Ocelot Industries Ltd.

Annual Report 1984

Contents

Company Profile

Ocelot Industries Ltd., headquartered in Calgary, Alberta, is a Canadian-owned diversified natural resource enterprise.

Ocelot began as a small oil and gas company in western Canada with assets of $1.6 million in 1973. Since then, we have expanded our business base both domestically and internationally. Assets today exceed $1.0 billion. Ocelot now operates through four business sectors: Oil and Gas, Petrochemicals, Petroleum Industry Services and Supplies and Mining.

Ocelot is rated among the top 50 Canadian petroleum companies, and our shares are listed on the Toronto, Montreal and Alberta stock exchanges.

Annual Meeting

The Annual General Meeting of Shareholders of Ocelot Industries Ltd. will be held in the Mayfair Room, Westin Hotel, Calgary, Alberta on July 26, 1984 at 10:30 a.m. Formal notice of this meeting and proxy materials are enclosed.

Table of Basic Conversion Factors

Traditional to Metric		Metric to Traditional	
Length			
1 mile	= 1.609 kilometres (km)	1 km	= 0.621 mile
1 foot	= 0.305 metre (m)	1 m	= 3.281 feet
Area			
1 acre	= 0.405 hectare (ha)	1 ha	= 2.471 acres
Volume			
1 barrel	= 0.159 cubic metre (m^3)	1 m^3	= 6.293 barrels
1 cubic foot	= 0.028 cubic metre (m^3)	1 m^3	= 35.494 cubic feet
1 short ton	= 0.907 tonne	1 tonne	= 1.102 short tons
1 long ton	= 1.016 tonnes	1 tonne	= 0.984 long ton

Facts at a Glance

	1984	1983
	(thousands of dollars)	
Financial		
Revenue	**$266,053**	$376,581
Working capital (applied to) derived from operations	**(41,608)**	7,327
Loss for the year	**60,168**	36,438
Loss per common share (in dollars)	**4.19**	2.67
Cash flow (deficiency) per common share (in dollars)	**(2.90)**	.54
Capital expenditures	**29,639**	164,948
Working capital deficiency at end of year	**25,993**	51,462
Long-term debt at end of year	**736,637**	666,207
Operations		
Net crude oil and natural gas liquids production (barrels per day)	**2,424**	1,819
Net natural gas production (millions of cubic feet per day)	**101**	75
Number of drilling and service rigs	**63**	63
Methanol production (short tons)	**383,247**	155,451

Letter to Shareholders

Operations Review

Canada

Ocelot's strength for the near term lies in the accelerated development of our existing oil and gas reserves. Oil and gas activities dominate our operations both in size and scope, and we feel confident our planned approach to this segment will result in increased cash flow.

Our strategy for this accelerated development has been to use drilling programs funded by third parties. Since November, 1982, we have raised $44 million through Canadian development funds, and participated in the drilling of 52 oil wells and 96 gas wells. These wells are capable of producing 2,900 barrels of oil and natural gas liquids per day and 26 million cubic feet of gas per day, to the combined interests of Ocelot and the drilling funds. To add to production and reserves, we will be carrying out a similar development program totalling $31 million in the coming year.

Ocelot's crude oil and natural gas liquids production averaged 2,424 barrels per day in fiscal 1984, up 33 percent from the prior year. Natural gas production also increased, up 35 percent from the prior year, reaching a level of 101 million cubic feet per day. This was contrary to the industry experience in times of depressed gas markets, primarily due to Ocelot's ability to increase industrial gas sales contracts in Alberta.

Ocelot's main drilling programs were in the Grand Forks area of southern Alberta, in the Peco region of west-central Alberta and on the Hatton shallow gas block in southwest Saskatchewan. We concentrated our efforts in areas where Ocelot has proven expertise and where well costs were reasonably low. We plan to drill additional exploration and development wells at Grand Forks early in the coming season, and development drilling is planned for the Peco and Hatton areas later in 1984.

To increase oil recovery and raise production levels, waterflood programs were begun during the past year at the Crystal and David areas of Alberta. In addition, we established the feasibility of enhanced recovery of gas condensate in the Edson area.

Natural gas production from the Medicine Hat region of Alberta represents 75 percent of Ocelot's total gas sales. A development program is now under way to increase Ocelot's production capability and help maintain our share of existing markets, as well as position us to take advantage of additional markets as opportunities arise.

In Saskatchewan, one of the most important developments for Ocelot over the past year was the government's new scheme to increase natural gas production. As the largest owner of gas reserves in Saskatchewan, Ocelot will ultimately be the prime beneficiary. The first natural gas sales from Ocelot's Hatton block commenced in November, 1983, with the sale of six million cubic feet per day.

In addition, the sale of another 12 million cubic feet per day is scheduled to begin in November, 1984.

Over the past year, Ocelot's exploration and development drilling programs in Canada have resulted in proven reserve additions of 3.6 million barrels of oil and 45 billion cubic feet of natural gas. We plan to add to our oil reserves by increasing the use of enhanced recovery techniques in the coming year, and development drilling in the Hatton areas of Saskatchewan over the next few years will result in a reclassification of a large portion of Ocelot's gas reserves from the category of probable to proven. At this time, Ocelot's probable natural gas reserves in western Canada total 515 billion cubic feet and probable oil reserves total 11 million barrels.

International

Ocelot's first international production came on stream in late September, 1983 from the Blina field. Production is averaging approximately 800 barrels of oil per day. Ocelot's participation in a successful development well in the Sundown oil field, west of the Blina field, gives added encouragement for continuing activity in this block.

Over the past year, we have relinquished our interests in the offshore blocks of Western Australia due to disappointing drilling and seismic work, and have farmed-out Ocelot's large holdings in the Republic of Sudan in Africa whereby Ocelot's share of exploration costs will be funded by another party until September, 1985.

Petrochemicals

Ocelot's world scale methanol plant in Kitimat, British Columbia, operated for its first full fiscal year since plant start-up in September, 1982. The recent worldwide recession and current excess in global methanol capacity has continued to depress prices. As a result, Ocelot has incurred losses in this business segment. However, we expect a substantial reduction in natural gas feedstock costs as a result of positive changes in British Columbia's natural gas policies in the last year.

Petroleum Industry Services and Supplies

Ocelot has a sizeable petroleum industry services and supplies operation. Revenues and earnings were down substantially in this sector, due mainly to a steady decline in drilling activity in both Canada and the United States, as well as fewer large pipeline projects. We feel there are signs of modest improvement in the drilling industry for the coming year.

Financial Review

Ocelot experienced its most difficult financial year as operations reflected a cash flow deficiency of $41.6 million for the year ended March 31, 1984 compared to cash flow of $7.3 million in 1983. The cash flow deficiency per share was $2.90 in 1984 compared to cash flow per share of $0.54 in 1983. Ocelot incurred a loss for the year ended March 31, 1984 of $60.2 million ($4.19 per share) compared to $36.4 million ($2.67 per share) in 1983.

Earnings from Oil and Gas operations rose by $4.9 million to $44.8 million as a result of increased production volumes, however, the improvement in Oil and Gas results was more than offset by losses from operations in the Petrochemical and Petroleum Industry Services and Supplies segments.

Ocelot's capital expenditures totalled $29.6 million during the year, down sharply from previous levels of $152.8 million in 1983 and $344.0 million in 1982. This decrease reflects our continued commitment to the restraint program previously implemented and the completion of the Kitimat methanol plant in late 1982.

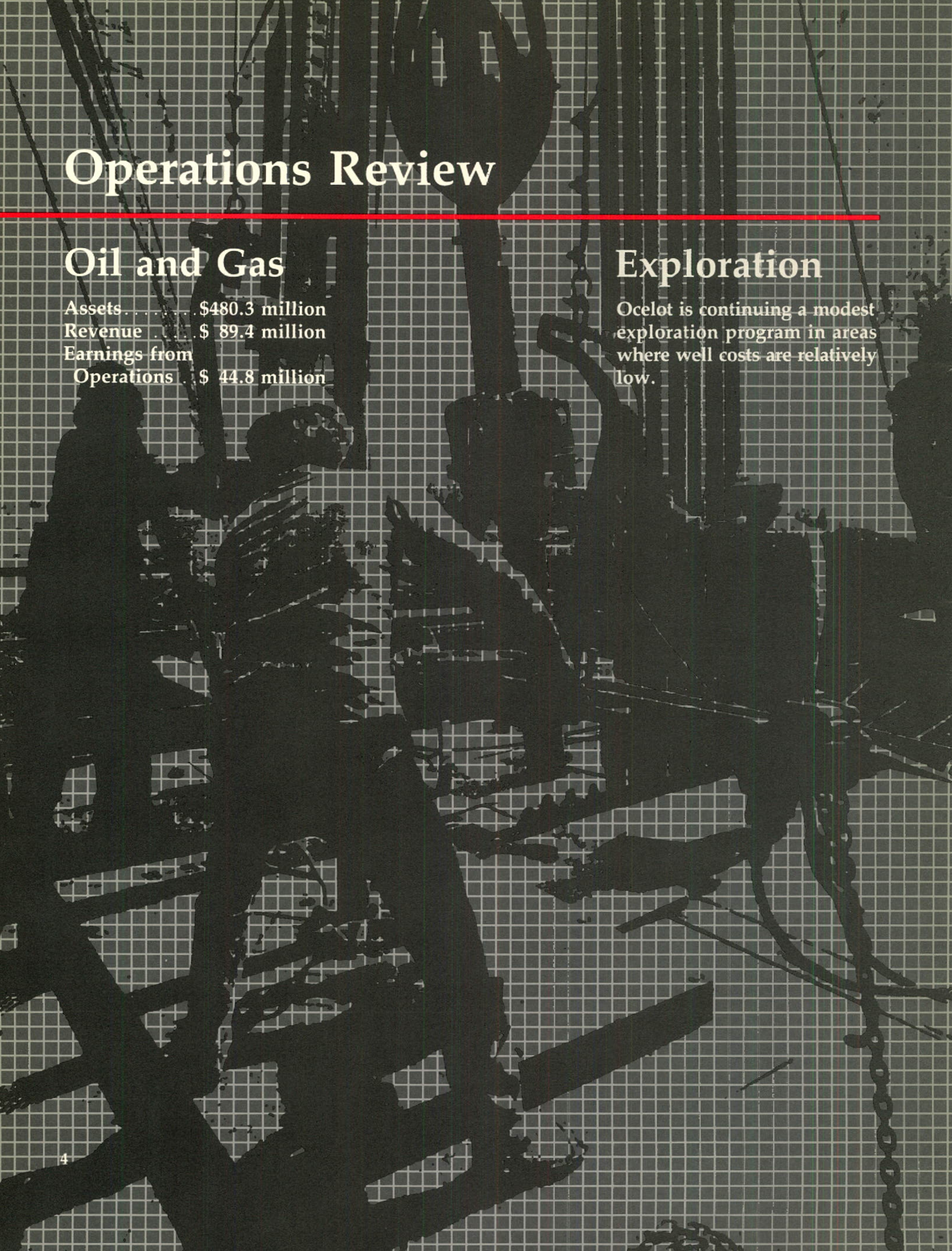
Outlook

Ocelot faces many challenges in the coming year. Action has been under way to restore Ocelot's financial health and we are hard at work determining additional ways of reducing operating costs. These measures, combined with diligent financial restraint and continued development of Ocelot's oil and gas reserves through third party funding, should lead to improvements in Ocelot's working capital position.

Ocelot's oil and gas production at year end was approximately 2,600 barrels of oil and 126 million cubic feet of natural gas per day. Considering all of the development and enhanced recovery projects under way at this time, a daily productive capability of 12,000 barrels of oil and 167 million cubic feet of natural gas can reasonably be expected by March 31, 1985. Delivery and marketing of these daily volumes is the challenge facing our oil and gas segment in the year ahead.

J. V. Lyons
Chairman & Chief
Executive Officer

Calgary, Alberta
June 22, 1984



Operations Review

Oil and Gas

Assets . . . . $480.3 million
Revenue . . . . . $ 89.4 million
Earnings from
Operations . . $ 44.8 million

Exploration

Ocelot is continuing a modest exploration program in areas where well costs are relatively low.

Highlights

- Main exploration thrust is the search for new oil in Alberta.
- Oil discoveries made in the Grand Forks region of Alberta.

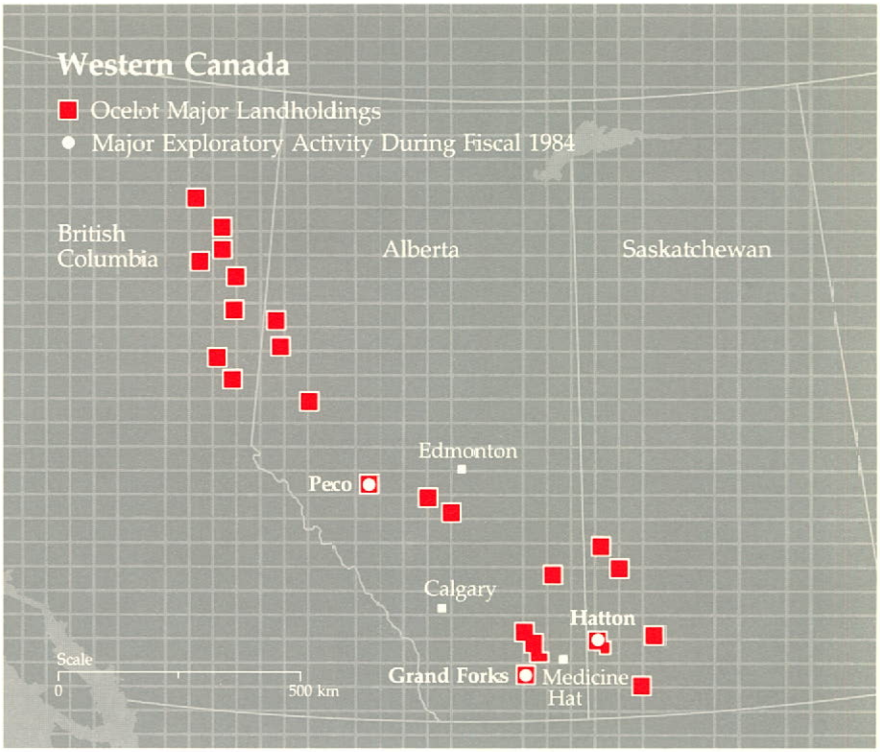
Canada

Ocelot's exploration activities this past year have confirmed its commitment to exploration for oil and gas in western Canada.

The main thrust of Ocelot's exploration activities during fiscal 1984 has been in the search for new oil, which commands the New Oil Reference Price (NORP). NORP is roughly equivalent to world price.

The Canadian exploration activities primarily have been directed through a relatively new Ocelot-operated joint venture company, Margay Exploration Ltd. Margay was formed when Ocelot entered into a joint venture agreement with AGIP Canada Ltd. in October, 1982. Margay Exploration Ltd. is held 80 percent by Ocelot and 20 percent by AGIP.

Ocelot's exploration expenditures in western Canada totalled \$5.4 million last year, compared to \$6.2 million in the previous year. Exploration costs for Ocelot's drilling programs offshore Labrador totalled \$8.8 million in fiscal 1984, compared to \$9.1 million in the previous year. Under the Petroleum Incentives Program (PIP), Ocelot qualifies for the maximum grants because of its high Canadian ownership rating. Ocelot earns PIP grants amounting to 80 percent of the east coast drilling expenses and 35 percent of the exploratory drilling costs incurred in western Canada.



Over the last year, Ocelot participated in 27 exploratory wells in Canada, resulting in four oil wells and 12 gas wells. Our exploratory efforts were concentrated in areas where Ocelot has proven expertise and where well costs are reasonably low.

Alberta

During the past year, Ocelot had a significant degree of exploratory success in the Grand Forks area of southern Alberta. The drilling program resulted in the discovery of two new oil pools, and provided Ocelot with additional information that has generated a number of new exploratory prospects. Given our success in the area and the attractive economics associated with the development of these fields, we plan to drill a minimum of three exploratory wells early next year. Ocelot has interests in the area ranging from 25 percent to 62 percent.

Ocelot's drilling in the Peco area has established the potential to encounter hydrocarbons in a number of shallower formations, evidenced by Ocelot's cardium oil and gas discovery made with the drilling of a deeper test well in mid-1983. In addition, oil production in the Peco area was established from another shallower formation offsetting Ocelot's acreage during the past year. Plans are under way for a development drilling program in the area later in 1984.

Ocelot has considerable exploration acreage in the Peace River area of west central Alberta, where industry activity has been high and a number of oil discoveries have been made. We plan to conduct geophysical work and drilling on our acreage in the coming year.

Saskatchewan

Ocelot participated in five deep exploratory wells on the large Hatton block of shallow gas lands in south-western Saskatchewan. Tests of the deeper zones proved to be dry, but the wells were completed in shallower gas horizons. The drilling program enabled Ocelot to earn approximately 50,000 acres of deeper rights for future exploration. We have undertaken a seismic program to evaluate the deeper rights and plan to continue further exploratory drilling in the coming year.

East Coast

Ocelot participated in a drilling program to re-enter and deepen three exploratory wells in the Labrador Shelf area, off Canada's east coast. Two wells were abandoned and the third was suspended for re-entry at a later date. The Labrador Group of companies has agreed to defer further drilling activity until at least the 1985 drilling season.

Exploration Wells

	1984					
	Oil		Gas		Dry	
	Gross	Net	Gross	Net	Gross	Net
Canada	4	1.0	12	4.8	11	1.7
United States	1	—	1	—	3	0.3
International	1	0.2	—	—	3	0.4
Total	6	1.2	13	4.8	17	2.4

Landholdings — Developed and Undeveloped
(at March 31, 1984)

	Gross Acres	Net Acres
Canada (1)		
British Columbia	399,934	111,812
Alberta	1,239,015	614,805
Saskatchewan	366,775	230,260
Manitoba	5,880	4,760
Total	2,011,604	961,637
United States (2)	529,889	379,450
International		
Australia	870,000	133,197
Cameroon	194,527	30,359
Senegal	1,186,845	1,186,845
Sudan	53,998,763	6,884,842
Total	56,250,135	8,235,243
Total Landholdings	58,791,628	9,576,330

(1) Does not include varying royalty interests in 85,238 gross acres.
(2) Does not include varying royalty interests in 161,471 gross acres.

United States

In the United States we have made major changes in our exploration strategy. We have been progressively relinquishing our interests in the long term higher risk frontier areas in order to consolidate and concentrate our efforts in two major basins of the United States. Ocelot's strategy is to focus on areas of proven hydrocarbon potential where the geological risk is lower.

Ocelot's exploration emphasis in the coming year will be directed towards the Denver - Julesburg Basin of northeastern Colorado and the Powder River Basin located in the northeast corner of Wyoming, where we believe high quality oil prospects can be developed.

In addition, participation in two exploratory wells is planned for the Forest City Basin of east Kansas, where Ocelot will have a 9.4 percent interest.

International

Western Australia

Ocelot believes one of the most attractive areas in Australia for future exploration potential is in the onshore Canning Basin. In view of our encouraging development and production results in the Blina and Sundown fields on the Meda Block, we plan to direct the majority of our international exploration expenditures in the coming year towards evaluating prospects on Permit EP-129.

Ocelot's exploratory drilling and seismic work offshore Western Australia this past year failed to uncover any areas with good potential for future drilling. As a result, we have decided to relinquish our interests in the offshore blocks. During the past year, Ocelot participated in the Hangover #1 and Katy #1 exploratory wells, onshore the Canning Basin, which failed to encounter hydrocarbons and subsequently were abandoned.

Africa

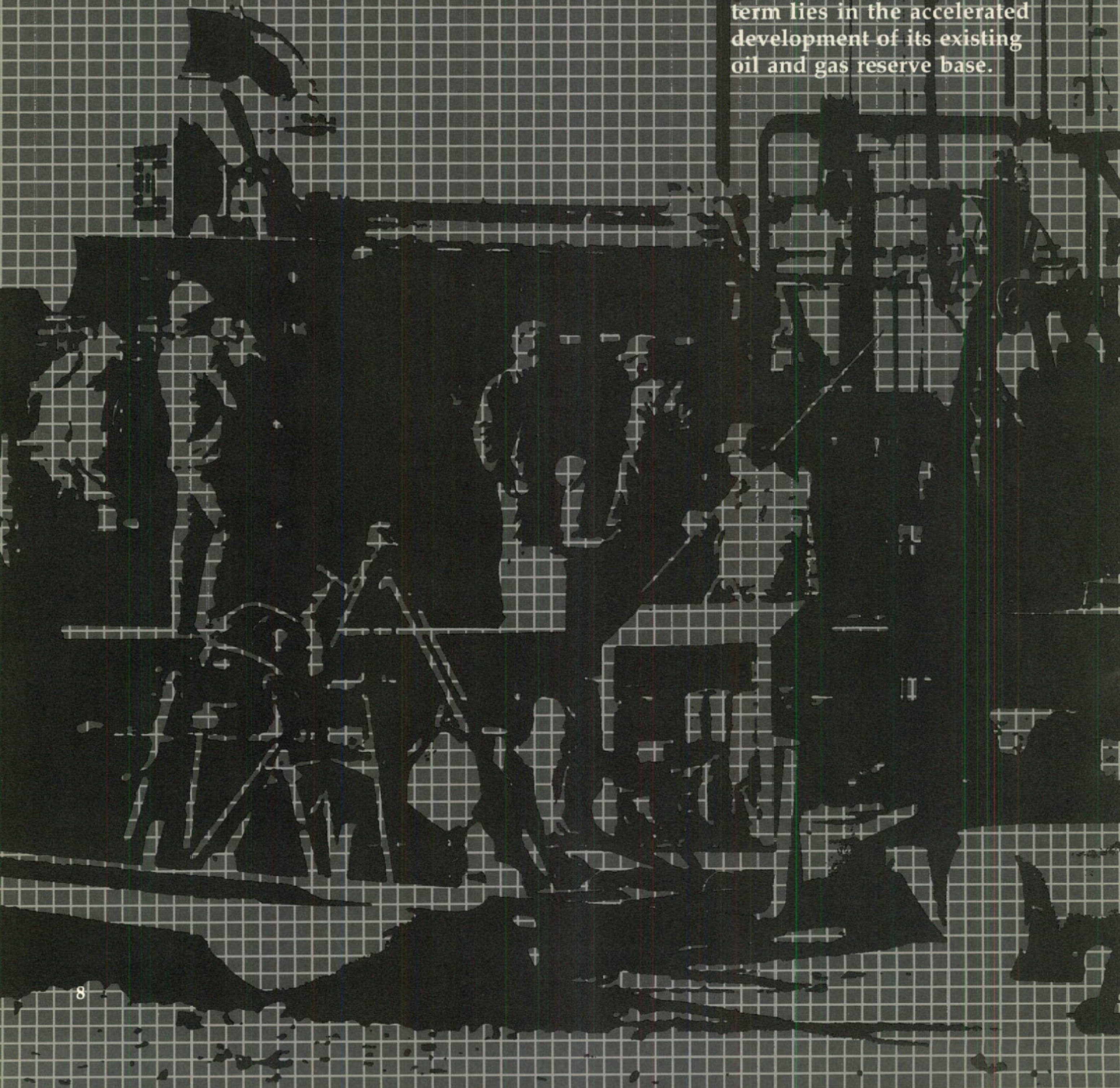
In the Sudan, under a Production Sharing Contract with the government of the Republic of Sudan, Ocelot holds rights to a 54 million acre concession near Khartoum as part of a joint venture. We believe these lands hold good prospects for oil potential, given industry discoveries south of our holdings. Ocelot has entered into an agreement with a major United States oil company whereby Ocelot's share of exploration costs will be funded until September, 1985, resulting in a reduction of interest from 42.5 percent to 12.75 percent. Seismic and gravity surveys already have been conducted and an expanded geophysical program is planned for 1984.

In the Republic of Cameroon in west central Africa, Ocelot holds a 15.6 percent interest in 194,500 acres in the offshore Sanaga Sud concession. Drilling over the past several years has proven large gas and condensate reserves. Unfortunately, under present economics the development of the field is not feasible. It has been decided to suspend drilling until the field economics improve.

Ocelot holds a 100 percent interest in a 1.2 million acre concession area in the Republic of Senegal. In 1983 we acquired additional seismic data to more fully evaluate the block. We plan to make a decision in mid-1984 regarding future activity in this area.

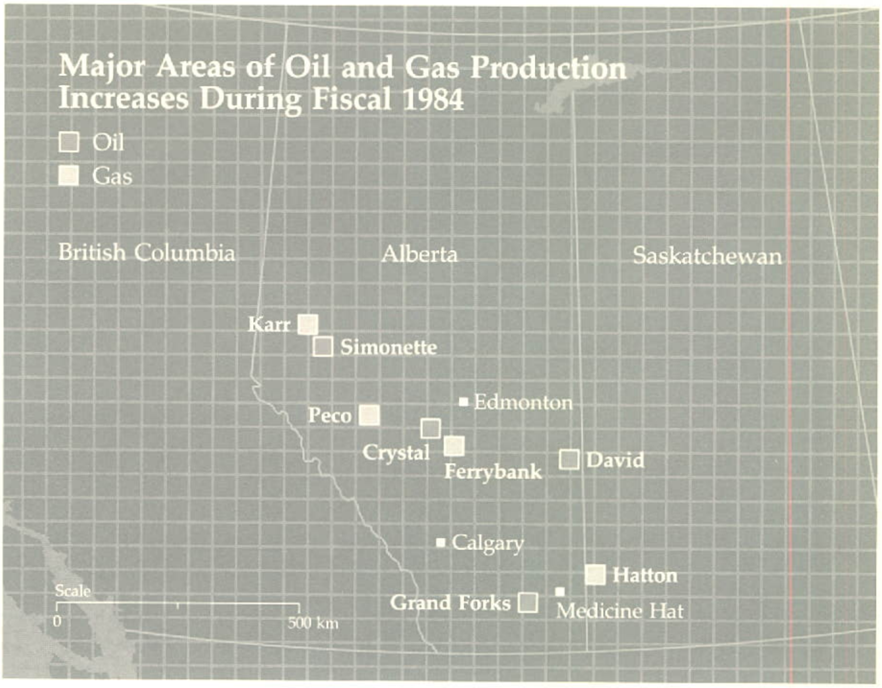
Oil and Gas Production

Ocelot's strength for the near term lies in the accelerated development of its existing oil and gas reserve base.



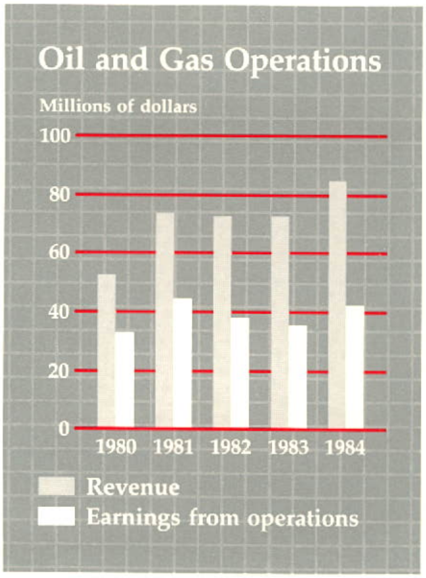
Highlights

- A new Saskatchewan gas policy resulted in first-time sales of natural gas from Ocelot's previously shut-in reserves in the Hatton block.
- A total of $75 million was raised through Canadian development funds in 1982, 1983 and 1984.
- Ocelot's extensive development programs boosted crude oil production and reserves in western Canada.
- Canadian natural gas sales increased 35 percent, despite depressed gas markets.
- Ocelot's first international production came on stream in Australia.



The Year in Review

Over the last year, Ocelot participated in the drilling of 188 development wells. This activity yielded 81 oil wells, 86 gas wells and 10 service wells. Net production of crude oil and natural gas liquids averaged 2,424 barrels per day in fiscal 1984, an increase of 33 percent over the previous year. Although gas markets were depressed in 1983, net production averaged 101 million cubic feet per day, an increase of 35 percent from the previous year, primarily as a result of increased industrial gas sales contracts in Alberta.



Canada

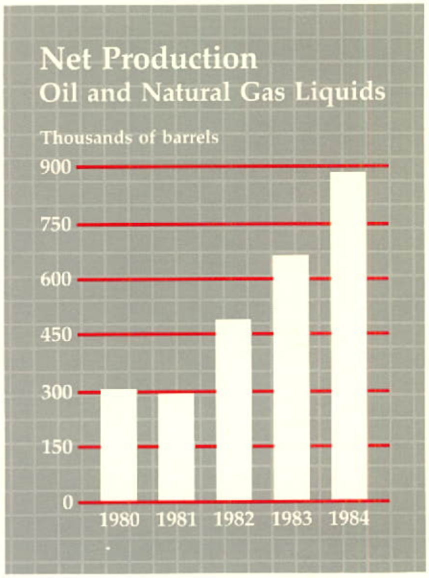
Ocelot's first and foremost goal is to increase near-term cash flow. Our strategy has been to accelerate the development of existing reserves through development drilling programs funded by third parties. These programs have led to a substantial increase in both production and reserves.

In the 1983 fiscal year, Ocelot raised $12 million through the Ocelot Development Program, followed by a further $32 million in fiscal 1984. To date, these fund-raising initiatives have resulted in the drilling of 52 oil wells and 96 gas wells. These oil and gas wells are capable of producing 26 million cubic feet of gas and 2900 barrels of oil and natural gas liquids per day to the combined interests of Ocelot and the drilling funds. Ocelot will make additional contributions to production and reserves through the newest development program recently finalized for the current fiscal year, where $31 million was raised in development capital.

Development Wells

	1984							
	Oil		Gas		Service		Dry	
	Gross	Net*	Gross	Net*	Gross	Net*	Gross	Net*
Canada	62	28.5	84	41.5	8	3.9	8	3.3
United States	19	0.2	2	0.1	2	—	3	0.3
Total	81	28.7	86	41.6	10	3.9	11	3.6

* Interests in the Ocelot Development Programs have been included using Ocelot's working interest after payout.



Alberta

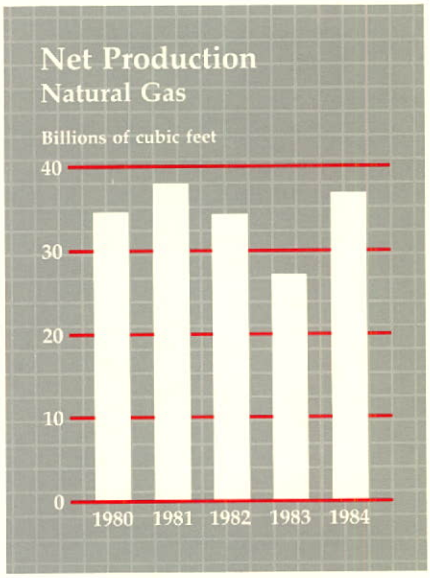
The main emphasis for the last year has been on the development of Ocelot's crude oil and contracted natural gas reserves. This strategy has resulted in production increases, most notably at the Crystal field. Ocelot participated in 16 oil wells in the Crystal area in the past year, and a waterflood program now under way should increase recovery of the oil in place from 15 percent to 40 percent.

Ocelot also undertook a 17 well development program in the Grand Forks area of southern Alberta. The combination of a successful development drilling program and favourable economics make Grand Forks a highly attractive area for further oil development. Ocelot has markedly improved productivity and ultimate oil recovery by using high volume submersible pumps. We plan to drill additional development wells in the Grand Forks area during the coming year.

In addition, Ocelot participated in the drilling of 13 wells and commenced a waterflood recovery scheme for heavy crude oil at David, in east central Alberta. Waterflood operations should raise production levels in the coming year.

Ocelot's gas production from its large natural gas reserves base in southern Alberta represents approximately 75 percent of total gas sales. During the coming year, we plan a large development program to increase production capability and help maintain our share of existing markets. This will also enhance our ability to pursue additional markets as opportunities arise.

The Peco field in central Alberta traditionally has been a significant source of revenue for Ocelot, owing to its high yield of associated natural gas liquids. Our development drilling in the area over the past year resulted in the addition of three gas wells and one oil well. As a result of increases in reserves proven by these wells, Ocelot was able to renegotiate its natural gas purchase contract for the area, leading to a substantial increase in anticipated gas contract sales for fiscal 1985. Additional wells are planned for the coming year.



Other areas of development and new production included three gas wells at Ferrybank and one oil well in the Simonette area of Alberta.

Production Summary

	Crude Oil and Natural Gas Liquids (thousands of barrels)				Natural Gas (millions of cubic feet)			
	1984		1983		1984		1983	
	Gross	**Net**	Gross	Net	**Gross**	**Net**	Gross	Net
Canada								
Alberta	**1,339**	**719.8**	722	518.4	**51,730**	**36,187**	40,964	26,496
Saskatchewan	**69**	**35.7**	28	20.2	**1,538**	**207**	259	119
Manitoba	**5**	**1.5**	6	1.8	—	—	—	—
British Columbia	**32**	**21.8**	41	26.2	**1,165**	**663**	1,087	542
	1,445	**778.8**	797	566.6	**54,433**	**37,057**	42,310	27,157
United States	**786**	**85.5**	659	100.0	**6,140**	**164**	4,212	105
International	**150**	**22.9**	—	—	—	—	—	—
Grand Total	**2,381**	**887.2**	1,456	666.6	**60,573**	**37,221**	46,522	27,262

Saskatchewan

The Government of Saskatchewan has indicated its desire to encourage further exploration and development, and has announced a scheme that will see natural gas production in the province double over the next five years. Saskatchewan gas currently supplies only 35 percent of provincial demand. Saskatchewan gas formerly was left in the ground as long as cheap gas was available from Alberta. When Alberta gas prices increased in the late 1970's, Saskatchewan still was committed to Alberta purchase contracts, resulting in no new markets for Saskatchewan gas. Since the mid 1970's, Saskatchewan has held natural gas prices to the producer at rates significantly below market prices, and as a result practically no gas exploration or development has occurred. As the largest owner of gas reserves in Saskatchewan, Ocelot ultimately will be the prime beneficiary of the expected increased market for Saskatchewan gas.

The first natural gas sales from Ocelot's 290,000 acre Hatton block commenced in November of 1983. Ocelot participated in the drilling of 47 gas wells and installed a field gathering and compressor station to accommodate sales of 6 million cubic feet per day. Recently, Ocelot was granted an additional contract of 12 million cubic feet per day commencing November 1, 1984. After payout, Ocelot's net interest in these sales will be 61 percent.

Reserves

Gross proven reserves of crude oil and natural gas liquids in Canada totalled 12.1 million barrels at March 31, 1984, an increase of 2.8 million barrels over the previous year, after production of 780,000 barrels during the year. The reserve increase reflects the extensive development undertaken in western Canada during the reporting year. As previously noted, major additions during the year were in the Crystal, Grand Forks and Peco areas of Alberta. We believe additional drilling and the increased use of enhanced recovery techniques will add new reserves in the coming year.

Gross proven reserves of natural gas totalled 1.0 trillion cubic feet at March 31, 1984, an increase of 68 billion cubic feet over the previous year after production of 37 billion cubic feet during the year. Major additions were in the Tilley, Patricia and Monogram areas of Alberta. Development drilling over the next few years in the Hatton area of Saskatchewan will result in a significant portion of Ocelot's gas reserves being reclassified from the category of probable reserves to that of proven reserves. At this time, Ocelot's probable reserves in the Hatton area are estimated to be 415 billion cubic feet.

Reserves

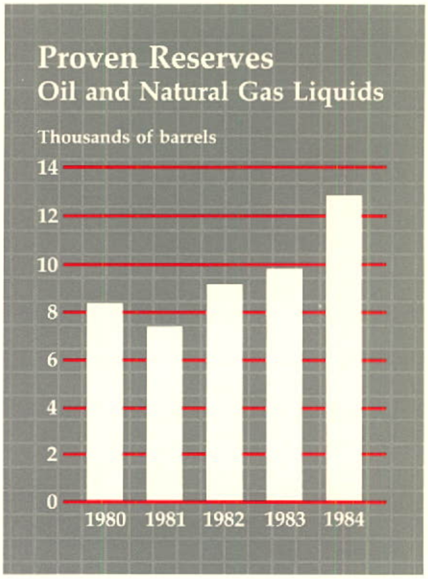
	Crude Oil and Natural Gas Liquids (thousands of barrels)			Natural Gas (billions of cubic feet)	
	Canada	United States	International	Canada	United States
Proven Reserves					
Reserves at March 31, 1983	9,343	185	322	954	1
Added by drilling	3,609	67	266	45	—
Revisions	(96)	—	—	60	(0.1)
Production	(779)	(86)	(23)	(37)	(0.1)
Reserves at March 31, 1984	12,077	166	565	1,022	0.8
Probable Reserves	11,315	—	—	515	—
Total Proven and Probable Reserves	23,392	166	565	1,537	0.8

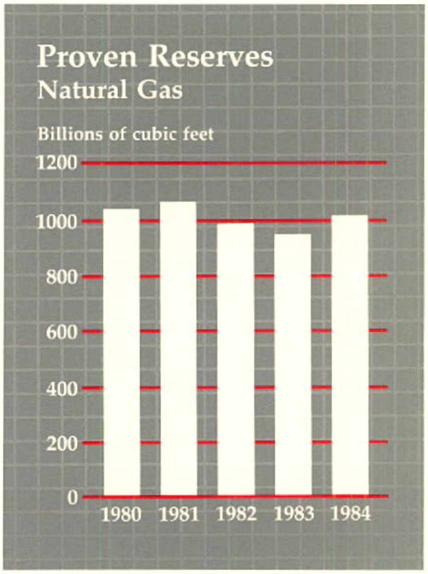
Ocelot's proven and probable reserves at March 31, 1984 are shown on a before royalty basis. The majority of reserves evaluations have been carried out by independent consultants. The definitions for proved and probable reserves are as follows:

Proven Reserves — Quantities of crude oil, natural gas, and natural gas by-products, which, upon analysis of geologic and engineering data, appear with a high degree of certainty to be recoverable at commercial rates in the future from known oil and gas reservoirs under presently anticipated economic and operating conditions.

Probable Reserves — Reserves which may be recovered in the future by using pressure maintenance or other secondary recovery methods, or by more favourable performance of the existing recovery mechanism than that which would be deemed proven at the present time. They may also be reserves which are assumed to exist because of geophysical or geological indications and drilling done in regions which contain proven reserves.

	Estimated Net Cash Flows	
	Undiscounted	Discounted at 15%
Proven Reserves		
Canada	$7,514,584,000	$843,930,000
United States	29,228,000	3,444,000
Australia	10,400,000	5,780,000
	7,554,212,000	853,154,000
Probable Reserves		
Canada	1,106,248,000	130,350,000
Total Proven and Probable Reserves	$8,660,460,000	$983,504,000





United States

Ocelot has been re-evaluating its strategy in the United States. As a result, steps were taken during the past fiscal year to reduce overhead costs through a reorganization of the Denver office. This reorganization coincided with the major redirection of our development efforts towards areas with lower geological risk.

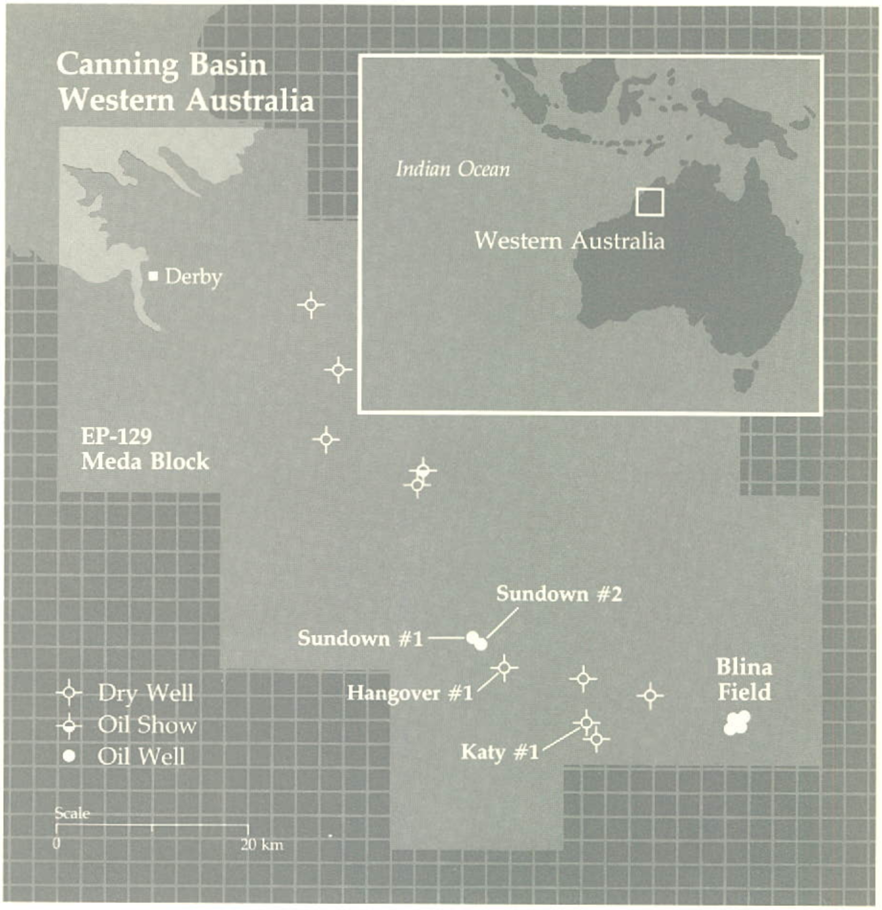
Ocelot's two main drilling successes during the past year were realized in the Anadarko Basin of Texas and Oklahoma. A natural gas well in the northeast corner of the Texas Panhandle has production potential of approximately 1.4 million cubic feet per day. We hold an 11.25 percent interest in this well. A second gas and condensate step-out well in the northwest corner of the Anadarko Basin of Oklahoma has production capability of 2.3 million cubic feet of gas per day and 120 barrels per day of condensate. Ocelot holds a 20.38 percent interest in this well. Owing to the market allocation system in Oklahoma, sales will be limited to approximately one-half of the well's production capability. We plan to drill a step-out well north of this location in the coming year.

Ocelot's development plans for the Denver - Julesburg Basin of Colorado involve the drilling of three wells in the coming year.

International

Western Australia

Ocelot's permit in Western Australia, EP-129, covers the northern edge of the Canning Basin, an area which contains two known oilfields, the Blina and Sundown fields.



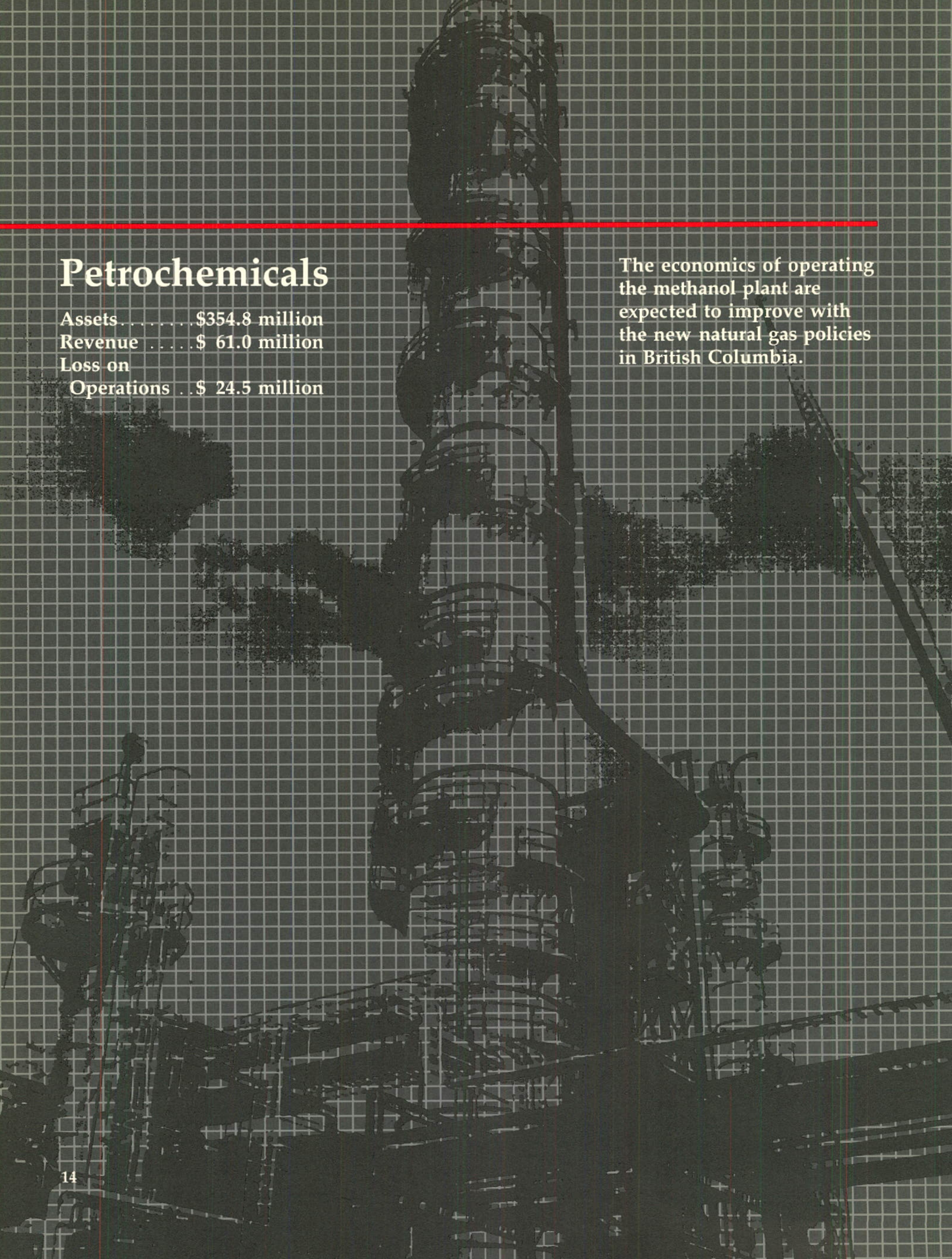
Since our 1981 Blina #1 oil discovery we have participated in the drilling of three successful appraisal wells, confirming the presence of the commercial Blina field. Production started in late September, 1983 at a rate of approximately 800 barrels of oil per day, making Blina the first producing field in the Canning Basin. The oil is transported by a newly-constructed pipeline from the Blina field to a loading terminal, then trucked to storage and tanker loading facilities at Broome. Ocelot holds a 15.3 percent interest in this permit.

Ocelot also participated in the Sundown #2 development well in June, 1983 which was a follow-up to the November 1982 Sundown #1 oil discovery. The well was successfully completed as an oil well. The field has produced intermittently since December, 1983, owing to seasonal rains and a lack of facilities. Ocelot and partners plan to drill a third development location in 1984, following the evaluation of additional seismic.

Petrochemicals

Assets . . . . $354.8 million
Revenue . . . . . $ 61.0 million
Loss on
Operations . . $ 24.5 million

The economics of operating the methanol plant are expected to improve with the new natural gas policies in British Columbia.



Highlights

- As a result of positive changes in British Columbia's natural gas policies, Ocelot expects a substantial reduction in feedstock costs for the methanol plant.
- Ocelot's strong marketing efforts resulted in sales of the total plant capacity, despite a worldwide surplus of methanol.

The Year in Review

Ocelot's world scale methanol plant in Kitimat, British Columbia, operated for its first full fiscal year since start-up in September, 1982. Kitimat is a prime location as it gives us a transportation advantage to have our loading facilities on tidewater, thereby affording better access to world markets through the use of some of the world's largest petrochemical tankers. To provide an effective distribution system, we have strategically situated our storage terminals in Canada and the United States, and established a tank car and truck delivery system which enables us to provide excellent client delivery service.

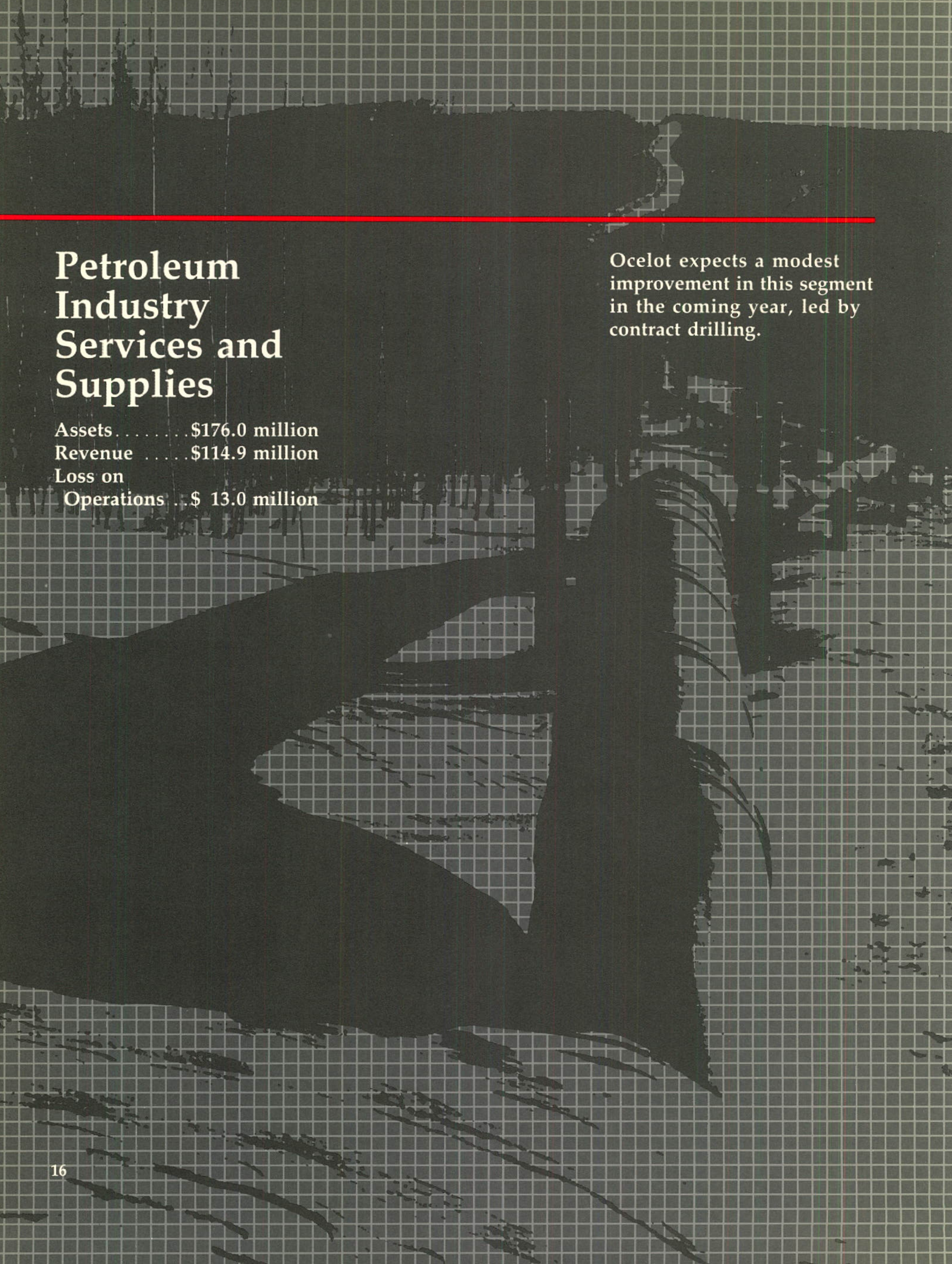
The recent worldwide recession and the current surplus in global methanol capacity, particulary in North America, have continued to depress prices. Following a high of 79¢ (U.S.) per U.S. gallon in December, 1981, the price for methanol subsequently has declined to just above 40¢ (U.S.). As a result, Ocelot has incurred losses in this business segment.

However, there have been some positive developments in British Columbia's natural gas policies over the past year. Natural gas is the feedstock for the methanol plant, and a key development for Ocelot was the British Columbia government's move to allow us to purchase gas directly from natural gas producers in the province. In addition, the British Columbia government announced the implementation of a new royalty structure with respect to the use of natural gas for petrochemical production. These developments could result in a substantial reduction in feedstock costs for the plant. In the longer term, the potential exists to develop Ocelot's own shut-in reserves as a feedstock.

Operationally, the Kitimat plant performed very well over the past year. With ongoing improvements in reliability and operating efficiencies, Ocelot's methanol production for the year totalled 383,247 short tons, approximately 85 percent of the plant's capacity.

Despite the worldwide surplus of methanol, Ocelot's strong marketing efforts have resulted in the sale of the entire plant production, including significant sales to new customers in European markets. This success is contrary to industry experience, for the surplus has forced many producers to cut back production and some North American producers have shut down plants during the past year. Further plant closures are expected in the near future.

Ocelot has continued its efforts to develop a market for methanol as a fuel extender. Mixed with gasoline or diesel, methanol offers an economic alternative to these hydrocarbon fuels and has the added advantage of reducing exhaust emissions. Success in this endeavour will provide strong sales potential for the future. Traditionally, products derived from methanol include adhesives, resins, paints, fertilizers, anti-freeze, fibres and formaldehyde.



Petroleum Industry Services and Supplies

Assets . . . . $176.0 million
Revenue . . . . . $114.9 million
Loss on
Operations . . $ 13.0 million

Ocelot expects a modest improvement in this segment in the coming year, led by contract drilling.

Overview

Ocelot has a sizeable petroleum industry services and supplies operation. The largest components are Cactus Drilling, Cardinal Drilling, O.J. Pipelines and Wilson Oilfield Supply. Revenues and earnings were down substantially in this sector over the past year, mainly because of the steady decline in drilling activity both in Canada and in the United States, as well as fewer large diameter pipeline construction projects. Ocelot feels there are signs of modest improvement in the drilling industry for the coming year in both the United States and Canada.

Contract Drilling and Oilfield Service

Cactus Drilling is the fourth largest drilling contractor in Canada, operating 24 rigs throughout the western provinces. Rig utilization for the year averaged 41 percent for a total of 3,400 operating days, an increase of 400 days over the prior year. Because of the surplus of rigs in the industry, competition has been intense, causing operating margins to remain low. We do not expect a great deal of improvement in profit margins in Canada over the next year, but rig utilization should increase as the Canadian drilling market picks up.

Cardinal Drilling operates 22 rigs throughout the western United States with headquarters in Billings, Montana. Rig utilization averaged 39 percent over the past year for a total of 3,200 operating days, the same level as fiscal 1983. There are indications that rig utilization should increase in the United States in the coming year. As is the case in Canada, the surplus of rigs in the United States has served to make the market highly competitive, resulting in depressed operating margins.

Brooks Field Service operates 17 service rigs centred primarily in the Lloydminster heavy oil region and the Brooks area of Alberta. Higher levels of production activity in the Lloydminster region resulted in increased rig utilization compared to the previous year. We expect the high level of activity at Lloydminster to continue through the coming year.

Pipeline Construction

Ocelot owns and operates two pipeline construction companies: O.J. Pipelines, whose operations are based in Edmonton, Alberta and Anchorage, Alaska; and South Eastern Pipeline Construction, located in Medicine Hat, Alberta. Together, these companies provide a broad range of services, from the installation of large diameter pipelines covering several hundred miles to small diameter pipelines over short distances.

During the past year, the Canadian pipeline construction industry has suffered its most severe downturn in history. Not only was there a decrease in the number of large diameter pipeline projects covering long distances, but the industry also experienced a slowdown in the volume of smaller field gathering and distribution line projects. O.J. Pipelines' gross revenues dropped from $134 million in fiscal 1983 to $8 million in fiscal 1984.

In response to the lack of projects in Canada, O.J. Pipelines has endeavored to expand its operations by getting placed on approved bidder lists of potential clients throughout the United States, with primary emphasis on the Alaskan market. O.J. also has intensified its pursuit of international pipeline construction opportunities throughout the world.

The majority of South Eastern Pipelines' activity has centred on well tie-in programs in southern Alberta in addition to servicing and maintaining existing facilities. As a result, contracts were of much smaller scale than in the past.

Outlook

Major mainline construction activity is not expected to improve for some time. The strategy of developing and expanding our presence in the international marketplace may hold the long-term answer to reducing the adverse impact of fluctuating activity levels in North America.

Oilfield Supply

The past year was the second consecutive year in which Ocelot experienced declining revenues in the supplies group. Operations include Wilson Oilfield Supply in Canada and Lynx Oilfield Supply in the United States, distributing tubular goods and other oilfield equipment. Combined revenues totalled $43 million during the past year, compared to $61 million in the previous year. The low levels of drilling activity, together with the industry surplus of major equipment and tubular goods at the beginning of 1983, created intense competition for available business.

Outlook

We expect marginal sales increases for the coming year, in response to predictions of higher levels of drilling activity in Canada and the United States. Prices for production equipment also should show some improvement, with markets remaining extremely competitive.

Manufacturing

Ocelot is involved in the manufacturing of downhole drilling tools for the oil and gas industry through Lynx Tool. This past year Lynx Tool, previously known as Faster Oil Tools, faced severe competition in the sale of drilling tools, leading to depressed operating margins. Lynx Tool expects overall sales volume increases during the next year as drilling contractors begin to replace their current equipment.

Ocelot also participates in the manufacturing of valves through Lowe Valve Ltd. The valves are used in a wide variety of industries such as pulp and paper, chemical plants, refineries and steel. Initial customer response to Lowe Valve's new product has been satisfactory, but sales are slow because of the general downturn in the construction of petrochemical and refinery facilities.

Mining

Highlights

- New joint venture agreements are being finalized in Oregon and Nevada as Ocelot's search for precious metals expands into the United States.

The Year in Review

Activity levels in the mining and minerals exploration industry have shown marked improvements in North America over the past year. Exciting new developments and the readying of new precious metals mines for production contributed to these increased levels. The main areas of activity were the western United States and certain parts of Ontario and Quebec. Ocelot shares the industry view that the brightest future lies in the mining and production of precious metals, most notably gold.

Over the past year, Ocelot re-evaluated its involvement in the Canadian mining industry. We have shifted the emphasis to increasing our involvement in some of the more promising areas in the western United States.

Ocelot's entry into the precious metals field in the western United States commenced with the acquisition of two previously producing gold properties in Oregon. Initial exploratory results have been very encouraging; and since further evaluation requiring substantial levels of expenditures is needed, Ocelot has decided to farmout these properties. Agreements in principle have been reached with selected mining companies. We will retain a working interest after being carried through an earning period.

Ocelot's future plans in the United States entail evaluation of areas with established gold and silver potential in Nevada, with a view to acquiring new properties.

Ladner Creek Gold Mine

The Ladner Creek gold mine is located near Hope in southern British Columbia. We recently negotiated a conditional sale of our interest in the mine and the adjoining mineral claims in exchange for shares of Carolin Mines Ltd., one of our partners in the mine. This transaction will increase the liquidity of Ocelot's investment and remove any further obligation of additional capital requirements.

Financial Review

Cash Flow and Results of Operations

Operations for the year ended March 31, 1984 resulted in a cash flow deficiency of $41.6 million compared to cash flow of $7.3 million in 1983. The cash flow deficiency per share was $2.90 in 1984 compared to cash flow per share of $0.54 in 1983. Ocelot's Consolidated Statement of Earnings for the year ended March 31, 1984 reflects a loss of $60.2 million ($4.19 per share) compared to $36.4 million ($2.67 per share) in 1983.

Earnings from operations in the Oil and Gas division rose by $4.9 million to $44.8 million. This increase was primarily due to an increase in production volumes of 35 percent for natural gas and 33 percent for oil and natural gas liquids. This improvement was more than offset by losses from operations in the Petrochemical and the Petroleum Industry Services and Supplies segments.

The Oil and Gas division has served as a solid foundation for Ocelot during difficult times and will continue to do so in the future. The source of this strength in the Oil and Gas division is the huge underlying value of Ocelot's reserves. The future cash flow of these reserves, discounted at 15 percent, total $983 million as set out on page 12 of this report. This compares to a carrying value of $446 million in the financial statements and represents an unrecognized asset value of $537 million.

The increased loss from operations of the Petrochemical segment reflected the results of a full year of activity. The loss is primarily the result of depressed methanol prices and high feedstock costs. Prior to the end of the fiscal year, a change in policy was announced by the Government of British Columbia which allows Ocelot to negotiate directly with the producers of the natural gas feedstock for the methanol plant. In addition, royalties on natural gas used as a petrochemical feedstock will now be based on the actual price negotiated with the producer. The combination of these measures could result in a substantial reduction in feedstock costs and a corresponding reduction in the loss from operations in the coming year.

In the Petroleum Industry Services and Supplies segment, the dramatic change from operating earnings of $27.5 million in 1983 to an operations loss of $13.0 million in the current period is due primarily to the absence of any major pipeline projects during the year.

Capital Expenditures

Ocelot's capital expenditures totalled $29.6 million during the year, down sharply from previous levels of $152.8 million in 1983 and $344.0 million in 1982. This decrease reflects our continued commitment to the restraint program previously implemented and the completion of the Kitimat methanol plant in late 1982.

Ocelot was actively involved in development drilling during the past year through the expenditure of funds raised by the Ocelot 82, 83 and 84 Development Drilling Programs. Funds raised by these programs total $74.7 million of which $37.1 million has been expended to the end of the current fiscal year. The production from the reserves developed by these programs will substantially increase the income from operations of the Oil and Gas segment when these programs reach payout, thereby increasing Ocelot's share of revenues to 80 percent from 10 percent. The continuation of the AGIP Canada Ltd. farmout agreement which was entered into in 1982 also provided a source of funds for exploration activities during the year.

Financial Position

The working capital position of Ocelot improved during the year by $25.5 million, reducing the working capital deficiency to $26.0 million from $51.5 million in 1983. Long-term debt increased by $70.4 million during the year. The improvement in working capital and the increase in long-term debt is partly the result of arrangements made with our major banker whereby certain principal repayment requirements have been deferred to future years. Ocelot's bankers have been cooperative and supportive during the past year by deferring principal repayments and by assisting Ocelot in arranging a long-term credit facility for the purchase of feedstock for the methanol plant.

Ocelot's outlook for the coming year is to continuing financial restraint and aggressive action toward improvement in the working capital position. Action is also under way to take advantage of opportunities which have recently been presented to reduce operating costs. This anticipated reduction in operating costs, diligent restraint and the underlying strength of Ocelot's oil and gas reserves should lead to continued improvement in the working capital position.

Ocelot Industries Ltd.

Consolidated Balance Sheet

As at March 31, 1984
(Thousands of dollars)

ASSETS

	1984	1983
CURRENT ASSETS		
Accounts receivable	**$ 84,404**	$ 58,948
Income taxes recoverable	**—**	2,536
Inventories, at lower of cost and net realizable value	**26,487**	47,961
Prepaid expenses	**5,449**	2,047
	116,340	111,492
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 1)	**1,075,988**	1,059,298
Accumulated depletion and depreciation	**(180,348)**	(126,656)
	895,640	932,642
OTHER ASSETS	**10,384**	18,501
	$1,022,364	$1,062,635

Approved by the Board:

J V Lyme Director

R. O. Fisher Director

LIABILITIES

	1984	1983
CURRENT LIABILITIES		
Bank indebtedness, secured	$ 44,667	$ 54,705
Accounts payable and accrued liabilities	79,817	61,422
Deferred revenue (Note 2)	6,200	—
Deferred income taxes	—	2,258
Current maturities on long-term debt	11,649	44,569
	142,333	162,954
DEFERRED REVENUE (Note 2)	69,059	63,579
LONG-TERM DEBT (Note 3)	736,637	666,207
DEFERRED INCOME TAXES	31,100	67,669
MINORITY INTEREST	2,089	1,044
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 4)		
Authorized		
4,000,000 Cumulative, redeemable, preferred shares at $25 par value		
7,500,000 Class A Common shares of no par value		
25,000,000 Class B Common shares of no par value		
Issued		
3,562,551 (1983 — 3,627,028) Class A shares	6,654	6,774
10,814,140 (1983 — 10,734,063) Class B shares	54,400	54,148
RETAINED EARNINGS (DEFICIT)	(19,908)	40,260
	41,146	101,182
	$1,022,364	$1,062,635

Ocelot Industries Ltd.

Consolidated Statement of Earnings

Year ended March 31, 1984
(Thousands of dollars)

	1984	1983
REVENUE		
Operating (Note 5)	$ 266,053	$ 376,581
COSTS AND EXPENSES		
Cost of sales and operating expenses	207,529	281,943
Depletion and depreciation	55,924	40,124
	263,453	322,067
EARNINGS FROM OPERATIONS BEFORE UNDERNOTED ITEMS (Note 5)	2,600	54,514
Interest and other income	(1,379)	(1,907)
Interest on long-term debt	84,962	72,662
Other interest	9,658	12,709
	93,241	83,464
LOSS BEFORE INCOME AND OTHER TAXES AND MINORITY INTEREST	90,641	28,950
INCOME AND OTHER TAXES (Note 6)		
Current income taxes	(13)	(1,247)
Deferred income taxes	(38,827)	(2,901)
Petroleum and Gas Revenue Tax	8,316	6,519
	(30,524)	2,371
LOSS BEFORE MINORITY INTEREST	60,117	31,321
MINORITY INTEREST	51	5,117
LOSS FOR THE YEAR	$ 60,168	$ 36,438
PER SHARE		
Weighted average number of Class A and Class B shares outstanding during the year	14,369,488	13,635,974
Loss per Class A and Class B share	$ 4.19	$ 2.67
Cash flow (deficiency) per Class A and Class B share	$ (2.90)	$ 0.54

Ocelot Industries Ltd.

Consolidated Statement of Changes in Financial Position

Year ended March 31, 1984
(Thousands of dollars)

	1984	1983
WORKING CAPITAL WAS DERIVED FROM		
Operations	$ —	$ 7,327
Long-term debt	94,678	121,136
Sale of property, plant and equipment	11,923	16,867
Deferred revenue	6,176	41,233
Minority interest	1,045	810
Other assets	7,009	—
Issue of shares	132	12,499
	120,963	199,872
WORKING CAPITAL WAS APPLIED TO		
Operations	41,608	—
Property, plant and equipment	29,639	152,778
Long-term debt	24,247	90,608
Other assets	—	6,423
Acquisition of minority interest in O.J. Pipelines Ltd. for shares	—	12,170
	95,494	261,979
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	25,469	(62,107)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	(51,462)	10,645
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ (25,993)	$ (51,462)

Consolidated Statement of Retained Earnings (Deficit)

Year ended March 31, 1984
(Thousands of dollars)

	1984	1983
BALANCE AT BEGINNING OF YEAR	$ 40,260	$ 76,698
LOSS FOR THE YEAR	(60,168)	(36,438)
BALANCE AT END OF YEAR	$(19,908)	$ 40,260

Notes to Consolidated Financial Statements

Year ended March 31, 1984

Summary of Significant Accounting Policies

The accompanying financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects to accounting standards recommended by the International Accounting Standards Committee except that the impact of price level changes has not been disclosed.

A summary of significant accounting policies is set out below.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant subsidiaries are wholly-owned with the exception of Margay Exploration Ltd. in which the Company has an 80% interest. The amount by which the cost of the shares of subsidiaries exceeded the underlying net book value at dates of acquisition has been allocated to property, plant and equipment and goodwill, as appropriate, and is subject to the accounting policies outlined below.

Natural Gas and Petroleum Operations

The Company follows the full-cost method of accounting for natural gas and petroleum operations whereby all costs of exploration for and development of gas and oil reserves are capitalized by cost centre. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead charges related to exploration activities. No gains or losses are recognized upon the sale or disposition of petroleum and natural gas properties held for exploration and development purposes except for transactions which result in major disposals of petroleum and natural gas reserves. Grants received and accrued under the Petroleum Incentive Program and the Development Drilling Incentive Supplement Program are applied as a reduction of the related capital expenditures. Costs of acquiring and evaluating significant unproved properties are excluded from capitalized costs to be depleted until it is determined whether or not proved reserves are attributable to the properties or impairment in value has occurred. The costs are accumulated in cost centres as follows:

(i) North America — Canada and the United States;

(ii) Other areas — a separate cost centre for each foreign area in which the Company is engaged in exploration activities.

Costs accumulated in the North America cost centre are depleted using the unit of production method based on estimated recoverable reserves of gas and oil, as determined by Company engineers and substantiated periodically by independent engineers. In calculating depletion, reserves and production are converted to equivalent units based on the relative sales value of each product.

Costs in other areas are amortized on a straight-line basis over varying periods. Under this policy, should exploration in a particular area prove successful, the amortization of costs in that area is temporarily suspended until commercial production commences. The unamortized balance is then depleted on the unit of production basis. Should the area prove to be unproductive, the unamortized balance in that cost centre will be written off to earnings.

Substantially all of the exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Mining Operations

Each group of permits, licences or leases in a designated exploration or development area is accounted for as a separate area of interest. All exploration expenditures, including property acquisition costs, relating to each area of interest are capitalized until a determination is made as to whether or not economically recoverable reserves have been established. Economically recoverable reserves are defined by Company engineers as reserves which are capable or have a reasonable prospect of sustaining commercial production. If economically recoverable reserves are established in an area of interest, and it is subsequently developed, the related accumulated costs are amortized against related production revenues by the unit of production method based upon the estimated economically recoverable proven and probable ore reserves in the area. If an area of interest is abandoned, the accumulated costs related to that area are charged to earnings.

The costs accumulated in each producing area of interest are written down (included in depletion) when the carrying value for that particular area of interest exceeds the estimated value of the economically recoverable proven and probable ore reserves.

Drilling and Well Service Rigs and Related Property and Equipment

Costs of new equipment and upgrading existing equipment are capitalized. Repairs and replacements which do not extend the useful lives of assets are expensed as incurred. The cost and related accumulated depreciation are removed from the accounts when an asset is sold or retired and the resulting gain or loss is included in earnings.

Depreciation

Depreciation of production equipment is provided on a unit of production basis based upon estimated recoverable reserves of gas and oil within a project area. In calculating depreciation, reserves and production are converted to equivalent units based on the relative sales value of each product.

Depreciation of drilling and construction assets is provided on methods and at rates which will amortize the cost of the assets over their estimated useful lives. The annual rates of depreciation on major classes of assets are:

Drilling and service rigs — 10 percent (based on operating days)
Construction equipment — 20 percent to 35 percent

Depreciation of the methanol plant is provided on a straight-line basis at rates which are designed to write the asset off over the estimated useful lives of its major components, functional areas and related facilities.

Revenue Recognition

The revenues and expenses on drilling and construction contracts are recorded on the percentage of completion basis.

Foreign Currency Translation

Current assets and current liabilities are translated to Canadian dollars using the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at the rate in effect at the time the original transactions took place. Revenue and expenses (excluding depletion and depreciation which are translated at the rate of exchange applicable to the related asset) are translated using average rates of exchange throughout the year.

Pension Plan

The Company and its U.S. subsidiary have implemented non-contributory, benefit-based pension plans for substantially all permanent, full-time employees. Pension costs associated with current service are expensed and funded in the period in which the service is rendered. Past service costs remaining to be charged to earnings are being amortized and funded over the next thirteen years.

Deferred Gas Revenues

Amounts received under take-or-pay provisions of gas sales contracts are deferred and will be recognized as revenue when reserves committed under the contracts are delivered to the purchasers.

Note 1 Property, Plant and Equipment

	1984			1983
	Cost	Accumulated Depletion and Depreciation	Net	Net
	(thousands of dollars)			
Natural gas, petroleum and mineral leases and rights together with exploration, development and equipment thereon	$ 545,444	$ 98,927	$446,517	$456,367
Contract drilling equipment	113,322	33,444	79,878	83,429
Methanol plant	337,667	20,608	317,059	334,563
Pipeline construction equipment	31,833	10,282	21,551	24,135
Land, buildings and other equipment	47,722	17,087	30,635	34,148
	$1,075,988	$180,348	$895,640	$932,642

Note 2 Deferred Gas Revenue

The March 31, 1984 balance of deferred revenue includes $61.9 million for payments received resulting from take-or-pay provisions of major gas sales contracts. The delivery of gas in respect of these payments and the recognition of revenue will commence November, 1984, at a minimum rate of 10 percent per contract year out of gas production occurring during the first five months of each contract year until the $61.9 million is repaid.

Note 3 Long-Term Debt

	1984	1983
	(thousands of dollars)	
Canadian dollar bank loans (a)	$511,359	$557,640
U.S. dollar bank loans (b) (1984 — $104,750,000 U.S.; 1983 — $54,250,000 U.S.)	128,423	66,587
9½% Senior secured notes due March 31, 1998 (c) (1984 — $46,062,000 U.S.; 1983 — $49,350,000 U.S.)	53,906	57,738
10½% Senior secured notes due March 31, 1998 (c)	9,950	10,660
Secured debenture (d)	32,455	—
Other	12,193	18,151
	748,286	710,776
Less current maturities included in current liabilities	11,649	44,569
	$736,637	$666,207

(a) The Canadian dollar bank loans are evidenced by demand promissory notes and bear interest at ¾%, 1½% and 2% above bank prime rate. The loans are secured by the Company's interest in certain petroleum, natural gas and mineral properties, a general assignment of accounts receivable, fixed and floating charge debentures on certain contract drilling and service rigs, a shared first fixed and floating charge debenture on the methanol plant and a take-or-pay contract for the sale of methanol.

(b) The U.S. dollar bank loans are evidenced by demand promissory notes and are secured by a fixed mortgage on certain contract drilling rigs and related equipment, a shared first fixed and floating charge debenture on the methanol plant, an assignment of a take-or-pay contract for the sale of methanol and a negative pledge on certain United States oil and gas properties. The loans bear interest at ¼% and 1% above a certain United States Bank base rate and at 1¼% above the London InterBank Offered Rate.

(c) These notes are secured by mortgages on certain producing petroleum and natural gas properties.

(d) The secured debenture is due April 2004, bears interest at ¾ of 1% above bank prime rate and is payable in equal monthly instalments commencing May 1986. The debenture is secured by a shared fixed and floating charge on the methanol plant and its ancillary facilities.

The estimated minimum amount of long-term debt maturities for the five years subsequent to 1984 are as follows: 1985 — $11.6 million; 1986 — $17.0 million; 1987 — $29.8 million; 1988 — $56.6 million; and 1989 — $59.9 million. In accordance with arrangements made with the Company's principal banker, commencing in 1987 the Company may be required to make additional payments on bank loans such that total payments would be equal to 60% of the net cash flow generated from operations determined on an annual basis.

The debt denominated in foreign currencies is carried in the financial statements in Canadian dollars based on the exchange rate in effect at the date the funds were borrowed. Had the debt been translated at the rate in effect at the balance sheet date, the carrying value in Canadian dollars would have increased by $10.8 million at March 31, 1984.

Note 4 Capital Stock

(a) The Class A and Class B shares rank equally one with the other except that each Class A share carries twenty votes and each Class B share carries one vote, and Class A shares are convertible at the option of the holder into Class B shares on a one-for-one basis.

(b) Changes in the capital stock of the Company during the year were as follows:

	Number of Shares		Consideration (thousands of dollars)	
	Class A	Class B	Class A	Class B
Balance, March 31, 1983	3,627,028	10,734,063	$6,774	$54,148
Issued on exercise of employee stock options	—	15,600	—	132
Conversion of shares	(64,477)	64,477	(120)	120
Balance, March 31, 1984	**3,562,551**	**10,814,140**	**$6,654**	**$54,400**

(c) As of March 31, 1984, there were 654,300 Class B shares of the Company reserved for exercise of employee stock options to 1990 at prices ranging from $4.50 to $4.65 per share as follows:

Outstanding at March 31, 1983	628,900
Granted at $4.50 to $10.125 per share	119,500
Exercised at $4.50 to $10.125 per share	(15,600)
Cancelled	(78,500)
Outstanding at March 31, 1984	**654,300**

All options were granted under employee stock option plans and at March 31, 1984, 383,600 Class B shares were reserved for future options which may be granted under these plans.

(d) As of March 31, 1984, 100,000 Class B shares have been reserved for future issuance under a bonus incentive plan to specific employees.

Note 5 Segmented Information

The Company's operations are conducted through four business segments. These segments are natural gas and petroleum operations, petroleum industry services and supplies (which comprises contract drilling of oil and gas wells, sales of oilfield equipment and supplies, and pipeline construction), petrochemicals and mining. Presented below are data relative to each business and geographic segment.

Business Segments

	Natural gas and petroleum operations	Petroleum industry services and supplies	Petro-chemicals	Mining	Elimina-tions**	Total
			(thousands of dollars)			
Revenue						
1984	**$ 89,442***	**$114,944**	**$ 61,045**	**$ 2,273**	**$ (1,651)**	**$ 266,053**
1983	$ 77,238*	$263,022	$ 36,521	$ 1,245	$ (1,445)	$ 376,581
Earnings (loss) from operations						
1984	**$ 44,834**	**$ (13,049)**	**$ (24,506)**	**$ (4,679)**	**$ —**	**$ 2,600**
1983	$ 39,896	$ 27,454	$ (5,379)	$ (7,447)	$ (10)	$ 54,514
Total assets						
1984	**$480,295**	**$175,995**	**$354,809**	**$11,265**	**$ —**	**$1,022,364**
1983	$506,818	$190,370	$350,581	$14,866	$ —	$1,062,635
Capital expenditures						
1984	**$ 24,008**	**$ 4,771**	**$ 17**	**$ 843**	**$ —**	**$ 29,639**
1983	$ 30,596	$ 13,387	$105,835	$ 2,960	$ —	$ 152,778
Provisions for depletion and depreciation						
1984	**$ 21,765**	**$ 12,493**	**$ 17,241**	**$ 4,425**	**$ —**	**$ 55,924**
1983	$ 17,363	$ 12,279	$ 3,404	$ 7,078	$ —	$ 40,124

Geographic Segments

	Canada	United States	Other Foreign	Elimina-tions**	Total
		(thousands of dollars)			
Revenue					
1984	**$232,919*****	**$ 43,216**	**$ 1,097**	**$(11,179)**	**$ 266,053**
1983	$333,338	$ 51,755	$ —	$ (8,512)	$ 376,581
Earnings (loss) from operations					
1984	**$ 17,563**	**$ (14,669)**	**$ (320)**	**$ 26**	**$ 2,600**
1983	$ 70,515	$ (16,075)	$ (719)	$ 793	$ 54,514
Total assets					
1984	**$820,910**	**$178,240**	**$ 23,214**	**$ —**	**$1,022,364**
1983	**$851,727**	**$195,779**	**$ 15,129**	**$ —**	**$1,062,635**

* Natural gas and petroleum revenue is net of royalties (1984 — $28.1 million; 1983 — $21.7 million) and Alberta Royalty tax credit (1984 — $3.5 million; 1983 — $4.0 million).

** Eliminations relate to inter-segment transactions which are priced at market prices for similar products and services.

*** Includes export sales of $53.4 million.

Note 6 Income Taxes

Income tax expense differs from the amounts which would be obtained by applying the Canadian basic federal income tax rate to the respective year's earnings before income and other taxes and minority interest. These differences result from the following items:

	1984	1983
	(thousands of dollars)	
Expected Canadian Federal tax rate	**46%**	46%
Computed "expected" tax recovery	**$(41,695)**	$(13,317)
Royalties and other payments to federal and provincial governments	**4,840**	3,539
Other non-deductible costs	**1,253**	1,937
Non-deductible losses of subsidiaries	**8,208**	10,728
Federal resource allowance	**(8,753)**	(8,007)
Provincial income tax expense (recovery) less federal abatements	**(2,693)**	972
Actual income tax recovery — current and deferred	**(38,840)**	(4,148)
Petroleum and gas revenue tax	**8,316**	6,519
Total actual tax expense (recovery)	**$(30,524)**	$ 2,371

The Company estimates that it has earned investment tax credits of $34.9 million at March 31, 1984 which have not been recognized in the accounts. These credits can be applied in future years to reduce federal taxes otherwise payable and are subject to final determination by the taxation authorities.

Note 7 Pension Plans

For the year ended March 31, 1984, the cost of the Company's pension plans, including contributions in respect of unfunded past service benefits, was $1,431,000. Based on the most recent actuarial evaluations, the Company's pension plans had an unfunded past service obligation of $1,892,000 at March 31, 1984. This obligation is being funded in accordance with government legislation over the next thirteen years.

Note 8 Commitments and Contingencies

(a) The Company has commitments to purchase materials for \$3.35 million per month until December 31, 1984, and \$3.7 million per month until December 31, 1985. The Company continues to be committed to purchase materials after 1985 and until 2002 at prices and quantities subject to negotiation. The Company is, however, permitted to purchase materials from other suppliers in such quantities and at such lower prices as it deems appropriate. Such materials may then be substituted for those required to be purchased pursuant to the agreement, thereby reducing the \$3.35 million and \$3.7 million obligations referred to previously.

(b) Future minimum lease payments under operating leases relating primarily to office space and equipment, railroad tank cars and storage terminals (but excluding leases relating to gas, oil and mineral rights) are as follows:

	(thousands of dollars)
1985	\$ 4,605
1986	3,735
1987	2,507
1988	1,900
1989	1,434
Thereafter	2,107
	\$16,288

(c) Arbitration proceedings have commenced under an agreement between the Company and a purchaser of product for the purpose of determining the price to be paid for deliveries of the product to July 1, 1983. The Company has also filed a statement of claim with respect to the underpayment of product delivered to the purchaser after July 1, 1983. The ultimate outcome of these proceedings is not predictable; however, management believes that product revenues have been properly recorded in the financial statements.

(d) In June 1983, a statement of claim was served by the contractor of the Company's Kitimat methanol plant claiming \$2.6 million owing to the contractor. Management believes that the Company has outstanding claims against the contractor for credits and adjustments at least equal to the claim by the contractor, and has not provided in the accompanying financial statements for the amounts claimed. In addition, counsel for the Company has advised that such claim is without merit and the Company has filed a statement of defence and counter claim. The ultimate outcome of these legal proceedings is not predictable.

(e) The Company is contingently liable under letters of credit and as guarantor of the bank indebtedness of a third party in the amount of \$2.3 million.

Note 9 Statutory Information

During the year, directors and senior officers (including the five highest paid employees) of the Company received remuneration of \$1,747,000 of which \$28,500 was paid as directors' fees.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ocelot Industries Ltd. as at March 31, 1984 and the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Chartered Accountants

Calgary, Canada
May 31, 1984

Five Year Summary

Financial

	1984	1983	1982	1981	1980
	(thousands of dollars except per share figures)				
Operating revenue	**$ 266,053**	$ 376,581	$ 427,135	$344,057	$235,316
Costs and expenses					
Cost of sales and operating expenses	**207,529**	281,943	303,476	231,646	157,822
Depletion and depreciation	**55,924**	40,124	31,718	23,903	17,627
	263,453	322,067	335,194	255,549	175,449
Earnings from operations before undernoted items	**2,600**	54,514	91,941	88,508	59,867
Interest and other income	**(1,379)**	(1,907)	(4,083)	(973)	(1,080)
Interest on long-term debt	**84,962**	72,662	63,785	34,738	20,615
Other interest	**9,658**	12,709	7,861	2,714	3,299
	93,241	83,464	67,563	36,479	22,834
Earnings (loss) before income and other taxes and minority interest	**(90,641)**	(28,950)	24,378	52,029	37,033
Income and other taxes					
Current income taxes (recovery)	**(13)**	(1,247)	1,759	284	378
Deferred income taxes (recovery)	**(38,827)**	(2,901)	9,019	21,891	11,289
Petroleum and Gas Revenue Tax	**8,316**	6,519	5,543	2,122	—
	(30,524)	2,371	16,321	24,297	11,667
Earnings (loss) before minority interest	**(60,117)**	(31,321)	8,057	27,732	25,366
Minority interest	**(51)**	(5,117)	(3,749)	—	—
Net earnings (loss)	**$ (60,168)**	$ (36,438)	$ 4,308	$ 27,732	$ 25,366
Weighted average number of Class A and Class B shares outstanding during the year	**14,369,488**	13,635,974	13,388,104	13,208,194	13,140,904
Net earnings (loss) per Class A and Class B share	**$(4.19)**	$(2.67)	$0.32	$2.10	$1.93
Cash flow (deficiency) per Class A and Class B share	**$(2.90)**	$ 0.54	$3.35	$5.57	$4.10
Revenues by segment					
Oil and Gas	**$ 89,442**	$ 77,238	$ 75,945	$ 74,812	$ 53,650
Petroleum Industry Services & Supplies	**113,293**	261,577	351,190	269,245	181,666
Petrochemicals	**61,045**	36,521	—	—	—
Mining	**2,273**	1,245	—	—	—
	$ 266,053	$ 376,581	$ 427,135	$344,057	$235,316
Capital expenditures					
Development, Plant and Equipment	**$ 18,138**	$ 24,311	$ 80,816	$ 82,251	$ 62,818
Exploration and Land	**11,484**	22,632	78,546	83,637	46,683
Methanol Plant	**17**	105,835	184,657	46,359	391
Corporate Acquisitions	**—**	12,170	3,797	—	—
	$ 29,639	$ 164,948	$ 347,816	$212,247	$109,892
Working capital (applied to) derived from operations	**(41,608)**	7,327	44,856	73,622	53,841
Current assets	**116,340**	111,492	175,282	102,041	76,087
Current liabilities	**142,333**	162,954	164,637	121,148	93,606
Working capital (deficiency)	**(25,993)**	(51,462)	10,645	(19,107)	(17,519)
Net property, plant and equipment	**895,640**	932,642	832,799	515,120	328,318
Total assets	**1,022,364**	1,062,635	1,020,826	624,541	407,298
Long-term debt	**736,637**	666,207	635,679	308,266	169,419

Operations

Production

Production	**1984**	1983	1982	1981	1980
Net crude oil and natural gas liquids					
Barrels	**887,219**	666,657	490,374	291,475	300,876
Barrels per day	**2,424**	1,819	1,344	799	824
Net natural gas					
Millions of cubic feet	**37,221**	27,262	34,614	38,091	34,847
Millions of cubic feet per day	**101**	75	95	104	95
Methanol — short tons	**383,247**	155,451	—	—	—
Proven Reserves					
Crude oil and natural gas liquids					
Thousands of barrels	**12,808**	9,850	9,146	7,402	8,369
Natural gas					
Billions of cubic feet	**1,023**	955	989	1,068	1,039
Shareholders and Employees					
Number of employees at year end	**1,172**	1,400	1,850	1,675	1,250
Number of common shareholders at year end	**1,910**	2,104	2,550	2,350	2,311

Gross Wells Completed

	1984			1983			1982			1981			1980		
	CDN.	**U.S.**	**INT.**	CDN.	U.S.	INT.	CDN.	U.S.	INT.	CDN.	U.S.	INT.	CDN.	U.S.	INT.
Exploratory															
Oil	**4**	**1**	**1**	5	12	—	2	35	3	18	26	—	14	4	—
Gas	**12**	**1**	**—**	2	3	—	10	3	—	41	15	1	18	17	1
Dry	**11**	**3**	**3**	13	27	2	9	116	4	21	42	—	21	28	—
TOTAL	**27**	**5**	**4**	20	42	2	21	154	7	80	83	1	53	49	1
Development															
Oil	**62**	**19**	**—**	31	14	1	18	42	—	8	143	—	5	—	—
Gas	**84**	**2**	**—**	19	5	—	235	3	—	216	7	—	255	—	—
Dry	**8**	**3**	**—**	9	2	—	5	9	—	4	3	—	7	—	—
Service	**8**	**2**	**—**	2	—	—	—	5	—	—	—	—	—	—	—
TOTAL	**162**	**26**	**—**	61	21	1	258	59	—	228	153	—	267	—	—

Shareholder Information

Annual Meeting

The Annual General Meeting of Shareholders of Ocelot Industries Ltd. will be held in the Mayfair Room, Westin Hotel, Calgary, Alberta on July 26, 1984 at 10:30 a.m. Formal notice of this meeting and proxy materials are enclosed.

Share Information

Ocelot's common shares are listed for trading on the Toronto, Montreal and Alberta Stock Exchanges. The Class A shares and Class B subordinate voting shares carry voting rights of 20 votes per share and one vote per share respectively.

The weighted average number of common shares outstanding at March 31, 1984 was 14,369,488, and the common shareholders of record totalled 1,910. Over 90 percent of the outstanding shares are owned by Canadians. The stock market designations for the common shares are Ocelot A and Ocelot B with the respective Toronto Stock Exchange computer symbols being OILK and OILL.

Transfer Agents and Registrars

National Trust Company Ltd. offices are at Toronto, Montreal, Calgary and Vancouver and through its agent, Canada Permanent Trust Co. of Regina.

Market Information

Although Ocelot's fiscal year end is March 31, 1984, for ease of reference, the following table presents the relative share prices based on the conventional quarterly periods of the calendar year.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price per share				
Common shares — Class A (as per Toronto Stock Exchange)				
1984 High	**$ 6⅛**			
Low	**5¼**			
1983 High	**16¾**	**$11**	**$12⅜**	**$ 7⅛**
Low	**8½**	**10**	**9⅝**	**5**
1982 High	35	18½	17½	17⅜
Low	15½	9	11	12
Common shares — Class B Subordinate Voting (as per Toronto Stock Exchange)				
1984 High	**5⅝**			
Low	**4¾**			
1983 High	**16¾**	**11½**	**12½**	**6⅞**
Low	**8¼**	**9½**	**9½**	**4⅝**
1982 High	36	18½	17⅛	18
Low	14½	9	9½	11½

Auditors

Thorne Riddell
Chartered Accountants
1200 Bow Valley Square Two
205 - 5th Avenue S.W.
Calgary, Alberta
T2P 2W4

Duplicate Shareholder Materials

Some holders of Ocelot Industries Ltd. securities receive more than one copy of the Annual Report and other material mailed to shareholders. We make an effort to eliminate duplications of such mailings; however, if securities are registered in different names and addresses, multiple copies will be received. Security holders receiving more than one copy of material who wish to consolidate their holdings of each security under one name should contact either the Secretary of Ocelot or the appropriate Transfer Agent at the following addresses:

Secretary
Ocelot Industries Ltd.
900, 333 - 5th Avenue S.W.
Calgary, Alberta T2P 3B6
Telephone: (403) 261-2000

National Trust Company Limited
150 Toronto Dominion Square
320 - 8th Avenue S.W.
Calgary, Alberta T2P 3B2
Telephone: (403) 263-1460

Board of Directors

William J. Bushnell*
Corporate Director
Toronto, Ontario

Basil R. Cheeseman*
Partner, McCarthy & McCarthy
(Barristers & Solicitors)
Toronto, Ontario

Royden O. Fisher
President and Chairman of the
Executive Committee
Ocelot Industries Ltd.

Norbert M. Hannon*
President, Murcon Development Ltd.
(a private investment company)
Calgary, Alberta

J. Verne Lyons
Chairman of The Board and
Chief Executive Officer
Ocelot Industries Ltd.

George C. Solomon*
President, Western Limited
(a private investment & property
development company)
Regina, Saskatchewan

* Members of the Audit Committee

Officers

J. V. Lyons
Chairman and
Chief Executive Officer

R. O. Fisher
President and Chairman of
the Executive Committee

I. L. Levorson
Executive Vice President

B. W. Wilson
Executive Vice President

M. I. Erickson
Vice President, Finance

K. M. Guise
Vice President,
Land and International Operations

D. J. McKinnon
Vice President, Production

R. J. Russell
Vice President, General Counsel
and Secretary

J. E. Torrie
Vice President, Exploration

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Cactus Drilling
Calgary, Alberta

Cardinal Drilling Company
Billings, Montana

Brooks Field Service
Calgary, Alberta

O. J. Pipelines
Edmonton, Alberta

O. J. Pipelines Inc.
Anchorage, Alaska

South Eastern Pipeline Construction
Medicine Hat, Alberta

Wilson Oilfield Supply
Calgary, Alberta

Lynx Oilfield Supply, Inc.
Billings, Montana

Lynx Tool Company
Calgary, Alberta

Lowe Valve Ltd.
Scarborough, Ontario

Air Switch Ltd.
Medicine Hat, Alberta

International Offices

Ocelot Oil Corp.
Denver, Colorado

Ocelot International Pty Ltd.
Perth, Western Australia

Ocelot Industries Ltd.

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