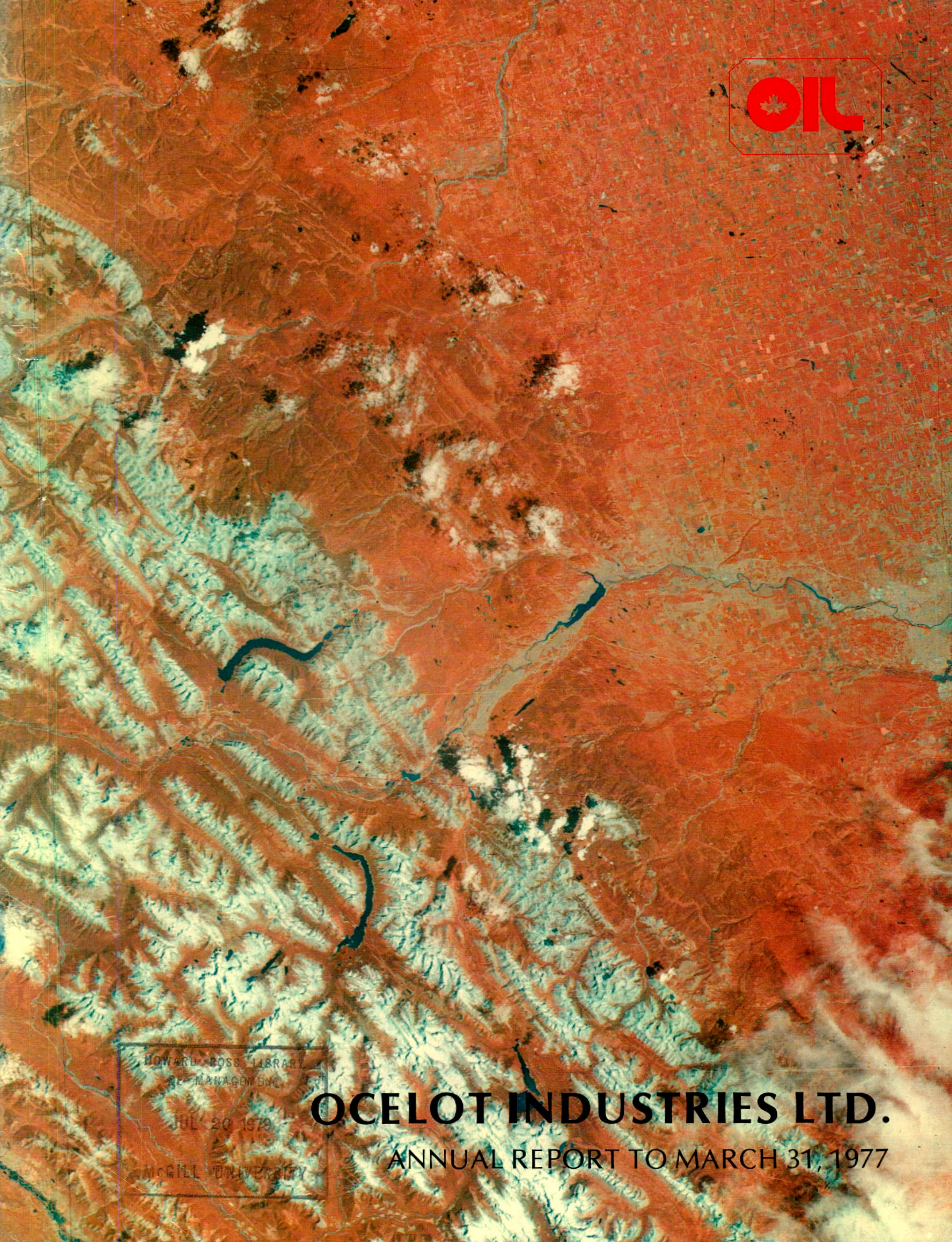


OCELOT INDUSTRIES LTD.

ANNUAL REPORT TO MARCH 31, 1977

Profile and History

OCELOT INDUSTRIES LTD. began operations in 1972 as a private Company. To April, 1973, Ocelot had acquired through purchase and farm-in, interests averaging about 50% in 185,000 gross acres of oil and gas rights in Alberta, and drilled 21 exploratory and step-out wells, all at a cost of some $1,800,000. Fifteen of these wells were capable of commercial production, representing proven and probable reserves of 163 Bcf of natural gas and 12,709,000 barrels of natural gas liquids, then estimated to be worth $30,000,000 when discounted at 9 percent per annum.

In April, 1973, a public offering of 800,000 shares at $5.50 netted the Company $4,000,000. Using these funds and the gas and oil reserves as a financing base the Company continued both development of its properties and exploration in new areas. By June 30, 1976 the estimated value of its oil and gas reserves had grown to $205,000,000, discounted at 12 percent.

In addition, other Companies engaged in various phases of the industry were acquired resulting in an organization presently capable of producing a cash flow approaching $2,000,000 per month. These acquisitions were:

- **Jennings International Drilling,** in October, 1975 for $3,516,000. Jennings is an oil and gas well drilling contractor with six deep drilling rigs. Its complete operating staff continues with the Company.

- **South Eastern Pipeline Construction Limited,** in October, 1975 for $664,000, a contractor engaged primarily in the installation of natural gas gathering systems and related facilities. Its full operations staff remains with the Company.

- **Kari Investments Ltd.,** for $36,000 and the assumption of certain liabilities, a Company related to South Eastern Construction engaged in natural gas production.

- **Sheamar Equipment Ltd.,** for 328,229 Class B shares in July, 1977, supplier of oilfield equipment and material with its full management and staff.

- **Alberta Eastern Gas Limited,** in October, 1976, a pioneer shallow gas developer in southern Alberta. As this was a major and most significant acquisition, some background of Alberta Eastern Gas is provided below:

ALBERTA EASTERN GAS LIMITED was founded in June, 1968 as a private Company to develop commercial gas production from long-known but overlooked gas from shallow zones in southern Alberta and Saskatchewan by the use of various low-cost techniques and in expectation of gas price improvements. By November, 1969 when the first of two public offering of shares was made Alberta Eastern had acquired interests and options to 664,000 acres of gas rights in Alberta and Saskatchewan, drilled 49 shallow wells, (47 of which were capable of production), all at a cost of $700,000. These activities had developed proven gas reserves valued at $4,100,000, discounted at 9%, in less than 5 percent of the Company holdings. The public financings provided $3,000,000 in 1969 and $6,800,000 in 1972. The second financing placed the Company in a sound financial position to pursue aggressive land development and to engage in exploration.

Development of the shallow gas continued at a fast pace along with exploration in new areas over the next 5 years. By June 30, 1976 over 800 wells had been drilled. Proven gas reserves in this shallow gas area of Alberta and Saskatchewan had grown to an estimated 682 Bcf, plus probable reserves of 221 Bcf, valued at $177,000,000 discounted at 12 percent. Cash flow from production was in excess of $10,000,000 annually and land interests had been expanded to a level of about 50 percent interest in 1,480,000 acres, including diversified exploratory land interests.

OCELOT INDUSTRIES LTD. on September 30, 1976 made an offer to Canadian residents for Alberta Eastern Gas shares at $9.00 cash plus one share of a newly created Ocelot "B" share and to date has acquired over 99 percent of the outstanding shares of Alberta Eastern Gas. In preparation for this offer Ocelot had re-organized its share capital structure to issue one Class "A" and one Class "B" share for each of its old shares and increased capitalization to 7,500,000 A and 25,000,000 B. Class "A" shares have 20 votes per share; Class "B" shares have one vote per share.

Directors and Management of Ocelot and Alberta Eastern Gas include a group of founders and senior officers of the two Companies highly qualified in exploration and production and holding a major interest in ownership of the Company. Public financing of both Companies was led by Gardiner, Watson Limited, aided by Merrill Lynch, Royal Securities Limited.

CONTENTS

Page

THE ANNUAL MEETING of the shareholders will be held in the Banff Suite of the Calgary Inn, 4th Ave. and 3rd St. S.W., Calgary, Alberta, on Tuesday, August 23, 1977, at 11:00 a.m.

THE COVER

An image obtained from the Earth Resources Technology Satellite (Landsat). The satellite is programmed to orbit the earth every 103 minutes on adjoining paths and covers an identical path every eighteen days. Images are recorded from an altitude of above 570 miles, each covering approximately 13,000 square miles.

Images are used for various earth sciences including weather and crop forecasting, water and air pollution monitoring, water depth determination and arctic navigation, forest fire detection and study of geological formations and mineralized zones.

The area shown is Calgary and west including the plains, foothills and Rocky Mountains as they appeared in July, 1974. The northwest trend of the snow-covered mountain ranges shows in white and the green valleys and the plains in orange. On the back page the oil and gas fields have been sketched on the photo clearly showing the trend of these fields following that of the mountains. In fact, some of these fields are producing from structural traps which were created by the same forces responsible for the mountains themselves.

Image provided by Intergrated Satellite Information Ltd., Prince Albert, Saskatchewan.

OCELOT INDUSTRIES LTD.

ANNUAL REPORT
MARCH 31, 1977

Highlights

	1977 8 Months Ocelot (5 Months AEG)	1976	1975
OPERATING RESULTS			
Production			
Gas — billions cubic feet (Bcf)	14.508	5.679	1.807
— millions cubic feet per day (MMcf/d)	59.46*	15.56	4.95
Oil — barrels	125,430	108,675	32,132
— barrels per day	514*	296	88
Canadian Acreage (thousand acres)			
Gross	2,135	442	225
Net	1,153	276	129
Wells Owned (Cumulative)			
Gross	1,088	69	38
Net	784	39	22
FINANCIAL RESULTS $(000)			
Sales	18,217	6,723	993
Flow of funds	11,074	4,541	118
Earnings	5,503	2,195	90
Per Share (Dollars)			
Flow of funds	0.96	0.54	0.01
Earnings	0.47	0.26	0.01

Daily Average Production, 5 month period
November 1, 1976 to March 31, 1977

*Gas - millions cubic feet per day MMcf/d	82.25
*Oil - barrels per day	624

Market Performance of Company Shares

The following is a tabulation of the market prices during the intervals shown since July 1, 1975:

	COMMON High	COMMON Low	CLASS "A" High	CLASS "A" Low	CLASS "B" High	CLASS "B" Low
July 1 to July 31, 1975	7½	6¾				
Aug. 1 to Oct. 31, 1975	8½	6½				
Nov. 1 to Jan. 31, 1976	10½	7⅝				
Feb. 1 to Apr. 30, 1976	15¼	9½				
May 1 to July 31, 1976	17½	14¼				
Aug. 1 to Oct. 6, 1976	18⅛	14½				
Oct. 7 to Oct. 31, 1976			7⅞	6⅝	7⅞	6⅛
Nov. 1 to Jan. 31, 1977 Shares split			10¼	7½	10⅜	7¼
Feb. 1 to Mar. 31, 1977 two for one			8⅞	8	9⅞	7⅞
Apr. 1 to June 30, 1977 October, 1976.			9¼	8	9¼	7⅝
July 1 to July 13, 1977			11¾	9½	11¾	9¼

Directors' Report to Shareholders

The Directors of Ocelot Industries Ltd. are pleased to present your Company's report for the eight month period ending March 31, 1977. This report results from a change in year end from July 31st to March 31st. This change was effected to provide a common fiscal year for the larger member companies and divisions of Ocelot. A year end of March 31st was selected because this date best adapts reporting to levels of activity of the various companies and their operating divisions. The financial statements in this report cover the period August 1, 1976 to March 31, 1977 and include 5 months only of the operations of Alberta Eastern Gas Limited, which was acquired by Ocelot effective October 31, 1976.

The most significant development to the Company in this reporting period, was the acquisition of Alberta Eastern Gas Limited (AEG). Natural Gas and oil sales of this Company since acquisition on October 31, 1976 in a period of five months, accounted for about 60 percent of Ocelot's consolidated gas and oil sales from August 1, 1976 to March 31, 1977. In the short term, Alberta Eastern Gas will account for a significant part of the Company's expected growth in production and earnings.

The AEG acquisition was attractive because of the value of Alberta Eastern's developed gas reserves. A Sproule Associates Limited evaluation of the AEG properties in southern Alberta dated September, 1976, estimated that these properties would maintain a delivery rate of 25 Bcf per year until 1988, before entering a long gradual decline period and that net returns after allowance for development costs would increase steadily to over $25,000,000 annually by 1987, continuing at this level until 2001. Sproule, in their evaluation, estimated a gas price of $1.85 per mcf by 1981, escalating at 5 percent per year thereafter.

Financial

The acquisition of Alberta Eastern Gas and the change of fiscal year end makes it very difficult to provide meaningful comparative data. The current levels of oil and gas production of Ocelot and Alberta Eastern Gas, combined with an expanded development program through the summer of 1977, along with an expected high level of activity in the service company divisions suggests expanded earnings in the new fiscal year April 1, 1977 to March 31, 1978.

Gas Contracts and Production Expansion

The growing surplus of natural gas in Western Canada has become a problem for many companies with uncontracted reserves. Ocelot, however, expects to show continued production growth over the next several years. The prime reasons for your Company's fortunate situation are two fold:

1. The Company's blanket contract in southern Alberta provides the opportunity for continued expansion, limited only by good development practice and the ability to maintain resulting producing rates. Well performance and gas price increases support continued drilling expansion and in some

cases, closer well spacing. It is now indicated that producing rates from the shallow gas areas will continue to grow for the next several years.

2. The Company has an excellent land inventory in northeastern British Columbia, where high demand for natural gas continues. In the Bullmoose, Mast and Grizzly areas, Alberta Eastern Gas had acquired most of the holding of its partners and now holds interests varying from 15 percent to 50 percent in over 100,000 acres. This area is now under delineation and development drilling aimed at sweet gas production in late 1978 and sour gas production in late 1979. The Company expects to gain substantial producing levels in both late 1978 and late 1979 by virtue of these holdings.

However, during the current fiscal year, gas production from areas other than southern Alberta may be curtailed at the request of buyers. The effect on income of these possible reductions is difficult to assess at this time.

In respect to gas pricing, continued escalation is expected. Canadian gas prices are expected to track oil prices and the value of gas exported to the U.S. will provide further increases.

Contract Service Divisions

High levels of contract activity were attained by Jennings International and South Eastern Pipeline Construction Limited during the report period and these levels are expected to be maintained over the next fiscal year.

Company Organization

Over the past several months the staffs of Ocelot and Alberta Eastern have been successfully consolidated. Their broad experience and unique talents will be utilized to develop and execute an expanded diverse program over the next fiscal year. The Directors are grateful for their contributions on behalf of the Comapny.

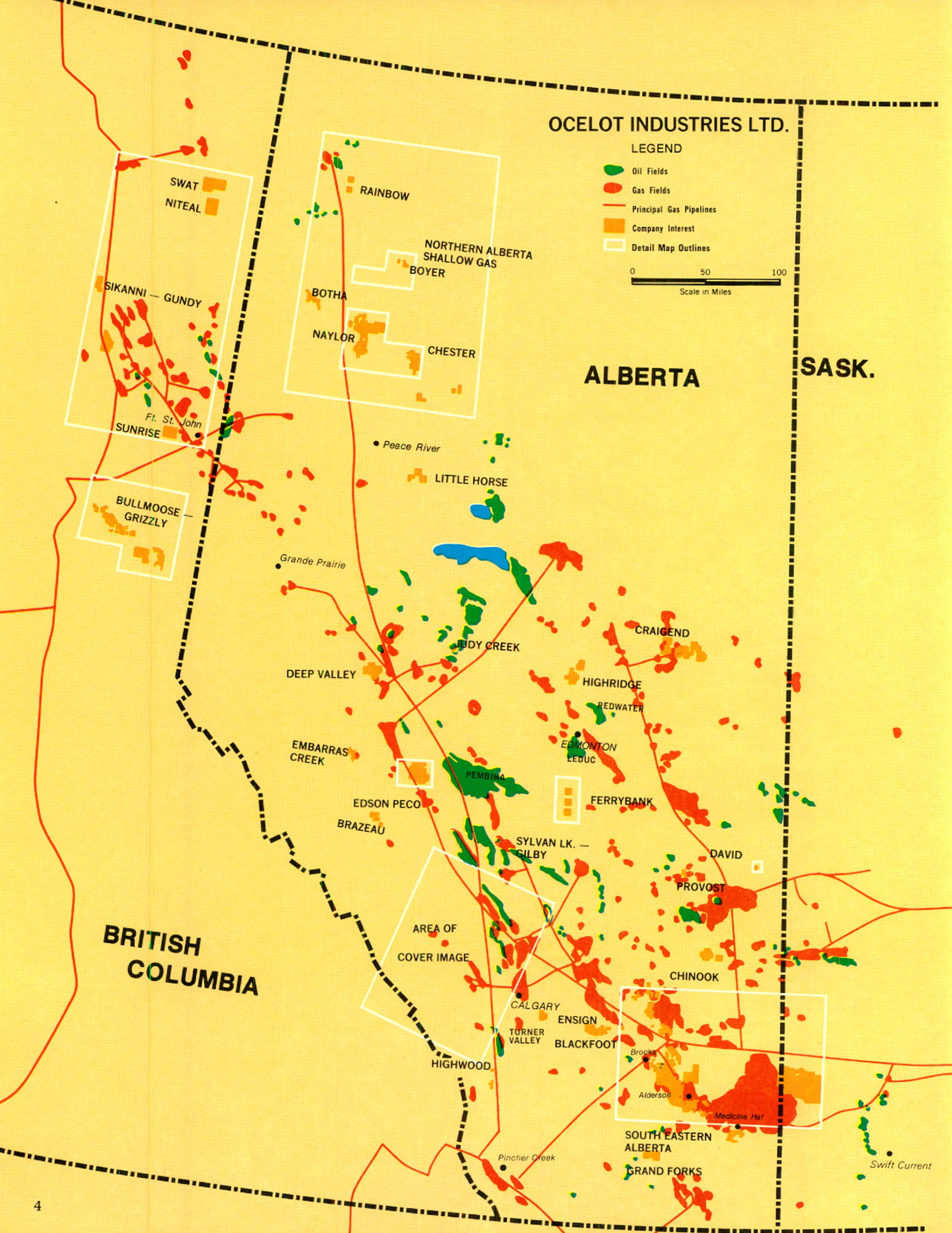
In clarification of the operational data presented in this report, the reader should note that reference to Ocelot or "the Company" includes the activities and holdings of both Ocelot and Alberta Eastern and their subsidiaries and related Companies.

On Behalf of the Board,

J V Lyons

J. V. Lyons
President

Calgary, Alberta
July 13, 1977



OCELOT INDUSTRIES LTD.
LEGEND
Oil Fields
Gas Fields
Principal Gas Pipelines
Company Interest
Detail Map Outlines
0
50
100
Scale in Miles
ALBERTA
SASK.
BRITISH COLUMBIA
SWAT
NITEAL
SIKANNI — GUNDY
Ft. St. John
SUNRISE
BULLMOOSE — GRIZZLY
RAINBOW
NORTHERN ALBERTA SHALLOW GAS
BOYER
BOTHA
NAYLOR
CHESTER
Peace River
LITTLE HORSE
Grande Prairie
JUDY CREEK
DEEP VALLEY
CRAIGEND
HIGHRIDGE
REDWATER
EDMONTON
LEDUC
EMBARRAS CREEK
PEMBINA
FERRYBANK
EDSON PECO
BRAZEAU
SYLVAN LK. — GILBY
DAVID
PROVOST
AREA OF COVER IMAGE
CHINOOK
CALGARY
ENSIGN
TURNER VALLEY
BLACKFOOT
HIGHWOOD
Brooks
Alderson
Medicine Hat
SOUTH EASTERN ALBERTA
GRAND FORKS
Pincher Creek
Swift Current

Exploration, Land, Production & Reserves

During the report period over $6,000,000 was expended in exploratory land acquisition and wildcat and step-out drilling operations. 240,000 gross, 113,000 net acres were added to the company land inventory which is presented in detail in the Land Review. Exploratory and step-out drilling operations resulted in 12 completed and potential gas wells and nine abandonments.

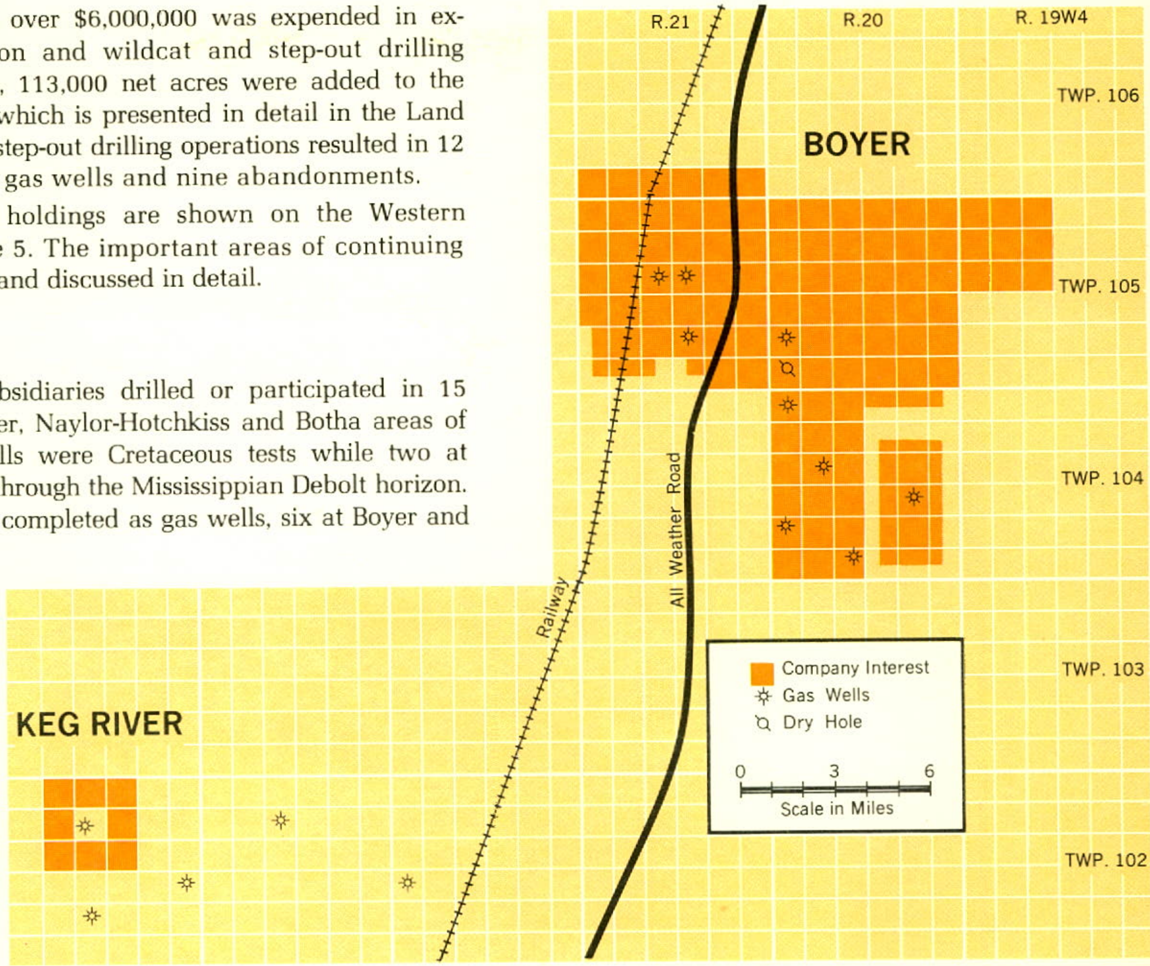
The Company's land holdings are shown on the Western Canada Basin Map, page 5. The important areas of continuing operations are illustrated and discussed in detail.

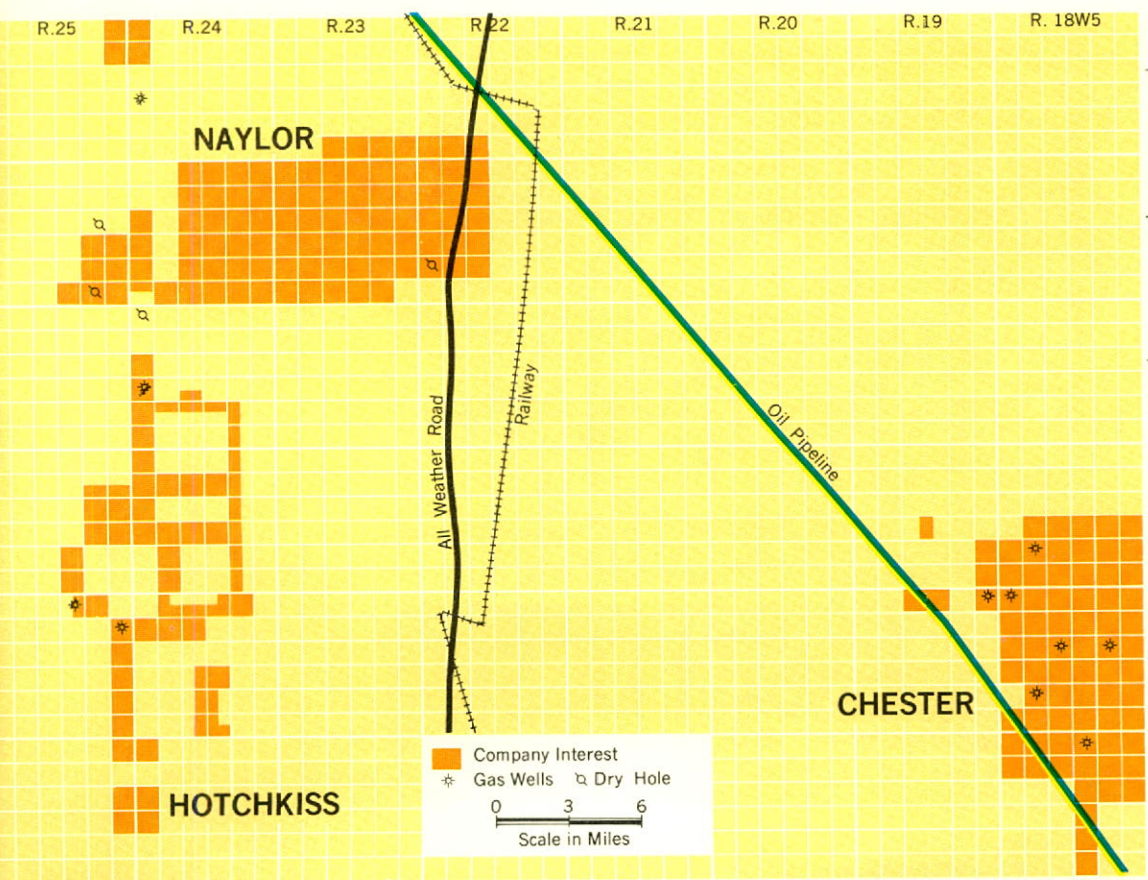
ALBERTA

Northern Shallow Gas

The Company and subsidiaries drilled or participated in 15 wells in the Boyer, Chester, Naylor-Hotchkiss and Botha areas of northern Alberta. 13 wells were Cretaceous tests while two at Botha River were drilled through the Mississippian Debolt horizon. Eight of these wells were completed as gas wells, six at Boyer and two at Hotchkiss. The remaining seven were abandoned.

BOYER: Six gaswells were drilled and completed in this area in early 1977. The results suggest an extension of the Paddle Prairie gas area to the northeast. The well results are currently under long term testing and evaluation.





NAYLOR - HOTCHKISS: Two of the five wells drilled in this area were successfully completed as attractive gaswells. They are expected to commence production in 1978.

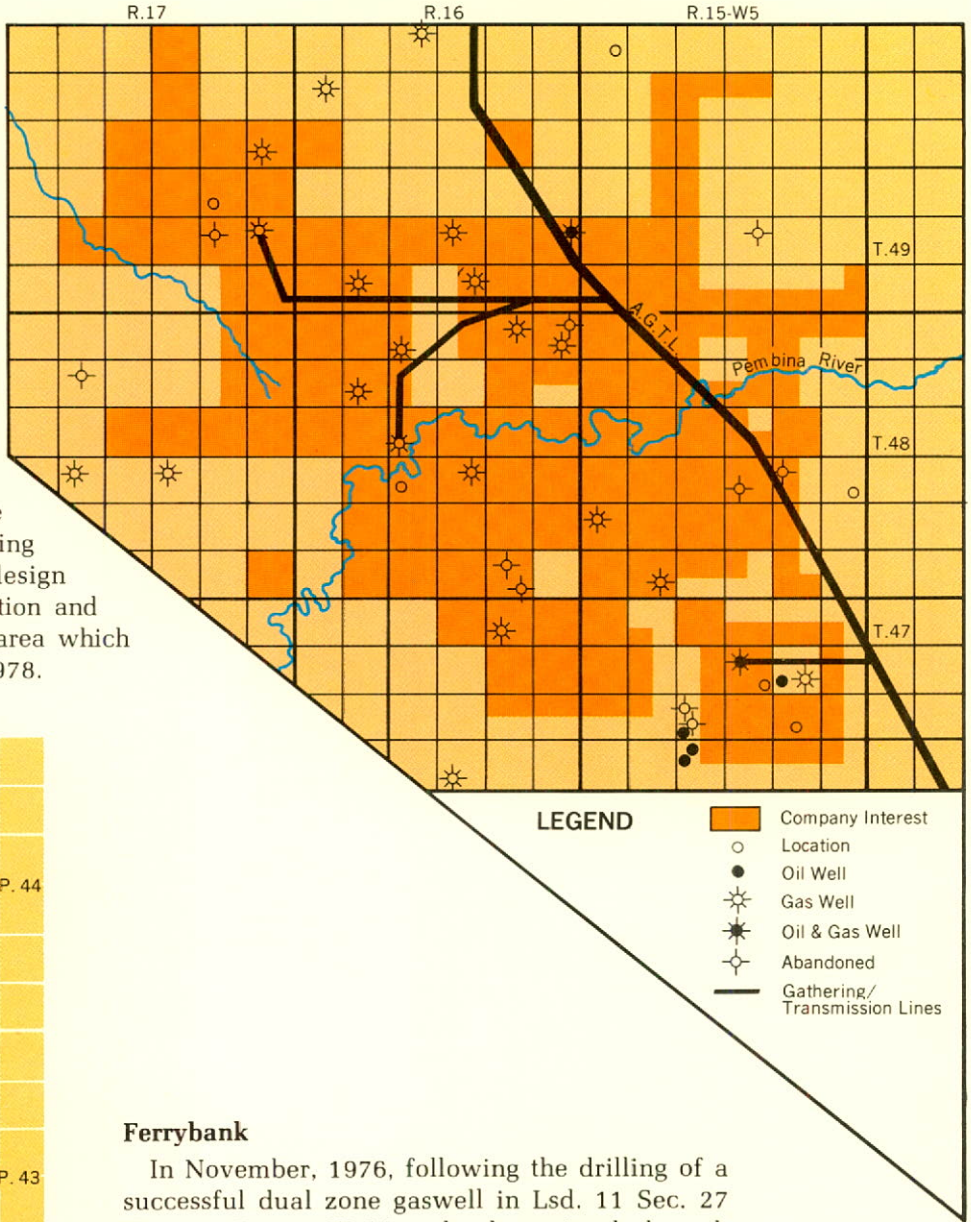
CHESTER: Two wells were drilled by others under farm-out at no cost to the Company as major extension attempts to the Chester gas pool. Both were unsuccessful. However, in 1976, seven widely spaced successful gaswells were drilled and completed in this area. Connection to market is anticipated in 1979.

KEG RIVER: Development drilling in this proved area was delayed to 1978 pending market development.

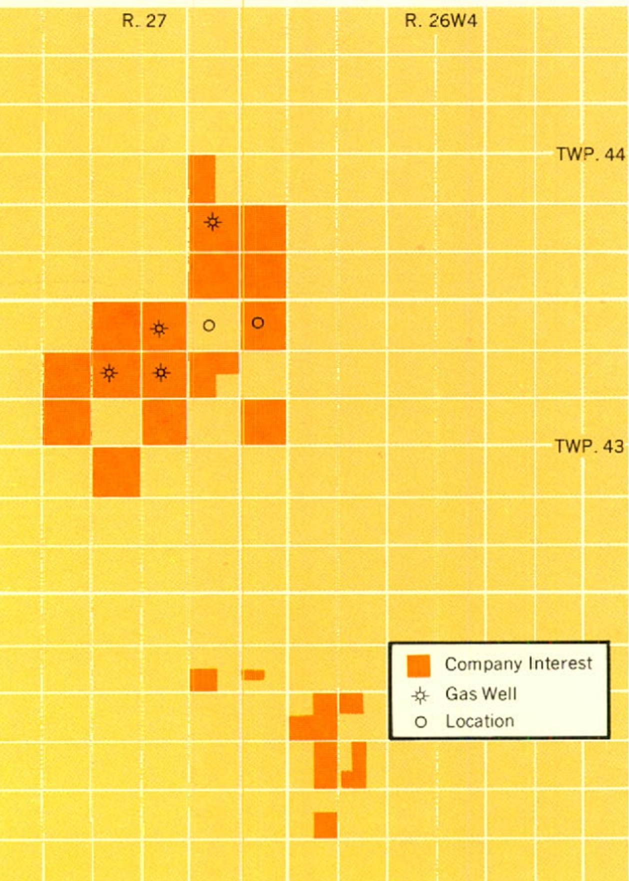
Peco

The Company continues active step-out drilling in the Peco area aimed at defining the potential of the area in all zones down to the Mississippian. A single rig program has been in progress since January and at this time, drilling of the fourth well is in progress. All three wells drilled to date have been cased and will be completed and evaluated in the near future. The Peco area offers multi-zone prospects from 7,000′ to over 10,000′ in depth and will require extensive drilling to delineate all potential zones. This on-going drilling and testing operation is geared to design and construction of centralized production and processing facilities to serve the entire area which may commence in late 1977 or early 1978.

EDSON (PECO) AREA



FERRYBANK



Ferrybank

In November, 1976, following the drilling of a successful dual zone gaswell in Lsd. 11 Sec. 27 Twp. 43 Rge. 27W4M on land previously leased, the Company acquired a crown exploration license containing 7,520 acres in the vicinity of the successful well, as illustrated on the adjoining map. The well was completed in late winter 1976 and two followup wells are being drilled to earn the land involved and to fully evaluate potential reserves. Other wells will follow and a market is possible by late 1977.

NORTHEASTERN BRITISH COLUMBIA

The Company has been very active in British Columbia recently, particularly in land acquisition. The acreage now held by the Company is widely dispersed in the area from Grizzly to South Clark Lake. The adjacent map shows these holdings throughout the area. The Grizzly-Mast-Bullmoose lands are shown and discussed separately.

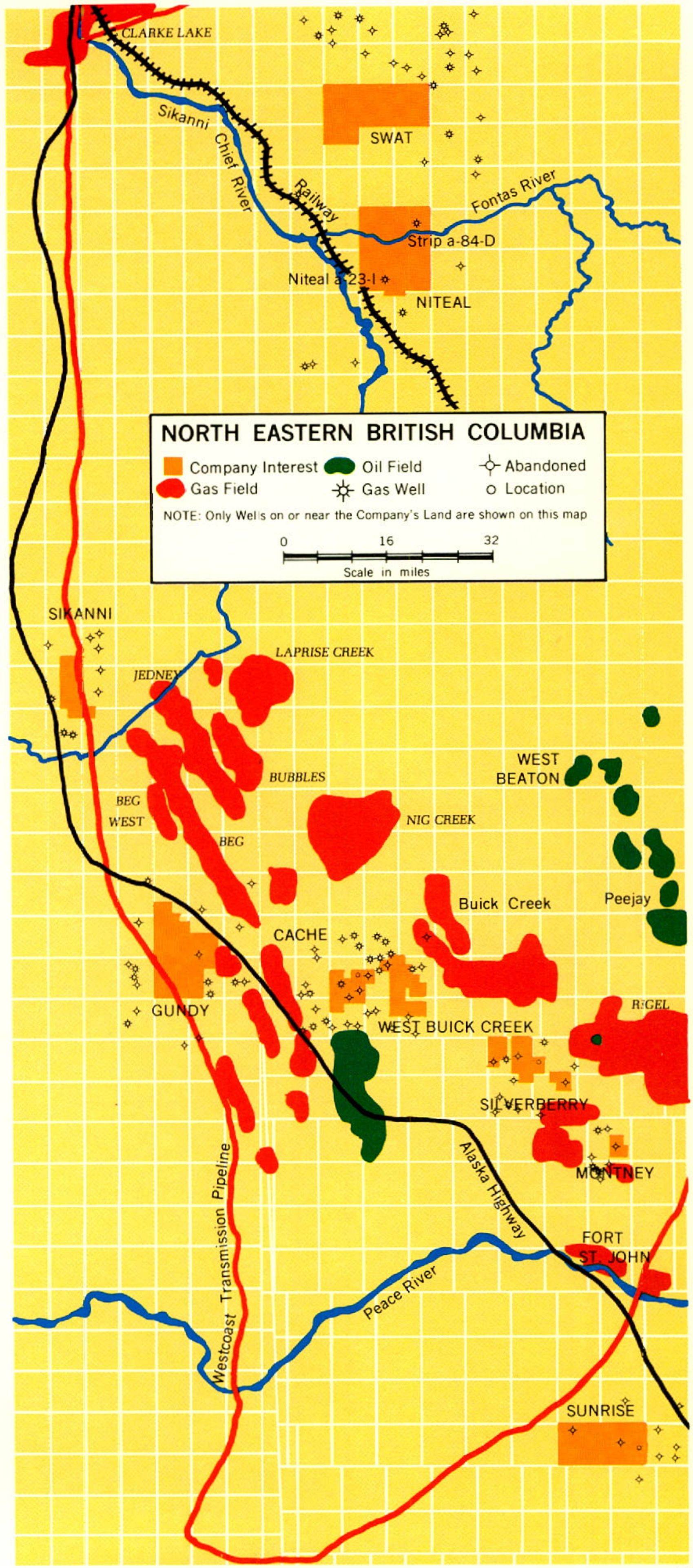
The Company has acquired varying interests in 258,000 acres in Sunrise, Silverberry, Cache, West Buick Creek, Gundy, Sikanni and Niteal-Swat areas identified on the map. Within these areas three wells were drilled since the last annual report of which two are potential gaswells and the third was abandoned.

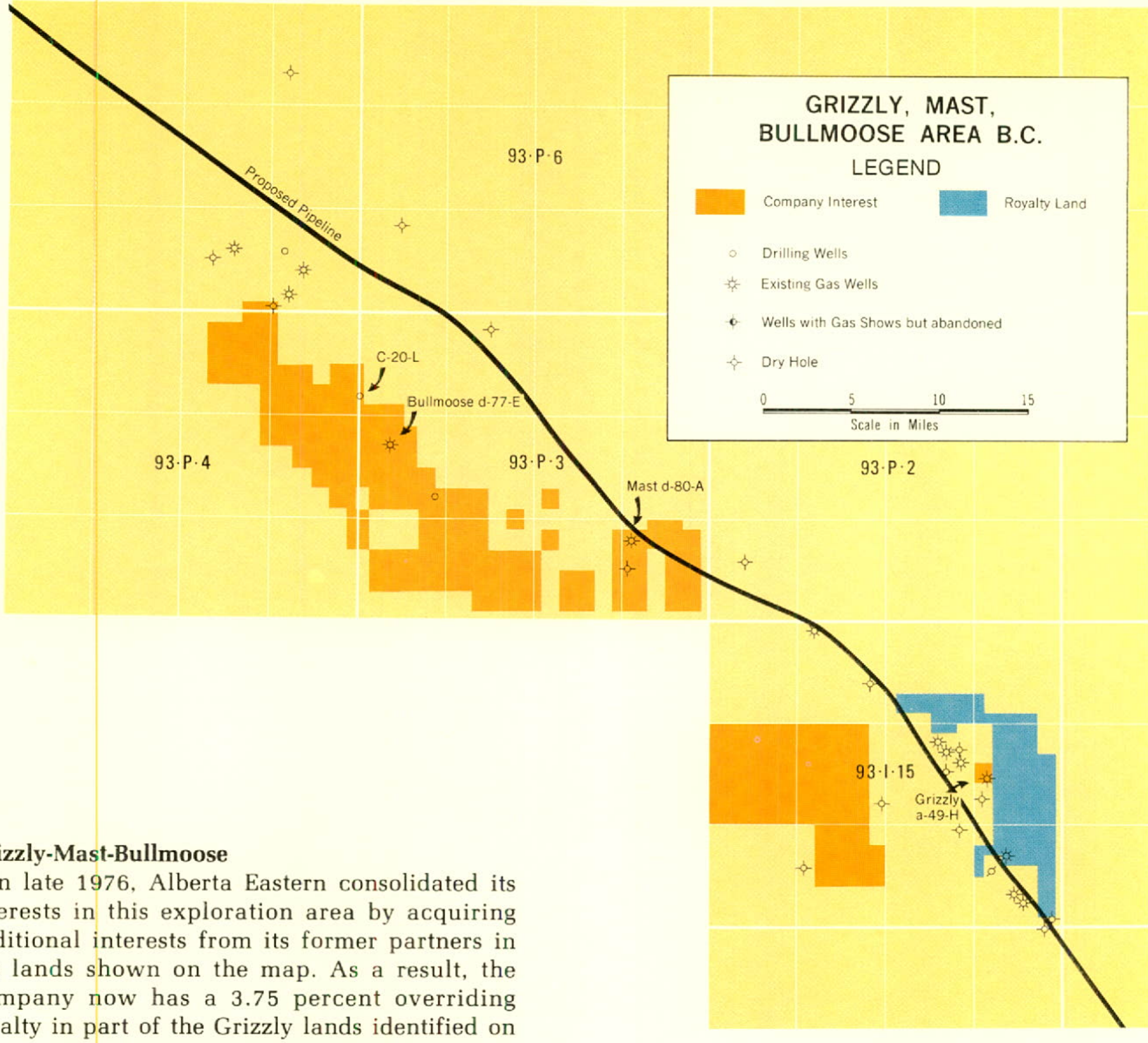
NITEAL-SWAT: Two exploratory wells were drilled in this area in early 1977. Both were cased as potential gaswells, one of which was completed. The second will be completed at a later date. An on-going program is anticipated. The Company's interest varies from 33 ⅓ percent to 50 percent.

SIKANNI: Two Mississippian gaswells were recently drilled and completed in the area by competitors within two miles of the Company's holdings. Evaluation of our acreage is planned as soon as drilling information in the area is released. The Company's interest is 33 ⅓ percent.

SILVERBERRY-WEST BUICK CREEK: The Company has accumulated several drilling reservations and leases in this active drilling area where a number of oil and gas discoveries have been made recently. An active program is being planned. Company interest ranges from 17.5 percent to 50 percent.

CACHE CREEK: A two-well program has been committed by others through a farm-out agreement on these Company holdings. A well drilled by the Company last year was completed but is considered non-commercial. After farm-out the Company interest will be 50 percent.





Grizzly-Mast-Bullmoose

In late 1976, Alberta Eastern consolidated its interests in this exploration area by acquiring additional interests from its former partners in the lands shown on the map. As a result, the Company now has a 3.75 percent overriding royalty in part of the Grizzly lands identified on this map and varying working interests from 15 percent to 50 percent through the rest of Grizzly-Mast-Bullmoose area. In the Bullmoose area in particular, a continual drilling program is planned jointly with partners, under British Petroleum Canada's operatorship, which program is being carried out to prove up the reserve potential of the area. The well B.P. et al Bullmoose c-20-L, a followup to the Triassic gas discovery, d-77-E, is currently drilling ahead. A second followup to the discovery has been licensed in d-22-E.

The area is expected to be served by a gas pipeline by late 1978, at which time production of sweet gas may commence. A sour gas plant will be built to handle sour gas by late 1979. In addition to the program at Bullmoose further step-out drilling at Mast is anticipated to expand sweet gas production. A gas purchase agreement with the British Columbia Petroleum Corporation is under negotiation at present.

FOREIGN OPERATIONS

United States

ARMELS, MONTANA: Ocelot Industries joined a U.S. company in the earning of approximately 11,000 acres of land northwest of the Bell Creek field by drilling two Muddy Sand wildcat wells. While these initial tests were abandoned the prospect will require additional drilling to completely evaluate the area.

MORONI, UTAH: The Company has farmed-out its interest in lands on the Moroni structure and now holds a cost-free 2½ percent interest to payout in the current driller and 1¼ percent in the remaining lands. The test well is drilling below 13,000′ toward a 19,000′ objective.

COLORADO — COAL: The Company continues to hold both metallurgical and thermal coal leases in Colorado.

Offshore Areas

EUROPE: Preliminary exploratory investigations have been undertaken in the offshore areas of Ireland, Britain and Spain. No permits have been awarded to date.

AFRICA: Permits off Africa are being explored seismically at no cost to Ocelot and drilling particularly in the southwest area, will help to evaluate Company holdings.

DRILLING FUNDS

The Company has been successful in obtaining additional financing for a portion of its exploratory drilling and land acquisition program in the form of outside Drilling Funds participation. It is expected that amounts in excess of $8,000,000 will be available from this source to enlarge the scope of the planned Ocelot operations.

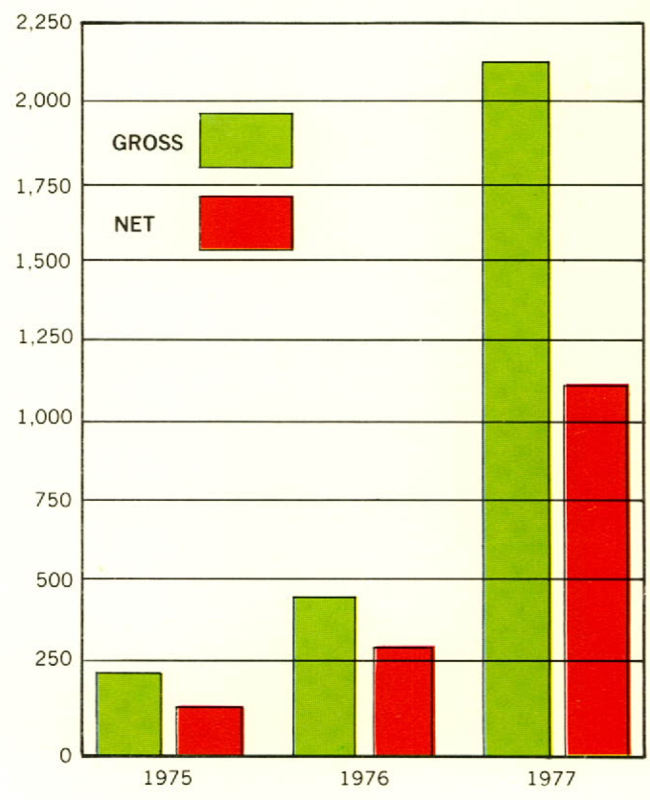
Land Review

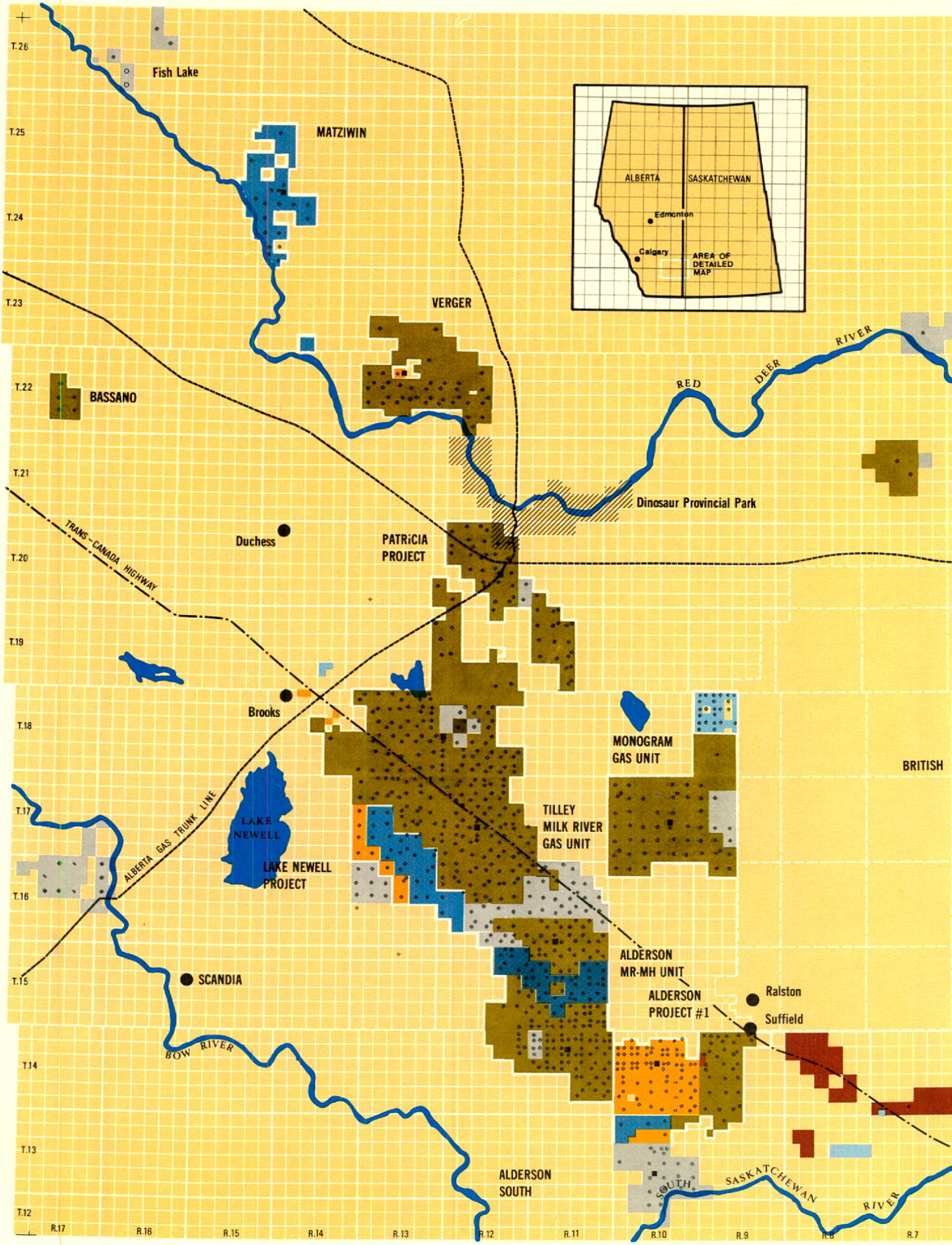
During the report period, the Company acquired 239,000 gross, 113,000 net acres of exploratory and developable lands in Alberta and British Columbia. These lands are located in active areas highlighted in the Exploration report above. These additions increased Company land holdings to 2,135,000 gross and 1,153,000 net acres which are presented in the table below. Most of these lands are in close proximity to existing pipeline delivery systems and are not impaired by any ecological or logistical problems. Marketing delays stem mainly from current over-supply in Alberta. In Saskatchewan where the Company holds large proven reserves of shallow gas, government policies respecting gas markets and gas prices have delayed development.

Canadian Land Holdings

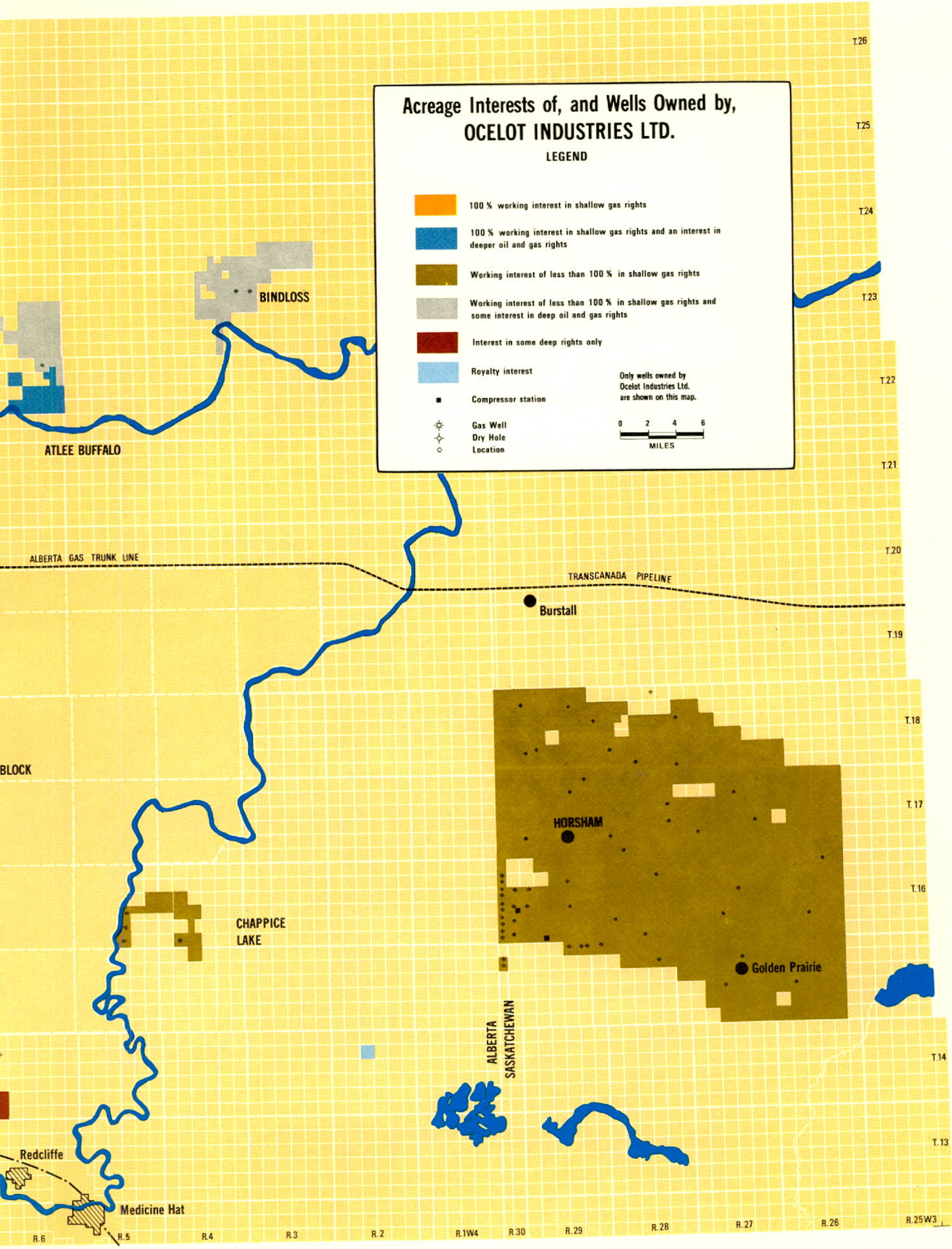
	Acreage	
	Gross	Net
Alberta		
P & NG Leases	914,180	518,938
NG Leases	45,288	39,294
NG Licences	179,454	86,079
P & NG Reservation	169,760	100,076
P & NG Exploration Licences	28,160	20,598
P & NG Permits	19,680	7,864
Drilling Reservation	17,120	11,760
	1,373,642	784,609
British Columbia		
P & NG Leases	112,420	30,396
P & NG Permits	266,141	102,995
Drilling Reservations	73,867	25,427
	452,428	158,818
Saskatchewan		
NG Leases	279,992	190,349
	29,120	19,326
	309,112	209,675
Grand Total	2,135,182	1,153,102

LAND HOLDINGS (000 Acres)





ALBERTA
SASKATCHEWAN
Edmonton
Calgary
AREA OF DETAILED MAP
T.26
T.25
T.24
T.23
T.22
T.21
T.20
T.19
T.18
T.17
T.16
T.15
T.14
T.13
T.12
Fish Lake
MATZIWIN
VERGER
BASSANO
RED DEER RIVER
Dinosaur Provincial Park
Duchess
TRANS-CANADA HIGHWAY
PATRICIA PROJECT
Brooks
MONOGRAM GAS UNIT
BRITISH
LAKE NEWELL
ALBERTA GAS TRUNK LINE
LAKE NEWELL PROJECT
TILLEY MILK RIVER GAS UNIT
ALDERSON MR-MH UNIT
ALDERSON PROJECT #1
Ralston
Suffield
SCANDIA
BOW RIVER
ALDERSON SOUTH
SOUTH SASKATCHEWAN RIVER
R.17
R.16
R.15
R.14
R.13
R.12
R.11
R.10
R.9
R.8
R.7

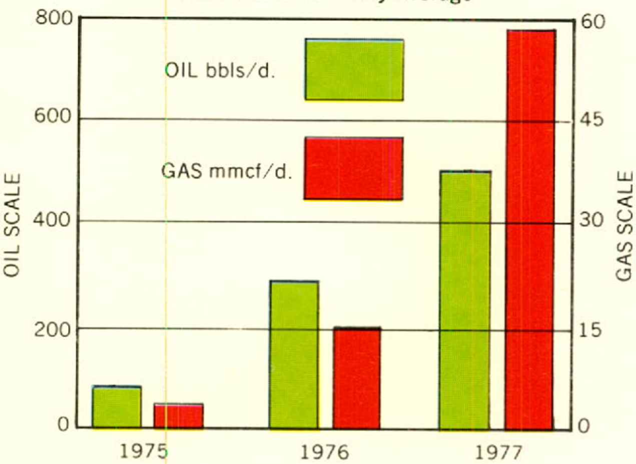

Acreage Interests of, and Wells Owned by,
OCELOT INDUSTRIES LTD.
LEGEND
100 % working interest in shallow gas rights
100 % working interest in shallow gas rights and an interest in deeper oil and gas rights
Working interest of less than 100 % in shallow gas rights
Working interest of less than 100 % in shallow gas rights and some interest in deep oil and gas rights
Interest in some deep rights only
Royalty interest
Compressor station
Gas Well
Dry Hole
Location
Only wells owned by Ocelot Industries Ltd. are shown on this map.
0 2 4 6
MILES
BINDLOSS
ATLEE BUFFALO
ALBERTA GAS TRUNK LINE
TRANSCANADA PIPELINE
Burstall
BLOCK
HORSHAM
CHAPPICE LAKE
Golden Prairie
ALBERTA
SASKATCHEWAN
Redcliffe
Medicine Hat
T.26
T.25
T.24
T.23
T.22
T.21
T.20
T.19
T.18
T.17
T.16
T.14
T.13
R.6
R.5
R.4
R.3
R.2
R.1W4
R.30
R.29
R.28
R.27
R.26
R.25W3

Development and Production

During the report period, an active program of development drilling, plant construction and gathering system expansion was carried out. Approximately $7,000,000 was spent on these programs, all in Alberta.

Average daily oil and gas producing rates rose to 514 barrels and 59.5 MMcf during the 8 month report period including five months of Alberta Eastern production. For the last five months of the fiscal year the combined production of both Companies averaged 624 barrels of oil and 82.25 MMcf of gas per day. The chart below illustrates the progress in production growth over the past three years:

PRODUCTION—Daily Average



SHALLOW GAS DEVELOPMENT

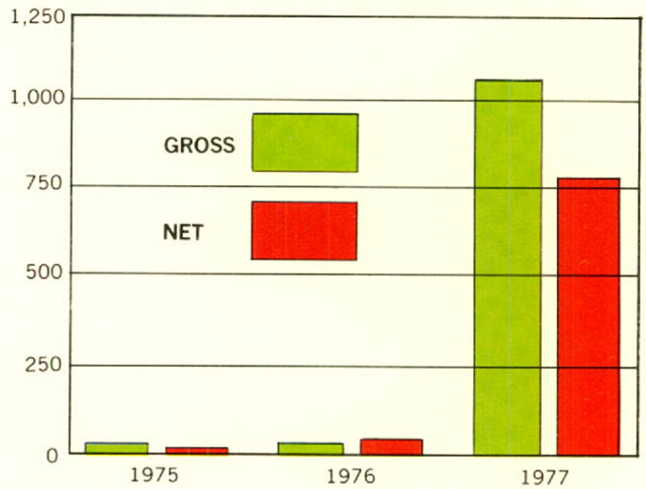
In southeastern Alberta, 180 shallow gas wells were drilled and connected to existing compressor stations, except in the case of two new areas, Matziwin and Verger, where two new stations were completed during the report period. These two new areas are identified on the centre fold map. They are discussed more fully below:

Shallow Gas Well Spacing

To date, well spacing for the Milk River and Medicine Hat gas sand development has varied from 160 to 640 acres. The Company's current average spacing in developed areas is one well per 350 acres. Company well performance studies obtained from producing operations of the past several years indicate that optimum development for our lands, considering both economic and gas reserve recovery, will approach 160 acres per well. In addition, the economics favor increasing withdrawal rates from our properties and consequently, plans have been made to raise the net Company producing rates from this area to about 65 MMcf by late 1977. Over 200 shallow wells will be drilled by the end of the current year. This acceleration may be continued over the next two to three years depending upon ongoing performance studies.

Shallow development work combined with overall Company exploratory and development drilling operations are illustrated in the total cumulative drilling activity chart below for the period 1975 to March 31, 1977.

WELLS OWNED



Producing Project Reviews

Southeastern Alberta

MATZIWIN: The Matziwin project commenced production in early January, 1977. The project contains Medicine Hat sand gas wells with initial capability of about 3 MMcf/d. The Company interest is approximately 95 percent.

VERGER: The Verger project was developed over the past nine months and commenced production in late April, 1977. It contains a compressor station capable of handling 15 to 16 MMcf/d serving over 50 sections of potential Milk River, Medicine Hat and Second White Specks gas lands owned by a number of producers. The Company is the manager-operator and through its subsidiaries, owns about 30 percent of the project.

PATRICIA: This area has been produced since 1973 and in late 1976 was enlarged from 7.5 MMcf/d to 11 MMcf/d by addition of a second gas compressor and about twenty wells.

Oil Operations

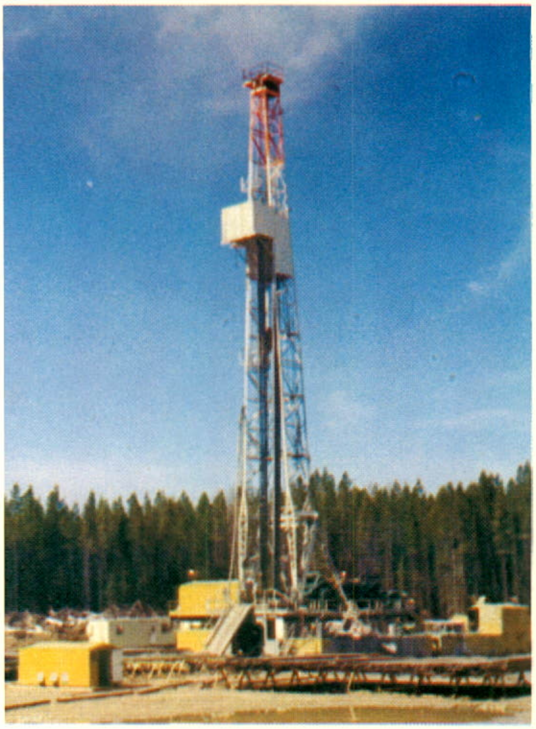
DAVID & GRAND FORKS OIL OPERATIONS: These two oil operations are now on steady production at 150 BOPD net working interest to the Company.

OIL AND GAS RESERVES

The following proved oil and gas reserves have been estimated by outside consultants, Sproule Associates for southern Alberta shallow gas owned by Alberta Eastern, and James A. Lewis Engineering for Ocelot holdings to June 30, 1976. Company estimates have been prepared for northern Alberta, British Columbia and Saskatchewan holdings of both companies and for recent gas finds not included in the 1976 engineering studies. These reserves are shown in tabular form below, as net working interest before royalty. Probable reserves are not reported.

NATURAL GAS	
Alberta	
Southern Alberta	518.0 Bcf
Peco, Boyer, Chinook, etc.	421.4 Bcf
Other areas (Company estimates)	56.1 Bcf
British Columbia	
(Company estimates)	10.0 Bcf
Saskatchewan	165.6 Bcf
Less production to March 31, 1977	(14.5) Bcf
Total Gas Reserve at March 31, 1977	1,156.6 Bcf

Oil and Natural Gas Liquids	12,900	Barrels (thousands)
Less Production to March 31, 1977	(125)	Barrels (thousands)
Total Liquid Reserve at March 31, 1977	12,775	Barrels (thousands)



One of the six Jennings International drilling rigs on a Company well in the Peco (Edson) Field. Jennings is a division of Ocelot.

SERVICE DIVISIONS

Jennings International Drilling, a division of Ocelot Industries Ltd., owns and operates six drilling rigs which are capable of competitive contract drilling in the 4,000′ to 13,500′ depth range.

During the eight month reporting period, this division shared, with the rest of the drilling industry, a very high level of activity. The present high demand for energy should maintain this momentum for some time to come, should gas and oil prices and net incomes to the producers provide the proper stimulus.

South Eastern Pipeline Construction Limited also enjoyed a very busy period. Its business activity is affected by the same factors that control the drilling industry and therefore is expected to continue to contribute a substantial net cash flow to the parent Company.

South Eastern Pipeline Construction laying a pipeline up a steep hillside in southern Alberta.

Financial Review

As referred to in the six months' Report to Shareholders, the Ocelot group of Companies changed their year ends to March 31 commencing with 1977. Accordingly, the Consolidated Financial Statements cover the eight month period ended March 31, 1977. The financial results of A.E.G. and its subsidiaries are included for the five month period November 1, 1976 to March 31, 1977 only, being the period since the date of acquisition. As described in the notes to the Financial Statements, in 1977 Ocelot's accounts were retroactively restated to the full cost method of accounting for natural gas and petroleum operations.

Gas and oil sales increased from $6,723,000 to $18,217,000 (171%) for this shortened period. Gross revenue from contract operations was up from $4,644,000 to $7,429,000 (60%) and net revenue after operating costs increased by $1,293,000 (57%) reflecting the high level of gas and oil activity. Net earnings from all operations increased from $2,195,000 to $5,503,000 (151%) while cash flow increased from $4,541,000 to $11,074,000 (144%) or from 54c to 96c per share.

As set out in note nine to the Financial Statements, Ocelot acquired on July 13, 1977 all of the shares of Sheamar Equipment Ltd. and its subsidiaries Sheamar Supply Ltd., Wilson Oilfield Supply Ltd., both Alberta incorporated companies, and L. P. Anderson Supply of Billings, Montana for 328,229 Class 'B' shares. These Companies are engaged in supplying both new and used oil and gas equipment as well as the rental of production equipment to all sectors of the petroleum industry, currently in Western Canada and Montana. These Companies will continue to be operated by their highly experienced management and employees.

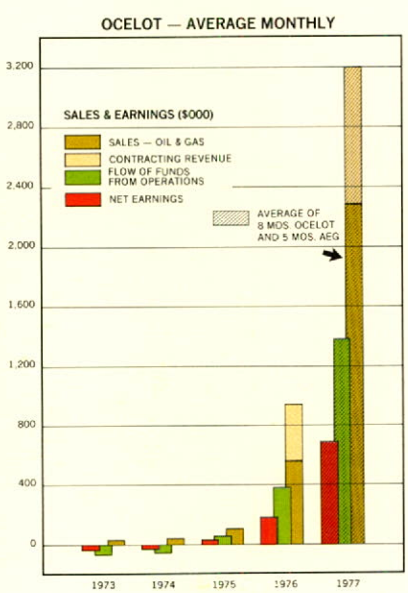
The interest rate on the long term debt is related to the bank prime rate which has been reduced from 9¾% at October 31, 1976 to 8¼% at June 1, 1977, thereby effecting a considerable saving in anticipated interest cost. This debt, although of significant amount, is a fixed sum, while the assets represented by the reserves, land interests and equipment are increasing substantially in value due to both inflationary pressures and the continually increasing demand for land within the areas now served by marketing facilities and the equipment to develop the production. This is well illustrated in the comments on the projected value of production from the Alberta shallow gas area contained in the Directors' Report to Shareholders.

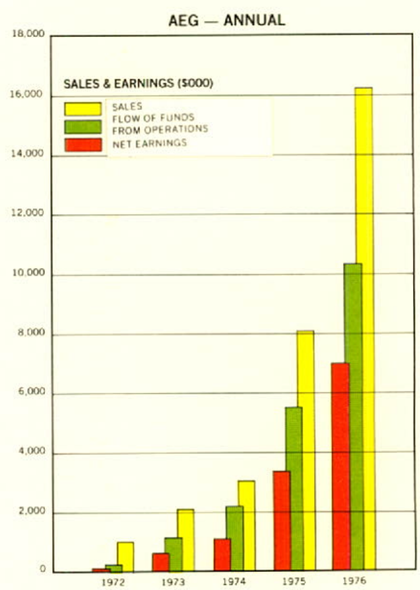
In addition to the increasing cash flows that will be generated over the next three years, Ocelot has arranged for drilling funds of over $8,000,000 to be spent in the next 12 months. Other funds of over $40,000,000 are available for financing the development of certain Ocelot properties subject to proving additional reserves. These large sums will assure continued active exploration and development with ample surplus to service the long-term debt. In this respect, principal repayment obligations total $8,000,000 over the next three years.

Comparison of financial results on an annual basis is difficult to present on a meaningful basis due to the complexities created by both the partial fiscal years of each of Ocelot and AEG and of being unable to consolidate the results for the full period since the last annual report to shareholders.

In order to illustrate the trend of the Company's financial affairs and also to show the historical financial results of AEG, now the major subsidiary of Ocelot, the following graphs are presented:

- The average monthly revenue, cash flow and net earnings of Ocelot for the eight months reported herein consolidated with five months of A.E.G., and similar monthly averages for the four previous years.
- The annual revenue, cash flow and net earnings of A.E.G. for the five years to June 30, 1976, immediately prior to its acquisition by Ocelot.





OCELOT INDUSTRIES LTD.

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 1977

	March 31, 1977	July 31, 1976 (note 1)
Assets		
CURRENT ASSETS		
Cash	$ 460,741	$ 167,802
Accounts receivable	9,562,449	3,030,562
Drilling and construction contracts in progress, at cost	537,759	372,770
Prepaid expenses and deposits	222,622	117,438
	10,783,571	3,688,572
INVESTMENT IN 50% OWNED COMPANY	575,702	—
PROPERTY, PLANT AND EQUIPMENT, at cost (notes 1 and 4)	125,998,193	25,186,318
Accumulated depletion and depreciation	3,601,524	1,085,521
	122,396,669	24,100,797
OTHER ASSETS	163,784	147,441
	$133,919,726	$ 27,936,810
Liabilities		
CURRENT LIABILITIES		
Bank indebtedness, secured	$ 1,841,081	$ —
Accounts payable and accrued liabilities	7,942,025	2,723,331
Income taxes	271,731	303,965
Current maturities on long term debt	691,683	2,758,040
	10,746,520	5,785,336
LONG TERM DEBT (note 5)	64,123,807	14,557,267
DEFERRED INCOME TAXES	11,876,208	1,366,798
MINORITY INTEREST	358,925	—
Shareholders' Equity		
CAPITAL STOCK (notes 6 and 9)		
Authorized		
7,500,000 Class A common shares of no par value		
25,000,000 Class B common shares of no par value		
Issued		
1976 - 4,226,330 shares of no par value		4,288,697
1977 - 4, 208,630 Class A shares	2,138,171	
9,258,876 Class B shares	37,234,108	
RETAINED EARNINGS (notes 1 and 7)	7,441,987	1,938,712
	46,814,266	6,227,409
	$133,919,726	$ 27,936,810

Approved by the Board:

J V Lyons, Director

W Harris, Director

OCELOT INDUSTRIES LTD.

CONSOLIDATED STATEMENT OF EARNINGS

	Eight Months Ended March 31, 1977	Year Ended July 31, 1976 (note 1)
REVENUE		
Oil and gas sales	$ 18,217,430	$ 6,722,583
Less royalties	(4,886,696)	(1,944,937)
	13,330,734	4,777,646
Contract drilling and pipeline construction	7,429,098	4,643,514
Interest and other	58,010	38,443
	20,817,842	9,459,603
EXPENSES		
Oil and gas production	1,750,832	595,037
Contract drilling and pipeline construction	3,873,528	2,381,198
General and administrative	1,182,139	620,079
Interest on long term debt	3,309,811	1,348,461
Other interest	59,470	51,751
Depletion and depreciation	2,591,872	1,065,495
Minority interest	46,629	—
	12,814,281	6,062,021
EARNINGS BEFORE UNDERNOTED ITEMS	8,003,561	3,397,582
SHARE OF LOSS OF 50% OWNED COMPANY	(107,886)	—
EARNINGS BEFORE INCOME TAXES	7,895,675	3,397,582
INCOME TAXES		
Current	283,835	310,521
Deferred	2,799,695	1,288,403
Alberta royalty tax credit	(691,130)	(396,005)
	2,392,400	1,202,919
NET EARNINGS	$ 5,503,275	$ 2,194,663
PER CLASS A OR CLASS B SHARE (note 8)	$0.47	$0.26

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Eight Months Ended March 31, 1977	Year Ended July 31, 1976
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF PERIOD		
As previously reported	$ 229,993	$ (1,989,848)
Adjustment resulting from retroactive adoption of full-cost method of accounting (note 1)	1,708,719	1,733,897
As restated	1,938,712	(255,951)
NET EARNINGS	5,503,275	2,194,663
RETAINED EARNINGS AT END OF PERIOD	$ 7,441,987	$ 1,938,712

OCELOT INDUSTRIES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Eight Months Ended March 31, 1977	**Year Ended July 31, 1976** *(note 1)*
WORKING CAPITAL DERIVED FROM		
Operations	$ 11,074,053	$ 4,540,686
Issue of shares		
— for cash	7,660	155,640
— for Alberta Eastern (note 3)	35,075,922	—
Long term debt, including $46,426,898 relating to the acquisition of Alberta Eastern in 1977 (note 3)	49,416,277	12,526,138
Reduction in current maturities on long term debt	2,066,357	—
	97,640,269	17,222,464
WORKING CAPITAL APPLIED TO		
Acquisition of net assets of Alberta Eastern, including working capital deficiency of $1,813,123 (note 3)	83,327,953	—
Acquisition of net assets of subsidiary companies and Jennings International Drilling	—	4,118,296
Property, plant and equipment	10,262,407	10,360,077
Long term debt	1,916,094	3,826,862
	95,506,454	18,305,235
INCREASE (DECREASE) IN WORKING CAPITAL	2,133,815	(1,082,771)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD	(2,096,764)	(1,013,993)
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD	$ 37,051	$ (2,096,764)

AUDITORS' REPORT

To the Shareholders of
Ocelot Industries Ltd.

We have examined the consolidated balance sheet of Ocelot Industries Ltd. as at March 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the eight months 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, 1977 and the results of its operations and the changes in its financial position for the eight months then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for natural gas and petroleum operations referred to in note 1 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
July 13, 1977

THORNE RIDDELL & CO.
Chartered Accountants

OCELOT INDUSTRIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Eight Months Ended March 31, 1977

1. ACCOUNTING POLICIES

(a) 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 Alberta Eastern Gas Limited (Alberta Eastern) in which the Company has a 98.9% interest. The amount by which the cost of the shares of subsidiaries exceeded the underlying net book value at dates of acquisition has been included in property, plant and equipment and is subject to the accounting policies outlined below.

(b) 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 expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead charges related to exploration activities. These costs are charged to earnings as set out below:

(i) Costs accumulated in Western Canada are depleted using the unit of production method based on estimated recoverable reserves of gas and oil as determined by Company engineers.

(ii) 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 unamortized balance in that cost centre will be 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.

Prior to August 1, 1976, the Company followed the accounting policies of charging exploration and carrying charges of producing and non-producing properties to earnings as incurred. Lease and other property acquisition costs were capitalized and were charged to earnings if the property was subsequently abandoned. The costs of drilling productive wells were capitalized and costs of unproductive wells were charged to earnings when determined to be dry. The costs of producing properties and producing wells were depleted using the unit of production method based upon estimated proven recoverable reserves as determined by independent valuation. During the period, the Company retroactively changed its accounting policy to that described above. As a result, net earnings for 1976 decreased by $25,178 ($ nil per share). The acquisition of Alberta Eastern (see note 3) during the period has made it impracticable to determine the effect, if any, of this change in accounting on net earnings for 1977. The 1976 financial statements have been restated to reflect this change in accounting policy.

(c) 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.

Depreciation on 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 Rigs	10 per cent (when working)
Construction Equipment	20 per cent to 35 per cent

(d) Investment in 50% Owned Company

The Company follows the equity method of accounting for its investment in a 50% owned company. Under this method the investment is carried at cost plus its share of undistributed earnings or losses.

(e) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company provides for deferred income taxes to the extent that income taxes otherwise payable are reduced by claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions reflected in its accounts.

(f) Foreign Currencies

The accounts of foreign subsidiaries are translated to Canadian dollars as follows:

(i) Current assets and liabilities, at the rate of exchange in effect at the balance sheet date;

(ii) Property, plant and equipment and other liabilities at the rate of exchange in effect at the date of the transaction;

(iii) Revenue and expenses (excluding depletion and depreciation, which are translated at the rate of exchange applicable to the related asset), at the average rates of exchange for the period.

The loss on translation has been charged to earnings.

2. CHANGE IN YEAR END

The Company has changed its year end from July 31 to March 31 and, therefore, the comparative figures relate to the year ended July 31, 1976.

3. BUSINESS COMBINATION

During the period the Company acquired 98.9% of the outstanding common shares of Alberta Eastern Gas Limited, a publicly-held Canadian gas and oil exploration and production company, for a cash consideration of $46,438,908 and 5,010,846 Class B common shares of the Company (issued at an ascribed value of $7.00 per share and representing 54% of the Company's total Class B shares outstanding after giving effect to the issue of such shares). This business combination was accounted for as a purchase and the results of operations of Alberta Eastern have been included in the consolidated statements since October 31, 1976, the effective date of acquisition. The Company estimates that, had this combination been concluded at the beginning of the current period, the effect on net earnings and earnings per share would not have been significant.

The acquisition is summarized as follows:

Current assets	$ 4,154,832
Current liabilities	5,967,955
	(1,813,123)
Investment in 50% owned company	682,089
Property, plant and equipment	36,353,129
Other assets	38,367
	35,260,462
Deferred income taxes	7,745,448
Book value of net assets	27,515,014
Excess of the cost of shares of Alberta Eastern over underlying net book value, assigned to natural gas and petroleum properties	54,312,111
	81,827,125
Minority interest	312,295
Purchase consideration	$81,514,830
Represented by	
Cash	$46,438,908
5,010,846 Class B shares of the Company at an ascribed value of $7 per share	35,075,922
	$81,514,830

4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 1977			July 31, 1976
	Cost	Accumulated Depletion and Depreciation	Net	Net
Natural gas, petroleum and mineral leases and rights together with exploration, development and equipment thereon	$120,632,761	$2,690,153	$117,942,608	$20,125,594
Drilling, construction and related equipment	4,420,352	620,309	3,800,043	3,560,770
Land, buildings and other equipment	945,080	291,062	654,018	414,433
	$125,998,193	$3,601,524	$122,396,669	$24,100,797

5. LONG TERM DEBT

	March 31, 1977	July 31, 1976
Bank production loans (a)	$59,347,346	$12,012,448
Affiliated company (b)	305,446	430,303
Advance for development including interest of $890,701 (1976 - $561,323) (c)	4,790,701	4,461,323
Note payable (d)	371,997	411,233
	64,815,490	17,315,307
Current maturities	691,683	2,758,040
	$64,123,807	$14,557,267

(a) The bank production loans are evidenced by demand promissory notes, bear interest at 1% and 1¼% above bank prime rate, are secured by the Company's interest in certain petroleum and natural gas properties, a general assignment of accounts receivable and shares of Alberta Eastern and are repayable from future production revenues.

(b) The amount due to the affiliated company is evidenced by a promissory note dated November 30, 1972, includes accrued interest of $5,183 as at March 31, 1977, bears interest at 7%, is repayable in annual instalments of $100,000 and matures in 1980.

(c) During 1975 arrangements were made for the financing of the development of certain of the Company's natural gas and petroleum properties. Under the terms of an agreement dated December 17, 1974, an unrelated corporation has agreed to advance up to $45,000,000 in varying amounts, subject to the proving of additional reserves, to 1989. The advances bear interest at 1% above a bank prime rate and are secured by and repayable from a royalty interest in production from the specified properties. As at March 31, 1977, $3,900,000 had been received under this arrangement.

(d) The note payable bears interest as from November 15, 1977 at a bank prime rate and is repayable either in cash in eight equal quarterly instalments commencing February 15, 1978 plus accrued interest or by way of participation in specified exploration programs prior to November 15, 1977.

The estimated amount of long term debt maturities for the five years subsequent to 1977 are as follows: 1978 — $691,683; 1979 — $1,006,000; 1980 — $6,327,106; 1981 — $13,866,664; and 1982 — $8,799,996.

6. CAPITAL STOCK

(a) The Company, by special resolution of its shareholders, converted its then outstanding share capital of 4,226,330 shares into stock and reconverted the stock into 4,226,330 Class A common shares without nominal or par value and 4,226,330 Class B common shares without nominal or par value. Accordingly, each shareholder received one Class A common share and one Class B common share for each share previously held. In addition, the authorized capital of the Company was increased to an aggregate of 7,500,000 Class A common shares and 25,000,000 Class B common shares, issuable for a maximum consideration of $10 million and $75 million, respectively.

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 period were as follows:

	Number of Shares		Consideration	
	Class A	Class B	Class A	Class B
Balance, July 31, 1976 after conversion (see above)	4,226,330	4,226,330	$2,144,348	$ 2,144,349
Issued as partial consideration in the acquisition of Alberta Eastern (note 3)	—	5,010,846	—	35,075,922
Issued on exercise of options	2,000	2,000	3,830	3,830
Conversion of shares	(19,700)	19,700	(10,007)	10,007
Balance, March 31, 1977	4,208,630	9,258,876	$2,138,171	$37,234,108

(c) During the period, options were granted to employees under an employee stock option plan to purchase 104,500 Class B shares of the Company at prices ranging from $7.65 to $8.55 per share, exercisable to 1981.

As at March 31, 1977 all these options remained outstanding.

An additional 357,500 Class B shares have been reserved for future options which may be granted under this plan.

7. ANTI-INFLATION LEGISLATION

The Company is subject to dividend restrictions under provisions of the Federal Anti-Inflation Act.

The regulations restrict the amount of dividends the Company can declare or pay during the period October 14, 1976 to October 13, 1977. Under the restrictions the Company may not, during this period, declare or pay dividends on all classes of its shares in excess of $548,666.

8. PER SHARE DATA

Earnings per share are based on the weighted average number of shares outstanding during the periods. For the purpose of calculating earnings per share, the reorganization of share capital, referred to in note 6 above, has been treated as a subdivision of share capital as though it had been effective August 1, 1975.

9. SUBSEQUENT EVENT

Subsequent to March 31, 1977 the Company acquired all the issued and outstanding shares of a private company engaged in the distribution of oilfield equipment and supplies in exchange for 328,229 Class B shares of the Company.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the eight months ended March 31, 1977 the Company paid $180,605 in remuneration to its directors and senior officers.

OCELOT INDUSTRIES LTD.

March 31, 1977

DIRECTORS	O. R. Edmonds, Toronto, Ontario N. M. Hannon, Calgary, Alberta D. S. Harris, Calgary, Alberta J. V. Lyons, Calgary, Alberta G. C. Solomon, Regina, Saskatchewan
OFFICERS	J. V. Lyons, President and Chief Executive Officer D. S. Harris, Vice-President and Treasurer R. O. Fisher, Vice-President A. M. Wasylenko, Secretary
HEAD OFFICE	1200 Western Union Bldg. 640 - Eighth Avenue S.W. Calgary, Alberta T2P 1G7 Telephone (403) 261-2000

SUBSIDIARIES AND DIVISIONS

Alberta Eastern Gas Limited — 99.2% Owned Subsidiary of Ocelot

DIRECTORS

O. R. Edmonds
J. V. Lyons
R. A. McCullough
G. C. Solomon
F. G. Vetsch

OFFICERS

F. G. Vetsch, President and Chief Executive Officer
R. A. McCullough, Vice-President and Treasurer
A. M. Wasylenko, Secretary

Oriole Oil & Gas Ltd. — 100% Owned Subsidiary of Alberta Eastern Gas Limited

Alberta Petroleum & Resources Ltd. — 50% Owned Subsidiary of Alberta Eastern Gas Limited

Jennings International Drilling — a Division of Ocelot
W. R. Kelsay, General Manager

Sheamar Equipment Ltd. — 100% Owned Subsidiary of Ocelot
S. D. Martin, President

South Eastern Pipeline Construction Limited and Karı Investments Ltd. — Both 100% Owned Subsidiaries of Ocelot
L. Brassard, President

BANKERS

The Royal Bank of Canada
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

STOCK EXCHANGES

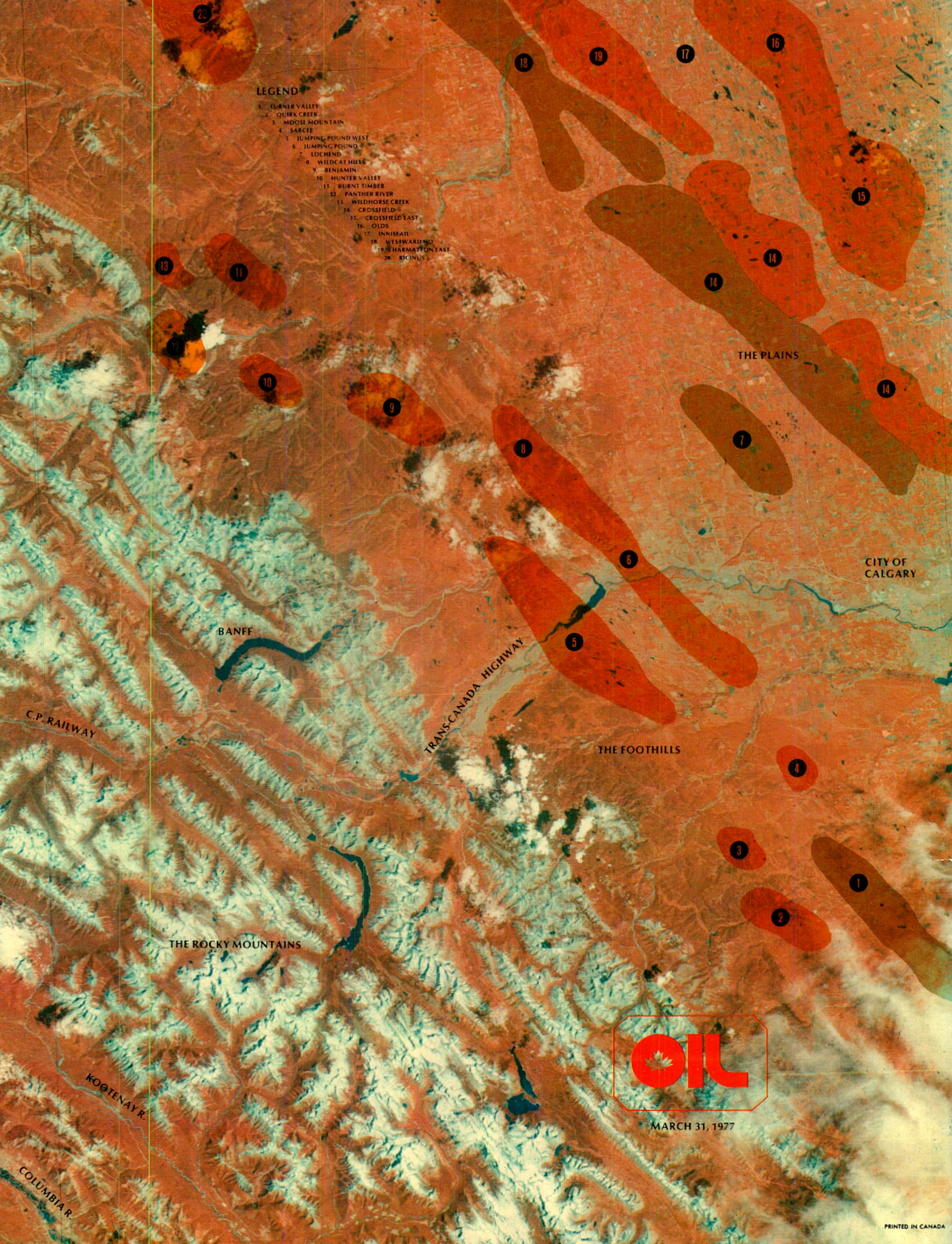
Toronto Stock Exchange
Montreal Stock Exchange
Alberta Stock Exchange

AUDITORS

Thorne Riddell & Co.
Chartered Accountants
Calgary, Alberta

REGISTRAR AND TRANSFER AGENTS

National Trust Company Limited
Toronto, Montreal, Calgary and Vancouver and through its Agent Canada Permanent Trust Co. at Regina.


LEGEND
1. TURNER VALLEY
2. QUIRK CREEK
3. MOOSE MOUNTAIN
4. SARCEE
5. JUMPING POUND WEST
6. JUMPING POUND
7. LOCHEND
8. WILDCAT HILLS
9. BENJAMIN
10. HUNTER VALLEY
11. BURNT TIMBER
12. PANTHER RIVER
13. WILDHORSE CREEK
14. CROSSFIELD
15. CROSSFIELD EAST
16. OLDS
17. INNISFAIL
18. WESTWARD HO
19. HARMATTON EAST
20. RICINUS
THE PLAINS
CITY OF CALGARY
BANFF
TRANS-CANADA HIGHWAY
C.P. RAILWAY
THE FOOTHILLS
THE ROCKY MOUNTAINS
KOOTENAY R.
COLUMBIA R.
OIL
MARCH 31, 1977
PRINTED IN CANADA