

**OCELOT INDUSTRIES LTD.**

ANNUAL REPORT 1978

JUL 20 1979

MCGILL UNIVERSITY

## THE COMPANY

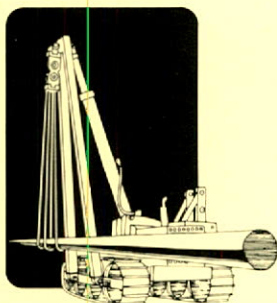
Ocelot Industries Ltd. began exploration and development of gas and oil lands as a private company in 1972 and "went public" in 1973. After the initial and only public financing of \$4,000,000, Ocelot has expanded its interests to rank among the top twenty gas producers in Canada. The Company has also become a major supplier of gas and oil field services through the acquisition of successful companies complete with their expertise in energy-related businesses.



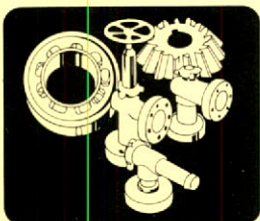
Ocelot's largest corporate acquisition was Alberta Eastern Gas Limited (AEG) the pioneer developer of the large shallow gas play in southern Alberta, with substantial gas production, reserves and prospective land. Three of the present management group, J. V. (Verne) Lyons, President, O. R. (Ore) Edmonds, Director, and R. A. (Bob) McCullough, Senior Vice President, were instrumental in the founding and early development of AEG.



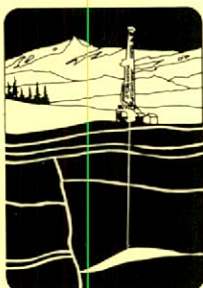
Jennings International Drilling was purchased in 1975. Its original six medium and deep capacity drilling rigs have been increased to eight. A new rig is one of the largest in Canada. The present management has been with the organization for over 12 years.



South Eastern Pipeline Construction, a contracting company specializing in the installation of gas gathering lines, was acquired in 1975. It continues to be operated by its founding President.



Wilson Oilfield Supply Ltd. and Sheamar Supply Ltd., retailers of oil field equipment, were acquired in 1977, and continue operations under their previous management.



Ocelot's Exploration Department, with the support of the Land Department, directs the Company's large exploration program. It has been expanded to a major department by additions of staff with many years experience in the industry.





## FINANCIAL AND OPERATING SUMMARY

### FINANCIAL In thousands except per share amounts

Revenue	1978	1977*
a) Oil and Gas Sales	\$40,881	\$18,393
b) Contracting and Supply Services	45,655	8,377
	<u>\$86,536</u>	<u>\$26,770</u>
Cash Flow from Operations	\$26,429	\$11,074
Per Share	\$1.93	\$0.96
Net Earnings	\$14,232	\$ 5,503
Per Share	\$1.04	\$0.47
Capital Expenditures		
a) Development, Plant and Equipment	\$23,507	\$ 3,797
b) Exploration and Land	15,005	6,465
c) Corporate Acquisitions	16,305	83,328
	<u>\$54,817</u>	<u>\$93,590</u>
Crown Royalties & Mineral Taxes	\$5,551	\$3,002
Long Term Debt	\$64,321	\$64,124

### OPERATING

Natural Gas Production—millions of cubic feet	28,430	14,508
Millions of cubic feet per day	78	59
Oil and Condensate Production — barrels	174,485	125,430
Barrels per day	478	514
Productive Wells Owned		
Gross	1,390	1,088
Net	975	784
Canadian Acreage (000 acres)		
Gross	2,424	2,135
Net	1,242	1,153
Number of Drilling and Service Rigs	30	6
Number of Employees	594	230

\*Includes eight months Ocelot operations and five months Alberta Eastern Gas Limited operations.





J. V. (Verne) Lyons, Director,  
President and Chief Executive Officer



R. O. (Roy) Fisher, Director,  
Executive Vice President

#### TO THE SHAREHOLDER:

I am pleased to report to you that 1978 has been an active and successful year. Sales and earnings have increased in all divisions and subsidiaries. Two significant corporate acquisitions were made during the year; a contracting company with drilling and service equipment, and a retail oil field supply company, both well established and experienced in the oil and gas industry.

Although these two subsidiaries were owned for only three and nine months respectively, they, together with the Company's other contracting organizations, contributed over 22% of the earnings from operations for the year.

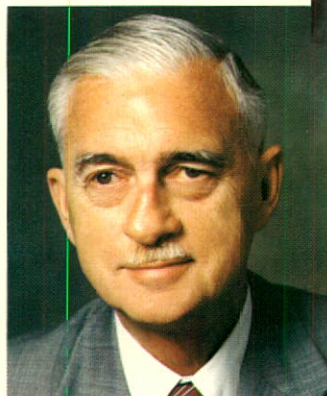
Volumes of natural gas sold, prices and net-back to the Company from these sales improved materially during the year, and comprised approximately 78% of the earnings from operations.



G. C. (George) Solomon,  
Director



N. M. (Nor) Hannon, Director



O. R. (Ore) Edmonds, Director



Each major division and subsidiary is reported upon in the various sections of this report. The financial statements and the accompanying notes thereto detail the revenues and earnings contributed by these major segments. You are invited to read these sections in order to appreciate the Company's diversified, energy-oriented efforts.

Increased prices for natural gas, accompanied by a very fast pace of exploration and development, has developed gas reserves and deliverability in excess of the available markets in Canada, and has resulted in the current over-supply problem. To date, the Company has avoided any serious disruption of plans due to its favorable gas sales contracts in its chief producing areas. These have enabled us to embark on a major development of proven natural gas reserves and to plan an appreciable increase in our production rate in the current year. You will find this covered in detail in the "Production and Reserves" section of this report.

General industry activity is continuing at high levels spurred by discoveries of both oil and gas in hitherto unevaluated formations in the western part of Alberta and by the shortened reservation and lease tenure period on Crown lands. This could well continue, should an outlet for surplus natural gas via export become available.

Export of natural gas is dependent upon the approval of several levels of government, plus that of regulatory bodies. Such bodies in the past have been slow in rendering decisions, and the continuance of these uncertainties for lengthy periods makes long term forecasting quite difficult. As well, changes in governmental policies can affect items ranging from wellhead prices through allowable production levels, to royalty and taxation features, and thus have a significant impact on the industry and consequently, on the operations of your Company.

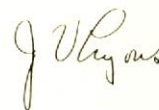
The diversification of Ocelot into several lines of endeavor is designed to reduce over-dependence on any one sector of the energy field. With the sound operating divisions and subsidiaries described in this report, the Company is in a position to take part in most major developments now taking place, and a number that are possible in the future.

On-going diversification in the energy field is and has been under study. Visible results of these efforts may be evident in the foreseeable future in additional areas of oil and gas exploration, and the processing of natural gas liquids and chemicals in Canada or elsewhere.

The Company has grown at remarkable rates since becoming active in 1972. Indices to this growth might be sales, an increase from \$13,626 in 1972 to \$70,822,016 in 1978, an increase in total assets from \$1,207,602 to \$202,797,000; and an average growth rate in net earnings of 205% annually during the same period. There is no surety that this growth can continue at the same rate, but I feel that the tools for a continued strong upward trend are well in place.

One of the major factors in the determination of this continued growth will be the continued enthusiasm, dedication and years of progressive experience of the staff that has been assembled. I trust the shareholders appreciate their efforts to the same extent as myself.

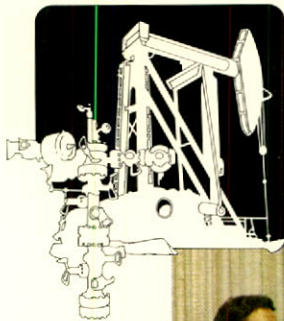
ON BEHALF OF THE BOARD OF DIRECTORS



Calgary, Alberta  
August 8, 1978

J. V. Lyons  
President





## PRODUCTION AND RESERVES



Top left to right:

I. L. (Lorne) Levorson, Vice President, Production & Operations  
 W. R. (Russ) Duncan, Chief Engineer  
 D. J. (Don) McKinnon, Manager of Engineering

Bottom left to right:

R. C. (Russ) Horne, Area Superintendent, Medicine Hat  
 L. C. (Laverne) Wombold, Drilling & Production  
 Supervisor, Medicine Hat

Increased natural gas production and higher prices were the highlight of the year. Gas sales rose from 59.46 to 77.89 million cubic feet per day, an increase of 31%. Price adjustments resulted in an increase in wellhead prices of 25% during the year. Gas sale contracts for the current year have been increased and the Alberta Government has recently reduced its royalty on a portion of the Company's production.

### Production

The sharply increased production was the result of our record 313 well drilling program during the last year (204 net wells), largely in the shallow gas fields in the Medicine Hat-Brooks area of southern Alberta, and the construction of a new compressor station to deliver this additional gas. Production performance continues to demonstrate that the sizeable gas reserves and long term deliverability of the shallow gas producing zones, particularly the Milk River and Medicine Hat formations, will support a much closer well-spacing than has generally been the practice in other gas fields.

The proven productive capability of the formations in combination with the economic factors of increasing natural gas prices, the benefits of large scale operations, and the full utilization of the production facilities, has led to increasing the well density in all of the Company's shallow gas operations.

This year an even larger drilling program is well underway, with the objective of increasing deliverability of gas from the shallow gas properties by more than 11 million cubic feet per day plus some five million from other properties, for a total increase of 16 million cubic feet per day. One compressor station is being enlarged and another modified to handle this increased production. In the Medicine Hat area, the Company operates 12 compressor stations with a total installed rating of 18,455 horsepower.

In conjunction with the extensive drilling program in the proven shallow gas areas, a number of wells were drilled deeper to test other formations. If unsuccessful at depth, the wells were then plugged back and completed as gas wells in the proven shallow zones. This provided low-cost tests of the deeper zones. During the year seven such tests were drilled resulting in two gas wells at depth and five completions of shallow gas producers. This type of exploration of the deeper zones below the shallow gas is continuing this year.



In other areas, gas sales commenced from Provost, Bassano and Craigend in Alberta and production is scheduled to begin later this year from Hotchkiss. In British Columbia, production began from Bulrush, and deliveries of gas will commence from both West Buick Creek and the Grizzly-Mast properties later this year. In the latter area, a pipeline is under construction by the British Columbia Petroleum Corporation to ship sweet gas this year. A processing plant for sour gas is scheduled for construction in 1979. These new areas plus the productive lands acquired in the purchase of Cactus Drilling Corp. Ltd. comprise the five million cubic feet per day of other gas deliveries mentioned above.

At Peco one well drilled last year was successfully completed and subsequently three wells have been drilled. Two of these were unsuccessful, and the third is presently awaiting a stimulation treatment. It is expected that it will be successfully stimulated to become a producing gas well, and be added to those presently producing gas, condensate and oil.

The step-out drilling that has taken place in the Peco area now indicates that the productivity is less continuous from well to well than was first anticipated. Accordingly, the Company's consultants, James A. Lewis Engineering Co. Ltd., have revised their previous natural gas and liquids reserves estimates downward. A report dated April 1, 1978 now shows the Company's working interest share of proven natural gas reserves in the Peco area, before royalties, to be 132 billion cubic feet plus probable reserves of 159 billion cubic feet and proven natural gas liquids to be 7,075,000 barrels plus probable reserves of 11,260,000 barrels. These probable reserves are mainly defined by wells which have been drilled but have not yet adequately tested all productive zones.

Another follow-up well has recently commenced drilling in the Peco area. The Company expects to continue the development of the reserves in Peco and to construct a centralized natural gas and liquids processing facility.

## Gas Price

The Toronto City Gate price increased by 17¢ per thousand cubic feet on February 1, 1978 plus a further 15¢ on August 1, 1978. Producers also receive an "Export Price Adjustment" which is the result of the higher price paid for gas exported to the United States and to the premium of the U.S. dollar over the Canadian dollar.

However, all of these increases do not result in similar increases in the net-back to producers. The Crown royalty percentage rises along with the increased Alberta "Border Price" and thus reduces the wellhead value realized by the Company.

In August, 1978, TransCanada PipeLines was allowed to increase its charges for transportation of the gas from the Alberta border to southern Ontario by 10.3¢ per thousand cubic feet, an increase of 22%. To this may be added about 2.5¢ to cover the cost of financing producers' gas paid for but not taken by virtue of the take-or-pay gas purchase contracts as referred to below. In addition, Alberta Gas Trunk Lines, the transporters of gas within Alberta, have applied to regulatory bodies for an increase in their transportation rates within Alberta.

Another price increase of 15¢ per thousand cubic feet is in prospect at February 1, 1979, since the Federal Government's announced policy is to raise the price of domestic oil toward world levels in steady increments to that time and to increase the price of gas in relation to the price of oil.

The Company drilled more wells than any other in Alberta in 1977. This sign was posted in the office of a proud Production Engineer.

# TODAY'S HIGHLIGHTS THURSDAY FEBRUARY 9, 1978

**O.I.L./A.E.G. IS No. 1 IN 1977 ACTIVITY**

A.E.G. 258 WELLS

O.I.L. 23 WELLS

TOTAL 281 WELLS

## PART 1 OPERATOR SUMMARY OF WELLS DRILLED IN ALBERTA DURING 1977 - ALPHABETICAL LISTING

PLEASE NOTE: The following summary of well completions by operator was prepared from well completion records of the DAILY OIL BULLETIN. Completion data used in this summary is based on data status as released, and thus may not correspond to wells operated as

ALBERTA OPERATOR	DEVELOPMENT				EXPLORATORY				CUMULATIVE FOR YEAR
	OIL	GAS	WATER	WELLS	OIL	GAS	WATER	WELLS	
ALBERTA EASTERN GAS LIMITED	1	345	1	246	1	7	6	12	252 6 1 258
OCELOT INDUSTRIES LTD.	1	15	1	15	1	6	1	8	1 21 1 23

Courtesy—Daily Oil Bulletin



## Gas Markets and Contracts

During April, 1978, TransCanada PipeLines advised producers of a 20% excess of contracted supply over their market requirements. This over-supply is a result of increased emphasis by producers to maintain production rates, new production, lower than expected market growth due to a slowdown of industrial activity in the buyer's market region, the effectiveness of energy conservation campaigns, and a surplus of residual fuel oils from oil refining operations.

TransCanada proposed a reduction of producers' deliveries of gas of up to 20% of the minimum contract delivery rates for the contract years ending October 31, 1978 and October 31, 1979. Gas deliveries contracted for, but not taken, would be paid for by TransCanada at the end of each calendar year, and taken at such time as it is required over the next six to ten years.

Your Company accepted this arrangement in conjunction with a substantially increased gas sales contract to be effective November 1, 1978.

The major gas sales agreements covering the Company's shallow gas area require the buyer to contract for such gas as it agrees the Company can deliver on a sustained basis. The Company's representation that it could add and sustain a total increase of 11.5 million cubic feet per day, net to the Company, from the shallow gas area commencing November 1, 1978 was accepted by TransCanada. This increase will result in approximately 78 million cubic feet per day (net to the Company) being contracted from this area, largely on a 95% load factor basis. The large drilling program now in progress is scheduled to produce the additional gas required to meet the November 1, 1978 delivery date for this increased supply. Gas sales and cash flow will increase substantially in the next contract year, commencing November 1, 1978, due to the greater amount of gas to be delivered and/or paid for.

## Crown Royalty

The Alberta Government has recently announced a sliding scale royalty on natural gas produced from lower productivity gas wells in the Province. This change will considerably lower the Crown royalty on low productivity gas wells which is currently about 32% for new and 44% for old gas. This new royalty scheme became effective August 1, 1978 and applies to both new and old gas and to wells producing less than 250 thousand cubic feet per day and is related to both volume and selling price with the minimum royalty set at 5%. This revision will affect the Company's shallow gas production on lands leased from the Crown, which comprises approximately 35% of our present shallow gas production. The Government's objective in making this decision is to encourage owners of low productivity wells to maintain production for longer periods and to accelerate exploration and development of shallow gas reserves in Alberta.

## Proven Reserves

Total proven reserves, before royalties, at March 31, 1978 are listed in the table below. These are the proven reserves as reported in part by the Company's engineering consultants Sproule Associates Limited and James A. Lewis Engineering. Of the total proven reserves listed, 67% of the gas and 87% of the oil and natural gas liquids are as given by those consultants and the balance is the Company's estimates.

### Natural Gas

Alberta . . . . .	758,600	million cubic feet
Saskatchewan . . . . .	178,400	million cubic feet
British Columbia . . . . .	35,300	million cubic feet
	<u>972,300</u>	million cubic feet

### Oil & Natural Gas Liquids

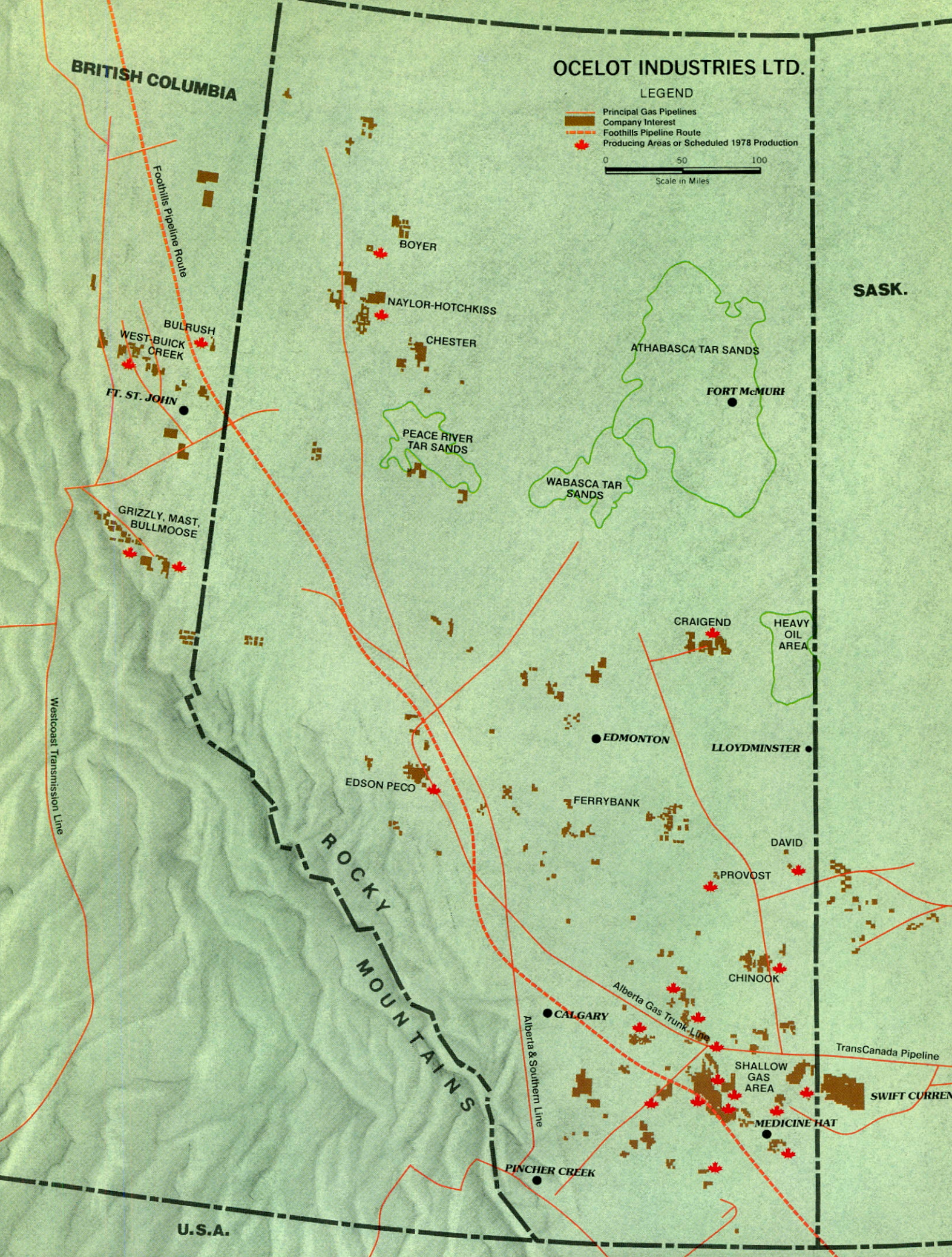
Alberta . . . . .	7,664,000	barrels
British Columbia . . . . .	485,000	barrels
	<u>8,149,000</u>	barrels



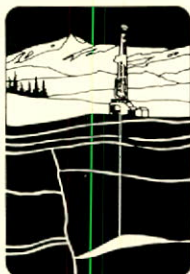
# OCELOT INDUSTRIES LTD.

## LEGEND

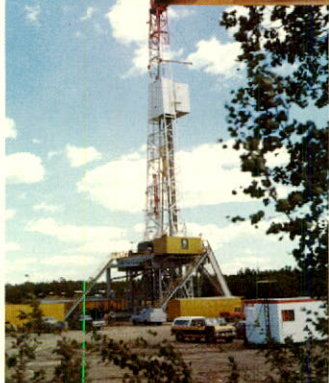
- Principal Gas Pipelines
  - Company Interest
  - Foothills Pipeline Route
  - Producing Areas or Scheduled 1978 Production
- 0 50 100  
Scale in Miles







## EXPLORATION AND LAND



Jenning's 'big-rig' on a summer site.

Photo by Paquin,  
Grande Prairie, Alberta

Top left to right:

J. E. (Jim) Torrie, Chief Geologist, Manager, Exploration (B.C.)

D. W. (Wayne) Keedwell, Operations Geologist

G. E. (Gordon) Hargreaves, Manager, Exploration

K. M. (Mike) Guise, Manager, Land

The Company continued to expand its interest in areas prospective of containing significant oil and gas reserves to provide attractive holdings for future development. Direct purchases of land from the Crown and others during the year amounted to \$4,700,000 for 91,400 net acres. Additional land interests were earned from others by drilling on their lands.

Emphasis was continued on expansion of both land interests and exploratory drilling in British Columbia where encouragement has been provided by changes in Government policies in conjunction with readily available markets for both gas and oil. Two

significant discoveries are being followed-up, and exploration is being continued with partners in the deep-lying structures of the Grizzly-Mast-Sukunka region.

Expenditures during the year of \$10,300,000 were incurred for exploratory drilling, geological studies, and seismic programs. The results of the 29 exploratory and step-out wells drilled were 7 completed as producers, 19 dry holes and three suspended pending completion when ground conditions permit.

Geological staff has been expanded in order to supervise the direction of this high level of exploration drilling, the seismic programs and the analysis of data from previously drilled wells in the regions selected for expansion or for new efforts.

At this time, this staff has underway 20 exploration prospects and 15 development projects in the final stages of detailed geological investigation, land assembly and arrangements with partners. The majority of these prospects are scheduled for drilling during the current year. Many additional prospects are in the preliminary stages of investigation and evaluation.

The oil discoveries by others in the Devonian pinnacle reefs west of Pembina in the deeply-buried Nisku formation were the highlight of exploration during the last year in western Canada.

As yet, the probable areal limits of these reefs are unknown. However, Ocelot's Edson (Peco) acreage appears to be located in the western part of the geological basin environment within which these oil accumulations occur. Most of the Ocelot land in this block is leased to depths above the Nisku but approximately 5,700 net acres do contain the rights to the Nisku formation.

A most interesting parcel of land to the Company in this area at this time is a 2,560 acre drilling reservation owned 50 percent by Ocelot. Two Crown licences have been purchased by others at over \$2,000 per leasable acre, one directly adjoining and one about three miles from the Company's reservation, indicating the possibility of the basin extending to the Company's land. Seismic work is in progress on both the Company's and on adjoining acreage, and drilling activity is moving into the area directly to the south and east.

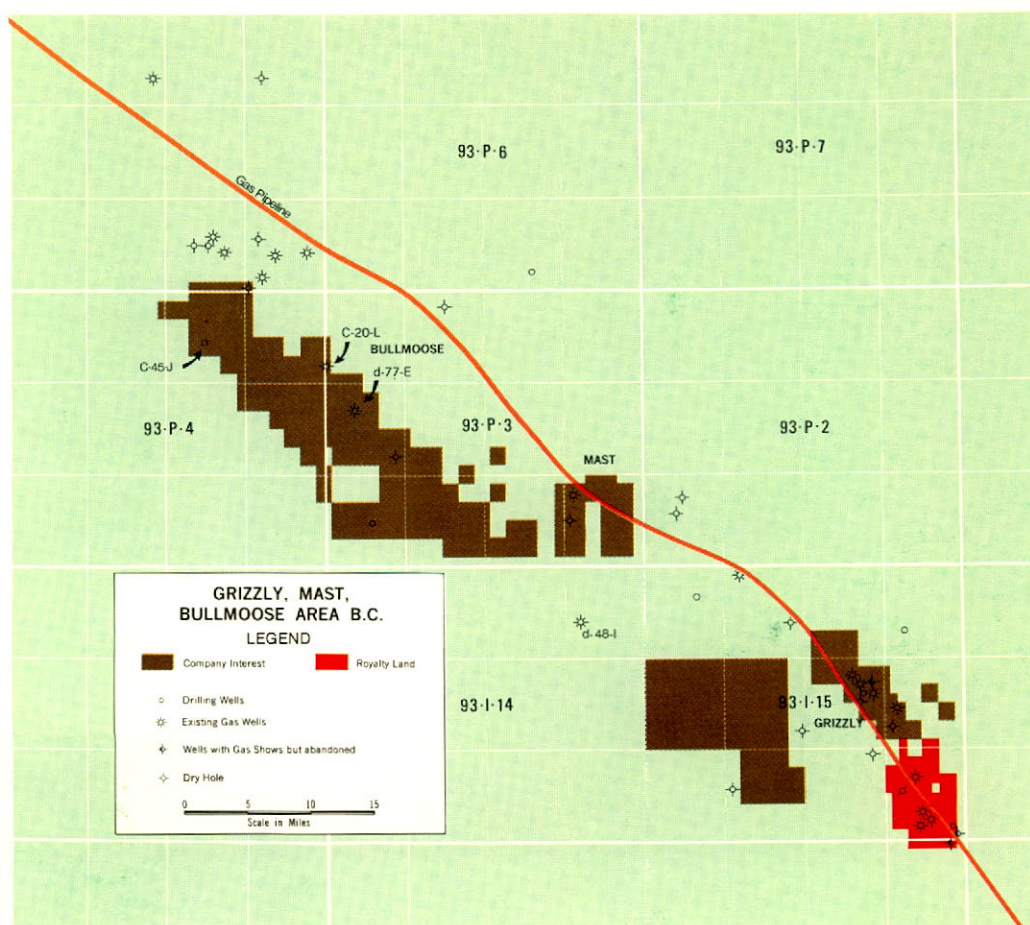


## Land Review

Land holdings were increased through direct purchases from the Crown, by interests earned for drilling and by land acquired with the purchase of Cactus Drilling Corp. Ltd. Certain holdings were reduced due to their conversion from permit and reservation form to petroleum and/or natural gas leases. A table of Canadian holdings is provided.

## CANADIAN LAND HOLDINGS

	ACREAGE	
	Gross	Net
<b>ALBERTA</b>		
P&NG Leases	1,068,839	609,323
Natural Gas Leases	99,292	76,180
Natural Gas Licences	57,720	19,329
P&NG Reservations	127,520	63,275
P&NG Ex. Licences	90,240	55,233
Drilling Reservations	13,280	6,008
Royalty Interests	92,240	2,412
	<u>1,549,131</u>	<u>831,760</u>
<b>BRITISH COLUMBIA</b>		
P&NG Leases	167,892	47,843
P&NG Permits	284,103	111,977
Drilling Reservations	86,490	25,407
Royalty Interests	12,705	635
	<u>551,190</u>	<u>185,862</u>
<b>SASKATCHEWAN</b>		
P&NG Leases	41,286	31,788
Natural Gas Leases	279,992	190,349
	<u>321,278</u>	<u>222,137</u>
<b>MANITOBA</b>		
P&NG Leases	2,432	2,432
<b>TOTAL</b>	<u>2,424,031</u>	<u>1,242,191</u>







## CACTUS DRILLING



A drilling rig at Grizzly by an imaginative photographer.

Top left to right:

J. D. (Jim) Stafford, President, Brooks Field Service Ltd.

H. J. (Henry) Wilson, Vice President, Cactus Drilling Corp. Ltd.

W. F. (Bill) LeSourd, President, Cactus Drilling Corp. Ltd.

R. B. (Ross) McLeod, Secretary-Treasurer, Cactus Drilling Corp. Ltd.

Cactus Drilling Corp. Ltd., a company engaged in contract drilling, well servicing and oil and gas development, was purchased by Ocelot on January 2, 1978.

Beginning operations in 1957 with two drilling rigs, Cactus had grown to an organization operating eleven drilling rigs with depth capacities ranging from 3,000 feet to 14,000 feet, plus a 15,000 foot rig on order. Eight service rigs are operated by a subsidiary, Brooks Field Service Ltd. Its assets also included varying working interests and royalties in 55 gross oil and gas wells along with lease interests in 139,000 gross (21,000 net) acres plus royalties covering 45,000 acres of oil and gas leases.

Drilling capacity has been up-graded this year by the above-mentioned addition of a 15,000 foot drilling rig to meet the increasing demand for equipment with deeper drilling ability, and by the addition of three new service rigs and the retirement of an older one, for a total of ten service rigs. With the addition of this large rig, operations will increase in the foothills region along the Rocky Mountain front where this type of capacity is in heavy demand.

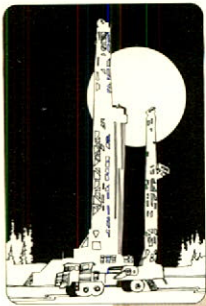
The growth of Cactus for the past three years is indicative of the high level of drilling activity and is illustrated by the increase in its gross revenue over the last three years; from \$8,498,000 in 1976 to \$9,998,000 in 1977, and to \$13,586,000 in 1978.

During this same period gross revenues of Brooks Field Service increased from \$1,357,000 in 1976, to \$2,204,000 in 1978.

These service rigs are the "physicians" of the producing industry, taking over the completion of a well following drilling, performing remedial work during the life of the well, including acidizing, fracturing, replacement of down-hole equipment, preparation for secondary recoveries, re-completing in new zones and presiding over the final abandonment when production ends.

The present management have been with Cactus an average of 18 years and are continuing to operate the Company. The Superintendent and Toolpushers are highly experienced having an average of 13 years of service with the Company.





## JENNINGS INTERNATIONAL DRILLING



The 20,000 foot capacity 'big-rig' on its first well.

Photo by Paquin,  
Grande Prairie, Alberta



Top left to right:  
K. (Ken) Lacey, Controller  
G. R. (Gordie) Rowan, Assistant Manager  
W. R. (Bill) Kelsay, General Manager

In May of this year, Jennings unveiled a new 20,000 foot capacity drilling rig, one of the largest in Canada. It commenced operation in July in the Peace River area of Alberta. Later in the year, another new rig of 16,500 foot capacity will be ready for drilling and will be able to take advantage of the very high demand for equipment capable of drilling to the deeper zones in the western part of the Canadian sedimentary basin. Both of these new rigs are committed to long term contracts with major companies. Before these additions, Jennings operated six rigs with depth capacities from 8,000 to 13,000 feet. The two new very large rigs extend Jennings' capabilities further into this growing market for deep drilling.

Jennings, after beginning operations in 1958, entered the deep drilling business in the early 1960's with 9,500 and 12,500 foot rigs, and has kept in the forefront of the development of technology for deep drilling and for operating in remote areas.

The Jennings' equipment was purchased by Ocelot in October, 1975, and continues to be operated by personnel who have been with Jennings since the mid 1960's. Their ability to sustain the growth history is demonstrated by their steadily increasing activity. Rig utilization has increased from 50% in 1975, to 61% in 1976, to 74% in 1977 and to 78% in 1978. Gross revenues for the year ended March 31, 1978 increased to \$13,000,000 from \$9,900,000 for the prior year.

Jennings expects a continued high demand for their deep capacity equipment, as the search for oil and gas into the deeper horizons becomes economically and technologically more feasible.

### Largest land rig in Canada recently unveiled by Jennings

The latest addition to the stable of deep rated drilling rigs in Canada is Jennings International Drilling's rig 5-E, which is possibly the largest land rig ever assembled in Canada.

The new \$6 million plus rig was assembled at Jennings' Nisku yard, south of Edmonton, and was unveiled recently before moving out on contract to Pan-Canadian Petroleum Ltd. in the foothills.

Jennings, a division of Ocelot Industries Ltd., is a relatively small contractor with seven rigs, which started operations in Canada in 1957 with one service rig.

At the christening ceremony Jennings

Canada. The overall theme has been to utilize basic equipment with similar standby capacity, thus eliminating as much downtime as possible.

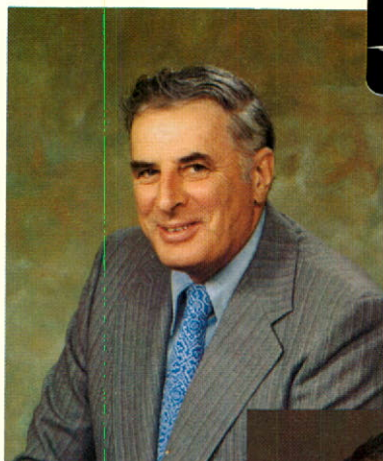
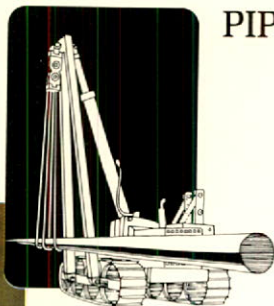
The substructure and derrick were fabricated by Dreco Ltd. The substructure has a 32 foot high floor with 800,000 pounds casing capacity, simultaneously with a 500,000 pound pipe setback. The 142 foot derrick has a 30 foot leg spread with a static 12 line load capacity of 1 million pounds. The crown section has six grooved sheaves with a 60 inch fastline sheave. The rig also boasts an electric adjustable stabbing board.

supplied by consist of a M with two D each rated at 1,60 1,000 kva m

The mud capacity of 1 includes two 10 hp agitator desilter, each capacity, and ser in addition

Reproduced by courtesy of OILWEEK





L. Brassard  
General Manager  
of South Eastern



O. J. Johanson  
President of  
O. J. Pipelines Ltd.

### O. J. Pipelines Ltd.

O. J. Pipelines Ltd. was incorporated with the object of engaging in all phases of pipelining, from feasibility studies and cost estimates to construction of "big-inch" lines. Ocelot holds a 70% interest in the Company and 30% is held by the management group of the Company.

The President and Chief Executive Officer, Mr. O. J. Johanson, has some 30 years of background in construction and management of pipeline projects with major contractors. Headquartered in Edmonton, O. J. Pipelines has commenced operations with some smaller diameter pipeline construction and with feasibility studies for proposed pipelines.

Prospects for pipeline construction for both gas and oil are good. The major project possible, of course, is the proposed pipeline from Alaska and the MacKenzie Delta through Alberta to the United

States, with possible pre-building of a portion of this line to deliver Alberta gas to that market before construction of the complete line.

O. J. Pipelines expects to be involved in the many oil delivery systems that will be required from new areas of oil production including the oil sands, the heavy oil region in east-central Alberta and to new fields in West Pembina as well as smaller systems as existing fields are extended and new oil and gas fields are discovered.

### South Eastern Pipeline Construction

Founded in 1964 by Mr. L. Brassard and headquartered at Medicine Hat, Alberta, South Eastern has specialized in the installation of small-diameter gas gathering lines, tie-ins of producing wells and fabrication of related wellhead equipment and compressor plants.

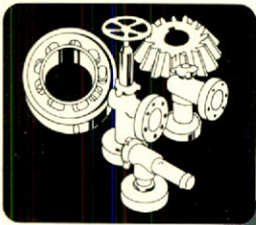
Ideally located in the heart of the large shallow gas development area, the division has shown its ability to keep pace with the rapid growth of the gas production of that area and to offer cost reducing innovations to its clients.

In 1974, South Eastern introduced to Canada the technique of installing gas gathering lines up to 3 1/2" in diameter in one continuous operation using a long plow. This, combined with the use of a mechanical pipe-joining process, also new to the Canadian scene, has reduced the time and cost of the operation as well as the inconvenience to land owners and with minimal damage to the land.

In the twelve month period following Ocelot's acquisition in late 1975, South Eastern laid 170 miles of pipeline and subsequently increased this to approximately 300 miles in each of the last two years. Gross revenues to March 31, in these last two fiscal years, have totalled \$2,500,000 and \$2,800,000 respectively.

The outlook for a continuation of this activity is good. This shallow gas area represents one of the largest reserves in Canada and is only partially developed. The division, with its excellent equipment, experienced and innovative personnel, and long history of successful operation, will continue to take a very active part in this development.





## OILFIELD SUPPLY

S. D. (Doug) Martin  
President



D. H. (Doug) Shearer  
Vice President

Sheamar Supply Ltd. and Wilson Oilfield Supply Ltd. have developed from a two-man operation supplying rental production equipment for oil well testing and selling used equipment to an organization employing eighty people supplying a wide range of oil field items from the Arctic to Wyoming. Present plans include doubling of warehouse space in both Calgary and Edmonton, plus possible expansion by the addition of new supply centers in both Canada and the United States.

Steel pipe sales account for most of the dollar volume of sales. The companies are a distributor for both a large Canadian and an off-shore pipe mill, insuring supply in the event of disruption of either source. Other large volume items include large high pressure hoses and steel lines for drilling rigs, oil field pumps, both for surface and down-hole installation, wellheads and valves, pump rods and tubing, and the continuation of the original business of renting tanks, separators and related items for initial well-testing prior to the installation of permanent equipment. A repair and reconditioning shop for pumps, pump rods and engines is operated in Edmonton. Sales in the United States are made through a subsidiary, L. P. Anderson Supply of Billings, Montana.

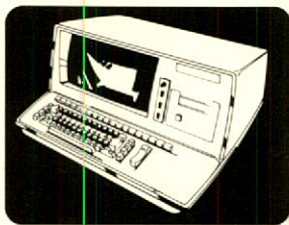
Sales and rental revenues of \$611,000 in 1968, have increased over the years to \$10,668,000 (1976), \$16,656,000 (1977), and \$31,701,000 in the year ended March 31, 1978.

The Sheamar group was acquired by Ocelot on July 1, 1977. The management continue to operate the companies along with key persons who have been with the organizations for terms ranging up to 20 years.



South Eastern 'ploughing-in' a steel gas-gathering line in southern Alberta.





## FINANCIAL REVIEW



Left to right:  
B. W. (Barrie) Wilson,  
Vice President,  
Finance and  
Administration  
D. A. (Doug) Cutts,  
Comptroller

### Earnings

The Company's net earnings for the 1978 fiscal year were \$14.2 million; an increase of \$8.7 million or 159% over the net earnings reported for the 1977 fiscal period. Earnings per share amounted to \$1.04, compared to \$0.47 for the 1977 fiscal period. Funds generated from operations for the 1978 fiscal year amounted to \$26.4 million (\$1.93 per share), reflecting an increase of \$15.4 million or 139% compared to the 1977 fiscal period. It should be noted that the 1978 and 1977 financial results do not offer an accurate comparison due to the following:

- A change in the Company's fiscal year end in 1977, and the resultant inclusion of only eight month's operations for that period.
- The inclusion of operations of Alberta Eastern Gas for only five months in the 1977 fiscal period.
- The acquisition of Sheamar Equipment Ltd., effective July 1, 1977.
- The acquisition of Cactus Drilling Corp. Ltd., effective January 2, 1978.

Due to these factors, together with the Company's resulting rapid growth and the changes in year ends, graphs and historical data have not been included in this report.

The rate of return on average capital employed (net earnings plus the after-tax interest on long term debt expressed as a percentage of average total assets less current liabilities other than the current portion of long term debt) increased from 9.1% in 1977 to 12.8% in 1978, and the return on shareholders' equity (net earnings expressed as a percentage of average shareholders' equity) increased from 11.8% to 22.2%.

### Revenues

Gross production revenues for the 1978 fiscal year amounted to \$40.9 million compared to \$18.4 million for the 1977 fiscal period. Natural gas production rose from 59.5 million cubic feet per day in 1977 to 77.9 million cubic feet per day in 1978, an increase of 31%. Details of production volumes and sales prices are provided in the "Production and Reserves" section of this report.

Royalties and mineral taxes averaged 28% of gross revenues in 1978 compared with 30% in 1977. The Province of Alberta recently announced a revised royalty scheme for low-productivity gas wells, effective August 1, 1978.

Contract drilling revenues for the 1978 fiscal year amounted to \$14.9 million, which represents twelve month's operations of the Jennings division and three month's operations of Cactus. The Sheamar group contributed gross sales of \$28.4 million for the nine month operational period since the date of acquisition and the pipeline construction companies contributed gross sales of \$2.4 million in 1978 compared to \$1.6 million for the 1977 fiscal period.

Inter-segment sales of \$5.2 million (1977—\$1.2 million) were eliminated on consolidation, resulting in total operating revenues of \$70.9 million (1977—\$20.7 million) for the 1978 fiscal year. Details of the revenues by business segments and their respective contributions to earnings from operations are set out in Note 7 to the Consolidated Financial Statements.



## Capital Expenditures

The Company's 1978 capital expenditure program was \$54.8 million. Included in this total was \$38.5 million in expenditures for property, plant and equipment which consisted mainly of expenditures directed to the large shallow gas development program and an aggressive exploration program. In addition, the Company expanded its deeper-capacity drilling equipment through the purchase of two 15,000 foot-rated drilling rigs and one 20,000 foot-rated drilling rig. Two of these rigs are now in service and the third will be in operation by October, 1978.

As set out in Note 3 to the Consolidated Financial Statements, the Company purchased Sheamar and Cactus during the 1978 fiscal year for a total net consideration of \$16.3 million. These companies will continue to be operated by their highly experienced management and your Company is confident they will continue to show above-average returns on capital invested.

## Financial Position

As a result of the significant amount of funds directed to capital expenditures during the year, the Company's working capital deficiency at year end amounted to \$24.5 million. Considering the Company's current financial position and in order to provide future financial flexibility, the Company has commenced negotiations for a private placement financing of approximately \$80 million in twenty-year Notes with a group of institutional investors in the United States and Canada.

The proposed issue would be secured by certain of the Company's producing properties, bear interest at 10 1/2 % and have sinking fund payments commencing in 1980 together with certain prepayment options. The proceeds from the issue would be used to retire existing long term bank borrowings and approximately \$20 million would be used for working capital purposes. The proposed closing date of the issue is August 31, 1978.

## Shares of the Company

At May 31, 1978, there were 2,196 registered shareholders, of which 452 held Class A shares ("A") and 1,724 held Class B shares ("B"), and 99% of the total outstanding shares were Canadian-owned. The following table shows the high and low sales prices of the A and B shares as reported by The Toronto Stock Exchange for each quarterly period during the 1977 calendar year and the 1978 calendar year to July 31, 1978.

Calendar Year		High		Low	
1977					
First Quarter	A	10 1/4		8	
	B		10%		7%
Second Quarter	A	9%		8	
	B		9 1/4		7%
Third Quarter	A	12 1/4		9 1/2	
	B		12 1/4		9 1/4
Fourth Quarter	A	15%		10 1/4	
	B		15%		10 1/4
1978					
First Quarter	A	15 1/4		12 1/4	
	B		15%		12
Second Quarter	A	13 1/4		10 1/4	
	B		13%		10%
July, 1978	A	15%		12%	
	B		15		12%

Shares of Alberta Eastern Gas Limited were withdrawn from trading on the stock exchanges in May, 1977. In April, 1978 Ocelot acquired the remaining outstanding shares, approximately 0.7% of the total shares outstanding. In order to improve operational and administrative efficiency, AEG was effectively dissolved into Ocelot in July, 1978.





## CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1978

ASSETS		1978	1977 (note 2)
CURRENT ASSETS			
Cash .....	\$	1,479,000	\$ 461,000
Accounts receivable .....		23,823,000	9,562,000
Inventories, at lower of cost and net realizable value .....		3,709,000	—
Drilling and construction contracts in progress, at cost .....		418,000	538,000
Prepaid expenses .....		327,000	223,000
		<u>29,756,000</u>	<u>10,784,000</u>
PROPERTY, PLANT AND EQUIPMENT,			
at cost (note 4) .....		180,945,000	126,574,000
Accumulated depletion and depreciation .....		9,349,000	3,602,000
		<u>171,596,000</u>	<u>122,972,000</u>
GOODWILL, at cost less amortization .....		817,000	—
OTHER ASSETS .....		628,000	164,000
		<u>\$202,797,000</u>	<u>\$133,920,000</u>
LIABILITIES		1978	1977 (note 2)
CURRENT LIABILITIES			
Bank indebtedness, secured .....	\$	20,940,000	\$ 1,841,000
Accounts payable and accrued liabilities .....		32,007,000	7,942,000
Income taxes .....		48,000	272,000
Current maturities on long term debt .....		1,258,000	692,000
		<u>54,253,000</u>	<u>10,747,000</u>
LONG TERM DEBT (note 5) .....		64,321,000	64,124,000
DEFERRED INCOME TAXES .....		19,901,000	11,876,000
MINORITY INTEREST .....		323,000	359,000
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (note 6)			
Authorized			
7,500,000 Class A common shares of no par value			
25,000,000 Class B common shares of no par value			
Issued			
4,167,880 (1977—4,208,630) Class A shares .....		2,117,000	2,138,000
9,637,855 (1977—9,258,876) Class B shares .....		40,208,000	37,234,000
RETAINED EARNINGS (note 8) .....		21,674,000	7,442,000
		<u>63,999,000</u>	<u>46,814,000</u>
		<u>\$202,797,000</u>	<u>\$133,920,000</u>

Approved by the Board:

*J. V. Lyons* Director  
*R. Fisher* Director





## CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended March 31, 1978	Eight Months Ended March 31, 1977 (note 2)
REVENUE		
Operating (note 7) .....	\$70,882,000	\$20,652,000
COSTS AND EXPENSES		
Cost of sales and operating expenses .....	38,364,000	6,806,000
Depletion and depreciation .....	6,050,000	2,592,000
	<u>44,414,000</u>	<u>9,398,000</u>
EARNINGS FROM OPERATIONS BEFORE UNDERNOTED ITEMS (note 7) .....	26,468,000	11,254,000
Other income .....	(264,000)	(58,000)
Interest on long term debt .....	6,126,000	3,310,000
Other interest .....	572,000	59,000
Minority interest .....	83,000	47,000
	<u>6,517,000</u>	<u>3,358,000</u>
EARNINGS BEFORE INCOME TAXES .....	<u>19,951,000</u>	<u>7,896,000</u>
INCOME TAXES		
Current .....	544,000	284,000
Deferred .....	6,164,000	2,800,000
Alberta royalty tax credit .....	(989,000)	(691,000)
	<u>5,719,000</u>	<u>2,393,000</u>
NET EARNINGS .....	<u>\$14,232,000</u>	<u>\$ 5,503,000</u>
EARNINGS PER SHARE		
Weighted average number of Class A and Class B shares outstanding .....	<u>13,714,574</u>	<u>11,586,438</u>
Earnings per Class A and Class B share .....	<u>\$1.04</u>	<u>\$0.47</u>

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year Ended March 31, 1978	Eight Months Ended March 31, 1977
RETAINED EARNINGS AT BEGINNING OF PERIOD .....	\$ 7,442,000	\$ 1,939,000
NET EARNINGS .....	<u>14,232,000</u>	<u>5,503,000</u>
RETAINED EARNINGS AT END OF PERIOD .....	<u>\$21,674,000</u>	<u>\$ 7,442,000</u>





CONSOLIDATED STATEMENT OF CHANGES  
IN FINANCIAL POSITION

	Year Ended March 31, 1978	Eight Months Ended March 31, 1977 (note 2)
WORKING CAPITAL DERIVED FROM		
Operations .....	\$ 26,429,000	\$11,074,000
Issue of shares		
—for cash .....	81,000	8,000
—for Sheamar Equipment (note 3) .....	2,872,000	—
—for Alberta Eastern .....	—	35,076,000
Long term debt .....	1,631,000	51,482,000
Sale of property, plant and equipment .....	1,303,000	—
	<u>32,316,000</u>	<u>97,640,000</u>
WORKING CAPITAL APPLIED TO		
Acquisition of net assets of:		
—Cactus Drilling (note 3) .....	15,092,000	—
—Sheamar Equipment (note 3) .....	1,213,000	—
—Alberta Eastern .....	—	83,328,000
Property, plant and equipment .....	38,512,000	10,262,000
Long term debt .....	1,885,000	1,916,000
Reduction in minority interest .....	148,000	—
	<u>56,850,000</u>	<u>95,506,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL .....	(24,534,000)	2,134,000
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD .....	<u>37,000</u>	<u>(2,097,000)</u>
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD .....	<u>\$ (24,497,000)</u>	<u>\$ 37,000</u>

AUDITORS' REPORT

To the Shareholders of  
Ocelot Industries Ltd.

We have examined the consolidated balance sheet of Ocelot Industries Ltd. as at March 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Ocelot Industries Ltd. (the parent company) and for those other companies of which we are the auditors and which are consolidated in these financial statements, 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. For another company consolidated we have relied on the report of the auditors who have examined the financial statements of that company.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1978 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 period.

Calgary, Canada  
June 21, 1978

THORNE RIDDELL & CO.  
Chartered Accountants





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 1978

(Tabular amounts shown in thousands of dollars)

## 1. ACCOUNTING POLICIES

## (a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant subsidiaries are wholly-owned with the exception of O. J. Pipelines Ltd. in which the Company has a 70% interest and Alberta Eastern Gas Limited (Alberta Eastern) in which the Company as at March 31, 1978 had a 99.3% interest. Subsequent to March 31, 1978 the Company acquired the remaining minority interest in Alberta Eastern. 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 expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead charges related to exploration activities. These costs are charged to earnings as set out below:

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

(ii) Costs in other areas are amortized on a straight-line basis over varying periods. Under this policy, should exploration in a particular area prove successful, the unamortized balance in that cost centre will be depleted on the unit of production basis. Should the area prove to be unproductive, the unamortized balance in that cost centre will be written off to earnings.

## (c) Depreciation

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

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

Drilling rigs	10 per cent (based on operating days)
Construction equipment	20 per cent to 35 per cent

## (d) Income Taxes

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

## (e) Foreign Currencies

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

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

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

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

The gain on translation has been credited to earnings.



(f) Goodwill

Goodwill is being amortized over five years using the straight-line method. Amortization of \$186,000 was charged to earnings in 1978.

2. CHANGE IN YEAR END AND RECLASSIFICATION OF 1977 ACCOUNTS

During 1977 the Company changed its year end from July 31 to March 31 and, therefore, the comparative figures relate to the eight months ended March 31, 1977. Certain accounts have been reclassified to conform to the 1978 financial statement presentation.

3. BUSINESS COMBINATIONS

During the year ended March 31, 1978, the Company entered into the following business combinations:

(a) Effective July 1, 1977, the Company purchased all the issued and outstanding shares of Sheamar Equipment Ltd. (Sheamar Equipment), a private company engaged in the distribution of oilfield equipment and supplies, for 328,229 Class B shares of the Company (issued at an ascribed value of \$8.75 per share and representing 3.4% of the Company's total Class B shares outstanding after giving effect to the issue of such shares).

(b) Effective January 2, 1978, the Company purchased all the issued and outstanding shares of Cactus Drilling Corp. Ltd. (Cactus Drilling), a private company engaged in contract drilling, oil and gas well servicing and production of oil and gas, for a cash consideration of \$16,351,000.

These business combinations were accounted for by the purchase method and the results of operations of Sheamar Equipment and Cactus Drilling have been included in the consolidated statements since the effective dates of acquisition. The Company estimates that, had these combinations been concluded at the beginning of the current year, the effect on net earnings and earnings per share would not have been significant.

The acquisitions are summarized as follows:

	Sheamar Equipment	Cactus Drilling
Book value of acquired assets .....	\$7,869	\$ 9,286
Book value of assumed liabilities .....	<u>6,196</u>	<u>4,920</u>
Book value of acquired net assets .....	<u>1,673</u>	<u>4,366</u>
Excess of the cost of shares over the underlying book value of acquired net assets, assigned to:		
Natural gas and petroleum properties .....	—	2,730
Drilling rigs and related equipment .....	—	8,756
Land and buildings .....	290	323
Goodwill .....	944	—
Other assets .....	<u>—</u>	<u>176</u>
	<u>1,234</u>	<u>11,985</u>
Amount of consideration given .....	<u>\$2,907</u>	<u>\$16,351</u>
Represented by:		
Cash (includes outlays and expenses) .....	\$ 35	\$16,351
328,229 Class B shares of the Company at an ascribed value of \$8.75 per share .....	<u>2,872</u>	<u>—</u>
	<u>\$2,907</u>	<u>\$16,351</u>

Funds applied during the 1978 fiscal year on the acquisition of Sheamar Equipment and Cactus Drilling comprised:



	Sheamar Equipment	Cactus Drilling
Amount of consideration given .....	\$2,907	\$16,351
Less working capital acquired .....	<u>1,694</u>	<u>1,259</u>
Other net assets acquired .....	<u>\$1,213</u>	<u>\$15,092</u>
Represented by:		
Property, plant and equipment .....	\$1,361	\$15,831
Goodwill .....	944	—
Other assets .....	3	397
Long term debt .....	(290)	(161)
Deferred income taxes .....	(776)	(975)
Minority interest .....	<u>(29)</u>	<u>—</u>
	<u>\$1,213</u>	<u>\$15,092</u>

#### 4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 1978			March 31, 1977
	Cost	Accumulated Depletion and Depreciation	Net	Net
Natural gas, petroleum and mineral leases and rights together with exploration, development and equipment thereon .....	\$154,147	\$7,702	\$146,445	\$118,518
Contract drilling equipment .....	14,794	844	13,950	3,219
Drilling and service rigs under construction .....	7,320	—	7,320	—
Pipeline construction equipment .....	793	286	507	581
Land, buildings and other equipment .....	<u>3,891</u>	<u>517</u>	<u>3,374</u>	<u>654</u>
	<u>\$180,945</u>	<u>\$9,349</u>	<u>\$171,596</u>	<u>\$122,972</u>

#### 5. LONG TERM DEBT

	March 31, 1978	March 31, 1977
Bank loans (a) .....	\$60,909	\$59,347
Advance for development including interest of \$226,000 (1977—\$891,000) (b) .....	4,126	4,791
Other .....	<u>544</u>	<u>678</u>
	65,579	64,816
Less current maturities .....	<u>1,258</u>	<u>692</u>
	<u>\$64,321</u>	<u>\$64,124</u>



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

(b) During 1975 arrangements were made for the financing of the development of certain of the Company's natural gas and petroleum properties. Under the terms of an agreement dated December 17, 1974, an unrelated corporation has agreed to advance up to \$45,000,000 in varying amounts, subject to the proving of additional reserves, to 1989. The advances bear interest at 1% above a bank prime rate and are secured by and repayable from a royalty interest in production from the specified properties. As at March 31, 1978, \$3,900,000 had been received under this arrangement.

The estimated amount of long term debt maturities for the five years subsequent to 1978 are as follows: 1979—\$1,258,000; 1980—\$7,108,000; 1981—\$8,860,000; 1982—\$9,385,000; and 1983—\$8,951,000.

#### 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, 1977 .....	4,208,630	9,258,876	\$2,138	\$37,234
Issued as consideration in the acquisition of Sheamar Equipment (note 3) .....	—	328,229	—	2,872
Issued on exercise of employee stock options .....	—	10,000	—	81
Conversion of shares .....	(40,750)	40,750	(21)	21
Balance, March 31, 1978 .....	<u>4,167,880</u>	<u>9,637,855</u>	<u>\$2,117</u>	<u>\$40,208</u>

(c) As at March 31, 1978, there were 145,500 Class B shares of the Company reserved for exercise of employee stock options to 1982 at prices ranging from \$7.65 to \$11.59 per share as follows:

Outstanding at March 31, 1977 .....	104,500
Granted at \$9.45 to \$11.59 per share .....	51,000
Exercised at \$7.65 to \$8.55 per share .....	(10,000)
Outstanding at March 31, 1978 .....	<u>145,500</u>

All options were granted under an employee stock option plan and an additional 306,500 Class B shares have been reserved for future options which may be granted under this plan.



## 7. BUSINESS SEGMENTS

The Company's operations are conducted through four business segments. These segments are natural gas and petroleum operations, contract drilling of oil and gas wells, sale of oilfield equipment and supplies and pipeline construction. Presented below is the revenue and earnings from operations relative to these activities.

	Year Ended March 31, 1978		Eight Months Ended March 31, 1977	
	Revenue	Earnings from Operations	Revenue	Earnings from Operations
Natural gas and petroleum operations (i) .....	\$30,456	\$20,546	\$13,506	\$ 9,130
Contract drilling of oil and gas wells .....	14,856	4,273	6,746	2,004
Sale of oilfield equipment and supplies .....	28,424	2,155	—	—
Pipeline construction .....	2,375	583	1,631	454
	76,111	27,557	21,883	11,588
Elimination of inter- segment transactions (ii) .....	5,229	1,089	1,231	334
Total .....	<u>\$70,882</u>	<u>\$26,468</u>	<u>\$20,652</u>	<u>\$11,254</u>

(i) Revenue is net of royalties of \$10,425,000 (1977—\$4,887,000).

(ii) Inter-segment transactions are priced at market prices for similar products and services.

## 8. ANTI-INFLATION LEGISLATION

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

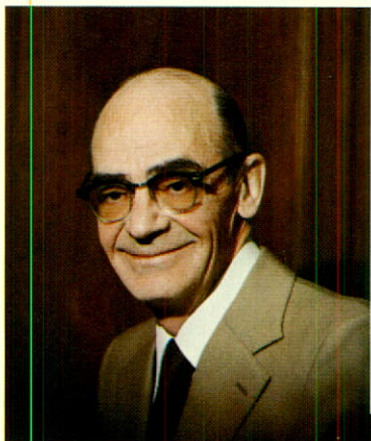
The regulations restrict the amount of dividends the Company can declare or pay during the period October 14, 1977 to October 13, 1978. Under the restrictions the Company may not, during this period, declare or pay dividends on all classes of its shares in excess of \$1,376,000.

## 9. STATUTORY INFORMATION

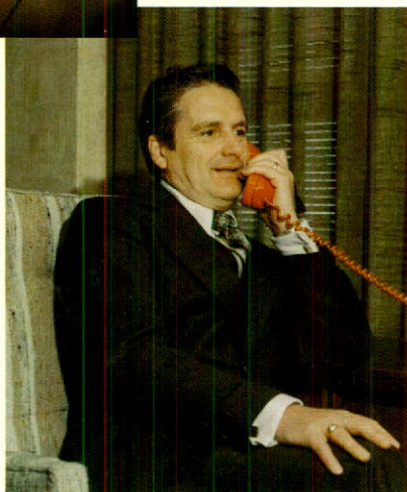
Directors and senior officers (including the five highest paid employees) of the Company received remuneration of \$647,000 during the year ended March 31, 1978 of which \$3,000 was paid as directors' fees.



# OCELOT INDUSTRIES LTD.



R. A. (Bob) McCullough,  
Senior Vice President



A. M. (Alex) Wasylenko,  
Corporate Secretary

## DIRECTORS AND OFFICERS

- J. V. Lyons, Director —  
President and Chief Executive Officer
- R. O. Fisher, Director —  
Executive Vice President
- O. R. Edmonds, Director
- N. M. Hannon, Director
- G. C. Solomon, Director
- R. A. McCullough —  
Senior Vice President
- I. L. Levorson —  
Vice President, Production and Operations
- B. W. Wilson —  
Vice President, Finance and Administration
- A. M. Wasylenko —  
Corporate Secretary

## SUBSIDIARIES

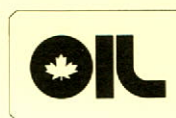
- Sheamar Equipment Ltd.  
S. D. Martin — President
- \*Alberta Eastern Gas Limited  
R. A. McCullough — President
- Cactus Drilling Corp. Ltd.  
W. F. LeSourd — President
- Brooks Field Service Ltd.  
J. D. Stafford — President
- O. J. Pipelines Ltd.  
O. J. Johanson — President

\*Dissolved effective July 11, 1978

## DIVISIONS

- South Eastern Pipeline Construction  
L. Brassard — General Manager
- Jennings International Drilling  
W. R. Kelsay — General Manager



**HEAD OFFICE:**

#1200, 640 Eighth Avenue S.W.  
Calgary, Alberta T2P 1G7  
Telephone: (403) 261-2000

**BANKERS:**

The Royal Bank of Canada  
Calgary, Alberta  
Canadian Imperial Bank of Commerce  
Calgary, Alberta

**STOCK EXCHANGES:**

Alberta Stock Exchange  
Montreal Stock Exchange  
Toronto Stock Exchange

**AUDITORS:**

Thorne Riddell & Co.  
Chartered Accountants  
Calgary, Alberta

**REGISTRAR AND TRANSFER AGENTS:**

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

The ANNUAL MEETING of the shareholders of the Company will be held in the Bonavista Room of the Calgary Inn, 4th Avenue and 3rd Street S.W., Calgary, Alberta on Friday, September 15, 1978 at 10:30 a.m.





**OCELOT INDUSTRIES LTD.**