

Camel
Oil & Gas Ltd.
1984
Annual
Report

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Corporate Profile

Camel Oil & Gas Ltd. is a Canadian energy company headquartered in Calgary, Alberta with a Canadian Ownership Rate of approximately 95 percent. The Company is engaged in the acquisition of interests in petroleum and natural gas rights, and the exploration, development and production of oil and natural gas in Canada and the United States. The Company is publicly traded on the Alberta and Toronto Stock Exchanges under the symbol CEG.

Annual Meeting

The Annual Meeting will be held at 10:00 a.m., on Wednesday, June 19, 1985 in the Belair Room of the Westin Hotel, 4th Avenue and 3rd Street S.W., Calgary, Alberta. Shareholders are encouraged to attend and those unable to do so should complete the Form of Proxy and forward it at their earliest convenience.



Financial Highlights

(\$000's except per share)

	1984	1983	1982	1981
Total Revenue	5,601	4,805	2,919	4,076
Cash Flow from Operations	724	(97)	(804)	1,936
per Share from Operations	.11	(.01)	(.20)	.53
Net Income (loss)	(4,085)	(12,177)	(983)	798
per Share	(.62)	(1.85)	(.24)	.22
Working Capital	693	1,204	5,577	7,477
Shareholders' Equity	13,509	18,221	28,792	19,876

Operating Highlights

Drilling Activity

Gross Wells Drilled				
– Canada	0	6	15	52
– United States	5	8	29	81
Gross Wells Successful				
– Canada	0	4	7	36
– United States	4	7	17	38

Oil & Gas Assets

	Canada	United States	Total
Natural Gas (mmcf)			
Proven	20,058	3,193	23,251
Probable	<u>3,776</u>	<u>249</u>	<u>4,025</u>
Total – net after royalty	<u>23,834</u>	<u>3,442</u>	<u>27,276</u>

Crude Oil & Liquids (Bbls)

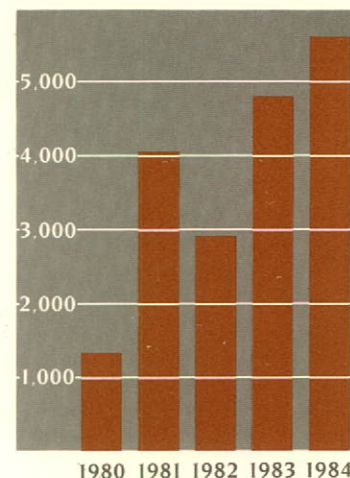
Proven	331,599	49,700	381,299
Probable	<u>32,145</u>	<u>1,400</u>	<u>33,545</u>
Total – net after royalty	<u>363,744</u>	<u>51,100</u>	<u>414,844</u>

Valuation of Oil & Gas Assets

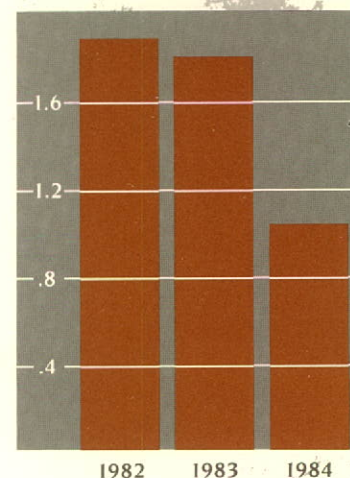
	Discounted @		
	0%	15%	20%
	(\$000's except per Share)		
Present Value of Future Net Revenue from from Proven and Probable Reserves	145,389.0	36,580.0	27,941.0
Land @ Market Value	4,324.0	4,324.0	4,324.0
Other Assets	5,119.0	5,119.0	5,119.0
Total Asset Value Net of Debt	137,091.0	28,282.0	19,643.0
Per Share	20.70	4.27	2.97

(based on weighted average number of outstanding shares during year of 6,621,610)

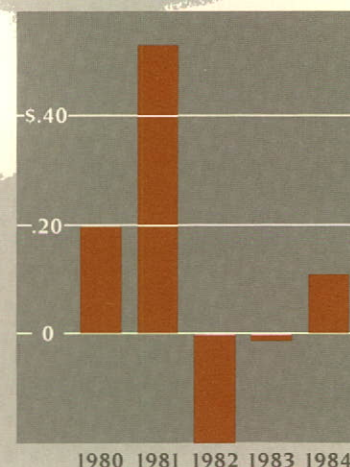
Revenue \$000's



Overhead \$ Millions



Cash Flow per Share (From Operations)



President's Report to the Shareholders

On behalf of the Board of Directors of Camel Oil & Gas Ltd. I am submitting our Annual Report for the year ended December 31, 1984. I am pleased to state that the past year has seen considerable improvement in many aspects of the Company's financial health. 1984 was a year of consolidation with particular emphasis being placed on control of costs and improvement of net revenues through more efficient operating. Significantly, the Company turned the corner in 1984, and was able to report positive cash flow for the first time since 1981. Management expects this trend which commenced in late 1983 to continue and improve through 1985. Additionally, management was successful in increasing the net asset value of our oil and gas reserves during the year.

During the year, net revenue improved by 17 percent over 1983 levels and general and administrative expense decreased by 41 percent. Further reduction in the latter costs will be seen in 1985 as a significant portion of the severance costs incurred in reducing staff in early 1984 are non-recurring. In order to reduce our administrative costs through staff reductions, it was necessary for the Company to collapse an existing employee share purchase plan and forgive the obligations of the plan. The majority of the shares in this plan were owned by the dismissed employees, however it was necessary to collapse the entire plan to achieve this end. The current staff and officers have been

extremely dedicated and hardworking throughout this lean and difficult period of rebuilding and I wish to extend my sincere thanks for their efforts.

During the year, management undertook several other steps which should have a significant effect on the future. The initial step was to package various U.S. producing properties and find a buyer for them. The sale properties for the most part were considered mature and fully developed and without further exploration potential. An agreement to purchase was executed with a purchaser in early 1985 and it is anticipated that this transaction will close in the near future. The proceeds of the sale will be immediately used to reduce bank indebtedness. Additionally, the Company undertook to increase its oil and gas income and reduce its administration efforts through the rolling in of most of the Camel managed Canadian joint ventures and limited partnerships. This occurred both in December and in the early part of 1985 and will improve the efficiency of the Company. In the same vein, all Company administered U.S. joint ventures were collapsed at year end.

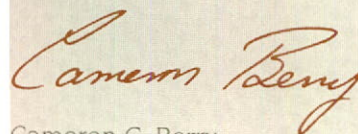
Although our exploration and development activities were modest during 1984, the Company did manage to replace its produced natural gas reserves. A slight reduction in proven crude oil and liquid reserves occurred, however much of this was due to the effect of the reduction of crude oil prices in the U.S. which altered the volume of "economic barrels". A new attitude towards our industry in general seems to be prevailing since the change of the federal

government in September 1984. I am hopeful that this will lead to renewed investment by both Canadian and international investors which will provide Camel and its associates with the funds to undertake new growth. The future potential of gas sales to the U.S. in the latter years of the decade and beyond are immense and we wish to do everything possible to ensure that the Camel shareholders will participate in that new era of growth.

Furthermore, the Board of Directors have determined that the long term objectives of the shareholders would best be met if Camel was to merge into a larger entity with the financial means to participate in larger exploration programs. To this end, management is exploring the possibility of a corporate marriage and we are confident that a suitable merger will occur during 1985.

The Board of Directors of Camel have been most supportive and helpful with their suggestions and constructive criticism during the past year. Our two new Directors, Fred Hildenbrand and Sal LoVecchio, gave willingly of their experience and I appreciated their guidance. I expect that all the Directors will be asked to make important decisions during 1985 that will have significant effect on our future.

Respectfully submitted
on behalf of the
Board of Directors.



Cameron G. Berry
President and
Chief Executive Officer



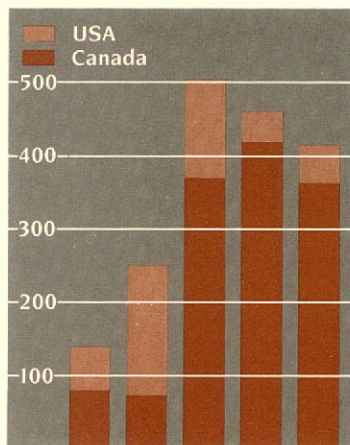
Camel maintained a conservative posture with respect to exploration and development in 1984, directing its primary efforts to corporate matters. With further reduction in production netbacks, specifically in the United States markets, many prospects were farmed out or deferred.

In Canada, the Company did not participate directly in any new drilling but did farmout its interest in five wells drilled by others. These tests resulted in one potential gas well, one potential oil well and three abandonments. In addition, agreements were negotiated which will result in the drilling of up to six wells on Company interest lands in the first half of 1985. Of these, three wells will be drilled to earn a portion of Camel's interest in Ontario properties.

In the United States, Camel participated in the drilling of five wells resulting in three oil wells, one producing gas well and one abandonment. The three oil wells were drilled in Colorado County, Texas and produce at rates of 120-150 barrels of oil per well per day with significant gas from the Upper Wilcox sands. The Company elected to farm out its interest in seven additional tests. Of these, three are currently in the drilling or completion stage, two were completed as oil and gas wells and two were abandoned.

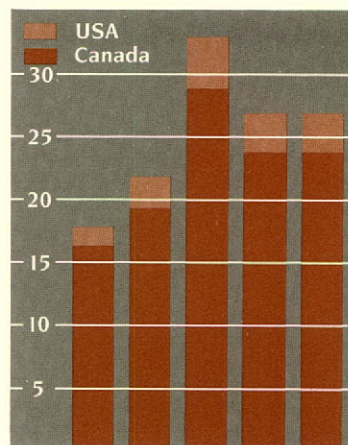
The Company also participated in the recompletion of a suspended gas well on its property in California in addition to the new gas well previously indicated, bringing to five the total number of producing gas wells on that prospect.

Oil Reserves
000's Barrels
(Net After Royalties)



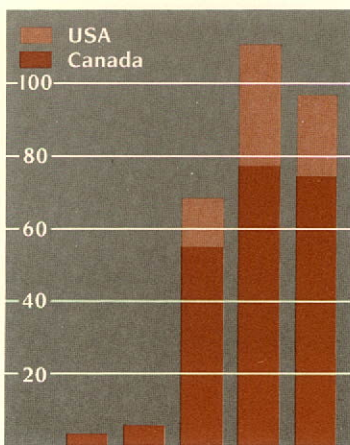
1980 1981 1982 1983 1984

Gas Reserves
BCF
(Net After Royalties)



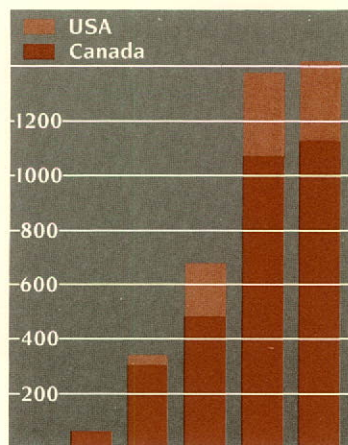
1980 1981 1982 1983 1984

Oil Production
000's Barrels/Year
(Net Before Royalties)



1980 1981 1982 1983 1984

Gas Production
MMCF/Year
(Net Before Royalties)



1980 1981 1982 1983 1984

Reserves & Land

To facilitate the completion of several corporate activities, the Company's reserves were evaluated prior to year end in both Canada and the United States.

As at November 1, 1984, proved plus probable reserves attributable to Camel's working interest in Canadian properties were 23,834 mmcf natural gas and 363,744 barrels of oil and liquids (net of royalties).

Proved plus probable reserves in the United States as at August 31, 1984 were estimated to be 3,442 mmcf natural gas and 51,100 barrels of oil and liquids (net of royalties). The U.S. evaluation does not incorporate reserves attributable to four new oil wells on which complete information was unavailable.

As at October 31, 1984 the Company held an interest in 132,705 gross undeveloped acres (19,417 net acres) in Canada and an additional 1,646,728 gross acres (65,993 net acres) in the United States.

Production

Camel's Canadian crude oil and liquids production in 1984 totalled 75,098 barrels before deduction of royalties, down slightly from the 1983 total of 77,878 barrels. Canadian natural gas production, however, increased slightly over 1983's 1,097 Bcf to 1,128 Bcf before royalties in 1984.

The major factor influencing the Company's domestic production was market restriction by purchasers. Although TransCanada PipeLines continued to purchase gas well into the summer months, this positive effect was offset by the low rates of take related to volumes dedicated to Pan Alberta. Most notably affected was the performance of Camel's Chedderville reserves which are high deliverability and rich in condensate and natural gas liquids. These reserves are subject to a Pan Alberta contract and were nominated at an average of one third of their contracted daily rate.

The Company's natural gas reserves in the Rochester area maintained steady deliverability to Celanese Canada Inc. through 1984, averaging 6.65 mmcf/day (gross production) sweet gas. After numerous attempts to resolve problems affecting our ability to process sour gas through our Abee plant, Camel and its co-owners elected to upgrade the amine facility, and anticipate an onstream date near the end of the first quarter of 1985. The sour gas is expected to add an additional 1.5-2.0 mmcf/d to our deliverability from Rochester.

In the United States, Camel's production before royalties of crude oil and liquids totalled 22,379 barrels, down substantially from the 1983 total of 34,360 barrels. Natural gas production remained flat at 292.4 mmcf. The reduction in oil production resulted primarily from restrictions placed on the Company's wells in Anderson County, Texas. The

cutbacks were imposed temporarily in 1983 to control depletion of the solution gas reservoir drive and were made permanent in 1984. As a result of limiting gas production, the concurrent production of oil proportionately reduced. Several new oil and natural gas wells were placed on production late in 1984, the effect of which will be to replace declining volumes from the more mature areas.

Future Potential

Camel will continue to promote activity on its undeveloped acreage in both Canada and the United States through 1985 in the most capital efficient manner.

Existing agreements will account for the drilling of up to six wells on the Company's Canadian acreage in the first half of 1985. As well, we anticipate several shut-in gas wells to be placed on production to new or existing contracts within the same period. Two areas in particular are expected to generate significant activity in the coming year.

Viewfield, Saskatchewan

Camel expects regulatory approval to an application for infill drilling on reduced spacing involving much of the Company's interest lands in this field. We currently hold working interests from 16.6% to 25% in the subject lands with Camel's share of 1984 production from the 15 producing wells totalling 59,529 barrels of oil and 18.9 mmcf of solution gas.



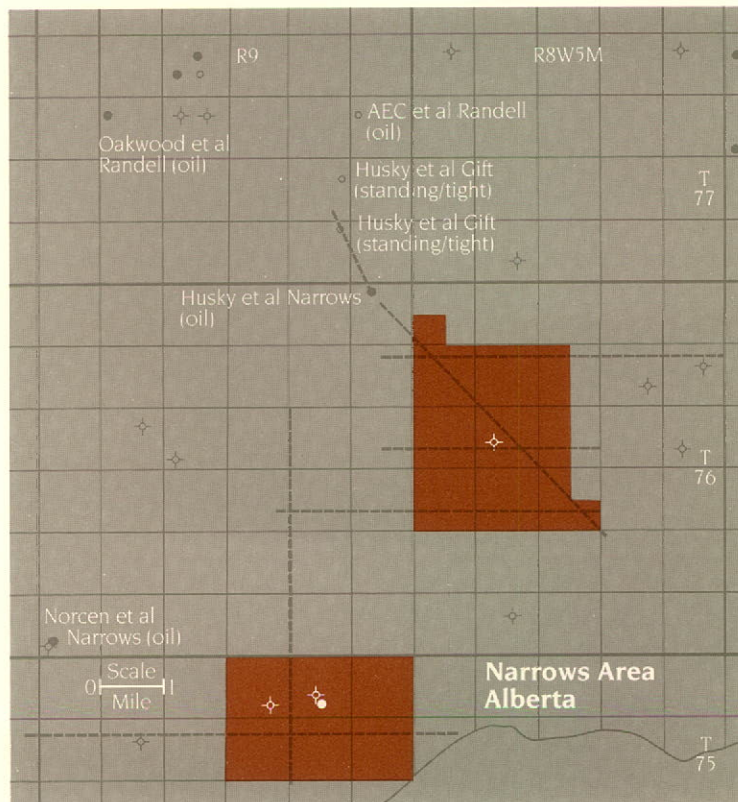
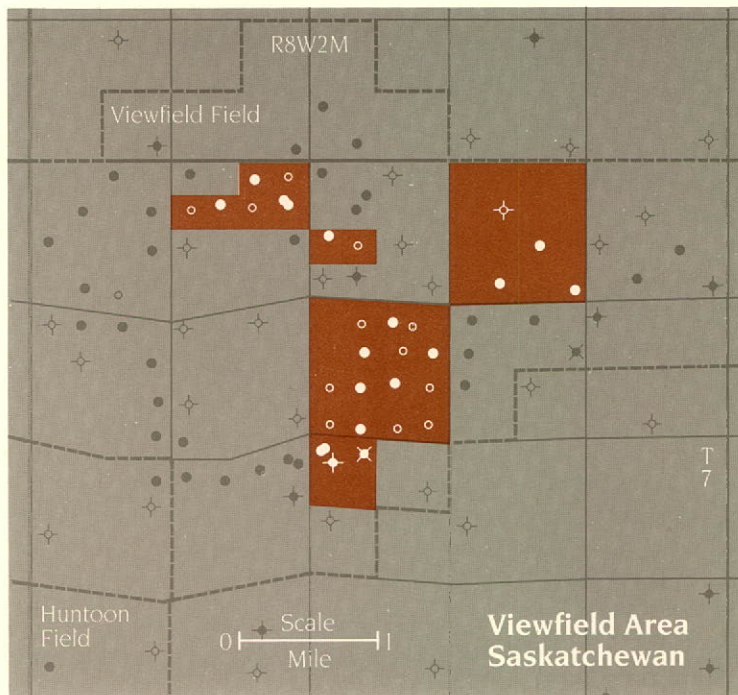
The reduced spacing will allow for the drilling on an additional 10-12 infill locations and in most cases, will not affect the allowables on wells currently producing. All new oil wells are expected to benefit from the one year royalty-free holiday.

Although the infill development program will be undertaken primarily to improve deliverability, an incremental increase in recoverable reserves is anticipated due to the resulting improved drainage efficiency.

Narrows Area, Alberta

The Company has 20.0% and 22.5% working interests in six and eight section licences, respectively, located immediately north of Lesser Slave Lake. Activity adjacent to this acreage increased dramatically through 1984 as exploratory drilling around the nearby Gift and Randell oil pools expanded southward. Although information is held confidential, six of the eight wells drilled recently have been classified as oil wells or are standing, pending completion.

A recent oil discovery within one mile of the Camel lands has prompted the Company and its partners to acquire new seismic data to evaluate the deeper horizons prior to spring break-up 1985. The combination of the deeper conventional oil prospects and the shallower heavy oil potential, already partially evaluated, should generate increasing activity on the acreage through 1985.



Legend

- Camel Lands
- Potential Locations
- Oil
- Gas
- Suspended
- Abandoned
- Abandoned Gas
- Camel Seismic Program

During 1984, net revenues after royalties increased by 17 percent over 1983 levels to \$5,601,050 with operating costs declining slightly. General and administrative expenses dropped from \$1,795,316 to \$1,058,703 over the same period, a reduction of 41 percent. Interest on long term debt was approximately 10 percent higher in 1984 than the previous year reflecting the borrowing peak that occurred in the early part of the year. Bank debt has been decreasing steadily since year end through monthly principal payments of \$85,000 and through the sale of certain U.S. properties.

Non-cash items such as depletion and foreign exchange increased during 1984. Depletion increased during the year as a result of a reduction of the Company's U.S. reserve base. Management reduced and wrote down the value of those reserves by \$1,500,000 in the third quarter of 1984 to more properly reflect current values. We were obliged to account for a foreign exchange charge of \$270,183 as a result of the decline of the Canadian dollar vis-a-vis its U.S. counterpart. This charge reduced our positive cash flow from \$994,528 to \$724,345 or \$0.11 per share. This is, however, an increase of \$1,145,950 over the previous year and represents a significant improvement in the Company's direction. The net loss for the year including the non-cash items and the write down of \$1,500,000 was \$4,085,006 or \$0.62 per share, also a major improvement over the net loss of \$1.85 per share in 1983. With the stabilization of oil and gas prices in the U.S. and our imminent disposal of the U.S. assets, we should not require any further write down of these assets.

Management's Responsibility for Financial Statements

The financial statements of the Company have been prepared by management in accordance with the generally accepted accounting principles summarized in Note 1 to the consolidated financial statements. The accounting principles used are those judged by management to be the most appropriate for the Company.

Management acknowledges its responsibility for all financial data, including the financial statements, contained in the annual report.



Cameron G. Berry
President
March 19, 1985



Paul F. Whitelaw
Controller
March 19, 1985

Auditors' Report

To the Shareholders of
Camel Oil & Gas Ltd.

We have examined the consolidated balance sheet of Camel Oil & Gas Ltd. as at December 31, 1984 and the consolidated statements of operations and deficit 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 December 31, 1984 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, except for the change in the method of foreign currency translation as explained in Note 8, on a basis consistent with that of the preceding year.

Calgary, Canada
March 19, 1985
(except as to Note 3
which is as of May 3, 1985)



Chartered Accountants



Consolidated Balance Sheet

December 31, 1984 (with comparative figures at December 31, 1983)

Assets	<u>1984</u>	<u>1983</u>
Current		
Cash and term deposits	\$ 244,653	\$ 31,947
Accounts receivable	4,521,058	4,061,540
Property, plant and equipment held for resale (Note 3)	3,452,831	—
Accrued Petroleum Incentive Program grants	142,225	203,436
	<u>8,360,767</u>	<u>4,296,923</u>
Long Term Receivables (Note 5)	84,500	1,357,109
Property, Plant and Equipment (Note 2)	30,340,844	36,812,964
Deferred Foreign Exchange Loss (Note 8)	177,345	—
	<u>\$38,963,456</u>	<u>\$42,466,996</u>
 Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 3,325,312	\$ 3,093,338
Current portion of long term debt (Note 3)	4,387,831	—
	<u>7,713,143</u>	<u>3,093,338</u>
Deferred Revenue	209,898	209,898
Long Term Debt		
Capitalized lease obligation (Note 3)	1,042,856	942,554
Bank loans (Note 3)	5,613,169	9,100,000
Debentures payable (Note 4)	10,875,000	10,900,000
	<u>17,531,025</u>	<u>20,942,554</u>
Shareholders' Equity		
Share capital (Note 5)	31,045,256	30,399,457
Deficit	(17,535,866)	(12,178,251)
	<u>13,509,390</u>	<u>18,221,206</u>
	<u>\$38,963,456</u>	<u>\$42,466,996</u>

On behalf of the Board:

Camern Berry
Director

C. R. Major
Director

See accompanying notes

Consolidated Statement of Operations and Deficit

For the Year Ended December 31, 1984 (with comparative figures for the 1983 year)

	1984	1983
Revenue		
Oil sales	\$ 2,752,332	\$ 3,192,487
Gas sales	3,851,068	3,550,526
	6,603,400	6,743,013
Less royalties	1,436,323	2,189,541
	5,167,077	4,553,472
Management fees	138,096	114,607
Interest and other income	295,877	137,383
	5,601,050	4,805,472
Expenses		
Operating	1,110,227	1,151,051
General and administrative	1,058,703	1,795,316
Interest on long term debt	2,708,632	2,462,127
Depreciation, depletion and amortization	3,277,371	2,872,014
Foreign exchange	270,183	7,412
	8,425,116	8,287,920
	2,824,066	3,482,448
Income Tax Recovery		
Deferred	—	(312,044)
Alberta royalty tax credit	(239,060)	(513,741)
	(239,060)	(825,785)
Operating Loss Before Unusual Items	2,585,006	2,656,663
Unusual Items		
Provision for decline in oil and gas properties (net of income tax of \$598,747 in 1983)(Note 2)	1,500,000	8,900,200
Write off of deferred financing charges and employee termination costs	—	620,408
Net Loss	4,085,006	12,177,271
Deficit, Beginning of Year	12,178,251	980
Forgiveness of employees long term receivables (Note 5)	1,272,609	—
Deficit, End of Year	\$ 17,535,866	\$ 12,178,251
Net Loss Per Share	\$ 0.62	\$ 1.85

See accompanying notes



Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1984 (with comparative figures for the 1983 year)

	1984	1983
Source of Funds		
Operations		
Net loss	\$ (4,085,006)	\$(12,177,271)
Depreciation, depletion and amortization	3,277,371	2,872,014
Provision for decline in value of oil and gas properties	1,500,000	8,900,200
Amortization of deferred foreign exchange loss	31,980	—
Write off of deferred financing costs	—	295,496
Deferred income taxes	—	(312,044)
Funds generated by (used in) operations	724,345	(421,605)
Increase in long term debt	6,601,000	165,666
Property, plant and equipment held for resale	3,452,831	—
Decrease in long term receivables	1,272,609	901
Less amount forgiven	(1,272,609)	—
Issue of common shares	—	1,606,369
Deferred revenue	—	119,318
	<u>10,778,176</u>	<u>1,470,649</u>
Use of Funds		
Acquisition of Dromedary 1979 Oil and Gas Program units (Note 5)		
Property, plant and equipment acquired	838,851	—
Less: Common shares issued	(645,799)	—
Long term debt assumed	(135,935)	—
Working capital deficiency assumed	57,117	—
Decrease in long term debt	5,760,633	—
Increase in current portion of long term debt	4,387,831	—
Additions to property, plant and equipment		
Acquired for common shares	—	1,606,369
Other	919,231	4,237,282
Deferred foreign exchange loss	209,325	—
	<u>11,334,137</u>	<u>5,843,651</u>
Decrease in Working Capital	(555,961)	(4,373,002)
Working Capital, Beginning of Year	1,203,585	5,576,587
Working Capital, End of Year	\$ 647,624	\$ 1,203,585

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 1984

1. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

(b) Property, plant and equipment

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expense, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and exploration overhead. Plant and production equipment is carried at cost. The costs are accumulated in two cost centres, Canada (including frontier) and the United States. These costs are depleted and depreciated by the unit of production method based on estimated proven oil and gas reserves. Such costs are generally limited to the future net revenues from estimated production from proved reserves at estimated future prices and costs escalated by estimated inflation rates and the estimated fair market value of unproved properties.

Furniture and fixtures are carried at cost and are being depreciated on a declining balance over the estimated useful life of the assets at annual rates from 20% to 30%.

(c) Foreign currency translation

The accounts of United States operations are stated in Canadian dollars. Current assets and current liabilities are translated at the rates of exchange prevailing at the balance sheet date. Long term liabilities previously translated at rates in effect at the dates the liabilities were incurred are, effective January 1, 1984, translated at the rates of exchange prevailing at the balance sheet date. Any exchange gains or losses arising on translation of long term liabilities are deferred and amortized over the remaining term of the liabilities (see Note 8). Revenue and expense items are translated at monthly average rates during the year with the exception of depreciation and depletion, which are translated at the rates of exchange used for the related assets. The resulting gains and losses are included in operations.

(d) Capitalized interest

Interest on debt specifically obtained for construction or development of major capital assets is capitalized until the assets commence operations.

2. Property, Plant and Equipment

	1984	1983
Oil and gas properties	\$32,167,998	\$35,285,815
Plant and production equipment	4,619,105	4,743,514
Furniture and fixtures	606,582	557,569
	37,393,685	40,586,898
Less accumulated depreciation and depletion	7,052,841	3,773,934
	\$30,340,844	\$36,812,964

During the year, the Company recognized in the accounts the decline in value of its properties situated in the United States. The Company has written down such properties by \$1,500,000 in 1984 (1983 – \$8,900,200 after deferred income taxes).

Overhead expenses of \$180,000 (1983 – \$315,000) relating to exploration activities have been charged to oil and gas properties. Plant and production equipment does not include any interest capitalized in 1984 (1983 – \$180,000).

3. Bank Loans and Capitalized Lease Obligation

	1984	1983
Production bank loans (including \$5,000,000 repayable in U.S. dollars; 1983 – \$nil)	\$ 10,001,000	\$ 9,100,000
Capitalized lease obligation	1,042,856	942,554
	11,043,856	10,042,554
Less current portion	4,387,831	—
	\$ 6,656,025	\$10,042,554

The Company and its bankers are currently restructuring the production bank loans outstanding. On November 23, 1984, the Company and bank agreed that:

- the Company will repay approximately \$3,452,831 being the anticipated proceeds from the disposition of certain United States oil and gas properties;
- the Company will repay \$85,000 per month, commencing in February 1985, with a final payment in 1993;
- the interest rate will be prime plus ¾%;
- oil and gas properties, a floating charge debenture and a general assignment of book debts will be pledged as collateral against the loan; and



(e) if, as at March 31, 1985, the following events have not occurred, the bank retains the right to convert all the loans to a demand basis:

- (i) sale of certain United States properties for approximately \$3,452,831;
- (ii) the wind-up of certain joint ventures administered by the Company; and
- (iii) the execution of certain gas purchase contracts.

At May 3, 1985 the events had not occurred and the bank has not exercised its right to convert the loans to a demand basis. It is management's opinion that the bank will not do so during 1985.

Accordingly, the current portion of the bank loans has been determined based on the agreement. In addition, the oil and gas properties which are expected to be sold have been reclassified to current assets.

In 1982 the Company, acting as agent for other partners and for its own account, purchased a gas plant and gathering system and subsequently expanded the plant. The Company arranged the necessary interim financing for all parties and when the project was completed in 1983, arranged for the sale of the plant and gathering system and subsequent lease back. The Company's portion of the lease obligation has been capitalized.

Details of the capitalized lease obligation are as follows:

	December 31, 1984	December 31, 1983
Total obligation outstanding	\$3,048,424	\$3,310,601
Less partners' share	(2,005,568)	(2,368,047)
Company's share of obligation	<u>\$1,042,856</u>	<u>\$ 942,554</u>

Under the provisions of the Company's agreements with its partners, the partners have fully indemnified the Company for their share of the obligation and Camel as agent has no direct liability. The lease bears interest at a bank variable prime rate available to its leasing customers and expires October 1, 1990. The obligation is repayable out of future production proceeds and is not expected to require the use of current working capital. Accordingly, no portion has been reclassified to current liabilities.

Estimated principal payments on long term debt in each of the years 1985 to 1989 (including capitalized lease obligation) are: 1985 — \$4,617,046, 1986 through 1989 — \$1,249,215 annually.

4. Debentures Payable

The \$10,875,000 11% Series A Convertible Subordinated Debentures mature on June 30, 1996 and are unsecured. The debentures are convertible, at the option of the holder, into common shares at any time to June 30, 1991. The conversion price is \$9.35 per common share to July 2, 1987 and \$12.00 per share thereafter. The debentures are redeemable, at the option of the Company, at 109.5% of par declining on June 1 annually thereafter to par for the year ending June 1, 1996. The Company's option is conditional upon certain market conditions existing for the Company's common shares to June 1, 1987. Presently these conditions do not exist. Should debentures be outstanding on December 31, 1987, sinking fund payments will be required from June 1, 1988 to 1996 inclusive in amounts sufficient to retire annually 5% of the principal outstanding as at December 31, 1987.

5. Share Capital

Authorized:

- 10,000,000 no par value common shares
- 10,000,000 preferred shares, issuable in series

	1984	1983
Issued: 7,972,266 common shares (1983 — 6,680,668)	<u>\$31,045,256</u>	<u>\$30,399,457</u>

On December 28, 1984, the Company issued 1,291,598 common shares in exchange for the acquisition of 77 partnership units of the Dromedary 1979 Oil and Gas Program with an attributed value of \$645,799. The Company has 1,165,800 common shares reserved for conversion of the 11% Series A Convertible Subordinated Debenture (see Note 4).

Details of the Company's stock purchase and option plans are as follows:

- (a) Under the terms of the stock purchase plans, 169,000 shares were issued and held in trust to be released to certain key employees. The Company's long term receivables at December 31, 1984 include \$84,500 loaned to certain key employees to enable their participation in the plans. During 1984 the Company forgave \$1,272,609, being the excess of the receivable amount over the approximate current market value of shares. The remaining amount receivable of \$84,500 is secured by the Camel shares.
- (b) Under the provisions of the stock option plan, the Company has granted certain employees and others the option to purchase shares as follows:

Number of Shares	Option Price	Expiry Date
9,804	\$ 5.43	September, 1985
5,883	4.21	January, 1985
9,804	4.21	January, 1986
117,648	10.20	June, 1985
78,432	2.30	March, 1986
39,216	2.30	August, 1986
136,000	3.25	June, 1987
50,000	.90	October, 1989
20,000	.50	November, 1989

Notes to Consolidated Financial Statements

6. Income Taxes

Deferred income taxes differ from the calculated tax obtained by applying the Canadian corporate tax rate to the operating loss for the year before income tax recovery and unusual items. These differences are as follows:

	1984	1983
Corporate tax rate	<u>47.0%</u>	<u>47.9%</u>
Calculated income tax recovery	<u>\$1,327,311</u>	<u>\$1,668,093</u>
Add (deduct) the income tax affect of:		
Crown charges disallowed	(493,640)	(658,573)
Federal resource allowance	286,736	159,683
Operating loss carry forwards	(837,467)	(657,980)
Non-deductible depletion and depreciation	(282,940)	(209,960)
Other	—	10,781
Income tax recovery	<u>\$ —</u>	<u>\$ 312,044</u>

The Company has Canadian non-capital tax losses available for carry forward of approximately \$2,230,450. These losses expire as follows: 1987 — \$1,050,000 and 1990 — \$1,180,450. The Company also has United States net operating losses available for carry forward of approximately U.S. \$4,696,000. These losses expire as follows: 1993 — \$26,000; 1994 — \$220,000; 1995 — \$386,000; 1996 — \$1,018,000; 1997 — \$2,411,000; 1998 — \$435,000; and 1999 — \$200,000. In addition, the Company has provided \$8,700,000 of depreciation, depletion and other provisions in the accounts in excess of related capital cost allowance and exploration and development costs claimed for income tax purposes. The benefit from the future utilization of these amounts for income tax purposes will be recognized as an extraordinary item in the accounts in the year of realization.

7. Financial Information for Geographical Business Segments

	Canada	United States	Total
1984			
Revenues	\$ 3,897,360	\$ 1,703,690	\$ 5,601,050
Net loss	\$ (1,752,866)	\$ (2,332,140)	\$ (4,085,006)
Identifiable assets	\$29,488,485	\$ 9,474,971	\$ 38,963,456
1983			
Revenues	\$ 2,929,237	\$ 1,876,235	\$ 4,805,472
Net loss	\$ (3,073,806)	\$ (9,103,465)	\$ (12,177,271)
Identifiable assets	\$30,400,455	\$12,066,541	\$ 42,466,996

8. Change in Accounting Policy

Effective January 1, 1984, the Company adopted foreign currency translation policies as recently recommended by the Canadian Institute of Chartered Accountants. The effect of this change is to translate long term debt repayable in foreign currencies at the rates of exchange prevailing at the balance sheet date. The resulting exchange loss is deferred and amortized over the term of the related debt. Previously, long term debt repayable in foreign currencies was translated at the rates in effect at the dates the liabilities were incurred and exchange gains and losses were included in operations only as realized. As a result of this change, long term debt at December 31, 1984, has been increased and a foreign exchange loss has been deferred in the amount of \$209,325 and \$177,345 respectively. Had the Company not changed its policy, the net loss for the year ended December 31, 1984 would be \$4,053,026 (\$0.61 per share).

9. Subsequent Events

Pursuant to an Offer to Purchase dated December 6, 1984 the Company offered to purchase all of the limited partnership units of the Dromedary 1979 Oil and Gas Program on the basis of 16,774 common shares of the Company for each unit of the limited partnership (Note 5). Subsequent to December 31, 1984, the Company issued 301,932 common shares in exchange for the acquisition of 18 units. The offer expired on February 28, 1985 and no further shares will be issued. The Company is in the process of winding up the partnership.

Pursuant to an Offer to Purchase dated December 28, 1984 the Company offered to purchase all of the co-venturers' interests in the Camel Resources Joint Venture, 1979 except for the interests of Dromedary 1979 Oil and Gas Program. Subsequent to December 31, 1984, the Company issued 602,912 common shares in exchange for the acquisition of 9.537% of the non-Camel interest in the joint venture. The offer expired on January 15, 1985 and no further interests will be acquired. Camel is in the process of winding up the joint venture.



Directors

Selim Anter
 – Vaudreuil
 Cameron G. Berry
 – Calgary
 Bernard M. Churchill
 – Toronto
 Fred A. Hildenbrand
 – Calgary
 Sal J. LoVecchio
 – Calgary
 C. Richard Major, Chairman
 – Toronto

Officers & Management

Cameron G. Berry
 – President & C.E.O.
 C. Brian Watts
 – Vice-President,
 Exploration and
 Operations
 Edward R. R. Carruthers, Q.C.
 – Secretary
 Grace D. Palmer
 – Manager of Land
 Paul F. Whitelaw
 – Controller
 Patrick E. Keck
 – Senior Petroleum
 Engineer

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Milner & Steer
 Calgary, Alberta

Legal Counsel – United States

Bracewell and Patterson
 Houston, Texas

Auditors

Clarkson Gordon
 Calgary, Canada

Bankers

Bank of Montreal – Canada
 First City National Bank of
 Houston – U.S.A.

Exchange Listing

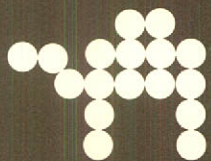
Alberta Stock Exchange
 Toronto Stock Exchange
 Trading Symbol: CEG

Transfer Agent and Registrar

The Canada Trust Company
 Calgary, Toronto and
 Vancouver

Trading Range of Common Shares:

	1984		1983		1982	
	High	Low	High	Low	High	Low
First Quarter	\$1.95	\$1.30	\$3.90	\$2.51	\$4.90	\$2.50
Second Quarter	\$1.40	\$0.73	\$3.50	\$2.56	\$3.50	\$2.70
Third Quarter	\$0.93	\$0.65	\$3.30	\$2.61	\$3.20	\$2.30
Fourth Quarter	\$0.75	\$0.30	\$2.65	\$1.65	\$3.60	\$2.70
Annual Volume	1,815,843		2,102,400		901,799	
Number of Shareholders	2,131		2,289		2,515	
Common Shares Outstanding	7,934,517		6,680,668		6,494,227	



**Camel Oil & Gas Ltd.
1984 Annual Report**