C

Camel Oil & Gas Ltd. 1983 Annual Report

Camel Oil & Gas Ltd.

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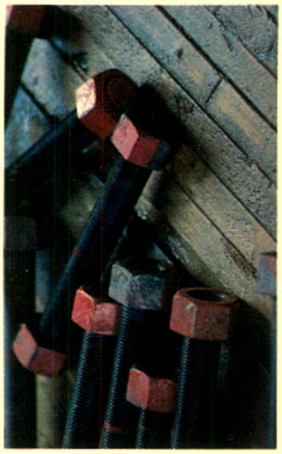
Corporate Profile

Camel Oil & Gas Ltd. is a Canadian energy company headquartered in Calgary, Alberta with a Canadian Ownership Rate of approximately 95 per cent. 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, May 16th, 1984 in the Bonavista 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.

Results In Brief



Financial Highlights

($000's except per share)	1983	1982	1981	1980
Total Revenue	**4,805**	2,919	4,076	1,347
Cash Flow from Operations before unusual items	**(97)**	(804)	1,936	647
per Share from Operations	**(.01)**	(.20)	.53	.20
Net Income (loss)	**(12,177)**	(983)	798	411
per Share	**(1.85)**	(.24)	.22	.13
Working Capital	**1,204**	5,577	7,477	3,697
Shareholders' Equity	**18,221**	28,792	19,876	18,969
per Share	**2.73**	4.43	5.48	5.25
Total Assets (Book Value)	**42,467**	55,165	33,665	20,069

Operating Highlights

Drilling Activity

	1983	1982	1981	1980
Gross Wells Drilled—Canada	**6**	15	52	22
—United States	**8**	29	81	17
Gross Wells Successful—Canada	**4**	7	36	15
—United States	**7**	17	38	5

Oil & Gas Assets

	Canada	United States	Total
Natural Gas (MMCF)			
Proven	18,616	3,094	21,710
Probable	4,633	241	4,874
Total—net after royalty	23,249	3,335	26,584
Crude Oil & Liquids (BBLS)			
Proven	353,732	55,326	409,058
Probable	63,147	1,303	64,450
Total—net after royalty	416,879	56,629	473,508
Bitumen in Place (Bbls)	123,100,000	–	123,100,000

Valuation of Oil & Gas Assets

($000's except per share)	0%	Discounted at 15%	20%
Present Value of Future Net Income from Proven and Probable Reserves	131,334	32,889	25,688
Land @ Market Value	6,250	6,250	6,250
Total Asset Value net of debt excluding Bitumen	126,104	27,659	20,458
Total Asset Value net of debt and Bitumen/share	18.92	4.14	3.06
Bitumen in Place	812	–	–

President's Report to the Shareholders

On behalf of the Board of Directors of Camel Oil & Gas Ltd., I wish to present our Annual Report for the year ended December 31, 1983. The past year was a particularly difficult year for the Company, which included a Director dispute that received media coverage. After considerable adjustment and reconciliation the Company emerged as a leaner, and more efficient entity at the beginning of 1984. Management is confident this new corporate structure will improve our profitability.

The implementation of a severe restraint policy resulted in a staff reduction of forty percent over maximum 1983 levels. Several employees who had served the shareholders since the inception of the Company were terminated and I wish to thank them for their contributions in the formative growth era of the Company. Similarly, I would like to extend my appreciation to Edward R. R. Carruthers, Q.C., who graciously resigned from the Board of Directors to make room for the mid term appointment of Mr. Fred Hildenbrand. Mr. Carruthers will continue to serve the shareholders in his role as Secretary and General Counsel. Appreciation is also extended to our other retiring Director, Richard A. N. Bonnycastle, who played a major role in the formation of Camel as a public Company and provided experienced counsel throughout our early years. Since joining the Board in January 1984, Fred Hildenbrand has become directly involved in the operations and strategic planning of the Company. His past experience and direction is extremely valuable to management as we consolidate and prepare for a new period of growth.

Although the Company was not able to achieve its net income aspirations for a number of reasons during 1983, a considerable improvement was made in reducing the cash flow deficiency of 1982. We are continuing to demonstrate increasing revenues from oil and gas production and this, coupled with the significant reduction achieved to date with respect to fixed costs, should ensure positive cash flow in 1984.

During 1983, management undertook to consolidate the appraisal of oil and gas reserves by only using two engineering firms whereas our previous approach had been to use several regional firms. We have now designated Netherland, Sewell & Associates, Inc. of Dallas, Texas and John P. Hunter and Associates of Calgary as our sole U.S. and Canadian evaluators, respectively. This approach has resulted in more conservative values than previously reported. Canadian net oil reserves, after royalty, continued to increase over previous levels whereas net natural gas reserves and U.S. oil reserves were reduced. The reductions are largely due to the effect of price reductions and reduced market.

Since our recoverable reserves are calculated on the basis of economically viable units, rather than actual physical units, variations in price and volume (market) result in reserves being either deleted or added. In order to accurately reflect this change in value of the Company's reserves, management decided to write down certain of the United States undeveloped land, and oil and gas values to the extent of $8,900,200. This was on the basis of the present value of those properties, discounted at 20 per cent. It is possible that some of these values will again increase with a corresponding upsurge of exploration activity, but the new values better reflect the current state of the industry.

We do not forecast any significant improvement in pricing and market in 1984, although we expect to further increase our reserve base through involvement in current and new exploration ventures throughout the year. This activity will include both ongoing exploration and development participation in oil and gas as well as a gold exploration venture in Northern Ontario. During 1983 your Company participated directly or indirectly in the drilling of twenty wells which resulted in the completion of ten oil wells and seven gas wells. We also have as a priority, the maximization of gas delivery in Alberta to an industrial gas contract. This alone, will result in an improvement in our cash flow as well as increasing our reserve base.

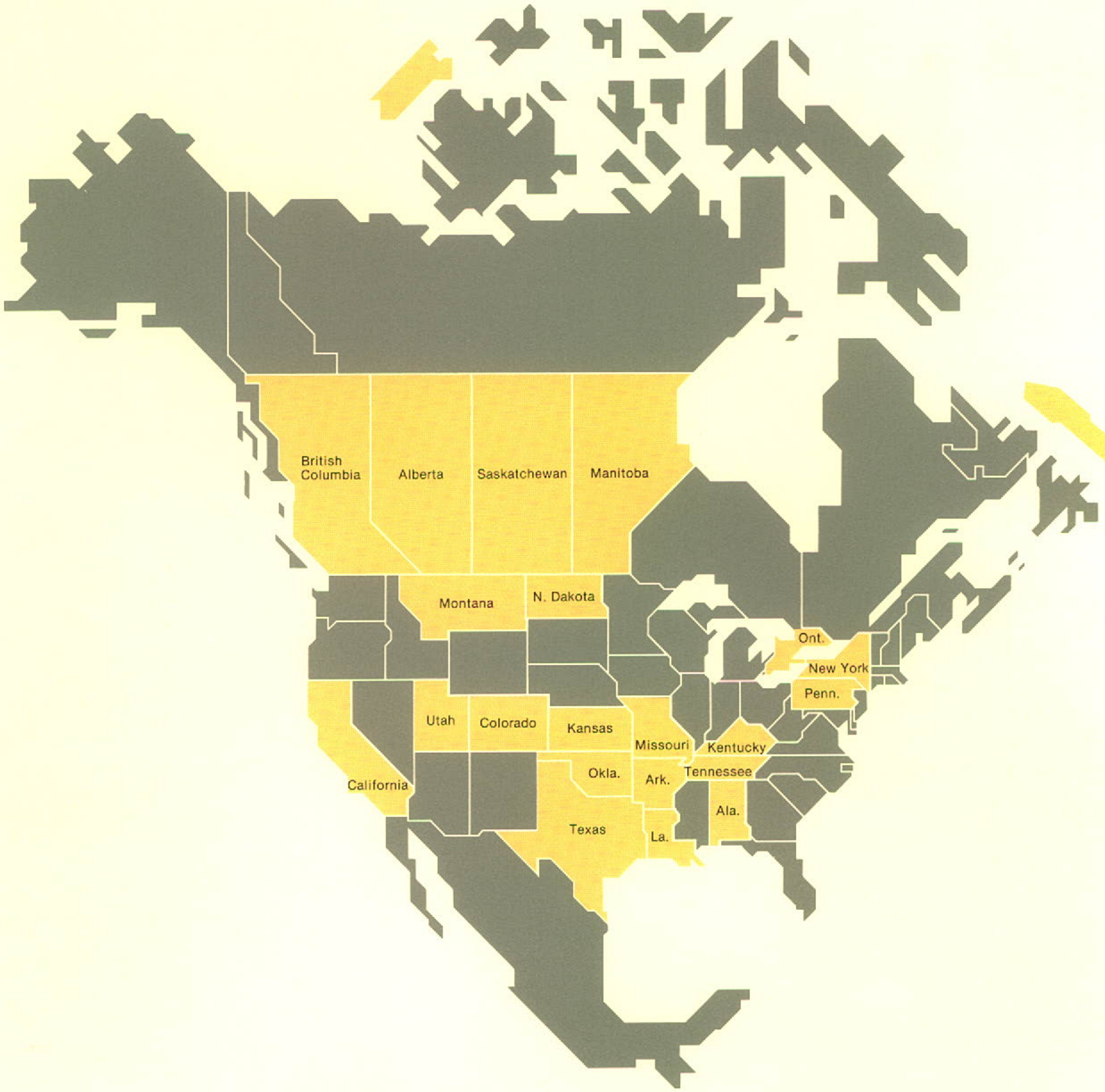
The advent of 1984 has seen the implementation of strategic planning with defined targets. This type of corporate planning is particularly important in today's economy. Regulatory control is now an ongoing part of all aspects of our industry and may change at any time for political expediency. Consequently, the future will not resemble the past, and we cannot plan for tomorrow by totally relying on yesterday's experiences. A lot of mistakes were covered by the umbrella of rising prices during the 1970's and early 1980's. Your management at Camel intends to follow a carefully thought out plan with the conviction that this philosophy will improve the value of the Company. We have the dedicated people and the desire to accomplish these aims and are confident our Board of Directors will provide the required counsel and direction.

Respectfully submitted,

Cameron Berry

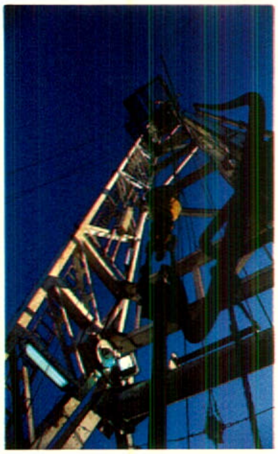
Cameron G. Berry
President & Chief Executive Officer

Areas of Activity



Provinces & States
in Which
Camel Oil & Gas Ltd.
Holds Interests

Performance & Potential



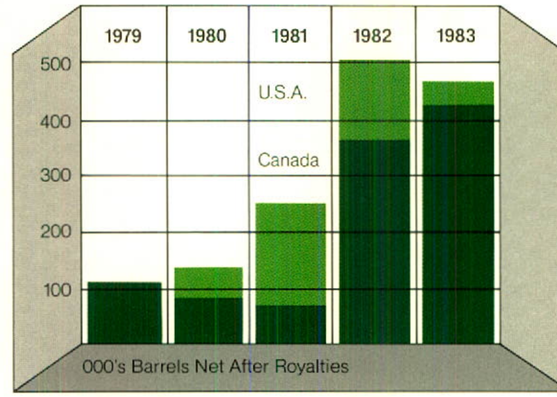
Camel adopted a conservative approach to exploration and development in 1983 in response to the declining market for natural gas and 'near term' uncertainty in petroleum pricing. Participation in drilling operations was limited to projects which promised immediate cash flow with a minimum of risk. Opportunities which did not demonstrate this potential were farmed out or rejected.

In Canada, the Company directly participated in the drilling of six wells in 1983 which resulted in three gaswells, one oilwell and two abandonments. Of significance is the oilwell drilled at Viewfield, Saskatchewan. This well encountered two producing horizons, one of which has been completed and is currently producing 350 barrels per day gross, at the New Oil Reference Price. The new gaswells have been tied in, and are now producing to TransCanada PipeLines contracts in the Abee and South Beaverhill Lake areas. Camel also farmed out its interest in five Canadian properties and drilling by farmees resulted in three potential oilwells and two potential gaswells in the Manyberries, Leduc, Abee and Joarcam areas of Alberta.

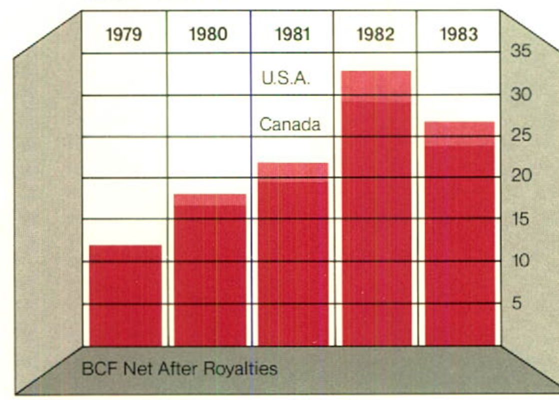
In the United States, the Company participated in the drilling of five producing oilwells, two gaswells and one abandonment for a total of eight wells. Of these, four oilwells were drilled at Brushy Creek, Texas and another in Alabama. The gaswells were drilled as stepouts to the Vicksburg sand gas discovery at Slick Estate #1 on the Flores property in Starr County, Texas.

At Brushy Creek, Camel farmed out its interest in a fifth well on the flank of the structure and took a 'non consent' position on two additional wells in the same field. All three of these wells resulted in producing oilwells, one of which is only marginally economic.

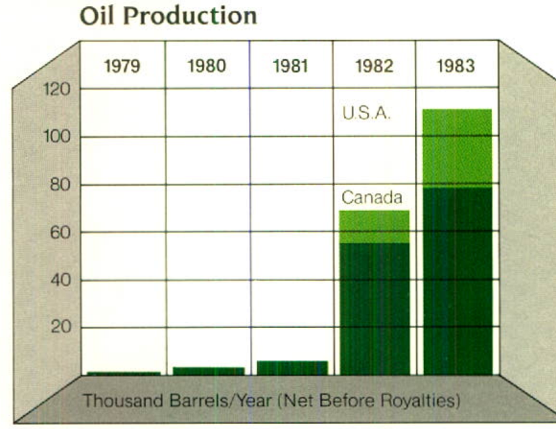
Oil Reserves



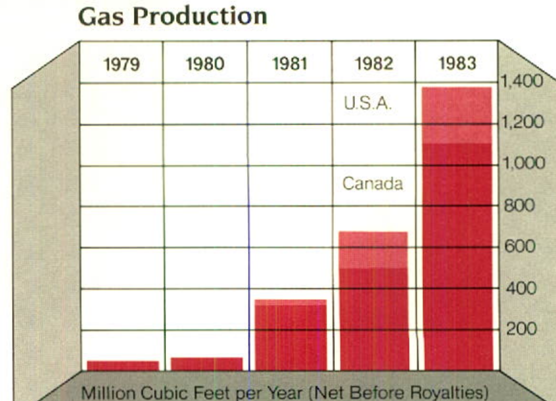
Gas Reserves



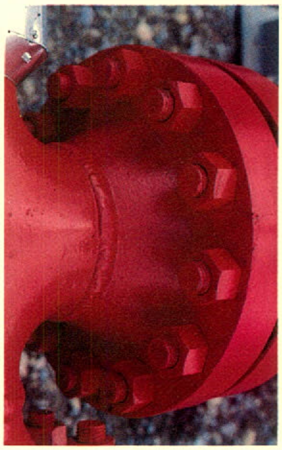
Oil Production



Gas Production



Performance & Potential



Production

Camel's oil production in Canada exceeded last year's projection of 53,000 barrels by 47% for a total of 77,878 barrels before royalty net to the Company's account. This increase was due largely to the commencement of production at Chedderville and Paddle River in addition to the steady performance of the Crossfield and Viewfield wells. Gas production in Canada was 1.097 BCF before royalty net to Camel, somewhat short of last year's projection as a result of the disappointing performance of the Paddle River wells.

Camel's United States oil production for the year totalled 34,360 barrels with 292 MMCF before royalty of natural gas, 30% and 40% higher respectively than forecast last year. In general, however, the purchasers of natural gas in the United States were unable to meet their contractual obligations as to volumes and prices. Consequently producers, including Camel, were subject to prolonged shut-in periods in some areas and reduced takes in others. At Brushy Creek, Texas, the Company's gas production was restricted pending reservoir studies with respect to pressure maintenance and enhanced recovery. Production of oil in this area substantially increased as new development wells were placed on stream.

Reserves

The Company's Canadian oil reserves dramatically increased from 352,886 STB in 1982 to 416,879 STB after royalties in 1983. Reserves of natural gas decreased 18% to 23,249 MMCF after royalties as a result of depletion as well as the impact of a downward adjustment in natural gas pricing.

In the United States, Camel's net reserves of oil and natural gas decreased to 56,629 STB and 3,335 MMCF after royalties respectively. Pricing and market reductions had a substantial impact on the economics of recovery since operating costs steadily climb and the producer's profit margin narrows.

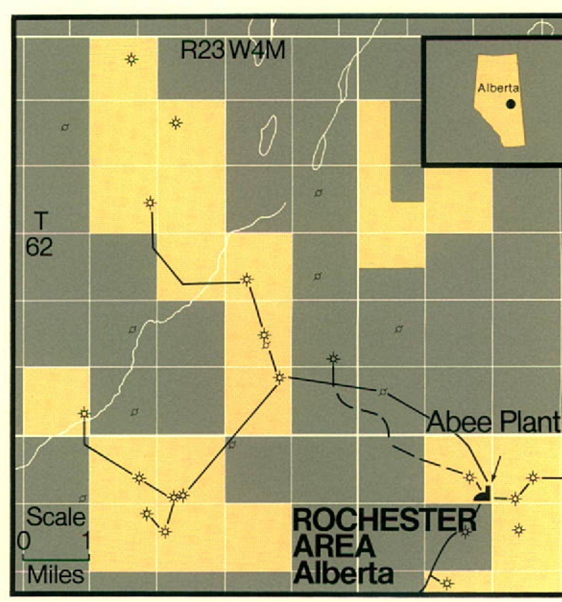
Producing Properties—Canada

Camel's Canadian production in 1983 increased markedly over that of 1982 due to the commencement of production of new properties and wells in the Chedderville, Paddle River, Viewfield and Drumheller areas. With the exception of gas production from Paddle River, all our major producing properties performed as well or better than projected.

Rochester Area, Alberta

Camel's multizone shallow gas field has been on continuous production for over a full year, supplying feedstock to an industrial gas contract.

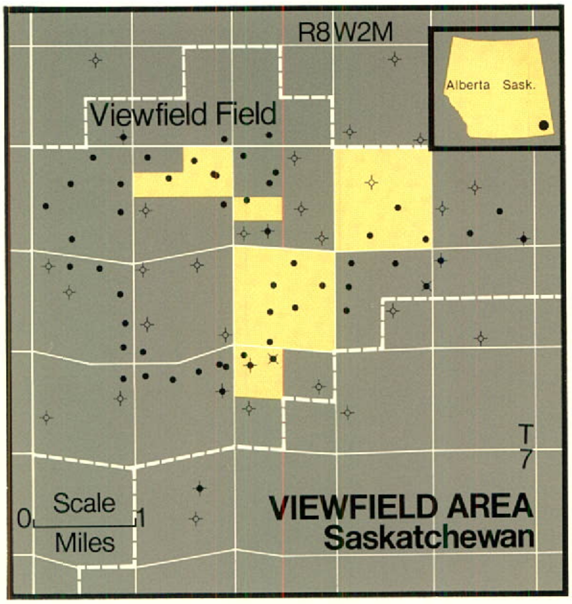
Average daily production from the seven wells currently on line is 7 MMCF/D although under peak demand conditions we have delivered in excess of 9 MMCF/D. The Company operates an additional five wells which are not currently required for deliverability. Refinements to the sour gas portion of the plant have made it necessary to shut-in two gas zones temporarily, a situation which will be resolved in the near future. Cumulative annual production for the field to Camel's average 23% working interest was 502.4 MMCF.



Performance & Potential

Viewfield Area, Saskatchewan

Camel holds working interests varying from 16.67% to 25% in fifteen producing Frobisher and Griffin oilwells in Southeastern Saskatchewan. The Company participated in the drilling of one new well in 1983 resulting in a dual zone oil discovery. The well is currently producing at its 350 BOPD allowable and is receiving New Oil Reference Price and a 50% royalty free status. Cumulative production to Camel's account for the year totalled 54,233 barrels of oil and 16 MMCF gas.



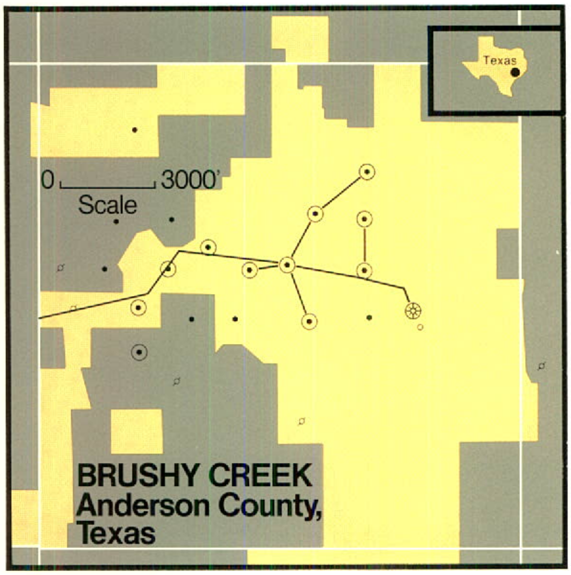
Producing Properties—United States

Camel's net production of oil and natural gas totalled 34,360 STB and 291.9 MMCF before royalty respectively in 1983. The majority of the Company's properties in the United States are now producing with the remainder contracted and awaiting installation of production facilities. Many of the purchasers of natural gas have exercised price and volume cutbacks in response to reduced demand, consequently the Company has postponed development of the Douglas Creek, Colorado and Pennsylvania properties. The focus of development in 1983 was the Brushy Creek, Texas oilfield which continues to be our highest United States revenue producer.

Brushy Creek, Anderson County, Texas

At Brushy Creek, the Company holds varying interests in eleven producing oilwells and one producing gaswell on the prospect and plans to participate in one additional well in 1984. Cumulative production net to Camel for the year was 26,906 STB oil and 121.2 MMCF.

Three operators are active in the field and initiated unitization meetings during the year as well as reservoir studies to determine the optimum method to maintain reservoir pressure and enhance ultimate oil recovery. All field wells are currently limited as to gas production and consequently oil production pending the implementation of pressure maintenance. We anticipate the formation of a unit in late 1984 and secondary recovery soon thereafter.



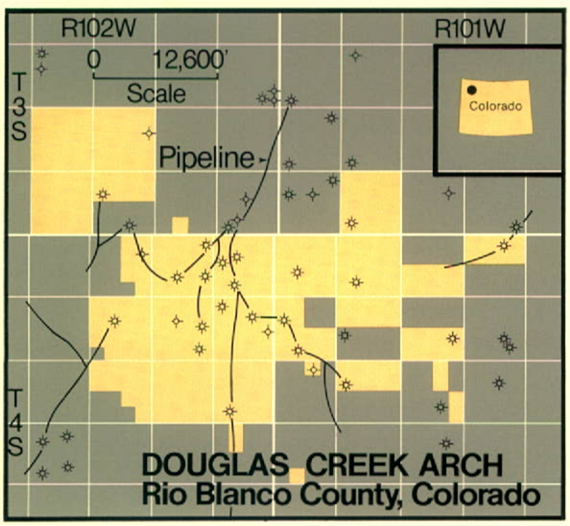
Performance & Potential

Douglas Creek, Colorado

Camel holds interests varying from 20.0 - 48.0% in fifteen producing and seven shut-in gaswells in Rio Blanco County, Colorado and a 20% working interest in additional 5800 undeveloped acres. Cumulative production amounted to 70.8 MMCF to the Company's account in 1983.

The main producing zone on the acreage is the Mancos 'B' sand which until recently qualified for the "tight sand" 107 price, however a total of six productive horizons are recognized in the area. Production has been subject to cutbacks as well as price reduction, although we have experienced relatively consistent demand and were shut-in only six weeks during the year.

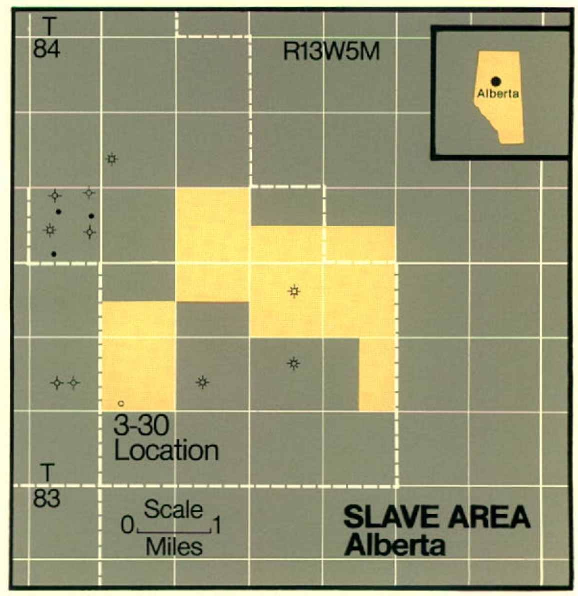
The undeveloped acreage is held under long term leases and development plans have been set aside pending marked improvement.



Future Potential

Although Camel intends to maintain a guarded approach to exploration and development in 1984, several areas of activity will be aggressively pursued.

We have identified and are currently evaluating a number of oil prospects for which we would receive the New Oil Reference Price. Some of these prospects— Muskeg East, Kaybob South, Cochrane, Crossfield— currently produce revenue to the Company and offer good potential for future development. We have recently acquired detailed seismic coverage over a portion of our acreage in the Slave Prospect which offsets the Seal Oil field, an area of intense drilling activity through 1983. We anticipate drilling our initial well in the first quarter of 1984. Wells in the area produce 100 to 150 BOPD (allowable) but many have much higher capability when tested.



Performance & Potential

Camel will continue to add to reserves dedicated to its industrial gas contract in order to maintain long term deliverability requirements. Similarly deliverability must be maintained to TransCanada PipeLines in the Abee and South Beaverhill Lake areas.

In the United States we anticipate the commencement of production from existing wells in Texas and Alabama. Exxon is currently laying pipeline to Schildknecht #1 located at Port Arthur, Texas with production projected for April 1984. Camel and its Joint Venture hold an 11.25% working interest in the well which is expected to produce 750-1000 MCF/day with condensate. We have farmed out our interest in a second well which will be drilled in the second quarter of 1984 on a separate feature.

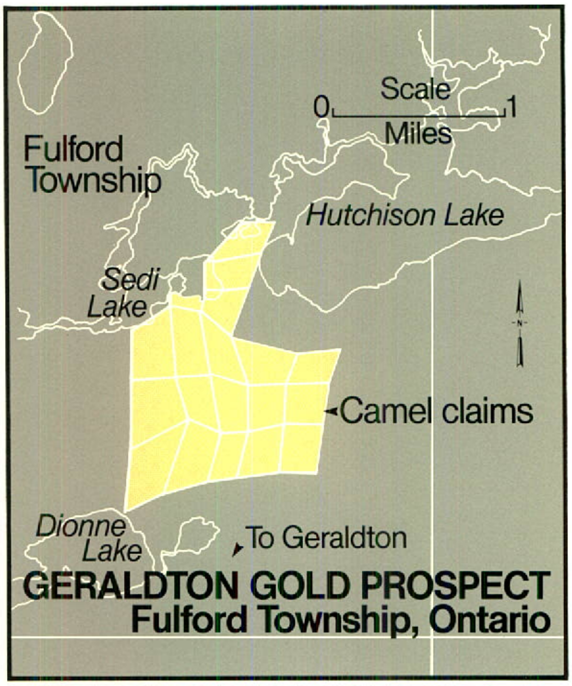
A gas purchase and processing agreement is now in place covering the Burch #1 potential gaswell located on the Copeland property, Washington County, Alabama. Camel and its Joint Venture hold a 20.625% working interest in the well which will start production in August 1984 at 3,000 MCF/day with condensate and sulfur recovery.

To date, significant interest has been shown by other U.S. operators in several of Camel's prospects in the Gulf Coast area. We intend to pursue an aggressive course of initiating drilling activity by farmout in this area rather than by direct participation until some stability returns to the U.S. market situation.

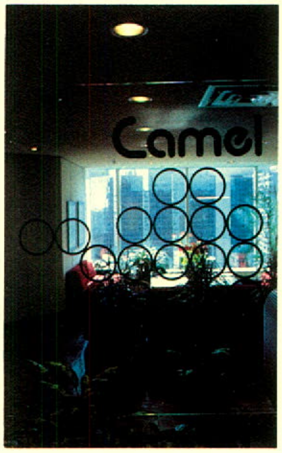
Mineral Properties

Geraldton Gold Prospect, Ontario

Camel currently holds a 100 percent working interest in 19 mineral claims immediately north of Geraldton, in the Hutchison Lake area of Northern Ontario. Earlier underground work, and more recent geological mapping, has indicated the presence of high grade gold in association with certain volcanic rocks present in this area. Camel has recently undertaken to acquire an additional 100 claims adjacent to this property and will conduct further geological work during the 1984 season.



Financial Review



Camel Oil & Gas Ltd. did not perform as well as expected in 1983. We believe that we have and are taking the steps necessary to show significant improvement in 1984 and to lay a solid foundation for 1985 and beyond.

1983 was the first full year to reflect the combined operations of Camel Oil & Gas Ltd. and Gulch Resources Ltd., acquired in the fourth quarter of 1982. Accordingly, any comparison of 1983 results with those of 1982 should take this into account. Revenues from oil and gas sales increased from $2,257,620 in 1982 to $6,743,013 in 1983. The operating loss for 1983 was $2,656,663 or $0.40 per share compared with an operating and a net loss of $982,691 or $0.24 per share in 1982. The net loss for 1983 was $12,177,271 or $1.85 per share. Negative operating cash flow for 1983 was reduced to $96,693 or $0.01 per share from $803,639 or $0.20 per share in 1982.

Review of 1983

Gas markets were poorer than anticipated in both Canada and the U.S.; we experienced production curtailment in Brushy Creek, Texas and production problems at Paddle River, Alberta; interest expense was higher than anticipated due principally to the assumption of the debt relating to Gulch Resources Ltd., acquired in late 1982; and we decided to write down our U.S. assets substantially.

The following factors contributed to less than anticipated results:

Bank Debt

We borrowed more from our bankers in early 1983 than planned. This was largely to finance unexpected capital expenditures, associated with production problems, as well as related accounts receivable from our partners. Regular bank borrowings peaked at the end of the first quarter at approximately $10,800,000 and were reduced to $9,100,000 at the end of the year. Further reductions are planned for 1984. In addition, the Company's share of the long term lease on the Abee/Rochester Gas Plant was $942,554 at December 31, 1983.

General and Administrative Expenses

In the second quarter of 1983 it became clear that we were not going to achieve our previously anticipated levels of cash flow, therefore we began a concerted effort to reduce our overhead. The result was that it was reduced from a high in the last quarter of 1982 of $916,461 to $409,091 in the last quarter of 1983. These expenses in 1983 were $1,802,728 compared to $1,886,364 in 1982. The total general and administrative expenses capitalized in 1983 was $315,000 compared with $415,864 in 1982.

Accounts Receivable

One of our major problems for the past few years has related to difficulty in collecting accounts receivable from certain of our partners. In 1983 we were able to resolve the larger accounts. Furthermore, we are much closer to resolving the remaining problem accounts and it is hoped that these will be cleared up by mid-1984.

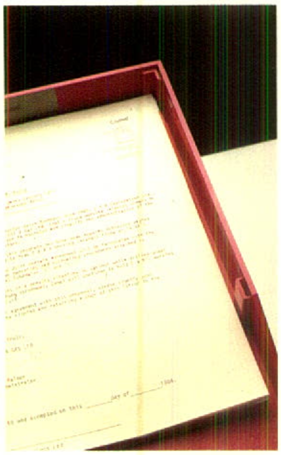
Depletion/Unusual Write-offs

Depletion increased significantly as a proportion of oil and gas revenues in 1983. The increase relates to a reduction in our estimated reserves in the United States. This reduction assumes a 20% discount rate and, when taken together with a decline in our estimated value of U.S. lands, has resulted in an unusual charge against 1983 income of $8,900,200 net of deferred income taxes or $1.35 per share, but has had no effect on cash flow. Depletion in future years will be reduced accordingly. We also decided to write off deferred financing and termination costs amounting to a further $620,408 or $0.10 per share.

Financial Controls

Our accounting staff has substantially resolved all of the historic problems which we had with our accounts, converted to an in-house computer system, merged the accounts of Gulch Resources Ltd. into our own and established a strong set of financial and other controls.

Financial Review



Plans for 1984

We enter 1984 with a much leaner and determined staff, reduced overhead, stronger financial controls and the expectation of improved cash flow. Our major corporate objectives for 1984, as they relate to our financial picture, are discussed below.

Maximization of Industrial Gas Contract

We have an opportunity to increase our cash flow significantly provided we can increase our gas production to take maximum advantage of an industrial gas contract to which we are a party. We are currently pursuing ways to secure increased deliverability for this purpose.

Improved Debt/Equity Ratio

Through the conversion of certain accounts receivable to cash, the sale of selected redundant assets and the dedication of 50% of our cash flow, we plan to reduce bank debt substantially in 1984. Further, we are contemplating encouraging the holders of our convertible debentures to convert their debentures, in whole or in part, into common shares of the Company. The accomplishments of these objectives will result in a materially reduced total debt by the end of 1984.

Explore with Fresh Capital

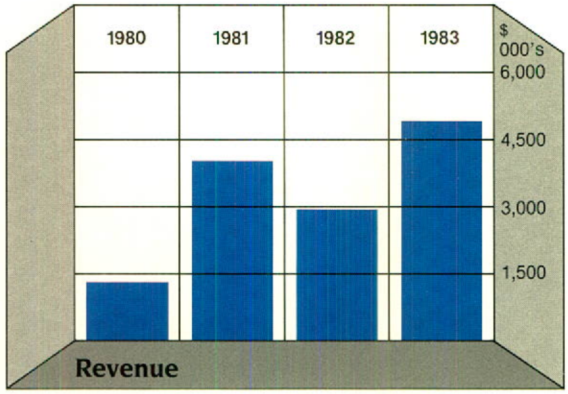
We plan to establish the foundation in 1984 to re-enter the exploration phase of our business. We will only do so with fresh capital or by way of carried interests until our debt/equity ratio and cash flow from existing operations has shown a substantial improvement.

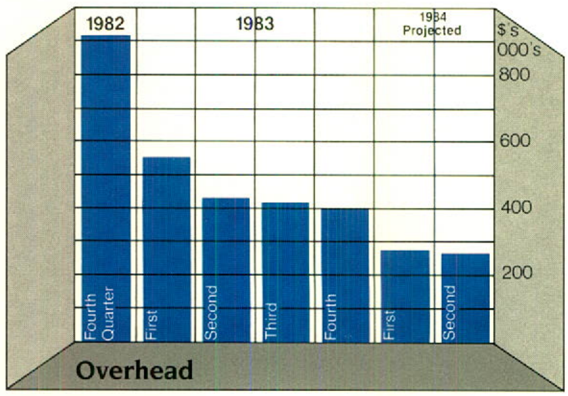
Reduced Overhead

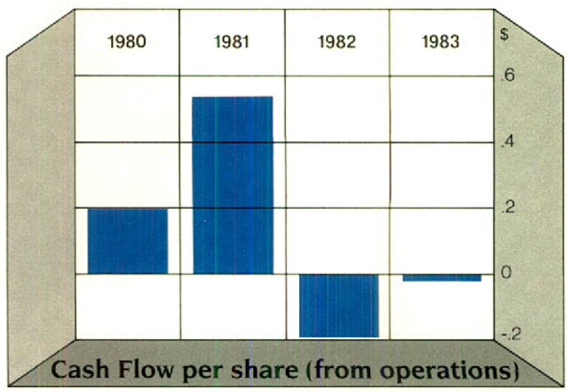
We are continuing our efforts to reduce overhead. Our staff has been reduced by 40%, salaries have been generally frozen, employee benefits have been reduced and we are containing legal and audit costs as well. As a result, overhead in 1984 will be significantly less than in 1983.

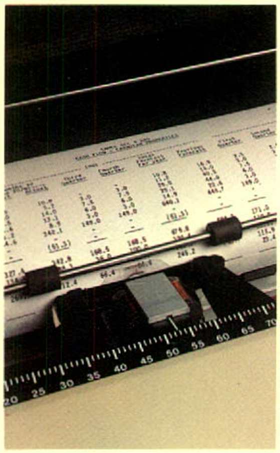
Conclusion

We have taken the steps necessary to substantially reduce overheads and are in the process of reducing debt and strengthening our balance sheet while increasing cash flow. We believe that 1984 will be the financial turning point for Camel Oil & Gas, subject to the continued uncertainty surrounding prices and markets for oil and gas. Further, we expect that 1984 will provide a solid base from which to build in 1985 and subsequent years.









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 21, 1984

Thomas P. Howard
Vice-President, Finance
& Administration, Treasurer
March 21, 1984

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, 1983 and the consolidated statements of operations and deficit, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

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

Clarkson Gordon
Chartered Accountants

Calgary, Canada
March 21, 1984

1983 Financial Statements

Camel Oil & Gas Ltd.
Consolidated Balance Sheet
As At December 31

ASSETS	1983	1982
CURRENT		
Cash and term deposits	$ 31,947	$ 587,796
Marketable securities	–	284,000
Accounts receivable	4,061,540	7,729,312
Accrued Petroleum Incentive Program grants	203,436	1,570,338
	4,296,923	10,171,446
LONG TERM RECEIVABLES (Note 5)	1,357,109	1,358,010
PROPERTY, PLANT AND EQUIPMENT (Note 2)	36,812,964	43,340,274
DEFERRED FINANCING CHARGES (Note 7)	–	295,496
	$42,466,996	$55,165,226

LIABILITIES	1983	1982
CURRENT		
Accounts payable and accrued liabilities	$ 3,093,338	$ 4,594,859
DEFERRED REVENUE	209,898	90,580
DEFERRED INCOME TAXES (Note 6)	–	910,791
LONG TERM DEBT		
Bank loans (Note 3)	10,042,554	9,876,888
Debentures payable (Note 4)	10,900,000	10,900,000
	20,942,554	20,776,888
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (NOTE 5)	30,399,457	28,793,088
DEFICIT	(12,178,251)	(980)
	18,221,206	28,792,108
	$42,466,996	$55,165,226

On behalf of the Board:

Cameron Berry Director

C. R. Major Director

1983 Financial Statements

Camel Oil & Gas Ltd.

Consolidated Statement of Operations and Deficit
For the Year Ended December 31

	1983	1982
REVENUE		
Oil sales	$ 3,192,487	$ 816,452
Gas sales	3,550,526	1,441,168
	6,743,013	2,257,620
Less royalties	2,189,541	603,552
	4,553,472	1,654,068
Management fees	114,607	462,398
Interest and other income	137,393	802,790
	4,805,472	2,919,256
EXPENSES		
Operating	1,151,051	478,519
General and administrative	1,802,728	1,886,364
Interest	2,462,127	1,613,864
Depreciation, depletion and amortization	2,872,014	488,633
	8,287,920	4,467,380
OPERATING LOSS BEFORE INCOME TAX RECOVERY AND UNUSUAL ITEMS	(3,482,448)	(1,548,124)
Income tax recovery		
Deferred (Note 6)	312,044	309,581
Alberta royalty tax credit	513,741	255,852
	825,785	565,433
OPERATING LOSS BEFORE UNUSUAL ITEMS	(2,656,663)	(982,691)
Provision for decline in value of oil and gas properties (Net of income tax of $598,747) (Note 2)	(8,900,200)	–
Write-off of deferred financing charges and employee termination costs (Note 7)	(620,408)	–
NET LOSS FOR THE YEAR	(12,177,271)	(982,691)
Retained earnings (deficit), beginning of year	(980)	981,711
Deficit, end of year	$(12,178,251)	$ (980)
Operating loss per share before unusual items	$ (0.40)	(0.24)
Net loss per share	$ (1.85)	$ (0.24)

1983 Financial Statements

Camel Oil & Gas Ltd.

Consolidated Statement of Changes in Financial Position For the Year Ended December 31

	1983	1982
SOURCE OF FUNDS		
Issue of common shares	**$ 1,606,369**	$ 9,898,685
Increase in long term debt	**165,666**	5,941,888
Deferred revenue	**119,318**	56,191
Decrease in long term receivables	**901**	298,800
	1,892,254	16,195,564
USE OF FUNDS		
Operations:		
Net loss for the year	**12,177,271**	982,691
Items not (requiring) providing funds		
Depreciation, depletion and amortization	**(2,872,014)**	(488,633)
Deferred income taxes	**312,044**	309,581
Provision for decline in value of oil and gas properties	**(8,900,200)**	—
Write-off of deferred financing costs	**(295,496)**	—
Funds used in operations	**421,605**	803,639
Increase in property plant and equipment	**5,843,651**	8,071,705
Acquisition of Gulch Resources Ltd.	**—**	9,220,590
	6,265,256	18,095,934
Decrease in working capital	**(4,373,002)**	(1,900,370)
Working capital, beginning of year	**5,576,587**	7,476,957
WORKING CAPITAL, END OF YEAR	**$ 1,203,585**	$ 5,576,587

Camel Oil & Gas Ltd.

Notes to Consolidated Financial Statements December 31, 1983

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.

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

Accounts of foreign subsidiaries are translated to Canadian dollars. Current assets and liabilities are translated at year end rates of exchange. Non-current assets and liabilities are translated at rates in effect when acquired or incurred. Income accounts are translated at the average rate in effect throughout the year, except for depreciation and depletion which are on the same basis as the related assets. Gains or losses on translation of foreign currencies 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.

e. Deferred financing charges

Costs incurred in issuing debentures are deferred and amortized over the term of the related debt issue.

2. Property, plant and equipment

	1983	1982
Oil and gas properties	**$32,277,115**	$39,064,299
Plant and production equipment	**7,752,214**	4,659,454
Furniture and fixtures	**557,569**	518,441
	40,586,898	44,242,194
Less accumulated depreciation and depletion	**3,773,934**	901,920
	$36,812,964	$43,340,274

The Company has recognized in the accounts the decline in value of its properties situated in the United States. The Company has written down such properties by $9,498,947 ($8,900,200 after deferred income taxes).

Overhead expenses of $315,000 (1982 - $415,864) relating to exploration activities have been charged to oil and gas properties during the year.

Camel Oil & Gas Ltd.

Notes to Consolidated Financial Statements
December 31, 1983

3. Bank loans

	1983	1982
Production bank loans bearing interest at rates from prime plus ½% to prime plus ¾%	**$ 9,100,000**	$9,070,000
Gas plant bank financing	**942,554**	806,888
	$10,042,554	$9,876,888

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 lease obligation are as follows:

	1983	1982
Total obligation outstanding	**$ 3,310,601**	$ 3,133,448
Less partners' shares	**(2,368,047)**	(2,326,560)
Company share of obligation	**$ 942,554**	$ 806,888

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.

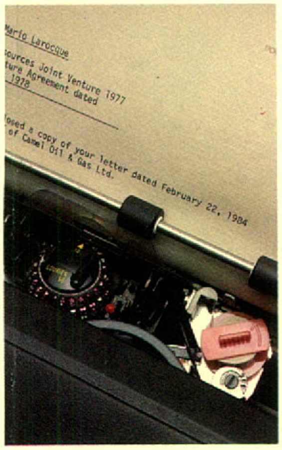
The demand production bank loans are secured by accounts receivable and oil and gas properties.

These loans and obligations are repayable out of future production proceeds and are not expected to require the use of working capital. Accordingly, no portion has been reclassified to current liabilities.

Estimated principal payments on long term debt in each of the years 1984 to 1988 (including capital lease obligation) are: 1984 - $771,600; 1985 - $1,656,400; 1986 - $1,656,400; 1987 - $1,656,400; and 1988 -$1,656,400.

4. Debenture payable

The $10,900,000 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.



Camel Oil & Gas Ltd.

Notes to Consolidated Financial Statements
December 31, 1983

5. Share Capital

Authorized:

10,000,000 preferred shares, issuable in series
10,000,000 common shares

	1983	1982
Issued:		
6,680,668 common shares (1982 - 6,494,227)	**$30,399,457**	$28,793,088

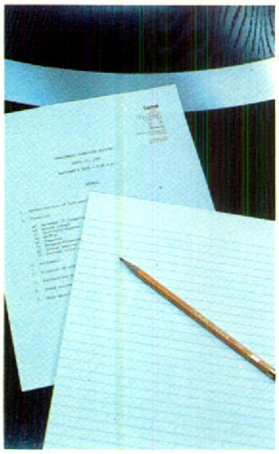
During the year the Company issued 186,441 common shares in exchange for oil and gas properties with an attributed value of $1,606,369. The Company has 1,165,800 common shares reserved for conversion of the 11% Series A Convertible Subordinated Debentures (see Note 4).

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

a) Under the terms of the stock purchase plans, 169,900 shares have been issued and are held in trust to be released to certain key employees in varying amounts to 1987. Shares held in trust under these plans may be repurchased at the lesser of issue price and current market price by the Company if, at the conclusion of the term of each plan, the employees have left the Company. The Company's long term receivables include $1,356,810 loaned to certain key employees (includes $432,000 to employees who are officers) to enable their participation in the plans. These loans are non-interest bearing and are to be proportionately repaid when the employees have the right and elect to receive shares under the plans. The employees have pledged the shares of the Company held in trust for their account as security for these loans. The Company is currently investigating the termination of these plans.

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



Camel Oil & Gas Ltd.

Notes to Consolidated Financial Statements
December 31, 1983

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:

	1983	1982
Corporate tax rate	**47.9%**	48.8%
Calculated income tax recovery	**$1,668,093**	$ 755,485
Add (deduct) the income tax effect of:		
Crown charges disallowed	**(658,573)**	(197,290)
Federal resource allowance	**159,683**	20,188
Tax benefit of portion of loss carry forwards and other tax deductions not recognized	**(657,980)**	(395,215)
Earnings from United States subsidiaries with lower effective tax rates	**3,425**	56,233
Depletion - excess of accounting basis over tax basis	**(209,960)**	74,096
Investment tax credit	**—**	10,909
Other - net	**7,356**	(14,825)
Income tax recovery	**$ 312,044**	$ 309,581

The Company has non-capital tax losses available for carry forward of approximately $2,430,000. These losses expire as follows: 1984 $199,550, 1987 $1,050,000 and 1990 $1,180,450. The tax benefit of these losses to the extent of the deferred tax balance has been recognized. The portion of the loss carry forward not recognized is approximately $2,200,000. The Company also has available exploration and development costs and costs associated with plant and equipment that can be deducted from taxable income in future years. The tax benefit of these balances has not been recorded in the accounts.

7. Deferred financing and employee termination costs

The Company is contemplating encouraging the holders of its convertible debentures to convert their debentures into common shares of the Company. As a result the Company believes that it is no longer appropriate to defer financing charges of $295,496 associated with these debentures. Therefore they have been written off. In addition, costs of $124,912 incurred in 1983 in connection with the negotiation and documentation of the production bank loan have been written off. Employee termination costs of $200,000 relating to the Company's overhead reduction program have also been written off.

These costs, totalling $620,408, have been shown as an unusual item in the statement of operations.

Camel Oil & Gas Ltd.

Notes to Consolidated Financial Statements
December 31, 1983

8. Financial information for geographical business segments

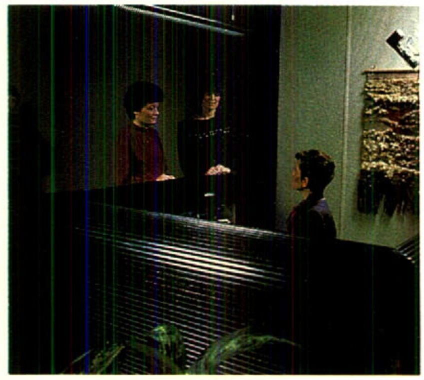
	Canada	United States	Total
1983			
Revenues	$ 2,929,237	$ 1,876,235	$ 4,805,472
Loss before income tax	$ (3,013,165)	$ (9,989,891)	$(13,003,056)
Identifiable assets	$ 30,400,455	$ 12,066,541	$ 42,466,996
1982			
Revenues	$ 1,693,662	$ 1,225,594	$ 2,919,256
Loss before income tax	$ (1,694,642)	$ 146,518	$ (1,548,124)
Identifiable assets	$ 36,012,341	$ 19,152,885	$ 55,165,226

9. Comparative figures

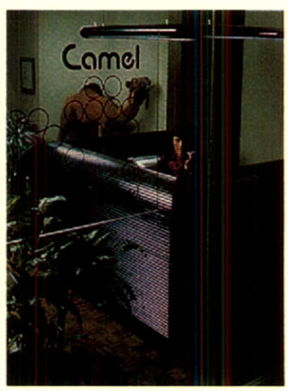
Certain 1982 figures have been reclassified in order to conform to the presentation adopted in the current year.

The Camel People





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Thomas P. Howard — Vice President, Finance & Administration, Treasurer
Ray C. Huffman — Vice President, Land
Edward R. R. Carruthers, Q.C. — Secretary

Legal Counsel — Canada

McLaws & Co.
Calgary, Alberta

Legal Counsel — U.S.A.

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:

Year	1983		1982		1981	
	High	Low	High	Low	High	Low
First Quarter	$ 3.90	$ 2.51	$ 4.90	$ 2.50	$ 9.88	$ 8.00
Second Quarter	$ 3.50	$ 2.56	$ 3.50	$ 2.70	$ 8.38	$ 7.00
Third Quarter	$ 3.30	$ 2.61	$ 3.20	$ 2.30	$ 8.00	$ 4.30
Fourth Quarter	$ 2.65	$ 1.65	$ 3.60	$ 2.70	$ 5.25	$ 4.00
Annual Volume	2,103,400		901,799		736,062	
Number of Shareholders	2,289		2,515		1,105	
Common Shares Outstanding	6,680,668		6,494,227		3,625,729	

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