FARADAY RESOURCES INC.

C

1984 ANNUAL REPORT

Directors:	W. Clarke Campbell, Partner of the firm of Day, Wilson, Campbell Barristers and Solicitors
	Colin C. Coolican, Executive Vice-President Conwest Exploration Company Limited
	John C. Lamacraft, President and Chief Executive Officer Conwest Exploration Company Limited
	Jules Loeb, General Manager, Falcon Investments Limited
	Howard A. Masson, Mining Executive
	Robert J. Metcalfe, Partner of the firm of Lang, Michener Cranston, Farquharson & Wright Barristers and Solicitors
	William M. O'Shaughnessy Secretary-Treasurer Faraday Resources Inc.
Officers:	W. Clarke Campbell, Chairman of the Board
	John C. Lamacraft, President and Chief Executive Officer
	Colin C. Coolican, Executive Vice-President
	James A. Kalman, Vice-President
	S. Lawrence Koroluk, Vice-President
	J. Andrew Patterson, Vice-President
	William M. O'Shaughnessy, Secretary-Treasurer
	John S. Adams, Assistant Secretary-Treasurer
Registrar and Transfer Agent:	Guaranty Trust Company of Canada Toronto, Ontario
Co-Transfer Agent:	Bank of Montreal Trust Company New York, N.Y.
Auditors:	Thorne Riddell Toronto, Ontario
Head Office:	Suite 1010, 85 Richmond Street West, Toronto, Ontario, M5H 2G1

TO THE SHAREHOLDERS

Your Directors are pleased to present the Annual Report for the year ended December 31, 1984.

1984 was a satisfactory year for your Company. During the previous two years three acquisitions were made to re-establish in Faraday, following closure of the Madawaska Mine, new exposure to the resource sector and a predictable and sustainable cash flow. 1984 was the first full year in which Faraday received revenue and income from all of these holdings.

Net income, before extraordinary items, for the year ended December 31, 1984 was $1,297,000 or $0.37 per share, compared to $2,283,000 or $0.64 per share in 1983. Although these results reflect a decline from last year, $0.47 per share in the 1983 results represents the gain on the sale of Faraday's interest in Conwest Petroleum Corporation. Net income after extraordinary items for the year ended December 31, 1984 was $1,415,000 or $0.40 per share compared to $2,711,000 or $0.76 per share in 1983.

Faraday's oil and gas properties continue to make an increasing contribution to the Company's revenue and income. Net production income during 1984 from oil and gas operations increased to $2,224,000 from $1,512,000 in 1983. Although much of this increase is attributable to a full year's contribution from the asset acquisition made in 1983, it also reflects the development work which was done during the year on Faraday's interests in the Leo-Byemoor and Nipisi areas.

Recently, the Federal Government and the producing provinces concluded a new energy policy agreement, known as the Western Accord, to replace the National Energy Program. The main elements of the new agreement are deregulation of oil prices, market responsiveness to gas pricing and gradual elimination of the PIP program and PGRT tax. The provisions of the Accord should, on balance, be favourable to Faraday's oil and gas operations. However, the price outlook for oil remains uncertain. In this environment, your Company has taken a conservative approach to new investment opportunities in the oil and gas sector.

Faraday's other significant asset is its investment in Conwest Exploration Company Limited. This provides Faraday with increased exposure to the oil and gas sector and exposure to all of Conwest's mining interests.

Shareholders will note from the information circular provided in connection with the Annual Meeting that Faraday is proposing a number of changes to its charter documents. Although most of these changes update the Company's articles of incorporation and by-laws to conform with recent changes in the Business Corporations Act, proposed changes in Faraday's capital are being sought to provide it with greater flexibility for the future. Although the Company has no plans to issue additional shares, the new shares will provide flexibility in financing any future acquisitions or projects which the Company might consider.

The Directors would like to thank employees of the Company for their efforts and contribution over the past year.

On behalf of the Board

W. CLARKE CAMPBELL,
Chairman

JOHN C. LAMACRAFT,
President and Chief
Executive Officer

Toronto, Ontario
May 10, 1985

ASSOCIATED COMPANY

Conwest Exploration Company Limited

Faraday owns 275,000 first preference shares, series B, of Conwest Exploration Company Limited (Conwest). The shares represent one of Faraday's two principal assets. They are convertible into 825,000 class B common shares of Conwest, which, on a fully diluted basis, represents a holding of 6.4% of Conwest's outstanding shares.

Conwest is a Canadian natural resource company which is engaged in three areas of the resource business. Conwest has significant oil and gas production and exploration interests in Western Canada, primarily Alberta. Directly and through affiliated companies, it holds interests in three producing mines, several undeveloped mineral deposits and a variety of mineral exploration prospects. Conwest maintains a portfolio of investments in other public companies, principally precious and base metal producers and explorers.

In 1984, Conwest's net income was $5,059,000 or $0.32 per share compared with $14,622,000 or $1.60 per share for the prior year. Operating income for 1984 was $14,540,000 as compared to $17,657,000 in 1983. Cash flow from operations was $18,310,000 or $1.94 per share in 1984 as compared to $11,892,000 or $1.46 per share for the prior year. Net income was adversely affected by the extraordinary write-off of Conwest's investment in the Griffith Mine which Stelco Inc. recently announced would be permanently closed April 1, 1986. This extraordinary write-off was $4,858,000 or $0.51 per share.

Highlights for Conwest during 1984 were the strong operating performance of its oil and gas division which generated $19,502,000 of net production income, a 60% increase from the previous year; the increase of Conwest's holding in Mineral Resources International Limited to 22% of the outstanding equity; and the acquisition of a 25% equity interest in Hemglo Resources Inc., a private company which is entitled to a 15% net profits interest in Noranda's Golden Giant mine at Hemlo, Ontario.

Conwest has significant financial capacity to undertake additional new projects and investments. Conwest has indicated that it remains committed to building share value through long term investments in the Canadian petroleum and mining sectors through exploration, development and acquisition. If commodity prices continue under pressure, some outstanding opportunities should be available to companies which have retained their financial strength.

During the year, Faraday received $660,000 in dividend income from its holding in Conwest. Faraday's holding in Conwest continues to be a long term investment which, through Conwest's exposure to the Canadian resource sector, is expected to provide steady asset growth for Faraday.

OIL AND GAS INTERESTS

During 1984, the Company continued to expand its oil and gas interests in the Leo Byemoor and Nipisi areas of Alberta.

While several new acquisition opportunities were pursued during the year, the uncertainty with respect to world oil prices, natural gas pricing in Canada and the United States, and the outcome of federal-provincial fiscal negotiations, all necessitated a cautious investment stance for your Company.

The Company's proven reserves at the end of the year totalled 3.33 billion cubic feet of gas and 538,000 barrels of oil. Its proven and probable reserves totalled 3.35 bcf of gas and 630,000 barrels of oil and natural gas liquids. The present value of these reserves discounted at 15% on a proven, and proven and probable, basis is $13.3 million and $14.4 million, respectively.

Faraday has adopted the policy of retaining an independent engineering firm to assess its reserves every second year. The reserves shown in this report are based on independent consultants' reports prepared as at January 1, 1984; these reserve estimates have been adjusted to account for 1984 production and oil and gas price forecasts used by an independent engineering firm as at January 1, 1985.

Net production income during 1984 from oil and gas operations was $2,224,000 versus $1,512,000 in 1983. The large increase is primarily due to the full year's inclusion of the Eason acquisition completed in mid-1983 and the results of infill drilling at the Company's major oil producing property at Nipisi. It is expected that cash flow in 1985 will show a further increase to approximately $2.6 million.

Nipisi Gilwood Unit No. 1

Faraday owns a 0.4717% interest in the Nipisi Gilwood Unit No. 1. The Company's working interest production from the Unit in 1984 averaged 180 barrels per day of oil and natural gas liquids.

The Stage I miscible flood tertiary recovery scheme commenced operation in February, 1984 and the initial performance is encouraging. Application has been made to the appropriate Alberta governmental authorities to expand the current 8.75 section flood to include 24.5 additional sections in 1986 (Stage II). These miscible flood schemes, if successful, will have a significant positive impact on the Company's oil reserves.

During 1984, 18 infill wells were drilled in the Unit and an additional 3 wells were approved for drilling in early 1985. It is anticipated that total Unit oil production will average 33,000 barrels per day in 1985.

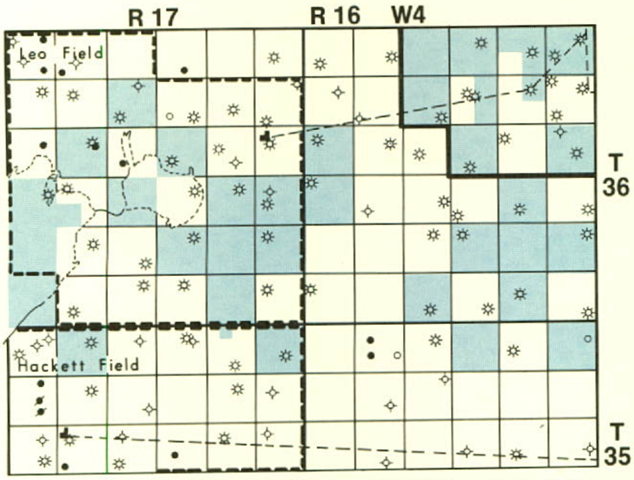
Leo-Maple Glen Area

The Company owns extensive interests in the Leo-Maple Glen area through the Eason purchase. The Company's working interest production from the area in 1984 averaged 664 mcf of gas per day.

In 1984, 3 gas wells were drilled on these lands. Faraday has a 10% working interest in one of these wells and has a small convertible gross overriding royalty in the other 2 wells. Subsequent to year-end, 2 additional gas wells were drilled on these lands (Faraday working interests of 13.33% and 14.55%). These wells will have a favourable impact on cash flows in 1985 and beyond.

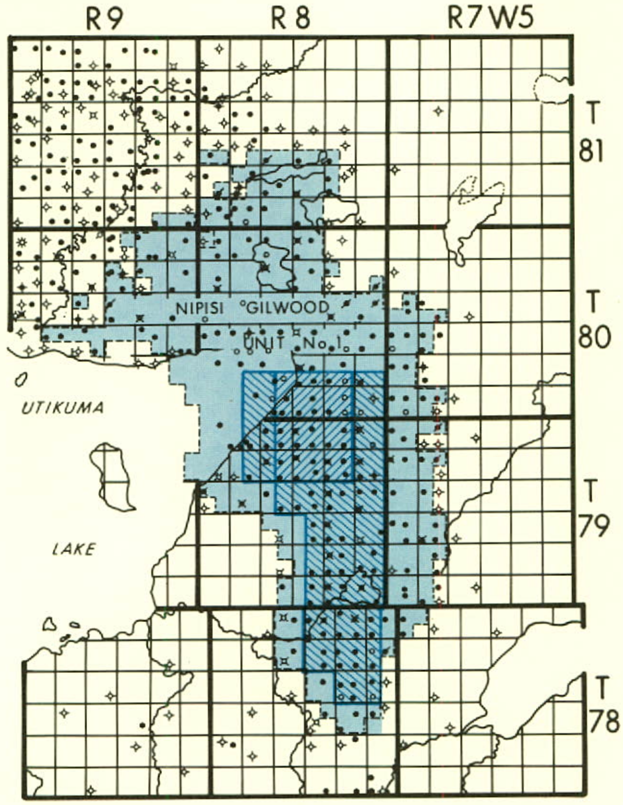
Summary of Operating Results and Capital Expenditures

	1984	1983	1982
Oil and Gas revenues	$2,483,000	$1,673,000	$ 698,000
Operating expenses	259,000	161,000	32,000
	$2,224,000	$1,512,000	$ 666,000
Investment in Oil and Gas Interests (net of disposals)	$ 192,000	$2,167,000	$3,881,000



GOUGH LAKE & LEO-BYEMOOR AREA

- Maple Glen Unit Boundary
- Gas Plant
- Gas Pipeline
- Gas Well
- Oil Well
- Abandoned Well
- Suspended Oil Well
- Drilling Location



- Oil Well
- Suspended Oil Well
- Injection Well
- Abandoned Well
- Drilling Location
- Stage 1 Miscible Flood Project
- Proposed Stage 2 Miscible Flood Project

Summary of Proven and Probable Reserves At December 31, 1984 (Working Interest Reserves)

	Natural Gas (mmcf)	Oil and Natural Gas Liquids (bbls)
Proven	3,327	538,000
Probable	23	92,000
Proven and Probable	3,350	630,000

Forecast Net Cash Flow At December 31, 1984 After Operating and Capital Expenditures and Royalties* ($000)

	Undiscounted	Discounted at 15%
Proven	$30,830	$13,330
Probable Reserves	4,315	1,070
	$35,145	$14,400

* Based on Independent Consultants' Reports.

MINING INTERESTS

During 1984 there was limited activity in connection with Faraday's mining interests.

Hydra Explorations Limited

Faraday owns 26% of Hydra Explorations Limited. Hydra has two gold properties. One is known as the Porcupine Peninsula property in the Timmins area, which has been leased to Pamour Porcupine Mines Limited since 1973. Undiluted geological reserves established by drilling and development work on the property prior to 1980 are estimated to be 1.9 million tons grading 0.113 oz. of gold per ton. No development work and limited exploration work have been done on the property since 1980. Hydra's other property, held through 50% owned Johnsby Mines Limited, is a large tonnage deposit averaging 0.055 oz. gold per ton, located in the Indin Lake area, north of Yellowknife, N.W.T. Higher gold prices than now prevail are required to make both the Porcupine Peninsula and Indin Lake properties economically attractive for exploitation.

Prairie Potash Mines Limited

Faraday owns 38% of Prairie Potash. The balance is owned by Inco. Prairie Potash holds 16,000 acres of freehold potash leases in the Province of Manitoba. There are presently no plans for development of the leases either singularly or through a joint venture.

Madawaska Mines Limited

Faraday has a 49% joint venture interest in the Madawaska Mine, which closed in 1982 as a result of weak uranium markets. Regulatory approval to de-commission the Madawaska facility was obtained in 1983 and the joint venture continues to implement de-commissioning on the basis of this approval.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial condition and results of operations for 1984 and 1983 reflect management's decision to retain Faraday's exposure to the resource sector, in particular the oil and gas industry, following the termination of operations of the Madawaska Mine effective June 30, 1982.

LIQUIDITY AND CAPITAL RESOURCES

Cash, including cash and short-term deposits, decreased from $2,476,000 at December 31, 1983 to $2,226,000 at December 31, 1984. Working capital, comprised of the excess of current assets over current liabilities, increased from $2,694,000 at December 31, 1983 to $3,497,000 at December 31, 1984. Long-term debt decreased by $1,537,000 during the year, principally through the application of cash generated from operations.

The Corporation's direct oil and gas interests, together with the dividends received on the first preference shares, series B of Conwest Exploration Company Limited, provide a stable and predictable cash flow. In the normal course of business the Corporation intends to apply such cash flow against outstanding bank indebtedness, while continuing to pay its regular dividend.

The Corporation, however, is continually evaluating oil and gas production interests with a view to acquiring, if possible, any such interests which meet the Corporation's investment criteria. The Corporation's present intention is that any such acquisition would initially be funded by bank borrowings on terms which do not impinge on the Corporation's ability to continue to pay its regular dividend. Management has recommended changes in the capital structure of the Corporation, which are more particularly described in the Notice calling the June 28, 1985 Annual and Special Meeting and related Proxy Statement and Management Information Circular. The proposed changes in the Corporation's capital structure, if approved, would provide greater flexibility in the method of financing any such future acquisitions.

RESULTS OF OPERATIONS

Excluding its investment in Conwest, the Corporation's oil and gas interests constitute its only significant cohesive industry segment.

Oil and gas production has become an increasingly significant part of the Corporation's revenue and cash flow. The following table sets forth, for the years indicated, oil and gas production income as a percentage of total revenue and oil and gas production income, less related direct production costs, as a percentage of total operating cash flow:

	Percentage of total revenue	Percentage of total operating cash flow
1984	72%	93%
1983	38%*	105%
1982	72%	76%

*60% excluding 1983 gain realized on sale of investment in Conwest Petroleum.

The Corporation's most significant direct oil and gas investment is its 0.4717% interest in the Nipisi Gilwood Unit No. 1, principally a producing oil field in north-central Alberta, which was acquired in 1982. The Corporation's next most significant direct interest is an average 7.8% working interest in several producing wells, which are principally gas, in the Leo-Maple Glen area of southern Alberta. The Corporation's remaining oil and gas interests are not individually significant to the operations of the Corporation.

Oil and gas production income is derived from the following areas:

	1984	1983	1982
Nipisi Gilwood Unit No. 1	71%	76%	89%
Leo-Maple Glen	19	8	–
Other	10	16	11
	100%	100%	100%

Oil and gas production income increased by 48% to $2,483,000 in 1984, from $1,673,000 in 1983 (1983 increased by 140% from $698,000 in 1982). The 1984 increase reflects additional production generated from a tertiary recovery and in-fill drilling programme in the Nipisi Unit and a full year's production from the Maple Glen and other interests acquired in June, 1983. The 1983 increase from 1982 reflects a full year's production from the Corporation's interest in the Nipisi Unit, which was acquired in August, 1982, together with the effect of the interests acquired in 1983. The Maple Glen interests were shut-in from the date of acquisition until the late fall of 1983.

The Corporation's proven oil and gas reserves are as follows:

	Oil and natural gas liquids (bbls)	Natural gas (mmcf)
Proven reserves, December 31, 1983	605,000	3,554
Revision of previous estimates	5,000	50
	610,000	3,604
Production for year	(72,000)	(277)
Proven reserves, December 31, 1984	538,000	3,327

On March 28, 1985 the Government of Canada and the producing provinces announced that effective June 1, 1985 oil prices would be deregulated and further that producers would be able to arrange direct sales of oil production.

The Province of Alberta previously required that substantially all oil produced in the Province be sold to the Alberta Petroleum Marketing Commission at prices which were based on agreements between the Province and the Government of Canada. Under these agreements approximately 50% of the Corporation's oil production was sold at a price which was approximately 20% below the world price and the remaining production is sold at a price approximately equal to world price.

Substantially all of the Corporation's natural gas production is sold to Trans-Canada Pipelines Limited and Pan-Alberta Gas Ltd. under standard producer contracts. The price for natural gas is also established by agreement between the Government of Canada and the Province of Alberta. In their March, 1985 announcement the governments indicated a revised price structure for natural gas is under negotiation in anticipation of being effective November 1, 1985.

At current world oil prices and Canadian dollar exchange rates, the Corporation does not anticipate that there will be a material effect on the Corporation's financial position arising from this deregulation of oil and gas prices.

SELECTED FINANCIAL AND OTHER DATA

The following table summarizes selected annual financial information, in thousands of dollars except per share amounts, for the years indicated:

	1984	1983	1982	1981	1980
Oil and gas production income	$ 2,483	$ 1,673	$ 698	$ 193	$ 191
Income (loss) from continuing operations	$ 1,297	$ 2,283	$ (56)	$ 298	$ 789
Income (loss) from continuing operations per common share	$ 0.37	$ 0.64	$ (0.02)	$ 0.08	$ 0.22
Total assets at December 31	$20,056	$20,667	$17,082	$14,545	$12,647
Long-term obligations	$ 2,425	$ 3,933	$ 2,782	–	–

During 1983 the Corporation implemented a dividend policy at an annual rate of $0.16 per share, payable semi-annually on October 1 and April 1 at the rate of $0.08 per share.

The following table presents the high and low market prices for the Corporation's shares for the periods indicated:

	Quarter Ended							
	1984				1983			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Common shares								
High	$2.90	3.20	3.15	2.95	2.50	2.79	3.45	2.75
Low	$2.45	2.75	2.80	2.40	1.90	1.95	2.45	2.45

FORM 10K ANNUAL REPORT

Copies of Faraday's Form 10K for 1984 are available, without charge, upon written request to the Secretary-Treasurer, Faraday Resources Inc., Suite 1010, 85 Richmond Street West, Toronto, Ontario M5H 2G1.

STATEMENTS OF INCOME

Years Ended December 31, 1984, 1983 and 1982

	1984	1983	1982
Revenue			
Oil and gas production	$ 2,483,000	$ 1,673,000	$ 698,000
Dividends from Conwest Exploration Company Limited	660,000	330,000	–
Interest and other income	523,000	347,000	345,000
Gain on sale of Conwest Petroleum Corporation (note 3)	–	1,670,000	–
Gain (loss) on other investments	(143,000)	9,000	(132,000)
Gain on disposal of mining interests	–	145,000	–
Gain (loss) on disposal of fixed assets	(79,000)	177,000	–
Equity in earnings of companies subject to significant influence	16,000	102,000	63,000
	3,460,000	4,453,000	974,000
Expenses			
Mine maintenance	135,000	309,000	99,000
Oil and gas production	259,000	161,000	32,000
General and administrative	764,000	588,000	574,000
Depreciation, depletion and amortization	554,000	330,000	189,000
	1,712,000	1,388,000	894,000
Income before undernoted	1,748,000	3,065,000	80,000
Interest expense	(333,000)	(354,000)	(136,000)
Income taxes (note 7)	(118,000)	(428,000)	–
Income (loss) from continuing operations	1,297,000	2,283,000	(56,000)
Loss from discontinued operations of the Madawaska Mine (note 2)	–	–	1,178,000
Income (loss) before extraordinary items	1,297,000	2,283,000	(1,234,000)
Termination settlement (note 8)	–	–	1,663,000
Income tax reduction realized on application of resource expenditures of prior years (note 7)	118,000	428,000	–
NET INCOME	$ 1,415,000	$ 2,711,000	$ 429,000
EARNINGS (LOSS) PER SHARE			
Continuing operations	$0.37	$0.64	$(0.02)
Discontinued operations	–	–	(0.33)
Extraordinary items	0.03	0.12	0.47
Net income	$0.40	$0.76	$ 0.12

The accompanying notes form an integral part of these statements.

BALANCE SHEETS AS AT DECEMBER 31, 1984 AND 1983

Assets

	1984	1983
CURRENT ASSETS		
Cash and short-term deposits	$ 2,226,000	$ 2,476,000
Accounts receivable and prepaid expenses	1,138,000	755,000
Current portion of mortgages receivable	723,000	–
	4,087,000	3,231,000
INVESTMENTS (note 4)	10,616,000	11,222,000
OIL AND GAS INTERESTS (note 5)	5,351,000	5,713,000
FIXED ASSETS	1,000	500,000
MINERAL EXPLORATION INTERESTS	1,000	1,000
	$20,056,000	$20,667,000

Liabilities

	1984	1983
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 278,000	$ 374,000
Mining taxes payable	–	163,000
Current portion of long-term debt	312,000	–
	590,000	537,000
DEFERRED REVENUE	325,000	296,000
LONG-TERM DEBT (note 6)	2,100,000	3,637,000

Shareholders' Equity

	1984	1983
CAPITAL STOCK		
Authorized		
5,000,000 Shares		
Issued		
3,568,800 Shares	6,693,000	6,693,000
CONTRIBUTED SURPLUS	1,506,000	1,506,000
	8,199,000	8,199,000
RETAINED EARNINGS	8,842,000	7,998,000
	17,041,000	16,197,000
	$20,056,000	$20,667,000

Approved by the Board

W. C. CAMPBELL, Director

J. C. LAMACRAFT, Director

The accompanying notes form an integral part of these statements.

REPORT OF MANAGEMENT

The accompanying financial statements and all information in the Annual Report are the responsibility of management. The financial statements have been prepared in conformity with generally accepted accounting principles in Canada, including, where necessary, amounts that are based on informed judgements and management estimates. Other financial information in the Annual Report is consistent with that in the financial statements.

Management has developed a system of internal controls to enable it to meet its responsibilities for reliable financial statements and provide reasonable assurance that assets are safeguarded. There are limits inherent in all systems of internal accounting control based on the recognition that the cost of such systems should not exceed the benefits to be derived. The Corporation believes the system it has developed and maintains, provides this appropriate balance.

The Corporation's independent auditors, Thorne Riddell, have examined the financial statements as described in their report included herein. Their role is to render an independent professional opinion on managements' financial statements in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors, which includes a majority of directors who are not employees of the Corporation, is responsible for reviewing the accounting principles and practices employed by the Corporation and reviewing the Corporation's annual financial statements prior to their issuance. The Audit Committee meets periodically with the independent auditors and management to review the work of each and ensure that each is properly discharging its reponsibilities. The independent auditors are entitled to call a meeting of the Committee and are invited to discuss any matters they deem appropriate, with or without management being present.

J. C. Lamacraft
President and Chief Executive Officer

J. A. Patterson
Vice-President

AUDITORS' REPORT

To the Shareholders of
Faraday Resources Inc.

We have examined the balance sheets of Faraday Resources Inc. as at December 31, 1984 and 1983 and the statements of income, retained earnings and changes in financial position for the three years ended December 31, 1984. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the three years ended December 31, 1984 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
March 15, 1985

THORNE RIDDELL
Chartered Accountants

STATEMENTS OF RETAINED EARNINGS
Years Ended December 31, 1984, 1983 and 1982

	1984	1983	1982
BALANCE AT BEGINNING OF YEAR			
As previously reported	$ 8,161,000	$ 5,736,000	$ 5,307,000
Reassessment of prior years' Ontario mining taxes	(163,000)	(163,000)	(163,000)
As restated	7,998,000	5,573,000	5,144,000
Net income	1,415,000	2,711,000	429,000
	9,413,000	8,284,000	5,573,000
Dividends	571,000	286,000	–
BALANCE AT END OF YEAR	$ 8,842,000	$ 7,998,000	$ 5,573,000

STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years Ended December 31, 1984, 1983 and 1982

	1984	1983	1982
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net income excluding interest expense	$ 1,748,000	$ 3,065,000	$ 565,000
Operating items not requiring a current cash payment			
Depreciation, depletion and amortization	554,000	330,000	189,000
Equity in earnings of companies subject to significant influence	(16,000)	(102,000)	(63,000)
Gain on sale of Conwest Petroleum Corporation	–	(1,670,000)	–
Loss (gain) on disposal of other investments and fixed assets	222,000	(186,000)	132,000
Other	(107,000)	2,000	48,000
	2,401,000	1,439,000	871,000
Net change in non-cash working capital balances related to operations	(642,000)	(80,000)	1,974,000
Deferred revenue	40,000	229,000	67,000
	1,799,000	1,588,000	2,912,000
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES			
Proceeds on disposal of fixed assets and oil and gas interests	420,000	359,000	1,278,000
Oil and gas interests	(192,000)	(2,167,000)	(4,045,000)
Sale (purchase) of investments			
Conwest Petroleum Corporation	–	9,625,000	(8,925,000)
Preference shares of Conwest Exploration Company Limited	–	(9,625,000)	–
Other	(148,000)	183,000	(192,000)
	80,000	(1,625,000)	(11,884,000)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Increase in long-term debt	3,300,000	4,502,000	2,925,000
Reduction in long-term debt	(4,525,000)	(3,580,000)	(210,000)
Interest expense	(333,000)	(354,000)	(136,000)
Dividends	(571,000)	(286,000)	–
	(2,129,000)	282,000	2,579,000
Increase (decrease) in cash and short-term deposits	(250,000)	245,000	(6,393,000)
Cash and short-term deposits at beginning of year	2,476,000	2,231,000	8,624,000
Cash and short-term deposits at end of year	$ 2,226,000	$ 2,476,000	$ 2,231,000

The accompanying notes form an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1984, 1983 AND 1982

1. ACCOUNTING POLICIES
The financial statements of Faraday Resources Inc. have been prepared by management in accordance with generally accepted accounting principles in Canada and, except as disclosed in note 9, are also in all material respects in accordance with generally accepted accounting principles in the United States. The principal accounting policies followed by the Corporation are summarized below:

(a) Basis of accounting
The financial statements include the accounts of the Corporation and, on the proportionate consolidation method, its 49% interest in the Madawaska Mine.

(b) Long-term inter-corporate investments

(i) Companies subject to significant influence
The Corporation's investment in companies in which it has significant influence is accounted for on the basis of cost plus the Corporation's net equity in undistributed earnings in such companies since the date significant influence was acquired.

(ii) Conwest Exploration Company Limited
The investment in Conwest, an associated company, is carried at cost.

(iii) Other
Shares with a quoted market value are carried at the lower of cost and market value. Other shares are carried at cost or at cost less amounts written off to reflect a decline in value which is other than temporary.

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 indicated by market quotations.

(c) Oil and gas interests
The Corporation follows the full cost method of accounting for oil and gas interests whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of both productive and unproductive drilling. Proceeds received on disposal of properties are credited against such costs.

These costs are depleted on the revenue production method based on total estimated future production revenues from established reserves derived from reports prepared by independent consultants.

(d) Mineral exploration interests
Direct exploration expenditures and the cost of acquisition of mineral exploration interests are charged to income in the year incurred.

(e) Mineral resource interests
The cost of acquisition of mineral interests which contain economic mineral reserves and the cost incurred on mineral exploration interests subsequent to the determination that such interests contain economic mineral reserves are deemed to be mineral resource interests. These interests, together with development expenditures thereon, are deferred and carried as an asset to be amortized against future production. Upon disposal or abandonment, the net gain or loss related to such asset is reflected in the statement of income.

(f) Fixed assets
All of the Corporation's fixed assets, other than those included in oil and gas interests, are related to its interest in the Madawaska Mine. At December 31, 1984 these assets are being carried at

nominal value. At December 31, 1983 and 1982 these assets were carried at estimated net realizable value.

(g) Deferred revenue
Payments received for undelivered gas are deferred and are recognized as revenue when deliveries are made or upon expiry of the period allowed for such deliveries.

(h) Foreign currency translation
Effective January 1, 1984 the Corporation changed its method of accounting for foreign currency translation to conform with the new recommendations of the Canadian Institute of Chartered Accountants.

Balances denominated in foreign currencies are translated into Canadian dollars as follows:
(i) monetary assets and liabilities at year end rates;
(ii) all other assets and liabilities at historical rates; and
(iii) revenue and expense transactions at the average rate of exchange prevailing during the year.

Exchange gains or losses arising on these translations are reflected in income in the year incurred.

This change has been applied prospectively and accordingly the amounts reported in prior years have not been restated. The effect of this change on the financial statements for 1984 is not material.

2. MADAWASKA MINE JOINT VENTURE
The Corporation has a 49% direct interest in the Madawaska Mine, Bancroft, Ontario. The Corporation's share of the net assets of the Joint Venture is as follows:

	1984	1983	1982
Current assets	$2,112,000	$2,560,000	$2,578,000
Fixed assets	1,000	500,000	686,000
	2,113,000	3,060,000	3,264,000
Current liabilities	(28,000)	(281,000)	(365,000)
Net equity	$2,085,000	$2,779,000	$2,899,000

Mine operations were shut-down in July, 1982. As a result the operating results of the joint venture for 1982 have been segregated from the on-going activities of the Corporation and included in the statement of income on a summarized basis as follows:

Uranium concentrate sales	$6,096,000
Operating expenses	5,651,000
Operating income	445,000
Shut-down costs and amortization	1,623,000
Loss from discontinued operations	$1,178,000

3. CONWEST PETROLEUM CORPORATION
(a) Acquisition
Effective January 1, 1982 the Corporation acquired 25,000 preference and 250,000 common shares, representing a 25% interest, of Conwest Petroleum Corporation for $8,925,000. As part of this transaction the Corporation sold its oil and gas interests and certain of its other related assets, having a carrying value of $257,000, to Conwest Petroleum for $1,315,000. The gain on this sale was deferred in the 1982 accounts.

(b) Disposition
Effective July 1, 1983 the Corporation sold its 25% interest in Conwest Petroleum to Conwest Exploration Company Limited for $9,625,000. Conwest, which was the owner of the remaining 75% interest in Conwest Petroleum, satisfied the purchase price by the issue to the Corporation of 275,000 – $2.40 cumulative redeemable retractable convertible first preference shares, series C. In 1983 the Corporation realized a gain of $1,670,000 on this sale.

4. INVESTMENTS

	1984	1983
Companies subject to significant influence		
With quoted market value		
Hydra Explorations Limited (quoted market value $341,000; 1983 – $475,000)	$ 285,000	$ 269,000
Without quoted market value	195,000	195,000
	480,000	464,000
Conwest Exploration Company Limited		
First preference shares, series B (quoted market value $7,769,000)	9,625,000	–
First preference shares, series C (no quoted market value)	–	9,625,000
Other shares with quoted market value (quoted market value $373,000; 1983 – $364,000)	373,000	364,000
Mortgages and other unquoted investments	138,000	769,000
	$10,616,000	$11,222,000

Effective June 13, 1984 Conwest reclassified its first preference shares, series C to first preference shares, series B. The series B shares are identical to the previous series C shares except that there is a public market for the series B shares.

5. OIL AND GAS INTERESTS

	1984	1983
Balance at beginning of year	$5,713,000	$3,866,000
Add:		
Acquisitions in year	–	2,072,000
Current year's expenditures	192,000	95,000
	5,905,000	6,033,000
Deduct:		
Depletion and depreciation	554,000	320,000
Balance at end of year	$5,351,000	$5,713,000

At December 31, 1984 the Corporation's net proven reserve value determined on an after-tax basis discounted at 10% and based on constant pricing with no inflation adjustment was $7,519,000.

Oil and gas production equipment, having a carrying value of $1,355,000 (1983 – $1,373,000), is included in oil and gas interests at cost less accumulated depreciation.

6. LONG-TERM DEBT

	1984	1983
Revolving credit facility, at bank prime	$2,100,000	–
Advances from Conwest Exploration Company Limited	–	$3,325,000
Note payable, non-interest bearing	312,000	312,000
	2,412,000	3,637,000
Less current portion	312,000	–
	$2,100,000	$3,637,000

During the year the Corporation arranged a $4,000,000 bank facility which is secured by the Corporation's investment in Conwest. The loan agreement contains certain restrictive covenants and various undertakings relating to shareholders' equity, earnings and indebtedness of the Corporation.

In 1984 the Corporation used funds from this facility to repay the advances from Conwest. Interest paid on these advances during 1984 amounted to $97,000 (1983 – $287,000).

7. INCOME TAXES

The provision for income taxes in the amount of $118,000 (1983 – $428,000) has been eliminated by the application of resource expenditures available for income tax purposes which are in excess of the carrying value of the related assets in the Corporation's balance sheet.

The Corporation'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:

	1984	1983
Combined federal and provincial statutory income tax rates	49.0%	50.0%
Non-deductible provincial and federal production royalties and taxes, net of rebates	20.2	3.5
Resource and depletion allowances	(39.3)	(8.4)
Non-taxable components of investment income	(22.6)	(31.5)
Other	1.0	2.2
Effective income tax rate	8.3%	15.8%

The Corporation had a loss for income tax purposes in 1982.

8. TERMINATION SETTLEMENT

Pursuant to an agreement dated March 12, 1982 the contract between the Madawaska Mine and AGIP Nucleare International Ltd. was terminated. The Corporation's interest in the termination settlement was $1,663,000.

9. 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:

	1984	1983	1982
(a) Net income for the year, as reported, based on generally accepted accounting principles in Canada	$1,415,000	$2,711,000	$ 429,000
Reassessement of prior years' Ontario mining taxes (i)	(163,000)	–	–
Change in valuation allowances included in income (ii)	143,000	(96,000)	132,000
Net income for year based on generally accepted accounting principles in the United States	$1,395,000	$2,615,000	$ 561,000
Earnings per share (United States basis)	$0.39	$0.73	$0.16

(i) In Canada adjustments arising from reassessment of prior years' taxes are charged to retained earnings as a prior period adjustment. In the United States such adjustments are charged to income in the year of reassessment.

(ii) The carrying value of other shares with quoted market value has been decreased by valuation allowances of $590,000 at December 31, 1984, $447,000 at December 31, 1983 and $543,000 at December 31, 1982. Gain (loss) on other investments in the statement of income included a loss of $143,000 in 1984, a gain of $96,000 in 1983 and a loss of $132,000 in 1982 as a result of changes in these valuation allowances.

Application of generally accepted accounting principles in the United States would have necessitated that these valuation allowances be shown as net unrealized losses in the shareholders' equity section of the related balance sheets and not as adjustments to the statements of income of these years.

(b) United States practice would also require that the investment in Conwest Exploration Company Limited be reduced by $1,856,000 to market value at December 31, 1984 and that an additional unrealized loss of this amount be recorded in shareholders' equity in the 1984 balance sheet.

(c) Under generally accepted accounting principles in the United States the 1982 loss of $1,178,000 from the Madawaska Mine Joint Venture would not be segregated as discontinued operations.

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

	1984	1983	1982
Accounts receivable and prepaid expenses	$ (383,000)	$ (89,000)	$1,668,000
Inventories	–	–	980,000
Accounts payable and accrued liabilities	(96,000)	9,000	(566,000)
Mining taxes payable	(163,000)	–	(108,000)
	$ (642,000)	$ (80,000)	$1,974,000

As noted in (a) above the reassessment of Ontario mining taxes would be a charge to operations in 1984 under United States accounting principles. Accordingly, funds generated from operations for that year would be reduced by $163,000 and the net change in non-cash working capital balances related to operations would be adjusted by an equivalent amount.

10. RELATED PARTY TRANSACTIONS

Conwest Exploration Company Limited owns 49% of the Corporation. As part of normal business operations extensive use is made of Conwest's management and technical services. During 1984 the Corporation's share of such services was $511,000 (1983 – $436,000; 1982 – $403,000).

11. COMPARATIVE FIGURES

Certain of the comparative figures for prior years have been reclassified to conform with the financial statement presentation adopted in 1984.

1985

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