they are near at hand—very likely by next year. He tells why in this interview with the Journal in Calgary.



Best Arctic Islands targets face drill

Panarctic Oils finishing up its obligatory drilling to fulfill farm-in commitments. Next year, Pres. Charles Hetherington says, the company will start drilling top-grade prospects on some truly huge structures.

IT TOOK native Oklahoman Dr. Charles R. Hetherington, president of Panarctic Oils Ltd., 25 years to take up his favorite sport again—polo, which is not exactly everyone's pastime, not even in horsepower conscious Calgary.

But he is determined it will take him much less time to achieve his greatest goal yet: major discoveries in the Arctic Islands connected to North American markets, preferably by pipeline. He is optimistic about his chances to see this happen and to see his firm grow perhaps even into an integrated company.

"Our birth pangs are over. We have had a measure of success in this quite promising area, and we believe that the future is just around the corner," he tells the Journal.

Hetherington compares the 55 million acres held by Panarctic to total acreage under lease in the western provinces—42 million acres in British Columbia and 86 million acres in Alberta. During the last 20 years about $100 million has been spent by industry on all of the Arctic Islands, he points out.

"Panarctic has spent half of this amount during the last 4 years. For the size of the land holdings in the Arctic Islands these are rather small amounts. Exploration spending has reached about $1.3 billion in Alberta and about $600 million in British Columbia. We have quite literally, only scratched the surface."

Following Prudhoe Bay and Panarctic's own Drake Point and King Christian gas discoveries, however, the situation is rapidly changing from one in which only geologists took an interest in the area to the present situation in which the Arctic Islands have captured the imagination of industry and public alike.

Best still to come. Until the end of next year Panarctic has $26 million to spend from its own funds, bringing the total spent since its inception to $76 million.

A gas-development agreement with four firms has put another $75 million at the consortium's disposal (OGJ, July 19, p. 32). Present farmout agreements will add another $50 million for work on Panarctic's lands, "and we are still negotiating with others."

Total available during the next 5 years amounts to $175 million.

"With this amount of money and the program we have planned, we expect to make some very substantial discoveries," Hetherington predicts.

"Moreover," he says, "we have not drilled any of our top-grade geological prospects yet. Of the 20 commitment wells we have drilled, our current Fosheim well and Sun Oil's planned test on our Prince of Wales block are the last ones. Option wells through farmouts are still a possibility, but essentially, after this year is out, we will be able to direct our interest at what we consider to be the best locations."

Search for elephants. Geological conditions are such, Hetherington insists, that elephant finds are well nigh inevitable. And offshore drilling between the islands is likely to occur by 1975.

"This fall nine rigs will be drilling in the Arctic Islands—all of them on lands controlled by Panarctic," he reports. Five rigs will be under contract to Panarctic, two to British Petroleum, and one each to Elf Oil

Exploration & Production and to Sun Oil Co.

A great number and several types of structures provide ideal trapping conditions for many thick and porous sands, which are literally backed up by large volumes of potential source rocks, Hetherington says.

"We have identified some 250 structures that justify drilling. Some of them are in the same class, so we will not have to drill 250 wells. One test can evaluate two or three structures of the same type in the same environment," he explains.

"Also, for some reason we have much more gentle and much larger structures in the islands than we have in western Canada and, indeed, in most parts of the world. The structures are more of the Middle East type and may be from 15 to 100 miles long with vertical closures of several thousand feet."

Easier exploration. "This combination of nice reservoir rocks, big structures, and the fact that we can see these structures for the most part—due to the lack of soil, drift, and vegetation—leads me to think that exploration is going to be much easier in the Arctic Islands than in other parts of the country where the structures are obscured. And when we do find hydrocarbon deposits they ought to be much larger than average.

"Another stroke of luck for exploration is the fact that sands are very thick. One sand at the top of the Triassic zone, for instance, has been measured with thicknesses of up to 4,000 ft. The pay sand in our King Christian find is over 1,000 ft thick, and the porosities are quite high—between 20 and 30%, averaging 25-28%. Permeability is a lofty 1 dy.

The step-out N-06, Hetherington said last week, flowed steadily at the prolific rate of 165 MMcfd during final tests. It is now suspended.

"While our cost of exploration is certainly high, I still believe it possible that costs per unit of oil or gas may be comparable with exploration results in other parts of Canada."

Outlet for crude. Transportation of oil from northern areas doesn't worry Panarctic despite the wide spread of its holdings.

The company's 86,000 sq miles of leases stretch 1,000 miles from Banks Island on the southwest to Ellesmere Island on the northeast, and from Brock Island on the northwest to Somerset Island on the southeast.

The current test on Ellesmere's Fosheim Peninsula is just 700 miles from the North Pole. It also lies north of Ontario, largest market area in eastern Canada.

Hetherington says, "If we discover oil on Ellesmere, it looks to me as if it would be quite a simple job to get the oil out. We have plotted a possible pipeline route from Fosheim Peninsula on the west side of Ellesmere to Makinson Inlet on southeast Ellesmere.

"We believe that ordinary ice-strengthened tankers, as opposed to ice-breaking tankers, can take oil out from here for 10 months of the year with ice-breaker support.

"Tankers would take the route along the west side of Greenland where warm currents from the Atlantic reduce ice conditions considerably. Taking this route, tankers can either go to markets along eastern Canada and the U.S. or to Europe.

"But discovery in the western islands would present quite a different problem. From, say, Melville Island we could take the oil in a pipeline to Ellesmere for the same Makinson Inlet loading terminal. We already have found possible routes for such a pipeline in less than 600 ft of water."

The thought of laying pipe under ice-covered Arctic channels doesn't frighten Hetherington.

"The problems haven't been solved, of course, but it appears entirely feasible as we see it now. We do not have large icebergs passing down these channels. Once a pipeline has been put down into 300-500 ft of water I see no problem.

"To avoid ice scouring where the pipe enters the water, precautions must be taken. For instance, the pipe could enter into deep water in a protected cove covered with land-fast ice."

Spring ice is about 10 feet thick on average.

"What most people don't realize is that over a good part of the area ice melts completely during the summer in various years. This year is a warm year, and the offshore area is essentially ice-free. Currents, which flow from north to south, are not fast. Tide is virtually nonexistent, and the water is generally calm even when ice-free, except for the odd strong wind."

Hetherington is on much surer ground when talking pipeline feasibility than most explorers. He moved to Canada in 1948 and supervised the design engineering studies for the first major gas-transmission project in Canada — Westcoast Transmission Co.'s trunk line from northeastern British Columbia to the U.S. Pacific Northwest—while with Ford, Bacon & Davis. The line was completed in 1957, and Hetherington became vice-president of Westcoast and a director of the firm after a short stint as a consultant in Calgary. He became a Canadian citizen in 1959.

Gas-line plans. Panarctic favors pipelines over any other method of transportation when it comes to gas.

Electric-power generation does not appear to be the answer. Nor does liquefaction of gas appear to be too attractive, because plant construction in the Arctic would be many times that of other areas. Besides, LNG still has to be brought out by tanker. Pipelines are the most obvious solution.

"In the channels between the islands we would use multiple, heavy-wall pipes, and then on the mainland combine them into a single line of at least 48-in. diameter, carrying 3-4 billion cfd and requiring a reserve of about 20-30 trillion cu ft.

Pipelines of from 2,000 to 2,500 miles already exist. From King Christian to Montreal it is 2,500 pipeline miles, and to Chicago 2,800 miles, with 150 miles constituting offshore crossing in both cases. By comparison, it is 3,100 miles from Prudhoe Bay to both Chicago and Southern California.

"Any of the larger structures (about 50) among the 250 mapped by Panarctic so far could easily hold the required minimum reserve needed for such a pipeline. Of course, several smaller reservoirs can readily combine for the required total.

"Since the discovery of King Christian field we have accelerated our exploration program, and we have subsequently located a handful of other structures which look quite similar to the King Christian structure—including some which are up to five times as large."

The future. What will happen once Panarctic has made the big strikes?

"At this stage Panarctic is solely involved in exploration, and the future depends on what we ultimately find. If we come up with large oil discoveries, it is entirely possible that Panarctic will become an integrated producer, refiner, and marketer.

"If large gas supplies are found, I anticipate that we would get into the gas-transportation business."

Canada Southern Petroleum Ltd.

To the Shareholders:

The magnitude of the petroleum industry's exploratory effort in the Canadian Arctic results from three basic factors: first, a seemingly insatiable worldwide demand for energy; second, the presence in Canada of a political climate hospitable to free enterprise; and third, the recognition that the Arctic Archipelago is likely to become one of the world's great oil and gas provinces.

As a measure of the rapid upsurge in demand for energy, United States requirements, which approximately doubled in the 20 years through 1970, are expected to double again during the 15 years through 1985, with a further doubling of the 1985 rate in prospect by the year 2000. Energy demands in other industrialized countries are expected to increase at even greater rates, reflecting sharp growth from lower base levels.

Increasingly in recent years, the ability of the petroleum industry to keep pace with rising world demand for oil and gas has been adversely affected by the oppressive tactics of certain producing nations, predominantly in the Middle East, bent upon a complete restructuring of the petroleum industry within their borders.

A direct result of these tactics has been the redirection by most international petroleum companies of their exploration projects and budgets to more politically stable and geologically attractive areas where conditions favor the organization of large-scale, heavily-financed programs dedicated to the search for new sources of hydrocarbons. A principal beneficiary of this redirection of exploratory effort is the Canadian Arctic, where your Company now holds interests in more than 8,200,000 acres. Such is the potential of this vast area that if future promise turns to reality, the resources hidden within the Arctic subsurface could very well produce a major shift in the balance of world petroleum power.

The results of Arctic Islands exploration, measured against the western Canadian experience, have been impressive. Panarctic Oils Ltd., the Canadian government-private industry consortium to which the Company has consigned a significant portion of its Arctic Islands acreage, reports having identified to date no less than 250 structures that justify drilling. Two major gas discoveries have been made by the consortium. The N-06 well on King Christian Island, a two-mile stepout to the discovery well, flowed gas on final tests in recent weeks at the rate of 165 million cubic feet daily.

Panarctic King Christian D-18A, a deviated well used to kill the D-18 discovery well which had blown out, was completed in May 1971 as a gas well with a reported absolute open flow test of 264 million cubic feet per day, making it one of the largest gas wells on record.

Nine drilling rigs will be operating on seven separate islands in the Arctic and exploration in the 1971-72 winter drilling season is expected to exceed that of the previous two years. Recently, two major companies have entered the Arctic Islands campaign and have announced multi-million dollar exploration programs. An indication of the great importance attached to the potential of the Arctic Islands is the recent actions of several of the largest United States gas companies in attempting to augment their future supplies by agreeing to advance exploration funds against the right to a preferential position in purchasing any gas which may be discovered.

With the likelihood of an estimated gross investment in excess of $250 million dedicated to the Arctic Islands search during the next five years, many geologists reportedly are forecasting a discovery ratio for the islands many times better even than that of western Canada.

In addition to approximately 4,500,000 gross acres committed by Canada Southern to the Panarctic venture, the Company holds 3,725,000 acres of wholly-owned offshore permits in the Arctic Archipelago. These offshore holdings are situated in water depths ranging from less than 100 feet up to 1,600 feet. This latter depth may shortly come within the range of capability of advanced ocean drilling techniques. Moreover, recent studies of seasonal patterns of ice movement in polar seas suggest that these vast areas may be susceptible within the near future to drilling at costs commensurate with those incurred on surrounding islands. Meantime, Canada Southern benefits from onshore drilling activity in proximity to its offshore properties.

Canada Southern is participating currently in a 12,000-foot test being drilled on Vanier Island, located midway between Melville and Bathurst Islands, as well as in a drilling venture on Prince Patrick Island at the westerly end of the Arctic Islands chain.

The Company will also participate in at least four other important tests of the Panarctic group, namely, on Brock Island, on Ellef Ringnes Island, and on Ellesmere and Axel Heiberg Islands. The latter two wells will be obligation wells located on Canada Southern's wholly-owned lands, and will be drilled with no cash outlay by the Company.

Details of these island operations are covered in the Operations Review section of this report.

Elsewhere, a significant development in western Canada enhancing Canada Southern's property interests in the lower Yukon and Northwest Territories was the completion in March of this year by Westcoast Transmission Company Ltd. of its pipeline extension from the Fort Nelson, B.C. gas processing plant north to the Beaver River gas field. Completion of this 24-inch trunkline is expected to spur increased exploration in this promising area.

In New Zealand, Canada Southern's offshore concessions have been the object of intensive geophysical evaluation over the past year. These properties consist of permit interests in approximately 5,300,000 acres lying offshore the western coast of South Island and off the northeastern coast of North Island. Exploration activity during the past year has centered principally in the area of the Westland concession, a 1,344,000-acre tract off the west coast of South Island. Westland's features are highly rated because of their size, the presence of petroliferous sediments in the onshore segment of the Westland basin, and the common association of large oil accumulations with reefal build-ups in many known petroliferous basins throughout the world. Drilling plans for Westland are expected to follow the evaluation of existing data.

Ten years ago, in the course of advising the Shareholders through the 1961 Annual Report of a material increase in our Arctic Islands acreage, I wrote: "We confidently expect the Arctic Islands to be a great petroleum province within the foreseeable future. Its potential is almost staggering to the professional oil hunter and its appearance to date far surpasses that of many of the world's major producing areas." The events of the past decade have served to reinforce that early estimate of this vast area's great potential. It is my conviction that your Company will participate on an increasingly significant basis over future years in the petroleum industry's all-out search for hydrocarbons sufficient to meet the world's rapidly rising energy requirements.

It is with profound regret that we record here the death in London, England on October 31, 1971 of Mr. Cyril King Kempston, Secretary of the Company. Mr. Kempston served the Company and its predecessors faithfully and with distinction through two full decades, having joined our Calgary office on November 1, 1951. His associates within the Company share with the Kempston family a deep and abiding sense of sorrow in their great loss.

Succeeding pages of this report include a detailed summary of the Company's operations in the Arctic Islands and New Zealand, as well as in British Columbia, the Yukon and Northwest Territories. Also included are audited financial statements for the year ended June 30, 1971.

On behalf of the Board of Directors,

John W. Buckley

Chairman of the Board

November 2, 1971

OPERATIONS REVIEW

PETROLEUM

CANADA

British Columbia

Nine wells drilled on Canada Southern acreage in British Columbia during the past year resulted in two gas wells and seven dry holes. Major attention centered on the Siphon Creek-Flatrock area northeast of Fort St. John, where drilling was encouraged by the discovery of oil in the Ballinderry et al. Flatrock No. 10-19 well drilled at a location one-half mile from Canada Southern-interest Lease No. 771. Unfortunately, follow-up drilling in the vicinity of the discovery well proved disappointing. The area remains active, however, and two wells recently drilled on Company-interest acreage resulted in an additional gas well and one dry hole.

Considerable interest was focused on northeastern British Columbia at a Crown sale held in September 1971. Canada Southern in a joint bid (CSP, 25% working interest) with Phillips Petroleum and Triad Oil Manitoba (a British Petroleum affiliate) succeeded in acquiring a 21,709-acre permit in the Tenaka area southwest of Fort Nelson, adjoining the easterly border of the Company's former Permit No. 247. All six permits offered to the west of Canada Southern's north block of permits, Nos. 245-248, were sold at the Crown sale, as were a permit and drilling reservation adjoining to the east.

Yukon and Northwest Territories

A major accomplishment having far-reaching implications for future development of this area was the completion in March 1971 of the 110-mile, 24-inch pipeline extension constructed by Westcoast Transmission Company Ltd. from Fort Nelson, B.C. to the Beaver River gas field straddling the British Columbia-Yukon border.

To date, six wells on Pan American Petroleum Corporation's 100%-owned properties in the Beaver River field have found commercial quantities of gas. In the nearby Pointed Mountain gas field at the southwest corner of the Northwest Territories, nine miles north of Canada Southern's 12,720-acre Lease No. 211-67 (CSP, 90% working interest), Pan American has completed four gas wells.

The Beaver River gas plant of Amoco Canada with a daily capacity of 240 million cubic feet is scheduled to go on stream this fall. Amoco Canada also announced recently that construction has commenced on another plant in the Pointed Mountain gas field 30 miles to the northeast with a daily capacity of 188 million cubic feet.

The Company has interests in a total of 44,608 gross acres (25,933 net acres) at North Beaver River, midway between these two prolific fields, on which a discovery well was completed several years ago. It is hoped that development can now proceed in this area.

Westcoast Transmission's announced plan to construct a "tie-in" of the Beaver River-Pointed Mountain gas fields later this year is regarded as providing impetus for continued development of both fields as well as increased exploration in contiguous areas. Much of the Company's property interests in this region is held in the form of carried interests, thereby permitting continued retention of Canada Southern's equity in such properties without cash outlay by the Company.

Three wells drilled on the Company's lands in the Celibeta-Trout Lake area in the Northwest Territories, east of the Pointed Mountain field, were dry and abandoned. Additional seismic work was accomplished on these lands during the past year.

Carried Interest Agreements

By reference to the Acreage Summary shown on page 9 it will be noted that much of the Company's property interests in British Columbia and in the Yukon and Northwest Territories is identified as carried (net profits) interests. Under the carried interest agree-

Company-interest properties included in Panarctic Agreements

Islands	Gross Acres	Interest to be retained by Company (1) % W.I.	Net Acres
TriCeeTee Agreement Prince Patrick, Brock, Melville, Emerald, Vanier, Ellef Ringnes, Amund Ringnes, Cornwall, Axel Heiberg, etc.	3,687,097	6.667(2)(6)	245,819(6)
CSP-Clark-Skelly Eight Bears	57,210	8.000(3)	4,577
CSP-B.P. Melville	62,650	17.500(4)	10,964
CSP Axel Heiberg, Ellesmere	709,234	20.000(5)	141,847
	4,516,191		403,207

(1) Depending on Panarctic's actual expenditures in the entire Arctic Islands program, from a minimum of $20,000,000 to a maximum of $30,000,000, it would earn from a 20% to 80% working interest in the TriCeeTee properties and from a 26 2/3% to an 80% working interest in the other properties. As Panarctic's expenditures substantially exceed $30,000,000, the Company's net retained acreage is shown as it will be upon the completion of the obligation wells currently being drilled.

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

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

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

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

(6) 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.

ments in which it participates, the Company is not required to make expenditures on the properties but is entitled to share in production proceeds after expenditures on a given acreage block have been recouped out of such proceeds. The Company may convert to a working interest at any time by paying its pro-rata share of unrecouped expenditures.

The table on pages 6 and 7 shows the status of the Company's several acreage blocks under the various carried interest agreements. Blocks F and G under the Phillips Agreement have reached payout status and the Company's share of profits from these blocks totaled $375,801 for the year ended June 30, 1971. The prospect for payout of other blocks is indicated by a comparison of the net expenditures column with the production proceeds column for the current year. The extreme right-hand column shows the cost to the Company to convert to a working interest for any block.

Arctic Islands

In Canada's Arctic Islands 21 wells have been drilled to date, resulting in two prolific natural gas discoveries, one at Drake Point on Melville Island and the other on King Christian Island. The second well

Status of Carried Interest Agreements as at June 30, 1971

Permit No.		Cumulative to June 30, 1969 Gross Expenditures	Production Proceeds
Pacific Agreement			
Ex. Permits 100-104		$14,159,229	$7,163,685
Phillips Agreement			
Ex. Ps. 267, 268	(Block A)	1,503,326	
Ex. Ps. 262, 234, 266, 245-248	(Block B)	1,950,074	
Ex. P. 149	(Block C)	5,203,013	279,546
Ex. P. 158	(Block E)	557,426	
Ex. P. 178	(Block F)	1,988,531	1,546,638
Ex. P. 224	(Block G)	4,235,039	4,999,415
Dome-Pan American Agreement			
Ex. Ps. 1007, 1132, 1133		35,409	
Ex. Ps. 1136, 2713, 1137, 2301, 1153		304,942	
Ex. Ps. 1149, 1156, 1178, 1181		1,005,593	

* Block F net proceeds from production became payable to the Company in July 1970, and by June 30, 1971 the Company's share amounted to $99,034.

**Block G net proceeds from production became payable to the Company in December 1968, and by June 30, 1971 the Company's share amounted to $784,977.

on King Christian was reported recently to be flowing gas on test at a steady rate of 165 million cubic feet per day.

In addition, Panarctic deepened Panarctic King Christian D-18A, a deviated well used to kill the D-18 well which had blown out. Panarctic D-18 was reported to have had a gas flow of up to 50 million cubic feet per day from the Triassic Heiberg formation and burned out of control for three months before D-18A was drilled and the blow-out extinguished. D-18A was completed in May 1971 as a gas well at a depth of 2,779 feet with a reported absolute open flow test of 264 million cubic feet per day, making it one of the largest gas wells on record.

There are at present six probes either under way or with rigs moving to location, the expectation being that a total of nine rigs will be active as the 1971-72 winter drilling season begins in earnest.

Of particular importance to Canada Southern is the B.P. et al. Panarctic Hotspur J-20 well, presently nearing target depth of 12,000 feet. This test, in which the Company holds a 10.66% working interest, is being drilled on Canada Southern-interest Permit No. A-125 on Vanier Island pursuant to a sub-farmout agreement concluded in March 1970. Under terms of the agreement with Panarctic Oils Ltd., participated in by the Company, B.P. Oil Limited, Triad Oil Co. Ltd., et al. as farmees, Canada Southern undertook to pay 10% of the expenditures of the planned drilling program covering 1,174,685 acres on Prince Patrick, Vanier and Emerald Islands.

In addition to the Vanier Island test, the above group has a rig on location on Prince Patrick Island

Year Ended June 30							Company Interest	
1970		1971		Cumulative to June 30, 1971				Cost to Convert to a Working Interest
Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Net Expenditures	%	
$795,941	$ 794,455	$683,991	$ 620,038	$15,639,161	$8,578,178	$7,060,983	21.25	$1,500,459
37,656		37,748		1,578,730		1,578,730	27.75	438,097
83,295		71,665		2,105,034		2,105,034	27.75	584,147
26,238	(1,952)	214,681	(887)	5,443,932	276,707	5,167,225	50.00	2,583,612
24,425		24,425		606,276		606,276	50.00	303,138
42,286	448,284	35,314	462,981	2,066,131	2,457,903	(391,772)	27.75	*
267,858	1,426,742	135,535	1,164,566	4,638,432	7,590,723	(2,952,291)	27.75	**
45,702		92,627		173,738		173,738	45.0	78,182
20,067		74,945		399,954		399,954	45.0	179,979
23,573		42,488		1,071,654		1,071,654	45.0	482,244

where drilling of the B.P. et al. Panarctic Satellite F-68 well was commenced in September 1971. This well also is programmed as a 12,000-foot probe and on October 29 was drilling at 2,110 feet.

The Company may also be a participant in an optional drilling venture on Emerald Island, located between the Drake Point discovery on Sabine Peninsula of Melville Island and the Satellite test on Prince Patrick Island. This would be the third of the three-well program under the sub-farmout agreement with Panarctic.

There will be at least four other important Arctic tests in the near future which will be of considerable interest to the Company. On Ellesmere Island Panarctic will drill a test on Company-interest Permit No. 966, using the rig from Fosheim N-27 approximately 25 miles to the south. Presently the Fosheim test is drilling at 12,951 feet with an expected total depth of 14,000 feet.

Under the exploration program recently announced by Imperial, that company will drill a test well on or near the Company's Permit No. 935 on the eastern shore of Axel Heiberg Island, approximately 40 miles northwest of the Fosheim N-27 test.

Panarctic has commenced operations for another test on Ellef Ringnes Island approximately one-half mile west of the southwest corner of Canada Southern-interest Permit No. A-95 and about 40 miles northwest of the King Christian D-18 gas discovery well. The new well, Panarctic Tenneco et al. Kristoffer Bay G-06, is projected as a 12,500-foot test with drilling to be commenced in November 1971.

Panarctic also recently announced plans for the 14th well in its Arctic program specifying a drilling site on Brock Island at the west end of the Arctic chain. This well, a 14,000-foot test, will be drilled on Company-interest Permit No. 153.

Canada Southern also is participating in a seismic program designed to investigate a promising anomaly which underlies a portion of the Company's 100%-owned properties.

A high level of exploration activity in the Arctic Islands seems assured over the next several years as a result of the substantial infusion of capital reported by Panarctic Oils Ltd. and others in recent months. Panarctic, formed in 1967 as a joint 45%-55% effort of the Canadian government and private industry, respectively, was underwritten initially as a $20 million venture. The original commitments of the participating parties have been increased subsequently to a level in excess of $50 million.

Last July, Panarctic announced that four United States gas transmission and utility companies had agreed to advance the consortium $75 million for greatly expanded Arctic Islands exploration and development over the next five years in exchange for preferential positions for negotiating the purchase of any gas developed as a result of the Panarctic program and declared surplus to Canadian requirements. Of the total $75 million advanced, $50 million will be allocated for exploration drilling. The remaining $25 million is to be used for stepout drilling to delineate gas reserves following discovery. When a market is assured, additional funds reportedly will be forthcoming at Panarctic's request for the drilling of development wells required to deliver gas in marketable quantities.

More recently, a Los Angeles-based utility announced it had agreed to provide up to $10 million for Arctic Islands exploration over the next five years in return for priority rights to purchase any natural gas discovered.

A number of other agreements reportedly have been signed in recent months involving farmouts on Arctic Islands acreage, thereby reinforcing the conclusion that exploration in the area is entering upon a new and significantly increased stage of activity.

The Arctic Islands map enclosed with this Annual Report indicates the location of Canada Southern acreage included in the Panarctic exploration program and the Company's 100%-owned properties, as well as the specific Company-interest areas on Prince Patrick, Vanier and Emerald Islands subject to sub-farmout from Panarctic to Canada Southern, B.P., Triad, et al. Also shown are properties held by other major permit owners in the Arctic Islands.

New Zealand

Exploratory investigations undertaken over the past year encompassed substantially all Company-interest properties covering a total of 5,268,480 acres offshore New Zealand's North and South Islands.

The major focus of these efforts centered on the 1,344,000-acre Westland concession, which lies off the west coast of the central portion of South Island. Two large-scale seismic programs were conducted over the Westland block during 1969 and 1970, and the data acquired in the course of these studies have been correlated recently with additional data developed by New Zealand Petroleum Company Ltd., holder of contiguous offshore and onshore concessions. According to the Company's technical advisers, the greater control resulting from the integration of these supplemental findings with previously accumulated data is regarded as offering further confirmation of the reefal origin of several large stratigraphic anomalies underlying the Westland tract.

One of these is an atoll-like configuration which has been interpreted by geophysical consultants to be the result of reefal growth during mid-Tertiary time. As presently mapped, this 20-mile-long reef trend covers more than 64,000 acres, with a maximum indicated reefal build-up (thickness) ranging to 2,600 feet. Other similar but smaller seismic structures defined by these surveys in upper Tertiary sediments also may be products of reefal growth and therefore constitute potential petroleum prospects.

Canada Southern Petroleum Ltd.

ACREAGE SUMMARY—SEPTEMBER 1971

	Gross Acreage in 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	227,972	48,444		48,444
Phillips Agreement—Carried Interest	230,730	75,053		75,053
Other				
Working Interest	49,675	35,170		35,170
Carried Interest	35,929	588		588
Total British Columbia	671,243	185,896		185,896
Yukon & Northwest Territories				
Liard Basin				
Dome-Pan Am Agreement—Carried Interest	202,255	91,016		91,016
Other	330,428	225,393		225,393
Total Liard Basin	532,683	316,409		316,409
Arctic Islands				
Panarctic Agreements— (see accompanying table)				
TriCeeTee	3,687,097		1,229,032	1,229,032
Other	829,094		786,937	786,937
Total Panarctic Agreements	4,516,191		2,015,969	2,015,969
CSP—100%	3,724,741		3,724,741	3,724,741
Total Arctic Islands	8,240,932		5,740,710	5,740,710
Foxe Basin (*)	123,937		519	519
Total Canada (Petroleum)	9,568,795	502,305	5,741,229	6,243,534
Minerals				
Northwest Territories(*)	70,200		13,203	13,203
Total Canada	9,638,995	502,305	5,754,432	6,256,737
AUSTRALIA (Petroleum)	76,800		3,840	3,840
NEW ZEALAND (Petroleum)	5,268,480		1,317,120	1,317,120
Grand Total	14,984,275	502,305	7,075,392	7,577,697

(*) 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.

Furthermore, a huge potential petroleum trap which closes against a major fault paralleling the coastline has now been defined in greater detail. This prospect, covering nearly 80,000 acres of which approximately half is confined within the Westland block, lies in water depths of from 150 to 240 feet and is drillable with presently available equipment.

Evaluative studies of the Westland area will be continued over coming months as processed computer data resulting from New Zealand Petroleum's studies become available. It is anticipated that drilling plans for Westland will be formulated once cumulative data from all sources have been fully evaluated.

Interpretations also were made during recent months of seismic reconnaissance lines on Company-interest acreage included in the Hauraki, Bay of Plenty and North Cape concessions off the northeastern coast of North Island. While the appraisal of the seismic data to date has failed to reveal the presence of reefal features, other types of anomalies have been noted which may be developed subsequently into petroleum prospects.

The Company's property interests in New Zealand are held through its 25% equity ownership in Canada Southern Petroleum (N.Z.) Limited, which holds the four offshore concessions. The remaining equity interest in the New Zealand company is owned by Magellan Petroleum New Zealand Limited.

MINERALS

Nemeiben Lake Copper Project

During late 1970, exploration work was completed on a copper sulfide prospect at Nemeiben Lake, some 15 miles northwest of La Ronge in northern Saskatchewan. Under terms of a 1970 agreement with Uranium Valley Mines Limited, the Company earned a 50% undivided working interest in the property by conducting these investigations. Detailed geological mapping, trenching and diamond drilling were carried out over the most promising part of the property and resulted in the delineation of extensive copper reserves at grades of 0.63% copper and 0.81% copper. It is emphasized that these reserves are based on drilling results obtained to date. While the ore occurrence has considerable potential for extension to depth, further drilling will be required to define the vertical limits of the ore body.

Field work has indicated three additional anomalies within the property boundaries, which will necessitate further work to determine their value. Further exploration, including diamond drilling, on the property is under consideration.

Borealis Exploration Limited

The exploration phase of Borealis' investigation of the Melville Peninsula iron deposits was completed during 1970. A revised estimate of total tonnage of 4.36 billion long tons of iron ore was determined for the combined east and west Melville deposits. Claims were staked completely blanketing the ore bodies to secure Borealis' position after expiry of the original prospecting permits in late March 1971.

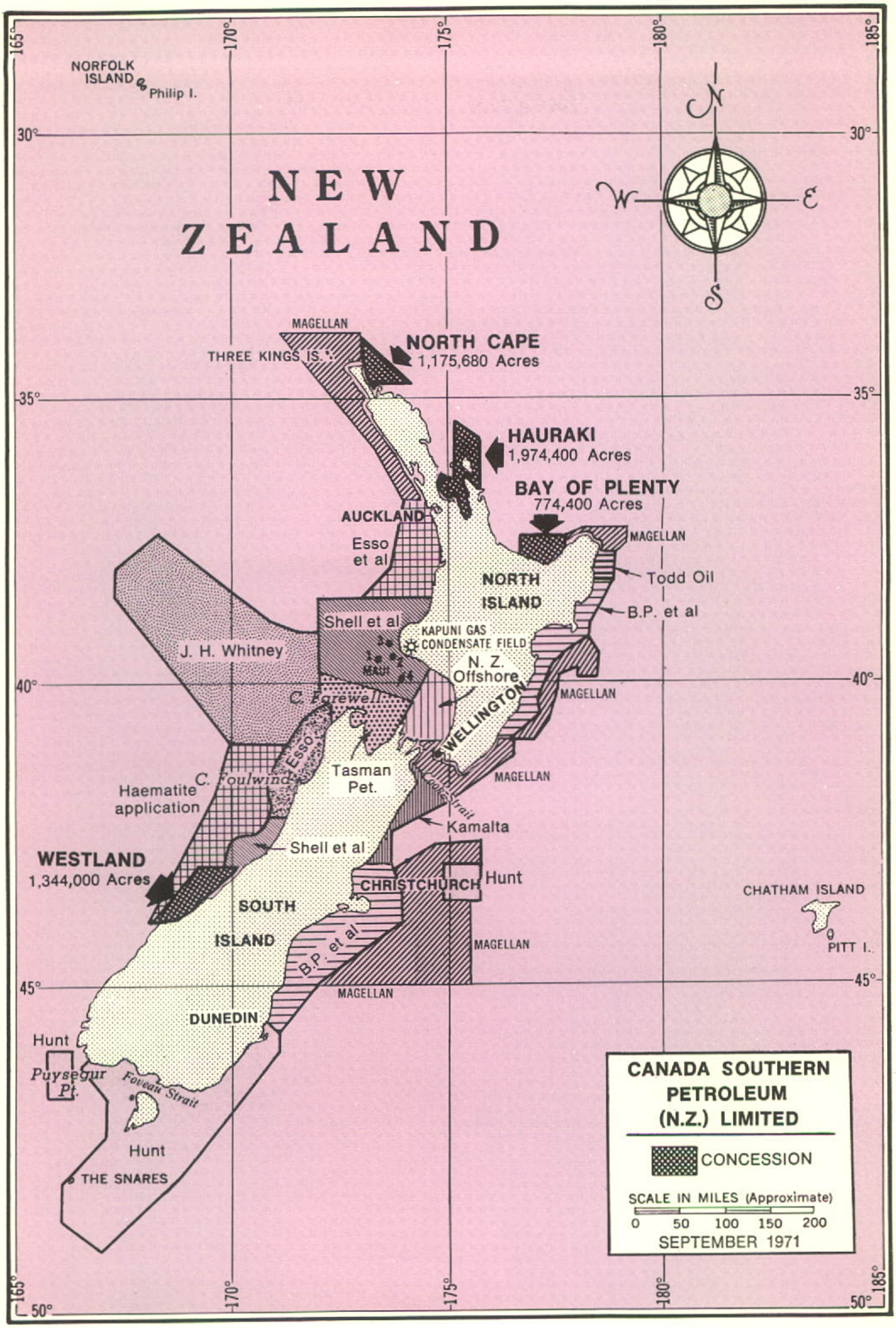
In August 1971 a party comprised of Borealis' representatives and a group of technical experts from European steel interests visited Melville Peninsula for an on-site inspection of the ore deposits.

At the present time, data are being gathered on ice conditions to determine if year-around shipping operations to and from the peninsula are possible. A preliminary feasibility survey has been recommended by Borealis' consultants which would include environmental, transportation and marketing studies, as well as an over-all evaluation of the engineering aspects of mining the ore bodies.

As previously reported, Canada Southern owns a 20% direct interest in the Melville Peninsula ore occurrences in addition to its 4.19% stock interest in Borealis Exploration Limited.

In addition to the work on Melville Peninsula, Borealis conducted a reconnaissance survey in the Hayes River district, 200 miles west of Repulse Bay on the southwest end of Melville Peninsula, where base metal prospects exist. Thirty claims were staked in this area.

Based on the results of Borealis' field work during the last two seasons, many of the permits have been allowed to lapse, the company having retained permits or claims in selected areas in the Hood River and Baffin Island sectors, in addition to the claims covering the iron ore discoveries on Melville Peninsula.



NEW ZEALAND
NORFOLK ISLAND
Philip I.
NORTH CAPE
1,175,680 Acres
THREE KINGS IS.
MAGELLAN
HAURAKI
1,974,400 Acres
BAY OF PLENTY
774,400 Acres
AUCKLAND
Esso et al
NORTH ISLAND
Todd Oil
B.P. et al
Shell et al
KAPUNI GAS CONDENSATE FIELD
J. H. Whitney
N. Z. Offshore
MAUI
C. Farewell
WELLINGTON
Esso
Tasman Pet.
C. Foulwind
Haematite application
Kamalta
Shell et al
WESTLAND
1,344,000 Acres
CHRISTCHURCH
Hunt
SOUTH ISLAND
B.P. et al
CHATHAM ISLAND
PITT I.
DUNEDIN
Hunt
Puysegur Pt.
Foveau Strait
Hunt
THE SNARES
CANADA SOUTHERN PETROLEUM (N.Z.) LIMITED
CONCESSION
SCALE IN MILES (Approximate)
0 50 100 150 200
SEPTEMBER 1971

Canada Southern Petroleum Ltd. (A Canadian corporation)

CONSOLIDATED BALANCE SHEET

(Expressed in Canadian dollars)

June 30, 1971 and 1970

ASSETS AND DEFERRED EXPENDITURES

	1971	1970 (*)
Current assets:		
Cash	$ 45,804	$ 97,384
Bank deposit receipts	3,820,000	4,700,000
Accounts receivable:		
Pacific Petroleums Ltd.	72,567	47,540
Accrued interest	45,978	15,773
Magellan Petroleum Corporation	110	78,929
Other	42,008	16,408
Refundable deposits and prepaid expenses	33,437	36,335
Total current assets	4,059,904	4,992,369
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 $31,788 and $842, respectively	31,905	959
Other	6,575	5,975
Oil, gas and mineral permits, leases and interests, including well, geological and geophysical, lease rental and dry hole costs	6,787,883	6,364,625
Other exploratory expenses and general and administrative expenses deferred	3,843,620	4,438,131
Land, building and equipment, at cost less accumulated depreciation of $255,558 and $241,551, respectively	102,283	115,871
	$15,141,170	$16,226,930

(*)Reclassified to conform with 1971 presentation.

The accompanying notes are an integral part of this statement.

LIABILITIES AND CAPITAL

	1971	1970
Current liabilities:		
Accounts payable and accrued liabilities:		
The Catawba Corporation	$ 33,651	$ 18,236
Other	137,166	364,724
Current portion of mortgage loan	21,198	19,900
Total current liabilities	192,015	402,860
Deferred income	35,325	58,425
7% mortgage loan, maturing February 1974 (secured by land and building), less portion included above	38,100	58,532
Capital:		
Capital stock, par value $1 per share:		
Authorized–15,000,000 and 10,000,000 shares, respectively		
Outstanding–8,585,706 and 8,581,931 shares, respectively	8,585,706	8,581,931
Capital in excess of par value	14,079,353	14,095,422
	22,665,059	22,677,353
Deductions from capital	7,789,329	6,970,240
	14,875,730	15,707,113
Commitments and contingent liabilities (Note 3)		
	$15,141,170	$16,226,930

On behalf of the Board:

s/s John W. Buckley, Director

s/s Benjamin W. Heath, Director

Canada Southern Petroleum Ltd. (A Canadian corporation)

Year ended June 30, 1970 and 1971

(Expressed in Canadian dollars)

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

	Balance June 30, 1969	Additions and transfers
Oil and gas permits, leases and interests (including excess of cost of investment in certain subsidiaries over net assets acquired)	$ 2,747,143	$ (3,599)
Cost of standing wells	1,556,943	288
Geological and geophysical expenses	813,298	467,190
Lease rentals	620,239	240,137
Dry hole costs	197,546	59,435
Costs related to mineral permits	–	651,348
	$ 5,935,169	$1,414,799

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

	Balance June 30, 1969	Additions and transfers
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	2,086,479	$ 149,790
Financial, technical and other services under contract	1,943,653	168,813
Shareholders' reports and capital stock expenses	879,592	118,096
Legal services	905,048	46,475
Building maintenance and rent	600,995	46,674
Depreciation, depletion and amortization	345,353	19,683
Interest and exchange	340,231	9,507
Lease operating costs and royalties	334,236	7,093
Geological and engineering	267,827	8,324
Transportation	172,278	8,225
Auditing services	135,969	11,944
Communications	118,134	6,780
Pipeline feasibility costs	117,248	–
Public relations	41,020	9,005
Miscellaneous	332,400	28,265
	10,576,625	638,674
Less income:		
Interest	261,951	431,194
Proceeds under carried interest agreement	136,242	315,300
Oil and gas sales	699,595	13,521
Rent	605,456	39,300
Technical and administrative services rendered	180,520	5,340
Payments received from Phillips Petroleum Company on assigned properties less refund	37,425	–
Other	121,463	11,411
	2,042,652	816,066
Total before abandonments and sales	8,533,973	(177,392)
Less portion of above expenses considered allocable to interests abandoned or sold	3,378,368	
	$ 5,155,605	$ (177,392)

(*) Restated to conform with 1971 presentation.

The accompanying notes are an integral part of these statements.

Abandonments and sales	Balance June 30, 1970	Additions and transfers	Abandonments and sales	Proceeds under carried interest agreement	Balance June 30, 1971
$283,791	$ 2,459,753	$272,422	$ 72,007	$22,282	$ 2,637,886
5,242	1,551,989	14,605	4,062	–	1,562,532
2,969	1,277,519	63,040	29,698	8,040	1,302,821
41,917	818,459	159,963	150,987	17,002	810,433
100,077	156,904	49,965	48,922	–	157,947
551,347	100,001	186,344	(29,919)	–	316,264
$985,343	$ 6,364,625	$746,339	$275,757	$47,324	$ 6,787,883
	(*)				
	$ 1,956,162				$ 1,956,162
	2,236,269	$157,275			2,393,544
	2,112,466	179,986			2,292,452
	997,688	110,067			1,107,755
	951,523	69,697			1,021,220
	647,669	53,042			700,711
	365,036	17,352			382,388
	349,738	5,957			355,695
	341,329	5,625			346,954
	276,151	13,711			289,862
	180,503	7,948			188,451
	147,913	18,164			166,077
	124,914	5,893			130,807
	117,248	–			117,248
	50,025	10,675			60,700
	360,665	29,467			390,132
	11,215,299	684,859			11,900,158
	693,145	317,694			1,010,839
	451,542	328,477			780,019
	713,116	12,029			725,145
	644,756	39,300			684,056
	185,860	5,019			190,879
	37,425	–			37,425
	132,874	488			133,362
	2,858,718	703,007			3,561,725
	8,356,581	(18,148)			8,338,433
$540,082	3,918,450		$576,363		4,494,813
$540,082	$ 4,438,131	$ (18,148)	$576,363		$ 3,843,620

Canada Southern Petroleum Ltd. (A Canadian corporation)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Expressed in Canadian dollars)

Year ended June 30, 1971 and 1970

	1971	1970
Source of working capital:		
Income, excluding amortization of deferred income of $23,100 and $18,600, respectively	$ 679,907	$ 797,466
Proceeds under carried interest agreement credited to oil, gas and mineral permits, leases and interests	47,324	–
Exercise of stock purchase warrants	15,105	41,412
Exercise of stock options	–	25,709
Proceeds from sales of equipment	18,148	5,612
Tax refund relating to Act Oils Limited	14,883	–
	775,367	870,199
Disposition of working capital:		
Additions to oil, gas and mineral permits, leases and interests	746,339	1,414,799
Additions to other exploratory expenses and general and administrative expenses deferred, excluding depreciation of building and equipment of $14,289 and $15,602, respectively	670,570	623,072
Investments in and advances to Canada Southern Petroleum (N.Z.) Limited and others	31,546	959
Additional expenses of capital stock offering	27,399	24,358
Decrease in 7% mortgage loan (non-current)	20,432	19,877
Net additions to building and equipment	701	3,301
	1,496,987	2,086,366
Decrease in working capital	$ 721,620	$1,216,167
Change in working capital consists of:		
Increase (decrease) in current assets:		
Cash	$ (51,580)	$ (825,821)
Bank deposit receipts	(880,000)	350,000
Accounts receivable	2,013	(411,313)
Special refundable tax–Government of Canada	–	(134,475)
Refundable deposits and prepaid expenses	(2,898)	(5,776)
	(932,465)	(1,027,385)
Increase (decrease) in current liabilities:		
Non-interest bearing note payable to Borealis Exploration Limited	–	(75,000)
Accounts payable and accrued liabilities	(212,143)	262,082
Current portion of mortgage loan	1,298	1,700
	(210,845)	188,782
Decrease in working capital	$ 721,620	$ 1,216,167

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, 1970 and 1971

	Number of shares	Capital stock, $1 par value	Capital in excess of par value	Total
Balance at June 30, 1969	8,565,350	$8,565,350	$14,069,240	$22,634,590
Exercise of stock options	6,837	6,837	18,872	25,709
Exercise of stock purchase warrants	9,744	9,744	31,668	41,412
Additional expenses of capital stock offering			(24,358)	(24,358)
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
Additional expenses of capital stock offering			(27,399)	(27,399)
Balance at June 30, 1971 before deductions from capital	8,585,706	$8,585,706	$14,079,353	$22,665,059

NOTES TO FINANCIAL STATEMENTS

June 30, 1971

1. Basis of the financial statements

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 Petroleums 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 is dependent upon future developments, since the properties represented by these assets and deferred expenditures are substantially unexplored or undeveloped.

Deductions from capital for the year ended June 30, 1971 and 1970 are summarized as follows:

	1971	1970
Losses on abandonments or sales of interests:		
Prior years (including losses on former operations in the United States)	$12,833,110	$11,313,297
Current year	833,972	1,519,813
	13,667,082	12,833,110
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	909,391
	5,877,753	5,862,870
Deductions from capital	$ 7,789,329	$ 6,970,240

2. Investments and advances

In May 1968, the Company and United Canso Oil & Gas Ltd. (United Canso) entered into an agreement, subsequently amended, with Catawba International, Inc., a subsidiary of The Catawba Corporation, which was acting on behalf of a new company, Borealis Exploration Limited (Borealis), then being organized for the purpose of engaging in mineral exploration in northern Canada. The Company agreed to advance $225,000 in cash over a three-year period to Borealis in exchange for $225,000 face amount of Borealis 8% debentures, maturing March 31, 1978, together with certain options, including the option to acquire, at cost, a 20% direct interest in any prospects developed by Borealis prior to March 31, 1972 or until work to prove a prospect is commenced, whichever first occurs. The Company and United Canso each has the right to take up any unexercised portion of the other's option to acquire such direct interest. In fiscal 1971, the Company acquired through option exercise a 20% direct interest in certain Melville Peninsula mining claims at a cost of $99,550. Borealis, in consideration of the Company's agreeing to forego interest for the period ending March 31, 1973 and agreeing to join with United Canso in maintaining Borealis' books and records at the Company's and United Canso'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 $23,100 and $18,600 was taken into income during the year ended June 30, 1971 and 1970, respectively. The Company's equity in net assets of Borealis was approximately $24,590 and $30,230 at June 30, 1971 and 1970, respectively. These net assets consist primarily of deferred exploratory and administrative costs.

In 1969, the Company acquired four New Zealand offshore concessions through a newly-organized, wholly-owned subsidiary, Canada Southern Petroleum (N.Z.) Limited (CSPNZ). Magellan Petroleum New

Zealand Limited (MPNZ) acquired a 75% interest in CSPNZ on April 1, 1970 pursuant to an agreement whereby MPNZ reimbursed CSPNZ for all costs incurred relating to the aforementioned concessions to that date.

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, 1971, 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, 1971, 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 $375,801 and $315,300 for the year ended June 30, 1971 and 1970, 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 and $1,118,250 at June 30, 1971 and 1970, respectively. It is anticipated that a significant amount of rework will be necessary to bring this well to production.

A significant portion of the Company's interests in the Arctic Islands is subject to an agreement with Panarctic Oils Ltd., whereby the latter company may earn interests ranging from 20% to 80% by carrying out a specified exploratory program.

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.

Lease rentals, work requirements and deposits in connection with the properties and property interests held by the Company at June 30, 1971 approximate $1,050,000 for the year ending June 30, 1972.

At June 30, 1971, Canada Southern had issued notes aggregating $774,948 to the government of Canada because of uncompleted work requirements on various permits. These notes have been excluded from the accompanying consolidated financial statements, since they will be cancelled by the Government upon the completion of these work requirements.

NOTES TO FINANCIAL STATEMENTS — continued

June 30, 1971

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.

5. Capital, stock purchase warrants, and stock options and reservations

At June 30, 1971, there were stock purchase warrants outstanding for the purchase of 614,404 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, 1971, warrants to purchase 13,519 shares were exercised with proceeds to the Company of $56,517.

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, 1971, 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 year ended June 30, 1970, an employee and The Catawba Corporation exercised options on 6,837 shares at $3.50 (U.S.) per share, as compared with market prices ranging from $5.00 to $7.75 (U.S.) per share on the dates of exercise.

Stock options outstanding at June 30, 1971 are summarized as follows:

Optionee	Date of grant	Expiration date	Number of shares	Option price (per share)	Market price (per share) at date of grant
The Catawba Corporation	Jan. 8, 1968	Jan. 7, 1973	144,489	$3.50(U.S.)	$3.50(U.S.)
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
			179,789		

NOTES TO FINANCIAL STATEMENTS — continued

June 30, 1971

At June 30, 1971, all of the above-mentioned options on 179,789 shares were exercisable. In addition, there were 79,000 shares reserved for future option grants at June 30, 1971. There were no other changes in stock options during the two years ended June 30, 1971.

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 $9,447 and $7,204 for the year ended June 30, 1971 and 1970, 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 $104,995 and $101,003 for the year ended June 30, 1971 and 1970, respectively. Of these amounts, $5,025 and $1,269 were on behalf of directors and $52,878 and $43,891 were on behalf of officers. At June 30, 1971, there were five directors and five officers, of which two were also directors.

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, 1971 and 1970 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, 1971 and 1970 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 3, 1971

Enclosed with this Report, as supplemental items having particular interest for the Shareholders, are a map showing the Company's property interests in western Canada and the Arctic Archipelago, and a reprint of a recent interview with Dr. Charles R. Hetherington, President of Panarctic Oils Ltd., which was published in the issue of The Oil and Gas Journal for October 4, 1971.

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