In 1973 Ocelot made its first and only public offering of 800,000 Common shares, resulting in net proceeds to the Company of approximately $4,000,000.

Over the past 10 years Ocelot has grown from a Canadian oil and gas explorer and producer to an international explorer and producer of hydrocarbons; with diversification in petrochemicals, drilling and pipeline contracting, oilfield equipment manufacturing, material and equipment supply and mineral exploration.

Ocelot is now ranked among the top 400 industrial companies in Canada.

Ocelot Industries Ltd.
Annual Report

1983

Contents

Ocelot is a dynamic Canadian energy Company engaged in domestic and international operations:

- *exploration and production of natural gas and oil*
- *petrochemicals*
- *drilling and pipeline contracting*
- *oilfield equipment manufacturing and supply*
- *mineral exploration*

METRIC CONVERSIONS

In order to facilitate conversion between traditional units and the International System of Units ("SI"), shown below is a SI conversion table.

To convert from	to	Multiply by
cubic metres (m^3)	barrels (bbl)	6.293
thousand cubic metres (10^3m^3)	thousand cubic feet (mcf)	35.494
tonnes	long tons	0.984
metres	feet	3.281
kilometres	miles	0.621
hectares	acres	2.471
kilograms	pounds	2.205

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held on Thursday, July 28, 1983 at 10:30 a.m. in the Westin Hotel, 4th Avenue and 3rd Street S.W., Calgary, Alberta, Canada.

Financial and Operating Summary

Financial (In thousands except per share amounts)

	1983	1982	1981	1980	1979
REVENUE					
a) Oil and Gas Sales	**$ 73,238**	$ 73,195	$ 73,812	$ 52,650	$ 37,992
b) Petroleum Industry Services and Supplies	**261,577**	351,190	269,245	181,666	98,502
c) Petrochemicals	**36,521**	—	—	—	—
d) Mining	**1,245**	—	—	—	—
	$372,581	$424,385	$343,057	$234,316	$136,494
CASH FLOW FROM OPERATIONS	**$ 7,327**	$ 44,856	$ 73,622	$ 53,841	$ 36,441
Per Share	**$ 0.54**	$ 3.35	$ 5.57	$ 4.10	$ 2.68
NET EARNINGS (LOSS)	**$ (36,438)**	$ 4,308	$ 27,598	$ 25,273	$ 17,005
Per Share	**$ (2.67)**	$ 0.32	$ 2.09	$ 1.92	$ 1.25
CAPITAL EXPENDITURES					
a) Development, Plant and Equipment	**$ 24,311**	$ 80,816	$ 82,251	$ 62,818	$ 37,667
b) Exploration and Land	**22,632**	78,546	83,637	46,683	30,886
c) Methanol Plant	**105,835**	184,657	46,359	391	—
d) Corporate Acquisitions	**12,170**	3,797	—	—	8,793
	$164,948	$347,816	$212,247	$109,892	$ 77,346
CROWN ROYALTIES & MINERAL TAXES	**$ 11,807**	$ 13,767	$ 13,073	$ 9,411	$ 7,581
LONG-TERM DEBT	**$666,207**	$635,679	$308,266	$169,419	$137,376

Operating

	1983	1982	1981	1980	1979
NATURAL GAS PRODUCTION					
Millions of cubic feet	**27,241**	34,614	38,091	34,847	31,840
Millions of cubic feet per day	**75**	95	104	95	87
OIL AND CONDENSATE PRODUCTION					
Barrels	**664,085**	490,374	291,475	300,876	202,500
Barrels per day	**1,819**	1,344	799	824	555
PRODUCTIVE WELLS OWNED					
Gross	**3,240**	3,147	2,796	2,330	1,783
Net	**2,070**	2,057	1,860	1,599	1,252
PETROLEUM & NATURAL GAS RIGHTS (thousands of acres)					
Gross	**61,364**	63,895	6,520	3,684	2,836
Net	**31,605**	32,391	2,686	1,562	1,422
NUMBER OF DRILLING AND SERVICE RIGS	**63**	61	61	51	32
NUMBER OF EMPLOYEES	**1,400**	1,850	1,675	1,250	766

To the Shareholders

This annual report portrays Ocelot's overall growth and remarkable success during the past ten years since going public.

The past year has been difficult for business around the world and for Ocelot. Your Company has endured the trying economic conditions of the past year and has weathered the period of unprecedented high interest rates and the sharp economic decline. The coming year will also present economic challenges resulting from the effects of the current worldwide recession, however, steps taken during the past year have placed Ocelot in a better position to deal with these challenges and resume the growth demonstrated in the past.

The Company's loss during the past fiscal year, while larger than expected, was directly attributable to the lower level of economic activity in the North American economies. To minimize this loss, Ocelot adopted austerity measures which included the restriction of capital and administrative expenditures and some staff reduction. With careful planning, Ocelot should be well prepared for the opportunities that arise during the next period of economic expansion.

The positive cash flow, although somewhat weakened, is expected to be extremely strong as industry activity picks up. The diversification into several lines of endeavour affords the Company an underlying fundamental strength that will again reflect a solid growth in both cash flow and earnings over the balance of the 1980s.

Ocelot's methanol plant at Kitimat, British Columbia is operating at capacity. Although methanol prices are currently soft, all production is being sold. Methanol is one of the building blocks of the petrochemical industry and as such prices will firm as economic activity picks up. Methanol is also used in the resins for plywood and particle board, thus as housing starts increase the demand for methanol also increases. As an automobile fuel extender, methanol is rapidly gaining acceptance and presents a growing new market for the product.

Ocelot has large holdings of shallow gas reserves in southeastern Alberta and southwestern Saskatchewan. Because of our extensive experience in the development and operation of shallow gas properties, our drilling and production operations are among the most cost efficient in the industry.

In Saskatchewan, the Company has over 500 billion cubic feet of proven and probable gas reserves which have remained undeveloped for the past ten years due to Provincial policy. Under the new Saskatchewan administration elected in the spring of 1982, the Province's position of leaving local reserves shut in for future use has changed. As a first step in developing these reserves, a six million cubic feet per day natural gas sales contract has been obtained from Saskatchewan Power Corporation and production should commence on November 1, 1983.

The Company continues to have extensive land holdings throughout the world and has important exposure in Australia, Cameroon and Sudan.

Your Company has successfully established two Development Funds to secure investment capital for the development of certain of the Company's proven oil and gas properties. The Ocelot 82 Development Program raised $12 million while the 83 Program raised $30 million. These funds are used to drill, equip and place on production oil and gas wells at no cost to the Company.

The Company's oil and gas operations have grown significantly over the past ten years. During this time assets have grown from $1.6 million to $1.1 billion. The Company has diversified from being a small oil and gas explorer to activities which now encompass exploration and production of oil and natural gas worldwide, petrochemicals, drilling and pipeline contracting, oilfield equipment manufacturing and supply, and mineral exploration. This annual report portrays Ocelot's overall growth and remarkable success during the past ten years since going public. With this strong diversified energy oriented operations base, the Company is well positioned to pursue future opportunities for growth.

ON BEHALF OF THE BOARD OF DIRECTORS

J. V. Lyons
Chairman & Chief
Executive Officer

Calgary, Alberta
June 28, 1983

History of Growth

Quietly and by design Ocelot began its diversification process in 1974.

In 1973, Ocelot made its first and only public offering of 800,000 Common shares at $5.50 per share. With the proceeds from this offering, and with the natural gas and oil reserves as a financing base, Ocelot expanded its exploration and development efforts.

The success of this initial expansion enabled Ocelot to further broaden its exploration program and to diversify its revenue base through the acquisition of businesses involved in the oil and gas industry. These diversified operations contributed substantially to the Company's cash flow and earnings.

We present a chronological list of Ocelot's acquisitions.

1974 — July
Purchased from Eden Gas Co. Ltd. all of its interests in capped gas wells and non-producing properties in the Chinook area of east central Alberta.

1975 — September
*Purchased all of the issued and outstanding shares of South Eastern Pipeline Construction Ltd. and Kari Investments Ltd.

1975 — October
*Purchased the assets and operations of Jennings International Drilling.

1976 — September
*Acquired Alberta Eastern Gas Limited.

1977 — July
*Purchased Sheamar Equipment Ltd. and Wilson Oilfield Supply Ltd.

1977 — December
Founded O. J. Pipelines Ltd. and retained a 70% interest.

1978 — January
*Purchased Cactus Drilling and Exploration Ltd. and Brooks Field Service Ltd.

1978 — July
*Acquired Herman Karst Enterprises Incorporated.

1978 — September
*Acquired Sedalia Gas Limited.

1979 — June
Purchased the assets and operations of Cardinal Drilling Company.

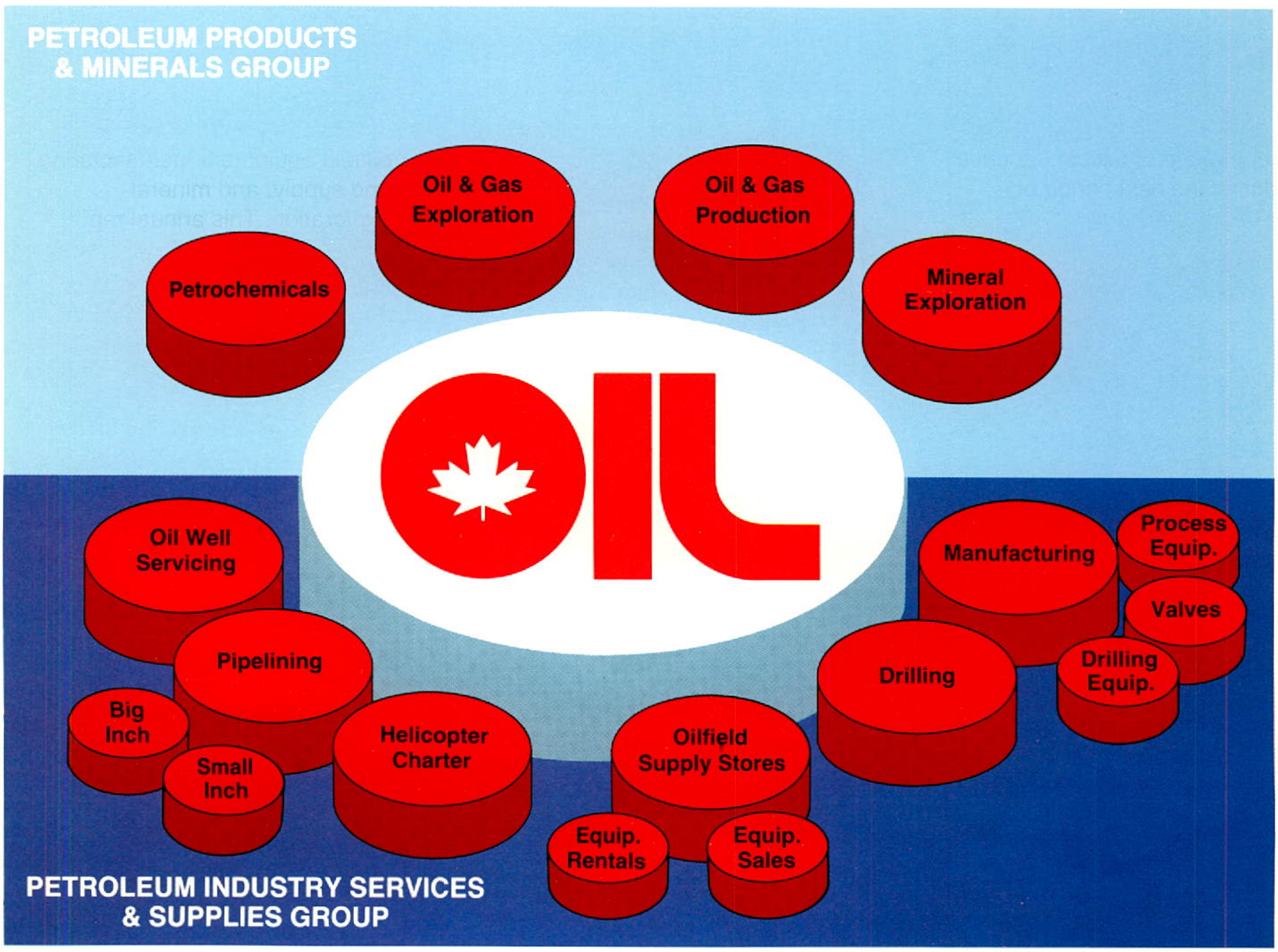
1980 — April
Purchased all of the issued and outstanding shares of Air Switch Ltd.

1981 — October
*Purchased all of the issued and outstanding shares of Faster Oilfield Services Ltd.

1981 — October
Acquired a 70% interest in Lowe Valve Ltd.

1982 — October
Acquired the remaining 30% of O. J. Pipelines Ltd.

*Original names have since been changed, or the specific operations have been combined directly into Ocelot operations.



Petrochemicals

The world-scale methanol plant at Kitimat, British Columbia incorporates the latest technology to attain optimum utilization of energy.

"Ocelot Industries Ltd., an independent publicly owned Canadian oil and gas company with headquarters in Calgary, has announced plans to build a world-scale methanol plant in British Columbia . . ."

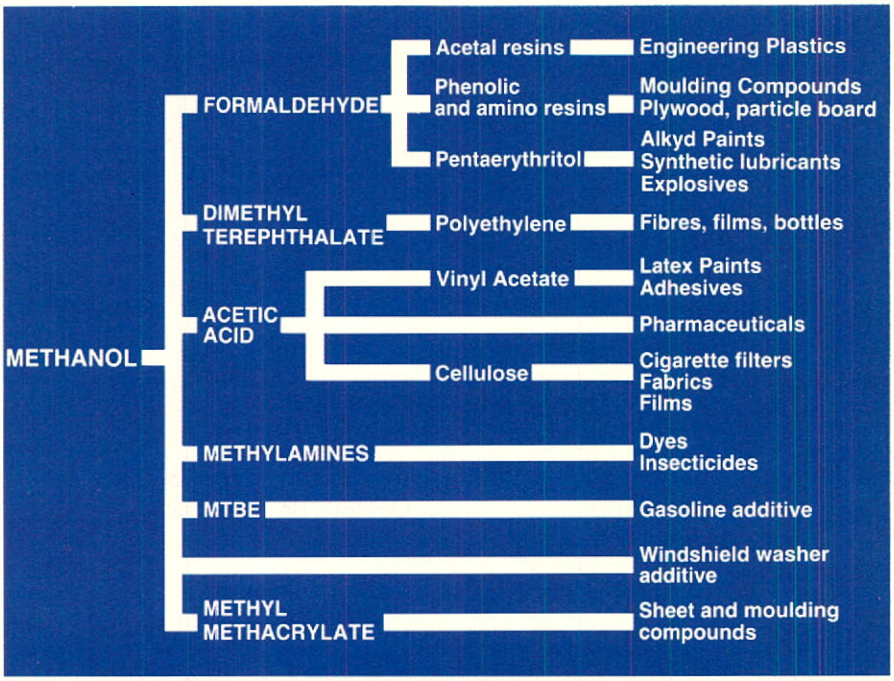
This is an excerpt from a Canada News Wire release dated June 28, 1979. Another major milestone in Ocelot's planned growth and diversification was culminated by the commencement of production from the 1,200 tonnes per day methanol plant in Kitimat, British Columbia on September 1, 1982.

The Company has a long term contract for 37.5% of the plant output (150,000 tonnes per year). Short term contracts have been signed for a significant portion of the remaining production, with the balance to be sold on the spot market.

The first tanker load of Ocelot methanol of 8,200 tonnes sailed for Portland, Oregon in October, 1982, followed in November, 1982, with the loading of 6,600 tonnes into the Japanese bulk carrier, the Hamakaze, which was destined for Japan.

Although the world methanol market remains depressed, the plant is being operated at capacity and all of the production is being marketed. To this end, Ocelot is involved in a number of programs directed towards improving the technology and acceptability of the use of methanol as a fuel extender. Hence, a significant amount of methanol is being sold for use in the automotive fuel market as a gasoline extender. All of the Kitimat plant vehicles operate on this fuel.

The importance and versatility of methanol as a petrochemical building block is illustrated below.



METHANOL TREE

Land and Exploration

The Company's history reflects an innovative and imaginative approach to exploration and development activities in the natural resource industry.

The Company's land holdings have expanded immensely over the past ten years, to a large extent attributable to our entry into international exploration ventures. The accompanying chart and map on page 9 illustrate this phenomenal growth and show Ocelot's worldwide holdings. Net land holdings will fluctuate markedly year by year as these large land holdings reach a more mature exploration status or as surrender clauses in the various agreements are implemented by the governments.

In fiscal 1983, net acres were reduced in Alberta as a result of a sale of 20% of the Company's western Canadian exploration acreage to a joint venture partner.

Canada

The general economic downturn, the weakening of the demand for natural gas and the implementation of grants for exploration on Canada Lands have caused most companies, yours included, to re-appraise their exploration thrust during the past year. Main exploration and development emphasis will continue to be directed towards prospects for New Oil Reference Price ("NORP") oil and natural gas that is contracted.

United States

The Company has land interests in well established hydrocarbon basins throughout the western, southern and plains states. In addition, diversified frontier land holdings provide the Company with long term future exploration potential. From a base of 29,000 net acres in 1979, land holdings have been increased to the current level of 1,617,000 net acres.

Ocelot's position over the past year has been to conserve capital while shifting emphasis from long range frontier type plays to more prospective close in plays. This strategy has necessitated the selling or farming-out of frontier acreage while acquiring smaller, more selective land packages on known geological trends. Through these measures, Ocelot is attempting to redirect its exploration efforts to improve cash flow in the near term.

The Denver staff is continuing to generate prospects which are being presented to industry for participation in land, seismic and drilling costs. The Company's short term goal is to attain self sustaining operations in the United States. The long term goal is to have Ocelot participate in significant discoveries on our lands using industry funding or participation.

Margay Exploration Ltd.

To increase funds available for exploration, and to broaden Ocelot's domestic exploration base, the Company entered into a joint venture with AGIP Canada Ltd. ("AGIP").

On October 18, 1982, Ocelot and AGIP signed an exploration agreement whereby Ocelot sold a 20% working interest in all of its exploratory acreage in western Canada. In addition, a joint venture company, Margay Exploration Ltd., was formed to explore these lands. This company is held 80% by Ocelot and 20% by AGIP.

Margay will also participate in other exploration ventures of Ocelot, primarily earning interests by farmins.

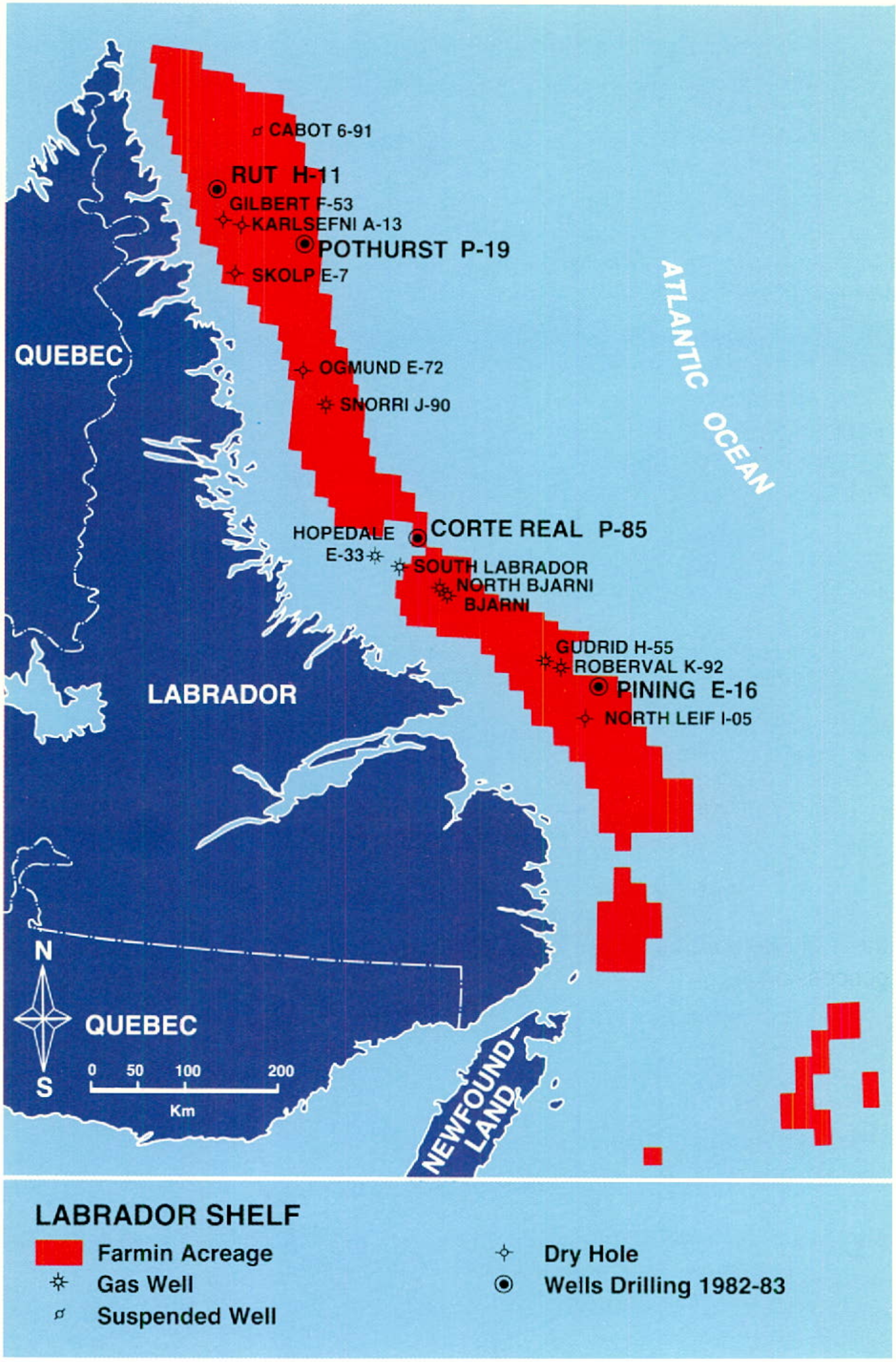
First year spending for Margay should exceed $4 million before drilling incentives and Petroleum Incentive Program ("PIP") payments. Margay is expected to spend in excess of $20 million on exploration in the next three years if government incentives maintain their present levels. All technical, administrative and operational functions of Margay are handled by Ocelot staff.

Labrador Shelf

As part of the new exploration agreement with AGIP, Ocelot will farmin on AGIP's 10% interest in the Labrador Shelf Group. Ocelot will pay AGIP's share of costs to earn half of its interest in each 44,478 acre block drilled. Ocelot will also earn an interest in the balance of the acreage by completion of a drilling program over a number of years.

This past year Ocelot participated in the drilling of three wells on this acreage; RUT H-11, POTHURST P-19, and CORTE REAL P-85. All have been suspended until next drilling season due to sea and ice conditions. In addition, the Company will be participating in the PINING E-16 location which is also planned to be drilled this coming season. It is expected that each of these wells will reach their respective drilling targets during the 1983 summer drilling season.

Ocelot, because of its high Canadian Ownership Rate ("COR") (presently 94%) will be entitled to the 80% maximum PIP grants relative to its expenditures on the Labrador Shelf acreage.



In 1982 it was announced that discoveries south of our land holdings in Sudan, will be brought on stream in 1985.

International

Cameroon

Ocelot's international involvement began in 1976 with the granting of the Sanaga Sud Concession, in the Republic of Cameroon, to the Damara group. Ocelot as operator for the group was instrumental in a farmout of the concession to Mobil International and Total Exploration in 1978.

Under this farmout agreement, Mobil and Total drilled the Sanaga Sud A1 well in September, 1979. The well was a gas condensate discovery with flow potential of 36 million cubic feet ("MMCF") per day. The Sanaga Sud A2 and A3 appraisal wells drilled during 1980 and 1981 have proven extensive gas and condensate reserves in the Sanaga A field. Although a Liquid Natural Gas facility has been proposed by the Government of Cameroon, production from this area is not expected to commence for a few years.

Ocelot holds a 15.6% interest in this 194,500 acre offshore concession.

Senegal

In 1982 Ocelot purchased a 100% working interest in the 1.2 million acre Sangomar concession located on the continental shelf area of Senegal, west Africa.

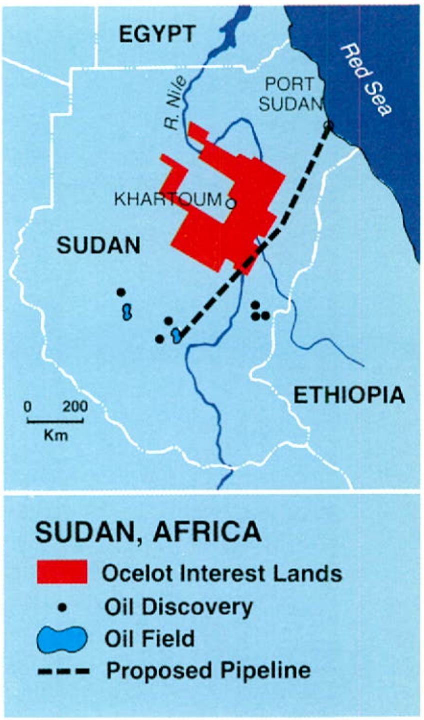
A seismic survey comprising 640 kilometres of data was conducted in 1982. The data from this survey will be used to further evaluate the potential of this area.

Republic of Sudan

During March of 1982 Ocelot and its partners were granted a 54 million acre concession in the central region of the Sudan. The area is held under a production sharing agreement with the Sudanese Government. Ocelot through its subsidiary, Ocelot Sudan Exploration Corporation, retains a 42.5% working interest in this concession.

During 1982 an airborne magnetic survey was completed over our permit. A gravity program to verify areas of basin development will be conducted during 1983. The Ocelot group will have the option of continuing the permit by electing prior to March, 1984 to undertake a seismic exploration program.

In 1982 it was announced that discoveries south of our land holdings, in the southwest and central regions of Sudan, will be brought on stream in 1985. The crude oil will be transported to Port Sudan on the Red Sea through a proposed 1,400 kilometre pipeline. This pipeline will cross the Ocelot interest lands south of Khartoum.



France

During the year Ocelot relinquished its right to earn an interest in an exploratory permit, located approximately 70 kilometres southeast of Paris.

Ocelot's Blina oil well in Australia, encountered the first significant oil production in western Australia.

Australia

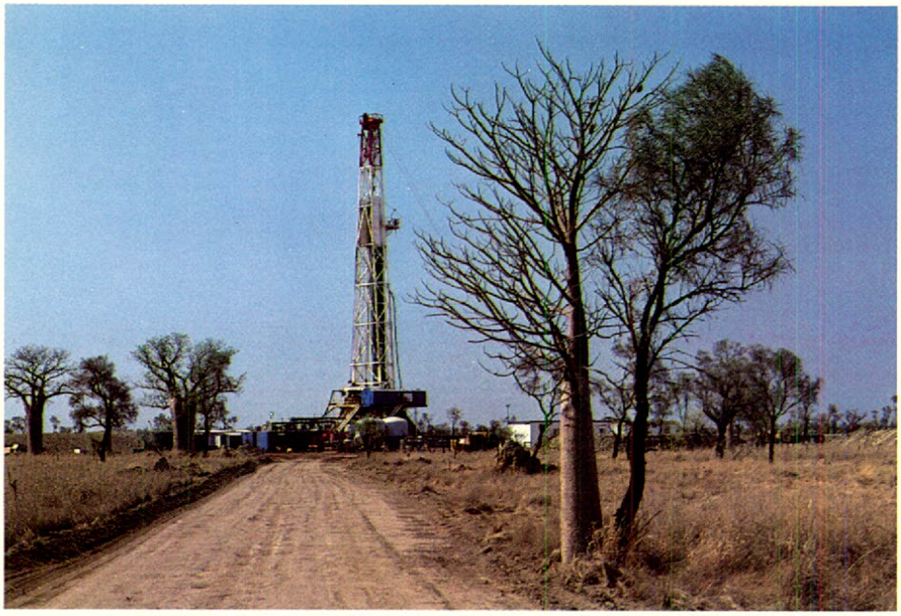
EP 129

Ocelot became involved in Australian oil and gas exploration in 1979, when a group was granted exploratory permit EP 129 located in the Canning Basin onshore Western Australia. Ocelot held a 25% interest in this permit.

The first well, Blina #1, drilled in May, 1981 was an oil discovery in a carbonate formation of Devonian age. This well was the first significant discovery of oil onshore in Western Australia.

The Blina oilfield is scheduled to come on stream in October, 1983 at a production rate of 800 to 1,000 barrels of oil per day ("BOPD").

Subsequent exploratory wells drilled during the 1981 and 1982 season have encouraged the group to pursue the potential of other formations within the permit area. Three exploratory wells are planned for the 1983 drilling season.



Drilling Rig at Blina. Boab tree in foreground.

In order to meet the government requirements concerning Australian content in the Blina field, Ocelot has farmed out a portion of its interest in EP 129 to an Australian company. As a result, Ocelot's Australian subsidiary, Ocelot International Pty. Ltd. now holds a 15.31% interest in the permit.

WA 117 P

In 1981 Ocelot also participated in a farmout on permit WA 117 P in the offshore Canning Basin, Western Australia. Under this agreement a seismic survey was conducted during 1982 and a well is proposed for the 1983 drilling season.

WA 165 P

Ocelot was granted the South Turtle Dove Block, permit WA 165 P in September, 1981. This offshore permit, which comprises approximately one million acres, is located in the Perth Basin of Western Australia. Ocelot as managing operator holds a 50% interest in the permit.

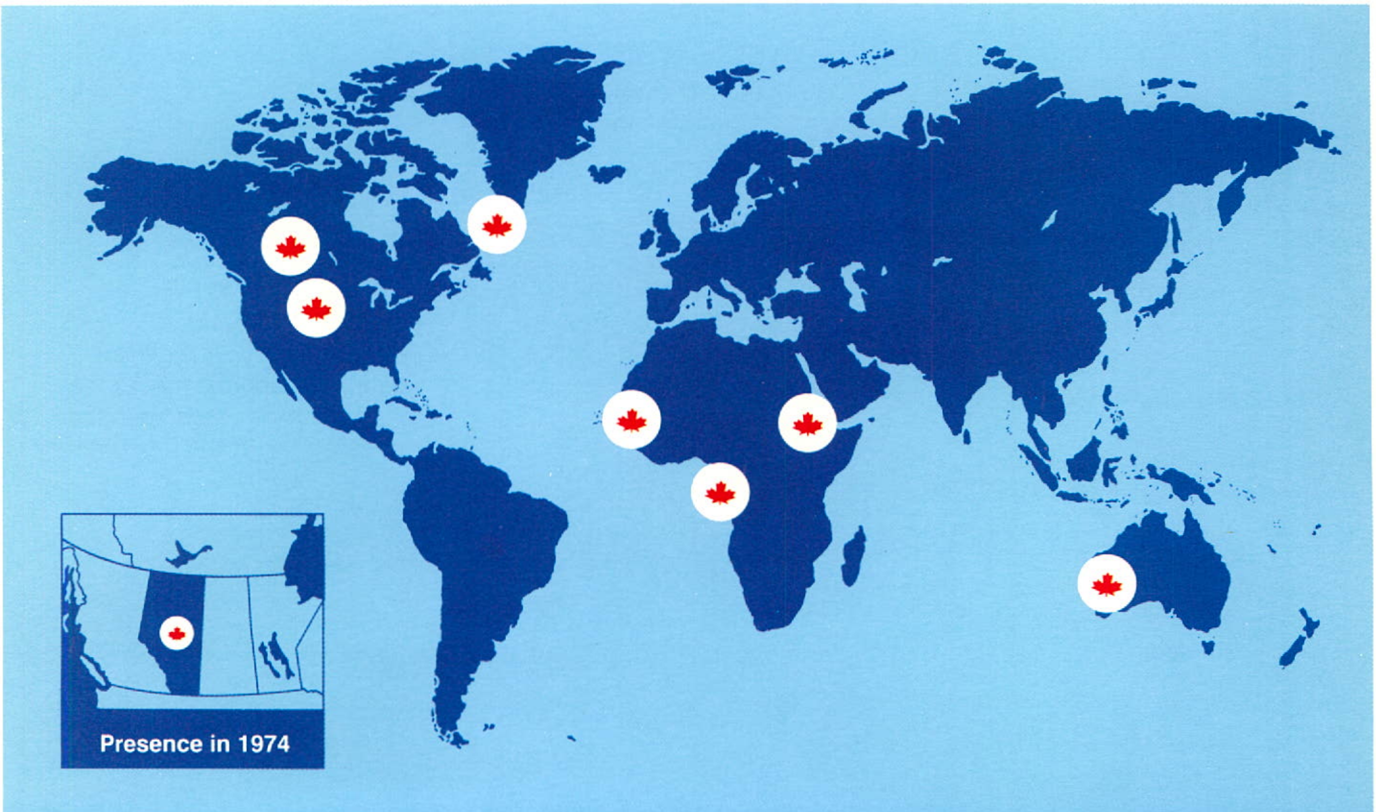
A reconnaissance seismic survey comprising 1,000 kilometres of profile was conducted during 1982 in the first year of tenure of the permit. A decision relating to continuation of the permit will be made based upon the results of the initial seismic survey.

The chart and map below illustrate the phenomenal growth in land holdings and Ocelot's worldwide presence today.

Oil & Gas Land Holdings (000's of acres)

	Canada		United States		Foreign		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1974	225	129	—	—	—	—	225	129
1975	355	174	—	—	—	—	355	174
1976	442	276	—	—	—	—	442	276
1977	2,135	1,153	—	—	—	—	2,135	1,153
1978	2,424	1,242	—	—	—	—	2,424	1,242
1979	2,341	1,220	122	29	373	173	2,836	1,422
1980	2,447	1,281	176	51	1,061	230	3,684	1,562
1981	2,679	1,319	2,777	1,120	1,064	247	6,520	2,686
1982	2,586	1,266	3,898	2,111	57,411	29,014	63,895	32,391
1983	2,262	1,040	1,824	1,617	57,278	28,948	61,364	31,605

In addition to the above, royalty interests are currently held in 137,188 gross acres in Canada.



OIL Ocelot's Worldwide Presence Today

Production and Reserves

Ocelot operates over 3,200 gross oil and gas wells, and has 955 BCF proven reserves of natural gas and 9.8 million barrels of oil and natural gas liquids; the product of 10 years' activity.

The 1983 fiscal year revenue, net of royalties and Petroleum Gas Revenue Tax ("PGRT") from oil and gas sales was $66.8 million, compared to $67.7 million realized in the prior year.

During the 1983 fiscal year, natural gas sales averaged 75 MMCF per day versus 95 MMCF per day during the previous year. Gas markets, both domestic and export, have declined due to a combination of conservation and a slowdown in the economy.

Crude oil and natural gas liquids sales increased to 1,819 BOPD in 1983, compared to 1,344 BOPD in 1982. Most of this increase is a result of development drilling in the Crystal and Grand Forks areas of Alberta.

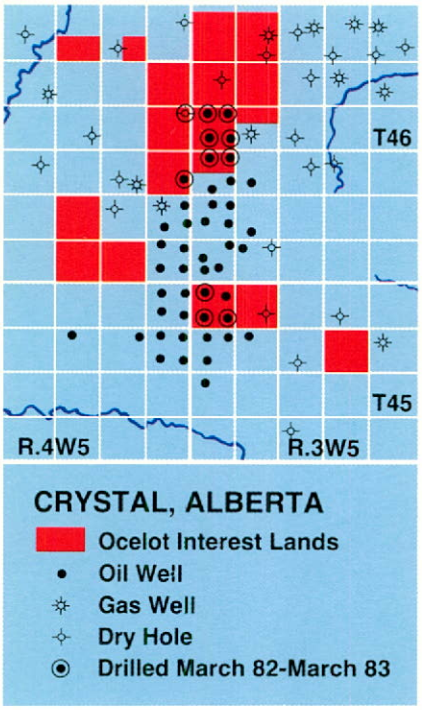
Drilling

The Wells Drilled graph on page 12 illustrates the number of wells in which Ocelot participated. Of particular interest, in each of the years 1977 through 1979, Ocelot drilled more wells than any other operator in western Canada. In the 1983 fiscal year, Ocelot participated in the drilling of 150 wells, of which 81 were in Canada, 66 in the United States and 3 in Australia. The Company focused on drilling development locations and lower risk exploration wells.

The graph pertaining to Productive Wells Owned illustrates the large number of wells that can be drawn upon for future sales requirements. The Company owned 3,240 gross wells (2,070 net) at March 31, 1983.

Crystal

During the past year, Ocelot participated in 11 wells in the Crystal area of west central Alberta. Drilling in this field resulted in 10 oil wells, one dry hole, and significant additional oil reserves. Further step-out and development drilling is planned in the upcoming year. The Company has an interest in 10,080 acres in the Crystal area with interests varying from 25% to 100%, and current net production of 365 BOPD.

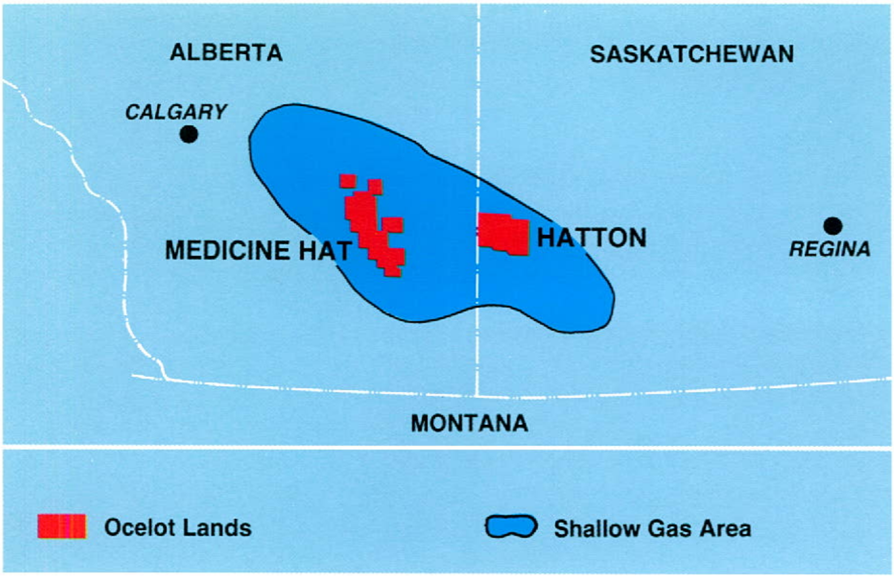


Saskatchewan

Ocelot has interests between 50% and 75% in, and is the operator of, 296,000 acres of natural gas leases in the Hatton field of southwest Saskatchewan that contains 556 billion cubic feet ("BCF") of proven and probable gas reserves. In an attempt to find a market for this gas, Ocelot obtained a gas buyer in the United States and applied to the National Energy Board for approval to export up to 100 MMCF per day of gas from Saskatchewan to the northeastern United States beginning in 1985, and reaching full volume in 1986. On January 22, 1983, an article in the Regina Leader Post stated: "A major natural gas development in the far southwest corner of Saskatchewan is hanging on a decision due to come from the National Energy Board". The Board indicated its support for Ocelot's attempt to market Saskatchewan gas in the United States; however, due to the lack of an interprovincial agreement for the sharing of export flowback revenues between Alberta and Saskatchewan, the application was denied. The Board stated "the denial of this application should not be taken to preclude the possibility of a successful application for the export of Saskatchewan gas at some point in the future".

Such volume, had it been approved, would have been the first export of gas from Saskatchewan, and would require a massive drilling program on the largely undeveloped Saskatchewan side of the huge Hatton-Medicine Hat gas field. Negotiations on export revenue sharing are continuing, and the Company is hopeful that the project will proceed.

In each of the years 1977 through 1979, Ocelot drilled more wells than any other operator in western Canada.



The Company was recently granted a six MMCF per day natural gas sales contract by Saskatchewan Power Corporation for domestic gas use and production should commence on November 1, 1983.

Development Funds

The Ocelot 82 Development Program was established to secure funds for development of certain of the Company's proven oil and gas properties. This Program, which closed November 9, 1982, raised $12 million through a private and public offering. These funds were used to drill and complete wells, and to construct facilities to establish oil and gas production. A total of four oil wells and 10 gas wells were completed under this Program, and two additional wells are currently drilling.

The Company has implemented the much larger Ocelot 83 Development Program which is similar to the 82 Program.

Gas Contracts

The Company sells its natural gas under various long term contracts. The most important of these contracts is with TransCanada PipeLines Limited for the delivery of gas from the Company's shallow natural gas reserves in southeastern Alberta. Under this contract, sales are based on the rate at which the lands are capable of delivering gas on a sustained basis, rather than the quantity of reserves. As of November 1, 1981 this maximum daily rate was 117 MMCF per day.

As a result of the previously-mentioned reduction in gas markets, TransCanada has cut back the volumes of gas taken under all of its producer contracts. In an attempt to maintain sales, Ocelot has entered into the industrial gas market.

Proven Reserves

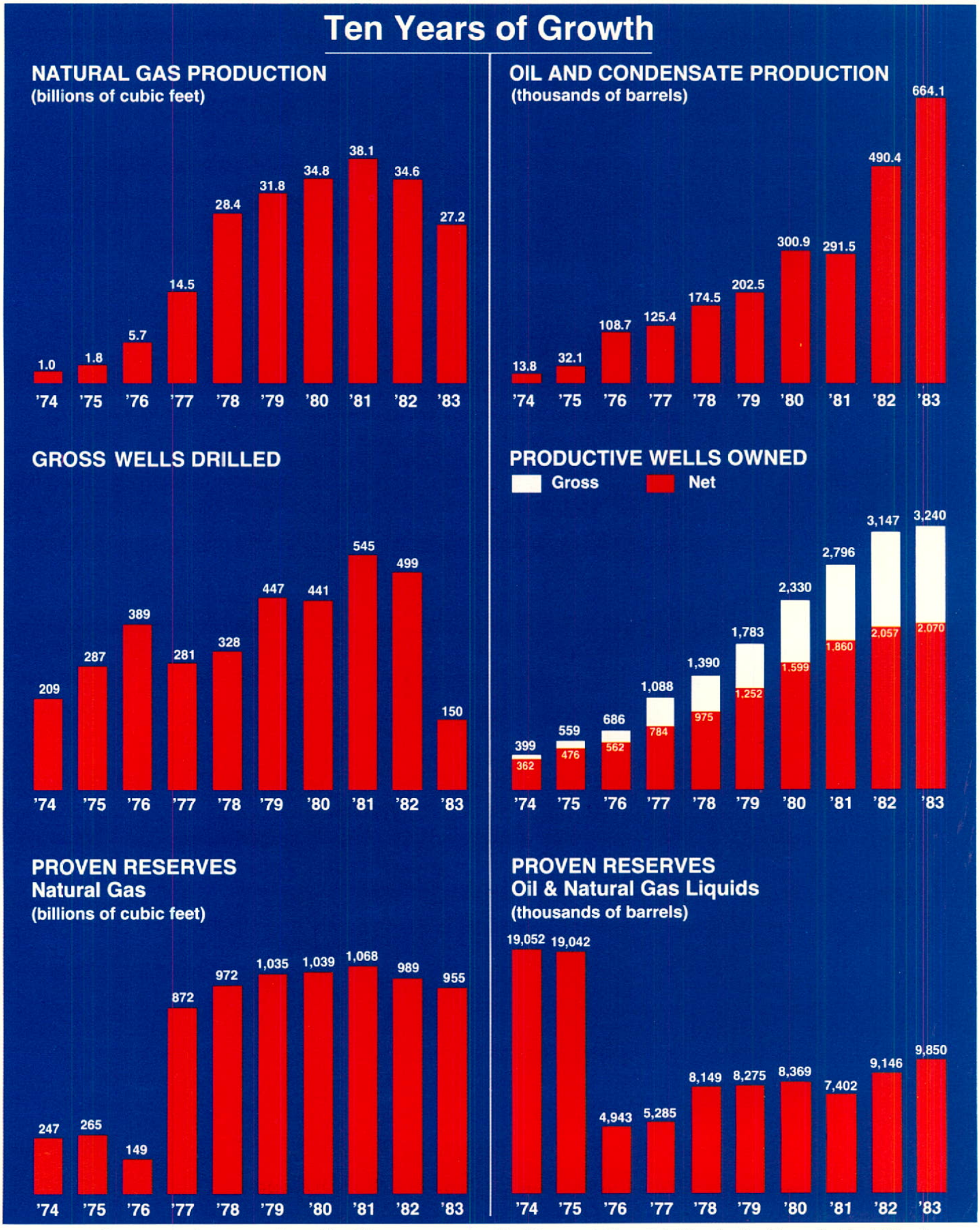
Proven gas and oil reserves are those reserves that, with a reasonable degree of certainty, are recoverable at commercial rates under presently anticipated producing methods, operating conditions, prices and costs.

All of the Canadian reserves referred to in this report have been estimated by the Company's independent consultants. No reserve estimates have been included for the discoveries in Cameroon.

Proven Reserves as of March 31, 1983

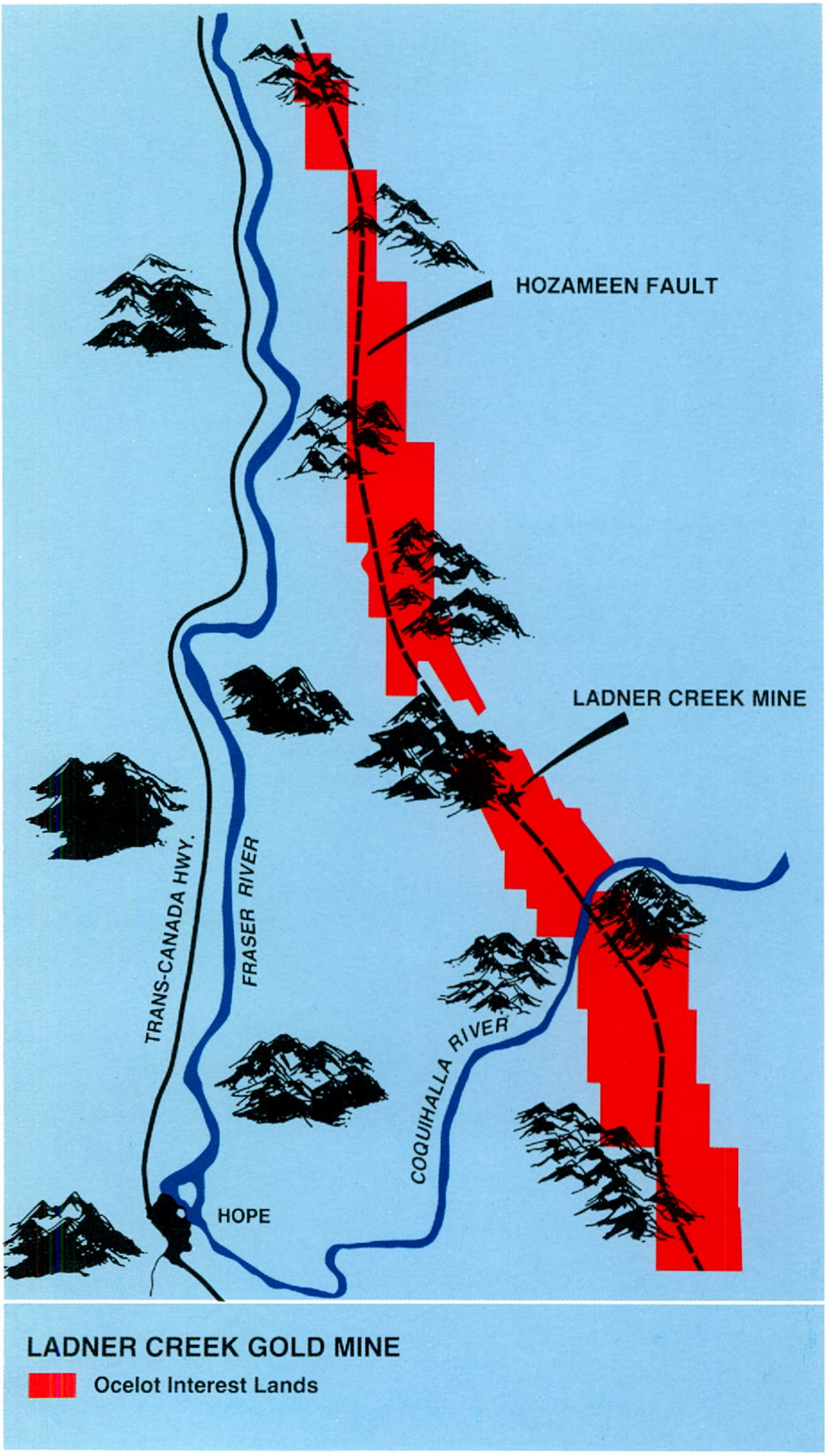
Area	Natural Gas	Oil and Natural Gas Liquids
	(BCF)	(000's Bbls)
Alberta	708	8,337
British Columbia	36	173
Saskatchewan	210	814
Manitoba	—	19
Canada	954	9,343
United States & Australia	1	507
TOTAL	955	9,850

In keeping with our tenth Anniversary theme, the accompanying graphic presentations illustrate ten years of production, productive wells drilled, wells owned and proven reserves.



The 1976 adjustment of proven oil and liquids reserves resulted from additional drilling in the Peco field of Alberta.

As well as in Canada, the Company is pursuing new gold mining opportunities in western United States.



Ocelot has an interest in 24,000 acres of claims located in the rugged Cascade mountains of southern British Columbia near the town of Hope.

In the core of these claims, the Company has earned a 22.5% interest in the Ladner Creek Gold Mine. The mine reached commercial production during 1982 but since start up has encountered a number of operational problems. These problems are currently being addressed and the future of Ocelot's involvement in the project is currently under study.

The Company is pursuing new gold mining opportunities in the western United States where a number of world class ore bodies have recently been discovered and brought into production by other companies. Ocelot Mining Corp. has been formed as a wholly-owned Ocelot subsidiary through which gold exploration and mining in the United States will take place. The Company is currently leasing lands in Oregon and adjacent states which have been identified as having excellent exploration potential. A modest exploration program is presently underway and joint venture negotiations are in progress.

Petroleum Industry Services & Supplies Group

The growth and expansion of Ocelot's petroleum services operations were tailored to serve the increasing exploration in North America.

Cactus Drilling

Cactus Drilling, which engages in contract drilling of oil and gas wells, is the product of the acquisition in late 1975 of Jennings International Drilling, and the subsequent purchase of Cactus Drilling and Exploration Ltd. in early 1978. Cactus Drilling is the fourth largest drilling contractor in Canada and operates 23 rigs throughout the three western provinces of Canada. The rig fleet consists of:

Rigs	Depth Capacity
9	2,000 metres
12	2,900-4,200 metres
2	6,000-8,000 metres

Within the last five years the Cactus fleet has drilled 1,150 wells, and 1.9 million metres of hole. During the same period, $36 million has been expended for rig upgrading and construction.

Management recognizes the importance of training its employees to conduct safe and efficient operations. As a result, the Company has won the Drilling Contractors Safety Award in its class eight times during the last 19 years. The first award was received in 1963, and in 1981 and 1982 the C.A.O.D.C. Class A Safety Award was again won by Cactus.

Cardinal Drilling

In June, 1979, Ocelot purchased the assets and operations of Cardinal Drilling Company of Billings, Montana, which had 13 drilling rigs serving the United States petroleum industry. Ten rigs have been added to the fleet, for a current total of 23 rigs. Drilling depth capacities range from 1,400 metres to 5,500 metres.

As with Cactus, Cardinal also prides itself on good employee relations and having won numerous safety awards.

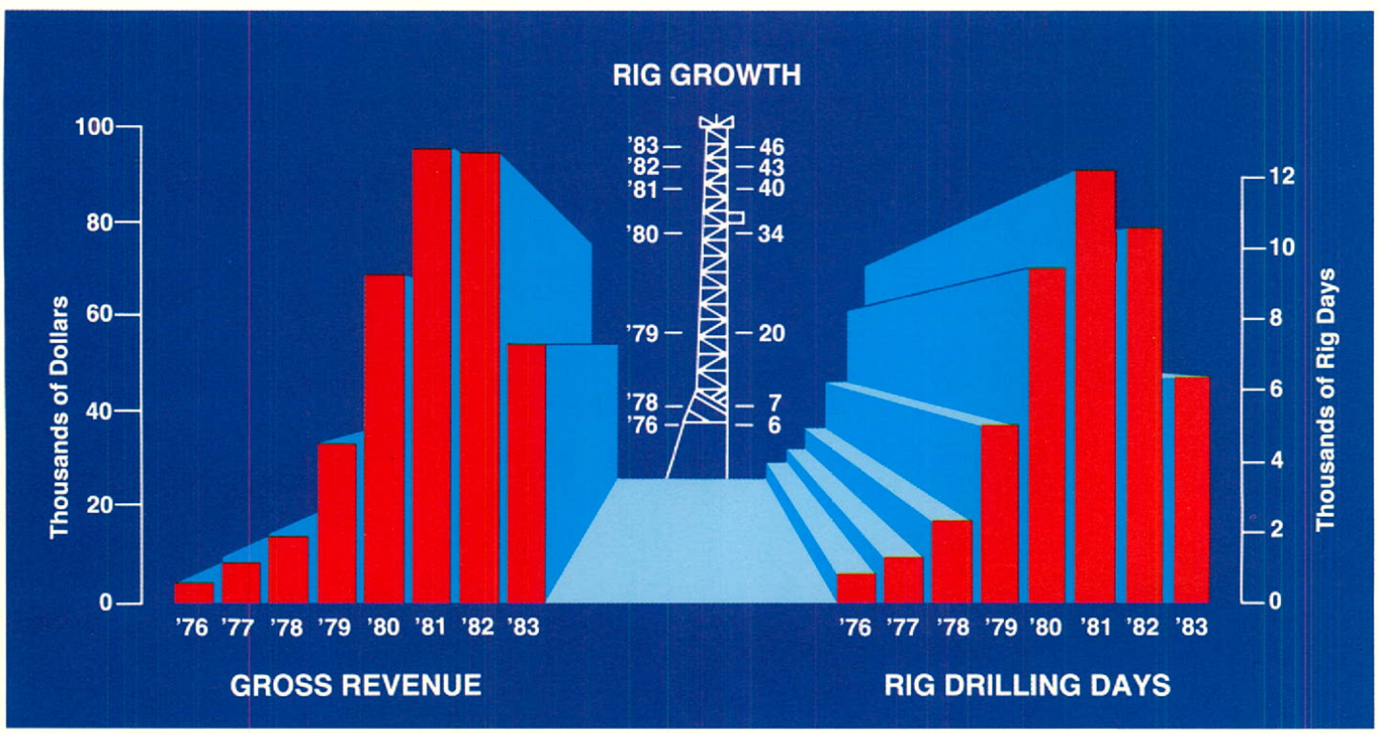
The accompanying graph illustrates the historic gross revenues, rig growth and rig drilling days for Cactus and Cardinal combined.

Air Switch

Air Switch Ltd., a Medicine Hat, Alberta based helicopter contracting service company was acquired in early 1980. Air Switch operates two modern light helicopters — the Aerospatiale Astar 350D.

Charter activities include pipelining, drilling rig and well site supervision, aerial photography, air ambulance, wild animal surveys, forestry surveys and fire fighting.

Air Switch is licensed to operate throughout all of Canada and the United States.



Cactus and Cardinal — Contract Drilling Growth

In 1981, O. J. Pipelines successfully completed one of the largest pipeline construction contracts ever awarded in Canada — 181 miles of 48 inch mainline loop on the TransCanada PipeLine system.

O.J. Pipelines

In December, 1977, O.J. Pipelines was formed to engage in the pipeline construction phase of the oil and gas industry in Canada.

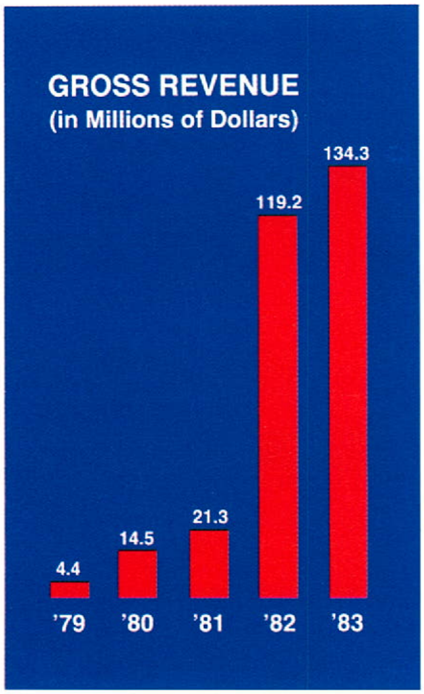
Operations have ranged from installation of two inch through 48 inch diameter pipelines with the majority of the projects being in the big inch class. Contracts have been completed in a variety of terrain throughout Canada, ranging from the Rocky Mountain foothills, the prairies, the granite of the Precambrian Shield and winter work in the northern muskeg regions. O.J. Pipelines took the lead in development of specially designed support equipment for automatic welding operations.

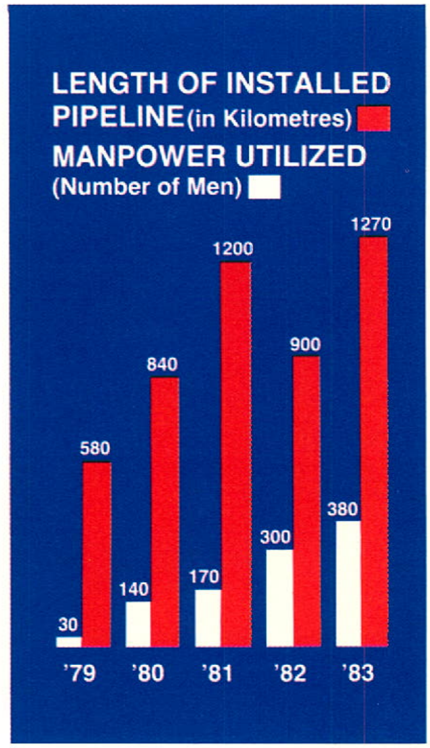
O.J. Pipelines experienced its most financially successful year in fiscal 1983 with gross revenue totalling $134.3 million, compared to $119.2 million in 1982. The major project completed during the past fiscal year was the North Bay to Ottawa TransCanada PipeLine loop which traversed the Precambrian Shield of northern Ontario.

The company's equipment fleet is now large enough to handle more than two large-diameter spreads at the same time, and its key management and supervisory staff are capable of administering the largest of North American pipeline construction projects.

O.J. Pipelines has recently opened an office in Anchorage, Alaska to extend its expertise on several gathering system expansion projects planned for the Prudhoe Bay area. The company is also actively pursuing numerous opportunities outside North America.

The graphs below illustrate O.J. Pipelines' dramatic growth in terms of revenues, kilometres of pipelines installed and the contribution to employment in Canada.





Automatic Welding Shelters being placed over pipe.

Ocelot's oilfield supply stores are distributors of tubular goods, pumping units, sucker rods, gas engines, compressors and also rental equipment.

South Eastern Pipeline Construction

South Eastern Pipeline Construction, a small-inch pipeline contractor, was purchased in September, 1975. Based in Medicine Hat, Alberta, South Eastern Pipeline is located in an extremely large shallow gas producing area. The company's highly innovative management introduced a unique plow which permits the installation of up to 3.5-inch diameter oil and gas gathering lines in one continuous operation. This, combined with the use of a mechanical pipe-joining process, dramatically reduces the pipeline installation time and cost, and minimizes environmental land damage.

Pipe Plow.

Gross revenue for the 1983 fiscal year was $2.0 million compared to $1.8 million during the previous year. The following chart shows the division's level of activity since its acquisition in 1975.

	Gross Revenue (000's)	2″-12″ Lines Installed (kilometres)
1976*	$2,600	504
1977**	$ 600	101
1978	$2,900	438
1979	$1,300	190
1980	$1,700	283
1981	$2,200	309
1982	$1,800	211
1983	$2,000	256

* 12 months ended December 31, 1976.
** 3 months ended March 31, 1977.

Wilson Oilfield Supply
Lynx Oilfield Supply

Recognizing the impending high level of activity in the petroleum industry in 1977, Ocelot acquired Sheamar Equipment Ltd. and Wilson Oilfield Supply Ltd. These divisions sell and service all types of oil and gas equipment, both new and used, as well as rent and repair production equipment.

In 1978, a similar operation was acquired in Casper, Wyoming, which currently operates under the name of Lynx Oilfield Supply, Inc.

To increase its market coverage, in May, 1980, Wilson Oilfield Supply purchased a compressor packaging facility in Nisku, Alberta and the Canadian distributorship of Gardner-Denver compressors.

Fiscal 1983 was again a difficult year for the oilfield supply divisions, however both the Canadian and United States operations are well positioned to take advantage of increased future activity in the exploration, development and processing industries, with six sales outlets in Canada and three located in the central United States.

The contribution of gross revenue from these divisions is set out below:

	Gross Revenue (000's)
1977	$ 16,700
1978	$ 31,700
1979	$ 60,400
1980	$ 99,200
1981	$155,700
1982	$137,300
1983	$ 64,900

Brooks Field Service

The acquisition of this well servicing company occurred in early 1978. The current operation comprises a modern fleet of 17 service rigs capable of working to depths of 2,600 metres, two coiled tubing units, and other related equipment.

Such equipment is used to place tubing, rods, pumps, packers and other related oilwell equipment into newly drilled wells, and also to rework existing oil and gas wells.

This company makes a valuable contribution to the financial and operational aspects of Ocelot as indicated by the following table.

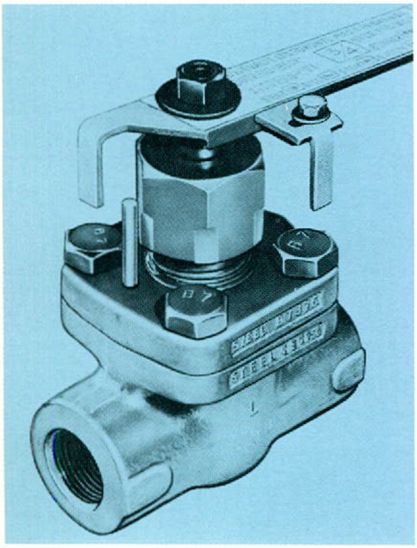
	Gross Revenue (000's)
1978	$2,200
1979	$3,700
1980	$4,400
1981	$5,400
1982	$5,400
1983	$4,300

The Lowe valve contains no springs or plastics which enables it to replace a number of valve types now in use, such as ball valves, butterfly valves, gate valves and plug valves.

Lowe Valve

In late 1981 Ocelot acquired a 70% interest in Lowe Valve Ltd.

Lowe Valve manufactures a valve with unique characteristics which offer significant advantages enabling it to replace a number of valve types now in use.

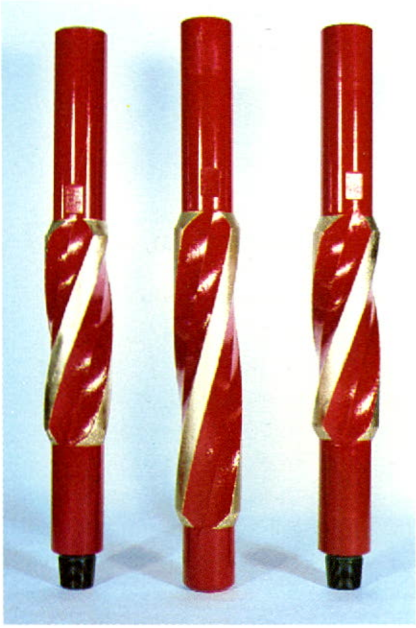


Acceptance of the Lowe valve to date has been good and they are now in use in a wide variety of services such as pulp and paper, chemical plants, refineries, steel and aluminum companies and in other diverse applications.

Lowe Valve now has the capacity to produce a size range from one-half inch to two inch valves, and international and domestic sales agreements are actively being pursued.

Faster Oil Tools (International)

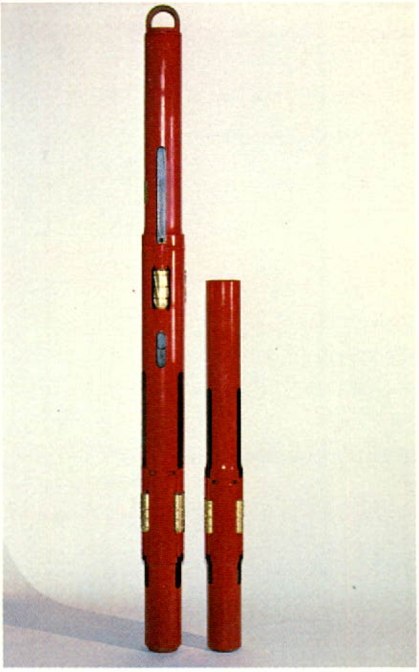
Acquired by Ocelot in October, 1981, Faster Oil Tools (International) is the only Canadian-owned manufacturer of downhole drilling tools. Since its acquisition, the manufacturing capabilities have been expanded to complement drill collar sales with a full line of downhole stabilization, reamer equipment and related components.



Integral Blade Stabilizers.

Gross revenue for the 1983 fiscal year was $5.7 million compared to $8.6 million for six months subsequent to acquisition during the 1982 fiscal year.

Efforts are being made to expand into the international marketplace and agreements for distribution and sales of the Faster products are being placed with highly qualified international firms.



Roller Reamers.

Shares of the Company

The share price rise, in 1981, to $69 was a reaction to the Blina #1 oil discovery in western Australia.

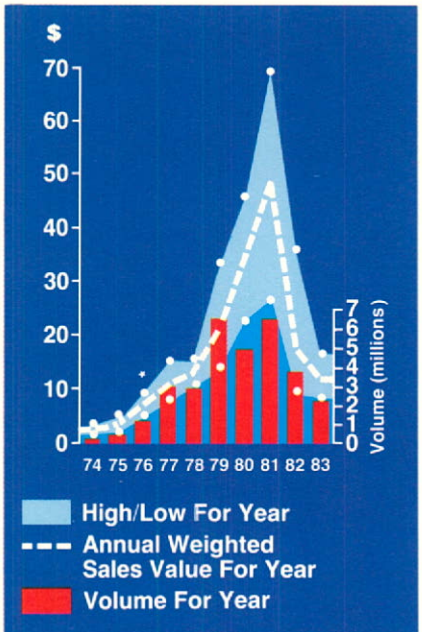
The Company's shares began trading July 6, 1973 on the Toronto, Montreal and Alberta Stock Exchanges of Canada, and on January 4, 1980 on the NASDAQ (over-the-counter securities market) system in the United States.

STOCK SYMBOLS

	Class A	Class B
Canada	OILK	OILL
United States	OILLF	OILLZ

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, and Class A shares are convertible at the option of the holder into Class B shares on a one-for-one basis.

The following graph illustrates the Class B share volume and market price over the ten-year theme period covered in this report. The Class A shares follow closely in price to the Class B shares, although volumes are much less.



*Shares split 2 for 1 October 7, 1976.

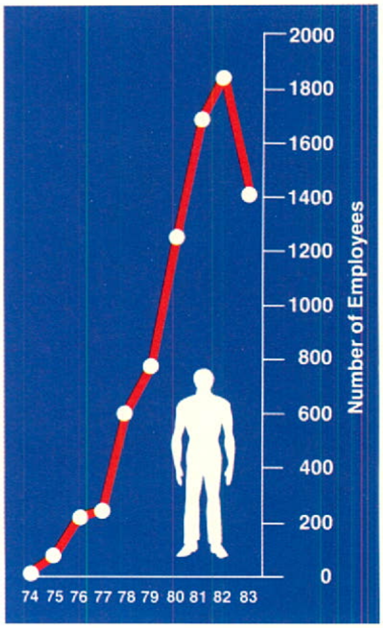
At March 31, 1983, there were 2,104 registered shareholders of whom 283 held Class A shares and 1,821 held Class B shares. The weighted average number of A and B common shares outstanding during the reporting year was 13.6 million, up from 13.4 million in 1982, and there were 14.4 million shares outstanding at March 31, 1983. The following table shows the high and low sales prices of the A and B Common shares as reported by the Toronto Stock Exchange for each quarterly period during the 1982 calendar year and to May 31, 1983.

Calendar	High		Low	
Year	A	B	A	B
1982				
1st Quarter	35	36	15½	14½
2nd Quarter	18½	18½	9	9
3rd Quarter	17½	17⅛	11	9½
4th Quarter	17⅜	18	12	11½
1983				
1st Quarter	16¾	16¾	8½	8¼
April-May	11⅜	12	9¼	9⅛

Human Resources

The Company's accomplishments over the past 10 years have been in large measure due to the efforts of its enthusiastic, hardworking and dedicated employees.

The accompanying graph illustrates the growth in the number of employees from 1974 to the present. The decline from fiscal 1982 is a result of attrition and reductions in the service divisions.



Financial Review

Despite the economic slowdown in operations in the current fiscal year, a resumption in growth over the balance of the 1980's is expected.

General

The Company encountered many difficult and challenging financial events during the year ended March 31, 1983. The need to finance the completion of the previously committed methanol plant put a strain on the Company's financial resources. Furthermore, the reduced demand for natural gas, drilling services and tubular goods resulted in decreased cash flows. These declines were partially offset by higher natural gas prices and an increase in pipeline construction. The above circumstances necessitated the institution of many financial restraints within the Company.

Cash Flow and Earnings

Operations for the year ended March 31, 1983 resulted in cash flow of $7.3 million compared to $44.9 million in 1982. The cash flow per share was $0.54 in 1983 compared to $3.35 in 1982.

The Company's Consolidated Statement of Earnings for the year ended March 31, 1983 reflects a loss of $36.4 million ($2.67 per share) compared to 1982 net earnings of $4.3 million ($0.32 per share).

Both cash flow and earnings continued to suffer as depressed levels of activity characterized the North American oil and gas industry which necessitated the write down of certain inventories in the amount of $11.9 million. Losses were also experienced in the petrochemical and mining segments.

Revenues

Consolidated operating revenues declined by $51.8 million from the all-time high of $424.4 million in 1982. Declines of $38.0 million in contract drilling revenues and $67.0 million in oilfield equipment sales were partially offset by an increase in pipeline construction revenues of $16.0 million as well as $37.0 million of methanol sales. Revenue from oil and gas sales remained virtually unchanged for the third consecutive year despite a decrease in natural gas production volumes.

Capital Expenditures

The financial restraint program resulted in capital expenditures being severely curtailed during the 1983 fiscal year. One exception was the previously committed expenditures required to complete the Kitimat Methanol Plant and related facilities. Expenditures in the petrochemical business segment amounted to $105.8 million compared to $184.7 million in the preceding fiscal year.

The Company did not embark on any significant new expenditure programs. There was, however, a concentrated effort to develop oil and gas leasehold interests through financing alternatives such as drilling funds and the previously reported farmout agreement with AGIP.

The Company raised approximately $12.0 million in late 1982 through a development drilling program. This successful program, while not having a significant impact on the Company's current operations, will provide additional oil and natural gas reserves and cash flow in years to come. Subsequent to year end an additional $30.0 million was raised through a second development drilling program from private sources.

Financial Position

The Company had a working capital deficiency at March 31, 1983 of $51.5 million, representing a decrease in working capital during the year of $62.1 million. The Company's accounts receivable and inventories, as a result of declining activity, decreased substantially during the year.

Fixed asset additions were financed primarily through long term debt borrowings arranged through the Company's bank.

The previously mentioned decline in demand for natural gas resulted in the Company's major purchaser not being able to meet minimums under the take-or-pay provisions of a gas purchase contract. The Company was therefore entitled to receive advance cash payments during the year ended March 31, 1983 in the amount of $35.0 million. These cash payments were not included in earnings in the current year as the revenue will be recognized when the natural gas is delivered.

The Company believes there has been recent improvement in the availability of capital funding. In this regard the Company continues to investigate a number of potential financing arrangements, the proceeds of which would be used to reduce existing bank indebtedness. The Company will also continue to pursue the raising of capital for oil and gas development through additional development drilling programs.

Ocelot Industries Ltd.
Consolidated Financial Statements
Year Ended March 31, 1983

Consolidated Statement of Earnings

YEAR ENDED MARCH 31, 1983
(Thousands of Dollars)

	1983	1982
REVENUE		
Operating (Note 7)	**$372,581**	$424,385
COSTS AND EXPENSES		
Cost of sales and operating expenses	**281,943**	303,476
Depletion and depreciation	**40,124**	31,718
	322,067	335,194
EARNINGS FROM OPERATIONS BEFORE UNDERNOTED ITEMS (Note 7)	**50,514**	89,191
Interest and other income	**(1,907)**	(4,083)
Interest on long-term debt	**72,662**	63,785
Other interest	**12,709**	7,861
	83,464	67,563
EARNINGS (LOSS) BEFORE INCOME AND OTHER TAXES AND MINORITY INTEREST	**(32,950)**	21,628
INCOME AND OTHER TAXES (Note 8)		
Current income taxes (recovery)	**(1,247)**	1,759
Deferred income taxes (recovery)	**(2,901)**	9,019
Alberta Royalty Tax Credit	**(4,000)**	(2,750)
Petroleum and Gas Revenue Tax	**6,519**	5,543
	(1,629)	13,571
EARNINGS (LOSS) BEFORE MINORITY INTEREST	**(31,321)**	8,057
MINORITY INTEREST	**(5,117)**	(3,749)
NET EARNINGS (LOSS)	**$ (36,438)**	$ 4,308
PER SHARE		
Weighted average number of Class A and Class B shares outstanding during the year	**13,635,974**	13,388,104
Net earnings (loss) per Class A and Class B share	**$(2.67)**	$0.32
Cash flow per Class A and Class B share	**$ 0.54**	$3.35

Consolidated Balance Sheet

AS AT MARCH 31, 1983
(Thousands of Dollars)

	1983	1982
ASSETS		
CURRENT ASSETS		
Accounts receivable (Note 1)	**$ 58,948**	$ 98,507
Income taxes recoverable	**2,536**	—
Inventories, at lower of cost and net realizable value	**47,961**	75,717
Prepaid expenses	**2,047**	1,058
	111,492	175,282
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 2)	**1,059,298**	921,150
Accumulated depletion and depreciation	**(126,656)**	(88,351)
	932,642	832,799
OTHER ASSETS	**18,501**	12,745
	$1,062,635	$1,020,826

Approved by the Board:

Director

Director

	1983	1982
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness, secured	**$ 54,705**	$ 50,030
Accounts payable and accrued liabilities	**61,422**	92,233
Income taxes payable	**—**	1,741
Deferred income taxes	**2,258**	3,360
Current maturities on long-term debt	**44,569**	17,273
	162,954	164,637
DEFERRED REVENUE (Note 3)	**63,579**	22,347
LONG-TERM DEBT (Note 4)	**666,207**	635,679
DEFERRED INCOME TAXES	**67,669**	69,079
MINORITY INTEREST (Note 5)	**1,044**	3,963
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6)		
Authorized		
4,000,000 Cumulative, redeemable, preferred shares at $25 par value		
7,500,000 Class A Common shares of no par value		
25,000,000 Class B Common shares of no par value		
Issued		
3,627,028 (1982 — 3,686,435) Class A shares	**6,774**	6,885
10,734,063 (1982 — 9,844,156) Class B shares	**54,148**	41,538
RETAINED EARNINGS	**40,260**	76,698
	101,182	125,121
	$1,062,635	$1,020,826

Consolidated Statement of Retained Earnings

YEAR ENDED MARCH 31, 1983
(Thousands of Dollars)

	1983	1982
BALANCE AT BEGINNING OF YEAR	**$76,698**	$79,035
Net earnings (loss)	**(36,438)**	4,308
	40,260	83,343
Dividends	**—**	(6,645)
BALANCE AT END OF YEAR	**$40,260**	$76,698

Consolidated Statement of Changes in Financial Position

YEAR ENDED MARCH 31, 1983
(Thousands of Dollars)

	1983	1982
WORKING CAPITAL WAS DERIVED FROM		
Operations	**$ 7,327**	$ 44,856
Issue of shares — for cash	**329**	1,192
— for minority interest in O.J. Pipelines Ltd.	**12,170**	—
— for acquired subsidiary	**—**	4,950
Long-term debt	**121,136**	330,357
Sale of property, plant and equipment	**16,867**	2,697
Deferred revenue	**41,233**	8,557
Minority interest	**810**	—
	199,872	392,609
WORKING CAPITAL WAS APPLIED TO		
Property, plant and equipment	**152,778**	344,019
Long-term debt	**90,608**	7,272
Other assets	**6,423**	4,076
Acquisition of minority interest in O.J. Pipelines Ltd. (Note 5)	**12,170**	—
Dividends	**—**	3,693
Acquisition of net assets of purchased subsidiaries	**—**	3,797
	261,979	362,857
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	**(62,107)**	29,752
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	**10,645**	(19,107)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	**$ (51,462)**	$ 10,645

YEAR ENDED MARCH 31, 1983
(Tabular amounts shown in thousands of dollars)

Summary of Significant Accounting Policies

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

A summary of significant accounting policies is set out below.

(a) Principles of Consolidation

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

(b) Natural Gas and Petroleum Operations

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

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

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

Costs accumulated in the North America cost centre are depleted using the unit of production method based on estimated recoverable reserves of gas and oil, as determined by Company engineers and substantiated periodically by independent engineers.

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

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

(c) Mining Operations

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

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

(d) Methanol Plant

All costs incurred prior to the commencement of commercial production and relating to the construction of the Kitimat methanol plant including pre-production expenses, start-up costs and financing charges have been capitalized. Commercial production commenced on December 1, 1982 and, therefore, the accompanying consolidated financial statements reflect operations of the plant from that date.

(e) Capitalization of Interest Costs

The costs of major development projects (such as the construction of the methanol plant and the development of the gold mine) include interest and other financing charges on funds specifically borrowed to finance such projects. Such charges are capitalized (1983 — \$35,451,000; 1982 — \$22,519,000) and are depreciated against production revenues on a basis similar to other development costs.

(f) Drilling and Well Service Rigs and Related Property and Equipment

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

(g) Depreciation

Depreciation of production equipment is provided on a unit of production basis based upon estimated recoverable reserves of gas and oil within a project area.

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

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

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

(h) Revenue Recognition

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

(i) Foreign Currency Translation

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

(j) Pension Plans

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

(k) Deferred Gas Revenues

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

Note 1 Amount Receivable On Insurance Claims

On February 12, 1983, the reformer furnace at the Company's Kitimat methanol plant suffered extensive damage which rendered the plant non-operational until late April, 1983. The Company carries insurance coverage in respect of business interruption, property damage and public liability and in this regard has filed interim claims with its underwriters for the property damage and related business interruption losses.

All insured costs and losses incurred to March 31, 1983, in this connection, have been included in accounts receivable in the accompanying consolidated financial statements. It is not possible to determine with certainty whether all such amounts will be fully covered by insurance; however, management believes that all amounts recorded as accounts receivable as at March 31, 1983 resulting from issued or pending interim insurance claims, are collectible.

Note 2 Property, Plant and Equipment

	1983			1982
	Cost	Accumulated Depletion and Depreciation	Net	Net
Natural gas, petroleum and mineral leases and rights together with exploration, development and equipment thereon	$ 531,800	$ 75,433	$456,367	$461,977
Contract drilling equipment	110,823	27,394	83,429	80,003
Methanol plant	337,967	3,404	334,563	232,217
Pipeline construction equipment	31,045	6,910	24,135	23,140
Land, buildings and other equipment	47,663	13,515	34,148	35,462
	$1,059,298	$126,656	$932,642	$832,799

Note 3 Deferred Gas Revenue

Pursuant to the provisions of certain gas purchase contracts as amended by an arrangement among the Company, TransCanada PipeLines Limited and Topgas Holdings Limited, $49,569,000 has been received as at March 31, 1983 for gas to be delivered at future dates. The Company is required to deliver a minimum of 10% of the prepaid gas outstanding as of December 31, 1982 in each contract year commencing November, 1984.

Note 4 Long-Term Debt

	1983	1982
Canadian dollar bank loans (a)	$557,640	$500,950
U.S. dollar bank loans (b) (1983 — $54,250,000 U.S.; 1982 — $33,000,000 U.S.)	66,587	39,847
9½% Senior secured notes due March 31, 1998 (c) (1983 — $49,350,000 U.S.; 1982 — $52,637,500 U.S.)	57,738	61,344
10½% Senior secured notes due March 31, 1998 (c)	10,660	11,370
10% Note payable in annual instalments of $3,000,000 U.S. (1983 — $9,000,000 U.S.; 1982 — $12,000,000 U.S.)	10,434	14,087
Other	7,717	12,744
Accrued charges on methanol plant, gold mine and equipment purchases to be paid from additional bank borrowings	—	12,610
	710,776	652,952
Less current maturities included in current liabilities	44,569	17,273
	$666,207	$635,679

(a) The Canadian dollar bank loans are evidenced by demand promissory notes and bear interest at ¾% and 1% above bank prime rate. The loans are secured by the Company's interest in certain petroleum and natural gas properties, a general assignment of accounts receivable, fixed and floating charge debentures on certain contract drilling and service rigs, the methanol plant and a take-or-pay contract for the sale of methanol. The loans are repayable from future production and contract drilling revenues and methanol sales. Included in these bank loans is a production loan in the amount of $245 million on which no principal repayments are required prior to August 1, 1983, at which time the Company's banker has agreed to review the repayment terms in light of the then existing collateral security, present worth and cash flow margins of the Company. Based on the assumption that the Company's borrowing base at August 1, 1983 will be sufficient so as not to require any principal repayments on the loan prior to April 1, 1984, no portion of the loan has been classified as a current liability in the accompanying financial statements.

(b) The U.S. dollar loans are evidenced by demand promissory notes, bear interest at 1% above a certain U.S. bank prime rate and are secured by a floating charge debenture on certain contract drilling rigs and related equipment and certain producing petroleum and natural gas properties. Of the principal, $46,250,000 (U.S.) is repayable in quarterly instalments of $1,250,000 (U.S.). The remaining principal of $8,000,000 (U.S.) is repayable in quarterly instalments of $250,000 (U.S.).

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

The U.S. dollar debt is carried in the financial statements in Canadian dollars based on the exchange rate in effect at the date the funds were borrowed. Had the loans been translated at the rate in effect at the balance sheet date, the carrying value in Canadian dollars would have increased by $4,274,000 at March 31, 1983.

The estimated amount of long-term debt maturities for the five years subsequent to 1983 are as follows: 1984 — $44,569,000; 1985 — $67,761,000; 1986 — $65,041,000; 1987 — $62,564,000; and 1988 — $61,988,000.

Note 5 Acquisition of Minority Interest in O.J. Pipelines Ltd.

Effective October 21, 1982, the Company acquired the 30% minority interest in O.J. Pipelines Ltd. for 798,000 Class B shares in the capital stock of the Company (issued at an ascribed value of $15.25 per share). The excess of the consideration given over the carrying value of the minority interest as at the effective date of acquisition was $2,846,750 and has been assigned to pipeline construction equipment.

Note 6 Capital Stock

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

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

	Number of Shares		Consideration	
	Class A	**Class B**	**Class A**	**Class B**
Balance, March 31, 1982	3,686,435	9,844,156	$6,885	$41,538
Issued on exercise of employee stock options	—	32,500	—	329
Conversion of shares	(59,407)	59,407	(111)	111
Issued as consideration in acquisition of minority interest in subsidiary (Note 5)	—	798,000	—	12,170
Balance, March 31, 1983	**3,627,028**	**10,734,063**	**$6,774**	**$54,148**

(c) As of March 31, 1983, there were 628,900 Class B shares of the Company reserved for exercise of employee stock options to 1989 at prices ranging from $10.125 to $11.59 per share as follows:

Outstanding at March 31, 1982	488,900
Granted at $10.125 to $11.59 per share	206,500
Exercised at $10.125 per share	(32,500)
Cancelled	(34,000)
Outstanding at March 31, 1983	**628,900**

All options were granted under employee stock option plans and at March 31, 1983, 24,600 Class B shares were reserved for future options which may be granted under these plans.

(d) As of March 31, 1983, 100,000 Class B shares have been reserved for future issuance under a bonus incentive plan to specific employees.

Note 7 Segmented Information

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

Business Segments

	Natural Gas and Petroleum Operations	Petroleum Industry Services and Supplies	Petro-chemi-cals	Mining	Elimina-tions(ii)	Total
Revenue						
1983	**$ 73,238(i)**	**$263,022**	**$ 36,521**	**$ 1,245**	**$ (1,445)**	**$ 372,581**
1982	$ 73,195(i)	$366,402	—	—	$(15,212)	$ 424,385
Earnings (loss) from operations						
1983	**$ 35,896**	**$ 27,454**	**$ (5,379)**	**$ (7,447)**	**$ (10)**	**$ 50,514**
1982	$ 38,170	$ 51,711	—	—	$ (690)	$ 89,191
Total assets						
1983	**$506,818**	**$190,370**	**$350,581**	**$14,866**	**—**	**$1,062,635**
1982	$513,468	$256,157	$232,217	$18,984	—	$1,020,826
Capital expenditures						
1983	**$ 30,596**	**$ 13,387**	**$105,835**	**$ 2,960**	**—**	**$ 152,778**
1982	$116,527	$ 34,629	$184,657	$ 8,206	—	$ 344,019
Provisions for depletion and depreciation						
1983	**$ 17,363**	**$ 12,279**	**$ 3,404**	**$ 7,078**	**—**	**$ 40,124**
1982	$ 18,671	$ 13,047	—	—	—	$ 31,718

Geographic Segments

	Canada	United States	Other Foreign	Elimina-tions(ii)	Total
Revenue					
1983	**$329,338**	**$ 51,755**	**—**	**$(8,512)**	**$ 372,581**
1982	$316,749	$112,124	—	$(4,488)	$ 424,385
Earnings (loss) from operations					
1983	**$ 66,515**	**$ (16,075)**	**$ (719)**	**$ 793**	**$ 50,514**
1982	$ 78,104	$ 10,014	—	$ 1,073	$ 89,191
Total assets					
1983	**$851,727**	**$195,779**	**$15,129**	**—**	**$1,062,635**
1982	$797,858	$211,295	$11,673	—	$1,020,826

(i) Natural gas and petroleum revenue is net of royalties of $21,701,000 in 1983 and $25,962,000 in 1982.

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

Note 8 Income Taxes

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

	1983		1982	
	Amount	**Percentage of Pretax Earnings**	Amount	Percentage of Pretax Earnings
Computed "expected" tax expense (recovery)	**$(15,157)**	**(46.0)%**	$ 9,949	46.0%
Royalties and other payments to federal and provincial governments	**5,379**	**16.3**	6,343	29.3
Other non-deductible costs	**1,937**	**5.9**	915	4.2
Non-deductible losses of subsidiaries	**10,728**	**32.6**	—	—
Federal resource allowance	**(8,007)**	**(24.3)**	(7,537)	(34.8)
Provincial income taxes less federal abatements	**972**	**2.9**	1,108	5.1
Refund of taxes under provincial incentive plans	**(4,000)**	**(12.1)**	(2,750)	(12.7)
Actual income tax expense — current and deferred	**(8,148)**	**(24.7)**	8,028	37.1
Petroleum and gas revenue tax	**6,519**	**19.8**	5,543	25.6
Total actual tax expense (recovery)	**$ (1,629)**	**(4.9)%**	$13,571	62.7%

The Company estimates that it has earned investment tax credits of $31,124,000 at March 31, 1983 which have not been recognized in the accounts. These credits can be applied in future years to reduce federal taxes otherwise payable and are subject to final determination by the taxation authorities.

Note 9 Pension Plans

For the year ended March 31, 1983, the cost of the Company's pension plans, including contributions in respect of unfunded past service benefits, was $1,554,000. Based on the most recent actuarial evaluations, the Company's pension plans had an unfunded past service obligation of $2,465,000 at March 31, 1983. This obligation is being funded in accordance with government legislation over a fifteen year period.

Note 10 Commitments and Contingencies

(a) The Company has commitments to purchase materials for $3.0 million per month until December 31, 1983; $3.35 million per month until December 31, 1984; and $3.7 million per month until December 31, 1985. The Company continues to be committed to purchase materials after 1985 at prices and quantities subject to negotiation.

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

1984	$ 5,673
1985	5,214
1986	4,353
1987	3,495
1988	3,308
Thereafter	2,556
	$24,599

(c) In May, 1983, a purchaser of product under an agreement with the Company requested the Court of Queen's Bench of Alberta to appoint an arbitrator for the purpose of determining the price to be paid for deliveries of the product. Management believes that the price is readily determinable under the agreement and that product revenues have been properly recorded. The ultimate outcome of these proceedings is not predictable.

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

(e) As at March 31, 1983, a United States subsidiary of the Company is in a dispute with a supplier over the delivery of certain products. If such dispute is determined adversely to the Company a potential loss of approximately $6.0 million would require recognition in the accounts. In Canada, the Company is in a dispute with a supplier of products which if such dispute is determined adversely to the Company potential losses of $3.5 million may result.

(f) A United States subsidiary of the Company has commenced legal action to collect amounts due and payable by joint venturers of $2.2 million (U.S.). One of the joint venturers, in its counter claim, seeks actual and exemplary damages in excess of $10 million (U.S.). Counsel for the subsidiary has advised that such claims are spurious, and that it is likely the subsidiary will obtain a judgment for the full amount of its claims. It is not possible to predict the ultimate outcome of these matters.

(g) Pursuant to the terms and conditions of two limited partnership agreements under which the Company is the general partner, the limited partners may require the Company to offer to purchase all or any of their units in the partnerships at any time after June 30, 1985 under conditions and at prices determined under the partnership agreements; however, the Company is not obliged in any year to purchase more than 15% of the total units outstanding. The aggregate subscriptions of the limited partners under these agreements amounted to $12.3 million while the Company as general partner was not required to make any capital contributions.

(h) The Company is contingently liable for $1.8 million as guarantor of the bank indebtedness of a third party.

Note 11 Statutory Information

During the year, directors and senior officers (including the five highest paid employees) of the Company received remuneration of $2,080,000 of which $23,750 was paid as directors' fees.

Auditors' Report

To the Shareholders of
Ocelot Industries Ltd.

We have examined the consolidated balance sheet of Ocelot Industries Ltd. as at March 31, 1983 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Calgary, Canada
June 10, 1983

Chartered Accountants

Corporate Information

Directors:

W. J. Bushnell †
B. R. Cheeseman †
R. O. Fisher
N. M. Hannon †
J. V. Lyons
Dr. G. C. Solomon †

† Member of the Audit Committee

Officers:

J. V. Lyons — Chairman and Chief Executive Officer

R. O. Fisher — President and Chief Operating Officer

B. W. Wilson — Vice President, Finance & Administration

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

D. J. McKinnon — Vice President, Production and Corporate Development

J. E. Torrie — Vice President, Exploration

M. I. Erickson — Assistant Vice President, Finance

R. J. Russell — Secretary and Counsel

Subsidiaries & Divisions:

Oil Resources, Inc. (U.S.A.)

Ocelot Oil Corp. (U.S.A.)

Ocelot Chemical Corp. (U.S.A.)

Ocelot Mining Corp. (U.S.A.)

Ocelot Sudan Exploration Corporation (U.S.A.)

Oil City Resources Ltd. (Cameroon)

Ocelot Senegal Petroleum Ltd. (Senegal)

Ocelot Industries de France Ltee. (France)

Ocelot International Pty. Ltd. (Australia)

Ocelot Investments Ltd.

Ocelot Chemicals

*O.J. Pipelines

Ocelot Petroleum Exploration Company Limited (U.K.)

Margay Exploration Ltd. (80%)

*Lynx Energy Services Ltd.

*Air Switch Ltd.

*Brooks Field Service

*Cactus Drilling

*Cardinal Drilling Company (U.S.A.)

*Faster Oil Tools (International)

*Lowe Valve Ltd. (70%)

*Lynx Oilfield Supply, Inc. (U.S.A.)

*O.J. Pipelines Inc. (U.S.A.)

*Sheamar Supply

*South Eastern Pipeline Construction

*Wilson Oilfield Supply

*Petroleum Industry Services and Supplies Group

Head Office:

#900, 333 - Fifth Avenue, S.W.
Calgary, Alberta T2P 3B6
Telephone (403) 261-2000

Banker:

The Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agents:

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

Stock Exchanges:

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
NASDAQ (United States)

Auditors:

Thorne Riddell
Chartered Accountants
Calgary, Alberta

lawson graphics western
PRINTED IN CANADA

Ocelot Industries Ltd.
Annual Report
1983