1983 ANNUAL REPORT

OMEGA HYDROCARBONS LTD.

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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.

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

The Company's share capital was changed in 1981 by creating a class of 10,000,000 preferred shares at $10 par value and increasing the number of common shares from 5,000,000 to 20,000,000. In 1982, the number of authorized common shares was increased to 60,000,000 and on December 30, 1982, the common shares were split on a three-for-one basis.

As at December 31, 1983, there were 13.8 million common shares issued and outstanding. No preferred shares have been issued. The Company's common shares are held by 2,218 shareholders as at December 31, 1983, 97.8% of which are registered in Canada.

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.

Annual General Meeting

The Annual General Meeting of the Shareholders of Omega Hydrocarbons Ltd. will be held at The Westin Hotel (Bel Aire Room) at 4th Avenue and 3rd Street S.W., Calgary, Alberta on Thursday, the 31st day of May, 1984 at 3:30 p.m. (local time).

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

HIGHLIGHTS

	1983	1982	% Change
Financial			
Revenues	**$45,370,000**	$20,730,000	+ 119
Cash Flow from operations	**$32,894,000**	$13,412,000	+ 145
— per share	**$ 2.38**	$ 0.97	
Net Earnings	**$18,469,000**	$ 6,616,000	+ 179
— per share	**$ 1.34**	$ 0.48	
Capital Expenditures	**$35,727,000**	$27,824,000	+ 28
Operations			
Production (Company share before royalties)			
Crude oil and natural gas liquids — barrels per day	**3,776**	1,643	+ 130
Natural gas — mcf per day	**3,380**	2,300	+ 47
Proven reserves at December 31, 1983 (Company share before royalties)			
Crude oil and natural gas liquids — thousands of barrels	**15,760**	8,419	+ 87
Natural gas — MMcf	**45,050**	36,618	+ 23

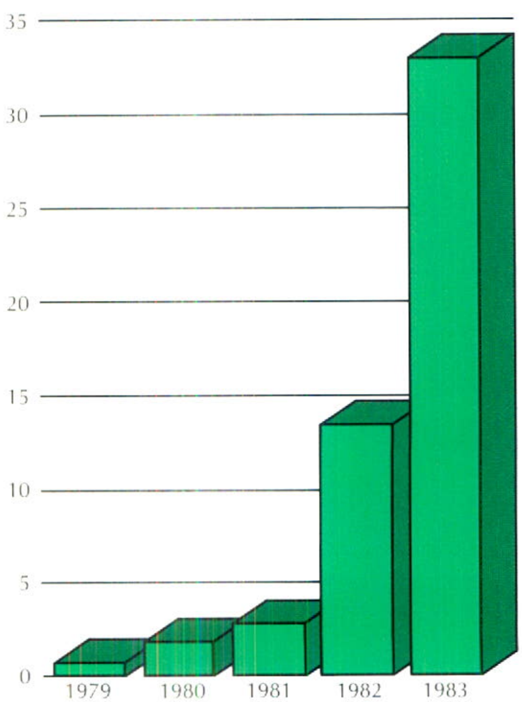
TO OUR SHAREHOLDERS:

T. Jack Hall,
President

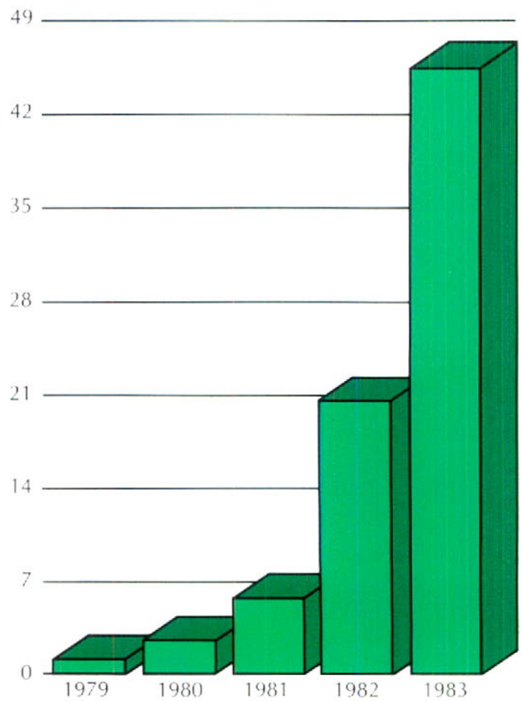
The Board of Directors is pleased to report on another record year in Omega's history. Nineteen eighty-three was the fourth successive year of substantial improvement in the Company's financial and operating results. In 1982 the Company celebrated the 25th Anniversary of its incorporation. Another commemorative year occurred in 1983, that being the Company's tenth year under present management. Those ten years have seen the Company's net earnings go from a deficit position to almost $20 million and the total assets grow from $0.2 million to $83.5 million. The statistical pages at the back of this report chart that progress.

In 1983, net revenues increased by 119% to $45.4 million. Cash flow from operations was $32.9 million, up by 145% over 1982. Net earnings were 179% higher than the previous year at $18.5 million. Capital expenditures during 1983 reached $35.7 million, an increase of 28% over 1982. During the year, the Company's bank debt was reduced by $7.3 million to $11.2 million at year-end and the working capital deficiency at the end of 1983 was reduced to $8.3 million. The Company's very significant cash flow and present bank lines of credit are sufficient to carry out an increased capital expenditure program during 1984 and to easily manage the working capital deficiency.

CASH FLOW
$ Millions



REVENUE
$ Millions



As at December 31, 1983, Omega's proven and probable net oil and natural gas liquids reserves (after royalties) were 28.7 million barrels, 29% higher than at the end of 1982. Proven and probable net gas reserves were 42.1 billion cubic feet compared to 37.5 billion cubic feet at the beginning of the year.

During 1983, Omega participated in a total of 137 wells in Manitoba (97), southeastern Saskatchewan (24), Alberta (14) and North Dakota (2). The success we have experienced will encourage further activity in those areas with emphasis on Manitoba, Saskatchewan and North Dakota because of the prospects for development of oil reserves. The Company's new discoveries in Alberta were natural gas wells and development will be dependent on increased demand for Alberta's natural gas.

In December of 1983, the Company's share of total production of crude oil and liquids before royalties was 4,300 barrels per day compared with 3,000 barrels per day in January of 1983. Of that total, 3,710 barrels per day came from the Waskada field, 340 barrels per day was from Saskatchewan and 250 barrels per day was from Alberta and North Dakota.

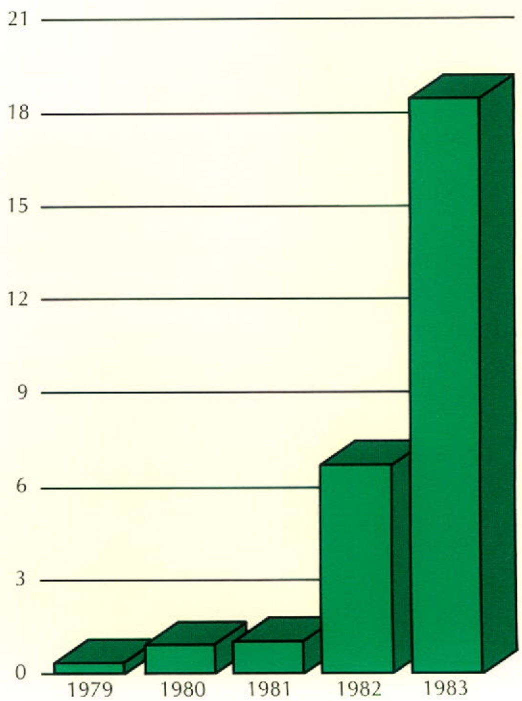
J. L. (Jack) Maclagan,
Vice President Finance

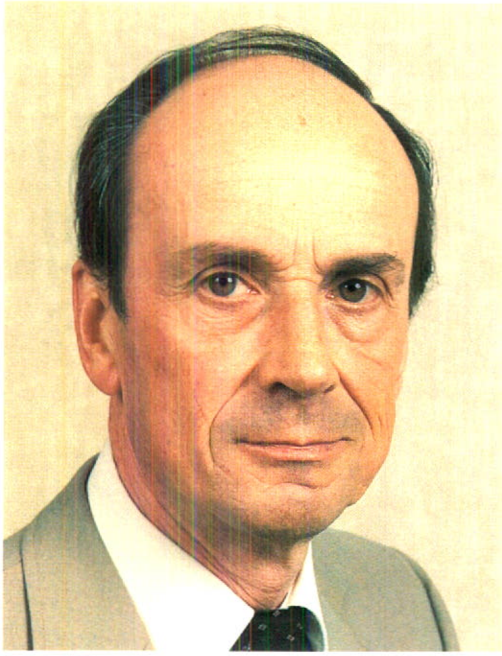
The Waskada field has attracted the largest percentage of Omega's capital spending due to our success in that area. Secondary recovery programs initiated in 1982 have been expanded during 1983 and will gradually encompass the entire field. During the latter part of 1983, Omega constructed a gas processing plant at Waskada which is now on stream. That plant is part of a program to conserve solution gas by reinjecting it into the Lower Amaranth (Spearfish) zone. Natural gas liquids to be extracted from the gas should reach approximate volumes of 200 barrels per day during 1984.

The waterflood project designed for the Provost field in Alberta met with delays in the planning and approval process. The required drilling and facility installation will be completed during 1984 and enhanced production should be reflected in our 1985 results.

This time last year, there were predictions that oil prices would fall to $25 per barrel but that did not occur. The export sales market for Canadian natural gas continues to suffer from the problems of non-competitive pricing and low demand in the United States market. Omega, being in the fortunate position of having a very high oil to natural gas ratio, has benefited from the stability in oil prices and has not been significantly affected by the lack of gas sales. We feel that crude oil prices should continue to resist further declines during 1984 and that the expected increases in the Company's cash flow should provide opportunities to add to our natural gas reserve base in anticipation of improved markets during the last half of the decade.

NET EARNINGS
$ Millions





John Henderson,
Vice President Exploration

Omega's cash flow and increasing reserves should ensure the aggressive pursuit of new opportunities. We are in an excellent position to continue the growth of recent years and to secure the Company's financial strength.

At a meeting held on April 4, 1984, the Board of Directors approved an Issuer Bid to purchase shares in the Company. Accordingly, the Company may purchase on the open market over the twelve months ended May 2, 1985, up to 712,000 of the Company's common shares. This decision was taken because, in the opinion of the Directors of the Company, the current market price of the shares represents a worthwhile investment and an appropriate use of Company funds. A notice of this intention to purchase shares has been sent to all registered shareholders.

As in every year, the Company's success is largely due to the efforts of its employees. We acknowledge those efforts and extend our thanks and appreciation.

On behalf of the Board

T. J. Hall
President

May 3, 1984

George E. Patey,
Vice President Production

REVIEW OF OPERATIONS

Exploration and Development

Omega's expenditures for exploration and development during 1983 amounted to $35.7 million before claims for incentives under Federal and Provincial incentive schemes. Approximately 65% of that total was directed to the Waskada field in Manitoba, 28% was spent in southeastern Saskatchewan and 7% was spent in Alberta and North Dakota. Exploration, including land acquisition, seismic and drilling, and development drilling accounted for $20.2 million of the total expenditures. Costs of well equipment, field facilities and the Waskada gas plant accounted for substantially all of the balance of $15.5 million.

During 1983, the Company participated in a total of 137 wells of which 109 were development and 28 were exploratory. Of the total drilled, 120 were oil wells, 10 were gas wells currently shut-in awaiting gas markets, 3 were cased and suspended pending further testing and 4 were dry. Two of the dry wells were drilled by other companies under farmout agreements at no cost to Omega. As indicated by the table below, the Company's interests in the wells drilled averaged 85% and the drilling success ratio was 95%.

The 1984 capital budget is expected to be in the range of $50 million. Most of that will again be spent in Canada in the provinces of Manitoba, Saskatchewan and Alberta. The balance will be directed to continued evaluation of the Company's properties in North Dakota.

Wells Drilled during the Year Ended:

	December 31, 1983		December 31, 1982	
	Gross Wells	Net Wells	Gross Wells	Net Wells
Oil	**120**	**105.4**	97	95.7
Gas	**10**	**7.0**	2	0.4
Service	—	—	2	2.0
Suspended	**3**	**2.0**	—	—
Dry and Abandoned	**4**	**2.0**	3	1.9
TOTAL	**137**	**116.4**	104	100.0

Capital Expenditures

	1979	1980	1981	1982	1983
Land Acquisitions	$ 700,000	$ 410,000	$ 3,987,000	$ 2,150,000	**$ 1,678,000**
Drilling and Exploration	2,255,000	4,358,000	5,379,000	14,136,000	**18,532,000**
Production Equipment	1,091,000	3,630,000	3,049,000	11,538,000	**15,517,000**
Subtotal	4,046,000	8,398,000	12,415,000	27,824,000	**35,727,000**
Government Incentive Payments	—	—	1,228,000	2,217,000	**4,676,000**
TOTAL	$4,046,000	$8,398,000	$11,187,000	$25,607,000	**$31,051,000**

Land Holdings (acres) as at:

	March 19, 1984		March 17, 1983	
	Gross	Net	Gross	Net
Alberta	**197,126**	**125,486**	190,249	124,120
Saskatchewan	**43,561**	**41,810**	31,921	29,008
Manitoba	**41,061**	**33,558**	31,242	26,881
North Dakota, U.S.A.	**21,663**	**8,280**	21,182	7,800
TOTAL	**303,411**	**209,134**	274,594	187,809

Construction of Waskada Gas Plant during initial phase

Waskada, Manitoba

The Company's ongoing development of the Waskada field met with excellent results during 1983 with all of the 97 wells drilled being potential producers from the Lower Amaranth (Spearfish) zone and 42 of those wells also having potential in the Mississippian.

At year-end, Omega operated a total of 232 wells at Waskada (214 net) of which 197 were completed in the Lower Amaranth zone and 35 were completed in the Mississippian. Further development of this field is expected to add approximately 70 wells (50 net to Omega) during 1984.

In December of 1983, total production from the Waskada properties operated by Omega was approximately 4,130 barrels per day before royalties and 2,365 mcf per day of associated gas. Omega's share of that oil production was 3,710 barrels per day.

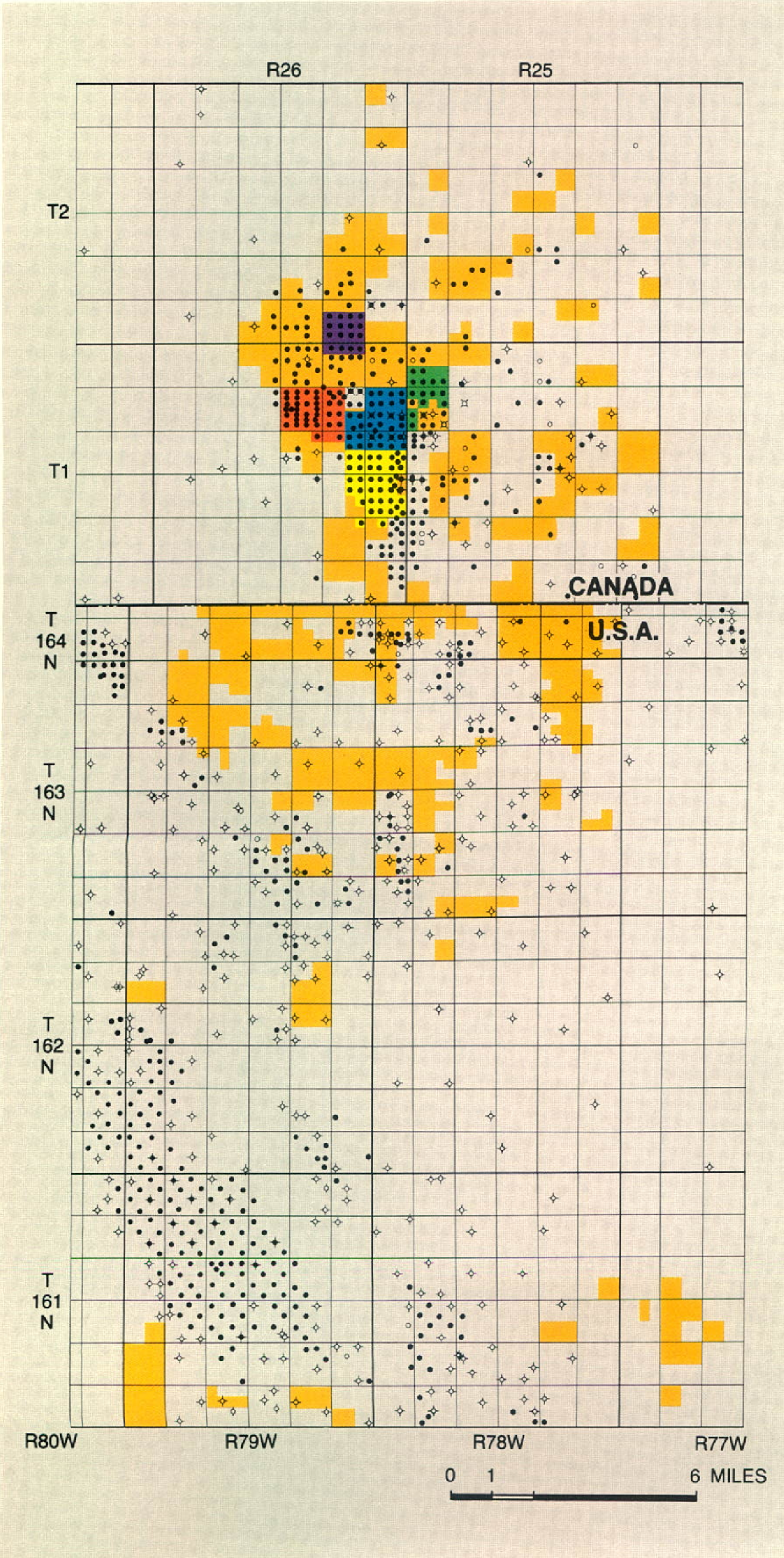
During February of 1983, pressure maintenance commenced on a 640 acre unitized portion of the Lower Amaranth zone. With the success of the initial program, the area under enhanced recovery was expanded and by the end of 1983, encompassed a total of 2,360 acres and 59 wells. Additional approvals have been requested from the Government of Manitoba to further extend the project area and it is expected that extensions will continue until the entire area producing from the Lower Amaranth will be included.

Application has also been made for approval of a 9-spot gas injection unitized pool covering 1,320 acres and including 33 Lower Amaranth wells. Natural gas which is produced along with fluids from the Waskada field and is presently being flared, will be injected into this unit after having been processed through Omega's gas plant for extraction of natural gas liquids. This project will serve three purposes; conservation of the natural gas, maintenance of the reservoir pressure and storage of gas until a future sales market becomes available. Approval is expected in the near future and injection should commence before the middle of the year.

An engineering study is presently under way to determine the optimum method of pressure maintenance of the Mississippian pools within the Waskada field. A scheme could be in operation late in 1984.

During the last quarter of 1983, a $3 million gas processing plant was constructed by Omega adjacent to our central battery at Waskada. The plant was put into operation in March of 1984. Solution gas produced from Waskada wells is processed through the plant to remove propane, butane and pentanes plus. As noted above, the stripped gas will be injected into the Lower Amaranth zone. Over the life of the field, income resulting from the sale of liquids and future sale of the gas conserved by this project will make a significant contribution to the Company.

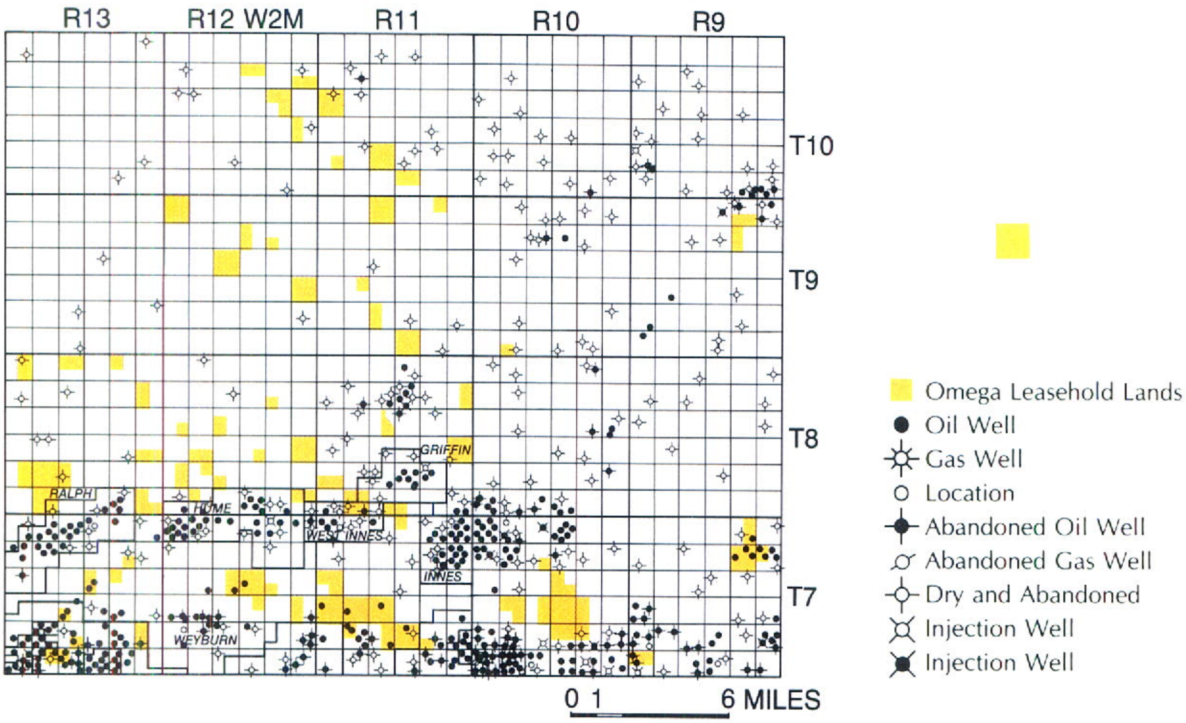
Waskada, Manitoba



- Omega Leasehold Lands
- Waskada Unit #1
- Waskada Unit #2
- Waskada Unit #3
- Waskada Unit #4
- Waskada Unit #5

- Oil Well
- Gas Well
- Location
- Abandoned Oil Well
- Abandoned Gas Well
- Dry and Abandoned
- Injection Well
- Injection Well

Weyburn - Midale, Saskatchewan



During 1983, the Government of Manitoba accepted applications to build a crude oil pipeline from Waskada to the Interprovincial Pipeline terminal at Cromer. In February of 1984 the permit was awarded and the line will be completed before the end of the year. Omega's oil will be put directly into the shipping line at our central Waskada battery. The pipeline tariff should be lower than the present cost of trucking the crude oil and the line will eliminate any possible interruption of sales due to poor road conditions during spring load restrictions.

The Company's 1984 budget includes expenditures at Waskada of approximately $12.0 million to cover our share of the costs of drilling wells, expanding the gathering system and installing water and gas injection facilities.

Southeast Saskatchewan

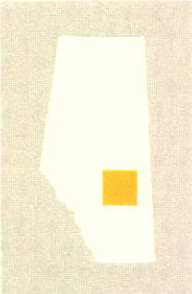
At the end of 1982, Omega operated 8 oil wells in southeastern Saskatchewan with 4 (0.75 net) at Viewfield, 2 (1.5 net) at Willmar and 2 - 100% wells at Halbrite - Weyburn. The Company's 1983 operations added 21 net wells in this area.

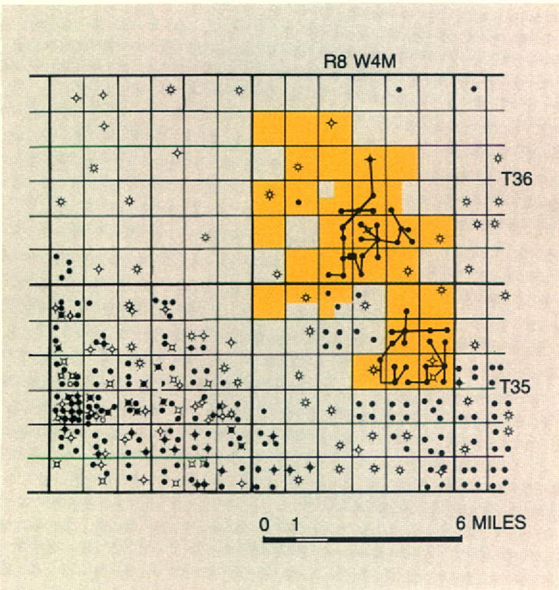
Encouraged by the Provincial Government's royalty incentive program and by Omega's successes in the Manitoba and North Dakota regions of the Williston Basin, the Company became more active in southeastern Saskatchewan, both in drilling and in lease acquisition. During 1983, the Company drilled 24 wells in this general area, 22 of which were 100% Omega projects. Twenty-one of those wells were successful oil wells, two were dry and one was suspended pending further testing.

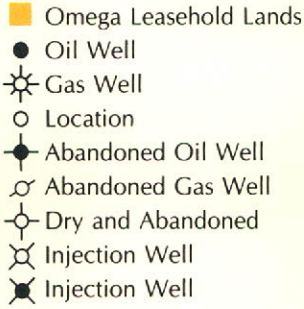
At the end of the year Omega's gross production before royalties from its properties in Saskatchewan was averaging approximately 340 barrels per day compared with 40 barrels per day at the beginning of the year.

Assuming continued success in drilling and acquiring lands in what has become a very competitive arena, Omega could drill as many as 50 additional wells in southeastern Saskatchewan during 1984.

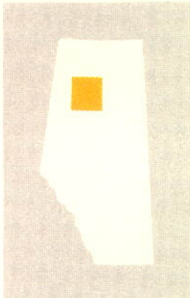
Provost, Alberta

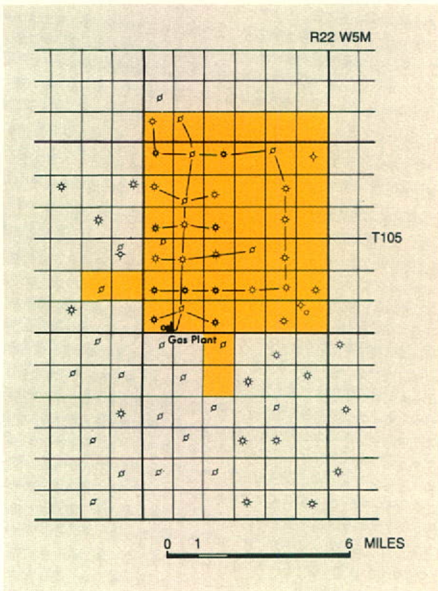






Boyer, Alberta





Provost, Alberta

Omega's return from this field was improved effective July 1, 1983 by the Governments' granting of new oil (NORP) status to those wells which had previously been classified as special old oil (SOOP) wells, resulting in higher prices for the oil sold.

The Company owns an approximate 75% working interest in the Omega-operated Provost field which includes 41 producing oil wells, 4 shut-in gas wells, 2 water injection wells and 2 water source wells.

The Company's share of oil production before royalties averaged 230 barrels per day during 1983, compared to 335 barrels per day in 1982. Solution gas sales declined from 1,500 mcf per day in 1982 to 1,230 mcf per day in 1983.

A pilot waterflood was commenced at Provost in 1981 and because of encouraging results, the Company had intended to initiate a full scale program during 1983. Approval was not received for the project until late in the year. Plans will be completed in 1984 by drilling 22 infill wells on 80 acre spacing, connecting 10 wells to the injection system and installing related facilities at an approximate total cost of $6 million.

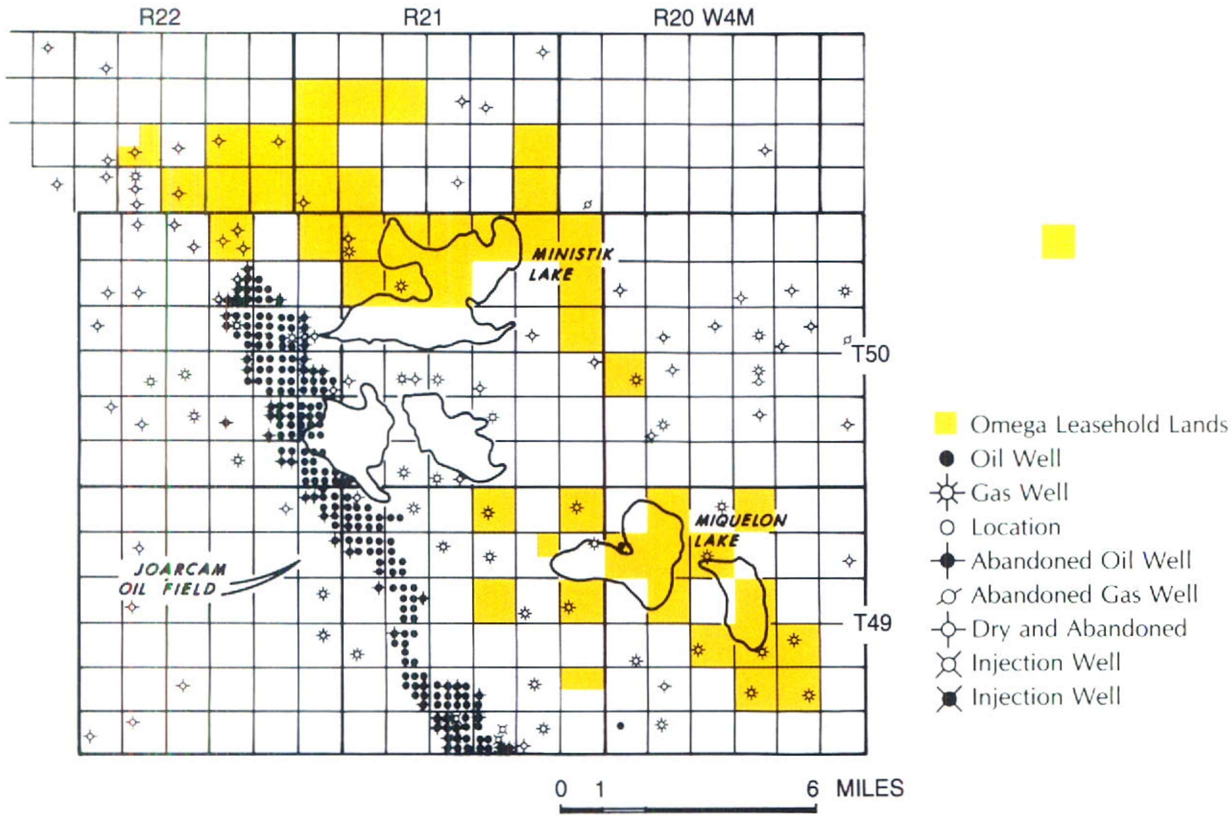
This enhanced recovery program will result in a very significant long term financial return to the Company.

Boyer, Alberta

During the early part of 1983, the Company completed 2 shut-in gas wells at Boyer to increase deliverability. This raised the number of wells operated by Omega in the Boyer field to 29.

The Company's share of production before royalties improved to an average of 720 mcf per day in 1983 from 614 mcf per day in 1982. Notwithstanding that improvement, Omega's sales from the Boyer field have remained below deliverability, ranging from 4% of available plant capacity to 70% and averaging only 28%. This resulted from continuing problems in the marketing of Alberta's natural gas. It is hoped that this situation will improve at an early date.

Joarcam, Alberta



Joarcam, Alberta

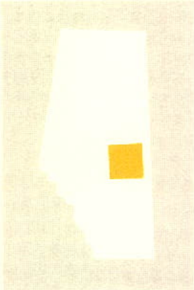
In the 1982 Annual Report it was noted that the Company's reserves in this area were expected to be connected to an export market in the second half of 1984. That market has not materialized and deliveries will not occur this year.

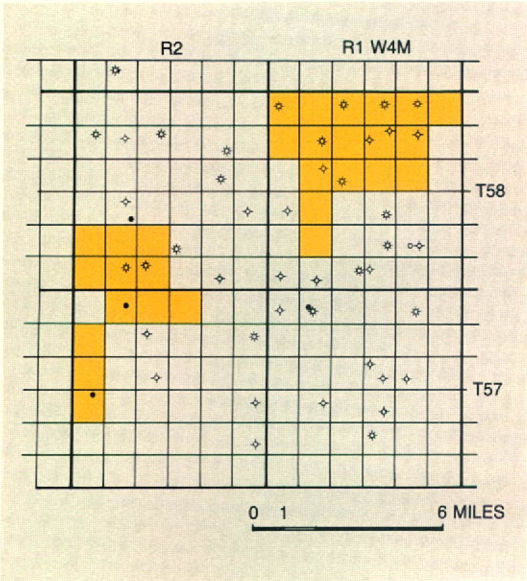
In order to delineate our reserves in this area as part of the Company's announced intention to explore for and develop natural gas reserves in Alberta, 10 additional wells were drilled on the Company's two blocks of land in this area at Ministik and Miquelon. Two of those wells were drilled at no cost to Omega on portions of the Ministik lands farmed out to other companies. Both of those wells were dry. The 8 wells drilled by Omega were controlled as to a 50% interest. Six were completed as gas wells and 2 were cased pending further testing.

At the end of 1983 the Company held working interests ranging from 15% to 50% in 14 shut-in natural gas wells at Joarcam with production possible from one or more of the Viking, Ostracod, Glauconite and Ellerslie zones.

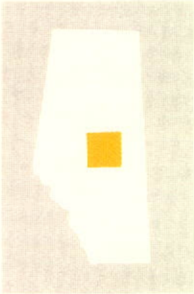
Omega's share of natural gas reserves in place at Joarcam is approximately 5 billion cubic feet. Such reserves will support the economics of development when a market is available. Efforts to find a market will continue and it is hoped that sales from this area will commence during 1985 or 1986.

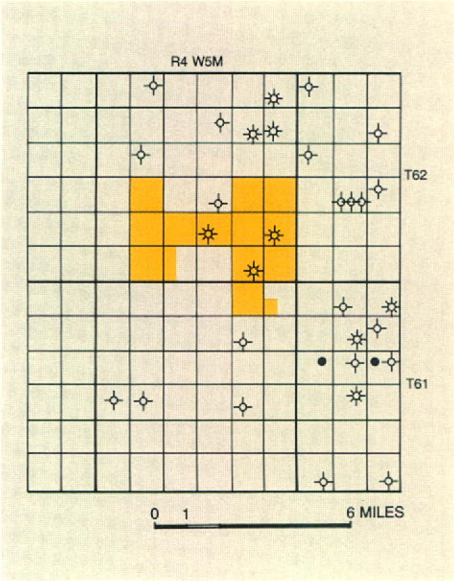
Frog Lake, Alberta





Vega, Alberta





Frog Lake, Alberta

Omega holds a 25% interest in 17,950 acres and a 50% interest in an additional 640 acres at Frog Lake on which there are 9 shut-in gas wells and 1 heavy oil well.

During the last half of 1983, the operator of this prospect carried out a production test of the oil well to determine its productivity using updated conventional methods. Results were encouraging and further work is under way to advance the development of these properties.

The most likely market for the natural gas reserves underlying these lands is thought to be heavy oil projects in the Cold Lake area. A number of requests for approval of recovery projects should increase the activity in that area and may improve the prospects for an earlier market than had been expected following cancellation of plans for mega projects.

Vega, Alberta

Omega has a 100% working interest in 6,240 acres of Crown leases at Vega. In October of 1983, two wells were drilled and in November a third well was drilled on an adjoining 1,920 acre parcel of land in which the Company earned a 100% interest in the test well spacing unit and a 50% interest in the balance of the lands.

All three of the wells were completed as shut-in Viking gas wells. Further development of these lands will be delayed until market conditions for natural gas improve.

North Dakota, U.S.A.

Omega has 50% working interests in approximately 8,300 net acres of land in North Dakota, located just south of our holdings at Waskada, Manitoba.

The first well was drilled on those lands in December of 1982 and was completed as a Spearfish well, the same zone that is productive at Waskada. Two additional wells were drilled and completed as Spearfish wells early in 1983, following which a detailed seismic program was carried out by Omega and its operating partner. There are plans to drill a number of wells on those lands during 1984.

Other Areas

As indicated on the table on page 5, Omega has interests in 209,134 net acres of lands. The Company's significant cash flow will accommodate rapid evaluation and development of the undeveloped portion of those lands and provide means for acquisition of new lands as opportunities arise.

During the year, the Company sold its minority interest in 5 wells at Northgate, Saskatchewan.

Oil production at Waskada

PRODUCTION AND RESERVES

Once again during 1983, Omega's net share of oil and gas production before royalties showed substantial improvement over the previous year. Oil production averaged 3,776 barrels per day compared to 1,643 barrels per day in 1982, an increase of 130%. By year-end, oil production had reached 4,300 barrels per day. Net production of natural gas increased by 47% to 3,380 mcf per day in 1983 compared to 2,300 mcf per day in 1982.

Omega's reserves, as calculated by independent engineering consultants, continued to increase. Proven net oil reserves, calculated after deductions for royalties increased by 86% to 13.5 million barrels at the end of 1983, after production for the year of 1.1 million barrels. Net proven natural gas reserves increased by 22% to 38.5 billion cubic feet at December 31, 1983 compared to 31.5 billion cubic feet at the end of 1982, after production of 1.0 billion cubic feet.

Most of the increase in proven oil reserves resulted from the Company's 97 well drilling program at Waskada. The drilling program in southeastern Saskatchewan also had a significant impact, contributing about 10% of the total proven reserves. The current year should see a greater share of the Company's reserves in Saskatchewan.

Petroleum and Natural Gas Reserves

	Company Share Before Royalties		Company Share After Royalties	
	Crude Oil & NGL (Mstb)	Natural Gas (MMcf)	Crude Oil & NGL (Mstb)	Natural Gas (MMcf)
Proven Reserves at December 31, 1982	8,419	36,618	7,274	31,491
Additions	8,719	9,666	7,362	8,019
Production	(1,378)	(1,234)	(1,140)	(1,010)
Proven Reserves at December 31, 1983	15,760	45,050	13,496	38,500
Probable Additional Reserves	17,600	4,350	15,246	3,550
Total Proven and Probable Additional Reserves at December 31, 1983	33,360	49,400	28,742	42,050

Future cash flow from the Company's reserves, as calculated by the independent engineering consultants, is shown on the table below. Undiscounted cash flow from net proven reserves is calculated to be $759.1 million compared to $417.4 million one year ago. Using a 15% discount factor, cash flow from proven oil and gas reserves is calculated to have a present value of $244.0 million compared to a present value of such reserves of $166.5 million at the end of 1982. At a 15% discount rate, the present value of proven and probable reserves of oil and gas at December 31, 1983 was $358.6 million compared to $306.8 million one year ago. All of the values given here and in the table are calculated after deducting estimated royalties, operating costs, future capital expenditures required to place the probable additional reserves on production and federal and provincial taxes other than income taxes.

In addition to the areas highlighted in this report the Company has producing natural gas properties in Alberta which provide ongoing sources of revenue at:

Birch Lake
Drumheller
Sedalia
Wayne
Westlock

The Company has future sources of revenue from certain properties on which natural gas reserves have been determined but where development will not occur until there has been a turnaround in the natural gas markets. Including the properties which have been highlighted, the unconnected natural gas reserves, all of which are located in Alberta, listed in the order of magnitude are at:

Joarcam
Frog Lake
Alix
Medicine Hat
Atlee Buffalo
Vega
Donalda

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

	0%	12%	15%	20%
		($000)		
Proven Remaining Reserves	759,096	285,721	244,043	195,930
Probable Additional Reserves	1,159,543	155,754	114,598	73,999
Total Proven and Probable Additional Reserves	1,918,639	441,475	358,641	269,929

Net Production before Royalties

	1979	1980	1981	1982	1983
Petroleum (bbls)	50,878	143,051	211,202	599,550	**1,378,094**
Natural Gas (Mcf)	361,320	343,623	1,133,914	839,844	**1,233,846**

FINANCIAL REVIEW

Omega's revenues during 1983 totalled $45.4 million ($3.28 per common share) compared to $20.7 million ($1.50 per share) in 1982, an increase of 119%. Essentially all of that revenue was generated in Canada, 86% from the Waskada field in Manitoba, 4% from southeastern Saskatchewan and 10% from Alberta. The average price received for crude oil in 1983 was $37.42 per barrel and the average price received for natural gas was $2.88 per mcf. The outlook for prices in 1984 appears at this point to be one of stability.

Cash flow from operations during 1983 was $32.9 million ($2.38 per share), up 145% from $13.4 million ($0.97 per share) in 1982.

Net earnings after provision for income taxes were $18.5 million ($1.34 per share) compared to $6.6 million ($0.48 per share) in 1982, an increase of 179%.

Total expenses, excluding income taxes and federal revenue taxes, increased by 47% to $13.4 million from $9.2 million in 1982. Higher production costs as a result of the greater number of wells on production accounted for $1.7 million of the increase. General and administrative costs rose to $1.5 million from $0.7 million in 1982 due to the greater number of employees required to manage the Company's increased activities. The total number of employees increased to 47 at December 31, 1983 from 33 at the beginning of the year. Interest on bank loans fell to $1.7 million from $2.6 million in 1982 because of lower interest rates as well as lower average outstanding loans during 1983. Provision for depletion and depreciation was $6.2 million in 1983 compared to $3.5 million in 1982. The increase was due to the Company's significant investments in fixed assets over the past two years.

The Federal Government's Petroleum and Gas Revenue Tax was $4.8 million compared to $2.1 million in 1982. This increase reflects the Company's higher revenues as well as the fact that the rate of tax, before deductions and allowances, was increased on June 1, 1983 from 14.67% to 16%.

Provision for deferred income taxes was $8.3 million in 1983 compared to $3.3 million in 1982, with the increase primarily due to the Company's significantly higher revenues. The dramatic increase in Omega's revenues over the past two years and the fact that most of our expenditures are classified as development expenditures for income tax purposes and are therefore subject to deduction from taxable income at only 30% per year, has resulted in the Company's tax pools and allowable deductions not being sufficient to continue to offset income subject to tax. For that reason, provision has been made for current taxes payable in the amount of $0.8 million. The Company has accumulated investment tax credits over the years which are allowed as a credit against Federal income taxes otherwise payable but not Provincial taxes. Those credits were sufficient to completely offset Federal taxes and consequently the current taxes payable relate only to the Provinces.

During 1983, Omega's capital expenditures totalled $35.7 million, an increase of 28% over $27.8 million in 1982. Of the total, $20.2 million was spent on exploration and development drilling, and $15.5 million was spent on production equipment, including approximately $3 million for the Company's gas plant at Waskada. The figures given here are before deducting grants received under the Federal and Provincial incentive programs which totalled $4.7 million in 1983 compared to $2.2 million in 1982. Amounts received under the Petroleum Incentive Programs are the maximum amounts available, since the Company has a Canadian Ownership Rating (COR) under those programs of over 95%.

At December 31, 1983, Omega's working capital deficit was $8.3 million, down from $9.0 million at the beginning of the year. This deficiency as well as a planned capital expenditure budget of approximately $50 million will be easily financed by cash flow and available lines of credit.

The Company's total assets increased by 51% to $83.5 million at December 31, 1983.

OMEGA HYDROCARBONS LTD.

CONSOLIDATED BALANCE SHEET

as at December 31, 1983

		1983	1982
ASSETS	**Current Assets**		
	Accounts receivable	**$ 6,914,000**	$ 4,570,000
	Petroleum Incentives Program claims	**2,902,000**	903,000
	Current portion of notes receivable (note 2)	**1,003,000**	959,000
		10,819,000	6,432,000
	Fixed Assets (note 3)		
	Petroleum and gas properties and equipment	**82,829,000**	51,778,000
	Accumulated depletion and depreciation	**(11,796,000)**	(5,634,000)
		71,033,000	46,144,000
	Other Assets		
	Notes receivable (note 2)	**1,513,000**	2,465,000
	Other	**146,000**	130,000
		1,659,000	2,595,000
		$83,511,000	$55,171,000
LIABILITIES	**Current Liabilities**		
	Bank indebtedness, unsecured	**$ 2,927,000**	$ 1,336,000
	Accounts payable and accrued liabilities	**12,019,000**	7,027,000
	Income and other taxes payable	**4,127,000**	2,090,000
	Current portion of bank loans	**—**	4,980,000
		19,073,000	15,433,000
	Bank Loans (note 4)	**11,160,000**	13,438,000
	Gas Production Prepayments	**519,000**	459,000
	Deferred Income Taxes	**13,172,000**	4,909,000
SHAREHOLDERS' EQUITY	**Capital Stock** (note 5)	**14,009,000**	13,823,000
	Retained Earnings	**25,578,000**	7,109,000
		39,587,000	20,932,000
		$83,511,000	$55,171,000

Contingent Liabilities (note 6)

Approved by the Board

Director

Director

OMEGA HYDROCARBONS LTD.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1983

	1983	1982
Revenue		
Oil and gas sales, net of royalties	**$45,252,000**	$20,666,000
Other	**118,000**	64,000
	45,370,000	20,730,000
Expenses		
Production	**4,104,000**	2,357,000
General and administrative	**1,485,000**	698,000
Interest on bank loans	**1,697,000**	2,638,000
Depletion and depreciation	**6,162,000**	3,469,000
	13,448,000	9,162,000
Earnings before corporate taxes	**31,922,000**	11,568,000
Provision for corporate taxes (note 7)	**13,453,000**	4,952,000
Net Earnings	**18,469,000**	6,616,000
Retained earnings at beginning of year	**7,109,000**	1,533,000
Purchase of common shares	**—**	(1,040,000)
Retained Earnings at End of Year	**$25,578,000**	$ 7,109,000
Net Earnings per Common Share	**$1.34**	$.48

OMEGA HYDROCARBONS LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1983

	1983	1982
Working Capital Derived From		
Operations		
Net earnings	**$18,469,000**	$ 6,616,000
Items not involving working capital		
Depletion and depreciation	**6,162,000**	3,469,000
Deferred income taxes	**8,263,000**	3,327,000
	32,894,000	13,412,000
Bank loans	**—**	3,735,000
Notes receivable	**1,138,000**	971,000
Issue of common shares	**186,000**	731,000
Gas production prepayments	**60,000**	111,000
Other	**—**	5,000
	34,278,000	18,965,000
Working Capital Applied To		
Fixed assets	**35,727,000**	27,824,000
Petroleum Incentives Program claims	**(4,676,000)**	(2,217,000)
Bank loans	**2,278,000**	—
Purchase of common shares	**—**	1,322,000
Notes receivable	**186,000**	731,000
Other	**16,000**	—
	33,531,000	27,660,000
Increase (Decrease) in Working Capital Position	**747,000**	(8,695,000)
Working capital (deficiency) at beginning of year	**(9,001,000)**	(306,000)
Working Capital (Deficiency) at End of Year	**$ (8,254,000)**	$ (9,001,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1983

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Omega Hydrocarbons Ltd. 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) Petroleum Incentives

Petroleum incentives which are earned by the Company pursuant to legislation enacted by the Federal and Alberta Governments are recorded as a reduction of the related oil and gas fixed assets.

(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 are translated at the rate of exchange applicable to the related assets) are 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.

(f) Earnings Per Share

Earnings per share are based on the weighted average number of shares outstanding during the year.

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: 1984 — $1,003,000; 1985 — $1,060,000; 1986 — $350,000; 1987 — $103,000.

3. FIXED ASSETS

	December 31, 1983		
	Cost	Accumulated Depletion and Depreciation	Net
Canada			
Lease acquisition, exploration and drilling	$45,870,000	$ 7,722,000	$38,148,000
Production equipment and gathering facilities	35,132,000	3,764,000	31,368,000
Other	627,000	248,000	379,000
	81,629,000	11,734,000	69,895,000
United States			
Lease acquisition, exploration and drilling	1,158,000	60,000	1,098,000
Production equipment and gathering facilities	42,000	2,000	40,000
	1,200,000	62,000	1,138,000
	$82,829,000	$11,796,000	$71,033,000

	December 31, 1982		
	Cost	Accumulated Depletion and Depreciation	Net
Canada			
Lease acquisition, exploration and drilling	$30,714,000	$ 3,830,000	$26,884,000
Production equipment and gathering facilities	20,048,000	1,675,000	18,373,000
Other	449,000	129,000	320,000
	51,211,000	5,634,000	45,577,000
United States			
Lease acquisition, exploration and drilling	567,000	—	567,000
	$51,778,000	$ 5,634,000	$46,144,000

4. BANK LOANS

A line of credit in the amount of $30,000,000 has been established with a chartered bank. Borrowings under this line of credit are on a revolving basis and, at the bank's option, may be converted to a five year term loan. No principal repayments are required in 1984 under the current credit arrangement.

The loans bear interest at the bank's prime lending rate, 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.

5. CAPITAL STOCK

(a) 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.

(b) Issued

Changes in issued common shares during the two years ended December 31, 1983 were as follows:

	Number of Shares	Consideration
Balance at December 31, 1981	13,998,078	$13,433,000
Issued for promissory notes under share purchase plan	173,001	692,000
Increase in promissory notes to reflect change in market price of shares reassigned within share purchase plan	—	39,000
Purchased and cancelled	(355,200)	(341,000)
Balance at December 31, 1982	13,815,879	13,823,000
Increase in promissory notes to reflect change in market price of shares reassigned within share purchase plan	—	120,000
Issued for promissory notes under share purchase plan	6,000	66,000
Balance at December 31, 1983	13,821,879	$14,009,000

(c) Shares Reserved

As of December 31, 1983, 720,999 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 in common shares reserved during the two years ended December 31, 1983 were as follows:

	1983	1982
Shares reserved at beginning of year	726,999	—
Additional shares reserved	—	900,000
Shares issued	(6,000)	(173,001)
Shares reserved at end of year	720,999	726,999

6. CONTINGENT LIABILITIES

The Company is contingently liable as guarantor of bank loans totalling $2,176,000 of two limited partnerships managed and operated by the Company.

The Company has been named as one of several defendants in a legal action commenced by a limited partner of a partnership operated and managed by the Company. The plaintiff has alleged that certain actions of the defendants constituted a breach of the Partnership Agreement thereby entitling the Plaintiff to damages. Following the initial trial, the Court of Queen's Bench of Alberta held that the purchase of certain non-producing partnership properties by the Company in 1981 was in breach of the Partnership Act of Alberta. The Court did not consider the question of damages, if any, but directed that the Company is holding these properties in trust for the limited partnership and that certain accountings and inquiries be undertaken with respect thereto. The Company has appealed the judgment. The outcome of this action cannot be determined at this time; accordingly, no provision for damages has been made in the accounts of the Company at December 31, 1983.

7. PROVISION FOR CORPORATE TAXES

The components of the provision for corporate taxes are as follows:

	1983	1982
Current taxes		
Petroleum and Gas Revenue Tax	$ 4,783,000	$2,095,000
Income taxes	840,000	—
Alberta Royalty Tax Credit	(433,000)	(521,000)
Incremental Oil Revenue Tax	—	51,000
	5,190,000	1,625,000
Deferred income taxes	8,263,000	3,327,000
	$13,453,000	$4,952,000

Income tax expense differs from the amounts which would be obtained by applying the Canadian statutory federal income tax rate to the respective years' earnings before corporate taxes. The reconciliation of the Canadian statutory federal income tax rate and the effective income tax rate is as follows:

	1983	1982
Statutory federal income tax rate	46%	46%
Royalties and other payments to provincial governments	5	8
Federal resource allowance	(15)	(18)
Federal depletion allowance	(2)	(8)
Investment tax credits	(10)	(3)
Federal corporate surtax	1	1
Provincial income taxes in excess of federal abatement	3	2
Other non-deductible charges	—	1
Effective income tax rate	28%	29%

The deferred income taxes represent the income taxes otherwise payable as a result of deducting property, exploration, development and equipment costs for tax purposes in excess of the corresponding depletion and depreciation recorded in the accounts. At December 31, 1983 there were approximately $18,800,000 of unclaimed property, exploration and development costs and approximately $21,700,000 of unclaimed capital costs available to be carried foward.

8. RELATED PARTY TRANSACTIONS

(a) Prior to 1983 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, 1983 accounts payable include $228,000 due to AGP and New North.

9. COMPARATIVE FIGURES

Certain 1982 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1983.

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 $432,000.

AUDITORS' REPORT

To the Shareholders of
Omega Hydrocarbons Ltd.

We have examined the consolidated balance sheet of Omega Hydrocarbons Ltd. as at December 31, 1983 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, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
March 23, 1984

Thorne Riddell
Chartered Accountants

TEN YEAR STATISTICAL REVIEW

Per share figures and number of shares shown on these pages have been adjusted for the 3 for 1 stock split on December 30, 1982

	1983 $	1982 $	1981 $
Revenues and Earnings			
Revenues	**45,370,000**	20,730,000	5,715,000
Cash flow from operations	**32,894,000**	13,412,000	2,802,000
— per share	**2.38**	.97	.21
Depreciation and depletion	**6,162,000**	3,469,000	947,000
Petroleum and gas revenue tax	**4,783,000**	2,146,000	431,000
Alberta Royalty Tax Credit	**(433,000)**	(521,000)	(312,000)
Income taxes — deferred	**8,263,000**	3,327,000	818,000
— current	**840,000**	—	—
Net Earnings (loss)	**18,469,000**	6,616,000	1,038,000
— per share	**1.34**	.48	.08
Balance Sheet			
Working capital (deficiency)	**(8,254,000)**	(9,001,000)	(306,000)
Total assets	**83,511,000**	55,171,000	30,084,000
Shareholders' Equity	**39,587,000**	20,932,000	14,908,000
— per share	**2.86**	1.52	1.07
Number of shares outstanding	**13,821,879**	13,815,879	13,998,078
Market price per share — High	**15.12**	9.37	5.33
— Low	**7.12**	3.05	2.58
Capital Expenditures			
Land	**1,678,000**	2,150,000	3,987,000
Drilling and Exploration	**18,532,000**	14,136,000	5,379,000
Production Equipment	**15,517,000**	11,538,000	3,049,000
TOTAL	**35,727,000**	27,824,000	12,415,000
Government incentive payments	**4,676,000**	2,217,000	1,228,000
Net	**31,051,000**	25,607,000	11,187,000
Operations			
Proven reserves before royalties			
— Petroleum (barrels)	**15,760,000**	8,419,000	5,782,000
— Natural Gas (Mcf)	**45,050,000**	36,618,000	38,898,000
Production before royalties			
— Petroleum (barrels)	**1,378,094**	599,550	211,202
— per day	**3,776**	1,643	579
— Natural Gas (Mcf)	**1,233,846**	839,844	1,133,914
— per day	**3,380**	2,300	3,107
Land holdings — gross acres	**303,411**	274,594	267,370
— net acres	**209,134**	187,809	171,672
Wells Drilled — gross	**137**	104	45
— net	**116**	100	35
Number of Employees	**47**	33	15

* not available

1980 $	1979 $	1978 $	1977 $	1976 $	1975 $	1974 $
2,583,000	1,110,000	678,000	627,000	451,000	237,000	157,000
1,813,000	718,000	502,000	489,000	331,000	130,000	19,000
.15	.06	.05	.05	.04	.02	.003
287,000	170,000	78,000	71,000	34,000	53,000	48,000
—	—	—	—	—	—	—
(165,000)	(80,000)	(35,000)	(35,000)	(33,000)	(16,000)	—
614,000	220,000	166,000	175,000	118,000	50,000	—
—	—	—	—	—	—	—
912,000	328,000	268,000	417,000	319,000	88,000	(35,000)
.07	.03	.03	.05	.04	.01	(.01)
682,000	1,971,000	(106,000)	(167,000)	202,000	3,000	21,000
17,203,000	9,669,000	2,950,000	1,096,000	529,000	291,000	187,000
9,402,000	8,010,000	1,272,000	886,000	384,000	(5,000)	(92,000)
.73	.64	.14	.10	.04	—	(.01)
12,791,718	12,551,718	9,251,718	9,096,468	8,586,468	6,486,468	6,486,468
3.08	2.79	1.23	1.00	.33	.05	*
1.88	.93	.60	.27	.03	.01	*
410,000	700,000	202,000	176,000	—	—	—
4,358,000	2,255,000	766,000	218,000	55,000	53,000	—
3,630,000	1,091,000	154,000	148,000	60,000	63,000	—
8,398,000	4,046,000	1,122,000	542,000	115,000	116,000	—
—	—	—	—	—	—	—
8,398,000	4,046,000	1,122,000	542,000	115,000	116,000	—
1,670,000	657,000	*	*	*	*	*
43,357,000	37,052,000	*	*	*	*	*
143,051	50,878	38,948	54,313	38,202	26,776	29,877
391	139	107	149	104	73	82
343,623	361,320	204,170	267,182	337,572	199,775	119,683
939	990	559	732	922	547	328
226,650	191,638	121,381	*	*	*	*
151,185	124,620	99,627	*	*	*	*
51	24	14	2	1	—	—
32	15	6	2	1	—	—
13	8	5	3	2	1	1