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OCELOT ENERGY INC. 1991 ANNUAL REPORT

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Corporate Profile

Ocelot Energy Inc. is a publicly traded, independent Canadian energy company engaged primarily in two business activities — the exploration, production and marketing of natural gas and oil and the provision of contract services to the petroleum industry.

Ocelot Energy Inc. came into being on September 23, 1991 as a result of the approval of a Plan of Arrangement by the shareholders of Ocelot Industries Ltd. This plan provided for the oil and gas assets and the petroleum industry service assets of Ocelot Industries Ltd. to be the foundation of a separate new public company — Ocelot Energy Inc.

The mission of Ocelot Energy Inc. is to build a strong, well-financed, independent energy company engaged in business activities which will generate a healthy return for all its stakeholders.

ANNUAL MEETING

The Annual General Meeting of the shareholders of Ocelot Energy Inc. will be held in the Glenview Room of the Calgary Convention Centre, Calgary, Alberta on May 21, 1992 at 3:00 p.m. MDT.

The 1991 Ocelot Energy Inc. Annual Report is printed on Quintessence Remarque Velvet (100 lb. Cover and 80 lb. Text), a premium coated, acid free, recycled paper containing 50% pre-consumer waste. The Hostmann-Steinberg Series Q7250 inks are vegetable-based, manufactured with linseed oil and pine gum resins, and have only 15% or less Volatile Organic Compounds (V.O.C.'s). The varnishes are also vegetable-based and meet similar content standards.

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Highlights

	For the Period September 23, 1991 to December 31, 1991
FINANCIAL	
(thousands of dollars except where noted)	
Revenue	57,578
Earnings	10,491
Earnings per share (in dollars)	0.63
Cash flow from operations	16,355
Cash flow per share (in dollars)	0.98
Capital expenditures	6,976
Working capital at year end	19,120
Long-term debt at year end	98,133
Obligations under capital leases (long-term)	13,206
OPERATIONS	
Natural gas production (Mmcf/d)	54
Proven and probable gas reserves (Bcf)	508
Proven natural gas reserves (Bcf)	399
Natural gas reserve life (years)	20
Proven and probable oil & NGL reserves (MBbls)	375
Proven oil and NGL reserves (MBbls)	250
Proven and probable sulphur reserves (MLT)	684
Proven sulphur reserves (MLT)	483
Drilling rigs: Canada	19
United States	19
Pipeline construction spreads: Large diameter	1.5
Small diameter	1.0

Ocelot

Energy . . .

Building on

a Strong

Foundation

FINDING VALUE THROUGH EXPLORATION AND DEVELOPMENT ...

Ocelot has an exceptional track record as a low cost finder and producer of oil and natural gas. During the 1970s and the 1980s, Ocelot employees discovered and developed over 1.9 trillion cubic feet of natural gas reserves. Over 300 million cubic feet of deliverability was developed from these reserves.

Ocelot employees have also demonstrated the ability to be successful oil finders. During the early 1980s, Ocelot discovered and developed over 3500 barrels per day of gross oil production in Alberta.

Over the last two years, Ocelot has experienced continued exploration success with the addition of significant new gas discoveries in the Bullmoose-Sukunka area of northeastern British Columbia. Now positioned on a firm financial footing, Ocelot Energy remains committed to strategies which will continue the company's long tradition as a low cost finder and developer of new reserves.

STRENGTHENING THE BALANCE SHEET ...

Since emerging as a separate company on September 23, 1991, Ocelot Energy has dramatically strengthened its balance sheet. The company made major reductions in its bank debt over this short period of time. Between September 1991 and April 1992, Ocelot's bank debt was paid down by approximately \$36 million, reducing long-term bank debt to \$80.8 million by March 31, 1992. This was made possible by internally generated cash flow as well as by infusions of new equity capital that were successfully raised during this period.

SUCCESS IN DIRECT GAS MARKETING ...

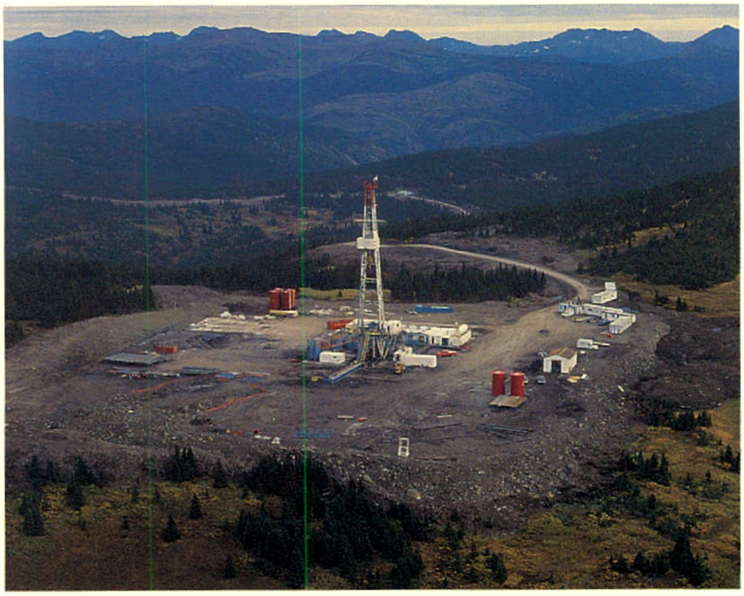
Ocelot has been successfully marketing its own natural gas production since 1982. The company continues to be one of Canada's most effective natural gas marketers.

Ocelot commenced participation in direct sales of natural gas in the fledgling Alberta industrial market in 1982 and successfully developed a gas supply portfolio for its British Columbia petrochemical operation in 1984. Following deregulation of the Canadian natural gas industry in early 1986, Ocelot secured four of the first five direct sales of natural gas to flow to eastern Canadian industrial customers.

The company then captured 50 percent of the direct sales of gas into the Saskatchewan industrial market following deregulation in Saskatchewan later the same year.

Ocelot has continued to participate in the development of eastern Canadian markets for its natural gas production and has entered into long term contracts to supply electrical co-generation projects in both Canada and the United States as well as local distribution companies in British Columbia.

Ocelot is an industry leader in the installation of small diameter pipelines that are put in place with minimal environmental disturbance.



Ocelot has been active in the Foothills area of British Columbia since the early 1970s. This area is currently one of the major natural gas plays in North America.

Ocelot's vigorous exploration and development program in the Bullmoose-Sukunka area has been exceptionally successful.

APPLYING INNOVATION AND TECHNOLOGY ...

Ocelot's success in finding and developing petroleum resources is closely tied to the effective application of new and innovative technologies. In northeastern British Columbia, Ocelot's highly technical and experienced staff are applying sophisticated geological and geophysical modelling to identify potential reservoirs in the Bullmoose-Sukunka play. The company has also been a pioneer in the application of remote electronic metering and data gathering in isolated and shallow gas operations to provide greater control of operating costs.

Ocelot is also a leader in the application of innovative technology to meet specialized environmental challenges. The company was one of the first to utilize a reverse osmosis process to treat produced fluids from a shallow gas field located within an area of high environmental sensitivity. This innovative use of technology was a key to ensuring that this development met critical environmental requirements. Ocelot's skill in applying new technologies is clearly an important part of the company's ability to find oil and gas, reduce costs and optimize returns.

INCREASING AND BALANCING THE RESERVE BASE ...

Ocelot has a strong asset base that balances long life reserves with higher potential exploration lands. Ocelot also targets the establishment of long life oil and gas reserves. Currently, Ocelot's reserve life index, at present rates of production, is over 20 years. Where possible, these reserves are being accelerated to produce at higher production rates and add greater value to the company.

In Saskatchewan, Ocelot's extensive shallow gas reserves provide solid cash flow with substantial lands remaining for further development. In northeastern British Columbia, the company's Foothills Project has already added substantial new reserves in the Bullmoose-Sukunka area. Ocelot has the potential to add up to one trillion cubic feet of new gas reserves in this area in future years. In order to more fully review the extraordinary potential of Ocelot's involvement in this play, the following two pages are devoted to the Foothills Project and the Bullmoose-Sukunka area.

BENEFITING FROM ENERGY SERVICES DEMAND ...

Ocelot Energy's wholly owned subsidiary, Lynx Energy Services Inc. (Lynx), completed two major large-diameter pipeline projects in Canada during 1991 and has been awarded additional major work in 1992. Lynx also has lean and efficient medium to deep contract drilling operations in the western Canadian and U.S. Rocky Mountain regions. The Lynx Energy Services group is highly experienced in applying technology in innovative ways to meet today's challenges. Lynx contributed significantly to Ocelot's cash flow in 1991 and has the potential to make major contributions in 1992.

The British Columbia Foothills ... a natural gas play of major proportions

Recent drilling successes in the northeastern British Columbia Foothills have confirmed that this area holds immense natural gas reserve potential. The Foothills area is currently one of the major natural gas exploration plays in North America. It has the potential to develop into one of the most important natural gas producing areas of western Canada.

The B.C. Foothills gas play extends for at least 100 kilometers along the British Columbia portion of the Rocky Mountain front. The play is focused on Triassic age reservoir rocks of the Pardonnet and Baldonnel formations that are incorporated in these steeply overturned and vertical structures that were formed during the creation of the Rocky Mountain fold-belt.

The intense fracturing that accompanied this folding and deformation has enhanced the porosity and permeability of these dolomitic reservoir rocks. Phenomenal deliverability and the long-life production potential of many of the wells drilled in this area results directly from this natural fracturing. Gas-charged structures with a vertical relief of up to 600 metres can be traced in the subsurface for tens of kilometers — providing the enormous storage capacity and long-life reserve potential of these reservoirs.

LONG-TERM INVOLVEMENT

Ocelot has been active in the Foothills of British Columbia since the early 1970s — participating in several of the early discovery wells drilled in this area. Ocelot's natural gas production from the area commenced in 1979 when the Bullmoose gas field was brought onstream. The West Sukunka gas field, in which Ocelot holds a 50 percent interest, was brought into production in 1981. Prior to 1981, Ocelot participated in the drilling of 10 wells. Five of these were completed as gas wells resulting in an initial area success rate of 50 percent.

MAJOR UNEXPLORED POTENTIAL

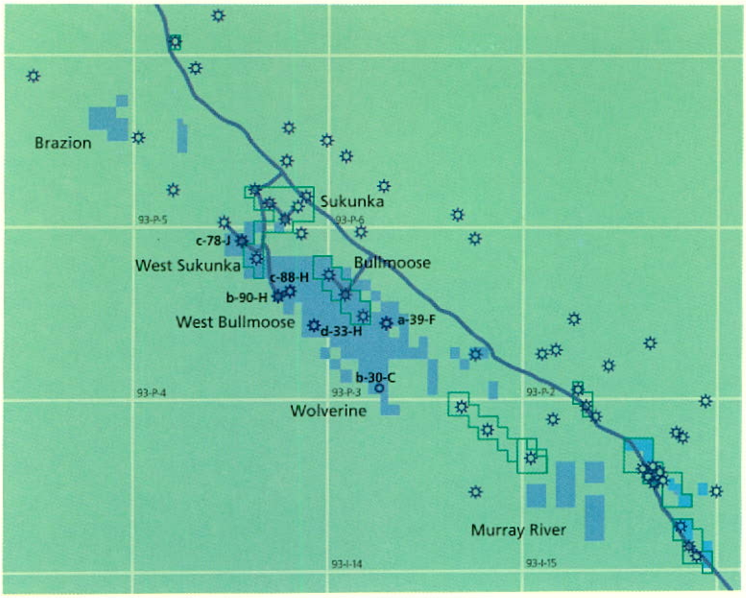
For most of the 1980s drilling on Ocelot's British Columbia lands was curtailed by limits to natural gas markets. Deregulation of the natural gas industry in British Columbia in 1987 created new opportunities for further exploration and development work in the Foothills area.

A history of sustained production from existing British Columbia Foothills area wells, over the early 1980s, provided the information to more accurately assess reserves in place. Ocelot's re-evaluation indicated reserves in place as much as ten times higher than the original estimates. Recognizing the underdeveloped value that remained in its current landholdings, Ocelot committed to devise and fund a major exploration and development program to exploit the enormous natural gas potential of the area.

During 1988 and 1989 Ocelot added to its already substantial area land position and seismic data base. By late 1989, a $22.6 million exploration and development drilling fund was raised and available for use. Before the end of 1989, construction on the first drilling location in Ocelot's current Foothills program was underway.

A MAJOR PARTICIPANT

Ocelot Energy is one of the major land holders in this area of the British Columbia Foothills with interests in 120,735 gross acres of land (32,130 acres net to Ocelot). It is also the only independent energy company with a significant land position in the B.C. Foothills exploration play. Ocelot is also the second most active participant in



Foothills Gas Project Area

- Ocelot Lands
- Royalty Interests
- Gas Wells (Ocelot Wells in Bold)
- Gas Pipelines

recent drilling with participation in five wells (all of them successful) from April 1, 1990 to December 31, 1991.

Ocelot Energy's drilling activity has been centered on a large block of contiguous land which encompasses prospective structural trends that extend from the West Sukunka and Bullmoose gas fields. These locations have been selected in conjunction with exploration partners to afford the opportunity for the earliest possible tie-in of production.

Ocelot also holds significant interests in the Brazion and Murray River areas located along trend from the Bullmoose-Sukunka area. These will form an important component of future exploratory drilling activities.

An additional 10 to 20 potential drilling locations have been identified seismically on Ocelot's interest lands in north-eastern British Columbia.

100 PERCENT SUCCESS IN CURRENT PROGRAM

Two of the first three wells of Ocelot's current program are now on production. West Sukunka c-78-J/93-P-4 and West Bullmoose b-90-H/93-P-4 were tied-in during November 1991. The third well, c-88-H/93-P-4, which is awaiting tie-in, is anticipated to be on production in the summer of 1992.

The fourth well in the program, East Bullmoose a-39-F/93-P-3, has been completed and tie-in options are being reviewed. The fifth well West Bullmoose d-33-H/93-P-3 was cased in early 1992 as a potential Triassic gas well and is awaiting completion. If currently economic, the d-33-H well could be tied-in before the end of 1992. A sixth well in the program, Wolverine b-30-C/93-P-3 commenced drilling during the first quarter of 1992.

The current exploratory and development program has been exceptionally successful. Four of the five wells drilled to date have been exploratory wildcat discoveries. Together they have added 279 bcf gross (64 bcf net to Ocelot) of new gas reserves.

One well, c-78-J, was a development well drilled into an existing gas pool. Reserves attributed to this well are 83 bcf gross (10.2 net to Ocelot) of sales gas reserves.

BUILDING FOR THE FUTURE

Ocelot Energy's program for vigorous exploration and development in the Foothills area of British Columbia is based on extensive knowledge gained through drilling as well as on a data base available from over 1,000 kilometres of seismic. Approximately 50 percent of this seismic data is state-of-the-art — having been recorded since mid-1988.

An additional 10 to 20 potential drilling locations have been identified seismically on Ocelot's interest lands in the Bullmoose-Sukunka, Brazion and Murray River areas. Ocelot intends to continue its exploratory drilling program in the British Columbia Foothills area as long as early tie-in of wells is feasible and the company is successful in developing markets for its natural gas production.

President's Message

After several difficult years, the new Ocelot Energy Inc. has emerged — focused, confident and showing clear evidence of strong recovery.

We have all learned some hard lessons. We have been put to the test as a company, as shareholders and as individual employees. From these lessons, and from our will to rebuild Ocelot, have come the strategies that will be the foundation for maximizing Ocelot's financial health and rebuilding our asset base.

Our immediate priorities are clear. While our balance sheet is now strong, we are committed to make it stronger. At the same time, we will explore for oil and gas — creating value for our shareholders through quality reserve additions.

The last six months have seen significant balance sheet improvements with major reductions in Ocelot's long term debt. We paid down bank debt by approximately $36 million between September 1991 and April 1992. This was accomplished in two ways. Part of this came from internally generated cash flow and the balance came from new infusions of equity capital that we successfully raised.

But, as sensitive as we are to debt reduction, we are equally committed to create new value and rebuild our company's asset base through a disciplined and vigorous oil and gas exploration program. Ocelot has retained a strong in-house prospect evaluation and exploration play development team. Our success in the Bullmoose-Sukunka play is clear evidence that our people have what it takes to be low cost "finders." We also have solid operating and marketing expertise and know how to apply these skills effectively.

As we rebuild our assets, we continue to devote significant attention to our British Columbia natural gas plays. At the same time, we are also looking closely at other areas where new reserves will be a good fit for us. We will explore business synergies that will produce long-lasting value. We will continue to build an organization within Ocelot where teamwork among individuals and among different disciplines creates a stronger and more successful enterprise. We will focus on the things we do best — and, in so doing, we will build a stronger company.

Ocelot's petroleum industry services subsidiary, Lynx Energy Services Inc., also performed exceptionally well during 1991. The combined contribution of the Lynx operations represented a significant addition to Ocelot Energy's cash flow.

At Ocelot Energy, our people have what it takes to be low cost "finders" of gas and oil.

Ocelot Energy president David Lyons (left) is briefed on current British Columbia exploration plays by Ocelot geologist Jane Crandall and senior geologist Kelly Kingsmith.

The dedication and resiliency of our people have been critical to the success we have been able to achieve. We are grateful to them for their support. We also thank our shareholders and our fund partners who continue to support Ocelot with their investments.

These are very challenging times to be in the oil and gas business. These are also times of great opportunity. I am confident that, as Ocelot maximizes its financial health and rebuilds its asset base, we will create a strong, independent energy company that will generate a healthy return for all its stakeholders.

W.D. Lyons

President

April 8, 1992

Oil and Gas Operations

Ocelot Energy's natural gas reserve base and natural gas production increased significantly during 1991 through a successful western Canadian program of exploration, development and acquisitions.

At year end, Ocelot Energy's gas reserves were over 500 Bcf with 399 Bcf proven and 109 Bcf probable. The company has interests in 597,271 acres of land (297,290 acres net) with 310,477 acres (171,151 acres net) currently undeveloped.

At December 31, 1991, Ocelot Energy had an interest in 522 producing gas wells and 10 producing oil wells in western Canada. In 1991 Ocelot Energy participated in the drilling of 97 wells of which 92 were successfully completed resulting in a 95 percent drilling success rate.

In northeastern British Columbia, successful exploratory and development drilling programs during 1991 resulted in major additions to natural gas reserves and boosted deliverability. In southwestern Saskatchewan, Ocelot Energy added to its properties by acquiring a majority working interest in 294 gas wells in the Freefight area and an additional 47 wells in the Crane Lake area. This addition to shallow gas reserves and production was part of the restructuring of the company completed in September 1991. An additional 81-well Saskatchewan drilling program by Ocelot in the last quarter of 1991 further increased gas production, enabling Ocelot to maintain deliverability from existing reserves.

Highly experienced teams of Ocelot employees have a strong track record of identifying oil and gas prospects with exceptional potential.

(From the left) Colin Murray, senior geologist and Ivor Bond, vice president, exploration and land, examine recent B.C. Foothills area core samples while Wayne Keedwell, manager, geological operations and Glenn Gradeen, executive vice president discuss core sample x-rays.

Ocelot has a strong asset base with long life reserves. At present rates of production, Ocelot's reserve life index is over 20 years.

RESERVES

(as at December 31, 1991) [1,2]

	Natural Gas (Bcf)	Crude Oil & NGLs (MBbls)	Sulphur (MLT)
PROVEN RESERVES			
Reserves – Opening Balance (3)	139	132	323
Added by drilling	20	2	93
Acquisitions and dispositions (4)	252	168	92
Production	(12)	(52)	(25)
Proven reserves at December 31, 1991	399	250	483
Probable Reserves	109	125	201
Total Proven and Probable Canadian Reserves	**508**	**375**	**684**

(1) This table shows changes over 1991 from the opening proven reserve balance of Ocelot Industries Ltd. at January 1, 1991 to the closing proven reserve balance of Ocelot Energy Inc. at December 31, 1991.
(2) Reserves at December 31, 1991 include 6.57% of the Grosvenor Park Natural Gas Fund and 11.315% of the Grosvenor Park (1989) Gas Limited Partnership.
(3) The proven reserves of Ocelot Industries Ltd. as at January 1, 1991.
(4) Includes the reserves acquired from Lone Pine Resources Ltd. by Ocelot Energy Inc. at September 23, 1991.

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 geologic and engineering data, appear with a high degree of certainty to be recoverable at commercial rates in the future from known oil and gas reservoirs under presently anticipated economic and operating conditions.

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

ESTIMATED NET CASH FLOWS FROM RESERVES

(as at December 31, 1991)

	Discounted at 10%	Discounted at 15%
Proven reserves	$284,005,599	$191,105,106
Probable reserves	24,659,337	16,596,710
Total proven and probable reserves	**$308,664,936**	**$207,701,816**

NATURAL GAS PRODUCTION

	Millions of cubic feet per day
Average daily production (September 23 - December 31, 1991)	53.9
Average daily production (January 1 - December 31, 1991)	32.9*

* Includes Lone Pine Resources Ltd. acquisition effective September 23, 1991.

Ocelot is the only independent energy company with a significant land position in the British Columbia Foothills – one of the major natural gas plays in North America.

CONTINUED SUCCESS IN THE BULLMOOSE-SUKUNKA EXPLORATION PROGRAM

Ocelot Energy is the only Canadian independent with a significant working interest in the prolific Bullmoose-Sukunka natural gas play in northeastern British Columbia. Ocelot owns interests ranging from 2.5 percent to 100 percent in 120,735 gross (32,130 net) acres in the Foothills area.

Ocelot now has working interests in three major natural gas fields in this area — the West Sukunka gas field, the Bullmoose gas unit and the newly discovered West Bullmoose gas field. Together, these areas have a current reserve base of 601 Bcf gross (165 Bcf net to Ocelot).

During 1989, Ocelot raised $22.5 million in third party, joint venture funding. Most of these funds have now been applied to programs in the British Columbia Foothills area generating major reserve additions for the company. Ocelot will continue with its northeastern British Columbia drilling program to allow the company to take full advantage of the high potential exploration prospects available in the Foothills area of British Columbia.

Two exploratory wells were drilled in 1991 as part of the Bullmoose-Sukunka drilling program jointly operated by BP Canada and Ocelot. The first well, West Bullmoose b-90-H/93-P-4, in which Ocelot and drilling fund partners hold a 50 percent interest, added 51 Bcf to Ocelot's gas reserves. Production from this successful exploratory well commenced in October 1991 at a daily production rate of approximately 50 mmcf of raw gas. The second successful well drilled during 1991 was the East Bullmoose a-39-F/93-P-4 well in which Ocelot and drilling fund partners have a 20 percent working interest. This well which was production tested at 20-26 mmcf per day of raw gas is estimated to have a sales gas rate of approximately 10 mmcf per day.

A third 1991 well, West Bullmoose d-33-H/93-P-4, was spudded in mid-September and was drilling at year-end. This well has now been cased as a potential gas well and is awaiting completion early in 1992. The next well in this program, and the sixth to be drilled in Ocelot's program, is the Wolverine b-30-C/93-P-3 exploratory wildcat. This well, located along a structural trend some 16 kilometers from the d-33-H well, was spudded in February 1992.

LANDHOLDINGS – DEVELOPED AND UNDEVELOPED

(as at December 31, 1991)

	Gross Hectares	Net Hectares	Gross Acres	Net Acres
CANADA				
British Columbia	80,760	23,870	199,559	58,982
Alberta	7,424	3,841	18,560	9,602
Saskatchewan	94,760	83,167	234,152	205,506
Total	182,944	110,878	452,271	274,090
INTERNATIONAL				
Cameroon	58,000	9,280	145,000	23,200
TOTAL LAND HOLDINGS	**240,944**	**120,158**	**597,271**	**297,290**

Does not include varying royalty interest in 42,109 acres.

Ocelot has been successfully marketing its own natural gas production since 1982. The company is one of Canada's most effective gas marketers.

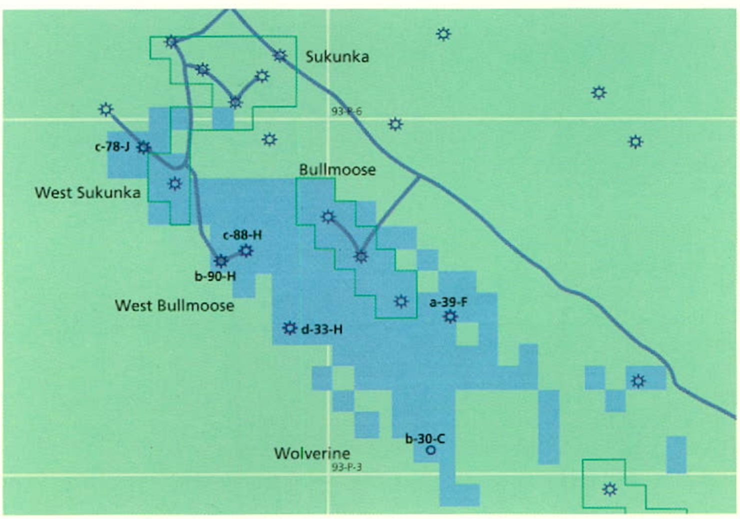
(From the left) Paul Pedersen, manager, engineering, and Mike Heule, vice president, marketing, review gas production reports with production revenue accountant Vicky Rutano.

Bullmoose Sukunka

■ Ocelot Lands

✡ Gas Wells (Ocelot Wells in Bold)

— Gas Pipelines



Production from Ocelot's original well in the West Sukunka area, c-45-J/93-P-4, doubled in 1991. Changes to government regulations allowed production from the West Sukunka c-45-J well, initially drilled in 1979, to go to 54 mmcf per day of sales gas (27 mmcf per day net to Ocelot) from a previous production level of 28 mmcf per day (14 mmcf per day net to Ocelot). The capacity of facilities handling gas production from this well had to be increased in order to effect this change.

Natural gas sales from Ocelot's West Bullmoose and West Sukunka properties include direct gas sales of up to 50 mmcf per day to a variety of markets. These include local distribution companies in British Columbia, industrial customers in B.C. and the U.S. Pacific northwest, commercial and institutional markets in eastern Canada and small aggregator marketers serving California and the Pacific northwest.

PRODUCTION OPERATED AT NIG CREEK AND LAPP AREAS

Ocelot Energy owns working interests ranging from 3 1/3 to 100 percent in 23,572 gross acres (10,795 net) in the Nig Creek North and Nig Creek areas of northeastern British Columbia. The company operates a gas gathering, dehydration and compression system at the Nig Creek North field. These

Ocelot is a leader in the development and application of innovative technologies to address specialized environmental challenges.

facilities were constructed by Ocelot and have been onstream since November 1990. These state-of-the-art facilities can be controlled remotely ensuring efficient year-round production from this isolated area. Average daily gas sales from the Nig Creek North field for 1991 were 3.6 mmcf per day net to Ocelot. There are currently eight wells producing to Ocelot's Nig Creek North facility.

Commencing in November 1991, gas production from Nig area is marketed under long term contracts to a variety of markets. Customers include an Ontario co-generation facility, a B.C. local distribution company, a small B.C. aggregator and B.C. industrials requiring natural gas.

In the Lapp area, 50 kilometers northeast of the two Nig properties, Ocelot owns working interests ranging from 3 1/3 to 33 1/3 percent in 10,911 gross acres (1,659 net). The Lapp property was recently discovered and developed and has been onstream since February 1991. Ocelot constructed, and operates by satellite, a gas gathering system and dehydration and compression facilities in the Lapp area. Average daily gas sales for 1991 were 0.6 mmcf per day net to Ocelot. There are currently three wells producing to Ocelot's Lapp facility.

Gas production from the Lapp area is marketed under long term contracts that supply a B.C aggregator which remarkets the gas to a B.C. local distribution company and a B.C. co-generation plant as well as U.S. Pacific northwest markets.

FREEFIGHT ACQUISITION ADDS SIGNIFICANT PRODUCTION

In September 1991, Ocelot Energy acquired working interests ranging from 10 percent to 100 percent in 89,200 gross acres of land (81,816 net) in the Freefight shallow gas area of southwestern Saskatchewan. This acquisition gave Ocelot a total of 374 producing wells, gathering systems, pipelines and dehydration and compression facilities capable of handling approximately 30 mmcf per day. Since September 1991, Ocelot has continued development of this property,

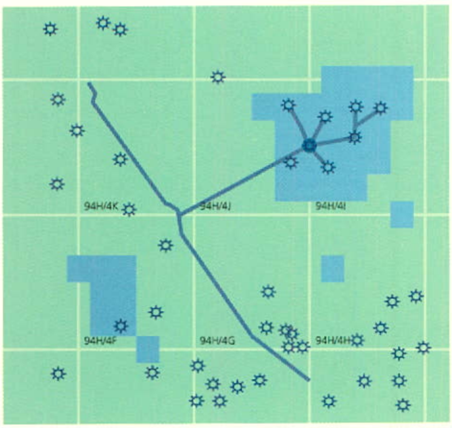
TOTAL WELLS DRILLED

	Total 1991 Drilling (1)		Sept. 23 to Dec. 31, 1991	
	Gross	Net(2)	Gross	Net
Development				
Gas	91	64.22	82	58.79
Dry	1	0.20	—	—
Total	92	64.42	82	58.79
Exploratory				
Gas	1	0.12	—	—
Dry	4	1.17	—	—
Total	5	1.29	0	0

(1) Includes wells drilled by Ocelot Industries Ltd. from January 1, 1991 to September 23, 1991 and by Ocelot Energy Inc. from September 23 to December 31, 1991.
(2) The company's interests in drilling programs have been included using Ocelot's working interest after payout of applicable Drilling Funds.

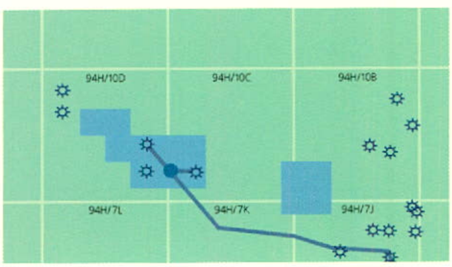
Nig Creek

Ocelot Lands
Gas Wells
Gas Pipelines
Compressor Station



Lapp

Ocelot Lands
Gas Wells
Gas Pipelines
Compressor Station



In 1991, Ocelot added 282 billion cubic feet of natural gas reserves through the acquisition of a large shadow gas producing property in southwestern Saskatchewan.

At the Freefight compressor station in southwestern Saskatchewan, gas field operators Perry Anton (from left) and Perry Schell join in an informal meeting with field superintendent Laverne Wombold and Freefight production engineer Doreen Rempel.

completing an additional 81 development wells. Partial financing for the 81-well program was raised through a farmout. An additional 60-80 Freefight area wells are planned for 1992 to maintain deliverability.

Gas sales from Freefight, at December 31, 1991, following the completion in December of 81 additional wells averaged 25 mmcf per day gross (17 mmcf per day net).

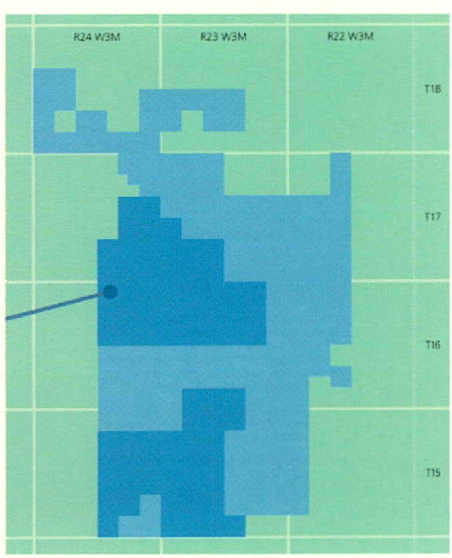
Freefight

Ocelot Lands

Area of Producing Wells (374 Gas Wells)

Gas Pipelines

Compressor Station



In addition to its interests in the Freefight area of Saskatchewan, Ocelot also acquired working interests ranging from 30 percent to 100 percent in 44,057 gross acres (37,597 net) in the Crane Lake area of southwestern Saskatchewan. The company's interest in this area includes working interests in 42 producing gas wells. Average daily gas production from Crane Lake in December 1991 was 3.2 mmcf per day net.

Gas production from the Freefight and Crane Lakes areas of Saskatchewan is contracted under direct sale arrangements to a variety of markets including Saskatchewan industrial markets, eastern Canadian core markets and, starting in 1993, Canadian and U.S. co-generation facilities.

Petroleum

Industry

Operations

Ocelot Energy supplies services to the oil and gas industry through the activities of a wholly owned subsidiary — Lynx Energy Services Inc. Lynx is engaged in pipeline construction, contract drilling of oil and gas wells and the manufacture, sale, repair and rental of oilfield equipment. The combined contribution of the Lynx divisions and operations represented a significant contribution to Ocelot Energy's cash flow during 1991.

PIPELINING CONSTRUCTION ACTIVITY INCREASES IN 1991

Lynx provides pipeline construction capabilities through two divisions. O.J. Pipelines, based in Nisku, Alberta, is one of Canada's major large diameter pipeline construction companies. South Eastern Pipeline Construction, based in Medicine Hat, Alberta, is one of the leading small diameter pipeline construction operations in southern Alberta and Saskatchewan.

In 1991, O.J. Pipelines completed two major construction projects for TransCanada PipeLines Limited (TCPL). Ninety-nine kilometers of 42-inch pipe was completed in northern Ontario in mid-1991. By the end of 1991, a second project of 154 kilometers of 42-inch pipe was substantially completed for TCPL — also in northern Ontario. The combined value of these contracts was approximately $158 million.

In late 1991, O.J. Pipelines was successful in being awarded a contract for a $40 million, 55-kilometer project of 42-inch pipe to be constructed between Winnipeg, Manitoba and Kenora, Ontario between December 1991 and April 1992.

During 1991, South Eastern Pipeline Construction was successful in being awarded contracts appropriate to its smaller diameter pipelining mandate. This operation is an industry leader in the installation of small diameter lines which must be put in place with minimal environmental disturbance. In the last few years, South Eastern has successfully installed small diameter pipelines and gathering lines in environmentally sensitive areas like the Great Sand Hills of Saskatchewan.

DRILLING CONTRACTORS HOLD THEIR OWN IN TOUGH MARKET

Ocelot owns 38 land-based drilling rigs operating in Canada and the United States. Despite overall low rig utilization in North America, Ocelot's drilling operations contributed positively to cash flow in 1991. In Canada, Cactus Drilling, based in Calgary, Alberta, has 19 rigs capable of operating at

DRILLING RIG UTILIZATION[1]

	Total Operating Days		Percentage Utilization		Comparitive Industry Utilization[2]	
	1991	1990	**1991**	1990	**1991**	1990
Cactus Drilling	**2336**	2674	**32%**	40%	**32%**	39%
Cardinal Drilling	**1536**	1830	**22%**	20%	**22%**	29%
Total	**3872**	4504				

(1) Utilization figures are the calendar year January 1, 1991 to December 31, 1991 and the comparative period in 1990.
(2) Source: Canadian Association of Oilwell Drilling Contractors in Canada and Drilling Record Inc. in the United States.

Lynx Energy completed two major large-diameter pipeline projects in 1991 and has been awarded additional major work in 1992.

(From the right) Art Molina, Lynx Energy's manager, corporate accounting, briefs Ocelot Energy vice president, finance Doug Cutts and Lynx Energy chairman Bill Kelsay on the current performance of divisions within Lynx Energy.

In mid-1991, the O.J. Pipelines division of Lynx Energy completed a 99-kilometre section of 42-inch pipeline in northern Ontario. An additional 154-kilometre section, also in northern Ontario, was virtually complete at the end of 1991.

medium to deeper drilling depths. In the United States, Cardinal Drilling, based in Billings, Montana, also operates 19 medium to deep drilling rigs. Both companies have expertise in horizontal and directional drilling as well as conventional drilling.

Both Cactus and Cardinal have modern, well-maintained rigs making them very competitive in the current depressed market for contract drilling services.

LYNX TOOL MEETS DEMAND WITH QUALITY PRODUCTS

Lynx Tool Company manufactures, sells, repairs and rents downhole equipment in both Canada and the United States. The company emphasizes quality, reliability and superior customer service. Lynx Tool has been successful in maintaining a loyal base of customers for its specialized high quality products.

Management's Discussion And Analysis

RESULTS OF OPERATIONS

GENERAL

Ocelot Energy Inc. is engaged in oil and gas exploration and development and the petroleum industry services business (which comprises pipeline construction; contract drilling of oil and gas wells; and the manufacture, sale, repair and rental of oilfield equipment). On September 23, 1991 the Company acquired these businesses from Ocelot Industries Ltd. (Industries) pursuant to a plan of arrangement along with the oil and gas assets of Lone Pine Resources Ltd. Prior to September 23, 1991, the Company had no active operations.

The Company's operations are conducted through these two business segments: natural gas and petroleum operations and petroleum industry services operations. Both of these business segments operate in very competitive markets.

Total revenues for the Company amounted to $57.6 million for the period September 23, 1991 to December 31, 1991, which resulted in earnings from operations of $17.0 million. Net earnings for the period amounted to $10.5 million ($0.63 per share) after interest charges and taxes.

These financial results are attributable to a number of factors and will be analyzed by segment below. For comparative purposes only, the unaudited proforma earnings from operations for the years ended December 31, 1991 and December 31, 1990 have been presented to facilitate discussion of variances in operations on an annual basis. The unaudited proforma results give effect to the purchase of the natural gas and petroleum operations of Industries and Lone Pine Resources Ltd. and the purchase of Industries' petroleum industry services operations as if they had occurred on January 1, 1990. Actual results for the period October 1, 1991 to December 31, 1991 were combined with the proforma results for the nine months ended September 30, 1991 to present the unaudited proforma results for the year ended December 31, 1991.

NATURAL GAS AND PETROLEUM OPERATIONS

Year ended December 31, 1991 compared to year ended December 31, 1990:

The proforma results for the year December 31, 1991 reflect an increase from 1990 of $2.0 million in revenues and $1.4 million in cash flow from operations. The improvement in this segment's performance is a direct result of increased natural gas production and processing revenues. The Company's ownership of its gas gathering and processing facilities in West Sukunka has enabled the Company to decrease its operating costs which resulted in increased earnings. The depletion and depreciation charged to this segment in 1991 was higher by $1.6 million compared to that charged in 1990 due to a combination of higher production volumes and the commencement in 1991 of depreciation on property under capital leases.

September 23, 1991 to December 31, 1991:

The natural gas and petroleum operations recorded revenues of $6.9 million in 1991, and contributed $3.0 million to earnings from operations. Approximately 79% of the Company's 1991 natural gas production volume was attributed to the West Sukunka and Freefight areas. In the West Sukunka area, the Company realized most of its production from its c-45-J well (a 50% working interest well, which is capable of producing up to 60 Mmcf per day of sales gas). Production was also generated from the b-90-H well which commenced production in October, 1991. The Company's current interest in this well (which is capable of producing up to 60 Mmcf per day of sales gas) is approximately 8%. The Company's interests in the Freefight area includes working interests ranging from 10% to 100% in 455 producing gas wells.

Factors affecting ongoing operations:

The Company estimates that it will average approximately 50 Mmcf per day of natural gas production in 1992 which takes into account annual plant turnarounds downstream of the Company's producing fields. The majority of production will continue to come from the West Sukunka and Freefight areas in 1992.

The focus of this segment has been directed towards exploration and development capital projects since 1988 in order to build the Company's production and reserves base. It is expected that as production grows more emphasis will be placed on production activities than in the past to ensure the continued maximization of production from existing fields. Accordingly, there may be a corresponding reduction in the rate of capitalization of exploration and development overhead expenses.

The Company will be participating in a sixth well in the Bullmoose-Sukunka area in 1992, the financing of which will be provided from the drilling fund financing arranged in 1989. In addition, the Company will conclude the capital expenditures in the second drilling fund raised in 1989 with additional drilling in northeastern British Columbia.

The terms of these drilling funds are such that the Company receives a relatively small revenue share before the drilling funds reach payout, and converts to a more significant share after payout. Payouts are ascertained on a drilling fund basis and it is anticipated that reversions to more significant revenue shares will commence in mid 1996.

NATURAL GAS AND PETROLEUM OPERATIONS

	September 23 to December 31, 1991 (audited)	Proforma Year Ended December 31, 1991 (unaudited)	1990
	(Millions of Dollars)		
Revenue	6.9	20.7	18.7
Earnings from operations	3.0	8.7	8.9
Depreciation and depletion	2.0	5.8	4.2
Cash flow from operations	5.0	14.5	13.1
Natural gas production (Mmcf per day)	53.9	45.3	38.3

PETROLEUM INDUSTRY SERVICES OPERATIONS

Year ended December 31, 1991 compared to year ended December 31, 1990:

The proforma results for the year ended December 31, 1991 reflect an increase of $100.1 million in revenues and $22.1 million in cash flow from operations. The improvement in this segment's performance was primarily derived from the pipeline construction division which was successful in being awarded two major contracts in 1991, which had a combined value of $158 million. Both the contract drilling and oilfield equipment division experienced lower revenues than 1990 due to a decrease in industry drilling activity. The contract drilling division experienced a 14% reduction in operating days from 4,504 operating days in 1990 to 3,872 operating days in 1991. Earnings from operations for the contract drilling division in 1991 was also reduced by the impact of a review of the operating capacity of the contract drilling rig equipment in the United States which resulted in a write-off of rig equipment in the amount of $1.4 million.

September 23, 1991 to December 31, 1991:

The petroleum industry services operations contributed $50.7 million of revenues and $14.1 million of earnings from operations. In this period, a significant portion of these revenues was derived from the pipeline construction work on Spread G of TransCanada PipeLines' (TCPL) summer 1991 mainline construction project.

Factors affecting ongoing operations:

During 1991, the pipeline construction division participated in the increased activity levels for this industry as the demand for pipeline construction continued on the upswing. Demand for pipeline construction is affected by various factors including the demand for natural gas and and crude oil; the age, condition and capacity of existing pipelines; political and economic influences; and government regulations. Planned projects may be accelerated, deferred or cancelled in response to these factors. As a result, revenues from such projects are subject to substantial fluctuations from year to year due to timing of such projects. Major Canadian natural gas transmission

PETROLEUM INDUSTRY SERVICES OPERATIONS

	September 23 to December 31,1991 (audited)	Proforma Year Ended December 31, 1991 (unaudited)	Proforma Year Ended December 31, 1990 (unaudited)
		(Millions)	
Revenue			
Pipeline construction	$41.7	$159.3	$ 55.3
Contract drilling	7.6	35.1	38.6
Oilfield equipment	1.4	6.6	7.0
Total revenue	**$50.7**	**$201.0**	**$100.9**
Earnings from operations	$14.1	$ 21.1	$ 0.3
Depreciation	$ 1.2	$ 6.4	$ 5.1
Cash flow from operations	$15.3	$ 27.5	$ 5.4

companies are continuing their plans for significant capital expenditures, including large-diameter pipeline construction projects to expand the Canadian pipeline infrastructure. This is due in part to increasing demand for natural gas. In addition, increases in demand for Canadian natural gas in the United States have reduced excess pipeline capacity. Increases in the volume of Canadian natural gas delivered to major population centres in the United States will require the continued expansion of the existing Canadian pipeline system. The Company's large-diameter pipeline construction division, O.J. Pipelines, one of the major companies in the Canadian pipeline construction industry, continues to successfully participate in this high cycle of construction activity. The Company anticipates that this high level of pipeline expenditures will continue through 1993 and in fact was awarded Spread J of TCPL's 1992 winter mainline construction project, valued at approximately $40 million on November 14, 1991. Construction on this project commenced on December 2, 1991 and was substantially completed in March, 1992.

The demand for contract drilling services is affected primarily by oil and gas prices and the associated impact of these prices on drilling budgets of exploration and development companies to replace depleting petroleum and natural gas reserves. Due to the current instability in oil and gas prices, the Company expects that 1992 will experience a marginally lower level of activity as compared to 1991.

The oilfield equipment business is directly dependent on the level of oil and gas drilling and production activity which is primarily dependent upon demand for and prices of oil and gas.

LIQUIDITY AND CAPITAL RESOURCES

During the period from September 23, 1991 to December 31, 1991, funds generated from operating activities amounted to $16.4 million ($0.98 per share). The natural gas and petroleum operations contributed $5.0 million and the petroleum industry services operations contributed $15.3 million. These contributions to cash were reduced by interest charges on the Company's debt obligations amounting to approximately $3.7 million.

During this period, the Company raised $11.3 million of net proceeds from Special Warrants pursuant to an underwriting agreement entered into on November 15, 1991. This transaction closed on January 27, 1992 and has been reflected in the 1991 financial statements as a reduction of long-term debt as these proceeds were applied to the Company's Canadian dollar bank loan.

Capital expenditures in 1991 totalled $8.8 million and consisted primarily of the following items: $2.1 million in development drilling in the Freefight area; $1.8 million to complete wellsite and gas gathering facilities in the West Sukunka area; $1.3 million to acquire natural gas interests; $0.6 million for pipeline construction equipment; and capitalized exploration and development overhead expenses of $1.5 million. Lease financing was arranged for the construction of the wellsite and gas gathering facilities in the West Sukunka area.

Another significant source of operating cash in 1991, was the change in the net receivables/payables position by $9.3 million. This change was primarily attributable to the collection of net receivables in the pipeline construction division from September 23, 1991.

The Company's 1992 capital budget could result in capital expenditures of approximately $21.3 million, comprising $13.4 million by the natural gas and petroleum operations and $7.9 million by the petroleum industry services operations. The planned capital expenditures for the natural gas and petroleum segment include the drilling of approximately 60 wells in the Freefight, Saskatchewan area in the latter part of 1992 for approximately $4.3 million, and required production equipment, land purchases and capitalized exploration and development overhead expenses. In the petroleum industry services operations, the majority of the planned capital expenditures in 1992 represents pipeline construction equipment and drill pipe and drilling rig enhancements. The 1992 budgeted capital expenditures in both segments are subject to senior management approvals prior to any capital commitment, and if approved, will be funded through internally generated cash flow.

In addition to the Special Warrant issuance described above, the Company also completed a public share issuance pursuant to an underwriting agreement dated January 15, 1992 to issue 2,175,000 Class B subordinate voting shares and realized net proceeds of approximately $9.7 million on January 30, 1992. These funds were applied to the Company's Canadian dollar bank loan. It is the Company's intention to further reduce its long-term debt with available cash flow from time to time.

The Company believes that the Class B subordinate voting shares may from time to time be undervalued and therefore filed a normal course issuer bid for the purchase of up to a maximum number of 978,981 Class B subordinate voting shares. The normal course issuer bid commenced on March 3, 1992 and will terminate on March 2, 1993.

ENVIRONMENTAL MATTERS

The Company's operations involve the use or handling of materials and products that may be classified as environmentally hazardous substances. Laws and regulations protecting the environment have become more stringent in recent years. The Company believes that compliance with existing environmental protection requirements will not have a material effect on earnings or the competitive position of the Company in the future. The Company cannot predict what changes may be made to environmental regulations in the future although it expects such requirements generally will become more onerous. Accordingly, environmental protection expenditures will likely increase in the future.

Auditors' Report

To the Shareholders of Ocelot Energy Inc.:

We have audited the consolidated balance sheet of Ocelot Energy Inc. as at December 31, 1991 and the consolidated statements of earnings and retained earnings and changes in financial position for the period from September 23, 1991 (commencement of active operations) to December 31, 1991. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 1991 and the results of its operations and the changes in its financial position for the period from September 23, 1991 (commencement of active operations) to December 31, 1991 in accordance with generally accepted accounting principles.

Calgary, Canada

Peat Marwick Thorne

March 4, 1992

Chartered Accountants

Consolidated Balance Sheet

As at December 31, 1991

Thousands of dollars

ASSETS	
CURRENT ASSETS	
Cash	$ 16,176
Accounts receivable	25,449
Inventories, at lower of cost and net realizable value	2,829
Prepaid expenses	2,111
	46,565
PROPERTY AND EQUIPMENT (Note 3)	150,634
OTHER ASSETS	1,538
	$198,737
LIABILITIES	
CURRENT LIABILITIES	
Bank indebtedness, secured	$ 121
Accounts payable and accrued liabilities	24,067
Current maturities on long-term debt	939
Current maturities on obligations under capital leases	2,318
	27,445
OBLIGATIONS UNDER CAPITAL LEASES (Note 4)	13,206
LONG-TERM DEBT (Note 5)	98,133
DEFERRED INCOME TAXES	2,690
	141,474
SHAREHOLDERS' EQUITY	
CAPITAL STOCK (Note 7)	46,772
RETAINED EARNINGS	10,491
	57,263
	$198,737

COMMITMENT AND CONTINGENCY (Note 10)

SUBSEQUENT EVENTS (Note 12)

Approved by the Board

Director

Director

Consolidated Statement of Earnings and Retained Earnings

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

Thousands of dollars

REVENUE	
Operating (Note 8)	$57,578
COSTS AND EXPENSES	
Cost of sales and operating expenses	37,393
Depletion, depreciation and amortization	3,158
	40,551
EARNINGS FROM OPERATIONS BEFORE UNDERNOTED ITEMS (Note 8)	17,027
Interest on long-term debt	3,028
Interest on obligations under capital leases	595
Other interest	109
Other income	(284)
	3,448
EARNINGS BEFORE TAXES	13,579
Income and other taxes (Note 6)	3,088
EARNINGS FOR THE PERIOD, BEING RETAINED EARNINGS AT THE END OF THE PERIOD	**$10,491**
PER SHARE (Note 11)	

Consolidated Statement of Changes in Financial Position

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

Thousands of dollars

CASH FLOW GENERATED FROM (USED FOR)	
Operating Activities	
Earnings for the period	$10,491
Add:	
Depletion, depreciation and amortization	3,158
Deferred income tax	2,690
Other items	16
Funds generated from operations	16,355
Accounts receivable and accounts payable	9,264
Inventories and prepaid expenses	(1,348)
Other assets	(16)
	24,255
Financing Activities	
Long-term debt – borrowings	25
– repayments	(13,770)
Obligations under capital leases – repayments	(468)
Capital stock	11,790
	(2,423)
Investing Activities	
Property and equipment – acquisitions	(6,976)
– disposals	108
Other assets	1,091
	(5,777)
INCREASE IN CASH, BEING CASH AT END OF PERIOD	**$16,055**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

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

(b) Natural Gas and Petroleum Operations

The Company follows the full cost method of accounting for natural gas and petroleum operations. All costs of exploration for and development of natural gas and petroleum reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead charges related to exploration and development activities. Proceeds received on the sale of natural gas and petroleum properties are credited to the capitalized costs except for dispositions which would significantly alter the relationship between capitalized costs and proven natural gas and petroleum reserves.

Capitalized costs are depleted and depreciated using the unit of production method based on gross proven reserves of natural gas and petroleum in each cost centre, as determined by Company engineers and substantiated periodically by independent engineers. Reserves and production quantities, for depletion and depreciation calculations, are converted to equivalent units of gas based on the relative sales value. Provision for future site restoration costs is accrued for by a charge against earnings using the straight-line method.

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 reclamation 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.

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) Drilling Rigs and Related Property and Equipment

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

(d) Depreciation

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

Drilling rigs - 10 percent (based on operating days)

Construction equipment - 20 percent to 35 percent

(e) Revenue Recognition

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

(f) Foreign Currency Translation

The Company follows the temporal method when translating foreign currency transactions and the financial statements of integrated foreign subsidiaries. Under this method:

(i) monetary items are translated at the rates of exchange prevailing at the balance sheet date;

(ii) non-monetary items are translated at historic exchange rates; and

(iii) revenue and expenses (other than depletion and depreciation) are translated at average rates of exchange during the year.

The resulting gains or losses are credited or charged to earnings except for those relating to monetary items having a fixed life which are deferred and amortized over the life of the particular item.

(g) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of such lease. Assets recorded under capital leases are amortized on a straight-line basis over the estimated useful lives of the respective assets. The rate of amortization on the capital leases is 6-2/3% per annum.

NOTE 2 FORMATION OF THE COMPANY AND BASIS OF PRESENTATION

The Company was incorporated as 423842 Alberta Ltd. on June 18, 1990, under the Business Corporations Act of Alberta, and changed its name to Ocelot Energy Inc. (the "Company") on November 14, 1990.

On September 23, 1991, the Company purchased all of the natural gas and petroleum business and the petroleum industry services operations (which comprises pipeline construction, contract drilling of oil and gas wells, and the manufacture, sale, repair and rental of oilfield equipment) of Ocelot Industries Ltd. ("Industries"). The Company also acquired the natural gas and petroleum assets of Lone Pine Resources Ltd. ("Lone Pine") on September 23, 1991.

Details of these acquisitions are as follows:

	Industries	Lone Pine	Eliminations	Total
		(thousands of dollars)		
Current assets	$ 61,586	$ 690	$ 2,502	$ 64,778
Property, plant and equipment	115,495	29,355	–	144,850
Other assets	2,057	–	–	2,057
	179,138	30,045	2,502	211,685
Current liabilities	43,172	15,714	(6,249)	52,637
Long-term liabilities	100,985	14,330	8,751	124,066
	144,157	30,044	2,502	176,703
Net assets acquired at assigned values	**$ 34,981**	**$ 1**	**$ –**	**$ 34,982**
Consideration given at assigned values:				
Class A common shares	$ 7,133	$ –	$ –	$ 7,133
Class B subordinate voting shares	27,698	1	–	27,699
Warrants	150	–	–	150
	$ 34,981	**$ 1**	**$ –**	**$ 34,982**

The acquisitions of the above net assets have been accounted for using the continuity of interests method, whereby the net assets are recorded at the historical amounts provided by the predecessor entities.

NOTE 3 PROPERTY AND EQUIPMENT

	Cost	Accumulated depletion, depreciation and amortization	Net
		(thousands of dollars)	
Natural gas and petroleum leases and rights together with exploration, development and equipment thereon (a)	$ 82,981	$1,547	$ 81,434
Property under capital leases (b)	16,069	233	15,836
Contract drilling equipment	33,420	593	32,827
Pipeline construction equipment	15,192	375	14,817
Land, buildings and other equipment	5,835	115	5,720
	$153,497	**$2,863**	**$150,634**

(a) Overhead expenditures associated with the exploration and development of natural gas and petroleum reserves have been capitalized and included in the cost of properties. Such charges amounted to $1.5 million for the period from September 23, 1991 to December 31, 1991.

(b) Property under capital leases relates to the leasing of certain gas gathering and processing facilities.

NOTE 4 LEASE COMMITMENTS

(a) Obligations under Capital Leases

The Company has leased certain wellsite and gas gathering and processing facilities. Pursuant to the lease agreements the Company has the option to purchase such facilities. The accumulated financial obligations, computed in accordance with the lease agreements as at December 31, 1991, amounted to $15.5 million.

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

	(thousands of dollars)
1992	$ 4,676
1993	4,447
1994	4,072
1995	3,687
1996	5,234
1997	815
1998	414
Total future minimum lease payments	23,345
Less imputed interest at 14.25% - 18.3%	7,821
Present value of minimum lease payments	**$15,524**

(b) Obligations under Operating Leases

Future minimum lease payments under operating leases relating primarily to office space and equipment (but excluding leases relating to gas, oil and mineral rights) are as follows: 1992 - $0.8 million; 1993 - $0.8 million; 1994 - $0.8 million; 1995 - $0.4 million; and 1996 - $0.2 million.

NOTE 5 LONG-TERM DEBT

	(thousands of dollars)
Canadian dollar bank loan (i)	$109,000
Other	1,810
	110,810
Less warrant proceeds (ii)	11,738
	99,072
Less current maturities included in current liabilities	939
	$ 98,133

(i) The Canadian dollar bank loan bears interest at 1% above bank prime rate. The loan is secured by a general assignment of accounts receivable and a first fixed and floating charge on all of the Company's assets. The repayment terms of the outstanding balance of the loan will be established between the Company and its banker pursuant to the Company's annual review, however, no fixed principal repayments will be required until January 1, 1993. Any cash generated prior to this date from property dispositions or financings (other than financings specifically for property acquisitions or drilling programs) will be applied to the outstanding loan.

Estimated aggregate principal repayments on the remaining long-term debt for each of the next five years are as follows: 1992 - $0.9 million; 1993 - $0.5 million; 1994 - $0.3 million; 1995 - $0.1 million; and 1996 - $0.1 million.

(ii) Warrant proceeds of $12,106,010 were received and placed in escrow on November 29, 1991 pending fulfillment of certain conditions. These conditions were met on January 27, 1992 and these proceeds, less commission expenses plus interest income, were applied to the Canadian dollar bank loan.

NOTE 6 INCOME AND OTHER TAXES

(a) Income tax expense differs from the amounts which would be obtained by applying the Canadian federal income tax rate to the current period's earnings before taxes. These differences result from the following items:

	(thousands of dollars)
Expected Canadian Federal tax rate	38.8%
Computed "expected" tax	$ 5,269
Royalties and other payments to federal and provincial governments	249
Other non-deductible costs	19
Federal resource allowance	(509)
Provincial income tax less federal abatements	722
Non-deductible losses of subsidiaries	66
Large Corporations Tax	354
Saskatchewan resource tax	44
Recognized benefits of losses carried forward	(3,126)
	$ 3,088

Actual income and other taxes are represented by:	
Deferred income tax	$2,690
Large Corporations Tax	354
Saskatchewan resource tax	44
	$3,088

(b) As at December 31, 1991, the Company had available for deduction against future years' taxable income the following amounts (subject to final determination by taxation authorities):

	Canada	United States
	(thousands of dollars)	
Loss carry-forwards (expiring in varying amounts to the year 2006)	$1,022	$40,757
Property and capital costs (deductible at varying rates and methods)	$125,936	$2,027

NOTE 7 CAPITAL STOCK

(a) The Company's authorized capital stock is comprised as follows:

Unlimited Class A voting common shares without nominal or par value;
Unlimited Class B subordinate voting shares without nominal or par value;
Unlimited First Preferred shares without nominal or par value;
Unlimited Second Preferred shares without nominal or par value.

(b) The Class A and Class B shares rank equally one with the other except that each Class A share carries twenty votes and each Class B share carries one vote. The Class A shares are convertible at the option of the holder 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 common 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 common shares and which is not concurrently made to holders of Class B subordinate voting shares.

(c) The declaration of dividends on all issued and outstanding shares is subject to the approval of the Company's principal lender.

(d) Changes in the capital stock of the Company from its incorporation were as follows:

	Number of Shares		Consideration (thousands of dollars)	
	Class A	Class B	Class A	Class B
Issued to acquire net assets of Industries	1,756,795	6,818,935	$7,133	$27,698
Issued to acquire net assets of Lone Pine	–	7,016,505	–	1
Issued pursuant to Industries' stock option plan	–	4,078	–	–
Share issue costs	–	–	–	(8)
Conversion of shares	(1,000)	1,000	(4)	4
Balance issued, December 31, 1991	1,755,795	13,840,518	7,129	27,695
To be issued under a flow-through share agreement	–	105,259	–	500
Balance issued and to be issued, December 31, 1991	**1,755,795**	**13,945,777**	**$7,129**	**$28,195**

	Number of Warrants	Consideration (thousands of dollars)
Warrants, exercisable at $5.00 per Class B subordinate voting share (i)	65,000	$ 150
Warrants, exercisable at $3.50 per Class B subordinate voting share, net of issue costs of $808,000 (ii)	3,458,860	11,298
	3,523,860	**$11,448**

(i) These warrants are exercisable at any time on or before November 5, 1994.

(ii) The net proceeds from the issue of these warrants were received by the Company on January 27, 1992. These warrants are exercisable by the holders at any time to February 3, 1992, at which time they will be deemed to be exercised.

(e) As of December 31, 1991, there were 1,042,961 Class B shares of the Company reserved for exercise of employee stock options to 1996 at prices ranging from $3.70 to $5.10 per share as follows:

Outstanding at September 23, 1991	254,886
Granted at $3.80 per share	800,000
Expired	(11,925)
Outstanding at December 31, 1991	**1,042,961**

The options outstanding at September 23, 1991 represent those options granted by Industries under its employee stock option plan prior to its restructuring. All options granted subsequent to September 23, 1991 were granted under an employee stock option plan adopted by the Company and at December 31, 1991, an additional 452,039 Class B shares were reserved for future options which may be granted under this plan.

NOTE 8 SEGMENTED INFORMATION

The Company's operations are conducted through two business segments. These segments are natural gas and petroleum operations and petroleum industry services operations (which comprises pipeline construction, contract drilling of oil and gas wells, and the manufacture, sale, repair and rental of oilfield equipment). Presented below are data relative to each business and geographic segment.

BUSINESS SEGMENTS

	Natural gas and petroleum operations	Petroleum industry services operations	Total
	(thousands of dollars)		
Revenue	$ 6,859(a)	$50,719	$ 57,578
Earnings from operations	$ 2,969	$14,058	$ 17,027
Total assets	$105,523	$93,214	$198,737
Capital expenditures	$ 5,507	$ 1,469	$ 6,976
Provision for depletion, depreciation and amortization	$ 1,986	$ 1,172	$ 3,158

GEOGRAPHIC SEGMENTS

	Canada	United States	Total
	(thousands of dollars)		
Revenue	$ 53,998	$ 3,580	$ 57,578
Earnings (loss) from operations	$ 17,140	$ (113)	$ 17,027
Total assets	$183,456	$15,281	$198,737

(a) Natural gas and petroleum revenue is net of royalties of $1.1 million and includes the Alberta Royalty Tax Credit of $0.1 million.

NOTE 9 OTHER INFORMATION

(a) The Company and its United States subsidiaries have non-contributory pension plans covering substantially all permanent, full-time employees. The plans provide 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, 1991, it is estimated that the present value of accrued pension benefits amounted to approximately $5.8 million in Canada and $2.5 million in the United States. At December 31, 1991, the market value of the net assets of the pension plans amounted to $6.3 million in Canada and $1.4 million in the United States. Any surplus or deficiencies in the pension plans is amortized over the expected average remaining service life of the employees.

(b) The Company contracted services from a related party to operate its wells and facilities in the Freefight, Saskatchewan area for an interim period, the term of which is extended on a month-to-month basis. In addition, the Company also contracted with this party to drill, complete and tie-in on a turnkey basis 81 wells drilled in the Freefight, Saskatchewan area in 1991. The Company believes that the operating fees and turnkey fees payable under these arrangements are reasonable and competitive in the industry. At December 31, 1991, working capital includes a net payable of $1.2 million related to these transactions.

NOTE 10 COMMITMENT AND CONTINGENCY

(a) On December 3, 1991 a Statement of Claim was served on Ocelot Industries Ltd. claiming various breaches pursuant to certain royalty and assignment agreements. The plaintiff has claimed certain declarations, judgement for royalty payments and interest, and additional damages of $1.0 million. Pursuant to the Asset Purchase agreement between Industries and the Company, Industries was indemnified on certain liabilities pertaining to these royalty and assignment agreements. The ultimate outcome of this legal proceeding is not predictable.

(b) The Company is committed to deliver certain quantities of natural gas through transmission companies' gas pipeline systems. As at December 31, 1991, the Company has issued letters of credit amounting to approximately $1.6 million and has issued a debenture on certain properties to secure payments under such commitments.

NOTE 11 PER COMMON SHARE

Weighted average number of Class A and Class B shares (i)	16,738,789
Earnings per Class A and Class B share	$0.63
Supplementary information	
Funds generated from operations per Class A and Class B share	$0.98

(i) This amount includes 3,458,860 Class B subordinate voting shares deemed to have been issued when the Special Warrant funds were placed in escrow.

NOTE 12 SUBSEQUENT EVENTS

(a) 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 $10,222,500, (net $9,661,375 after commissions and expenses). This transaction closed on January 30, 1992, at which time the net proceeds were utilized to retire long-term debt. The proforma earnings per Class A and Class B share is $0.56 assuming this transaction occurred on September 23, 1991.

(b) The Company filed a normal course issuer bid for the purchase of up to a maximum number of 978,981 Class B subordinate voting shares. The normal course issuer bid commenced on March 3, 1992 and will terminate on March 2, 1993.

Shareholder and Corporate Information

SHARE INFORMATION

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

At December 31, 1991 the aggregate Class A and Class B shares outstanding was 15,701,572. The stock market designations for the shares are Ocelot A and Ocelot B with the respective Toronto Stock Exchange symbols being OCE.A and OCE.B.

SHARE TRADING HISTORY

(since trading commenced September 24, 1991)

Market Price Per Share (Dollars)

	Sept 24 to Sept 30	Fourth Quarter
Class A Common Shares		
1991 High	$4.10	$4.50
Low	3.75	3.60
Class B Subordinate Voting Shares		
1991 High	$4.50	$4.50
Low	3.70	2.90

TRANSFER AGENTS AND REGISTRARS

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

ENGINEERING CONSULTANT

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Peat Marwick Thorne
Chartered Accountants
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Directors and Officers

BOARD OF DIRECTORS

J. Verne Lyons
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Calgary, Alberta

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Ocelot Energy Inc.
Calgary, Alberta

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Calgary, Alberta

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

* Audit Committee Member

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Exploration and Land

Douglas A. Cutts
Vice President, Finance

William R. Kelsay
Chairman
Lynx Energy Services Inc.

Michael D. Heule
Vice President, Marketing

ABBREVIATIONS

Mcf	Thousands of cubic feet	Mmcf	Millions of cubic feet
Bcf	Billions of cubic feet	Tcf	Trillions of cubic feet
MBbls	Thousands of barrels	MLT	Thousands of long tons

METRIC CONVERSION

To Convert From	To	Divide By
Thousands cubic feet (Mcf)	Thousand cubic metres (10^3m^3)	35.49
Barrels (bbls)	Cubic metres (m^3)	6.29
Feet	Metres (m)	3.28
Miles	Kilometres (km)	0.62
Acres	Hectares (ha)	2.50

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