

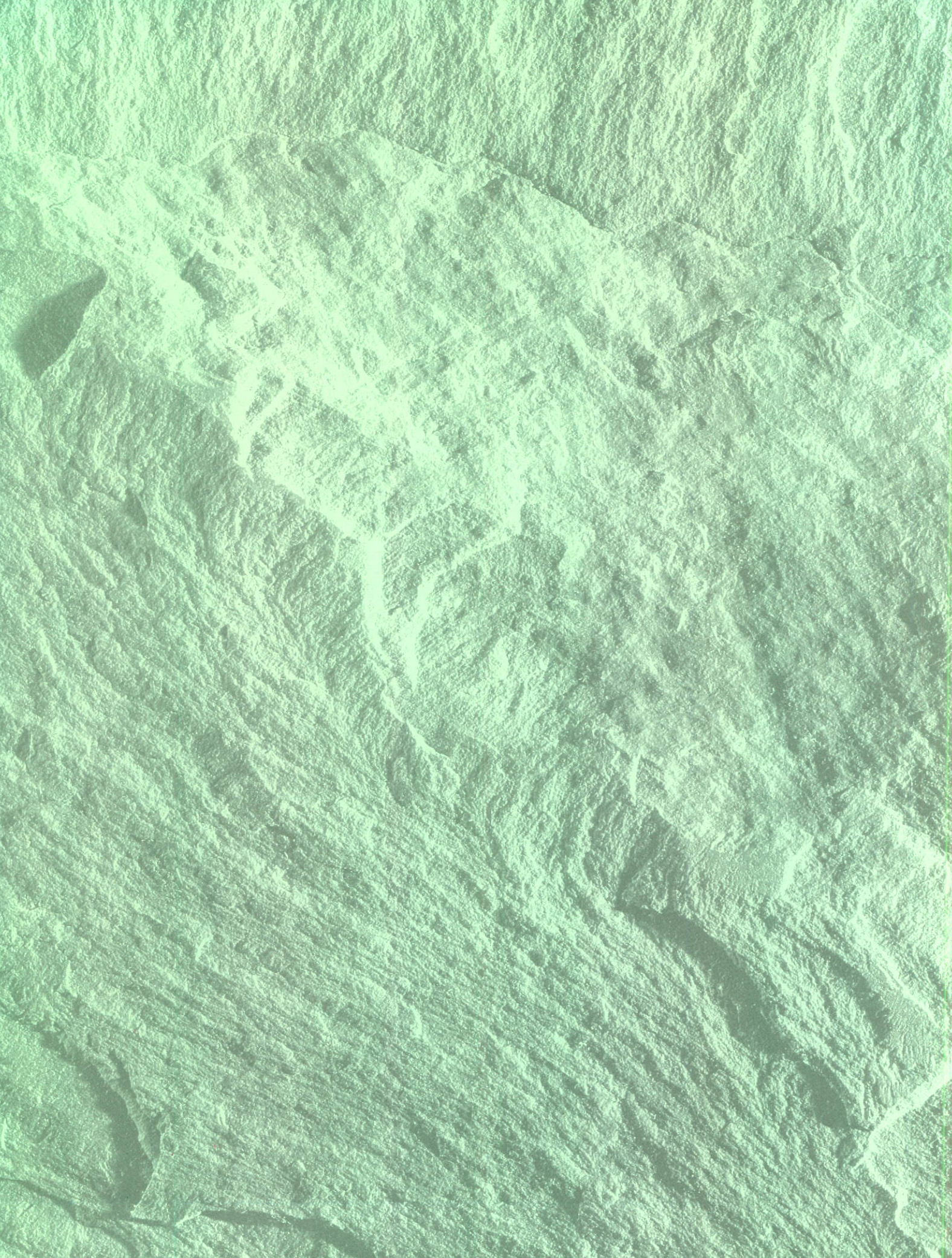
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FARADAY RESOURCES INC.



A N N U A L R E P O R T



COMPANY PROFILE

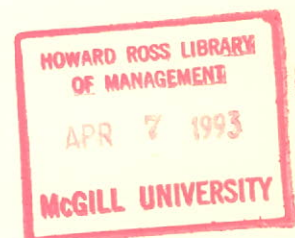
Faraday Resources Inc. is a Canadian resource company. Its principal asset is its controlling interest in Conwest Exploration Company Limited, a company with oil and gas, mining and hydro electric interests in Canada. Faraday also has a 49% interest in Jascan Resources Inc. and direct interests in producing oil and gas properties in western Canada. Faraday's shares are listed on the Toronto Stock Exchange.

CORPORATE HIGHLIGHTS

	1992	1991	1990
Resource and other income (\$'000):			
Equity in earnings (losses) of Conwest.....	\$ 2,492	\$ (2,814)	\$ 2,109
Other	2,211	1,661	2,746
	\$ 4,703	\$ (1,153)	\$ 4,855
Net income (loss) (\$'000).....	\$ 2,684	\$ (3,325)	\$ 2,823
Net income (loss) per share	\$ 0.29	\$ (0.61)	\$ 0.35
Equity per common share.....	\$ 4.88	\$ 4.71	\$ 5.68
Dividends per common share	\$ 0.12	\$ 0.24	\$ 0.23
Conwest shares owned by Faraday:			
Total Conwest shares owned	3,586,811	3,586,811	3,586,811
Per Faraday common share	0.51	0.51	0.57

ANNUAL MEETING

The annual meeting of shareholders of Faraday will be held in Room 201D, The Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario at 9:00 a.m. on May 6, 1993.



DIRECTORS' REPORT

There were two important developments during 1992:

- A major natural gas and condensate discovery was made by Conwest in the Sexsmith/Valhalla area of Alberta; and
- The long term decline in North American gas markets finally ended and gas prices rose significantly from their 1992 lows. From here, natural gas producers have a prosperous period ahead of them.

Although the impact of Sexsmith/Valhalla and other recent discoveries by Conwest on rates of production, cash flow and income will be spread over the next three years, the shareholder value that has been added to both Conwest and Faraday has already begun to be recognized in the stock market. With time, the recent gains in gas prices will also add to Faraday's underlying value; they will increase the cash flow Faraday receives from its own natural gas assets and increase the value of Conwest's gas holdings.

Faraday's financial performance in 1992 was satisfactory, given the prevailing economic conditions during the year and the difficulty the Canadian economy and, to a lesser extent, the U.S. economy had in coming out of the recession. Net income for 1992 was \$2.7 million or \$0.29 per share compared to a loss in 1991 of \$3.3 million or \$0.61 per share. The principal factor in this turn around was Conwest's return to profitability.

Conwest Exploration

Faraday owns approximately 3.6 million shares of Conwest Exploration, or 0.51 shares of Conwest for each share of Faraday. Faraday's holding in Conwest, 0.9 million Class A shares and 2.7 million Class B shares, gives it an 18% equity interest and a 49% voting interest in Conwest. With a current market value of approximately \$57 million or \$8.0 per Faraday share, this is by far Faraday's largest and most important asset. A copy of Conwest's Annual Report for 1992 is enclosed with this Annual Report.

During 1992, Conwest's financial results improved significantly from those of a year ago. Net income was \$14.0 million compared to a loss in 1991 of \$15.9 million when Conwest incurred its first loss in 17 years. Revenues, operating

income and cash flow all made substantial gains from last year. With the exception of the financial performance of Conwest's mining operations, which did not change much from a year ago, the oil and gas and hydro divisions and gains from investments all contributed to the improved results.

OIL AND GAS

As mentioned above, the highlight of 1992 was the major natural gas and condensate discovery made by Conwest's explorers at Sexsmith/Valhalla in northwest Alberta. On a proven and probable basis it has added 7.9 million barrels of oil and natural gas liquids and 208 billion cubic feet of natural gas to Conwest's reserves. It is expected to come on stream at full production rates in 1995, at which time it should add 42 million cubic feet of gas and 1,200 barrels of liquids to Conwest's daily production. By any measure, the Sexsmith/Valhalla discovery has had and will continue to have a significant impact on Conwest.

In making 1992 the most successful year in the history of the oil and gas division, Conwest achieved a number of milestones:

- a reserve replacement cost for 1992 of \$1.84 per barrel of oil equivalent on a proven basis and \$1.31 per barrel of oil equivalent on a proven and probable basis;
- proven and probable oil and gas reserves on an oil equivalent basis increased by 35%;
- new gas development contracts were executed providing for escalating deliveries of up to 45 million cubic feet per day by the end of 1995.

MINING

For Conwest's mining operations at Nanisivik, weak average zinc prices characterised the year. Although there were periods during 1992 when the markets were stronger than might have been expected, average prices reflected a continuation of the weak conditions in 1991. As has become usual, operations at the mine were carried on without any major problems. More important, the mine maintained its strong record of reserve replacement, with year end reserves declining by less than 5% from a year ago. This should allow Nanisivik to take advantage of at least one more good cycle in

metal prices; at the peak of one of these cycles, Nanisivik is capable of generating annual operating income of more than \$35 million.

HYDRO

Although this is a new business for Conwest and relatively small compared to the other divisions, it became self-sustaining in 1992. With the completion and commissioning of the Wawatay facility (formerly the Black River project) in 1992, Conwest now has four generating stations in operation. Operating income in 1992 from these plants was \$3.3 million. Conwest is currently involved in investigating, scoping and evaluating projects in British Columbia, Ontario and Quebec with the goal to at least double the size of the hydro division over the next three years.

Jascan Resources

Faraday continues to hold its 49% interest in Jascan Resources. The 9.3 million shares of Jascan owned by Faraday have a current market value of about \$ 3.7 million or \$ 0.50 per Faraday share.

Jascan's principal assets are its \$9.5 million in cash, short term investments and marketable securities and a royalty interest in the Montanore project, a large copper-silver deposit in Montana, U.S.A. Since Faraday acquired its interest in Jascan, its contribution to Faraday's financial performance has generally been as a result of investment income. This was the case in 1992 when Faraday's equity in the earnings of Jascan was \$471,000, a large increase compared to the contribution of \$69,000 in 1991. During the year there was very limited activity at the Montanore project as a result of regulatory constraints and low commodity prices.

Oil and Gas

Faraday's direct oil and gas holdings have been a regular source of cash flow and operating income for the Company. During 1992, cash flow was \$815,000, down slightly from \$869,000 a year ago. Although these assets are small relative to Faraday's holdings in Conwest, they are still important to

the Company's cash flow and underlying value. They are described in more detail later in this Report.

In both Faraday and Conwest, the oil and gas exposure on a reserve basis is weighted towards natural gas and efforts to expand these assets, principally in Conwest, will continue this trend. Although the North American gas business has suffered through a steep decline for the last several years, 1992 saw the bottom. The turn around in prices reflects a number of factors. Low prices have meant drilling activity is way down from the peak in the early 1980's. The Gulf Coast in the U.S., a critical area for U.S. domestic production, has begun to decline. This drop is forecast to be at rates that cannot be replaced in any sort of timely way given current price levels and exploration activity. The result will be a situation in which the U.S. will require increasing amounts of Canadian gas and prices should reflect a much better balance between supply and demand than has existed in Canada since 1986 when deregulation led to the deterioration of the Canadian gas markets.

For Faraday this will mean improving cash flows from its natural gas production and increased underlying value for its own oil and gas holdings. It will also drive the underlying value of its investment in Conwest.

Outlook for 1993

1993 has begun much the way that 1992 ended. Stock markets, particularly for oil and gas companies, have been very strong. Gas prices, although down from their peaks of December and January, are well above levels of a year ago and show every sign of improving on the strong performance that began in 1992. Finally, the deep seated pessimism that seemed to pervade business thinking for much of 1992 has begun to dissipate as the economy slowly pulls itself out of the recession.

On behalf of the Board

Martin P. Connell
Chairman of the Board

John C. Lamacraft
*President and
Chief Executive Officer*

Toronto, Ontario March 9, 1993

OIL AND GAS INTERESTS

Faraday's cash flow from oil and gas operations was, \$815,000 in 1992 compared to 868,000 in 1991. Cash flow was affected by a 25% reduction in gas production, partially offset by a 38% increase in oil and natural gas liquids production. Faraday received average prices of \$19.06 per barrel for oil and natural gas liquids and \$1.23 per thousand cubic feet for natural gas in 1992 compared with average 1991 prices of \$18.15 and \$1.29, respectively. Average daily production was 78 barrels of oil and natural gas liquids and 1,090 thousand cubic feet of natural gas compared to 57 barrels and 1,468 thousand cubic feet during the prior year. The increase in oil production was realized from the Manyberries property. The lower gas production was due to a sale of assets at Leo-Maple Glen late in 1991 and normal production decline overall.

Manyberries

Production at Manyberries increased to 56 barrels per day from 33 barrels per day in 1991. The increase is attributable to incremental production from three successful oil wells drilled into the Sunburst Q Unit in 1992. A successful response from a waterflood program initiated in 1991 has also resulted in boosting the production from this unit.

The Sunburst B Pool was unitized in early 1992 giving Faraday a 4.47% interest in the unit. Negotiations are currently underway concerning the unitization of the Sunburst V V Pool. The Company anticipates that the unitization of both the Sunburst B and V V pools will further lower operating costs in 1993.

Figure Lake

Average daily natural gas production from Figure Lake increased to 80 thousand cubic feet in 1992 compared to 16 thousand cubic feet in 1991. The marketing contract constraints that restricted 1991 production were removed in the first quarter of 1992. The current production is approximately 400 thousand cubic feet per day.

Leo-Maple Glen

Working interest natural gas production from the Leo-Maple Glen area averaged 675 thousand cubic feet per day in 1992 as compared to 1,088 thousand cubic feet in 1991. The change in production is the result of the sale of several wells in this area in late 1991 and normal field decline.

Reserves and Discounted Present Values

Faraday's reserves are evaluated in detail every second year by the independent consulting firm, Coles Gilbert & Associates. A detailed evaluation was performed at year end 1991. A new report will be prepared in mid-year 1993. The December 31, 1992 reserves report was prepared using the 1991 report adjusted for production and pricing.

The present value of future cash flows discounted at 15% based on Coles Gilbert's January 1, 1993 price forecast, is approximately at the same level as 1991 at \$5.8 million. The decrease in natural gas reserves was offset by a slight increase in the forecast for future natural gas prices.

Summary of Working Interest Reserves

(Thousands of dollars)

	1992	1991	1990
Natural gas (mmcf)			
Proven	4,110	4,400	5,730
Probable	1,430	1,400	1,990
Total	5,540	5,800	7,720
Oil and natural gas liquids (bbl)			
Proven	217,800	242,400	215,000
Probable	75,400	75,600	106,000
Total	293,200	318,000	321,000

Forecast Net Cash Flow after Operating and Capital Expenditures and Royalties at Year End

(Thousands of dollars)

	1992	1991	1990
Undiscounted			
Proven	\$ 10,600	\$ 12,160	\$ 18,430
Probable	4,400	5,000	7,300
Total	\$ 15,000	\$ 17,160	\$ 25,730
Discounted at 15%			
Proven	\$ 4,460	\$ 4,600	\$ 6,720
Probable	1,400	1,250	2,400
Total	\$ 5,860	\$ 5,850	\$ 9,120

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Faraday reported net income of \$2.7 million (\$0.29 per share) for 1992, compared to a net loss for 1991 of \$3.3 million (\$0.61) per share). The increase was largely due to the recognition of \$2.5 million as Faraday's proportionate equity interest in the earnings of Conwest, a \$5.3 million increase from the 1991 results. Other positive factors include increased equity earnings from Jascan and a \$0.5 million gain on investments, offset by a \$0.3 million reduction in other income.

Faraday's principal asset, and largest source of earnings, is its investment in Conwest Exploration Company Limited. Conwest reported revenues of \$108.9 million for 1992 compared to \$75.1 million for 1991, a 45% increase; operating income of \$55.2 million for 1992 compared to \$20.0 million a year ago, a 175% increase; and net income of \$14.0 million (\$0.72 per share) for 1992 compared to a net loss of \$15.9 million (\$0.86) per share) for the prior year. Faraday's interest in Conwest's net income was \$2.5 million for 1992 compared to a loss of \$2.8 million in 1991.

During 1992, the most significant development affecting Conwest occurred in its oil and gas division where a natural gas-condensate discovery in northwestern Alberta resulted in a 45% increase in natural gas reserves and a 21% increase in oil and natural gas liquids reserves. Although this did not affect Conwest's oil and gas revenue and net production income in 1992, which were generally unchanged from a year ago, the increased reserves will result in higher production rates, revenues and net production income in 1993 and future years.

Operations at Conwest's Nanisivik Mine were essentially unchanged in 1992 compared to a year ago. Zinc prices were relatively flat and lower concentrate production was offset by a weaker Canadian dollar, resulting in little change in mining revenues between 1992 and 1991 and operating income of \$6.1 million in 1992 compared to \$6.7 million in 1991.

Operations for Conwest's hydro division grew significantly in 1992, reflecting the completion and commissioning of the Wawatay generating station in April, 1992 and higher water levels in the systems supplying Conwest's Dryden generating plants. Revenue from hydro sales increased to \$3.9 million in 1992, from \$0.7 million in 1991, and discretionary cash flow after servicing the non-recourse debt against the Wawatay plant was \$2.2 million.

Conwest's investment income of \$20.0 million compares with a 1991 loss of \$9.2 million. The 1991 loss includes a \$14.0 million charge to earnings for a provision made to reduce the carrying value of several associated companies in the mineral exploration and oil and gas sectors.

Conwest's financial condition remained strong during 1992. Working capital at the end of 1992 was \$39.3 million compared with \$32.6 million at the end of 1991. At December 31, 1992, Conwest's current liquidity, as measured by working capital and quoted investments at market, was \$116.3 million, approximately the same as at the end of 1991. This compares favourably with Conwest's long term bank debt which at the end of 1992 was \$69.6 million compared to \$92.2 million at the end of 1991. In addition to long term bank debt, Conwest has \$20.0 million of non-recourse project debt, secured by the Wawatay generating station, and \$60.0 million of convertible subordinated debentures.

Conwest has fixed the interest rate on most of its long term debt. During 1992, Conwest completed the 20 year, 9.8% \$20 million non-recourse Wawatay project financing, with the proceeds being applied to reduce long term bank debt. The interest rate on \$50 million of Conwest's remaining bank debt has been fixed, through interest rate swaps, at an average rate of 9.2%.

Faraday's equity in the earnings of Jascan Resources Inc. increased to \$0.5 million from a comparable amount of \$69,000 in 1991. Jascan's principal assets are cash, portfolio investments and various mineral interests, including a US\$0.20 per ton production royalty on the Montanore copper-silver project in Montana, which is under evaluation by Noranda Minerals Corporation. Currently, Jascan's income is principally attributable to investment gains and interest earned on its short term interest bearing investments.

Faraday's revenue from oil and gas production at \$1.1 million was the same as that for the prior year and operating income at \$0.8 million was down approximately \$0.1 million from 1991.

Gross revenue from the sale of crude oil and natural gas liquids increased by 45% as production volumes were up by 38% and average oil prices increased to \$19.06 per barrel. The unitization and late-1991 water-flooding of the Manyberries Sunburst Q Pool, together with three additional wells in this area, resulted in Faraday's increased 1992 oil production.

Revenue from the sale of natural gas constitutes approximately 40% (1991 - 52%) of oil and gas production revenue, before royalties. Natural gas sales revenue declined approximately 25% from 1991 levels as production volumes fell to 1,090 mcf per day, from 1,468 mcf per day in 1991, and average natural gas prices, at 1.23 per mcf, were off 6% from 1991 levels. The decrease in natural gas production volumes was attributable to the full year's effect of the third quarter 1991 sale of some interests at Maple Glen, together with the effects of overall field decline on Faraday's natural gas interests.

Faraday's realized portfolio investment gains of \$0.5 million in 1992 compared to a gain of \$21,000 in 1991. Faraday's investment performance historically varies substantially from year to year.

Interest and other income decreased to \$0.1 million in 1992 from \$0.4 million in 1991. During 1991, Faraday realized an unanticipated recovery of \$0.3 million associated with a January 1, 1989 acquisition of oil and gas assets.

Overall, expenses were down somewhat from 1991 levels. Lower overall levels of bank debt and falling interest rates account for the decrease in interest expense.

Liquidity and Capital Resources

At December 31, 1992 working capital was \$191,000 compared to \$243,000 at December 31, 1991.

Faraday has established a \$15.0 million revolving credit facility of which \$3.1 million was utilized at December 31, 1992. During 1992, Faraday reduced bank debt by \$2.0 million through the application of part of the proceeds realized on the sale of portfolio investments. The facility is unsecured; however, Faraday has agreed it will not encumber its shares of Conwest without the lender's consent.

Effective with the January 1, 1992 payment, Conwest reduced its quarterly common share dividend to \$0.06 per share. In view of the reduction in the Conwest dividend and, in recognition of lower commodity prices and operating cash flow, it was considered prudent to reduce Faraday's dividend level and its impact on cash requirements. Effective with the April 1, 1992 payment, Faraday reduced its semi-annual common share dividend to \$0.06 per share. The appropriate level of dividend payments is a matter which is reviewed regularly by the Board. Faraday's current cash flow and existing resources are considered adequate to continue to service its remaining debt and fund its current dividends. Faraday has no significant capital commitments.

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The accompanying financial statements of Faraday Resources Inc. and all other information in the Annual Report are the responsibility of Faraday's management. The financial statements were prepared in accordance with accounting principles generally accepted in Canada, based on information available to March 1, 1993, using management's best estimates and judgements, where appropriate. In the opinion of management these financial statements reflect fairly the financial position, results of operations and changes in financial position of Faraday within reasonable limits of materiality. Financial information presented elsewhere in the Annual Report is consistent with that shown in the financial statements.

Faraday maintains systems of internal control which are designed by management to provide, in a cost effective manner, reliable financial and operational information and reasonable assurance that assets are safeguarded from loss or unauthorized use. These systems include established policies and procedures, delegation of authority and responsibility, subject to such supervision as may be appropriate in the circumstances, and the selection and ongoing training of qualified personnel.

Auditors' Report

To the Shareholders of Faraday Resources Inc.

We have audited the balance sheets of Faraday Resources Inc. as at December 31, 1992 and 1991 and the statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises the responsibility through the Audit Committee of the Board. This Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.

The external auditors conduct an independent audit of Faraday's corporate and accounting records in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Their audit is carried out to provide reasonable assurance that the financial statements are, in all material respects, presented fairly in accordance with generally accepted accounting principles.

J.C. Lamacraft
*President and
Chief Executive Officer*

J.A. Patterson
*Vice-President
and Secretary*

financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1992 and 1991 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
March 1, 1993

Peat Marwick Thorne
Chartered Accountants

Balance Sheets

As at December 31 (Thousands of dollars)

ASSETS

	1992	1991
CURRENT		
Cash	\$ 23	\$ 9
Accounts receivable and prepaid expenses.....	531	688
	554	697
INVESTMENTS (note 2)		
Companies subject to significant influence	40,576	38,333
Other	2,546	4,790
	43,122	43,123
OIL AND GAS INTERESTS (note 3)	3,581	3,986
	<u>\$ 47,257</u>	<u>\$ 47,806</u>

LIABILITIES

CURRENT		
Preference share dividends payable.....	\$ 167	\$ 167
Accounts payable and accrued liabilities	196	287
	363	454
LONG TERM BANK DEBT (note 4)	3,095	5,100
DEFERRED LIABILITIES	106	121

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 5).....	26,178	25,889
CONTRIBUTED SURPLUS	1,506	1,506
RETAINED EARNINGS.....	18,082	16,872
	45,766	44,267
FARADAY'S PRO RATA INTEREST IN THE COST OF ITS OWN SHARES		
HELD BY CONWEST.....	(2,073)	(2,136)
	43,693	42,131
	<u>\$ 47,257</u>	<u>\$ 47,806</u>

Approved by the Board:
M. P. Connell, *Director*
J. C. Lamacraft, *Director*

Statements of Retained Earnings

Years ended December 31 (Thousands of dollars)

	1992	1991
RETAINED EARNINGS, BEGINNING OF YEAR	\$16,872	\$22,350
NET INCOME (LOSS)	2,684	(3,325)
	<u>19,556</u>	<u>19,025</u>
 DIVIDENDS		
Preference shares	668	668
Common shares	884	1,602
	<u>1,552</u>	<u>2,270</u>
Less portion applicable to Faraday's pro rata interest in its own shares		
share held by Conwest	(78)	(117)
	<u>1,474</u>	<u>2,153</u>
 RETAINED EARNINGS, END OF YEAR	<u>\$18,082</u>	<u>\$16,872</u>

Statements of Income

Years ended December 31 (Thousands of dollars, except per share amounts)

	1992	1991
RESOURCE AND OTHER INCOME		
Equity in earnings (losses) of:		
Conwest.....	\$ 2,492	\$ (2,814)
Jascan	471	69
Oil and gas production	1,105	1,149
Gain on other investments.....	513	21
Interest and other income.....	122	422
	<u>4,703</u>	<u>(1,153)</u>
 EXPENSES		
Oil and gas production	290	281
General and administrative	906	815
Depletion and depreciation.....	434	450
Interest expense	274	420
Other	115	206
	<u>2,019</u>	<u>2,172</u>
 NET INCOME (LOSS)	<u>\$ 2,684</u>	<u>\$ (3,325)</u>
 EARNINGS (LOSS) PER SHARE (note 5)	<u>\$ 0.29</u>	<u>\$ (0.61)</u>

Statements of Changes in Financial Position

Years ended December 31 (Thousands of dollars)

	1992	1991
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income (loss)	\$ 2,684	\$ (3,325)
Operating items not requiring a current cash payment:		
Equity in losses (earnings) of:		
Conwest, net of dividends received	(1,630)	4,322
Jascan	(471)	(69)
Gain on other investments	(513)	(21)
Depletion and depreciation	434	450
Other	(29)	(10)
	475	1,347
Net change in non-cash working capital balances related to operations	66	176
	541	1,523
INVESTMENT ACTIVITIES:		
Increase in investments	(280)	(4,078)
Oil and gas interests	(16)	(193)
Proceeds on disposal of investments	3,037	50
	2,741	(4,221)
FINANCING ACTIVITIES:		
Dividends	(1,552)	(2,270)
Long term borrowings (repayments)	(2,005)	2,530
Common shares	289	2,242
	(3,268)	2,502
INCREASE (DECREASE) IN CASH	14	(196)
CASH AT BEGINNING OF YEAR	9	205
CASH AT END OF YEAR	\$ 23	\$ 9

Notes to Financial Statements

Years ended December 31, 1992 and 1991 (Tabular dollar amounts in thousands)

1. ACCOUNTING POLICIES

The financial statements of Faraday Resources Inc. ("Faraday") have been prepared by management in accordance with generally accepted accounting principles in Canada and, except as disclosed in note 7, are also in all material respects in accordance with generally accepted accounting principles in the United States. The principal accounting policies followed by Faraday are summarized below:

(a) Long-term inter-corporate investments

(i) Companies subject to significant influence

Faraday's investment in companies in which it has significant influence is accounted for on the basis of cost plus Faraday's net equity in undistributed earnings in such companies since the date significant influence was acquired.

Conwest Exploration Company Limited ("Conwest") owns a 24.3% equity interest in Faraday and accounts for its investment on the equity method. In addition, Conwest owns 175,126 first preference shares, series A of Faraday. Since Faraday owns shares of Conwest and Conwest owns shares of Faraday, Faraday has a pro rata interest in its own shares which has been applied to reduce the carrying value of Faraday's investment in Conwest and shareholders' equity. Faraday's share of earnings of Conwest reflected in the statements of income is based on earnings of Conwest excluding its share of earnings of Faraday. The portion of Faraday's dividends applicable to its pro rata interest is deducted from dividends in retained earnings and added to the carrying value of the investment in Conwest.

(ii) Other

Other long-term investments are carried at cost or at cost less amounts written off to reflect a decline in value which is other than temporary.

(b) Oil and gas interests

Faraday follows the full cost method of accounting for its oil and gas operations, all of which are located in Canada. All costs of exploring for and developing oil and gas reserves, including the costs of production equipment, are capitalized and depleted and depreciated on the unit of production method based on estimated gross proven reserves derived from reports prepared by independent consultants. Oil and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content.

Capitalized costs less accumulated depletion and depreciation are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet dates) after deducting estimated future general and administrative expenses, financing costs and income taxes.

(c) Segmented information

Faraday considers its oil and gas activities to be its dominant operating activity.

(d) Earnings (loss) per share

Earnings (loss) per share are calculated using the weighted average number of common shares outstanding during the year, after eliminating the effect of the proportionate interest in the shares of Faraday owned by Conwest. Dividend requirements of preference shares are deducted for purposes of these calculations.

2. INVESTMENTS

(a)	1992	1991
Companies subject to significant influence		
Conwest Exploration Company Limited		
(quoted market value \$36,124,000; 1991 - \$32,601,000)	\$ 34,982	\$ 33,210
Jascan Resources Inc.		
(quoted market value \$3,152,000; 1991 - \$2,596,000)	5,594	5,123
	<u>40,576</u>	<u>38,333</u>
Other shares with quoted market value		
(quoted market value \$42,000; 1991 - \$2,787,000)	42	2,522
Mortgages and other nonquoted investments (note 5(c) (ii))	2,504	2,268
	<u>2,546</u>	<u>4,790</u>
	<u>\$ 43,122</u>	<u>\$ 43,123</u>

Because of the number of shares held in certain companies, the quoted market values are not necessarily indicative of the value of such investments, which may be more or less than that indicated by market quotations.

(b) At December 31, 1992, Faraday's interest in Conwest is as follows:

	1992	1991
Conwest shares owned by Faraday:		
Conwest Class A shares	1,021,600	1,031,600
Conwest Class B shares	2,565,211	2,555,211
	<u>3,586,811</u>	<u>3,586,811</u>
Faraday interest in Conwest:		
Voting interest	49.8%	49.3%
Equity interest	18.0%	18.2%
The investment in Conwest is comprised as follows:		
Class A shares	\$ 5,848	\$ 5,905
Class B shares	24,993	24,936
	<u>30,841</u>	<u>30,841</u>
Net equity in undistributed earnings of Conwest since the date significant influence was acquired	6,214	4,505
Faraday's pro rata interest in the cost of its own shares held by Conwest	(2,073)	(2,136)
	<u>\$ 34,982</u>	<u>\$ 33,210</u>

Faraday's equity in the net book value of the underlying assets of Conwest exceeds the aggregate cost of Faraday's investment in Conwest. Substantially all of this excess has been allocated to oil and gas interests and is being amortized over the remaining production life of these assets. At December 31, 1992, the unamortized balance of the fair value adjustments was \$2,654,000 (1991 - \$3,064,000).

(c) Canadian oil and gas production, mining and hydro-electric power production are Conwest's principal operating segments. Summarized financial information for Conwest is as follows:

Summarized Consolidated Balance Sheets	December 31	
	1992	1991
ASSETS:		
Current	\$ 55,556	\$ 52,576
Investments and other	65,605	76,882
Oil and gas interests	250,081	240,459
Mining interests	23,658	19,818
Hydro interests	26,718	18,139
	<u>\$ 421,618</u>	<u>\$ 407,874</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities	\$ 16,242	\$ 19,935
Long-term bank debt	69,620	92,190
Non-recourse project debt	19,509	—
Convertible subordinated debentures	60,000	60,000
Other	42,290	33,009
	<u>207,661</u>	<u>205,134</u>
Redeemable preference shares	6,299	6,400
Shareholders' equity attributable		
to common shares	207,658	196,340
	<u>213,957</u>	<u>202,740</u>
	<u>\$ 421,618</u>	<u>\$ 407,874</u>

Summarized Consolidated Statements of Income	Years ended December 31	
	1992	1991
Resource and other income	\$ 108,850	\$ 75,145
Net income (loss)	13,971	(15,852)

(d) Faraday owns 49% of Jascan. Jascan's principal assets are its liquid assets, consisting of cash, cash equivalents and portfolio investments, and a royalty on a copper property in Montana currently at the feasibility planning stage.

3. OIL AND GAS INTERESTS

	1992	1991
Property, plant and equipment, at cost	\$ 8,515	\$ 8,498
Less accumulated depletion and depreciation	4,934	4,512
	<u>\$ 3,581</u>	<u>\$ 3,986</u>

4. LONG TERM BANK DEBT

Faraday's term bank loan of \$3,095,000 (1991- \$5,100,000) is part of a revolving credit facility of \$15,000,000 with a Canadian chartered bank. This facility is unsecured and amounts drawn on this line bear interest at the bank's prime interest rate. Faraday has agreed, that without the bank's consent, it will not encumber its shares of Conwest.

5. SHARE CAPITAL AND CONTINUANCE

(a) Continuance

On August 12, 1992 Faraday was continued under the laws of the Province of Alberta.

(b) Authorized

An unlimited number of first preference shares, issuable in series, of which 556,456 (1991 - 556,456) \$1.20 series A cumulative redeemable retractable convertible first preference shares constitute the first series.

An unlimited number of common shares.

(c) Issued

	1992		1991	
	Number of shares	Amount	Number of shares	Amount
Preference shares.....	556,456	\$ 9,182	556,456	\$ 9,182
Common shares	7,402,549	16,996	7,327,549	16,707
		<u>\$ 26,178</u>		<u>\$ 25,889</u>

(d) Other information

(i) During 1992, shareholders approved an extension of the conversion period for the series A preference shares to October 31, 1994. Each of the series A preference shares is convertible into three common shares. The series A preference shares are redeemable by Faraday at any time. On and after October 31, 1994 the holders of such shares may require they be redeemed. The redemption price is \$16.50 per share.

(ii) On September 27, 1991 officers of Faraday exercised previously granted options to purchase an aggregate 650,000 common shares at \$3.45 per share. Faraday provided certain of such officers with financial assistance for the exercise of such options. The assistance was provided by way of five year non-interest bearing loans, in the aggregate amount of \$1,984,000, with four annual principal repayments equal to dividends paid on the purchased shares and the balance due on maturity. The non-current portion of these loans is included in mortgages and other non-quoted investments.

During 1992, Faraday issued 75,000 common shares to another officer at \$3.85 per share. Faraday provided financial assistance for the acquisition of such shares by way of a \$289,000 loan on terms similar to those referred to above.

(e) Fully diluted earnings (loss) per share

Fully diluted earnings (loss) per share calculated as though all outstanding first preference shares, series A and the employee stock options had been converted, are anti-dilutive in 1992 and 1991.

6. INCOME TAXES

At December 31, 1992 oil and gas interests, which are carried at \$3,581,000 (1991 - \$3,986,000) in the accompanying balance sheets, are fully deductible for income tax purposes. In addition, Faraday has approximately \$3,000,000 in other deductions available to reduce or eliminate income taxes that would otherwise be recorded as a charge against income of future years. Faraday's effective income tax rate differs from the combined federal and provincial statutory income tax rates. The principal factors causing this difference are as follows:

	1992	1991
Combined federal and provincial statutory income tax rates	44.3%	(44.0)%
Non-deductible provincial and federal production royalties		
and taxes, net of rebates	1.5	0.4
Resource and depletion allowances	(2.8)	(2.4)
Non-taxable components of investment income	(51.1)	31.9
Deductible expenses not currently utilized for tax purposes	8.5	14.5
Other	(0.4)	(0.4)
Effective income tax rate	Nil	Nil

7. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND THE UNITED STATES

The effect on the financial statements of differences between generally accepted accounting principles in Canada and the United States is outlined below:

(a)	1992	1991
Net income (loss) for the year as reported, based on generally accepted accounting principles in Canada	\$ 2,684	\$ (3,325)
Pro rata interest in site reclamation costs charged to retained earnings by Conwest (i)	—	(1,036)
Net income (loss) for the year based on generally accepted accounting principles in the United States.....	\$ 2,684	\$ (4,361)
Earnings (loss) per share (United States basis) (ii)	\$ 0.29	\$ (0.77)

(i) In Canada the effect of retroactive changes in accounting policies are charged to retained earnings as a prior period adjustment. In the United States the effect of a retroactive change in accounting policies is charged to income in the year of change.

(ii) Primary earnings (loss) per share include the effect of common stock equivalents which consist of stock options granted during 1987 and exercised in 1991. The convertible preference shares are not considered common stock equivalents. Fully diluted earnings (loss) per share for 1992 and 1991 are anti-dilutive.

(b) Details of the net change in non-cash working capital balances related to operations, as reported in the statements of changes in financial position, are as follows:

	1992	1991
Accounts receivable and prepaid expenses.....	\$ 157	\$ 227
Accounts payable and accrued liabilities	(91)	(51)
	\$ 66	\$ 176

8. OTHER INFORMATION

Conwest Exploration Company Limited owns 24.3% (1991 - 24.6%) of Faraday. As part of normal business operations, extensive use is made of Conwest's management and technical services. During 1992 Conwest's charge to Faraday for such services was \$300,000 (1991 - \$300,000).

DIRECTORS

W. Clarke Campbell,
*Partner of the firm Holden Day Wilson
Barristers and Solicitors*

Earl B. Connell,
Private investor

Martin P. Connell,
*Chairman of the Board
Conwest Exploration Company Limited*

Colin C. Coolican,
*Executive Vice-President
Conwest Exploration Company Limited*

Donald J. Hains,
Engineering consultant

John C. Lamacraft,
*President and Chief Executive Officer
Conwest Exploration Company Limited*

Robert J. Metcalfe,
*President,
Armada Properties Limited*

Edward J. Waitzer
*Partner of Stikeman, Elliott
Barristers and Solicitors*

OFFICERS

Martin P. Connell
Chairman of the Board

John C. Lamacraft
President and Chief Executive Officer

Colin C. Coolican
Executive Vice-President

William E. Barnett
Vice-President

James A. Kalman
Vice-President

J. Andrew Patterson
Vice-President and Secretary

John S. Adams
Treasurer

Robert B. Carter
Vice-President, Finance, Oil and Gas Division

Keith R. Kirkness
Vice-President, Oil and Gas Division

John W. Stephure
Vice-President, Oil and Gas Division

CORPORATE INFORMATION

Head Office
Suite 2000, 95 Wellington St. West
Toronto, Ontario M5J 2N7

Registrar & Transfer Agent
Montreal Trust Company of Canada

Co-Transfer Agent
Bank of Montreal Trust Company
New York, N.Y.

Bankers
Royal Bank of Canada

Auditors
Peat Marwick Thorne

Listing
The Toronto Stock Exchange (CFY)



