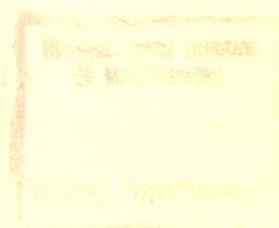
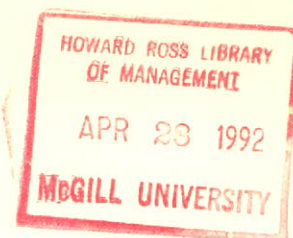




ANNUAL
REPORT
1991



FARADAY RESOURCES INC.



Company Profile

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

Corporate Highlights

	<u>1991</u>	<u>1990</u>	<u>1989</u>
Resource and other income (\$'000):			
Equity in earnings (losses) of Conwest	\$ (2,814)	\$ 2,109	\$ 2,602
Other.....	1,661	2,746	1,582
	\$ (1,153)	\$ 4,855	\$ 4,184
Net income (loss) (\$'000)	\$ (3,325)	\$ 2,823	\$ 2,033
Net income (loss) per share	\$ (0.61)	\$ 0.35	\$ 0.23
Equity per common share	\$ 4.71	\$ 5.68	\$ 5.56
Dividends per common share.....	\$ 0.24	\$ 0.23	\$ 0.22
Conwest shares owned by Faraday			
per Faraday common share	0.51	0.57	0.58

Annual Meeting

The annual meeting of shareholders of Faraday will be held in Room 101PR, The Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario at 9:00 a.m. on May 28, 1992.

DIRECTORS' REPORT

Like most companies in the natural resource business, the past year was not a good one for Faraday. The Company lost \$3.3 million (\$0.61 per share) during 1991 compared to a profit of \$2.8 million (\$0.35 per share) a year ago.

The most significant factor in these results was Faraday's \$2.8 million share of the loss sustained by Conwest Exploration during 1991. On an operating level, Conwest's results were quite satisfactory for the year. Production targets were met, with the oil and gas division reaching average daily production of 9,240 barrels of oil equivalent and the Nanisivik Mine producing 98,000 tonnes of zinc concentrates. Operating costs were also as budgeted. Conwest's financial results, on the other hand, were hammered by the steep decline in commodity prices, resulting in significant declines in revenues and cash flows from what had been projected. For Conwest, the prices it received for its oil and gas in 1991 declined on average by 21% and the average price received for zinc declined by 23%.

Conwest Exploration

Faraday's principal holding is its 18% equity interest and 49% voting interest in Conwest. Through this investment, Faraday has good exposure to Conwest's main resource operations – oil and gas and mining – and to its recent expansion into hydro electric generation. A copy of Conwest's Annual Report for 1991 is enclosed with this Annual Report.

During 1991, Conwest lost \$15.8 million compared to net income of \$6.1 million a year ago. The most significant factor in the loss was the low commodity prices mentioned above, as well as a \$14.0 million pre-tax provision for write downs in the carrying value of Conwest's interest in a number of associated resource companies.

Oil & Gas

Conwest's largest investment is in the oil and gas sector. The assets and operations in this division were initially built through acquisitions of producing properties. More recently, particularly during the past year, the focus has been on initiating and operating its own exploration and development prospects. During 1991, Conwest met its

production and reserve targets, increasing production by 31% to 9,240 barrels of oil equivalent per day and oil and gas reserves, net of dispositions, by 6% to 56.4 million barrels of oil equivalent. However, a better picture of the trend in Conwest's oil and gas division can be seen from the growth it has achieved over the past five years:

- oil reserves have grown by 280% and gas reserves have grown by 190%
- operating cash flow has increased by 160%
- production of oil and liquids has increased by 400% and production of natural gas has increased by 180%

Mining

Conwest's principal mining asset is the Nanisivik zinc-lead-silver mine located on the northern tip of Baffin Island in Canada's High Arctic. Since operations began in 1976, this mine has been one of the most efficient producers in the western world despite its remote location and intemperate climate. True to form, operating costs at the Mine in 1991 were held at the same level as the previous year.

The principal factor by far in the performance of Nanisivik during 1991 was the decline in zinc prices. Average prices received for shipments in 1991 were US\$1,085 per tonne, compared with US\$1,325 a year ago and prices over US\$1,500 in 1989. As a result, Nanisivik's contribution to Conwest's 1991 operating income was down by 70% compared to results in the previous year.

Hydro

Since 1990, Conwest has diversified into the hydro electric business. During the past year, it acquired an interest in three small hydro generating stations near Dryden, Ontario and is currently completing the development and construction of a larger station on the Black River near Marathon, Ontario. Although investment to date in the business is just over \$20 million, the division will, when the Black River station comes on stream, become self-sufficient from a standing start in 1990 and will begin to make a modest contribution to Conwest's 1992 earnings and cash flow. Assuming that governments and utilities continue to encourage the development of private sector hydro projects, Conwest intends to expand this business and establish it as an important third leg in its resource business.

Jascan Resources

Faraday owns a 49% interest in Jascan Resources. Jascan's principal assets are its \$7.8 million in cash, short term investments and marketable securities and a royalty interest in the Montanore project, a large copper-silver deposit in Montana, U.S.A.

Jascan's contribution to Faraday's income in 1991 was \$69,000, a significant reduction from \$486,000 a year ago. This reflects the steep decline in interest rates earned on Jascan's cash and short term investments during this period, and the movement of some of these funds into marketable securities. It is Jascan's objective to invest these funds in the acquisition, directly for Jascan's account, of producing properties in the resource sector. During 1991, a number of opportunities in the oil and gas sector were investigated but did not meet the investment objectives Jascan has set for itself.

During 1991, Noranda Minerals continued its efforts to develop the Montanore project. However, in late November, work on the adit was halted pending resolution of environmental concerns raised by state authorities in Montana about nitrate levels in a nearby creek. The source of the nitrates is thought to be from the explosives used in underground blasting. There is no health or safety risk to the public. Rather, the concern appears to be part of a larger issue relating to increased nitrate levels arising from industry, sewage treatment operations, ranching and farming. At the time of writing, work had not resumed at the property.

Oil & Gas

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

Dividends

During 1991, Faraday paid dividends totalling \$0.24 per share. Subsequent to the year end, the semi-annual dividend rate, which had been \$0.12 per share was reduced to \$0.06 per share commencing with the April 1, 1992 dividend. Although your Board regrets that it became necessary to take this step, the directors were reacting to the weak prices for Faraday's oil and gas and the reduction in its Conwest dividend income.

Outlook for 1992

Although the effects of the North American recession continue to dampen enthusiasm within the resource sector generally and the oil patch in particular, there are certainly signs that the most difficult period is behind us. Economic activity in the United States appears to have turned the corner, even if the recovery is very gradual. Although this is not expected to improve commodity prices significantly in 1992, it has already led to some firming and should result in further improvement towards the end of the year and in 1993.

For Faraday, its most important exposure is to changes in the prices for oil and gas. Despite deteriorating real prices for the past five years, the elements are in place for better times, particularly for natural gas. In North America, demand for natural gas is increasing, drilling activity is very low, and a large portion of the natural gas being sold in the U.S. is being priced off the spot market. The question is one of timing, and Faraday continues to hold the view that in the case of natural gas this will come in the next couple of years.

Despite the financial results of 1991, Faraday's balance sheet remains strong and its asset base is well positioned to take advantage of improvements in commodity prices and buying opportunities created by the recession.

On behalf of the Board

Martin P. Connell
Chairman of the Board

John C. Lamacraft
President and
Chief Executive Officer

Toronto, Ontario
April 1, 1992



OIL AND GAS INTERESTS

Faraday's cash flow from oil and gas operations decreased from \$1.4 million to \$0.9 million in 1991. Cash flow was adversely affected by a 32% decrease in oil production, and a drop in the price of oil and natural gas of 25% and 16% respectively, in 1991 compared to last year. Faraday received averaged prices of \$18.15 per barrel for oil and natural gas liquids and \$1.29 per thousand cubic feet for natural gas in 1991 versus average 1990 prices of \$24.09 and \$1.53, respectively. Average daily production was 57 barrels of oil and natural gas liquids and 1,468 thousand cubic feet of natural gas compared to 84 barrels and 1,330 thousand cubic feet during the prior year. The decrease in oil production was primarily due to the unitization and initiation of a water flood program at Manyberries.

Faraday participated in one successful gas well in the Figure Lake area. In addition, the Company participated at no cost in a gas well in the North Redwater area through a farm-out agreement.

Manyberries

The Sunburst Q Pool was unitized in 1991 giving Faraday a 2.7% interest in the unit. Unitization will enable the pool to be produced more effectively through lower cost operations and enhanced recovery techniques increasing Faraday's net recoverable reserves and future cash flow. Shortly after unitization, a water flood program was implemented and the initial response is favourable. In addition, two infill development wells were drilled in the first quarter of 1992. Oil production from the Manyberries area averaged 33 barrels per day for Faraday's account in 1991 with current production averaging 53 barrels per day.

Figure Lake

Faraday participated (25% working interest) in the drilling of a gas well at Figure Lake in 1991. Natural gas production from Figure Lake was down to 16 thousand cubic feet per day in 1991 due to marketing contract constraints. These problems were corrected by year end and current production is 165 thousand cubic feet per day.

Leo-Maple Glen

Faraday sold its interest in several wells in the Maple Glen Hackett pool and the Maple Glen Viking Unit for \$117,000 effective October 1, 1991. The assets sold were small working interests and cumulatively accounted for less than 10% of the cash flow from the area. Working interest natural gas production from the Leo-Maple Glen area averaged 1,088 thousand cubic feet per day in 1991.

North Redwater

Through a farm-out agreement, a gas well at 14-2-59-22 W4M was drilled at no cost to Faraday. The Company retained a 15% overriding royalty on its 80% working interest in the lands which converts to a 40% working interest after payout. Natural gas production from the North Redwater area averaged 171 thousand cubic feet per day in 1991.

Reserves and Discounted Present Values

Approximately 85% of Faraday's reserves were evaluated in detail at year end by the independent consulting engineering firm, Coles Gilbert Associates. Proven and probable reserves of oil and natural gas liquids were approximately equal to last year at 321,000 barrels. Proven and probable reserves of natural gas decreased 25% from 7.7 billion cubic feet to 5.8 billion cubic feet as a result of a downward revision, 1991 production and disposition of reserves at Maple Glen.

The present value of future cash flows discounted at 15% based on Coles Gilbert's January 1, 1992 price forecast, was \$5.8 million compared to \$9.1 million at year end 1990. The reduction is a result of the decrease in natural gas reserves and a significant decrease in the forecast of future natural gas prices.

Summary of Working Interest Reserves

	<u>1991</u>	<u>1990</u>	<u>1989</u>
Natural gas (mmcf)			
Proven	4,400	5,730	6,790
Probable	1,400	1,990	1,830
Total	5,800	7,720	8,620
Oil and natural gas liquids (bbl)			
Proven	242,400	215,000	156,600
Probable	75,600	106,000	62,700
Total	318,000	321,000	219,300

Forecast Net Cash Flow after Operating and Capital Expenditures and Royalties at Year End (\$000)

	<u>1991</u>	<u>1990</u>	<u>1989</u>
Undiscounted			
Proven	\$12,160	\$18,430	\$24,490
Probable	5,000	7,300	8,150
Total	\$17,160	\$25,730	\$32,640
Discounted at 15%			
Proven	\$ 4,600	\$ 6,720	\$ 7,790
Probable	1,250	2,400	2,050
Total	\$ 5,850	\$ 9,120	\$ 9,840

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Faraday reported a 1991 net loss of \$3.3 million (\$0.61 per share) compared to net income for 1990 of \$2.8 million (\$0.35 per share).

The principal reason for the loss was Faraday's proportionate equity interest in the 1991 loss reported by Conwest. Other factors included reduced revenues from Faraday's oil and gas division, as a result of lower commodity prices and reduced production on an oil equivalent basis, and reduced gains on the disposition of investments in 1991 when compared to 1990.

Faraday's principal asset is its investment in Conwest which, since 1986, has represented the largest component of Faraday's income. Conwest reported a net loss of \$15.9 million in 1991 compared to a restated 1990 profit of \$6.1 million. Faraday's equity interest in Conwest's 1991 loss was \$2.8 million compared to income of \$2.1 million, as restated, in 1990. Production volumes for Conwest's principal products were generally as anticipated for the year; however, substantially lower commodity prices adversely affected Conwest's income both directly, through reduced revenues for Conwest's oil and gas and mining divisions, and indirectly, through a \$14.0 million charge to income related to a reduction in the carrying value of Conwest's investment in certain of its associated resource companies.

Conwest's oil and gas division's contribution to 1991 operating income was \$32.2 million compared to \$35.7 million for the previous year. While Conwest's 1991 oil and gas production volumes, on an oil equivalent basis, were up 31%, oil and gas revenue, net of royalties, was the same as 1990 at \$49.3 million. The effect of increased production volumes was offset by a 21% reduction in average oil equivalent prices and an effective 2.5% increase in overall average royalty rates. The increased production volumes resulted in a \$3.7 million increase in direct operating costs, although on a unit of production basis Conwest's operating costs declined by 3%.

The contribution to Conwest's net income from the Nanisivik Mine decreased substantially in 1991 when compared to the contribution in each of the past several years. Operating income for the mining division was \$6.7 million in 1991 compared to \$21.6 million in 1990.

An approximate 23% reduction in average Canadian dollar zinc prices realized during 1991 was the principal factor affecting the Nanisivik contribution to 1991 operating income. The average zinc price realized in 1991 was US\$1,085 per tonne compared to US\$1,325 per tonne in 1990. Marginally lower concentrate production, and the effects of a somewhat stronger Canadian dollar, also adversely affected operating income. The impact of these factors was to some extent offset by decreased mining costs.

Conwest's investment income declined by \$11.6 million in 1991, to a loss of \$9.2 million, reflecting a \$14.0 million charge to income with respect to Conwest's investment in certain of its associated resource companies which Conwest accounts for by the equity method. This charge consisted of \$5.0 million with respect to Conwest's proportionate interest in a December 31, 1991 oil and gas ceiling test adjustment by Colonial Oil & Gas Limited and a \$9.0 million provision for potential impairment in the carrying value of mineral interests of Consolidated Professor, Highwood Resources and Regional Resources. The principal assets of these latter companies are composed of one or more prospective mineral deposits at various stages of exploration or development. At December 31, 1991, in view of reduced commodity prices for the respective minerals of interest, Conwest concluded there was an impairment in the carrying value of these interests.

At December 31, 1991, Conwest also recorded a provision of \$2.6 million (1990 - \$7.4 million) for an unrealized decline in the value of portfolio investments at year end. This provision partially offset previously realized investment gains of \$3.7 million, resulting in a \$1.1 million gain on investments for 1991 compared to a \$4.1 million loss in 1990. Conwest's investment performance historically varies substantially from year to year.

During 1990 Faraday's equity interest in Conwest was diluted from 26% to 18% as a result of a reorganization in which Conwest acquired the minority interest in two of its subsidiaries in exchange for the issue of Class B shares and the subsequent conversion of Conwest's 6.75% subordinated debentures into Class B shares. There was, 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.

Faraday's equity in the earnings of Jascan Resources declined to \$69,000 from a comparable amount of \$0.5 million in 1990. Jascan's principal assets are cash, portfolio investments and various mineral interests, including a US\$0.20 per ton production royalty on the Montanore copper-silver project under evaluation by Noranda Minerals Corporation in Montana. Currently, Jascan's income is principally attributable to interest earned on its short term interest bearing investments. Over the past two years Jascan has redeployed cash balances into the equities market. This redeployment of cash balances and the general reduction in interest rates were the principal factors reducing Jascan's income and its contribution to Faraday.

Faraday's revenue from oil and gas production was \$1.1 million in 1991 (1990 - \$1.6 million), including \$188,000 of royalty income (1990 - \$247,000). Revenue from the sale of natural gas, which constituted approximately 62% (1990 - 50%) of gross oil and gas production revenue, declined approximately 15% from 1990 as a result of a 16% decline in average natural gas prices which was partially offset by a 10% increase in production volumes. The increase in natural gas production volumes is attributable to the full year's effect of production from the Redwater area brought on stream in late 1990. This increase was offset to some extent by a drop in production from the Figure Lake area which was shut-in for most of 1991. Production from this area is now back on stream.

Gross revenue from the sale of crude oil and natural gas liquids decreased by 55% as production decreased by 32% and average oil prices declined to \$18.92 per barrel. The unitization and water-flooding of the Manyberries Sunburst Q Pool reduced Faraday's 1991 oil production in the short term; however, it will improve Faraday's proven oil reserves and long term productive capability.

Faraday's gain on investments was \$21,000 in 1991 compared to a gain of \$451,000 in 1990. Faraday's

investment performance historically varies substantially from year to year.

Interest and other income increased to \$0.4 million in 1991 and includes an unanticipated recovery of \$0.3 million associated with a January 1, 1989 acquisition of oil and gas assets.

Overall, expenses were up somewhat from 1991 levels. Higher levels of bank debt, partially offset by falling interest rates, account for the increase in interest expense. Reduced depletion charges, which are determined on a unit of production basis, resulted from the effects of the higher 1991 proven oil and gas reserves base, when compared to 1990, offset by higher 1991 oil equivalent production.

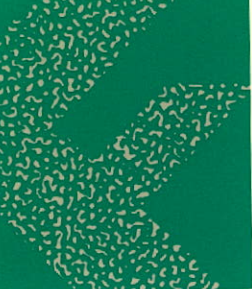
Liquidity and capital resources

At December 31, 1991 working capital was \$243,000 down from \$615,000 at December 31, 1990.

Faraday has established a \$15.0 million revolving credit facility of which \$5.1 million was utilized at December 31, 1991. The facility is unsecured; however, Faraday has agreed it will not encumber its shares of Conwest without the lender's consent.

During 1991, Faraday invested \$2.2 million in a publicly quoted portfolio investment, substantially all of which was funded from long term bank debt. It is anticipated that this investment will be liquidated at a profit in the first half of 1992 and the proceeds applied to reduce bank indebtedness.

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



FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The accompanying 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, evidence supporting the amounts and disclosures in the financial statements. Their audit is carried out to provide reasonable assurance that the financial statements are, in all material respects, presented fairly in accordance with generally accepted accounting principles.

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

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, 1991 and 1990 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. 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, 1991 and 1990 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
March 12, 1992

Peat Marwick Thorne
Chartered Accountants

Consolidated Balance Sheets

At December 31

ASSETS

	1991	1990
CURRENT		
Cash	\$ 9,000	\$ 205,000
Accounts receivable and prepaid expenses.....	688,000	915,000
	<u>697,000</u>	<u>1,120,000</u>
INVESTMENTS (note 2)		
Companies subject to significant influence.....	38,333,000	42,355,000
Other	4,790,000	742,000
	<u>43,123,000</u>	<u>43,097,000</u>
OIL AND GAS INTERESTS (note 3)	3,986,000	4,243,000
	<u>\$ 47,806,000</u>	<u>\$ 48,460,000</u>

LIABILITIES

CURRENT		
Preference share dividends payable	\$ 167,000	\$ 167,000
Accounts payable and accrued liabilities.....	287,000	338,000
	<u>454,000</u>	<u>505,000</u>
LONG TERM BANK DEBT (note 4)	5,100,000	2,570,000
DEFERRED LIABILITIES	121,000	131,000

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 5)	25,889,000	23,647,000
CONTRIBUTED SURPLUS.....	1,506,000	1,506,000
RETAINED EARNINGS (note 2)	16,872,000	22,350,000
	<u>44,267,000</u>	<u>47,503,000</u>
Faraday's pro rata interest in the cost of its own shares held by Conwest.....	(2,136,000)	(2,249,000)
	<u>42,131,000</u>	<u>45,254,000</u>
	<u>\$ 47,806,000</u>	<u>\$ 48,460,000</u>

Approved by the Board:

M. P. Connell, Director

J. C. Lamacraft, Director

Consolidated Statements of Income

Years ended December 31

	1991	1990
Resource and other income		
Equity in earnings (losses) of:		
Conwest	\$ (2,814,000)	\$ 2,109,000
Jascan	69,000	486,000
Oil and gas production	1,149,000	1,617,000
Gain on other investments	21,000	451,000
Interest and other income	422,000	192,000
	<u>(1,153,000)</u>	<u>4,855,000</u>
Expenses		
Oil and gas production	\$ 281,000	\$ 237,000
General and administrative	815,000	797,000
Depletion and depreciation	450,000	573,000
Interest expense	420,000	349,000
Other	206,000	76,000
	<u>2,172,000</u>	<u>2,032,000</u>
Net income (loss)	<u>\$ (3,325,000)</u>	<u>\$ 2,823,000</u>
Earnings (loss) per share (note 5)	<u>\$ (0.61)</u>	<u>\$ 0.35</u>

Consolidated Statements of Retained Earnings

Years ended December 31

	1991	1990
Retained earnings at beginning of year		
As previously stated	\$ 23,386,000	\$ 22,808,000
Faraday's pro rata interest in charge to retained earnings by Conwest arising from retroactive change in accounting for site restoration costs (note 2)	(1,036,000)	(1,032,000)
	22,350,000	21,776,000
Net income (loss)	(3,325,000)	2,823,000
	19,025,000	24,599,000
Dividends		
Preference shares	668,000	668,000
Common shares	1,602,000	1,536,000
	2,270,000	2,204,000
Less portion applicable to Faraday's pro rata interest in its own shares held by Conwest	(117,000)	(137,000)
	2,153,000	2,067,000
Equity interest in amalgamation costs charged directly to retained earnings by Conwest	—	182,000
	2,153,000	2,249,000
Retained earnings at end of year	\$ 16,872,000	\$ 22,350,000

Consolidated Statements of Changes in Financial Position

Years ended December 31

	1991	1990
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss)	\$ (3,325,000)	\$ 2,823,000
Operating items not requiring a current cash payment:		
Equity in losses (earnings) of:		
Conwest, net of dividends		
received	4,322,000	(423,000)
Jascan	(69,000)	(486,000)
Loss (gain) on other investments.....	(21,000)	(451,000)
Depletion and depreciation.....	450,000	573,000
Other	—	60,000
	1,357,000	2,096,000
Net change in non-cash working capital		
balances related to operations.....	176,000	(401,000)
Deferred revenue.....	(10,000)	(32,000)
	1,523,000	1,663,000
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Increase in investments.....	(4,078,000)	(120,000)
Proceeds on disposal of fixed assets and oil		
and gas interests.....	—	335,000
Oil and gas interests	(193,000)	(291,000)
Proceeds on disposal of investments	50,000	2,420,000
	(4,221,000)	2,344,000
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Dividends	(2,270,000)	(2,204,000)
Long term borrowings.....	2,530,000	(2,130,000)
Common shares	2,242,000	—
	2,502,000	(4,334,000)
Decrease in cash	(196,000)	(327,000)
Cash at beginning of year	205,000	532,000
Cash at end of year	\$ 9,000	\$ 205,000

Notes to Consolidated Financial Statements

Years ended December 31, 1991 and 1990

1. ACCOUNTING POLICIES

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

(a) Basis of consolidation

The consolidated financial statements include the accounts of Faraday and its wholly owned subsidiary, Loon River Oils Limited to the date of its wind-up on December 31, 1991.

(b) Long-term inter-corporate investments

(i) Companies subject to significant influence

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

Conwest Exploration Company Limited owns a 24.6% equity interest in Faraday and accounts for its investment on the equity method. In addition, Conwest owns 175,126 first preference shares, series A of Faraday. Since Faraday owns shares of Conwest and Conwest owns shares of Faraday, Faraday has a pro rata interest in its own shares which has been applied to reduce the carrying value of Faraday's investment in Conwest and shareholders' equity. Faraday's share of earnings of Conwest reflected in the consolidated statements of income is based on earnings of Conwest excluding its share of earnings of Faraday. The portion of Faraday's dividends applicable to its pro rata interest is deducted from dividends in retained earnings and added to the carrying value of the investment in Conwest.

(ii) Other

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

(c) Oil and gas interests

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

Capitalized costs less accumulated depletion and depreciation are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet dates) after deducting estimated future general and administrative expenses, financing costs and income taxes. The site restoration costs associated with Faraday's oil and gas production interests are not material.

(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

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

(f) Earnings (loss) per share

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

2. INVESTMENTS

(a)	1991	1990
Companies subject to significant influence		
With quoted market value		
Conwest Exploration Company Limited (quoted market value \$32,601,000; 1990 – \$48,795,000)	\$ 33,210,000	\$ 37,301,000
Jascan Resources Inc. (quoted market value \$2,596,000; 1990 – \$3,151,000).....	5,123,000	5,054,000
	<u>38,333,000</u>	<u>42,355,000</u>
Other shares with quoted market value (quoted market value \$2,787,000; 1990 – \$362,000).....	2,522,000	384,000
Mortgages and other nonquoted investments (note 5(c)(ii)).....	2,268,000	358,000
	<u>4,790,000</u>	<u>742,000</u>
	<u>\$ 43,123,000</u>	<u>\$ 43,097,000</u>

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

(b) The investment in Conwest is comprised as follows:

	1991	1990
Class A shares.....	\$ 5,905,000	\$ 5,991,000
Class B shares	24,936,000	24,850,000
	<u>30,841,000</u>	<u>30,841,000</u>
Net equity in undistributed earnings of Conwest since the date significant influence was acquired	4,505,000	8,709,000
Faraday's pro rata interest in the cost of its own shares held by Conwest	(2,136,000)	(2,249,000)
	<u>\$ 33,210,000</u>	<u>\$ 37,301,000</u>

At December 31, 1991, Faraday's investment in Conwest represents, on an undiluted basis, a 49.3% (1990 – 49.1%) voting interest and a 18.2% (1990 – 18.2%) equity interest.

Effective January 1, 1991, Conwest adopted, on a retroactive basis, the recommendations of the Canadian Institute of Chartered Accountants regarding estimated future costs of site restoration of mining and oil and gas production interests, including the removal of production facilities at the end of their useful life. Prior to this, Conwest expensed these costs as they were incurred.

Faraday's pro rata interest in this change by Conwest, which has also been applied on a retroactive basis, increased the loss by \$315,000 (\$0.05 per share) in 1991 and decreased net income by \$4,000 (\$0.00 per share) in 1990 and decreased retained earnings by \$1,036,000 with respect to prior years.

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 reduced Faraday's equity interest in Conwest from 25.8% to 18.2%.

The excess of Faraday's equity in the net book value of the underlying assets of Conwest exceeds the aggregate cost of Faraday's investment in Conwest. Substantially all of this excess has been allocated to oil and gas interests and is being amortized over the remaining production life of these assets. At December 31, 1991, the unamortized balance of the fair value adjustments was \$3,064,000 (1990 – \$3,474,000).

(c) Canadian oil and gas production, mining and hydro electric power production are Conwest's principal operating segments. Summarized financial information for Conwest, after giving retroactive effect to the change in accounting for site restoration costs, is as follows:

Summarized Consolidated Balance Sheets	December 31	
	1991	1990
Assets:		
Cash and commercial paper	\$ 16,647,000	\$ 23,141,000
Other current	35,929,000	41,552,000
Current	52,576,000	64,693,000
Investments	75,221,000	83,651,000
Oil and gas interests	240,459,000	237,225,000
Mining interests	19,818,000	21,845,000
Hydro interests	18,139,000	1,805,000
Other	1,661,000	1,821,000
	<u>\$ 407,874,000</u>	<u>\$ 411,040,000</u>
Liabilities and shareholders' equity:		
Current liabilities	\$ 19,935,000	\$ 23,090,000
Long-term debt	92,190,000	67,000,000
Convertible subordinated debentures	60,000,000	60,000,000
Deferred liabilities	16,244,000	15,969,000
Deferred income taxes	16,765,000	20,352,000
	<u>205,134,000</u>	<u>186,411,000</u>
Redeemable preference shares	6,400,000	5,000,000
Shareholders' equity attributable		
to common shares	196,340,000	219,629,000
	<u>202,740,000</u>	<u>224,629,000</u>
	<u>\$ 407,874,000</u>	<u>\$ 411,040,000</u>
Summarized Consolidated Statements of Income	Years ended December 31	
	1991	1990
Resource and other income	\$ 75,145,000	\$ 103,110,000
Net income (loss)	(15,852,000)	6,129,000

3. OIL AND GAS INTERESTS

	1991	1990
Property, plant and equipment, at cost	\$ 8,498,000	\$ 8,320,000
Less accumulated depletion and depreciation	4,512,000	4,077,000
	<u>\$ 3,986,000</u>	<u>\$ 4,243,000</u>

4. LONG TERM BANK DEBT

Faraday's term bank loan of \$5,100,000 (1990 – \$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. Faraday has agreed, that without the bank's consent, it will not encumber its shares of Conwest.

5. SHARE CAPITAL

(a) Authorized

An unlimited number of first preference shares, issuable in series, of which 556,456 (1990 – 556,456) \$1.20 series A cumulative redeemable retractable convertible first preference shares constitute the first series.

An unlimited number of common shares.

(b) Issued

	1991		1990	
	Number of shares	Amount	Number of shares	Amount
Preference shares	556,456	\$ 9,182,000	556,456	\$ 9,182,000
Common shares	7,327,549	16,707,000	6,677,549	14,465,000
		<u>\$ 25,889,000</u>		<u>\$ 23,647,000</u>

(c) Other information

(i) Each of the series A preference shares is convertible into three common shares until October 31, 1992. In certain circumstances, these shares are redeemable prior 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. The redemption price is \$16.50 per share. During 1990, 5 series A preference shares were converted into 15 common shares.

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

On January 29, 1992, Faraday approved, subject to regulatory and shareholder approval, the issuance of 75,000 common shares to another officer at \$3.85 per share. Faraday also agreed to provide financial assistance for the acquisition of such shares by way of a \$289,000 loan on terms similar to those referred to above.

(d) Fully diluted earnings (loss) per share

Fully diluted earnings (loss) per share calculated as though all outstanding first preference shares, series A and the employee stock options had been converted, are anti-dilutive in 1991 (1990 – \$0.35).

6. INCOME TAXES

At December 31, 1991 oil and gas interests, which are carried at \$3,986,000 (1990 – \$4,243,000) in the accompanying consolidated balance sheets, are fully deductible for income tax purposes. In addition, Faraday has approximately \$2,600,000 in other deductions available to reduce or eliminate income taxes that would otherwise be recorded as a charge against income of future years.

Faraday's effective income tax rate differs from the combined federal and provincial statutory income tax rates. The principal factors causing this difference are as follows:

	<u>1991</u>	<u>1990</u>
Combined federal and provincial statutory income tax rates	(44.0)%	41.3%
Non-deductible provincial and federal production royalties and taxes, net of rebates	0.4	1.1
Resource and depletion allowances	(2.4)	(0.9)
Non-taxable components of investment income	31.9	(38.3)
Deductible expenses not currently utilized for tax purposes	14.5	—
Other	(0.4)	(3.2)
Effective income tax rate	<u>Nil</u>	<u>Nil</u>

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

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

(a)	<u>1991</u>	<u>1990</u>
Net income (loss) for the year as reported, based on generally accepted accounting principles in Canada	\$ (3,325,000)	\$ 2,823,000
Pro rata interest in site reclamation costs charged to retained earnings by Conwest (i)	(1,036,000)	4,000
Net income (loss) for the year based on generally accepted accounting principles in the United States	\$ (4,361,000)	<u>\$ 2,827,000</u>
Earnings (loss) per share (United States basis) (ii)	\$ (0.77)	<u>\$ 0.33</u>

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

(ii) Primary earnings (loss) per share include the effect of common stock equivalents which consist of stock options granted during 1987 and exercised in 1991. The convertible preference shares are not considered common stock equivalents. Fully diluted earnings (loss) per share for 1991 and 1990 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 changes in financial position, are as follows:

	<u>1991</u>	<u>1990</u>
Accounts receivable.....	\$ 227,000	\$ 246,000
Accounts payable and accrued liabilities	(51,000)	(647,000)
	\$ 176,000	<u>\$ (401,000)</u>

8. OTHER INFORMATION

Conwest Exploration Company Limited owns 24.6% of Faraday. As part of normal business operations, extensive use is made of Conwest's management and technical services. During 1991 Conwest's charge to Faraday for such services was \$300,000 (1990 – \$300,000).



CORPORATE INFORMATION

DIRECTORS

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

Earl B. Connell
Private investor

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

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

Donald J. Hains
Engineering consultant

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

Robert J. Metcalfe
President,
Armada Properties Limited

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

OFFICERS

Martin P. Connell
Chairman of the Board

John C. Lamacraft
President and Chief Executive Officer

Colin C. Coolican
Executive Vice-President

William E. Barnett
Vice-President

James A. Kalman
Vice-President

J. Andrew Patterson
Vice-President and Secretary

John S. Adams
Treasurer

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

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

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

CORPORATE INFORMATION

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Bank of Montreal Trust Company
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Bankers
Royal Bank of Canada

Auditors
Peat Marwick Thorne

Listing
The Toronto Stock Exchange (CFY)

