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1520 West Adams St.
Phoenix, AZ 85007
602-771-1601
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GLADIATOR (A)

Nor-Quest Resources Ltd. 1986 Annual Report

CORPORATE INFORMATION

Directors and Officers:
Raynerd B. Carson — President and Director
Allan Ferguson — Vice President of Finance and Director
F.M. Stewart — Vice President of Oil & Gas and Director
Donn Burchill — Secretary/Treasurer and Director
John C. Black — Director

Solicitors:
Sobolewski Anfield
16th Floor Stock Exchange Tower
609 Granville Street
P.O. Box 10068 Pacific Centre
Vancouver, BC, Canada, V7Y 1C3
(604) 669-1322

Stern, Lane & Neild
144 Exchange Boulevard
Rochester, NY, USA 14614
(716) 546-6320

Bankers:
Canada Trust
1150 North Terminal Avenue
Nanaimo, BC, Canada, V9S 5L6
(604) 754-7731

Auditors:
Lilly, Johannesson, McWilliams, Pallone
Chartered Accountants
1052 Richards Street
Vancouver, B.C. Canada, V6B 4Y6
(604) 685-1351

Registrar and Transfer Agent:
National Trust Company
Park Place Tower
666 Burrard Street
Vancouver, BC, Canada, V6E 2Z9
(604) 684-8431

Head Office:
2231-G McGarrigle Road
Nanaimo, BC, Canada, V9S 4M5
(604) 758-8161 FAX # (604) 758-8900

Registered and Records Office:
Sobolewski Anfield
16th Floor Stock Exchange Tower
609 Granville Street
P.O. Box 10068 Pacific Centre
Vancouver, BC, Canada, V7Y 1C3
(604) 669-1322

Subsidiary and Affiliated Companies:

Nor-Quest Arizona Inc.
P.O. Box 416
Crown King, AZ, USA 86343
(602) 632-7171 — Mine Office
(602) 632-9604

Nor-Quest Minerals Inc.
P.O. Box 249
Mayer, AZ, USA 86333
(602) 632-9604

Imco Resources Ltd.
2231-G McGarrigle Road
Nanaimo, BC, Canada
V9S 4M5
(604) 758-8161

Exchange Listings:
Shares of the company are listed on the Vancouver Stock Exchange: Symbol NQT
NASDAQ: Symbol NQRLF

Photos on facing page
1. *Mine geologist viewing Gladiator vein structure.*
2. *Diamond drill tower on Imco's "Golden Eagle" project in Arizona.*
3. *View of ball mill and flotation cells on Gladiator property.*

Flotation Cells
The process of extracting gold and silver from the Gladiator property is accomplished by crushing and grinding the ore to a consistency of powder and separating the minerals from the rock by flotation. The concentrates are then shipped to a smelter to extract the gold, silver and base metals.

Inset Photo
Truck loaded with 20 tons of concentrates enroute to smelter.

6. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES (see Note 1 (b))

(a)

	% Ownership	1986	1985	1984
Adventure Resources Ltd.	50	$ 1	$ 1	$ 1
Nor-Ray Ol and Gasgewinnugs — GMBH	50	1	1	1
Imco Resources Ltd. (formerly Abitibi Asbestos Mining Company Limited)	42	109,106	132,335	—
Beau Val Mines Ltd.	38	—	232,090	238,418
		$109,108	$364,427	$238,420

(b) Effective November 15, 1984, Nor-Quest Resources Ltd. acquired 3,771,332 common shares (58%) of Imco Resources Ltd. The purchase price was $375,718 which was comprised of cash totalling $218,218 and 150,000 shares of Nor-Quest Resources Ltd. with a value of $157,500.

Also acquired under the purchase agreement was a promissory note securing advances totalling $2,993,522. This promissory note is valued at a nominal $1.

Pursuant to a share purchase agreement dated June 5, 1984, the company disposed of 700,000 shares of Imco Resources Ltd. for proceeds of $199,500 thereby reducing its interest in the company to 42%.

The remaining 3,071,332 shares are recorded as marketable securities on the company's balance sheet.

(c) On November 19, 1985, the Board of Directors surrendered 2,000,000 shares of Beau Val Mines Ltd., representing 100% of the shares held by the company, as a result the investment in and advances to Beau Val Mines Ltd. has been written-off.

7. INVESTMENTS IN AND ADVANCES TO LIMITED PARTNERSHIPS (see Note 1 (b))

The company has formed several limited partnerships for the purpose of acquiring, exploring and developing resource properties. The company acts as co-general partner in these partnerships.

(a) Partnership	% Ownership	1986	1985	1984
Raymac '80 Drilling Program	15			
— Capital		$ 4,253	$ 7,389	$ 16,205
Raymac '80 OK Drilling Program	14			
— Capital		48,687	56,884	60,569
Raymac '80 TEX Drilling Program	20			
— Capital		—	—	14,269
Nor-Quest Goldsearch Mining Limited Partnership	1			
— Capital (Note 3 (b))		—	3,291	3,291
— Advance		—	—	11,354
Goat Ridge Mining Limited Partnership	1			
— Accumulated losses since acquisition		(13,725)	(13,725)	(13,682)
— Advance		—	—	221,274
		$ 39,215	$ 53,839	$313,280

8. FIXED ASSETS

	Cost	Accumulated Depletion	Net Book Value 1986	1985	1984
Land	$ 13,256	$ —	$ 13,256	$ 13,256	$ 13,256
Mobile homes, building	28,029	14,690	13,339	11,775	25,750
Office furniture and fixtures	21,705	14,688	7,017	8,771	10,964
Machinery and equipment	—	—	—	115,857	176,518
Mine equipment	862,086	—	862,086	34,541	—
Leasehold improvements	1,958	1,568	390	782	1,175
	$927,034	$ 30,946	$896,088	$184,982	$227,663

Depreciation charges are calculated as follows:

Office furniture and equipment	— 20% declining balance
Automobile and equipment	— 12½% straight-line
Mobile homes	— 10% straight-line
Leasehold improvements	— 20% straight-line

9. BANK INDEBTEDNESS

	1986	1985	1984
Demand loan secured by a chattel mortgage on mobile homes and equipment. Interest payable monthly at bank prime plus 4%	$ 7,795	$ 40,694	$ 85,253

10. CONVERTIBLE DEBENTURE

The debenture bears interest at 14½% per annum and is convertible into shares of the company at a price of $2.00 (Canadian) per share. The debenture matured on April 30, 1985. The company has not paid interest on the debenture since April 30, 1984 and has not made the principal payment required on April 30, 1985. However, during the year various debenture holders exercised the conversion option to convert the debt into shares of the company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1986 (expressed in Canadian dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation
The financial statements include the accounts of Nor-Quest Resources Ltd. and its wholly-owned subsidiaries Nor-Quest Arizona, Inc. and Nor-Quest Minerals, Inc. Also included in the consolidated accounts is the proportionate share of the assets, liabilities, revenues and expenses of the joint venture which the company has the majority interest.

(b) Investments in Affiliated Companies, Limited Partnerships and Joint Ventures
The company follows the equity method of accounting for its investment in limited partnerships in which the company has significant influence. Under the equity method, investments are recorded at cost plus the company's equity in undistributed earnings since acquisition.

(c) Resource Properties
The costs of acquiring, exploring for and developing resource properties are capitalized until such time as the properties are put into commercial production, sold or abandoned. Producing resource properties are recorded at cost less depletion. Costs are depleted using the unit of production method based upon estimated reserves.

(d) Foreign Currency Translation
The accounts of foreign subsidiaries are translated to Canadian dollars on the following basis:
i) Current assets and liabilities at the rate of exchange in effect as at the balance sheet date.
ii) Fixed assets at the rate of exchange in effect at the date on which the respective assets were acquired.
iii) Revenue and expenses (excluding depreciation and depletion which are translated at the same rate as the related assets) at the average rate of exchange for the year.

(e) Revenue Recognition
The company follows the full accrual method of accounting for management fees.

(f) Option on Resource Properties
The company has acquired an option to purchase certain mining claims in Arizona. Option payments on the described claims are recorded when paid and future option payments are not considered a liability until due (Note 3 (b)).

2. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	1986	1985	1984
Trade accounts receivable	$ 23,013	$137,335	$ 60,153
Share subscriptions receivable	249,498	—	86,438
Loan receivable	—	—	81,637
Due to officers and directors	—	(17,723)	—
	$272,511	$119,612	$228,228

3. RESOURCE PROPERTIES HELD FOR EXPLORATION AND DEVELOPMENT

(a) OIL AND GAS LEASES

	Cost	Accumulated Depletion	Net Book Value 1986	1985	1984
Texas	$470,780	$159,203	$311,577	$326,012	$376,916
Oklahoma	118,224	57,391	60,833	65,571	368,588
	$589,004	$216,594	372,410	391,583	745,504
(b) OPTION PAYMENTS ON RESOURCE PROPERTIES					
Mineral claims — Gladiator Arizona			382,575	153,075	79,950
			$754,985	$544,658	$825,454

By an agreement dated October 20, 1982 Nor-Quest Arizona, Inc. has the option to purchase 12 patented mining claims located in Yavapai County, Arizona. Remaining minimum option payments under the agreement are as follows (in U.S. funds):

October 20, 1986	$100,000
October 20, 1987	$ 90,000

Net smelter returns will be credited towards the total purchase price.

By an agreement dated June 1, 1983, (amended August 27, 1984) Nor-Quest Arizona, Inc. has acquired the exclusive right to explore for, develop, mine and remove any minerals under the surface of certain property which is located in Yavapai County, Arizona.

Under the terms of the amended agreement, Nor-Quest Arizona, Inc. has paid $81,250 U.S. and is required to pay the greater of 5% of net smelter returns or $12,500 U.S. quarterly for the two years commencing September 1, 1984. On September 1, 1986 the agreement reverts back to its original terms being $25,000 U.S. quarterly.

Should any of the required payments not be made, Nor-Quest Arizona, Inc.'s right under the agreement terminates.

4. WAR EAGLE PARTNERSHIP

The company is involved in a partnership for the purpose of developing mineral claims located in Yavapai County, Arizona (Note 3). The company has retained 62.5% interest in the partnership, to which it has contributed a 100 ton per day benefication plant, complete with crushers, ball mill, floatation cells and other mill equipment.

All exploration, development and administrative expenditures relating to the project have been deferred until such time as the property is put into commercial production, sold or abandoned. Therefore the recovery of the costs is dependent upon obtaining adequate financing and developing economic mining operations. If mineral interests are abandoned, these costs are charged to operations. Deferred expenditures are recorded at cost and are not intended to reflect present or future worth.

5. PARTNERSHIP INTEREST

Subsequent to the year end Nor-Quest Resources Ltd. agreed to acquire an additional 15% interest in the War Eagle Partnership. The purchase will increase Nor-Quest Resources Ltd.'s interest in the partnership from 62.5% to 77.5%. Subject to regulatory approval before December 31, 1986, the company will issue 304,000 shares to acquire this interest.

CONSOLIDATED SCHEDULE OF ADMINISTRATION COSTS

SCHEDULE I

YEAR ENDED MARCH 31, 1986
(expressed in Canadian dollars)

	1986	1985	1984
Advertising and promotion	$ 6,089	$ 11,780	$ 31,380
Consulting fees	101,388	83,273	4,786
Equipment maintenance	771	5,107	21,085
Insurance & licences	2,450	8,559	9,874
Office & miscellaneous	21,533	31,755	30,370
Professional services	87,803	66,164	56,839
Shareholder reports	23,650	6,383	17,740
Stock exchange fees	3,130	1,325	5,293
Telephone	6,850	18,646	19,758
Transfer agent	14,473	15,983	14,071
Travel	13,593	14,409	22,362
Wages & benefits	28,302	187,302	157,403
Loss on currency exchange	27,938	138,640	2,119
	337,970	589,326	393,080
Administration costs relating to resource properties capitalized	—	(37,212)	—
	$337,970	$552,114	$393,080

RECONCILIATION OF SHARE CAPITAL WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

SCHEDULE II

MARCH 31, 1986
(expressed in Canadian dollars)

	1986	1985	1984
PER ITEM 17 (c)(2)(ii)			
Share capital, as reported	$11,012,763	$8,586,517	$8,226,137
LESS:			
Share subscription receivable	249,498	—	86,438
Share capital in accordance with accounting principles generally accepted in the United States	$10,763,265	$8,586,517	$8,139,699
The cumulative effect of the above changes are as follows:			
Shareholders equity, as reported	$ 2,309,065	$ 480,956	$1,066,590
Share subscription receivable	249,498	—	86,438
Shareholders equity in accordance with accounting principles generally accepted in the United States	$ 2,059,567	$ 480,956	$ 980,152

CONSOLIDATED STATEMENT OF DEFICIT YEAR ENDED MARCH 31, 1986

(expressed in Canadian dollars)

	1986	1985	1984
DEFICIT, BEGINNING	$8,105,561	$7,159,547	$6,081,041
NET LOSS FOR THE YEAR	598,137	946,014	1,078,506
DEFICIT, ENDING	$8,703,698	$8,105,561	$7,159,547

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MARCH 31, 1986 (expressed in Canadian dollars)

	1986	1985	1984
OPERATING ACTIVITIES			
Net loss from operations	$ (598,137)	$ (946,014)	$(1,078,506)
Items not involving cash:			
Depreciation and depletion	24,234	61,760	82,260
Resource properties abandoned	—	256,400	—
Exchange loss unrealized	—	94,125	—
Affiliated companies advances written-off	302,499	48,189	178,386
Partnership advances written-off	—	201,934	49,377
Loss on disposal of fixed assets	4,900	14,429	42,121
Net loss of limited partnerships	(261)	920	50,747
Gain on sale of limited partnership	—	—	(153,419)
	(266,765)	(268,257)	(829,034)
Net change in non-cash working capital items	(241,392)	(62,714)	(651,733)
Funds used in operating activities	(508,157)	(330,971)	(1,480,767)
INVESTING ACTIVITIES			
Option payments on resource property	(229,500)	(73,125)	—
Deferred exploration and development	(684,177)	(236,192)	(125,241)
Advances to affiliated companies	(47,180)	(475,578)	(60,995)
Limited partnerships, net	14,626	57,508	—
Acquisition of fixed assets, net	(716,167)	(13,323)	109,474
Proceeds from sale of limited partnership	—	—	500,000
Undisbursed joint ventured funds	—	—	402,195
Funds used in investing activities	(1,662,398)	(740,710)	825,433
FINANCING ACTIVITIES			
Issuance of shares	2,426,246	360,380	1,593,467
Convertible debenture	(310,150)	—	—
Long-term debt repaid	—	—	(268,660)
Funds provided by financing activities	2,116,096	360,380	1,324,807
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,459	(711,301)	669,473
Cash and cash equivalents, beginning	(35,902)	675,399	5,926
CASH AND CASH EQUIVALENTS, ENDING	$ 18,557	$ (35,902)	$ 675,399
CASH AND CASH EQUIVALENTS COMPRISE:			
Cash	$ 26,352	$ 4,792	$ 760,652
Bank indebtedness	(7,795)	(40,694)	(85,253)
	$ 18,557	$ (35,902)	$ 675,399

The accompanying notes are an integral part of these financial statements.

COMMENTS BY AUDITOR FOR U.S. READERS ON CANADA-U.S. REPORTING CONFLICT

In the United States, reporting standards for auditors require the expression of a qualified opinion when the financial statements are affected by significant uncertainties such as that regarding the recoverability of amounts shown for deferred exploration, development and administration expenditures described in note 4 of the financial statements. The opinion in our report to the shareholders dated June 13, 1986 is not qualified with respect to, and provides no reference to this uncertainty since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainty is adequately disclosed in the financial statements.

Vancouver, B.C., Canada
June 13, 1986

LILLY, JOHANNESSON, McWILLIAMS, PALLONE
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS YEAR ENDED MARCH 31, 1986

(expressed in Canadian dollars)

	1986	1985	1984
REVENUE			
Oil and gas lease sales	$ —	$ —	$ 375,167
Oil and gas production (Note 12)	66,162	116,114	136,313
Interest	—	391	5,044
Equipment rental	37,380	8,507	4,730
Management fees	86,850	315,559	118,024
	190,392	440,571	639,278
EXPENSES			
Cost of oil and gas leases sold	—	—	508,643
Oil and gas well operating costs	30,748	39,816	13,491
Exploration and development (recovered)	—	—	(375)
Resource properties abandoned	—	334,160	9,348
Dryhole costs	—	—	114
Administration (Schedule I)	337,970	552,114	393,080
Interest and finance charges	158,942	217,562	146,731
Bad debts	32,300	5,718	385,698
Provision for depreciation	5,061	29,389	39,139
Provision for depletion	19,173	32,371	43,121
	584,194	1,211,130	1,538,990
LOSS BEFORE OTHER EXPENSES	(393,802)	(770,559)	(899,712)
Net (earnings) loss from limited partnerships	(261)	920	50,747
Net loss of affiliated companies	—	39,746	11,582
Loss on disposal of fixed assets	4,900	14,429	42,121
Advances written-off (Note 6(c))	302,499	235,854	178,386
Loss on dissolution of partnership	—	14,269	49,377
	307,138	305,218	332,213
LOSS BEFORE OTHER INCOME	(700,940)	(1,075,777)	(1,231,925)
OTHER INCOME			
Gain on sale of shares of Imco Resources Ltd.	—	129,763	—
Gain on sale of interest in limited partnership	—	—	153,419
Recovery of prior year's expense	102,803	—	—
NET LOSS FOR THE YEAR	$ (598,137)	$ (946,014)	$(1,078,506)
Earnings per share (Note 13)	$ (.12)	$ (.24)	$ (.33)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET MARCH 31, 1986

(expressed in Canadian dollars)

ASSETS

	1986	1985	1984
Cash	$ 26,352	$ 4,792	$ 760,652
Accounts receivable (Note 2)	272,511	119,612	228,228
Marketable securities, at cost (Note 6(b)) (Market value 1986 — $1,689,232)	301,382	301,382	—
Resource properties (Note 3)	754,985	544,658	825,454
Deferred exploration and development (Note 4)	1,130,597	446,420	210,228
Investments in and advances to:			
Affiliated companies (Note 6)	109,108	364,427	238,420
Limited partnerships (Note 7)	39,215	53,839	313,280
Fixed assets (Note 8)	896,088	184,982	227,663
Option payments	—	—	196,067
Other assets	4,756	4,226	2,617
	$3,534,994	$2,024,338	$3,002,609

LIABILITIES

	1986	1985	1984
Bank indebtedness (Note 9)	$ 7,795	$ 40,694	$ 85,253
Accounts payable and accrued	662,334	636,738	676,746
Convertible debenture (Note 10)	555,800	865,950	771,825
Undisbursed joint venture funds	—	—	402,195
	1,225,929	1,543,382	1,936,019

SHAREHOLDERS' EQUITY

	1986	1985	1984
Share capital (Note 11)	11,012,763	8,586,517	8,226,137
Deficit	(8,703,698)	(8,105,561)	(7,159,547)
	2,309,065	480,956	1,066,590
	$3,534,994	$2,024,338	$3,002,609

APPROVED BY THE DIRECTORS

Director

Donn Burchill

Director

The accompanying notes are an integral part of these financial statements.

AUDITORS' REPORT

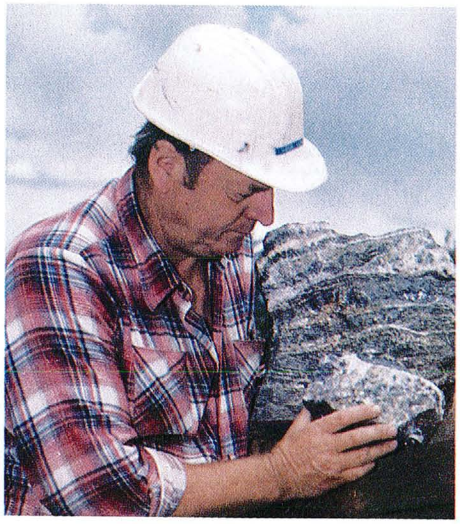
To the Shareholders
Nor-Quest Resources Ltd.

We have examined the consolidated balance sheet of Nor-Quest Resources Ltd. as at March 31, 1984, 1985, 1986 and the consolidated statements of earnings, deficit and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards in Canada, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1984, 1985, 1986 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 in Canada applied on a basis consistent with that of the preceding year.

Vancouver, B.C., Canada
June 13, 1986

LILLY, JOHANNESSON, McWILLIAMS, PALLONE
Chartered Accountants



Ray Carson, President, examining ore samples at the Gladiator Mine in Arizona.

IMCO RESOURCES LTD.

Stock Exchange Symbols:
Montreal: IMC-M, Vancouver: IMC-V, New York: OTC

Nor-Quest owns 41% of the outstanding shares of Imco Resources Ltd. Imco's shares are listed on the Vancouver and Montreal Stock Exchanges and also trade over the counter in New York.

Northwestern Quebec

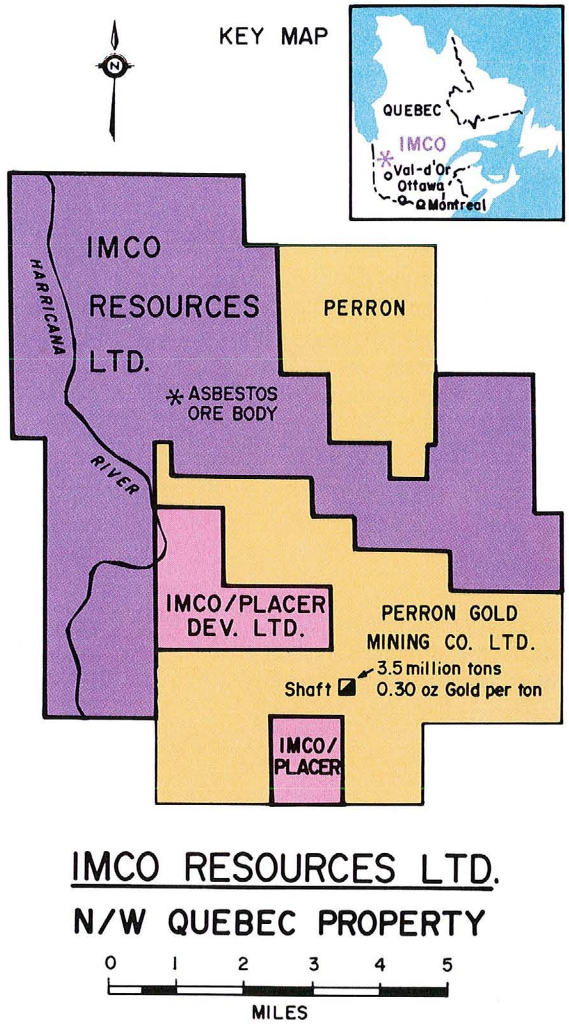
A very important gold discovery now under development in northwestern Quebec is adjacent to Imco's 15,000 acre property. Perron Gold Mining Co. Ltd., has recently announced ore reserve estimates of three million tons of 0.30 oz. gold per ton. The same geology trends into Imco's holdings for several miles. Imco has entered into an agreement on part of this acreage with a major international mining company, Placer Development Ltd. Within 3 years, Placer can earn a 60% interest in the 3,000 acre project by performing exploration work and making a production decision. Over the past year, Placer carried out ground geophysical surveys and has commenced a diamond drilling program.

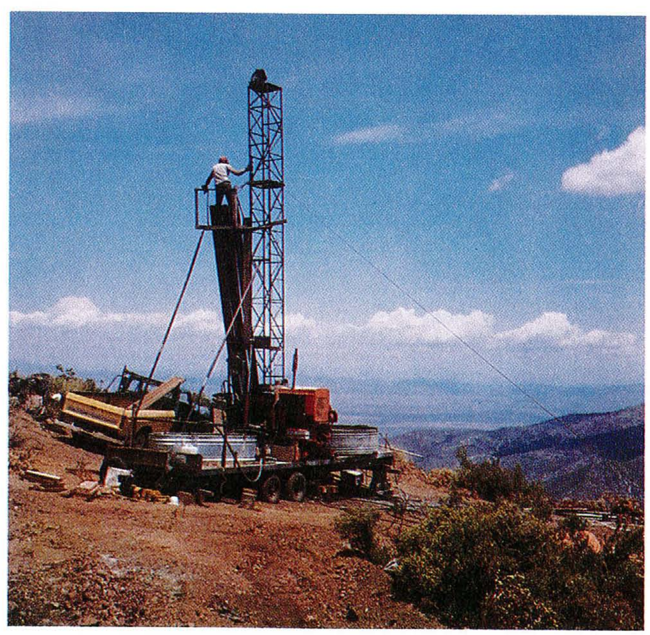
Perron has a new gold discovery located only 300 feet from Imco's property. Placer/Imco commenced a diamond drilling program in July in this area.

Arizona

Imco has started a diamond drilling program on its "Golden Eagle" property located 3,000 feet east of the Gladiator mine.

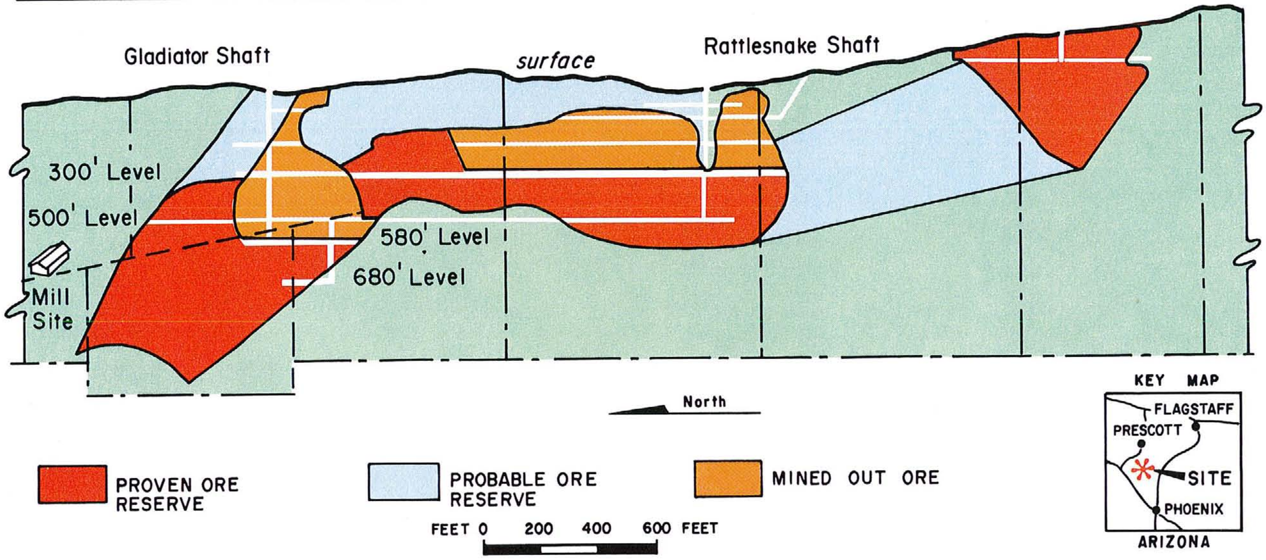
The purpose of the drilling program is to confirm 328,000 tons ore reported by previous operators. This turn-of-the-century producing property is an exciting prospect that could develop into a high grade producer.





Diamond drill on Imco Resources Ltd. "Golden Eagle" property in Arizona.

GLADIATOR / FAIRVIEW PROJECT - *GLADIATOR VEIN SECTION*



PROGRAMS CURRENTLY UNDER WAY

Gladiator/Fairview Mine

The Gladiator/Fairview project is located 60 miles north of Phoenix, Arizona. Property holdings consist of 1,100 acres in a single block covering one mile in width and nearly 2½ miles in length.

Nor-Quest is the operating partner with a 77.5% interest. $3,500,000 US has been spent over the past 3 years to bring this property into production.

RESERVES

Gladiator Vein System

Feasibility studies carried out in 1983/84 confirmed proven and probable ore reserves of 81,138 tons of 0.58 oz. gold per ton and 3.72 oz. silver per ton over a width of 4.6 feet on the Gladiator/War Eagle vein. In 1985 an underground sampling program increased these proven reserves by 30,000 tons to 111,000 tons. The proven and probable ore reserves are sufficient to support a 100 ton per day operation for 4 years. The Gladiator vein, dipping at 68 degrees and striking north-south, has been explored along 4,000 feet of length and is still open to the north and to depth.

Fairview Vein System

Diamond drilling and assaying carried out to date on the Fairview vein has indicated 88,000 tons of ore grading 0.50 oz. gold per ton and 2.0 oz. silver per ton over a width of three feet. This structure is wide open on strike to the north and south.

A 280 foot underground tunnel was driven on the Fairview vein at the turn of the century. Old records show the entire length to have good gold and silver values. The Company intends to rehabilitate this old tunnel and resample the underground workings in 1986.

Spring Green Vein System

A diamond drilling program will get under way in August to evaluate the Spring Green gold and silver structure, which is located within 400 feet of the present underground Gladiator workings.

PRODUCTION

The mine and mill are currently producing 100 tons per day.

FINANCING

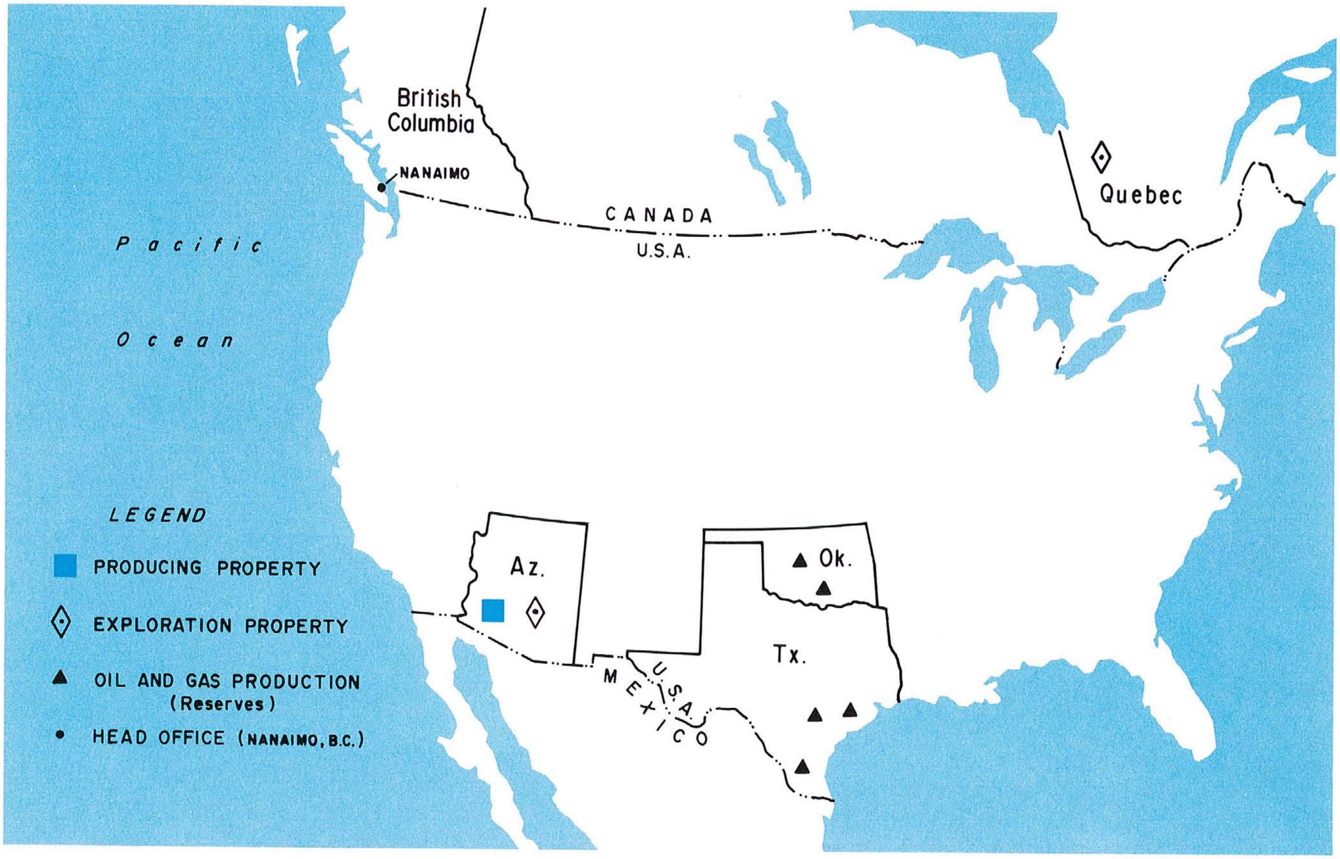
In early August 1985, Nor-Quest Arizona Inc. successfully completed a Private US Limited Partnership for $1,150,000 US.

Galt Resources Inc., a wholly owned subsidiary of James U. Blanchard & Co. of Louisiana, acquired 15% interest in the property for $400,000 US. The Company entered into an agreement with James U. Blanchard & Co. in 1986 to increase Nor-Quest's ownership to 77.5%.

Nor-Quest has advanced the project additional funds in 1986.

OPERATING PROFITS

Feasibility studies project the cost of producing an ounce of gold at $170 US. With a gold price of $300 US per ounce and 100 ton per day production, the project is estimated to generate operating profits of $200,000 US per month before taxes.



MANAGEMENT TEAM

Raynerd B. Carson — *President and Director*

For the past 20 years Ray Carson has been actively engaged as a prospector and ''mine finder'' in Canada and the United States.

During 1965, in northern Quebec, he discovered and staked Abitibi Asbestos (now Imco Resources Ltd.), considered the largest asbestos deposit in the western world. Mr. Carson lived and worked in the heart of Quebec's gold country for many years, acquiring intimate knowledge of the area's mineral properties.

Mr. Carson's knowledge and tenacity have been key factors in the development of the Company's Gladiator and Imco projects.

Personally, and through a private holding company, Mr. Carson controls approximately 8% of Nor-Quest stock.

Allan Ferguson — *Vice President of Finance*

Mr. Ferguson brings many years of international financing experience to the Company. Mr. Ferguson is a director of several European based companies and has an intimate knowledge of mine financing.

F.M. Stewart — *Vice President of Gas & Oil and Director*

Mr. Stewart is a professional engineer and a recognized authority in resource property financing. He has held senior management positions with Amoco Production Company and Morgan Guaranty Trust of New York.

Mr. Stewart was instrumental in introducing Nor-Quest to the oil and gas industry in the United States resulting in the Company participating in numerous prospects in Texas and Oklahoma.

Donn Burchill — *Secretary/Treasurer and Director*

Mr. Burchill, a Registered Industrial Accountant, is responsible for the administration of the Company's corporate and financial affairs. He has been with Nor-Quest since 1982, prior to which he held various positions in the forest industry and public accounting firms as an external auditor.

John C. Black — *Director*

Mr. Black has been a director of Nor-Quest since 1977. A Chartered Accountant, Mr. Black has held key management positions with several resource companies.

PRESIDENT'S REPORT

On behalf of the Board of Directors, I am proud to report that the Company is now a gold producer.

Over the past few years the transition from an exploration and development company to an operating gold mining company has sometimes been slow and frustrating. Nor-Quest now has a solid foundation to build on.

The Gladiator mine, the only producing underground gold mine in Arizona, is currently mining and milling 100 tons per day. Management is confident that production will be increased over the next year.

An exploration program has recently started on known parallel gold structures with the purpose of substantially increasing ore reserves in 1986.

During the past year, Nor-Quest entered into an agreement with James U. Blanchard & Co. to acquire their 15% stake in the Gladiator project, thus increasing our interest to 77.5%.

Nor-Quest holds 41% of the issued shares of Imco Resources Ltd. Imco has recently commenced an ambitious exploration project on its ''Golden Eagle'' property located near the Gladiator mine. Also, the Imco (40%) Placer Development Ltd. (60%) joint venture program is well under way in northwestern Quebec. Perron Gold Mining Co. Ltd. has a major gold ore body immediately adjacent to Imco's land holdings. Perron has recently obtained commercial gold values within 300 feet of Imco's common boundary. This area is currently being diamond drilled by the Imco/Placer joint venture.

The discovery of a gold deposit on either of Imco's properties would have a positive impact on Nor-Quest.

With great pleasure, we welcome Allan Ferguson, of the United Kingdom, to the Board of Directors. Mr. Ferguson has been instrumental in raising substantial new capital for the Company and his international presence will auger well for future acquisitions and financing.

The continued support of shareholders is greatly appreciated.

August 8, 1986

Raynerd B. Carson, President

THE COMPANY

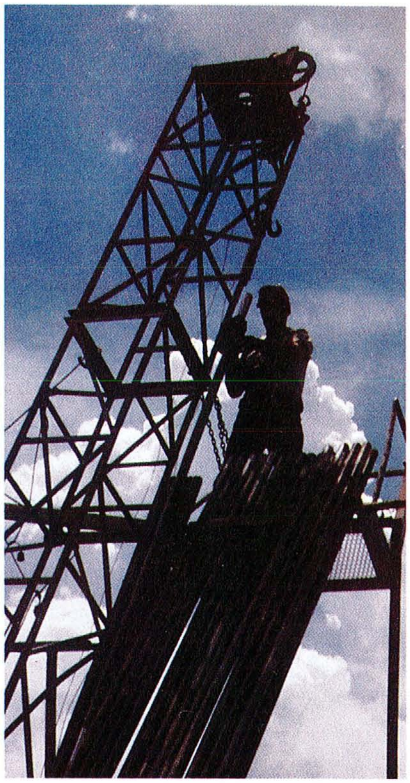
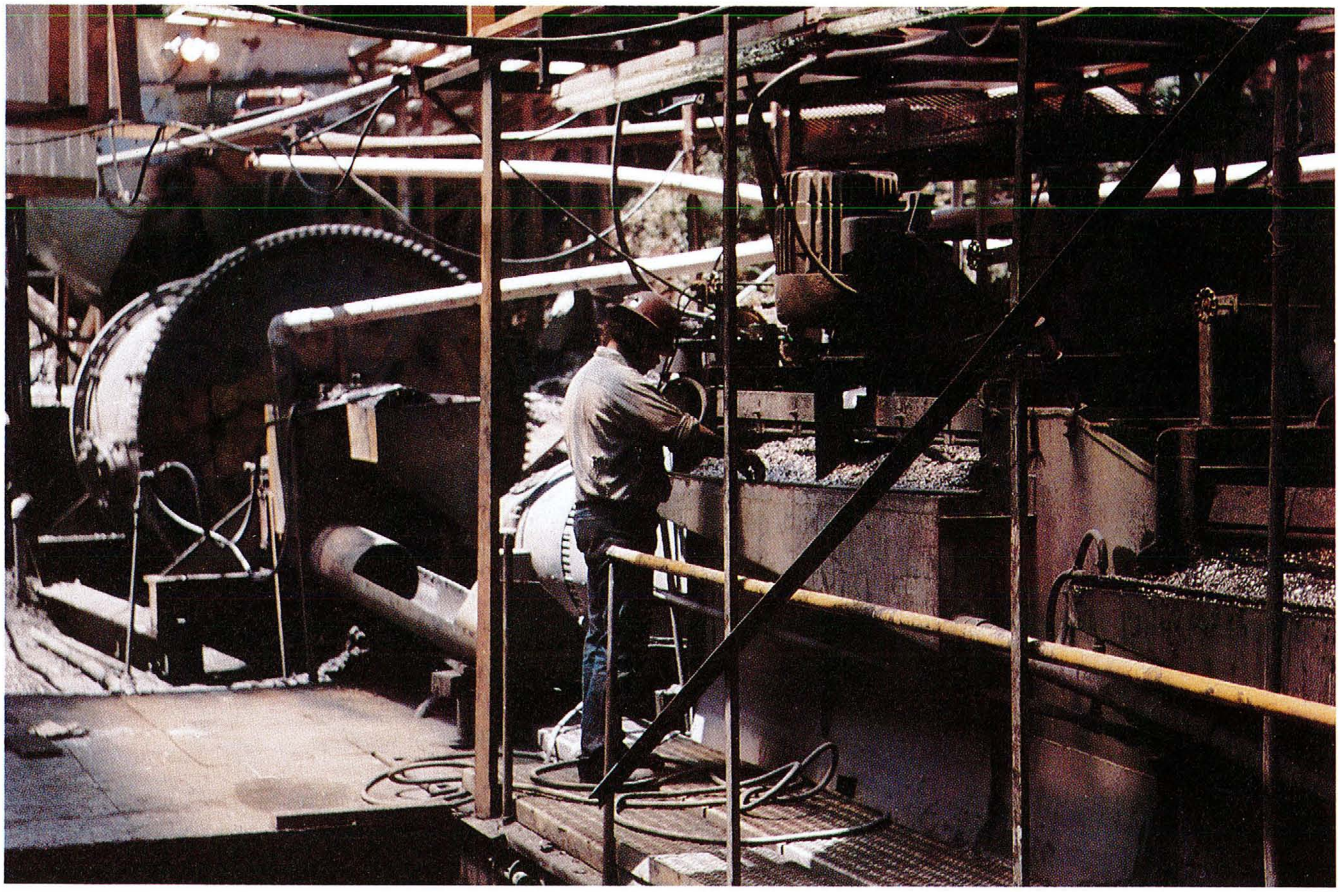
Nor-Quest Resources Ltd., was reorganized in 1977 following a series of share conversions. The Company has since aggressively pursued the exploration and development of natural resources in Canada and the United States.

Precious metal exploration in Canada has been conducted in Quebec and British Columbia while activities in the United States have been concentrated in Arizona.

The Company also has interests in oil and gas exploration acreage and producing wells in Texas and Oklahoma.

Nor-Quest's strategy is to acquire quality resource properties and promote them to limited partnerships or industry partners.

As of March 31, 1986, Nor-Quest's 5,789,100 outstanding common shares were held by 1,955 registered shareholders.

11. SHARE CAPITAL

Authorized

10,000,000 shares without par value

Issued

Share capital has been issued for the following consideration to March 31, 1986:

	Shares	1986	1985	1984
Cash	4,099,391	$ 7,610,048	$6,746,272	$6,746,272
Expenditures	1,364,762	1,903,069	743,495	540,615
Mining claims	260,000	939,250	939,250	939,250
Conversion of debenture and interest	214,947	402,896	—	—
Affiliated companies	150,000	157,500	157,500	—
	6,089,100	$11,012,763	$8,586,517	$8,226,137

During the current year the company issued the following:

	Shares	Proceeds	Commissions	Net Proceeds
Cash	635,000	$ 892,000	$ 28,224	$ 863,776
Expenditures	882,629	1,188,754	29,180	1,159,574
Conversion of debenture and interest	214,947	402,896	—	402,896
	1,732,576	$2,483,650	$ 57,404	$2,426,246

Options to purchase shares of the company are outstanding as follows:

To Employees

50,000 shares at $ .80 to April 1, 1990
13,000 shares at $1.55 to March 22, 1988

Warrants to purchase shares of the company are outstanding as follows:

500,000 warrants at $1.93 to December 2, 1986
200,000 warrants at $1.65 to March 11, 1987

Subsequent to the year end additional options were issued to employees as follows:

25,000 shares at $1.74 to April 21, 1991

12. PRODUCTION INCOME

Liens have been placed on certain of the company's producing wells by the drilling company to recover amounts spent for drilling services, which are being repaid from the production revenue.

13. EARNINGS PER SHARE

	1986	1985	1984
Basic			
Loss before other income and expense	$ (.08)	$ (.21)	$ (.30)
Other income and expense	$ (.04)	$ (.03)	$ (.03)
Loss for the year	$ (.12)	$ (.24)	$ (.33)

Basic earnings per share are calculated using the weighted average number of shares outstanding during the year. Fully diluted earnings per share have not been disclosed since its effect would decrease the loss per share.

14. REMUNERATION OF OFFICERS

Remuneration paid or payable to senior officers of the company for the year ended March 31, 1986 totalled $101,388 (1985: $112,018; 1984: $97,941).

15. RELATED PARTY TRANSACTIONS

(a) During the year ended March 31, 1986 the company received $86,850 from related parties as administration fees.

(b) The company, in the normal course of business, participates in oil and gas exploration and development activities jointly with related parties. Transactions are carried out on terms believed by the company to be no more or less favourable than those that could be obtained from unrelated parties.

(c) Under the terms of an agreement dated May 6, 1980 three directors of the company have carried interests totalling 4.5% in certain of the company's oil and gas interests.

16. CONTINGENCIES

(a) A writ has been filed against the company and one of its U.S. subsidiaries by various limited partners of the subsidiary's limited partnership, the 81-A Drilling Program. The limited partners are seeking damages against the general partner, Nor-Quest Minerals Inc. The company is defending this claim.

Neither the existance of liability nor the extent of possible damages can be determined at this time and accordingly, no provision for such liability, if any, has been made in the financial statements.

(b) The company is the General Partner in five limited partnerships.

17. SEGMENTED INFORMATION

	CANADA	UNITED STATES	TOTAL
Production revenue	$ —	$ 66,162	$ 66,162
Other revenue	124,230	—	124,230
	$ 124,230	$ 66,162	190,392
Direct expenses	—	(49,921)	(49,921)
Corporate expenses			(534,273)
Other expenses			(307,138)
Extraordinary items			102,803
Net loss for the year			$ (598,137)
IDENTIFIABLE ASSETS	$ 787,326	$2,747,668	$3,534,994

NOR-QUEST RESOURCES LTD.
1986 ANNUAL REPORT

MERIT INVESTMENT CORPORATION

RESEARCH REPORT

SUMMARY REPORT

ON

NOR-QUEST RESOURCES LTD.

Merit Investment Corporation
Toronto
(416) 867-6000

Frank Holmes,
Executive Vice President
Paul E. Piazza, P. Eng.
Mining Analyst
January 10, 1986

Toronto • Vancouver • Member – Toronto, Montreal, Alberta and Vancouver Stock Exchanges • Investment Dealers Association of Canada

NOR-QUEST RESOURCES LTD.

SUMMARY

Nor-Quest Resources Ltd. has a number of significant characteristics that contribute value to the Company and make it an interesting and potentially viable mining operation. These characteristics are:

1) The Company has been in the natural resource industry since 1977 and is listed on the Vancouver and NASDAQ exchanges. It has a business as well as a trading history.

2) The Company, for an expenditure of approximately $2,300,000 U.S. has acquired properties, conducted exploration and development, acquired and assembled a modular mill and is now in its incipient stages of production on one property. To date, the total cost of the project is substantially below industry standards.

3) Nor-Quest owns 62.5% interest in the producing Gladiator/War Eagle property which contains proven and probable reserves of 81,136 tons, grading 0.58 oz. of gold and 3.72 oz. of silver per ton. It is currently milling 50 tons per day, will be increased to 64 tons by year end and is expected to be 100 tons per day in February of 1986. Management has shown strength and conviction by completing the program under budget and in a depressed precious metal market over the past three years.

4) Conservative estimates on the part of the Company's technical staff indicate doubling of reserves to 160,000 tons at similar grades. An evaluation by Merit Investment Corporation's geologist, Paul E. Piazza, suggests additional reserves above the original 81,136. There could be another 150,000 tons in the geological indicated and inferred potential categories. The structure is open toward the north and in depth.

5) The Company owns (62.5%) of the adjoining Fairview Vein containing 88,000 tons of possible ore grading 0.50 oz./T of gold and 2.0 oz./T of silver. The structure is open on both ends and in depth.

6) The Company's 3 other veins have yet to be explored and remain good targets for developing additional reserves.

7) Nor-Quest owns a 42.4% interest in Imco Resources Ltd., formerly Abitibi Asbestos Mining Co. Ltd., a public company listed on the Montreal Stock Exchange. Abitibi owns 15,000 acres in Quebec near Perron Gold Mines Ltd. recent gold discovery. Placer Development has optioned 3,000 acres of the 15,000. Contingent on exploration and a subsequent production decision, Placer can earn 60% interest.

8) Imco, through a wholly-owned subsidiary, Golden Eagle Mining Co. Inc. owns the Lincoln mine which is near Nor-Quest's Gladiator/War Eagle property. The Lincoln vein is reported to contain 328,000 potential reserves grading from 0.30 to 0.62 oz. of gold with silver values.

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THE COMPANY

Nor-Quest Resources Ltd. was re-organized in 1977 to explore and develop natural resources in Canada and the U.S. The Company is listed on the Vancouver exchange (NQT) and the U.S. NASDAQ (NQRLF).

The Company has 4,707,524 common shares outstanding. It owns 62.5% of the properties in Arizona and owns 42.4% of Imco Resources Ltd., formerly Abitibi Asbestos Mining Company Limited. The other partners in the joint venture are Nor-Quest Limited Partners (22.5%) and Galt Resources (15%), a wholly-owned subsidiary of J. Blanchard, New Orleans. Abitibi holds 15,000 acres in north west Quebec. Placer Development Ltd. can earn 60% interest on a 3,000 acre block within 3 years by performing exploration work and making a production decision. The 15,000 acres held by Abitibi is adjacent to Perron Gold Mines Ltd.'s recent gold discovery in the area.

Imco, through a wholly-owned subsidiary, Golden Eagle Mining Co. Inc. owns a gold/silver property near the Nor-Quest Arizona property. The property known as the Lincoln vein is reported to contain 328,000 of potential reserves with grades ranging from 0.30 to 0.62 of gold with silver values. Vein widths vary from 4 feet to 42 feet.

Nor-Quest Resources Ltd. has been able to bring the Arizona property to the production level at a total cost of approximately $2,300,000 U.S., an indication of a dedicated and capable management.

PRINCIPAL MINING PROPERTIES

Gladiator/War Eagle Vein
Fairview Vein
Crown King Vein
Spring Green Vein
Del Pasco Vein

Location and Access

Nor-Quest Resources Limited's properties are located in Yavapai County, central Arizona, approximately 35 airline miles south of the city of Prescott (see Location Map 1). The major city of Phoenix is 1½ hours away on Interstate 17.

The Company's ground position consists of a contiguous block of 1,100 acres covering an area of 1 mile wide by 2½ miles in length.

A well graded dirt road leads off I-17 and goes to Crown King (the nearest village to the property) and continues onto the Nor-Quest property.

Geology and Mineralization

The structures of the property comprise a system of veins in the banded iron formation of the Yavapai Schist Belt of Early Precambrian age. Precious metal and base metal deposits are formed syngenetically as massive sulphides in metavolcanic and metasedimentary rocks.

The occurrence of the Gladiator/War Eagle deposit is similar to other well known deposits throughout the world. Notably, the Homestake Gold Mine in South Dakota, the Canadian Precambrian Shield, the Konar Gold Mines in India and the gold districts of Central Australia.

Reserves

A 1983/84 feasibility report confirms proven and probable ore reserves of 81,138 tons on the Gladiator/War Eagle vein. The Gladiator vein, averaging 4.6 feet and dipping at 68° West along a north-south strike grades 0.58 oz. gold per ton and 3.72 oz. silver per ton. This vein has been explored along a 4,000 foot length and remains open to the north and in depth.

A review of the technical data by Merit's Investment Corporation's geologist indicates that the potential of this vein system could mean additional reserves of 151,525 tons. This figure breaks down to 71,725 tons of geological indicated reserves and 79,800 tons of inferred potential.

Diamond drilling and assaying on the Fairview vein has possible reserves of 88,000 tons grading 0.50 oz. gold per ton and 2.0 oz. silver per ton over a width of 3 feet. The structure is open both north and south along its strike length.

The Fairview vein could be mined by extending a 600 foot cross cut from the lower Gladiator adit.

Past Production

Gladiator/War Eagle past production statistics are derived from B. Pewsey's report on the Gladiator/War Eagle, dated October 1984.

Period	Oz. of Gold/Silver
1870 - 1880	3,000 - Au
1900 - 1920	3,000 - Au
1937 - 1942	11,795 - Au; 105,235 - Ag
1942 - 1946	3,000 - Au

The production from the period of 1937 - 1942 comes from 21,961 tons of ore grading 0.54 oz./T of gold and 4.79 oz./T of silver. Accurate smelter receipts are available for this period.

Mining

Access to the vein is by way of a 9 ft x 9 ft adit at the 6,500 level. The mining method used in the past and presently is by shrinkage stoping. In the past, the stopes were mined to the width of the vein with little evidence of overbreak or spalling of the walls. Both vein material and wall rocks are competent, thus causing little dilution while mining.

Mining will consist of moving the entire mine production to the mill with a conventional track and underground locomotive on an adit that will extract ore from 3 development levels and an internal winze from the 6,500 to the 6,200 level.

Environmental Requirements

No environmental problems are envisioned with the mining operation. All the workings will be contained on patented ground and underground mining will cause little surface disturbance. The mine water will be totally consumed in the operation, the mill operation, a closed circuit system, will re-use all the water.

Waste will be disposed of in the valley north of the portal.

Additional Technical Data

A number of recent developments are significant in evaluating the Arizona property held by Nor-Quest Resources Ltd. These developments are as follows:

1) A road to the property, at a very modest cost of $50,000, is being considered through the town of Mayer which will shorten the haulage road by 17 miles.

2) A 100 ton per day modular mill is in place at the mine site and is presently milling 50 tons/day of development ore (grades of 0.32 oz./T of gold). By year end, the mill will process 64 tons/day and full production of 100 tons/day is expected in February 1986 from ore grade of 0.58 oz./T of gold. The mill can be increased to 150 tons/day with the addition of equipment.

3) Estimated recovery of precious metals are 95% for gold and 95% for silver.

4) Projected operating mining and milling costs during full production of 100 ton/days are estimated at $170 U.S. per ounce or $93.67/Ton.

5) Two concentrates are being produced -
   a) a jig concentrate containing 50 - 60 oz./T of gold to be sent to a refinery,
   b) a concentrate containing 60 oz./T of silver and 5 oz./T of gold, to be sent to a smelter.

Financing

In August of 1985, Nor-Quest Arizona Inc. (a wholly-owned subsidiary of Nor-Quest Resources Ltd.) completed a private U.S. Limited Partnership for $1,150,000 U.S. for a 22.5% interest; an innovative approach to bring the property to the production stage.

Possible Relevant Nor-Quest Resources Ltd. Litigations and/or Liabilities

Two items are pending, discussions with Mr. Ray Carson (President of Nor-Quest) reveal the following:

1) Nor-Quest and Raymac Oil Corp. (name changed to Norfolk Petroleum Ltd.) were joint partners in a oil/gas venture to drill 4 holes. They drilled only 1 hole and results were dry. The money spent exceeded the total money available for the 4 holes. Thirty investors put up a total of $350,000 U.S. Three investors are suing Nor-Quest and Norfolk for the money. Norfolk is handling the hearings on the part of the joint venture. Norfolk lawyers have expressed an opinion that the investors do not have a case.

2) Nor-Quest and Petro-Lewis were involved in an oil and gas joint venture. Petro-Lewis is claiming $120,000 U.S. from Nor-Quest. The situation has been pending about 2 years. Mr. Carson (President of Nor-Quest) feels this matter should be settled shortly. Revenue interest for Nor-Quest regarding this joint venture is earning $60,000 U.S. per year which is paying off this claim.

Assuming the maximum negative developments, Nor-Quest is exposed to a maximum $350,000 U.S. However, management is confident that both law suits will be settled with a minimum liability to the Company.

Cash Flow Projections

A number of parameters have been assumed in the calculations that follow. These parameters are shown where required in the Net Smelter Return, Cash Flow and Net Present Value Tables.

Many of the parameters have not been finalized to date, e.g., concentrate ratio, smelter charges, transportation costs, etc., the evaluation that follows is an attempt to portray an order of magnitude financial picture. Any one or a number of parameters may change that could seriously alter the final conclusions as to the viability of the project.

Calculation of Net Smelter Return Per Ton of Ore

Gross gold content of one ton of ore	0.58 oz.
Dilution factor of 10%	0.522 oz.
Gold recovery of 95%	0.496 oz.
Gross silver content of one ton of ore	3.72 oz.
Dilution factor of 10%	3.35 oz.
Silver recovery of 95%	3.18 oz.
Gross value of gold @ $325 U.S./oz./ton	$161.20 U.S.
Gross value of silver @ $6.15 U.S./oz./ton	19.56
	$180.76 U.S.
Less estimated smelter, refining and transportation charges per ton of concentrate (ratio 21:1); gold 2% of value, silver 5% of value, smelter charge $100 ton/con.	$13.73
Net Smelter Return/ton	$167.03 U.S.

1986
Calculation of Annual and Cumulative Cash Flow

Tons treated by the concentrator at 70 tons/day for 3 months at 27 days per month (1986)	5,670 tons
Tons treated by the concentrator at 100 tons/ day for 9 months at 27 days per month (1986)	24,300 tons
Annual tonnage of ore treated by the concentrator for 324 operating days	29,970 tons
Net Smelter Return	167.03 U.S./ton
Annual revenue (29,970 tons x $163.03 U.S.)	$5,005,889.00
Less: estimated annual operating costs of production (29,970 tons x $93.67/T)	$2,807,290.00 U.S.
Estimated annual operating profit or Annual Cash Flow (before taxes)	$2,198,599.00 U.S.
Nor-Quest Resources Ltd. 62.5% interest	$1,374,124.00 U.S.

1987-1990
Calculation of Annual and Cumulative Cash Flow

Annual tonnage treated by the concentrator at 100 tons/day for 324 days	32,400 tons
Net Smelter Return	$167.03 U.S./ton
Annual revenue (32,400 tons x $167.03 U.S.)	$5,411,772.00
Less: estimated annual operating costs of production (32,400 tons x $93.67/T)	$3,034,908.00
Estimated annual operating profit or Annual Cash Flow (before taxes)	$2,376,864.00
[1]Cumulative cash flow over 5 years of mine life ($2,198,599 x 1 + $2,376,864 x 4)	$11,706,055.00 U.S.
Nor-Quest Resources Ltd. 62.5% interest of cumulative cash flow	$7,316,284.00 U.S.
Nor-Quest Resources Ltd. 62.5% interest Annual Cash Flow (1987- 1990)	$1,485,540.00

Note [1] : Assumes increasing reserves from 81,136 to 160,000 tons.

Nor-Quest Resources Ltd. Interest (62.5%)
Calculation of Net Present Value of Cash Flow Over 5 Years

	Year	Annual Cash Flow (Average)		Discount 15%		Discounted Present Value
Estimated cash flow for production years (62.5% interest)	1-5	$1,463,257	x	3.353	=	$4,906,300

Net present value of cumulative cash flow	$4,906,300

The average new gold mine in North American has a pay back from cash flow in excess of 8 years. Nor-Quest has explored, developed and purchased a mill for a total consideration of $2.3 million, thus cash flow from projected statements indicate a 2 year pay back.

Merit Investment Corporation
January 10, 1986

Frank Holmes,
Executive Vice President
Paul E. Piazza, P.Eng.
Mining Analyst
(416) 867-6196

THE TEREX REPORT

North American gold and silver mining companies

110-50 71st Road Forest Hills, N.Y. 11375

January, 1986

NOR-QUEST RESOURCES LTD.

TRADED		TRADING RANGE	RECENT PRICE
Vancouver Stock Exchange	NQT.V	1985 $.60--$2.10 (Cdn)	$2.05 (Cdn)
NASDAQ	NQRLF		$1.56 (U.S.)

RECOMMENDATION: The company will begin formal production in January 1986 at its Gladiator Mine located near Crown King, Arizona. With gold at $325 the Gladiator Mine, which will process 100 tons of ore per day, will produce earnings of approximately 38 cents per share before taxes. In addition to this high grade mine NOR-QUEST owns 42.5% of the shares of IMCO RESOURCES LTD. Based solely on projected earnings from the Gladiator Mine the shares of NOR-QUEST are very underpriced. A survey of the P/E ratios of 24 producing gold mines in North America shows the average to be 23:1. On this basis, with allowance for taxes, projected earnings should support a price of $5.68 per share (U.S.). When the potential of IMCO is factored in, a considerably higher price is reasonable. The discussion below deals first with the NOR-QUEST Gladiator Mine and then with IMCO.

THE GLADIATOR/FAIRVIEW MINE

The Gladiator property is located approximately 50 road miles south of Prescott, Arizona in the center of what was a highly productive mining district known as the Crown King area. Up to 1937 the recorded production of the entire area amounted to 118,772 ounces of gold and 3,818,000 ounces of silver plus copper and lead. The Gladiator vein, accessed by adit, was worked minimally but consistently from 1937 to 1942 and precise records were kept. These indicate production of 11,795 oz/AU and 105,235 oz/AG from slightly less than 22,000 tons. The average grade was .54 oz/AU and 4.7 oz.AG per ton.

Feasibility studies carried out by NOR-QUEST in 1983-84 developed proven and probable reserves of 81,138 tons of ore grading .58 oz/AU and 3.72 oz/AG per ton over a width of 4.6 feet. In 1985 proven reserves were increased by 30,000 tons. The vein has been explored along 4,000 feet of length and is open at both ends and to depth. Running parallel and to the east of the Gladiator vein is the Fairview vein which has proven and probable ore to date of 88,000 tons grading .5 oz/AU and 2 oz/AG per ton over 3 feet.

West of the Gladiator vein, again in parallel are the Spring Green, Crown King and Del Pasco veins. These veins have been explored only superficially but indications are that they are similar in grade to the Gladiator and Fairview. Thus there are 5 known veins on the property.

With a minimum of 200,000 tons of ore proven and probable the mine has sufficient reserves to run, at 100 tons per day, for 6 years. The extensive vein structures suggest that many multiples of the existing quantity of reserves remain to be proven and hence this mine can be viewed as having excellent potential for very long life. It is not inconceivable that as the mine starts operating sufficient new reserves will be developed rapidly and this will lead to an expansion of mill capacity beyond 100 tpd.

Operating costs, which include all production and administrative costs are estimated to be $170 per ounce of gold produced. The company has recently arranged a private placement which will be used to eliminate all existing debt. Outstanding shares, after full dilution, will amount to approximately 5.7 million shares. Operating at 100 tpd on a full schedule the mine will produce 18,000 ounces of gold and 120,000 ounces of silver per year as well as quantities of copper and zinc. At $325 gold and $6 silver the mine will produce a net of $3,510,000 before taxes. 22.5% of the profits will go to a limited partnership which provided funding for completion of the mine. 15% will go to Galt Resources Inc., a subsidiary of James U. Blanchard & Co. which provided earlier funding. NOR-QUEST will retain a 62.5% interest. This comes to $2,193,750 which translates into pre-tax earnings per share of 38 cents.

IMCO RESOURCES LTD.

TRADED	TRADING RANGE	RECENT PRICE
Vancouver-- IMC.V	1985 $.15-.50(Cdn)	$.45 (Cdn)
Montreal -- IMC.MO		$.33 (U.S.)

RECOMMENDATION: IMCO RESOURCES LTD.,(formerly Abitibi Asbestos Mining Co. Ltd.), is currently underpriced on the basis of value at its current selling price of 33 cents (U.S.). The company is under the same management which has brought NOR-QUEST's Gladiator property into production. It will soon be bid up as the success of the Gladiator becomes more widely recognized. In addition, the market has not yet become aware of IMCO's major holding in Quebec on which work is being done by Placer Development Ltd. This property is directly adjacent to Perron Gold Mines Ltd.

IMCO RESOURCES, owns two significant properties. Its original holding is a 15,000 acre tract near the historic Val d'Or gold region of Quebec. This tract contains the largest asbestos deposit in the Western world. Recently discovered on this property, whose asbestos values are uninteresting at this time, are indications of a major gold deposit. The original gold discovery was made on the adjoining property which is currently controlled by Perron Gold Mines. Perron, in turn, is controlled by the Hughes-Lang group, a major Canadian mining group responsible for the development of the two primary Hemlo mines, Golden Sceptre and Goliath. The Perron Mine is called the "Sleeping Giant". Enormous quantities of reserves are being developed on this property directly adjacent to the IMCO tract. At an early stage of development reserve estimates are already at 1.15 million tons grading .26 oz/AU per ton. The geological structures on Perron extend onto IMCO's property for several miles. Perron Gold Mines itself is worth purchasing even though it has advanced to a recent price of over $3 per share from 33 cents in 1985. IMCO, however, has not yet been discovered by the market.

In order to facilitate the development of this property IMCO has entered into an agreement with Placer Development Ltd., one of the largest international mining companies, in which Placer can earn, within 2 years, a 60% interest in 3,900 of IMCO's 15,000 acres by performing exploration work and making a production decision. Placer has completed preliminary geophysical work and has identified 4 diamond drill targets. Drilling is expected to begin in early 1986. In addition, Placer has completed a sophisticated IP survey which will help identify and outline the sulphide zones.

The second significant property held by IMCO is its wholly owned subsidiary, the "Golden Eagle Mining Co. Inc." which has recently acquired one of the richest gold/silver properties in the Crown King area adjacent to the Gladiator property. The primary vein on this property, the Golden Eagle vein, formerly called the Lincoln vein, has reported ore reserves of 328,000 tons within reach of the existing underground workings. Grades run from .3 to .62 oz/AU per ton over mining widths ranging from 4 feet to 42 feet.

Aside from the high grade values on this vein, it is sufficiently close to NOR-QUEST's Gladiator property to offer the possibility of being linked to it by means of a cross cut. This would facilitate development of this mine and conceivably the now functioning mill on the Gladiator could be expanded to service both companies.

IMCO was chartered in 1965 and was controlled by Brinco, a major Canadian mining company which was interested in developing the asbestos lode. With the collapse of the asbestos market the shares, which traded at very high levels, collapsed. Officially there are 6.9 million shares outstanding, however many of these shares have been "lost". NOR-QUEST owns almost 3 million shares and the actual float is probably considerably less than 3 million.

At the current U.S. price of $1.50 the shares of NOR-QUEST are sharply undervalued. $5.68 (U.S.) per share would be a fair valuation on the fundamentals of the Gladiator property with gold at $325. A valuation of $10 per share would more accurately represent the fundamental worth of the company when NOR-QUEST's 42.5% interest in IMCO is included.

for "The Terex Report"
EDWIN FISHBAINE

MERIT INVESTMENT CORPORATION RESEARCH REPORT

NOR-QUEST RESOURCES LTD. January 10, 1986

Recent Price	1985 Price Range High	Low	Listed	Symbol
$2.05 Cdn.	$2.75	$0.57	VSE :	NQT
			NASDAQ:	NQRLF

Shares Outstanding

4,707,524

Private Placement: Dec. 27, 1985

500,000 units, consisting of 1 share and 1 non-transferable warrant.

The information detailed in this letter is a supplement to the Merit Investment Corporation and Nor-Quest Resources Ltd. Private Placement package.

Valuation of the Shares:

The potential evaluation of the Nor-Quest shares have been evaluated as follows:

The Gold Ratio has been established for 15 producing Canadian mining companies by calculating their annual gold production divided by outstanding shares. The recent market price of these companies as divided by the Gold Ratio to establish an Index, which ranges from a low of 650 to a high of 5773. The average Index for the 15 companies is 2053.

The Nor-Quest mill will treat 100 tons per day in 1986 and is planned to be increased to 120 tons per day in 1987.

In 1986, Nor-Quest's 62.5% interest in the annual gold production would amount to 11,262 oz. in 1986 and 13,015 oz. in 1987.

Using the above described procedure, Nor-Quest's shares should trade in the $3.70 Cdn. range in 1986 and $4.30 Cdn in 1987.

Another significant feature of Nor-Quest's shares is that the company is "Blueskied" in the U.S. The company is registered with the SEC in Washington and the shares can be bought by U.S. citizens in the U.S.

Nor-Quest has developed a large American following, news that the company is in production should result in a higher share price. Further, the company has excellent potential to expand reserves and increase production on the Gladiator/War Eagle zone with good exploration targets in other vein structures. The company has an interest in Imco, another public trading company.

In closing, most North American mines have a payback of capital expenditures from cash flow in excess of 8 years, whereas calculations on Nor-Quest anticipates a 2 year payback.

Purchase is recommended for gold oriented investors.

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MERIT INVESTMENT CORPORATION RESEARCH REPORT

SUMMARY REPORT

ON

NOR-QUEST RESOURCES LTD.

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Frank Holmes,
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Paul E. Piazza, P. Eng.
Mining Analyst
January 10, 1986

NOR-QUEST RESOURCES LTD.

SUMMARY

Nor-Quest Resources Ltd. has a number of significant characteristics that contribute value to the Company and make it an interesting and potentially viable mining operation. These characteristics are:

1) The Company has been in the natural resource industry since 1977 and is listed on the Vancouver and NASDAQ exchanges. It has a business as well as a trading history.

2) The Company, for an expenditure of approximately $2,300,000 U.S. has acquired properties, conducted exploration and development, acquired and assembled a modular mill and is now in its incipient stages of production on one property. To date, the total cost of the project is substantially below industry standards.

3) Nor-Quest owns 62.5% interest in the producing Gladiator/War Eagle property which contains proven and probable reserves of 81,136 tons, grading 0.58 oz. of gold and 3.72 oz. of silver per ton. It is currently milling 50 tons per day, will be increased to 64 tons by year end and is expected to be 100 tons per day in February of 1986. Management has shown strength and conviction by completing the program under budget and in a depressed precious metal market over the past three years.

4) Conservative estimates on the part of the Company's technical staff indicate doubling of reserves to 160,000 tons at similar grades. An evaluation by Merit Investment Corporation's geologist, Paul E. Piazza, suggests additional reserves above the original 81,136. There could be another 150,000 tons in the geological indicated and inferred potential categories. The structure is open toward the north and in depth.

5) The Company owns (62.5%) of the adjoining Fairview Vein containing 88,000 tons of possible ore grading 0.50 oz./T of gold and 2.0 oz./T of silver. The structure is open on both ends and in depth.

6) The Company's 3 other veins have yet to be explored and remain good targets for developing additional reserves.

7) Nor-Quest owns a 42.4% interest in Imco Resources Ltd., formerly Abitibi Asbestos Mining Co. Ltd., a public company listed on the Montreal Stock Exchange. Abitibi owns 15,000 acres in Quebec near Perron Gold Mines Ltd. recent gold discovery. Placer Development has optioned 3,000 acres of the 15,000. Contingent on exploration and a subsequent production decision, Placer can earn 60% interest.

8) Imco, through a wholly-owned subsidiary, Golden Eagle Mining Co. Inc. owns the Lincoln mine which is near Nor-Quest's Gladiator/War Eagle property. The Lincoln vein is reported to contain 328,000 potential reserves grading from 0.30 to 0.62 oz. of gold with silver values.

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THE COMPANY

Nor-Quest Resources Ltd. was re-organized in 1977 to explore and develop natural resources in Canada and the U.S. The Company is listed on the Vancouver exchange (NQT) and the U.S. NASDAQ (NQRLF).

The Company has 4,707,524 common shares outstanding. It owns 62.5% of the properties in Arizona and owns 42.4% of Imco Resources Ltd., formerly Abitibi Asbestos Mining Company Limited. The other partners in the joint venture are Nor-Quest Limited Partners (22.5%) and Galt Resources (15%), a wholly-owned subsidiary of J. Blanchard, New Orleans. Abitibi holds 15,000 acres in north west Quebec. Placer Development Ltd. can earn 60% interest on a 3,000 acre block within 3 years by performing exploration work and making a production decision. The 15,000 acres held by Abitibi is adjacent to Perron Gold Mines Ltd.'s recent gold discovery in the area.

Imco, through a wholly-owned subsidiary, Golden Eagle Mining Co. Inc. owns a gold/silver property near the Nor-Quest Arizona property. The property known as the Lincoln vein is reported to contain 328,000 of potential reserves with grades ranging from 0.30 to 0.62 of gold with silver values. Vein widths vary from 4 feet to 42 feet.

Nor-Quest Resources Ltd. has been able to bring the Arizona property to the production level at a total cost of approximately $2,300,000 U.S., an indication of a dedicated and capable management.

PRINCIPAL MINING PROPERTIES

Gladiator/War Eagle Vein
Fairview Vein
Crown King Vein
Spring Green Vein
Del Pasco Vein

Location and Access

Nor-Quest Resources Limited's properties are located in Yavapai County, central Arizona, approximately 35 airline miles south of the city of Prescott (see Location Map 1). The major city of Phoenix is 1½ hours away on Interstate 17.

The Company's ground position consists of a contiguous block of 1,100 acres covering an area of 1 mile wide by 2½ miles in length.

A well graded dirt road leads off I-17 and goes to Crown King (the nearest village to the property) and continues onto the Nor-Quest property.

Geology and Mineralization

The structures of the property comprise a system of veins in the banded iron formation of the Yavapai Schist Belt of Early Precambrian age. Precious metal and base metal deposits are formed syngenetically as massive sulphides in metavolcanic and metasedimentary rocks.

The occurrence of the Gladiator/War Eagle deposit is similar to other well known deposits throughout the world. Notably, the Homestake Gold Mine in South Dakota, the Canadian Precambrian Shield, the Konar Gold Mines in India and the gold districts of Central Australia.

Reserves

A 1983/84 feasibility report confirms proven and probable ore reserves of 81,138 tons on the Gladiator/War Eagle vein. The Gladiator vein, averaging 4.6 feet and dipping at 68° West along a north-south strike grades 0.58 oz. gold per ton and 3.72 oz. silver per ton. This vein has been explored along a 4,000 foot length and remains open to the north and in depth.

A review of the technical data by Merit's Investment Corporation's geologist indicates that the potential of this vein system could mean additional reserves of 151,525 tons. This figure breaks down to 71,725 tons of geological indicated reserves and 79,800 tons of inferred potential.

Diamond drilling and assaying on the Fairview vein has possible reserves of 88,000 tons grading 0.50 oz. gold per ton and 2.0 oz. silver per ton over a width of 3 feet. The structure is open both north and south along its strike length.

The Fairview vein could be mined by extending a 600 foot cross cut from the lower Gladiator adit.

Past Production

Gladiator/War Eagle past production statistics are derived from B. Pewsey's report on the Gladiator/War Eagle, dated October 1984.

Period	Oz. of Gold/Silver
1870 - 1880	3,000 - Au
1900 - 1920	3,000 - Au
1937 - 1942	11,795 - Au; 105,235 - Ag
1942 - 1946	3,000 - Au

The production from the period of 1937 - 1942 comes from 21,961 tons of ore grading 0.54 oz./T of gold and 4.79 oz./T of silver. Accurate smelter receipts are available for this period.

Mining

Access to the vein is by way of a 9 ft x 9 ft adit at the 6,500 level. The mining method used in the past and presently is by shrinkage stoping. In the past, the stopes were mined to the width of the vein with little evidence of overbreak or spalling of the walls. Both vein material and wall rocks are competent, thus causing little dilution while mining.

Mining will consist of moving the entire mine production to the mill with a conventional track and underground locomotive on an adit that will extract ore from 3 development levels and an internal winze from the 6,500 to the 6,200 level.

Environmental Requirements

No environmental problems are envisioned with the mining operation. All the workings will be contained on patented ground and underground mining will cause little surface disturbance. The mine water will be totally consumed in the operation, the mill operation, a closed circuit system, will re-use all the water.

Waste will be disposed of in the valley north of the portal.

Additional Technical Data

A number of recent developments are significant in evaluating the Arizona property held by Nor-Quest Resources Ltd. These developments are as follows:

1) A road to the property, at a very modest cost of $50,000, is being considered through the town of Mayer which will shorten the haulage road by 17 miles.

2) A 100 ton per day modular mill is in place at the mine site and is presently milling 50 tons/day of development ore (grades of 0.32 oz./T of gold). By year end, the mill will process 64 tons/day and full production of 100 tons/day is expected in February 1986 from ore grade of 0.58 oz./T of gold. The mill can be increased to 150 tons/day with the addition of equipment.

3) Estimated recovery of precious metals are 95% for gold and 95% for silver.

4) Projected operating mining and milling costs during full production of 100 ton/days are estimated at $170 U.S. per ounce or $93.67/Ton.

5) Two concentrates are being produced -
   a) a jig concentrate containing 50 - 60 oz./T of gold to be sent to a refinery,
   b) a concentrate containing 60 oz./T of silver and 5 oz./T of gold, to be sent to a smelter.

Financing

In August of 1985, Nor-Quest Arizona Inc. (a wholly-owned subsidiary of Nor-Quest Resources Ltd.) completed a private U.S. Limited Partnership for $1,150,000 U.S. for a 22.5% interest; an innovative approach to bring the property to the production stage.

Possible Relevant Nor-Quest Resources Ltd. Litigations and/or Liabilities

Two items are pending, discussions with Mr. Ray Carson (President of Nor-Quest) reveal the following:

1) Nor-Quest and Raymac Oil Corp. (name changed to Norfolk Petroleum Ltd.) were joint partners in a oil/gas venture to drill 4 holes. They drilled only 1 hole and results were dry. The money spent exceeded the total money available for the 4 holes. Thirty investors put up a total of $350,000 U.S. Three investors are suing Nor-Quest and Norfolk for the money. Norfolk is handling the hearings on the part of the joint venture. Norfolk lawyers have expressed an opinion that the investors do not have a case.

2) Nor-Quest and Petro-Lewis were involved in an oil and gas joint venture. Petro-Lewis is claiming $120,000 U.S. from Nor-Quest. The situation has been pending about 2 years. Mr. Carson (President of Nor-Quest) feels this matter should be settled shortly. Revenue interest for Nor-Quest regarding this joint venture is earning $60,000 U.S. per year which is paying off this claim.

   Assuming the maximum negative developments, Nor-Quest is exposed to a maximum $350,000 U.S. However, management is confident that both law suits will be settled with a minimum liability to the Company.

Cash Flow Projections

A number of parameters have been assumed in the calculations that follow. These parameters are shown where required in the Net Smelter Return, Cash Flow and Net Present Value Tables.

Many of the parameters have not been finalized to date, e.g., concentrate ratio, smelter charges, transportation costs, etc., the evaluation that follows is an attempt to portray an order of magnitude financial picture. Any one or a number of parameters may change that could seriously alter the final conclusions as to the viability of the project.

Calculation of Net Smelter Return Per Ton of Ore

Gross gold content of one ton of ore	0.58 oz.
Dilution factor of 10%	0.522 oz.
Gold recovery of 95%	0.496 oz.
Gross silver content of one ton of ore	3.72 oz.
Dilution factor of 10%	3.35 oz.
Silver recovery of 95%	3.18 oz.
Gross value of gold @ $325 U.S./oz./ton	$161.20 U.S.
Gross value of silver @ $6.15 U.S./oz./ton	19.56
	$180.76 U.S.
Less estimated smelter, refining and transportation charges per ton of concentrate (ratio 21:1); gold 2% of value, silver 5% of value, smelter charge $100 ton/con.	$13.73
Net Smelter Return/ton	$167.03 U.S.

1986

Calculation of Annual and Cumulative Cash Flow

Tons treated by the concentrator at 70 tons/day for 3 months at 27 days per month (1986)	5,670 tons
Tons treated by the concentrator at 100 tons/day for 9 months at 27 days per month (1986)	24,300 tons
Annual tonnage of ore treated by the concentrator for 324 operating days	29,970 tons
Net Smelter Return	167.03 U.S./ton
Annual revenue (29,970 tons x $163.03 U.S.)	$5,005,889.00
Less: estimated annual operating costs of production (29,970 tons x $93.67/T)	$2,807,290.00 U.S.
Estimated annual operating profit or Annual Cash Flow (before taxes)	$2,198,599.00 U.S.
Nor-Quest Resources Ltd. 62.5% interest	$1,374,124.00 U.S.

1987-1990
Calculation of Annual and Cumulative Cash Flow

Annual tonnage treated by the concentrator at 100 tons/day for 324 days	32,400 tons
Net Smelter Return	$167.03 U.S./ton
Annual revenue (32,400 tons x $167.03 U.S.)	$5,411,772.00
Less: estimated annual operating costs of production (32,400 tons x $93.67/T)	$3,034,908.00
Estimated annual operating profit or Annual Cash Flow (before taxes)	$2,376,864.00
[1]Cumulative cash flow over 5 years of mine life ($2,198,599 x 1 + $2,376,864 x 4)	$11,706,055.00 U.S.
Nor-Quest Resources Ltd. 62.5% interest of cumulative cash flow	$7,316,284.00 U.S.
Nor-Quest Resources Ltd. 62.5% interest Annual Cash Flow (1987- 1990)	$1,485,540.00

Note [1] : Assumes increasing reserves from 81,136 to 160,000 tons.

Nor-Quest Resources Ltd. Interest (62.5%)
Calculation of Net Present Value of Cash Flow Over 5 Years

	Year	Annual Cash Flow (Average)		Discount 15%		Discounted Present Value
Estimated cash flow for production years (62.5% interest)	1-5	$1,463,257	x	3.353	=	$4,906,300

Net present value of cumulative cash flow $4,906,300

The average new gold mine in North American has a pay back from cash flow in excess of 8 years. Nor-Quest has explored, developed and purchased a mill for a total consideration of $2.3 million, thus cash flow from projected statements indicate a 2 year pay back.

Merit Investment Corporation
January 10, 1986

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