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FARADAY
RESOURCES Inc.

ANNUAL REPORT 1987

COMPANY PROFILE

Faraday Resources Inc. is a Canadian resource company. Its principal asset is its controlling interest in Conwest Exploration Company Limited, a company with extensive energy and mining interests in Canada. Faraday also has direct interests in producing oil and gas properties in western Canada.

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

CORPORATE HIGHLIGHTS

	1987	1986	1985
Resource and other income	**$12,462,000**	$ 3,464,000	$ 3,704,000
Net income	**$10,888,000**	$ 1,882,000	$ 1,931,000
Net income per share	**$1.68**	$0.42	$0.54
Equity per common share	**$5.48**	$4.03	$5.15
Dividends per common share	**$0.22**	$0.18	$0.16
Conwest shares owned by Faraday per Faraday common share	**0.56***	0.40	0.27

*Undiluted. Upon conversion of Faraday's Series A Preference Shares this would be 0.45.

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ANNUAL MEETING

The annual meeting of shareholders of Faraday will be held in the Alberta Room, Royal York Hotel, Toronto, Ontario at 9:00 a.m. on May 27, 1988

FORM 10-K ANNUAL REPORT

Copies of Faraday's Form 10-K for 1987 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.

It is a pleasure to report on the results of your Company for the year ended December 31, 1987. There are a number of highlights.

- Net income for the year was the highest in the Company's history, reaching $10.8 million or $1.68 per share.
- Following the acquisition of effective control of Conwest Exploration Company Limited (Conwest) in 1986, Faraday increased its equity interest in Conwest during 1987 and early 1988 from 18% to 26%.
- Through a rights offering of convertible preference shares, the Company raised $9.1 million.
- Faraday increased its annual dividend rate to $.22 per share, representing the third dividend increase in the past three years.

1987 was the first full year since Faraday acquired effective control of Conwest and began to equity account for that investment. It was also a year in which Conwest achieved record financial results. These factors were the biggest contributors to Faraday's net income for the year of $10,888,000 or $1.68 per share, both of which represent record highs for the Company since its formation in 1967. Revenue, assets and shareholders equity were also significantly higher than they had been in 1986.

The past eight years have seen significant changes in your Company. In the early part of the decade, collapsing uranium prices resulted in the closure of the Madawaska mine. Faraday's 49% interest in the mine was its principal asset and primary source of cash flow. Since then, Faraday has sought broader exposure to the resource sector and a more reliable cash flow through its investment in Conwest and direct ownership of producing oil and gas properties.

Today, Faraday's principal asset is its 49% voting interest and 26% equity interest in Conwest. Through this holding, which at current market prices represents an investment of more than $43 million, Faraday effectively controls assets which now exceed $300 million and an operating cash flow, in Conwest, which in 1987 reached a record $64.9 million. A brief description of Conwest, its 1987 results and its impact on Faraday is contained in the following section of the Report. A copy of Conwest's Annual Report for 1987 is also enclosed with this Report to provide Faraday shareholders with a more detailed account of Conwest's operations and financial position.

In addition to its position in Conwest, Faraday continues to maintain its own oil and gas operations as an independent source of earnings and cash flow. In the past, the size of these operations has varied depending on the availability of new acquisitions, the opportunity to upgrade assets through favourable dispositions, and Faraday's current financial position.

In the future, Faraday's objective will be to try to increase its direct exposure to the oil and gas sector.

In the past two years, oil and gas revenues and cash flow have declined as a result of a property disposition and lower product prices. During this period, Faraday's average sale price for oil and gas dropped by 43% and 37%, respectively. During 1987, Faraday sold its principal oil producing property on attractive terms. Although the disposition reduced cash flow and reserves, it resulted in a profit of $3.6 million. Late in the year, the Company bought for $4 million producing oil and gas properties that more than replace the cash flow and reserves attributable to the earlier sale, although Faraday has agreed since year-end to sell a portion of these interests.

During 1987, Faraday reached a number of financial milestones. In addition to the record net income, revenues were $12.5 million and assets reached $47.8 million. However, the item which best reflects the growth and financial strength of the Company is the increase in shareholders equity. It rose to $43 million in 1987 from $25.7 million a year earlier, a 67% increase. This is a result of Faraday's record income and the proceeds of its rights offering of convertible preference shares. Although working capital at year end was negative, it will again become positive when the sale of a portion of the recently acquired oil and gas interests is completed. With assets of $47.8 million and no long-term debt, Faraday is in a strong financial position. Through Conwest, Faraday has a significant exposure to the energy and mining sectors and to the commitment of Conwest, backed by $120 million in working capital at the end of 1987, to expand this resource base.

During the year, W. Clarke Campbell retired as Chairman of your Company and was succeeded by Mr. M.P. Connell, the largest shareholder of Faraday. Your Company wishes to express its gratitude to Mr. Campbell for his valuable contribution as Chairman over the past ten years. His advice and assistance will continue to be available, as he will continue as a director of Faraday.

On behalf of the Board

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

Toronto, Ontario
April 7, 1988

Faraday's holdings in Conwest represent its largest and most important asset. The Company owns 1,046,600 Class A shares and 2,468,611 Class B subordinate voting shares, which represent a 49% voting interest and a 26% equity interest in Conwest. This makes Faraday the largest shareholder in Conwest and gives it effective control of the company.

FINANCIAL RESULTS

During 1987, Conwest achieved record financial results. Net income for the year was $33.9 million compared to $9.6 million a year earlier, and represented the highest net income in Conwest's history. For Faraday, which now accounts for its interest in Conwest on the equity basis, this resulted in income of $6.5 million.

Conwest's revenue, operating income, cash flow, assets and shareholders equity also reached new highs during 1987. This is a result, in part, of consolidating for the first time the results of Mineral Resources International Limited (MRI) in Conwest's financial statements. The consolidation provides the Conwest shareholder with a clearer picture of the company's overall assets and operations. Conwest's assets now total $303.5 million and during 1987 Conwest generated $105.3 million in revenue, $70.2 million in operating income and $64.9 million in cash flow.

OIL AND GAS

Conwest's largest single investment continues to be its oil and gas holdings in western Canada. Production during 1987, on an oil equivalent basis, was 3,750 barrels per day and generated a cash flow of $13.8 million. Comparable numbers in 1986 were 3,130 barrels per day and $12.3 million.

Oil and gas prices during 1987 continued to reflect the uncertainty that began a year earlier. Although oil prices did not test the lows of 1986, they remained unstable in a range of U.S. $15 to U.S. $22 per barrel. Gas prices continued their decline, reflecting ongoing deregulation and excess supply in the Canadian and U.S. markets.

Despite the weakness in energy prices during the past two years and the general view that any improvement in the near term will at best be gradual, Conwest remains committed to expanding its daily production to 10,000 barrels per day of oil and gas equivalent by 1990. Such growth will require both acquisitions of additional producing interests and expansion of its exploration and development programs. Conwest is well positioned to accomplish both.

MINING

Conwest's principal mining interest is the Nanisivik zinc-lead-silver mine in Canada's high Arctic which is owned by MRI. During 1987, Conwest raised its interest in MRI so that it now controls 50% of MRI.

Zinc prices showed moderate improvement during the year and operations were comparable to those a year earlier, resulting in direct cash flow of $10.4 million for the year compared to $10.3 million in 1986. During the year, the Nanisivik mine was able to replace 64% of the reserves mined during 1987 and remaining reserves will provide a mine life of at least four more years.

Faraday's cash flow from oil and gas operations declined from $1.6 million in 1986 to $0.8 million in 1987 as the result of declining gas prices and the sale of Faraday's 0.4717% interest in the Nipisi Gilwood Unit No. 1 during the year. Faraday realized a gain of $3.6 million on this disposition. Oil and natural gas liquids production totalled 12,000 barrels (33 barrels per day), while natural gas production increased 8.4% to 576 million cubic feet (1.58 million cubic feet per day) during 1987.

In December, 1987, Faraday replaced on an oil equivalent basis its reserve position by acquiring oil and gas assets in the Manyberries and Figure Lake areas of Alberta. Since the year-end Faraday has agreed to allow two third parties to acquire interests in these properties, which will reduce Faraday's interest in the assets to less than 50% of the interest originally acquired.

MANYBERRIES

Effective December 31, 1987, Faraday acquired working interests ranging from 10.8% to 22.4% in 13 wells in the Manyberries area of Southern Alberta. The wells produce from the Manyberries East Sunburst Q and Sunburst B pools. The Sunburst Q pool is the final stages of unitization under the interim direction of Shell Canada Resources Limited. Waterflood injection is scheduled to commence in the first quarter of 1989, subject to approval by the Alberta Energy Resources Conservation Board. Faraday anticipates higher reserves and production as a result of this secondary recovery program. There is similar secondary recovery potential for Faraday's Sunburst B pool production immediately east of the Sunburst Q pool, and both pools show promise for tertiary recovery.

FIGURE LAKE

The Company acquired working interests ranging from 25% to 50% in three production and three shut-in gas wells in the Figure Lake area of NE Alberta. Faraday has a 21.0% interest in the Figure Lake gas plant at 4-29-64-16 W4 operated by Mannville Oil and Gas Ltd. The Figure Lake properties produce to a Pan-Alberta Gas Ltd. deliverability contract. Further development of this property is anticipated in 1988-1989 to meet higher contract nominations and load factors.

LEO-MAPLE GLEN-ENDIANG

Faraday owns varying interest in the Leo-Maple Glen area. The Company increased its production from 1.42 million cubic feet per day to 1.54 million cubic feet per day as the result of higher long-term contract nominations supplemented by spot market sales.

RESERVES AND DISCOUNTED PRESENT VALUES

The Company has adopted the policy of retaining an independent consulting engineering firm to update its reserves every second year. The reserves and present values referred to in this report are based on engineering evaluations prepared by Coles Nikiforuk Pennell Associates Ltd. as at December 31, 1987.

Proven and probable reserves of oil and natural gas liquids declined as the result of the disposition of the Nipisi interest. Proven and probable gas reserves increased after production of 0.58 billion cubic feet during the year, due to the acquisition of reserves in the Figure Lake area.

SUMMARY OF PROVEN AND PROBABLE RESERVES WORKING INTEREST RESERVES

	1987	1986	1985
Natural Gas Reserves (mmcf)			
Proven	**9,592**	7,100	7,700
Probable	**1,322**	270	360
Proven and Probable	**10,914**	7,370	8,060
Oil and Natural Gas Liquids (bbls)			
Proven	**300,500**	460,000	517,000
Probable	**92,900**	300,000	316,000
Proven and Probable	**393,400**	760,000	833,000

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

(000's)

	Undiscounted			Discounted at 15%		
	1987	1986	1985	**1987**	1986	1985
Proven Reserves	**$41,559**	$32,120	$37,900	$13,156	$10,750	$12,405
Probable Reserves	**9,123**	12,505	13,920	2,068	3,190	3,325
	$50,682	$44,625	$51,820	$15,224	$13,940	$15,730

OPERATIONS

Net income for 1987 increased to $10,888,000 ($1.68 per share) from $1,882,000 ($0.42 per share) in 1986. The principal reasons for the increase were the substantial increase in the equity in the earnings in Conwest, reflecting Conwest's very successful performance during 1987 and the effect of a full year of equity accounting for this investment, the gain on the sale of the Company's Nipisi oil property and the gain on the sale of a portion of Faraday's interests in Hydra Explorations.

Revenue from oil and gas production was $994,000 compared to $1,877,000 in 1986, reflecting the 1987 sales of the Nipisi interest and a decrease in natural gas prices. Natural gas sales revenue declined by approximately 13% when compared to 1986, reflecting increased production volumes offset by lower unit prices on deliveries to both conventional and discount contracts.

During 1987 the average sales price, net of royalties, for natural gas declined to $1.43 per mcf., from $1.78 per mcf. in 1986, reflecting the continuing effect of the deregulation of natural gas prices in late 1986.

Faraday's equity in the earnings of Conwest reflects Conwest's excellent financial results for 1987. To a significant extent Conwest's results were affected by the performance of its investment portfolio. While Faraday has increased its interest in Conwest and expects Conwest to continue to make a significant contribution to its earnings, it is anticipated Conwest's 1988 earnings will be lower than those for 1987.

LIQUIDITY AND CAPITAL RESOURCES

Cash, including short-term deposits, decreased to $2,139,000 at December 31, 1987 from $2,623,000 at December 31, 1986. At December 31, 1987 Faraday had a working capital deficiency of $1,674,000 compared to working capital of $996,000 at December 31, 1986. The 1987 current liabilities include $4,000,000 due January 29, 1988 on the closing of the purchase of oil and gas interests. This amount was discharged from existing cash resources and short-term borrowings of $2,700,000.

During 1987 Faraday issued 556,461 $1.20 cumulative redeemable retractable convertible first preference shares, series A for $9,182,000 and realized $7,762,000 on the sale of investments and oil and gas interests. These cash inflows were substantially utilized in the purchase of investments having a cost of $15,734,000, including $10,072,000 expended to increase Faraday's interest in Conwest.

MANAGEMENT'S RESPONSIBILTY FOR FINANCIAL STATEMENTS

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

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

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

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

J. C. Lamacraft
President and
Chief executive Officer

J. A. Patterson
Vice-President
and Secretary

AUDITORS' REPORT

To the Shareholders of
Faraday Resources Inc.

We have examined the balance sheets of Faraday Resources Inc. as at December 31, 1987 and 1986 and the statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1987. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and 1986 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1987 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
March 11, 1988

Thorne Ernst & Whinney
Chartered Accountants

BALANCE SHEETS

As at December 31, 1987 and 1986

	1987	1986
ASSETS		
CURRENT ASSETS		
Cash and short-term deposits	$ 2,139,000	$ 2,623,000
Accounts receivable and prepaid expenses	711,000	819,000
	2,850,000	3,442,000
INVESTMENTS (note 3)		
Conwest Exploration Company Limited	33,024,000	19,023,000
Other	4,990,000	926,000
	38,014,000	19,949,000
OIL AND GAS INTERESTS (note 4)	6,941,000	5,030,000
	$47,805,000	$28,421,000
LIABILITIES		
CURRENT LIABILITIES		
Preference share dividends payable	$ 141,000	
Accounts payable and accrued liabilities	4,383,000	$ 2,446,000
	4,524,000	2,446,000
DEFERRED REVENUE	241,000	236,000
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 5)		
Redeemable convertible preference shares	9,182,000	
Common shares	14,465,000	14,465,000
	23,647,000	14,465,000
CONTRIBUTED SURPLUS	1,506,000	1,506,000
RETAINED EARNINGS	20,507,000	11,158,000
	45,660,000	27,129,000
Corporation's pro rata interest in the cost of its own shares held by Conwest Exploration Company Limited	(2,620,000)	(1,390,000)
	43,040,000	25,739,000
	$47,805,000	$28,421,000

Approved by the Board:

M. P. Connell, Director

J. C. Lamacraft, Director

The accompanying notes form an integral part of these statements.

Resource and other income			
Equity in earnings of Conwest Exploration Company Limited	**$ 6,510,000**	$ 854,000	
Gain on sale of oil and gas interests	**3,564,000**		
Gain on other investments	**753,000**	23,000	$ 49,000
Oil and gas production	**994,000**	1,877,000	2,700,000
Dividends from Conwest Exploration Company Limited		442,000	664,000
Interest and other income	**641,000**	268,000	291,000
	12,462,000	3,464,000	3,704,000
Expenses			
Oil and gas production	**184,000**	276,000	274,000
General and administrative	**855,000**	795,000	814,000
Depletion and depreciation	**347,000**	424,000	499,000
Other	**188,000**	87,000	186,000
	1,574,000	1,582,000	1,773,000
Income before income taxes and extraordinary item	**10,888,000**	1,882,000	1,931,000
Income taxes (note 6)	**2,174,000**	221,000	543,000
Income before extraordinary item	**8,714,000**	1,661,000	1,388,000
Income tax reduction realized on application of resource expenditures of prior years (note 6)	**2,174,000**	221,000	543,000
NET INCOME	**$10,888,000**	$ 1,882,000	$ 1,931,000
Income applicable to common shares	**$10,754,000**	$ 1,882,000	$ 1,931,000
EARNINGS PER SHARE (note 5)			
Basic			
Before extraordinary item	**$1.34**	$0.37	$0.39
Extraordinary item	**0.34**	0.05	0.15
Net income	**$1.68**	$0.42	$0.54

The accompanying notes form an integral part of these statements.

STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 1987, 1986 and 1985

	1987	1986	1985
BALANCE AT BEGINNING OF YEAR	**$11,158,000**	$10,202,000	$ 8,842,000
Net income	**10,888,000**	1,882,000	1,931,000
	22,046,000	12,084,000	10,773,000
Dividends			
Preference shares	**141,000**		
Common shares	**1,469,000**	953,000	571,000
	1,610,000	953,000	571,000
Less portion applicable to the Corporation's pro rata interest in its own shares held by Conwest Exploration Company Limited	**(71,000)**	(27,000)	
	1,539,000	926,000	571,000
BALANCE AT END OF YEAR	**$20,507,000**	$11,158,000	$10,202,000

The accompanying notes form an integral part of these statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1987, 1986 and 1985

CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1987	1986	1985
Net income	**$10,888,000**	$ 1,882,000	$ 1,931,000
Operating items not requiring a current cash payment			
Equity in earnings of Conwest Exploration Company Limited, net of dividends received	**(5,088,000)**	(335,000)	
Gain on sale of oil and gas interests	**(3,564,000)**		
Gain on other investments	**(753,000)**		
Depletion and depreciation	**347,000**	424,000	499,000
Other		5,000	(36,000)
	1,830,000	1,976,000	2,394,000
Net change in non-cash working capital balances related to operations	**182,000**	67,000	386,000
Deferred revenue	**5,000**	(65,000)	
	2,017,000	1,978,000	2,780,000
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES			
Investment in:			
Conwest Exploration Company Limited	**(10,072,000)**	(10,364,000)	(59,000)
Other	**(5,662,000)**		
Proceeds on disposal of fixed assets and oil and gas interests	**5,411,000**		505,000
Oil and gas interests	**(4,105,000)**	(723,000)	(295,000)
Proceeds on disposal of investments	**2,351,000**	21,000	768,000
Net change in non-cash working capital balances related to investment activities	**2,004,000**	1,950,000	
	(10,073,000)	(9,116,000)	919,000
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Dividends	**(1,610,000)**	(953,000)	(571,000)
Issue of share capital	**9,182,000**	7,772,000	
Reduction in long-term debt			(2,412,000)
	7,572,000	6,819,000	(2,983,000)
Increase (decrease) in cash and short-term deposits	**(484,000)**	(319,000)	716,000
Cash and short-term deposits at beginning of year	**2,623,000**	2,942,000	2,226,000
Cash and short-term deposits at end of year	**$ 2,139,000**	$ 2,623,000	$ 2,942,000

The accompanying notes form an integral part of these statements.

December 31, 1987, 1986 and 1985

1. ACCOUNTING POLICIES

The financial statements of Faraday Resources Inc. have been prepared by management in accordance with generally accepted accounting principles in Canada and, except as disclosed in note 7, 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) 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.

On September 1, 1986 the Corporation acquired significant influence in Conwest Exploration Company Limited ("Conwest").

Conwest owns a 26.5% 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. Accordingly, the investment in Conwest and shareholders' equity are reduced by the pro rata interest in the cost to Conwest of its shares of the Corporation, and the Corporation's share of earnings of Conwest reflected in the statement 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.

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

(b) Oil and gas interests

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

Costs, including the costs of production equipment, are depleted and depreciated on the unit of production method based on the estimated gross proven reserves derived from reports prepared by independent consultants. Oil and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content.

Capitalized costs less accumulated depletion and depreciation in the Corporation's single 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 date). 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.

(c) 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.

(d) Segmented information

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

2. AMALGAMATION

The Corporation is the successor company arising from the September 1, 1986 amalgamation of Faraday Resources Inc. ("Old Faraday") and Marcon Canadian Holdings Inc. ("Marcon"). The only assets of Marcon at the time of the amalgamation were its 1,038,500 Class A shares and 442,000 Class B subordinate voting shares of Conwest, representing a 49.5% voting interest and a 15.4% equity interest in Conwest. On amalgamation shareholders of Old Faraday received one share of the Corporation for each share of Old Faraday and shareholders of Marcon received 2.1 shares of the Corporation for each share of Conwest held by Marcon.

The Corporation accounted for the amalgamation as a purchase of Marcon.

3. INVESTMENTS

	1987	1986
(a)		
Companies subject to significant influence		
With quoted market value		
Conwest Exploration Company Limited (quoted market value $37,254,000; 1986 — $26,335,000)	**$33,024,000**	$19,023,000
Hydra Explorations Limited (quoted market value 1986 — $517,000)		217,000
Without quoted market value	**195,000**	195,000
Other shares with quoted market value (quoted market value $4,961,000; 1986 — $389,000)	**4,678,000**	389,000
Mortgages and other unquoted investments	**117,000**	125,000
	4,990,000	926,000
	$38,014,000	$19,949,000

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

	1987	1986
Class A shares	**$ 5,991,000**	$ 5,961,000
Class B shares	**12,022,000**	4,462,000
Redeemable retractable convertible first preference shares, Series B	**12,108,000**	9,625,000
	30,121,000	20,048,000
Net equity in undistributed earnings of Conwest since the date significant influence was acquired	**5,523,000**	365,000
Corporation's pro rata interest in the cost of its own shares held by Conwest	**(2,620,000)**	(1,390,000)
	$33,024,000	$19,023,000

At December 31, 1987, the Corporation's investment in Conwest represents, on an undiluted basis, a 49.8% (1986 — 49.8%) voting interest and a 21.4% (1986 — 16.2%) equity interest.

During 1987 the Corporation purchased 753,640 Class B shares and 82,657 series B preference shares of Conwest for $10,072,000 cash. Subsequent to the year end the Corporation converted all of its series B preference shares of Conwest into Class B shares of Conwest thereby increasing its equity interest in Conwest to 25.8% and its voting interest to 49.9%.

Pursuant to the terms of an agreement dated November 14, 1986, the Corporation acquired an additional 200,000 Class B shares of Conwest for $1,950,000. Settlement of this purchase occurred on January 7, 1987 and, at December 31, 1986, the amount payable on closing was included in accounts payable and accrued liabilities in the accompanying balance sheet.

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 $2,024,000 on the 1987 purchases and $7,212,000 on the 1986 purchases. The fair value adjustments have been allocated as follows:

	1987	1986
Investments		$ 324,000
Mineral resource interests		109,000
Oil and gas interests	**$2,024,000**	$6,779,000
	$2,024,000	$7,212,000

The amounts allocated to mineral resource interests and oil and gas interests are being amortized over the remaining production life of these assets. Amounts allocated to investments will be reversed when the income effect of the underlying assets is recognized by Conwest. At December 31, 1987, the unamortized balance of the fair value adjustments was $7,274,000 (1986 — $6,963,000).

(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, 1987	1986
Assets:		
Cash and commercial paper	**$106,905,000**	$ 12,443,000
Other current	**33,293,000**	3,690,000
Current	**140,198,000**	16,133,000
Investments	**58,988,000**	49,720,000
Oil and gas interests	**81,380,000**	76,816,000
Fixed assets	**20,650,000**	
Other	**2,298,000**	1,376,000
	$303,514,000	$144,045,000
Liabilities and shareholders' equity:		
Current liabilities	**$ 19,723,000**	$ 5,157,000
Long-term debt	**75,900,000**	
Deferred revenue	**3,603,000**	4,328,000
Deferred income taxes	**18,625,000**	3,491,000
	117,851,000	12,976,000
Minority interest	**33,104,000**	
Redeemable preference shares	**15,317,000**	26,306,000
Shareholders' equity attributable to common shares	**137,242,000**	104,763,000
	152,559,000	131,069,000
	$303,514,000	$144,045,000

Summarized Consolidated Statements of Income	Years ended December 31, 1987	1986	1985
Resource and other income	**$105,255,000**	$27,212,000	$33,004,000
Net income	**33,873,000**	9,597,000	14,797,000

(d) During the year, the Corporation sold a part of its interest in Hydra Explorations Limited and ceased to account for this investment on the equity method. The Corporation realized a gain of $1,273,000 on the sale. The Corporation's equity in the earnings of Hydra for each of the two years in the period ended December 31, 1986 was not significant.

4. OIL AND GAS INTERESTS

	1987	1986
(a)		
Balance at beginning of year	**$5,030,000**	$4,731,000
Add:		
Acquisitions in year	**4,000,000**	
Current year's expenditures	**105,000**	723,000
	9,135,000	5,454,000
Deduct:		
Dispositions in year	**1,847,000**	
Depletion and depreciation	**347,000**	424,000
	2,194,000	424,000
Balance at end of year	**$6,941,000**	$5,030,000

(b) At December 31, 1987, accumulated depletion and depreciation of oil and gas interests amounts to $2,323,000 (1986 — $1,976,000).

Depletion and depreciation of oil and gas interests is provided on the unit-of-production method and the rate for 1987, 1986 and 1985 averaged $3.20, $3.01 and $2.98 per equivalent barrel of production, respectively.

(c) Oil and gas production equipment, having a carrying value of $2,055,000 (1986 — $1,730,000) is included in oil and gas interests at cost less accumulated depreciation.

(d) During the year the Corporation sold certain of its oil and gas interests for $5,411,000 realizing a gain of $3,564,000.

(e) Effective December 31, 1987 the Corporation purchased oil and gas interests for $4,000,000. The purchase closed on January 29, 1988 and at December 31, 1987 the amount due on closing is included in accounts payable and accrued liabilities in the accompanying balance sheet. The cost of this acquisition has been excluded from costs subject to depletion.

5. SHARE CAPITAL

(a) Authorized

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

An unlimited number of common shares.

(b) Issued

	Preference shares		Common shares	
	Number	Amount	Number	Amount
Balance January 1, 1986			3,568,653	$ 6,693,000
Issued on September 1, 1986 amalgamation with Marcon			3,109,050	7,772,000
Purchased for cancellation			(169)	
Balance December 31, 1986			6,677,534	14,465,000
Issued for cash	556,461	$9,182,000		
Balance December 31, 1987	556,461	$9,182,000	6,677,534	$14,465,000

(c) Other information

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

(ii) At December 31, 1987 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 for 1987, calculated as though all outstanding first preference shares, series A and the employee stock options had been converted, would be:

Before extraordinary item	$1.23
Extraordinary item	0.30
Net income	$1.53

For years prior to 1987 there were no outstanding convertible securities or options.

6. INCOME TAXES

At December 31, 1987 oil and gas interests, which are carried at $6,941,000 (1986 – $5,030,000) in the accompanying balance sheets, are fully deductible for income tax purposes. In addition, the Corporation has other deductions available to reduce or eliminate income taxes that would otherwise be recorded as a charge against income of future years. Details of these deductions, the tax effect of which has not been reflected in the financial statements, are approximately as follows:

Non-capital losses which expire as follows:

1990	$1,073,000
1991	195,000
1992	905,000
1993	458,000
1994	141,000
	$2,772,000

Deductions of this type were used to eliminate the provision for income taxes for 1987 in the amount of $2,174,000 (1986 – $221,000; 1985 – $543,000).

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

	1987	1986	1985
Combined federal and provincial statutory income tax rates	**51.4%**	51.0%	49.7%
Non-deductible provincial and federal production royalties and taxes, net of rebates	**0.1**	2.6	12.9
Resource and depletion allowances	**(0.6)**	(8.3)	(17.1)
Non-taxable components of investment income	**(31.1)**	(34.6)	(18.3)
Other	**0.1**	1.0	0.9
Effective income tax rate	**19.9%**	11.7%	28.1%

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

(a) For each of the three years in the period ended December 31, 1987 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 in 1987 consist of stock options granted during the year. The convertible preference shares are not considered common stock equivalents. Earnings per share computed under United States' principles are as follows:

	1987	1986	1985
Primary — before extraordinary item	**$1.26**	$0.41	$0.41
— net income	**$1.58**	$0.41	$0.53
Fully diluted — before extraordinary item	**$1.22**		
— net income	**$1.52**		

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

	1987	1986	1985
Accounts receivable	**$108,000**	$ 96,000	$227,000
Preference share dividends payable	**141,000**		
Accounts payable and accrued liabilities	**(67,000)**	(29,000)	159,000
	$182,000	$ 67,000	$386,000

8. OTHER INFORMATION

(a) Related party transactions
Conwest Exploration Company Limited owns 26.5% of the Corporation. As part of normal business operations extensive use is made of Conwest's management and technical services. During 1987 the Corporation's share of such services was $592,000 (1986 — $556,000; 1985 — $510,000).

(b) Revolving credit facility
At December 31, 1987, the Corporation has available an unused revolving credit facility of $6,000,000 with a Canadian chartered bank. This facility is secured by 825,000 Conwest Class B shares. Amounts drawn on this line bear interest at the bank's prime interest rate.

(c) Comparative figures
Certain of the comparative figures in the accompanying financial statements have been reclassified to conform with the presentation adopted in 1987.

(a) Selected Quarterly Financial Data

	Quarter Ended			
	Mar.31	June 30	Sept.30	Dec.31
1987	(Thousands of dollars, except per share amounts)			
Oil and gas production				
Net sales revenue	$ 225	$ 205	$ 224	$ 340
Net production income(1)	105	92	127	139
Income before extraordinary item	5,229	1,821	1,615	49
Per share	0.82	0.28	0.25	(0.01)
Net income	6,955	1,780	2,103	50
Per share	1.09	0.27	0.33	(0.01)
1986				
Oil and gas production				
Net sales revenue	$ 560	$ 467	$ 481	$ 369
Net production income(1)	385	302	293	197
Income before extraordinary item	225	309	287	840
Per share	0.06	0.09	0.06	0.16
Net income	324	315	344	899
Per share	0.09	0.09	0.07	0.17

(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,	
	1987	1986
	(Thousands of dollars)	
Petroleum and natural gas properties	$ 9,264	$ 7,006
Accumulated depletion and depreciation	(2,323)	(1,976)
Net capitalized costs	$ 6,941	$ 5,030
The Corporation's proportionate share of capitalized costs of Conwest	$10,781	$ 6,326

(ii) Costs Incurred

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

1987	$105,000
1986	723,000
1985	295,000

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

The Corporation's proportionate share of costs incurred by Conwest, since the date of acquisition of significant influence in Conwest on September 1, 1986, amounts to:

	Canada	United States	Total
	(Thousands of dollars)		
1987			
Acquisition of properties (unproved)	$ 393		$ 393
Exploration	758	$ 239	997
Development	624		624
	$ 1,775	$ 239	$2,014
1986 (from September 1)			
Acquisition of properties (unproved)	$ 8		$ 8
Exploration	62	$ 54	116
Development	113		113
	$ 183	$ 54	$ 237

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

	Year ended December 31,		
	1987	1986	1985
	(Thousands of dollars)		
Revenue, net of royalties	$ 994	$1,877	$2,700
Production costs	184	276	274
Depletion and depreciation	347	424	499
	531	700	773
Results of operations for oil and gas producing activities (excluding general and administrative overhead and interest costs)	$ 463	$1,177	$1,927

The Corporation's proportionate share of results of operations of oil and gas producing activities of Conwest was $1,323,000 for 1987 and $301,000 for 1986 from the date of acquisition of significant influence in Conwest on September 1, 1986.

(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 shares of proved reserves.

	Crude oil			Natural gas		
	Year ended December 31,			Year ended December 31,		
	1987	1986	1985	1987	1986	1985
	(Thousands of barrels)			(Millions of cubic feet)		
Proved reserves, beginning of year	373	383	306	5,545	5,683	2,449
Sale of reserves	(337)			(66)		
Acquisition of reserves	203			2,158		
Revisions of previous estimates and improved recovery	16	38	91	418	348	1,781
Extensions and discoveries			35			1,833
Production	(11)	(48)	(49)	(552)	(486)	(380)
Proved reserves, end of year	244	373	383	7,503	5,545	5,683

At December 31, 1987, the Corporation's proportionate interest in the proved reserves of Conwest, all of which are located in Canada, was as follows:

Crude oil, including condensates and natural gas liquids (thousands of barrels)	1,296
Natural gas (millions of cubic feet)	13,716

(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,		
	1987	1986	1985
	(Thousands of dollars)		
Future cash inflows	$20,420	$17,495	$32,607
Future costs			
Production	(3,826)	(3,888)	(4,685)
Development	(382)	(41)	(573)
Future pretax cash flows	16,212	13,566	27,349
Future income taxes	(2,354)	(995)	(6,324)
Future net cash flows	13,858	12,571	21,025
10% annual discount for estimated timing of cash flows	(5,237)	(5,338)	(8,194)
Discounted future net cash flows	$ 8,621	$ 7,233	$12,831

At December 31, 1987 the Corporation's proportionate interest in the standardized measure of discounted future net cash flows of Conwest was $14,656,000.

Changes in Standardized Measures of Discounted Future Net Cash Flows	Year ended December 31,		
	1987	1986	1985
	(Thousands of dollars)		
Revisions to reserves proved in prior years			
Revisions of previous quantity estimates	$ 332	$ (174)	$ 3,542
Net changes in prices, production costs and PGRT	1,659	(7,855)	(2,097)
Net changes in estimated future development cost	(305)	531	(351)
Other			
Accretion of discount	722	1,283	1,164
	2,408	(6,215)	2,258
Changes during the year			
Extensions, discoveries and improved recovery, net of related costs			2,870
Acquisition of reserves	2,393		
Sales of oil and gas production, net of related costs	(850)	(1,587)	(2,315)
Sale of reserves	(1,965)		
	(422)	(1,587)	555
Total revisions and changes before income taxes	1,986	(7,802)	2,813
Net changes in income taxes	(598)	2,204	(1,625)
Total revisions and changes	1,388	(5,598)	1,188
Discounted future net cash flows at beginning of year	7,233	12,831	11,643
Discounted future net cash flows at end of year	$8,621	$7,233	$12,831

DIRECTORS

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

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

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

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

Jules Loeb,
General Manager,
Falcon Investments Limited

Howard A. Masson,
Retired Executive

Robert J. Metcalfe,
Partner of the firm of Lang Michener Lash Johnston
Barristers and Solicitors

William M. O'Shaughnessy,
Retired Executive

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

S. Lawrence Koroluk,
Vice-President

J. Andrew Patterson,
Vice-President and Secretary

John S. Adams,
Treasurer

CORPORATE INFORMATION

Registrar and Transfer Agent
The Canada Trust Company
Toronto, Ontario

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

Auditors
Thorne Ernst & Whinney
Toronto, Ontario

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

Printed in Canada

C

Faraday Resources Inc.

Suite 2000
95 Wellington Street West
Toronto, Ontario
M5J 2N7
(416) 362-6721

NOTICE OF ANNUAL AND SPECIAL MEETING OF COMMON SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual and a Special Meeting of holders of common shares of Faraday Resources Inc. (the "Corporation") will be held on Friday, May 27, 1988, at 9:00 a.m. (Toronto time) in the Alberta Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario, for the following purposes:

(a) to receive and consider the financial statements of the Corporation for the year ended December 31, 1987, together with the report of the auditors thereon;

(b) to elect 8 directors;

(c) to appoint auditors and to authorize the directors to fix their remuneration;

(d) to consider, and if thought fit, to pass, with or without variation, a special resolution amending the articles of the Corporation to alter certain provisions of the first preference shares, as a class, as described in the Proxy Statement and Management Information Circular accompanying this Notice; and

(e) to transact such other business as may properly come before the meeting or any adjournment thereof.

The text of the special resolution to be submitted to the Meeting is set out in Appendix "A" to the accompanying Proxy Statement and Management Information Circular.

Shareholders who do not intend to be present at the Meeting are requested to complete and return the accompanying form of proxy. A business reply envelope is enclosed for your convenience.

DATED at Toronto this 11th day of April, 1988.

By Order of the Board,

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

Faraday Resources Inc.

Suite 2000
95 Wellington Street West
Toronto, Ontario
M5J 2N7
(416) 362-6721

NOTICE OF SPECIAL MEETING OF SERIES A PREFERENCE SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a Special Meeting of holders of $1.20 cumulative redeemable retractable convertible first preference shares, series A of Faraday Resources Inc. (the "Corporation") will be held on Friday, May 27, 1988, immediately following the Annual and Special Meeting of common shareholders to be held at 9:00 a.m. (Toronto time) in the Alberta Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario, for the following purposes:

(a) to consider, and if thought fit, to pass, with or without variation, a special resolution amending the articles of the Corporation to alter certain provisions of the first preference shares, as a class, as described in the Proxy Statement and Management Information Circular accompanying this Notice; and

(b) to transact such other business as may properly come before the meeting or any adjournment thereof.

The text of the special resolution to be submitted to the Meeting is set out in Appendix "A" to the accompanying Proxy Statement and Management Information Circular.

Shareholders who do not intend to be present at the Meeting are requested to complete and return the accompanying form of proxy. A business reply envelope is enclosed for your convenience.

DATED at Toronto this 11th day of April, 1988.

By Order of the Board,

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

FARADAY RESOURCES INC.

ANNUAL AND SPECIAL MEETING OF COMMON SHAREHOLDERS AND SPECIAL MEETING OF SERIES A PREFERENCE SHAREHOLDERS TO BE HELD MAY 27, 1988

PROXY STATEMENT AND MANAGEMENT INFORMATION CIRCULAR

Solicitation of Proxies by Management

This Proxy Statement and Management Information Circular ("Information Circular") is furnished in connection with the solicitation of proxies on behalf of the management of Faraday Resources Inc. (the "Corporation") for use at the Annual and a Special Meeting of holders of common shares of the Corporation and the Special Meeting of holders of $1.20 cumulative redeemable retractable convertible first preference shares, series A of the Corporation (collectively the "Meetings") to be held on Friday, May 27, 1988 for the purposes set out in the accompanying Notices of Annual and Special Meetings. The cost of preparing, assembling and mailing the Notices of the Annual and Special Meetings, the Information Circular and forms of proxy for the Meetings will be borne by the Corporation. In addition to the solicitation of proxies by mail, directors, officers and other employees of the Corporation may, without additional compensation, solicit proxies on behalf of management personally or by telephone.

Although it does not currently plan to do so, the Corporation may retain the services of Canadian investment dealers to solicit proxies in Canada, or an agent to solicit proxies in the United States, on behalf of management of the Corporation from shareholders for the Meetings. In such event, the Corporation will compensate any such investment dealers or agent so retained for such services, including reimbursement for reasonable out-of-pocket expenses and legal costs and will indemnify them in respect of certain liabilities which may be incurred by them in performing their services.

The Annual Report of the Corporation for its year ended December 31, 1987, containing audited financial statements, is being mailed to the holders of the Corporation's common and Series A Preference shares with this Information Circular. The mailing date of the Information Circular will be on or about April 22, 1988.

Appointment and Revocation of Proxies

The persons named in the enclosed form or forms of proxy are officers of the Corporation. **A shareholder has the right to appoint a person, who need not be a shareholder, to represent him at the Meetings other than the persons designated in the enclosed form or forms of proxy. Such right may be exercised by inserting such person's name in the blank space provided in the form or forms of proxy or by completing another proxy and depositing it with the Secretary of the Corporation prior to the Meetings or with the chairman of the Meetings.** A shareholder who has given a proxy has the right to revoke it at any time as to any matter on which a vote has not already been cast by signing a written revocation of proxy and depositing such revocation at the offices of the Corporation, Suite 2000, 95 Wellington Street West, Toronto, Ontario M5J 2N7, at any time up to and including the last business day preceding the day of the Meetings, or any adjournment thereof, or with the chairman of the Meetings on the day of the Meetings or any adjournment thereof, or by revoking the proxy in any other manner permitted by law.

Voting of Shares Represented by Management Proxies

Any shares in respect of which a proxy is received by the management of the Corporation will be voted on any ballot that may be called for. Where a shareholder whose proxy is solicited specifies in the form of proxy a choice as to the manner of voting with respect to the matter identified therein, the shares represented by such proxy will be voted in accordance with the specification so made. In the absence of a specification of choice by such means, the person named in the enclosed form of proxy, if any, for use at the Annual and Special Meeting of holders of common shares of the Corporation will vote the shares represented by such proxy in favour of the election as directors of the persons specified herein, in favour of the appointment of auditors as specified herein and authorizing the directors to fix their remuneration and in favour of the special resolutions amending the articles of the Corporation as specified herein.

In the absence of a specification of choice by such means, the person named in the enclosed form of proxy, if any, for use at the Special Meeting of holders of $1.20 cumulative redeemable retractable convertible first preference shares, series A of the Corporation ("Series A Preference Shares") will be voted in favour of the special resolution amending the articles of the Corporation as specified herein.

The enclosed form or forms of proxy confer discretionary authority in respect of amendments or variations to the matters identified in the Notices of Annual and Special Meetings and other matters which may properly come before the Meetings or any adjournment thereof, and will be voted on such matters in accordance with the best judgment of the person voting the proxy. As of the date hereof, the management of the Corporation is not aware of any amendments or variations or other matters to come before the Meetings other than the matters referred to in the Notices of Annual and Special Meetings.

Voting Securities and Principal Holders Thereof

As at April 11, 1988 there were 6,677,534 common shares of the Corporation issued and outstanding. Such shares, each of which carries one vote at meetings of the holders of common shares of the Corporation, are the only securities of the Corporation entitled to be voted at the Annual and Special Meeting of holders of common shares. As at April 11, 1988 there were 556,461 Series A Preference Shares issued and outstanding. Such shares, each of which carries one vote at meetings of the holders of Series A Preference Shares, are the only securities of the Corporation entitled to be voted at the Special Meeting of holders of Series A Preference Shares.

Martin P. Connell beneficially owns 2,145,850 common shares, being 32.1% of such shares, and 216,376 Series A Preference Shares, being 38.9% of such shares, and Conwest Exploration Company Limited ("Conwest") beneficially owns 1,771,370 common shares, or 26.5% of such shares, and 175,126 Series A Preference Shares, being 31.5% of such shares, and such persons are the only persons to the knowledge of the directors and officers of the Corporation who own of record or beneficially, directly or indirectly, more than 5% of the outstanding common shares and Series A Preference Shares of the Corporation. The address of each of Mr. Connell and Conwest is Suite 2000, 95 Wellington Street West, Toronto, Ontario M5J 2N7.

Holders of record on April 8, 1988 will be entitled to vote their common shares and/or Series A Preference Shares at the Meetings. However, if a shareholder has transferred any such shares after such date and the new holder of such shares establishes proper ownership and demands not later than May 17, 1988 to be included in the list of shareholders for the Meetings, then the new holder and not the holder of record on April 8, 1988 will be entitled to vote at the Meetings.

Election of directors

The board of directors of the Corporation consists of between seven and twelve directors who are elected annually. If for any presently unforeseen reason any nominee becomes unavailable for election, the persons named in the enclosed form of proxy, if any, for use at the Annual and Special Meeting of the holders of common shares reserve the right to vote for another nominee in their discretion. The following table sets out certain information concerning the eight persons proposed to be nominated for election as directors. The term of office for each director is from the date of the annual meeting at which he is elected until the next annual meeting of shareholders or until a successor is appointed. Each nominee is a resident of the Municipality of Metropolitan Toronto.

Name	Principal occupation, previous experience and age	Director since	Common shares beneficially owned, directly or indirectly (1)	Percent of class
W. Clarke Campbell (2)	Partner of the firm of Day, Wilson Campbell (barristers and solicitors). Prior to May 27, 1987 Mr. Campbell was Chairman of the Board for more than the preceding five years. (69)	1967	12,400	0.2
Martin P. Connell	Chairman of the Board of the Corporation since May 27, 1987 and a Vice-President since November 17, 1986. Chairman of the Board of Conwest since 1979. (47)	1987	2,145,850	32.1
Colin C. Coolican	Executive Vice-President of the Corporation and Conwest since 1980. (44)	1980	—	—
John C. Lamacraft	President of the Corporation and Conwest since 1979. (46)	1975	40,000	0.6
Jules Loeb	General Manager of Falcon Investments Ltd. (real estate development company) for more than the past five years. (70)	1967	3,000	0.1

Name	Principal occupation, previous experience and age	Director since	Common shares beneficially owned, directly or indirectly (1)	Percent of class
Howard A. Masson	Mining executive, self employed for more than the past five years. (78)	1967	—	—
Robert J. Metcalfe(2)	Partner of the firm of Lang Michener Lash Johnston (barristers and solicitors) for more than the past five years. (48)	1982	8,000	0.1
William M. O'Shaughnessy (2)	Retired since June, 1985. Previously the Secretary-Treasurer of the Corporation for more than five years. (73)	1983	—	—
All directors and officers as a group			2,209,250	33.2

(1) The number of shares shown is based upon information furnished by each person named.
(2) Member of the audit committee.

The Corporation has an audit committee of three directors, none of whom are officers or employees of the Corporation or an affiliate. The audit committee reviews the financial statements of the Corporation before submission to the full board. The committee may require the auditors of the Corporation to appear before it. The auditors also have the right to be heard at any meeting of the audit committee. The audit committee also systematically reviews the Corporation's accounting and financial controls and reporting procedures and reports its findings to the full board of directors. The members of the audit committee are as indicated above. The Corporation does not have a compensation committee or nominating committee.

During 1987, four meetings of the board of directors and one meeting of the audit committee were held. All incumbent directors attended the meetings of the board and committees of which they were members, with the exception of Mr. Connell who missed three meetings of the Board.

Remuneration of and Other Transactions with Directors and Officers

The following table shows all aggregate cash compensation paid by the Corporation for services rendered in all capacities during its fiscal year ended December 31, 1987 by one executive officer whose cash compensation exceeded $60,000, by all executive officers of the Corporation as a group and by all directors of the Corporation as a group.

Name	Capacities in which served	Cash compensation
John C. Lamacraft	President and director	$ 75,000
All executive officers as a group (9)		$326,400
All directors as a group (8)		$ 23,875

All of the executive officers of the Corporation are also officers of Conwest. With the exception of Messrs. Connell and Lamacraft, none of the Conwest officers serving as executive officers of the Corporation receives any cash compensation from the Corporation. Their services as executive officers of the Corporation are rendered pursuant to the management services arrangement between the Corporation and Conwest described below. Mr. Connell is also Chairman of Conwest and Mr. Lamacraft is also President of Conwest, for which each is separately compensated by Conwest.

The Corporation pays directors fees in the amount of $2,500 per annum plus $150 per meeting of the board or committee thereof, attended by a director.

Conwest owns 26.5% of the outstanding shares of the Corporation. The Corporation owns a 49.9% voting interest and 25.8% equity interest in Conwest. As it does with others of its associated companies, Conwest provides the Corporation with certain centralized management services, charging the Corporation and each other such company a proportionate amount of the total cost of such services. Services provided by Conwest pursuant to this arrangement include the services of certain Conwest officers as executive officers of the Corporation, administration of the Corporation's direct production interests in Alberta, access to the services of Conwest's mineral exploration department, and the use of Conwest's management, administrative and accounting services. In return for its use of these services, the Corporation pays 20% of Conwest's total costs for these services. In 1987, the amount paid by the Corporation to Conwest pursuant to this arrangement was $592,007, $182,650 of which was allocable to the services of Conwest officers as executive officers of the Corporation and $409,357 of which was allocable to the other services described above.

A fully secured, non-interest bearing mortgage loan has previously been made by the Corporation to Mr. Coolican. The maximum amount of such indebtedness during fiscal 1987 was $75,000, of which $70,000 remains outstanding.

Appointment of Auditors

Thorne Ernst & Whinney and its predecessor firms have been auditors of the Corporation since its inception, and were auditors of its predecessor companies, and accordingly have acted as the Corporation's principal accountants. A representative of Thorne Ernst & Whinney is expected to be present at the Annual and Special Meeting of common shareholders. In addition to the auditors' rights referred to above in connection with the audit committee, the Corporation's auditors are entitled to attend and be heard at any meeting of the Corporation's directors on matters related to the auditors' duties, as well as any meeting of shareholders on any part of the business of the meeting that concerns the auditors. If present at the Annual and Special Meeting of common shareholders, the auditors are obliged to answer enquiries concerning the basis for the opinion set forth in the auditors' report on the Corporation's financial statements.

The vote necessary for the appointment of the auditors is a majority of the votes cast at the Annual and Special Meeting of the common shareholders. The board of directors of the Corporation recommends that shareholders vote for the appointment of Thorne Ernst & Whinney as auditors.

Modification of First Preference Shares

The authorized share capital of the Corporation includes, in addition to the common shares, First Preference Shares. At present, there is one series of such shares, the Series A Preference Shares, of which 556,461 shares were issued and outstanding as at April 11, 1988.

At present, the rights, privileges, restrictions and conditions attached to the First Preference Shares as a class provide that on a dissolution of the Corporation, holders are entitled for each First Preference Share held by them ". . . to a sum equivalent to the result obtained when the amount in the stated capital account for the First Preference Shares [as a class] is divided by the number of issued and outstanding First Preference Shares". . . The technical effect of this provision is that in order to ensure that each series of First Preference Shares is entitled to a return of capital on a dissolution equal to the subscription price for the particular series, each series must be issued at the same price. To provide flexibility to the Corporation in establishing the price on future issues of shares, if any, and to ensure that in the event of a dissolution holders of each series of First Preference Shares would be entitled to receive a return of capital equal to the amount paid for such series, it is proposed that the dissolution provisions be amended to apply separately to each series of First Preference Shares instead of to the First Preference Shares as a class.

These amendments are of a technical nature, do not alter any other characteristics or rights relating to First Preference Shares and management believes they are in the best interests of the Corporation and the holders of First Preference Shares.

The full text of the special resolution required to amend the articles of the Corporation is set out in Appendix "A" to this Information Circular. To be effective, the special resolution must be passed by at least two-thirds of the votes cast at each of the separate meetings of the holders of the common shares and the Series A Preference Shares.

Shareholders' Proposals for 1989 Annual Meeting

To be considered for presentation to the Annual Meeting of shareholders to be held in 1989, a shareholder proposal must be received at the offices of the Corporation not later than December 31, 1988.

Other Business

The board of directors of the Corporation does not know of any other matters that may come before the Meetings. It should be noted, however, that the enclosed form of proxy is a discretionary proxy and if amendments or variations in the matters identified in the Notice of Annual and Special Meeting of holders of common shares, the Notice of Special Meeting of holders of Series A Preference Shares or any other matter should properly come before the Meetings the shares represented by the form of proxy will be voted upon such other matters in accordance with the best judgment of the named proxy.

Unless otherwise stated the information contained herein is current as of April 11, 1988. The contents and sending of this Information Circular have been approved by the board of directors of the Corporation.

(signed) J. A. Patterson,
Vice-President and Secretary

Toronto, Canada
April 11, 1988

APPENDIX "A"

SPECIAL RESOLUTION OF THE HOLDERS OF COMMON SHARES AND SERIES A PREFERENCE SHARES RELATING TO THE FIRST PREFERENCE SHARES

RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The articles of the Corporation be amended to change the rights, privileges, restrictions and conditions attaching to the First Preference Shares by deleting clause 3.1 thereof and substituting the following therefor:

> "3.1 In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among shareholders for the purpose of winding-up its affairs, the holders of the First Preference Shares of each series shall, before any amount shall be paid to or any property or assets of the Corporation distributed among the holders of the common shares or any other shares of the Corporation ranking junior to the First Preference Shares, be entitled to receive from the property and assets of the Corporation for each First Preference Share of each series held by them respectively, (i) a sum equivalent to the result obtained when the amount in the stated capital account for the First Preference Shares of such series is divided by the number of issued and outstanding First Preference Shares of such series together with, in the case of cumulative First Preference Shares of any series, all unpaid cumulative dividends (which for such purpose shall be calculated as if such cumulative dividends were accruing from day to day for the period from the expiration of the last period for which cumulative dividends had been paid up to but excluding the date of distribution) and in the case of non-cumulative First Preference Shares of any series, all declared and unpaid non-cumulative dividends, and (ii) if such liquidation, dissolution, winding-up or distribution shall be voluntary, an additional amount equal to the premium, if any, which would have been payable on the redemption of the said First Preference Shares of such series if they had been called for redemption by the Corporation on the date of distribution and, if such First Preference Shares of such series could not be redeemed on such date, then an additional amount equal to the greatest premium, if any, which would have been payable on the redemption of said First Preference Shares of such series."

2. The directors and officers of the Corporation are severally authorized to execute such documents and take such further action as they may consider necessary or desirable to implement the foregoing.

3. The directors of the Corporation are authorized to revoke this resolution without further approval of the shareholders at any time prior to the endorsement by the Director under the Ontario Business Corporations Act (1982) of amendment of articles in respect hereof.