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NUMAC
OIL & GAS LTD.

ANNUAL REPORT

1987

CORPORATE PROFILE

Numac Oil & Gas Ltd. is a Canadian natural resources company listed on the Toronto and American stock exchanges. The Company is actively engaged in the search for crude oil and natural gas reserves in the Western Canadian sedimentary basin, primarily in the Province of Alberta.

Numac has established reserves of crude oil and natural gas liquids estimated at 19.8 million barrels and natural gas reserves estimated at 228 billion cubic feet. During 1987, daily production averaged 4,126 barrels of crude oil and liquids and 9.0 million cubic feet of natural gas. At year-end, crude oil and liquids production exceeded 5,000 barrels per day. The Company also has significant interests in heavy oil and uranium.

ANNUAL MEETING

The Annual Meeting of the Shareholders of Numac Oil & Gas Ltd. will be held in the Turner Valley Room of the Westin Hotel, 10135 - 100 Street, Edmonton, Alberta, Canada at 9:00 A.M. on Thursday the 19th day of May, 1988.

CONTENTS

HIGHLIGHTS

FINANCIAL (millions, except per share amounts)	1987	1986 (restated)
Gross Revenue	**$ 42.8**	$ 37.8
Cash Flow from Operations	**$ 25.7**	$ 18.0
Net Earnings	**$ 7.4**	$ 2.0
Per Common Share		
Cash Flow from Operations	**$ 1.04**	$ 0.79
Net Earnings	**$ 0.30**	$ 0.09
Gross Capital Expenditures	**$ 42.9**	$ 25.7
Total Assets	**$ 303.2**	$ 249.6
Long-Term Debt	**$ 39.1**	$ 42.0
Shareholders' Equity	**$ 173.8**	$ 136.8
Common Shares Outstanding at Year End	**25.5**	22.7

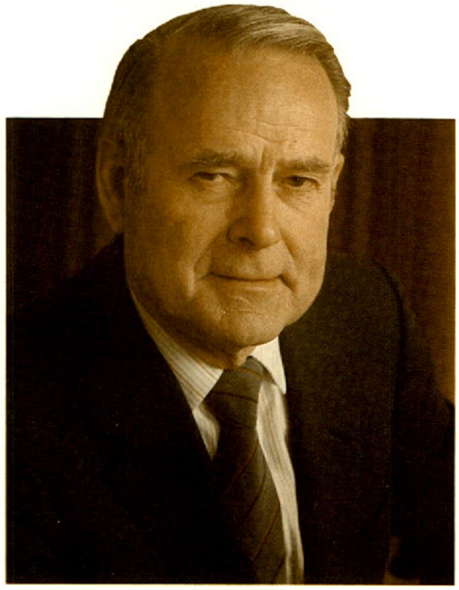
RESERVES (proven and probable)		
Crude Oil and Liquids		
millions of barrels	**19.8**	18.4
Natural Gas		
billions of cubic feet	**227.9**	226.2

PRODUCTION		
Crude Oil and Liquids		
barrels per day	**4,126**	4,149
Natural Gas		
thousands of cubic feet per day	**9,050**	6,690

UNDEVELOPED LAND HOLDINGS (thousands of acres)		
Gross Acres	**2,047.7**	1,987.9
Net Acres	**517.6**	486.9

All amounts in this report are in Canadian dollars unless otherwise stated. All production and reserve statistics are on a pre-royalty basis, unless otherwise stated.

TO OUR SHAREHOLDERS



Having successfully weathered the collapse of world oil prices during 1986, Numac achieved noteworthy improvements in financial results during 1987. Further, continued improvement is expected in the current year as a result of significantly better operating results realized during the last half of 1987.

Gross revenue increased by 13% to \$42.8 million, cash flow increased by 43% to \$25.7 million and net earnings increased by 274% to \$7.4 million.

On a per share basis, 1987 cash flow was \$1.04 compared with \$0.79 in 1986 and net earnings were \$0.30 compared with \$0.09. Per share results for 1987 reflect an additional 2.7 million common shares outstanding as the result of a financing completed in April. Cash flow and earnings for 1986 have been restated due to the disallowance of certain royalty tax credits. Further, earnings for 1986 have been restated to reflect the disallowance of certain tax deductions as the result of a retroactive amendment to the Income Tax Act of Canada.

Due to a substantial improvement in crude oil production volumes, financial results for the fourth quarter were significantly better than those recorded for the same period in 1986. Revenue increased by 44% to \$12.9 million compared with \$9.0 million and cash flow was \$7.6 million compared with \$5.7 million, an increase of 33%.

Notwithstanding a substantial improvement in the last half of the year, crude oil and liquids production for 1987 averaged 4,126 bpd, essentially unchanged compared with 1986. The principal reason that higher production volumes were not attained was the prorationing of production during the first half of the year due to lack of pipeline capacity. However, it is noteworthy that production during the fourth quarter of 1987 averaged 5,092 bpd compared with 3,803 bpd for the first nine months of the year, an increase of 34%. Production for the month of December averaged 5,317 bpd. These increases reflect not only the elimination of prorationing problems but, more importantly, additions to productive capactiy as a result of new oil discoveries.

Gas production increased by 35% to average 9.0 million cubic feet per day compared with 6.7 million during 1986. Selling prices averaged \$1.62 per thousand cubic feet compared with \$2.20 in the prior year, a reflection of continued weakness in markets for Canadian gas. Although we do not anticipate a substantial increase in gas sales during 1988, it is our expectation that both gas prices and sales volumes will improve significantly over the next two to three years.

During 1986 and the first half of 1987, Numac reduced exploration activities in response to depressed crude oil selling prices with the objective of operating substantially within cash flow. However, in response to improved selling prices, an active exploration program was resumed during the last half of 1987. In contrast to the 15 wells drilled during the first six months of the year, Numac participated in 54 wells during the last six months. Of the 69 wells drilled during the year, 35 were cased for oil production and 7 cased for gas production. The results of this increased program have, as noted above, been reflected in increased crude oil production volumes. Numac will be conducting an aggressive exploration and development drilling program during 1988. The Company will participate in the drilling of approximately 100 wells in Western Canada with the principal objectives of adding to crude oil reserves and increasing production which provides immediate cash flow.

During 1987 your Company continued to improve upon its relatively strong financial position. In April, Numac completed an issue of common shares and convertible debentures. Gross proceeds of the financing were \$59.7 million and, as a consequence thereof, long-term bank debt was eliminated and the Company's portfolio of liquid investments at year-end was approximately \$21.7 million. The financial condition of your Company has never been better.

In late 1987 Numac acquired approximately 84% of the outstanding shares of Giant Reef Petroleums Limited, a public oil and gas company, for a purchase price of \$8.4 million cash, or, \$3.00 per share. The Company will be managed by Numac with the objective of expanding its exploration activities. Numac also acquired 22.5% of the common shares of Electromagnetic Oil Recovery Ltd., a private Canadian company primarily engaged in the development and application of electromagnetic technology to enhance recovery from heavy oil reservoirs. Further, during 1987 Numac concluded an agreement respecting the sale of its 10% working interest in the Midwest Lake uranium deposit to Denison Mines Limited and a joint venture partner but retained its 15% carried interest. Denison is actively pursuing the completion of a feasibility study prior to bringing this high-grade deposit into production. These developments are elaborated upon elsewhere in this report.

Hadley Case, a director of Numac since its inception in 1963, has decided not to stand for re-election. We value having had his counsel over these many years and wish to thank him for his significant contribution to the Company.

Our continuing objective is to enhance shareholder value. We are confident this can be achieved during 1988 and beyond. On behalf of the Board of Directors,
I would like to express our appreciation to Numac's employees for their continued dedication to the Company and to our shareholders for their continued support of management.

W. S. McGregor

W. S. McGregor
President and Chief Executive Officer

Edmonton, Alberta
March 16, 1988

NUMAC
OIL & GAS LTD.

Western Canadian Properties

- Area of Interest
- Oil Field
- Gas Field

EXPLORATION AND DEVELOPMENT

As a result of depressed crude oil prices which prevailed throughout 1986 and continued during the first several months of 1987, Numac's exploration program during the first half of the year was relatively modest as compared to prior years. This was consistent with Numac's policy of operating within internally generated sources of funds. However, as a result of a financing completed in April, 1987 and responding to an improvement in crude oil prices, Numac resumed a much more active exploration and development drilling program during the last six months of the year. As a result, total gross capital expenditures related to the Company's exploration, development and lease acquisition program were $34.5 million, an increase of 35% as compared with $25.6 million in 1986. Increased activity in the last half of the year is reflected in the fact that of the 69 wells in which the Company participated during 1987, 78% of these were drilled during the last six months. As noted elsewhere in this report, this accelerated program resulted in reserve additions and much higher crude oil production volumes by year-end.

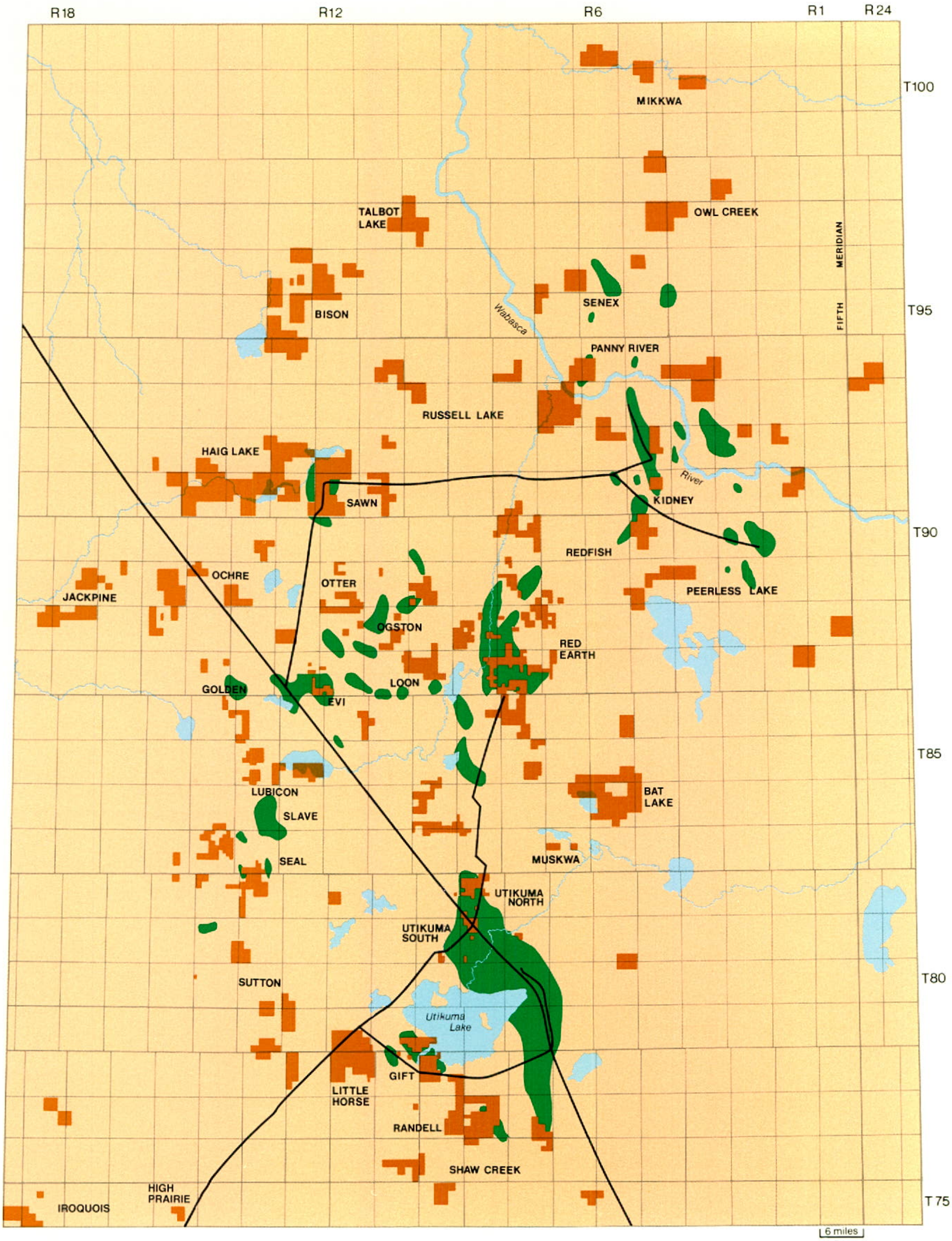
During the past eighteen months there have been several positive changes to the fiscal environment within which we operate that have had a significant impact upon the profitability of our industry. These include the elimination of the Petroleum and Gas Revenue Tax, reductions in marginal royalty rates, royalty holidays and cash incentives to partially fund exploration and development activities. These measures have substantially improved the economics of oil and gas exploration in Western Canada. Further, it is our view that although crude oil prices are likely to remain volatile in the short-term, the longer term outlook for both crude oil and gas prices is very positive.

Having regard to the relatively attractive fiscal environment within which we are operating, Numac's strong financial condition and the outlook for oil and gas prices, we have budgeted $39.5 million for exploration and development during 1988, an increase of 15% compared with 1987.

The map on page 4 highlights an area of north-central Alberta in which Numac has traditionally concentrated its exploration and development activities. This oil prospective area is commonly referred to as the East Peace River Arch. The principal producing zones are the Granite Wash, Gilwood, Keg River and Slave Point formations. Industry has also focused exploration programs on the delineation of Keg River reef anomalies in what is referred to as the Senex-Peerless Lake play in the northeast portion of the mapped area. Your Company has and will continue to be an active participant in this play.

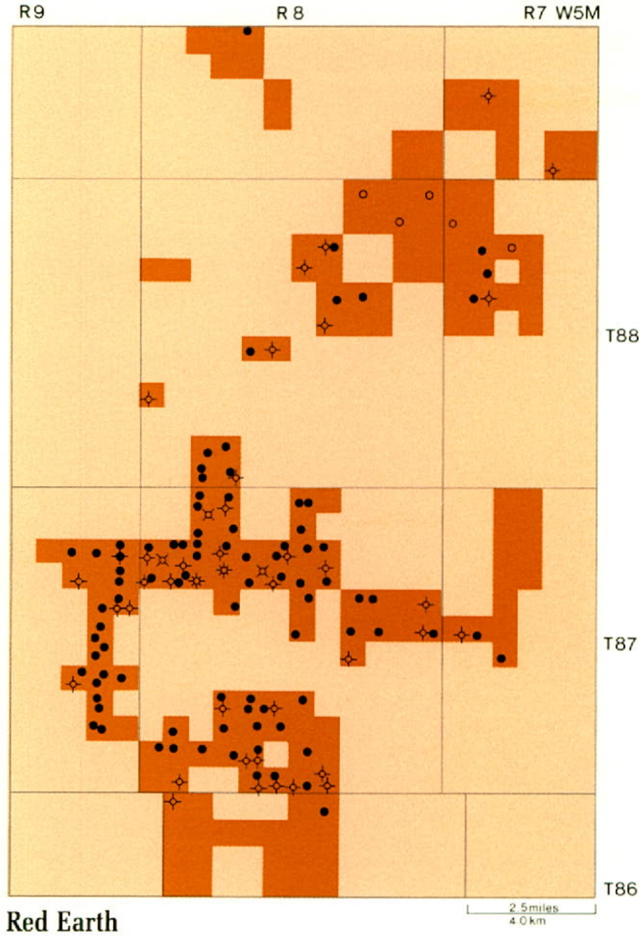
Drilling activities in the East Peace River Arch are, generally speaking, limited to the winter drilling months due to surface conditions. Further, lack of pipeline facilities has previously been an impediment to exploration and production activities. However, the Wabasca Pipeline system was constructed in early 1987 and now connects the Senex-Peerless Lake area to the Rainbow pipeline. This new pipeline, which also services the Company's production at Sawn, has not only reduced operating costs and thereby improved the economics of producing oil from these areas but has also made exploration and development activities more attractive.

Numac's land holdings in the mapped area consist of an average working interest of 39.6% in approximately 682,000 gross acres and constitutes one of the best representations of any major or independent company. The Company's principal producing fields in the East Peace River Arch are Red Earth, Utikuma, Gift, Sawn, Evi and Kidney. These and other areas of current and proposed exploration and development activity, some of which are outside of the mapped area, are described below.



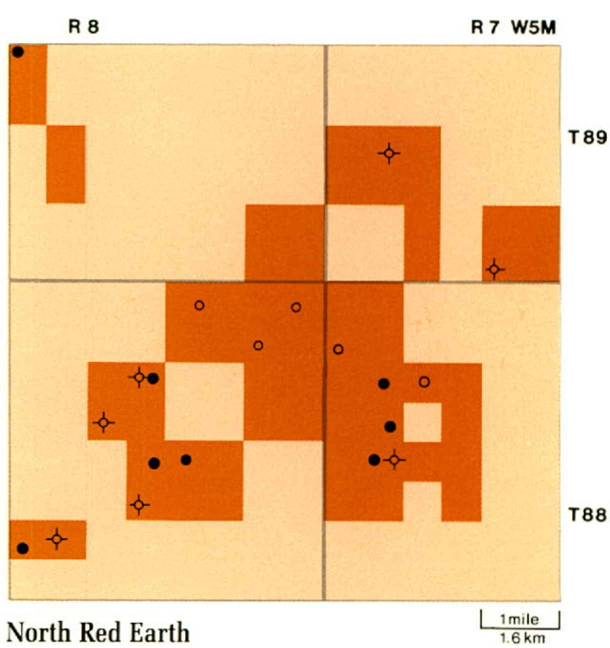
East Peace River Arch

Numac Interest Lands — Oil Fields — Oil Pipelines



Red Earth

- ■ Numac Interest Lands
- ● Oil Well
- ☼ Gas Well
- ○ Location
- ⟡ Dry Hole



North Red Earth

- ■ Numac Interest Lands
- ● Oil Well
- ○ Location
- ⟡ Dry Hole

RED EARTH

The Red Earth field, which is productive in the Granite Wash and Slave Point formations, continues to be one of Numac's most productive oil fields. During 1987 Numac participated in the drilling of five successful Granite Wash oil wells in this area. Of particular note are three new oil discoveries drilled at **North Red Earth**, approximately five miles northeast of the main field. As a result of a land acquisition program undertaken during 1987 and early 1988, Numac now has working interests ranging from 50% to 100% in 5,440 acres in this play. Several drilling locations have been identified as the result of a seismic program carried out over the majority of this acreage. A multi-well exploration program is currently being conducted on these lands. In addition to an ongoing development drilling program at Red Earth, Numac will be pursuing several other exploration prospects in this oil prone area.

GIFT

Numac has a 33.3% working interest in 28 oil wells at Gift. Production is primarily from the Slave Point formation. Other producing zones are the Granite Wash and Gilwood sands. During 1987 a waterflood project was initiated by Numac on its acreage and by an industry competitor on offset acreage with the objective of increasing production and recoverable reserves in the Slave Point "A" pool. Several additional locations will be drilled in 1988 to further develop this project. Numac's share of recoverable reserves are expected to increase from 750,000 barrels to approximately 2,600,000 barrels at an incremental cost of $2.50 per barrel as a result of this project. Productivity increases are expected by late 1988. A second waterflood will commence in the second quarter of 1988 to enhance reserves and productivity from the Slave Point "C" pool.

SAWN

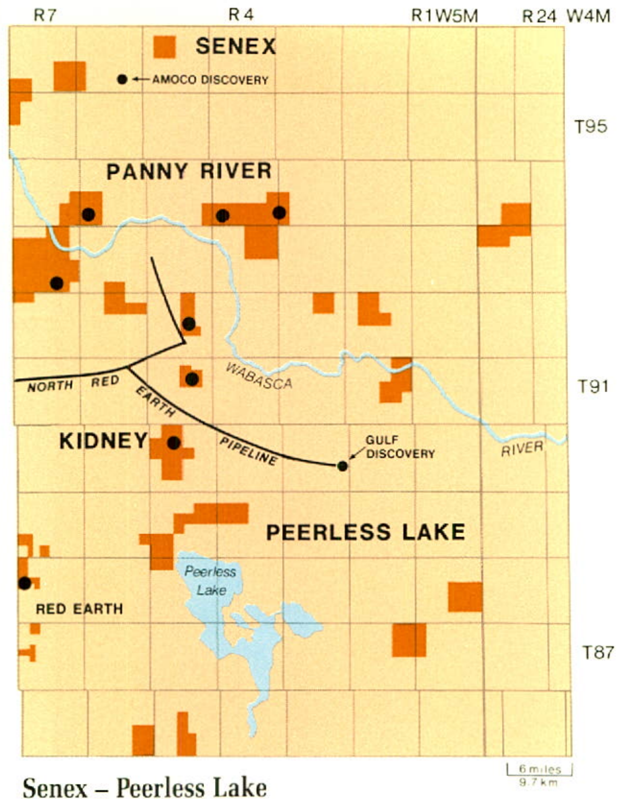
At Sawn, Numac has an average working interest of 33.2% in 21,120 acres. To date, 27 producing wells have been completed on these lands for production from the Slave Point formation. A waterflood project was initiated in the Slave Point "A" pool in 1987 with the objective of increasing production and recoverable reserves. Numac's share of increased recoverable reserves are estimated to be approximately 600,000 barrels at an incremental cost of $0.30 per barrel. Further, a pilot waterflood project will commence in the second quarter of 1988 to enhance oil recoveries and production in the Slave Point "J" pool. The majority of this pool lies on Numac's 65% interest acreage. If successful, this pilot project will be substantially expanded.

SENEX-PEERLESS LAKE

The Senex-Peerless Lake area of north-central Alberta continues to be the subject of active exploration and development activity. Oil bearing reefs in the Devonian Keg River formation are the primary objectives in this play. The key exploration tool in the delineation of these reefs is closely controlled high-resolution seismic. The economics of exploration in this area have been enhanced by the construction of the Wabasca pipeline in early 1987.

At year-end Numac had an average working interest of 37.6% in 185,510 acres of trend acreage in this area where we continue to selectively increase our land position. Numac's producing fields in this play are Kidney and Panny River.

A ten-well drilling program conducted on the Company's Kidney acreage during 1987 resulted in eight wells cased for oil production. Numac now has interests in 15 producing oil wells in this play. In addition to a continued drilling program at Kidney, exploration and development drilling will be undertaken at Peerless Lake and Panny River during 1988.



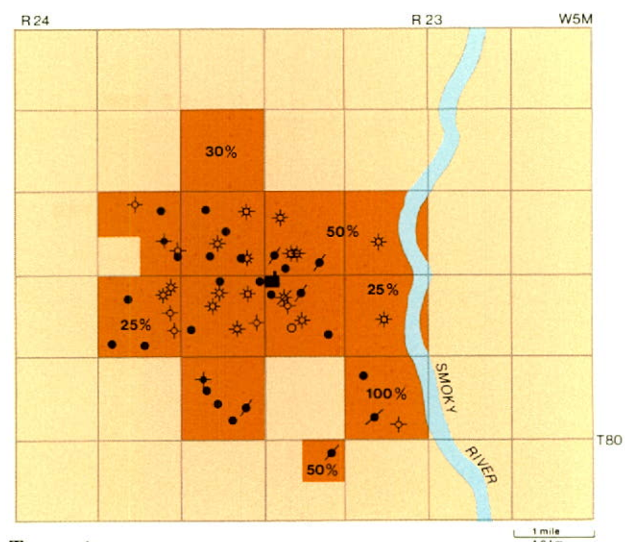
Senex – Peerless Lake

- Numac Interest Lands
- Numac Discoveries

TANGENT

Tangent, one of Numac's principal producing oil fields, was a focal point of Numac's exploration activity during 1987. Employing three-dimensional seismic techniques, Numac participated in the drilling of seven exploratory wells on this acreage during the last half of 1987. The objective of this seismic and drilling program was to further delineate the highly productive dolomite reservoirs in the Wabamun formation. This program resulted in five royalty-free Wabamun oil wells in which Numac has working interests from 25% to 50%. Production rates range from 50 to 400 bpd. Additional exploratory drilling is planned for Numac's Tangent acreage during 1988.

As a result of its success at Tangent, Numac has generated several other prospects which are prospective in the Wabamun formation. These include Nampa, Griffin, Cindy and Belloy.



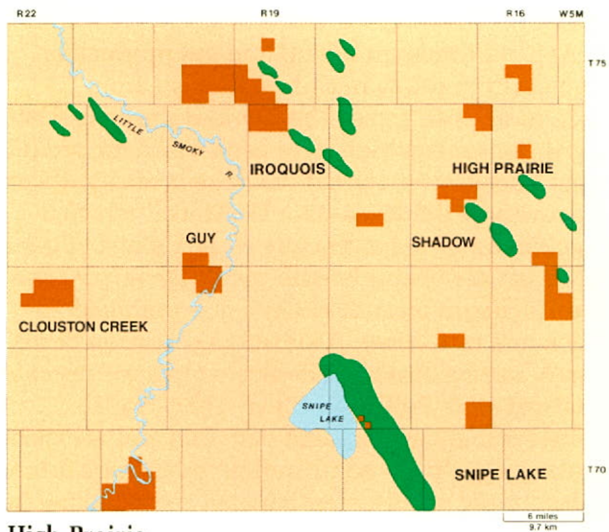
Tangent

- Numac Interest Lands
- Oil Well
- Gas Well
- Location
- Gas Plant
- Suspended
- Dry Hole

HIGH PRAIRIE

The High Prairie oil play is a widely spread exploration area that has seen several significant new discoveries in the past year. The main producing horizon is the Devonian Gilwood sand.

Numac participated in the acquisition of approximately 31,500 acres in this play during 1987 and now has an average working interest of 32.1% in approximately 43,000 acres. Detailed seismic is necessary to identify the Gilwood oil potential and with that objective Numac participated in a three-dimensional seismic program over its High Prairie South acreage in early 1988. Exploratory drilling is planned for this acreage which is in close proximity to discoveries by others. Other exploration prospects within the High Prairie play in which the Company has an interest include Iroqouis, Shadow, Guy and Clouston Creek.



High Prairie

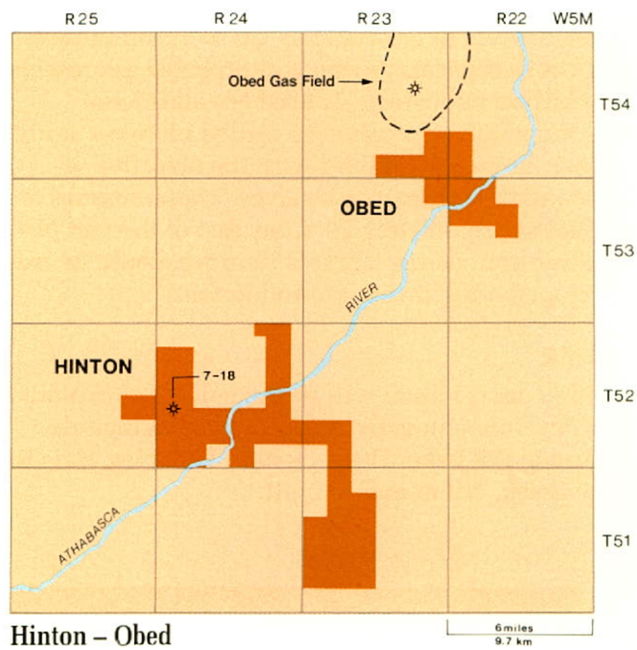
- Numac Interest Lands
- Oil Fields

HINTON

The Company has a 25% working interest in 22,880 acres approximately five miles northeast of the town of Hinton, Alberta. A 16,300 foot exploratory well,Cdn-Sup et al Hinton N 7-18-52-24 W5M, was cased for Devonian Leduc gas in late 1986 after penetrating 554 feet of reef. In addition to the potential for major gas reserves, the economics of the well are enhanced by the prospect for significant recoveries of sulphur. Due to the fact that the well is in close proximity to the town of Hinton, testing and completing has been delayed due to the necessity of satisfying strict environmental and safety procedures. Delays have also been encountered in obtaining custom manufactured completion equipment. The well is now scheduled to be tested in the second quarter of 1988. A successful test at Hinton would result in development drilling to further delineate the structure. This prospect has the potential to make a significant impact on Numac's future cash flow and earnings. In addition, there are other seismically identified structures on this acreage.

OBED

In late 1986, Numac acquired a 25% interest in 4,480 acres at Obed. During 1987, an additional 3,520 acres were acquired in which Numac has a 33.3% interest. These lands are approximately seven miles to the northeast of the Company's Hinton acreage. Seismic information indicates the presence of an excellent Devonian gas prospect with potential for sulphur recoveries. An exploratory well is under consideration for 1988.



Hinton – Obed

- Numac Interest Lands
- Gas Well

GOLD CREEK

At Gold Creek, in the oil and gas productive Elmworth trend, Numac has interests from 7.5% to 25% in 175,840 acres. The Company now has interests in 34 gas wells which have been cased for production from one or more formations. The most significant discovery is the 10-34-69-5 W6M well which production tested at the rate of 24.2 mmcf of gas and 1,200 barrels of condensate per day from two zones in the Wabamun formation having a combined pay thickness of 161 feet. A substantial portion of the Gold Creek acreage has been dedicated to a gas purchase contract with ProGas Limited. This area has considerable development potential and is expected to make a significant contribution to Numac's future gas sales. Initial sales are anticipated commencing in the 1989/90 contract year.

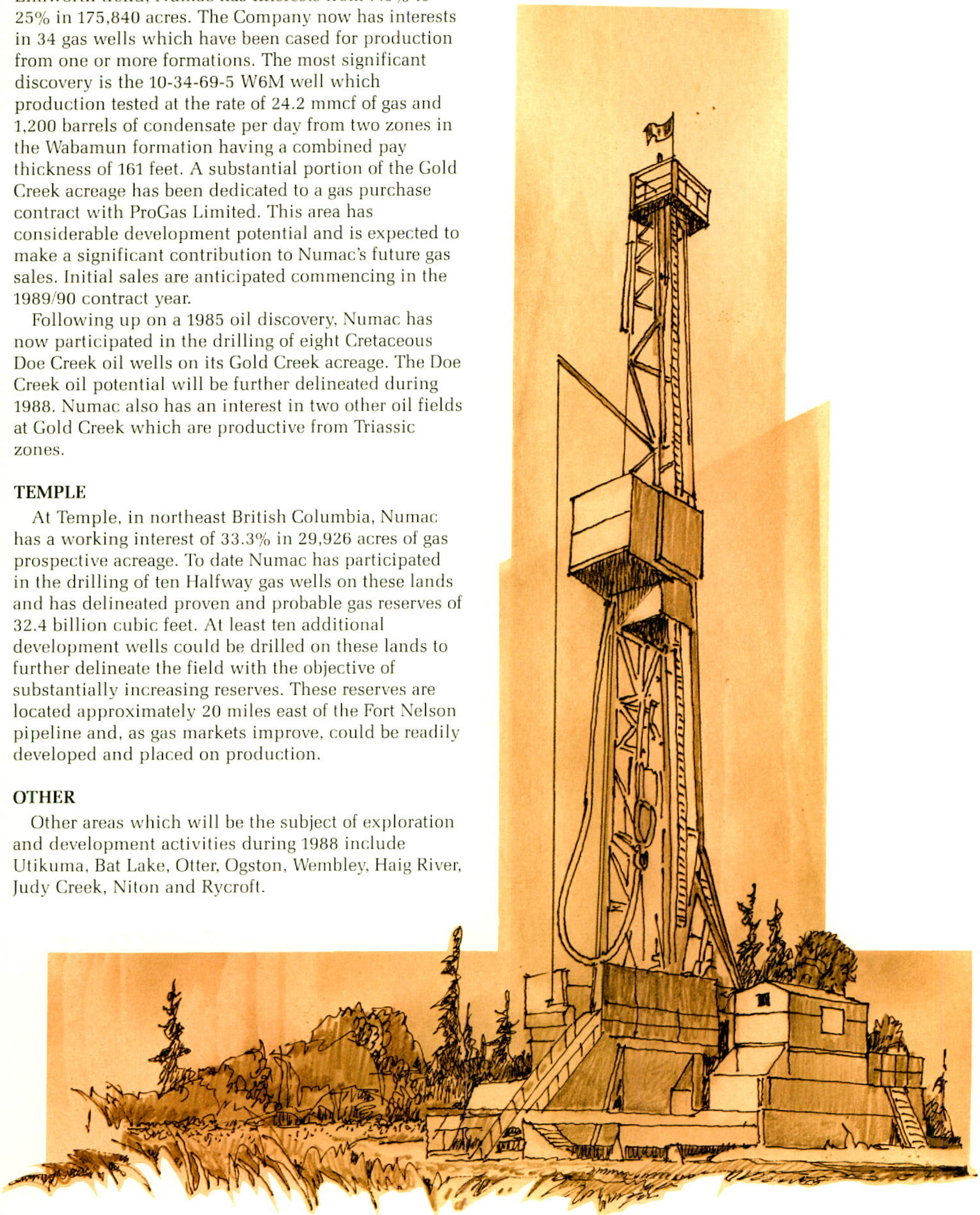
Following up on a 1985 oil discovery, Numac has now participated in the drilling of eight Cretaceous Doe Creek oil wells on its Gold Creek acreage. The Doe Creek oil potential will be further delineated during 1988. Numac also has an interest in two other oil fields at Gold Creek which are productive from Triassic zones.

TEMPLE

At Temple, in northeast British Columbia, Numac has a working interest of 33.3% in 29,926 acres of gas prospective acreage. To date Numac has participated in the drilling of ten Halfway gas wells on these lands and has delineated proven and probable gas reserves of 32.4 billion cubic feet. At least ten additional development wells could be drilled on these lands to further delineate the field with the objective of substantially increasing reserves. These reserves are located approximately 20 miles east of the Fort Nelson pipeline and, as gas markets improve, could be readily developed and placed on production.

OTHER

Other areas which will be the subject of exploration and development activities during 1988 include Utikuma, Bat Lake, Otter, Ogston, Wembley, Haig River, Judy Creek, Niton and Rycroft.



LAND

Consistent with its policy of maintaining a quality land position and encouraged by the improved state of the oil and gas industry, Numac increased its land acquisition program during 1987. Lands earned pursuant to farmin arrangements combined with land sale acquisitions totalled 142,106 gross (56,729 net) acres, with an average working interest of 40%. After adjustments for expirations and farmouts, Numac's gross working interest acreage in the Western Canadian sedimentary basin remained essentially constant at 1,922,051 acres compared with the prior year. However, the Company's net working interest acreage increased by 36,165 acres to 584,990 acres, 81% of which is located in the Province of Alberta. Approximately 86% of total acreage is in the undeveloped category and, accordingly, the Company has a large prospective land base.

Increased optimism regarding the future prospects for our industry is evidenced by the fact that the average price paid at Alberta Crown sales during 1987 increased by 128% to $120.86 per acre compared with $52.96 per acre during 1986. Reflecting that optimism, Numac paid an average of $179.05 per acre compared with $38.52 per acre during 1986. Numac's total cost of Crown land sale acquisitions during 1987 was $8.5 million. The higher average price per acre paid by the Company compared with the industry average reflects Numac's emphasis on oil prospective acreage and the acquisition of lands in close proximity to exploratory successes during the year.

Numac's exploration program in the East Peace River Arch area of north-central Alberta continues to be rewarding. Consequently, the majority of acreage additions during the year were in this oil prone area. Specifically, acquisitions were concentrated in the Red Earth, Otter, Panny River and Kidney areas. At the same time, selective acreage was acquired in other areas of the province at Obed, Peco, Iroquois, High Prairie, Guy, Niton and Driftpile. Having regard to the increasing significance of heavy oil, Numac also acquired working interests in several parcels of heavy oil prospective acreage in west-central Saskatchewan.

Subsequent to year-end, 124,867 acres of the Company's royalty interest acreage in the Mackenzie Delta were relinquished since drilling requirements were not fulfilled prior to the expiration dates of the pertinent exploration agreements. However, as referred to under the heading "Mackenzie Delta", Numac continues to retain a royalty interest in 12,107 acres which have been designated as significant discovery areas.

In addition to its oil and gas properties, Numac holds 20,002 gross (4,063 net) acres of mineral claims and leases. Significant developments on the Company's mineral properties are more fully described under the heading "Minerals".

LAND HOLDINGS

Petroleum and natural gas rights as of December 31, 1987, were:

	DEVELOPED		UNDEVELOPED		TOTAL ACREAGE	
	Gross	Net	Gross	Net	Gross	Net
Working Interest Acreage						
Alberta	220,145	53,928	1,315,993	417,579	1,536,138	471,507
British Columbia	45,775	13,161	321,456	95,214	367,231	108,375
Saskatchewan	2,041	345	16,641	4,763	18,682	5,108
	267,961	67,434	1,654,090	517,556	1,922,051	584,990
Royalty Interest Acreage						
Alberta	24,027		204,574		228,601	
British Columbia	4,133		2,294		6,427	
Mackenzie Delta	1,520		135,455		136,975	
Saskatchewan	160				160	
Other			51,323		51,323	
	29,840		393,646		423,486	
TOTAL	297,801	67,434	2,047,736	517,556	2,345,537	584,990

"Developed acreage" is the drilling spacing units underlying oil or gas wells which are producing or, following completion and/or installation of production facilities, are capable of production. Drilling spacing units are, generally, 640 acres in the case of a gas well and 160 acres in the case of an oil well. "Undeveloped acreage" is all other acreage in which the Company has an interest.

"Gross acreage" is the total acreage in which the Company has an interest. "Net acreage" is the percentage of gross acreage in which the Company has a working interest.

"Working interest acreage" means those lands in which the Company has an operating or participating interest. "Royalty interest acreage" means those lands in which the Company does not have an operating or participating interest but from which the Company receives, or is entitled to receive, a share of production revenues.

RESERVES

During 1987 Numac continued to concentrate its exploration and development drilling program on the discovery and production of crude oil reserves. Exploration and development drilling resulted in the discovery of 2.7 million barrels of crude oil which replaced production of 1.4 million barrels by 190%.

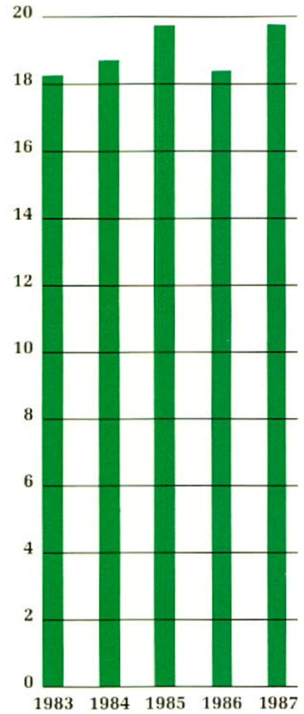
The most prominent additions to 1987 crude oil reserves are attributable to Granite Wash discoveries at Red Earth, Wabamun discoveries at Tangent and continued development of Keg River reserves at Kidney. Active drilling programs have been initiated in all three of these areas in early 1988 with the expectation of further additions to future reserves. We are encouraged by the results of this program to date. Crude oil reserve additions were also achieved during 1987 at Utikuma, Elmworth and Rycroft.

Year-end crude oil and natural gas liquids reserves include those acquired as a result of the purchase of an 84% equity interest in Giant Reef Petroleums Limited. Proven and probable crude oil and natural gas liquids reserves of Giant Reef at December 31, 1987 were 1.3 million barrels.

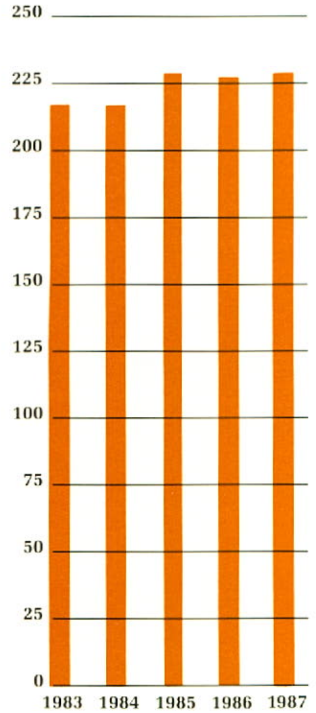
Re-evaluation of prior years reserves in several of the Company's older fields resulted in a 1.2 million barrel reduction in crude oil and natural gas liquids reserves. Of these revisions, 86% were in the probable category. After deducting revisions to prior years reserves and production for the year, Numac's year-end crude oil and liquids reserves increased by 1.4 million barrels to 19.8 million barrels. Based on 1987 production rates, Numac's reserve life index for crude oil and natural gas liquids is 14 years.

During 1987, as in previous years, Numac maintained its policy of not actively exploring for or developing its potentially lucrative natural gas reserves pending improvement in gas markets. After production of 3.3 bcf, acquisition of 11.4 bcf of reserves attributable to Giant Reef and 8.4 bcf of revisions to prior years reserves, the Company's gas reserves increased marginally to 228 bcf. Based on 1987 production rates, Numac's reserve life index for natural gas is 69 years.

Canadian Oil and NGL Reserves
Millions of Barrels



Canadian Natural Gas Reserves
Billions of Cubic Feet



*Oil and gas reserves are before royalty.

As noted earlier in this report, Numac has a 25% working interest in a potentially significant Leduc gas discovery, Cdn-Sup et al Hinton N 7-18-52-24 W5M, which is expected to be tested during the second quarter of 1988. A successful test at Hinton would have a major impact on Numac's gas and sulphur reserves.

In addition to conventional reserves, Numac has interests in several heavy oil properties in the Fort McMurray area of northern Alberta. Independent consulting geologists estimate the bitumen in place at the Surmont and Liege properties to be in excess of 17 billion barrels. These properties are more specifically referred to under "Heavy Oil".

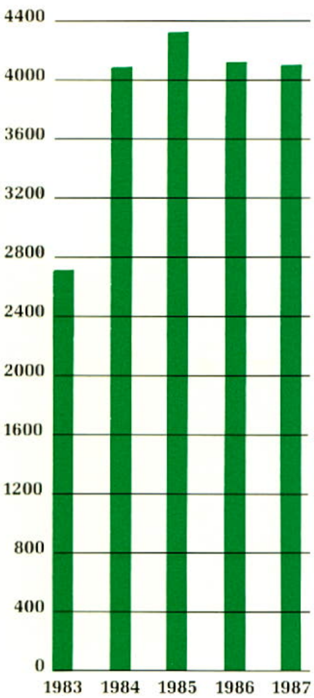
RESERVES	OIL & NGL (thousands of barrels)			NATURAL GAS (billions of cubic feet)		
	Proved	Probable	Total	Proved	Probable	Total
Reserves at December 31, 1986	9,692	8,671	18,363	144.00	82.17	226.17
New Reserves Added	2,546	1,475	4,021	9.68	3.73	13.41
Revisions	(158)	(1,005)	(1,163)	(5.58)	(2.82)	(8.40)
Reserves Produced	(1,415)	—	(1,415)	(3.30)	—	(3.30)
Reserves at December 31, 1987	10,665	9,141	19,806	144.80	83.08	227.88

Proved reserves are those quantities of crude oil, natural gas and natural gas liquids which analysis of geological and engineering information and economic conditions demonstrates, with a high degree of certainty, to be recoverable from known pools at commercial rates under present depletion methods and current operating conditions, prices and costs.

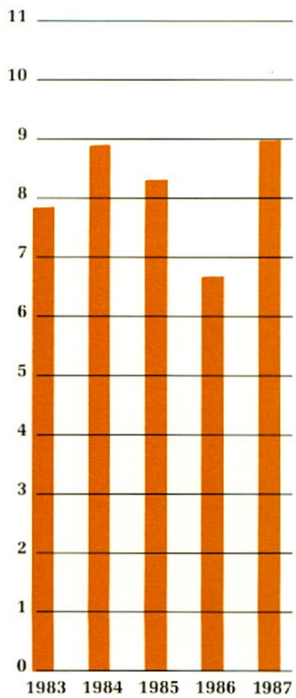
Probable reserves are considered to be those reserves commercially recoverable as a result of the beneficial effects which may be derived from the future institution of some form of enhanced recovery scheme or as a result of the more favourable performance of the existing recovery mechanisms than that which could be deemed to be proven at this time. Twenty-one percent of probable crude oil and natural gas liquids reserves and twenty-one percent of probable natural gas reserves are attributable to the Company's Mackenzie Delta properties.

Numac's petroleum and natural gas reserves are calculated annually by McDaniel & Associates Consultants Ltd., independent petroleum engineers.

Canadian Oil and NGL Production
Barrels Per Day



Canadian Gas Production
Millions of Cubic Feet Per Day



*Oil and gas production is before royalty.

PRODUCTION

Relative to Numac's productive capacity, crude oil and natural gas liquids volumes produced during the year were disappointing. Crude oil and liquids production averaged 4,126 bpd, essentially unchanged compared with 1986. Failure to achieve higher production volumes is directly attributable to the prorationing of Alberta crude oil production during the first five months of the year due to capacity constraints in the major crude oil transportation systems. Additions to pipeline capacity and the implementation of a modified crude oil prorationing system effective June 1, 1987 essentially eliminated the problem of shut-in production during the balance of the year. Alleviation of this problem combined with additions to productive capacity through a successful drilling program resulted in substantially higher crude oil production volumes as the year progressed. Production for the last six months of 1987 averaged 4,420 bpd compared with 3,659 bpd for the first six months of the year, an increase of 21%. Importantly, production for the fourth quarter averaged 5,092 bpd and production for the month of December averaged 5,317 bpd.

Those areas which made the most significant contributions to productive capacity during the year were Kidney, Red Earth and Utikuma. Several new discoveries were completed at Tangent in late 1987 and early this year which will also contribute to future production volumes. In addition to other areas, an ambitious exploration program at Red Earth is expected to contribute significantly to 1988 crude oil production volumes.

During 1987 Numac participated in the drilling of 23 oil wells which qualify for five-year royalty holidays pursuant to an incentive program implemented by the Province of Alberta in late 1986. Nine other wells were drilled subsequent to October 31, 1987 that qualify for three-year royalty holidays. Numac's royalty free crude oil production averaged approximately 850 bpd during 1987 and is projected to increase substantially during 1988.

Natural gas production averaged 9.0 mmcf/d during 1987 compared with 6.7 mmcf/d in 1986, an increase of 35%. This increase reflects stronger demand for the Company's contracted gas and the inclusion, during the last quarter of the year, of gas produced by Numac's subsidiary, Giant Reef.

Natural gas liquids extracted from gas processed through the Empress gas liquids plant increased by 16% to 248 bpd compared with 213 bpd during 1986.

INVESTMENTS

GIANT REEF PETROLEUMS LIMITED

Effective September 24, 1987 Numac purchased 2,745,351 common shares of Giant Reef Petroleums Limited, representing approximately 84% of its outstanding stock, for a purchase price of $8.4 million cash. Giant Reef is a public oil and gas company listed on the Vancouver Stock Exchange. The financial and operating results of Giant Reef from the date of acquisition to December 31, 1987 have been consolidated with those of Numac in this Annual Report.

Giant Reef's fiscal year-end is March 31. For the nine months ended December 31, 1987 cash flow was $1,815,000 ($0.56 per share), net earnings were $414,000 ($0.13 per share), crude oil production averaged 208 bpd and natural gas production averaged 1,780 mcf/d. Working interest land holdings were 155,227 gross (26,102 net) acres.

Giant Reef's hydrocarbon reserves were re-evaluated by McDaniel & Associates Consultants Ltd. as at December 31, 1987. As compared with its year-end reserves at March 31, 1987, gross proven and probable crude oil and natural gas liquids reserves increased by 84% to 1,262,559 barrels, natural gas reserves increased by 16% to 11,418 million cubic feet and sulphur reserves increased by 10% to 98,379 long tons.

Giant Reef has no direct employees and will be managed by Numac on a fee basis. In addition to pursuing exploration and development opportunities previously generated by it, Giant Reef will participate where appropriate in prospects generated by Numac. It is Numac's intention to substantially expand Giant Reef's exploration and development activities with the objective of increasing reserves and production. To facilitate that objective, it is intended to increase Giant Reef's capital base as market conditions warrant and to apply for a listing of its shares on the Toronto Stock Exchange.

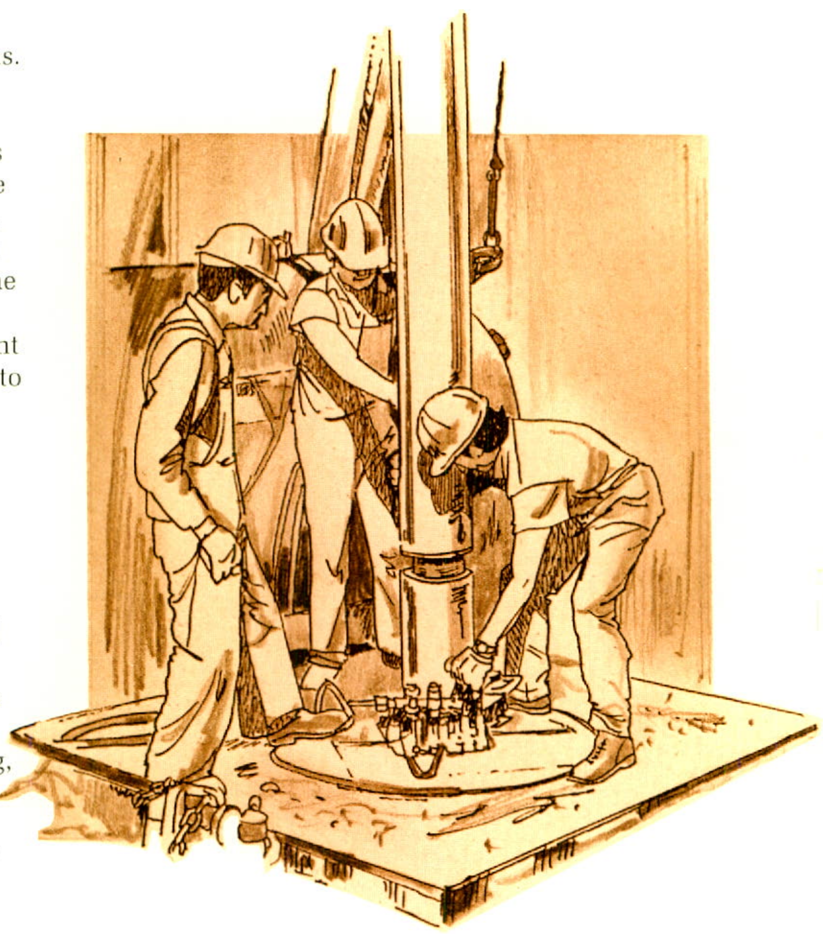
McGREGOR JOHANSON CONTRACTING LTD.

Numac, through its wholly-owned subsidiary McGregor Johanson Contracting Ltd. (MJ), is engaged in oilfield related construction activities. In Alberta these activities include lease preparation, restoration of drilling sites and road building. MJ carries on similar activities, including heavy equipment leasing, in the Mackenzie Delta area of the Northwest Territories. MJ has consistently contributed to the profitability of Numac notwithstanding significantly reduced levels of oil and gas exploration and development activity in recent years.

ELECTROMAGNETIC OIL RECOVERY LTD.

During 1987, Numac acquired 22.5% of the issued and outstanding shares of Electromagnetic Oil Recovery Ltd. (EOR), a private Canadian company that has the exclusive license to use certain patented electromagnetic processes in Canada and Western Europe. The principal application of the technology is to enhance recovery from heavy oil reservoirs as a result of the continuous electromagnetic heating of the reservoir adjacent to the wellbore. The objective is to increase productivity and recovery in certain types of heavy oil reservoirs, thereby greatly enhancing their economic value. The technology also has application in the solving of paraffin and other temperature related deposition problems.

The technology is currently being tested on several wells in Canada with encouraging results to date. EOR is marketing the use of the technology to other industry participants for application to their reservoirs.



OTHER ACTIVITIES

HEAVY OIL

Numac has, as a matter of strategy, established substantial working interest positions in heavy oil properties in northern Alberta. As a result, the Company is in an excellent position to participate in the future development of heavy oil reserves which will undoubtedly become the dominant source of Canada's long-term future energy supplies.

Numac has to date drilled three carbonate heavy oil evaluation wells on its 100% owned **Liege** acreage which comprises 7,680 acres approximately 70 miles west of Fort McMurray. All three of these wells penetrated in excess of 100 feet of heavy oil bearing Grosmont reef at a depth of approximately 1,000 feet. The Company's preliminary engineering evaluation indicates in-situ reserves of approximately 780 million barrels within the 12-section block. Having completed the preliminary evaluation of the reservoir, it is Numac's intention to attract an industry partner with the technical expertise to assist with the planned development of this property while at the same time limiting Numac's capital exposure.

The Company's **Surmont** property consists of 119,000 acres located approximately 35 miles southeast of Fort McMurray. Following substantiation by Numac of the in-situ reserves, the property was farmed out in 1977 to Gulf Canada Resources Inc. Pursuant to the farmout, Numac received installment payments exceeding $24 million and retained a 5% net carried interest in the property together with the right to convert the carried interest to a 12.5% participating interest in any or all future oil extraction projects thereon. Independent consulting geologists estimate the bitumen in place at 16.6 billion barrels.

Numac also owns oil sands rights under 14,081 acres at **Russell Lake**, west of Fort McMurray. Drill holes indicate there are 550,000 barrels of heavy oil in place under this property.

Numac's working interest share of recoverable heavy oil reserves at Surmont, Liege and Russell Lake are estimated to exceed 1 billion barrels. These reserves are expected to be recovered using in-situ techniques utilizing steam injection. Numac's management is enthusiastic regarding the future potential of these properties based on the continued improvement in in-situ recovery techniques and the expectation of substantially higher oil prices in the 1990's.

MACKENZIE DELTA

Numac holds a 20% preferred net carried interest in three dispositions comprising a total of 12,107 acres which have been designated by the Government of Canada as significant discovery areas. A significant discovery area is that on which, having regard to geological and engineering information obtained from the drilling of a feature thereon, indicates the existence of a potentially productive hydrocarbon accumulation. The carried interest is preferred in that the Company is entitled to a share of income from initial sales of oil and gas which escalates to a 20% revenue interest after recovery by others of exploration and development costs.

The significant discovery areas are designated as Garry, Pelly and Unark. Of particular note are the Garry lands on which two discovery wells have been drilled. The Garry P-04 well tested at the rate of 7,920 bopd and cumulative gas flows of 31 million cubic feet per day. The Garry G-07 well tested cumulative gas flows of 21 million cubic feet per day. Future development of the significant discovery areas in which the Company has a carried interest is predicated upon further improvement in oil and gas selling prices and the construction of a transportation system from this area.

Other lands in which the Company had a carried interest were relinquished subsequent to year-end since drilling requirements were not fulfilled prior to the expiration date of the exploration agreement pertaining thereto.

EMPRESS GAS LIQUIDS

Numac has a 5.8% interest in the Empress gas liquids plant which extracts natural gas liquids including ethane, propane and butane from natural gas destined for export markets. The liquids are extracted primarily from the natural gas stream of ProGas Limited and, to a lesser extent, other exporters. Numac's share of plant liquids production averaged 248 bpd in 1987, an increase of 16% compared with 213 bpd in 1986. The improvement reflects additional exports by ProGas during the year which will increase substantially as United States markets for Canadian gas improve. When this occurs, it is anticipated that the Empress plant will be substantially expanded.

Numac does not own the liquids until they are extracted and therefore the Company does not report these liquids as reserves. Numac's share of liquids production over the 20-year life of the plant is forecast to exceed four million barrels.

MINERALS

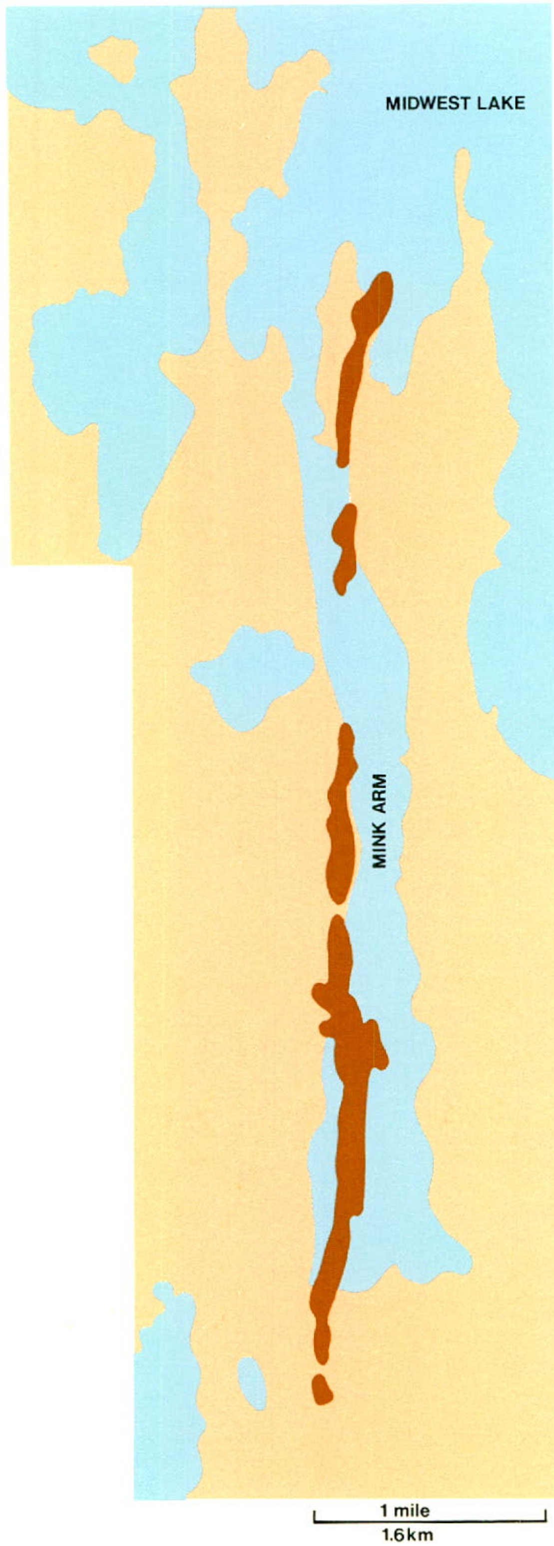
In August of 1987, Numac concluded an agreement with Denison Mines Limited and a partner (Denison) pertaining to the sale by Numac of its 10% working interest in the **Midwest Lake** uranium deposit in northern Saskatchewan. The sale price was $6 million of which $2.5 million was received on closing and the balance of which is payable at Denison's option at the earlier of twelve months following the making of a production decision or December 31, 1990. Provided that Denison has expended $6 million on the property or produced a feasibility report by December 31, 1990, payment of the balance of purchase price plus accrued interest may be extended to December 31, 1992. If Denison fails to pay the balance of purchase price but has met one of the aforesaid conditions, Numac is entitled to a re-assignment of one-half of the interest sold. Failing satisfaction of both conditions and payment of the balance of purchase price, Numac is entitled to a re-conveyance of the property.

Numac continues to hold a 15% net carried interest in the property which converts to a 15% working interest upon recovery by others of exploration and development costs, which costs are recoverable free of any interest charges.

Denison, as operator, is seeking regulatory approval for a three-year underground evaluation program to determine the preferred mining method and obtain accurate cost data for the preparation of a feasibility report, with the objective of making a production decision respecting this high-grade deposit in late 1990. The reserves on the property, which lies approximately 55 miles northeast of Key Lake, are estimated at 56 million pounds of uranium oxide grading 1.25%, or, 25 pounds per ton. It is expected that an exploration program will be conducted on the property commencing in 1988 with the objective of increasing reserves.

Numac also holds a 17.4% working interest in 9,225 acres of uranium prospective leases in the **Carswell Lake** area of northern Saskatchewan. Exploration activities previously carried out in association with Amok Ltd. confirm the exploration potential of these leases.

In 1986, Numac farmed out to Canamax Resources Ltd. (Canamax) its 25% interest in 2,013 acres of gold prospective mineral leases at **Clan Lake**, 35 miles northeast of Yellowknife, Northwest Territories. Pursuant to the farmout, Canamax must spend $1 million on exploration by the end of 1989 to earn a 50% working interest in the property. Surface evaluation and limited diamond drilling conducted by Canamax during 1987 resulted in the discovery of a new gold bearing zone. Surface sampling on the new zone over an exposed strike length of 460 feet yielded up to 1.39 ounces of gold per ton over a width of 7.9 feet. This zone will be further evaluated by drilling commencing in April of 1988. As a result of acquisitions during 1987, the property has been expanded and now comprises 6,771 acres of mineral claims. Numac's working interest in the property after earning will be 12.5% which, at Numac's option, is convertible to a 5% net profits interest.



Midwest Project

■ Area of Mineralization

FINANCIAL

MANAGEMENT DISCUSSION

The following discussion of results of operations and financial condition should be read in conjunction with the Consolidated Financial Statements and related Notes, particularly Note 12 — Prior Period Adjustments.

REVENUE

Gross revenue from operations increased by 13% to $42.8 million in 1987 compared with $37.8 million in 1986. This increase is primarily related to higher crude oil selling prices which averaged $22.69 per barrel in 1987 compared with $19.18 in 1986, as well as increased investment income.

Crude oil and natural gas liquids production averaged 4,126 barrels per day (bpd), virtually unchanged from 1986 when production averaged 4,149 bpd. The principal reason for this slight decline was the prorationing of production during the first half of the year due to lack of pipeline capacity. Production for the fourth quarter of 1987 averaged 5,092 bpd compared with 3,803 bpd for the first nine months of the year, an increase of 34%. At year end crude oil production exceeded 5,000 bpd.

Gas sales revenue of $5.4 million was unchanged from 1986 despite increased production which averaged 9.0 million cubic feet per day (mmcf/d) as compared to 6.7 mmcf/d in 1986. Increased production levels were offset by lower gas prices which averaged $1.62 per thousand cubic feet in 1987 compared with $2.20 per mcf for the year earlier period.

Investment income, primarily the result of interest earned on investments, was $1.8 million in 1987 compared with $.3 million in 1986.

Operating results for Giant Reef Petroleums Limited, purchased by Numac on September 24, 1987, have been consolidated in this report for the period September 24, 1987 to December 31, 1987. During this period Giant Reef's gross revenues, primarily from oil and gas sales, were $.8 million.

EXPENSES

Total expenses, exclusive of royalties and taxes, were $27.5 million, a decrease of $1.2 million from the $28.7 million incurred in 1986.

Operating expenses were reduced by $.5 million to $8.0 million in 1987 primarily as a result of increased efficiencies. Further, lower operating expenses were attained despite the fact that the Corporation had more producing wells in 1987 compared with 1986.

Interest on long-term debt decreased by 33% to $2.7 million from $4.0 million for the year earlier period. This reduction was achieved as the result of a major financing in April, 1987, a portion of the proceeds of which were used to eliminate long-term bank debt. Major components of interest expense were debenture interest of $1.5 million and interest related to the production carve-out of $1.1 million.

Depletion and depreciation expenses totalled $14.2 million in 1987 as compared with $12.8 million in 1986. Depletion expenses increased by $1.3 million as a result of 1987 capital expenditures and higher depletion rates. Depreciation expense of $3.2 million was essentially unchanged from 1987.

Royalty expenses declined by $.4 million to $7.0 million in 1987. This decrease is a result of increased royalty-free production and a decrease in marginal royalty rates. The Alberta royalty tax credit increased by $.4 million as a result of an increase in the maximum entitlement and the inclusion of credits claimed by Giant Reef.

NET EARNINGS

Net earnings increased by $5.4 million to $7.4 million in 1987 as compared with $2.0 million in 1986. This increase is primarily a result of higher crude oil selling prices, increased investment income and a decrease in expenses.

CAPITAL EXPENDITURES

Gross capital expenditures, before deduction of incentive payments, amounted to $42.9 million in 1987 compared with $25.7 million in 1986. This 67% increase in spending is primarily due to a more active exploration and development program and the purchase of 84% of the common shares of Giant Reef Petroleums Limited for $8.4 million. Net capital expenditures were $35.2 million after deducting incentive payments earned during 1987 of $7.7 million. Net capital expenditures in 1986 were $20.2 million after deducting incentives earned of $5.5 million.

LIQUIDITY

On April 15, 1987 Numac received the proceeds from the sale of 30,000 units, each unit consisting of 90 common shares and one $1,000.00 debenture. The sale included $30 million of convertible subordinated debentures and 2.7 million common shares at a price of $11.00 per share for an aggregate consideration of $59.7 million, a portion of which was used to eliminate long-term bank debt. The debentures, which are redeemable on or after April 16, 1990, are for a term of 15 years, have a 7% coupon and, subject to redemption by the Company under certain circumstances, are convertible into common shares for 10 years at $13.50 per share.

On August 21, 1987 Numac entered into an agreement with Denison Mines Limited and a partner whereby Denison agreed to purchase Numac's 10% working interest in its Midwest Lake, Saskatchewan uranium deposit for a cash consideration of $6.0 million. Numac received $2.5 million on closing with the balance payable by December 31, 1990, subject to certain conditions. Numac continues to hold a 15% net carried interest in the property which is convertible to a 15% working interest upon recovery by others of exploration and development costs, such recoverable costs being free of any interest charges.

The Corporation's cash flow from operations, before interest expense, was 7.5 times total interest costs as compared with 4.6 times and 5.6 times for 1986 and 1985 respectively.

At December 31, 1987 the Company had approximately $21.7 million of funds available for corporate purposes in the form of current and long-term investments in marketable securities.

The Company's revenue from oil and gas producing activities are dependent upon world oil prices. Although oil prices improved significantly in 1987 as compared with 1986, it is difficult to determine the direction that prices will take in the future.

Numac had no unusual commitments at December 31, 1987.

AUDITORS' REPORT

To the Shareholders of
Numac Oil & Gas Ltd.

We have examined the consolidated balance sheets of Numac Oil & Gas Ltd. as at December 31, 1987 and 1986 and the consolidated statements of earnings and of changes in financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with auditing standards generally accepted in Canada, 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, 1987 and 1986 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1987 in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Deloitte Haskins + Sells

Chartered Accountants

EDMONTON, Alberta
March 4, 1988

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended December 31
(thousands except per share amounts)

	1987	1986 (restated)	1985 (restated)
Revenue			
Operating revenue	**$39,978**	$36,521	$70,450
Investment income and gains	**1,755**	285	2,100
Supervision and sundry	**1,082**	1,013	1,130
	42,815	37,819	73,680
Expense			
Royalties	**6,989**	7,385	14,607
Alberta royalty tax credit	**(2,469)**	(2,074)	(1,663)
Petroleum and gas revenue tax	**(415)**	273	4,356
Operating	**7,992**	8,445	11,195
General and administration (Note 6)	**1,812**	3,095	2,050
Interest on long-term debt (Note 6)	**2,662**	3,985	6,309
Other interest	**793**	344	432
Depletion and depreciation	**14,209**	12,835	11,291
	31,573	34,288	48,577
Earnings from continuing operations before income taxes	**11,242**	3,531	25,103
Income taxes (Note 11)	**3,826**	1,559	11,435
Earnings From Continuing Operations	**7,416**	1,972	13,668
Loss on discontinued U.S. operations	**—**	—	1,492
Earnings Before Minority Interest	**7,416**	1,972	12,176
Minority Interest	**46**	—	—
Earnings Before Extraordinary Item	**7,370**	1,972	12,176
Loss on sale of U.S. operations (Note 13)	**—**	—	5,824
Net Earnings	**$ 7,370**	$ 1,972	$ 6,352
Per Share (basic and fully diluted)			
Earnings from continuing operations	**$ 0.30**	$ 0.09	$ 0.60
Earnings before extraordinary item	**$ 0.30**	$ 0.09	$ 0.54
Net earnings	**$ 0.30**	$ 0.09	$ 0.28

CONSOLIDATED BALANCE SHEET

As at December 31
(thousands)

	1987	1986 (restated)
ASSETS		
Current Assets		
Marketable securities, at cost (Market value $1,575; 1986 — $68)	$ 1,424	$ 55
Receivables (Note 2)	17,770	10,426
Inventories, at lower of cost and net realizable value	418	461
Prepaid expenses and deposits	1,732	579
Total current assets	21,344	11,521
Long-Term Receivables (Note 3)	1,514	1,949
Deferred Charge (Note 4)	1,045	—
Investments (Note 5)	22,976	236
Fixed Assets, At Cost (Note 6)		
Oil and gas properties, full cost basis	281,689	247,962
Mining properties	5,265	7,737
Production and other equipment	45,906	43,770
	332,860	299,469
Less: Accumulated depletion and depreciation	76,585	63,552
	256,275	235,917
	$303,154	$249,623
LIABILITIES		
Current Liabilities		
Bank indebtedness (Note 7)	$ 6,684	$ 261
Accounts payable and accrued	13,073	7,531
Total current liabilities	19,757	7,792
Long-Term Debt (Note 8)	39,095	42,025
Deferred Income Taxes	67,458	62,004
Advance Gas Payments	2,110	993
Minority Interest	979	—
	129,399	112,814
Contingency (Note 9)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)		
Authorized		
80,000,000 common shares		
8,000,000 preferred shares with par value of $25 each		
Issued and fully paid		
25,504,915 common shares (1986 — 22,749,815)	111,896	82,320
Retained Earnings		
Beginning of year		
As previously stated	61,703	56,448
Prior period adjustments (Note 12)	(7,214)	(3,931)
As restated	54,489	52,517
Earnings for the year	7,370	1,972
End of year	61,859	54,489
Total shareholders' equity	173,755	136,809
	$303,154	$249,623

Approved By The Board

W. S. McGregor — Director

G. T. MacIver — Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31
(thousands)

	1987	1986 (restated)	1985 (restated)
Operating Activities			
Earnings before extraordinary item	**$ 7,370**	$ 1,972	$12,176
Items not involving cash			
Depletion and depreciation	**14,209**	12,835	11,291
Deferred income taxes	**4,026**	1,759	10,695
Loss on discontinued operations	—	—	1,492
Cancellation of loans receivable (Note 10)	—	1,267	—
Other	**64**	146	(12)
Cash flow from continuing operations	**25,669**	17,979	35,642
Net change in non-cash working capital balances	**(2,925)**	6,033	(1,997)
Cash provided from continuing operations	**22,744**	24,012	33,645
Cash flow from discontinued operations	—	—	1,282
Cash available for investing	**22,744**	24,012	34,927
Investing Activities			
Acquisition of fixed assets	**(34,468)**	(25,673)	(49,112)
Investment in Giant Reef Petroleums Limited (Note 1)	**(6,948)**	—	—
Sale of equipment and mining properties	**3,322**	3	162
Petroleum and other incentive payments	**7,690**	5,487	11,125
Long-term investments	**(22,915)**	—	—
Sale of U.S. subsidiary	—	—	7,789
Other	**523**	781	1,267
Cash used in investing activities	**(52,796)**	(19,402)	(28,769)
Cash (deficiency) before financing activities	**(30,052)**	4,610	6,158
Financing Activities			
Long-term bank loan	**(28,000)**	—	(22,739)
Production loan	**(4,931)**	(3,470)	17,496
Issue of common shares	**29,027**	40	96
Issue of debentures	**30,000**	—	—
Debenture issue costs	**(1,098)**	—	—
Cash provided by (used in) financing	**24,998**	(3,430)	(5,147)
(Decrease) Increase In Cash	**(5,054)**	1,180	1,011
Net Bank Indebtedness At Beginning Of Year	**206**	1,386	2,397
Net Bank Indebtedness At End Of Year	**$ 5,260**	$ 206	$ 1,386
Net Bank Indebtedness Is Comprised Of:			
Marketable Securities	**$ 1,424**	$ 55	$ 117
Bank Indebtedness	**6,684**	261	1,503
	$ 5,260	$ 206	$ 1,386

SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada which do not differ materially from those established in the United States except as disclosed in note 16. Due to the nature of the Company's operations, certain estimates are involved in the preparation of such statements. In Management's opinion, the financial statements have been prepared within reasonable limits of materiality and within the framework of the significant accounting policies as summarized below:

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiaries of the Company. All significant intercompany balances and transactions have been eliminated.

(b) DEBENTURE ISSUE COSTS

Costs incurred on the issue of debentures are deferred and amortized to income over the life of the debentures on the straight-line basis.

(c) INVESTMENTS

Portfolio investments are recorded at cost. When there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss.

(d) OIL AND GAS PROPERTIES

The Company follows the full cost method of accounting as prescribed by the United States Securities and Exchange Commission (SEC) and is also in compliance with the accounting guidelines on full cost accounting issued by the Canadian Institute of Chartered Accountants (CICA). Under this method all exploration and development costs are accumulated in active cost centres on a country-by-country basis.

Costs accumulated in the cost centres are depleted using the unit-of-production method based upon estimated proven reserves before royalties. Government incentives are applied against the cost of Canadian oil and gas properties. The carrying value of oil and gas properties is subject to a ceiling test determined on a quarterly basis.

(e) MINING PROPERTIES

Acquisition and exploration costs of mining properties are capitalized subject to a net realizable value limitation, determined on a country-by-country basis, and will be depleted on a unit-of-production basis when production commences. Any proceeds received from the sale of individual mining interests are first credited against the total costs of the mining properties, with any excess credited to earnings.

(f) DEPRECIATION

Depreciation is provided on the straight-line method based on the estimated useful life of equipment as follows:

Production equipment at 7%
Construction and other equipment at 10% to 20%
Roads at 10%

(g) CAPITALIZATION OF INTEREST

The Company capitalizes interest on unusually significant investments in unproved oil and gas properties and mining projects on which exploration and development activities are in progress but which are not currently amortized and from which no production revenues are currently being earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars except share and per share amounts.)

NOTE 1
Acquisition Of Giant Reef Petroleums Limited

On September 24, 1987 the Company acquired 84% of the shares of Giant Reef Petroleums Limited, a public oil and gas company listed on the Vancouver Stock Exchange, for $8,359,717. The purchase price was allocated as follows:

Fixed assets	**$10,899**
Marketable securities	**1,438**
Advance gas payments	**(1,030)**
Working capital deficiency	**(38)**
Deferred income taxes	**(1,976)**
Minority interest	**(933)**
	$ 8,360

The acquisition, including bank indebtedness assumed and excluding marketable securities acquired, involved a cash outflow of $6,948,803. The company has consolidated the results of operations of Giant Reef for the period September 24, 1987 to December 31, 1987. Pro-forma financial statements are not presented as they are not significantly different from these financial statements.

NOTE 2
Receivables

	1987	1986 (restated)
Trade	$ 8,267	$ 7,606
Petroleum incentive payments	3,684	2,657
Alberta royalty tax credit	435	—
Alberta drilling incentives	979	163
Canadian exploration and development incentives	3,809	—
Income taxes recoverable	596	—
	$17,770	$10,426

NOTE 3
Long-Term Receivables

	1987	1986
Receivable under the Key Employee Stock Purchase Plan (Note 10 (b))	$ 1,488	$ 1,820
Other	26	129
	$ 1,514	$ 1,949

NOTE 4
Deferred Charge

	1987	1986
Debenture issue costs	$ 1,098	$ —
Accumulated amortization	53	—
	$ 1,045	$ —

NOTE 5
Investments

	1987	1986
Bankers Acceptances, maturing in 1989	$9,927	$ —
Shares in public companies (Market value — $8.6 million)	9,894	—
Shares in private companies	1,309	61
Equity and advances in Pluim Contractors Ltd.	—	175
Debentures and bonds (Market value — $1.6 million)	1,846	—
	$22,976	$ 236

NOTE 6
Fixed Assets

	1987			1986		
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties	$281,689	$ 59,076	$222,613	$247,962	$ 48,094	$199,868
Mining properties	5,265	—	5,265	7,737	—	7,737
Production and other equipment	45,906	17,509	28,397	43,770	15,458	28,312
	$332,860	$ 76,585	$256,275	$299,469	$ 63,552	$235,917

(a) Costs associated with the acquisition and evaluation of unproved properties excluded from the depletion calculation during the year are $23,924,781 (1986 — $17,444,990). These costs were incurred in the following categories and periods:

	Total	1987	1986	1985 and Prior
Acquisition costs	$18,815	$ 8,395	$ 1,277	$ 9,143
Exploration costs	4,731	2,526	2,151	54
Interest capitalized	379	285	94	—
	$23,925	$11,206	$ 3,522	$ 9,197

(b) The following expenses have been capitalized and included in oil and gas properties:

	1987	1986
Interest	$ 285	$ 519
General and administration	$1,867	$1,963

(c) In accordance with requirements of both the SEC and CICA guidelines the Company performed a ceiling test as at December 31, 1987 using a year end oil price of $21.00 (Canadian) per barrel of crude oil and $1.50 per mcf of gas. The Company determined that no write down of the Company's oil and gas properties was required under either of the guidelines.

(d) In August of 1987, the Company concluded an agreement pertaining to the sale by the Company of its 10% working interest in the Midwest Lake uranium deposit in northern Saskatchewan. The sale price was $6 million of which $2.5 million was received on closing and the balance of which is payable, at the purchaser's option, at the earlier of twelve months following the making of a production decision or December 31, 1990. Provided that the purchaser has expended $6 million on the property or produced a feasibility report by December 31, 1990, payment of the balance of the purchase price may be extended to December 31, 1992. If the purchaser fails to pay the balance of purchase price but has met one of the aforesaid conditions, the Company is entitled to a re-assignment of one-half of the interest sold. Failing satisfaction of these conditions and payment of the balance of the purchase price, the Company is entitled to a re-conveyance of the property. The Company has credited $2.5 million against the total costs of the mining properties.

NOTE 7
Bank Indebtedness

	1987	1986
Current account — net	$ 414	$ 127
Operating loans	6,270	134
	$6,684	$ 261

The maximum month end amount of short-term bank loans outstanding during the year was $8,747,000 and the average was $2,205,828. The weighted average interest rate on the bank loans during the year was 9.78% compared to 10.75% in 1986, based on month end balances and interest rates.

At December 31, 1987 the Company had consolidated short-term usable bank lines of credit totalling $18,000,000 with interest at the bank prime rate.

NOTE 8
Long-Term Debt

	1987	1986 (restated)
Term bank loan	$ —	$28,000
Production loan	9,095	14,025
7% Convertible debentures	30,000	—
	$39,095	$42,025

In May 1985 the Company entered into a production loan agreement (commonly called a "Carve-Out") whereby the production from certain properties is applied against the loan. Since payments vary with quantity produced and prices paid for the production it is not possible to determine the amount of production payments required in each of the next three years. It is presently anticipated the loan will be repaid in full by 1990 depending primarily on oil prices. For accounting purposes the net production income earned on these properties continues to form part of the operations of the Company.

On April 15, 1987 Numac issued $30,000,000 of 7% convertible subordinated debentures, which are not redeemable until April 16, 1990, are for a term of 15 years and are convertible into common shares for 10 years at $13.50 per share.

NOTE 9
Contingency

A Statement of Claim was filed February 19, 1982, by the Lubicon Lake Indian Band and certain individual Plaintiffs against the Province of Alberta and several corporate defendants, including Numac. The Plaintiffs are claiming Indian Title, aboriginal rights and personal and usufructuary rights (which they claim include the exclusive use and enjoyment of minerals and natural resources) in an area of land in Northern Alberta in which the province of Alberta has granted oil and gas leases. The Plaintiffs are claiming seven hundred million dollars in lieu of royalties and revenues to date, two hundred million dollars in damages, a declaration that the leases are null and void, and other corollary relief.

The Defendants, including Numac, dispute the claim, and on March 31, 1982, Numac and certain of the other Defendants filed a Statement of Defence to the claim. Subsequently, the Plaintiffs applied for an interim injunction to restrain the Defendants from carrying out exploration and production operations in the area claimed until the trial of the action. The Plaintiff's application for an interim injunction and all supporting pretrial proceedings have been unsuccessful. The Plaintiffs are still free to attempt to prove their allegations, in the Court of Queen's Bench of Alberta, but as of March 4, 1988, had not taken any further steps, except for an application to amend the Statement of Claim, and add the Government of Canada as a Defendant. The Court, on October 22, 1987, issued its decision denying the Plaintiffs' application to add the Government of Canada as a Defendant.

The case is still at an early stage, but based on a preliminary consideration of the claim, Counsel for Numac consider it unlikely that the Plaintiffs will succeed in obtaining any form of relief which will be materially adverse to the interests of the oil companies named as Defendants.

NOTE 10 Share Capital

(a) Issue of Common Shares

In April 1987 the Company issued 2,700,000 common shares at $11.00 per share under the terms of a prospectus. Net proceeds amounted to $29,151,417 after deduction of issue costs of $1,097,161 adjusted for the related deferred tax credit of $548,578.

(b) Key Employee Stock Purchase Plan

At December 31, 1987, $1,488,104 (1986 — $1,819,731) remained receivable by the Company under the Purchase Plan and is included in "long-term receivables" (Note 3).

The shares allocated under the Purchase Plan are held as security for the loans. The loans were required to be repaid in full in 1988, however the Board of Directors has approved an extension to 1993, subject to regulatory approval. Pursuant to a resolution of the shareholders of the Company passed on June 24, 1982 authorizing termination of certain of the employee share purchase agreements under the Plan, employee share purchase agreements were, with the consent of the employees, terminated with six employees of the Company including Stewart D. McGregor, a Vice-President and Director of Numac. The cancellation of the loans receivable, net of sale proceeds from the related shares, resulted in a net loss of $1,266,605 in 1986.

(c) Key Employee Stock Option Incentive Plan

On June 24, 1982 the Company established a Key Employee Stock Option Incentive Plan (the "Option Plan") for the purpose of granting incentive common share options to key full-time employees of the Company or its subsidiaries. The Board of Directors of the Company administers the Option Plan and, subject to the terms of the Option Plan, determines the employees to whom options shall be granted, the number of shares to be covered by each option, the option exercise prices and other terms and conditions of each option. Under the Option Plan, the exercise price for an option cannot be less than 90% of the last reported selling price for the common shares on The Toronto Stock Exchange on the date the option is granted. Options can be granted for a term of up to 10 years, are cumulative and non-assignable, and (except in the event of death) automatically terminate following termination of employment with the Company or its subsidiaries. Options may provide for the giving of or arranging for financial assistance to an employee for the purpose of enabling him to pay the exercise price of an option. Stock option Agreements entered into with officers of the Company provide that the officers may in certain circumstances, including a "change of control" situation, receive a cash payment from the Company equal to the "fair market value" of their options, all in accordance with provisions detailed in the Plan. As at December 31, 1987, options for the purchase of an aggregate of 649,975 shares were outstanding under the Option Plan and 193,374 shares were reserved for future options.

A summary of changes in shares under option during the three years ended December 31, 1987 is as follows:

	1987	1986	1985
Shares under option at beginning of year	**705,075**	723,625	723,700
Share options granted at exercise prices of			
— $ 8.75	—	136,700	—
— $12.75	—	—	15,000
Less			
Share options exercised	**(55,100)**	(6,300)	(15,075)
Share options cancelled	—	(148,950)	—
Shares under option at end of year	**649,975**	705,075	723,625
Shares under option to officers (included above)	**330,000***	360,000	360,000

*Reduction of options to officers is the result of one officer retiring during 1987.

The shares under option at the end of the year expire as follows:

1990	30,000
1992	470,275
1993	64,700
1994	65,000
1995	10,000
1996	10,000
	649,975

NOTE 11
Income Taxes

The following schedule shows the main differences between the combined Canadian Federal and Provincial statutory tax rate and the effective tax rate. Income taxes are calculated on earnings from continuing operations which amount to $11,241,720 in 1987 ($3,531,017 in 1986; $25,103,307 in 1985).

	1987		1986		1985	
			(restated)		(restated)	
	Amount	%	Amount	%	Amount	%
Provision for income taxes at statutory rates	$ 5,677	50.5	$ 1,723	48.8	$12,024	47.9
Add (deduct) the tax effect of:						
Production loan (Note 8)	(1,483)	(13.2)	(1,709)	(48.4)	(2,523)	(10.1)
Non-deductible crown royalties and other provincial adjustments	3,214	28.6	3,194	90.5	6,648	26.6
Non-deductible Petroleum and Gas Revenue Tax	(210)	(1.9)	133	3.8	2,766	11.0
Alberta royalty tax credit	(1,247)	(11.1)	(1,012)	(28.7)	(796)	(3.2)
Resource allowance	(1,910)	(17.0)	(1,341)	(38.0)	(4,441)	(17.7)
Depletion allowance	—	—	—	—	(2,062)	(8.2)
Other	(215)	(1.9)	571	16.2	(181)	(0.7)
Effective income taxes	$ 3,826	34.0	$ 1,559	44.2	$11,435	45.6
Comprising						
Current income taxes (recovery)	$ (201)		$ (200)		$ 740	
Deferred income taxes	4,027		1,759		10,695	
	$ 3,826		$ 1,559		$11,435	

The Company has a net capital loss carried forward of approximately $19,300,000, the potential benefit of which has not been reflected in the financial statements.

NOTE 12
Prior Period Adjustments

Retroactive Federal legislation and a discretionary exercise of powers by the Provincial Treasurer of Alberta have had the effect of reducing certain of the tax benefits of the production carve-out agreement. The comparative figures for 1986 and 1985 have been restated to reflect the following adjustments:

	1986	1985
Reduction in Alberta royalty tax credit	$ 679	$ 337
Increase in deferred income tax expense	1,722	2,848
Increase in interest on long-term debt	882	746
Reduction in net earnings for the year	3,283	3,931
Decrease in retained earnings at beginning of year	3,931	—
Decrease in retained earnings at end of year	$7,214	$3,931
Reduction in Alberta royalty tax credit receivable	$ 233	$ 170
Increase in accounts payable	$ 783	$ 167
Increase in deferred income taxes payable	$4,570	$2,848
Increase in production loan	$1,628	$ 745

NOTE 13
Loss On Sale Of U.S. Operations

On December 30, 1985 the Company sold its wholly-owned subsidiary Numac Oil & Gas Inc. for net proceeds of $7,789,285. This represents a discontinuance of the Company's United States operations.

NOTE 14
Segmented Information

A. Resource development
B. Oilfield construction

YEAR ENDED DECEMBER 31, 1987	A	B	Eliminations	Consolidated
Operating revenue	$ 40,028	$ 1,634	$ (812)	$ 40,850
Gain on sale of fixed assets	—	210	—	210
Segment revenue	40,028	1,844	(812)	41,060
Segment expenses	(27,043)	(1,727)	812	(27,958)
Segment operating earnings	$ 12,985	$ 117	$ —	$ 13,102
Investment income				1,755
Interest expense				(3,455)
Loss on equity investment				(160)
Earnings from continuing operations before income taxes				$ 11,242
Depletion and depreciation	$ 13,889	$ 320	$ —	$ 14,209
Segment assets	$286,087	$ 1,491	$ (7,400)	280,178
Investments				22,976
Total assets				$303,154
Capital expenditures (net)	$ 35,164	$ —	$ —	$ 35,164

YEAR ENDED DECEMBER 31, 1986	A (restated)	B	Eliminations	Consolidated (restated)
Operating revenue	$ 36,388	$ 2,184	$ (1,085)	$ 37,487
Loss on sale of fixed assets	—	(6)	—	(6)
Segment revenue	36,388	2,178	(1,085)	37,481
Segment expenses	(28,835)	(2,103)	1,032	(29,906)
Segment operating earnings	$ 7,553	$ 75	$ (53)	7,575
Investment income				285
Interest expense				(4,329)
Earnings from continuing operations before income taxes				$ 3,531
Depletion and depreciation	$ 12,439	$ 396	$ —	$ 12,835
Segment assets	$251,830	$ 273	$ (2,716)	249,387
Investments				236
Total assets				$249,623
Capital expenditures (net)	$ 20,212	$ 28	$ (53)	$ 20,187

YEAR ENDED DECEMBER 31, 1985	A (restated)	B	Eliminations	Consolidated (restated)
Operating revenue	$ 67,319	$ 6,136	$ (1,887)	$ 71,568
Gain on sale of fixed assets	—	12	—	12
Segment revenue	67,319	6,148	(1,887)	71,580
Segment expenses	(38,629)	(4,654)	1,447	(41,836)
Segment operating earnings	$ 28,690	$ 1,494	$ (440)	29,744
Investment income				2,100
Interest expense				(6,741)
Earnings from continuing operations before income taxes				$ 25,103
Depletion and depreciation	$ 10,849	$ 442	$ —	$ 11,291
Segment assets	$254,648	$ 2,144	$ (2,291)	254,501
Investments				175
Total assets				$254,676
Capital expenditures (net)	$ 38,572	$ 34	$ (619)	$ 37,987

NOTE 15
Related Party Information

Numac Oil & Gas Ltd. participated in oil and gas exploration and development ventures with Union Shield Resources Ltd., and Numac invoiced Union Shield for $158,422 in 1987 ($1,413,756 in 1986 and $182,999 in 1985). During May 1987 Numac acquired certain oil and gas properties from Union Shield for $3,000,000. Union Shield at March 1, 1987 beneficially owned 24.85% of the outstanding shares of Numac's common stock. Union Shield disposed of their holding in Numac on September 23, 1987.

NOTE 16
Reconciliation To Accounting Principles Generally Accepted In The United States Of America

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which differ in some respects from those used in the United States (U.S. GAAP). Significant differences in accounting principles as they pertain to the accompanying financial statements are as follows:

(a) Under U.S. GAAP, the adjustments to operations in 1986 and 1985 (Note 12) would be charged to the current year's operations.

(b) Under U.S. GAAP, the carrying amount of a marketable equity securities portfolio should be the lower of its aggregate cost or market value, determined at the balance sheet date. The amount by which the cost of the portfolio exceeds market value should be accounted for as a valuation allowance. The valuation allowance should be included in the shareholders' equity section of the balance sheet and shown separately.

(c) Under U.S. GAAP, the 1985 loss on sale of U.S. operations of $5,824,223 would be included in loss on discontinued operations rather than being shown as an extraordinary item.

The effect of the above difference on the Company's consolidated balance sheet and statement of earning is set out below:

Consolidated Balance Sheet	1987		1986	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Current assets	$ 21,344	$ 21,344	$ 11,521	$ 11,754
Investments	22,976	21,683	236	236
Current liabilities	19,757	19,757	7,792	7,009
Long-term debt	39,095	39,095	42,025	40,397
Deferred income taxes	67,458	67,458	62,004	57,434
Shareholders' equity	173,755	172,462	136,809	144,023

Consolidated Statement of Earnings	1987	1986	1985
Net earnings under Canadian GAAP	$ 7,370	$ 1,972	$ 6,352
Prior period adjustment			
Alberta royalty tax credit	(1,016)	679	337
Interest on long-term debt	(1,628)	882	746
Deferred income taxes	(4,570)	1,722	2,848
Net earnings under U.S. GAAP	$ 156	$ 5,255	$ 10,283
Net earnings per common share under U.S. GAAP:			
Earnings from continuing operations	$ 0.01	$ 0.23	$ 0.77
Net earnings	$ 0.01	$ 0.23	$ 0.45

In December 1987 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards — Accounting for Income Taxes which requires that deferred income tax balances be adjusted for changes in tax rates. For U.S. GAAP reporting purposes, the Company intends to adopt this standard retroactively in 1989. Management estimates that the effect on the income tax provision on years presented in these financial statements will not be material and that opening retained earnings will be reduced by approximately $8 to $10 million.

SUPPLEMENTARY INFORMATION (UNAUDITED)

(Tabular amounts in thousands of dollars except share and per share amounts.)

Estimated Quantities of Proved Oil and Gas Reserves Net of Royalties

Both the Canadian Institute of Chartered Accountants (CICA) and the Financial Accounting Standards Board (FASB) recommend supplementary disclosure with respect to oil and gas reserves. The following information is prepared in accordance with the CICA recommendations, which closely parallel the guidelines issued by the FASB in its Statement No. 69.

Crude oil, including natural gas liquids, is expressed in thousands of barrels. Natural gas is expressed in millions of cubic feet. The quantities below represent net reserves owned by Numac after deduction of royalties.

	TOTAL		CANADA		UNITED STATES	
	OIL	GAS	OIL	GAS	OIL	GAS
Net proved developed and undeveloped reserves						
At January 1, 1985	9,401	122,441	9,151	118,359	250	4,082
Revisions of previous estimate	92	6,007	117	8,864	(25)	(2,857)
Extensions and discoveries	1,773	5,720	1,773	5,720	—	—
Production	(1,276)	(2,612)	(1,239)	(2,442)	(37)	(170)
Sale of reserves in place	(188)	(1,055)	—	—	(188)	(1,055)
At December 31, 1985	9,802	130,501	9,802	130,501	—	—
Revisions of previous estimate	(1,892)	(11,898)	(1,892)	(11,898)		
Extensions and discoveries	828	711	828	711		
Production	(1,128)	(1,989)	(1,128)	(1,989)		
At December 31, 1986	7,610	117,325	7,610	117,325		
Revisions of previous estimate	**36**	**(3,216)**	**36**	**(3,216)**		
Extensions and discoveries	**1,678**	**444**	**1,678**	**444**		
Purchase of reserves in place	**538**	**6,420**	**538**	**6,420**		
Production	**(1,164)**	**(2,730)**	**(1,164)**	**(2,730)**		
At December 31, 1987	**8,698**	**118,243**	**8,698**	**118,243**		
Net proved developed reserves						
At December 31, 1985	8,894	118,656	8,894	118,656		
At December 31, 1986	7,610	117,325	7,610	117,325		
At December 31, 1987	**8,698**	**118,243**	**8,698**	**118,243**		

The Canadian oil and gas reserve information was compiled by the Company's independent petroleum consultants, McDaniel & Associates Consultants Ltd. using an average price of $21.00 (1986 — $20.78) per barrel of crude oil and $1.50 (1986 — $1.79) per mcf of gas. The United States reserve information was based on reports by various U.S. independent petroleum consultants. All independent reserve studies were reviewed by the Company's engineering staff. Proved reserves cannot be measured exactly and therefore all reserve estimates may be subject to revision.

Total proven oil reserves at December 31, 1987 before royalties were estimated to be 10,662 thousand barrels (1986 — 9,696). The total proven gas reserves before royalties were estimated to be 144,851 million cubic feet (1986 — 143,984).

Proved reserves are those quantities of crude oil, natural gas liquids and natural gas which geological and engineering data indicate with reasonable certainty are recoverable in the future from known reservoirs under existing economic and operating conditions.

Proved developed reserves are defined to be those which can be expected to be recovered from existing wells, equipment and operating methods. Proved undeveloped reserves are those that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

The figures presented are believed to be reasonable estimates of reserves which may be expected to be recoverable commercially at current prices and costs under existing regulatory practice and with existing conventional equipment and operating methods.

The following information has been included to comply with United States Securities and Exchange Commission regulations and is presented in accordance with the guidelines issued by the CICA and the FASB in its Statement No. 69.

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

	1987	1986	1985
Canada			
Acquisition of oil and gas properties — unproved	**$13,821**	$ 1,506	$ 8,108
Exploration costs (net of government incentives)	**14,705**	12,713	13,814
Development costs (net of government incentives)	**5,201**	3,504	9,693
	33,727	17,723	31,615
United States, net of impairment	**—**	—	1,882
	$33,727	$17,723	$33,497

Capitalized Costs Relating to Oil and Gas Producing Activities

	Total	**Canada**	**Other**
1987			
Oil and gas properties	**$281,689**	**$281,462**	**$227**
Production and other equipment	**42,352**	**42,352**	**—**
	324,041	**323,814**	**227**
Accumulated depreciation, depletion and amortization	**74,146**	**73,919**	**227**
Net capitalized costs	**$249,895**	**$249,895**	**$ —**
1986			
Oil and gas properties	$247,962	$247,735	$227
Production and other equipment	38,392	38,392	—
	286,354	286,127	227
Accumulated depreciation, depletion and amortization	60,258	60,031	227
Net capitalized costs	$226,096	$226,096	$ —
1985			
Oil and gas properties	$230,243	$230,016	$227
Production and other equipment	35,245	35,245	—
	265,488	265,261	227
Accumulated depreciation, depletion and amortization	47,709	47,482	227
Net capitalized costs	$217,779	$217,779	$ —

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The following standardized measure was computed using year-end prices, costs, and year-end statutory tax rates. The 10% discount factor is mandated by FASB Statement No. 69.

The future net cash flow information should be interpreted with considerable caution. Reserve estimates, by their very nature, are inexact and are subject to constant revision. Also, the future production streams and future development and production expenditures are unpredictable for numerous reasons including government regulations and are, therefore, subject to significant uncertainty.

It should not be assumed that the estimates of the standardized measure of future net cash flows represent fair market value of the reserves or of the oil and gas properties. Also, because of the year-end price assumptions the standardized measure does not represent the present value of future cash flows.

	1987	1986
Future cash inflows	**$446,229**	$459,144
Deduct		
Future production and developments costs	**137,369**	133,721
Future income taxes	**86,518**	78,585
Future revenue taxes	**72,292**	81,953
	296,179	294,259
Future net cash flows	**150,050**	164,885
Deduct		
10% annual discount for estimated timing of cash flows	**67,490**	78,078
Standardized measure of discounted future net cash flows	**$ 82,560**	$ 86,807

The following are the principal sources of the change in the standardized measure of discounted future net cash flows:

	1987	1986
Beginning of the year	**$ 86,807**	$141,489
Sales of oil and gas production net of related costs	**(24,922)**	(19,015)
Net change in prices and production costs	**(17,303)**	(108,280)
Net change in estimated future development costs	**(3,132)**	(2,050)
Extensions and discoveries net of related costs	**23,457**	9,058
Purchase of reserves in place	**9,594**	—
Revisions of previous quantity estimates	**(1,886)**	(34,715)
Accretion of discount	**8,681**	14,149
Net change in income taxes	**(4,101)**	55,147
Net change in revenue taxes	**4,840**	39,839
Other	**525**	(8,815)
End of year	**$ 82,560**	$ 86,807

Results of Operations for Producing Activities

For the year ended December 31

	1987	1986 (restated)	1985 (restated)
Operating revenues	**$40,028**	$35,671	$66,141
Deduct			
Royalties	**6,990**	7,385	14,607
Royalty tax credit	**(2,469)**	(2,074)	(1,663)
Production costs	**7,658**	8,031	8,666
Depreciation, depletion and amortization	**13,888**	12,080	10,506
Income tax expense	**5,409**	3,907	10,123
Petroleum and Gas Revenue Tax	**(415)**	273	4,356
	31,061	29,602	46,595
Results of operations from producing activities	**$ 8,967**	$ 6,069	$19,546

The above revenues and costs exclude items which are not directly related to producing activities.

The Effects of Changing Prices

The Company has decided not to disclose supplementary information on the effects of changing prices due to the special problems related to the determination of current cost information for the oil and gas industry. A CICA Research Study revealed that the majority of Canadian oil and gas companies provided no supplementary information.

Selected Quarterly Financial Information

	QUARTER ENDED (restated)				
	March 31	June 30	Sept. 30	Dec. 31	Total Year
Year ended December 31, 1987					
Revenue	**$ 9,331**	**$ 8,965**	**$11,660**	**$12,859**	**$42,815**
Earnings before income taxes	**$ 2,056**	**$ 2,418**	**$ 4,538**	**$ 2,230**	**$11,242**
Net earnings	**$ 1,356**	**$ 1,595**	**$ 2,994**	**$ 1,425**	**$ 7,370**
Per Share (basic and fully diluted)					
Net Earnings	**$ 0.06**	**$ 0.06**	**$ 0.12**	**$ 0.06**	**$ 0.30**
Year ended December 31, 1986					
Revenue	$14,418	$ 6,901	$ 7,545	$ 8,955	$37,819
Earnings before income taxes	$ 3,738	$ 296	$ 423	$ (926)	$ 3,531
Net earnings	$ 2,087	$ 165	$ 236	$ (516)	$ 1,972
Per Share (basic and fully diluted)					
Net Earnings	$ 0.09	$ 0.01	$ 0.01	$ (0.02)	$ 0.09

Currency Exchange Fluctuations

The Canadian dollar has fluctuated in terms of the U.S. Dollar and at March 1, 1988 was equivalent to $0.7946 U.S. The following is a table setting forth equivalent U.S. dollars:

	1987	1986	1985
March 31	**$0.7659**	$0.7164	$0.7334
June 30	**$0.7506**	$0.7234	$0.7360
September 30	**$0.7626**	$0.7209	$0.7277
December 31	**$0.7693**	$0.7244	$0.7152

Market for Common Stock and Related Security Holder Information

The common shares are listed on the Toronto Stock Exchange and the American Stock Exchange. The following table sets forth the high and low sale prices for the common shares traded on these exchanges.

	Toronto Stock Exchange (Canadian dollars)		**American Stock Exchange (U.S. dollars)**	
Period	**High**	**Low**	**High**	**Low**
1987 1st quarter	**$11.87**	**$ 8.62**	**$ 9.00**	**$ 6.25**
2nd quarter	**11.37**	**9.25**	**8.50**	**7.00**
3rd quarter	**12.62**	**10.00**	**9.62**	**7.56**
4th quarter	**12.37**	**7.50**	**9.62**	**5.75**
1986 1st quarter	$13.37	$ 8.00	$ 9.75	$ 5.87
2nd quarter	9.37	8.00	6.75	5.62
3rd quarter	9.87	7.12	7.00	5.12
4th quarter	9.62	8.00	7.00	5.87

The Company's 25,504,915 issued common shares were held by approximately 3,000 registered holders at January 1, 1988.

FIVE YEAR REVIEW

FINANCIAL
(Thousands of dollars except per share amounts)

	1987	1986 (restated)	1985 (restated)	1984	1983
Revenue					
Oil and gas division	$ 40,028	$ 36,200	$ 67,199	$ 65,470	$ 40,742
Oilfield construction	1,032	1,334	4,381	2,381	2,578
Investment income	1,755	285	2,100	1,716	2,319
	42,815	37,819	73,680	69,567	45,639
Expense					
Royalties (net)	4,520	5,311	12,944	14,522	5,798
PGRT and IORT	(415)	273	4,356	6,001	3,590
Operating	7,992	8,445	11,195	8,083	6,030
General and administration	1,812	3,095	2,050	1,651	1,542
Interest on long-term debt	2,662	3,985	6,309	3,967	2,327
Other interest	793	344	432	460	450
Depletion and depreciation	14,209	12,835	11,291	10,235	7,010
Income taxes	3,826	1,559	11,435	9,944	6,062
	35,399	35,847	60,012	54,863	32,809
Earnings From Continuing Operations	7,416	1,972	13,668	14,704	12,830
Loss on Discontinued Operations	—	—	1,492	12,634	321
Earnings Before Minority Interest	7,416	1,972	12,176	2,070	12,509
Minority Interest	46	—	—	—	—
Net Earnings Before Extraordinary Item	7,370	1,972	12,176	2,070	12,509
Extraordinary Item	—	—	(5,824)	—	—
Net Earnings	$ 7,370	$ 1,972	$ 6,352	$ 2,070	$ 12,509
Per Share (basic and fully diluted)					
Earnings from continuing operations	$ 0.30	$ 0.09	$ 0.60	$ 0.65	$ 0.60
Earnings before extraordinary items	$ 0.30	$ 0.09	$ 0.54	$ 0.09	$ 0.58
Net earnings	$ 0.30	$ 0.09	$ 0.28	$ 0.09	$ 0.58
Gross Capital Expenditures	$ 42,854	$ 25,673	$ 49,112	$ 50,189	$ 43,601
Total Assets	$303,154	$249,623	$254,843	$245,675	$226,830
Long-Term Debt	$ 39,095	$ 42,025	$ 45,496	$ 50,739	$ 44,875
Shareholders' Equity	$173,755	$136,809	$134,797	$128,768	$125,727
Operating (Canada)					
Production					
Oil & NGL's — thousands of barrels	1,506	1,514	1,577	1,495	972
Gas — millions of cubic feet	3,302	2,442	3,042	3,212	2,427
Wells Drilled					
Completed	42	39	78	89	70
Abandoned	27	25	58	38	34
	69	64	136	127	104

CORPORATE INFORMATION

OFFICERS

William S. McGregor
President and Chief Executive Officer

Ronald D. Larmour
Vice-President and Treasurer

Stewart D. McGregor
Executive Vice-President

C. R. S. Montgomery
Vice-President and Secretary

James H. Pletcher
Vice-President, Special Projects

Wilfred J. Wilson
Vice-President, Exploration

DIRECTORS

Hadley Case
Chairman and Chief Executive Officer
Case, Pomeroy & Company, Inc.
New York, N.Y.

Alex N. MacIver
Barrister and Solicitor
Jackson, Arlette, MacIver & Skitsko
Edmonton, Alberta

Stewart D. McGregor
Executive Vice-President
Numac Oil & Gas Ltd.
Edmonton, Alberta

William S. McGregor
President and Chief Executive Officer
Numac Oil & Gas Ltd.
Edmonton, Alberta

W. Darcy McKeough
Company Director
Chatham, Ontario

Jack W. Robbins
Self-employed legal consultant
Jenkintown, PA

Bruce W. Watson
President
Wrangler Resources Ltd.
Calgary, Alberta

HEAD OFFICE

Petroleum Plaza, South Tower
1400, 9915 - 108 Street
Edmonton, Alberta
Canada T5K 2G8
Telephone (403) 423-1718

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange
American Stock Exchange
Stock Symbol: NMC

BANKERS

The Bank of Nova Scotia
Edmonton, Alberta

REGISTRARS AND TRANSFER AGENTS

The Royal Trust Company
Edmonton, Alberta
Montreal, Quebec
Toronto, Ontario

The Canadian Imperial Bank of
Commerce Trust Company
New York, N.Y.

AUDITORS

Deloitte Haskins & Sells
Edmonton, Alberta

SOLICITORS

Jackson, Arlette, MacIver & Skitsko
Edmonton, Alberta

FORM 10-K

Copies of this report and the Annual Report on Form 10-K filed with the Securities and Exchange Commission of the United States of America are available free of charge by writing to the Secretary of the Company, 1400, 9915 - 108 Street, Edmonton, Alberta, Canada T5K 2G8.

NUMAC
OIL & GAS LTD.

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