FARADAY RESOURCES INC. ANNUAL REPORT 1990

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 a 49% interest in Jascan Resources Inc. and direct interests in producing oil and gas properties in western Canada.

Faraday has more than 4,200 shareholders. Its shares are listed on The Toronto Stock Exchange.

CORPORATE HIGHLIGHTS

	1990	1989	1988
Resource and other income	**$4,859,000**	$4,381,000	$5,820,000
Net income	**$2,827,000**	$2,230,000	$4,034,000
Net income per share	**$0.35**	$0.26	$0.55
Equity per common share	**$5.95**	$5.85	$5.79
Dividends per common share	**$0.23**	$0.22	$0.22
Conwest shares owned by Faraday per Faraday common share	**0.57**	0.58	0.56

ANNUAL MEETING

The annual meeting of shareholders of Faraday will be held in Room 202AB, The Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario at 2:00 p.m. on May 16, 1991.

FORM 10-K ANNUAL REPORT

Copies of Faraday's Form 10-K for 1990 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.

Directors' Report

The past year has been a good year for your Company. During a period when the economy generally has been weak, income increased by 11% to $4.86 million and expenses declined slightly to $2.0 million. The result was a 27% increase in earnings to $2.8 million or $0.35 per share for the year ended December 31, 1990 from $2.2 million or $0.26 per share for the prior year. Although the contribution to income from Faraday's interest in Conwest Exploration declined from $2.8 million in 1989 to $2.1 million in 1990, Conwest's operating performance was good.

CONWEST EXPLORATION

Faraday's 18% equity and 49% voting interest in Conwest represents the Company's major asset. Through this holding, which has a quoted market value of about $48 million, Faraday has effective control of a natural resource company with assets of more than $400 million and revenues of over $100 million per year. Because of the significance of Conwest to Faraday, a copy of Conwest's Annual Report for 1990 is enclosed with this Annual Report.

Conwest's net income for 1990 was $7.8 million or $0.47 per share compared to $10.3 million or $0.78 per share for 1989. The major adverse factors contributing to the decline were reduced investment income, including a $7.5 million provision writing down the carrying value of portfolio investments, and lower zinc prices reducing concentrate revenue by $9.7 million. These reductions are reflected in Faraday's equity in Conwest's earnings.

The operating results of Conwest's two principal divisions, oil and gas and mining, were quite satisfactory. As a result of significant capital expenditures on oil and gas acquisitions, exploration and development, oil and gas reserves and production showed excellent growth at attractive acquisition and finding costs. Operations at the Nanisivik Mine were normal and as budgeted, although revenue and operating profit were affected by lower zinc prices. Conwest made an initial investment in a new sector of the resource business — non-regulated, hydro-electric generation.

During the year, Conwest completed the amalgamation of Conwest, MRI and Barons. Although this had little direct impact from the perspective of the Faraday shareholder, it had a number of strategic and operating advantages to Conwest in bringing under one roof all of Conwest's operating oil and gas and mining assets and further strengthening the Conwest balance sheet.

JASCAN RESOURCES

Faraday owns a 49% interest in Jascan Resources, a company with $8.2 million in cash, short term investments and marketable securities. Jascan holds a royalty interest in the Montanore project, a large copper-silver deposit in Montana, U.S.A. currently being developed by Noranda Minerals. It will be several years before proceeds from this interest will make a contribution to Jascan's income.

During 1990, returns from Jascan's current assets made a satisfactory contribution to Faraday's income. However, Jascan's objective is to invest its more liquid holdings in the resource sector to generate a more attractive rate of return. Jascan's current cash and short term investments, together with a reasonable level of borrowing, would allow it to make an investment in the $8 million to $9 million range. Although the opportunities will dictate the sector in which these funds are invested, the size of Jascan's treasury is probably best suited to an oil and gas investment generating current cash flow.

OIL AND GAS

Faraday's only direct operating assets are it's oil and gas property interests located in Alberta. These assets have provided Faraday with a good source of direct cash flow at relatively low operating costs. The assets and the results of their operation for the past year are described in greater detail later in this Report.

FARADAY SHARES — UNDERLYING VALUE

As a holding company, with relatively small direct operations, the largest part of Faraday's shareholder value is found in its principal security holdings. By far the largest is its stake in Conwest Exploration, which consists of 1 million Class A shares and 2.5 million Class B subordinate voting shares of Conwest. Faraday also owns 9.3 million shares of Jascan. In addition to these marketable securities, Faraday's direct interests consist of oil and gas properties with reserves of 7.7 bcf of natural gas and 321,000 barrels of oil and natural gas liquids.

In valuing Faraday's assets, a minimum yardstick is the stock market prices of its security holdings. At December 31, 1990, this was $52.3 million, and current market prices produce a comparable amount. After adjusting Faraday's outstanding shares to eliminate the reciprocal holding between Faraday and Conwest, the stock market prices of these holdings represent $8.25 per Faraday common share, undiluted, and $6.61 per Faraday common share after conversion of the convertible preference shares. The reason these amounts represent minimum or floor values is that stock markets generally discount the break-up value underlying marketable securities and give no value for the effective control which Faraday's holdings in Conwest and Jascan give your Company.

Although Faraday's oil and gas interests are relatively small, they have been an important source of cash flow. In addition, development activities associated with these interests have provided opportunities to create additional value. Unlike the Company's marketable securities, there is no quoted market for this type of asset. However, they remain an important part of the value underlying Faraday's shares.

THE FUTURE

Faraday's future, like Conwest's, is tied to the Canadian resource sector, principally oil and gas and mining. Although the value of Faraday's and Conwest's existing asset base will vary with fluctuations in commodity prices for oil, gas, zinc and the other commodities to which they are exposed, there are good opportunities to expand and grow as the asset base gets broader. Acquisitions, development of existing or new properties and exploration will all be pursued. Faraday's balance sheet, together with its $12.5 million in unused lines of credit, puts it in a good position to take advantage of these opportunities, either by expanding its position in its existing holdings or undertaking new, direct investments on its own.

On behalf of the Board

Martin P. Connell	John C. Lamacraft
Chairman of the Board	President and Chief Executive Officer

Toronto, Ontario
March 22, 1991

Oil And Gas Interests

Faraday's cash flow from oil and gas operations increased from $1.2 million in 1989 to $1.4 million in 1990. Corresponding production for the period was 84 barrels per day of oil and natural gas liquids and 1,330 thousand cubic feet per day of natural gas. Faraday participated in the drilling of six wells at working interests ranging from 12.5% to 25.0%, resulting in three oil wells, one dual zone gas well and two abandonments. The Company also increased its working interest to 80% in a suspended gas property in the Redwater area of Central Alberta. This property has been reactivated and is currently producing at the rate of 500 thousand cubic feet per day from one of the two acquired wells.

MANYBERRIES

Faraday participated in the drilling of three Sunburst oil wells in section 26-5-5 W4M offsetting the Sunburst Q Pool Unit in which it holds an interest. Faraday owns working interests of 12.5% to 25.0% in the north half of section 26. Unitization and enhanced recovery is expected for these properties as well as the off-setting Sunburst B pool currently under study by Faraday and its partners.

After many delays, Shell Canada Resources Limited has now finalized the Sunburst Q pool unitization and expects to commence water injection in the second quarter of 1991.

FIGURE LAKE

Faraday participated in one dry hole at Figure Lake and plans on drilling one or two wells in 1991 subject to surface access. Working interest production at Figure Lake was 178 thousand cubic feet per day.

LEO-MAPLE GLEN

During 1990, Faraday disposed of some of its interests in the Leo-Maple Glen area for $335,000. The Company's working interest production in 1990 averaged 580 thousand cubic feet per day. Faraday participated in the drilling of one dual zone gas well in 1990.

REDWATER

During 1990, the Company increased its working interest to 80% in wells located at 10-2 and 11-1-59-22 W4M and re-activated one of its previously shut-in wells. The 10-2 well currently produces 500 thousand cubic feet per day to a Western Gas Marketing Limited deliverability based gas contract. Further activity is planned in 1991 on this property subject to well performance.

RESERVES AND DISCOUNTED PRESENT VALUES

Faraday has a policy of having its reserves valued independently every second year by Coles Gilbert Associates. The evaluation of recent dispositions, exploration discoveries and project developments resulted in approximately half of Faraday's reserves being assessed by Coles Gilbert at year end 1990. The remaining reserves were taken from the 1989 detailed evaluation and adjusted for 1990 production and the current 1991 Coles Gilbert price forecast.

Proven and probable oil and natural gas liquids increased by 46% to 321,000 barrels largely due to Faraday's drilling success in the Manyberries area. Natural gas reserves decreased by 10% to 7,720 million cubic feet on a proven and probable basis as a result of 1990 production and the sale of an interest at Leo-Maple Glen.

SUMMARY OF WORKING INTEREST RESERVES

	1990	1989	1988
Natural gas (mmcf)			
Proven	5,730	6,790	7,660
Probable	1,990	1,830	660
Total	7,720	8,620	8,320
Oil and natural gas liquids (bbl)			
Proven	215,000	156,600	164,400
Probable	106,000	62,700	48,300
Total	321,000	219,300	212,700

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

($000)	1990	1989	1988
Undiscounted			
Proven	$18,430	$24,490	$29,460
Probable	7,300	8,150	3,440
	$25,730	$32,640	$32,900
Discounted at 15%			
Proven	$ 6,720	$ 7,790	$ 8,680
Probable	2,400	2,050	910
Total	$ 9,120	$ 9,840	$ 9,590

Management's Discussion And Analysis Of Operations

1990 COMPARED TO 1989

(a) Results of operations

Net income for 1990 increased to $2.8 million ($0.35 per share) from $2.2 million ($0.26 per share) in 1989. The principal reasons for the increase were the recognition of $486,000 in equity earnings in Jascan Resources Inc. and $451,000 in investment gains in 1990 compared to a $244,000 loss on investments in 1989. Faraday's principal asset is its investment in Conwest which, since 1986, has accounted for the largest part of Faraday's income. Conwest's net income declined to $7.8 million in 1990 from $10.3 million in 1989, adversely affecting equity earnings recorded by Faraday from the investment.

In 1990, Conwest's substantially increased oil and natural gas production volumes and higher average oil prices were offset by lower zinc prices and reduced investment income.

On June 1, 1990 Conwest completed a reorganization whereby it acquired the minority interest in two of its subsidiaries in exchange for the issue of Conwest Class B subordinate voting shares. In August, 1990, all of Conwest's 6.75% subordinated debentures were converted into Conwest Class B shares. These two transactions diluted Faraday's equity interest in Conwest to 18.2% from 25.8% at December 31, 1989. There is, however, an offsetting reduction in the minority interest and interest expense charged against Conwest's earnings, thereby offsetting to a large extent the dilution impact of the additional shares issued by Conwest.

Conwest's production volumes of oil and natural gas liquids and natural gas increased by 48% and 50%, respectively, principally as a result of the effect of production acquisitions made during 1990 and 1991. Conwest's average oil prices increased by 29% to $24.51 per barrel and natural gas prices at $1.59 per mcf., were approximately 5% higher than those for 1989.

The 1990 contribution from Conwest's mining division declined from 1989 levels principally as a result of a 13% decrease in the average zinc price applicable to Conwest's concentrate sales. Other factors were marginally lower concentrate production, the effects of a stronger Canadian dollar and increased mining costs.

Conwest's investment income declined by $11.2 million in 1990 reflecting reduced interest income resulting from redeployment of short term interest bearing investments into Conwest's capital program and a $4.8 million after tax provision to write down the carrying value of Conwest's portfolio investments to quoted market value at December 31, 1990. Conwest's investment performance has historically varied substantially from year to year.

Faraday's equity in the earnings of Jascan Resources is principally attributable to interest earned by Jascan on its short term interest bearing investments.

Faraday's revenue from oil and gas production was $1.6 million in 1990, including $247,000 of royalty income, compared to $1.5 million in 1989. Revenue from the sale of natural gas, which constituted approximately 50% (1989 — 73%) of gross oil and gas production revenue, declined approximately 33% from 1989 as a result of the sale of production interests at Leo Maple Glen. Production volumes, net of royalties, declined by 32% when compared to 1989, while average natural gas prices increased slightly.

Gross revenue from the sale of crude oil and natural gas liquids more than doubled over 1989 levels as production, net of royalties, increased by 48% and average oil prices increased by 35% to $24.09 per barrel.

Faraday's gain on investments was $451,000 in 1990, after deduction of a $216,000 provision for accrued but unrealized losses on portfolio investments, compared to a loss of $244,000 in 1989.

Overall, expenses were down somewhat from

1989 levels with lower depletion charges accounting for the largest part of the difference. Depletion, which is determined on a unit of production basis, was impacted by lower production volumes and slightly higher reserves at year end 1990.

(b) Liquidity and capital resources

At December 31, 1990 working capital was $615,000 compared to $541,000 at December 31, 1989.

During the year, Faraday realized $2.4 million on the sale of portfolio investments, most of which was applied to reduce long term bank debt.

In 1990, Faraday increased its revolving credit facilities to $15 million, of which $2.6 million was utilized at December 31, 1990. The facility is unsecured; however, Faraday has agreed it will not encumber its shares of Conwest without the lenders' consent. Subsequent to December 31, 1990, Faraday has further reduced its bank indebtedness to $2.2 million.

Faraday's current cash flow and existing resources are considered adequate to continue to service its remaining debt and fund its existing dividends. Faraday has no significant capital commitments.

1989 COMPARED TO 1988

(a) Results of operations

Net income for 1989 decreased to $2.2 million ($0.26 per share) from $4.0 million ($0.55 per share) in 1988. The principal reason for this was the decrease in Faraday's equity in the earnings in Conwest. Faraday's 1989 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 Faraday. 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.

Revenue from oil and gas production in 1989 was $1.5 million, approximately the same as 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 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 was attributable to the purchase of the Loon River interests in 1989. Increased interest expense was attributed to 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

December 31, 1989 Faraday had working capital of $541,000 compared to $1.0 million 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Faraday Resources Inc. 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 presentation and integrity of Faraday's 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 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, amounts and disclosures in the financial statements and evaluating Faraday's system of internal control. Their audit is carried out to provide reasonable assurance that the financial statements are, in all material respects, 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 audited the consolidated balance sheets of Faraday Resources Inc. as at December 31, 1990 and 1989 and the consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1990. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated 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 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 consolidated financial statements present fairly in all material respects the financial position of the Corporation as at December 31, 1990 and 1989 and the results of its operations and cash flows for each of the three years in the period ended December 31, 1990 in accordance with generally accepted accounting principles.

Toronto, Ontario
March 8, 1991

Peat Marwick Thorne
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31, 1990 and 1989

	1990	1989
ASSETS		
CURRENT ASSETS		
Cash and short-term deposits	$ 205,000	$ 532,000
Accounts receivable and prepaid expenses	915,000	1,161,000
	1,120,000	1,693,000
INVESTMENTS (note 3)		
Companies subject to significant influence	43,391,000	41,563,000
Other	742,000	2,651,000
	44,133,000	44,214,000
OIL AND GAS INTERESTS (note 4)	4,243,000	4,860,000
	$49,496,000	$50,767,000
LIABILITIES		
CURRENT LIABILITIES		
Preference share dividends payable	$ 167,000	$ 167,000
Accounts payable and accrued liabilities	338,000	985,000
	505,000	1,152,000
LONG TERM BANK DEBT (note 5)	2,570,000	4,700,000
DEFERRED REVENUE	131,000	163,000
SHAREHOLDERS' EQUITY		
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	23,386,000	22,808,000
	48,539,000	47,961,000
Corporation's pro rata interest in the cost of its own shares held by Conwest Exploration Company Limited	(2,249,000)	(3,209,000)
	46,290,000	44,752,000
	$49,496,000	$50,767,000

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, 1990, 1989 and 1988

	1990	1989	1988
Resource and other income			
Equity in earnings of:			
Conwest Exploration Company Limited	$2,113,000	$2,799,000	$3,842,000
Jascan Resources Inc.	486,000	23,000	—
Oil and gas production	1,617,000	1,531,000	1,485,000
Gain (loss) on other investments	451,000	(244,000)	98,000
Interest and other income	192,000	272,000	395,000
	4,859,000	4,381,000	5,820,000
Expenses			
Oil and gas production	237,000	289,000	318,000
General and administrative	797,000	720,000	685,000
Depletion and depreciation	573,000	700,000	481,000
Interest expense	349,000	356,000	239,000
Other	76,000	86,000	63,000
	2,032,000	2,151,000	1,786,000
NET INCOME	$2,827,000	$2,230,000	$4,034,000
Income applicable to common shares	$2,203,000	$1,617,000	$3,420,000
EARNINGS PER SHARE (note 6)			
Basic	$0.35	$0.26	$0.55

The accompanying notes form an integral part of these statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 1990, 1989 and 1988

	1990	1989	1988
BALANCE AT BEGINNING OF YEAR	$22,808,000	$22,559,000	$20,507,000
Net income	2,827,000	2,230,000	4,034,000
	25,635,000	24,789,000	24,541,000
Dividends			
Preference shares	668,000	668,000	668,000
Common shares	1,536,000	1,469,000	1,469,000
	2,204,000	2,137,000	2,137,000
Less portion applicable to the Corporation's pro rata interest in its own shares held by Conwest Exploration Company Limited	(137,000)	(156,000)	(155,000)
	2,067,000	1,981,000	1,982,000
Equity interest in amalgamation costs charged directly to retained earnings by Conwest Exploration Company Limited	182,000	—	—
	2,249,000	1,981,000	1,982,000
BALANCE AT END OF YEAR	$23,386,000	$22,808,000	$22,559,000

The accompanying notes form an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1990, 1989 and 1988

	1990	1989	1988
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net income	$ 2,827,000	$ 2,230,000	$ 4,034,000
Operating items not requiring a current cash payment			
Equity in earnings of:			
Conwest Exploration Company Limited, net of dividends received	(427,000)	(1,236,000)	(2,295,000)
Jascan Resources Inc.	(486,000)	(23,000)	—
Loss (gain) on other investments	(451,000)	244,000	(98,000)
Depletion and depreciation	573,000	700,000	481,000
Other	60,000	(98,000)	—
	2,096,000	1,817,000	2,122,000
Net change in non-cash working capital balances related to operations	(401,000)	197,000	(65,000)
Deferred revenue	(32,000)	(44,000)	(34,000)
	1,663,000	1,970,000	2,023,000
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES			
Investment in:			
Conwest Exploration Company Limited	—	(720,000)	—
Jascan Resources Inc.	—	(4,545,000)	—
Loon River Oils Limited	—	(997,000)	—
Other	(120,000)	—	(1,710,000)
Proceeds on disposal of fixed assets and oil and gas interests	335,000	—	2,400,000
Oil and gas interests	(291,000)	(171,000)	(234,000)
Proceeds on disposal of investments	2,420,000	1,617,000	2,288,000
Net change in non-cash working capital balances related to investment activities	—	—	(3,954,000)
	2,344,000	(4,816,000)	(1,210,000)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Dividends	(2,204,000)	(2,137,000)	(2,137,000)
Long term borrowings	(2,130,000)	4,700,000	—
	(4,334,000)	2,563,000	(2,137,000)
Decrease in cash and short-term deposits	(327,000)	(283,000)	(1,324,000)
Cash and short-term deposits at beginning of year	532,000	815,000	2,139,000
Cash and short-term deposits at end of year	$ 205,000	$ 532,000	$ 815,000

The accompanying notes form an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1990, 1989 and 1988

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. 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 proportionate interest in 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 1989 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, 1990, the unamortized balance of the fair value adjustments was $2,863,000 (1989 — $3,263,000).

3. INVESTMENTS

(a)

	1990	1989
Companies subject to significant influence		
With quoted market value		
Conwest Exploration Company Limited (quoted market value $48,795,000; 1989 — $49,580 000)	$38,337,000	$36,995,000
Jascan Resources Inc. (quoted market value $3,151,000; 1989 — $5,562,000)	5,054,000	4,568,000
	43,391,000	41,563,000
Other shares with quoted market value (quoted market value $362,000; 1989 — $2,984,000)	384,000	2,283,000
Mortgages and other unquoted investments	358,000	368,000
	742,000	2,651,000
	$44,133,000	$44,214,000

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:

	1990	1989
Class A shares	$ 5,991,000	$ 5,991,000
Class B shares	24,850,000	24,850,000
	30,841,000	30,841,000
Net equity in undistributed earnings of Conwest since the date significant influence was acquired	9,745,000	9,363,000
Corporation's pro rata interest in the cost of its own shares held by Conwest	(2,249,000)	(3,209,000)
	$38,337,000	$36,995,000

At December 31, 1990, the Corporation's investment in Conwest represents, on an undiluted basis, a 49.1% (1989 — 49.8%) voting interest and a 18.2% (1989 — 25.8%) equity interest.

On June 1, 1990 Conwest completed a reorganization whereby it acquired the minority interest in two of its subsidiaries in exchange for the issue of Conwest Class B shares. In August, 1990 all of Conwest's 6.75% subordinated debentures were converted into Conwest Class B shares. These two transactions by Conwest account for the reduction in the Corporation's equity interest in Conwest during 1990.

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, 1990, the unamortized balance of the fair value adjustments was $3,474,000 (1989 — $5,502,000).

(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, 1990	1989
Assets:		
Cash and commercial paper	$ 23,141,000	$ 57,358,000
Other current	41,552,000	41,616,000
Current	64,693,000	98,974,000
Investments	83,651,000	81,578,000
Oil and gas interests	237,225,000	180,475,000
Fixed assets	21,105,000	18,255,000
Other	1,821,000	1,980,000
	$408,495,000	$381,262,000
Liabilities and shareholders' equity:		
Current liabilities	$ 23,090,000	$ 20,682,000
Long-term debt	67,000,000	32,500,000
Convertible subordinated debentures	60,000,000	74,810,000
Deferred revenue	3,398,000	4,249,000
Deferred income taxes	24,687,000	29,334,000
	178,175,000	161,575,000
Minority interest	—	49,798,000
Redeemable preference shares	5,000,000	5,000,000
Shareholders' equity attributable to common shares	225,320,000	164,889,000
	230,320,000	169,889,000
	$408,495,000	$381,262,000

Summarized Consolidated Statements of Income	Years ended December 31, 1990	1989	1988
Resource and other income	$103,110,000	$103,082,000	$ 98,182,000
Net income	7,819,000	10,301,000	12,713,000

4. OIL AND GAS INTERESTS

(a)	1990	1989
Balance at beginning of year	$4,860,000	$4,294,000
Add:		
Acquisitions in year	—	1,095,000
Current year's expenditures	291,000	171,000
	5,151,000	5,560,000
Deduct:		
Proceeds on disposition	335,000	—
Depletion and depreciation	573,000	700,000
Balance at end of year	$4,243,000	$4,860,000

(b) At December 31, 1990, accumulated depletion and depreciation of oil and gas interests amounts to $4,077,000 (1989 — $3,504,000).

Depletion and depreciation of oil and gas interests is provided on the unit of production method and the rate for 1990, 1989 and 1988 averaged $5.14, $4.41 and $3.15 per equivalent barrel of production, respectively.

(c) Oil and gas production equipment, having a carrying value of $1,618,000 (1989 — $1,675,000) is included in oil and gas interests at cost less accumulated depreciation.

5. LONG TERM BANK DEBT

The Corporation's term bank loan of $2,570,000 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. The Corporation has agreed, that without the bank's consent, it will not encumber the shares of Conwest owned by the Corporation.

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 556,456 (1989 — 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

	1990		1989	
	Number	Amount	Number	Amount
Preference shares	556,456	$ 9,182,000	556,461	$ 9,182,000
Common shares	6,677,549	$14,465,000	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. During 1990, 5 series A preference shares were converted into 15 common shares.

(ii) At December 31, 1990 and 1989 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, would be:

	1990	1989	1988
Net income	$0.35	$ —	$0.49

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

7. INCOME TAXES

At December 31, 1990 oil and gas interests, which are carried at $4,243,000 (1989 — $4,860,000) in the accompanying consolidated balance sheets, are fully deductible for income tax purposes. In addition, the Corporation has approximately $1,100,000 in other deductions available to reduce or eliminate income taxes that would otherwise be recorded as a charge against income of future years.

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:

	1990	1989	1988
Combined federal and provincial statutory income tax rates	41.3%	44.1%	47.7%
Non-deductible provincial and federal production royalties and taxes, net of rebates	1.1	0.9	0.9
Resource and depletion allowances	(0.9)	(5.1)	(2.8)
Non-taxable components of investment income	(38.3)	(55.7)	(45.9)
Deductible expenses not currently utilized for tax purposes	—	16.4	—
Other	(3.2)	(0.6)	0.1
Effective income tax rate	Nil	Nil	Nil

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

(a) For each of the three years in the period ended December 31, 1990 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:

	1990	1989	1988
Primary — net income	$0.33	$0.26	$0.51
Fully diluted — net income			$0.49

Fully diluted earnings per share for 1990 and 1989 are anti-dilutive.

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

	1990	1989	1988
Accounts receivable	$ 246,000	$(157,000)	$(293,000)
Preference share dividends payable	—	—	26,000
Accounts payable and accrued liabilities	(647,000)	354,000	202,000
	$(401,000)	$ 197,000	$ (65,000)

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 1990 Conwest's charge to the Corporation for such services was $300,000 (1989 — $300,000; 1988 — $300,000).

UNAUDITED SUPPLEMENTARY INFORMATION

(a) Selected Quarterly Financial Data

	Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Thousands of dollars, except per share amounts)			
1990				
Equity in earnings (losses) of Conwest	$1,500	$ 619	$ 420	$ (426)
Oil and gas production				
Net sales revenue	360	378	388	491
Net production income(1)	127	308	228	144
Net income (loss)	2,033	757	529	(492)
Per share	0.30	0.10	0.05	(0.10)
1989				
Equity in earnings (losses) of Conwest	$1,947	$ 763	$ 820	$ (731)
Oil and gas production				
Net sales revenue	362	452	361	356
Net production income(1)	197	261	125	(41)
Income (loss) before extraordinary item	1,671	811	608	(860)
Per share	0.25	0.10	0.07	(0.16)
Net income (loss)	1,678	804	608	(860)
Per share	0.25	0.10	0.07	(0.16)

(1)Net sales revenue less direct production 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,	
	1990	1989
	(Thousands of dollars)	
Petroleum and natural gas properties	$ 8,320	$ 8,363
Accumulated depletion and depreciation	(4,077)	(3,503)
Net capitalized costs	$ 4,243	$ 4,860
The Corporation's proportionate share of capitalized costs of Conwest	$39,561	$40,869

(ii) Costs Incurred

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

1990 — $291,000
1989 — 171,000
1988 — 234,000

During this three year period no acquisition or exploration costs were incurred.

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

	Canada	United States	Total
	(Thousands of dollars)		
1990			
Acquisition of properties (proved)	$ 5,213	$ 543	$ 5,756
Acquisition of properties (unproved)	2,486	94	2,580
Exploration	4,374	291	4,665
Development	522	—	522
	$12,595	$ 928	$13,523
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

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

	Year ended December 31,		
	1990	1989	1988
	(Thousands of dollars)		
Revenue, net of royalties	$ 1,617	$ 1,531	$ 1,485
Production costs	237	289	318
Depletion and depreciation	573	700	481
	810	989	799
Results of operations for oil and gas producing activities (excluding general and administrative overhead and interest costs)	$ 807	$ 542	$ 686

The Corporation's proportionate share of results of operations of oil and gas producing activities of Conwest was $2,289,000 for 1990, $1,596,000 for 1989 and $1,105,000 for 1988.

(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 gas 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,		
	1990	1989	1988	1990	1989	1988
	(Thousands of barrels)			(Millions of cubic feet)		
Proved reserves, beginning of year	123	125	244	5,801	5,763	7,503
Sale of reserves	(1)	—	(122)	(236)	—	(1,295)
Acquisition of reserves	—	4	—	—	1,946	—
Revisions of previous estimates and improved recovery	46	10	32	(664)	(1,370)	220
Extensions and discoveries	30	—	—	469	—	—
Production	(24)	(16)	(29)	(366)	(538)	(665)
Proved reserves, end of year	174	123	125	5,004	5,801	5,763

At December 31, 1990, the Corporation's proportionate interest in the net proved reserves of Conwest, substantially all of which are located in Canada, was as follows:

Crude oil, including condensates and natural gas liquids (thousands of barrels)	3,035
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,		
	1990	1989	1988
	(Thousands of dollars)		
Future cash inflows	$13,179	$12,846	$12,737
Future costs			
Production	(2,636)	(2,432)	(2,456)
Development	(236)	(221)	(174)
Future pretax cash flows	10,307	10,193	10,107
Future income taxes	(1,559)	(29)	(604)
Future net cash flows	8,748	10,164	9,503
10% annual discount for estimated timing of cash flows	(3,248)	(4,237)	(3,785)
Discounted future net cash flows	$ 5,500	$ 5,927	$ 5,718

At December 31, 1990 the Corporation's proportionate interest in the standardized measure of discounted future net cash flows of Conwest was $37,373,000.

Changes in Standardized Measures of Discounted Future Net Cash Flows	Year ended December 31,		
	1990	1989	1988
	(Thousands of dollars)		
Revisions to reserves proved in prior years			
Revisions of previous quantity estimates	$ (293)	$ (449)	$ 563
Net changes in prices and production costs	562	294	(1,580)
Net changes in estimated future development cost	15	(27)	218
Accretion of discount	592	572	862
	876	390	63
Changes during the year			
Extensions, discoveries and improved recovery, net of related costs	1,109	—	—
Acquisition of reserves	—	703	—
Sales of oil and gas production, net of related costs	(1,346)	(1,015)	(1,174)
Sale of reserves	(355)	—	(2,631)
	(592)	(312)	(3,805)
Total revisions and changes before income taxes	284	78	(3,742)
Net changes in income taxes	(711)	131	839
Total revisions and changes	(427)	209	(2,903)
Discounted future net cash flows at beginning of year	5,927	5,718	8,621
Discounted future net cash flows at end of year	$ 5,500	$ 5,927	$ 5,718

Corporate Information

DIRECTORS

W. Clarke Campbell,
Partner of 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,
Armadale 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

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

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

John S. Adams
Treasurer

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

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Auditors
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Toronto, Ontario

Listing
The Toronto Stock Exchange (CFY)