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Numac Oil & Gas Ltd.

1986 Annual Report

HIGHLIGHTS

FINANCIAL	1986	1985
Gross Revenue	$ 37,819,063	$ 73,680,030
Cash Flow from Continuing Operations	$ 19,540,807	$ 36,724,593
Earnings from Continuing Operations	$ 5,255,179	$ 17,598,633
Per Share	$ 0.23	$ 0.77
Long-Term Debt	$ 40,398,091	$ 44,750,209
Shareholders' Equity	$144,023,284	$138,727,941
Net Capital Expenditures	$ 20,186,695	$ 37,987,324
Weighted Average Shares Outstanding	22,749,451	22,731,656

RESERVES — proven and probable		
Oil and Natural Gas Liquids barrels	18,362,806	19,863,719
Natural Gas thousands of cubic feet	226,172,779	229,186,125

PRODUCTION		
Oil and Natural Gas Liquids barrels per day	4,149	4,320
Natural Gas thousands of cubic feet per day	6,690	8,334

LAND HOLDINGS — oil and gas		
Gross Acres	2,234,152	2,390,860
Net Acres	548,825	539,048

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.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Turner Valley Room of the Westin Hotel, 10135 - 100 Street, Edmonton, Alberta, Canada at 9:00 a.m. on Wednesday the 3rd day of June, 1987.

CORPORATE PROFILE

Numac Oil & Gas Ltd. is a diversified Canadian natural resource company. The principal business of the Company is oil and gas exploration, development and production in western Canada. In addition, Numac has significant interests in heavy oil, a uranium deposit, exploration acreage in the Mackenzie Delta and is also involved in oilfield construction.

The Company is headquartered in Edmonton, Alberta and is listed on the Toronto and American stock exchanges.

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NUMAC OIL & GAS LTD.

Petroleum Plaza — South Tower
14th Floor, 9915 - 108 Street
Edmonton, Alberta T5K 2G8
Telephone (403) 423-1718

March 31, 1987

TO OUR SHAREHOLDERS:

We are pleased to enclose herewith the 1986 Annual Report of the Company together with proxy materials pertaining to the Annual Meeting of Shareholders to be held June 3, 1987. We encourage your attendance at the meeting and, failing which, would appreciate the return of the enclosed Proxy at your earliest convenience.

Following is the text of a News Release issued by the Company on March 17, 1987:

Numac Oil & Gas Ltd. announces it has arranged a $59.7 million "bought deal" public financing with two major investment dealers.

The "bought deal" includes $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.

The debentures will be for a term of 15 years, will have a seven per cent coupon and will be convertible into common shares for 10 years at $13.50 per share. The debentures are not redeemable for three years.

Wood Gundy Inc. and Gordon Capital Corporation have agreed to buy the securities. The financing is subject to the usual regulatory approvals and is anticipated to close on or about April 15, 1987.

The net proceeds of the issue, being the approximate sum of $57,520,000, will be applied to eliminate long-term floating rate bank debt and the balance, in the approximate amount of $30,000,000, will be applied to increase working capital. As a result of this financing, not only will Numac's balance sheet be further strengthened but your Company will be very well positioned to participate in the opportunities that we see ahead for our industry.

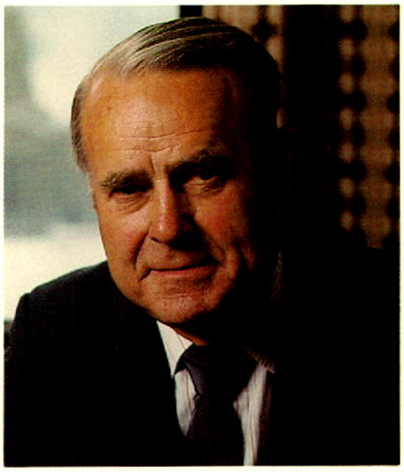
Yours truly,

W. S. McGregor

W. S. McGregor
President and
Chief Executive Officer

To Our Shareholders

Operating results for 1986 were severely impacted by dramatically lower crude oil selling prices. Gross revenue was $37.8 million as compared to $73.7 million in 1985. Cash flow from continuing operations was $19.5 million as compared to $36.7 million. Earnings from continuing operations amounted to $5.3 million as compared to $17.6 million in the prior year.



The above financial results are directly attributable to a 48% drop in the Company's crude oil selling prices which averaged $19.18 (Canadian) per barrel as compared to $36.83 per barrel in 1985. Furthermore, the decline in oil prices was not offset by production increases due to a continuation of pipeline capacity constraints in the major crude oil pipeline systems which necessitated prorationing of Alberta crude oil production. As a result, Numac's oil and natural gas liquids production averaged 4,149 barrels per day (bpd) as compared to 4,320 bpd during 1985. Production was also impacted to a lesser degree by the suspension of some older wells which became uneconomic at prevailing crude oil selling prices.

Gas production averaged 6.7 million cubic feet per day as compared to 8.3 million cubic feet per day during 1985. Selling prices averaged $2.20 per thousand cubic feet as compared to $2.51 per thousand cubic feet in the year earlier period. Both sales volumes and prices reflect the continued weakness of markets for Canadian gas. The United States gas bubble has depressed Canadian gas prices and impeded access to that market. However, we note the continued erosion of the United States gas surplus and foresee the potential for significant improvements in both price and volumes over the next few years. The Company's natural gas reserves of 226 billion cubic feet could sustain substantially higher volumes than those experienced to date.

Consistent with our policy of operating within cash flow, net capital expenditures were reduced by 47% to $20.2 million as compared to $38.0 million in the year earlier period. As a consequence, Numac participated in the drilling of 64 wells during 1986 as compared to 136 in the prior year. Of these, 31 were cased for oil, 8 cased for gas and 25 were abandoned for a success ratio of 61%.

Numac's 1986 exploration and development program resulted in the discovery of 1.5 million barrels of crude oil and natural gas liquids, thereby more than replacing production of 1.4 million barrels notwithstanding a 47% decrease in cash flow. After adjustments to reserves booked in prior years', gross proved and probable crude oil and natural gas liquids reserves declined by 7.6% to 18.4 million barrels.

During 1986, we continued to improve upon our relatively strong financial position. Long-term debt at year end was $40.4 million, a reduction of $4.4 million as compared to December 31, 1985. Long-term debt as a percentage of shareholders' equity was 28%. Further, our debt servicing ratio was a strong 5.8 to 1. It will be our continuing policy to operate within internally generated sources of funds so as to maintain our financial strength.

The Canadian Institute of Chartered Accountants has recently issued guidelines on full-cost accounting which provide for the calculation of oil and gas asset values for ceiling test purposes. Numac has historically complied with ceiling test guidelines established by the United States Securities and Exchange Commission. Based on an evaluation of Numac's oil and gas assets as at December 31, 1986 in accordance with both United States and Canadian ceiling test guidelines it has been determined that no write-down of such assets is required.

During 1986, the federal and provincial governments announced significant positive changes to the fiscal environment within which we operate. The federal government eliminated all aspects of the National Energy Program including complete elimination of the Petroleum and Gas Revenue Tax. Further, the Alberta government implemented a fiscal aid package of royalty reductions, royalty holidays and extended tax credits intended to stimulate industry activity. Most importantly from our perspective, five-year royalty holidays have been granted for wells drilled outside of existing pools subsequent to October 1, 1986 and prior to November 1, 1987. Wells drilled in the two succeeding twelve-month periods will receive royalty holidays of three years and one year, respectively. Based on a selling price of $15.00 U.S. per barrel, royalty holidays have the effect of improving pre-tax netbacks on new oil production by approximately 35% and, therefore, provide a significant incentive for exploratory and development drilling. We view these measures as very constructive for the future of our industry.

The long awaited capacity expansion of the interprovincial crude oil pipeline transportation system which accesses crude oil markets in eastern Canada and the mid-western United States has recently been completed. Although crude oil production for the first quarter of 1987 has been severely constrained, we anticipate a significant improvement in your Company's crude oil production volumes during the balance of the year.

Our policy will be to selectively develop our oil prospective land base with a view to maximizing royalty free production. We look forward to significant improvements in operating and financial performance during 1987 as a result of the recent improvement in crude oil selling prices, the positive impact of the fiscal measures previously referred to, the alleviation of pipeline capacity constraints and the potential for increases in royalty free production.

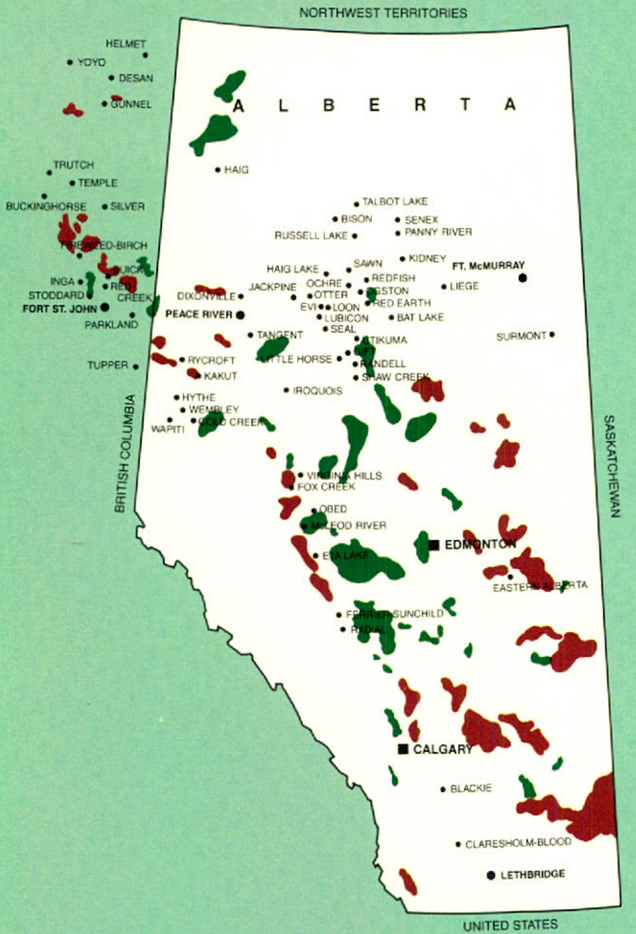
I would like to take this opportunity to thank our shareholders, directors and staff for their continuing support, effort and dedication during the past year.

On behalf of the Board of Directors,

W. S. McGregor

W. S. McGregor
President and Chief Executive Officer

Edmonton, Alberta
March 11, 1987



NUMAC OIL & GAS LTD.

Western Canadian Properties

- Area of Interest
- Oil Fields
- Gas Fields

Exploration

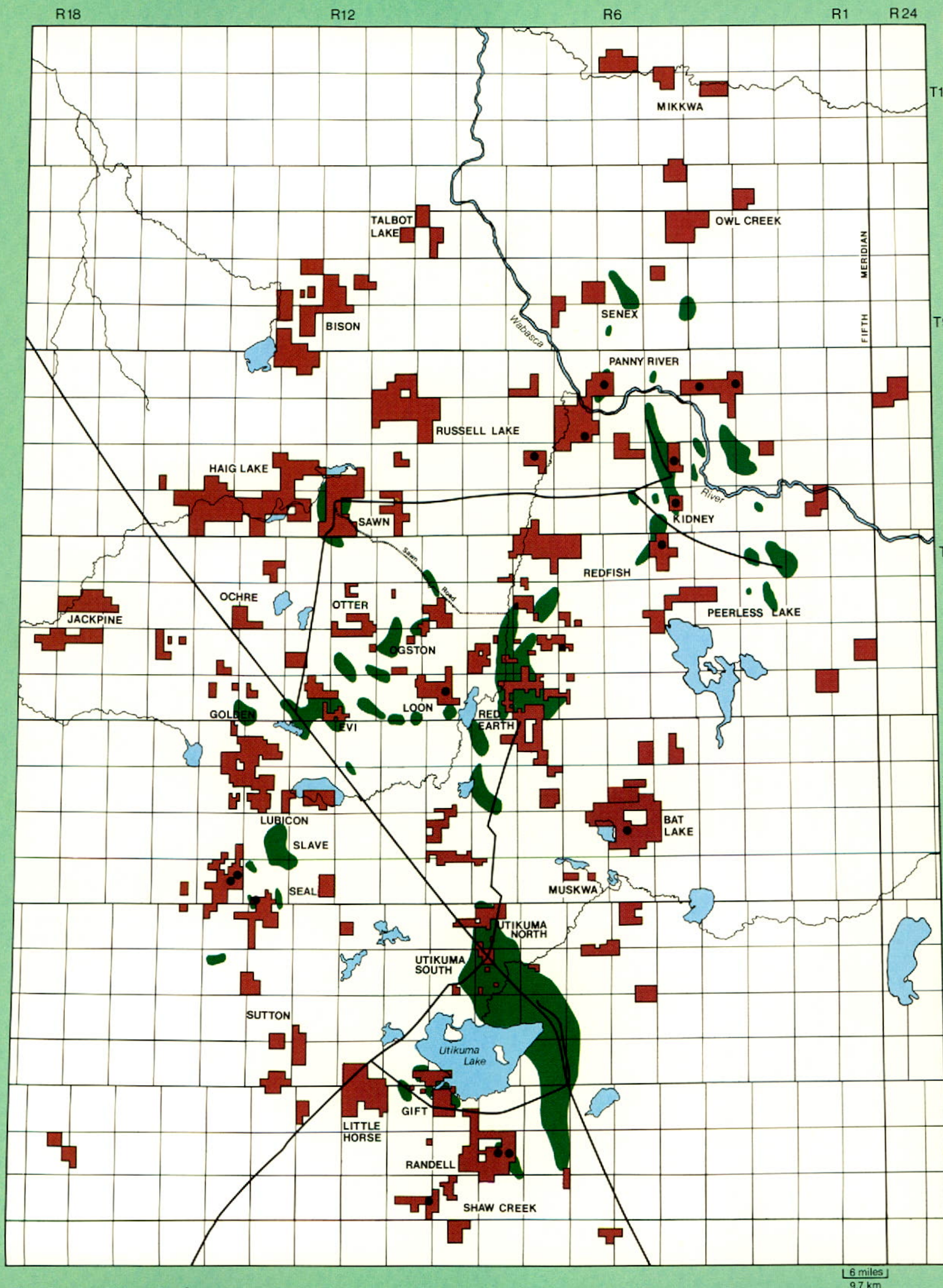
Numac's policy of operating within internally generated sources of funds combined with a severe reduction in world oil prices resulted in a significant reduction in the Company's 1986 exploration and development program. Total capital expenditures related to the Company's exploration, development and lease acquisition programs were $22.9 million, before recovery of incentive payments in the amount of $5.5 million, as compared to total capital expenditures of $44.1 million in 1985.

The Company discontinued its United States exploration and development program in late 1985 with the sale of its United States operating subsidiary. As a consequence, all 1986 exploration and development activities were carried out in Canada. The map opposite highlights an area of north-central Alberta in which Numac has been concentrating these activities. This oil prospective area is commonly referred to as the East Peace River Arch. The principal producing zones in this area are the Granite Wash, Gilwood, Keg River and Slave Point formations.

During the past two drilling seasons, industry has 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 been an active participant in this play.

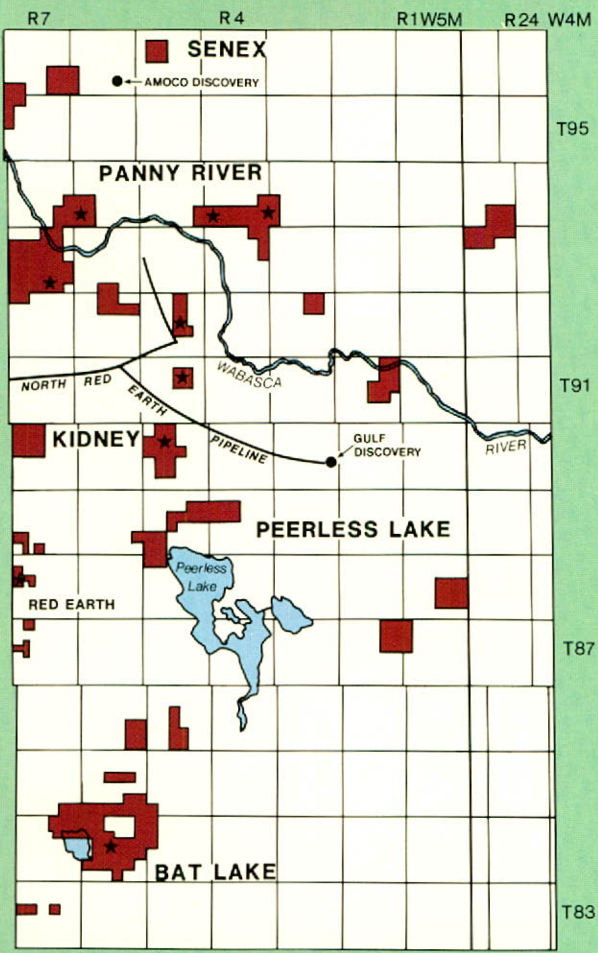
Drilling activities in the East Peace River Arch are, generally speaking, limited to the winter drilling months due to surface conditions. Further, lack of pipeline facilities has been an impediment to exploration and production activities. However, the North Red Earth Pipeline system which will connect the Senex-Peerless Lake area to the Rainbow pipeline is currently under construction and will not only reduce operating costs and thereby improve the economics of producing oil from the area but will also increase the attraction of exploration and development activities.

Numac's land holdings in the mapped area consist of an average working interest of 35.6% in approximately 701,510 gross acres and constitute one of the best representations of any major or independent company. The Company's principal producing fields in the East Peace River Arch are Utikuma, Red Earth, Gift, Sawn and Evi. Producing areas in the early stages of exploration and development include Kidney, Panny River, Loon, Seal and Bat Lake. These and other areas of current activity, some of which are outside the mapped area, are described in more detail on pages 4-7.



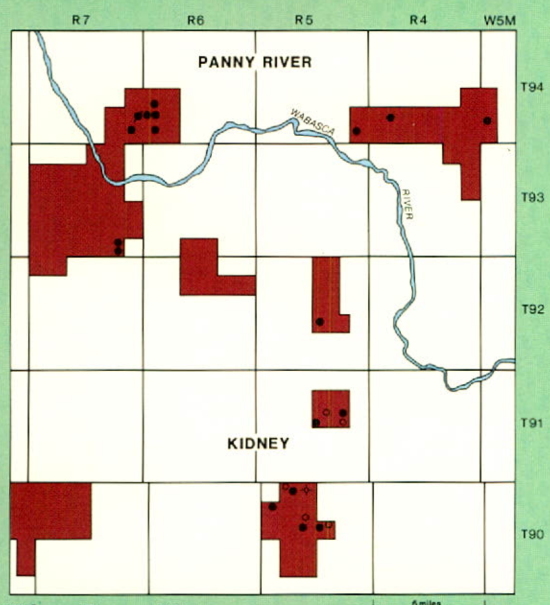
East Peace River Arch

Numac Interest Lands — Oil Fields — Oil Pipelines — Numac Discovery



Senex-Peerless Lake

■ Numac Interest Lands
★ Numac Discoveries
(Pipeline under construction)



Kidney-Panny River

■ Numac Interest Lands
● Oil Well
○ Location
Suspended
Dry Hole

Senex-Peerless Lake

The Senex-Peerless Lake area of north-central Alberta has become a focal point of exploration and development activity during the last two winter drilling seasons. 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 exploration potential of this area has been confirmed by the construction of the North Red Earth Pipeline.

At year end, Numac had an average working interest of 35.3% in 174,950 acres of trend acreage in this play where we will continue to selectively increase our land position. Of particular current interest are our Panny River and Kidney lands which are described below.

Panny River

In 1985, Numac participated in an oil discovery on its Panny River acreage. The well was drilled on a 5,760 acre lease block in which Numac has a 25% working interest. To date, five producing oil wells have been drilled on this acreage.

In early 1986, Numac participated in three exploratory wells on an 11,520 acre block of land located approximately ten miles due east of the Panny River discovery in which the Company has a 25% working interest. Two of these wells have been completed for production. Additional seismic will be conducted on these and adjoining lands in 1987 with a view to further drilling.

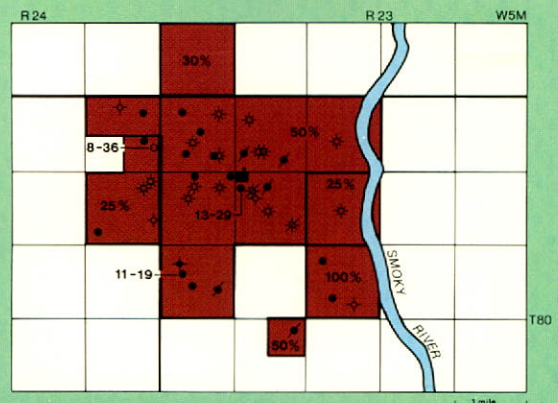
Further, Numac participated in an exploratory well approximately seven miles southwest of the Panny River discovery on a 4,480 acre block of land in which the Company has a 25% working interest. A development well offsetting the discovery has recently been drilled and is waiting on completion.

Kidney

At Kidney, to the southeast of Panny River, Numac has interests ranging from 10% to 50% in 20,160 acres. During 1986, Numac participated in the drilling of seven wells on these lands, six of which have been completed for Keg River oil production. Based on extensive seismic conducted over these lands, a multi-well drilling program will be undertaken during 1987.

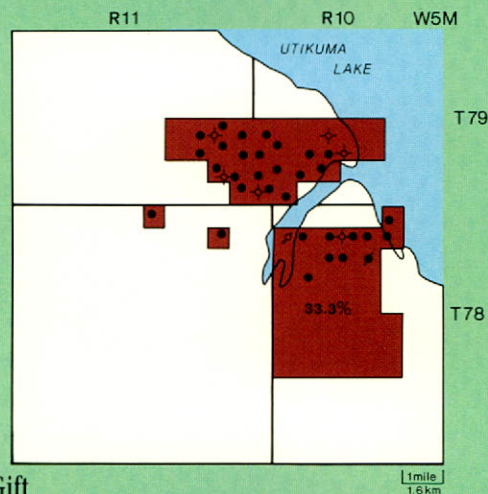
Bat Lake

The Company has an average working interest of 50.5% in 42,080 acres at Bat Lake which is approximately 20 miles southeast of its Red Earth oil field. In 1985 Numac participated as to a 50% interest in a Devonian oil discovery on these lands. Although exploratory drilling in early 1986, primarily for the purpose of earning farm-in acreage, was disappointing, we consider the lands prospective for additional exploratory drilling. Pending improvement in world oil prices, future drilling will concentrate on delineating the original discovery. We intend to commence this program prior to spring break-up.



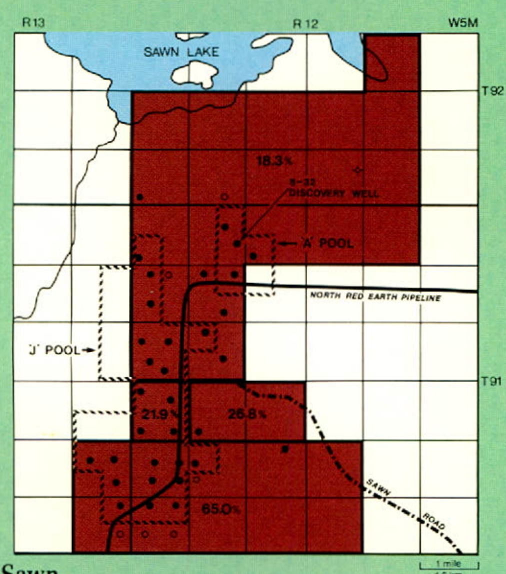
Tangent

Numac Interst Lands ○ Location Suspended
Oil Well Gas Plant Dry Hole
Gas Well



Gift

Numac Interest Lands Suspended Dry Hole
Oil Well Water Disposal Well



Sawn

Numac Interest Lands ○ Location Suspended
Oil Well Dry Hole

Tangent

Tangent, Numac's principal producing oil field, averaged in excess of 1,000 barrels of oil per day (bopd) net to Numac during 1986. This rate was achieved despite the impact of prorationing from several of the high productivity wells in the field. Numac participated as to a 50% interest in the drilling of two wells on its Tangent acreage in late 1986. One of these wells, Numac PCP 11-19-80-23 W5M, tested a structure identified by a three-dimensional seismic program conducted over a portion of the acreage in early 1986. The purpose of this program was to further delineate the high productivity dolomite reservoirs in the Wabamun formation. The well encountered a thick dolomite section which tested at the rate of 900 bopd and is expected to have a production allowable of 300 bopd. The second well drilled approximately 1.5 miles to the northeast, Numac PCP 13-29-80-23 W5M, tested at the rate of 500 bopd from a limestone reservoir. The production allowable for this well is expected to be 150 bopd. A third well, which was farmed out at no cost to Numac, was dry and abandoned.

At least one exploratory well is planned for Tangent during 1987. Further, a three-dimensional seismic program has recently been conducted on an additional two sections within the field and, subject to interpretation thereof, additional drilling is expected.

Gift

Numac has a 33.33% working interest in 28 wells at Gift. Production is primarily from the Slave Point formation. Other producing zones are the Granite Wash and Gilwood sands. During 1986, geological and engineering studies were conducted to determine the viability of an enhanced recovery program in the Slave Point formation. This study concluded that such a project would be successful and as a result a waterflood has been initiated. It is estimated that the flood will triple the recoverable reserves and substantially increase production volumes from the field.

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 reservoir study of the "A" pool has determined that a waterflood secondary recovery project is feasible. It is intended to initiate this program in 1987 with the objective of increasing production and recoverable reserves. A feasibility study is also being conducted with respect to the viability of a secondary recovery program in the "J" pool. Additional drilling for primary production at Sawn is dependent upon improvements in crude oil prices. The construction of the North Red Earth Pipeline referred to earlier will reduce crude oil transportation costs and provide year-round delivery from the Sawn field.

Seal

Numac has interests ranging from 16.6% to 50% in 17,920 acres at Seal which is located approximately five miles southwest of the highly productive Slave oil field. To date three wells have been completed for oil production on these lands. A three-dimensional seismic program has been proposed to assist in delineating the productive zones in the discovery wells. We anticipate further drilling in 1987.

Loon

Numac has interests ranging from 7.5% to 33.3% in 8,640 acres in this oil prospective area. A three-well exploratory drilling program has to date resulted in one Granite Wash oil well and two dry holes. There are several additional prospective locations on these lands. Further, pursuant to a farm-in agreement Numac has the right to earn a 19.2% interest in 1,280 additional acres in this play. The earning well will be drilled in 1987.

Red Earth

Red Earth is Numac's second most productive area. Crude oil production, which is primarily from the Granite Wash formation, averaged in excess of 900 bopd net to Numac during 1986. The Company participated in the drilling of five successful Granite Wash oil wells in this area during 1986. Of particular note is a new oil discovery drilled approximately five miles northeast of the main field. The well was drilled on a 1,760 acre block in which Numac has an average working interest of 81.8%. This discovery will be delineated by additional drilling during 1987.

Utikuma

Production at Utikuma averaged 681 bopd during 1986 making it the Company's third most productive field notwithstanding that production was severely restricted due to prorationing. Numac's productive capacity at Utikuma is approximately 1,000 bopd, or, approximately 46% higher than volumes actually produced during the year. Recent additions to pipeline capacity should result in significantly higher production volumes from this area in 1987. Further, additional drilling is anticipated during 1987.

Virginia Hills

During 1986 Numac acquired a 100% interest in 1,440 acres immediately north of the Virginia Hills oil field. Subsequently, a Swan Hills reef discovery in which Numac participated as to a 50% interest (75% after payout) was drilled on these lands. It is our intention to drill several follow-up locations on this acreage in 1987. In addition, Numac has interests ranging from 15% to 27% in five producing oil wells on the south edge of the Virginia Hills field.

McLeod River/Hinton

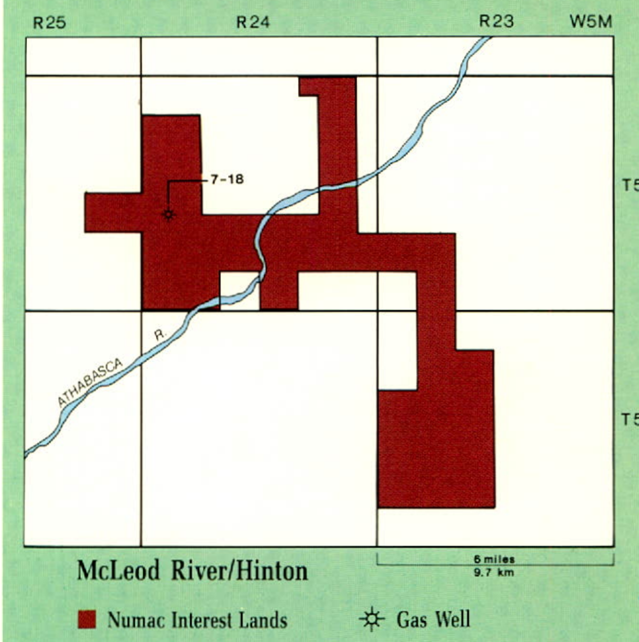
At McLeod River, approximately five miles northeast of the town of Hinton, Alberta, the Company has a 15% working interest in 22,880 acres. A 16,300 foot exploratory well, Cdn-Sup N7-18-52-24 W5M, was cased for Devonian Leduc gas in 1986 after penetrating 554 feet of reef. In addition to the potential 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 because of the necessity to satisfy severe environmental and safety restrictions. Preparations are underway to test and complete the well as soon as practically possible. Subject to a successful test, additional drilling will be undertaken to delineate the structure. The gas and sulphur potential of this property could have a substantial impact on Numac's asset value and make a significant contribution to future cash flow and earnings. In addition, there are other seismically identified structures on this acreage.

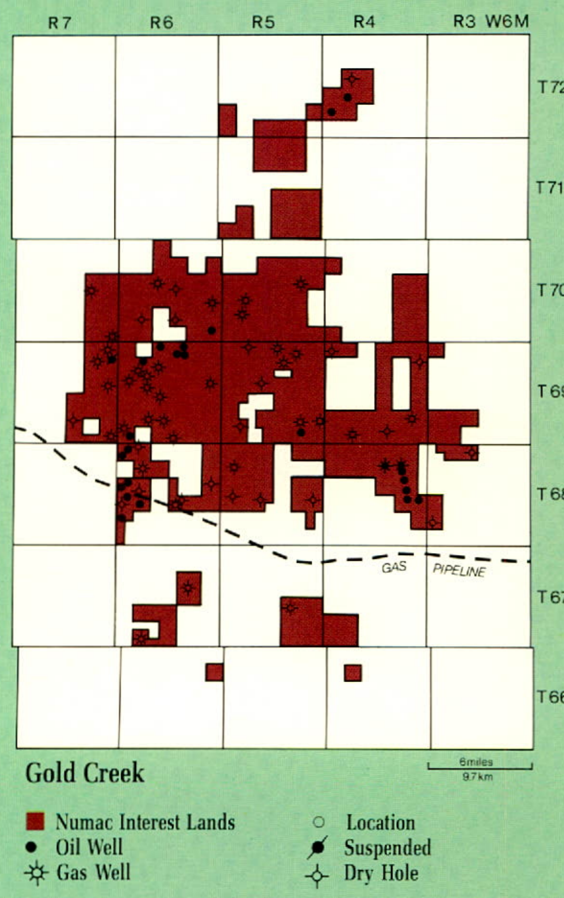
In late 1986, Numac acquired a 25% interest in 4,480 acres at Obed. These lands are approximately seven miles to the northeast of its McLeod River acreage. Seismic information on these lands indicates the presence of an excellent Devonian gas prospect with potential for sulphur recoveries. Additional seismic will be conducted in 1987 for the purpose of establishing the most prospective drilling location.

Gold Creek

At Gold Creek, in the oil and gas productive Elmworth trend, Numac has interests from 7.5% to 25% in 181,120 acres. The Company now has interests in 27 gas wells which have been cased for production from one or more formations. The most significant discovery on this acreage 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 will make a significant contribution to Numac's gas sales as export markets improve.

Numac has an interest in two producing oil fields on its Gold Creek acreage which are productive from Triassic zones. A secondary recovery program is under consideration with respect to one of these Triassic oil fields. In addition, the Company participated in a Cretaceous Doe Creek oil discovery on these lands in 1985 and has since participated in the drilling of four successful offsets to this well. The Doe Creek oil potential of the Gold Creek lands will be further delineated during 1987.





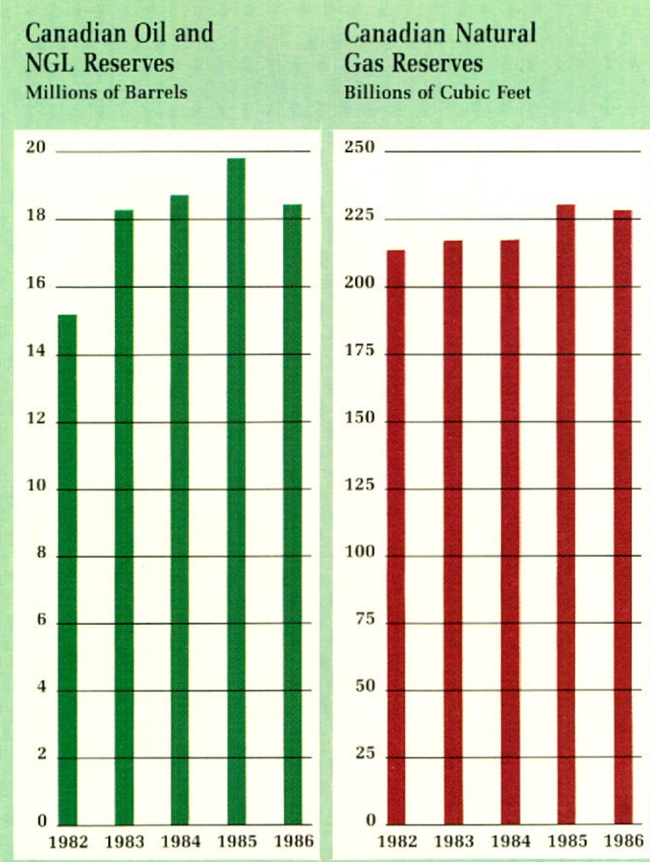
Reserves

Numac's 1986 exploration and development drilling program resulted in the discovery of 1.5 million barrels of crude oil, thereby more than replacing crude oil production of 1.4 million barrels. This was achieved notwithstanding a significant reduction in exploration and development expenditures necessitated by the dramatic drop in world crude oil prices.

The most prominent additions to 1986 reserves occurred as a result of Keg River oil discoveries at Kidney and the continued development of Wabamun oil reserves at Tangent. Importantly, several additional locations have been identified within both of these fields which are expected to make a significant contribution to future reserves. Crude oil reserve additions were also made at Red Earth, Senex, Sawn and Virginia Hills.

As a result of the severe drop in world crude oil prices, one million barrels of oil reserves previously attributed to the Company's Mackenzie Delta land holdings have been reclassified from proven to probable. Although, by definition, proven reserves cannot be attributed to the Mackenzie Delta at this time, it is our opinion that the same will become economic and be a valuable asset as crude oil prices improve. Also as a result of the significant drop in world oil prices, revisions have been made to several other producing properties, primarily in the Company's older fields. After deducting 1986 production and the aforesaid revisions, Numac's year end crude oil reserves decreased by 7.5% to 18.4 million barrels. Based on 1986 production rates, Numac's reserve life index for crude oil and natural gas liquids is 13 years.

During 1986, 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. Further, for the reason mentioned above, 13.1 billion cubic feet (bcf) of gas reserves attributed to the Company's Mackenzie Delta land holdings have been reclassified from proven to probable reserves. The Company's gas reserves, after production of 2.4 bcf and revisions to prior years' reserves, decreased marginally to 226 bcf at year end as compared to 229 bcf at December 31, 1985. Numac did, however, participate during 1986 in a potentially significant Leduc gas discovery, Cdn-Sup et al Hinton N 7-18-52-24 W5M, which penetrated 554 feet of reef. The well was not tested during drilling operations due to the anticipated presence of significant quantities of hydrogen sulfide. We expect the well will be completed in the second half of 1987. This prospect could have a major impact on your Company's gas and sulphur reserves.



*Oil and gas reserves are before royalty.

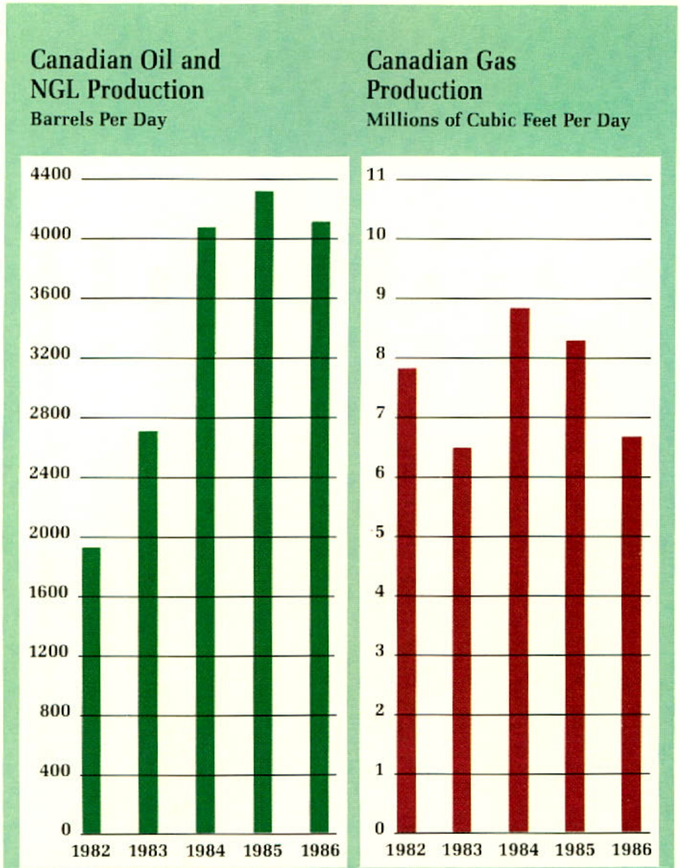
In addition to conventional reserves, your Company has interests in several heavy oil properties in the Fort McMurray area of northern Alberta. Independent consulting geologists estimate the bitumen in place at our Surmont and Liege properties to be in excess of 17 billion barrels (see Heavy Oil).

Reserves	OIL AND NGL (thousands of barrels)			NATURAL GAS (billions of cubic feet)		
	Proved	Probable	Total	Proved	Probable	Total
Reserves at December 31, 1985	12,477	7,387	19,864	162.61	66.58	229.19
New reserves added	995	552	1,547	0.88	0.18	1.06
Revisions — Alberta & British Columbia	(1,342)	(135)	(1,477)	(3.96)	0.30	(3.66)
— Mackenzie Delta	(1,001)	867	(134)	(13.08)	15.10	2.02
Reserves produced	(1,437)	—	(1,437)	(2.44)	—	(2.44)
Reserves at December 31, 1986	9,692	8,671	18,363	144.01	82.16	226.17

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-two percent of the probable crude oil and natural gas liquids reserves, and twenty-one percent of the 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.



*Oil and gas production is before royalty.

Production

Crude oil and natural gas liquids production averaged 4,149 bpd during 1986 as compared to 4,320 bpd during 1985, a marginal decrease of 4%. The decrease is directly attributable to continued prorationing of Alberta crude oil production resulting from pipeline capacity constraints. An average of approximately 400 bpd of light gravity crude oil was shut in during 1986 due to this factor. Expansion of the interprovincial crude oil pipeline system has recently been completed and, accordingly, we expect a significant increase in Numac's crude oil production during the balance of 1987. Inaccessibility to several indicated oil discoveries also constrained production increases in 1986 as did the suspension of some wells which became uneconomic due to the precipitous drop in world oil prices.

Crude oil production increases were achieved in the Kidney, Virginia Hills, Rycroft and Panny River fields. The Kidney field, although discovered in early 1986, has only recently been placed on production and is expected to significantly contribute to 1987 production volumes. Two wells drilled in the Tangent field in late 1986 will also contribute to future production increases. Other areas which hold the potential for production increases in 1987 include secondary recovery projects in the Slave Point formation at both Sawn Lake and Gift Lake. Both projects will commence in the second quarter of 1987 and are expected to significantly increase recoverable reserves and productivity from these fields.

A significant project to Numac is the North Red Earth Pipeline which is currently under construction and should be operational during the second quarter of 1987. This 105 mile pipeline system has a design capacity of 14,000 bpd and will connect the Kidney, Senex, Trout and Sawn Lake oil fields to the Rainbow pipeline. To date, trucking of production from these fields has been restricted due to road bans and poor road conditions. Although Numac is a minor interest holder in the line, its importance lies in the fact that it will provide the Company and other operators in the vicinity thereof with year-round production capability and reduced crude oil transportation costs. Numac has an excellent land position in the immediate vicinity of the pipeline, the attractiveness of which has been enhanced by construction of the line.

Canadian gas production averaged 6.7 million cubic feet per day as compared to 8.3 million cubic feet per day in 1985, a decrease of 19%. Reduced gas production is a reflection of weak export markets and your Company's refusal, as a matter of policy, to enter into long-term discount contracts which do not reflect the replacement cost of the gas reserves.

Natural gas liquids extracted from gas processed through the Empress gas liquids plant increased 17% from 1985 levels to 213 bpd despite continued general weakness in the gas export market.

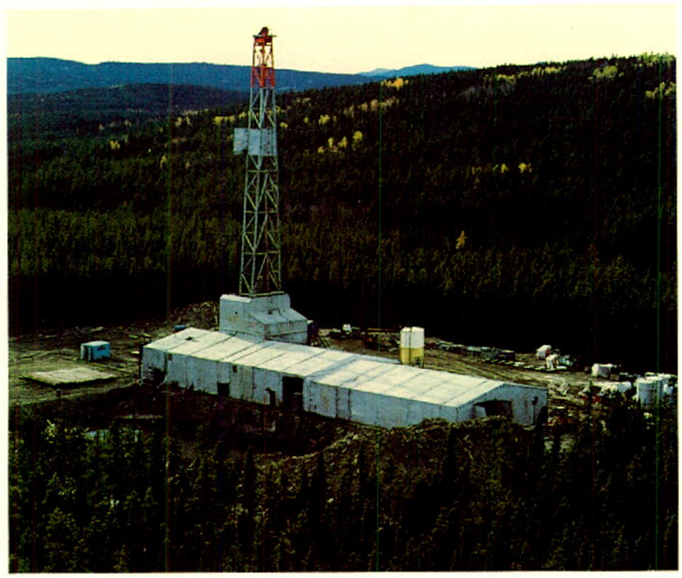
Land

Notwithstanding the depressed state of the oil and gas industry, Numac maintained an active land acquisition program during 1986, the primary objective of which was to enhance the Company's oil prospective land base. By purchase of acreage at Crown sales and pursuant to farm-in arrangements, Numac acquired 106,880 gross (51,681 net) acres, all in the Province of Alberta. Although gross working interest acreage in Alberta and British Columbia decreased by 21,042 acres through the normal process of land dispositions, the Company's net working interest position increased by 9,777 acres due to an emphasis on acquiring larger working interests in land acquisitions.

The largest increase in Numac's land base occurred in the oil prospective East Peace River Arch area with particular emphasis on acquisitions at Seal, Lubicon, Red Earth, Loon, Bat Lake, Shaw Creek, Panny River and Kidney. Other selective acreage was added to holdings at Tangent, Virginia Hills, Obed and McLeod River. Acquisitions in this latter area are strategic to lands on which Numac participated in the drilling of a deep gas test (see Exploration).

Total land bonuses paid by industry to the government of the Province of Alberta were the lowest since 1976, reflecting the restraints on industry cash flow as a result of severely depressed crude oil prices and continued weakness in gas markets. Numac's average acquisition cost at Crown sales during 1986 was $38.50 per acre as compared to $103.00 per acre during 1985.

In addition to its oil and gas properties, the Company holds a total of 15,270 gross (3,234 net) acres of other mineral rights consisting of precious mineral claims and leases. The bulk of these holdings include the Midwest Lake uranium ore body and adjoining prospective acreage, as well as uranium prone interests in the Carswell Lake area of northern Saskatchewan. The remaining properties are located in the Northwest Territories approximately 35 miles northeast of Yellowknife. These mineral claims are prospective for gold and will be explored under the provisions of a recently completed farm-out agreement (see Minerals).



Land Holdings

Petroleum and natural gas rights as at December 31, 1986 were:

	DEVELOPED		UNDEVELOPED		TOTAL ACREAGE	
	Gross	Net	Gross	Net	Gross	Net
Working Interest Acreage						
Alberta	184,149	49,390	1,283,885	387,858	1,468,034	437,248
British Columbia	34,424	12,564	309,147	99,013	343,571	111,577
	218,573	61,954	1,593,032	486,871	1,811,605	548,825
Royalty Interest Acreage						
Alberta	22,268		208,094		230,362	
British Columbia	3,727		—		3,727	
Mackenzie Delta	1,502		135,473		136,975	
Other	160		51,323		51,483	
	27,657		394,890		422,547	
TOTAL	246,230	61,954	1,987,922	486,871	2,234,152	548,825

"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.

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's working interest share of recoverable heavy oil reserves at Surmont and Liege 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.

Empress Gas Liquids Plant

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 213 bpd in 1986 compared to 182 bpd in 1985. ProGas exports will increase substantially as the United States markets for Canadian gas improve. When this occurs, it is anticipated that the Empress plant will be substantially expanded.

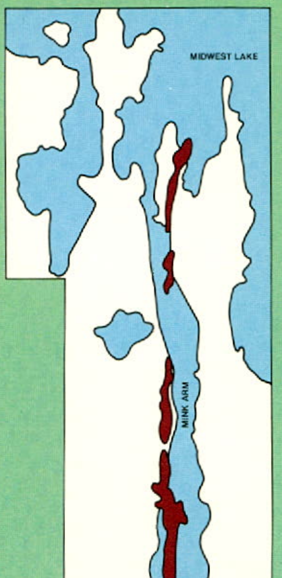
Numac does not own the liquids until they are extracted and therefore the company does not report these liquids as reserves. Numac's share of liquids production over the 20-year life of the plant is forecast to exceed four million barrels.

Minerals

Numac has a 10% working interest and a 15% net carried interest in the Midwest Lake uranium deposit located in the uranium producing area of northern Saskatchewan. Based on a report by independent geological engineers, the drill-indicated reserves are calculated at 56 million pounds of uranium oxide having an average grade of 1.25%, or, 25 pounds per ton. This ore body is a high grade, low cost deposit with excellent commercial potential. The development prospects for this property have been improved as a result of the reduction in the world uranium stockpile and increased usage by power plants. Commencement of a commercial operation in the early 1990's is not an unreasonable expectation based on current trends in supply and demand for uranium oxide.

In addition, Numac continues to hold a 17.4% working interest in 9,225 acres of uranium prospective leases in the Carswell Lake area of northern Saskatchewan. Although no exploration expenditures are planned for 1987, exploration activities previously carried out in association with Amok Ltd. confirm the exploration potential of these leases.

The Company has farmed out its 25% interest in 2,040 acres of gold prospective leases at Clan Lake, 35 miles northeast of Yellowknife, Northwest Territories. Pursuant to the farmout, the farmee must spend $1 million on exploration by the end of 1989 to earn a 50% working interest in the property. Exploration expenditures must commence in 1987. Numac's working interest after earning will be 12.5% which, at Numac's option, is convertible to a 5% net profits interest.



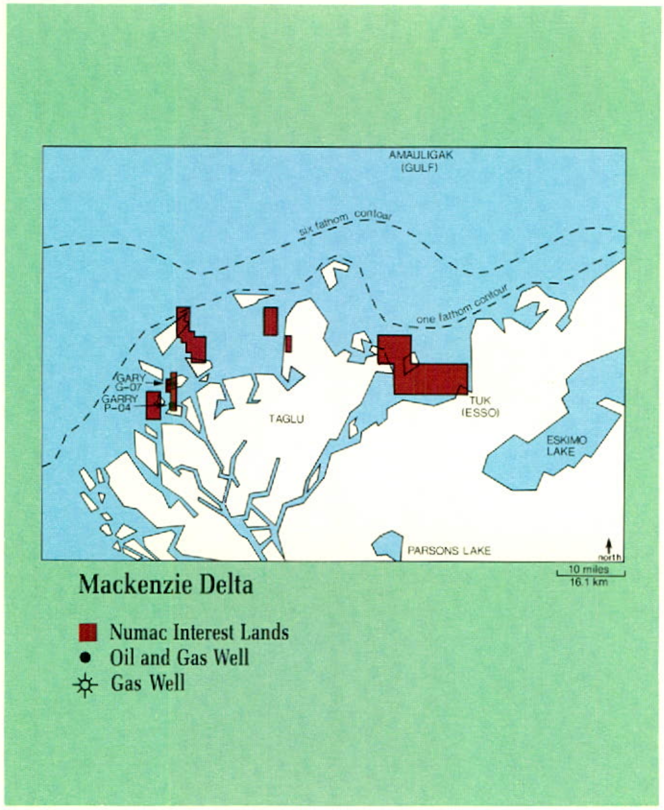
Midwest Project

■ Area of Mineralization

Mackenzie Delta

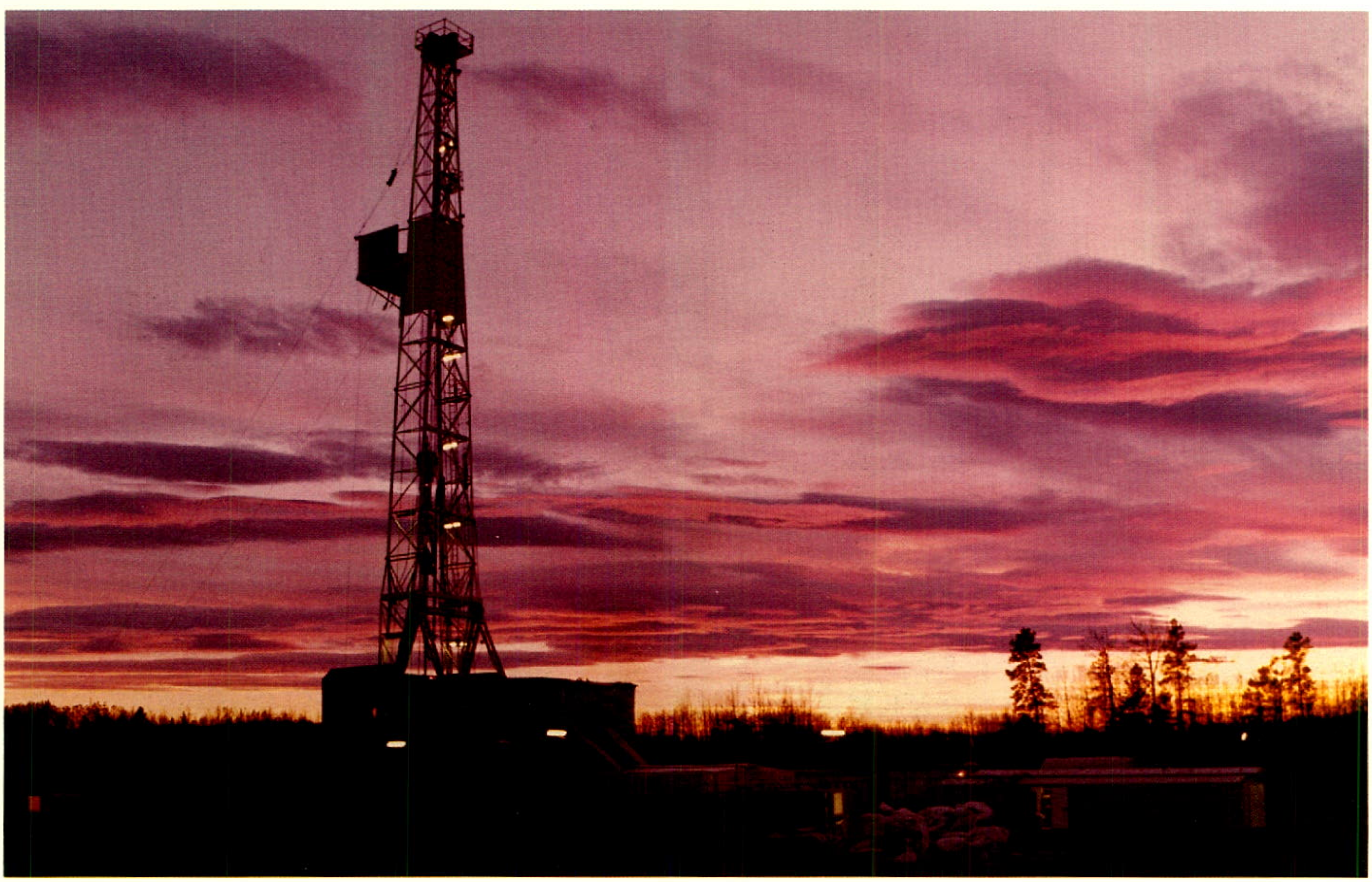
The map opposite illustrates Numac's Mackenzie Delta acreage which consists of 136,975 acres in which Numac has a 20% preferred net carried interest. The carried interest is preferred in that the Company is entitled to a share of income from initial sales of oil and gas which escalates to a 20% revenue interest after recovery by others of exploration and development costs. Two exploratory wells have been drilled on these lands. The Garry P-04 tested at the rate of 7,920 barrels of oil per day and cumulative gas flows of 31 million cubic feet per day and the Garry G-07 tested cumulative gas flows of 21 million cubic feet per day.

In accordance with the Exploration Agreement covering the subject lands, approximately 50% thereof were relinquished in early 1986. The retained lands include three parcels which have been designated as significant discovery areas. Except for the significant discovery areas the remaining lands must be validated by the drilling of an exploratory well prior to their expiry on March 3, 1988. Failing the drilling of the validating well it is our intention to seek an extension of the expiry date.



Oilfield Construction

Numac, through its wholly-owned subsidiary McGregor Johanson Contacting 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 and continues to do so notwithstanding significantly reduced levels of oil and gas exploration and development activity.



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.

Revenue

Gross revenue from continuing operations decreased by 49% to $37.8 million in 1986 as compared to $73.7 million in 1985. This decrease is primarily related to a dramatic decline in crude oil selling prices which averaged $19.18 per barrel in 1986 as compared to $36.83 in 1985. Also contributing to the decline in gross revenues, but to a much lesser extent, were marginally lower crude oil and natural gas production and lower gas prices.

Crude oil and natural gas liquids production averaged 4,149 barrels per day (bpd) as compared to 4,320 bpd in 1985. This decrease is a result of pipeline capacity constraints in the major pipeline system which necessitated prorationing of Alberta crude oil production throughout 1986. Production was also impacted, to a lesser degree, by the suspension of some low productivity wells which became uneconomic to produce at prevailing prices.

Revenue from gas sales decreased by 29% to $5.4 million in 1986 from $7.6 million in 1985. This decrease is attributable to a reduction in average selling prices to $2.20 per thousand cubic feet (mcf) in 1986 as compared to $2.51 per mcf in 1985, as well as lower gas production levels which averaged 6.7 million cubic feet (mmcf) per day in 1986 as compared to 8.3 mmcf a year earlier.

Investment income, primarily the result of profit realized from the sale of marketable securities, was $0.3 million in 1986 as compared to $2.1 million in 1985.

Oilfield construction revenues and road usage fees were also indirectly affected by the lower crude prices which resulted in significantly reduced exploration and development activity throughout western Canada. As a consequence, gross revenue from the Company's wholly-owned subsidiary, McGregor Johanson Contracting Ltd., declined to $1.3 million in 1986 as compared to $4.4 million in 1985. Revenue from the Camun Sawn road, wholly-owned by Numac, was $0.5 million in 1986, a 40% decrease when compared to 1985.

Expenses

Total expenses, exclusive of royalties and taxes, were $27.8 million, a decrease of 9% over the $30.5 million incurred in 1985.

Operating expenses were $8.4 million, a decrease of 25% over the $11.2 incurred in 1985. The decrease is primarily attributable to reduced activity in the Company's oilfield construction division as well as increased efficiencies resulting from the competitive environment necessitated by lower oil and gas selling prices.

Royalty expenses declined by 49% to $7.4 million for 1986 as compared to $14.6 million in 1985. This decrease is primarily the result of lower oil prices and, to a lesser degree, reduced oil and gas production and a slight decrease in marginal royalty rates.

In response to the severe impact which crude oil prices have had upon our industry and, consequently, the provincial economy, the Province of Alberta has recently announced a fiscal aid package of royalty reductions, royalty holidays and extended tax credits intended to stimulate industry activity. Those aspects of the program most beneficial to your Company are:

— the extension to December 31, 1987, of the Alberta Royalty Tax Credit Program which provides royalty rebates to a maximum of $3 million per year;
— a 12% reduction in royalty rates applicable to oil and gas production discovered subsequent to 1974, and;
— most importantly from the Company's perspective, five year royalty holidays for oil wells drilled outside of existing pools after October 1, 1986 and prior to November 1, 1987. Wells drilled in the two succeeding 12 month periods will receive royalty holidays of 3 years and 1 year, respectively.

The oil industry welcomed the elimination, effective October 1, 1986, of the Petroleum Gas Revenue Tax (PGRT). PGRT expense for 1986 was $0.3 million as compared to $4.4 million in 1985. This decrease is a result of: lower crude oil prices, the effect of a financing transaction (commonly referred to as a "production carve-out agreement") finalized in May, 1985, a decrease in the rate of tax to 10% in 1986 from 12% in 1985, an increase in the annual PGRT exemption from $.5 million to $2.0 million effective May, 1986 and and the elimination of the tax in October, 1986.

General and administration expenses increased by $1.0 million to $3.1 million in 1986 from $2.1 million in 1985. This 48% increase included a non-recurring expense of $1.3 million arising on the cancellation of certain stock purchase plan loans receivable. Excluding this item, general and administration expenses were $0.3 million less in 1986 than in 1985.

Interest on long-term debt was $3.1 million in 1986 as compared to $5.6 million in 1985. This 45% decrease reflects lower average debt levels and the effect of the production carve-out agreement referred to earlier.

Depletion and depreciation expenses are $12.8 million in 1986 as compared to $11.3 million in 1985. Depletion expense increased by 15% to $9.6 million primarily as a result of revisions to previous years oil reserves. Depreciation expense was $3.2 million as compared to $2.9 million in 1985. This 10% increase is a result of additional investment in production facilities in the past twelve months.

Earnings

Earnings from continuing operations decreased to $5.3 million in 1986 from $17.6 million in 1985. This decrease is primarily the result of lower crude oil prices offset somewhat by reduced expenses referred to above.

Capital Expenditures

Gross capital expenditures, before deduction of various incentive payments, amounted to $25.7 million in 1986 as compared to $49.1 million in 1985. This 48% decrease in capital spending is a result of reduced revenues and management's ongoing commitment to operate within internally generated cash flow. Net capital expenditures were $20.2 million after deducting incentive payments earned during 1986 of $5.5 million. Net capital expenditures were $38.0 million in 1985 after deducting incentive payments earned of $11.1 million.

Interest capitalized in 1986 amounted to $0.5 million, a decrease of $0.2 million from 1985. Interest capitalized in both 1985 and 1986 related to oil and gas projects under development which did not contribute to earnings throughout the related year but which are expected to do so in the future. General and administration expenses capitalized in 1986 amounted to $2.0 million, an increase of $0.1 million over 1985. Capitalized general and administration expenses relate directly to exploration and development activities.

Liquidity

The Company's bank lines of credit were maintained at $55 million throughout 1986. These bank lines of credit exceeded amounts drawn at year end by approximately $26.9, million. At December 31, 1986 Numac's long-term debt pursuant to the production carve-out transaction was $12.4 million (refer to Note 6b), a reduction of $4.4 million from December 31, 1985.

Numac's working capital at December 31, 1986 was $4.7 million as compared to $8.9 million at December 31, 1985.

Cash flow from continuing operations, before interest expense, was 5.8 times total interest costs as compared to 6.3 times in 1985. The reduction of the Company's debt servicing ratio is primarily related to reduced cash flow, partially offset by reduced interest costs.

The Company's revenue from oil and gas producing activities are dependent upon world oil prices. It is encouraging to note that in recent months oil prices have shown an improvement over those experienced throughout most of 1986. However, it is difficult to determine the direction that prices will take in the future.

Numac had no unusual commitments at December 31, 1986.

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, 1986 and 1985 and the consolidated statements of earnings and of changes in financial position for each of the three years in the period ended December 31, 1986. 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, 1986 and 1985 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, 1986 in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Deloitte Haskins + Sells

Chartered Accountants

EDMONTON, Alberta
March 4, 1987, except as to Note 13
which is as of March 18, 1987.

Consolidated Statement of Earnings

For the year ended December 31

	1986	1985	1984
Revenue			
Operating revenue	**$36,521,356**	$70,449,531	$67,098,035
Investment income and gains	**284,767**	2,100,007	1,715,806
Supervision and sundry	**1,012,940**	1,130,492	753,607
	37,819,063	73,680,030	69,567,448
Expense			
Royalties	**7,385,478**	14,606,740	16,522,093
Alberta royalty tax credit	**(2,753,425)**	(2,000,000)	(2,000,000)
Petroleum and gas revenue tax	**272,783**	4,356,194	6,001,359
Operating	**8,445,411**	11,194,562	8,083,312
General and administration (Note 3(b))	**3,094,446**	2,049,568	1,651,184
Interest on long-term debt (Note 3(b))	**3,102,260**	5,564,015	3,966,884
Other interest	**344,279**	432,189	459,698
Depletion and depreciation	**12,835,257**	11,290,791	10,235,259
	32,726,489	47,494,059	44,919,789
Earnings from continuing operations before income taxes	**5,092,574**	26,185,971	24,647,659
Income taxes (Note 8)	**(162,605)**	8,587,338	9,944,050
Earnings From Continuing Operations	**5,255,179**	17,598,633	14,703,609
Loss on discontinued U.S. operations	**—**	1,492,443	12,633,110
Earnings Before Extraordinary Item	**5,255,179**	16,106,190	2,070,499
Loss on sale of U.S. operations (Note 9)	**—**	5,824,223	—
Net Earnings	**$ 5,255,179**	$10,281,967	$ 2,070,499
Per Share			
Earnings from continuing operations	**$0.23**	$0.77	$0.65
Earnings before extraordinary item	**$0.23**	$0.71	$0.09
Net earnings	**$0.23**	$0.45	$0.09

Consolidated Balance Sheet

As at December 31

ASSETS	1986	1985
Current Assets		
Marketable securities, at cost (Market value $67,710; 1985 — $325,810)	$ 55,110	$ 117,200
Receivables (Note 1)	10,659,859	20,612,172
Inventories, at lower of cost and net realizable value	460,690	341,271
Prepaid expenses and deposits	578,739	1,133,591
Total current assets	11,754,398	22,204,234
Long-Term Receivables (Note 2)	2,009,571	4,110,845
Investments	175,216	121,812
Fixed Assets, At Cost (Note 3)		
Oil and gas properties, full cost basis	247,962,233	230,242,968
Mining properties	7,736,799	7,733,415
Production and other equipment	43,769,802	41,346,841
	299,468,834	279,323,224
Less: Accumulated depletion and depreciation	63,551,341	50,747,405
	235,917,493	228,575,819
	$249,856,678	$255,012,710

LIABILITIES	1986	1985
Current Liabilities		
Bank indebtedness (Note 4)	$ 260,676	$ 1,502,855
Accounts payable and accrued	6,748,459	11,782,839
Total current liabilities	7,009,135	13,285,694
Long-Term Debt (Notes 5 and 13)	40,398,091	44,750,209
Deferred Income Taxes	57,433,557	57,396,056
Advance Gas Payments	992,611	852,810
	105,833,394	116,284,769
Contingencies (Note 6)		
SHAREHOLDERS' EQUITY		
Share Capital (Notes 7 and 13)		
Authorized		
80,000,000 common shares without par value		
8,000,000 preferred shares with par value of $25 each		
Issued and fully paid		
22,749,815 common shares — (1985 — 22,743,515)	82,320,397	82,280,233
Retained Earnings		
Beginning of year	56,447,708	46,165,741
Earnings for the year	5,255,179	10,281,967
End of year	61,702,887	56,447,708
Total shareholders' equity	144,023,284	138,727,941
	$249,856,678	$255,012,710

Approved By The Board

W. S. McGregor
Director

G. J. Van Iren
Director

Consolidated Statement of Changes in Financial Position

For the year ended December 31

	1986	1985	1984
Operating Activities			
Earnings before extraordinary item	$ 5,255,179	$16,106,190	$ 2,070,499
Items not involving cash			
Depletion and depreciation	12,835,257	11,290,791	10,235,259
Deferred income taxes	37,501	7,847,338	9,944,050
Loss on discontinued operations	—	1,492,443	12,633,110
Cancellation of loans receivable (Note 7(a))	1,266,605	—	—
Other	146,265	(12,169)	(127,308)
Cash flow from continuing operations	19,540,807	36,724,593	34,755,610
Net change in non-cash working capital balances	5,415,456	(1,934,769)	(1,765,113)
Cash flow from continuing operations after working capital changes	24,956,263	34,789,824	32,990,497
Cash flow from discontinued operations	—	1,281,924	90,003
Cash flow from operations available for investment	24,956,263	36,071,748	33,080,500
Investing Activities			
Acquisition of fixed assets	(25,673,030)	(49,111,697)	(50,189,232)
Sale of equipment and mining properties	3,300	161,625	259,500
Petroleum and other incentive payments	5,486,335	11,124,373	8,551,965
Sale of U.S. subsidiary	—	7,789,285	—
Other	781,265	1,266,878	1,102,112
Cash used in investing activities	(19,402,130)	(28,769,536)	(40,275,655)
Cash (deficiency) before financing activities	5,554,133	7,302,212	(7,195,155)
Financing Activities			
Proceeds (repayment) of long term debt — net	(4,352,118)	(5,988,419)	5,863,318
Issue of common shares	40,164	96,104	—
Cash provided (used) by financing activities	(4,311,954)	(5,892,315)	5,863,318
Increase (decrease) in cash	1,242,179	1,409,897	(1,331,837)
Bank indebtedness at beginning of year	1,502,855	2,912,752	1,580,915
Bank indebtedness at end of year	$ 260,676	$ 1,502,855	$ 2,912,752

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 where specifically referred to in these notes. 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 wholly-owned subsidiaries of the Company. All significant intercompany balances and transactions have been eliminated.

(b) Oil and Gas Properties

The Company follows the full cost method of accounting prescribed by the United States Securities and Exchange Commission (SEC) and is also in compliance with the accounting guidelines on full cost accounting recently 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. Petroleum Incentive Payments, investment tax credits and other 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.

(c) Mining

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.

(d) 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%

(e) 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

Note 1
Receivables

	1986	1985
Trade	$ 7,605,910	$13,228,182
Petroleum incentive payments	2,656,941	7,110,418
Alberta royalty tax credit	233,853	169,863
Alberta drilling incentives	163,155	103,709
	$10,659,859	$20,612,172

Note 2
Long-Term Receivables

	1986	1985
Receivable under the Key Employee Stock Purchase Plan (Note 7 (a))	$ 1,819,731	$ 3,990,957
Other	189,840	119,888
	$ 2,009,571	$ 4,110,845

Note 3
Fixed Assets

	1986			1985		
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Cost	Accumulated Depletion and Depreciation	Net Book Value
	(Thousands of dollars)					
Oil and gas properties	$247,962	$ 48,094	$199,868	$230,243	$ 38,460	$191,783
Mining properties	7,737	—	7,737	7,733	—	7,733
Production and other equipment	43,770	15,457	28,313	41,347	12,287	29,060
	$299,469	$ 63,551	$235,918	$279,323	$ 50,747	$228,576

(a) Costs associated with the acquisition and evaluation of unproved properties excluded from the depletion calculation during the year are $17,444,990 (1985 — $23,012,313). These costs were incurred in the following categories and periods:

	Total	1986	1985	1984 and Prior
Acquisition costs	**$13,706,991**	**$1,393,769**	$6,245,959	$6,067,263
Exploration costs	**3,644,137**	**3,490,679**	153,458	—
Interest capitalized	**93,862**	**93,862**	—	—
	$17,444,990	**$4,978,310**	$6,399,417	$6,067,263

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

	1986	1985
Interest	**$ 518,600**	$ 762,800
General and administration	**$1,963,206**	$1,886,249

(c) In accordance with requirements of both the SEC and CICA guidelines the Company performed a ceiling test as at December 31, 1986 using a year end oil price of $20.78 (Canadian) per barrel of crude oil and $1.79 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.

Note 4
Bank Indebtedness

	1986	1985
Current account — net	**$126,676**	$1,502,855
Operating loans	**$134,000**	—
	$260,676	$1,502,855

The maximum month end amount of short-term bank loans outstanding during the year was $4,202,000 and the average was $2,138,916. The weighted average interest rate on the bank loans during the year was 10.75% compared to 10.56% in 1985, based on month end balances and interest rates.

At December 31, 1986 the Company had consolidated short-term usable bank lines of credit totalling $15,000,000 with interest at the bank prime rate.

Note 5
Long-Term Debt

	1986	1985
Term bank loan	**$28,000,000**	$28,000,000
Production loan	**12,398,091**	16,750,209
	$40,398,091	$44,750,209

The unsecured 1986 term bank loan represents the outstanding portion of a $40,000,000 usable Canadian line of credit. A standby fee of ¼% on the unused portion of this line is payable. The terms of the loan prescribe the minimum levels for consolidated tangible net worth and present value of unencumbered proven Canadian oil and gas reserves to be maintained by the Company. The loan is repayable in twenty equal quarterly instalments commencing January 31, 1989.

The term bank loan is at the lending bank's prime rate or, at the option of the Company, ½% over the London Interbank Offer Rate (LIBOR) or at ½% above the interest rate on Canadian Bankers' Acceptance notes.

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. Payments vary with quantities produced and prices paid for the production. It is presently anticipated the loan will be repaid in full in 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.

Note 6
Contingencies

(a) A Statement of Claim was filed February 19, 1982, by an Indian Band and certain individual Plaintiffs against the Province of Alberta, Norcen Energy Resources Limited, Dome Petroleum Limited, Chieftain Development Co. Ltd., Shell Canada Limited, Shell Canada Resources Limited, Union Oil Company of Canada Limited, Numac Oil & Gas Ltd. (Numac), Petro-Canada Exploration Inc., Chevron Standard Limited, Petrofina Canada Limited and Amoco Canada Petroleum Company Ltd. 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 until the trial of the action. The injunction application was dismissed by the Alberta Court of Queen's Bench and, in January, 1985, the Court of Appeal dismissed the appeal of the Plaintiffs against the decision of the Court of Queen's Bench dismissing the Plaintiffs' application for an interim injunction. On February 18, 1985, the Plaintiffs applied to the Supreme Court of Canada for leave to appeal from the decision of the Court of Appeal of Alberta. The Supreme Court of Canada, on March 14, 1985, refused the Plaintiffs' application for leave to appeal. On April 9, 1985, the Plaintiffs applied for a rehearing of their Motion for Leave to Appeal. On May 13, 1985, the Court held it did not have jurisdiction to rehear the Plaintiffs' application.

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.

A similar claim was previously advanced against Her Majesty the Queen in right of the Province of Alberta, Her Majesty the Queen in right of Canada and several oil companies, including Numac, in the Federal Court of Canada, but was dismissed as against all Defendants except for Her Majesty the Queen in right of Canada, because of lack of jurisdiction in the Federal Court of Canada.

The Company has approximately two hundred and seventy-one thousand net acres in the area affected by the claim, containing approximately 8% of its proved natural gas reserves and approximately 83% of its proved conventional crude oil reserves.

(b) On May 22, 1985 Numac entered into a transaction commonly referred to as a production carve-out agreement pursuant to which the Company sold a limited term working interest in certain of its producing properties for $23.5 million. The purpose of the transaction was to reduce bank debt and to reduce the Company's net income tax liability.

The Company and the purchaser of the production have, for the purposes of the transaction, proceeded on the basis that each would be entitled to royalty tax credit which is otherwise payable to persons who pay royalties on oil and gas properties to the Province of Alberta. On October 24, 1986 the Provincial Treasurer of Alberta, pursuant to the exercise of discretion conferred on him by the Alberta Corporate Income Tax Act, issued a direction that the Company and the purchaser be deemed to be associated for the purpose of determining their entitlement to the credit. The effect would be to reduce the aggregate amount of royalty tax credit payable to the Company and the purchaser. The direction, if not overturned, would result in negative adjustments to 1985 net earnings in the amount of $1.5 million and 1986 net earnings in the amount of $1.7 million. It would also increase the Company's debt at December 31, 1986 by $3.2 million. The Company, based on the advice of its independent legal counsel, believes that the basis upon which the Provincial Treasurer's discretion has been exercised is not supportable and is currently considering such legal remedies as are available to it.

On January 15, 1987 the Federal Government proposed income tax legislation which, if implemented, would limit the use of Canadian Oil and Gas Property expense that Numac can use to reduce its taxable income on the reversion of the carve-out properties to Numac. The effects of this proposed legislation on Numac cannot be determined at this time.

Note 7
Share Capital

(a) Key Employee Stock Purchase Plan

At December 31, 1986, $1,819,731 (1985 — $3,990,957) remained receivable by the Company under the Purchase Plan and is included in "long-term receivables" (Note 2).

The shares allocated under the Purchase Plan are held as security for the loans. The loans must be repaid in full in 1988 and are non-interest bearing. 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, on or before December 31, 1986 by selling the shares held under those agreements, applying the proceeds against the indebtedness, cancelling the balance of the indebtedness in an aggregate amount of $1,037,854, and the Corporation paying $228,751 to Revenue Canada in respect of the appropriate income tax liability resulting from the debt cancellation. The indebtedness cancelled is fully deductible by the Company for income tax purposes.

(b) Key Employee Stock Option Incentive Plan

On June 24th, 1982 the Board of Directors 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, 1986, options for the purchase of an aggregate of 705,075 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 1, 1986 are as follows:

	1986	1985	1984
Shares under option at beginning of period	**723,625**	723,700	692,000
Share options granted at exercise prices of			
— $ 8.75	**136,700**	—	—
— $12.75	—	15,000	—
— $12.12 - $14.62	—	—	40,000
Less			
Share options exercised	**(6,300)**	(15,075)	(8,300)
Share options cancelled	**(148,950)**	—	—
Shares under option at end of period	**705,075**	723,625	723,700
Shares under option to officers (included above)	**360,000**	360,000	360,000

Note 8
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 $5,092,574 in 1986 ($26,185,971 in 1985; $24,647,659 in 1984).

	1986		1985		1984	
	Amount	**%**	Amount	%	Amount	%
			(Thousands of dollars)			
Provision for income taxes at statutory rates	**$ 2,485**	**48.8**	$12,543	47.9	$11,585	47.0
Add (deduct) the tax effect of:						
Production loan (Note 5)	**(3,431)**	**(67.4)**	(5,371)	(20.5)	—	—
Non-deductible crown royalties and other provincial adjustments	**3,194**	**62.7**	6,648	25.4	7,448	30.2
Non-deductible Petroleum and Gas Revenue Tax	**133**	**2.6**	2,766	10.6	2,821	11.4
Alberta royalty tax credit	**(1,344)**	**(26.4)**	(958)	(3.7)	(940)	(3.8)
Resource allowance	**(1,341)**	**(26.3)**	(4,441)	(17.0)	(6,213)	(25.2)
Depletion allowance	—	—	(2,062)	(7.8)	(3,757)	(15.2)
Other	**141**	**2.7**	(538)	(2.1)	(1,000)	(4.1)
Effective income taxes	**$ (163)**	**(3.3)**	$ 8,587	32.8	$ 9,944	40.3

The Company has a net capital loss carried forward of approximately $19,400,000, the potential benefit of which has not been reflected in the financial statements.

Note 9
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.

Under United States generally accepted accounting principles, the loss on sale of U.S. Operations would not be regarded as an extraordinary item. The loss on sale of U.S. operations of $5,824,223 was net of $367,000 of deferred and $460,000 of current income taxes recovered.

Note 10
Remuneration of Senior Officers and Directors

The remuneration paid to senior officers of the Company in 1986 amounted to $924,486 (1985 — $873,118; 1984 — $818,647) and directors' fees amounted to $32,750 (1985 — $32,000; 1984 — $28,000).

Note 11
Segmented Information

A. Resource development — Canada

B. Oilfield construction — Canada

	A	B	Eliminations	Consolidated
		(Thousands of dollars)		
Year Ended December 31, 1986				
Operating revenue	**$ 36,388**	**$ 2,184**	**$ (1,085)**	**$ 37,487**
Gain on sale of fixed assets	**—**	**(6)**	**—**	**(6)**
Investment income	**285**	**53**	**—**	**338**
Total revenue	**$ 36,673**	**$ 2,231**	**$ (1,085)**	**$ 37,819**
Operating profit	**$ 5,071**	**$ 75**	**$ (53)**	**$ 5,093**
Total assets	**252,300**	**273**	**(2,716)**	**249,857**
Depletion and depreciation	**12,439**	**396**	**—**	**12,835**
Capital expenditures (net)	**20,171**	**28**	**(53)**	**20,146**

	A	B	Eliminations	Consolidated
Year Ended December 31, 1985				
Operating revenue	$ 67,319	$ 6,136	$ (1,887)	$ 71,568
Gain on sale of fixed assets	—	12	—	12
Investment income	2,100	—	—	2,100
Total revenue	$ 69,419	$ 6,148	$ (1,887)	$ 73,680
Operating profit	$ 25,132	$ 1,494	$ (440)	$ 26,186
Total assets	255,160	2,144	(2,291)	255,013
Depletion and depreciation	10,849	442	—	11,291
Capital expenditures (net)	36,690	34	(619)	36,105

	A	B	Eliminations	Consolidated
Year Ended December 31, 1984				
Operating revenue	$ 65,853	$ 5,050	$ (3,180)	$ 67,723
Gain on sale of fixed assets	—	128	—	128
Investment income	1,716	—	—	1,716
Total revenue	$ 67,569	$ 5,178	$ (3,180)	$ 69,567
Operating profit	$ 24,113	$ 1,440	$ (905)	$ 24,648
Total assets	276,749	1,593	(49,201)	229,141
Depletion and depreciation	9,768	467	—	10,235
Capital expenditures (net)	37,811	978	(427)	38,362

Note 12
Related Party Information

Numac Oil & Gas Ltd. ("Numac") participates in oil and gas exploration and development ventures in Alberta with Union Shield Resources Ltd. ("Union Shield"), a wholly-owned subsidiary of Union Enterprises Ltd. Union Shield, at March 1, 1987, beneficially owns 24.85% of the outstanding shares of Numac's common stock. From January 1, to December 31, 1986, Numac invoiced Union Shield for $1,413,756 ($182,999 in 1985 and $182,817 in 1984).

Numac's former wholly-owned subsidiary, Numac Oil & Gas ("Inc.") participated in oil and gas exploration and development ventures in the United States with Shield Resources Inc., a wholly-owned subsidiary of Precambrian Shield Resources Limited ("Precambrian"). At March 1, 1986, Union Shield beneficially owned 66.12% of Precambrian. Numac sold its interest in Inc. on December 30, 1985.

Note 13
Subsequent Event

Under the terms of a Preliminary Prospectus dated March 18, 1987 Numac has entered into a financing agreement which consists of the issue of $30,000,000 of 7% Convertible Debentures and 2,700,000 common shares at $11 per share. The net proceeds to Numac are $57,670,200 before deducting expenses of the issue, estimated at $150,000. The securities were sold to two Canadian investment dealers for distribution to the public.

Supplementary Information (Unaudited)

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, 1984	9,026	125,418	8,680	116,423	346	8,995
Revisions of previous estimate	(673)	(2,618)	(634)	2,148	(39)	(4,766)
Extensions, discoveries and other additions	2,248	2,302	2,248	2,302	—	—
Production	(1,200)	(2,661)	(1,143)	(2,514)	(57)	(147)
At December 31, 1984	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, discoveries and other additions	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, discoveries and other additions	**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**	—	—
Net proved developed reserves						
At December 31, 1984	8,658	113,808	8,408	109,726	250	4,082
At December 31, 1985	8,894	118,656	8,894	118,656	—	—
At December 31, 1986	**7,610**	**117,325**	**7,610**	**117,325**	—	—

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 \$20.78 (1985 — \$34.57) per barrel of crude oil and \$1.79 (1985 — \$2.34) 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 oil reserves at December 31, 1986 before royalties were estimated to be 9,696 thousand barrels (1985 — 12,476). The total gas reserves before royalties were estimated to be 143,984 million cubic feet (1985 — 162,569).

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.

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

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.

	1986	1985	1984
Canada			
Acquisition of oil and gas properties — unproved	**$ 1,506,113**	$ 8,108,030	$ 6,845,717
Exploration costs (net of government incentives)	**12,712,536**	13,813,802	11,951,269
Development costs (net of government incentives)	**3,504,000**	9,693,275	11,361,171
	17,722,649	31,615,107	30,158,157
United States, net of impairment*	**—**	1,881,944	(9,460,382)
	$17,722,649	$33,497,051	$20,697,775

*Pursuant to the Securities and Exchange Commission's (SEC) accounting rules, the investment in United States oil and gas properties was written down by $11,514,350 in 1984.

Capitalized Costs Relating to Oil and Gas Producing Activities

Thousands of dollars

	Total	Canada	United States	Other
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	$ —	$ —
1984				
Oil and gas properties	$214,474	$198,962	$15,285	$ 227
Production and other equipment	34,632	30,229	4,403	—
	249,106	229,191	19,688	227
Accumulated depreciation, depletion and amortization	40,520	36,297	3,996	227
Net capitalized costs	$208,586	$192,894	$ 15,692	$ —

Supplementary Information (Unaudited)

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.

Thousands of dollars

	1986	1985
Future cash inflows	**$459,144**	$808,893
Deduct		
Future production and development costs	**133,721**	164,921
Future income taxes	**78,585**	183,133
Future revenue taxes	**81,953**	177,778
	294,259	525,832
Future net cash flows	**164,885**	283,061
Deduct		
10% annual discount for estimated timing of cash flows	**78,078**	141,572
Standardized measure of discounted future net cash flows	**$ 86,807**	$141,489

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

Thousands of dollars

	1986	1985
Beginning of the year	**$141,489**	$118,473
Sales of oil and gas production net of related costs	**(19,015)**	(38,571)
Net change in prices and production costs	**(108,280)**	(14,869)
Net change in estimated future development costs	**(2,050)**	6,794
Extensions and discoveries net of related costs	**9,058**	29,621
Sale of minerals in place	**—**	(6,261)
Revisions of previous quantity estimates	**(34,715)**	7,295
Accretion of discount	**14,149**	11,847
Net change in income taxes	**55,147**	(6,816)
Net change in revenue taxes	**39,839**	33,548
Other	**(8,815)**	428
End of year	**$ 86,807**	$141,489

Results of Operations for Producing Activities

For the year ended December 31

Thousands of dollars

	1986	1985	1984
Operating revenues	$35,671	$66,141	$63,812
Deduct			
Royalties	7,385	14,607	16,522
Royalty tax credit	(2,753)	(2,000)	(2,000)
Production costs	8,031	8,666	6,921
Depreciation, depletion and amortization	12,080	10,506	9,464
Income tax expense	2,185	7,275	10,085
Petroleum and Gas Revenue Tax	273	4,356	6,001
	27,201	43,410	46,993
Results of operations from producing activities	$ 8,470	$22,731	$16,819

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

Thousands of dollars except per share amounts

	QUARTER ENDED				
	March 31	June 30	Sept 30	Dec 31	Total Year
Year Ended December 31, 1986					
Revenue	S14,418	$ 6,901	$ 7,545	$ 8,955	$37,819
Earnings from continuing operations before taxes	S 3,901	$ 950	$ 699	$ (457)	$ 5,093
Earnings from continuing operations	S 2,653	$ 1,271	$ 1,291	$ 40	$ 5,255
Net Earnings	S 2,653	$ 1,271	$ 1,291	$ 40	$ 5,255
Per Share					
Earnings from continuing operations	$ 0.12	$ 0.05	$ 0.06	$ 0.00	$ 0.23
Earnings before extraordinary item	$ 0.12	$ 0.05	$ 0.06	$ 0.00	$ 0.23
Net Earnings	$ 0.12	$ 0.05	$ 0.06	$ 0.00	$ 0.23
Year Ended December 31, 1985					
Revenue	$18,794	$16,628	$17,841	$20,417	$73,680
Earnings from continuing operations before taxes	$ 6,796	$ 5,165	$ 6,798	$ 7,427	$26,186
Earnings from continuing operations	$ 4,036	$ 3,336	$ 5,680	$ 4,547	$17,599
Earnings before extraordinary item	$ 3,813	$ 3,414	$ 5,651	$ 3,228	$16,106
Net Earnings	$ 3,813	$ 3,414	$ 5,651	$ (2,596)	$10,282
Per Share					
Earnings from continuing operations	$ 0.18	$ 0.15	$ 0.25	$ 0.19	$ 0.77
Earnings before extraordinary item	$ 0.17	$ 0.15	$ 0.25	$ 0.14	$ 0.71
Net Earnings	$ 0.17	$ 0.15	$ 0.25	$ (0.12)	$ 0.45

The quarterly information has been adjusted as a result of the sale of the U.S. subsidiary.

Currency Exchange Fluctuations

The Canadian dollar has fluctuated in terms of the U.S. dollar and at March 1, 1987 was equivalent to $0.7507 U.S. The following is a table setting forth equivalent U.S. dollars:

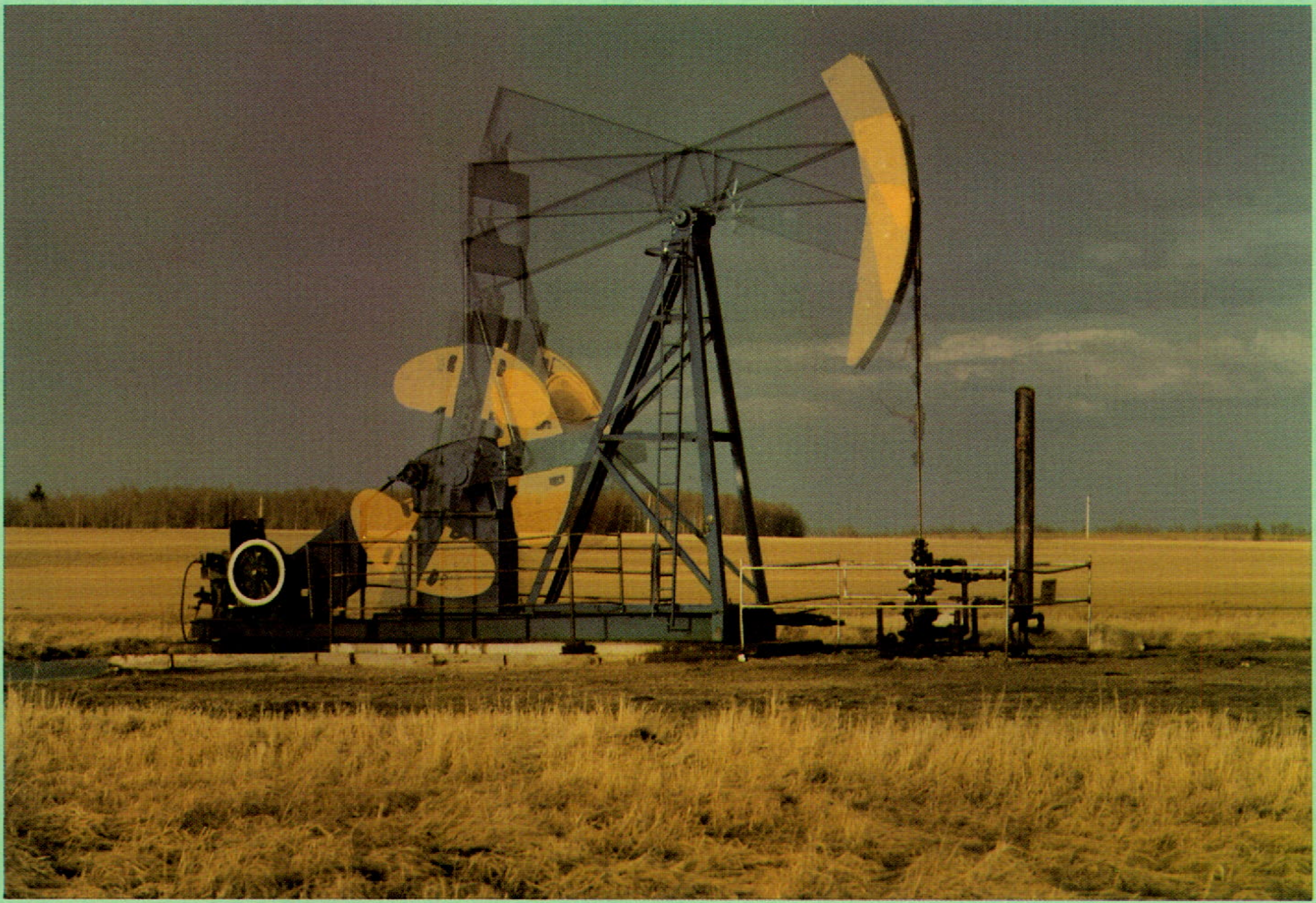
	1986	1985	1984
March 31	**$0.7164**	$0.7334	$0.7836
June 30	**$0.7234**	$0.7360	$0.7593
September 30	**$0.7209**	$0.7277	$0.7591
December 31	**$0.7244**	$0.7152	$0.7566

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
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**
1985	1st quarter	$15.25	$12.50	$11.50	$ 9.00
	2nd quarter	15.25	11.00	11.25	8.12
	3rd quarter	14.12	11.12	10.62	8.12
	4th quarter	14.00	11.37	10.12	8.25

The Company's 22,749,815 issued common shares were held by approximately 3,000 registered holders at January 1, 1987.



Five Year Review

Financial

Thousands of dollars except per share amounts

	1986	1985	1984	1983	1982
Revenue					
Oil and gas division	**$36,200**	$67,199	$65,470	$40,742	$27,769
Oilfield construction	**1,334**	4,381	2,381	2,578	2,203
Investment income	**285**	2,100	1,716	2,319	477
	37,819	73,680	69,567	45,639	30,449
Expense					
Royalties (net)	**4,633**	12,607	14,522	5,798	2,865
PGRT and IORT	**273**	4,356	6,001	3,590	2,780
Operating	**8,445**	11,195	8,083	6,030	3,754
General and administration	**3,094**	2,050	1,651	1,542	975
Interest on long-term debt	**3,102**	5,564	3,967	2,327	3,957
Other interest	**344**	432	460	450	649
Depletion and depreciation	**12,835**	11,291	10,235	7,010	5,483
Income taxes	**(162)**	8,587	9,944	6,062	2,850
	32,564	56,082	54,863	32,809	23,313
Earnings From Continuing Operations	**5,255**	17,598	14,704	12,830	7,136
Loss On Discontinued Operations	**—**	(1,492)	(12,634)	(321)	(4,035)
Earnings Before Extraordinary Items	**5,255**	16,106	2,070	12,509	3,101
Extraordinary Items					
Net of tax	**—**	(5,824)	—	—	9,250
Net Earnings	**$ 5,255**	$10,282	$ 2,070	$12,509	$12,351
Per Share (reflects 1983 2-1 stock split)					
Earnings from continuing operations	**$ 0.23**	$ 0.77	$ 0.65	$ 0.60	$ 0.36
Earnings before extraordinary items	**$ 0.23**	$ 0.71	$ 0.09	$ 0.58	$ 0.16
Net earnings	**$ 0.23**	$ 0.45	$ 0.09	$ 0.58	$ 0.63
Dividends	**—**	—	—	—	$ 0.05
Capital Expenditures	**$ 25,673**	$ 49,112	$ 50,189	$ 43,601	$ 49,789
Total Assets	**$249,857**	$255,013	$245,675	$226,830	$203,912
Long-Term Debt	**$ 40,398**	$ 44,750	$ 50,739	$ 44,875	$ 61,386
Shareholders' Equity	**$144,023**	$138,728	$128,768	$125,727	$ 89,449

Operating (Canada)

	1986	1985	1984	1983	1982
Production					
Oil — thousands of barrels	**1,514**	1,577	1,495	972	698
Gas — millions of cubic feet	**2,442**	3,042	3,212	2,427	2,864
Wells Drilled					
Completed	**39**	78	89	70	88
Abandoned	**25**	58	38	34	37
	64	136	127	104	125

Corporate Information

OFFICERS

William S. McGregor
President and Chief Executive Officer

Donald F. Baker
Vice-President, Engineering

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

CONVERSION TABLE

To Convert From	To	Multiply By
Barrels (bbls)	Cubic metres (m^3)	0.1590
Thousand cubic feet (mcf)	Thousand cubic metres (10^3m^3)	0.0282
Acres (ac)	Hectares (ha)	0.4050

NUMAC
OIL & GAS LTD.

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