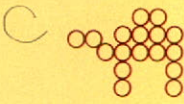


Camel Oil & Gas Ltd. 1980 Annual Report

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Camel Oil & Gas Ltd.

Financial Highlights

Year Ending
December 31, 1980

Total Revenue	\$ 1,346,873
Net Income	\$ 345,796
Net Income Per Share	\$.11
Cash Flow	\$ 647,072
Cash Flow Per Share20
Working Capital	\$ 3,696,487
Shareholders Equity	\$18,903,970
Shareholders Equity Per Share	\$ 5.23
Total Assets (Book Value)	\$20,004,171
Common Shares Outstanding	3,612,729
Number of Registered Shareholders	1,210
Annual Share Volume	2,232,600

Operating Highlights

Exploration & Development Expenditures

Canada (Camel & Camel managed joint ventures)	\$ 5,472,745
United States (Camel & Camel managed joint ventures)	\$ 4,736,919

Drilling Activity

Gross wells drilled – Canada	22
Gross wells drilled – United States	17
Gross wells successful – Canada	15
Gross wells successful – United States	5

As at March 1, 1981

Net Working Interest Reserves (Proven & Probable)

Natural Gas (MMCF) (Camel & Camel managed joint ventures)	34,400
Crude Oil & Liquids (Barrels) (Camel & Camel managed joint ventures)	372,672

Land

Canada – Gross Acres	282,095
United States – Gross Acres	185,223



L-R
Harold P. Thornton, Vice
President Operations,
Cameron G. Berry, President,
Ray C. Huffman, Vice
President Land, Werner
Klug, Vice President
Exploration

Report to the Shareholders

It gives me great satisfaction to present the first annual report of Camel Oil & Gas Ltd. The year 1980 has been a period of vigorous growth in which the future development and direction of your Company has been established.

The success of any oil and gas exploration company depends upon experienced, qualified and dedicated people. Considerable effort was devoted to this end during our first year and I am confident in reporting that we have attracted people of this calibre. During the year, Mr. Harold P. Thornton, Mr. Werner Klug and Mr. Ray C. Huffman, were appointed vice presidents of operations, exploration and land, respectively. All three officers bring a number of years of experience and industry skills to the Company. The synergy of this team, in conjunction with our staff is producing the anticipated success.

We have established a continuing relationship with StraGo Associates of Houston, Texas, a private company providing your Company with

direct involvement in many exploration ventures in the Gulf Coast embayment, from Texas through Alabama. In late 1980, we also entered into a joint exploration venture based in Denver, Colorado which will increase our exploration opportunities in the western mid-continent region of the United States.

Through the sale of treasury shares the Company netted more than \$8,421,000 of operating capital from incorporation to December 31, 1980. This was accomplished through the initial issue of 1,200,000 shares and a subsequent successful private placement of 250,000 shares at \$9.45 per share.

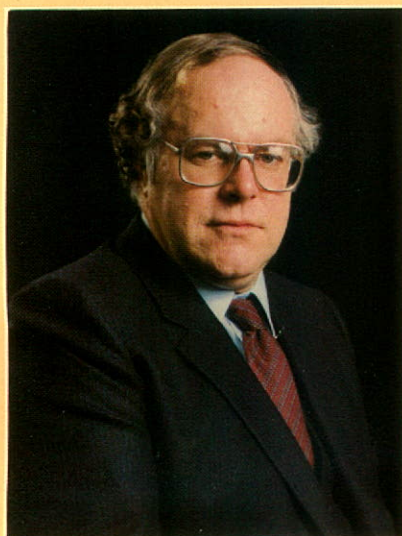
The Company remains in an excellent position to seek additional financing, as required, and to maintain capital growth potential for the shareholders. A recent decision on a new financing proposal should provide Camel with sufficient working capital to maintain and increase our level of activity in future years.



From its inception in December, 1979 to its fiscal year end, the Company participated in the drilling of 39 wells in Canada and the United States. Of this total 20 have been completed as potential gas and oil wells for overall success ratios of 68 percent in Canada and 29 percent in the United States. Drilling activity has increased considerably since the year end. A number of the projects formulated and committed to during the past year could not be drilled until the current winter season. At the time of writing 23 out of 32 wells drilled since year end have been completed as oil or gas wells with 3 currently drilling. Management expects this level of activity to increase throughout the coming year.

The Company has funded approximately 75 percent of its 1980 exploration program through Joint Venture Drilling Funds. In 1980 over \$14,500,000 was raised through these vehicles. Approximately 35 percent of these funds were dedicated to U.S. exploration with the balance directed to Canada. Camel intends to maintain its current philosophy of investing its corporate funds along with the Joint Venture funds in all exploration and development activity. Through this format the Company benefits from a carried interest, thus increasing its position in all successful prospects.

In the later part of the year the Company entered into new joint venture agreements with Ceres Resources Limited, of Toronto, under the terms of which Ceres dedicated \$10,000,000 to Camel's current exploration programs. Management expects an additional \$12,000,000 to \$15,000,000 will be obtained to fund its 1981-82 program.



Camel has obtained sales contracts in Canada for its varying working interests in over 100 BCF of natural gas reserves. Approximately 10 percent of these reserves are currently "on stream" with an additional 65 percent expected to be tied in to market in the second quarter of 1981. The balance of our current dedicated reserves should be on production in mid 1982. The effect of these gas contracts on future cash flow will be substantial in 1982. We have recently signed a gas contract for our Ft. Lynn, Arkansas reserves and are negotiating with distributors for the sale of our other U.S. reserves, a number of which will be generating cash flow by mid year.

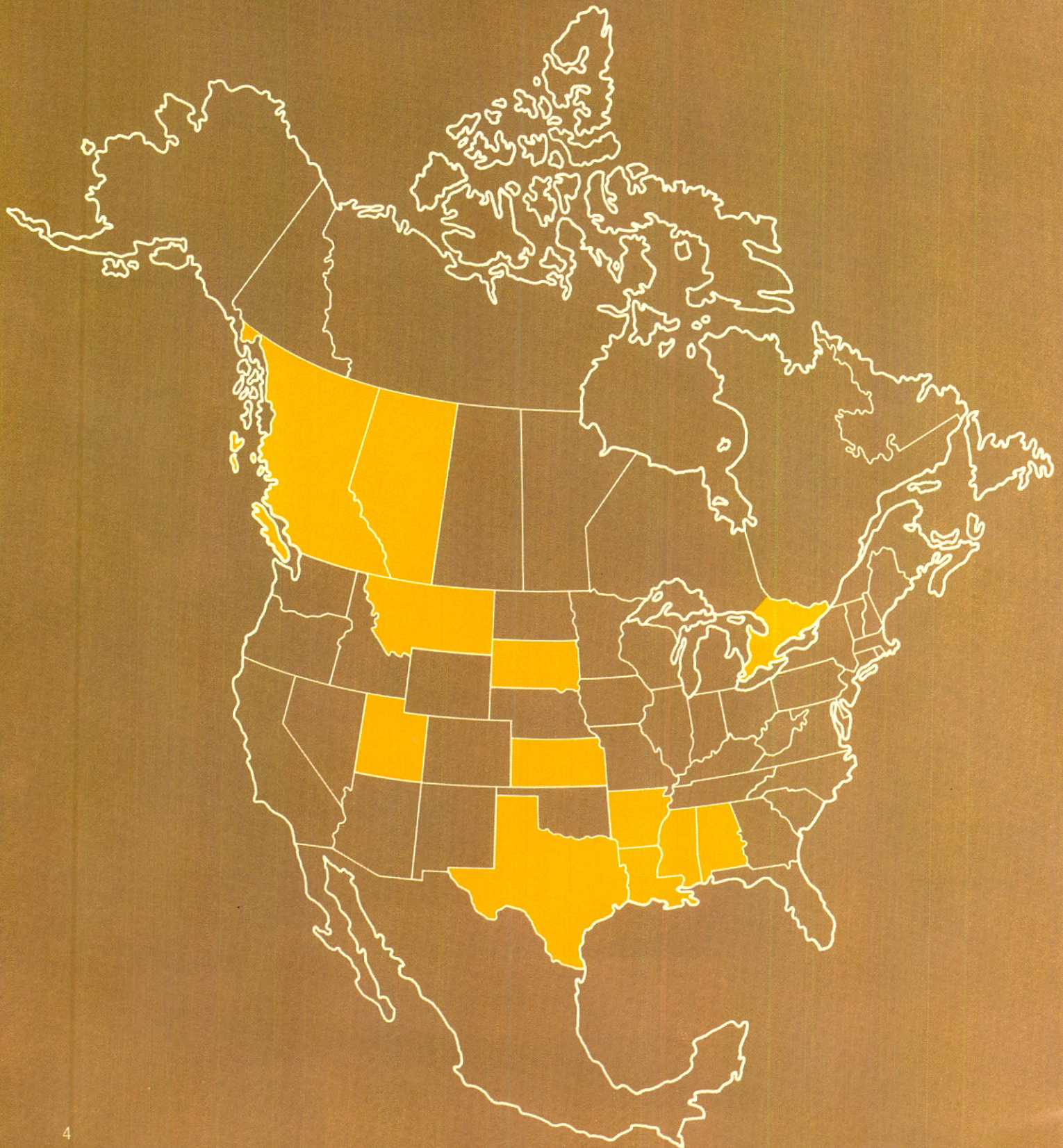
Oil purchase contracts have been obtained for five of our producing oil properties in Alberta and British Columbia. However, production rates in several cases are being restricted by government production allowances.

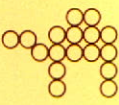
As shareholders in a Canadian resource company, I am sure you are aware of the implications of the recently introduced National Energy Program. As a Canadian, I laud the basic principles of self-sufficiency and Canadianization. However, I feel the proposed methods of implementation may have an adverse effect on those objectives. Substantial product price disparity obligates us to explore in the United States; not solely for diversity of opportunity, but because much higher cash flow returns can be achieved sooner than in Canada. Prices in Canada must be escalated at a much faster rate than proposed, in order to provide additional incentives for energy risk investments. Canadian ownership determination factors for purposes of the Canadian Ownership Ratio (C.O.R.) is potentially onerous, as significant participation by foreign equity investors in Canadian directed and managed companies is precluded. I believe that foreign equity capital is required, and in our national interest, as long as majority control and management of resource companies remains in Canada. Hopefully, realistic public expression by concerned Canadians will result in modification of these proposed policies.

Cameron Berry

Cameron G. Berry, President

Exploration Areas in North America





Exploration Summary

Petroleum and Natural Gas Lease Holdings as of December 31, 1980:

<u>AREA</u>	<u>Gross</u>	<u>Net</u>
Western Canada	72 133 ha (180,333 acres)	34 340 ha (85,851 acres)
Ontario	20 430 ha (51,074 acres)	2 043 ha (5,107 acres)
TOTAL CANADA	92 563 ha (231,407 acres)	36 383 ha (90,958 acres)
Gulf Coast	26 485 ha (66,212 acres)	2 317 ha (5,793 acres)
Other U.S.A.	40 879 ha (102,197 acres)	1 771 ha (4,428 acres)
TOTAL U.S.A.	67 364 ha (168,409 acres)	4 088 ha (10,221 acres)
TOTAL HOLDINGS	159 927 ha (399,816 acres)	40 471 ha (101,179 acres)

Footage Drilled:

To Year End

Canada	160,103' (48 797 m)
U.S.A.	149,392' (45 532 m)

Subsequent To Year End

Canada	75,407' (22 983 m)
U.S.A.	44,864' (13 674 m)

Total Number of Potential Wells in Which Camel Has an Interest:

To Year End

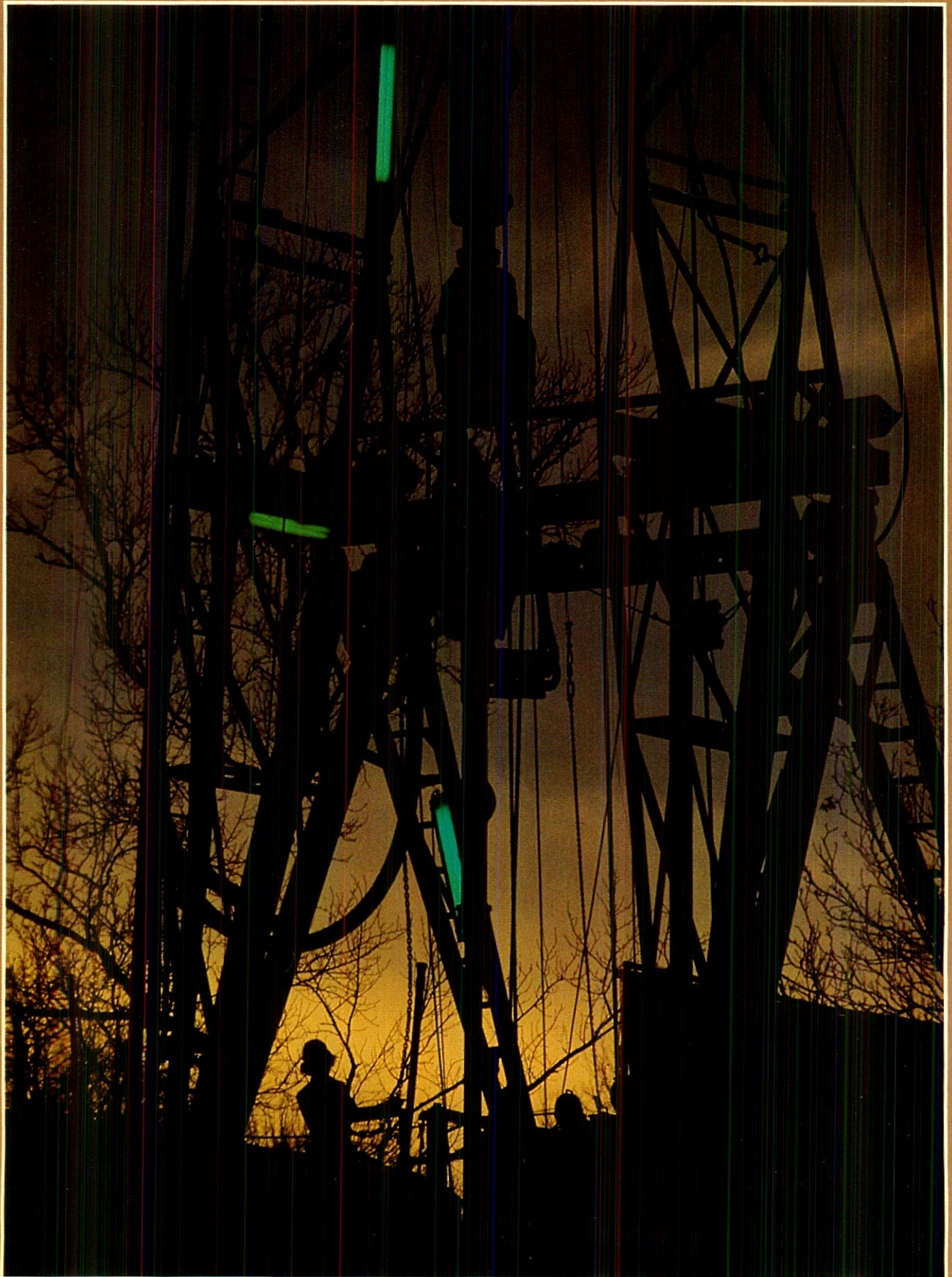
Canada	43 Gas 6 Oil
U.S.A.	5 Gas

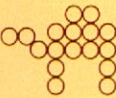
Subsequent to Year End

Canada	8 Gas 4 Oil
U.S.A.	8 Gas 1 Dual Gas & Oil



Claudia Gishler Geologist - Ontario District
 Audrey Good - Receptionist
 Pamela S. Betts - Assistant Corporate Secretary
 Gordon Saunders - Drilling Supervisor





Exploration & Operations

United States

During 1980, the Company, through its wholly owned subsidiary Camel Oil & Gas, Inc. established its first U.S. Exploration Joint Venture program. The Company and the joint venture committed to participate in 43 prospects in 9 states. At year end 17 wells had been drilled resulting in the Company owning varying working interests in 5 shut-in gas wells. Two of these wells are expected to be on production by mid-1981. During January and February 1981, 8 additional wells have been completed as potential gas wells, one as a dual oil and gas well, and 3 were abandoned. Through its activities, Camel currently holds varying interest in 68 490 gross hectares (171,225 acres).

The Company plans to continue to increase its U.S. activity during 1981 and anticipates spending over \$17,000,000 (Cdn.) of corporate and joint venture funding toward this end. Through association with StraGo Associates of Houston, Texas and through a new joint venture arrangement established in Denver, Colorado, the Company plans to participate in a mix of high and low risk projects, several of which are committed. Follow up development drilling to the discoveries at Fort Lynn, and N.E. Schuler, Arkansas, Reddell, Louisiana and Brushy Creek, Texas is expected to add considerable value to the Company's reserve base. Production from the aforementioned Gulf Coast prospects as well as from the Bredette oil discovery in Montana will commence in 1981, thereby increasing the company's cash flow.

Camel has also been successful in acquiring a working interest in two large shallow gas prospects. One, the Harlem project in Montana, involves approximately 36 400 hectares (91,000 acres) while the second in South Dakota comprises over 36 000 hectares (90,000 acres). Exploration drilling has commenced on both these programs and management anticipates being able to develop significant low risk gas reserves over the next year and a half.

Excellent pricing for hydrocarbon production, through deregulation, and the relative ease of marketing continues to enhance the United States as an area for exploration.

On the following page, are details on three of the prospects on which the Company plans initial exploratory drilling and development drilling during the current year.



*Ponexo J.W. Mills #1,
Brushy Creek, Texas*

*Richard K. Strahan and L.M. (Bud) Goza,
Partners - StraGo Associates, Houston*

Brushy Creek, Anderson County, Texas

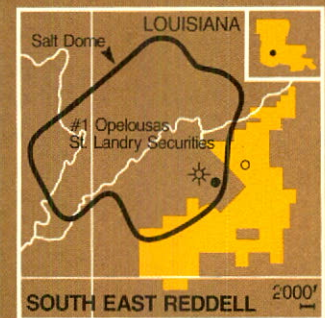
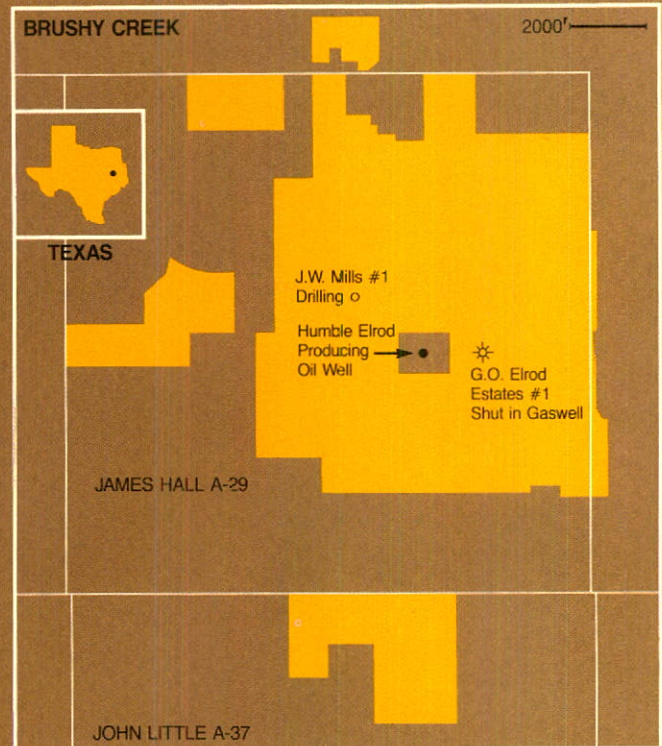
Camel and the joint venture acquired a 37.5 percent interest in 440 hectares (1,100 acres) of leases. By participating in further adjacent farms the company and industry partners will earn interests in additional lands. The initial exploratory test, the G.O. Elrod Estate #1 was drilled to a depth of 10,400 feet, and encountered 61 feet of Rodessa gas and condensate pay. A second well on this prospect, the J.W. Mills #1 is currently drilling to a projected depth of 12,500 feet in the Travis Peak formation and has already been logged and cased through the Rodessa formation with 57 feet of gas and condensate pay. Gross reserves of 20 BCF and 800,000 bbls of condensate are estimated to date for this prospect. A third development well involving farm acreage is planned, and will be drilled in the second quarter of 1981. Gas pipelines are located in close proximity to this prospect and negotiations for the sale of the reserves are currently underway.

Chrysler, Monroe and Baldwin Counties, Alabama

Camel Oil & Gas, Inc. and the Joint Venture have acquired an interest in 1776.4 hectares (4,441 acres) over this high potential oil prospect, on the very active and productive South Alabama Smackover/Norphlet trend. The Company and industry partners plan to drill a 15,000 foot Smackover/Norphlet test to evaluate this well controlled seismic structure. The Company's lease holdings cover the entire prospect as delineated by seismic.

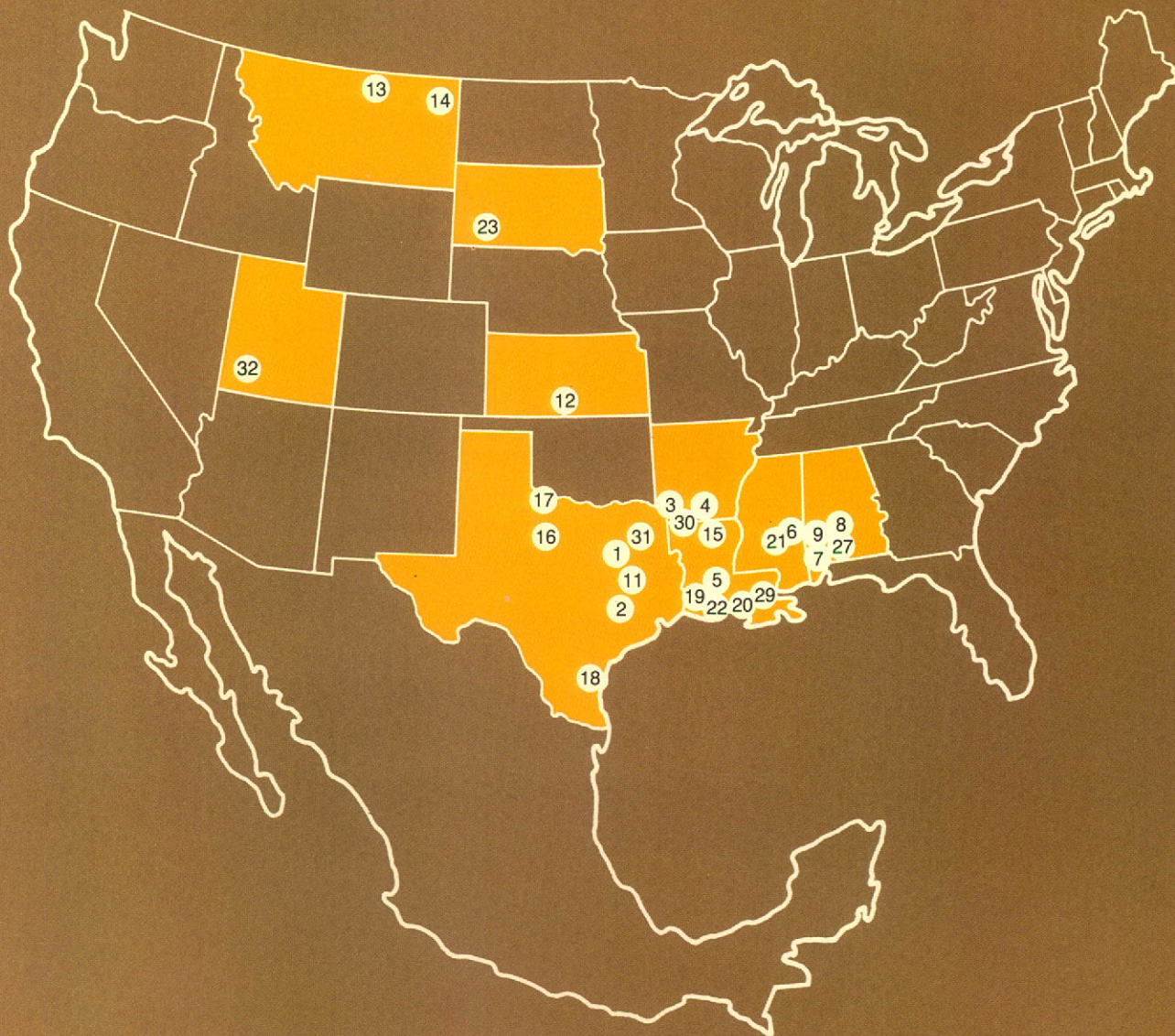
South East Reddell, Evangeline Parish, Louisiana

This prospect, which is geologically similar to several other Tertiary prospects the company has committed to drill in 1981, was recently drilled, resulting in a Wilcox (Eocene) gas and condensate discovery. The well, drilled to 14,465 feet was located on a 1468 hectare block (3,670 acres) in which Camel and the joint venture hold a 25 percent interest. Once productive rates have been established additional development wells will be drilled to further delineate the geological concept forming the basis of this prospect.

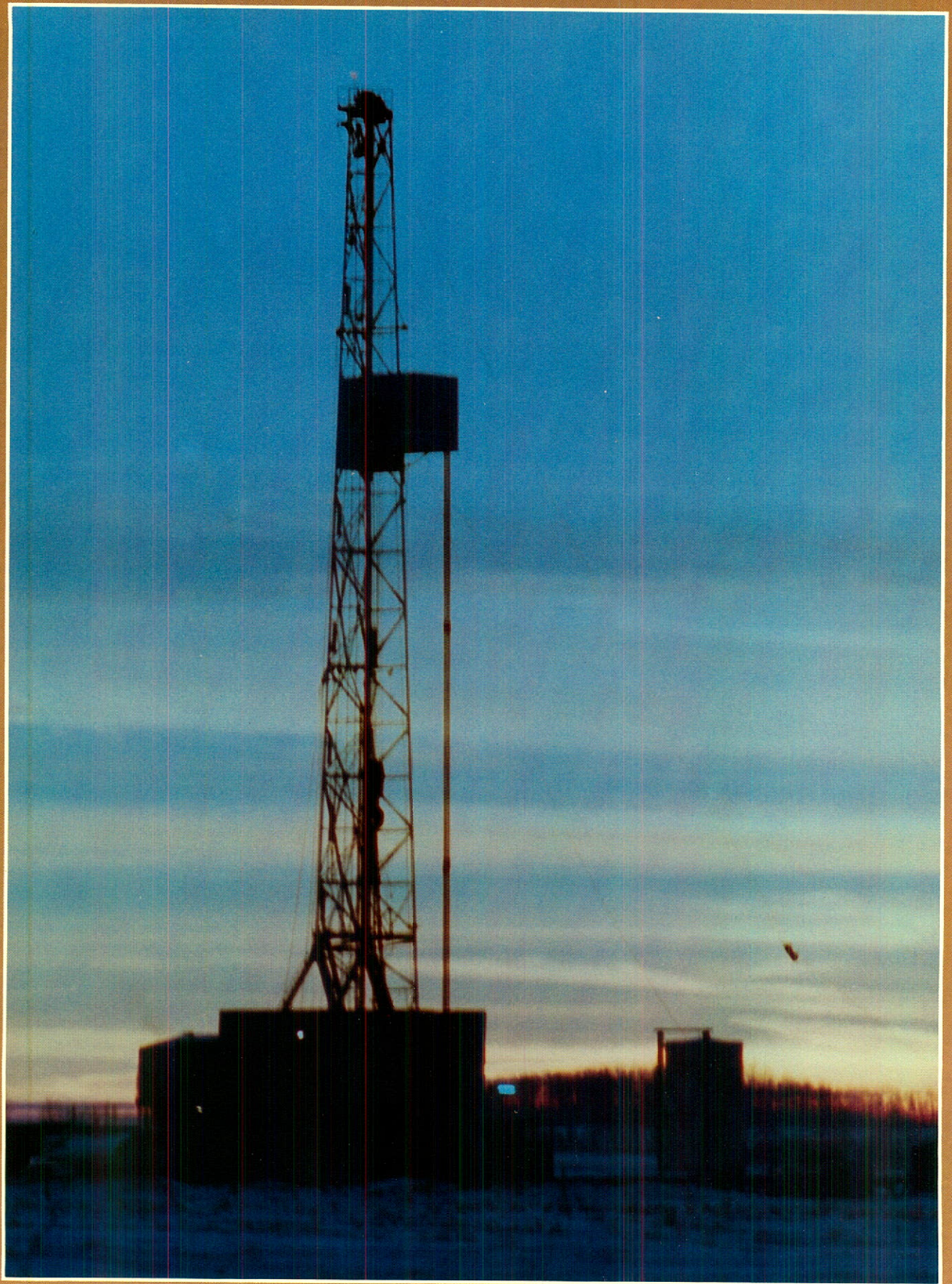


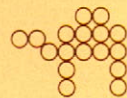
Ponexo G.O. Elrod Estate #1, Brushy Creek, Texas

U.S.A. Exploration Areas



- | | |
|----------------------|---|
| 1. WISE | 16. SOUTH RULE |
| 2. MADISONVILLE | 17. SOUTH GOODLETT |
| 3. FT. LYNN | 18. SINTON/O BOYLE |
| 4. CAIRO | 19. WEST CHALKLEY |
| 5. REDDELL | 20. FAUSSE POINT |
| 6. WATTS CREEK | 21. TALLAHALA |
| 7. CHUNCHULA | 22. WEST GUEYDAN |
| 8. WALKER SPRINGS | 23. WALL |
| 9. COPELAND | 27. TODDTOWN/VOCATION/HOMEWOOD/CHRYSLER/BLACKSHER |
| 11. BRUSHY CREEK | 29. PLATTENVILLE/CHURCH SPUR/NAPOLEONVILLE |
| 12. KANSAS | 30. N.W. BRADLEY (RED RIVER) |
| 13. NORTH HARLEM | 31. PLEASANT GROVE |
| 14. SOUTH BREDETTE | 32. TULE VALLEY |
| 15. SOUTH DOWNSVILLE | |





Exploration & Operations

Canada

Camel Oil & Gas Ltd. commenced an aggressive exploration program in Western Canada and Ontario during 1980. As of year end, the Company had participated in the drilling of 22 gross wells in Western Canada which resulted in five oil wells and ten natural gas wells for a success rate of 68 percent. To the end of February 1981, the Company participated in an additional 18 wells of which 12 have been completed as oil and gas wells. Much of Camel's acreage was acquired through an aggressive farmin policy along with the outright purchase of leases. The Company intends to actively pursue this land strategy during 1981 and anticipates that over \$16,000,000 of corporate and joint venture capital will be spent during the current year. In this regard, the Company has recently embarked on an initial five well commitment in the Whitecourt area of Alberta which, if successful, would greatly enhance the Company's reserves.

During 1980 Camel and the joint venture also acquired an interest in some 20 430 hectares (51,074 acres) in the pinnacle reef play of southwestern Ontario. As operator of this project, Camel is currently evaluating several hundred miles of seismic data and expects to commence the drilling of a number of exploratory wells.

Operations during 1980 in Ontario resulted in the completion of one oil well which is currently on production.

In the past year the Company was involved for the first time in a new deep basin exploration project, adjacent to the foothills in southern Alberta. This program to date, has resulted in the drilling and completion of two 12,000 foot gas wells, along with an interest in 9 051 hectares (22,628 acres).

A significant increase in cash flow will be effected in 1981 as the Company's interest in the South Beaverhill Lake - Joarcam area comes on stream in the second quarter of 1981. Natural gas production from wells in the Killam North Pool increased considerably during the year and further development drilling is planned in 1981. Some revenue was achieved from our new 1980 oil discoveries and this is expected to increase with subsequent development of these pools.

Camel intends to take full advantage of the Petroleum Incentive Program grants during 1981 and in future years. Management is confident that these grants will result in reduced net finding costs and provide an attractive environment for the raising of joint venture exploration funds.

Highlights of the past year's activity in several prospects appear on the following pages.

Exploration Group

L-R - Werner Klug, V.P. Exploration, Brian Watts, Geologist, Stan Johnston, Geologist

Operations Group

L-R - Marcia Bain, Senior Secretary, Harold P. Thornton, V.P. Operations, Michelle Gallant, Secretary



Roll'n Rig #23 under contract to Camel Oil & Gas Ltd., drilling in the Leduc Area

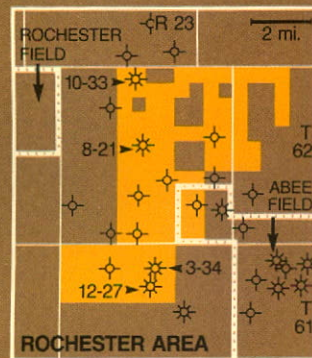
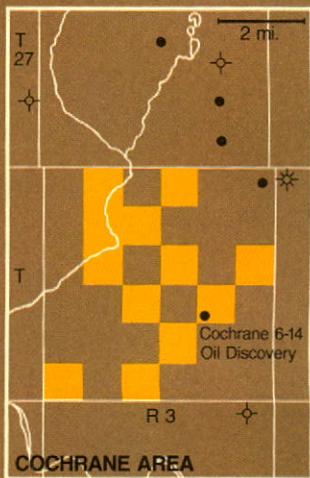
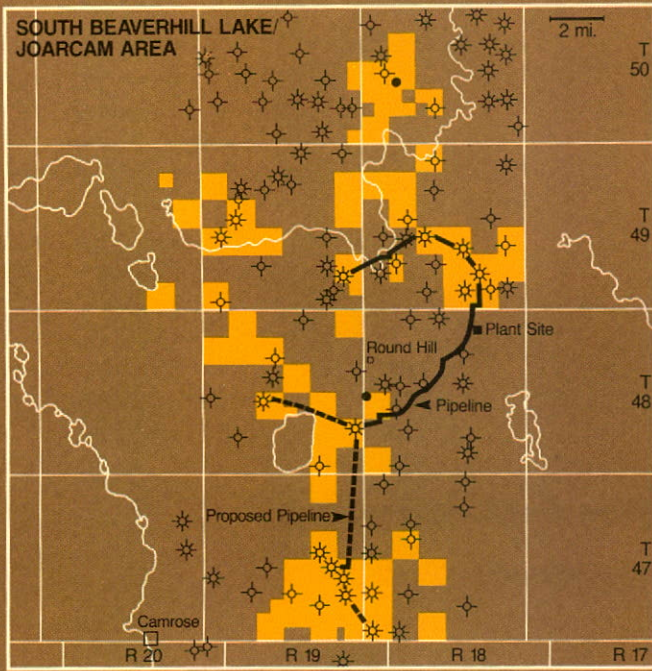
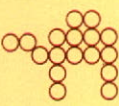
Canadian Exploration Areas



SOUTH WESTERN ONTARIO

1. BRUCE
2. EDMONTON EAST
3. SOUTH BEAVERHILL LAKE - JOARCAM
4. KILLAM
5. PROVOST
6. SOUTH REDWATER
7. SEDALIA
8. THOMPSON LAKE
9. SOUTH EDMONTON
10. ARMISIE
11. CARSON LAKE
12. CARSON LAKE SOUTH
13. CLARESHOLM
14. COCHRANE
15. CROSSFIELD
16. HOTCHKISS
17. KNELLER
18. MAJEAU
19. MILK RIVER
20. SPRINGBURN
21. STEEN RIVER
22. SWAN HILLS
23. VERDIGRIS
24. WHITECOURT
25. YOUNGSTOWN
26. WEST STODDART
27. YO YO
28. MEEKWAP
29. COMPEER
30. SLAVE
31. RAINBOW
32. ROCHESTER





South Beaverhill Lake/Joarcam Area, Alberta

Camel holds a varying working interest in 15 536 hectares (38,840 acres) and in 16 gas wells in the South Beaverhill Lake/Joarcam area, south east of Edmonton. These wells are all within an area gas contract. Pipeline and compressor facilities are currently being constructed in order to place these reserves on stream by May 1981. The plant design capacity is for a maximum of 10,000 Mcf/d, and Camel's share of production is expected to result in significant cash flow to the Company. Additional drilling and land acquisition during 1981 will further enhance our position in this area.

Cochrane Area, Alberta

The Company and the Joint Venture participated in the drilling of the 6-14 oil well and earned a 25 percent working interest in the test well spacing unit and a 12.5 percent interest in the remainder of a 3 084 hectare (7,711 acre) farm. The well was drilled to a total depth of 2 896 m resulting in a new oil discovery. The well is currently being production tested, and the Company and its industry partners plan to drill additional wells on the earned acreage in 1981. A significant increase in the Company's oil reserves is expected when this new discovery is fully exploited.

Rochester Area, Alberta

Camel, as the operator, recently drilled four wells on a 7 839 hectare (19,598 acre) farm block in the Rochester-Abee area north of Edmonton. All of these wells were completed and cased as potential natural gas wells, and are currently awaiting further evaluation. The Company and the Joint Venture earned a 50 percent working interest in the initial spacing units and will retain a 30 percent interest in the balance of the lands to be retained. The lands are located adjacent to a major gas pipeline system. An industrial gas purchase contract has been recently negotiated, and the Company expects to place these initial wells, and further development wells, on production in 1982.

Land Group - Grace Palmer - Lease Administrator,
Judith Sparrow - Secretary Ray C. Huffman - V.P. Land

1980 Financial Review



Financial and Accounting Group

L-R - Lou Harpur, Accounting Supervisor, Karolyn Knight, Junior Accountant, G. Ross Amos, Financial Consultant, Darlene Durbin, Secretary

From the date of incorporation until December 31, 1980, the Company has netted over \$8,421,000 in cash through the sale of treasury shares. A new corporate financing proposal which will add substantially to the working capital of the company has been approved by the Directors. Plans are well underway to complete this convertible debenture financing in the second quarter of 1981.

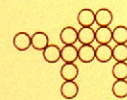
Camel has not incurred any long term debt as of year end. However, the Company intends to utilize debt to further corporate objectives, providing management is satisfied that future cash flows can readily service such debt.

The listing on both the Alberta and the Toronto Stock Exchanges has provided a base for increased interest in the common shares of Camel. There are approximately 1,210 shareholders with a total of 3,612,729 shares issued and outstanding at year end. Key employees hold approximately 14% of these shares under two share purchase plans. The release of the shares to the employees from one of these plans is dependent upon the growth of company assets over the next four years, providing a definite incentive for employee effort.

During 1980, the company expended approximately \$4,510,000 on exploration and development in both Canada and the United States. In addition to the corporate program, the company manages substantial drilling funds for private joint ventures. The total exploration expenditures for Camel and its managed funds totalled \$10,209,664 in the United States and Canada for the year.

Oil and gas revenues, while relatively small in 1980, are expected to increase considerably in 1981 and even further in 1982. A contract is now in place in Canada, and production in the United States will be on stream as soon as is practical.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards.



Camel Oil & Gas Ltd. (Incorporated as a public company under the laws of Alberta)

1980 Financial Statements

Consolidated Balance Sheet December 31, 1980

(with comparative figures at December 31, 1979)

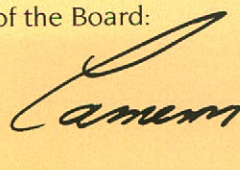
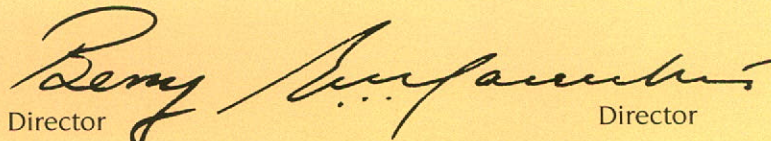
ASSETS

	<u>1980</u>	<u>1979</u>
CURRENT		
Cash and term deposits	\$ 2,306,539	\$ 5,934,213
Accounts receivable	<u>2,350,401</u>	<u>325,254</u>
	<u>4,656,940</u>	<u>6,259,467</u>
LONG TERM RECEIVABLE (Note 5)	<u>1,248,000</u>	—
INVESTMENTS in securities at cost	<u>178,360</u>	—
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 3)		
Oil and gas properties	13,191,206	9,412,613
Lease and well equipment	622,237	147,124
Furniture and fixtures	<u>287,191</u>	<u>27,282</u>
	<u>14,100,634</u>	<u>9,587,019</u>
Less accumulated depreciation and depletion	<u>179,763</u>	<u>2,761</u>
	<u>13,920,871</u>	<u>9,584,258</u>
	<u>\$20,004,171</u>	<u>\$15,843,725</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1980</u>	<u>1979</u>
CURRENT		
Accounts payable and accrued liabilities	\$ 960,453	\$ 934,077
DEFERRED REVENUE	<u>15,474</u>	<u>15,474</u>
DEFERRED INCOME TAXES	<u>124,274</u>	—
SHAREHOLDERS' EQUITY		
Share capital (Notes 4 and 5) -		
Authorized:		
1,000,000 preferred shares, par value \$10 per share		
10,000,000 common shares without nominal or par value		
Issued:		
3,612,729 common shares (1979 - 3,186,729)	18,785,593	15,121,593
Retained earnings (deficit)	<u>118,377</u>	<u>(227,419)</u>
	<u>18,903,970</u>	<u>14,894,174</u>
	<u>\$20,004,171</u>	<u>\$15,843,725</u>

On behalf of the Board:

Director Director

See accompanying notes

Camel Oil & Gas Ltd. (Incorporated as a public company under the laws of Alberta)

Consolidated Statement of Income Year Ended December 31, 1980

(with comparative figures for the period from incorporation on
July 16, 1979 to December 31, 1979)

	<u>1980</u>	<u>1979</u>
REVENUE		
Gas sales	\$ 120,912	\$ 78,359
Interest	622,481	26,898
Management fees	603,480	—
	<u>1,346,873</u>	<u>105,257</u>
EXPENSES		
Depreciation and depletion	177,002	2,761
General and administrative	637,331	90,547
Operating	62,470	11,794
	<u>876,803</u>	<u>105,102</u>
Income for the period before deferred income taxes and extraordinary item	470,070	155
DEFERRED INCOME TAXES	174,494	—
INCOME FOR THE PERIOD BEFORE EXTRAORDINARY ITEM . . .	295,576	155
EXTRAORDINARY ITEM		
Reduction of income taxes resulting from the application of prior year's loss	50,220	—
NET INCOME FOR THE PERIOD	<u>\$ 345,796</u>	<u>\$ 155</u>
Net income per share -		
Income before extraordinary item	\$ 0.09	—
Extraordinary item	0.02	—
NET INCOME PER SHARE FOR THE PERIOD	<u>\$ 0.11</u>	<u>—</u>

See accompanying notes

Consolidated Statement of Retained Earnings Year Ended December 31, 1980

(with comparative figures for the period from incorporation on
July 16, 1979 to December 31, 1979)

	<u>1980</u>	<u>1979</u>
DEFICIT, BEGINNING OF PERIOD		
As previously reported	\$(419,746)	\$ —
Adjustment to full cost method (Note 2)	192,327	—
AS RESTATED	(227,419)	—
Net income for the period	345,796	155
Expenses of common share issue	—	(227,574)
RETAINED EARNINGS (DEFICIT) END OF PERIOD	<u>\$ 118,377</u>	<u>\$(227,419)</u>

See accompanying notes



Consolidated Statement of Changes in Financial Position Year Ended December 31, 1980

(with comparative figures for the period from incorporation on
July 16, 1979 to December 31, 1979)

	1980	1979
SOURCE OF FUNDS		
Operations -		
Income for the period before extraordinary item	\$ 295,576	\$ 155
Add items not requiring an outlay of funds -		
Depreciation and depletion	177,002	2,761
Deferred income taxes	174,494	-
Funds from operations	647,072	2,916
Issue of common shares	3,664,000	15,121,593
Deferred revenue	-	15,474
	4,311,072	15,139,983
USE OF FUNDS		
Additions to property, plant and equipment -		
Acquired for common shares	166,000	8,946,993
Other	4,347,615	640,026
Expenses of common share issue	-	227,574
Long term receivable	1,248,000	-
Investments	178,360	-
	5,939,975	9,814,593
Increase (decrease) in working capital	(1,628,903)	5,325,390
Working capital, beginning of period	5,325,390	-
Working capital, end of period	\$ 3,696,487	\$ 5,325,390

See accompanying notes

Notes to Consolidated Financial Statements December 31, 1980

I. Summary of significant accounting policies

a. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Camel Oil & Gas, Inc. and Camel Resource Ventures Ltd.

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 overhead related to exploration activities. These costs are depleted by the unit-of-production method based on estimated proven oil and gas reserves.

Lease and well equipment and 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 a foreign subsidiary 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, though not material, are included in the net income.

d. Joint interest operations

Substantially all of the Company's oil and gas exploration and production activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

e. Management services

The Company operates certain joint ventures and limited partnerships. In return for services rendered, the Company earns management fees or interests in properties held by the ventures or partnerships.

f. Income taxes

The Company follows the tax allocation basis of accounting for all timing differences between income reported in the accounts and taxable income.

2. Change in accounting policy

In 1980 the Company retroactively changed its method of accounting for oil and gas operations from the successful efforts method to the full cost method. As a result, the consolidated net income for the period ended December 31, 1979 increased by \$192,327 to \$155 and consolidated deficit at December 31, 1979 decreased by the same amount. The carrying value of oil and gas properties at December 31, 1979 increased from \$9,220,286 to \$9,412,613. Had the Company not changed its policy, 1980 net income would be \$13,541.

3. Income taxes

Included in property, plant and equipment is \$8,946,993 of interests in certain petroleum and natural gas properties, lease and well equipment and furniture and fixtures which were purchased in consideration for the issue of common shares in 1979. This transaction was structured in accordance with certain provisions of the Income Tax Act (Canada) resulting in a cost of the assets for tax purposes of \$1 for oil and gas properties, and undepreciated capital cost for tangible equipment.

4. Share capital

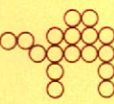
During 1980 the Company issued common shares as follows:

	Number of Shares	Amount
For cash pursuant to private placement	250,000	\$2,250,000
In full consideration of certain mineral rights held by officers	20,000	166,000
Share Purchase Plan #2	<u>156,000</u>	<u>1,248,000</u>
	<u>426,000</u>	<u>\$3,664,000</u>

5. Share purchase plans

Under the terms of the Key Employee Stock Purchase Plan 360,000 issued common shares are held in trust to be released to senior management and others over a period of up to five years dependent upon the defined growth of net assets. Annual rights to shares are cumulative over the term of the Plan. Shares held in trust under this plan may be repurchased at issue price by the Company if, at the conclusion of the term of the Plan, defined growth in net assets has not been achieved or the employee members have left the Company. At December 31, 1980 the members have the right to receive 120,000 shares under the plan.

Under the terms of the Key Employee Stock Purchase Plan #2, which was initiated in 1980, 156,000 common shares were issued for a consideration of \$1,248,000 and are held in trust to be issued to certain key employees as follows:



At any time between -

- September 22, 1981 and September 21, 1982 - up to 31,200 shares
- September 22, 1982 and September 21, 1983 - up to 62,400 shares
- September 22, 1983 and September 21, 1984 - up to 93,600 shares
- September 22, 1984 and September 21, 1987 - up to 156,000 shares

Shares held in trust under the plan may be repurchased at issue price by the Company if, at the conclusion of the term of the Plan, the employees have left the Company.

The Company has loaned certain key employees a total of \$1,248,000 to enable their participation in the Key Employee Stock Purchase Plan #2. These loans are non-interest bearing and are to be proportionately repaid when the employees 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.

6. Financial information for geographical business segments

	<u>1980</u>		
	<u>Canada</u>	<u>U.S.</u>	<u>Total</u>
Revenues	\$ 1,013,935	\$332,938	\$ 1,346,873
Income before deferred taxes & extraordinary items	\$ 144,229	\$325,841	\$ 470,070
Identifiable assets	\$17,168,476	\$470,070	\$20,004,171

United States operations in 1979 were not significant.

7. Remuneration of directors and senior officers

The aggregate direct remuneration paid by the Company to directors and senior officers for the year ended December 31, 1980 was \$273,597, including \$11,100 paid to directors as directors' fees (1979 - \$2,042 and \$2,042 respectively).

8. Commitments

Commencing January 1, 1980 the Company is committed to pay management fees of \$85,000 in the first year of a five year term to a management company controlled by a senior officer. In years thereafter, the management fee may be increased over a stated minimum annual amount of \$85,000.

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, 1980 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, 1980 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 accounting for oil and gas operations as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding period.

Calgary, Canada
March 16, 1980

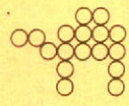
Clarkson Gordon
Chartered Accountants



Board of Directors

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

- * **Cameron G. Berry**, Calgary - Alberta
President, Camel Oil & Gas Ltd.
- Richard A. N. Bonnycastle**, Calgary - Alberta
Investor and Financial Consultant
- * **Edward R. R. Carruthers**, Calgary - Alberta
Partner, Blain Carruthers
- Bernard M. Churchill**, Toronto - Ontario
Urological Surgeon
- * **G. Ramon Hugo**, Calgary - Alberta
President, Gulch Resources Ltd.
- C. Richard Major**, Toronto - Ontario
Vice President
Toronto Investment Management Ltd.
- * Member, Executive Committee



Corporate Information

Head Office

1701, 300 - 5th Avenue S.W.
Calgary, Alberta T2P 3C4
Phone: (403) 264-0777

Ontario District Office

201, Queens Court
536 Queens Avenue,
London, Ontario N6B 1X8
Phone: (519) 432-7513

Directors

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 & Treasurer
Harold P. Thornton – V.P. Operations
Werner Klug – V.P. Exploration
Ray C. Huffman – V. P. Land
Edward R. R. Carruthers – Secretary
Pamela Sue Betts – Assistant Secretary

Transfer Agent and Registrar

The Canada Trust Company
Calgary, Toronto and Vancouver

Legal Counsel – Canada

Blain Carruthers
1030 - 4th Street S.W.
Calgary, Alberta T2R 0X3

Legal Counsel – U.S.A.

Bracewell and Patterson
2900 South Tower
Pennzoil Place
Houston, Texas 77002

Annual Meeting

The Annual Meeting will be held at 10 a.m. on
Wednesday, May 13th, 1981 in the Auditorium,
Bow Valley Square Three, 3rd Floor, 225 - 5th
Avenue S.W., T2P 3G6

Auditors

Clarkson Gordon
1300, 707 - 7th Ave. S.W.
Calgary, Alberta T2P 0Z2

Bankers

Bank of Montreal
400 - 5th Avenue S.W.
Calgary, Alberta T2P 0L6

Subsidiary Companies

Camel Oil & Gas, Inc.
Camel Resource Ventures Ltd.

Exchange Listing

Alberta Stock Exchange
Toronto Stock Exchange
Trading Symbol: CEG

