1982 ANNUAL REPORT

25 YEARS

OMEGA HYDROCARBONS LTD.

OMEGA
HYDROCARBONS LTD.

Contents

Company Profile

The Company was incorporated under the Companies Act of Alberta as Omega Natural Gas Co. Ltd. on September 4, 1958. By Certificate dated November 21, 1967, the name was changed to Omega Hydrocarbons Ltd. Present management assumed control in 1974.

During the years 1978 and 1979, the Company organized two Canadian Drilling Funds. In 1981, all except one of the units of the first fund were acquired by the Company for common shares.

During 1979, the Company successfully completed a public offering of 1,000,000 common shares at $6.10 per share.

In 1981, a Calgary based oil company made an unsuccessful takeover offer for the Company at $15 per share. During that year, a class of 10,000,000 preferred shares at $10 par value was created and the number of authorized common shares was increased to 20,000,000 from 5,000,000.

In 1982, the number of the Company's authorized common shares was increased to 60,000,000 from 20,000,000. On December 30, 1982, the common shares were split on a three-for-one basis increasing the number of shares outstanding to 13,815,879 as at December 31, 1982.

The Company's activities are primarily the exploration for and the development and production of crude oil and natural gas in western Canada with the largest single development at the present time being in the Waskada area of southwestern Manitoba.

Directors

T. Jack Hall, Calgary
Douglas S. Morgan, Calgary
G. Edward Warriner, Calgary
Dennis E. Hall, Calgary

Officers

President — T. Jack Hall
Vice President Exploration — John Henderson
Vice President Production — George E. Patey
Vice President Finance — John L. Maclagan
Secretary-Treasurer — Bonnie C. Hall-Staples

Head Office

Suite 630, 330 - 5th Avenue S.W.
Calgary, Alberta T2P 0L4

Auditors

Thorne Riddell
Chartered Accountants
1200 Bow Valley Square Two
205 - 5th Avenue S.W.
Calgary, Alberta T2P 2W4

Registrar

The Canada Trust Company
505 - 3rd Street S.W.
Calgary, Alberta T2P 3E6

Transfer Agents

The Canada Trust Company
505 - 3rd Street S.W.
Calgary, Alberta T2P 3E6

Solicitors

Howard, Mackie
700, 801 - 7th Avenue S.W.
Calgary, Alberta T2P 3S4

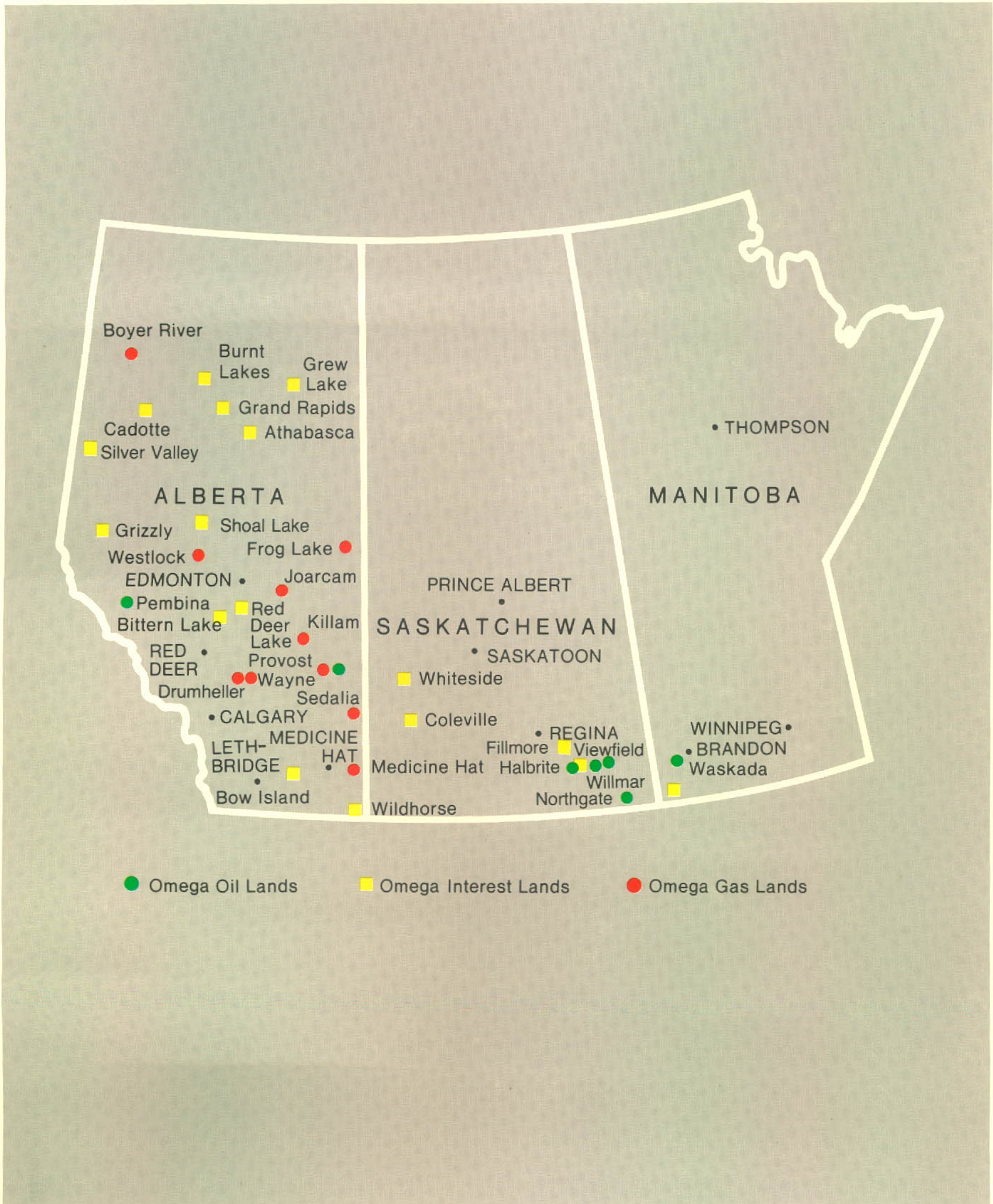
Main Bankers

The Toronto Dominion Bank
Two Calgary Place
340 - 5th Avenue S.W.
Calgary, Alberta T2P 2P6

Annual General Meeting

The Annual General Meeting of the Shareholders of Omega Hydrocarbons Ltd. will be held at The Westin Hotel (Britannia Room) at 4th Avenue and 3rd Street S.W., Calgary, Alberta on Thursday, the 2nd day of June, 1983 at 3:30 p.m. (local time).

HIGHLIGHTS



Boyer River
Burnt Lakes
Grew Lake
Grand Rapids
Cadotte
Athabasca
Silver Valley
ALBERTA
MANITOBA
THOMPSON
Grizzly
Shoal Lake
Westlock
Frog Lake
EDMONTON
Joarcam
PRINCE ALBERT
Pembina
Red Deer Lake
Killam
Bittern Lake
SASKATCHEWAN
RED DEER
Provost
SASKATOON
Wayne
Whiteside
Drumheller
Sedalia
CALGARY
Coleville
LETH-BRIDGE
MEDICINE HAT
REGINA
WINNIPEG
Fillmore
Viewfield
BRANDON
Medicine Hat
Halbrite
Waskada
Willmar
Bow Island
Northgate
Wildhorse
Omega Oil Lands
Omega Interest Lands
Omega Gas Lands

TO OUR SHAREHOLDERS:

T. Jack Hall, President

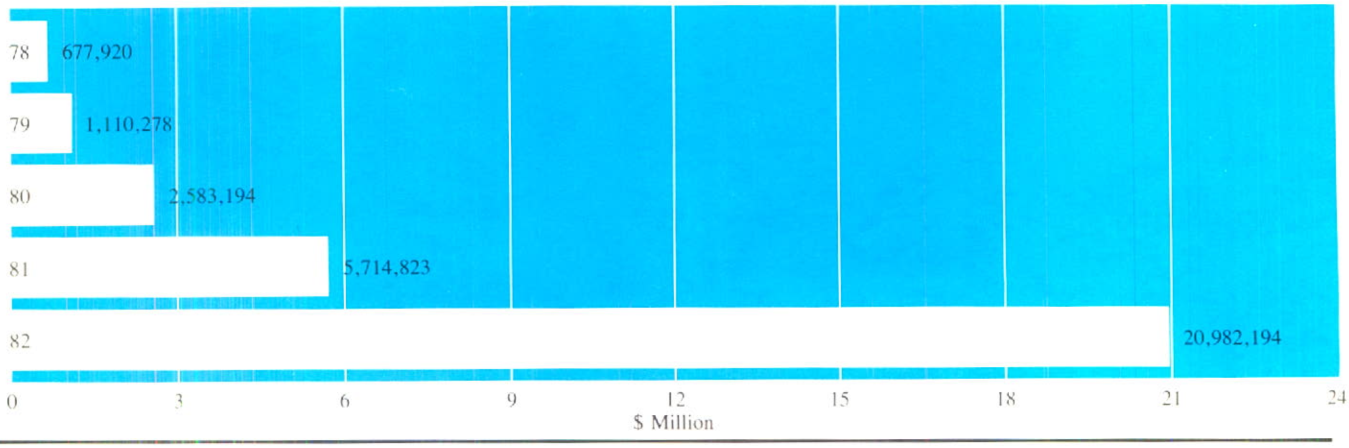
On behalf of the Board of Directors, I am pleased to report on the most exciting year in the Company's 25 year history. Omega has experienced significant improvements, both in the development of asset value and of a sound cash flow base, and in the continued achievements of a senior management group concerned with the expansion of our exploration and development activities in Canada and the United States.

Omega's net revenue increased to $21.0 million in 1982, up by 267% over the results of the previous year. Cash flow generated from operations amounted to $13.4 million (97¢ per share), 379% higher than that realized in 1981. Net earnings before and after provisions for corporate taxes were $11.6 million (84¢ per share) and $6.6 million (48¢ per share) respectively, increases of 486% and 538% over the previous year. Capital expenditures during the reporting period were $27.8 million before government incentive payments, 124% higher than in 1981. The Company's working capital deficiency was $9.0 million at the end of the year. Expected cash flow and available bank lines of credit are more than sufficient to manage such a deficiency and still carry out a very active capital expenditure program in the coming years.

At year-end, the Company's proved and probable net oil reserves totalled 22.2 million barrels, an increase of 139% from 9.3 million barrels at March 1, 1982. Proved and probable net gas reserves were 37.5 billion cubic feet, up only slightly from 36.8 billion cubic feet last March.

Omega participated in a total of 104 wells during 1982. Of these, 94 were drilled and completed as pumping oil wells in the Waskada field which is located in the southwestern corner of Manitoba. Ninety-one of the new Waskada wells were placed on production and a total of 109 wells were connected to a 67 mile gathering system during the year. At year-end, the Waskada wells were producing in the range of 2,700 barrels of oil per day. Peak

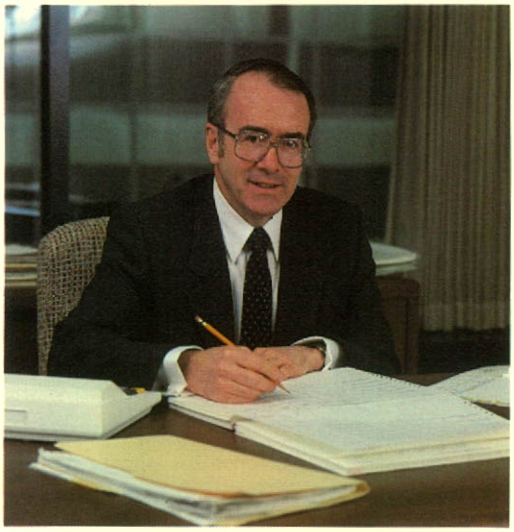
Revenue Sales



production following completion of the 1982 drilling program reached 3,300 barrels of oil per day early in March of 1983.

In keeping with Company practice of developing reserves as efficiently as possible, Omega has allocated the major portion of its budget to further exploration and development of the Waskada area. The Company will spend approximately two-thirds of its total drilling budget in Manitoba with the remaining one-third divided amongst Alberta, Saskatchewan and North Dakota.

In the early part of 1981, the Company initiated 2 pilot waterflood units in the Provost field of Alberta where it has interests in 41 oil wells producing from the Viking horizon. A full scale waterflood study has been under way for several months and early indications are that an expanded scheme of waterflood is economically attractive. The full scale report on this project is complete and it is intended that a recommendation to proceed will see the expansion fully operational by the first quarter of 1984.

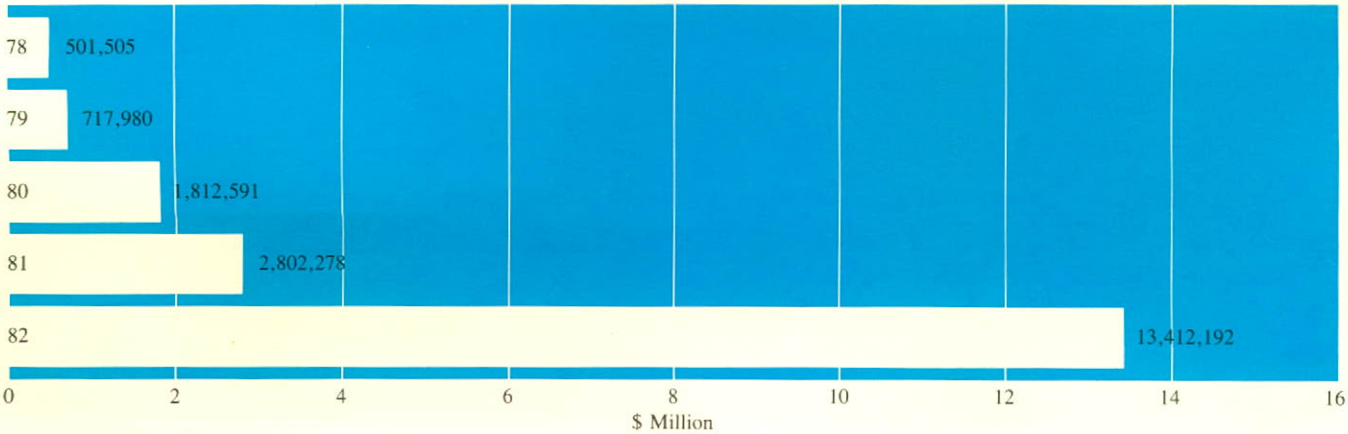


J. L. (Jack) Maclagan, Vice President Finance

During 1982, Omega initiated a 16 well unit and pilot waterflood scheme in the developed portion of the Spearfish oil pool at Waskada. The unit consists of 4 injection wells and 12 producing wells covering an area of 640 acres and is designed to accommodate a 9-spot injection pattern. Water injection was initiated on February 25, 1983. In addition to the waterflood pilot, Omega is currently investigating the viability of a solution gas conservation scheme along with a gas reinjection program.

Omega's substantial improvement in cash flow results from developments in the Waskada, Manitoba area, coupled with the new pricing provisions of the Federal and Provincial governments. The Company receives "new oil" prices for its Waskada production and a reduced provincial tax for the first two years of production from the majority of the wells. At year-end, Omega was receiving a netback of approximately $25 per barrel of oil. This

Cash Flow



John Henderson, Vice President Exploration

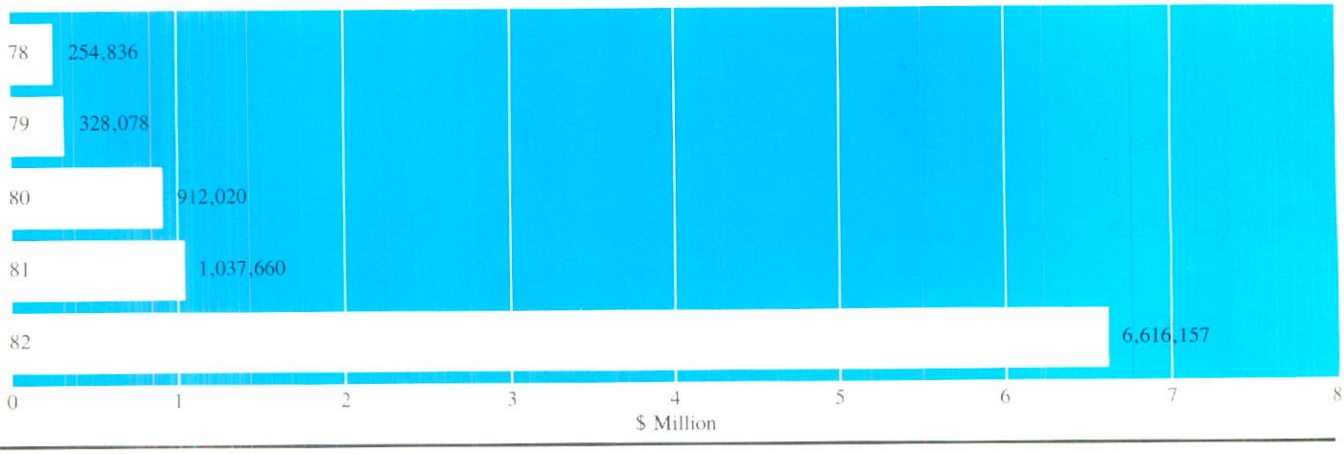
price is net after deducting freehold royalties (averaging between 12.5% and 15%), federal resource taxes, provincial tax and operating expense. It does not, however, provide for federal income taxes which are still being deferred because of the substantial outlays of funds that are required to bring oil and gas reserves to the production stage.

The Company has proven its ability to make considerable progress over the past several years. We are pleased with the exceptional rate of growth of revenue and reserves, evidenced by the five year statistical summary and graphical presentations shown on the following pages. This pattern of growth seems assured for at least the next two years, with oil and gas developments at Waskada, Manitoba and prospects in southeastern Saskatchewan and North Dakota already showing signs of success as well as the potential for enhanced production at Provost, Alberta. However, with recent indications of declining world oil prices and no clear view of future interest rates, your Company will have to keep a close eye on indebtedness which at year-end amounted to $18.4 million.

In response to the rapid growth and increased work load, your Directors have been instrumental in strengthening the management team. Mr. J. L. (Jack) Maclagan joined Omega in December, 1982 and has been subsequently appointed Vice President of Finance. Mr. R. F. (Dick) Emerson joined the Company in March, 1983 as Manager of Land. Mr. Maclagan and Mr. Emerson bring to Omega years of experience in their respective fields.

To accommodate Omega's entry into the United States where activities are currently under way, management incorporated Omega Oil & Gas, Inc., a new wholly owned American subsidiary. This company will function as the operational entity for all of our activities in the United States.

Net Earnings



On November 23, 1982, a Special General Meeting of the Shareholders authorized subdivision of the share capital of the Company by passing a Special Resolution dividing all of the common shares (both issued and unissued) of the Company on a three-for-one basis. The effective date of the split was December 30, 1982 and share certificates representing twice the number of common shares held by shareholders of record at that date were mailed in the early part of January, 1983. Management believes the subdivision will improve the liquidity of the market for the shares by making them available to a broader base of potential investors.

At this writing, the problems in the world oil market may suggest a gloomy future for the small independent segment of the Canadian industry. We believe, however, that this situation is only temporary. Omega should continue to prosper even though world oil prices fall into the range of $25 U.S. per barrel, a price which has frequently been mentioned in the media. Barring the unforeseen, Omega's production income should not be adversely affected by the recent decline in world oil prices in 1983, due to the pace of ongoing developments. Canadian natural gas sales have suffered as a result of a declining export market in the United States. This should not have a significant impact on Omega's 1983 revenue because of the relatively small portion of our overall revenues derived from that source.

We look optimistically toward the future in the belief that your Company will continue to reach higher goals, beginning with a more profitable 1983 and an ongoing strengthening of the asset base.

Bonnie C. Hall-Staples, Secretary-Treasurer

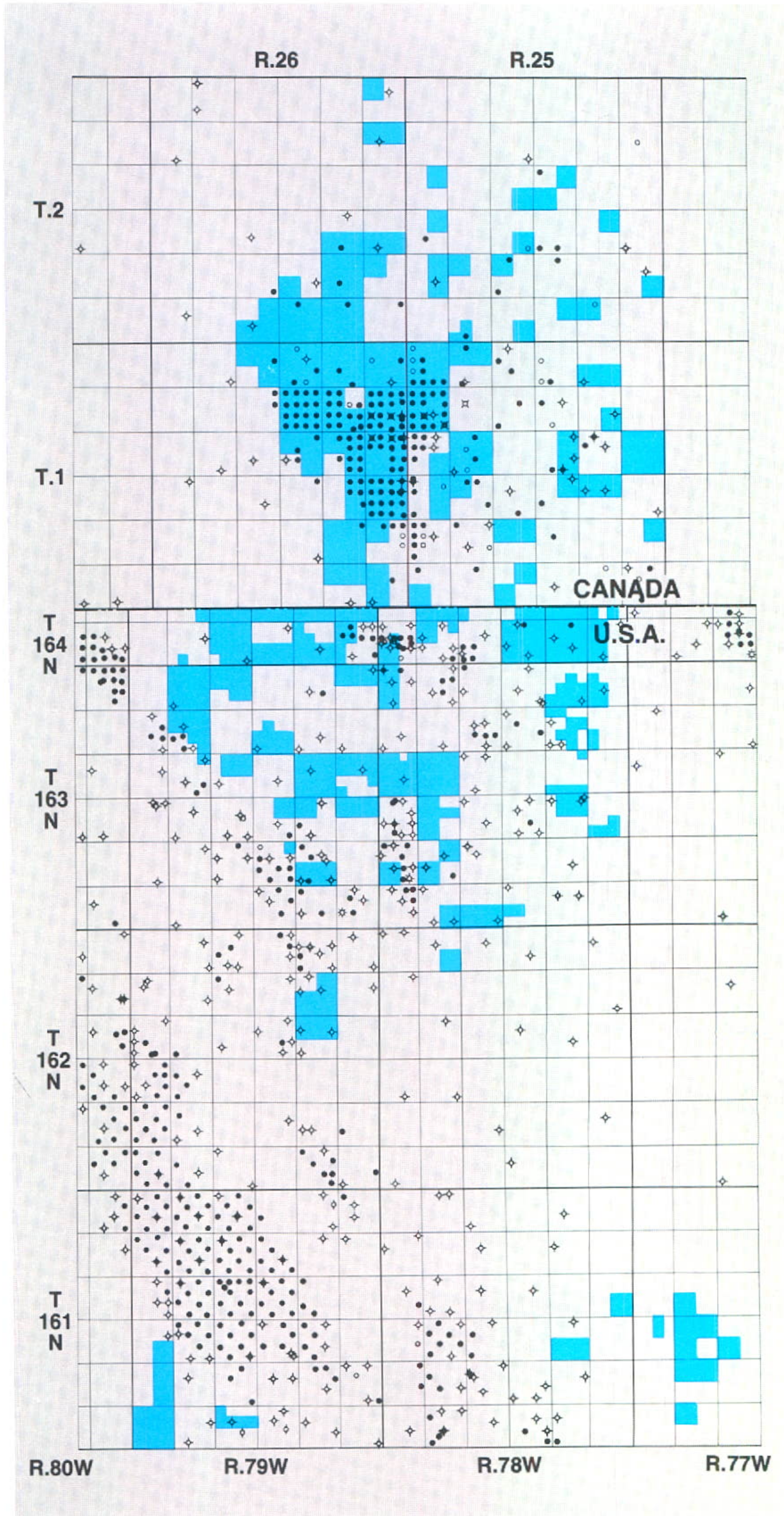
On behalf of the Board

T. J. Hall
President

April 29, 1983

Waskada

Installing Waskada gathering system



Pumping oil at Waskada

Waskada, Manitoba

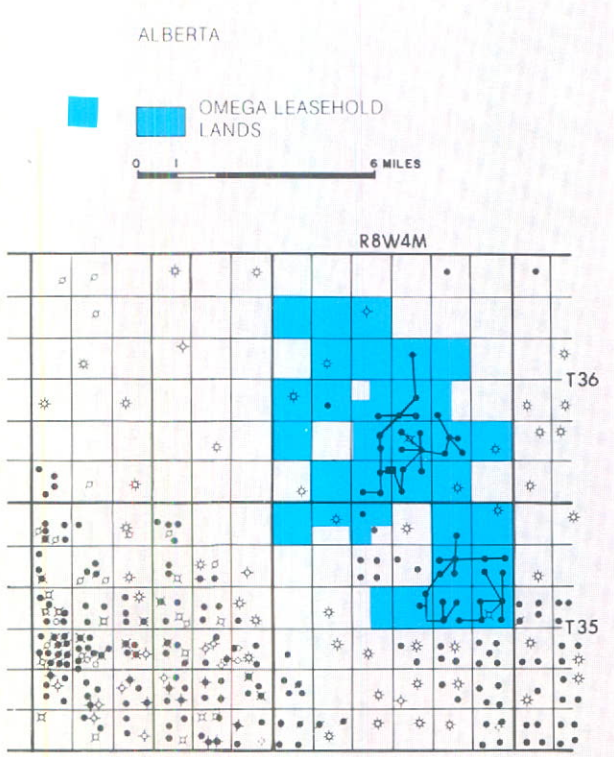
Omega's discovery of light gravity crude oil in the Spearfish zone at Waskada, Manitoba has proven to be a very significant source of revenue for the Company. A total of 94 wells (93.8 net to Omega) were drilled in this pool during 1982, all of which were either placed on production or awaited completion at year-end. Although all wells drilled to date contain a varying thickness of Spearfish, approximately 25% of the wells were found to contain a second oil pay zone. This results from having encountered a number of small structural oil pools within the Mississippian horizon at a depth which in most instances is within 50 feet below the base of the Spearfish sand.

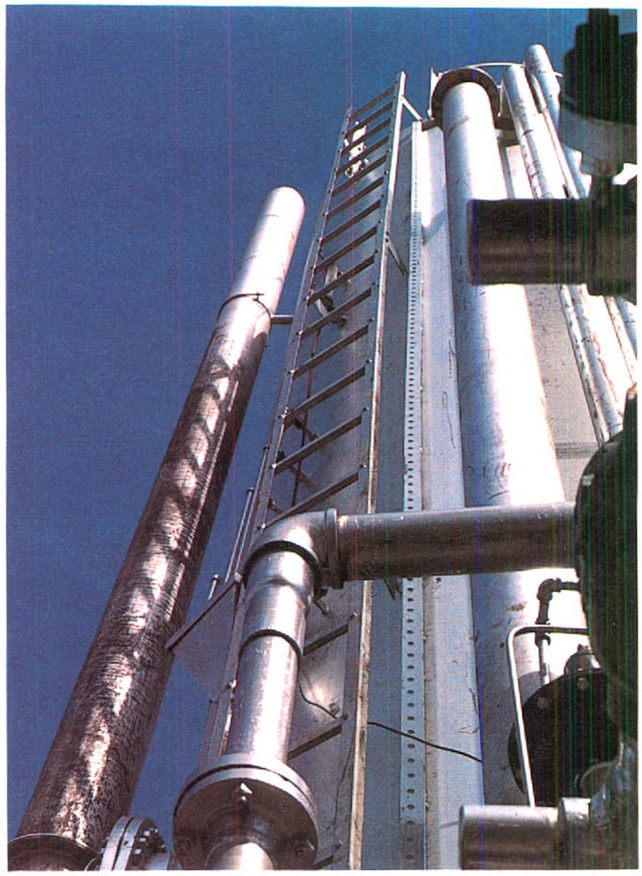
At year-end, Omega's share of production from Waskada was approximately 2,700 barrels of oil per day having a 39% water cut and 1,080 Mcf of gas per day. This oil is treated at a central field battery where it is sold to a crude oil buyer and then trucked some 60 miles to Cromer, Manitoba where it enters Interprovincial Pipelines' system for transport to markets in eastern Canada. The casing-head gas is currently being flared. However, with increasing volumes of oil and a corresponding increase in the volume of gas expected from additional wells, Omega is currently reviewing the potential for a gas processing plant and a gas reinjection scheme.

Development drilling is expected to add between 50 and 100 wells to the field by the 1983 year-end and this will require the expansion of the existing gathering system. Capital requirements for drilling, expansion of the gathering system, waterflood facilities and gas processing facilities are expected to exceed $20 million.

Omega's application to the Oil and Gas Conservation Board to unitize a 640 acre portion of the Spearfish pool coupled with a 9-spot pilot waterflood program was approved and became effective January 1, 1983. Water injection commenced on February 25, 1983. Expansion of the waterflood is planned and may encompass the entire area of the developed Spearfish reservoir. Future considerations will include the need for secondary recovery programs in the upper and lower Alida reservoirs.

Current plans indicate that a crude oil pipeline from Waskada to Cromer, Manitoba will be constructed during the summer of 1983. The extent of development drilling by the Company and others in the area appears to confirm the economic viability of the pipeline. The convenience of this facility will further enhance the prospects for future developments in the southwest corner of Manitoba.





Treater at Waskada 11-30 location

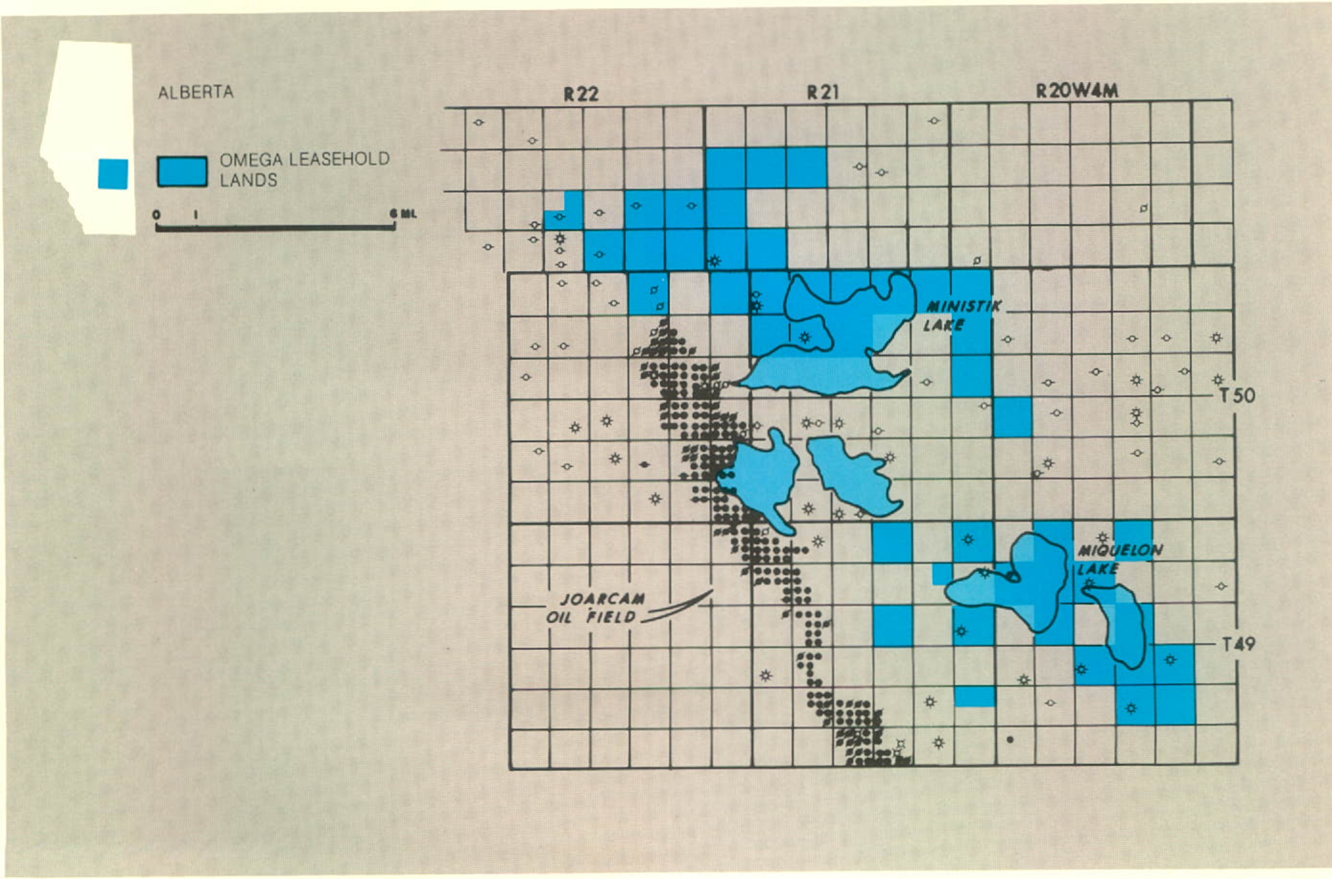
West Provost, Alberta

Omega operates 41 producing oil wells, 4 shut-in gas wells, 2 water injection wells and 2 water source wells in which the Company owns approximately 75% working interest. Ten of the producing oil wells have been granted new oil (NORP) status. All of the producing wells are connected to the oil and gas gathering system. Crude oil is trucked some 15 miles to the Bow River crude oil receiving station, whereas the solution gas is separated from the crude oil at 2 battery locations, then transported and subsequently delivered to market through an outside gathering and processing facility on a cost-of-service arrangement.

The oil and gas pricing and revenue sharing agreement between the Federal and Alberta governments, combined with the new Alberta royalty rebate schedule, has significantly improved the value of Omega's West Provost oil and gas reserves including the economic viability of undeveloped acreage.

During the year, gross oil sales showed a continuing decline from approximately 420 bbls/d to 335 bbls/d, while solution gas indicated a corresponding decline from 1.9 MMcf/d to 1.5 MMcf/d. This performance is the result of declining reservoir pressure, caused by production of oil and gas both on and off Company owned acreage. In recognition of this performance, Omega installed 2 pilot waterflood units in the first quarter of 1981 to determine the potential of a secondary recovery mechanism. As a result of encouraging performance of the 2 pilot projects, a full scale waterflood study was initiated in early 1982. Subsequent to year-end, a report was received from the Company's consultant indicating that a full scale waterflood would be both desirable and economically attractive. The case showing the best incremental economic returns provides for drilling 20 infill wells, which will accommodate an 80 acre spacing system and a 9-spot waterflood program. Eleven wells would then be converted to injectors providing for 50 producers and 13 injectors.

The Company fully intends to proceed with these recommendations and hopefully, will have all approvals by mid-year and the scheme fully operational by early 1984.



Joarcam, Alberta

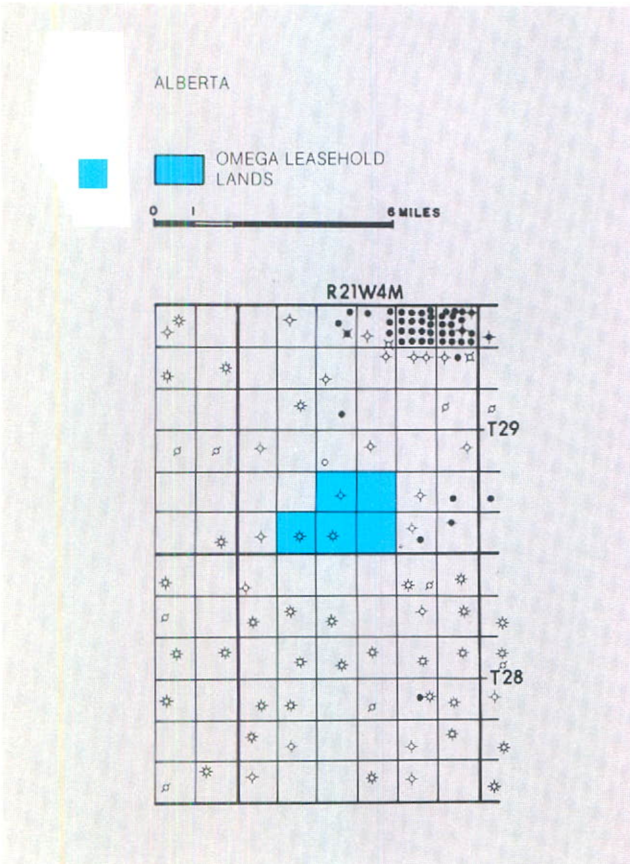
Omega's holdings in the Joarcam area are divided into two blocks of land. The Ministik block is a non-operated area containing 16,000 acres and 3 shut-in Viking wells (0.65 net) where Company interests average 21.5%. The Miquelon block contains 11,360 acres and at year-end, 3 multi-zone shut-in gas wells (0.95 net). Company interests in the Miquelon block vary between 29% and 50%. Subsequent to year-end, 5 wells were drilled at Miquelon of which 3 of the wells (0.95 net) made a significant contribution to both reserves and deliverability. Two of the recently drilled wells (1.0 net) have been cased but are not expected to make a contribution to reserves and may have to be abandoned.

As mentioned in the 1981 Annual Report, the Company entered into a gas purchase agreement with Kanngaz which was subject to export approval. Since that time, Kanngaz has received export approval and advises that deliveries will be accepted in the second half of 1984. In recognition of the small amount of gas (1.0 MMcf/d) to be delivered based on acceptable reserve estimates from Omega's land and the potential deliverability of some 10 MMcf/d, Company representatives have been negotiating with a local industrial gas supplier for additional sales. The Company is optimistic that additional markets will become available by the time deliveries to Kanngaz are made.

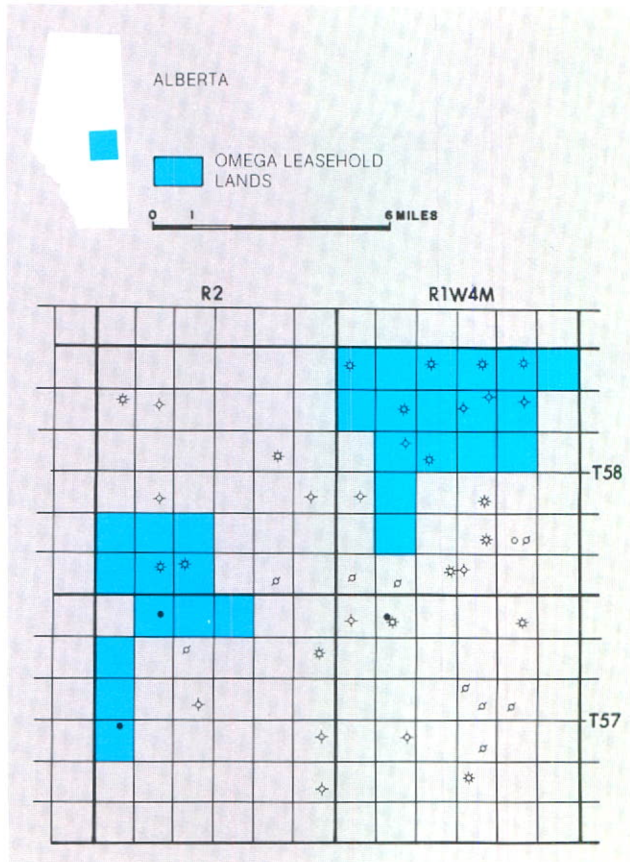
Drumheller - Wayne, Alberta

Omega holds varying interests between 50% and 75% in 3,840 acres of Crown leases in the Drumheller - Wayne area of Alberta. Three gas wells located on these properties were scheduled to go on-stream during September, 1982 in order that conditions of the Pan Alberta gas purchase contract would be fulfilled. Due to limited processing capacity within economic reach, only the Drumheller 7-5-29-19 well was able to meet contract requirements. This well was connected to a joint venture gas gathering facility and further connected to a contract gathering and processing facility in November, 1982 and went on production at an

Wayne



Frog Lake



initial rate of 150 Mcf/d. The 2 Wayne wells could not meet contract requirements due to the unavailability of processing capacity in the area.

It is Omega's intention to proceed with the construction of processing facilities as economic conditions for marketing of gas from the Wayne area improve and additional volumes of gas become available.

Frog Lake, Alberta

Omega's acreage holdings at Frog Lake consist of a 25% interest in 17,950 acres and 50% of 640 acres of Crown leases having 9 shut-in gas wells and 1 shut-in heavy oil well.

Future development of this property will be conditional on the heavy oil developments in the Cold Lake area of Alberta where gas consumption would in all likelihood provide a viable market for this gas reserve. Otherwise, production and transportation costs of heavy oil and uncertain marketing conditions for natural gas from this remote area preclude any further exploration of Company holdings in the immediate future.

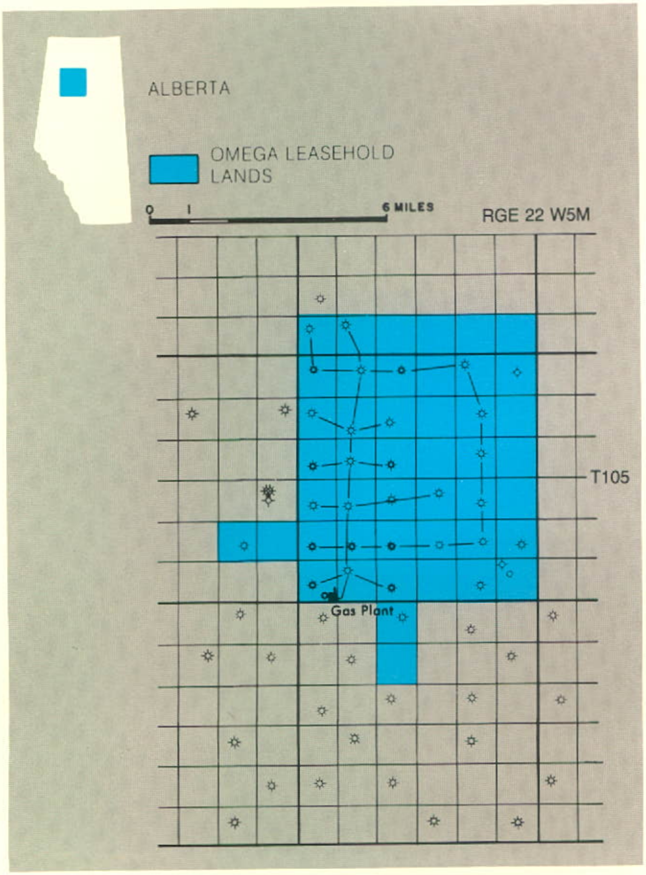
Boyer, Alberta

Omega operates 29 producing gas wells (21 net) on a 42 section block of land overlying the Bluesky gas reservoir. Two of these wells were completed and connected to the gathering system in February, 1983. Flowing well tests indicate that the property is capable of meeting available plant capacity of 2.6 MMcf/d. Proven reserves have been reduced slightly due to individual well performance profiles. Future developments at Boyer will depend on a strengthening of markets for Alberta gas.

Production of gas during the year amounted to 354 MMcf from the property (224 MMcf net to Omega).

Southeast Saskatchewan

Omega's interest in the Williston Basin extends into the southeast area of Saskatchewan. This area is highly prospective for oil in the Mississippian sequence of reservoirs. Several wells have been drilled in recent months with a high degree of success. Most of this activity is attributed to recent stimulative royalty incen-



tives provided by the Saskatchewan government. Currently, one of the most active areas in western Canada is the Midale-Weyburn area of Saskatchewan. This activity is evidenced by the high prices paid at recent Crown land sales.

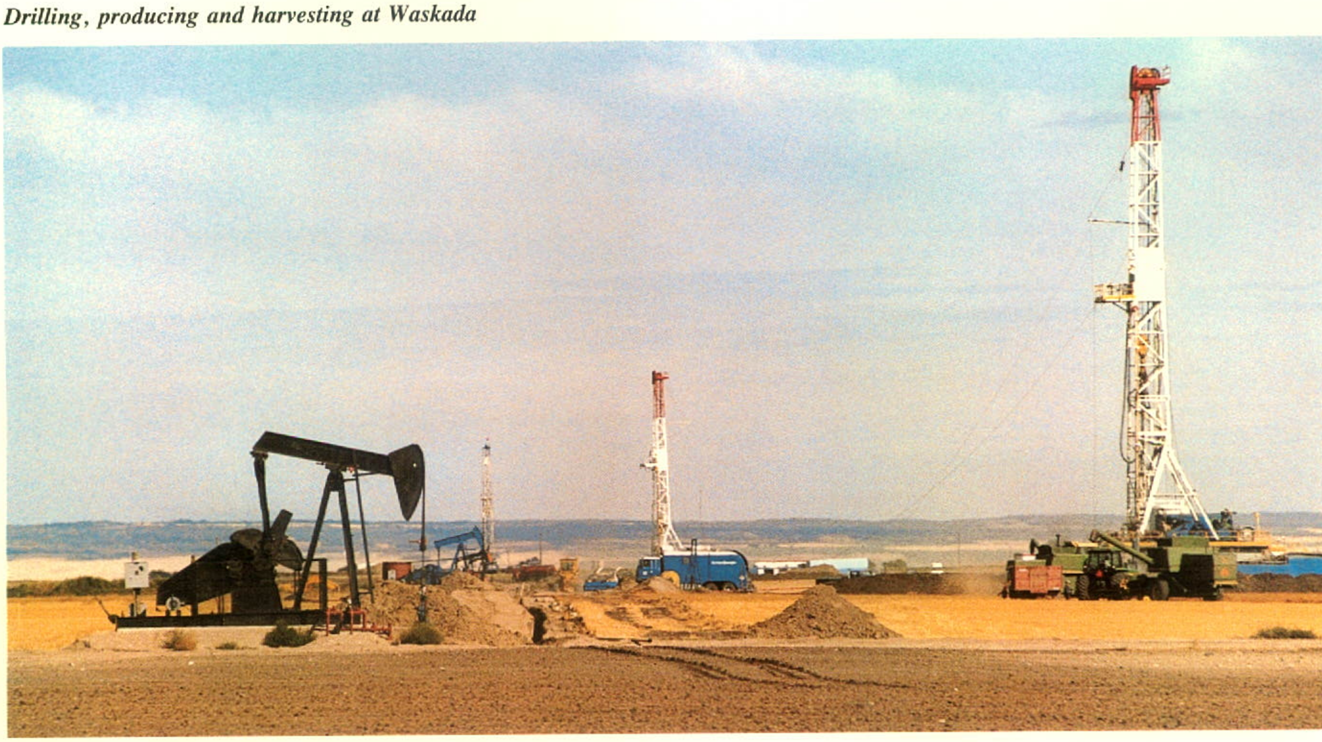
Viewfield

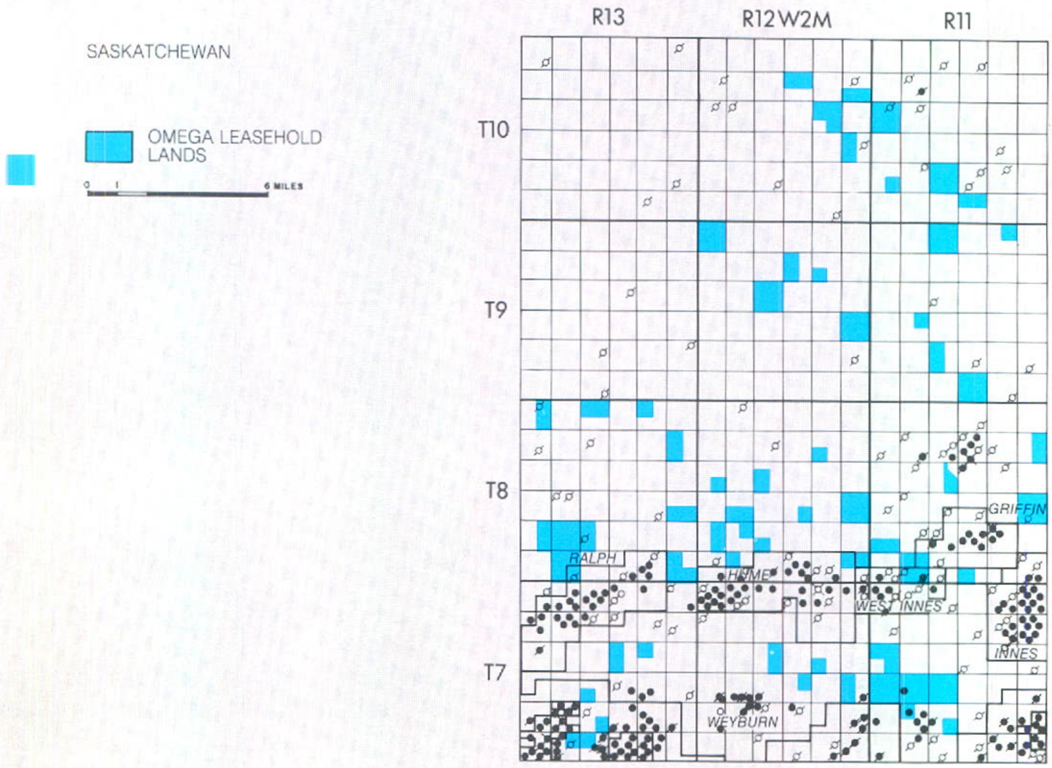
During the year, Omega became operator of 4 wells (0.75 net) in the Viewfield area of Saskatchewan where Company interests range from 20% to 35%. One recent offset well (0.20 net) was drilled and is productive of a marginal volume of oil with a high water cut from the Frobisher horizon. A rework is scheduled after spring break-up along with the drilling of another offset. If this offset is unsuccessful in extending Frobisher production, it will be completed for water disposal purposes.

Northgate

Omega acquired a 23.5% interest in 5 oil wells located in the Northgate field in July of 1981. Plans of unitization and waterflood are in the final stages of approval, following which several infill wells are scheduled to be drilled and 3 producing wells will be converted to water injection wells. All of the infill wells are expected to receive new oil (NORP) status.

Drilling, producing and harvesting at Waskada





In addition to these developments, the Company is expected to drill several wells in the general area of southeast Saskatchewan during the current year and each successful completion will undoubtedly provide further drilling opportunities.

Halbrite

The Company drilled two 100% owned wells at Halbrite, Saskatchewan during the year. The 5-17-7-11W2M well is producing approximately 20 bbls/day with a high water-oil ratio and the 11-8-7-11W2M is currently shut-in awaiting a stimulation treatment. Two additional wells are planned for drilling in the first half of 1983 and depending on the success of these wells, others will be drilled as follow-up wells.

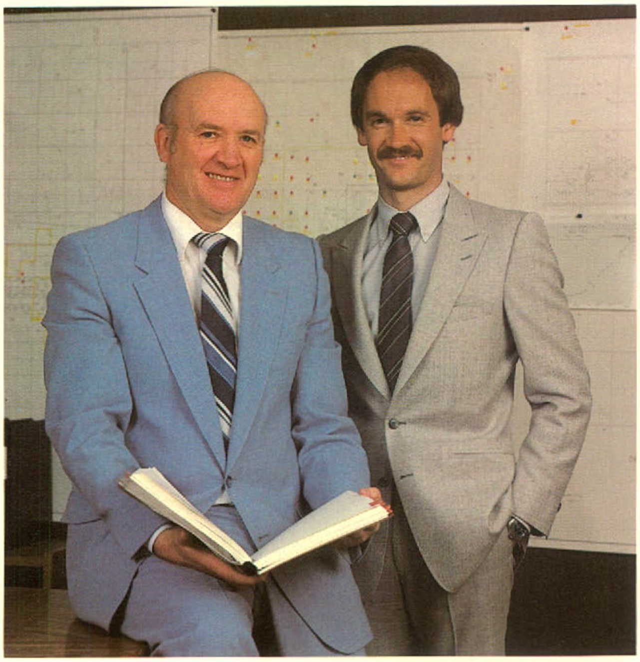
North Dakota, U.S.A.

In conjunction with a working interest partner, Omega acquired a 50% interest in several tracts of land including farm-in lands amounting to net holdings of 7,800 acres. The leases are located in the northern portion of North Dakota, principally along the Canada-United States border and south of the Company holdings in Waskada, Manitoba.

In December of 1982, Omega participated in a Mississippian test well on a block of farm-in land approximately one-half mile south of the Canada-United States border and southeast of the Company's main block of land in the Waskada area of Manitoba. The well was drilled into the top of the Mississippian horizon at a depth of 3,000 feet and was completed in the Spearfish sand, the same geological objective as that of the Company's find at Waskada. The well is currently producing light gravity oil at a rate of 20 barrels per day. Subsequent to year-end, a second well was drilled and cased approximately two miles west of the first well and is currently awaiting completion as a Spearfish oil well.

Omega is participating in a 75 mile seismic survey over the joint lands. This program is expected to be completed in the early part of May, 1983 following which a detailed analysis and interpretation of the data will be made. Drilling the most favourable anomalies will take place during the second half of 1983.

REVIEW OF OPERATIONS



Left: George E. Patey, Vice President Production
Right: Dennis E. Hall, Operations Manager

Exploration and Development

During the year, Omega's expenditures for exploration and development in Canada and the United States totalled $27.8 million. Nearly all (98%) of these expenditures were made in Canada and the remainder (2%) were directed to the Company's first venture into the United States. Development drilling accounted for $11.4 million of funds spent while exploration costs were $2.7 million and land acquisitions amounted to $2.1 million. Drilling activity in 1982 resulted in a total of 104 wells (100.0 net), of which 88 were development wells and 16 were exploratory wells. This drilling program resulted in 97 oil wells (95.70 net), 2 gas wells (0.45 net), 2 water injection wells (2.00 net) and 3 dry holes (1.85 net).

The 1983 capital budget of $36.2 million is intended to be spent on exploration and development drilling, production facilities and the acquisition of prospective lands. Of the total, 95% will be spent in Canada and 5% in the United States. No commitment of funds has been made to the frontier areas of Canada or internationally, except for programs in the United States.

During 1982, the Company participated in the drilling of a successful oil well in North Dakota, southeast of Waskada and one-half mile south of the Canada-United States border. This well was the first drilling venture for the Company outside of Canada. A second well was drilled and cased subsequent to year-end and this has been followed by a 75 mile seismic survey on Company lands which is scheduled for completion in May of 1983. Further drilling is anticipated following the analysis and interpretation of the seismic data.

The Federal and Provincial pricing and incentive schemes announced in September of 1981, together with subsequent provincial incentives announced by the Alberta, Manitoba and Saskatchewan governments during 1982, have in total dramatically enhanced the crude oil netback at the wellhead and therefore the value of Omega's oil reserves.

In keeping with these incentives, Omega will explore the potential of its non-producing land holdings along with further exploitation of producing properties. This will include the drilling of 20 infill wells and the expansion of the pilot waterflood system at Provost, Alberta. Plans for Waskada include a very active drilling and development program which has been covered under the Review of Holdings in this report.

Wells Drilled during the Year Ended:

	December 31, 1982		December 31, 1981	
	Gross Wells	Net Wells	Gross Wells	Net Wells
Gas	**2**	**0.45**	6	1.0
Oil	**97**	**95.70**	36	32.9
Water Injectors	**2**	**2.00**	0	0
Dry and Abandoned	**3**	**1.85**	3	1.2
TOTAL	**104**	**100.00**	45	35.1

Left: Sharon Van Middlesworth, Land Administration
Centre: Rhonda Watkins, Accountant
Right: R. F. (Dick) Emerson, Land Manager

Production and Reserves

Omega's net share of oil and gas production before royalties reached an all-time high during 1982 with oil production averaging 1,643 barrels per day and gas production averaging 2,300 Mcf per day. Average oil production for the year was up substantially from the 1981 average of 580 barrels per day while the average gas production decreased from 3,107 Mcf per day of 1981.

The Company's independent engineering consultants have estimated Omega's proven net oil reserves at January 1, 1983 to be 7.3 million barrels. This represents a 69% increase over the 4.3 million barrels estimated in March, 1982. Proven net gas reserves increased 3.0% to 31.5 billion cubic feet from 30.6 billion cubic feet of March last year. Most of the crude oil reserve increase resulted from a 94 well drilling program at Waskada, Manitoba. The future undiscounted cash flow from these proven reserves as calculated by the independent engineers is $417.4 million compared to $385.8 million ten months earlier. Using a 15% discount factor, the cash flow from proven oil and gas reserves was determined to have a present value of $166.5 million compared to $101.3 million on March 1, 1982. Total proven and probable additional net reserves of crude oil and natural gas are estimated at 22.2 million barrels of oil and 37.5 billion cubic feet of gas. The future net revenue calculated at a discount rate of 15% is $306.8 million. These values are net after deducting estimated royalties, operating costs, petroleum revenue tax, provincial tax and future capital expenditures. Much of the increase in future net revenue is due to the substantially increased oil reserves.

In 1982, Omega obtained approximately 78.4% of its total net oil and gas revenues from the Waskada field, amounting to $16.2 million.

Land Holdings (acres) as at:

	March 17, 1983		March 19, 1982	
	Gross	**Net**	**Gross**	**Net**
Alberta	**190,249**	**124,120**	197,435	131,725
Saskatchewan	**31,921**	**29,008**	24,828	20,628
Manitoba	**31,242**	**26,881**	17,107	14,319
North Dakota, U.S.A.	**21,182**	**7,800**	28,000	5,000
TOTAL	**274,594**	**187,809**	267,370	171,672

Petroleum and Natural Gas Reserves as at January 1, 1983

	Gross Reserves		Net Reserves	
	Petroleum (bbls)	Natural Gas (MMcf)	Petroleum (bbls)	Natural Gas (MMcf)
Proven Remaining Reserves	8,419,088	36,618	7,274,038	31,491
Probable Additional Reserves	17,345,428	7,509	14,927,327	6,044
Total Proven and Probable Additional Reserves	25,764,516	44,127	22,201,365	37,535

Present Worth of Future Oil and Gas Net Production Revenue Discounted at:

	0%	12%	15%	20%
		($000)		
Proven Remaining Reserves	417,380	190,338	166,539	137,701
Probable Additional Reserves	1,066,063	183,981	140,214	95,168
Total Proven and Probable Additional Reserves	1,483,443	374,319	306,753	232,869

Net Production before Royalties

	1978	1979	1980	1981	1982
Petroleum (bbls)	38,948	50,878	143,051	211,202	**599,550**
Natural Gas (Mcf)	204,170	361,320	343,623	1,133,914	**839,844**

Capital Expenditures

	1978	1979	1980	1981	1982
Land and Acquisitions	$ 202,030	$ 700,606	$ 410,330	$ 3,986,490	**$ 2,149,759**
Drilling and Exploration...	$ 766,515	$2,254,865	$4,358,544	$ 5,379,426	**$14,135,490**
Production Equipment	$ 153,650	$1,090,811	$3,629,565	$ 3,048,872	**$11,538,374**
Subtotal	$1,122,195	$4,046,282	$8,398,439	$12,414,788	**$27,823,623**
Government Incentive Payments	—	—	—	$ 1,228,078	**$ 2,216,635**
TOTAL	$1,122,195	$4,046,282	$8,398,439	$11,186,710(1)	**$25,606,988**

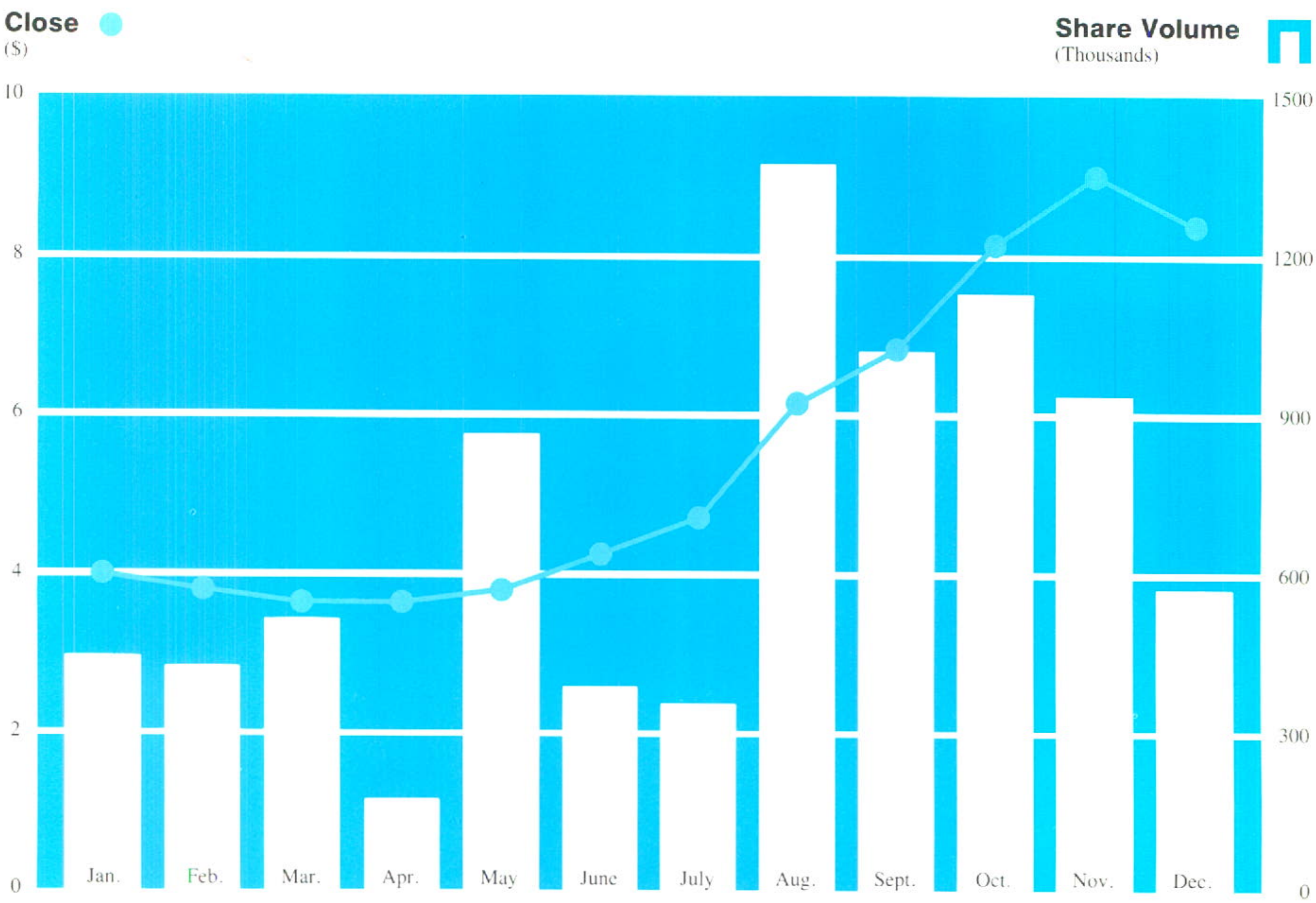
(1) Includes acquisition cost of limited partnership.

CAPITAL MARKET REVIEW

Toronto Stock Exchange Trading Summary for 1982

NOTE: All prices and volumes are adjusted throughout to reflect three-for-one stock split in December, 1982.

Month of 1982	Board Lot High	Board Lot Low	Close	Volume
January	$4.65	$3.80	$4.00	445,017
February	4.05	3.60	3.80	425,982
March	4.05	3.05	3.65	516,867
April	4.10	3.60	3.65	174,177
May	3.90	3.40	3.80	864,885
June	4.40	3.50	4.25	387,831
July	4.80	4.05	4.70	354,300
August	6⅜	4.75	6⅛	1,373,058
September	7⅜	5⅝	6⅞	1,021,803
October	8⅛	6¾	8⅛	1,131,066
November	9⅜	8⅛	9	936,672
December	9	7⅝	8⅜	575,012
Total	**$9⅜**	**$3.05**	**$8⅜**	**8,206,670**



OMEGA HYDROCARBONS LTD.

CONSOLIDATED BALANCE SHEET

as at December 31, 1982

		1982	1981
ASSETS	**Current Assets**		
	Accounts receivable	$ 4,393,753	$ 1,348,584
	Income taxes recoverable	176,214	316,372
	Petroleum Incentives Program claims	902,830	1,228,078
	Current portion of notes receivable (note 2)	958,533	343,836
		6,431,330	3,236,870
	Notes Receivable (note 2)	2,465,467	2,705,998
	Fixed Assets (note 3)		
	Petroleum and gas properties and equipment	51,778,370	26,171,382
	Accumulated depletion and depreciation	(5,633,861)	(2,164,826)
		46,144,509	24,006,556
	Other Assets	130,052	135,097
		$55,171,358	$30,084,521
LIABILITIES	**Current Liabilities**		
	Bank indebtedness, unsecured	$ 1,336,233	$ 97,540
	Accounts payable and accrued liabilities	7,027,118	3,126,452
	Petroleum and gas revenue tax payable	2,083,448	318,480
	Incremental oil revenue tax payable	5,808	—
	Current portion of bank loans	4,980,000	—
		15,432,607	3,542,472
	Bank Loans (note 4)	13,438,333	9,703,333
	Gas Production Prepayments	459,150	348,643
	Deferred Income Taxes	4,908,600	1,581,600
SHAREHOLDERS' EQUITY	**Capital Stock** (note 5)	13,823,170	13,433,510
	Retained Earnings	7,109,498	1,533,455
	Shares Acquired (note 5)	—	(58,492)
		20,932,668	14,908,473
		$55,171,358	$30,084,521

Approved by the Board

Director

Director

OMEGA HYDROCARBONS LTD.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1982

	1982	1981
Revenue		
Oil and gas sales, net of royalties	**$20,666,027**	$5,461,620
Other oil and gas operations	**293,447**	237,203
Interest	**22,720**	16,000
	20,982,194	5,714,823
Expenses		
Production	**2,609,084**	1,051,626
General and administrative	**697,382**	325,632
Interest on bank loans	**2,638,043**	1,415,760
Depletion and depreciation	**3,469,035**	946,618
	9,413,544	3,739,636
Earnings before corporate taxes	**11,568,650**	1,975,187
Corporate Taxes (note 6)		
Petroleum and gas revenue tax	**2,094,969**	431,527
Incremental oil revenue tax	**51,432**	—
Alberta Royalty Tax Credit	**(520,908)**	(312,000)
Deferred income taxes	**3,327,000**	818,000
	4,952,493	937,527
Net Earnings	**6,616,157**	1,037,660
Retained earnings at beginning of year	**1,533,455**	495,795
Purchase of common shares (note 5)	**(1,040,114)**	—
Retained Earnings at End of Year	**$ 7,109,498**	$1,533,455
Net Earnings per Common Share, based on weighted average number of shares outstanding	**$.48**	$.08

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1982

	1982	1981
Working Capital Derived from		
Operations		
Net earnings	**$ 6,616,157**	$ 1,037,660
Items not involving working capital		
Depletion and depreciation	**3,469,035**	946,618
Deferred income taxes	**3,327,000**	818,000
	13,412,192	2,802,278
Bank loans	**3,735,000**	4,360,000
Notes receivable	**971,065**	399,836
Issue of common shares	**730,534**	4,527,494
Gas production prepayments	**110,507**	85,616
Other assets	**5,045**	—
	18,964,343	12,175,224
Working Capital Applied to		
Fixed assets	**27,823,623**	8,875,740
Petroleum Incentives Program claims	**(2,216,635)**	(1,228,078)
Purchase of common shares	**1,322,496**	58,492
Notes receivable	**730,534**	2,200,000
Other assets	**—**	110,585
Acquisition of limited partnership	**—**	3,145,715
	27,660,018	13,162,454
Decrease in Working Capital Position	**(8,695,675)**	(987,230)
Working capital (deficiency) at beginning of year	**(305,602)**	681,628
Working Capital (Deficiency) at End of Year	**$(9,001,277)**	$ (305,602)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1982

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Omega Hydrocarbons Ltd. (the "Company") and its wholly owned subsidiaries, Omega Oil & Gas Ltd. and Omega Oil & Gas, Inc.

(b) Oil and Gas Operations

The Company follows the full cost method of accounting for its oil and gas operations whereby all costs of exploring for and developing oil and gas reserves, including production equipment costs, are capitalized by cost centre. A separate cost centre is established for Canada and the United States. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing property, costs of drilling both productive and non-productive wells and overhead expenditures related to exploration activities. Such costs are depleted by cost centre using the unit of production method based on estimated recoverable oil and gas reserves.

(c) Income Taxes

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

(d) Foreign Currency Translation

Current assets and current liabilities are translated to Canadian dollars using the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at the rate in effect at the time the original transactions took place. Revenue and expenses (excluding depletion and depreciation which will be translated at the rate of exchange applicable to the related asset) will be translated using the average rates of exchange throughout the year.

(e) Segmented Information

All of the Company's activities are in one business segment, oil and gas exploration, development and production and substantially all of the Company's operations are conducted in one geographical segment, Canada. Accordingly, no separate disclosure has been made of financial data by segment.

2. NOTES RECEIVABLE

Under the terms of a share purchase plan, common shares of the Company are issued to officers and employees in consideration for notes receivable. The notes are non-interest bearing and receivable as follows: 1983 — $958,533; 1984 — $1,179,467; 1985 — $998,000; 1986 — $288,000.

3. FIXED ASSETS

	1982			1981
	Cost	Accumulated Depletion and Depreciation	Net	Net
Canada	$51,210,920	$5,633,861	$45,577,059	$23,791,757
United States	567,450	—	567,450	214,799
	$51,778,370	$5,633,861	$46,144,509	$24,006,556

4. BANK LOANS

Lines of credit aggregating $23,500,000 have been established with a chartered bank which, at the bank's option, may be converted into a term loan with principal repayments to retire the loans in 1988.

The loans bear interest at ¼% - ½% above the bank's prime lending rate and are evidenced by demand promissory notes and are secured by the Company's interest in certain oil and gas properties and a general assignment of accounts receivable.

The estimated amounts of bank loan repayments for each of the four years subsequent to 1982 are as follows: 1983 — $4,980,000; 1984 — $4,980,000; 1985 — $4,980,000; 1986 — $3,478,333.

5. CAPITAL STOCK

(a) Stock Split

Effective November 23, 1982 the Company's common shares, issued and unissued, were split on a three-for-one basis to shareholders of record on December 30, 1982 and the authorized number of common shares was increased to 60,000,000. Retroactive effect of the stock split has been given in the accompanying financial statements by reflecting all share and per share data on the basis of the three-for-one split.

(b) Authorized

The authorized share capital of the Company consists of:

(i) 10,000,000 preferred shares with a par value of $10 each; and

(ii) 60,000,000 common shares of no par value.

(c) Issued

Changes in issued common shares during the two years ended December 31, 1982 were as follows:

	Number of Shares	Consideration
Balance at December 31, 1980	12,791,718	$ 8,906,016
Issued for promissory notes under share purchase plan	660,000	2,200,000
Issued on acquisition of limited partnership	546,360	2,327,494
Balance at December 31, 1981	13,998,078	13,433,510
Issued for promissory notes under share purchase plan	173,001	730,534
Purchased and cancelled	(355,200)	(340,874)
Balance at December 31, 1982	13,815,879	$13,823,170

(d) Shares Reserved

As of December 31, 1982, 726,999 common shares were reserved under the Company's share purchase plan for issue to officers and employees from time to time as determined by the directors of the Company.

Changes during the two years ended December 31, 1982 were as follows:

	1982	1981
Shares reserved at beginning of year	—	660,000
Additional shares reserved under the share purchase plan	900,000	—
Shares issued under the share purchase plan	(173,001)	(660,000)
Shares reserved at end of year	726,999	—

Subsequent to December 31, 1982 the Company issued an additional 30,000 common shares under the plan.

(e) Purchase of Common Shares

In 1981 the Company entered into a program to purchase issued and outstanding common shares of the Company during a period of one year ending November 30, 1982. During the term of the program the Company purchased 355,200 issued and outstanding shares at a cost of $1,380,988. The excess of the cost of the cancelled shares over the stated value of the shares has been allocated to retained earnings.

6. CORPORATE TAXES

Income tax expense differs from the amounts which would be obtained by applying the Canadian basic federal income tax rate to the respective years' earnings before corporate taxes. These differences result from the following items:

	1982		1981	
	Amount	Percentage of Pretax Earnings	Amount	Percentage of Pretax Earnings
Computed "expected" tax expense	**$5,322,000**	**46**	$909,000	46
Royalties and other payments to provincial governments	**890,000**	**8**	490,000	25
Federal resource allowance	**(2,420,000)**	**(21)**	(560,000)	(29)
Depletion allowance on Canadian oil and gas production income	**(910,000)**	**(8)**	(130,000)	(7)
Provincial income taxes less federal abatement	**250,000**	**2**	19,000	1
Federal corporate surtax	**117,000**	**1**	31,000	2
Other non-deductible items	**78,000**	**1**	59,000	3
Actual deferred income tax expense	**3,327,000**	**29**	818,000	41
Petroleum and gas revenue tax	**2,094,969**	**18**	431,527	22
Incremental oil revenue tax	**51,432**	**1**	—	—
Alberta Royalty Tax Credit	**(520,908)**	**(5)**	(312,000)	(16)
Total corporate taxes	**$4,952,493**	**43%**	$937,527	47%

7. RELATED PARTY TRANSACTIONS

(a) Prior to 1982 the Company entered into a number of farmin and other similar agreements with Alberta Gas Products System Ltd. ("AGP"), a private company controlled by the president of the Company. Under these agreements, the Company acquired interests in oil and gas properties held by AGP, with AGP retaining an overriding royalty or other interest in the properties.

(b) New North Oil & Gas Ltd. ("New North"), a private company controlled by the president of the Company, participates with the Company as a joint venture partner in nine development wells in the Provost area.

(c) As at December 31, 1982 accounts payable include $133,022 due to AGP and New North.

8. CONTINGENT LIABILITIES

Pursuant to the terms of partnership agreements, the Company is contingently liable for the payment of bank loans totalling $2,173,667 of two limited partnerships managed by the Company.

9. LEASE COMMITMENT

The aggregate minimum rentals paid under operating leases for office space were $79,000 for the year ended December 31, 1982. Future minimum lease payments for the rental of office premises are as follows: 1983 — $85,440; 1984 — $71,200.

10. STATUTORY INFORMATION

Two directors of the Company received remuneration of $1,000 in their capacity as directors. Remuneration paid to senior officers (including the five highest paid employees) of the Company during the year amounted to $357,543.

AUDITORS' REPORT

To the Shareholders of
Omega Hydrocarbons Ltd.

We have examined the consolidated balance sheet of Omega Hydrocarbons Ltd. as at December 31, 1982 and the consolidated statements of earnings and 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 on a basis consistent with that of the preceding year.

Thorne Riddell

Calgary, Canada
March 25, 1983

Chartered Accountants

FIVE YEAR FINANCIAL SUMMARY

OMEGA HYDROCARBONS LTD.
CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended December 31,				
	1978	1979	1980	1981	1982
Revenue					
Oil and gas sales, net of royalties	$487,522	$ 897,088	$2,243,717	$5,461,620	**$20,666,027**
Other oil and gas operations	161,386	121,552	222,658	237,203	**293,447**
Interest	29,012	91,638	116,819	16,000	**22,720**
	677,920	1,110,278	2,583,194	5,714,823	**20,982,194**
Expense					
Production	114,214	231,026	453,962	1,051,626	**2,609,084**
General and administrative	92,798	117,766	235,018	325,632	**697,382**
Interest on bank loans	7,973	123,938	246,798	1,415,760	**2,638,043**
Depletion and depreciation	77,517	170,102	287,071	946,618	**3,469,035**
	292,502	642,832	1,222,849	3,739,636	**9,413,544**
Earnings before corporate taxes and extraordinary items	385,418	467,446	1,360,345	1,975,187	**11,568,650**
Corporate Taxes					
Petroleum and gas revenue tax	—	—	—	431,527	**2,094,969**
Incremental oil revenue tax	—	—	—	—	**51,432**
Alberta Royalty Tax Credit	(35,018)	(80,432)	(165,175)	(312,000)	**(520,908)**
Deferred income taxes	165,600	219,800	613,500	818,000	**3,327,000**
	130,582	139,368	448,325	937,527	**4,952,493**
Earnings before extraordinary items	254,836	328,078	912,020	1,037,660	**6,616,157**
Extraordinary Items					
Recovery of deferred income taxes	13,600	—	—	—	**—**
Net Earnings	$268,436	$ 328,078	$ 912,020	$1,037,660	**$ 6,616,157**
Net Earnings per Common Share (based on weighted average number of shares outstanding)	$ .03	$ .03	$ .07	$ .08	**$ .48**

OMEGA HYDROCARBONS LTD.
CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

	Year Ended December 31,				
	1978	1979	1980	1981	1982
Balance at Beginning of Year	$(1,012,739)	$(744,303)	$(416,225)	$ 495,795	**$1,533,455**
Net earnings	268,436	328,078	912,020	1,037,660	**6,616,157**
Purchase of common shares	—	—	—	—	**(1,040,114)**
Balance at End of Year	$ (744,303)	$(416,225)	$ 495,795	$1,533,455	**$7,109,498**

OMEGA HYDROCARBONS LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,				
	1978	1979	1980	1981	**1982**
Working Capital Derived From					
Operations					
Earnings before extraordinary items	$ 254,836	$ 328,078	$ 912,020	$ 1,037,660	**$ 6,616,157**
Items not involving working capital					
Depletion and depreciation	77,517	170,102	287,071	946,618	**3,469,035**
Amortization and debenture issue expenses	3,552	—	—	—	**—**
Deferred income taxes	165,600	219,800	613,500	818,000	**3,327,000**
	501,505	717,980	1,812,591	2,802,278	**13,412,192**
Bank loans	300,000	—	4,950,000	4,360,000	**3,735,000**
Notes receivable	—	—	—	399,836	**971,065**
Issue of common shares	117,000	6,188,355	480,000	4,527,494	**730,534**
Gas production prepayments	50,447	52,947	159,633	85,616	**110,507**
Other assets	—	—	—	—	**5,045**
	968,952	6,959,282	7,402,224	12,175,224	**18,964,343**
Working Capital Applied To					
Fixed assets	1,128,281	4,050,260	8,394,663	8,875,740	**27,823,623**
Petroleum Incentives Program claims	—	—	—	(1,228,078)	**(2,216,635)**
Bank loans	—	300,000	—	—	**—**
Notes receivable	20,668	531,665	296,834	2,200,000	**730,534**
Purchase of common shares	—	—	—	58,492	**1,322,496**
Debentures — converted	43,500	—	—	—	**—**
— retired	49,500	—	—	—	**—**
Other assets	—	—	—	110,585	**—**
Acquisition of limited partnership	—	—	—	3,145,715	**—**
	1,241,949	4,881,925	8,691,497	13,162,454	**27,660,018**
Increase (Decrease) in Working Capital	(272,997)	2,077,357	(1,289,273)	(987,230)	**(8,695,675)**
Working capital (deficiency) at beginning of year	166,541	(106,456)	1,970,901	681,628	**(305,602)**
Working Capital (Deficiency) at End of Year	$ (106,456)	$1,970,901	$ 681,628	$ (305,602)	**$ (9,001,277)**

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