FARADAY

RESOURCES INC.

Annual Report

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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 extensive energy and mining interests in Canada. Faraday also has direct interests in producing oil and gas properties in western Canada.

Faraday has more than 5,200 shareholders. Its shares are listed on The Toronto Stock Exchange.

CORPORATE HIGHLIGHTS

	1989	1988	1987
Resource and other income	**$ 4,381,000**	$ 5,820,000	$12,462,000
Net income	**$ 2,230,000**	$ 4,034,000	$10,888,000
Net income per share	**$0.26**	$0.55	$1.68
Equity per common share	**$5.85**	$5.79	$5.48
Dividends per common share	**$0.22**	$0.22	$0.22
Conwest shares owned by Faraday per Faraday common share	**0.58**	0.56	0.56

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ANNUAL MEETING

The annual meeting of shareholders of Faraday will be held in the Lower Lounge of the O'Keefe Centre, 1 Front Street East, Toronto, Ontario at 9:30 a.m. on May 25, 1990.

FORM 10-K ANNUAL REPORT

Copies of Faraday's Form 10-K for 1989 are available, without charge, upon written request to the Vice-President and Secretary, Faraday Resources Inc., Suite 2000, 95 Wellington Street West, Toronto, Ontario M5J 2N7.

Your directors are pleased to submit Faraday's Annual Report for the year ended December 31, 1989. The following are the highlights:

- The acquisition for $3.8 million of a 40% interest in Jascan Resources Inc. Faraday subsequently increased this position to 49%.
- The purchase early in the year for $1 million of Loon River Oils, a private company with royalty interests on shallow gas production in south eastern Alberta.
- The agreement, subsequent to year-end, of Conwest Exploration, Mineral Resources International and Barons Oil to merge.

Conwest Exploration

Your Company's largest and most significant asset is its controlling interest in Conwest Exploration Company Limited. 1989 was a pretty good year for Conwest. Operating income was $56.6 million, down slightly from $58.6 million a year earlier. Net income was $10.3 million or $0.78 per share compared to $12.7 million or $0.99 per share a year earlier. A copy of Conwest's Annual Report for 1989 is enclosed with this Report. It provides the Faraday shareholders with a comprehensive account of Conwest's operations and financial position. In addition, in the Directors' Report to the Shareholders, it provides a useful history and analysis of Conwest's excellent performance over the past decade and philosophy and objectives for the future.

Merger of Conwest, MRI and Barons

Subsequent to year-end, Conwest has agreed to merge with its principal subsidiary, Mineral Resources International Limited, and another affiliate, Barons Oil Limited. The new company will continue to be called Conwest Exploration Company Limited. Conwest shareholders will exchange their shares for shares in the new company on a one for one basis; Mineral Resources shareholders will receive one share in the new company for every 2.35 shares of Mineral Resources; shareholders of Barons will receive one share in the new company for every four shares of Barons.

The merger, which is subject to the approval of shareholders of the three companies, has a number of advantages which include the following:

- The merger will increase significantly Conwest's stock market capitalization and float which will result in improved liquidity for its securities and should improve its investor base.
- The merger will give Conwest a stronger capacity to undertake and compete for new investments and projects. The new company will be capable of undertaking projects and investments that would be beyond the scope of any of the three companies on their own.
- The structural simplification resulting from the merger will help to promote a better understanding on the part of the investment and financial community of the size, scope and nature of Conwest's business activities. This, we believe, should enhance the stature of Conwest's securities.
- The new company will have a well balanced and diversified mix of assets and operating income between oil and gas, mining and portfolio investment and finance.

For these reasons, your management thinks the merger will be good for Faraday. Subject to approval of the shareholders of each of the merging companies, the merger will be completed early in June. Faraday will have a 19.4% equity interest and a 48.8% voting interest in the new company.

Jascan Resources

In July, 1989, Faraday acquired a 40% interest in Jascan Resources Inc. for $3.8 million. Since then, the Company has increased its interest in Jascan to 49%. Jascan's principal assets are its $7.2 million in cash and short term investments and its royalty interest in the Montanore project.

The Montanore project, formerly known as the Noxon project, is a large copper-silver deposit in Montana, U.S.A. currently being developed by Noranda Minerals. Reserves are estimated at 142 million tons grading 2.1 ounces of silver per ton and 0.78% copper. The property could come into production in 1992. Jascan is entitled to a production royalty of U.S.$0.20 per ton of ore.

Financial

Although Faraday's financial results for the year were satisfactory, they represent a decline from the strong performance of the past two years. Net income for the year was $2.2 million or $0.26 per share, down from $4.0 million or $0.55 per share the previous year. Much of this was attributable to the reduced contribution from the earnings of Conwest. In addition, the acquisition of Loon River resulted in higher charges for depletion and depreciation. As a result of the acquisition of the Jascan holding and Loon River Oils, bank debt rose to $4.7 million. Since year end, this has been reduced to $2.3 million through sales of portfolio investments. The Company is currently negotiating to increase its line of credit to $15 million.

Acknowledgements

During the year, Howard A. Masson retired as a director and Jules Loeb and William M. O'Shaughnessy have decided not to stand for re-election to the Board. We wish to acknowledge their valuable contributions during many years of service to Faraday. Donald J. Hains and Earl B. Connell, both of whom have had a long association with Conwest, have kindly allowed their names to stand for election to the Board. We are also honoured that Mr. Edward Waitzer has agreed to let his name stand for election to the Board.

On behalf of the Board

Martin P. Connell
Chairman

John C. Lamacraft
President and
Chief Executive Officer

Toronto, Ontario
April 9, 1990

Faraday's cash flow from oil and gas operations increased from $1.17 million in 1988 to $1.24 million in 1989. Faraday produced 55 barrels per day of oil and natural gas liquids and 1.8 million cubic feet per day of gas in 1989. During the year, the Company purchased a private oil and gas company, owning royalty interests on shallow gas production in S.E. Alberta, for $950,000. Faraday also participated in drilling one dual zone gas well at Leo, and an oil well and abandonment at Manyberries with working interests ranging from 4.75% to 25.0%.

MANYBERRIES

Faraday owns working interests ranging from 4.3% to 25.0% in 15 wells in the Manyberries area. As the result of a recent disposition within the proposed unit boundaries, finalization of the Manyberries Sunburst Q Pool Unit and commencement of waterflooding have been delayed. The unit is operated by Shell Canada Resources Limited who now have amended the unit boundaries and waterflood configuration to exclude the dissenting owner. It is now expected that unitization will be completed by the second quarter of 1990 with water injection to commence by year end. Faraday's amended unit interest in this property is expected to be 2.7%.

FIGURE LAKE

Faraday's working interests are 10% and 20%, respectively, in three producing and three shut in gas wells in the Figure Lake areas with a corresponding plant interest of 8.4% in the Mannville-Figure Lake gas plant. Faraday has deferred development drilling and recompletions until Pan-Alberta netbacks improve. Faraday's working interest production from Figure Lake in 1989 was 143 thousand cubic feet per day.

LEO-MAPLE GLEN

Faraday owns extensive interests in the Leo-Maple Glen area. The Company's working interest production for the area in 1989 averaged 1.6 million cubic feet of gas per day, identical to 1988 production. The Company participated in the drilling of one dual zone gas well during 1989.

RESERVES AND DISCOUNTED PRESENT VALUE

Faraday has adopted the policy of retaining an independent consulting engineering firm to update its reserves every second year. The reserves and present values referred to in this report are based on detailed engineering evaluations prepared by Coles Gilbert Associates Ltd. as at December 31, 1989.

Proven and probable oil and natural gas liquids increased by 3% to 219,300 barrels and proven and probable natural gas increased 4% to 8.6 billion cubic feet. These increases were primarily due to the acquisition made in the first quarter of the year.

SUMMARY OF PROVEN AND PROBABLE RESERVES WORKING INTEREST RESERVES

	1989	1988	1987
Natural Gas Reserves (mmcf)			
Proven	**6,790**	7,660	9,590
Probable	**1,830**	660	1,320
Proven and Probable	**8,620**	8,320	10,910
Oil and Natural Gas Liquids (bbls)			
Proven	**156,600**	164,400	300,500
Probable	**62,700**	48,300	92,900
Proven and Probable	**219,300**	212,700	393,400

FORECAST NET CASH FLOW AFTER OPERATING AND CAPITAL EXPENDITURES AND ROYALTIES AT YEAR END

(000's)

	Undiscounted			Discounted at 15%		
	1989	1988	1987	**1989**	1988	1987
Proven Reserves	**$24,490**	$29,460	$41,560	**$ 7,790**	$ 8,680	$13,150
Probable Reserves	**8,150**	3,440	9,120	**2,050**	910	2,070
	$32,640	$32,900	$50,680	**$ 9,840**	$ 9,590	$15,220

Management's discussion relates to the results of operations, financial condition and changes in financial condition for the two years ended December 31, 1989. These comments should be read in conjunction with the financial statements of the Corporation included with this Annual Report.

1989 COMPARED TO 1988

(a) Results of operations

Net income for 1989 decreased to $2,230,000 ($0.26 per share) from $4,034,000 ($0.55 per share) in 1988. The principal reason for this was the decrease in the Corporation's equity in the earnings in Conwest. The Corporation's earnings were also affected by a $215,000 provision for accrued but unrealized losses on portfolio investments and higher depletion charges.

Conwest's net income declined in 1989, adversely affecting equity earnings recorded by the Corporation. In 1989, Conwest's increased oil and gas production volumes and higher average oil prices were offset by the effects of reduced zinc concentrate production in the mining division. Conwest, Mineral Resources and Barons have agreed to merge their businesses by way of an exchange of Conwest shares for minority shares of the other companies. While the Corporation's equity in Conwest will be reduced, the re-organization will, if completed, result in the elimination of minority charges to Conwest earnings, thereby offsetting the dilution impact.

Revenue from oil and gas production was $1,531,000 compared to $1,485,000 in 1988. Royalty income included in oil and gas production revenue increased from $25,000 to $243,000 as a result of the April 1989 acquisition of the Loon River royalty interests.

Revenue from the sale of natural gas, which constitutes approximately 60% of oil and gas production revenue, declined somewhat from 1988. Production volumes, after royalties, for 1989 declined by 19% when compared to 1988 and average natural gas sales prices declined by 2%.

Revenue from the sale of crude oil and natural gas liquids also declined from 1988 levels as a result of lower production volumes offset by higher average prices.

Increased depletion and depreciation expense is attributable to the purchase of the Loon River interests. Increased interest expense arises from the higher average term bank borrowings during the year principally as a result of the purchase of the interest in Jascan.

(b) Liquidity and capital resources

At December 31, 1989 the Corporation had working capital of $541,000 compared to $1,021,000 at December 31, 1988.

During 1989, the Corporation increased its investment in Conwest and acquired Loon River and an interest in Jascan, all at an aggregate cost of $6,262,000. These investments were funded by way of bank borrowings, utilizing existing credit facilities, and proceeds from the sale of certain portfolio investments.

Subsequent to December 31, 1989, the Corporation has realized $1,930,000 on the sale of additional portfolio investments and applied the proceeds, together with operating cash flow, to reduce long term bank debt to $2,300,000 at March 23, 1990.

The Corporation is presently negotiating an increase in its revolving credit facilities to $15,000,000. The Corporation's current cash flow and existing resources are considered adequate to continue to service its remaining debt and fund its existing dividends. The Corporation has no significant capital commitments.

1988 COMPARED TO 1987

(a) Results of operations

Net income for the year decreased to $4,034,000 ($0.55 per share) from $10,888,000 ($1.68 per share) in 1987. The decline in 1988 earnings when compared to 1987 relates principally to non-recurring gains of $4,602,000 in 1987 and reduced equity in the 1988 earnings of Conwest. These items were partially offset by increased oil and gas income in 1988, principally arising from the December 31, 1987 acquisition of oil and gas interests.

The Corporation's equity in the earnings of Conwest declined as expected in 1988. In 1987 Conwest realized an after-tax gain of $28,200,000 on the sale of its interest in Hemlo Gold Mines Inc. Conwest's 1988 earnings from the mining division improved significantly over those of 1987 as a result of the substantially higher zinc prices prevailing during 1988.

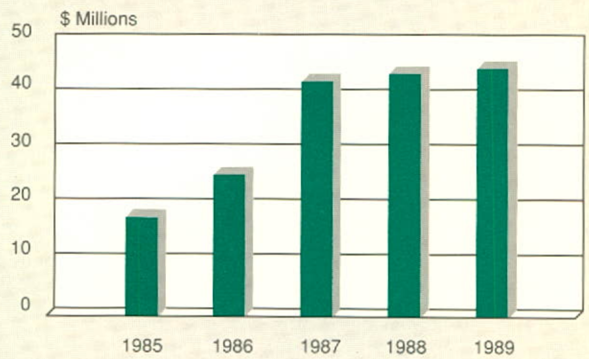
Revenue from oil and gas production was $1,485,000 compared to $994,000 in 1987, reflecting the 1987 acquisition and improved natural gas prices offset by lower crude oil prices. Natural gas and crude oil sales revenue increased by 33% and 118%, respectively, when compared to 1987. Oil and gas production revenue, less related direct production costs, represented 58% of operating cash flow as compared to 42% in 1987.

(b) Liquidity and capital resources

Cash, including short-term deposits, decreased to $815,000 at December 31, 1988 from $2,139,000 at December 31, 1987. Working capital of $1,021,000 at December 31, 1988 compared to a working capital deficiency of $1,674,000 at December 31, 1987.

During 1988 the Corporation sold, for $2,400,000, a 60% interest in the oil and gas interests it had purchased effective December 31, 1987.

SHAREHOLDERS' EQUITY



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Corporation were prepared by management in accordance with accounting principles generally accepted in Canada. Financial information presented throughout the Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Financial statements generally include estimates which are necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Based on careful judgements by management, such estimates have been properly reflected in the accompanying financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

The external auditors conduct an independent examination of corporate and accounting records in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Board of Directors is responsible for ensuring that management fulfills 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.

J. C. Lamacraft
President and
Chief Executive Officer

J. A. Patterson
Vice-President
and Secretary

AUDITORS' REPORT

To the Shareholders of
Faraday Resources Inc.

We have examined the consolidated balance sheets of Faraday Resources Inc. as at December 31, 1989 and 1988 and the consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1989. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1989 and 1988 and the results of its operations and cash flows for each of the three years in the period ended December 31, 1989 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
March 23, 1990

Peat Marwick Thorne
Chartered Accountants

As at December 31, 1989 and 1988

ASSETS

	1989	1988
CURRENT ASSETS		
Cash and short-term deposits	$ 532,000	$ 815,000
Accounts receivable and prepaid expenses	1,161,000	1,004,000
	1,693,000	1,819,000
INVESTMENTS (note 3)		
Companies subject to significant influence	41,563,000	34,824,000
Other	2,651,000	4,512,000
	44,214,000	39,336,000
OIL AND GAS INTERESTS (note 4)	4,860,000	4,294,000
	$50,767,000	$45,449,000

LIABILITIES

	1989	1988
CURRENT LIABILITIES		
Preference share dividends payable	$ 167,000	$ 167,000
Accounts payable and accrued liabilities	985,000	631,000
	1,152,000	798,000
LONG TERM BANK DEBT (note 5)	4,700,000	—
DEFERRED REVENUE	163,000	207,000

SHAREHOLDERS' EQUITY

	1989	1988
SHARE CAPITAL (note 6)		
Redeemable convertible preference shares	9,182,000	9,182,000
Common shares	14,465,000	14,465,000
	23,647,000	23,647,000
CONTRIBUTED SURPLUS	1,506,000	1,506,000
RETAINED EARNINGS	22,808,000	22,559,000
	47,961,000	47,712,000
Corporation's pro rata interest in the cost of its own shares held by Conwest Exploration Company Limited	(3,209,000)	(3,268,000)
	44,752,000	44,444,000
	$50,767,000	$45,449,000

Approved by the Board:

M. P. Connell, Director

J. C. Lamacraft, Director

The accompanying notes form an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1989, 1988 and 1987

	1989	1988	1987
Resource and other income			
Equity in earnings of Conwest Exploration Company Limited	**$ 2,799,000**	$ 3,842,000	$ 6,510,000
Oil and gas production	**1,531,000**	1,485,000	994,000
Gain on sale of oil and gas interests	**—**	—	3,564,000
Gain (loss) on other investments	**(244,000)**	98,000	753,000
Interest and other income	**295,000**	395,000	641,000
	4,381,000	5,820,000	12,462,000
Expenses			
Oil and gas production	**289,000**	318,000	184,000
General and administrative	**720,000**	685,000	855,000
Depletion and depreciation	**700,000**	481,000	347,000
Interest expense	**356,000**	239,000	—
Other	**86,000**	63,000	188,000
	2,151,000	1,786,000	1,574,000
Income before income taxes and extraordinary item	**2,230,000**	4,034,000	10,888,000
Income taxes (note 7)	**—**	—	2,174,000
Income before extraordinary item	**2,230,000**	4,034,000	8,714,000
Income tax reduction realized on application of resource expenditures of prior years (note 7)	**—**	—	2,174,000
NET INCOME	**$ 2,230,000**	$ 4,034,000	$10,888,000
Income applicable to common shares	**$ 1,617,000**	$ 3,420,000	$10,754,000
EARNINGS PER SHARE (note 6)			
Basic			
Before extraordinary item	**$0.26**	$0.55	$1.34
Extraordinary item	**—**	—	0.34
Net income	**$0.26**	$0.55	$1.68

The accompanying notes form an integral part of these statements.

Years ended December 31, 1989, 1988 and 1987

	1989	1988	1987
BALANCE AT BEGINNING OF YEAR	**$22,559,000**	$20,507,000	$11,158,000
Net income	**2,230,000**	4,034,000	10,888,000
	24,789,000	24,541,000	22,046,000
Dividends			
Preference shares	**668,000**	668,000	141,000
Common shares	**1,469,000**	1,469,000	1,469,000
	2,137,000	2,137,000	1,610,000
Less portion applicable to the Corporation's pro rata interest in its own shares held by Conwest Exploration Company Limited	**(156,000)**	(155,000)	(71,000)
	1,981,000	1,982,000	1,539,000
BALANCE AT END OF YEAR	**$22,808,000**	$22,559,000	$20,507,000

The accompanying notes form an integral part of these statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1989, 1988 and 1987

	1989	1988	1987
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net income	**$ 2,230,000**	$ 4,034,000	$ 10,888,000
Operating items not requiring a current cash payment			
Equity in earnings of Conwest Exploration Company Limited, net of dividends received	**(1,236,000)**	(2,295,000)	(5,088,000)
Gain on sale of oil and gas interests	—	—	(3,564,000)
Loss (gain) on other investments	**244,000**	(98,000)	(753,000)
Depletion and depreciation	**700,000**	481,000	347,000
Other	**(121,000)**	—	—
	1,817,000	2,122,000	1,830,000
Net change in non-cash working capital balances related to operations	**197,000**	(65,000)	182,000
Deferred revenue	**(44,000)**	(34,000)	5,000
	1,970,000	2,023,000	2,017,000
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES			
Investment in:			
Conwest Exploration Company Limited	**(720,000)**	—	(10,072,000)
Jascan Resources Inc.	**(4,545,000)**	—	—
Loon River Oils Limited	**(997,000)**	—	—
Other	—	(1,710,000)	(5,662,000)
Proceeds on disposal of fixed assets and oil and gas interests	—	2,400,000	5,411,000
Oil and gas interests	**(171,000)**	(234,000)	(4,105,000)
Proceeds on disposal of investments	**1,617,000**	2,288,000	2,351,000
Net change in non-cash working capital balances related to investment activities	—	(3,954,000)	2,004,000
	(4,816,000)	(1,210,000)	(10,073,000)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Dividends	**(2,137,000)**	(2,137,000)	(1,610,000)
Issue of share capital	—	—	9,182,000
Long term borrowings	**4,700,000**	—	—
	2,563,000	(2,137,000)	7,572,000
Decrease in cash and short-term deposits	**(283,000)**	(1,324,000)	(484,000)
Cash and short-term deposits at beginning of year	**815,000**	2,139,000	2,623,000
Cash and short-term deposits at end of year	**$ 532,000**	$ 815,000	$ 2,139,000

The accompanying notes form an integral part of these statements.

December 31, 1989, 1988 and 1987

1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada and, except as disclosed in note 8, 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 consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Loon River Oils Limited.

(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.

Conwest Exploration Company Limited ("Conwest") owns a 26.9% equity interest in the Corporation and accounts for its investment in the Corporation on the equity method. In addition, Conwest owns 175,126 first preference shares, series A of the Corporation. Since the Corporation owns shares of Conwest and Conwest owns shares of the Corporation, the Corporation has a pro rata interest in its own shares which has been applied to reduce the carrying value of the Corporation's investment in Conwest and shareholders' equity. The Corporation's share of earnings of Conwest reflected in the consolidated statements of income is based on earnings of Conwest excluding its share of earnings of the Corporation. The portion of the Corporation'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.

(c) Oil and gas interests
The Corporation follows the full cost method of accounting for oil and gas interests as prescribed in the Guideline on Full Cost Accounting In The Oil and Gas Industry issued by the Canadian Institute of Chartered Accountants. The Corporation's oil and gas interests are all located in Canada. All costs of exploring for and developing oil and gas reserves are capitalized and accumulated in a single cost centre. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of both productive and unproductive drilling.

Costs, including the costs of production equipment, are depleted and depreciated on the unit of production method based on the 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 in the Corporation's cost centre 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). Capitalized costs, less accumulated depletion and depreciation are further limited to an amount equal to the estimated future net revenue from proved reserves less estimated future general and administrative expenses, financing costs and income taxes.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

(d) 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.

(e) Segmented information
The Corporation considers its oil and gas activities to be its dominant operating activity.

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

2. ACQUISITIONS

(a) Loon River Oils Limited
Effective January 1, 1989, the Corporation purchased all of the outstanding shares of Loon River Oils Limited ("Loon") for a cash purchase price of $997,000. The Corporation has accounted for this acquisition on the purchase method of accounting and has consolidated Loon's results of operations from the date of acquisition.

Details of this acquisition at assigned values are as follows:

Net assets acquired:

Oil and gas interests	$1,095,000
Deferred income taxes	(98,000)
	$ 997,000

(b) Jascan Resources Inc.
Effective July 26, 1989, the Corporation acquired a 39.6% interest in Jascan Resources Inc. ("Jascan") for a purchase price of $3,841,000. An additional 9.2% interest in Jascan was acquired during the year for cash of $704,000.

The Corporation's equity in the net book value of the underlying assets of Jascan exceeded the aggregate cost of the Corporation's investment in Jascan by $3,563,000. The fair value adjustments have been allocated as follows:

Investments	$ 366,000
Mineral exploration interests	3,197,000
	$3,563,000

These amounts will be amortized as the underlying assets are disposed of, written off or otherwise charged to income. At December 31, 1989, the unamortized balance of the fair value adjustments was $3,263,000.

3. INVESTMENTS

	1989	1988
(a)		
Companies subject to significant influence		
With quoted market value		
Conwest Exploration Company Limited (quoted market value $49,580,000; 1988 — $35,545,000)	**$36,995,000**	$34,824,000
Jascan Resources Inc. (quoted market value $5,562,000)	**4,568,000**	—
	41,563,000	34,824,000
Without quoted market value	**195,000**	195,000
Other shares with quoted market value (quoted market value $2,984,000; 1988 — $4,332,000)	**2,283,000**	4,134,000
Mortgages and other unquoted investments	**173,000**	183,000
	2,651,000	4,512,000
	$44,214,000	$39,336,000

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) The investment in Conwest is comprised as follows:

	1989	1988
Class A shares	**$ 5,991,000**	$ 5,991,000
Class B shares	**24,850,000**	24,130,000
	30,841,000	30,121,000
Net equity in undistributed earnings of Conwest since the date significant influence was acquired	**9,363,000**	7,971,000
Corporation's pro rata interest in the cost of its own shares held by Conwest	**(3,209,000)**	(3,268,000)
	$36,995,000	$34,824,000

At December 31, 1989, the Corporation's investment in Conwest represents, on an undiluted basis, a 49.8% (1988 — 49.9%) voting interest and a 25.8% (1988 — 25.8%) equity interest.

During 1989 the Corporation purchased 71,600 Class B shares of Conwest for $720,000 cash. The Corporation's equity in the net book value of the underlying assets of Conwest exceeded the aggregate cost of the Corporation's investment in Conwest by $187,000. The fair value adjustments have been allocated to oil and gas interests.

The amounts allocated to oil and gas interests are being amortized over the remaining production life of these assets. At December 31, 1989, the unamortized balance of the fair value adjustments was $5,502,000 (1988 — $6,013,000).

(c) Canadian oil and gas production and mining are Conwest's principal operating segments.

Summarized financial information for Conwest is as follows:

Summarized Consolidated Balance Sheets	December 31, 1989	December 31, 1988
Assets:		
Cash and commercial paper	**$ 57,358,000**	$ 56,142,000
Other current	**41,616,000**	51,147,000
Current	**98,974,000**	107,289,000
Investments	**81,578,000**	71,525,000
Oil and gas interests	**180,475,000**	149,534,000
Fixed assets	**18,255,000**	18,531,000
Other	**1,980,000**	2,139,000
	$381,262,000	$349,018,000
Liabilities and shareholders' equity:		
Current liabilities	**$ 20,682,000**	$ 27,829,000
Long-term debt	**107,310,000**	84,900,000
Deferred revenue	**4,249,000**	3,944,000
Deferred income taxes	**29,334,000**	28,470,000
	161,575,000	145,143,000
Minority interest	**49,798,000**	40,850,000
Redeemable preference shares	**5,000,000**	5,000,000
Shareholders' equity attributable to common shares	**164,889,000**	158,025,000
	169,889,000	163,025,000
	$381,262,000	$349,018,000

Summarized Consolidated Statements of Income	Years ended December 31, 1989	1988	1987
Resource and other income	**$103,225,000**	$ 97,700,000	$105,660,000
Net income	**10,301,000**	12,713,000	33,713,000

(d) During 1987, the Corporation sold a part of its interest in Hydra Explorations Limited and ceased to account for this investment on the equity method. The Corporation realized a gain of $1,273,000 on the sale.

4. OIL AND GAS INTERESTS

	1989	1988
(a)		
Balance at beginning of year	**$4,294,000**	$6,941,000
Add:		
Acquisitions in year	**1,095,000**	—
Current year's expenditures	**171,000**	234,000
	5,560,000	7,175,000
Deduct:		
Dispositions in year	—	2,400,000
Depletion and depreciation	**700,000**	481,000
	700,000	2,881,000
Balance at end of year	**$4,860,000**	$4,294,000

(b) At December 31, 1989, accumulated depletion and depreciation of oil and gas interests amounts to $3,504,000 (1988 — $2,804,000).

Depletion and depreciation of oil and gas interests is provided on the unit-of-production method and the rate for 1989, 1988 and 1987 averaged $4.41, $3.15 and $3.20 per equivalent barrel of production, respectively.

(c) Oil and gas production equipment, having a carrying value of $1,675,000 (1988 — $1,901,000) is included in oil and gas interests at cost less accumulated depreciation.

(d) During 1988 the Corporation sold certain of its oil and gas interests at cost for $2,400,000.

5. LONG TERM BANK DEBT

The Corporation's term bank loan of $4,700,000 is part of a revolving credit facility of $6,000,000 with a Canadian chartered bank. This facility is secured by 825,000 Conwest Class B shares. Amounts drawn on this line bear interest at the bank's prime interest rate.

6. SHARE CAPITAL

(a) Authorized

The authorized capital of the Corporation consists of:

An unlimited number of first preference shares, issuable in series, of which 556,461 $1.20 series A cumulative redeemable retractable convertible first preference shares constitute the first series.

An unlimited number of common shares.

(b) Issued

	Preference shares		Common shares	
	Number	Amount	Number	Amount
Balance December 31, 1989 and 1988	556,461	$9,182,000	6,677,534	$14,465,000

(c) Other information
(i) Each of the series A preference shares is convertible into three common shares of the Corporation until October 31, 1992. These shares were not redeemable prior to October 31, 1989, are redeemable in certain circumstances during the period from October 31, 1989 to October 31, 1992 and thereafter are redeemable without restriction. On and after October 31, 1994 the holders of such shares may require they be redeemed by the Corporation. The redemption price is $16.50 per share.

(ii) At December 31, 1989 and 1988 there were outstanding options to purchase 650,000 common shares of the Corporation, at a price of $3.45 per share, exercisable prior to November 17, 1991.

(d) Fully diluted earnings per share
Fully diluted earnings per share calculated as though all outstanding first preference shares, series A and the employee stock options had been converted or exercised, would be:

	1988	1987
Before extraordinary item	$0.49	$1.23
Extraordinary item	—	0.30
Net income	$0.49	$1.53

Fully diluted earnings per share for 1989 are anti-dilutive.

7. INCOME TAXES

At December 31, 1989 oil and gas interests, which are carried at $4,860,000 (1988 — $4,294,000) in the accompanying consolidated balance sheets, are fully deductible for income tax purposes. In addition, the Corporation has other deductions available to reduce or eliminate income taxes that would otherwise be recorded as a charge against income of future years. Details of these deductions, the tax effect of which has not been reflected in the consolidated financial statements, are approximately as follows:

Non-capital losses which expire as follows:

1990	$1,200,000
1991	195,000
1992	905,000
1993	458,000
1994	130,000
1996	373,000
	$3,261,000

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:

	1989	1988	1987
Combined federal and provincial statutory income tax rates	**44.1%**	47.7%	51.4%
Non-deductible provincial and federal production royalties and taxes, net of rebates	**0.9**	0.9	0.1
Resource and depletion allowances	**(5.1)**	(2.8)	(0.6)
Non-taxable components of investment income	**(55.7)**	(45.9)	(31.1)
Deductible expenses not currently utilized for tax purposes	**16.4**	—	—
Other	**(0.6)**	0.1	0.1
Effective income tax rate	**Nil**	Nil	19.9%

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

(a) For each of the three years in the period ended December 31, 1989 there were no material differences in the computation of net income under generally accepted accounting principles in Canada and the United States. Primary earnings per share include the effect of common stock equivalents which consist of stock options granted during 1987. The convertible preference shares are not considered common stock equivalents. Earnings per share computed under United States' principles are as follows:

	1989	1988	1987
Primary — before extraordinary item	**$0.26**	$0.51	$1.26
— net income	**$0.26**	$0.51	$1.58
Fully diluted — before extraordinary item		$0.49	$1.22
— net income		$0.49	$1.52

Fully diluted earnings per share for 1989 are anti-dilutive.

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

	1989	1988	1987
Accounts receivable	**$(157,000)**	$(293,000)	$108,000
Preference share dividends payable	**—**	26,000	141,000
Accounts payable and accrued liabilities	**354,000**	202,000	(67,000)
	$ 197,000	$ (65,000)	$182,000

9. OTHER INFORMATION

Conwest Exploration Company Limited owns 26.9% of the Corporation. As part of normal business operations, extensive use is made of Conwest's management and technical services. During 1989 Conwest's charge to the Corporation for such services was $300,000 (1988 — $300,000; 1987 — 592,000).

(a) Selected Quarterly Financial Data

	Quarter Ended Mar. 31	June 30	Sept. 30	Dec. 31
	(Thousands of dollars, except per share amounts)			
1989				
Oil and gas production				
Net sales revenue	$ 362	$ 452	$ 361	$ 356
Net production income[1]	197	261	125	(41)
Income before extraordinary item	1,671	811	608	(860)
Per share	0.25	0.10	0.07	(0.16)
Net income	1,678	804	608	(860)
Per share	0.25	0.10	0.07	(0.16)
1988				
Oil and gas production				
Net sales revenue	$ 594	$ 349	$ 349	$ 193
Net production income[1]	365	119	143	59
Income before extraordinary item	1,555	1,200	1,173	106
Per share	0.23	0.17	0.16	(0.01)
Net income	1,625	1,152	1,151	106
Per share	0.24	0.16	0.16	(0.01)

(1) Net sales revenue less direct productions costs, depletion and depreciation.

(b) Oil and Gas Exploration and Production Activities

The Corporation's oil and gas exploration activities are carried out in Canada. The following unaudited supplementary oil and gas information for the Corporation, and its equity accounted investee, Conwest Exploration Company Limited ("Conwest"), is provided in accordance with the United States' Financial Accounting Standards Board Statement No. 69, "Disclosures about Oil and Gas Producing Activities".

(i) Capitalized Costs Relating to Oil and Gas Producing Activities

The Corporation's capitalized costs, all of which relate to proved properties, amount to:

	December 31, 1989	1988
	(Thousands of dollars)	
Petroleum and natural gas properties	$ 8,363	$ 7,097
Accumulated depletion and depreciation	(3,503)	(2,803)
Net capitalized costs	$ 4,860	$ 4,294
The Corporation's proportionate share of capitalized costs of Conwest	$40,869	$32,162

(ii) Costs Incurred

The following development costs were incurred by the Corporation in the past three years:

1989	$171,000
1988	234,000
1987	105,000

During this three year period there was one acquisition of proved properties for $4,000,000, which was effective December 31, 1987, and no exploration costs were incurred.

The Corporation's proportionate share of costs incurred by Conwest amounts to:

	Canada	United States	Total
	(Thousands of dollars)		
1989			
Acquisition of properties (proved)	$ 6,780	$ —	$ 6,780
Acquisition of properties (unproved)	637	—	637
Exploration	2,018	251	2,269
Development	1,219	—	1,219
	$10,654	$ 251	$10,905
1988			
Acquisition of properties (proved)	$16,476	$ 249	$16,725
Acquisition of properties (unproved)	536	—	536
Exploration	1,364	92	1,456
Development	783	—	783
	$19,159	$ 341	$19,500

(iii) Results of Operations for Oil and Gas Producing Activities

	Year ended December 31, 1989	1988	1987
	(Thousands of dollars)		
Revenue, net of royalties	$ 1,531	$ 1,485	$ 994
Production costs	289	318	184
Depletion and depreciation	700	481	347
	989	799	531
Results of operations for oil and gas producing activities (excluding general and administrative overhead and interest costs)	$ 542	$ 686	$ 463

The Corporation's proportionate share of results of operations of oil and gas producing activities of Conwest was $1,596,000 for 1989, $1,105,000 for 1988 and $1,323,000 for 1987.

(iv) Proved Oil and Gas Reserve Quantities
The Corporation's proved reserves are based on estimates made by independent consultants. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are reserves that can be recovered through existing wells with existing equipment and operating methods. The Corporation has no significant proved undeveloped reserves. The process of estimating reserves is complex, requiring subjective judgments in the evaluation of available geological, engineering, economic and other data. All of the Corporation's proved reserves are located in Canada.

The calculation of reserves of crude oil, including condensate and natural gas liquids and natural gas is based on the Corporation's net share of proved reserves.

	Crude oil			Natural gas		
	Year ended December 31,			Year ended December 31,		
	1989	1988	1987	1989	1988	1987
	(Thousands of barrels)			(Millions of cubic feet)		
Proved reserves, beginning of year	125	244	373	5,763	7,503	5,545
Sale of reserves	—	(122)	(337)	—	(1,295)	(66)
Acquisition of reserves	4	—	203	1,946	—	2,158
Revisions of previous estimates and improved recovery	10	32	16	(1,370)	220	418
Production	(16)	(29)	(11)	(538)	(665)	(552)
Proved reserves, end of year	123	125	244	5,801	5,763	7,503

At December 31, 1989, the Corporation's proportionate interest in the net proved reserves of Conwest, all of which are located in Canada, was as follows:

Crude oil, including condensates and natural gas liquids (thousands of barrels)	3,105
Natural gas (billions of cubic feet)	23

(v) Standardized Measure of Discounted Future Net Cash Flows and Changes Therein

Estimated future cash inflows are computed by applying year-end prices, except for fixed and determinable escalation provisions in contracts, to year-end quantities of proved oil and gas reserves. Estimated future development costs, production costs, and income taxes are deducted from estimated future cash inflows to arrive at estimated future net cash flows. Future development and production costs are based on year-end costs and assume the continuation of existing economic and operating conditions. Future income taxes are computed by applying the year-end statutory rates to the future pretax net cash flows, after making provision for the tax basis of the oil and gas properties. Future net cash flows are discounted at a rate of 10% per annum to arrive at discounted future net cash flows.

The Corporation cautions that the discounted future net cash flows from proved oil and gas reserves are neither an indication of fair market value of its oil and gas properties, nor of the future net cash flows expected to be generated from such properties. The discounted future net cash flows do not include the fair market value of undeveloped properties and probable or possible oil and gas reserves, nor is consideration given to the effect of anticipated future changes in crude oil and natural gas prices, development and production costs and possible changes to tax and royalty regulations. The prescribed discount rate of 10% may not appropriately reflect future interest rates.

Standardized Measure of Discounted Future Net Cash Flows	Year ended December 31,		
	1989	1988	1987
	(Thousands of dollars)		
Future cash inflows	$12,846	$12,737	$20,420
Future costs			
Production	(2,432)	(2,456)	(3,826)
Development	(221)	(174)	(382)
Future pretax cash flows	10,193	10,107	16,212
Future income taxes	(29)	(604)	(2,354)
Future net cash flows	10,164	9,503	13,858
10% annual discount for estimated timing of cash flows	(4,237)	(3,785)	(5,237)
Discounted future net cash flows	$ 5,927	$ 5,718	$ 8,621

At December 31, 1989 the Corporation's proportionate interest in the standardized measure of discounted future net cash flows of Conwest was $31,127,000.

Changes in Standardized Measures of Discounted Future Net Cash Flows	Year ended December 31,		
	1989	1988	1987
	(Thousands of dollars)		
Revisions to reserves proved in prior years			
Revisions of previous quantity estimates	$ (449)	$ 563	$ 332
Net changes in prices and production costs	294	(1,580)	1,659
Net changes in estimated future development cost	(27)	218	(305)
Accretion of discount	572	862	722
	390	63	2,408
Changes during the year			
Acquisition of reserves	703	—	2,393
Sales of oil and gas production, net of related costs	(1,015)	(1,174)	(850)
Sale of reserves	—	(2,631)	(1,965)
	(312)	(3,805)	(422)
Total revisions and changes before income taxes	78	(3,742)	1,986
Net changes in income taxes	131	839	(598)
Total revisions and changes	209	(2,903)	1,388
Discounted future net cash flows at beginning of year	5,718	8,621	7,233
Discounted future net cash flows at end of year	$ 5,927	$ 5,718	$ 8,621

DIRECTORS

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

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

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

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

Jules Loeb,
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Falcon Investments Limited

Robert J. Metcalfe,
President,
Armadale Properties Limited

William M. O'Shaughnessy,
Retired Executive

OFFICERS

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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

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