# OCELOT ENERGY

## 1993
## ANNUAL REPORT

ADVANCING *The* GAME PLAN

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. Ocelot also provides contract services to Canada's energy industry through the ownership of one of Canada's leading large-diameter pipeline construction companies.

## Contents





### Cover Illustration

To visually portray Ocelot Energy, the company commissioned a group of five paintings by Calgary illustrator and artist Mike Kerr. Drawing on the metaphor of a chess game, these paintings are displayed on the cover and inside pages of the 1993 Annual Report.

In the cover illustration, the power of vision, capital and team skills come together in the exploration, production and marketing of oil and natural gas.

### Annual Meeting

The Annual General and Special Meeting of the shareholders of Ocelot Energy Inc. will be held in the Belair Room of the Westin Hotel in Calgary, Alberta on Wednesday, May 11, 1994 at 10:00 a.m. MDT.


The 1993 Ocelot Energy Inc. Annual Report is printed on Vintage Remarque Velvet 100 lb cover/100 lb text, 70 lb Beckett Cambric text and 70 lb Wausau Royal Linen text. All papers have a minimum of 50% recycled fibers with 10% post consumer waste. The Rycoline soya-based process inks used in printing this report are called NU-TECH PLUS. They are low in Volatile Organic Compounds (VOCs) with an average of 10.5% or less. The varnishes are also vegetable based and meet similar standards.

1993

# Highlights

## Financial

*(thousands of dollars except where noted)*

| | 1993 | 1992 |
|---|---|---|
| Revenue | **168,860** | 95,004 |
| Net earnings | **13,828** | 4,745 |
| Net earnings per share *(in dollars)* | **0.50** | 0.20 |
| Cash flow from operations | **40,394** | 22,607 |
| Cash flow per share *(in dollars)* | **1.47** | 0.95 |
| Capital expenditures | **85,019** | 18,449 |
| Working capital | **2,007** | 5,080 |
| Long-term debt | **75,083** | 48,996 |
| Obligations under capital leases *(long-term)* | **7,888** | 10,778 |

## Operations

| | 1993 | 1992 |
|---|---|---|
| Natural gas production *(Mmcf/d)* | **57.8** | 54.5 |
| Proven and probable natural gas reserves *(Bcf)* | **479** | 508 |
| Proven natural gas reserves *(Bcf)* | **383** | 406 |
| Crude oil and NGL production *(Bbls/d)* | **2,144** | 134 |
| Proven and probable oil & NGL reserves *(MBbls)* | **10,542** | 528 |
| Proven oil & NGL reserves *(MBbls)* | **9,921** | 474 |

### 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% |

### 1992 Proven Reserves

(MmBOE)

| | | |
|---|---|---|
| SW Saskatchewan | 25.2 | 61% |
| B.C. Foothills | 10.2 | 25% |
| B.C. Plains | 3.7 | 9% |
| Other | 2.0 | 5% |
| Total | 41.1 | 100% |

Refer to page 50 for information on common abbreviations used in expressing oil and gas volumes.

## SECURING *Sustained* GROWTH

*Ocelot takes an integrated approach to corporate growth and the creation of long-term value. The utilization of the full range of available resources is central to Ocelot achieving its goals.*

President's

# Letter

to the Shareholders

During 1993 the Ocelot team successfully advanced the company's game plan. Major additions were made to reserves and production, cash flow increased dramatically, an expanded exploration land position was assembled and our international projects matured considerably. In pursuing this game plan, Ocelot continues to balance activities aimed at short term cash flow generation with sustained long term growth initiatives.

**David Lyons**
**President and Chief Executive Officer**

## Financial Strength

Cash flow from operations in 1993 rose to $40.4 million, up 79 per cent from 1992 cash flow of $22.6 million. On a per share basis, cash flow was up 55 per cent, rising from $0.95 in 1992 to $1.47 in 1993. This strong financial performance enabled Ocelot to undertake an $85.0 million capital expenditure program during the year while maintaining balance sheet integrity.

## Sylvan Lake Acquisition

The largest single capital expenditure of 1993 was the acquisition, for $52.5 million, of a large producing oil and gas property near Sylvan Lake in central Alberta. Over the course of 1993, a dedicated team of field and head office personnel worked diligently to successfully optimize production and integrate this operation within the company.

Proven oil and natural gas liquids (NGLs) reserves at Sylvan Lake are 9.5 million barrels, up from 5.0 million barrels at the time of the acquisition. By December 1993, Ocelot's Sylvan Lake production capacity was over 2,300 barrels of oil and NGLs per day, up from 2,000 barrels of oil and NGLs per day at the time of the acquisition.

An extensive development and exploration drilling program together with the installation of a waterflood is budgeted for 1994. These are expected to contribute significantly to the growth in Ocelot's oil production through 1994 to an anticipated year end rate of over 4,000 barrels of oil per day.

## Focus on Core Properties

In its drive to build Ocelot into a senior independent oil and gas producer, the company is focusing on the development of a limited number of core assets. Three major initiatives were successfully undertaken during the year in pursuit of this goal.

The first was the previously described acquisition of the large optimizable producing oil and gas property at Sylvan Lake.

The second was the rebuilding of a strong land position in Alberta to allow Ocelot to pursue its grass roots exploration programs.

The third initiative was the development of selected international projects which should enable Ocelot to maintain growth momentum through the development of low cost, long life reserves during the remainder of this decade.

To further sharpen the focus of the company's efforts, Ocelot sold certain assets which did not meet the core area criteria. The Lapp property in northeastern British Columbia was sold and the company also distributed certain Lynx Energy Services assets to Ocelot shareholders and provided for the creation of a separate public company to own and manage these assets. Cactus Drilling, Cardinal Drilling Company, Lynx Tool Company and South Eastern Pipeline Construction were spun out into the new Lynx Energy Services Corp., which became a separate public company on July 1, 1993. O.J. Pipelines, which was originally part of the Lynx group of companies, remains a subsidiary of Ocelot Energy and makes an important contribution to the company's cash flow and earnings.

## Commitment to B.C. Foothills

Ocelot continues to pursue a vigorous program of exploration and development in the B.C. Foothills as part of a multi-year commitment within this exceptional area. The B.C. Foothills property is a key component in Ocelot's long term growth strategy. It has the potential to contribute very large reserve additions for many years to come. While the company participated in the drilling of one well in the Foothills in 1993, Ocelot expects 1994 to be a very busy year. The company is planning to participate in the drilling of six wells in the area during 1994 and in three to five wells per year for at least the next three years.

## International Projects

In Tanzania, Ocelot is part of a joint venture, along with TransCanada PipeLines Limited, which is negotiating with the government of Tanzania on the construction and operation of gas production facilities, onshore and offshore pipelines and an electrical power generating plant. If negotiations proceed on schedule, the joint venture expects to finance the project in 1994 for construction in 1995.

Ocelot has also been evaluating other international development projects. During 1993, attractive projects were examined in the central Asian republic of Turkmenistan. The proven reserves of both oil and gas in that country are very substantial and the government policy is favorable to foreign investment. It is Ocelot's intention to form strategic alliances to allow the company to fully participate in opportunities such as those available in central Asia.

## Teamwork Within Ocelot

Ocelot's strategies to assure sustained quality growth for the organization are being advanced by an exceptional employee team. Ocelot is fortunate to be able to rely on the expertise, technical skills and dedicated efforts of both field and head office staff. The shareholders continue to benefit from the leadership and direction provided by an experienced Board of Directors.

## A Transition Year

1993 marks a transition point in Ocelot's rebuilding process. From this point on, most of the company's cash flow and earnings will come from oil and gas production. With long life reserves and an increasingly mature prospecting plan for continuing high quality growth, Ocelot's goal is to grow into a senior independent producer by the end of 1995 with gas equivalent production of 150 million cubic feet per day.

## 1994 Goal

Ocelot's goal for 1994 is to advance steadily toward our 1995 low cost deliverability targets while maintaining a solid financial balance sheet. 1994 oil and natural gas liquids production is expected to average approximately 3,200 barrels per day and natural gas production is expected to average over 60 million cubic feet per day.

The company's game plan is on track and will be vigorously advanced by a team of employees who are dedicated to creating long term value for all of the company's stakeholders.

W. David Lyons
President and Chief Executive Officer
March 24, 1994

# CORE ASSETS

*Ocelot is focusing attention on a limited number of core producing properties which provide solid cash flow and quality opportunities for short, medium and long-term growth.*

Corporate

# Profile

## ADVANCING *the* GAME PLAN

*At the heart of Ocelot Energy's game plan is the company's commitment to be a high volume, low cost finder, producer and marketer of oil and natural gas.*

To achieve its goals, Ocelot is focusing attention on the exploration and development of carefully selected core properties. At the beginning of 1994, Ocelot had four core producing properties in three western Canadian provinces — the British Columbia Foothills, the British Columbia Plains, central Alberta and southwestern Saskatchewan. By the end of 1995, the company plans to have identified and begun production within two additional core producing properties situated in Alberta.

By adding quality oil and gas reserves and production, Ocelot intends to achieve its goal of becoming one of Canada's senior independent oil and gas producers. Since 1991, when Ocelot Energy was created through a restructuring of Ocelot Industries Ltd., the company has been returned to financial health and Ocelot's oil and gas reserve base is now being rebuilt through focused oil and gas prospecting and strategic acquisitions.

**With the acquisition of the Sylvan Lake property in early 1993, Ocelot re-entered the ranks of Alberta oil producers.**

### Core Assets

Ocelot has been a successful explorer in the prolific deep gas play in the northeastern British Columbia Foothills since 1972. The company plans to continue its deep gas development work in this area with participation in six wells in 1994 and participation planned in four wells in 1995. At the beginning of 1994, Ocelot's proven and probable natural gas reserves in the B.C. Foothills totalled 144 billion cubic feet.

On the British Columbia Plains, Ocelot continues to focus its efforts on high margin, high working interest properties such as Nig Creek. Additional infill wells have been drilled to maintain deliverability from the company's Nig Creek property. At the beginning of 1994, proven and probable reserves were 29.5 billion cubic feet of natural gas.

In central Alberta, the company's recently acquired Sylvan Lake property has proven to be an excellent short to medium-term growth property for the company. With the acquisition of Sylvan Lake, Ocelot re-entered the ranks of Alberta oil producers while adding very significantly to the company's natural gas reserves and production. Proven and probable reserves at Sylvan Lake at the beginning of January 1994 were 10.1 million barrels of oil and natural gas liquids and 41.5 billion cubic feet of natural gas.

Ocelot's Sylvan Lake gas plant is the company's largest natural gas processing facility.

In southwestern Saskatchewan, Ocelot maintains its historical niche as one of Canada's most experienced shallow gas producers. The Freefight and Crane Lake shallow gas properties provide solid long-term contributions to both production and cash flow. These shallow gas reserves are expected to have very long life performance and contribute to Ocelot's production revenues for the next two decades. Proven and probable reserves in southwestern Saskatchewan at the beginning of 1994 were 252 billion cubic feet of natural gas.

## Adding Shareholder Value

Since Ocelot Energy Inc. was formed on September 23, 1991, there have been increases in both the company's petroleum reserves and production. Proven and probable reserves have increased from 51.3 million barrels at January 1, 1992 to 58.4 million barrels at January 1, 1994, an increase of 14 per cent on a barrel of oil equivalent (BOE) basis.

There have been dramatic increases in the company's cash flow from operations. In the last year, cash flow increased from $22.6 million in 1992 ($0.95 per share) to $40.4 million in 1993 ($1.47 per share).

Market capitalization has also increased dramatically. At the time of the

Ocelot has 684 producing wells at the Freefight and Crane Lake shallow gas properties in Saskatchewan.

restructuring of Ocelot Industries and the creation of Ocelot Energy in 1991, market capitalization for Ocelot Energy was estimated at $50 million. At the beginning of 1994, six months after the distribution of Lynx Energy

In the northeastern British Columbia Foothills, Ocelot is planning to participate in the drilling of six wells in 1994.

**Ocelot is one of Western Canada's most experienced shallow gas developers. Selection of well stimulation and well completion methods is important in optimizing shallow gas production.**

Services Corp. to Ocelot shareholders, market capitalization totalled an estimated $300 million.

The company's participation in the international sphere has not been ignored. With TransCanada PipeLines Limited, Ocelot is part of a joint venture negotiating to proceed on a natural gas-fired power generation project in Tanzania. If negotiations advance on schedule, the Tanzanian project could come onstream in 1996.

## Solid Performance

After years of struggling under a heavy debt load, Ocelot Energy has emerged as a financially solid company with strong earnings and cash flow from operations. Balance sheet integrity is being maintained with debt levels at less than two times annual cash flow.

Ocelot is also building on the technical skill and expertise within its oil and gas operations group. Significant additions have been made to the reserves acquired by Ocelot at Sylvan Lake as a result of diligent efforts by Ocelot's technical staff. At the same, time significant deliverability and production increases have been recorded through field optimization work and production enhancement technologies at Sylvan Lake.

## Renewal and Growth

Ocelot Energy takes an integrated approach to corporate growth and the creation of long-term value within the company. The responsible utilization of all of the resources available to Ocelot continues to be central to the company achieving its goals.

Ocelot employees, at all levels, play key roles in the implementation of strategies for growth and renewal. Teamwork and innovation by Ocelot employees is supported within a corporate culture that values meaningful work. Maintenance of high standards of personal and on-the-job health and safety contribute to a positive work environment. Support for professional development and training encourages employees to fully develop their potential.

Respect for the natural environment and a commitment to operate the company so that Ocelot conducts environmentally responsible operations is a corporate goal.

Together, Ocelot and its employees create a climate of ongoing renewal and responsible growth, providing a healthy return to all stakeholders.

**Executive Vice President Glenn Gradeen checks reclamation work on a lease in the Freefight area with Project Engineer Doreen Rempel.**

# FINDING *Hidden* VALUE

*Teams of Ocelot Energy field and head office personnel work diligently to add value within the company's oil and gas properties. Initiatives to enhance reserve recovery and optimize production are adding value throughout Ocelot.*

Oil and Gas

# Operations

*Ocelot Energy added a new core area of operations in 1993. The Sylvan Lake acquisition resulted in a significant increase in reserves, production and oil and gas cash flow.*

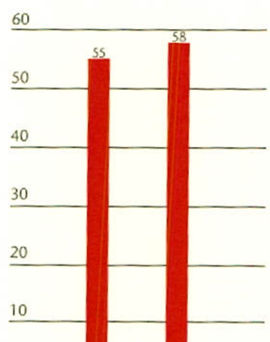
With the addition of the Sylvan Lake property, Ocelot now has four core producing areas in three provinces in Western Canada. The four current operating areas — central Alberta, southwestern Saskatchewan, northeastern B.C. Plains and northeastern B.C. Foothills — provide solid cash flow and quality opportunities for short, medium and long-term growth. In addition to the four core producing areas, Ocelot is working vigorously to add two new core producing areas within Alberta by the end of 1995.

Over 1993, Ocelot's production averaged 57.8 million cubic feet (Mmcf) of natural gas per day and 2,144 barrels of oil and natural gas liquids (NGLs) per day. This compares with average production rates of 54.5 Mmcf of natural gas per day and 134 barrels of oil and NGLs per day for the 12 month period ending December 31, 1992.

The average fieldgate price received for natural gas in 1993 was $1.35 per thousand cubic feet (Mcf). For oil and NGLs, the company received an average price of $17.35 per barrel.

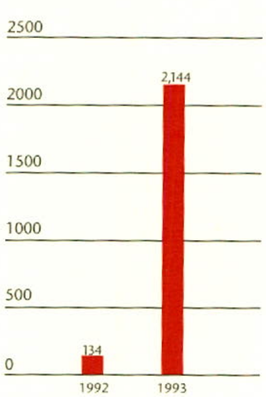
Natural Gas Production

(Mmcf/d)




Crude Oil and NGLs Production

(Bbls/d)




Operating costs, before deducting processing income, in 1993 averaged $0.34 per Mcf of natural gas ($0.17 per Mcf net of processing) and $2.39 per barrel of oil and NGLs ($2.22 per barrel net of processing). Ocelot's average royalty rates were 21.6 per cent for oil and NGLs and 18.4 per cent for natural gas. Total royalties of $8.1 million were reduced by $1.8 million through the Alberta Royalty Tax Credit Program for net royalty payments of $6.3 million. In 1993, Ocelot's oil and gas capital expenditures were $79 million. This includes $52.5 million for the Sylvan Lake acquisition and $2.9 million for capitalized general and administrative expenses.

## Land, Drilling and Reserves

In 1993 Ocelot continued to add to its undeveloped land base. Net undeveloped land holdings in Western Canada at December 31, 1993 were 212,179 acres. In addition, the company has an option to acquire approximately 60,000 undeveloped acres (gross) in the state of Utah.

Ocelot participated in the drilling of 110 wells in 1993. Of these, 100 were gas wells, seven were oil wells, one well was drilled for water disposal purposes and two were drilled and abandoned. The company's drilling success ratio was 98 per cent (87 per cent excluding the company's southwestern Saskatchewan shallow gas program).

At December 31, 1993, Ocelot had total proven and probable reserves of 479 billion cubic feet of natural gas and 10.5 million barrels of oil and NGLs. This included proven gas reserves of 383 billion cubic feet and proven oil and natural gas liquids reserves of 9.9 million barrels.

Total energy equivalent of proven reserves grew from 41.1 million barrels

## Reserves

| | Natural Gas (Bcf) | Crude Oil & NGLs (MBbls) | Sulphur (MLT) |
|---|---|---|---|
| **Proven Reserves** | | | |
| Reserves as at January 1, 1993 | 406 | 474 | 358 |
| Added by drilling | 6 | 157 | 0 |
| Acquisitions, revisions and dispositions | (8) | 10,073 | (12) |
| Production | (21) | (783) | (35) |
| **Reserves as at January 1, 1994** | 383 | 9,921 | 311 |
| **Probable Reserves** | 96 | 621 | 247 |
| **Total Proven and Probable Reserves** | **479** | **10,542** | **558** |

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.

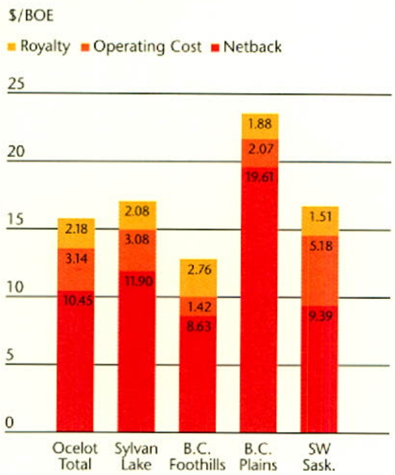
## Estimated Net Cash Flows From Reserves

| | | Escalating Price Assumptions | | Constant Price Assumptions | |
|---|---|---|---|---|---|
| | | Discounted at 10% | Discounted at 15% | Discounted at 0% | Discounted at 10% |
| **Proven Reserves** | | | | | |
| Oil and NGLs | | $ 72,598,716 | $ 54,840,655 | $ 79,651,435 | $ 50,774,719 |
| | $/Bbl | 7.32 | 5.53 | 8.09 | 5.16 |
| Gas | | $285,885,402 | $211,816,328 | $394,078,100 | $195,177,943 |
| | $/Mcf | 0.75 | 0.55 | 1.04 | 0.51 |
| **Subtotal** | | **$358,484,118** | **$266,656,983** | **$473,729,535** | **$245,952,662** |
| **Probable Reserves** | | **23,726,543** | **16,585,383** | **41,250,427** | **16,715,454** |
| **Proven and Probable Reserves** | | **$382,210,661** | **$283,242,366** | **$514,979,962** | **$262,668,116** |

of oil equivalent (BOE) at year-end 1992 to 48.2 million barrels at year-end 1993. Total energy equivalent of proven plus probable reserves at December 31, 1993 stood at 58.4 million barrels.

At 1993 production rates, Ocelot has a reserve life index of 23 years for gas and 13 years for oil based on proven plus probable reserves.

## 1993 Netback



Includes processing revenue

## Production

| | 1993 | 1992 |
|---|---|---|
| Crude oil and NGLs (Bbls/d) | **2,144** | 134 |
| Natural gas (Mmcf/d) | **57.8** | 54.5 |

## Total Wells Drilled

| | **Total 1993 Drilling** | | Total 1992 Drilling | |
|---|---|---|---|---|
| | Gross | Net [1] | Gross | Net [1] |
| **Development** | | | | |
| Oil | **5** | **2.2** | – | – |
| Gas | **94** | **66.6** | 94 | 61.4 |
| Dry | **1** | **0.2** | 2 | 1.2 |
| Other | **1** | **1.0** | – | – |
| **Total** | **101** | **70.0** | **96** | **62.6** |
| **Exploratory** | | | | |
| Oil | **2** | **0.8** | – | – |
| Gas | **6** | **6.0** | 3 | 1.7 |
| Dry | **1** | **1.0** | – | – |
| Other | – | – | – | – |
| **Total** | **9** | **7.8** | **3** | **1.7** |

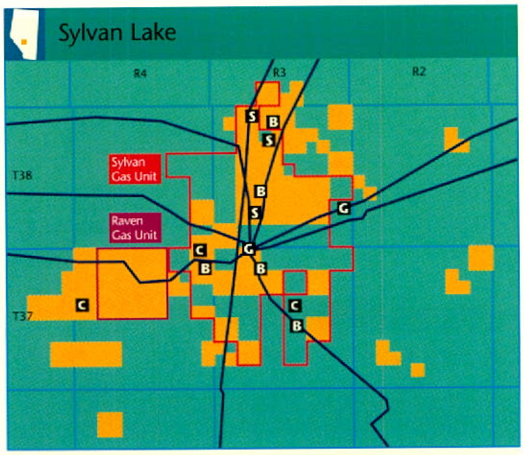
[1] The company's interests in drilling programs have been included using Ocelot's working interest after fund payout.

## Landholdings

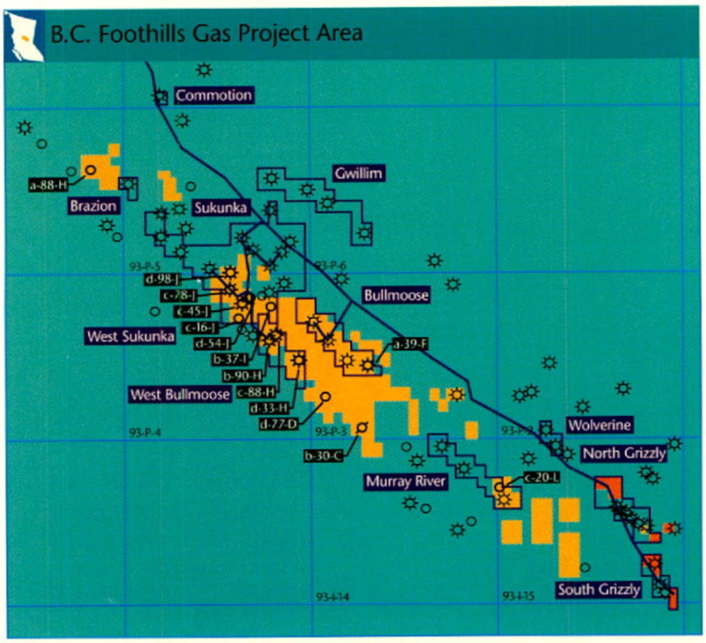
| | Unproven [1] | | Undeveloped [2] | | Total [3] | |
|---|---|---|---|---|---|---|
| | Gross Acres | Net Acres | Gross Acres | Net Acres | Gross Acres | Net Acres |
| **Canada** | | | | | | |
| B.C.—Foothills | 95,442 | 27,004 | 101,537 | 28,369 | 117,793 | 30,896 |
| B.C.—Other | 54,829 | 9,371 | 41,692 | 15,528 | 51,428 | 18,577 |
| Alberta—Sylvan Lake | 17,514 | 11,622 | 19,995 | 12,154 | 40,309 | 25,275 |
| Alberta—Other | 76,192 | 68,794 | 74,920 | 68,497 | 75,720 | 69,026 |
| Saskatchewan | 31,542 | 31,542 | 88,737 | 87,631 | 184,775 | 158,987 |
| **Total Canada** | **275,519** | **148,333** | **326,881** | **212,179** | **470,025** | **302,761** |

[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.

# Core Production Areas

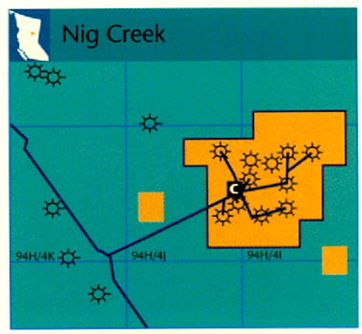


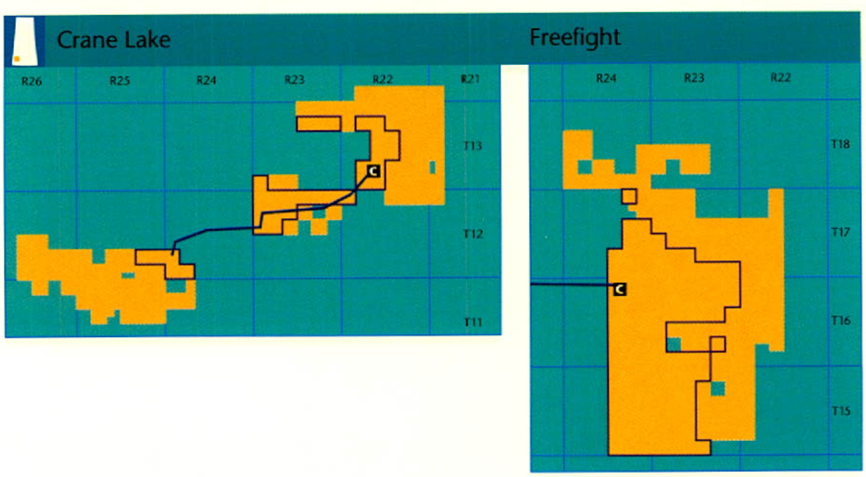

- Ocelot Land
- Royalty Interest
- Gas Well
- Well Location
- Pipeline
- Producing Area
- Gas Plant
- Battery
- Compressor
- Satellite




## Producing Wells

| (Gross) | Oil Wells | Gas Wells |
|---|---|---|
| Sylvan Lake | 60 | 24 |
| B.C. Foothills | – | 6 |
| Nig Creek | – | 9 |
| Crane Lake | – | 51 |
| Freefight | – | 633 |



Ocelot's Sylvan Lake property, acquired in 1993 for $52.5 million, added significant oil and gas reserves and production in Alberta.

## Sylvan Lake/Central Alberta

The Sylvan Lake property, purchased for $52.5 million on February 8, 1993, has proven to be an excellent short to medium-term growth property for Ocelot. A technical review of Sylvan Lake conducted in 1993 clearly demonstrated that reserves and production can be substantially enhanced.

Three 3-D seismic programs were initiated on Ocelot's Sylvan Lake property in 1993. These programs have led to the planning of a 22-well drilling program which commenced late in 1993 and will carry forward through 1994. Two of these wells were producing by January 1994 and results to date have exceeded expectations.

A 22-well development drilling program at Sylvan Lake commenced in late 1993 and is planned to continue through 1994.

Ocelot is also instituting a waterflood of the Pekisko "B" oil pool to enhance reserve recovery and increase production rates from this pool. Application has been made to Alberta's Energy Resources Conservation Board and it is anticipated that the waterflood will commence operation in the second quarter of 1994.

When the Sylvan Lake property was acquired it was producing at a rate of approximately 2,000 barrels of oil and NGLs per day and 9 million cubic feet per day of natural gas. By the end of 1993, Ocelot's share of production had increased to over 2,300 barrels of oil and NGLs per day and over 11 million cubic feet per day of natural gas.

At Sylvan Lake, Ocelot's interests include 40,309 gross acres of land (25,275 net) and interests in 60 producing oil wells and 24 producing gas wells. Proven and probable reserves at Sylvan Lake at January 1, 1994 were 10.1 million barrels of oil and natural gas liquids and 41.5 billion cubic feet of natural gas.

## British Columbia Foothills

Ocelot continued its exploration and development work in this area as part of a multi-year commitment to explore on and develop lands in this high-potential area. The B.C. Foothills property is an important component of Ocelot's long-term growth strategy with potential for significant future reserves and deliverability increases.

During the year, Ocelot participated in the acquisition of 133 kilometers of seismic data and in the drilling of one well at d-98-J/93-P-4. This well was flow-tested at rates in excess of 56 million cubic feet per day of raw gas. The well is scheduled for tie-in work to commence immediately, with a November 1, 1994 start-up date. Ocelot has a 12.5 per cent working interest in this well.

While 1993 was not as active as anticipated in terms of drilling in the Foothills, 1994 is expected to be a very busy year for Ocelot. The company is planning to participate in the drilling of six wells in the Foothills area.

Ocelot is active in the British Columbia Foothills. One successful deep gas well was drilled in 1993 and six more wells are planned for 1994.

Three of these wells are located close to existing facilities in the West Sukunka area and will be tied-in immediately if successful. Other wells proposed for the Reesor, Murray River and Brazion areas are intended to establish reserves for the company in new areas of the Foothills trend.

This drilling program will tie in with Westcoast Energy's previously announced Pine River plant expansion in the B.C. Foothills. The Westcoast Pine River plant expansion is currently under construction and scheduled to be able to take additional volumes of gas commencing November 1, 1994. Ocelot has contracted for an additional 20 million cubic feet per day of gas processing capacity in this expansion.

Ocelot holds an interest in 117,793 gross (30,896 net) acres in the highly prolific Pardonet-Baldonnel trend of the B.C. Foothills. Ocelot's share of production from the B.C. Foothills area was 25.1 million cubic feet per day in 1993. Proven and probable natural gas reserves at December 31, 1993 in the B.C. Foothills were 144 billion cubic feet.

In the Nig Creek area of British Columbia, two infill wells were completed in late 1993.

## British Columbia Plains

In 1993 Ocelot was presented with an opportunity to sell 3.7 billion cubic feet of gas reserves from the Lapp property at a price of over $0.90 per thousand cubic feet. The property was sold in February 1993. A further disposition of assets in the Nig West area was negotiated in late 1993 and closed in February, 1994. This second sale of assets in the B.C. Plains area represents a disposition of 1.3 billion cubic feet.

It is Ocelot's intention to focus its efforts on high-margin, high working interest core producing properties. With the two dispositions noted earlier, Ocelot's focus in the B.C. Plains will be on the Nig Creek property. Two infill wells were completed at Nig Creek in late 1993. Ocelot's share of production is expected to average 5.2 million cubic feet per day and 50 barrels of NGLs per day through 1994. Proven and probable reserves at year end 1993 at the Nig Creek property stood at 29.5 billion cubic feet.

## Southwestern Saskatchewan

The efficient development of shallow gas reserves is a specialized niche that Ocelot has successfully occupied for almost two decades. As one of Canada's most experienced shallow gas producers, Ocelot continues to optimize cost effective recovery of these long life reserves.

Westcoast Energy's Pine River gas plant expansion in the British Columbia Foothills is nearing completion. Additional Ocelot gas volumes are contracted to be moved through Pine River beginning in November 1994.

Ocelot's principal interests in southwestern Saskatchewan are in two producing properties. In 1993, Ocelot's share of production from the Freefight and Crane Lake shallow gas properties was 16 million cubic feet of natural gas per day. A 94-well infill drilling program was completed in 1993 and Ocelot now produces from 684 wells in the area. Proven and probable reserves in southwestern Saskatchewan at December 31, 1993 were 252 billion cubic feet of natural gas.

Gathering lines were constructed in southwestern Saskatchewan to connect a 94-well natural gas infill drilling program in late 1993.

## Exploration Outside Core Areas

Throughout 1993, Ocelot continued with exploration initiatives that had begun the previous year in Alberta. Outside the core areas, Ocelot focused its attention on five prime exploratory targets. These areas included Senex/Lesser Slave, Chinchaga/Hamburg, Ante Creek/Fox Creek, central Alberta north of Sylvan Lake, and the Sunburst area of south central Alberta.

Capitalizing on the low cost of exploratory land that was available in 1992, Ocelot established a position in these areas and upgraded its geological and geophysical data base in the most prospective of these plays.

By the end of 1993, Ocelot's inventory of exploratory lands within Alberta had increased to 80,651 net acres and exploration activity had been initiated in several high-potential exploratory plays.

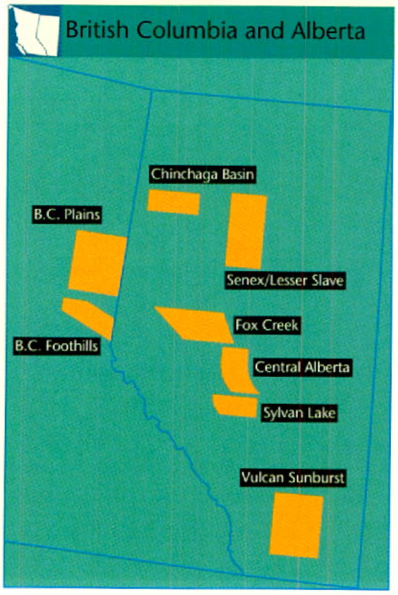
In central Alberta, Ocelot participated in a well that provided an extension of a Fox Creek oil pool. This well, located in Township 62, Range 18 W5, was completed and production tested in the fourth quarter, with a flow rate exceeding 500 barrels of oil per day from the Devonian Swan Hills formation. Tie-in of this well is scheduled for early 1994 and at least one additional well is scheduled to be drilled early in the year in this area. Ocelot holds a 33⅓ per cent working interest in the well.

In southern Alberta, Ocelot drilled two exploratory wells in 1993. One of these was abandoned and the other was awaiting completion for gas at year-end. Additional drilling is planned in 1994 to determine the extent of the gas discovery.

In northern Alberta, Ocelot has defined a number of exploratory drilling locations on its 100 per cent lands in the Senex area. An extensive seismic program is planned for this area to determine future drilling locations that could form the basis of the 1994-1995 exploratory drilling program. The company holds a working interest in 14,080 acres of land in this area.

Ocelot also holds an interest in 8,960 acres of land in the Hamburg, Chinchaga and Cranberry areas of northern Alberta. This area saw a significant increase in activity and interest from the oil and gas industry during the latter half of 1993.

## Exploration Areas




It is anticipated that Ocelot will drill 12 to 15 exploratory wells in 1994 to add new reserves and production for the company.

Ocelot remains committed to its growth target of 150 million cubic feet per day of natural gas (including gas equivalent) production by the end of 1995. The company plans to contribute to the achievement of this target by adding oil and gas deliverability through a program of exploratory drilling in carefully selected areas.

## Oil and Natural Gas Marketing

Natural gas pricing strengthened considerably through 1993. Ocelot received an average fieldgate price of $1.35 per thousand cubic feet for gas sold in 1993. In November 1993, gas purchase contract pricing was renegotiated and it was anticipated that Ocelot's average gas price will increase by $0.50 per thousand cubic feet for calendar 1994.

The average oil and NGL price received by Ocelot for 1993 was $17.35 per barrel. An oil hedging program was implemented shortly after Ocelot purchased its Sylvan Lake property. As a result, Ocelot nets a price of over $20 per barrel at the fieldgate on 900 barrels of oil per day production through April 1994. At that time, the volume covered by the price hedging program reduces to 600 barrels of oil per day. It is expected this will increase the average price received for all oil produced by Ocelot through 1994 by over $1.00 per barrel.

## INNOVATION *and* TEAMWORK

*Ocelot's game plan is on track and will be vigorously advanced by teams of employees who are dedicated to creating long term value for all of the company's stakeholders.*

Petroleum Industry

# Services

*O.J. Pipelines, which was previously part of the Lynx group, remains with Ocelot as a wholly-owned subsidiary.*

Until June 30, 1993, Ocelot Energy supplied services to the oil and gas industry through the activities of its wholly-owned subsidiary — Lynx Energy Services Inc. The activities of the Lynx Energy Services group of companies was focused in three service sectors — contract drilling, oilfield equipment and pipeline construction.

Effective July 1, 1993, Ocelot reorganized these business units. Cactus Drilling, Cardinal Drilling Company, Lynx Tool Company and South Eastern Pipeline Construction were spun out and became part of a new separate publicly traded company, Lynx Energy Services Corp.

O.J. Pipelines, which was previously part of the Lynx group, remains with Ocelot as a wholly-owned subsidiary of the company. Shares in the new Lynx Energy Services Corp. were distributed to Ocelot shareholders through a Plan of Arrangement approved by Ocelot's shareholders on June 21, 1993.

**John Rypien**
**President, O.J. Pipelines**

## O.J. Pipelines Makes Major Contributions

In 1993, O.J. Pipelines was involved in a number of large-diameter pipeline construction projects for two of Canada's largest natural gas transmission companies — TransCanada PipeLines Limited (TCPL) and NOVA Corporation.

In the first quarter of 1993, O.J. completed work on two TCPL pipeline projects totalling 109 kilometers of 42-inch pipe. One spread consisted of 56 kilometers of pipe in southeastern Manitoba and northwestern Ontario. The second contract involved 53 kilometers of pipe in the North Bay area of Ontario.

In the second quarter of 1993, O.J. Pipelines was awarded a contract by TCPL for an approximate value of $42 million for the construction of 37 kilometers of 24-inch and 36-inch pipe and replacement of several existing sections of 20-inch to 36-inch pipe in a number of locations in southern Ontario. This project was initiated in May 1993 and was brought in on schedule and within budget at the end of September 1993.

In the fourth quarter of 1993, O.J. was awarded a contract valued at approximately $38 million for the construction of NOVA Corporation's Edson Main Line Looping pipeline project in the Edson area of Alberta. The Edson project consists of two loops of 48-inch pipe totalling 63 kilometers on the Edson main line and one loop of 35 kilometers of 42-inch pipe on the Grande Prairie Lateral. Work on the project began in November and was completed on schedule and within budget in March 1994.

O.J. Pipelines generated revenue of $132.1 million in 1993, compared with $73.4 million in 1992. O.J. consistently attracts its full share of the available market for large-diameter pipeline construction work in Canada. The increase in revenue in 1993 is largely attributable to the increased requirements of major transmission companies for additional construction work in that period.

## Lynx Energy Services to June 30, 1993

The contract drilling operations of Lynx recorded increased levels of activity and revenue during the six months ended June 1993. The 18 land-based rigs operated by Cactus Drilling in Canada and 18 land-based rigs operated by Cardinal Drilling in the Rocky Mountain area of the United States both showed increased utilization rates over the comparable period in 1992.

Contract drilling operations recorded revenues of $20.8 million for the six months ended June 30, 1993, an increase of 66 per cent over the same period in 1992. The levels of activity were significantly higher in Canada than in the United States, but increases were recorded in both areas.

Cactus Drilling, Lynx's Canadian drilling division, recorded a 51 per cent utilization rate over the first half of 1993 on 1,674 operating days, compared to a utilization rate of 29 per cent in 1992 on 946 operating days.

A 1993-94 winter-season large-diameter pipeline river crossing was successfully completed as part of a $38 million contract for NOVA Corporation.

Cardinal Drilling, Lynx's United States drilling subsidiary, had 551 operating days for the first six months of 1993, an increase of 16 per cent over the same period in 1992.

An increase in natural gas prices, combined with relatively stable oil prices in 1993 was a major factor in the upswing of contract drilling activities. A significant infusion of equity capital for Canadian oil and gas companies along with revisions to the Alberta royalty regime also had a positive influence.

Higher levels of drilling activity also resulted in a positive impact on the oilfield equipment operations of the company. Revenues from Lynx Tool Company, for the first six months of 1993 in both Canada and the United States, totalled $3.7 million, an increase of 76 per cent over the same period in 1992. Lynx Tool Company manufactures, sells, repairs and rents down-hole drilling equipment in both Canada and the United States.

O.J. Pipelines completed three major pipeline construction projects for TransCanada PipeLines in 1993.

# International

*Through its wholly-owned subsidiary Ocelot International Inc., Ocelot continues to focus its efforts on high-quality, long-life oil and natural gas development projects.*

Ocelot is minimizing risk to the company by focusing on non-exploratory and innovatively financed international opportunities. Strategic alliances where appropriate are being pursued to further reduce risk while adding unique project management and project development skills.

In Tanzania, considerable progress has been made on a natural gas-fired power generation project. The Ocelot/TransCanada PipeLines joint venture formed to pursue this project has been awarded an exclusive right to negotiate with the government of Tanzania on gas production facilities, onshore and offshore pipelines and an electrical generating plant.

Initial negotiations have taken place and there is agreement in principle on most of the major issues. It is anticipated that contractual arrangements with the government of Tanzania and a financing package that includes the World Bank will be completed during 1994. If this target is successfully met, the Tanzanian project could come onstream in 1996.

**In Tanzania, considerable progress has been made on a natural gas-fired power generation project through an Ocelot/TransCanada PipeLines joint venture.**

Ocelot has a 30 per cent interest in Phase I of the project and would also be the operator of the Songo Songo gas field. Significant upside potential can be earned by expanding field production to meet new markets.

During 1993, Ocelot International also undertook evaluations of projects in two other countries. In western Poland, Ocelot completed an evaluation of several proven but undeveloped gas fields. However, based on its marginal economic viability and only limited upside potential, Ocelot decided not to invest in the Polish project.

In the central Asian republic of Turkmenistan, Ocelot has been evaluating exciting opportunities. Large proven reserves of both oil and gas and government policies that are conducive to foreign investments make this an area that Ocelot will continue to evaluate in 1994. Due to the marketing challenges of the region and the significant level of infrastructure and project support that would be required to successfully operate in the area, Ocelot would very likely look for partners or form one or more strategic alliances before investing in Turkmenistan.

**Ocelot is working internationally to develop markets for large natural gas reserves already established. Power generation is one potential market for the gas.**

In addition to initiatives under review in Tanzania and Turkmenistan, Ocelot is examining opportunities to expand internationally through the acquisition of producing fields or corporate units that meet the basic criteria of having early cash flow as well as market or production upside potential.

Ocelot's plans to expand into the international sphere remain on track and the company intends to have a significant overseas production presence by 1996.

# Management's Discussion and Analysis

## Highlights

Ocelot Energy Inc. (the "Company") is engaged primarily in the oil and natural gas exploration, production and marketing business and in the construction of large-diameter pipelines through its wholly owned subsidiary, O.J. Pipelines Corp.

Major activities during 1993 are as highlighted:

- Effective January 1, 1993, the Company acquired petroleum and natural gas producing properties and operatorship in the Sylvan Lake area of Alberta for an aggregate consideration of $52.5 million. The acquisition increased Ocelot's total reserves by 24 per cent and total production by more than 55 per cent, significantly strengthening Ocelot's core business operations of natural gas and crude oil production.

- Effective July 1, 1993, Ocelot Energy Inc. reorganized its petroleum industry services operations.

- Strong financial and operating performances by Ocelot's oil and gas division as well as O.J. Pipelines generated a 78 per cent increase in revenue and a 79 per cent increase in cash flow in 1993. The increases were primarily attributable to higher petroleum and natural gas production volumes combined with higher gas prices, increased revenue from O.J. Pipelines and reduced net losses associated with discontinued operations.

## Major Acquisition

On February 8, 1993, the Company acquired petroleum and natural gas producing properties and operatorship in the Sylvan Lake area of Alberta for $52.5 million. The acquisition included producing oil and natural gas wells and associated production facilities. The purchase was financed through a combination of existing bank facilities and a $28 million limited recourse loan from the Company's principal banker.

The Sylvan Lake property acquisition had an accounting effective date of January 1, 1993. Production increases due to the Sylvan Lake acquisition were 2,032 barrels per day of crude oil and NGLs (liquids) and 10.6 Mmcf per day of natural gas for the twelve months ended December 31, 1993. December 1993 production was 2,312 barrels per day of liquids and 11.2 Mmcf per day of natural gas.

## Reorganization

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."). 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 Ocelot's wholly-owned subsidiary, Lynx Energy Services Inc. ("Lynx"). O.J. Pipelines Corp., the Canadian large-diameter pipeline construction business, remained after the reorganization as a wholly-owned subsidiary of Ocelot. The primary reason for the reorganization was the belief that the business units acquired by Lynx Corp. would generate stronger financial performance and improved market valuation in a separate, focused, publicly traded company.

The business units acquired by Lynx Corp. generated for the year ended December 31, 1992, approximately 28 per cent of total Company revenues, three per cent of total funds generated from operations, and incurred a loss of $2.9 million compared to net earnings of $7.7 million for the Company's continuing operations.

## Results of Operations

The Company's comparative financial results for the years ended December 31, 1993 and 1992 are presented herein and analyzed by its two major business segments. The accounting for the reorganization of the petroleum industry services business operations, effective July 1, 1993, is discussed under "Discontinued Operations".

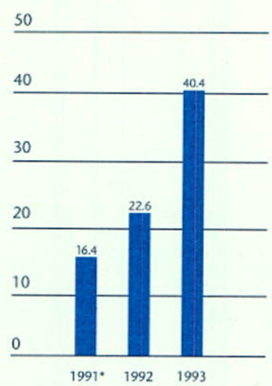
### Consolidated Results

| Highlights | 1993 | 1992 | Per cent Change |
|---|---|---|---|
| ($ thousands except per share) | | | |
| Revenues | $168,860 | $ 95,004 | 78 |
| Cash flow from operations | $ 40,394 | $ 22,607 | 79 |
| Cash flow per share | $ 1.47 | $ 0.95 | 55 |
| Net earnings | $ 13,828 | $ 4,745 | 191 |
| Net earnings per share | $ 0.50 | $ 0.20 | 150 |
| Capital expenditures | $ 85,019 | $ 18,449 | 361 |
| Long-term bank debt | $ 75,083 | $ 48,996 | 53 |
| Shareholders' equity | $ 98,180 | $104,736 | (6) |
| Weighted average number of common shares outstanding | 27,514 | 23,787 | 16 |

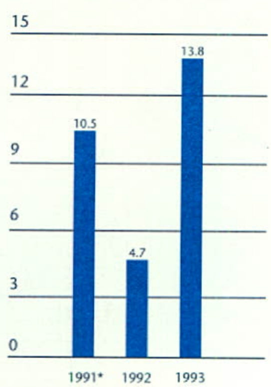
The Company's consolidated revenue in 1993 increased 78 per cent to $168.9 million from $95.0 million in 1992. A 41 per cent increase in production volumes, primarily due to the Sylvan Lake acquisition, combined with higher gas prices and a $58.6 million increase in revenue from O.J. Pipelines were the primary reasons for the increase in revenues.

Operating and administrative expenses in the year were $121.7 million compared to $64.0 million in the previous year reflecting increased levels of activity.

Cash Flow From Operations
($ millions)




Net Earnings
($ millions)




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

## Petroleum and Natural Gas Operations

| Highlights | 1993 | 1992 | Per cent Change |
|---|---|---|---|
| ($ thousands except where noted) | | | |
| Revenue, net of royalties | **36,797** | 21,579 | 71 |
| Expenses | **13,867** | 10,890 | 27 |
| Depletion and depreciation | **10,962** | 7,338 | 49 |
| Cash flow from segment operations | **22,929** | 10,689 | 115 |
| Production | | | |
| Natural gas (Mmcf/d) | **57.8** | 54.5 | 6 |
| Liquids (Bbls/d) | **2,144** | 134 | 1,500 |
| Average sales price | | | |
| Natural gas ($/Mcf) | **1.35** | 1.20 | 13 |
| Liquids ($/Bbl) | **17.35** | 15.03 | 15 |

**Total petroleum and natural gas sales revenue** increased 74 per cent to $43.1 million in 1993 over $24.8 million in 1992 due to the combination of a 41 per cent increase in production volumes and a 14 per cent increase in product prices, both on a barrel equivalent basis (1 barrel of oil equals 10 Mcf of natural gas).

| Revenue by Type | 1993 | | 1992 | |
|---|---|---|---|---|
| | ($ thousands) | % | ($ thousands) | % |
| Crude oil and NGLs | **12,984** | **30** | 735 | 3 |
| Crude oil hedging gain | **592** | **1** | – | – |
| Natural gas | **28,923** | **67** | 23,854 | 96 |
| Natural gas hedging loss | **(558)** | **(1)** | – | – |
| Other | **1,163** | **3** | 219 | 1 |
| Total revenue | **43,104** | **100** | 24,808 | 100 |

**Liquids production** increased to an average of 2,144 barrels per day in 1993 from 134 barrels per day in 1992. The increased production was a direct result of the Sylvan Lake acquisition. In 1992 Ocelot had negligible liquids production, consisting primarily of NGLs at Nig Creek, British Columbia. **Natural gas production** for the year averaged 57.8 million cubic feet per day, a six per cent increase from 1992. Production from the acquired Sylvan Lake properties increased natural gas production by 10.6 million cubic feet per day, offsetting natural gas production declines at Freefight, Saskatchewan and Sukunka, British Columbia.

**Liquids prices** averaged $17.35 per barrel, 15 per cent higher than in 1992. Ocelot had an oil hedging gain of $0.6 million or $0.99 per barrel from oil price hedging contracts entered into during the year. Ocelot arranged forward hedging contracts for approximately 75 per cent of its 1993 net production at US$20.74 per barrel WTI. These contracts continue into 1994 for approximately 33 per cent of the Company's forecasted net production. **Gas prices** for the year averaged $1.35 per Mcf, an increase of 13 per cent over 1992. Approximately 50 per cent of Ocelot's natural gas production is in the province of British Columbia. Ocelot's natural gas prices are stated net of Westcoast Energy Inc.'s gathering and processing costs. The majority of Ocelot's gas contracts had fixed pricing for the 1992/1993 contract year. Gas prices for the 1993/1994 contract year are substantially higher with November/December 1993 pricing averaging $1.77 per Mcf. A loss of $0.6 million was incurred as a result of gas hedging contracts for 1993.

**Net royalties** paid by the Company in 1993 increased in absolute terms by 95 per cent to $6.3 million from $3.2 million in 1992. This increase was attributable to the Sylvan Lake acquisition. A significant percentage of Ocelot's oil production is classified as "old" oil which attracts a higher royalty rate. With the 1994 budget anticipating a substantial increase in oil production, this "new" oil will qualify for lower royalty rates and total Company average liquids royalty rates will decline. As a percentage of gross revenue, royalties increased due to the higher royalty rate attributed to oil production. The recently announced changes to The Alberta Royalty Tax Credit program are expected to result in a marginally higher overall rate of royalties for 1994.

Gas royalty rates increased to $0.22 per Mcf in 1993 from $0.16 per Mcf in 1992. Changes in 1993 to the province of British Columbia's Producers Cost of Service deductions and, the deemed sales price for royalty purposes in British Columbia being higher than the Company's average price were the primary reasons for the increase in royalty rates.

| **Royalties** | 1993 | 1992 |
|---|---|---|
| Royalty expense, net ($000's) | 6,307 | 3,229 |
| Percentage of revenue (%) | 14.6 | 13.0 |
| Liquids production ($/Bbl) | 2.20 | 2.78 |
| Gas production ($/Mcf) | 0.22 | 0.16 |

**Net operating expenses** increased 276 per cent to $5.3 million in 1993, compared to $1.4 million in 1992, reflecting the property acquisition at Sylvan Lake. On a barrel equivalent basis, operating expenses increased 165 per cent to $1.83 from $0.69 in 1992. The increased expenses reflect the shift in Ocelot production from almost exclusively natural gas production in 1992 to 27 per cent liquids production in 1993. Oil and NGL production historically have a higher associated operating cost. As a percentage of petroleum and natural gas sales, operating costs increased from 5.7 per cent in 1992 to 12.3 per cent in 1993.

Natural gas operating expenses increased to $0.17 per Mcf in 1993 from $0.07 per Mcf in 1992. This increase was primarily a combination of a reduction in third party processing revenues and substantial workovers being done throughout 1993 on Ocelot's gas facilities.

| **Operating Expenses** | 1993 | 1992 |
|---|---|---|
| Operating expenses ($000's) | 9,072 | 5,782 |
| Processing revenue ($000's) | 3,767 | 4,372 |
| Net operating expenses ($000's) | 5,305 | 1,410 |
| Percentage of revenue (%) | 12.3 | 5.7 |
| Liquids production, net ($/Bbl) | 2.22[1] | 1.53 |
| Gas production, net ($/Mcf) | 0.17 | 0.07 |

Ocelot's **operating netback** on a barrel of oil equivalent increased by 8 per cent to $10.45 in 1993 from $9.70 in 1992. Higher product prices were partially offset by increased royalties and operating expenses.

| | Liquids ($/Bbl) | | Gas ($/Mcf) | | $/BOE | |
|---|---|---|---|---|---|---|
| **Operating Netbacks** | 1993 | 1992 | 1993 | 1992 | 1993 | 1992 |
| Price | 16.58 | 15.03 | 1.37 | 1.20 | 14.45 | 11.96 |
| Hedging | 0.77 | – | (0.02) | – | 0.01 | – |
| Royalties | (2.20) | (2.78) | (0.22) | (0.16) | (2.18) | (1.57) |
| Operating expenses | (2.39) | (1.53) | (0.34) | (0.29) | (3.14) | (2.83) |
| Processing revenue | 0.17 | – | 0.17 | 0.22 | 1.31 | 2.14 |
| **Operating netbacks** | 12.93 | 10.72 | 0.96 | 0.97 | 10.45 | 9.70 |

Ocelot's **general and administrative expenses** on a gross basis increased marginally by $0.4 million to $7.7 million in 1993 from $7.3 million in 1992. Expenses, net of recoveries and capitalized overhead increased seven per cent to $3.0 million in 1993. The increase is primarily due to higher salary and benefit costs.

Recoveries increased 33 per cent to $1.7 million in 1993 from $1.3 million in 1992. Recoveries were higher in 1993 due to operatorship of the Sylvan Lake properties. The costs of that portion of the Company's activities directly associated with exploration and development activities are capitalized in accordance with industry practice. Capitalized overhead was $2.9 million in 1993, seven per cent lower than the $3.2 million capitalized in 1992.

Net expenses were $1.04 per barrel of oil equivalent, a 24 per cent reduction from $1.37 in 1992.

| General and Administrative Expenses | 1993 | | 1992 | |
|---|---|---|---|---|
| | $000's | $/BOE | $000's | $/BOE |
| Total administrative expenses | 7,664 | 2.64 | 7,263 | 3.53 |
| Overhead recoveries | 1,713 | 0.59 | 1,289 | 0.63 |
| | 5,951 | 2.05 | 5,974 | 2.90 |
| Capitalized overhead | 2,926 | 1.01 | 3,158 | 1.53 |
| **Net administrative expenses** | 3,025 | 1.04 | 2,816 | 1.37 |
| **Percentage of revenue (%)** | 7.0 | | 11.4 | |

Ocelot's petroleum and natural gas operations experienced substantial growth in its 1993 **cash flow**. As indicated by the following table, the Company's cash flow growth was primarily attributable to increased production volumes and strong product pricing.

## Cash Flow Analysis

| Cash Flow Changes — 1993 compared to 1992<br>($ thousands) | |
|---|---|
| 1992 segmented cash flow | $10,689 |
| Increase in selling price of liquids | 139 |
| Increase in selling price of natural gas | 1,806 |
| Increase in production volumes of liquids | 11,092 |
| Increase in production volumes of natural gas | 1,237 |
| Increase in operating expenses | (3,895) |
| Decrease in interest expense | 1,252 |
| Increase in other income | 609 |
| **1993 segmented cash flow** | **$22,929** |

The Company's discretionary cash flow on a barrel of oil equivalent basis increased by 82 per cent from $3.56 in 1992 to $6.49 in 1993.

| Netback Analysis | 1993 | 1992 |
|---|---|---|
| (BOE @ 10:1) | | |
| Revenue | **$14.45** | $11.96 |
| Hedging | **0.01** | – |
| Royalties, net | **(2.18)** | (1.57) |
| Operating expense | **(3.14)** | (2.83) |
| Processing revenue | **1.31** | 2.14 |
| Field level cash flow | **10.45** | 9.70 |
| General and administrative | **(1.04)** | (1.37) |
| Interest expense | **(1.67)** | (2.96) |
| Current taxes | **(0.24)** | (0.28) |
| Cash flow from segment operations | **7.50** | 5.09 |
| Capitalized overhead | **(1.01)** | (1.53) |
| Discretionary cash flow | **$ 6.49** | $ 3.56 |

The provision for **depletion and depreciation** increased 49 per cent to $11.0 million from $7.3 million in 1992. A 41 per cent growth in production volumes was the primary reason for this increase. 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 gas to one barrel of oil. In 1993, the rate was $2.42 compared to $2.11 in 1992. The 15 per cent increase is attributable to the acquisition of the Sylvan Lake properties at a marginally higher rate than Ocelot's historical depletion factor.

The annual ceiling test calculation in accordance with full cost accounting determined that no write-down of the carrying value of petroleum and natural gas properties was required for 1993.

## O.J. Pipelines Corp.

| Highlights | 1993 | 1992 |
|---|---|---|
| ($ thousands) | | |
| Pipeline revenue | **132,063** | 73,425 |
| Expenses | **116,531** | 62,480 |
| Depreciation | **3,405** | 1,854 |

The Company's pipeline construction subsidiary, O.J. Pipelines Corp., is one of the major large-diameter (14–48 inch) pipeline construction companies operating in Canada. Large-diameter pipelines are used to transport petroleum and natural gas from central gathering points to markets.

Demand for pipeline construction is affected by various factors including the demand for natural gas and crude oil; the age, condition and capacity of existing pipelines; political and economic factors and government regulations. Planned projects may be accelerated, deferred or cancelled in response to these variables. As a result, revenues from such projects are subject to substantial fluctuations from year to year due to the timing of such projects.

O.J. Pipelines typically operates in a cyclical business that was in an upward cycle for the years 1989 through 1993. Management believes that the total volume of available work in 1994 based upon known projects to date should approximate 50 per cent of the 1993 levels.

O.J. Pipelines completed work on three TransCanada PipeLines Limited contracts throughout 1993 constructing a total of 146 kilometers of pipeline. No major problem with weather or construction delays were encountered and O.J. Pipelines' performance was more efficient than anticipated. O.J. Pipelines commenced work on a $38 million NOVA Corporation contract in November, 1993. This project was substantially completed by the end of the first quarter of 1994. A combination of increased revenue and gross margins being higher than anticipated resulted in 1993 segment cash flow of $15.5 million, which was $4.6 million greater than in 1992.

## Discontinued Operations

| ($ thousands) | Six Months Ended June 30, 1993 | Year Ended 1992 |
|---|---|---|
| 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. 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 the belief that the separate operations will enhance shareholder value and provide shareholders with a focused means of participating in the oilfield service business.

## Liquidity And Capital Resources

### Cash Flow

**Cash flow from operations** increased 79 per cent to $40.4 million from $22.6 million in 1992, due primarily to the increased cash flow in the petroleum and natural gas operations of the Company. Cash flow per share increased 55 per cent to $1.47 compared with $0.95 per share in 1992 despite the fact that the weighted average shares outstanding for 1993 were 27.5 million, 16 per cent higher than the 23.8 million average for 1992.

Cash flow from continuing operations increased 76 per cent to $38.5 million from $21.8 million in 1992. This increase was attributable to increased production volumes and lower interest expense.

## Net Earnings

Ocelot paid a total of $1.0 million of **current taxes** in 1993, 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 $10.3 million in 1993 compared to $4.8 million in 1992. Ocelot's statutory income tax rate was 44.3 per cent; however, the effective tax rate was 40.9 per cent in 1993 compared to 35.9 per cent in 1992. This increase is attributable to the acquisition of the Sylvan Lake properties at a book value in excess of associated tax pools.

Ocelot's **net earnings** for 1993 were $13.8 million or $0.50 per share, compared to $4.7 million or $0.20 per share in 1992. This increase is primarily attributable to significantly larger production volumes combined with higher prices, the growth in revenue from O.J. Pipelines and reduced net losses associated with the discontinued operations.

## Capital Expenditures

**Capital expenditures** during 1993 amounted to $85.0 million compared to $18.4 million in 1992. Net capital expenditures were $80.5 million after deducting $4.5 million from the disposal of minor property interests and related facilities.

| Capital Expenditures | 1993 | 1992 |
|---|---|---|
| ($ millions) | | |
| Petroleum and natural gas | | |
| Lease acquisition and retention | $ 5.0 | $ 1.5 |
| Geological and geophysical | 3.5 | 1.4 |
| Drilling and completion | 10.6 | 3.7 |
| Production equipment | 4.0 | 1.4 |
| Acquisition of producing petroleum and natural gas properties | 52.5 | 0.4 |
| Capitalized general and administrative | 2.9 | 3.2 |
| Office and other | 0.5 | 0.9 |
| | 79.0 | 12.5 |
| Pipeline construction | 6.0 | 5.9 |
| Total | $85.0 | $18.4 |

The Company financed its $85 million capital program in 1993 with a combination of cash flow, an increase in long-term debt and the issuance of capital stock. The following table highlights the 1993 sources of funds compared to the 1992 sources.

| Sources of Funds | 1993 | | 1992 | |
|---|---|---|---|---|
| | $ millions | % | $ millions | % |
| Cash flow | 40.4 | 47 | 22.6 | 123 |
| Working capital | 3.5 | 4 | 4.4 | 24 |
| Long-term debt | 22.8 | 28 | (50.8) | (276) |
| Share issues | 13.8 | 16 | 40.6 | 220 |
| Disposals | 4.5 | 5 | 1.6 | 9 |
| | 85.0 | 100 | 18.4 | 100 |

Capital expenditures in 1994 are anticipated to reach $51.4 million. While 1993 was a year of acquisition and subsequent optimization of the Sylvan Lake properties, in 1994 the Company will focus on exploration and development of its core areas. Ocelot has planned an aggressive drilling program for 1994 with a minimum of 50 (40 net) wells planned. Capital expenditures in 1994 will be funded from cash flow, the working capital surplus and a nominal amount of new bank borrowings.

## Long-Term Debt

**Long-term bank debt** was $75.1 million at December 31, 1993 compared to $49.0 million the previous year. The increase of $26.1 million resulted from the acquisition of the Sylvan Lake property less bank debt repayments throughout the year. The Company's combined short-term and long-term obligations under capital leases were $10.2 million at December 31, 1993 compared to $13.2 million in 1992. A substantial portion of these capital leases are scheduled to be retired by 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 1993, the Company issued 2,258,000 Class B subordinate voting shares for net proceeds of $14.7 million. These proceeds were used to reduce long-term bank debt incurred on the Sylvan Lake acquisition. These Class B shares were issued principally on the exercise of Redeemable Warrants, at $7.00 per Redeemable Warrant, prior to the distribution of the shares of Lynx Corp. in July 1993.

## Capitalization

At December 31, 1993, 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 1993 was $392.2 million, an increase of 56 per cent over $251.7 million at December 31, 1992. The primary reason for this gain was the 45 per cent increase in the quoted market price of the Company's Class B subordinate voting share from $7.00 to $10⅛.

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

| Capitalization | 1993 | | 1992 | |
|---|---|---|---|---|
| | $ millions | % | $ millions | % |
| Working capital (surplus) | (2.0) | (1) | (5.1) | (2) |
| Capital leases | 7.9 | 2 | 10.8 | 4 |
| Long-term debt | 75.1 | 19 | 49.0 | 19 |
| Deferred income taxes | 10.0 | 3 | – | – |
| Capital stock at December 31 quoted market price | 301.2 | 77 | 197.0 | 79 |
| | 392.2 | 100 | 251.7 | 100 |

At December 31, 1993, Ocelot's debt to book equity ratio was 0.82 to 1, up from 0.46 to 1 at the end of 1992. This increase is attributable to the reorganization previously discussed. The reorganization effectively reduced shareholders' equity by $34.2 million.

## Net Asset Value

The **net asset value** of the Company is estimated at $269.8 million or $9.43 per share as calculated effective January 1, 1994. The closing price of the Company's Class B subordinate voting shares on the Toronto Stock Exchange at year end was $10⅛, representing a slight premium of seven per cent over the 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 debt and capital leases.

The value of the Company's reserves is determined using the 15 per cent discounted pre-tax value of the proven reserves and one-quarter of the probable reserves as determined by McDaniel & Associates Consultants Ltd. ("McDaniel") effective January 1, 1994. Unproven acreage is as determined by McDaniel effective January 1, 1994. The market value of the seismic data base is estimated by Company personnel as at December 31, 1993. The value of O.J. Pipelines Corp. was 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:

| Asset Value<br>($ millions, except per share) | 1993 | 1992 |
|---|---|---|
| Proven reserves, discounted at 15 per cent before taxes | $266.7 | $189.4 |
| Probable reserves, discounted at 15 per cent before taxes | 16.6 | 16.3 |
| Unproven acreage and seismic | 46.4 | 39.8 |
| O.J. Pipelines Corp. | 21.1 | 18.5 |
| Working capital | 2.0 | 5.1 |
| Long-term debt | (75.1) | (49.0) |
| Capital leases | (7.9) | (10.8) |
| Net asset value | $269.8 | $209.3 |
| Shares outstanding (Class A & B) | 28.6 | 26.4 |
| Net asset value per share | $ 9.43 | $ 7.93 |

## Business Prospects

Management believes that the following key factors will affect Ocelot's financial performance and position in the ensuing years:

- The results of the Company's optimization, development and exploration activities in the Sylvan Lake region.
- The results of the Company's development and exploration activities in the British Columbia Foothills area.
- The effectiveness of O.J. Pipelines in obtaining and executing pipeline construction contracts.
- The effectiveness of the Company's exploratory activities in Canada.
- 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.

### Gross revenues

For 1994, management has projected that crude oil prices will average Cdn. $17.50 per barrel and natural gas prices will average $1.82 per thousand cubic feet. Ocelot has hedged approximately 33 per cent of its projected 1994 net crude oil production at an average price in excess of U.S. $20 per barrel.

Current daily liquids production volumes are currently up approximately 20 per cent over the 1993 average. Further increases are expected as development drilling continues at Sylvan Lake.

Current daily natural gas volumes are consistent with the 1993 average. Management expects that 1994 average natural gas production will be slightly higher than the 1993 average. Natural gas production will increase when expansion at the Westcoast Energy Inc. Pine River gas plant is completed in the fourth quarter of 1994.

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. Payout on these programs is currently projected to occur in mid-1996 and new funds are not being considered at this time.

For 1994, management projects that the total amount of available work will approximate 50 per cent of the 1993 levels and the gross revenues of O.J. Pipelines will accordingly be substantially reduced. However, the ability of O.J. Pipelines Corp. to obtain construction contracts depends upon its ability to win bids in a competitive bidding process and the ability of O.J. Pipelines to generate earnings 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.

### Royalties

Royalty rates for the Company are expected to average 15 per cent on a barrel of oil equivalent basis, consistent with 1993 levels. Higher liquids production at "new" oil rates should off-set the incremental effect to the Company of a marginally higher royalty rate. Recent changes to the Alberta Royalty Tax Credit program will have a minimal impact on the Company's average royalty rate.

## Operating expenses

Operating expenses are expected to remain constant in 1994 on a per unit basis, while overall expenses will increase due to increased activity levels.

## General and administrative expenses

General and administrative expenses are anticipated to remain stable in 1994 on a total basis, but are expected to decline on a barrel of oil equivalent basis by about 10 per cent due to increased petroleum and natural gas production volumes.

## Interest expense

Interest expense is anticipated to decline substantially in 1994 due to principal repayments being made on the Company's capital leases. These capital leases carry a high cost of capital when compared to current prime interest rates. Average debt levels are anticipated to be marginally higher in 1994.

## Depletion and depreciation

Depletion and depreciation expenses are anticipated to increase in 1994 due to higher production volumes. The Company does not expect the depletion rate to materially change from the 1993 level of $2.42 per BOE.

## Taxes

The Company's effective corporate income tax rate is expected to marginally increase in 1994 due to higher activities in the petroleum and natural gas operations. As at December 31, 1993, property and equipment costs include $31.4 million not deductible by the Company for income tax purposes.

## Sensitivities

The Company's 1994 estimated sensitivities to fluctuations in oil prices, production volumes and interest rates are as follows:

| | Cash Flow | |
|---|---|---|
| **Sensitivity** | $ millions | $ per share |
| Change of Cdn. $1.00/Bbl in the price of crude oil | 0.4 | 0.01 |
| Change of $0.10/Mcf in the price of natural gas | 1.8 | 0.06 |
| Change of 100 Bbls/d in oil production | 0.6 | 0.02 |
| Change of 1 Mmcf/d in natural gas production | 0.6 | 0.02 |
| Change of 1 per cent in interest rates | 0.4 | 0.01 |

# 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 Canadian generally accepted accounting principles 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, 1993 and 1992 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, 1993 and 1992 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 18, 1994

Chartered Accountants

# Consolidated Balance Sheet

| As at December 31 (thousands of Canadian dollars) | 1993 | 1992 |
|---|---|---|
| **Assets** | | |
| CURRENT ASSETS | | |
| Cash | $ 9,056 | $ 6,196 |
| Accounts receivable | 26,184 | 21,931 |
| Inventories, at lower of cost and net realizable value | 412 | 30 |
| Prepaid expenses | 735 | 451 |
| | 36,387 | 28,608 |
| NET ASSETS OF DISCONTINUED OPERATIONS (Note 2) | – | 34,504 |
| PROPERTY AND EQUIPMENT (Full cost) (Note 3) | 189,048 | 124,394 |
| OTHER ASSETS, at cost | 934 | 924 |
| | $226,369 | $188,430 |
| **Liabilities** | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 32,083 | $ 20,823 |
| Current portion of long-term debt | – | 304 |
| Current portion of obligations under capital leases | 2,297 | 2,401 |
| | 34,380 | 23,528 |
| OBLIGATIONS UNDER CAPITAL LEASES (Note 4) | 7,888 | 10,778 |
| LONG-TERM DEBT (Note 5) | 75,083 | 48,996 |
| DEFERRED INCOME TAXES | 9,987 | – |
| FUTURE SITE RESTORATION | 851 | 392 |
| | 128,189 | 83,694 |
| **Shareholders' Equity** | | |
| CAPITAL STOCK (Note 6) | 69,116 | 89,500 |
| RETAINED EARNINGS | 29,064 | 15,236 |
| | 98,180 | 104,736 |
| COMMITMENTS AND CONTINGENCIES (Note 10) | | |
| | $226,369 | $188,430 |

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) | 1993 | 1992 |
|---|---|---|
| REVENUE | | |
| Operating (Note 8) | $168,860 | $95,004 |
| EXPENSES | | |
| Operating and administrative | 121,737 | 63,996 |
| Depletion and depreciation | 14,367 | 9,192 |
| Interest on long-term debt | 5,939 | 6,966 |
| Interest on obligations under capital leases | 2,156 | 2,431 |
| Other income | (439) | (883) |
| | 143,760 | 81,702 |
| EARNINGS FROM CONTINUING OPERATIONS BEFORE TAXES | 25,100 | 13,302 |
| Provision for taxes (Note 7) | | |
| Large Corporations and capital taxes | 1,005 | 860 |
| Deferred income taxes | 10,258 | 4,778 |
| | 11,263 | 5,638 |
| EARNINGS FROM CONTINUING OPERATIONS | 13,837 | 7,664 |
| Loss from discontinued operations (Note 2) | 9 | 2,919 |
| NET EARNINGS | 13,828 | 4,745 |
| RETAINED EARNINGS, BEGINNING OF YEAR | 15,236 | 10,491 |
| RETAINED EARNINGS, END OF YEAR | $ 29,064 | $15,236 |

PER SHARE (Note 11)

# Consolidated Statement of Cash Flows

| Year ended December 31 (thousands of Canadian dollars) | 1993 | 1992 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Earnings from continuing operations | $13,837 | $ 7,664 |
| Non-cash items: | | |
| Depletion and depreciation | 14,367 | 9,192 |
| Deferred income taxes | 10,258 | 4,778 |
| Other | (4) | 213 |
| Funds generated from operations | | |
| Continuing | 38,458 | 21,847 |
| Discontinued | 1,936 | 760 |
| Funds generated from operations | 40,394 | 22,607 |
| Changes in non-cash working capital | 6,341 | (997) |
| Discontinued operations | 4,539 | (313) |
| | 51,274 | 21,297 |
| FINANCING ACTIVITIES | | |
| Change in long-term debt | 25,783 | (48,456) |
| Change in obligations under capital leases | (2,995) | (2,345) |
| Capital stock | 13,789 | 40,593 |
| Other assets | (239) | (736) |
| Discontinued operations | (163) | (176) |
| | 36,175 | (11,120) |
| Cash available for investing activities | 87,449 | 10,177 |
| INVESTING ACTIVITIES | | |
| Property and equipment | | |
| — acquisitions | (85,019) | (18,449) |
| — disposals | 4,512 | 1,575 |
| Other assets | – | 5 |
| Discontinued operations | (4,082) | (1,755) |
| | (84,589) | (18,624) |
| INCREASE (DECREASE) IN CASH | 2,860 | (8,447) |
| CASH, BEGINNING OF YEAR | 6,196 | 14,643 |
| CASH, END OF YEAR | $ 9,056 | $ 6,196 |

# 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.

Effective July 1, 1993, the Company underwent a significant reorganization which resulted in the disposal of certain business entities — reference is made to Note 2. For comparative purposes the operation of the businesses disposed of for the period from January 1, 1993 to the date of disposal have been separately shown in the accompanying consolidated financial statements as Discontinued Operations.

(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 capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount equal to estimated future net revenues from proven reserves (based on current prices and costs as at the balance sheet date) plus unproved properties. The total capitalized costs less depletion and depreciation and deferred income taxes of all cost centres are further limited to the aggregate estimated future net revenues for all cost centres less recurring general and administrative expenses, provision for future site restoration and abandonment costs, future financing costs and income taxes. Any costs carried on the balance sheet in excess of the ceiling test limits 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.

(d) Depreciation

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.

(e) 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 based upon the sales method.

# Notes to the Consolidated Financial Statements

## 2. 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 financial position and the results of discontinued operations.

| | 1993 | 1992 |
|---|---|---|
| Revenue | $25,206 | $38,671 |
| Operating expenses | 23,322 | 38,490 |
| Depreciation | 2,074 | 4,628 |
| Interest expense | 8 | 28 |
| Other income | (189) | (503) |
| | 25,215 | 42,643 |
| Loss before income taxes | (9) | (3,972) |
| Provision for taxes | | |
| Large Corporations and capital taxes | – | 36 |
| Deferred income tax recovery | – | (1,089) |
| | – | (1,053) |
| Loss for the year | $ (9) | $(2,919) |

| | July 1, 1993 | December 31, 1992 |
|---|---|---|
| Current assets | $14,087 | $13,616 |
| Property and equipment | 34,183 | 34,302 |
| Other assets | 233 | 199 |
| Current liabilities | (9,808) | (7,091) |
| Long-term debt | (8) | (100) |
| Deferred income tax | (4,515) | (6,422) |
| Net assets of discontinued operations | $34,172 | $34,504 |

# Notes to the Consolidated Financial Statements

## 2. Discontinued Operations (continued)

| | 1993 | 1992 |
|---|---|---|
| **Gross revenue before royalties** | | |
| — continuing operations | $174,004 | $ 98,015 |
| — discontinued operations | $ 25,206 | $ 38,671 |
| **Operating and administrative expenses** | | |
| — continuing operations | $121,737 | $ 68,368 |
| — discontinued operations | $ 23,322 | $ 38,490 |
| **Funds generated from operations** | | |
| — continuing operations | $ 38,458 | $ 21,847 |
| — discontinued operations | $ 1,936 | $ 760 |
| **Net earnings (loss)** | | |
| — continuing operations | $ 13,837 | $ 7,664 |
| — discontinued operations | $ (9) | $ (2,919) |
| **Net earnings (loss) per share** | | |
| Basic | | |
| — continuing operations | $ 0.50 | $ 0.32 |
| — discontinued operations | $ – | $ (0.12) |
| Fully diluted | | |
| — continuing operations | $ 0.46 | $ 0.32 |
| — discontinued operations | $ – | $ (0.12) |

## 3. Property and Equipment

| | 1993 | | | 1992 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depletion and depreciation | Net | Cost | Accumulated depletion and depreciation | Net |
| **Petroleum and natural gas properties and related equipment** | $187,103 | $ 19,137 | $167,966 | $114,740 | $ 8,862 | $105,878 |
| **Pipeline construction** | 25,180 | 4,098 | 21,082 | 20,315 | 1,799 | 18,516 |
| | $212,283 | $ 23,235 | $189,048 | $135,055 | $ 10,661 | $124,394 |

The Company does not include unproven and 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, 1993, such costs totalled $8.3 million (1992 — $4.8 million).

The average depletion rate per equivalent barrel of oil production was $2.42 (1992 — $2.11).

During the year, the Company capitalized $2.9 million (1992 — $3.2 million) of overhead costs related to exploration and development activities.

# Notes to the Consolidated Financial Statements

## 4. Obligations Under Capital Leases

Certain wellsite and gas gathering and processing facilities, having costs in the aggregate of $16.0 million ($16.0 million at December 31, 1992) and accumulated depreciation of $1.7 million ($0.8 million at December 31, 1992), 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 and the applicable interest rates range from 12.0 per cent to 18.3 per cent.

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

| | |
|---|---|
| 1994 | $ 3,825 |
| 1995 | 3,469 |
| 1996 | 4,866 |
| 1997 | 815 |
| 1998 | 414 |
| Total | 13,389 |
| Less: imputed interest | 3,204 |
| Present value of minimum lease payments | 10,185 |
| Less: current portion | 2,297 |
| | $ 7,888 |

## 5. Long-Term Debt

| | 1993 | 1992 |
|---|---|---|
| Revolving term loan | $75,083 | $49,300 |
| Less: current portion | – | (304) |
| | $75,083 | $48,996 |

The long-term debt is comprised of a $100 million revolving term credit facility of which at December 31, 1993, $75.1 million has been drawn down. The credit facility bears interest at ¼ per cent above a Canadian Chartered Bank's prime rate and 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.

## 6. 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.

# Notes to the Consolidated Financial Statements

## 6. Capital Stock (continued)

(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, 1991** | 1,756 | 13,946 | $7,129 | $28,195 |
| Issued on exercise of Special Warrants (i) | – | 3,459 | – | 11,846 |
| Issued pursuant to underwriting agreement (i) (d) | – | 2,175 | – | 10,055 |
| Issued on exercise of Special Warrants (i) (e) | – | 5,000 | – | 30,660 |
| Issued on exercise of stock options | – | 89 | – | 358 |
| Issued under private placement agreement | – | 40 | – | 246 |
| Issued on exercise of Share Purchase Warrants | – | 2 | – | 11 |
| Cancelled pursuant to normal course issuer bid | – | (61) | – | (397) |
| **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 2) | – | – | (2,096) | (32,076) |
| **Balance, December 31, 1993** | **1,756** | **26,832** | **$5,033** | **$63,718** |

| | Number of Warrants | Consideration |
|---|---|---|
| **Balance, December 31, 1991** | 3,524 | $11,448 |
| Exercise of Special Warrants | (3,459) | (11,298) |
| Exercise of Share Purchase Warrants | (2) | (3) |
| Redeemable Purchase Warrants, exercisable at $7.00 per Class B subordinate voting share (e) | 2,500 | 1,250 |
| **Balance, December 31, 1992** | 2,563 | 1,397 |
| Exercise of Redeemable Purchase Warrants | (1,770) | (885) |
| Exercise of Share Purchase Warrants | (49) | (113) |
| Cancelled pursuant to normal course issuer bid on Redeemable Purchase Warrants | (15) | (34) |
| **Balance, December 31, 1993** | **729** | **$ 365** |

(i) Consideration received is net of issue costs and net of deferred income taxes of $2.1 million.

# Notes to the Consolidated Financial Statements

## 6. Capital Stock (continued)

(d) On January 15, 1992, the Company entered into an underwriting agreement to issue 2,175,000 Class B subordinate voting shares for gross proceeds of $10.2 million. This transaction closed on January 30, 1992, at which time the net proceeds were utilized to retire long-term debt.

(e) On June 4, 1992, the Company entered into an underwriting agreement to issue and sell 5,000,000 Special Warrants of the Company for gross proceeds of $32.5 million. Each Special Warrant was exchanged for one Unit consisting of one Class B subordinate voting share and one-half of one Redeemable Class B subordinate voting share Purchase Warrant, each whole Redeemable Warrant entitling the purchase of one Class B subordinate voting share at $7 until June 30, 1995. The closing of this transaction was August 24, 1992, at which time the net proceeds were utilized to retire long-term debt. Upon the reorganization of the Company's petroleum industry services business, the exercise price of each Redeemable Purchase Warrant was adjusted to $5.78 in accordance with the anti-dilution Formula contained in the Warrant Indenture (see Note 2).

(f) At December 31, 1993, 1,894,038 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 December 1998. An additional 957,618 Class B shares were reserved at December 31, 1993, for future options which may be granted by the Company.

| | |
|---|---|
| **Balance, December 31, 1991** | 1,042 |
| Granted | 140 |
| Exercised | (89) |
| **Balance, December 31, 1992** | 1,093 |
| Granted | 1,300 |
| Exercised | (439) |
| Cancelled | (60) |
| **Balance, December 31, 1993** | **1,894** |

## 7. 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:

| | **1993** | 1992 |
|---|---|---|
| **Corporate income tax rate** | **44.3%** | 44.3% |
| **Computed income tax** | **$11,119** | $ 5,893 |
| Non-deductible crown payments, net | **2,024** | 888 |
| Resource allowance | **(3,975)** | (1,898) |
| Non-deductible depletion | **874** | 45 |
| Other | **216** | (150) |
| **Deferred income taxes** | **$10,258** | $ 4,778 |
| **Current taxes are represented by:** | | |
| Large Corporations Tax | **$ 438** | $ 330 |
| Provincial capital taxes | **567** | 530 |
| | **$ 1,005** | $ 860 |

(b) As at December 31, 1993, property and equipment costs include $31.4 million (1992 — $1.9 million) of costs which are not deductible by the Company for income tax purposes.

# Notes to the Consolidated Financial Statements

## 8. 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.

| | 1993 | | | 1992 | | | |
|---|---|---|---|---|---|---|---|
| | Petroleum and natural gas | Pipeline construction | Total | Petroleum and natural gas | Pipeline construction | Discontinued Operations | Total |
| **Business Segments** | | | | | | | |
| Revenue | $ 36,797 (i) | $132,063 | $168,860 | $ 21,579 (i) | $ 73,425 | $ – | $ 95,004 |
| Expenses | 13,867 | 116,531 | 130,398 | 10,890 | 62,480 | – | 73,370 |
| Depletion and depreciation | 10,962 | 3,405 | 14,367 | 7,338 | 1,854 | – | 9,192 |
| Net segment earnings | $ 11,968 | $ 12,127 | 24,095 | $ 3,351 | $ 9,091 | $ – | 12,442 |
| Deferred income taxes | | | 10,258 | | | | 4,778 |
| Loss from discontinued operations | | | 9 | | | | 2,919 |
| Net earnings | | | $ 13,828 | | | | $ 4,745 |
| Total assets | $183,832 | $ 42,537 | $226,369 | $111,903 | $ 42,023 | $ 34,504 | $188,430 |
| Capital expenditures | $ 78,975 | $ 6,044 | $ 85,019 | $ 12,513 | $ 5,936 | $ – | $ 18,449 |

(i) For the year ended December 31, 1993 petroleum and natural gas revenue is net of royalties of $6.3 million (1992 — $3.2 million).

## 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, 1993, it is estimated that the present value of accrued pension benefits amounted to approximately $2.9 million. At December 31, 1993, the market value of the net assets of the pension plan amounted to $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., a senior officer and a superintendent have been charged under the Environmental Protection Act and the Water Resources Act of Ontario and the Fisheries Act of Canada. 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 offence 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: 1994 — $0.7 million; 1995 — $0.1 million; 1996 — $0.1 million; 1997 — Nil and 1998 — Nil.

# Notes to the Consolidated Financial Statements

## 11. Per Share

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

| | 1993 | 1992 |
|---|---|---|
| **Weighted average shares outstanding** | | |
| Basic | 27,514 | 23,787 |
| Fully diluted | 30,138 | 26,136 |
| **Net earnings (loss) per share** | | |
| Basic | | |
| — continuing operations | $ 0.50 | $ 0.32 |
| — discontinued operations | $ – | $ (0.12) |
| Fully diluted | | |
| — continuing operations | $ 0.46 | $ 0.32 |
| — discontinued operations | $ – | $ (0.12) |

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 95 — "Statement of Cash Flows" requires that the change in non-cash working capital be eliminated from operating, investing and financing activities. If SFAS 95 were applied to these financial statements, the Company's cash flows from continuing and discontinued operating, financing and investing activities would be as follows:

| | 1993 | 1992 |
|---|---|---|
| Operating activities | $ 51,274 | $ 21,297 |
| Financing activities | $ 36,175 | $(11,120) |
| Investing activities | $(84,589) | $(18,629) |

In addition SFAS 95 requires that interest and income taxes paid be disclosed as follows:

| | 1993 | 1992 |
|---|---|---|
| Interest | $ 8,375 | $ 10,010 |
| Income taxes | $ – | $ – |

The changes in non-cash working capital items attributable to continuing operating activities are as follows:

| | 1993 | 1992 |
|---|---|---|
| Accounts receivable | $ (4,253) | $ (2,594) |
| Inventories | (382) | 197 |
| Prepaid expenses | (284) | 915 |
| Accounts payable | 11,260 | 485 |
| | $ 6,341 | $ (997) |

The 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, 1993, the property and equipment and deferred income taxes balances by $13.9 million to remeasure prior business combinations.

# 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 producting activities are summarized in the following table:

| | 1993 | 1992 |
|---|---|---|
| Revenues | $36,797 | $21,579 |
| Production expenses | (8,330) | (4,225) |
| Depletion and depreciation | (10,962) | (7,338) |
| | 17,505 | 10,016 |
| Income tax expense | (7,551) | (4,355) |
| Results of operations | $ 9,954 | $ 5,661 |

### 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:

| | 1993 | 1992 |
|---|---|---|
| Proven properties | $141,615 | $ 74,834 |
| Unproven properties | 8,268 | 4,800 |
| Production equipment | 19,851 | 15,834 |
| Property under capital leases | 15,997 | 15,997 |
| | 185,731 | 111,465 |
| Accumulated depletion and depreciation | (18,755) | (8,644) |
| Net capitalized costs | $166,976 | $102,821 |

### Costs Incurred

The following costs were incurred in oil and gas producing properties for the years ended December 31:

| | 1993 | 1992 |
|---|---|---|
| Property acquisitions — unproven | $ 3,468 | $ 1,856 |
| Property acquisitions — proven | 52,500 | – |
| Exploration | 6,093 | 4,644 |
| Development | 16,640 | 5,100 |
| Total | $78,701 | $11,600 |

# 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, 1992** | 180 | 335 |
| **Increase (decrease) in 1992 due to:** | | |
| Revisions of previous estimates | 197 | 1 |
| Extensions and discoveries | – | 10 |
| Production | (39) | (18) |
| **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** |
| | | |
| **Proven developed reserves:** | | |
| January 1, 1992 | 171 | 159 |
| January 1, 1993 | 331 | 166 |
| January 1, 1994 | 8,210 | 187 |

## Standardized 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. The volatility of crude oil prices during 1993 reinforces the possibility that significant revisions in the computation may occur in the future.

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 Proved Oil and Gas Reserves at December 31:**

| | 1993 | 1992 |
|---|---|---|
| Future cash inflow (net of royalty costs) | $810,138 | $565,012 |
| Future production and development costs | (364,441) | (318,489) |
| Future income tax expense | (120,765) | (48,489) |
| Future net cash flow | 324,932 | 198,034 |
| 10 per cent annual discount for estimated timing of cash flow | (153,357) | (102,392) |
| Standardized measure of discounted future net cash flow | $171,575 | $ 95,642 |

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

| | 1993 | 1992 |
|---|---|---|
| Sales of oil and gas produced, net of royalties and production costs | $ (28,738) | $(17,354) |
| Net changes in prices, royalty rates, production and development costs | 84,948 | 2,076 |
| Purchase of reserves in place | 50,734 | – |
| Extensions and discoveries, less related costs | 2,086 | 4,434 |
| Revisions of previous quantity estimates | (5,761) | 1,432 |
| Accretion of discount | 11,854 | 11,632 |
| Net change in income taxes | (39,190) | (69) |
| Change in standardized measure of discounted future net cash flow | 75,933 | 2,151 |
| **Beginning of year** | 95,642 | 93,491 |
| **End of year** | $171,575 | $ 95,642 |

# Comparative Review

| **Financial** ($ thousands except per share) | 1993 | 1992 | 1991 * |
|---|---|---|---|
| Revenue | 168,860 | 95,004 | 46,753 |
| Cash flow from operations | 40,394 | 22,607 | 16,355 |
| - per share | 1.47 | 0.95 | 0.98 |
| Net earnings | 13,828 | 4,745 | 10,491 |
| - per share | 0.50 | 0.20 | 0.63 |
| Capital expenditures | 85,019 | 18,449 | 6,148 |
| Total assets | 226,369 | 188,430 | 191,187 |
| Long-term debt | 75,083 | 48,996 | 97,785 |
| Shareholders' equity | 98,180 | 104,736 | 57,263 |

| **Operating** | 1993 | 1992 | 1991 * |
|---|---|---|---|
| Production | | | |
| Crude oil and NGLs (Bbls/d) | 2,144 | 134 | 145 |
| Natural gas (Mmcf/d) | 57.8 | 54.5 | 53.9 |
| Price | | | |
| Crude oil and NGLs ($/Bbl) | 17.35 | 15.03 | 17.24 |
| Natural gas ($/Mcf) | 1.35 | 1.20 | 1.26 |
| Reserves (proven and probable) | | | |
| Crude oil and NGLs (Mbbls) | 10,542 | 528 | 375 |
| Natural gas (Bcf) | 478.9 | 508.0 | 508.0 |
| Wells drilled, gross | | | |
| Oil | 7 | - | - |
| Gas | 100 | 97 | 82 |
| Service | 1 | - | - |
| Dry and abandoned | 2 | 2 | - |
| | 110 | 99 | 82 |

| **Shares traded (thousands) — Toronto Stock Exchange** | 1993 | 1992 | 1991 * |
|---|---|---|---|
| Class A | 9 | 18 | 302 |
| Class B | 20,880 | 11,036 | 2,501 |

| **Share price ($) — Toronto Stock Exchange** | | 1993 | 1992 | 1991 * |
|---|---|---|---|---|
| Class A | High | 21½ | 14.00 | 4.50 |
| | Low | 10¾ | 4.70 | 3.60 |
| | Close | 15.00 | 11⅜ | 4.30 |
| Class B | High | 15⅝ | 7¼ | 4.50 |
| | Low | 6¾ | 3.80 | 2.90 |
| | Close | 10⅛ | 7.00 | 3.95 |

| **Number of shares — (Class A and Class B — thousands)** | 1993 | 1992 | 1991 * |
|---|---|---|---|
| Weighted average outstanding | 27,514 | 23,787 | 16,739 |
| Year end outstanding | 28,588 | 26,406 | 19,160 |
| Fully diluted | 31,211 | 30,062 | 20,268 |

* 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

## Director Emeritus

George C. Solomon
President
Western Limited
Regina, Saskatchewan

## Corporate Head Office

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

## 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 offices at
Toronto, Montreal and Calgary

Mellon Securities Trust Company 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 |
| 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 |
| Tcf | Trillions of cubic feet |

# OCELOT ENERGY

*1994*

THIRD QUARTER

3

*Interim Report*
*to the shareholders for the period*
*ended September 30, 1994*

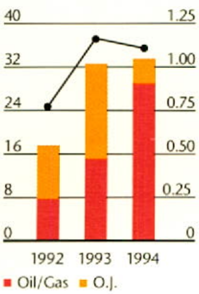
# Facts at a Glance

(unaudited)

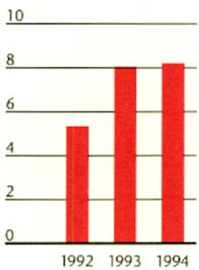
| | Three months ended September 30, 1994 | Three months ended September 30, 1993 | Nine months ended September 30, 1994 | Nine months ended September 30, 1993 |
|---|---|---|---|---|
| **Financial** | | | | |
| ($ thousands, except per share amounts) | | | | |
| Revenue | **24,618** | 49,239 | **83,702** | 153,721 |
| Funds generated from operations | | | | |
| For the period | **9,942** | 11,030 | **32,499** | 34,163 |
| From continuing operations[1] | **9,942** | 11,030 | **32,499** | 32,227 |
| Funds generated from operations per share | | | | |
| For the period | **0.34** | 0.39 | **1.12** | 1.26 |
| From continuing operations[1] | **0.34** | 0.39 | **1.12** | 1.19 |
| Net earnings | | | | |
| For the period | **2,898** | 3,999 | **11,732** | 11,987 |
| From continuing operations[1] | **2,898** | 3,999 | **11,732** | 11,996 |
| Net earnings per share | | | | |
| For the period | **0.10** | 0.15 | **0.40** | 0.44 |
| From continuing operations[1] | **0.10** | 0.15 | **0.40** | 0.44 |
| Capital expenditures | **17,220** | 9,593 | **44,984** | 73,548 |
| Working capital | | | **(153)** | 3,130 |
| Long-term debt | | | **85,361** | 70,205 |
| Obligations under capital leases (long-term) | | | **2,953** | 8,458 |
| **Operations** | | | | |
| Natural gas production (Mmcf/d) | **49** | 55 | **53** | 58 |
| Oil and NGLs production (Bbls/d) | **3,296** | 2,348 | **2,815** | 2,114 |
| Wells drilled | | | | |
| Gross | **16** | 45 | **37** | 53 |
| Net | **10.1** | 25.5 | **23.0** | 31.3 |

[1]Continuing operations do not reflect the results of the spin-out effective July 1, 1993 of four drilling-related operations into a separate publicly traded company.

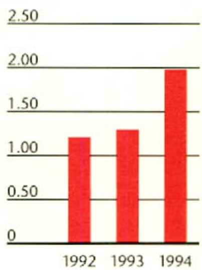
Cash Flow from Continuing Operations
Nine Months Ended Sept. 30
($millions) ($/share)




Average Daily Production
Nine Months Ended Sept. 30
(MBOE)




Gas Price
Nine Months Ended Sept. 30
($/Mcf)



## Corporate Overview

Ocelot remains on track with plans designed to add and optimize quality, long-life reserves and generate sustained compound growth for shareholders.

The company continues to make solid additions to value. The Monkman area in British Columbia is contributing significant new reserves and production and Ocelot will maintain its commitment to develop and expand the company's interest in this world-class natural gas play.

In Alberta, Ocelot has re-established itself as an oil and gas producer and expects to continue to add new reserves and production as its Alberta prospecting plan is implemented over the next few years.

The company is more strongly focused and continues to divest itself of non-core assets. In October, the sale of Ocelot's Nig Creek property was closed netting \$19.8 million to be applied to higher return capital projects.

Internationally, Ocelot continues to advance its plans to obtain significant international production. The Tanzanian joint venture project is proceeding towards a production startup in 1997.

All of the essential elements are in place for Ocelot to continue to generate sustained growth for the company and its shareholders.

## Financial Highlights

Ocelot continues to experience the success of increased oil production volumes and substantial improvements in petroleum and natural gas segment revenues and cash flow during the third quarter of 1994. Production and pricing gains in the nine months ended September 30, 1994 have resulted in a 40 per cent increase in revenue from petroleum and natural gas operations to \$38.0 million from \$27.2 million in the same period in 1993. For the three months ended September 30, 1994, petroleum and natural gas revenues were \$13.7 million compared to \$9.6 million in 1993. Segmented cash flow from petroleum and natural gas operations increased in the first nine months by 94 per cent to \$28.7 million in 1994 from \$14.8 million in 1993.

O.J. Pipelines Corp. had revenues of \$45.7 million in 1994 compared to \$126.5 million in 1993. Lower activity throughout the large-diameter pipeline construction industry is the primary reason for this reduction.

Total corporate revenues for the nine months ended September 30, 1994 were \$83.7 million as compared to \$153.7 million for the same period in 1993.

Operating and administrative expenses in the nine month period were \$45.8 million in 1994 compared to \$114.3 million in 1993 also reflecting the decreased levels of activity in the pipeline segment.

Funds generated from operations in the nine months ended September 30, 1994 totalled \$32.5 million compared to \$32.2 million from continuing operations in 1993. In the three month period ended September 30, 1994 funds from operations totalled \$9.9 million compared to \$11.0 million from continuing operations in the same period in 1993. Eighty-eight per cent of Ocelot's 1994 funds generated from operations were derived from petroleum and natural gas operations compared to 46 per cent in the first nine months of 1993. On a per share basis, funds generated from operations totalled \$1.12 per share compared to \$1.19 per share from continuing operations in 1993. Ocelot's net earnings for the nine months ended September 30, 1994 were \$11.7 million or \$0.40 per share, compared to \$12.0 million from continuing operations or \$0.44 per share in 1993.

Capital expenditures totalled \$45.0 million in the first nine months of 1994 compared to \$73.5 million in the same period of 1993 (which included the acquisition of the Sylvan Lake property for \$52.5 million). In the three months ended September 30, 1994 Ocelot's capital expenditures were \$17.2 million compared to \$9.6 million in 1993 which reflects the increased drilling activity in Ocelot's core areas of the B.C. Foothills and Sylvan Lake.

## Oil and Gas Operations

Liquids production increased 33 per cent from 2,114 barrels per day in the first nine months of 1993 to 2,815 barrels per day in the same period in 1994. Natural gas production decreased from a level of 58 million cubic feet per day in the first nine months of 1993 to 53 million cubic feet per day in the same period in 1994. The decline in natural gas production resulted from facility maintenance shutdowns, natural reservoir decline and minor property dispositions.

Liquids production for the three months ended September 30, 1994 increased 40 per cent to 3,296 barrels per day from third quarter 1993 production of 2,348 barrels per day. Natural gas production for the three months ended September 30, 1994 averaged 49 million cubic feet per day compared to 55 million cubic feet per day for the third quarter of 1993.

During the first nine months of 1994 Ocelot participated in the drilling of 37 wells (23.0 net). Of these, 18 (9.8 net) were gas, 16 (12.2 net) were oil and 3 (1.0 net) were abandoned. Sixteen wells (10.1 net) were drilled in the third quarter of 1994.

**British Columbia**

In the Monkman area of northeastern British Columbia, Ocelot continues its vigorous exploration and development program which has resulted in the addition of over 25 million cubic feet per day of net sales gas deliverability to the company.

This incremental deliverability results from participation in the drilling of four wells and the tie-in of another. Ocelot's

# Consolidated Statement of Earnings and Retained Earnings

(unaudited)

| Thousands | Three months ended September 30, 1994 | Three months ended September 30, 1993 | Nine months ended September 30, 1994 | Nine months ended September 30, 1993 |
|---|---|---|---|---|
| REVENUE | | | | |
| Operating | **$ 24,618** | $ 49,239 | **$ 83,702** | $ 153,721 |
| EXPENSES | | | | |
| Operating and administrative | **12,765** | 35,931 | **45,763** | 114,269 |
| Depletion and depreciation | **4,727** | 3,634 | **12,159** | 10,506 |
| Interest on long-term debt | **1,471** | 1,582 | **3,747** | 4,833 |
| Interest on obligations under capital leases | **284** | 474 | **1,076** | 1,701 |
| | **19,247** | 41,621 | **62,745** | 131,309 |
| EARNINGS BEFORE TAXES | **5,371** | 7,618 | **20,957** | 22,412 |
| Provision for taxes | | | | |
| Large Corporations and capital taxes | **165** | 214 | **650** | 685 |
| Deferred income taxes | **2,308** | 3,405 | **8,575** | 9,731 |
| | **2,473** | 3,619 | **9,225** | 10,416 |
| EARNINGS FROM CONTINUING OPERATIONS | **2,898** | 3,999 | **11,732** | 11,996 |
| Loss from discontinued operations* | **0** | 0 | **0** | 9 |
| NET EARNINGS FOR THE PERIOD | **2,898** | 3,999 | **11,732** | 11,987 |
| RETAINED EARNINGS, BEGINNING OF PERIOD | **37,898** | 23,224 | **29,064** | 15,236 |
| RETAINED EARNINGS, END OF PERIOD | **$ 40,796** | $ 27,223 | **$ 40,796** | $27,223 |

# Per Share Information

| | Three months ended September 30, 1994 | Three months ended September 30, 1993 | Nine months ended September 30, 1994 | Nine months ended September 30, 1993 |
|---|---|---|---|---|
| Weighted average number of Class A and Class B shares outstanding during the period (thousands) | **29,130** | 27,149 | **29,130** | 27,149 |
| Net earnings per Class A and Class B share | | | | |
| For the period | **$ 0.10** | $ 0.15 | **$ 0.40** | $ 0.44 |
| From continuing operations | **$ 0.10** | $ 0.15 | **$ 0.40** | $ 0.44 |
| Funds generated from operations per Class A and Class B share | | | | |
| For the period | **$ 0.34** | $ 0.39 | **$ 1.12** | $ 1.26 |
| From continuing operations | **$ 0.34** | $ 0.39 | **$ 1.12** | $ 1.19 |

* Discontinued operations reflect the results of the spin-out effective July 1, 1993 of four drilling-related operations into a separate publicly traded company.

**Saskatchewan**

In southwestern Saskatchewan, Ocelot commenced work on a 31-well drilling program in the company's Freefight natural gas project area. The program is scheduled for completion in the fourth quarter of 1994 to maintain field deliverability during the peak demand winter months. Work has also commenced on environmental studies to facilitate a 1995 drilling program in the same project area. This long-life shallow gas property continues to provide solid cash flow which contributes to the overall growth of the company.

## Marketing Environment

Natural gas prices averaged $1.95 per thousand cubic feet for the first nine months of 1994, up 56 per cent from the $1.25 per thousand cubic feet price for the nine months ended September 30, 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 $18.95 per barrel during the first nine months of 1994, consistent with the $18.89 per barrel received in 1993.

## International Activities

The major commercial terms for the Ocelot and TransCanada PipeLines joint venture gas-to-electricity project in Tanzania are expected to be finalized near year end 1994. A multilateral financing package, involving the World Bank, is being structured. Provided an appropriate credit enhancement package can be negotiated, commercial and financial closure is expected by mid-1995. On this schedule, production from the Tanzanian project would commence in 1997.

The company continues to seek out high potential international oil and gas properties which could be effectively optimized by Ocelot. The process of identifying and evaluating producing fields which meet Ocelot's investment criteria is ongoing.

## O.J. Pipelines

During the third quarter of 1994, O.J. Pipelines concluded final clean up on both the TransCanada PipeLines project in southern Ontario and Nova's Edson Mainline project.

Construction is also well underway on NOVA Corporation's Eastern Alberta System Mainline Loop. The 33 kilometer Matzhiwin East Loop is complete and work is progressing as scheduled on the 21 kilometer Makepeace Loop with crews expected to finish work at the end of November 1994.

Calgary, Alberta, November 4, 1994

Monkman area deliverability will increase from 20 mmcf/d to over 45 mmcf/d as these wells are tied in over the next nine months.

The first well drilled this year was a-88-H/93-O-8 which was flow tested at rates of up to 73 mmcf/d. Ocelot has a 32 per cent working interest in this well. The second well, c-16-J/93-P-4 was drilled and abandoned. The third well, c-54-J/93-P-4, flowed at a rate of 16 mmcf/d on clean-up after completion. This well has been tied in and will be produced to the West Sukunka plant and flow tested in November. Ocelot has a 50 per cent working interest in both of the second and third wells. The fourth well, d-28-I/93-P-4 flowed at rates up to 50 mmcf/d on completion. Flow testing of this well will also commence in November. Ocelot has a 33.3 per cent working interest in the fourth well.

Tie-in of Ocelot's 12.5 per cent working interest well located at d-98-J/93-P-4 was completed in the third quarter of 1994. The well commenced production on October 2, 1994.

The 1994 drilling program is part of a larger program which will see Ocelot drill approximately 18 wells in the British Columbia Foothills area over the period 1994 through 1996.

During the third quarter of 1994, Ocelot received an unsolicited premium price offer to purchase the company's Nig Creek property in the British Columbia Plains area. The transaction closed on October 27, 1994 and Ocelot netted \$19.8 million from this disposition of 25 bcf of natural gas reserves. These funds will be redeployed into higher return corporate projects.

**Alberta**

In the Sylvan Lake area of Alberta, Ocelot continues to add oil reserves and production. Of the 16 (12.2 net) oil wells drilled by Ocelot so far in 1994, 15 have been in the Sylvan Lake area. Ocelot anticipates it will have drilled 20 wells in the Sylvan Lake area by the end of 1994.

In the third quarter of 1994, Ocelot completed its first experimental horizontal oil well at Sylvan Lake. The well is currently producing at a rate of 200 barrels of oil per day. Given the success of this well, Ocelot is planning additional horizontal drilling at Sylvan Lake in 1995.

The waterflooding of the Sylvan Lake Pekisko "B" oil pool has been successfully implemented. Oil and natural gas liquids production at Sylvan Lake has been increased from 2,475 barrels per day in the first quarter of 1994 to 3,202 barrels per day in the third quarter. The increase is a result of both the current drilling programs and the successful implementation of the waterflood. The company anticipates that oil production at Sylvan Lake will exceed 4,000 barrels of oil per day by December 1994.

In other areas of Alberta, Ocelot continues to implement its exploration and drilling programs. The company has been very active in select areas in 1994 acquiring land and seismic data. During the third quarter, the company commenced its northern Alberta drilling program with at least five wells scheduled to be drilled this winter.

# Consolidated Statement of Cash Flows

(unaudited)

| Thousands | Three months ended September 30, 1994 | 1993 | Nine months ended September 30, 1994 | 1993 |
|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | |
| Net earnings for the period from continuing operations | **$ 2,898** | $ 3,999 | **$11,732** | $ 11,996 |
| Non-cash items: | | | | |
| Depletion and depreciation | **4,727** | 3,634 | **12,159** | 10,506 |
| Deferred income tax | **2,308** | 3,405 | **8,575** | 9,731 |
| Other | **9** | (8) | **33** | (6) |
| Funds generated from operations | | | | |
| Continuing | **9,942** | 11,030 | **32,499** | 32,227 |
| Discontinued operations* | **0** | 0 | **0** | 1,936 |
| Funds generated from operations | 9,942 | 11,030 | **32,499** | 34,163 |
| Changes in non-cash working capital | **343** | 12,341 | **5,927** | 9,633 |
| Discontinued operations* | **0** | 0 | **0** | 4,537 |
| | **10,285** | 23,371 | **38,426** | 48,333 |
| FINANCING ACTIVITIES | | | | |
| Increase (decrease) in long-term debt | **6,405** | (28,622) | **10,278** | 20,946 |
| Reduction in obligations under capital leases | **(444)** | (426) | **(4,116)** | (2,320) |
| Issuance of capital stock | **(26)** | 12,202 | **4,159** | 14,032 |
| Discontinued operations* | **0** | 0 | **0** | (163) |
| | **5,935** | (16,846) | **10,321** | 32,495 |
| Cash available for investing activities | **16,220** | 6,525 | **48,747** | 80,828 |
| INVESTING ACTIVITIES | | | | |
| Property and equipment – acquisitions | **(17,220)** | (9,593) | **(44,984)** | (73,548) |
| – disposals | **60** | 55 | **919** | 4,089 |
| Discontinued operations* | **0** | 0 | **0** | (4,082) |
| | **(17,160)** | (9,538) | **(44,065)** | (73,541) |
| INCREASE (DECREASE) IN CASH | **(940)** | (3,013) | **4,682** | 7,287 |
| CASH, BEGINNING OF PERIOD | **14,678** | 16,496 | **9,056** | 6,196 |
| CASH, END OF PERIOD | **$ 13,738** | $ 13,483 | **$ 13,738** | $ 13,483 |

* Discontinued operations reflect the results of the spin-out effective July 1, 1993 of four drilling-related operations into a separate publicly traded company.

# Consolidated Balance Sheet

| Thousands | As at September 30, 1994 (unaudited) | As at December 31, 1993 (audited) |
|---|---|---|
| **Assets** | | |
| CURRENT ASSETS | | |
| Cash | $ 13,738 | $ 9,056 |
| Accounts receivable | 21,167 | 26,184 |
| Inventories, at lower of cost and net realizable value | 1,361 | 412 |
| Prepaid expenses | 844 | 735 |
| | 37,110 | 36,387 |
| PROPERTY AND EQUIPMENT, net | 221,539 | 189,048 |
| OTHER ASSETS, at cost | 758 | 934 |
| | $ 259,407 | $ 226,369 |
| **Liabilities** | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 34,147 | $ 32,083 |
| Current portion of obligations under capital leases | 3,116 | 2,297 |
| | 37,263 | 34,380 |
| OBLIGATIONS UNDER CAPITAL LEASES | 2,953 | 7,888 |
| LONG-TERM DEBT | 85,361 | 75,083 |
| DEFERRED INCOME TAXES | 18,563 | 9,987 |
| FUTURE SITE RESTORATION | 1,196 | 851 |
| | 145,336 | 128,189 |
| **Shareholders' Equity** | | |
| CAPITAL STOCK | 73,275 | 69,116 |
| RETAINED EARNINGS | 40,796 | 29,064 |
| | 114,071 | 98,180 |
| | $ 259,407 | $ 226,369 |

# 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

## Corporate Head Office

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

## 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
offices at Toronto,
Montreal and Calgary

Mellon Securities Trust
Company offices at
New York

Printed in Canada

# OFFICERS

Michael D. Heule
*Vice President, Marketing*

W. David Lyons
*President and Chief Executive Officer*

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

Glenn D. Gradeen
*Executive Vice President and Chief Operating Officer*

Norman E. Hall
*General Counsel and Corporate Secretary*

Ivor J. Bond
*Vice President, Exploration and Land*

OCELOT ENERGY

Ocelot Energy Inc.
Suite 3300
Bow Valley Square II
205 - 5th Avenue S.W.
Calgary, Alberta, Canada
T2P 2V7
(403) 299-5700

Printed in Canada