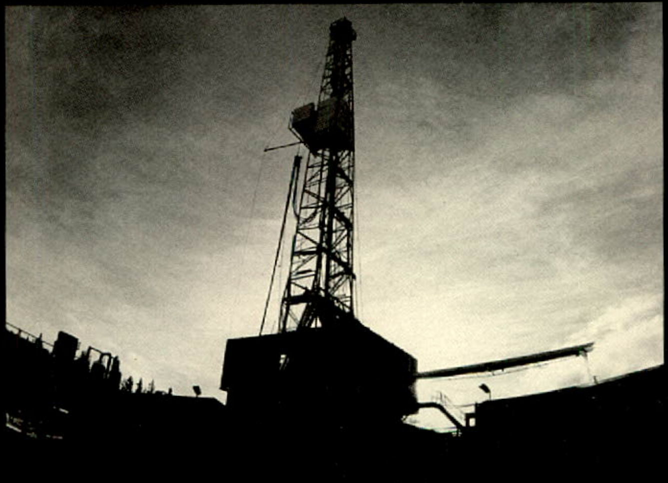
PROVEN
PROBABLE



ENERGY

AND

BALANCE

OCELOT ENERGY

1994

ANNUAL

REPORT

CONTENTS

ANNUAL MEETING

The Annual General Meeting of the shareholders of Ocelot Energy Inc. will be held in the Mayfair Room of the Westin Hotel in Calgary, Alberta on Tuesday, April 25, 1995 at 10:00 a.m. MDT.

COVER

This year's Annual Report explores the theme of "balance" in a series of photographs and word combinations. Some of these word pairs reflect competing influences. Others identify related qualities that complement each other and contribute to a balanced and positive business environment.

OCELOT ENERGY INC. IS A GROWING, FINANCIALLY SOLID, PUBLIC CANADIAN ENERGY COMPANY FOCUSED PRIMARILY ON THE EXPLORATION, PRODUCTION AND MARKETING OF OIL AND NATURAL GAS.

THE MISSION OF OCELOT ENERGY INC. IS TO BECOME ONE OF CANADA'S SENIOR INDEPENDENT OIL AND GAS PRODUCERS BY PURSUING GROWTH INITIATIVES THAT CREATE SUBSTANTIAL LONG-TERM VALUE FOR THE COMPANY'S STAKEHOLDERS.

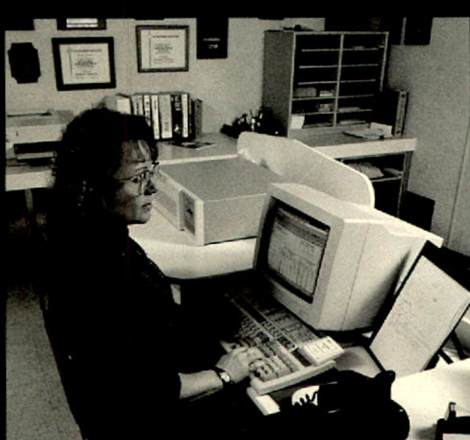
HIGHLIGHTS

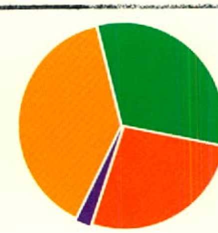
	1994	1993
FINANCIAL		
(thousands of dollars except where noted)		
Revenue	104,579	168,860
Net earnings	14,644	13,828
Net earnings per share (in dollars)	0.50	0.50
Funds generated from operations	42,574	40,394
Funds generated per share (in dollars)	1.46	1.47
Capital expenditures	64,554	85,019
Working capital	821	2,007
Long-term bank debt	75,651	75,083
Obligations under capital leases (long-term)	2,745	7,888
OPERATIONS		
Natural gas production (Mmcf/d)	54	58
Proven and probable natural gas reserves (Bcf)	418	479
Proven natural gas reserves (Bcf)	356	383
Crude oil and NGL production (Bbls/d)	3,105	2,144
Proven and probable oil & NGL reserves (MBbls)	16,365	10,542
Proven oil & NGL reserves (MBbls)	11,467	9,921

RISK
REWARD

1994 PROVEN RESERVES

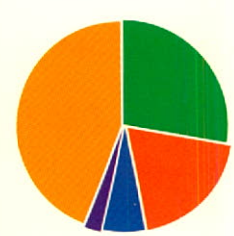
(MmBOE)		
SW Saskatchewan	18.3	39%
Central Alberta	15.0	32%
B.C. Foothills	12.7	27%
Other	1.0	2%
Total	47.0	100%





1993 PROVEN RESERVES

(MmBOE)		
SW Saskatchewan	21.3	44%
Central Alberta	13.4	28%
B.C. Foothills	9.3	19%
B.C. Plains	3.1	7%
Other	1.1	2%
Total	48.2	100%



When exploring for and selecting ventures, Ocelot balances domestic and international opportunities against potential rewards.

DOMESTIC

INTERNATIONAL

PRESIDENT'S LETTER TO THE SHAREHOLDERS

During 1994 Ocelot's team continued to successfully advance growth strategies that were initially put in place following the company's restructuring in 1991.

THREE YEARS OF RENEWAL

Over the last three years, Ocelot has vigorously transformed its reserve portfolio. Starting from a position with shallow gas reserves, potential upsides in the British Columbia Foothills and miscellaneous interests in the B.C. Plains, Ocelot's portfolio of properties has been dramatically changed. Through development, acquisition and disposition activities, oil and gas cash flow from operations has grown from approximately $5 million in 1991 to an estimated $56 million in 1995. Oil production at Sylvan Lake and natural gas production from the British Columbia Foothills now generates most of our corporate cash flow.

We have re-established the integrity and soundness of Ocelot's balance sheet. We have worked relentlessly to improve the quality of our entrepreneurial skills and the effectiveness of our team play. The results of these initiatives are evident in Ocelot's performance to date. We will continue to strive to improve our performance in these critical areas. The success of all of these initiatives has created a revitalized and much stronger company.

DAVID LYONS
PRESIDENT AND
CHIEF EXECUTIVE
OFFICER

SOLID FINANCIAL PERFORMANCE

Cash flow from operations in 1994 increased to $42.6 million, compared to $40.4 million in 1993. This was accomplished despite a reduction in activity in the large-diameter pipeline construction industry which saw total corporate revenues for Ocelot reduced from $168.9 million in 1993 to $104.6 million in 1994.

Revenues from the company's oil and gas properties rose sharply during the year – up 40 per cent. Ocelot's 1994 oil and gas revenues, net of royalties, totalled $51.5 million compared to $36.8 million in 1993.

Ocelot continued to invest for future growth with capital expenditures during 1994 totalling $64.6 million compared to $85.0 million in 1993.

A BALANCED COMPANY

Ocelot has been careful to support the creation of balance in our renewed company. We balance competing influences and prospects in the selection of long-term and short-term opportunities which will generate enduring value for stakeholders. Balancing risk and weighing the possibilities of reward or failure remains a fundamental of the oil and gas industry. Today, in uncertain economic times, there is pressure for Ocelot to continuously balance all its activities.

In markets with fluctuating commodity prices, Ocelot strives to balance cash flow generated from both its oil properties and its gas properties.

Ocelot strives to balance the size and number of its projects with the financial resources available to the company and the skills and expertise within our group of employees.

Between domestic and international prospects, Ocelot seeks an optimum balance in the opportunities and potential rewards available.

IN TRIBUTE

During the year, Ocelot employees and directors were saddened to learn of the passing on June 12, 1994 of Director Emeritus George Solomon of Regina, Saskatchewan. George had been an important part of our company's growth over a period of almost three decades. We honour his many contributions and extend our sympathy to his family.

THE FUTURE

Ocelot's current growth plans, originally developed in 1991, have been extremely successful. We have exceeded our most optimistic expectations.

We have learned the lessons of balance, focus, financial strength and jurisdictional diversification. We continue to think carefully about our future and the best way to position Ocelot through the remainder of this decade.

The future is exciting and challenging. We greatly appreciate the support of our shareholders, employees and other stakeholders as Ocelot moves decisively through the 1990s.

W. David Lyons
President and Chief Executive Officer
March 3, 1995

VISION

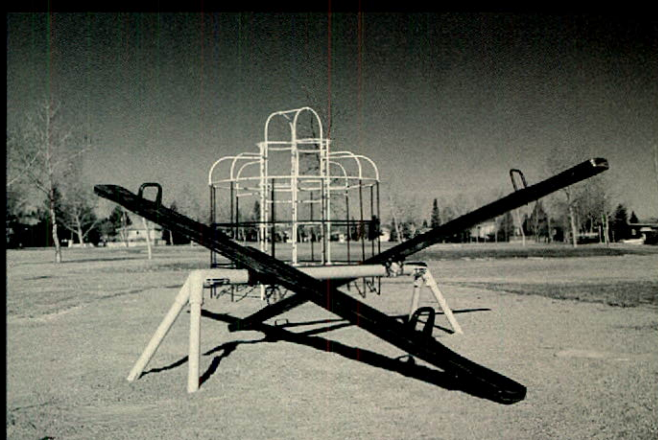
PASSION

THE CLARITY AND BREADTH OF OUR VISION BALANCES THE PASSION WITH WHICH WE PURSUE OUR GOALS.

When synergies are at work within a business, it is easier to achieve and maintain balance.

SYNERGY

BALANCE



In the movie The Karate Kid, there is a particularly memorable scene where the elderly teacher sends Daniel, his young student, out into the pounding surf to practice balance. "Learn Balance!" Miyagi calls out as his protege heads for the water.

Again and again the boy is knocked off his feet as the waves break and the surf crashes onto the beach. Finally, back in the water, he looks toward the shore. In that moment, he sees his teacher perched atop a single post –

THE VALUE IN BALANCE

balanced – and performing an intricate manoeuvre in which he shifts from one foot to the other in mid-air.

Balance! When successfully executed, it appears effortless. Balance doesn't need to be difficult. It can flow with a grace that is immediately recognizable. Balance can transform a place of risk and potential disaster into a state of dynamic equilibrium – with remarkable results.

For the oil and gas industry, the last decade has been an object lesson in the importance of seeking and achieving balance.

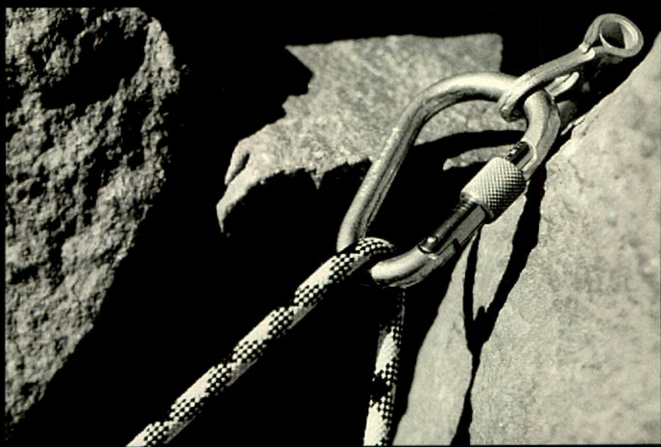
Unrestrained growth was followed by business failures, severely curtailed earnings, excessive debt, demoralized employees and a clear loss of balance. For a time we lost our bearings. The sense of direction we once prized was harder to find in the daily struggle for survival. Fortunately that is behind us now. We have regained our bearings – and with them our sense of direction and balance.

We benefit when there is a commitment to be in balance as we build and manage our businesses. Our shareholders, employees and other stakeholders also benefit when we work with the synergies available to us.

Balance is not a static state; it is a dynamic one. Balance is about working with change in a flexible manner. Balance provides the strength and perspective to work with change rather than being controlled by change.

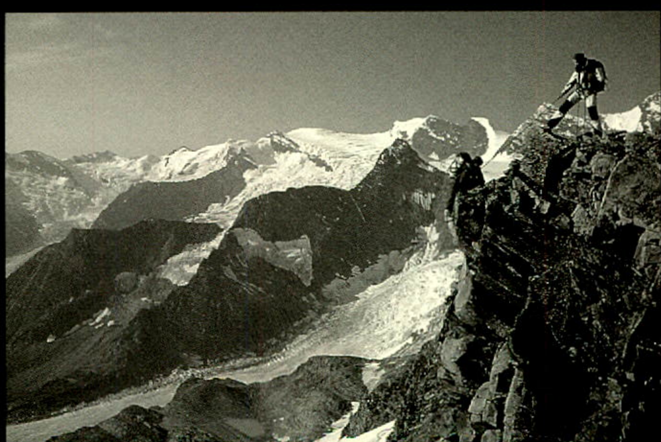
Balance blends the lessons of the past with a powerful new vision of the future. The result is a more balanced present that is responsible and accountable to all we serve.

Sometimes the value is in the balance!



INTEGRITY

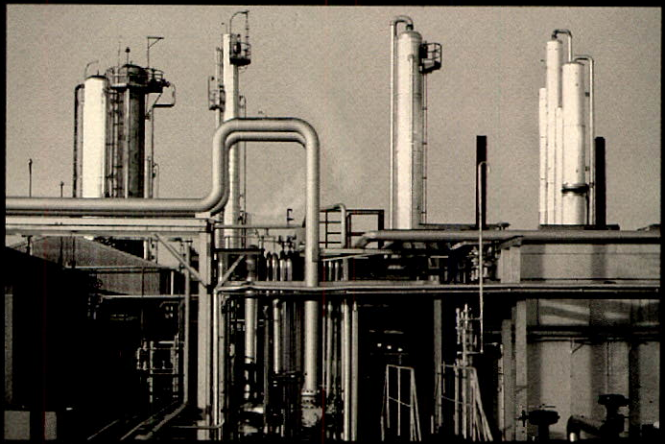
TRUST



INTEGRITY GENERATES TRUST, BUILDS CONFIDENCE AND CONTRIBUTES TO BALANCE AND HARMONY IN ALL ASPECTS OF HUMAN ENDEAVOUR.

Ocelot works to balance cash flow from both its oil properties and its gas properties.

OIL
GAS



CHIEF OPERATING OFFICER'S REPORT TO THE SHAREHOLDERS

Within Ocelot Energy, our employee team has been implementing a three-tiered growth strategy to fully develop Ocelot's potential. We are pleased to report that during 1994 substantial additional progress was made in optimizing oil and gas production, advancing our Alberta-based grass roots exploration program and moving our international prospects closer to implementation.

In Alberta, the Sylvan Lake property acquired by Ocelot in early 1993 has proven to be exceptional. We have accomplished more than we expected. Our optimization efforts have more than doubled liquids production from 1,900 barrels of oil and NGLs per day in January 1993 to over 4,300 barrels per day by the end of 1994. This is a great track record and our entire team of field and head office personnel has done an outstanding job.

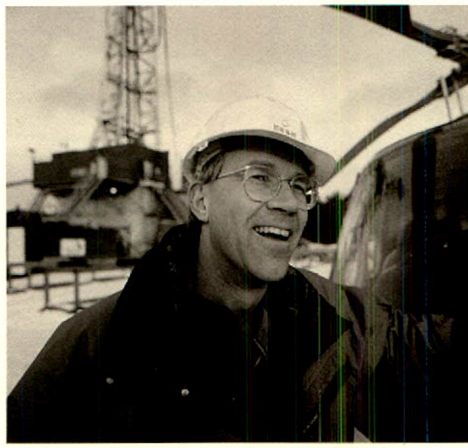
A renewed grass roots exploration program focusing on Alberta lands has been put in place over the past three years. It complements our successful development drilling at Sukunka in the British Columbia Foothills area where 25 million cubic feet per day of new gas deliverability was added in 1994. In Alberta, we have begun testing our hypotheses regarding the potential of our new exploration lands through a multi-well drilling program. This was initiated in the first quarter of 1995 and will continue throughout the year.

The third area of Ocelot's growth is in the addition of international operations. In 1994 Ocelot Tanzania Inc. and its joint venture partner, TransCanada PipeLines, were awarded the rights to negotiate with the Government of Tanzania for the development of the Songo Songo gas field. The commercial terms and the World Bank financing are expected to be fully agreed upon in the first half of 1995 and development and construction should begin soon after. Cash flow from natural gas production to the joint venture partners is expected to commence in early 1997.

In 1994 Ocelot averaged 85 million cubic feet of energy equivalent production per day and by the end of 1994 production was over 110 million cubic feet per day. By the end of 1995, we expect to have moved solidly back into the ranks of senior independent producers with gas equivalent production approaching 150 million cubic feet per day.

The diligent efforts of Ocelot's team of field and head office employees will continue to be a key element in the achievement of these results. Ocelot's management and its employees work together to create a climate of teamwork, trust and resourcefulness in which our combined efforts contribute to long term responsible growth for the stakeholders.

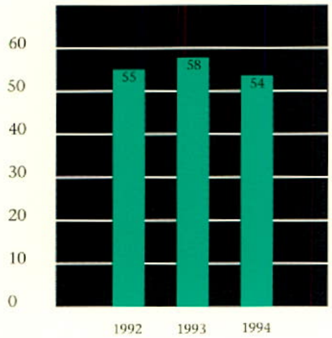
Glenn D. Gradeen
Executive Vice President and Chief Operating Officer



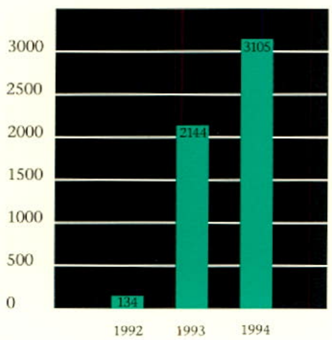
GLENN GRADEEN
EXECUTIVE
VICE PRESIDENT
AND
CHIEF OPERATING
OFFICER

OIL AND GAS OPERATIONS

NATURAL GAS PRODUCTION
(Mmcf/d)

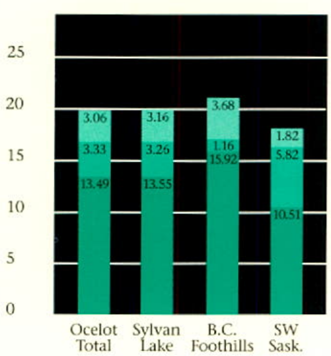


CRUDE OIL AND NGLs PRODUCTION
(Bbls/d)



1994 OPERATING NETBACKS
($/BOE)

Royalty Operating Cost Netback



Includes processing revenue, hedging, ARTC.

With the addition of the Sylvan Lake property in 1993, Ocelot Energy entered 1994 with an improving balance of oil and natural gas production in Western Canada. During 1994, the company disposed of its B.C. Plains properties and sharpened its focus to three core producing properties – the Foothills in northeastern British Columbia, Sylvan Lake in central Alberta and its shallow gas properties at Freefight and Crane Lake in southwestern Saskatchewan.

The company will continue to review and improve its portfolio of oil and gas properties by focusing attention on high margin properties which exhibit substantial long term growth and development potential. New producing properties could be added in Alberta in 1995 as exploration programs that have been developed over the last three years reach the drilling stage.

During 1994, Ocelot's production averaged 54 million cubic feet of natural gas per day and 3,105 barrels of oil and natural gas liquids (NGLs) per day. This compares to average production rates of 58 million cubic feet of natural gas per day and 2,144 barrels of oil and NGLs per day for the 12 month period ending December 31, 1993.

In 1994, Ocelot's oil and gas capital expenditures were $62.2 million. This includes capital expenditures in exploration projects as well as in Ocelot's core producing areas. This investment is compared with capital expenditures of $79.0 million in 1993 which included the acquisition of the Sylvan Lake property for $52.5 million.

LAND, DRILLING AND RESERVES

In 1994 Ocelot continued to make significant additions to its undeveloped land base in Western Canada. Additions were made in Alberta and British Columbia. Undeveloped land holdings in Western Canada at December 31, 1994 were 377,102 gross (254,912 net) acres as compared to 326,881 gross (212,179 net) acres at December 31, 1993.

In addition, Ocelot now holds a 100 per cent working interest in a 51,000 acre parcel of undeveloped land in the Northwest Territories. The parcel was awarded late in 1994 with an effective date of January 23, 1995.

Ocelot participated in the drilling of 75 wells (44.4 net) in 1994 compared with the drilling of 110 wells (77.8 net) in 1993. Of the 1994 wells, 47 (24.5 net) were gas wells; 24 (17.9 net) were oil wells and 4 (2.0 net) were drilled and abandoned. The company's drilling success rate was 95 per cent (90 per cent excluding the company's 41 well (23.3 net) shallow gas drilling program in southwestern Saskatchewan).

Reserves of oil and natural gas remained relatively constant on a barrel of oil equivalent (BOE) basis with large gains in oil reserves being offset by natural gas property dispositions during the year. Total proven and probable reserves on a BOE basis at the end of 1994 were 58.2 million barrels (compared to 58.4 million barrels at December 31, 1993) comprised of 418 billion cubic feet of natural gas and 16.4 million barrels of oil and NGLs. This included proven natural gas reserves of 356 billion cubic feet and proven oil and NGL reserves of 11.5 million barrels.

At 1994 production rates, Ocelot has a reserve life index of 21 years for natural gas and 14 years for crude oil based on proven plus probable reserves.

RESERVES

	Natural gas (Bcf)	Crude oil & NGLs (MBbls)	Sulphur (MLT)
Proven Reserves			
Reserves as at January 1, 1994	383	9,921	311
Added by drilling	55	3,866	289
Revisions, dispositions and acquisitions	(62)	(1,186)	(23)
Production	(20)	(1,134)	(35)
Reserves at January 1, 1995	356	11,467	542
Probable Reserves	62	4,898	17
Total Proven and Probable Reserves	418	16,365	559

Ocelot's proven and probable reserves are shown on a before royalty basis. The reserve evaluations, including estimated net cash flows, have been carried out by independent consultants. The definitions for proven and probable reserves are as follows:

Proven Reserves – Quantities of crude oil, natural gas and natural gas by-products which, upon analysis of geological 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 favorable 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 FROM RESERVES

		Escalating price assumptions		Constant price assumptions	
		Discounted at 10%	Discounted at 15%	Not discounted	Discounted at 10%
Proven Reserves					
Oil and NGLs		$ 96,436,446	$ 77,282,306	$ 123,326,147	$ 73,211,768
	$/Bbl	8.41	6.74	10.79	6.41
Gas		$ 259,965,920	$ 195,235,068	$ 365,149,193	$ 195,049,123
	$/Mcf	0.73	0.55	1.03	0.55
Subtotal		$ 356,402,366	$ 272,517,374	$ 488,475,340	$ 268,260,891
Probable Reserves		24,750,746	18,028,971	48,829,414	21,034,574
Proven and Probable Reserves		$ 381,153,112	$ 290,546,345	$ 537,304,754	$ 289,295,465

PRODUCTION

	1994	1993
Crude oil and NGLs (Bbls/d)	3,105	2,144
Natural gas (Mmcf/d)	54	58

DRILLING

	1994		1993	
	Gross	Net[1]	Gross	Net[1]
Development				
Oil	21	15.7	5	2.2
Gas	43	24.1	94	66.6
Dry	1	0.5	1	0.2
Other	–	–	1	1.0
Subtotal	65	40.3	101	70.0
Exploratory				
Oil	3	2.2	2	0.8
Gas	4	0.4	6	6.0
Dry	3	1.5	1	1.0
Subtotal	10	4.1	9	7.8
Total	75	44.4	110	77.8

(1) Based on Ocelot's working interest after any applicable payouts.

LANDHOLDINGS

	Unproven[1]		Undeveloped[2]		Total[3]	
	Gross acres	Net acres	Gross acres	Net acres	Gross acres	Net acres
Canada						
B.C. – Foothills	98,603	27,811	106,679	29,697	124,397	32,931
B.C. – Other	52,045	9,604	31,994	11,140	34,798	11,794
Alberta – Sylvan Lake	19,914	13,254	23,745	14,765	46,546	28,806
Alberta – Other	135,847	120,229	134,255	119,289	134,895	119,906
Saskatchewan	24,633	24,633	80,429	80,021	178,468	153,870
Total Canada	331,042	195,531	377,102	254,912	519,104	347,307

(1) Unproven refers to lands where no reserves have been assigned by the company's independent engineering consultants.

(2) Undeveloped refers to lands where no producing well spacing unit has been assigned.

(3) Total refers to the sum of all developed and undeveloped lands.

PROPERTY SUMMARY TABLE

	Producing well count December 31, 1994		Ocelot's average production 1994				Ocelot's proven reserves December 31, 1994			
	Gross	Net	Bbls/d	Mmcf/d	BOE/d	%	MmBbls	Bcf	MmBOE	%
Area										
Sylvan Lake	103	65.3	3,028	11.6	4,188	50	11.4	36.1	15.0	32
B.C. Foothills	8	1.6	–	21.0	2,100	25	–	127.1	12.7	27
S.W. Saskatchewan	727	482.1	–	16.2	1,620	19	–	183.4	18.3	39
Other	16	1.8	77	4.7	547	6	0.1	9.2	1.0	2
Total	854	550.8	3,105	53.5	8,455	100	11.5	355.8	47.0	100
Probable Reserves							4.9	62.6	11.2	
Total Proven and Probable Reserves							16.4	418.4	58.2	

INDEPENDENT
INTERDEPENDENT

THE EFFORTS OF A SINGLE INDIVIDUAL AND THE INTERACTIVE WORK OF A MULTI-DISCIPLINARY TEAM ARE BOTH PART OF THE BALANCE OF EFFORT WITHIN OCELOT.

SYLVAN LAKE

Nineteen ninety-four was a year of considerable growth for Ocelot in the Sylvan Lake area with continued additions to reserves and production. In January 1994 the Sylvan Lake property was producing 11 million cubic feet per day of natural gas and 2,050 barrels per day of oil and NGLs. By December 1994, production had increased to 16 million cubic feet of natural gas per day and over 4,300 barrels of oil and NGLs per day. Proven reserves also grew substantially from 10.1 million barrels of oil and NGLs and 42 billion cubic feet of natural gas at December 31, 1993 to 16.2 million barrels of oil and NGLs and 43 billion cubic feet of natural gas at December 31, 1994.

In 1994 Ocelot drilled 22 (17.0 net) oil wells in the Sylvan Lake area. The company also successfully implemented the waterflooding of the Sylvan Lake Pekisko "B" oil pool. These activities established increased production and reserves from this pool. During the year Ocelot drilled its first horizontal oil well in the Sylvan Lake area. Given the success of this well, additional drilling locations have been identified and further horizontal drilling is planned.

By December 1994, Sylvan Lake production had increased to over 4,300 barrels of oil and NGLs and 16 million cubic feet of gas per day.

The company has acquired an extensive 3-D seismic database in the Sylvan Lake area. This data, which helps delineate known Mississippian, Jurassic and Cretaceous pools, is being used to explore the deeper Devonian zones which are also productive in the Sylvan Lake area. The company plans to participate in the drilling of up to 16 wells in the Sylvan Lake area during 1995.

BRITISH COLUMBIA FOOTHILLS

Ocelot continued its vigorous exploration and development program in the Monkman area of northeastern British Columbia during 1994. This property is a key component in Ocelot's long-term strategy to make significant additions to domestic Canadian reserves and deliverability.

Gas sales, which averaged 21 million cubic feet per day throughout 1994, increased to 32 million cubic feet per day in December 1994. Proven reserves, which were 93 billion cubic feet at year-end 1993, increased to 120 billion cubic feet at December 31, 1994.

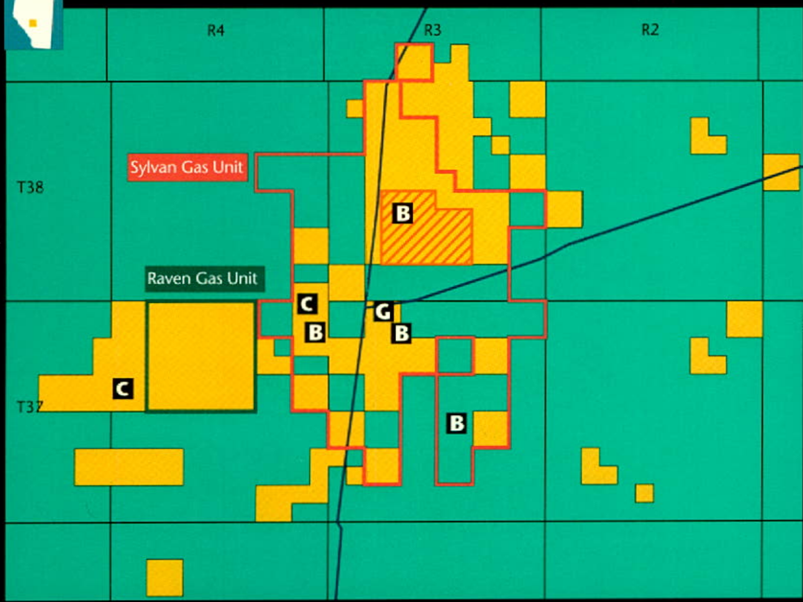
Exploration in northeastern British Columbia is continuing in 1995 with the drilling of up to six additional wells.

During 1994 Ocelot participated in the acquisition of 215 kilometers of seismic data. The company also participated in the drilling of five wells with interests ranging from 7.6 per cent to 50 per cent.

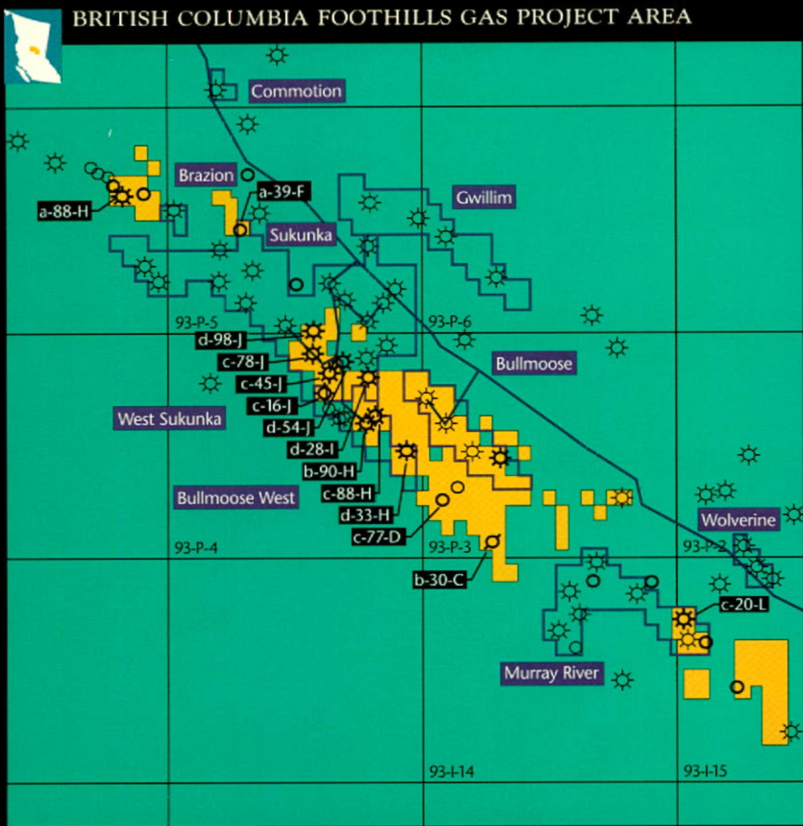
The first well drilled this year, a-88-H/93-O-8, was flow tested at rates of up to 73 million cubic feet per day. The second well, c-16-J/93-P-4, was drilled and abandoned. The third well, d-54-J/93-P-4, flowed at a rate of 16 million cubic feet per day on clean-up after completion. This well has been tied-in and is producing at rates of up to 20 million cubic feet per day. The fourth well, d-28-I/93-P-4, flow tested at rates of up to 43 million cubic feet per day. Anticipated tie-in

CORE PRODUCTION AREAS

SYLVAN LAKE



BRITISH COLUMBIA FOOTHILLS GAS PROJECT AREA



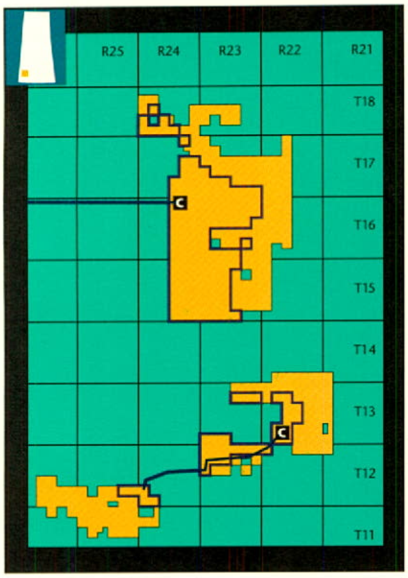
- Ocelot Land
- Gas Well
- Well Location
- Suspended Well
- Abandoned Well
- Pipeline
- Producing Area
- Gas Plant
- Battery
- Compressor
- Pekisko 'B' Project

is in the second quarter of 1995. The fifth well, c-20-L/93-I-15, flow tested at rates of up to 35 million cubic feet per day with tie-in anticipated in 1997. The production from this drilling program will move through Westcoast Energy's recently expanded Pine River Plant which came on-stream in November 1994.

BRITISH COLUMBIA FOOTHILLS 1994 DRILLING PROGRAM

Well	Raw gas test rate (Mmcf/d)	Acid gas content	Ocelot working interest	Net sales gas deliverability addition (Mmcf/d)
88-H	73	10%	32.0%	10.9
16-J	abandoned	–	50.0%	–
54-J	16	14%	50.0%	5.3
28-I	43	32%	33.3%	7.8
20-L	35	25%	7.6%	2.1
77-D	drilling	–	11.4%	–
Total				**26.1**

FREEFIGHT AND CRANE LAKE



- Ocelot Land
- Pipeline
- Producing Area
- Compressor

A sixth well, d-77-D/93-P-3, is a deeper zone test with drilling continuing into the first quarter of 1995. The company plans to participate in the drilling of up to six wells in the British Columbia Foothills in 1995. This includes one high working interest well which Ocelot will operate.

BRITISH COLUMBIA PLAINS

As interest in high quality gas producing assets increased through 1994, Ocelot was presented with an opportunity to sell all of its producing interests in the B.C. Plains in two separate transactions. The minor Nig West property was disposed of in February 1994. Ocelot's main Nig Creek property, including 25 billion cubic feet of natural gas, was disposed of in October 1994 resulting in a net price to Ocelot of $0.80 per thousand cubic feet. The disposition of these properties is consistent with Ocelot's intention to focus its activities more directly on high margin properties which exhibit extraordinary growth potential.

SOUTHWESTERN SASKATCHEWAN

Ocelot completed a 41-well infill drilling program in the company's Freefight natural gas project area during 1994. The company now produces 27 (16 net) million cubic feet per day from 727 shallow gas wells in southwestern Saskatchewan. At December 31, 1994 proven and probable natural gas reserves for the company's Freefight and Crane Lake properties totalled 221 billion cubic feet.

FIELD

OFFICE

THE BALANCE BETWEEN FIELD AND OFFICE IS BASED ON MUTUAL RESPECT, INTERDEPENDENCE AND A SPIRIT OF FRIENDLY RIVALRY.

THIS MOST FUNDAMENTAL OF OIL AND GAS BALANCES ENSURES THAT, AS RESERVES ARE DEVELOPED AND PRODUCED, NEW RESERVES ARE ADDED.

EXPLORATION
DEVELOPMENT

EXPLORATION FOR NEW CORE PRODUCING AREAS

Throughout 1994, Ocelot actively acquired lands, primarily in Alberta, to establish its exploration position. The company drilled exploratory wells in three areas during the year and undertook seismic or other exploratory activities in all new areas.

Fox Creek/Ante Creek. In the Fox Creek/Ante Creek area, Ocelot holds 30,483 gross (23,710 net) acres of exploratory land covering Devonian and shallower zone prospects. One Swan Hills oil well drilled in 1993 was tied-in and producing at the end of 1994. A second well was drilled in 1994 to help delineate this pool and Ocelot also participated in a deep pool test drilled to evaluate the Devonian Swan Hills zone in the Ante Creek area. This well was drilled and abandoned in the first quarter of 1994. Additional drilling for Cretaceous and Triassic exploratory prospects is planned for 1995.

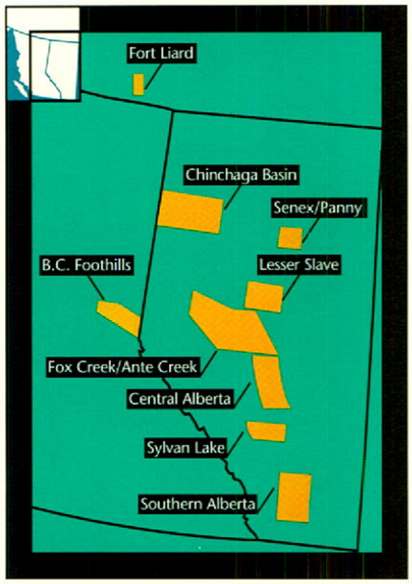
Chinchaga Basin Area. Ocelot has an interest in 25,553 gross (17,064 net) acres of exploratory land in the Hamburg-Chinchaga area of northern Alberta. A 100 kilometer seismic program was shot during the winter of 1993-94 to define drilling prospects and a similar program is scheduled for the winter season of 1994-95. The first well drilled by Ocelot in the area in 1994 was suspended pending acquisition of further seismic data. Ocelot intends to redirect this well once additional data is available. At least two additional wells are planned for 1995.

Senex/Panny Area. In this area Ocelot has acquired a significant land position comprising 30,080 gross (29,760 net) acres to explore for structural traps in Devonian Keg River carbonates. Seismic work and an exploratory drilling program are planned for 1995.

Fort Liard Area. Ocelot was awarded, through a competitive bidding process, an exploration license in the Fort Liard area of the Northwest Territories. Ocelot holds a 100 per cent working interest in the 51,000 acre block which is located at the eastern edge of a structural belt. Initial seismic will commence early in 1995. There is existing natural gas production in the area from the Pointed Mountain Gas Field which had initial gas reserves in excess of 300 Bcf.

State of Utah. In the state of Utah, Ocelot's wholly-owned subsidiary, Pajero Exploration Inc., in a joint venture with a U.S. independent, holds a 50 per cent working interest in 60,000 acres of contiguous petroleum and natural gas leases. Seismic, which commenced in late 1994, will provide the basis for an exploratory well scheduled for 1995.

EXPLORATION AREAS



OIL AND NATURAL GAS MARKETING

During 1994, pricing for the benchmark WTI crude oil increased from a low of US$14.70 per barrel during the first quarter to a range of US$17.00 to US$19.00 per barrel in the third and fourth quarters. Light and medium sour crudes, such as those produced at Sylvan Lake, continued to show price improvements in comparison to light sweet crude oil streams.

Ocelot's crude oil pricing averaged Cdn$18.20 per barrel during 1994, an increase over the Cdn$17.21 per barrel figure of 1993. Despite high apportionment on Interprovincial Pipe Line, Ocelot experienced no curtailments in 1994 through its marketing arrangements for Sylvan Lake production.

In 1994, light and medium crudes, such as those produced at Sylvan Lake, continued to show price improvements.

Ocelot entered into a number of crude oil hedging transactions during 1993 and 1994 which stabilized crude oil pricing for the company and resulted in improving 1994 prices to an average of Cdn$19.10 per barrel.

Ocelot markets its natural gas to a variety of purchasers in various geographical markets including core markets in Eastern Canada, local distribution utilities in British Columbia and the U.S. Pacific Northwest, electrical co-generation plants, industrial purchasers and conventional gas aggregators. During 1994, Ocelot's gas was sold under both fixed pricing and variable pricing tied to the NYMEX index and indices in the U.S. Pacific Northwest and the U.S. Rocky Mountain regions. Very little of Ocelot's gas volumes were sold on the Alberta spot market where prices dropped in 1994 due to record levels of drilling activity and increased storage capacity.

Ocelot's average price for natural gas sales in 1994 was Cdn$1.80 per thousand cubic feet, net of all provincial transportation charges in Alberta and Saskatchewan and in British Columbia, net of all third-party gathering, processing and transportation charges. This is an increase of 31 per cent over the 1993 price of Cdn$1.37 per thousand cubic feet. Ocelot's hedging program for natural gas resulted in an increase in the average price for 1994 to Cdn$1.89 per thousand cubic feet.

PIPELINE CONSTRUCTION

Through its wholly owned subsidiary, O.J. Pipelines Corp., Ocelot retained its active presence in the highly competitive Canadian mainline pipeline construction market. During 1994, O.J. Pipelines was successful in capturing a substantial portion of the large-diameter pipeline construction work available in Canada.

The fluctuating nature of the volume of large-diameter pipeline construction work available in Canada was reflected in reduced construction revenue reported by O.J. Pipelines in 1994. O.J. Pipelines generated revenue of $53.1 million in 1994 compared to $132.1 million in 1993. The lower level of construction activity among major pipeline transmission companies was the reason for this reduction.

During the first quarter of 1994, O.J. Pipelines completed construction on NOVA Corporation's 98 kilometer Edson Mainline in Alberta. Despite record snowfalls and below normal temperatures, the 63 kilometers of 48-inch pipe and 35 kilometers of 42-inch pipe in the Edson area were installed on schedule and within budget.

In the second and third quarters of 1994, O.J. Pipelines concluded clean up operations on the TransCanada PipeLines Limited Spread "Y" project constructed in southern Ontario in 1993. The company also constructed NOVA Corporation's Eastern Alberta System Mainline Loop consisting of two sections of 48-inch pipe in the Drumheller area of southern Alberta.

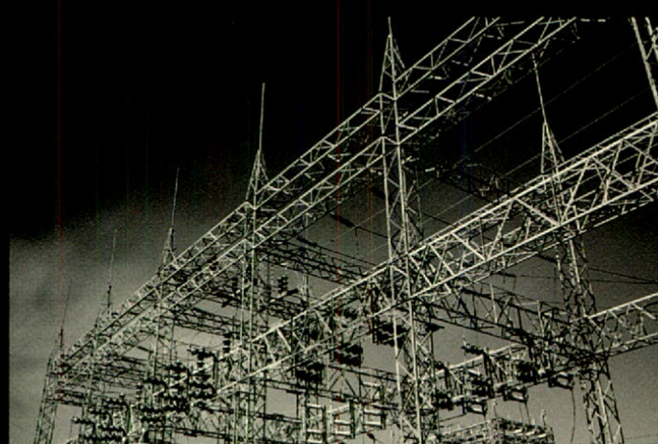
In the fourth quarter, O.J. Pipelines was the successful bidder on TransCanada PipeLines Limited's Spread 95A Pipeline Maintenance Program in northeastern Ontario. This project which calls for the upgrading and hydrostatic retesting of 13 valve sections and the replacement of six kilometers of 36-inch pipe began in December 1994.

O.J. Pipelines laid the first X80 pipe in Canada for NOVA Corporation in the Drumheller area of Alberta.

Oil and gas produced by Ocelot meets wide ranging consumer demands. Today, co-generation plants serve multiple needs including the generation of electric power.

PRODUCER

CONSUMER



INTERNATIONAL

Through its wholly-owned subsidiary, Ocelot International Inc., the company is using the skills and expertise it has developed for over 20 years, both in Canada and overseas, to re-establish a strong international presence. Ocelot believes that a balance between domestic and international producing properties and development prospects will result in an optimum mix of long-life, low cost investment opportunities.

In Tanzania, the Songo Songo gas-to-electricity project, a joint venture with TransCanada PipeLines (TCPL) involves the construction of a gas gathering system, a processing plant, a 230 kilometer pipeline and a gas fired power plant.

As there is an immediate need for electric power in Tanzania, Ocelot and TCPL proposed that construction of the power plant component of the project be accelerated. This proposal has been accepted by the Tanzanian Government and the Tanzania Electric Supply Company (TANESCO).

Construction of the power plant, excluding Ocelot/TCPL project management costs, will be entirely financed by a World Bank loan to the Government of Tanzania. The power plant will initially be fueled by oil and is expected to supply 60 to 100 megawatts to the national grid by the third quarter of 1995. Natural gas will replace fuel oil when the remainder of the Songo Songo project is complete. The accelerated construction of the power plant and an ongoing well evaluation program will provide Ocelot with excellent operating experience in Tanzania with limited financial exposure.

Negotiations on the overall Songo Songo project progressed considerably in 1994 and continue among the Government of Tanzania, TANESCO, the Tanzanian Petroleum Development Corporation, the Ocelot/TCPL joint venture, the World Bank and other financial institutions with a view to achieving financial and commercial closure in 1995. Cash flow from natural gas production to the joint venture is expected to commence early in 1997. The Songo Songo project has the potential to expand significantly once it is on stream. Plans are under way to replicate this project in other countries with established gas reserves and a need for electric power.

During 1994, Ocelot expanded its prospecting efforts for an international acquisition and conducted detailed evaluations of several producing properties. Ocelot remains committed to identifying and procuring high quality international investment opportunities.

Ocelot is committed to identifying and pursuing high quality international investment opportunities.

Within Ocelot, pro-active initiatives balance the company's need to react to a changing external environment.

ACTION
REACTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Ocelot Energy Inc. (the "Company" or "Ocelot") is engaged primarily in two business activities: the exploration, production and marketing of petroleum and natural gas and the construction of large-diameter pipelines through its wholly owned subsidiary, O. J. Pipelines Corp. The Company's financial results for 1994 reflect Ocelot's increased focus on its petroleum and natural gas operations and decreasing reliance on cash flow from its large-diameter pipeline construction business.

During 1994, Ocelot continued to add and optimize quality, long life petroleum and natural gas reserves. Major activities which contributed to the Company's 1994 operating and financial results include:

- a major **British Columbia Foothills** natural gas discovery in the Monkman area in late July, which is adding significant new reserves and will contribute to increased production in 1995. Ocelot is committed to a multi-well program to develop and expand the Company's interest in this world-class natural gas play.

- the optimization of the Sylvan Lake property in **Alberta** which added new reserves and production; and the addition of a waterflood in the Pekisko "B" pool which will further boost production in this field over the next few years.

- the divesting of non-core assets to become more strongly focused. In October, Ocelot announced that it had completed the disposition of its Nig Creek property in **northeastern British Columbia**. The disposition represented five per cent of corporate proven natural gas reserves and netted the Company $19.8 million in proceeds. The proceeds will be redeployed into corporate projects which are expected to yield a higher return.

- advancing the Company's Tanzanian joint venture offshore gas field development project, with commercial and financial closure anticipated by mid-1995. On this schedule, production from the Tanzanian project should commence in 1997.

- continued growth in Ocelot's petroleum and natural gas operations as production and pricing gains resulted in substantial increases in revenue and funds generated from operations from this segment.

RESULTS OF OPERATIONS

The Company's comparative financial results as at and for the years ended December 31 are summarized in the following table and analyzed by its two major business segments. The results of the spin-out effective July 1, 1993 of four petroleum industry service operations into a separate publicly traded company are discussed under the heading "Discontinued Operations".

Consolidated Results

Highlights	1994	1993	Per cent change 1994-1993	1992
(thousands of dollars, except share amounts)				
Revenue	104,579	168,860	(38)	95,004
Funds generated from operations				
For the year	42,574	40,394	5	22,607
From continuing operations*	42,574	38,458	11	21,847
Funds generated from operations per share				
For the year	1.46	1.47	(1)	0.95
From continuing operations*	1.46	1.40	4	0.92
Net earnings				
For the year	14,644	13,828	6	4,745
From continuing operations*	14,644	13,837	6	7,664
Net earnings per share				
For the year	0.50	0.50	–	0.20
From continuing operations*	0.50	0.50	–	0.32
Capital expenditures	64,554	85,019	(24)	18,449
Long-term bank debt	75,651	75,083	1	48,996
Shareholders' equity	116,991	98,180	19	104,736
Weighted average number of common shares outstanding	29,206	27,514	6	23,787

*Continuing operations do not reflect the results of the spin-out effective July 1, 1993 of four petroleum industry service operations into a separate publicly traded company.

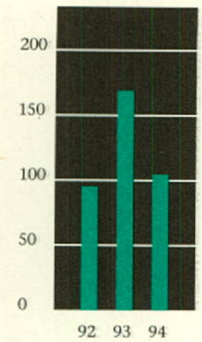
Total corporate **revenue** for the year ended December 31, 1994 was $104.6 million as compared to $168.9 million in 1993. Lower activity throughout the large-diameter pipeline construction industry was the primary reason for this reduction. **Operating and administrative expenses** in the year were $54.7 million compared to $121.7 million in 1993 also reflecting the decreased activity levels in the pipeline segment.

Funds generated from operations in 1994 totalled $42.6 million versus $40.4 million in 1993. Of Ocelot's funds generated from operations, 93 per cent was derived from petroleum and natural gas operations in 1994 compared to 60 per cent in 1993. On a per share basis, funds generated from operations totalled $1.46 per share compared to $1.47 per share in 1993.

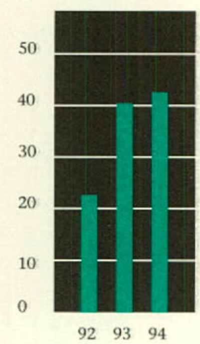
Ocelot's **net earnings** for the year ended December 31, 1994 were $14.6 million or $0.50 per share, compared to $13.8 million or $0.50 per share in 1993.

Capital expenditures totalled $64.6 million in 1994 compared to $85.0 million in 1993, which included the Sylvan Lake acquisition for $52.5 million.

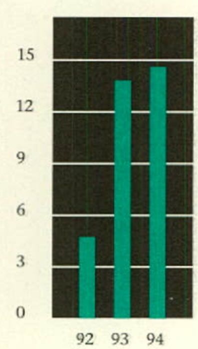
REVENUE
Millions of dollars



FUNDS GENERATED FROM OPERATIONS
Millions of dollars



NET EARNINGS
Millions of dollars



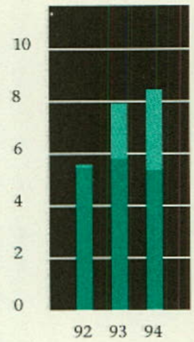
PETROLEUM AND NATURAL GAS OPERATIONS

Highlights	1994	1993	Per cent change 1994-1993	1992
(thousands of dollars, except where noted)				
Revenue, net of royalties	**51,517**	36,797	40	21,579
Expenses	**12,155**	13,867	(12)	10,890
Depletion and depreciation	**13,589**	10,962	24	7,338
Funds from segment operations	**39,362**	22,929	72	10,689
Production				
Natural gas (Mmcf/d)	**53.5**	57.8	(7)	54.5
Liquids (Bbls/d)	**3,105**	2,144	45	134
Average sales price				
Natural gas ($/Mcf)	**1.89**	1.35	40	1.20
Liquids ($/Bbl)	**18.22**	17.35	5	15.03

PRODUCTION

MBOE per day

■ Liquids ■ Gas



On a BOE basis, the Company's reserve replacement ratio was 1.7 in 1994 down from 3.6 in 1993.

Gross Revenue. Increased oil production volumes and a substantial increase in natural gas prices resulted in a 41 per cent increase in gross revenue before royalties from the petroleum and natural gas operations to $61.0 million in 1994 from $43.1 million in 1993.

Revenue Analysis	1994		1993		1992	
	($ thousands)	**%**	($ thousands)	%	($ thousands)	%
Crude oil and NGLs	**19,820**	**33**	12,984	30	735	3
Crude oil hedging	**834**	**1**	592	1	–	–
Natural gas	**35,120**	**58**	28,923	67	23,854	96
Natural gas hedging	**1,710**	**3**	(558)	(1)	–	–
Other	**3,475**	**5**	1,163	3	219	1
Gross revenue	**60,959**	**100**	43,104	100	24,808	100

Liquids production reached record levels, increasing 45 per cent from 2,144 barrels per day in 1993 to 3,105 barrels per day in 1994. The successful implementation of the waterflooding of the Sylvan Lake Pekisko "B" oil pool combined with an extensive drilling program at Sylvan Lake contributed to the production volume gains. Natural gas production decreased from 57.8 million cubic feet per day in 1993 to 53.5 million cubic feet per day in 1994. The decline resulted from minor property dispositions in northeastern British Columbia combined with production declines on existing properties and facility maintenance shutdowns. During 1994, the Company's proven reserve additions equaled 168 percent of production on a BOE basis. The Company defines its reserve replacement ratio as proven reserve additions adjusted for revisions and divided by production.

Natural gas prices averaged $1.89 per thousand cubic feet for 1994, up 40 per cent from $1.35 per thousand cubic feet for 1993. Gas prices quoted are determined net of all provincial transportation charges and in British Columbia, net of gathering and processing fees. Crude oil prices averaged $19.10 per barrel for 1994, up 5 per cent from the $18.20 per barrel received in 1993.

There was a general decline in average natural gas prices in 1994. In an effort to reduce the effect on the Company of the volatility of the prices received for petroleum and natural gas, the Company has entered, and expects to continue to enter, into petroleum and natural gas hedging transactions. The Company's hedging program is intended to stabilize cash flow and thus allow the Company to plan its capital expenditure program with greater certainty. Because all hedging transactions are tied directly to the Company's petroleum and natural gas production, Ocelot does not believe that such transactions are of a speculative nature. Total hedging gains for 1994 were $2.5 million compared to $nil in 1993.

The combination of a seven per cent increase in production volumes and a 29 per cent increase in product prices, both on a barrel equivalent basis (1 barrel of oil equals 10 Mcf of natural gas) contributed to the increase in revenue from petroleum and natural gas operations.

Royalties. Net royalties in 1994 increased by 50 per cent to $9.4 million from $6.3 million in 1993 primarily as a result of the increase in natural gas prices. As a percentage of gross revenue, royalty rates in 1994 averaged 15.5 per cent on a barrel of oil equivalent basis, 6 per cent higher than the 1993 rate of 14.6 per cent, due to a change in mix of production as Ocelot increased oil production at its Sylvan Lake area. Changes in the Alberta Royalty Tax Credit ("ARTC") program have had a minimal impact on the Company's average royalty rate.

Gas royalty rates increased to $0.31 per thousand cubic feet in 1994 from $0.22 per thousand cubic feet in 1993. An increase in crown royalties due to increased natural gas prices was the primary reason for the increase in gas royalty rates. Liquids royalty rates increased to $2.95 per barrel in 1994 from $2.20 per barrel in 1993. With a 45 per cent increase in liquids production in 1994, the ARTC impact on royalties declined.

Royalty Analysis	1994	1993	1992
Royalty expense, net ($000s)	9,442	6,307	3,229
Percentage of revenue	15.5	14.6	13.0
Liquids production ($/Bbl)	2.95	2.20	2.78
Gas production ($/Mcf)	0.31	0.22	0.16

Operating Expenses. Operating expenses, net of processing revenue increased 20 per cent to $6.4 million in 1994, compared to $5.3 million in 1993. This increase reflects the substantial increase in Ocelot's oil production volumes and the shift in Ocelot's production from 27 per cent liquids production in 1993 to 37 per cent liquids production in 1994. Oil and NGL production have higher unit operating costs than natural gas.

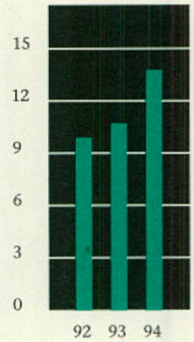
As a percentage of petroleum and natural gas revenue, operating costs decreased from 12.3 per cent in 1993 to 10.4 per cent in 1994. On a barrel equivalent basis, operating expenses increased 13 per cent to $2.06 from $1.83 in 1993. This increase per BOE was due to a combination of an increased proportion of liquids production and increased operating expenses associated with the Company's Sukunka area. Operating costs for liquids increased from $2.22 per barrel in 1993 to $2.56 per barrel in 1994. Natural gas operating expenses increased to $0.18 per thousand cubic feet in 1994 from $0.17 per thousand cubic feet in 1993.

Processing revenue increased in 1994 to $3.9 million from $3.8 million in 1993 due to the increased third party activity at the Company's Sylvan Lake gas plant offset somewhat by slightly lower throughput of third party gas at the Company's facilities in northeastern British Columbia.

Operating Expenses Analysis (thousands of dollars, except where noted)	1994	1993	1992
Operating expenses	10,267	9,072	5,782
Processing revenue	3,897	3,767	4,372
Net operating expenses	6,370	5,305	1,410
Percentage of revenue	10.4	12.3	5.7
Liquids production, net ($/Bbl)	2.56	2.22	1.53
Gas production, net ($/Mcf)	0.18	0.17	0.07

Ocelot's operating netback on a barrel of oil equivalent increased by 29 per cent to $13.49 in 1994 from $10.49 in 1993. Higher product prices were partially offset by increased royalties and operating expenses.

OPERATING NETBACKS
$/BOE



Operating Netback Analysis

	Liquids ($/Bbl)		Gas ($/Mcf)		$/BOE		
	1994	1993	1994	1993	1994	1993	1992
Revenue	17.49	16.58	1.80	1.37	17.80	14.49	11.96
Hedging	0.74	0.77	0.09	(0.02)	0.82	0.01	–
Royalties	(2.95)	(2.20)	(0.31)	(0.22)	(3.06)	(2.18)	(1.57)
Operating expenses	(2.70)	(2.39)	(0.37)	(0.34)	(3.33)	(3.14)	(2.83)
Processing revenue	0.14	0.17	0.19	0.17	1.26	1.31	2.14
Operating netback	12.72	12.93	1.40	0.96	13.49	10.49	9.70

General and Administrative Expenses. Ocelot's general and administrative expenses on a gross basis increased marginally by $0.2 million to $7.8 million in 1994. Expenses, net of recoveries and capitalized overhead, decreased 16 per cent to $2.5 million in 1994.

Recoveries increased 56 per cent to $2.7 million in 1994 from $1.7 million in 1993. Recoveries were higher in 1994 due to operatorship of the Sylvan Lake property for a full twelve month period and increased capital and operating activities. The costs of only that portion of the Company's activities directly associated with exploration and development activities are capitalized in accordance with industry practice. Capitalized overhead was $2.6 million in 1994, 10 per cent lower than the $2.9 million capitalized in 1993.

As a percentage of gross revenue, the general and administrative expenses charged to earnings declined from 7.0 per cent in 1993 to 4.2 per cent for the current year. On a barrel of oil equivalent basis, net expenses were $0.82 per barrel, a 22 per cent reduction from $1.04 in 1993.

General and Administrative Expenses Analysis

	Thousands of dollars			$/BOE		
	1994	1993	1992	1994	1993	1992
Total administrative expenses	7,831	7,664	7,263	2.54	2.64	3.53
Overhead recoveries	2,676	1,713	1,289	0.87	0.59	0.63
	5,155	5,951	5,974	1.67	2.05	2.90
Capitalized overhead	2,620	2,926	3,158	0.85	1.01	1.53
Net administrative expenses	2,535	3,025	2,816	0.82	1.04	1.37
Percentage of revenue	4.2	7.0	11.4			
Production per employee (MBOE)	51	51	35			
Cash flow per employee ($000s)	645	409	184			

Funds Generated From Operations. Ocelot's petroleum and natural gas operations continued to experience substantial growth in its 1994 cash flow. As shown in the following table, the Company's cash flow growth was primarily attributable to increased production volumes and attractively priced natural gas contracts.

Cash Flow Analysis

Cash Flow Changes – 1994 compared to 1993

(thousands of dollars)

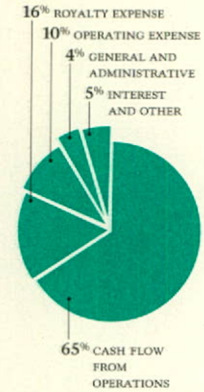
1993 segment cash flow	22,929
Increase in selling price of liquids	101
Increase in selling price of natural gas	9,423
Increase in production volumes of liquids	5,360
Decrease in production volumes of natural gas	(2,470)
Increase in operating expenses	(1,066)
Decrease in interest expense	2,312
Increase in other income	2,246
Decrease in general and administrative expenses	490
Decrease in current taxes	37
1994 segment cash flow	39,362

The Company's discretionary cash flow per equivalent barrel of oil increased by 72 per cent from $6.93 in 1993 to $11.91 in 1994.

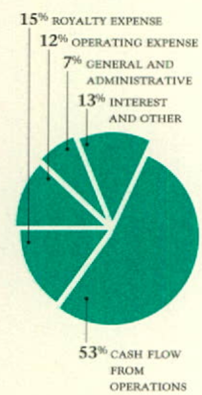
Netback Analysis	1994	1993	1992
(BOE @ 10:1)	$	$	$
Revenue	17.80	14.49	11.96
Hedging	0.82	0.01	–
Royalties, net	(3.06)	(2.18)	(1.57)
Operating expense	(3.33)	(3.14)	(2.83)
Processing revenue	1.26	1.31	2.14
Field level cash flow	13.49	10.49	9.70
Other income	1.13	0.40	0.01
General and administrative	(0.82)	(1.04)	(1.37)
Interest expense	(0.82)	(1.67)	(2.96)
Current taxes	(0.22)	(0.24)	(0.28)
Cash flow from segment operations	12.76	7.94	5.10
Capitalized overhead	(0.85)	(1.01)	(1.53)
Discretionary cash flow	11.91	6.93	3.57

ALLOCATION OF GROSS REVENUE

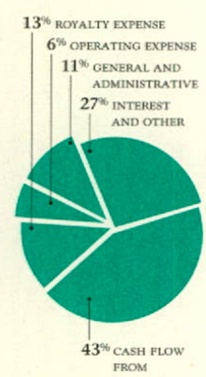
1994
$61.0 MILLION



1993
$43.1 MILLION



1992
$24.8 MILLION



Depletion and Depreciation Expense. The provision for depletion and depreciation increased 24 per cent to $13.6 million from $11.0 million in 1993. This increase reflects a seven per cent increase in production volumes as well as an increase in the depletion rate to $2.87 compared to $2.42 in the prior year. The 19 per cent increase in the depletion rate reflects the increased startup costs associated with building an exploration program, the results of which may not be fully realized with respect to reserve additions for several years. Depletion and depreciation is based on the Company's full cost accounting policy of converting gas to oil equivalent on the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. Annually, Ocelot reviews its facilities, wells and related leases and estimates the **abandonment and restoration cost** to restore them to their original state. Total liabilities for future site restoration at December 31, 1994 were estimated at $1.4 million, compared to $0.9 million at December 31, 1993. This increase is attributable to on-going operations with no material change in engineering estimates of costs, and regulations in effect at year-end.

The annual ceiling test calculation in accordance with full cost accounting determined that no writedown of the carrying value of petroleum and natural gas properties was required for 1994.

O.J. PIPELINES CORP.

Highlights	1994	1993	Per cent change 1994-1993	1992
(thousands of dollars)				
Pipeline revenue	53,062	132,063	(60)	73,425
Expenses	49,850	116,531	(57)	62,480
Depreciation	3,575	3,405	5	1,854

The Company's pipeline construction subsidiary, O. J. Pipelines Corp., is one of the major large-diameter (20 – 48 inch) pipeline construction companies operating in Canada. Large-diameter pipelines are used to transport petroleum and natural gas from central gathering points to markets.

O.J. Pipelines Corp. had revenue of $53.1 million in 1994 compared to $132.1 million in 1993. Lower activity throughout the large-diameter pipeline construction industry is the primary reason for this reduction. During the first quarter of 1994, O.J. Pipelines completed construction of a contract for Nova Corporation that commenced in November 1993. Despite record snowfalls and below normal temperatures, the 63 kilometers of 48-inch pipe and 35 kilometers of 42-inch pipe in the Edson area were installed on schedule and within budget. In the second quarter of the year, O.J. Pipelines completed clean-up work on TransCanada PipeLines' Spread-Y project in southern Ontario. Final clean up on both the TransCanada PipeLines' Spread-Y project and Nova's Edson project was concluded during the third quarter of 1994. In the third quarter of the year, O.J. Pipelines was awarded the Nova Corporation's Eastern Alberta System Mainline Loop, consisting of the construction of 55 kilometers of 48-inch natural gas pipeline in southern Alberta. Construction of this project was completed on schedule and within budget during the final quarter of 1994. These projects resulted in 1994 segment cash flow of $3.2 million compared to $15.5 million the previous year.

DISCONTINUED OPERATIONS

	Six Months Ended June 30, 1993	Year Ended 1992
(thousands of dollars)		
Revenue	25,206	38,671
Net loss from discontinued operations	(9)	(2,919)
Cash flow from discontinued operations	1,936	760

Effective July 1, 1993, Ocelot reorganized its petroleum industry services business by distributing to its shareholders the shares of a new company, Lynx Energy Services Corp. ("Lynx Corp"). This new company acquired the Canadian and United States contract drilling business units, the Canadian and United States oilfield equipment business units and the Canadian small-diameter pipeline construction business unit of the Company's wholly-owned subsidiary, Lynx Energy Services Inc. O.J. Pipelines, the Canadian large-diameter pipeline construction business, remained as a wholly-owned subsidiary of Ocelot. The shares of Lynx Corp. were distributed to Ocelot shareholders of record as of July 5, 1993, on the basis of one new Lynx Corp. share for every five shares of Ocelot. A summary of the financial position and results of discontinued operations is provided in the notes to the Consolidated Financial Statements of the Company.

The primary reason for the reorganization was to enhance shareholder value and provide shareholders with a focused means of participating in the oilfield service business.

LIQUIDITY AND CAPITAL RESOURCES

Funds Generated From Operations. Funds generated from operations for the year ended December 31, 1994 increased five per cent to $42.6 million from $40.4 million in 1993, due primarily to the increased cash flow in the petroleum and natural gas operations of the Company. On a per share basis, funds generated from operations decreased one per cent to $1.46 per share in 1994 compared to $1.47 per share in 1993. The per share numbers are based on a weighted average number of common shares outstanding for 1994 of 29.2 million, six per cent higher than the 27.5 million average for 1993.

Interest Expense. Interest expense was reduced from $7.7 million in 1993 to $6.4 million in 1994. The proceeds from the redemption of Ocelot's Redeemable Purchase Warrants reduced long-term bank indebtedness. Prime bank rates were marginally higher in 1994 than in 1993.

Income and Capital Taxes. Ocelot paid a total of $0.9 million of current taxes in 1994, which represented the Company's and its subsidiaries' obligations under the Large Corporation Tax and provincial capital taxes. These taxes are non-deductible and increase as the capital resources of the Company increase. The Company's deferred income taxes were $10.8 million in 1994 compared to $10.3 million in 1993. Ocelot's statutory income tax rate was 44.3 per cent however, the effective tax rate was 41.0 per cent in 1994 compared to 40.9 per cent in 1993.

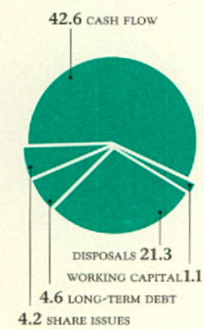
Net Earnings. Ocelot's net earnings for the year ended December 31, 1994 were $14.6 million or $0.50 per share, compared to $13.8 million or $0.50 per share in 1993. This increase is primarily attributable to significantly higher liquids production volumes combined with higher prices received for the Company's gas production.

Capital Expenditures. 1994 capital expenditures totalled $64.6 million compared to $85.0 million in 1993 (which included the Sylvan Lake acquisition of $52.5 million). Net capital expenditures, after deducting $21.3 million from the disposal of property interests, related facilities and pipeline construction equipment were $43.3 million. The major portion of the 1994 capital expenditure program was invested in exploration and development activity in the Company's major project areas in Alberta, British Columbia and Saskatchewan.

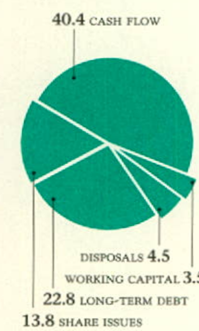
The Company financed its $64.6 million capital program in 1994 primarily with a combination of cash flow and proceeds received on the disposition of non-core assets.

SOURCE OF FUNDS

1994
$64.6 MILLION



1993
$85.0 MILLION



Capital Expenditures Analysis

(millions of dollars)	1994	1993	1992
Petroleum and natural gas			
Lease acquisition and retention	5.4	4.3	1.1
Geological and geophysical	4.6	3.5	1.4
Drilling and completion	26.0	10.6	3.7
Production equipment	20.5	4.0	1.4
Acquisition of producing properties	1.1	52.5	0.4
Capitalized general and administrative	2.6	2.9	3.2
	60.2	77.8	11.2
Office and other	0.6	0.5	0.9
Foreign expenditures	1.4	0.7	0.4
Pipeline construction	2.4	6.0	5.9
Total	64.6	85.0	18.4

The following table highlights the sources of funds for the previous 3 years.

Sources of Funds Analysis

	1994		1993		1992	
	($ millions)	%	($ millions)	%	($ millions)	%
Cash flow	42.6	66	40.4	47	22.6	123
Working capital	1.1	2	3.5	4	4.4	24
Long-term debt	(4.6)	(7)	22.8	28	(50.8)	(276)
Share issues	4.2	6	13.8	16	40.6	221
Disposals	21.3	33	4.5	5	1.6	8
Total	64.6	100	85.0	100	18.4	100

In 1994 the Company focused on exploration and development of its core areas and in 1995, Ocelot has planned an aggressive drilling program with approximately 93 (32.3 net) wells planned. Ocelot has established new prospects on new lands primarily through land sale purchases. Capital expenditures in 1995 are anticipated to be $54.3 million, funded mainly from cash flow.

Long-Term Debt. Long-term bank debt was $75.7 million at December 31, 1994 compared to $75.1 million the previous year. The Company's combined short-term and long-term obligations under capital leases were $3.8 million at December 31, 1994 compared to $10.2 million in 1993. The balance of these capital leases are scheduled to be retired by mid-1996.

In late 1993, Ocelot renegotiated its credit facilities with a syndicate of Canadian and international financial institutions and consolidated all facilities into one revolving term credit facility of $100 million. The facility is secured by a debenture creating a fixed charge on certain major proven, producing petroleum and natural gas assets of the Company and a floating charge on the remaining assets of the Company. The credit facility is on a revolving basis subject to annual review and extension and, at the Company's option, can be converted into a five year term loan.

Equity. In March 1994, Ocelot announced its intention to redeem its Redeemable Class B Share Purchase Warrants on a redemption date of April 1, 1994. Each Redeemable Warrant entitled the holder to purchase one Class B subordinate voting share of Ocelot at a price of $5.78. A total of 713,979 Class B shares were subsequently issued on the exercise of these Redeemable Warrants. All of the Redeemable Warrants have been exercised or repurchased by the Company.

Capitalization. The Company defines its capitalization as the aggregate of the book values of working capital, capital leases, long-term debt and deferred income taxes, plus the product of the Company's total shares outstanding and the quoted closing market price on the Toronto Stock Exchange. At December 31, 1994, Ocelot was primarily capitalized with capital stock, consistent with the Company's financial strategy of maintaining a strong capital base. The Company takes a conservative approach to debt financing but will utilize its financial strength to pursue attractive acquisition opportunities. Total capitalization at year-end 1994 was $392.7 million, consistent with the $392.2 million as at December 31, 1993. The primary changes between the fiscal periods were the $10.6 million increase in the Company's deferred tax position which was offset by the three per cent decrease in the quoted market price of the Company's Class B subordinate voting share from $10 1/8 to $9 7/8.

The following table summarizes Ocelot's capitalization at December 31, for the respective years:

Capitalization	1994		1993		1992	
	($ millions)	%	($ millions)	%	($ millions)	%
Working capital (surplus)	(0.8)	0	(2.0)	(1)	(5.1)	(2)
Capital leases	2.7	1	7.9	2	10.8	4
Long-term bank debt	75.7	19	75.1	19	49.0	19
Deferred income taxes	20.8	5	10.0	3	–	–
Capital stock at December 31 quoted market price	294.3	75	301.2	77	197.0	79
	392.7	100	392.2	100	251.7	100

At December 31, 1994, Ocelot's debt to book equity ratio was 0.67:1, down from 0.82:1 at the end of 1993. This decrease is attributable to the Company's financing its 1994 capital program through internal sources combined with an increase of $18.8 million in shareholders' equity.

Net Asset Value. The Company defines its net asset value as the aggregate of the values of its proven reserves, probable reserves, unproven acreage and seismic, O. J. Pipelines Corp. and working capital, less long-term bank debt and capital leases. The net asset value of the Company is estimated at $288.2 million or $9.80 per share as calculated effective January 1, 1995. The closing price of the Company's Class B subordinate voting shares on the Toronto Stock Exchange at year-end was $9 7/8 , representing a slight premium of one per cent over the net asset value.

The value of the Company's reserves is determined using the 15 per cent discounted pre-tax value of proven reserves and one-quarter of probable reserves as determined by McDaniel & Associates Consultants Ltd. ("McDaniel") effective January 1, 1995. Unproven acreage is as determined by McDaniel effective January 1, 1995. The market value of the seismic data base is estimated by Company personnel as at December 31, 1994. The value of O. J. Pipelines Corp. is calculated using the net book value at December 31. Working capital, long-term debt and capital leases are from the Company's audited consolidated financial statements at December 31.

The following table summarizes the net asset value of the Company as at December 31 for the years indicated:

Net Asset Value Analysis	1994	1993	1992
(millions of dollars, except share amounts)			
Proven reserves, discounted at 15 per cent before taxes	272.5	266.7	189.4
Probable reserves, discounted at 15 per cent before taxes	18.1	16.6	16.3
Unproven acreage and seismic	55.9	46.4	39.8
O.J. Pipelines Corp.	19.3	21.1	18.5
Working capital	0.8	2.0	5.1
Long-term bank debt	(75.7)	(75.1)	(49.0)
Capital leases	(2.7)	(7.9)	(10.8)
Net asset value	288.2	269.8	209.3
Shares outstanding (Class A & B)	29.4	28.6	26.4
Net asset value per share	$ 9.80	$ 9.43	$ 7.93

BUSINESS PROSPECTS

Management believes that the following significant factors will impact on the Company's financial performance and position in the ensuing years:

- The results of the Company's continuing optimization, development and exploration activities in the Sylvan Lake region.
- The results of the Company's exploration and development activities in the British Columbia Foothills area to continue to add reserves and deliverability.
- The effectiveness of O. J. Pipelines in obtaining and executing pipeline construction contracts.
- The effectiveness of the Company's exploratory activities in new project areas in western Canada to add to the Company's core property base.
- The ability of the Company to develop low cost, large scale energy production projects internationally.
- Prevailing commodity prices for the Company's products over the term of these projects.

For 1995, management has budgeted **crude oil prices** to average Cdn $18.85 per barrel based upon WTI of $18.00 per barrel and **natural gas prices** to average $1.73 per thousand cubic feet. To protect the Company against commodity price volatility, Ocelot has hedged approximately 34 per cent of its projected 1995 net crude oil production at an average price in excess of US$18.50 per barrel and approximately 25 per cent of its projected 1995 net natural gas production at an average price in excess of US$2.10 per Mcf. A further 25 per cent of Ocelot's natural gas production is sold under long-term, fixed price contracts with the remaining production sold under contract terms with variable pricing tied to Eastern Canada local distribution utility prices and monthly prices in the U.S. Rocky Mountain region, the Pacific Northwest region and NYMEX.

Currently, daily liquids production volumes are approximately 25 per cent higher than the 1994 annual average. Further increases are expected as waterflood implementation and drilling activity continues at Sylvan Lake, Alberta. Management expects that 1995 average natural gas production will be significantly higher than the 1994 average as a result of increased deliverability at Monkman in northeastern British Columbia.

Historically, the Company accepted drilling fund participation in its reserves. The Company's interest in the program wells and lands range from 10 per cent on a before payout basis to between 40 per cent and 80 per cent on an after payout basis, with payout determined on a program basis. The terms of the drilling fund financings are such that Ocelot will receive a relatively small revenue share before the drilling funds reach payout, and will convert to a significant share after payout. During 1994 payout occurred on two of the drilling funds while a third fund was acquired by

Ocelot. Payout on the remaining program is currently projected to occur in early 1997 and new funds are not being considered at this time.

For 1995, management projects that the total amount of available pipeline construction work will approximate 75 per cent of 1994 levels and gross revenue of O.J. Pipelines Corp. will be reduced accordingly. The ability of O.J. Pipelines Corp. to obtain construction contracts depends upon its ability to perform awarded contracts within estimated time and costs. Higher competition for available contracts is also expected to reduce gross margins and earnings.

Royalty rates for the Company are expected to average 21 per cent on a per barrel of oil equivalent basis, consistent with 1994 levels.

Operating expenses on a per barrel of oil equivalent basis are expected to increase marginally in 1995 due to increased activity levels related to liquids production. Overall operating expenses will increase due to the anticipated 50 per cent increase in production volumes.

General and administrative expenses are anticipated to remain stable in 1995 on a total basis, but are expected to decline on a per barrel of oil equivalent basis by about 24 per cent due to increased petroleum and natural gas production volumes.

Interest expense is anticipated to increase substantially in 1995 due to the higher cost of capital related to the recent increases in the Canadian banks' prime lending rate. The Bank of Canada, in support of the Canadian dollar, has increased its lending rate thereby increasing the prime lending rate available to Canadian companies. Somewhat offsetting this are the principal repayments being made on the Company's capital leases. These capital leases carry a high cost of capital compared to current prime interest rates. Average debt levels are anticipated to be marginally higher in 1995.

Depletion and depreciation expenses are anticipated to increase in 1995 due to higher production volumes. The Company does not expect the depletion rate to materially change from the 1994 level of $2.87 per barrel of oil equivalent.

The Company's effective corporate **income tax** rate is expected to increase marginally in 1995 due to higher activities in the petroleum and natural gas operations. As at December 31, 1994, property and equipment costs include $28.4 million not deductible by the Company for income tax purposes. The Company had approximately $136 million of tax pools remaining at January 1, 1995 and will add to the pools as a result of the 1995 capital expenditure program.

SENSITIVITIES

The Company's 1995 estimated cash flow sensitivities to fluctuations in oil and gas prices, production volumes and interest rates are as follows:

	Cash Flow	
	$ millions	$ per share
Change of Cdn. $1.00/Bbl in the price of crude oil	1.1	0.04
Change of $0.10/Mcf in the price of natural gas	2.2	0.07
Change of 100 Bbls/d in oil production	0.5	0.02
Change of 1 Mmcf/d in natural gas production	0.5	0.02
Change of 1 per cent in interest rates	0.5	0.02

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements of Ocelot Energy Inc. are the responsibility of management. The financial and operating information presented in this Annual Report is consistent with that shown in the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting policies disclosed in the notes to the financial statements. When necessary, management has made informed judgements and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with generally accepted accounting principles in Canada appropriate in the circumstances.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

An independent firm of Chartered Accountants, as appointed by the Shareholders, examines the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provides an independent professional opinion.

The Board of Directors carries out its responsibility for the financial reporting and internal controls principally through its audit committee, consisting solely of outside directors. This committee has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

W. David Lyons
President and Chief Executive Officer

Glenn D. Gradeen
Executive Vice President and
Chief Operating Officer

AUDITORS' REPORT

To the Shareholders of Ocelot Energy Inc.

We have audited the consolidated balance sheet of Ocelot Energy Inc. as at December 31, 1994 and 1993 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Calgary, Canada
February 10, 1995

Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at December 31 (thousands of Canadian dollars)	1994	1993
ASSETS	$	$
CURRENT ASSETS		
Cash	9,579	9,056
Accounts receivable	16,713	26,184
Inventories, at lower of cost and net realizable value	636	412
Prepaid expenses	1,204	735
	28,132	36,387
PROPERTY AND EQUIPMENT (Full cost) (Note 2)	216,046	189,048
OTHER ASSETS, at cost	678	934
	244,856	226,369
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	26,210	32,083
Current portion of obligations under capital leases	1,101	2,297
	27,311	34,380
OBLIGATIONS UNDER CAPITAL LEASES (Note 3)	2,745	7,888
LONG-TERM DEBT (Note 4)	75,651	75,083
DEFERRED INCOME TAXES	20,753	9,987
FUTURE SITE RESTORATION	1,405	851
	127,865	128,189
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5)	73,283	69,116
RETAINED EARNINGS	43,708	29,064
	116,991	98,180
COMMITMENTS AND CONTINGENCIES (Note 10)		
	244,856	226,369

Approved by the Board

W. David Lyons
Director

Gregor I. White
Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended December 31 (thousands of Canadian dollars)	1994	1993
REVENUE	$	$
Operating (Note 7)	104,579	168,860
EXPENSES		
Operating and administrative	54,770	121,737
Depletion and depreciation	17,164	14,367
Interest on long-term debt	5,105	5,500
Interest on obligations under capital leases	1,281	2,156
	78,320	143,760
EARNINGS FROM CONTINUING OPERATIONS BEFORE TAXES	26,259	25,100
Provision for taxes (Note 6)		
Large Corporations and capital taxes	849	1,005
Deferred income taxes	10,766	10,258
	11,615	11,263
EARNINGS FROM CONTINUING OPERATIONS	14,644	13,837
Loss from discontinued operations (Note 8)	–	9
NET EARNINGS	14,644	13,828
RETAINED EARNINGS, BEGINNING OF YEAR	29,064	15,236
RETAINED EARNINGS, END OF YEAR	43,708	29,064

PER SHARE (Note 11)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (thousands of Canadian dollars)	1994	1993
OPERATING ACTIVITIES	$	$
Earnings from continuing operations	14,644	13,837
Non-cash items		
Depletion and depreciation	17,164	14,367
Deferred income taxes	10,766	10,258
Other	–	(4)
Funds generated from operations		
Continuing	42,574	38,458
Discontinued	–	1,936
Funds generated from operations	42,574	40,394
Changes in non-cash working capital	1,709	6,341
Discontinued operations	–	4,539
	44,283	51,274
FINANCING ACTIVITIES		
Change in long-term debt	568	25,783
Change in obligations under capital leases	(5,143)	(2,995)
Capital stock	4,167	13,789
Other assets	(96)	(239)
Discontinued operations	–	(163)
	(504)	36,175
Cash available for investing activities	43,779	87,449
INVESTING ACTIVITIES		
Property and equipment		
– acquisitions	(64,554)	(85,019)
– disposals	21,298	4,512
Discontinued operations	–	(4,082)
	(43,256)	(84,589)
INCREASE IN CASH	523	2,860
CASH, BEGINNING OF YEAR	9,056	6,196
CASH, END OF YEAR	9,579	9,056

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands of Canadian dollars, except per share amounts)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Company, conform in all material respects with those in the United States, except as outlined in Note 12.

(a) Principle of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

(b) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs incurred for exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. All of the Company's operations and development of petroleum and natural gas reserves are incurred in Canada. Capitalized costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-producing property, the costs of drilling both productive and non-productive wells, related plant and production equipment costs and overhead charges directly related to exploration and development activities. Proceeds received on the sale of petroleum and natural gas properties are credited to the capitalized costs, except when such a disposal would alter the rate of depletion and depreciation by more than 20 per cent, in which case, a gain or loss on disposal is recorded.

Depletion of petroleum and natural gas properties and depreciation of production equipment are provided on the unit-of-production method based upon the estimated proven reserves before royalties, as estimated by independent reservoir engineers. Natural gas reserves and production are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil.

The carrying value of capitalized costs, net of deferred income taxes and accrued site restoration and abandonment costs, is limited to an amount equal to estimated future net revenues from proven reserves (based on prices and costs as at the balance sheet date) plus the cost of unproven properties, less estimated future administration and financing expenses and income taxes. Any costs carried on the balance sheet in excess of this ceiling test limit are charged to earnings.

The estimated costs for future site restoration and abandonment, net of expected recoveries, are provided on a unit-of-production basis and included in depletion and depreciation expense. These are based on engineering estimates of costs, and regulations in effect at year end.

Substantially all of the exploration and production activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

(c) Pipeline Construction 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 of pipeline construction assets is provided on methods and at rates which depreciate the cost, less any write-downs, of the assets over their estimated useful lives. The pipeline construction assets are depreciated on a straight-line basis at rates of 10 per cent to 25 per cent.

(d) Revenue Recognition

The revenues and expenses on construction contracts are recorded on the percentage of completion basis. Anticipated losses on uncompleted contracts are charged to earnings as soon as such losses can be estimated. Changes in estimated profits on contracts are recognized during the period in which changes in the estimates are made.

Petroleum and natural gas revenues are recognized based upon the sales method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PROPERTY AND EQUIPMENT

	1994			1993		
	Cost	Accumulated depletion and depreciation	Net	Cost	Accumulated depletion and depreciation	Net
	$	$	$	$	$	$
Petroleum and natural gas properties and related equipment	228,487	31,820	196,667	187,103	19,137	167,966
Pipeline construction	25,482	6,103	19,379	25,180	4,098	21,082
	253,969	37,923	216,046	212,283	23,235	189,048

The Company does not include unevaluated properties in costs subject to depletion until such time as it is determined whether proven reserves are attributable to the properties or impairment has occurred. As at December 31, 1994, such costs totalled $ 10.9 million (1993 – $8.3 million).

The average depletion rate per equivalent barrel of oil production was $2.87 (1993 – $2.42).

During the year, the Company capitalized $2.6 million (1993 – $2.9 million) of overhead costs related to exploration and development activities.

3. OBLIGATIONS UNDER CAPITAL LEASES

Certain wellsite and gas gathering and processing facilities, having costs in the aggregate of $8.3 million ($16.0 million at December 31, 1993) and accumulated depreciation of $2.7 million ($2.4 million at December 31, 1993), are leased under capital leases and are included in petroleum and natural gas properties. Pursuant to the individual lease agreements, the Company has the option to purchase such facilities. The applicable interest rates range from 17.2 per cent to 17.7 per cent.

The annual future minimum lease payments under these capital leases are as follows:

	$
1995	1,676
1996	2,983
Total	4,659
Less: imputed interest	813
Present value of minimum lease payments	3,846
Less: Current portion	1,101
	2,745

4. LONG-TERM DEBT

	1994	1993
	$	$
Revolving term loan	75,651	75,083

The long-term debt is comprised of a $100 million revolving term credit facility of which at December 31, 1994, $75.7 million has been drawn down. Of this credit facility, $25.7 million bears interest at a Canadian Chartered Bank's prime rate and $50 million at Bankers' Acceptance rates plus stamping fees. The credit facility is secured by a debenture creating a fixed charge on the major proven producing properties and a floating charge on all of the Company's assets. The credit facility is on a revolving basis subject to an annual review and extension and, at the Company's option, can be converted into a five year term loan.

The Company has entered into interest rate swap contracts, whereby it has fixed the interest rate on a total of $20 million (1993–Nil) of notional principal against the floating interest rate position assumed by a Canadian Chartered Bank, which rate is based on the current Bankers' Acceptance rates for 90 days. The effective interest rates for equal amounts of Bankers' Acceptances, have been fixed with interest rates of 7.62% and 8.14%, which mature on March 31, 1997 and March 30, 1999, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. CAPITAL STOCK

(a) Authorized

Unlimited First Preferred shares with no par value;
Unlimited Second Preferred Shares with no par value;
Unlimited Class A common shares with no par value;
Unlimited Class B subordinate voting shares with no par value.

(b) The Class A and Class B shares rank equally except that each Class A share carries twenty votes and each Class B share carries one vote. The Class A shares are convertible at the option of the holder at any time into Class B shares on a one-for-one basis. The Class B shares are convertible into Class A shares on a one-for-one basis in the event a takeover bid is made to purchase Class A shares which must, by reason of a stock exchange or legal requirements, be made to all or substantially all of the holders of Class A shares and which is not concurrently made to holders of Class B shares. The declaration of dividends on all issued and outstanding shares in excess of $5 million per year is subject to the approval of the Company's principal banker.

(c) Changes in the capital stock of the Company were as follows:

	Number of Shares		Consideration	
	Class A	Class B	Class A	Class B
			$	$
Balance, December 31, 1992	1,756	24,650	7,129	80,974
Issued on exercise of stock options	–	439	–	2,092
Issued on exercise of Redeemable Purchase Warrants	–	1,770	–	13,253
Issued on exercise of Share Purchase Warrants	–	49	–	355
Cancelled pursuant to normal course issuer bid	–	(76)	–	(880)
Distribution pursuant to Plan of Arrangement (Note 8)	–	–	(2,096)	(32,076)
Balance, December 31, 1993	1,756	26,832	5,033	63,718
Issued on exercise of stock options	–	194	–	815
Issued on exercise of Redeemable Purchase Warrants	–	714	–	4,487
Issued on exercise of Share Purchase Warrants	–	15	–	94
Issued under private placement agreement	–	52	–	572
Cancelled pursuant to normal course issuer bid	–	(135)	–	(1,436)
Balance, December 31, 1994	**1,756**	**27,672**	**5,033**	**68,250**

	Number of Warrants	Consideration
		$
Balance, December 31, 1992	2,563	1,397
Exercise of Redeemable Purchase Warrants	(1,770)	(885)
Exercise of Share Purchase Warrants	(49)	(113)
Cancelled pursuant to normal course issuer bid	(15)	(34)
Balance, December 31, 1993	729	365
Exercise of Redeemable Purchase Warrants	(714)	(332)
Exercise of Share Purchase Warrants	(15)	(33)
Balance, December 31, 1994	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. CAPITAL STOCK (CONTINUED)

(d) At December 31, 1994, 1,707,459 Class B shares were reserved for exercise of directors and employee stock options. These options are exercisable at prices ranging from $3.14 to $12.25 per share at various dates to February 2000. An additional 949,618 Class B shares were reserved at December 31, 1994, for future options which may be granted by the Company.

Balance, December 31, 1992	1,093
Granted	1,300
Exercised	(439)
Cancelled	(60)
Balance, December 31, 1993	1,894
Granted	20
Exercised	(194)
Cancelled	(12)
Balance, December 31, 1994	**1,708**

6. INCOME AND OTHER TAXES

(a) The provision for deferred income tax expense differs from the amounts which would be obtained by applying the combined Canadian federal and provincial income tax rate to the earnings from continuing operations before taxes. These differences result from the following:

	1994	1993
Corporate income tax rate	44.3%	44.3%
	$	$
Computed income tax	11,633	11,119
Non-deductible crown payments, net	3,133	2,024
Resource allowance	(5,280)	(3,975)
Non-deductible depletion	1,284	874
Other	(4)	216
Deferred income taxes	10,766	10,258
Current taxes are represented by:		
Large Corporations Tax	529	438
Provincial capital taxes	320	567
	849	1,005

(b) At December 31, 1994, property and equipment costs include $28.4 million (1993 – $31.1 million) of costs which are not deductible by the Company for income tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENTED INFORMATION

The Company's operations are conducted through two business segments. These segments are petroleum and natural gas operations and the construction of large-diameter pipelines.

Presented below are data relative to each business segment.

	1994			1993		
Business Segments	**Petroleum and natural gas**	**Pipeline construction**	**Total**	Petroleum and natural gas	Pipeline construction	Total
	$	$	$	$	$	$
Revenue	51,517(i)	53,062	104,579	36,797(i)	132,063	168,860
Expenses	12,155	49,850	62,005	13,867	116,531	130,398
Depletion and depreciation	13,589	3,575	17,164	10,962	3,405	14,367
Net segment earnings	25,773	(363)	25,410	11,968	12,127	24,095
Deferred income taxes			10,766			10,258
Loss from discontinued operations			–			9
Net earnings			14,644			13,828
Total assets	211,861	32,995	244,856	183,832	42,537	226,369
Capital expenditures	62,139	2,415	64,554	78,975	6,044	85,019

(i) For the year ended December 31, 1994 petroleum and natural gas revenue is net of royalties of $9.4 million (1993 – $6.3 million).

8. DISCONTINUED OPERATIONS

Effective July 1, 1993 the Company reorganized its petroleum industry services business by distributing to its shareholders the shares of a new company, Lynx Energy Services Corp. ("Lynx Corp."), which acquired the Canadian and United States contract drilling business units, the Canadian and United States oilfield equipment business units and the Canadian small-diameter pipeline construction business unit of the Company's wholly-owned subsidiary, Lynx Energy Services Inc. ("Lynx"). The shares of Lynx Corp. were distributed to the Company's shareholders of record as of July 5, 1993, on the basis of one new Lynx Corp. share for every five shares of the Company. O.J. Pipelines, the Canadian large-diameter pipeline construction business unit of Lynx, remained after the reorganization as the only business unit of Lynx, which remained as a wholly-owned subsidiary of the Company. Subsequent to the reorganization, Lynx changed its corporate name to O.J. Pipelines Corp.

The following summary presents the results of discontinued operations:

	1993
	$
Revenue	25,206
Operating expenses	23,322
Depreciation	2,074
Interest expense	8
Other income	(189)
	25,215
Loss for the year	(9)

9. PENSION PLAN

The Company has a non-contributory pension plan covering substantially all permanent, full-time employees. The plan provides a defined benefit pension at retirement based on employees' earnings and length of service.

Pension costs are actuarially computed on an annual basis and take into consideration management's best estimate assumptions. At December 31, 1994, it is estimated that the present value of accrued pension benefits amounted to

9. PENSION PLAN (CONTINUED)

approximately $3.4 million (1993 – $2.9 million). At December 31, 1994, the market value of the net assets of the pension plan amounted to $3.7 million (1993 – $3.4 million). Any surplus or deficiency in the pension plan is amortized over the expected average remaining service life of the employees.

10. COMMITMENTS AND CONTINGENCIES

(a) An action has been commenced against the Company claiming various breaches, fiduciary relationship and unjust enrichment pursuant to certain royalty and assignment agreements. The plaintiff has claimed certain declarations as to entitlement to certain royalties and the manner of calculation thereof, judgement for royalty payments in amounts to be determined pursuant to such calculations, additional damages of $1.0 million and interest. The ultimate outcome of this legal proceeding is not predictable at this time and therefore management cannot reasonably make an estimate of the possible loss at this time.

(b) O.J. Pipelines Corp. and a Superintendent have been charged under the Environmental Protection Act and the Water Resources Act of Ontario. The charges relate to the discharge of sediment into certain rivers and lakes in Ontario, during a pipeline construction project in 1991. If convicted, O.J. Pipelines Corp. is subject to fines of up to varying maximum amounts under each Act for each day on which an offense occurred. The Ontario Ministry of Environment has not yet indicated the amount of fines being sought, in the event of a conviction. The Company believes that the charges are without merit and the charges are being defended.

(c) Future minimum lease payments under operating leases relating primarily to office space and equipment are as follows: 1995 – $0.7 million; 1996 – $0.4 million; 1997 – $0.4 million; 1998 – $0.4 million; and 1999 – $0.4 million.

11. PER SHARE

Per share information provided is based upon the total of the Class A and Class B shares:

	1994	1993
Weighted average shares outstanding		
Basic	29,206	27,514
Fully diluted	30,913	30,138
Net earnings per share		
Basic		
– continuing operations	$ 0.50	$ 0.50
– discontinued operations	–	–
Fully diluted		
– continuing operations	$ 0.49	$ 0.46
– discontinued operations	–	–

Fully diluted earnings per share has been calculated with the assumption that all stock options, warrants and Redeemable Purchase Warrants had been converted or exercised at the beginning of the year, or on the date of issue if issued during the year.

12. THE EFFECT OF APPLYING ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES TO THE FINANCIAL STATEMENTS

The Company follows Canadian generally accepted accounting principles which are different in some respects from those applicable in the United States and from practices prescribed by the United States Securities and Exchange Commission.

There is no material effect on reported net earnings, earnings per common share and total shareholders' equity of differences between generally accepted accounting principles in Canada and the United States.

The Financial Accounting Standards Board Statement of Financial Accounting Standards SFAS 109, Accounting for Income Taxes, was adopted by the Company for United States generally accepted accounting principles reporting purposes, effective January 1, 1993. The adoption of SFAS 109 had the effect of increasing, as at December 31, 1994, the property and equipment and deferred income taxes balances by $12.6 million ($13.9 million as at December 31, 1993) to remeasure prior business combinations.

The statement of cash flows is in conformity with International Accounting Standard 7 and reconciliation to United States generally accepted accounting principles is therefore not required.

SUPPLEMENTAL INFORMATION

OIL AND GAS INFORMATION (UNAUDITED)

The following unaudited supplementary information is disclosed in accordance with the provisions of SFAS 69, "Disclosures About Oil and Gas Producing Activities".

Results of Operations for Producing Activities

The results of operations for oil and gas producing activities are summarized in the following table:

	1994	1993
	$	$
Revenues	51,517	36,797
Production expenses	(8,905)	(8,330)
Depletion and depreciation	(13,589)	(10,962)
	29,023	17,505
Income tax expense	(12,857)	(7,551)
Results of operations	16,166	9,954

Capitalized Costs

Capitalized costs at December 31, related to the Company's oil and gas properties and related accumulated depletion and depreciation are as follows:

	1994	1993
	$	$
Proven properties	160,242	141,615
Unproven properties	10,912	8,268
Production equipment	47,143	19,851
Property under capital leases	8,307	15,997
	226,604	185,731
Accumulated depletion and depreciation	(32,344)	(18,755)
Net capitalized costs	194,260	166,976

Costs Incurred

The following costs were incurred in oil and gas producing properties

	1994	1993
	$	$
Property acquisitions – unproven	2,644	3,468
Property acquisitions – proven	1,072	52,500
Exploration	13,523	6,093
Development	44,387	16,640
Total	61,626	78,701

SUPPLEMENTAL INFORMATION

Reserve Quantities

The following table presents the estimated quantities of proven reserves of crude oil, natural gas liquids and natural gas, using constant prices on an after royalty basis as prepared by independent petroleum consultants. Proven reserves are the estimated quantities which geological and engineering data demonstrates with reasonable certainty to be recoverable in future years from known reservoirs under economic and operating conditions existing at the date of the estimate. The Company cautions that there are many uncertainties inherent in estimating proven reserve quantities and in projecting future production rates and the timing of development expenditures. In addition, estimates of new discoveries are more imprecise than those of properties with an established production history. Accordingly, these estimates are expected to change in the future as additional information becomes available.

	Crude Oil and NGLs	Gas
	MBbls	Bcf
Total proven reserves		
Reserves at January 1, 1993	338	328
Increase (decrease) in 1993 due to		
Acquisitions and dispositions	8,479	29
Revisions of previous estimates	(18)	(20)
Extensions and discoveries	132	4
Production	(606)	(17)
Reserves at January 1, 1994	8,325	324
Increase (decrease) in 1994 due to		
Acquisitions and dispositions	(211)	(21)
Revisions of previous estimates	(976)	(29)
Extensions and discoveries	3,150	44
Production	(874)	(16)
Reserves at January 1, 1995	**9,414**	**302**
Proven developed reserves:		
January 1, 1993	331	166
January 1, 1994	8,210	187
January 1, 1995	8,684	141

Standard Measure of Discounted Future Net Cash Flow and Changes Therein Relating to Proven Oil and Gas Reserves

The Standardized Measure of Discounted Future Net Cash Flow is determined in accordance with SFAS 69. Other assumptions could be used in this computation producing substantially different results. The standardized measure information is not representative of the fair market value of the Company's proven oil and gas reserves. The Company cautions readers that actual future net cash flow may vary dramatically from these estimates.

Future cash inflow is calculated by applying year end prices to estimated future production of net proven oil and gas reserve quantities. Price escalations are considered only to the extent provided by existing contractual arrangements. Future development and production costs represent estimated expenditures to develop and produce proven reserves based on year end costs. Future income tax expense is computed by applying the statutory tax rates at year end with consideration of future tax rates specified by existing statutes, to the future net cash flow adjusted for the remaining tax basis of the properties, permanent differences and tax credits. The resulting future net revenues are reduced to present value at the required 10 per cent discount rate.

SUPPLEMENTAL INFORMATION

Standardized Measure of Discounted Future Net Cash Flow and Changes Therein Relating to Proven Oil and Gas Reserves at December 31:

	1994	1993
	$	$
Future cash flow (net of royalty costs)	694,254	810,138
Future production and development costs	(302,936)	(364,441)
Future income tax expenses	(94,567)	(120,765)
Future net cash flow	296,751	324,932
10% annual discount for estimated timing of cash flow	(126,106)	(153,357)
Standardized measure of discounted future net cash flow	170,645	171,575

The following are the principal sources of change in the standardized measure of discounted future net cash flow:

	1994	1993
	$	$
Sales of oil and gas produced, net of royalties and production costs	(42,613)	(28,738)
Net changes in prices, royalty rates, production and development costs	(12,071)	84,948
Purchase of reserves in place	599	50,734
Disposition of reserves in place	(1,263)	(1,128)
Extensions and discoveries, less related costs	44,464	3,214
Revisions of previous quantity estimates	(23,185)	(5,761)
Accretion of discount	23,367	11,854
Net change in income taxes	9,772	(39,190)
Change in standardized measure of discounted future net cash flow	(930)	75,933
Beginning of year	171,575	95,642
End of year	170,645	171,575

COMPARATIVE REVIEW

Financial	1994	1993	1992	1991*
(thousands of dollars, except share amounts)				
Revenue	104,579	168,860	95,004	46,753
Cash flow from operations	42,574	40,394	22,607	16,355
– per share	1.46	1.47	0.95	0.98
Net earnings	14,644	13,828	4,745	10,491
– per share	0.50	0.50	0.20	0.63
Capital expenditures	64,554	85,019	18,449	6,148
Total assets	244,856	226,369	188,430	191,187
Long-term bank debt	75,651	75,083	48,996	97,785
Shareholders' equity	116,991	98,180	104,736	57,263
Operating				
Production				
Crude oil and NGLs (Bbls/d)	3,105	2,144	134	145
Natural gas (Mmcf/d)	53.5	57.8	54.5	53.9
Price				
Crude oil and NGLs ($/Bbl)	18.22	17.35	15.03	17.24
Natural gas ($/Mcf)	1.89	1.35	1.20	1.26
Reserves (proven and probable)				
Crude oil and NGLs (Mbbls)	16,365	10,542	528	375
Natural gas (Bcf)	418.4	478.9	508.0	508.0
Wells drilled, gross				
Oil	24	7	–	–
Gas	48	100	97	82
Service	–	1	–	–
Dry and abandoned	4	2	2	–
	76	110	99	82

Shares traded (thousands) – Toronto Stock Exchange		1994	1993	1992	1991*
Class A		8	9	18	302
Class B		10,446	20,880	11,036	2,501
Share price ($) – Toronto Stock Exchange					
Class A	High	15	21 1/2	14	4.50
	Low	12	10 3/4	4.70	3.60
	Close	12	15	11 3/8	4.30
Class B	High	13 1/2	15 5/8	7 1/4	4.50
	Low	8 7/8	6 3/4	3.80	2.90
	Close	9 7/8	10 1/8	7	3.95
Number of shares – (Class A and Class B – thousands)					
Weighted average outstanding		29,206	27,514	23,787	16,739
Fully diluted		30,913	31,211	30,062	20,268
Year end outstanding		29,427	28,588	26,406	19,160

*From September 23, 1991 (commencement of active operations) to December 31, 1991.

Ocelot Energy's Class B subordinate voting shares are listed for trading on the American, Toronto, Montreal and Alberta stock exchanges under the symbol OCE.B. Ocelot Energy's Class A common shares are listed for trading on the Toronto, Montreal and Alberta stock exchanges under the symbol OCE.A.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Douglas A. Cutts
President
Lynx Energy Services Corp.
Calgary, Alberta

W.K. Detlefsen*
Corporate Director
Pender Island, British Columbia

Glenn D. Gradeen
Executive Vice President and
Chief Operating Officer
Ocelot Energy Inc.
Calgary, Alberta

W. David Lyons
President and
Chief Executive Officer
Ocelot Energy Inc.
Calgary, Alberta

Robert C. Muir
Lawyer
Calgary, Alberta

Frank G. Vetsch*
President, Quantex Resources Ltd.
Calgary, Alberta

Gregor I. White*
President
White Minerals Ltd.
Calgary, Alberta

* Audit Committee Member

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CORPORATE HEAD OFFICE

Until April 24, 1995 the address is:
Ocelot Energy Inc.
Suite 3300, Bow Valley Square II
205 – 5th Avenue S.W.
Calgary, Alberta T2P 2V7
Telephone: (403) 299-5700
Facsimile: (403) 299-5750

After April 24, 1995 the address is:
Ocelot Energy Inc.
30th Floor, West Tower
Petro-Canada Centre
150 - 6th Avenue S.W.
Calgary, Alberta T2P 3Y7
Telephone: (403) 299-5700
Facsimile: (403) 299-5750

SUBSIDIARY

O.J. Pipelines Corp.
Box 169, 1409 – 4th Street
Nisku, Alberta T0C 2G0
Telephone: (403) 955-3900
John M. Rypien
President

BANKERS

Bank of Montreal
Calgary, Alberta

Credit Lyonnais Canada
Calgary, Alberta

ABN AMRO Bank Canada
Vancouver, British Columbia

ENGINEERING CONSULTANT

McDaniel & Associates
Consultants Ltd.
Calgary, Alberta

AUDITORS

KPMG Peat Marwick Thorne
Chartered Accountants
Calgary, Alberta

TRANSFER AGENTS AND REGISTRARS

The R-M Trust Company at offices in Toronto, Montreal and Calgary

Chemical Mellon Shareholder Services at offices in New York

METRIC CONVERSION

To Convert From	To	Divide By
Thousand cubic feet	Thousand cubic meters	35.49
Barrels	Cubic meters	6.29
Feet	Meters	3.28
Miles	Kilometers	0.62
Acres	Hectares	2.50

ABBREVIATIONS

Bbls	Barrels
Bbls/d	Barrels per day
Bcf	Billions of cubic feet
BOE	Barrels of oil equivalent (10 Mcf = 1 Barrel)
MBbls	Thousands of barrels
MmBbls	Millions of barrels
MBbls/d	Thousands of barrels per day
Mcf	Thousands of cubic feet
Mcf/d	Thousands of cubic feet per day
MLT	Thousands of long tons
MmBOE	Millions of barrels of oil equivalent
Mmcf	Millions of cubic feet
Mmcf/d	Millions of cubic feet per day
NGLs	Natural gas liquids

OFFICERS

Norman E. Hall
General Counsel and
Corporate Secretary

Ivor J. Bond
Vice President
Exploration & Land

Michael D. Heule
Vice President
Marketing

W. David Lyons
President and
Chief Executive Officer

Glenn D. Gradeen
Executive Vice President
and Chief Operating Officer

Donald E.A. MacPhail
Vice President
Ocelot International Inc.

John M. Rypien
President
O.J. Pipelines Corp.

OCELOT ENERGY

Ocelot Energy Inc.
30th Floor, West Tower
Petro-Canada Centre
150 - 6th Avenue S.W.
Calgary, Alberta T2P 3Y7
(403) 299-5700