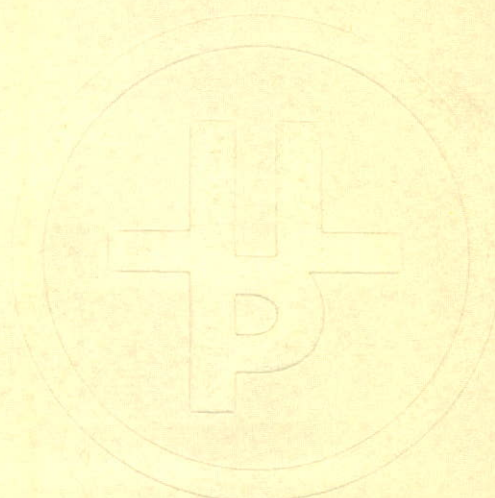


# ANNUAL REPORT

1970



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**Jefferson Lake Petrochemicals of Canada Ltd.**  
And Wholly-owned Subsidiary

**OFFICERS**

**ROBERT A. TEITSWORTH**

Chairman of the Board

**DAVID B. CHALMERS**

President

**ARMAND HAMMER**

Chairman of the Executive Committee

**HOWARD B. SHELTON**

Executive Vice-President

**WILLIAM G. O'ROURKE**

Secretary and Counsel

**LEONARD P. BRINK**

Treasurer

**DAVID BERTRAM**

Controller

**PAUL C. HEBNER**

Assistant Secretary

**DIRECTORS**

**\*WILLIAM BELLANO**

President, Occidental Petroleum Corporation,  
Los Angeles, California

**\*DAVID B. CHALMERS**

President;  
President and Chief Executive Officer  
Petrogas Processing Ltd.;  
Chairman of the Board, Cansulex Limited  
Calgary, Canada

**MARSH A. COOPER**

President and Managing Director, Falconbridge  
Nickel Mines Limited, Toronto, Canada

**\*ARMAND HAMMER**

Chairman of the Board and Chief Executive Officer  
Occidental Petroleum Corporation, Los Angeles, California

**\*J. HOWARD HAWKE**

President, The Glengair Group Limited,  
Toronto, Canada

**RONALD P. KLEIN**

Vice-President and General Counsel  
Occidental Petroleum Corporation  
Los Angeles, California

**J. ANGUS McKEE**

Managing Director, Consolidated Tin Smelters Ltd.  
London, England

**EUGENE F. REID**

Executive Vice-President, Occidental Petroleum Corporation  
Bakersfield, California

**\*ROBERT A. TEITSWORTH**

Chairman of the Board;  
Vice-President, Occidental Petroleum Corporation  
Bakersfield, California

**THOMAS F. WILLERS**

Vice-Chairman of the Board  
Occidental Petroleum Corporation  
Los Angeles, California

The Annual General Meeting of the Shareholders of the Company will be held at the Royal York Hotel, Toronto, Canada on June 28, 1971 at 11:00 a.m.

\*Member of the Executive Committee





# HIGHLIGHTS

			Increase (Decrease)	
	1970	1969	Amount	%
Total Revenues . . . . .	\$ 6,024,000	\$ 8,493,000	\$ (2,469,000)	(29.1)
Net Cash Income . . . . .	2,063,000	4,061,000	(1,998,000)	(49.2)
Per Share . . . . .	\$0.77	\$1.51	\$(0.74)	(49.0)
Net Income . . . . .	372,000	2,819,000	(2,447,000)	(86.8)
Per Share . . . . .	\$0.14	\$1.05	\$(0.91)	(86.8)
Dividends Paid . . . . .	NIL	804,000	(804,000)	—
Per Share . . . . .	NIL	\$0.30	\$(0.30)	—
Capital Expenditures . . . . .	2,236,000	4,392,000	(2,156,000)	(49.1)
Working Capital . . . . .	3,320,000	3,757,000	(437,000)	(11.6)
Shareholders' Equity . . . . .	28,039,000	27,667,000	372,000	1.3
Long Term Debt . . . . .	4,849,000	5,128,000	(279,000)	(5.4)
Shares Issued on Conversion of Series "B" Warrants † .	NIL	14,377	(14,377)	—
Consideration Received . . .	NIL	149,866	(149,866)	—
Warrants Outstanding Dec. 31† . . . . .	96,933	96,933	—	—
Shares Outstanding Dec. 31 .	2,683,709	2,683,709	—	—

† Includes shares issued or reserved under anti-dilution provisions.



# TO THE SHAREHOLDERS

The current sulphur market situation strongly influenced your Company's performance during 1970. As set forth in this report, the average sulphur price for the year declined substantially from the previous year. Although the major decline in sulphur prices occurred in 1969, the higher prices received by the Company in the early part of that year resulted in a much higher average price than in 1970. The period covered by this report was the first full year of very depressed sulphur prices, and this had an extremely adverse effect on the Company's financial results.

Thus, earnings declined in excess of 86 percent to \$372,203 or \$0.14 per share as compared to net income of \$2,819,252 or \$1.05 per share for the previous year. Net cash income was down \$1,997,780 to \$2,063,201, the equivalent of \$0.77 per share, whereas revenues were reduced by \$2,469,460 to \$6,023,665.

In addition to severe competition in the sulphur market, the world-wide bulk carrier shortage resulted in dramatic increases in ocean freight rates. These increased freight rates further reduced the net return to Alberta sulphur producers, who depend on the offshore export market for about one-half of their sales volume. The bulk carrier shortage (and resulting abnormal ocean freight rates) is viewed as a situation which should improve in the future.

Several governmental authorities have expressed concern with respect to the adverse effect depressed sulphur prices are having on Crown royalty revenues in particular and on the petroleum industry generally. Although it is too early to forecast actual legislative intervention (as was necessary in the potash industry in Saskatchewan) it is possible that the announced governmental concern in the matter will ultimately be a helpful influence in the sulphur market.

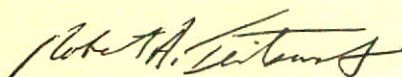
On the brighter side, your management is pleased that, despite the troubles just discussed, sales of sulphur by the Company in 1970 declined only slightly compared with 1969 and, at the same time, sales in the foreign export market actually increased. Meanwhile, crude oil and natural gas prices have firmed over the past year. Substantial increases in the price of crude oil produced in the Middle East, North Africa and Venezuela could encourage increases in the price of crude oil in North America. This is particularly true in Canada where the wellhead price of crude oil has not been equivalent to such prices in the United States producing areas. Increased demand for Canadian crude oil by United States consumers should correct the situation in the future.

The impending critical energy shortage in the United States will also have long range implications for the natural gas producer in Canada. Any improvement in gas prices will be an incentive to stepped-up exploration activities and investment in the necessary gas producing, processing and pipe line facilities. The increased incentives to search for natural gas reserves will result in a positive contribution toward satisfying the future energy requirements so vital to the economies of Canada and the United States and will also have general economic benefits such as greater employment and increased royalty and tax revenues to the public accounts.

Your Company is currently negotiating a redetermination of the price of gas under the gas sales contract with the major purchaser of gas from the Crossfield Field. Since these negotiations are still in progress at the writing of this report, we are unable to predict the outcome. The amount of any increase in gas prices may finally be determined by arbitration between the parties.

The Company continues to evaluate possibilities of diversification as well as maintaining a concentrated effort in its exploration activities. However, reduced cash flow has impeded our activities in these areas of endeavor to some extent.

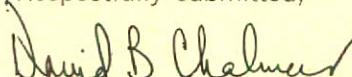
The Company values the loyalty of its shareholders and employees especially during this period of difficulty, and management is putting its total effort to reward this confidence in our future. The loyalty of both our employees and shareholders gives us added strength and determination to strive towards meeting the goal of profit improvement.



ROBERT A. TEITSWORTH  
Chairman of the Board

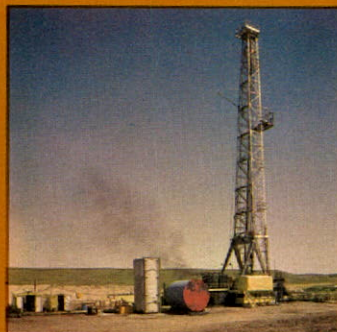
Calgary, Alberta  
March 26, 1971.

Respectfully submitted,



DAVID B. CHALMERS  
President





## GENERAL REVIEW

### LAND

At December 31, 1970, the Company's acreage holdings totalled 6,638,691 gross acres of which 2,579,372 were net to the Company. This represents a reduction of 1,961,406 gross acres and 730,146 net acres during the past year as a result of surrenders following geological and geophysical evaluations, conversions to lease under governmental regulations, the assignment of lands to other companies in return for drilling a total of 20 wells on Company lands, and the sale of certain lands for cash.

The following table gives a breakdown of the Company's land holdings by area with comparative figures for 1969:

Province/Area	1970		1969	
	Gross	Net	Gross	Net
Alberta . . . . .	1,057,648	554,190	835,434	304,637
Arctic Islands . .	2,428,947	1,112,625	2,428,947	1,112,625
British Columbia .	9,569	2,042	11,489	3,294
East Coast . . . .	704,338	—	750,880	23,271
N.W.T. . . . .	419,120	104,780	419,120	104,780
Ontario-James Bay	—	—	2,033,000	1,016,500
Saskatchewan . .	2,019,069	805,735	2,121,227	744,411
Total . . . . .	6,638,691	2,579,372	8,600,097	3,309,518

Note: (a) Net figures exclude working interests owned by others.

(b) All totals include Permits or Reservations of which from 25% to 50% may be retained as leases.

(c) Jefferson's interest in the 704,338 acres in the East Coast is a 1.75% gross overriding royalty.

### EXPLORATION

The Company participated in the drilling of 24 exploratory wells during 1970. Also, 25 additional wildcat wells drilled by other companies under various farmout and option arrangements partially evaluated Company lands.

Through a program of wildcat stratigraphic testing and purchase of Crown Permit lands, the Company acquired interests varying from 9% to 25% in 331,520 acres located in the Sand Hills area of southwestern Saskatchewan. A total of 16 shallow depth exploratory wells were drilled throughout this land block to test the sweet gas prospects of the Cretaceous Milk River formation. Fifteen of the wells found gas in the Milk

River formation and certain of these wells were being flow tested at year end to evaluate the commercial potential of the gas-bearing sand.

Pursuant to farmout agreements, other companies carried out drilling programs to evaluate the shallow sweet gas prospects on a 285,124 acre land holding in the Peck Lake - Meadow Lake area of west central Saskatchewan. Your Company retains interests varying from 25% to 50% in this area. Seven stratigraphic tests were drilled at no cost to your Company and resulted in two "Colony Zone" gas discoveries. The encouraging results of this program will lead to further exploratory and structure test hole drilling by the participants during 1971. The economics of developing sweet gas production in the area is enhanced by the presence of a newly-completed 12-inch gas pipeline laid by Saskatchewan Power Corporation between the Beacon Hill - Lapine gas area and the City of Prince Albert.

Eleven other option and farmout exploratory wells aided in evaluating our Saskatchewan lands. These tests resulted in one marginal Jurassic sand oil discovery.

The Company actively explored the Devonian prospects of central Alberta. Although the deep tests in which the Company participated were dry, the results led to the acquisition of additional attractive land and further evaluation of the acreage by farmout. Geological and interpretive geophysical effort was maintained in the favourable Devonian reef trend of the west central Alberta foothills area where the Company retains an interest in one 94,080 acre Reservation and other small land parcels. The extreme drilling depth (14,000' to 18,000') required to test the prospective Devonian reef in this area has kept exploratory drilling by other land holders at a low, but steady, level during 1970. Your Company's properties continue to appear favourably located with respect to the results of wildcat drilling in the trend.

In mid-1970, a multi-well drilling program known as "the Horn River Resources Drilling Program" was initiated by a group of land holding companies to explore in the Fort Simpson area of the Northwest Territories. This program will see approximately 18 to 20 wildcats drilled in the southern Northwest Territories in the 1970-71 season. Your Company, though not a participant in this drilling project, is actively engaged in land and geological evaluation of the area. During the year, the Company participated in the drilling of a dry exploratory well on the 419,120 acre Horn Mountain block located near Fort Simpson. The Horn Mountain block, in which the Company owns a 25% interest, can be maintained until the fall of 1972 with no further exploratory expenditure.

Exploration in British Columbia was restricted to one farmout in the Stoddart area, where the Company presently has gas producing properties. The farmout well, drilled at no cost to the Company, resulted in the recovery of non-commercial quantities of gas and was subsequently abandoned.

During the year, your Company and Occidental Petroleum Corporation expended \$2,217,000 carrying out exploration on lands held under their joint exploration agreement dated January 1, 1966. The two companies agreed, effective July 1, 1970, to discon-



tinue further acquisitions of new exploratory oil and gas prospects under the joint venture agreement. This decision was made to enable each company to pursue a capital expenditure program compatible with its individual financial and tax position. The lands already jointly owned with Occidental will continue to be managed and maintained by your Company under active exploratory status for the benefit of the joint venture. Also, your Company is pursuing independent land acquisition and exploration programs of which the Sand Hills project is an example.

## DEVELOPMENT

### Acquisitions

During the year, the Company continued its program of acquiring proven and semi-proven oil and gas reserves. Interests were purchased in certain oil producing properties comprising a 2.174% participating interest in the Inverness Unit No. 1, located in the Swan Hills oil field of central Alberta. There are 96 wells in the Inverness Unit which produces a light gravity crude oil from a reservoir presently undergoing waterflood. The Company's share of production from this Unit is averaging 3,000 barrels of oil per month.

The Company also acquired the rights to develop gas reserves in the Medicine Hat area of southern Alberta. Four development wells were drilled in this area, three of which were tied in at the year end for production to an existing gathering system. The other well was abandoned.

### Field Operations

Producing operations for the year continued to be centered in the Crossfield field located about 10 miles northeast of Calgary. The Company is the operator of the Calgary Crossfield, Elkton and Basal Quartz Units in the field and owns working interests therein of 35.02%, 23.23% and 37.73%, respectively. There are 54 wells in the field which, on demand, are capable of producing up to 320 million cubic feet of raw gas per day. During the year, two development wells were drilled to increase deliverability of gas required to meet maximum sales gas demand. In addition, the field gathering system was modified to provide for central separation of produced gas and liquids, which will result in reduced operating costs.

A field testing and evaluation program is presently being carried out in the Sand Hills area of Saskatchewan to determine whether sufficient well deliverability can be developed to warrant major development of the gas reserves present. In addition to the exploratory wells described earlier in this report, three development wells were drilled to further evaluate the production characteristics of the gas-bearing zone. At year end, these development wells were awaiting completion of producing facilities to permit delivery of gas to a nearby industrial concern.

### Production

Field gas production from Company operated properties averaged 280 million cubic feet per day during the year, an increase of about 20 million cubic feet

per day over that produced in 1969. The Company's share of field gas production from its operated and other properties averaged 79 million cubic feet per day, up 2.5% over the previous year. Crude oil production was 173,972 barrels during the year, a very substantial increase from the 23,936 barrels produced in 1969. This seven-fold increase resulted primarily from property acquisitions in late 1969 and early 1970.

## Reserves

The Company's working interest share of pipeline gas, natural gas liquids, crude oil and sulphur reserves at year end were estimated to be the following:

- (a) 307.2 billion cubic feet of proven pipeline gas reserves after deducting 18.4 billion cubic feet produced during the year. The Company has an additional 23 billion cubic feet of probable reserves of pipeline gas.
- (b) 6,237,000 barrels of natural gas liquids reserves after deducting 427,500 barrels produced during the year. The Company has an additional 405,000 barrels of probable reserves of natural gas liquids.
- (c) 1,103,000 barrels of crude oil reserves after deducting 174,000 barrels produced during the year. The Company has an additional 2,989,000 barrels of probable crude oil reserves.
- (d) 3,832,000 long tons of sulphur reserves after deducting 184,500 long tons produced from Company reserves during the year. The Company has an additional 250,000 long tons of probable sulphur reserves. The Company does not include in its sulphur reserves any reserves at the Peace River and Coleman plants, from which a further 81,000 long tons of sulphur were produced during the year.

## GAS PROCESSING AND SULPHUR PLANT OPERATIONS

The Company has a 30.9% interest in the sour gas processing and sulphur recovery plant owned by Petrogas Processing Ltd. located about 10 miles northeast of Calgary, Alberta. This plant has a capacity of 215 million cubic feet of pipe line sales gas per day and 2,000 long tons of sulphur per day. It also recovers substantial quantities of propane, butanes and condensate from the raw gas stream. As plant operator, the Company provides the management, supervisory and technical personnel to run the plant.

The additional stabilized distillate capacity installed at the Petrogas plant late in 1969 has resulted in improved operations and enhanced product recovery. Additional refrigeration was installed during 1970 to enable the plant to meet peak sales gas demand during summer months.

A program to upgrade plant instrumentation was implemented to simplify and improve process control in the sulphur recovery units. A major feature was installation of the latest type of gas chromatographs used to analyze the waste gases from the units prior to incineration and discharge to the atmosphere. These



instrumentation changes, and others planned for 1971, will improve plant operations and permit better environmental control in the vicinity of the plant.

A major addition to the plant facilities is presently under way to provide first stage compression of raw gas produced from the Elkton formation. The estimated cost of this addition is \$1,700,000 which will be provided initially from the existing funds of Petrogas Processing Ltd. without the necessity for outside financing. The cost of these compression facilities will ultimately be borne by the working interest owners of Elkton gas who are charged a processing fee proportionate to their utilization of plant facilities. It is expected that installation of these compression facilities will be completed prior to the peak gas demand months during the 1971-72 winter season.

The Company also owns sulphur recovery plants at Taylor, British Columbia and Coleman, Alberta, having a combined total design capacity of 775 long tons per day, and small working interests in sour gas processing plants operated by other companies in the East Crossfield and Wimborne fields of Alberta.

During the year, the Company devoted particular attention to improving the operating efficiency of its plants in an effort to combat the inflationary cost trend and the reduced sulphur prices that have prevailed since 1969.

The accompanying table sets forth the Company's share of plant production during the year with comparative figures for the previous year.

#### Company's Share of Plant Production

Product	1970	1969
Sulphur, long tons		
Coleman Plant . . . . .	24,124	24,199
Peace River Plant . . . . .	56,960	57,037
Petrogas Plant . . . . .	180,350	184,005
Other plants . . . . .	4,125	3,916
TOTAL . . . . .	265,559	269,157
Pipeline gas, MMcf . . . . .	18,355	17,563
Propane, barrels . . . . .	88,333	65,041
Butanes, barrels . . . . .	79,037	72,396
Condensate, barrels . . . . .	260,138	244,098

#### YOUR COMPANY AND THE ENVIRONMENT

With the operations of your Company generally concentrated in populated or active agricultural areas, management is keenly aware of its responsibilities with respect to pollution control. Maintaining clean air and water in the vicinity of its sulphur recovery plants and field producing facilities has always been an integral part of Company operations.

To monitor the air quality in the vicinity of sour gas operations, a saturation pattern of fixed testing stations is employed to determine the ground level concentrations of any possible gaseous sulphurous contaminants. Supplementing this method of data collection, mobile stations containing more sophisticated equipment are located in critical areas for continuous monitoring of sulphur dioxide and hydrogen sulphide. Specialists are retained to interpret the monitored data and correlate the same with the local meteorological information

to assess the significance of any trends which may develop.

Periodically, a complete analytical survey is made of surface waters surrounding the sulphur recovery plants to determine if plant or field operations are contributing to any deterioration in quality of the area waters.

The Company will continue to pursue aggressively the latest developments in environmental control by utilizing improved methods of plant efficiency measurement and by using up-to-date monitoring equipment to combat and control this major social problem.

#### MARKETS

As indicated in the accompanying table, the Company's sales of sulphur during 1970 were 213,258 long tons which was a slight decline from the previous year's sales volume of 221,506 long tons. Company sales were less than the prior year in the North American market and somewhat greater in the offshore export markets.

#### Company's Share of Sulphur Sales

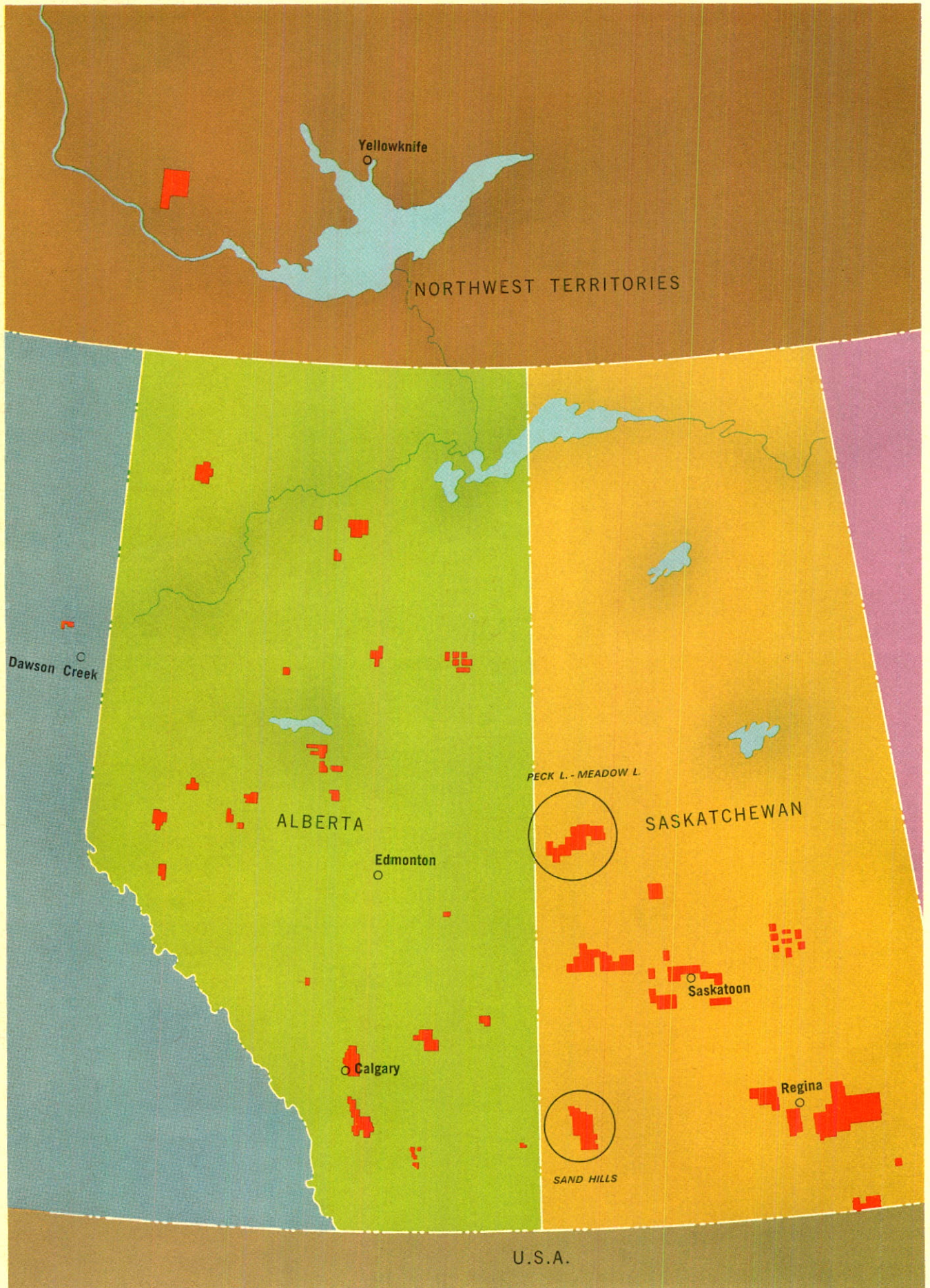
	1970	1969
Petrogas Plant . . . . .	144,691	154,471
Peace River Plant . . . . .	43,662	40,821
Coleman Plant . . . . .	23,994	24,433
Other sources . . . . .	911	1,781
Total (long tons) . . . . .	213,258	221,506
Export Sales L/T . . . . .	87,365	83,110
North American Sales L/T . . . . .	125,893	138,396

The Company and its 31% owned affiliate, Petrogas Processing Ltd., market sulphur in the United States and Canada exclusively through Jefferson Lake Sulphur Company, a division of Occidental Petroleum Corporation. This latter company enjoys a reputation as a leading marketer of sulphur in the North American continent. Your Company's sales of sulphur in the offshore market are made by Cansulex Limited, a producer owned marketing company in which Petrogas Processing Ltd. holds a substantial interest.

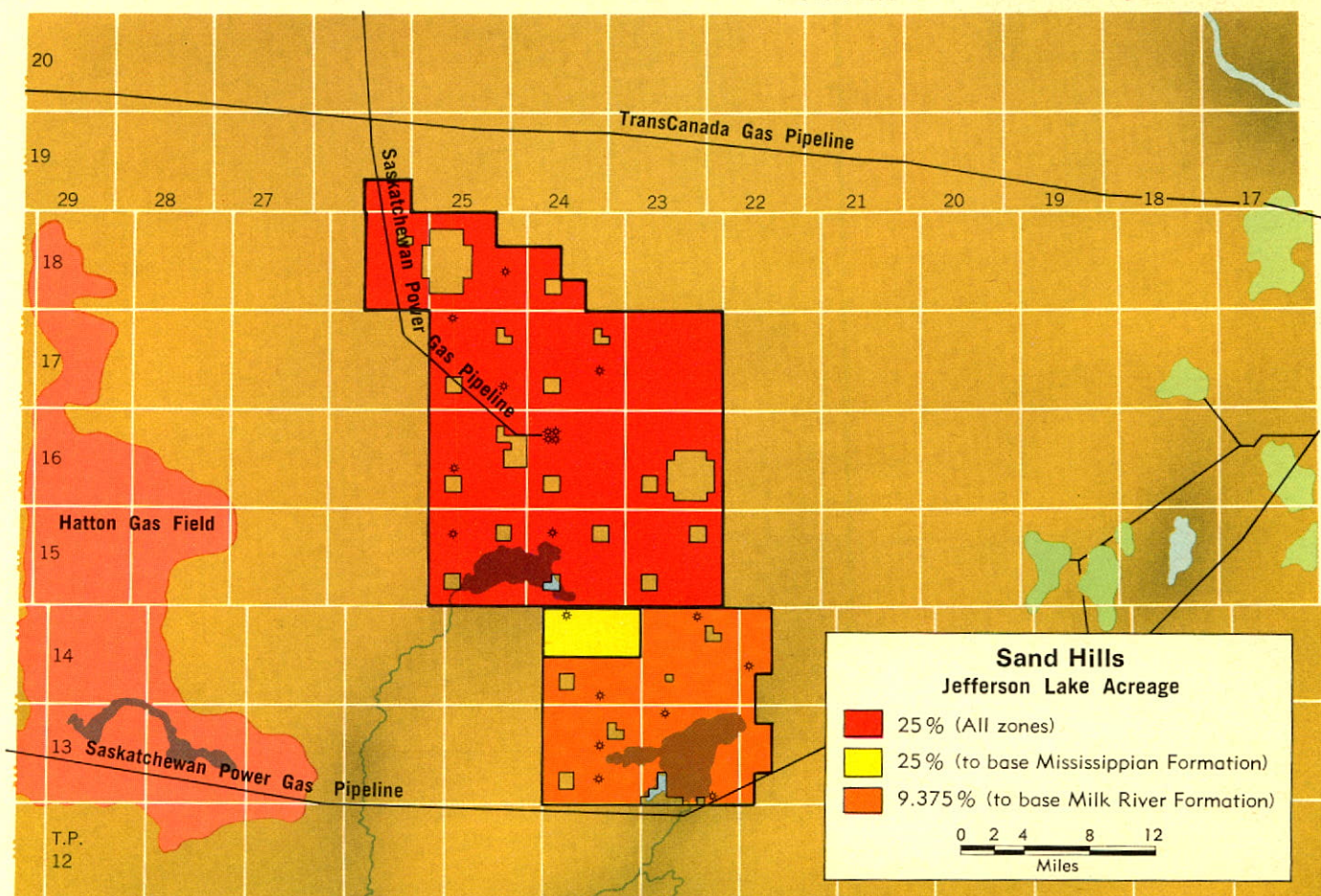
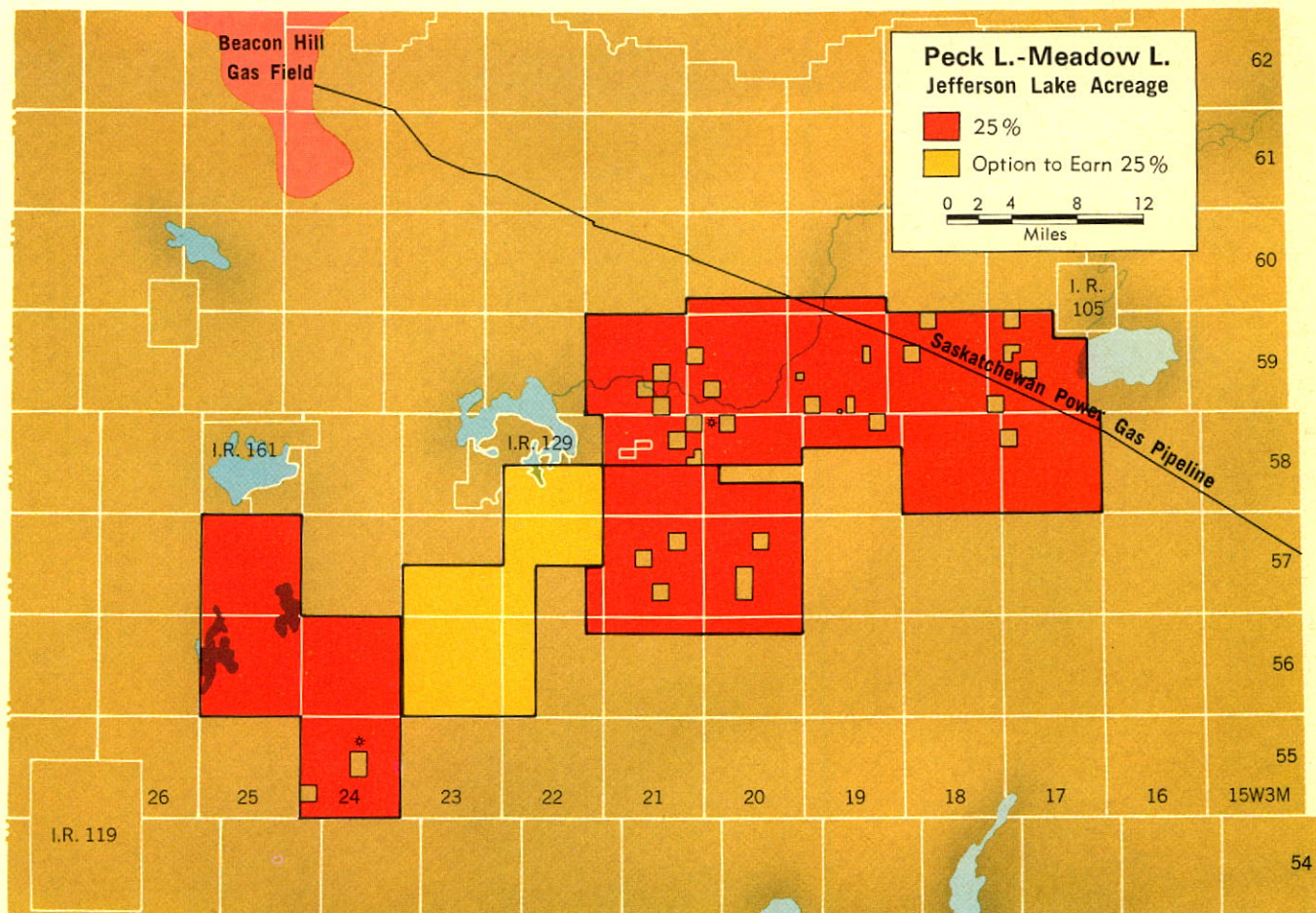
Prices of sulphur declined further during 1970 resulting in an average price for the year of approximately \$9.30 per long ton at the Company's plants. This compares with an average net price at plants for the previous year of \$21.00 per long ton. There continues to be a world-wide supply-demand imbalance of sulphur.

Prices for crude oil strengthened considerably during 1970, highlighted by a 25 cents per barrel general increase in Canadian crude oil prices on December 15, 1970. Crude oil from the North Hoosier properties, purchased late in 1969, enjoyed price increases totalling 36.5 cents per barrel during the year. The properties in the Inverness Unit No. 1, purchased in the first quarter of the year, benefited from the aforementioned general price increase of 25 cents per barrel. Strong United States demand should continue to exert favorable influences on Canadian crude oil.











## FINANCIAL REVIEW

## Earnings

Consolidated income was \$372,000 or \$0.14 per share compared with \$2,819,000 or \$1.05 per share in 1969. Cash income was \$2,063,000 or \$0.77 per share compared with \$4,061,000 or \$1.51 per share in 1969.

## Revenues

As shown by the following table, gross income declined by 29% to \$6,024,000. Although gas and oil sales increased by 11% to \$3,890,000, continued erosion of sulphur prices resulted in a 56% decrease in sulphur revenues to \$1,945,000. The decline in interest and other income was due to non-recurring income resulting from the sale of certain assets recorded in 1969.

## ANALYSIS OF GROSS INCOME

	1970	1969	Increase (Decrease)	%
Gas and Oil Sales . . .	\$3,890,000	3,505,000	385,000	11%
Sulphur Sales . . .	1,945,000	4,436,000	(2,491,000)	(56%)
Interest and Other Income . . . . .	189,000	552,000	(363,000)	(65%)
Gross Income . . .	<u>\$6,024,000</u>	<u>8,493,000</u>	<u>(2,469,000)</u>	<u>(29%)</u>

## Expenses

Although production and sales increased in most areas, the Company was able to initiate further economies resulting in decreased cash expenses of \$471,000 from the \$4,432,000 recorded in 1969.

## Cash Flow

Funds amounting to \$2,155,000 were provided for the Company's business in 1970 compared to \$4,626,000 provided during 1969. \$1,998,000 of this decrease was attributable to reduced cash income from operations. In order to maintain a strong financial condition, capital expenditures were reduced by \$2,156,000 to \$2,236,000 during 1970.

FINANCIAL DATA	Income	
	Net Oil and Gas Sales . . . . .	
	Net Sulphur Sales . . . . .	
	Interest and Other Income . . . . .	
	Gross Income . . . . .	
	Expenses	
	Cost of Products Sold . . . . .	
	Selling and Administrative Costs (Note 1) . . . . .	
	Interest on Long-Term Debt . . . . .	
	Other . . . . .	
CAPITAL EXPENDITURES	Total Expenses . . . . .	
	Income Before Extraordinary Items . . . . .	
	Per Share (Note 2) . . . . .	
	Extraordinary Items . . . . .	
	Net Income . . . . .	
	Per Share (Note 2) . . . . .	
	Depreciation, Depletion and Amortization and other non-cash items . . . . .	
	Cash Income . . . . .	
	Per Share (Note 2) . . . . .	
	Lease Acquisition and Carrying Costs . . . . .	
PROVEN RESERVES	Wells and Field Equipment . . . . .	
	Exploration . . . . .	
	Plants . . . . .	
	Other . . . . .	
	Total Capital Expenditures . . . . .	
	Pipeline Gas (Billions of Cubic Feet) . . . . .	
	Natural Gas Liquids and Crude Oil (Thousands Bbls.) . . . . .	
	Sulphur (Thousands of Long Tons) . . . . .	
	Field Gas (Billions of Cubic Feet) . . . . .	
	Pipeline Gas (Billions of Cubic Feet) . . . . .	
PRODUCTION	Natural Gas Liquids and Crude Oil (Thousands Bbls.) . . . . .	
	Sulphur (Thousands of Long Tons) . . . . .	
	Pipeline Gas (Billions of Cubic Feet) . . . . .	
	Natural Gas Liquids and Crude Oil (Thousands Bbls.) . . . . .	
	Sulphur (Thousands of Long Tons) . . . . .	
	Pipeline Gas (Billions of Cubic Feet) . . . . .	
	Natural Gas Liquids and Crude Oil (Thousands Bbls.) . . . . .	
	Sulphur (Thousands of Long Tons) . . . . .	
	Net Wells Capable of Production — Gas . . . . .	
	— Oil . . . . .	
WELL DATA	Total Net Wells . . . . .	
	Gross Acres (Thousands of Acres) . . . . .	
	Net Acres (Thousands of Acres) . . . . .	
	Shares Outstanding at December 31 . . . . .	
	Shareholders (Number of Shareholders) . . . . .	
	Employees (Number of Employees) . . . . .	
	SHAREHOLDERS AND EMPLOYEES	

\* With the exception of per share figures, dollar amounts are in thousands.

Note (1) Net After Operating Fees.

Note (2) Per Share amounts are based on the weighted average of shares o



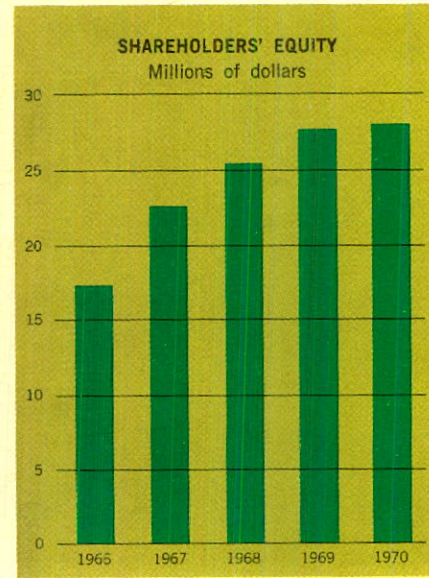
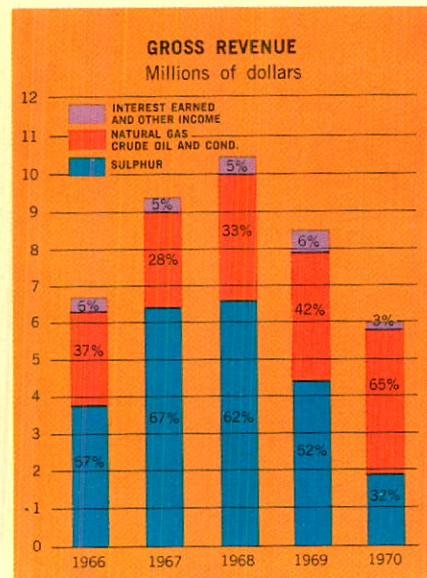
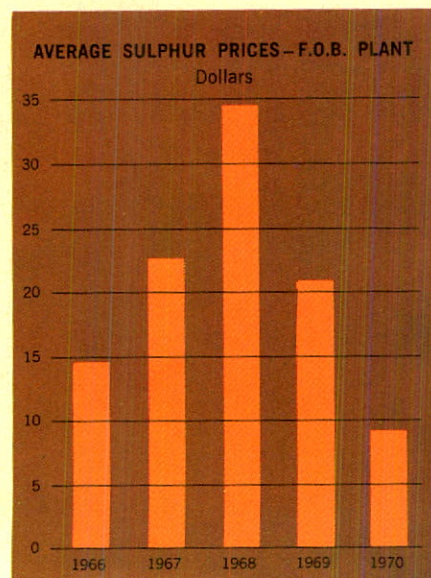
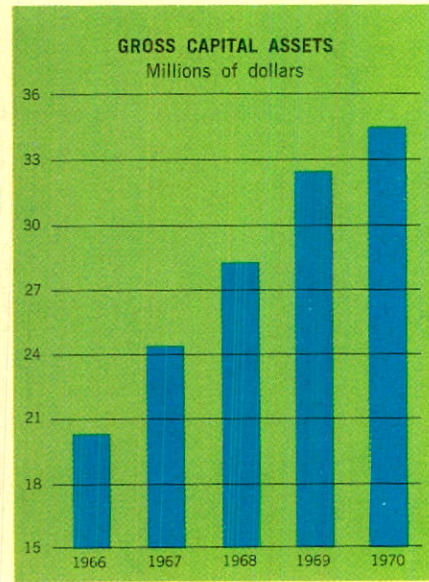
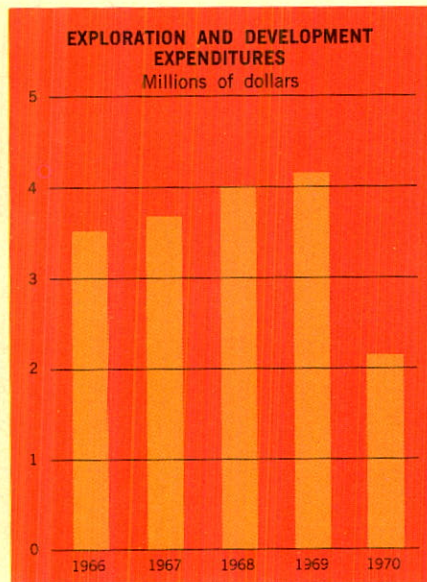
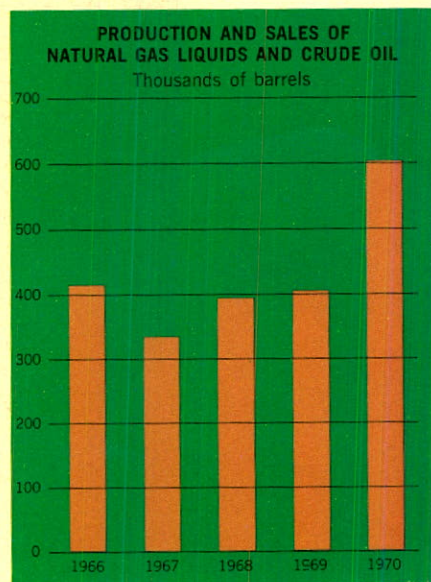
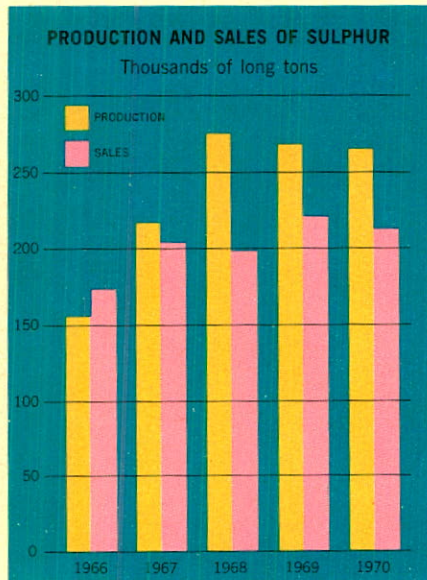
# PERATING REVIEW \*

1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
3,890	3,505	3,482	2,611	2,490	2,309	2,126	1,873	1,539	32
1,945	4,436	6,568	6,396	3,839	3,232	1,943	1,770	1,197	743
189	552	467	471	435	196	72	87	131	100
6,024	8,493	10,517	9,478	6,764	5,737	4,141	3,730	2,867	875
4,763	4,806	4,868	4,095	2,689	2,499	2,039	2,122	1,755	425
621	574	781	494	472	634	572	458	394	(33)
253	270	535	622	621	459	349	331	328	175
15	24	157	4	57	20	9	—	5	24
5,652	5,674	6,341	5,215	3,839	3,612	2,969	2,911	2,482	591
372	2,819	4,176	4,263	2,925	2,125	1,172	819	385	284
.14	1.05	1.57	1.72	1.29	1.00	.57	.40	.19	.14
—	—	—	—	—	—	182	114	228	—
372	2,819	4,176	4,263	2,925	2,125	1,354	933	613	284
.14	1.05	1.57	1.72	1.29	1.00	.66	.46	.30	.14
1,691	1,242	1,279	806	556	457	451	408	302	96
2,063	4,061	5,455	5,069	3,481	2,582	1,805	1,341	915	380
.77	1.51	2.04	2.04	1.53	1.22	.88	.65	.45	.19
1,203	2,586	1,767	1,075	1,917	333	705	264	143	127
871	962	1,373	2,018	1,620	977	857	852	1,101	67
108	792	941	768	63	55	15	18	23	—
8	14	222	3	78	74	76	5	178	1,347
46	38	38	66	120	32	44	77	26	15
2,236	4,392	4,341	3,930	3,798	1,471	1,697	1,216	1,471	1,556
307	341	353	359	349	344	312	315	369	377
7,340	7,590	7,390	8,210	7,955	8,597	8,493	3,730	4,341	4,495
3,832	4,003	4,079	4,215	4,201	4,267	3,511	3,531	3,525	3,491
28.9	28.0	27.6	20.4	16.3	15.6	15.4	13.2	11.1	0.3
18.4	17.6	17.5	12.9	11.4	11.3	10.8	9.3	8.2	0.3
601.5	405.5	395.6	332.6	413.9	265.5	221.8	177.2	154.2	6.2
265.6	269.2	275.8	218.2	156.1	161.3	184.9	172.2	149.8	50.4
18.4	17.6	17.5	12.9	11.4	11.3	10.8	9.3	8.2	0.3
601.6	406.9	395.6	332.3	414.9	264.1	221.0	176.2	154.3	0.5
213.2	221.5	199.2	202.8	175.3	225.7	203.5	168.2	94.0	47.0
19.1	16.5	16.9	17.1	13.0	7.6	5.2	5.1	4.8	3.7
12.5	16.1	3.0	7.9	7.9	10.8	10.6	5.0	1.4	—
31.6	32.6	19.9	25.0	20.9	18.4	15.8	10.1	6.2	3.7
6,638.7	8,600.1	5,703.9	3,914.9	2,343.2	613.1	224.3	215.3		
2,579.4	3,309.5	2,020.6	1,187.7	692.8	417.7	88.9	74.3	97.1	97.0
2,683,709	2,683,709	2,669,058	2,640,558	2,350,026	2,153,210	2,041,408	2,034,188	2,029,498	2,028,598
4,370	4,124	3,441	2,868	3,744	3,238	2,454	2,334	2,282	2,358
197	211	245	232	188	157	128	109	109	99

standing during the year.



# FIVE YEAR GROWTH





**Jefferson Lake Petrochemicals of Canada Ltd.**  
And Wholly-owned Subsidiary

**CONSOLIDATED STATEMENTS OF INCOME AND  
RETAINED EARNINGS**

For the years ended December 31, 1970 and 1969

	(Canadian Dollars)	
	1970	1969
Sales and other revenue:		
Gas and oil sales . . . . .	\$3,890,088	\$3,504,831
Sulphur sales, less freight and handling charges . . . . .	1,944,585	4,436,600
Interest . . . . .	157,972	177,796
Other income . . . . .	31,020	373,898
	<u>6,023,665</u>	<u>8,493,125</u>
Costs and expenses (Notes 1 and 7):		
Cost of products sold . . . . .	4,762,451	4,806,424
Selling and administrative expenses . . . . .	621,222	573,499
Interest on long-term debt . . . . .	252,922	270,244
Other expenses . . . . .	14,867	23,706
	<u>5,651,462</u>	<u>5,673,873</u>
Net income for the year . . . . .	372,203	2,819,252
Retained earnings, beginning of year . . . . .	6,792,686	4,777,258
	<u>7,164,889</u>	<u>7,596,510</u>
Less —		
Cash dividends paid (\$.30 per share in 1969)	—	803,824
Retained earnings, end of year . . . . .	<u>\$7,164,889</u>	<u>\$6,792,686</u>
Net income per share (based on the weighted average of number of shares outstanding during the year) . . . . .	\$0.14	\$1.05



**Jefferson Lake Petrochemicals of Canada Ltd.**  
And Wholly-owned Subsidiary

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 1970 AND 1969**

**ASSETS**

	(Canadian Dollars)	
	<u>1970</u>	<u>1969</u>
<b>CURRENT ASSETS:</b>		
Cash (Note 2) . . . . .	\$ 1,104,239	\$ 1,636,502
Short-term investments, at estimated realizable value . . . . .	158,438	158,438
Accounts receivable –		
Trade . . . . .	943,520	770,609
Occidental Petroleum Corporation . . . . .	3,432	152,655
Petrogas Processing Ltd. . . . .	431,190	983,121
Inventories, at average cost –		
Sulphur . . . . .	1,466,340	1,278,603
Tubular goods and supplies . . . . .	255,259	330,126
Prepaid expenses . . . . .	18,092	24,512
	<u>4,380,510</u>	<u>5,334,566</u>
<b>INVESTMENTS AND OTHER ASSETS, at cost:</b>		
Petrogas Processing Ltd. (Note 3) . . . . .	1,606,906	1,606,906
Refundable deposits and other investments . . . . .	228,060	190,433
	<u>1,834,966</u>	<u>1,797,339</u>
<b>CAPITAL ASSETS, at cost (Note 1):</b>		
Sulphur extraction plants	3,808,075	3,804,510
Oil and gas properties –		
Leasehold interests and contract rights . . . . .	16,359,048	15,193,734
Well costs . . . . .	12,811,962	11,964,996
Well, lease and other equipment . . . . .	1,586,000	1,546,576
	<u>34,565,085</u>	<u>32,509,816</u>
Less – Accumulated depreciation . . . . .	1,519,624	1,424,596
Accumulated depletion . . . . .	5,750,513	4,271,567
	<u>7,270,137</u>	<u>5,696,163</u>
	<u>27,294,948</u>	<u>26,813,653</u>
<b>DEFERRED CHARGES (Note 1):</b>		
Debt discount, premium and financing costs, less amortization of \$213,694 (\$187,012 – 1969) . . . . .	389,110	415,792
Other . . . . .	48,404	11,373
	<u>437,514</u>	<u>427,165</u>
	<u>\$33,947,938</u>	<u>\$34,372,723</u>



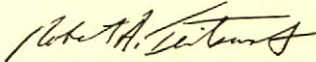
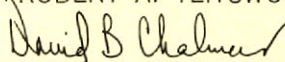
Jefferson Lake Petrochemicals of Canada Ltd.  
And Wholly-owned Subsidiary

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 1970 AND 1969**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	(Canadian Dollars)	
	1970	1969
CURRENT LIABILITIES:		
Accounts payable . . . . .	\$ 487,904	\$ 863,321
Accrued interest payable . . . . .	89,981	100,610
Other accrued liabilities . . . . .	219,113	335,158
Current portion of long-term debt . . . . .	263,068	278,242
	<u>1,060,066</u>	<u>1,577,331</u>
LONG-TERM DEBT, less current portion:		
4½% notes due August 1, 1985 (Note 4) . . . . .	4,846,463	5,115,711
5¼% mortgage repayable in monthly instalments of \$909, including interest, to February 1, 1972 . . . . .	2,212	12,687
	<u>4,848,675</u>	<u>5,128,398</u>
SHAREHOLDERS' EQUITY (Note 5):		
Capital stock, common shares of a par value of \$1 each –		
Authorized – 6,000,000 shares		
Outstanding – 2,683,709 shares . . . . .	2,683,709	2,683,709
Capital in excess of par value . . . . .	18,185,616	18,185,616
Series B warrants to purchase shares . . . . .	4,983	4,983
	<u>20,874,308</u>	<u>20,874,308</u>
Retained earnings . . . . .	7,164,889	6,792,686
	<u>28,039,197</u>	<u>27,666,994</u>
CONTINGENT LIABILITY (Note 8)		

APPROVED ON BEHALF OF THE BOARD:

  
ROBERT A. TEITSWORTH, Director  
  
DAVID B. CHALMERS, Director

<u>\$33,947,938</u>	<u>\$34,372,723</u>
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**Jefferson Lake Petrochemicals of Canada Ltd.**  
And Wholly-owned Subsidiary

**CONSOLIDATED STATEMENTS OF SOURCE AND  
APPLICATION OF FUNDS**

For the years ended December 31, 1970 and 1969

	(Canadian Dollars)	
	<u>1970</u>	<u>1969</u>
SOURCE OF FUNDS:		
Net income . . . . .	\$ 372,203	\$2,819,252
Add — Depreciation, depletion, amortization and other non-cash items . . . . .	1,690,998	1,241,729
Cash income from operations . . . . .	2,063,201	4,060,981
Proceeds from common stock issued on exercise of warrants and employee stock options . . . . .	—	154,621
Proceeds on sale of capital assets . . . . .	84,383	279,261
Proceeds on sale of investments . . . . .	7,222	—
Other . . . . .	—	130,938
	<u>2,154,806</u>	<u>4,625,801</u>
APPLICATION OF FUNDS:		
Acquisition of fixed assets —		
Leasehold interests . . . . .	1,202,478	2,586,087
Well and exploratory costs . . . . .	857,966	1,573,846
Lease and well equipment . . . . .	121,089	180,836
Sulphur plant equipment . . . . .	8,158	13,745
Other equipment . . . . .	45,883	37,930
	<u>2,235,574</u>	<u>4,392,444</u>
Cash dividends . . . . .	—	803,824
Reduction in long-term debt . . . . .	279,723	286,330
Other . . . . .	76,300	—
	<u>2,591,597</u>	<u>5,482,598</u>
Resulting in a decrease in working capital of . . . . .	436,791	856,797
Working capital, beginning of year . . . . .	3,757,235	4,614,032
Working capital, end of year . . . . .	<u>\$3,320,444</u>	<u>\$3,757,235</u>



# NOTES TO FINANCIAL STATEMENTS

December 31, 1970 and 1969

## Note 1 — Accounting Policies:

The consolidated statements include the accounts of the Company and its wholly owned subsidiary, Jefferson Minerals Corporation, which operates in the United States.

In accounting for oil and gas properties, the Company capitalizes all costs and expenses of acquiring, exploring for and developing oil, gas and sulphur reserves. Provisions for depreciation and depletion of the aggregate unrecovered portion of these costs (including pre-production expenses and costs of non-producing properties) have been computed on the basis of the ratio of the aggregate oil, gas and sulphur production to the aggregate estimated recoverable oil, gas and sulphur reserves.

Depreciation of sulphur plants and related equipment is provided by the unit-of-production method.

Debt discount, premium and financing costs, including such costs relating to long-term debt redeemed, are being amortized by equal annual charges over the life of the 4½% notes.

Recoveries of administrative expenses from third parties previously shown as other income have been credited in 1970 against administrative expenses. The corresponding figures for 1969 have been adjusted to reflect this reclassification.

## Note 2 — Cash:

At December 31, 1969 and 1970 cash includes short-term interest bearing bank deposits amounting to \$1,532,194 and \$925,773, respectively.

## Note 3 — Petrogas Processing Ltd.:

The Company and certain other working interest mineral owners in the Calgary field incorporated Petrogas Processing Ltd. to construct and own the field facilities and plants for processing field gas from the Calgary field for the recovery of commercial pipeline gas, condensate, liquefied petroleum gases and elemental sulphur. These facilities and plants are operated by the Company, which has a 30.9% interest in Petrogas Processing Ltd. Details of the investment are as follows:

Shares	\$ 309,020
Debentures due 1987	1,297,886
	<u>\$1,606,906</u>

## Note 4 — 4½% Notes Payable:

The 4½% notes, due August 1, 1985, were issued to Occidental Petroleum Corporation and are subject to required prepayment, without penalty, of \$250,000 (U.S.) of the principal amount on August 1 in each of the years 1970 to 1980 inclusive, and \$450,000 (U.S.) of the principal amount on August 1 in each of the years 1981 to 1985 inclusive, and to prepayment at the Company's option as specified in the Note agreements.

Under the terms of the Note agreements certain limited restrictions are imposed on the Company. Such restrictions had no practical effect at December 31, 1969 and 1970.

## Note 5 — Capital Stock and Capital in Excess of Par Value:

The Series B warrants, which are not redeemable, entitle the holders to purchase common shares of the Company at prices from \$12.00 per share to June 1, 1970 and \$13.00 per share to June 1, 1971, subject to reduction if the Company issues or sells common shares (except by way of stock dividend or option granted to a serving officer or employee of the Company) for a consideration less than the subscription price then in effect under the Series B warrants. The warrants also contain anti-dilution provisions in the event of the payment of a stock dividend.

During the year ended December 31, 1969 warrants to purchase 14,377 shares were exercised and warrants to purchase 96,933 shares were outstanding at December 31, 1969 and 1970.

Under the Company's stock option plan, options have been granted to executives and other employees of the Company at prices equivalent to the market value on date of grant. As at December 31, 1969 options to purchase 14,213 shares at prices from \$28.19 to \$38.75 per share were outstanding and options for 274 shares at prices of \$8.04 and \$28.29 per share were exercised in 1969.

In 1970 options to purchase 14,213 shares at prices from \$28.19 to \$38.75 were cancelled. Options were granted in 1970 to purchase 20,102 shares at prices from \$10.125 to \$11.125 per share of which options for 3,165 shares were granted to directors and officers. The options are exercisable over a five year period commencing six months after date of grant. As at December 31, 1970 options for 19,302 shares were outstanding and 10,868 shares were available for future grants. No options were exercised in 1970.

Changes in capital stock in excess of par value are summarized hereunder:

	No. of shares	Capital stock	Capital in excess of par value
Balance, December 31, 1968	2,669,058	\$2,669,058	\$18,044,906
Exercise of Series B Warrants	14,377	14,377	136,229
Exercise of stock options	274	274	4,481
Balance, December 31, 1969 and 1970	<u>2,683,709</u>	<u>\$2,683,709</u>	<u>\$18,185,616</u>



**Note 6 — Income Taxes:**

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowance (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts. As a result no income taxes were paid from inception to December 31, 1970. After such claims approximately \$410,000 of drilling, exploration and lease acquisition costs and \$1,910,000 of undepreciated capital cost remain to be carried forward and applied against future taxable income.

The Canadian Institute of Chartered Accountants has recommended the income tax allocation method of accounting whereby the income tax provision is based on the income reported in the accounts. Management, however, does not consider it appropriate to apply this method to differences in the timing of deductions for tax and accounting purposes with respect to drilling, exploration and lease acquisition costs; this view conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, the deferred income tax provision would have been \$220,000 and \$990,000 for 1970 and 1969, respectively. The accumulated income tax reductions relating to all timing differences in the current and prior years amounted to approximately \$7,000,000 at December 31, 1970.

**Note 7 — Supplementary Information:****Officers and directors—**

During the year 1970 there were thirteen directors and seven officers of whom two were also directors, as defined by the Canada Corporations Act.

Officers' remuneration and directors' fees for 1970 amounted to \$148,344 and \$8,888, respectively.

**Management fees—**

Selling and administrative expenses include the following:

	1970	1969
Management services provided by — Occidental Petroleum Corporation . . . . .	\$ 60,000	\$ 60,000
A fee of \$1 per ton of sulphur sold on behalf of the Company by Jefferson Lake Sulphur Company, a division of Occidental Petroleum Corporation . . . . .	41,679	40,986
	<u>\$101,679</u>	<u>\$100,986</u>

**Depreciation and depletion—**

Depreciation and depletion have been charged in the accounts as follows:

	1970	1969
Depreciation—		
Costs of products sold . . . . .	\$ 136,807	\$ 126,064
Selling and administrative expenses . . . . .	36,097	35,804
Other income and expenses . . . . .	13,809	21,043
	<u>\$ 186,713</u>	<u>\$ 182,911</u>
Depletion—		
Cost of products sold . . . . .	<u>\$1,478,946</u>	<u>\$1,230,700</u>

**Note 8 — Contingent Liability:**

The Company may be required under certain conditions to make payments under guarantee arrangements in connection with the issuing to, and depositing with the federal and provincial governments of non-interest bearing demand promissory notes to be held as work performance deposits in respect of exploratory rights.

The contingent liability under such arrangements does not exceed \$150,000.

**AUDITORS' REPORT****To the Shareholders of Jefferson Lake Petrochemicals of Canada Ltd.**

We have examined the consolidated balance sheets of Jefferson Lake Petrochemicals of Canada Ltd. and its wholly owned subsidiary as at December 31, 1970 and 1969 and the consolidated statements of income and retained earnings and source and application of funds for the two years then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other audit procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and 1969, the results of their operations and the source and application of their funds for the two years then ended, in accordance with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE & CO.  
Chartered Accountants



## **HEAD OFFICE OF THE COMPANY**

1000 - Calgary House  
550 - Sixth Avenue Southwest  
Calgary 1, Alberta, Canada

## **PLANTS**

Calgary Plant  
Balzac, Alberta  
Owned by Petrogas Processing Ltd.  
Operated by Jefferson Lake  
Petrochemicals of Canada Ltd.

Peace River Plant  
Taylor, British Columbia

Coleman Plant  
Coleman, Alberta

## **SULPHUR-SALES AGENTS**

### **North America**

Jefferson Lake Sulphur Company  
4671 Southwest Freeway  
Houston, Texas 77027  
Cable Address "Jefflake"

### **Export**

Cansulex Limited  
1280 The Bentall Centre  
505 Burrard St.  
Vancouver, British Columbia  
Cable Address "Cansulex"

## **TRANSFER AGENTS**

National Trust Company, Limited  
Toronto, Calgary, Montreal,  
Winnipeg and Vancouver

The First National City Bank  
New York, N.Y.

## **REGISTRARS**

National Trust Company, Limited  
Toronto

The Chase Manhattan Bank  
New York, N.Y.

## **CHARTERED ACCOUNTANTS**

Price Waterhouse & Co.  
Calgary, Alberta, Canada

## **SHARES LISTED**

American Stock Exchange  
Toronto Stock Exchange

## **KEY PERSONNEL**

### **Head Office**

R. S. Blackett, Mgr. Economics & Planning  
W. W. Chalmers, Mgr. Plant Operations  
D. F. Christensen, Mgr. Exploration  
G. S. Horne, Mgr. Production  
J. Meronek, Purchasing Agent  
C. R. Mikkelsen, Mgr. Land  
C. K. Stackhouse, Mgr. Personnel

### **Calgary Plant**

R. S. Geddes  
Plant Superintendent

### **Coleman Plant**

C. R. Rasmussen  
Plant Superintendent

### **Peace River Plant**

J. Shaw  
Plant Superintendent



