Camel Oil & Gas Ltd.
1982 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 90 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. Operations in the United States are carried out through wholly owned subsidiaries. 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 3:00 p.m. on Thursday, May 19th, 1983 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.

Camel Oil & Gas Ltd.

Financial Highlights

	1982	1981 (restated)	1980 (restated)
	$	$	$
Total Revenue	**2,919,256**	4,076,025	1,346,873
Cash Flow	**(803,639)**	1,935,784	647,072
per Share	**(.20)**	.53	.20
Net Income (loss)	**(982,691)**	798,397	410,683
per Share	**(.24)**	.22	.13
Working Capital	**5,576,587**	7,476,957	3,696,487
Shareholders' Equity	**28,792,108**	19,876,114	18,968,907
per Share	**4.43**	5.48	5.25
Total Assets (Book Value)	**57,491,786**	33,664,718	20,069,108
Common Shares Outstanding	**6,494,913**	3,625,729	3,612,729
Number of Registered Shareholders	**2,515**	1,105	1,210

Operating Highlights

Exploration & Development Expenditures	**$**	$	$
Canada	**6,365,010**	5,156,804	2,533,625
United States	**1,670,253**	3,059,879	1,064,985
Drilling Activity (Camel and its subsidiary Gulch)			
Gross Wells Drilled—Canada	**15**	52	22
Gross Wells Drilled—United States	**29**	81	17
Gross Wells Successful—Canada	**7**	36	15
Gross Wells Successful—United States	**17**	38	5

Oil & Gas Assets

	Canada	United States	Total
Natural Gas (MMCF)			
Proven	23,736	5,755	29,491
Probable	4,756	2,616	7,372
Total—net after royalty	28,492	8,371	36,863
Crude Oil & Liquids (BBLS)			
Proven	317,000	199,000	516,000
Probable	36,000	37,000	73,000
Total—net after royalty	353,000	236,000	589,000
Land (Gross Acres)	3,684,709	1,892,649	5,577,358
Bitumen in Place (Bbls)	123,100,000	—	123,100,000

Valuation of Oil & Gas Assets		Discounted at	
($000's) (except per share)	0%	15%	20%
Present Value of Future	$	$	$
Net Income from Proven and Probable Reserves	230,726	67,133	53,520
Land @ Market Value	13,421	13,421	13,421
Total Asset Value net of debt	235,230	71,617	58,024
Total Gross Asset Value/Share excluding Bitumen	40.63	15.45	13.35
Bitumen in Place	812	—	—

Report to the Shareholders

On behalf of the Board of Directors of Camel Oil & Gas Ltd. it is my pleasure to present to the shareholders our annual report for the year ended December 31, 1982. This, our third year as a public company, has been a trying year for the Canadian oil and gas industry; however, Camel has emerged as a larger, well-financed and more diversified corporation.

This has been accomplished through new exploration successes, continued development of previously discovered reserves and the merger with Gulch Resources Ltd. The amalgamation alone increased the assets of the Company by 81 per cent bringing the before tax asset base to $100,,317,000 at a 15 per cent discount rate. Management has accomplished its objective by developing well-thought-out intermediate and long range goals and adhering to a sound strategy. We believe the building of a successful well-financed oil and gas company can be achieved only by rigorous planning, which has been demonstrated by our ability to overcome successfully the obstacles of the current recession. This self-imposed discipline dictated that we avoid the drilling of "sure thing" exploration wells with small reserve potential, as well as resisting the temptation to participate in spectacular high risk exploration prospects.

From this year forward, the Company's revenue from oil and gas production will enable it to be self-financing. That is, there will be sufficient excess cash flow over and above administrative and debt servicing costs to provide funds for new exploration and expansion. Oil and gas revenue has now surpassed management fee income and continues to grow each quarter. Your management will continue to pursue an active policy of "acquisitions and mergers" as a growth option and may consider some form of equity financing if suitable terms can be struck.

In our 1981 annual report we stated that exploration activity would be reduced in 1982 with emphasis being placed on the development of prior discoveries in areas with available markets. Accordingly, we drilled 44 wells, 24 of which were completed as oil or gas wells. The Company also constructed, or participated in the construction of, three natural gas production facilities, involving the laying of 48 km (30 miles) of pipeline. These installations are located at Abee-Rochester, and Paddle River in Alberta as well as at Brushy Creek, Texas. All are now in operation and delivering gas and associated products to market. With the completion of these and other facilities, Camel has 73 per cent of its gas reserves on stream and 95.6 per cent of our reserves under contract while many of our competitors are still facing the shut-in gas problem.

New and future exploration was not overlooked during the past year. The Company participated in several exciting new discoveries both in Canada and the U.S., as well as significantly increasing its land holdings in both countries. A second successful well was drilled in the East Pineview, Utah, overthrust belt and additional drilling is planned on this prospect in the first half of 1983. New discoveries were also drilled in a number of Gulf coast areas and these also have recently been placed on production. Of significant long term potential is our new heavy oil discovery in the Narrows area of Alberta. Recoverable reserves of approximately 24 million barrels are indicated by initial drilling and geological studies. The Company is currently pursuing alternative financing for a pilot production facility and associated development of this property.

As a result of our "year of building", cash flow from operations was predictably lower than for 1981, although the cash flow stream turned positive in the latter months of 1982 and continues to improve. Our industry is facing ongoing uncertainty with respect to both the pricing of oil and gas, and the status of intermediate term exports of natural gas to the United States. We believe both these situations will stabilize and improve during the next two years, but in any case, Camel is reasonably immune to these factors as a result of its entering into an industrial gas contract for a significant portion of its Alberta reserves. This contract security has helped to offset the problem resulting from the short term oversupply of gas in the United States, wherein the gas purchasers are taking only a portion of their contract volumes from both domestic and import sources. The uncertainties caused by current price and market conditions will no doubt induce further government involvement, with resulting changes in the existing taxation and royalty structure. We can only hope that the hard lessons learned from the National Energy Program shambles will ensure a more equitable share of revenue to the explorers and producers.

Camel is rapidly becoming a "mature" junior oil and gas company, having weathered the trials of adolescence. Our financial stability, professional experience and expertise will enable the Company to take advantage of many growth opportunities and management intends to keep your Company in the forefront of the junior Canadian oil and gas industry.

I wish to extend my thanks to our management and staff for their contributions and dedication to the growth of our Company. The co-operation of individuals and co-ordination of ideas makes our team work! Your Board of Directors has continued to provide management with support and direction in the achievement of our goals, and in this regard I would like to record our appreciation to Mr. Selim Anter, President of Bell Investment Management Corporation for agreeing to serve on our Board last spring. I am confident that this Board and management team will continue to ably serve our shareholders.

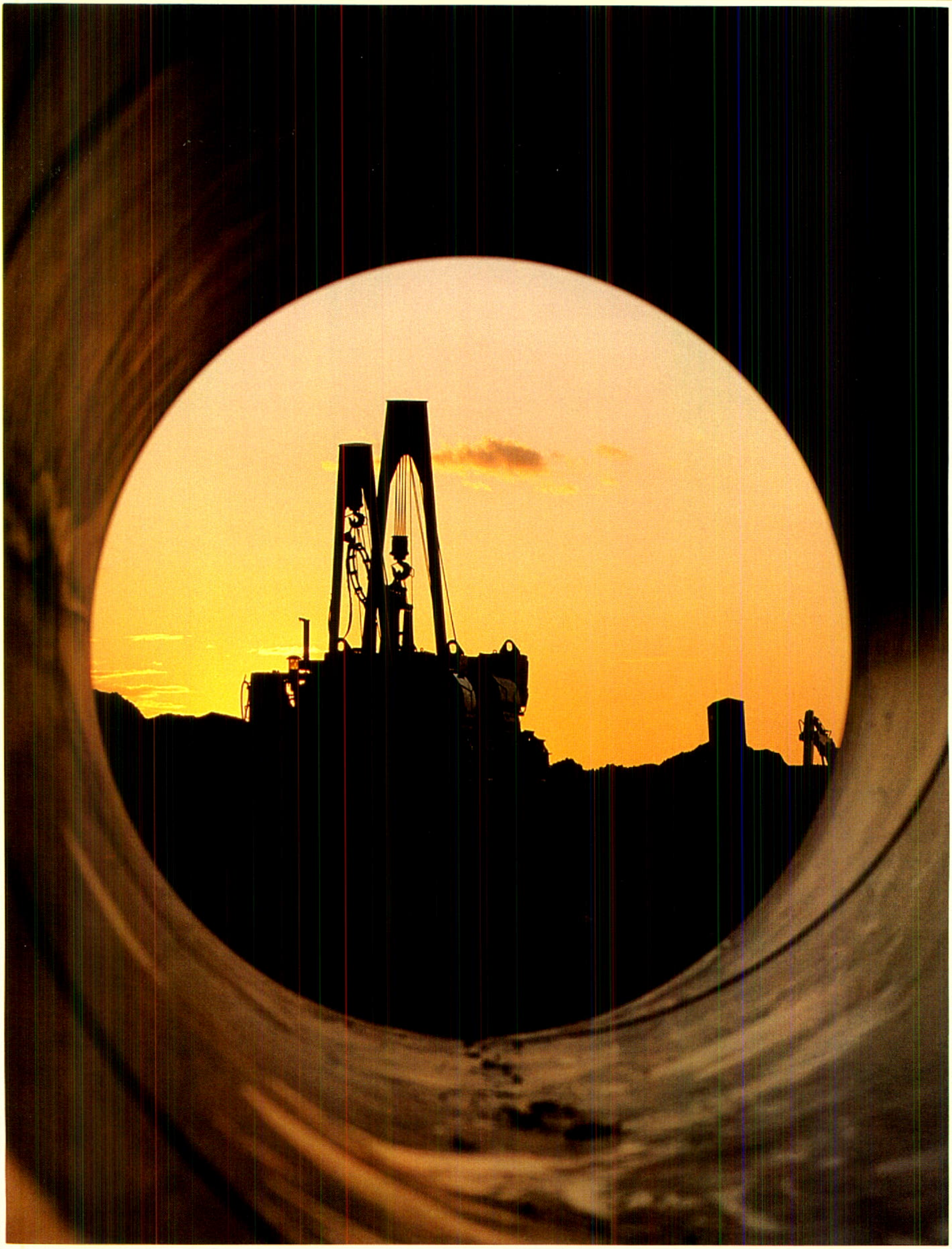
Respectfully Submitted,

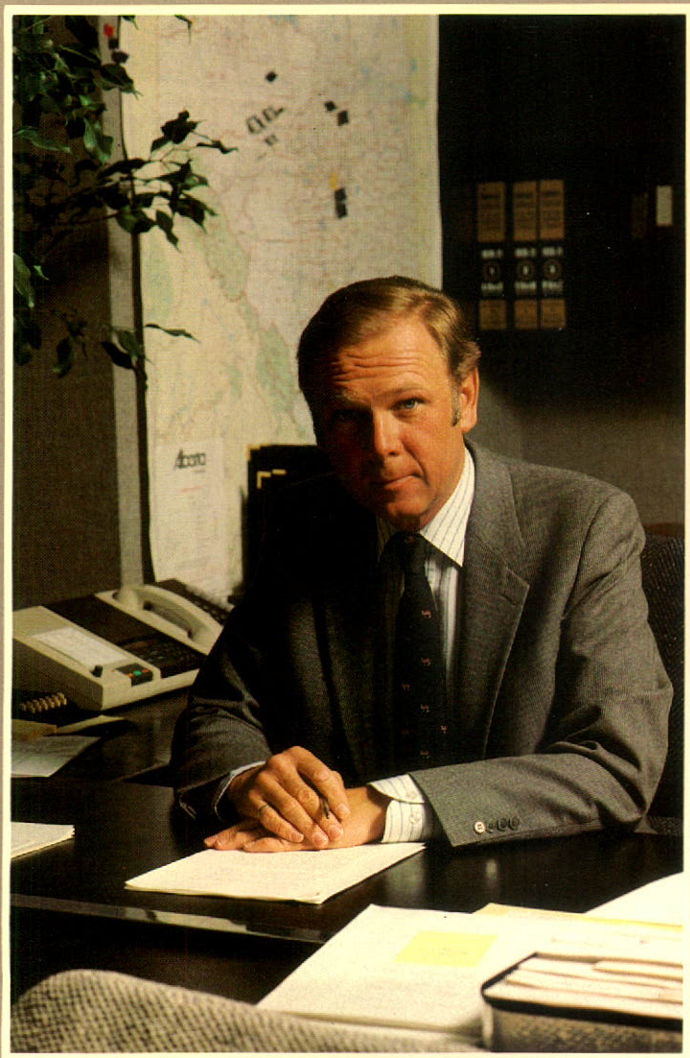
Cameron Berry

Cameron G. Berry
President
April 8th, 1983

Cameron G. Berry:

President of Camel and its predecessors since 1975. A geologist, with a Bachelor of Science degree from McGill University, and a Masters degree in Geology from the University of Tulsa, Mr. Berry has over twenty years of experience in the Canadian oil and gas industry.





Harold P. Thornton:

Vice-President, Operations since September, 1979 and worked with predecessors of the Company from 1975. A Geological Engineer with a Bachelor of Science degree from the University of Oklahoma, Mr. Thornton has twenty-six years of experience in the Canadian oil and gas industry.

Development Review

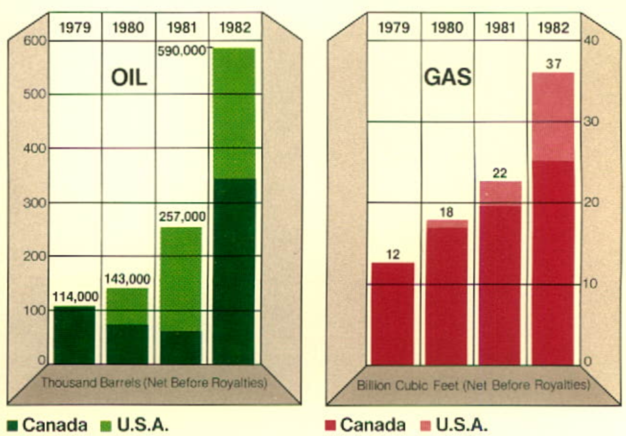
During 1982, Camel Oil & Gas Ltd. placed on stream a large portion of the oil and gas reserves which had been discovered and developed in 1980 and 1981. In addition, the Company purchased and developed substantial new reserves.

In Canada, initial deliveries of feedstock gas for a contract with Celanese Canada Inc. began in November, 1982. This contract calls for the delivery of 4 BCF annually for 12 years. In addition, major reserves placed on stream to TransCanada PipeLines Limited in 1981 continue to yield about .7 BCF of gas per year for the Company's account.

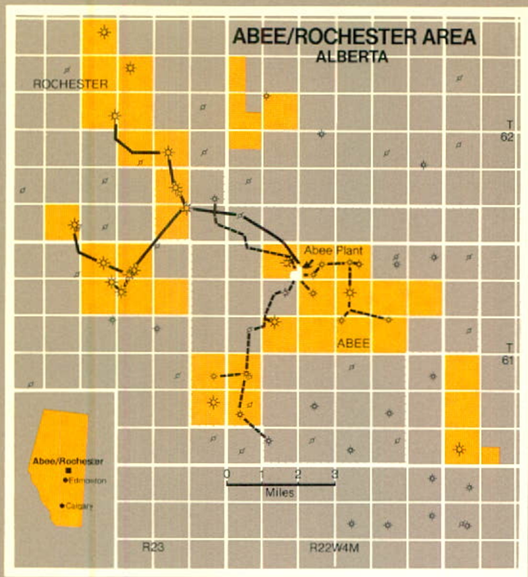
In the United States, many of the oil and gas discoveries of 1981 and 1982 have now been placed on production. Gas sales contracts were available and some of Camel's areas have benefited from incentive prices, though recent market conditions are producing somewhat lower prices as gas purchasers exercise "market out" provisions of their contracts. Oil generally has received world price in the United Sates. The Company's reserves are on stream and annual production has been far more than replaced by additions to reserves.

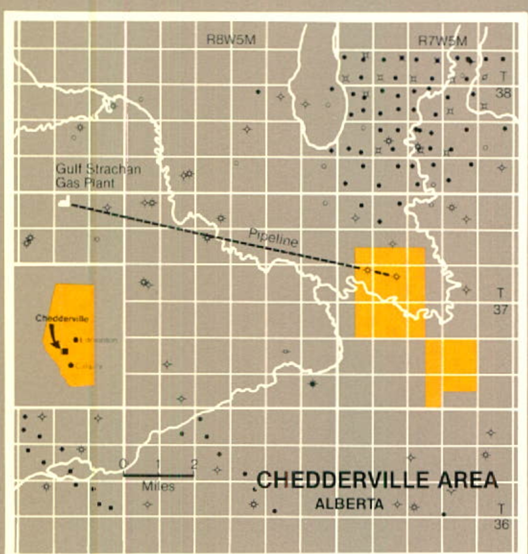
The merger with Gulch Resources Ltd., in October 1982, added 293,000 barrels and 11.7 BCF of gas, bringing total reserves to 589,000 barrels and 36.8 BCF of gas.

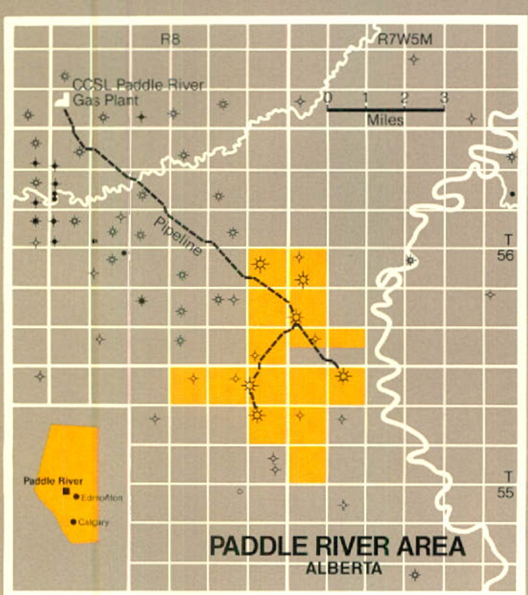
Oil & Gas Reserves



Development in Canada







Camel has concentrated its Canadian operations primarily in three areas during 1982. These were the Rochester/Abee area, north of Edmonton, the Paddle River area, northwest of Edmonton, and the Chedderville area, southwest of Red Deer, all of which have gas contracts in place.

Abee-Rochester Area, Alberta

Camel completed a 9 well gathering system in the Rochester area in mid-1982 to deliver gas to the Abee plant. In addition, the Company completed the expansion of the plant, which is now capable of handling up to 11 MMCF of gas per day. Deliveries under the Celanese contract began during November 1982, at a rate of 5.5 MMCF per day, of which Camel has an average 23 per cent working interest. Gas is also being delivered under a TransCanada PipeLines contract through the Abee plant, with interest accruing to Camel. The Company now operates 25 wells in the area and additional development drilling is planned for 1983.

Chedderville Area, Alberta

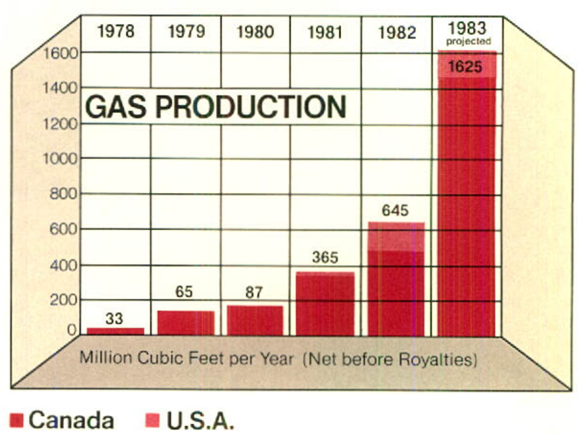
As a result of the merger with Gulch Resources Ltd., the Company acquired a 5 per cent working interest in reserves in the Chedderville area. Well owners spent $4.5 million to tie in 20 BCF of proven, saleable gas reserves in a Devonian D-3 reef. This gas is dedicated to Pan-Alberta Gas Limited at a contracted rate of 13.2 MMCF per day. Deliveries began in February, 1983.

Paddle River Area, Alberta

During 1982, the Company acquired a 16 per cent interest in three wells with proven gas reserves of 20 BCF in the Paddle River area. In addition, by drilling two more wells, Camel earned a 67.5 per cent working interest before payout, in a further 7 BCF of gas reserves. These reserves have been dedicated to the Celanese contract. Construction of a gathering system was completed in February 1983, and deliveries commenced shortly thereafter at a rate of 3.5 MMCF per day.

The 1982 and 1983 oil and gas production includes that of Gulch Resources Ltd. for the reporting period.

Gas Production



Development In the United States

Camel placed on production several finds from previous years, with concentration on the development of the oil reserves at Brushy Creek, Texas which continues to be an excellent source of cash flow.

Brushy Creek, Anderson County, Texas

The Brushy Creek Field in eastern Texas about 160 miles north of Houston has proven to be a very good investment for Camel. Proven and probable reserves are now estimated at 2,600,000 barrels of oil and 7 BCF of gas. At the end of February 1983, Camel had an interest in eleven producing oil wells with gross production of approximately 1,700 barrels per day. An active development drilling program is underway, with wells being drilled at the rate of one every four to five weeks. Camel's working interest in this field is different for each spacing unit, but in total its net production is more than 100 barrels of oil and 300,000 cubic feet of gas per day.

Copeland, Washington County, Alabama

Camel has a working interest in a 17,500 foot well in Washington County, which tested gas at a rate of 3.2 MMCF per day with 300 barrels of condensate per day, from the Smackover formation. Estimated recoverable reserves are 6.3 BCF of gas and 445,000 barrels of condensate. Negotiations for a gas sales contract are underway and the well should be on stream by mid 1983.

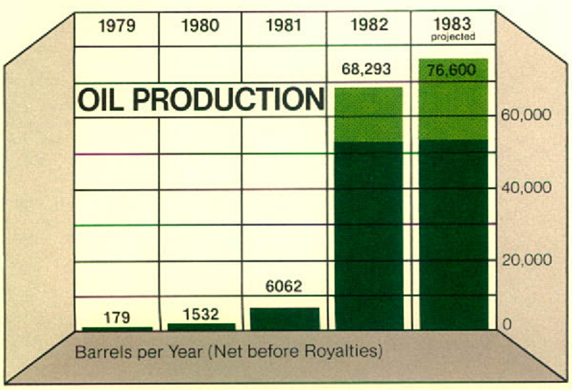
Oak Grove, Cameron Parish, Louisiana

Camel Oil & Gas, Inc. has a working interest in a well at Oak Grove, which was tested at 2.45 MMCF of gas per day over 2 zones. Under the terms of a gas contract with Louisiana Resource Company, no delay is anticipated between the time of negotiating a unitization agreement and the beginning of production. The Company plans to perforate and produce the more extensive upper zone.

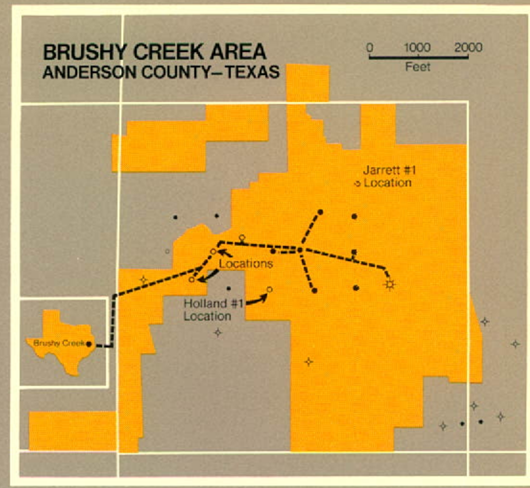
People

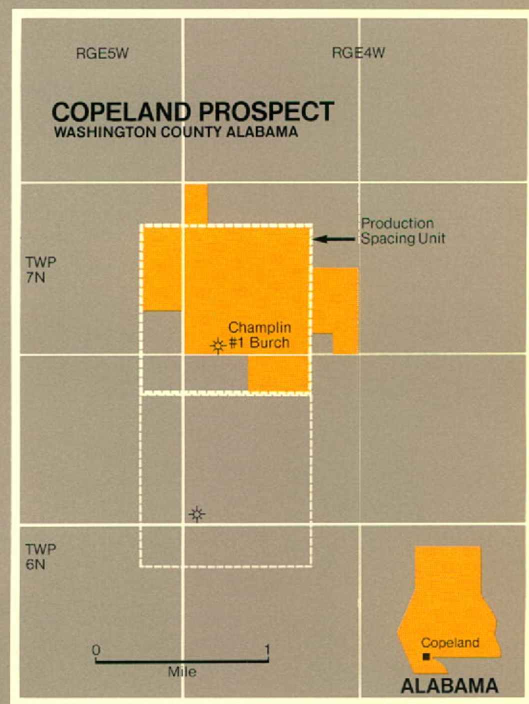
Pat Keck, P.Eng., joined the Company in July as Senior Petroleum Engineer with major responsiblities in production supervision, completions and reservoir engineering.

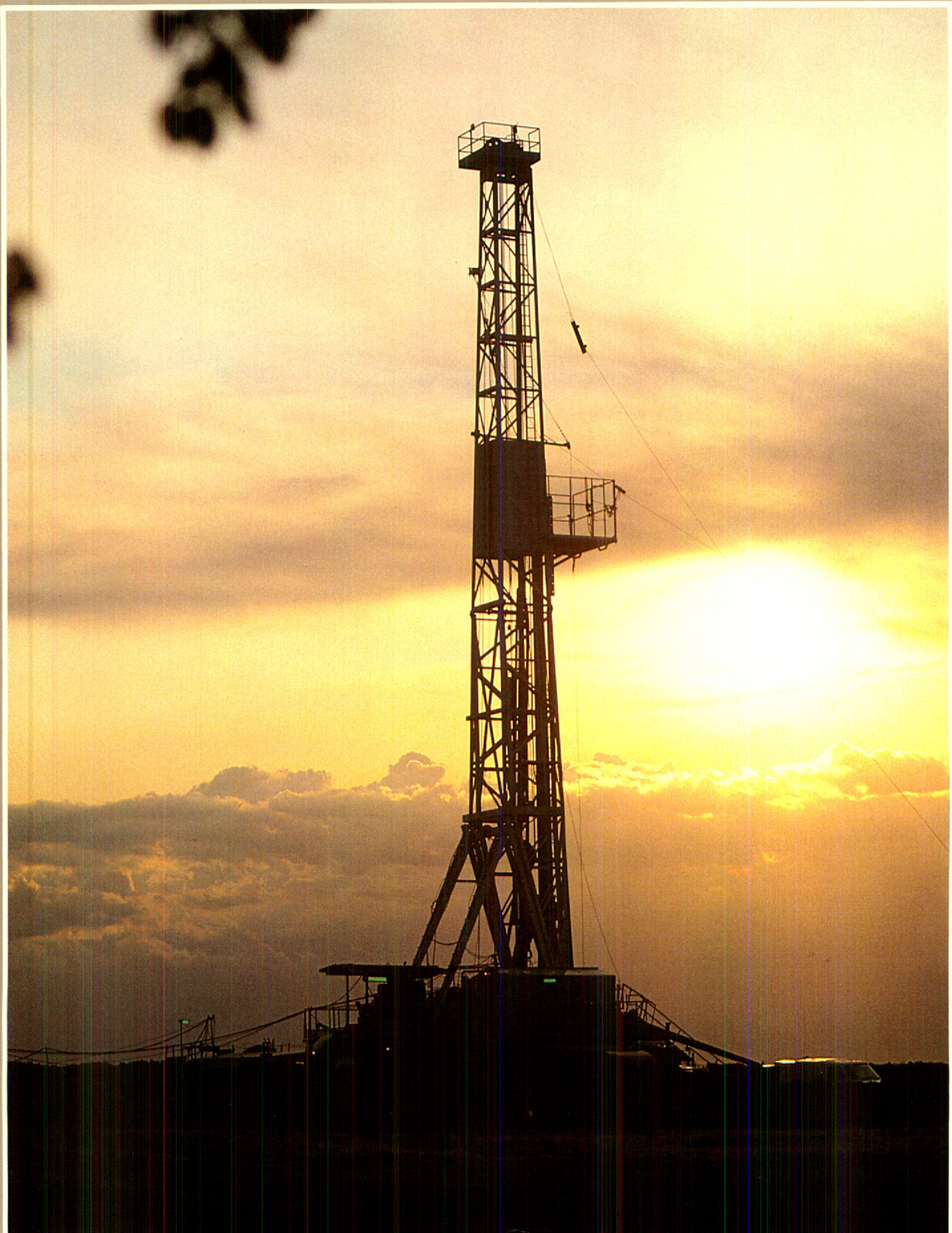
Oil Production



■ Canada ■ U.S.A.







Werner Klug:

Vice-President, Exploration since September, 1979, joined the predecessor of Camel in May, 1979. A geologist, with a Bachelor of Science degree from McMaster University, Mr. Klug has sixteen years of experience in the Canadian oil and gas industry.

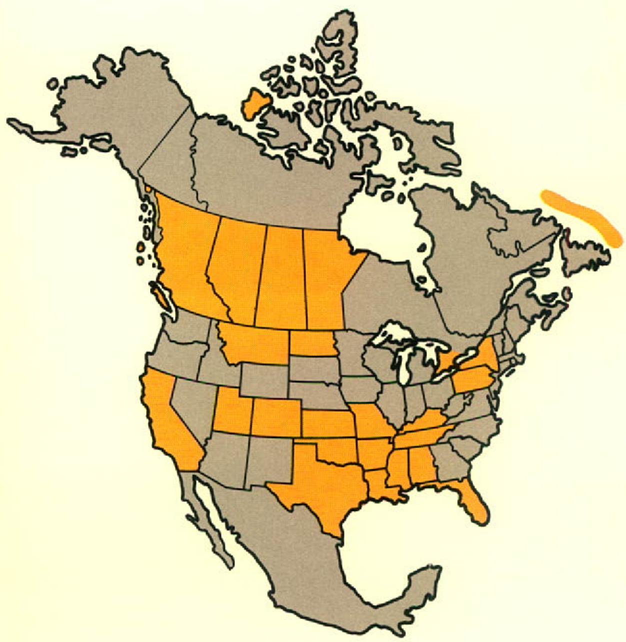
Exploration and Land Review

The Company's exploration activity was reduced from previous years. Camel and its subsidiary Gulch Resources Ltd. participated in 44 wells during the year, of which 24 are potential oil or gas wells. The Company bought an interest in an additional 11 wells 10 of which are gas wells. Camel currently has a land spread throughout North America, amounting to 5,577,358 gross acres (2,230,943 ha) and 242,084 net acres (96,834 ha). In order to take optimum advantage of future opportunities, Camel has pursued a long term strategy of building a large and diversified land bank.

Canadian activity concentrated on the Celanese contract areas of Rochester and Paddle River. Camel made an extensive heavy oil discovery at Narrows, Alberta, and through Gulch's involvement with the Colexcan Group, Camel acquired a position in wide-spread frontier exploration programs.

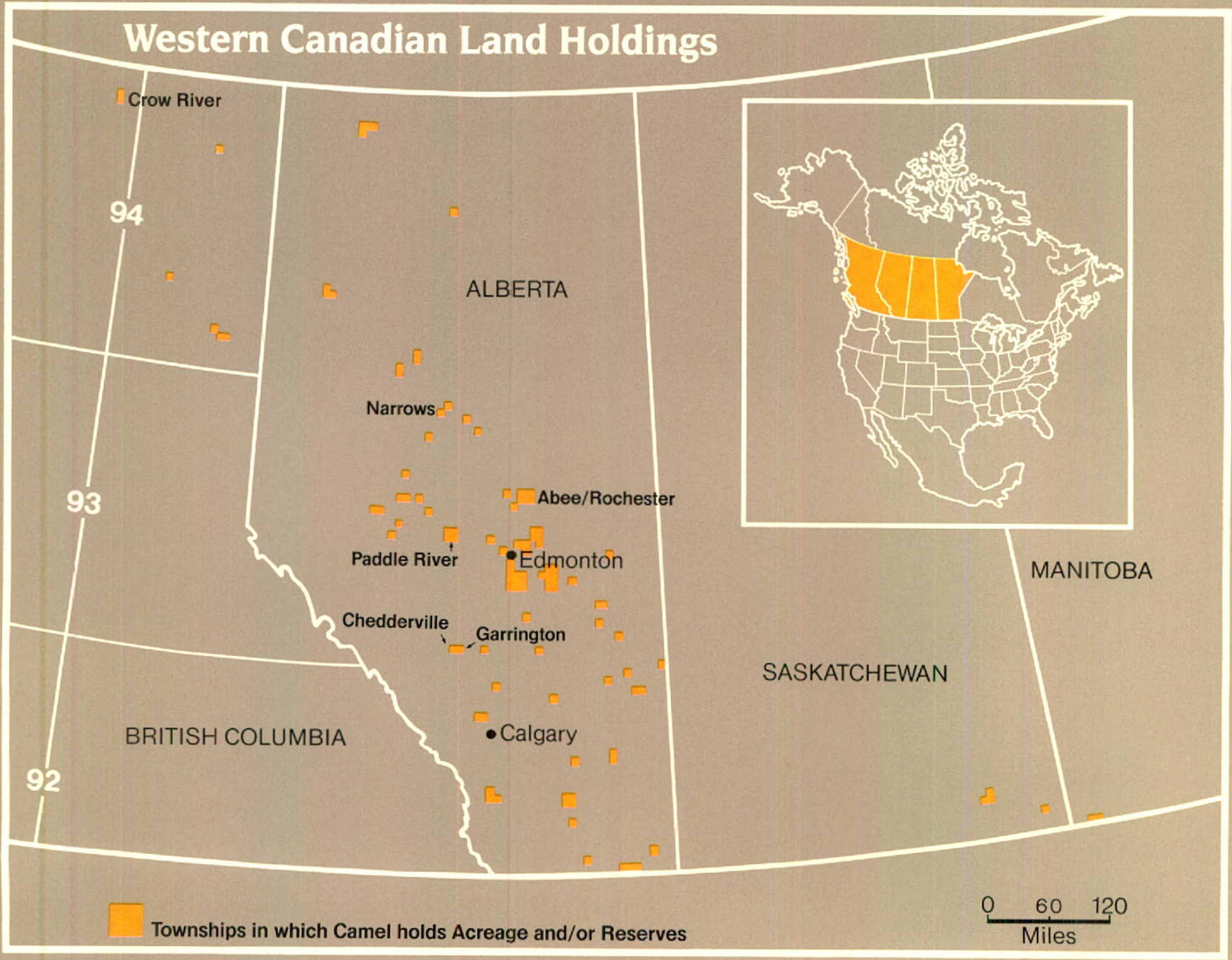
In the United States, emphasis was also on development drilling. The Gulch merger provided new discoveries on prospects which are being evaluated for further development.

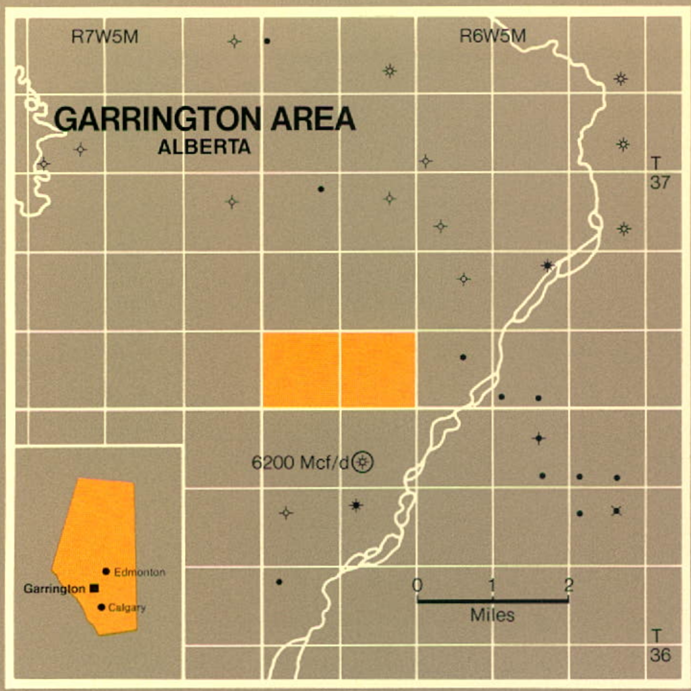
Operations in North America

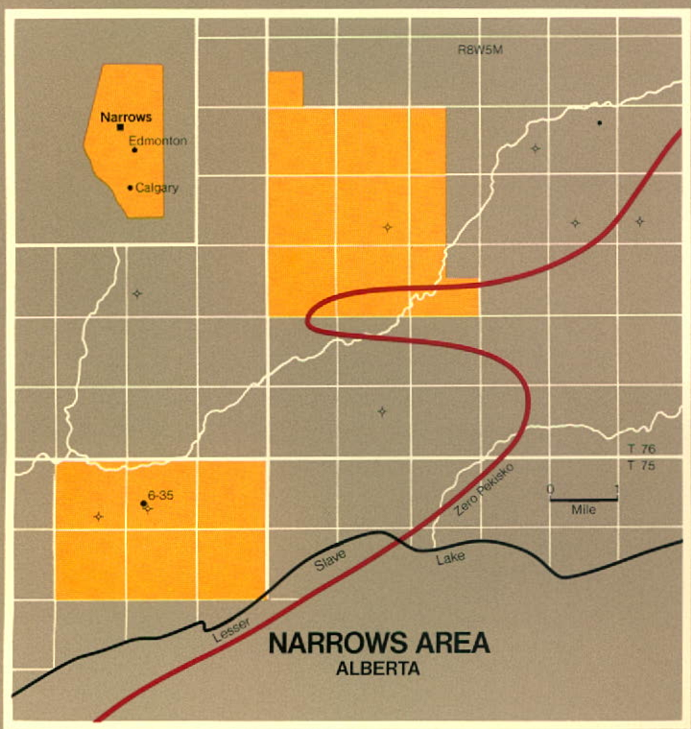


Ray C. Huffman:

Vice-President Land since August, 1980, joined the Company in June, 1980. Mr. Huffman is a Landman and has thirty years of experience in the Canadian oil and gas industry.







Exploration in Canada

Camel participated or acquired an interest in 26 wells, (4 of which were drilled at no cost to the Company) 17 of which are capable of production. The Company's land position is 3,684,709 gross acres (1,473,884 ha) and 126,788 net acres (50,715 ha).

Garrington Area, Alberta

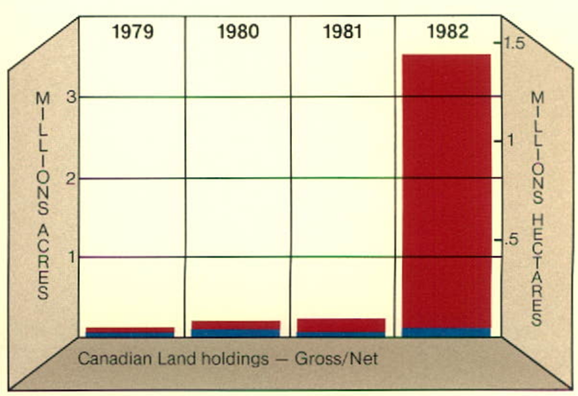
Camel Oil & Gas Ltd. has acquired a 33 1/3 per cent interest in two Crown leases of one secton each, for a total of 1,280 acres (512 ha) at Garrington. This acreage is ¾ mile north of a well which tested 6,200 MCF per day (176,470 m³/d) from the Mississippian Elkton formation. Secondary potential exists for oil from the Cretaceous sandstones.

Narrows Area, Alberta

This project is located on the north shore of Lesser Slave Lake. The discovery well was drilled to a depth of 2234 ft. (681 m) and encountered a thick section saturated with 7° API bitumen in the Mississippian Pekisko carbonate. Due to the extensive nature of this deposit, consultants are preparing a feasibility study for a pilot project. Camel is preparing an application to the Alberta Oil Sands Technology Authority (AOSTRA), for funding assistance.

It should be recognized that while this project has identified very large reserves, it is of a very long term nature and benefits may not accrue to the Company for several years.

Canadian Land Holdings



Exploration in Canada

Colexcan Agreement Lands

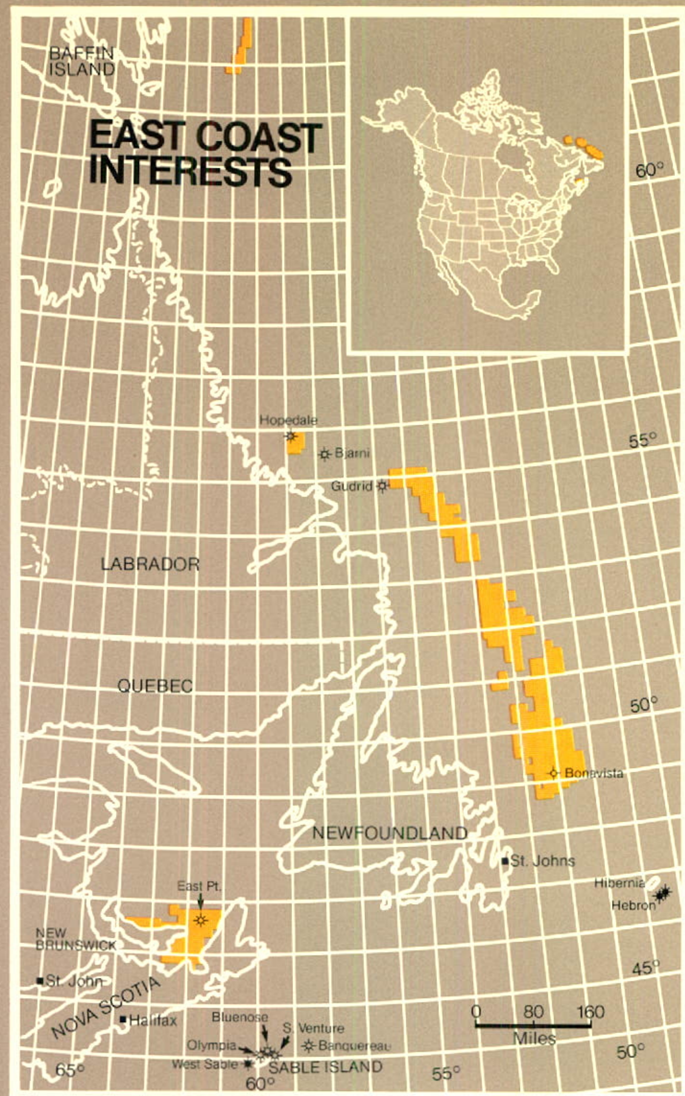
Under the terms of this agreement, Camel Oil & Gas Ltd. can earn a 1.75 per cent interest in 3,350,000 gross acres (1,340,000 ha) from an aggregate 20,000,000 acres (8,000,000 ha) in Alberta, British Columbia, the Northwest Territories, the Arctic Islands and offshore eastern Canada.

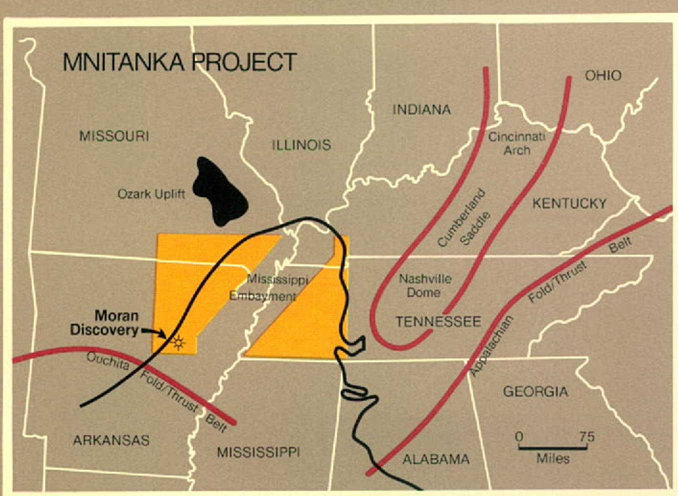
Offshore Eastern Canada

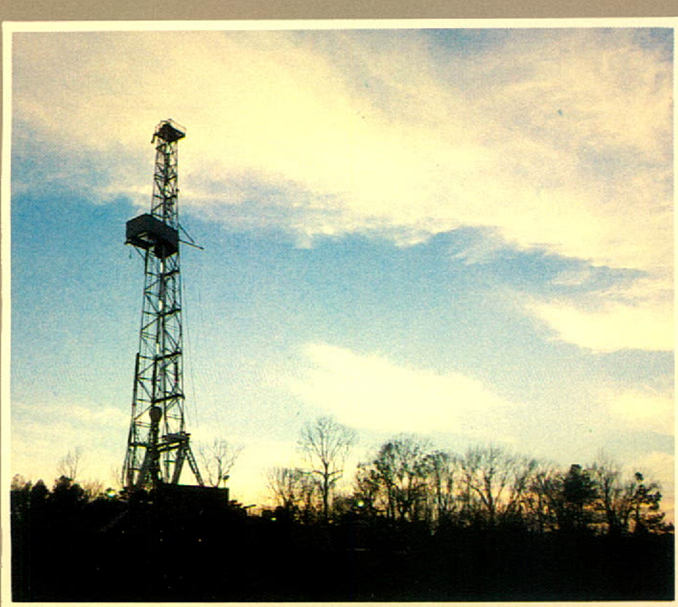
The lands are spread from the Hopedale gas discovery to the Bonavista block as well as around the Eastpoint discovery north of Prince Edward Island. Activity during 1982 has been concentrated in the Bonavista graben area where two prospects have been outlined. Additional seismic is planned over these features during the 1983 season with possible drilling in 1984.

Crow River Permit, British Columbia

A feature with potential reserves of up to 500 BCF ($14,100 \times 10^6$ m^3) of gas has been identified on the lands located approximately 6 miles (9.6 km) southwest of the Beaver River gas field. The recent decision by the National Energy Board to grant export licences may impart special significance to this project. Plans are under way to drill in 1984.







Exploration in the United States

During 1982, Camel and its subsidiary Gulch Resources Ltd. participated in 29 wells of which 17 are capable of production. Since year end, two more oil wells have been completed. The present land spread covers 1,892,649 acres (757,060 ha) gross or 115,296 acres (46,118 ha) net.

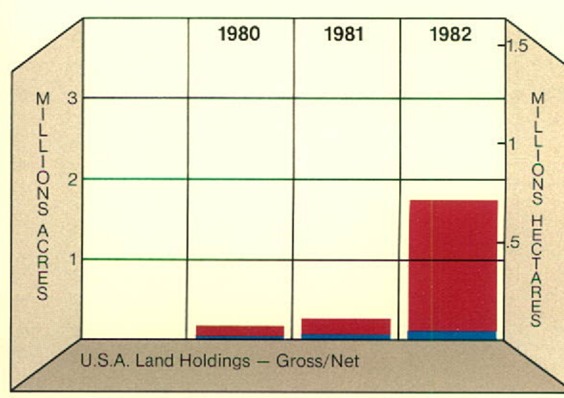
Mnitanka Project Area

Through the Gulch merger, Camel gained a 5 per cent interest in lands in the four contiguous states of Missouri, Arkansas, Tennessee and Kentucky, on both sides of the Mississippi River. Geologically the program covers the northern section of the Mississippi Embayment.

The area is under an ongoing leasing and seismic program and to date the joint venture group led by American Hunter has amassed leases covering 1,458,578 gross acres (58,3431 ha), and shot and processed 300 miles (483 km) of seismic.

In the past year, several major companies have initiated both land and seismic acquisition programs in the area. The Moran discovery in the area tested up to 1,300 MCF per day from an Ordovician Arbuckle zone at approximately 6600 feet (2012 m). Two companies have announced locations 30 and 40 miles east of the Moran well. These drilling results will better define hydrocarbon potential in this large and relatively unexplored area of the continental United States.

United States Land Holdings



Exploration in the United States

Flores, Starr County, Texas

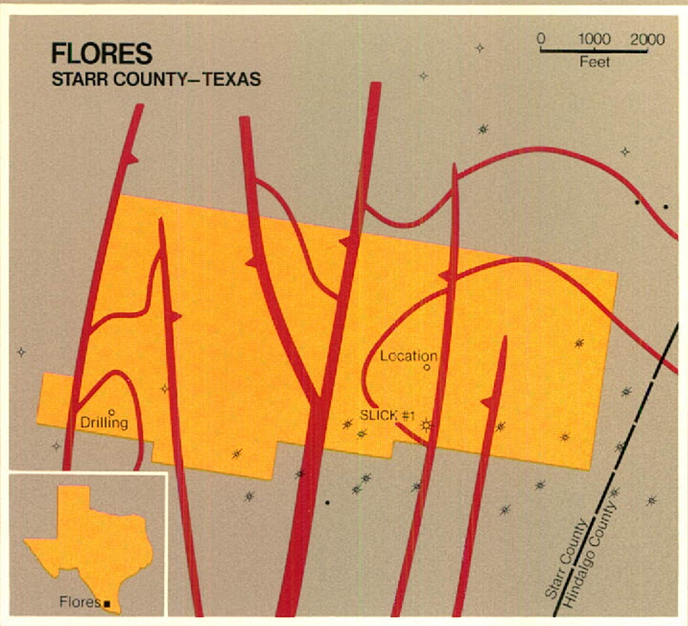
This prospect is located in the northern edge of the old Flores oil field, discovered in 1945. Camel acquired a 6.25 per cent interest in a 1,280 acre (512 ha) lease including the Crux Slick Estate #1 well, which encountered gas in two upper Vicksburg sands and thus was drilled to only 6,239 feet (1,902 m). Current production from both zones is about 1,500 MCF (42,300 m³) of gas and 23 barrels (3.6 m³) of oil per day.

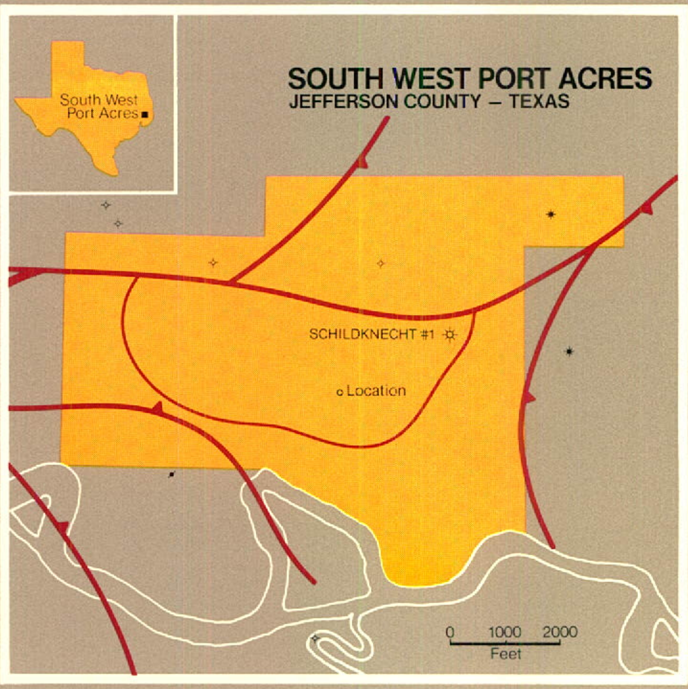
The Company is participating in an offset, approximately 1½ miles (2.4 km) west of the discovery, to an estimated depth of 10,500 feet (3,200 m). This well will test the original geologic concept of thick sedimentary wedges adjacent to major growth faults indicated by seismic data. High production rates are expected from these wedges off the structural crests. A third well, to 10,500 feet (3,200 m) is planned ¼ mile (0.4 km) to the north of the original discovery.

Southwest Port Acres, Jefferson County, Texas

Camel acquired an interest in 550 acres (220 ha) on this prospect. Schildknecht #1 was drilled to a depth of 11,408 feet (3,477 m) and completed as a Hackberry sand gas well. A contract covering all the Company's leases has been negotiated and efforts are underway to tie in the well, which achieved a final flow rate of 1,510 MCF of gas and 75 barrels of condensate per day.

Dipmeter analyses indicate the discovery well to be on the eastern flank of the structure, such that two additional wells may be drilled after sufficient favourable production history has been established.





Symbol Legend

- Oil Well
- Gas Well
- Dry & Abandoned Well
- Abandoned Oil Well
- Abandoned Gas Well
- Suspended Oil Well
- Suspended Gas Well
- Location

Board of Directors:

The Company is indebted to its directors for the strategy, direction and policy advice they provide.

Rear: Left to Right

* **Cameron G. Berry**, Calgary, Alberta
President, Camel Oil & Gas Ltd.

** **Selim Anter**, Vaudreuil, Quebec
President and Chief Executive Officer, Bell Investment Management Corporation

* **Edward R. R. Carruthers**, Calgary, Alberta
Partner, Conrad, Bloomenthal, Carruthers

Bernard M. Churchill, Toronto, Ontario
Urological Surgeon

Front: Left to Right

Richard A. N. Bonnycastle, Calgary, Alberta
Chairman, Cavendish Investing Ltd.

* **G. Ramon Hugo**, Calgary, Alberta
President, Nimbus Energy Resources Ltd.

** **C. Richard Major**, Toronto, Ontario
Vice President, Toronto Investment Management Ltd.

* Member, Executive Committee
** Member, Audit Committee

Thomas P. Howard:

Vice-President, Finance and Administration and Treasurer since May 1, 1982. A Chartered Accountant with a Masters degree in Business Administration from University of Western Ontario, Mr. Howard has nine years of experience related to the Canadian oil and gas industry.

Financial Review

Noteworthy financial highlights of the year include the merger with Gulch Resources Ltd.; a steady increase in the development, production and sale of reserves with a corresponding increase in cash flow; an increase in the proportion of oil to gas sales; the establishment of solid lines of bank credit in both Canada and the United States; the acquisition of a profitable gas plant; resolution of certain major accounts receivable; a change in the depreciation policy for plant and equipment; and the addition of key financial personnel.

Gulch Resources Ltd.

In October 1982, Camel concluded a merger agreement with Gulch Resources Ltd. The merger should prove beneficial to the Company as Gulch contributed a cash flow from producing properties, and an excellent land spread over areas in which Camel was not represented. Camel, with its broader financial and management base, can look forward to increasing its cash flow and its potential for discoveries, without a corresponding increase in overhead costs.

Our Financial Position

Camel Oil & Gas Ltd. has always maintained a conservative financial policy which has provided the Company with the strength to help temper the consequences of the economic downturn of the last few years.

The financial highlights for the year include:

- negative cash flow of $803,639 with a projection of a positive cash flow for 1983 of approximately $3,350,000
- the Company ended the year with working capital of $5,576,587
- when the value of reserves, discounted at 15 per cent, is taken into account, the debt to equity ratio at December 31, 1982 was .32 to 1

Cash Flow

By early 1982, fees from the management of joint ventures, which were a significant source of revenue in previous years, had declined considerably. By the third quarter of 1982, this source of revenue was beginning to be replaced by revenue from oil and gas sales enabling the Company to shift emphasis from joint venture management to more extensive direct participation. The impact of this change became clear in the fourth quarter, when cash flow from oil and gas sales rose sharply.

Cash flow projections for 1983 indicate cash flow per common share to be in the $0.48 to $0.52 range.

Accounts Receivable

Arrangements are currently being finalized which will result in approximately $2,350,000 of the $7,729,312 of accounts receivable outstanding at December 31, 1982 being exchanged for cash and an increased working interest in certain U.S. producing and non-producing oil and gas properties. In addition, as part of these arrangements, we will further increase our interest in these same properties by issuing approximately 209,000 shares at $8.57 per share.

Oil and Gas Sales

As noted earlier, revenue from oil and gas sales has begun to replace revenue from management fees. This shift began in the third quarter but really only had a significant effect in the fourth quarter. The following should be noted in this regard:

a) Oil and gas sales for 1982 are 280% of the comparable amount in 1981.

b) Oil and gas sales for the fourth quarter of 1982 represent 42% of such sales for the whole year.

c) The portion of these sales represented by oil as opposed gas has increased significantly from 10% in 1981 to 36% in 1982.

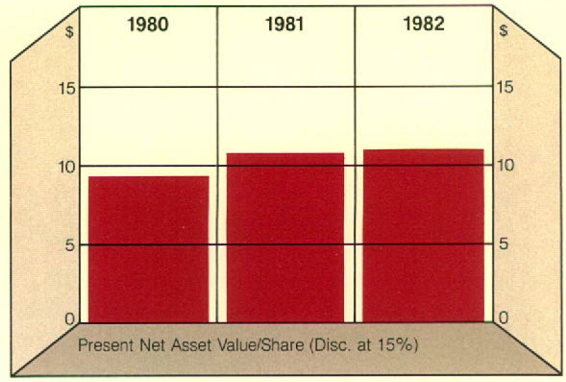
Change in Accounting Policy

During 1982 the Company increased its investment in plant and equipment significantly and this led to a review of our method used to depreciate this type of asset. We determined that the method used in the past was no longer appropriate as it no longer gave a fair allocation of costs over the life of the related assets. Accordingly, we changed to the unit of production method from the declining balance method. This change had a positive impact on earnings per share in 1982 of $0.11.

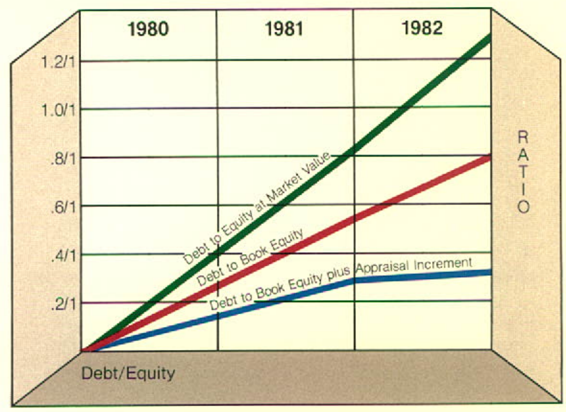
Our People

We are pleased to announce that Brent Kirkby, R.I.A. joined the Company in July as Manager of Accounting and more recently, Jim McKelvie, C.A. joined us as Manager of Finance. These personnel additions, plus the new computer system now on stream, should provide improved financial control and more timely and useful information for management, the board, our joint venture partners and our shareholders.

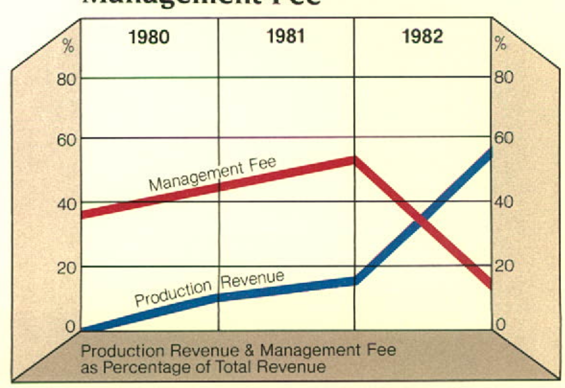
Asset Value/Share



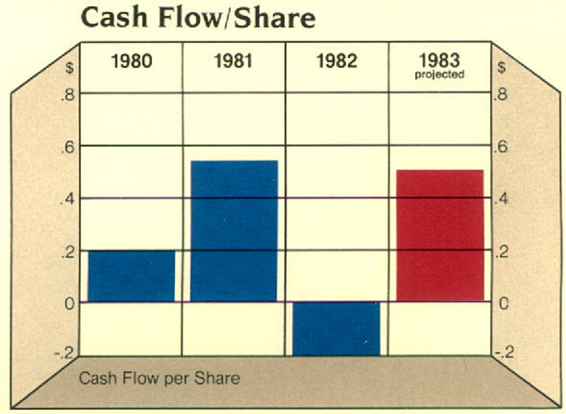
Debt/Equity



Production Revenue/ Management Fee



Cash Flow/Share



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 Berry

Cameron G. Berry
President
March 31, 1983

T. P. Howard

Thomas P. Howard
Vice-President, Finance
& Administration, Treasurer
March 31, 1983

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, 1982 and the consolidated statements of income, 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, 1982 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, after giving retroactive effect to the change in the method of calculating depreciation as explained in Note 7 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

Calgary, Canada
March 31, 1983

1982 Financial Statements

Consolidated Balance Sheet December 31, 1982

(with comparative figures at December 31, 1981)

ASSETS	1982	1981
CURRENT		
Cash and term deposits	$ 587,796	$ 1,527,292
Marketable securities	284,000	
Accounts receivable	7,729,312	6,296,224
Accrued Petroleum Incentive Program grants	1,570,338	1,592,469
	10,171,446	9,415,985
LONG TERM RECEIVABLES (Notes 5 and 8)	3,684,570	1,656,810
INVESTMENT IN SECURITIES	153,360	223,459
PROPERTY, PLANT AND EQUIPMENT (Notes 3, 5 and 7)	43,186,914	22,050,237
DEFERRED FINANCING CHARGES	295,496	318,227
	$57,491,786	$33,664,718

LIABILITIES AND SHAREHOLDERS' EQUITY	1982	1981
CURRENT		
Accounts payable and accrued liabilities	$ 4,594,859	$ 1,939,028
DEFERRED REVENUE	90,580	34,389
DEFERRED INCOME TAXES (Note 7)	910,791	915,187
LONG TERM DEBT		
Debentures payable (Note 4)	10,900,000	10,900,000
Bank loans (Notes 5 and 6)	12,203,448	
	23,103,448	10,900,000
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	28,793,088	18,894,403
Retained earnings (deficit) (Note 7)	(980)	981,711
	28,792,108	19,876,114
	$57,491,786	$33,664,718

On behalf of the Board:

Cameron Berry

Cameron G. Berry
Director

Edward R.R. Carruthers
Director

See accompanying notes

Consolidated Statement of Income
Year Ended December 31, 1982
(with comparative figures for the year ended December 31, 1981)

	1982	1981
REVENUE		
Oil sales	$ 816,452	$ 93,440
Gas sales	1,441,168	801,196
	2,257,620	894,636
Less royalties	603,552	304,789
	1,654,068	589,847
Management fees	462,398	2,155,555
Interest and other income	802,790	1,330,623
	2,919,256	4,076,025
EXPENSES		
Operating	478,519	147,883
General and administrative	1,886,364	1,276,228
Interest	1,613,864	716,130
Depreciation, depletion and amortization	488,633	346,474
	4,467,380	2,486,715
Income (loss) before income tax	(1,548,124)	1,589,310
Income tax recovery (expense)		
Deferred (Note 9)	309,581	(790,913)
Alberta royalty tax credit	255,852	
	565,433	(790,913)
NET INCOME (LOSS)	$ (982,691)	$ 798,397
NET INCOME (LOSS) PER SHARE	$ (0.24)	$ 0.22

See accompanying notes

Consolidated Statement of Retained Earnings
Year Ended December 31, 1982
(with comparative figures for the year ended December 31, 1981)

	1982	1981
RETAINED EARNINGS, BEGINNING OF YEAR		
As previously reported	$ 734,380	$ 118,377
Adjustment of depreciation (Note 7)	247,331	64,937
As restated	981,711	183,314
Net income (loss)	(982,691)	798,397
RETAINED EARNINGS (DEFICIT), END OF YEAR	$ (980)	$ 981,711

See accompanying notes

Consolidated Statement of Changes in Financial Position Year Ended December 31, 1982

(with comparative figures for the year ended December 31, 1981)

	1982	1981
SOURCE OF FUNDS		
Operations—		
Net income (loss)	$ (982,691)	$ 798,397
Depreciation, depletion and amortization	488,633	346,474
Deferred income taxes	(309,581)	790,913
Funds from (used in) operations	(803,639)	1,935,784
Issue of common shares	9,898,685	108,810
Issue of long term debt	8,268,448	10,900,000
Deferred revenue	56,191	18,915
Petroleum Incentive Program grants	(22,130)	1,592,469
Disposition of investment	70,099	
	17,467,654	14,555,978
USE OF FUNDS		
Acquisition of Gulch Resources Ltd., less working capital of $678,095 (Note 2)	9,220,590	
Additions to property, plant and equipment	8,119,674	9,978,090
Deferred financing charges		343,509
Long term receivables	2,027,760	408,810
Investments		45,099
	19,368,024	10,775,508
Increase (decrease) in working capital	(1,900,370)	3,780,470
Working capital, beginning of year	7,476,957	3,696,487
Working capital, end of year	$ 5,576,587	$ 7,476,957

See accompanying notes

Notes to Consolidated Financial Statements December 31, 1982

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 including Gulch Resources Ltd. which was acquired on October 21, 1982.

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. The costs are accumulated in two cost centres, Canada (including frontier) and the United States. Plant and production equipment is carried at cost. These costs are depleted 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. Investment in securities

Investments in securities are carried at cost which is lower than market value.

d. Foreign current 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, although not significant, are included in the net income.

e. Deferred financing charges

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

f. Capitalized interest

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

2. Acquisition

Effective October 21, 1982, the Company acquired 100% of the outstanding common shares of Gulch Resources Ltd. which is engaged in the exploration for and development of oil and gas in Canada and the United States. The acquisition has been accounted for by the purchase method.

Details of the acquisition are as follows:

Net assets acquired at assigned values–	
Working capital	$ 678,095
Property, plant and equipment	13,460,775
Deferred income taxes	(305,185)
Long term debt	(3,935,000)
Value attributed to 2,869,184 common shares of the Company issued on closing	$ 9,898,685

3. Property, plant and equipment

	1982	1981
Oil and gas properties	**$38,910,939**	$20,018,376
Plant and production equipment	**4,659,454**	2,011,698
Furniture and fixtures	**518,441**	456,181
	44,088,834	22,486,255
Less accumulated depreciation and depletion	**901,920**	436,018
	$43,186,914	$22,050,237

Overhead expenses of $415,864 (1981 - $382,447) relating to exploration activities have been charged to oil and gas properties during the year.

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, after June 1, 1983 at 109.5% of par declining on June 1 annually thereafter to par for the year ended June 1, 1996. Should certain market conditions exist for the Company's common shares, the debentures are not redeemable between June 1, 1983 and June 1, 1987. 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. Gas Plant project

During the year, the Company on behalf of other partners acquired an interest in a gas plant and gathering system for a cost of approximately $1,258,759. At December 31, 1982 expansion of the facility was in progress. The estimated total cost of the expansion is approximately $4,000,000 of which the Company's share will be $1,000,000. Upon completion, the facility will be sold at cost to a bank's leasing subsidiary which will lease the facility back to the Company and its partners on a long term basis. The lease obligation will be capitalized for accounting purposes by the Company.

To finance the purchase and expansion of the plant the Company obtained a bank loan bearing interest at a bank's prime rate plus 1% on behalf of itself and its partners. At December 31, 1982 the loan, including capitalized interest, amounted to $3,133,448 and is included in long term debt (see Note 6). The Company's share of the loan is $946,918, of which $67,437 represents capitalized interest. The balance of the loan is recoverable from the Company's partners and is included in long term receivables. When the facility is sold to the bank's leasing subsidiary, the loan will be fully repaid and the Company will enter into a long term lease agreement on behalf of itself and its partners. The lease obligation and the receivable from partners will be repaid out of production from the facility.

6. Bank loans

Production bank loans bearing interest at rates from prime plus ½% to prime plus ¾%	$ 9,070,000
Gas plant bank loan bearing interest at a bank's prime rate plus 1% (see Note 5)	3,133,448
	$12,203,448

The demand production bank loans are secured by accounts receivable and oil and gas properties. These loans, as well as the lease obligation (see Note 5), 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 (including capital lease obligation) in each of the years 1983 to 1987 are: 1983 - $2,010,000; 1984 - $2,397,000; 1985 - $2,257,000; 1986 - $2,207,000; and 1987 - $3,322,000.

7. Change in accounting policy

During the year, the Company retroactively changed its method of calculating depreciation for plant and production equipment to the unit of production method from the declining balance method. The Company feels this method appropriately depreciates the assets over their useful lives and is consistent with the method used to deplete oil and gas properties.

As a result of this change, net income for 1981 increased by $182,394 ($.05 per share), net of deferred taxes of $80,263 to $798,397. Property, plant and equipment at December 31, 1981 increased from $21,722,643 to $22,050,237 and deferred income taxes decreased by $80,263. Had the Company not changed its policy, the net loss for 1982 would be $1,452,571 ($0.35 per share).

8. Share Capital

Authorized:
1,000,000 preferred shares, par value $10 per share
10,000,000 common shares without nominal or par value

	1982	1981
Issued:		
6,494,913 common shares (1981 - 3,625,729)	**$28,793,088**	$18,894,403

During 1982 the Company issued 2,869,184 common shares for the acquisition of Gulch Resources Ltd. (see Note 2) for an attributed value of $9,898,685. In addition, 1,166,300 common shares were reserved for conversion of the 11% Series A Convertible Subordinated Debentures (see Note 3).

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

a) In 1979 the Company issued 360,000 shares to be held in trust and released to senior management and others over five years depending upon defined growth of net assets. Annual rights to the shares are cumulative and at December 31, 1982 all the shares had been earned and 240,000 shares had been released.

b) Under the terms of other stock purchase plans, 169,000 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 $1,008,000 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 plan. The employees have pledged the shares of the Company held in trust for their account as security for these loans.

c) 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
195,000	3.25	June, 1987

9. Income taxes

Deferred income taxes differ from the calculated tax obtained by applying the Canadian corporate tax rate to the income (loss) for the year before income taxes. These differences are as follows:

	1982	1981
Calculated income tax recovery (expense) at 48.8%	**$755,485**	$(775,583)
Add (deduct) the income tax effect of:		
Crown charges disallowed	**(197,290)**	(115,686)
Federal resource allowance	**20,188**	98,046
Tax benefit of portion of loss carry forward not recognized	**(395,215)**	
Earnings from United States subsidiaries with lower effective tax rates	**56,233**	60,996
Depletion - excess of tax basis over accounting basis of Gulch assets	**159,039**	
- excess of accounting basis over tax basis	**(84,943)**	(86,421)
Investment tax credit	**10,909**	33,274
Other - net	**(14,825)**	(5,539)
Income tax recovery (expense)	**$309,581**	$(790,913)

The Company has non-capital tax losses available for carry forward of approximately $1,480,000. These losses expire as follows: 1984 $200,000, and 1987 $1,280,000. 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 $1,000,000. 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.

10. Financial information for geographical business segments

	Canada	United States	Total
1982			
Revenues	$ 1,693,662	$ 1,225,594	$ 2,919,256
Income (loss) before income taxes	$ (1,694,642)	$ 146,518	$ (1,548,124)
Identifiable assets	$ 38,338,901	$19,152,885	$ 57,491,786
1981			
Revenues	$ 2,325,940	$ 1,750,085	$ 4,076,025
Income before income taxes	$ 460,565	$ 1,128,745	$ 1,589,310
Identifiable assets	$ 26,894,245	$ 6,770,473	$ 33,664,718

11. Remuneration of directors and senior officers

The aggregate direct and indirect remuneration paid by the Company to directors and senior officers for the year ended December 31, 1982 was $434,888, including $6,900 paid to directors as directors' fees (1981 - $365,260 and $15,000 respectively).

12. Comparative figures

Certain 1981 amounts have been reclassified in order to conform to the presentation adopted in the current year.

Shareholders' Information

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Cameron G. Berry – Calgary
Richard A. N. Bonnycastle – Calgary
Edward R. R. Carruthers – Calgary
Bernard M. Churchill – Toronto
G. Ramon Hugo – Calgary
C. Richard Major – Toronto

Officers
Cameron G. Berry – President
Thomas P. Howard – Vice President, Finance & Administration, Treasurer
Ray C. Huffman – Vice President, Land
Werner Klug – Vice President, Exploration
Harold P. Thornton – Vice President, Operations
Edward R. R. Carruthers – Secretary
Pamela S. Betts – Assistant Secretary

Legal Counsel – Canada
Conrad, Bloomenthal, Carruthers
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	1980		1981		1982	
	High	Low	High	Low	High	Low
First Quarter	$ 7.75	$ 5.75	$ 9.88	$ 8.00	$ 4.90	$ 2.50
Second Quarter	$ 8.25	$ 5.38	$ 8.38	$ 7.00	$ 3.50	$ 2.70
Third Quarter	$10.50	$ 7.63	$ 8.00	$ 4.30	$ 3.20	$ 2.30
Fourth Quarter	$10.50	$ 8.25	$ 5.25	$ 4.00	$ 3.60	$ 2.70
Annual Volume	1,412,651		736,062		901,799	

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