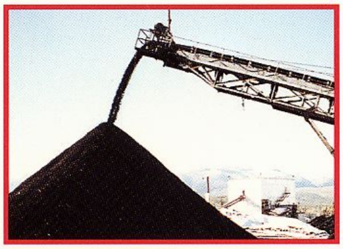
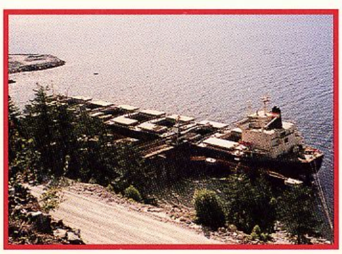
ANNUAL REPORT 1995

HILLSBOROUGH Resources Limited





TARGETS MET – GOALS ACHIEVED

HILLSBOROUGH
Resources Limited

The Annual Meeting of Shareholders

of the Company will be held on

Wednesday, May 29, 1996

at the Royal York Hotel, Toronto, Ontario,

in the Library Room at 10:00 a.m.

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CORPORATE PROFILE

The Company conducts business through two operating divisions, a mine operating division and a mine engineering and contracting division. The principal asset of the mine operating division is its 63% interest in Quinsam Coal Corporation which owns the Quinsam Coal Mine near Campbell River, B.C.. The Company also owns approximately 4.8 million common shares of Canabrava Diamond Corporation representing approximately a 17% interest in Canabrava. The Company's mine engineering and contracting division, Canadian Mine Development, has been providing contracting, engineering and related services, primarily to the Canadian mining industry, since 1984.

President's Report to Shareholders

As stated in my 1994 Report to you, we, on May 15, 1995, signed all agreements for the Quinsam financing package, except one for the port facility location, which we expected, was not going to take too long!!

Would you believe that the final papers were signed off the first week in February, 1996, some 9 months later, thus delaying the BCTFA financing until mid-February, 1996??

We did not complete or even start the road upgrade or the port load-out facility at Middle Point during 1995. It was delayed due to lack of BCTFA and Federal Government agreement until mid-February, 1996, but is now proceeding with utmost haste, and we expect completion of both during the third quarter of 1996, with slight overruns in both areas expected, due to conditions imposed on us by all parties to our financing and permitting process. Despite all that, we accomplished a lot in 1995:

- Returned to profitability, Net Earnings of $1.0 million or $0.10 per share.
- Two sections of refurbished equipment were purchased and licensed, ready for use.
- The Prep Plant was almost completed in 1995, but due to a late start and some slight modifications, was not completed until mid-February, 1996.

George Vooro, President and Chief Executive Officer

It reached designed capacity of 250 tonnes per hour on the second day of operations, and has exceeded the design capacity, when required, without any problem whatsoever since.

The Prep Plant was designed by our own staff and those of Kilborn Engineering Limited, and built entirely by our own in-house staff, except for the electrical work which was done by Emco Resources, a local Campbell River firm.

I would be sadly remiss if I did not pay special tribute to our staff who participated in the design and construction, and to whom I credit the entire success of the Project:

- Dave Selent, Prep Plant Manager
- Romeo Roy, Construction Manager
- Roman Schule, Chief Fitter/Installer Extraordinaire
- Johann Leung, Mechanical/Electrical Consultant
- and the rest of our participating employees

…share value will enhance materially in months to come, and benefit our shareholders.

- The mine reached record production of 590,000 tonnes of clean coal, exceeding Plant capacity by some 90,000 tonnes of clean coal.
- The Company entered into a Joint Venture Agreement with Jonpol Explorations Limited and T&H Resources Ltd. to explore and bulk sample, their "Matheson" Property. Some $0.9 million was spent on the site, with plant and all mining equipment on site and installed, and the decline collared and down some two hundred feet. The Company expects to resume activity by the second quarter whereas some 165,000 tonnes of bulk sample will be mined and shipped to the Noranda Smelter for processing, with expected production of some 40,000 ounces of gold. Net proceeds will be split on a 50/50 basis by the Joint Venture partners after deduction of operating costs. In addition, the Company will earn a management fee and realize income from internal plant rentals.

Our Canabrava investment looks better every day. We initially invested $1.1 million in the Joint Venture with Southwest Gold Corporation, and, to date, have recovered in excess of $5.3 million, as a result of sale of some shares. We currently own approximately 4.8 million shares in the Canabrava Diamond Corporation (CNB-VSE) a 17% interest, which at current market value of $3.00 per share, is worth $14.4 million.

Teck Corporation is now the Program Manager and have installed a fully equipped lab on site, in Brazil. A major two year program of drilling has started to test the multitude of Lamproite and Kimberlite pipes, which have yielded numerous large "stones" in the areas mined by the "Garimpos" in the years past. Much highly technical work has been carried out on our land holdings, including complete airborne magnetic surveys, and very detailed soil sampling program.

We are very excited and enthused about the prospects of this project, and believe that the share value will enhance materially in months to come, and benefit our shareholders.

We completed the Option Agreement for sale of our assets in Mexico, to our Joint Venture Partners. The option base price is $1.0 million U.S., increasing with yearly compound interest until exercised; this allows us to recover our entire investment.

Our Canadian Mine Development ("CMD") Engineering and Contracting Division was essentially dormant due to lack of mining activity in Canada. We have not disposed of our facility in Ontario, due to very low real estate prices. It is on "care and maintenance" as is the Watson Lake shop and yard, for which we receive some annual income as a result of Cominco's rental of our land holdings. We expect to reach a resolution this year with respect to the future of our CMD Contracting and Engineering facility, and its services.

And lastly, I have purposely left Quinsam to the end of my report. Despite all the delays and problems we have had imposed on us by external factors, we are very excited about the present and future prospects for Quinsam Coal Corporation and its holdings, and its impact on Hillsborough.

I, as your C.E.O. and President, made a commitment to you as shareholders, and to your Board of Directors, that I would personally commit myself to work with our employees, to bring Quinsam to a quick and successful expansion in reaching production levels of 1.2 million tonnes of clean coal annually.

We estimated that it would take a minimum of six months, and that we would reach our goal of 100,000 tonnes of clean coal per month by late 1996.

Today, in mid-March of 1996, I am proud to advise you that for the first half of March, we have produced 2,512 tonnes of clean coal per day, having mined 3,281 tonnes per day of raw coal for an average yield of 76.56%. We have only operated 3 full sections per day, although we now do have increased employees on hand to fully operate 3.5 sections out of a planned 4 sections!!

We expect to reach our design capacity of 4,400 tonnes of raw coal much sooner than we expected. Our yields have progressively improved as a result of much better mining methods, control, and employee response and total co-operation that exists today.

Our employees, as a group, will share in 10% of pre-tax profits, and have a representative on Quinsam's Board of Directors. We believe that the overall response and the success of this novel approach has exceeded all expectations, so far.

Today, we understand and have designed our mining method to fit Quinsam, and not something that was done "way back when". The property responds, and the result will be outstanding in terms of time required to reach our design capacity, and I firmly believe, surpass our most optimistic projections. We do have the plant and mine capacity to exceed 1.5 million tonnes of clean coal annually!

Our coal sales department, headed by Rod Hislop, has made sure that we sell all our coal at current prevailing markets. We do not expect any problem in marketing our coal through the expanded production.

We have a good environmental record, which we work very hard at protecting. Our relationships with all Regulatory Ministries are excellent, and a credit to our staff.

Our yields have progressively improved.

As part of Quinsam's holdings, we have a right to explore for coal near Courtenay, BC, at a property called T'Sable River. Our 1991 drilling indicated a "drill indicated" reserve of some 11 million tonnes of good quality metallurgical coal.

As part of the 1996 Budget, we plan to drill some ± 20 new holes to see if we could expand the reserves and move the coal into proven/probable reserve categories. The total program to define the deposit, do the necessary engineering, permitting and public hearings, is estimated at $3.2 million, of which, this year's program will cost approximately $0.8 million. The results of this year's program will dictate if further continuous work is warranted.

The deposit does have a potential to respond to exploration, and become a substantial contributor to your Company's earning stream in the not too distant future. I believe that we now have the framework in place, for your Company to become a significant profitable producer in 1996.

We have the potential major upside in place to benefit all of us, as shareholders, in Canabrava and T'Sable River, and we will do our utmost to reach this plateau.

I am proud to have had the chance to guide Hillsborough through these past years. I thank you, the shareholder, for your patience, and I also thank our "Board" and employees, without whom this could not have been as pleasant and enjoyable.

Sincerely,

George Vooro
President and Chief Executive Officer

March 21, 1996

Quinsam COAL OPERATIONS

The Quinsam mine is located some 28 kilometres west of Campbell River, B.C. and is accessible by road from the Gold River Highway #28. The mine produces high volatile bituminous "A" coal well suited for thermal power stations, industrial users such as cement plants, and also as PCI coal (Pulverized Coal Injection) for steel making applications.

The Company has a 15 year mine plan, and reserve base in excess of 20 years production at 1.2 million tonnes of clean coal per year.

The deposit is made up of 7 "Pods" of coal containing from 1.25 million to 11 million tonnes each, for a total proven and probable reserve of approximately 36 million tonnes remaining. It is open for extension, and the Company expects to retain the proven-probable reserve by annual definition and exploration drilling.

All mining production is from underground and is via multiple entry system, utilizing the room and pillar method. Currently, the Company operates the North No. 2&3 Mines, and the South No. 2 Mine. The South 1 and 3 mines, and part of North 2 mine were earlier mined out by open pit method. The Company is also preparing the South No. 4 mine for production and will start to prepare No. 2+2 by late summer, as the South No. 2 mine nears the end of its productive life.

Currently the Company mines 5 sections, operating 3, with 2 remaining idle. It will ultimately operate a 6 section mine, with 4 sections active and 2 sections idle, always providing for equipment maintenance by rotating idle sections.

The production schedule for 1996 Japanese Fiscal Year ("JFY") (April 1 '96-March 31 '97) is 1.1 million tonnes of clean coal from 1.5 tonnes of raw coal, at a projected yield of 72.4%, and reaching our design capacity to 1.2 million tonnes of clean coal in 1997 JFY.

The new coal preparation plant came on stream during February, 1996. On the second day of its operation we exceeded the design capacity of 250 tonnes of raw coal per hour. The Plant has substantial excess capacity.

It is basically a heavy media cyclone and water only cyclone plant.

Generally, comparable plants of 1.2 million tonnes of annual clean coal production generally cost in excess of $20.0 million. The total plant cost is less than $5.0 million of which the recent expansion has cost approximately $2.7 million. A commendable feat indeed.

We have vastly improved our mining method, thereby increasing productivity and yield, while reducing slower, non-productive activities in the workplace. The

The Company has a 15 year mine plan and reserve base in excess of 20 years

yields for March, 1996 have increased dramatically to in excess of 75%, with production levels approaching 2,600 tonnes of clean coal per day, and we expect to reach our design capacity of 3,300 tonnes clean coal within the next 60 days, much ahead of the previous optimistic projections.

The mine has come of age!!

MARKETING AND SALES

COAL PRICES

World prices for thermal coal are set annually in accordance with industry practice and are effective as of April 1 for each Coal Year. Since the major consumers in the Pacific Basin are Japanese, the price negotiated each year by a producer or group of producers in one of the major coal producing countries, with representatives of the major Japanese utilities and industrial users, tend to set the bench mark price. This price is subject to adjustments primarily to reflect quality and transportation costs and then adopted by all major producers of thermal coal.

The Company appointed Marubeni as its exclusive sales agent in Japan, Korea and certain other Asia-Pacific countries to assist the Company with the sale and marketing of its coal.

The price for bench mark Australian thermal coal has been as follows:

Year	Price per tonne for Australian 6,700 Kcal/kg (air dry) thermal coal $ U.S.
1990	$39.75
1991	$39.50
1992	$37.00
1993	$35.50
1994	$34.20
1995	$40.30

Quinsam sells its coal at less than the bench mark price. The difference between the bench mark price and the price at which Quinsam sells its coal is influenced by, among other things, the cost of ocean freight, quality differentials and the fact that Quinsam sells to utility companies on the basis of 6,500 to 6,600 Kcal/kg. In general these factors result in a discount of between U.S. $2.20 to $4.00 from the bench mark price for coal sold by Quinsam to utilities and industrial customers. Usually coal of lesser quality and therefore at a lower price is sold to industrial customers.

The marketing of Quinsam coal in 1995 showed a dramatic increase in sales volumes over previous years, and more importantly, established a number of new term contracts for sales of Quinsam coal to customers in Japan and Chile, ranging in contract length from three to five years.

The establishment of these term contracts clearly supports the acceptability of our coal quality, and the buyers recognition of the performance potential for the foreseeable future of the Quinsam coal project.

TRANSPORTATION

Compared to all other Western Canadian coal producers, Quinsam has the most advantageous transportation system. Quinsam is the only coal producer on the West Coast of North America that does not require transportation by rail of its coal to the export market. The benefit of the rail freight factor in 1995 dollars is approaching $20.00 per tonne.

Quinsam presently transports its coal by 26-29 tonne contract trucks to the Middle Point barge loading facility, located 33 km from the minesite. At Middle Point, the coal is loaded by truck dump and profiled by front end loader onto a 5,500 tonne barge. Barge loading time is approximately 12 to 14 hours.

The barge is towed 87 km southwest to Texada Island, the site of the Holnam deep water terminal. Barges are unloaded at the Holnam Terminal by front end loaders and large mine trucks, which stockpile the coal according to product specification. Total stockpile capacity is in excess of 200,000 m/t. Cycle time of the barge from Middle Point to Texada and return is approximately 48 hours.

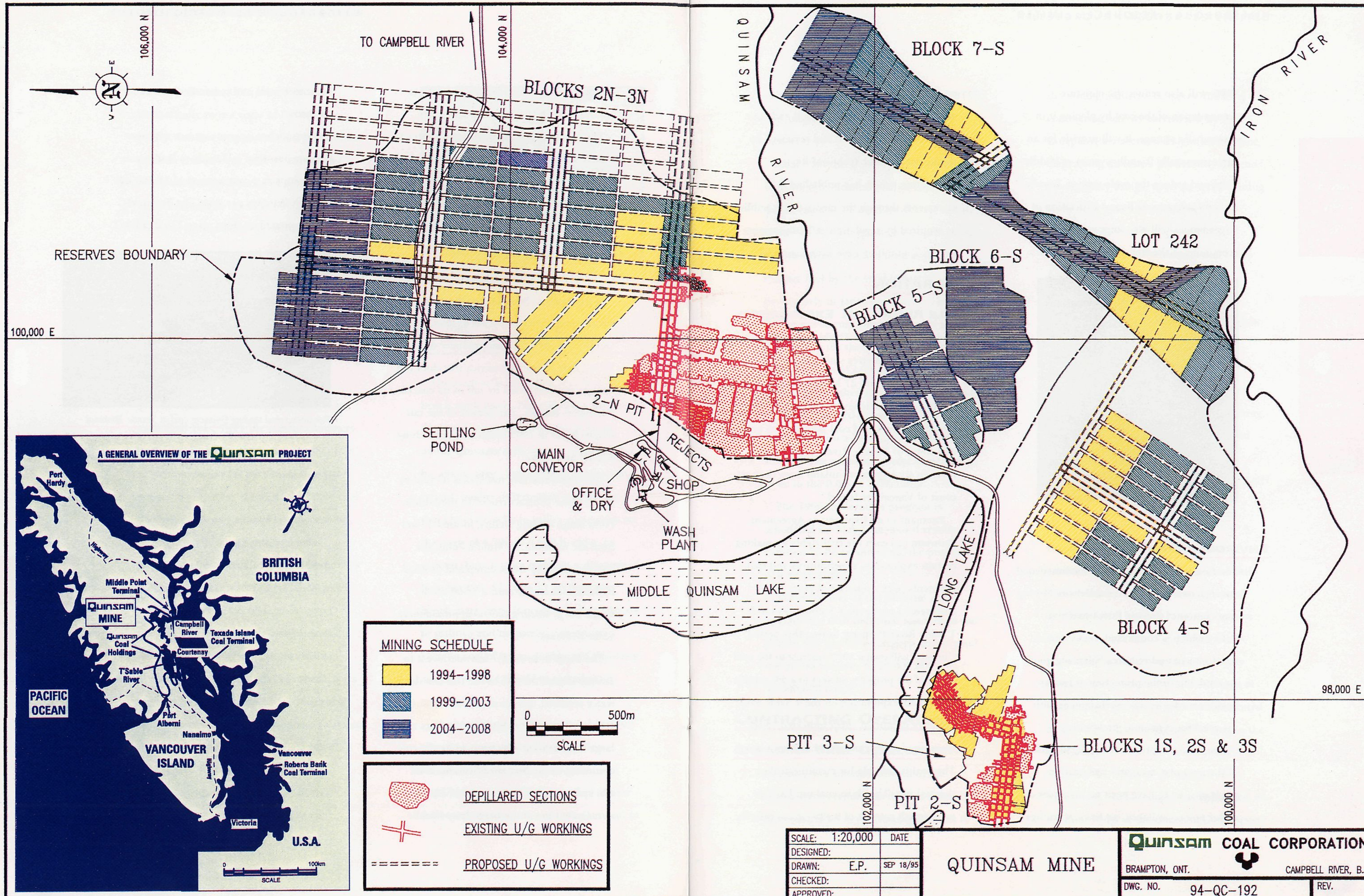
Quinsam has a term contract with the Holnam Terminal at Texada to load ocean going ships at a contract rate of 18,500 m/t per day 364 days per year. The Terminal can accommodate ships up to 125,000 DWT.

Panamex vessel loading Quinsam coal at Texada Terminal

As part of the Company's expansion plan, Quinsam entered into an agreement with BCTFA to upgrade the transportation, storage and handling facilities. In 1996, Quinsam will commence transporting the coal from the minesite with contractor-owned 42 tonne B- train trucks to Middle Point. At Middle Point the coal will be retained in a covered 15,000 tonne silo. Utilizing a new barge berth capable of accommodating up to 10,000/ tonne barges, the coal will be moved from the silo to barge via reclaim systems, conveyor and onto the barge by a ship loader.

This more efficient road transportation and Middle Point loading system, to be fully operational by August/September

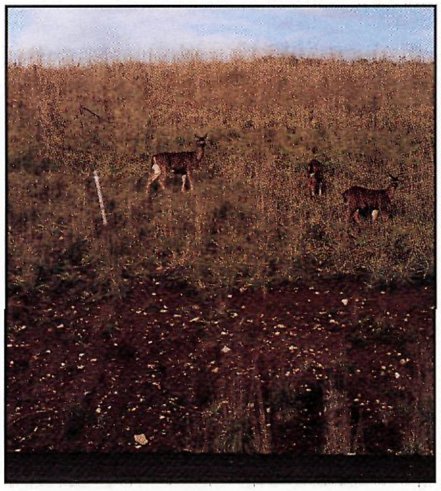
Quinsam has the most advantageous transportation system.



TO CAMPBELL RIVER
106,000 N
104,000 N
102,000 N
100,000 N
100,000 E
98,000 E
BLOCKS 2N-3N
RESERVES BOUNDARY
QUINSAM RIVER
BLOCK 7-S
IRON RIVER
LOT 242
BLOCK 6-S
BLOCK 5-S
BLOCK 4-S
2-N PIT
REJECTS
SETTLING POND
MAIN CONVEYOR
OFFICE & DRY
SHOP
WASH PLANT
MIDDLE QUINSAM LAKE
LONG LAKE
PIT 3-S
PIT 2-S
BLOCKS 1S, 2S & 3S
MINING SCHEDULE
1994-1998
1999-2003
2004-2008
0
500m
SCALE
DEPILLARED SECTIONS
EXISTING U/G WORKINGS
PROPOSED U/G WORKINGS
A GENERAL OVERVIEW OF THE Quinsam PROJECT
Port Hardy
BRITISH COLUMBIA
Middle Point Terminal
Quinsam MINE
Campbell River
Texada Island Coal Terminal
Quinsam Coal Holdings
Courtenay
T'Sable River
PACIFIC OCEAN
Port Alberni
Nanaimo
VANCOUVER ISLAND
Vancouver
Roberts Bank Coal Terminal
Victoria
U.S.A.
SCALE
100km
SCALE: 1:20,000
DATE
DESIGNED:
DRAWN: E.P.
SEP 18/95
CHECKED:
APPROVED:
QUINSAM MINE
Quinsam COAL CORPORATION
BRAMPTON, ONT.
CAMPBELL RIVER, B.C.
DWG. NO. 94-QC-192
REV.

We have a good environmental record, which we work very hard at protecting.

1996, will also reduce the moisture accumulation of the coal by placing it in covered silo storage. It will provide for an environmentally friendly system at Middle Point and reduce the cycle time to Texada from 48 hours to 40 hours. Utilization of larger barges will also improve the overall economics of the transportation system.



Reclamation areas provide wildlife habitat

ENVIRONMENTAL

The Company is committed to environmental management and operates under the Mining Association of Canada Environmental Policy which is committed to sustainable development and requires balancing good stewardship in the protection of human health and the natural environment with the need for economic growth.

Since the inception and implementation of the environmental and reclamation programs, there have been no instances of major non-compliance, no fines, warnings or penalties. All reports have been submitted as and when required and have been accepted, analyzed and reviewed by the Environmental Technical Review Committee, which has published statements through the media to the public as required by regulation. All assessments by this Committee have been favourable.

EXPLORATION

T'SABLE RIVER COAL EXPLORATION

The coal property at T'Sable River is located 60 kilometres southeast of the Quinsam Mine and 27 kilometres south of the town of Courtenay on Vancouver Island. It consists of coal lands to the north and south of T'Sable River approximately three to six kilometres inland from the east coast of Vancouver Island.

Pursuant to an Exploration Agreement, Quinsam can earn the coal rights by making certain exploration expenditures and cash payments over a number of years. If commercial production commences on the T'Sable River Property during this period, Quinsam will own a 100% interest to the coal rights of the property, subject to a 5% royalty.

Previous exploration on the T'Sable River Property identified "drill indicated" coal reserves of approximately 11 million tonnes. The coal is suitable for metallurgical or thermal use. The clean coal can have an average ash content of 9.42%, gross calorific value of 7,561 calories/gram (14,000 BTU), and sulphur content ranging from 0.15% to 0.86%.

Coal from the T'Sable River Property is a high volatile metallurgical or coking coal, which can also be used by electric utilities, or as PCI. Metallurgical coal is processed to produce coke, which is used as a blast furnace fuel by the steel industry, particularly in Japan and Korea. The bench mark price for metallurgical coal is generally higher than the thermal coal price by about U.S. $10.00 to $12.00. It is expected that the coal can be washed to a 9.5% ash content, a typical standard in metallurgical coal contracts, with a heating value of 7,600 Kcal/kg. The sulphur content is estimated to be in the 0.6% to 1.0% range.

The 1996 exploration program is scheduled for May-June, and if results continue to be encouraging, the program will be extended.

The objectives of the program are to upgrade the drill indicated reserves to the proven and probable category, and expand the in-situ reserves to 20,000,000 to 30,000,000 tonnes.

CONTRACTING OPERATIONS

CANADIAN MINE DEVELOPMENT

In past years substantially all of the Company's revenue was derived from the provision of mine contracting services to the mining industry. However, the level of contracting activity carried out by the Company has decreased significantly. The contracting division's profitability depends, among other things, upon an active mining scene which was in serious decline in Canada in 1994. Throughout 1995 contracting revenue remained well below desired levels.

In addition to comments in the President's report, in July, 1995, Canadian Mine Development entered into an agreement with Jonpol Explorations Limited ("Jonpol") and T&H Resources Ltd. ("T&H") for the purpose of exploring, developing and mining, by underground mining methods, a certain property, described below owned by Jonpol and T&H in Ontario, and the shipping of a bulk sample produced from the property to a custom mill. Jonpol and T&H have announced that the property hosts a drill indicated inventory (down to a vertical depth of 1,000 feet) of 1,000,000 tons at 0.18 ounces per ton of gold, and that permitting is underway to immediately develop and produce the 200,000 tons of 0.25 ounces per ton of gold zone indicated by drilling and underground drifting in the shaft area.

Under the terms of the Jonpol Agreement, Hillsborough was appointed the operator of 26 of the claims of the property

T'Sable Program Objectives: upgrade drill-indicated reserves to "proven-probable" and expand in-situ reserves to 20 – 30 million tonnes

with the responsibility to manage, develop and operate the property (down to a vertical depth of 1,000 feet) in return for a 50% interest in all proceeds of production, after recovery by Hillsborough of all its costs, plus a management fee equal to 11.5% of the expenses incurred by Hillsborough in connection with the mining operations, being all items of outlay and expense, direct or indirect, with respect to the work done on the property by Hillsborough, excluding transportation, milling and smelting charges. All costs, including the management fee, are only recoverable out of net proceeds of production.

The Company completed all surface work, including permitting, equipment mobilization and preparations for the collaring of the decline at a cost of approximately $0.9 million before weather conditions inhibited surface operations. This allows Hillsborough to continue underground operation at its discretion.

PORTFOLIO INVESTMENT

CANABRAVA DIAMOND CORPORATION

Canabrava was formed on November 1, 1994 by the amalgamation of Vector Diamond Corporation ("Vector"), a 50.6% owned subsidiary of the Company, and Signa Technologies Inc. ("Signa"), a wholly-owned subsidiary of Southwestern Gold Corporation. The amalgamation resulted in the merger of the 50% interests of Vector and Signa in the Canabrava Diamond Project in Minas Gerais State, Brazil.

Currently, Hillsborough owns 4,797,337 Canabrava common shares (approximately 17% of the issued and outstanding common shares) which have a market value in the range of $10.0-$15.0 million based on current trading ranges.

PROJECT OVERVIEW

Canabrava reports that the wholly-owned Joint Venture represents an immense land position in two famous alluvial diamond belts of Brazil, namely the Coromandel/Canabrava District and the Ipora District. The Canabrava Project covers about 850,000 hectares in an area believed to represent the largest concentrations of kimberlite/lamproite pipes anywhere in the world, a District famous for the recovery of large diamonds from recent alluvial deposits. During 1995, the Canabrava Project underwent an intense exploration program including stream sediment/soil sampling, airborne magnetics, ground magnetics and diamond indicator mineral evaluation. A third phase of airborne magnetic surveying completed the airborne survey program on the concessions. Priority magnetic targets now total over 700. Ground magnetics were initiated in the latter part of the year to

Diamonds recovered from alluvials by Garimpeiros in the Canabrava Project area.

better define priority targets for eventual drill testing. Numerous pipes exposed at surface were sampled for diamond indicator mineral chemical and petrographic analysis. Stream sediments collected were sent to Canada for mineralogical studies and the presence of kimberlite indicator minerals with compositions in the diamond inclusion field strongly suggest that diamonds recovered from streams are sourced in kimberlite/lamproite pipes within the project's concessions.

An important development in 1995 was the signing of a definitive Joint Venture with Teck Corporation. This Joint Venture ensures that one of the best major Canadian mining companies, well experienced and financed, is in charge and further costs for exploration and possible development on the Canabrava Project will be borne by Teck reducing Canabrava's shareholder risk substantially. Under the terms of the agreement, Teck must produce a positive feasibility to earn a 50% equity in the Project. If a commercial production decision is made, then Teck is to provide financing and all guarantees plus pay Canabrava a bonus of U.S. $20 million to earn a further 10%. Teck has moved rapidly to define pipes for drilling and the program for drill testing is to start early in 1996 and will be ongoing for at least 12 months.

The Company and Canabrava are excited about the potential for an economic diamond pipe to be discovered on the Canabrava Project in 1996.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

TO THE SHAREHOLDERS OF HILLSBOROUGH RESOURCES LIMITED

The accompanying consolidated financial statements of Hillsborough Resources Limited and all information in the Management's Discussion and Analysis are the responsibility of management of the Company. Consolidated balance sheets of the Company as at December 31, 1995 and 1994 and the consolidated statements of operations and deficit for each of the two years then ended have been prepared by management based on the information available and are in accordance with generally accepted accounting principles. The consolidated financial statements and other financial information have been prepared using the accounting policies described in Note 1 to consolidated financial statements and reflect management's best estimates and judgments. Financial information presented throughout this report is consistent with data presented in the consolidated financial statements.

A system of internal accounting control is maintained in order to assure, on a reasonable and cost effective basis, the reliability of this financial information. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its duties related to the consolidated financial statements by reviewing and discussing financial information prepared by management and through the activities of its Audit Committee composed of four directors. The Committee meets with management to assure that it is performing responsibly to maintain financial controls and systems and to review the annual consolidated financial statements of the Company. The Audit Committee also meets with the independent auditors to discuss the audit approach, the review of internal accounting controls and the results of their audit examination prior to recommending its approval of the consolidated financial statements.

The consolidated financial statements have been audited by Arthur Andersen & Co., Chartered Accountants. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

March 21, 1996

G. Vooro
Director, President and Chief Executive Officer

Udo E. von Doehren
Director, Senior Vice President-Finance and Chief Financial Officer, Secretary

MANAGEMENT'S DISCUSSION AND ANALYSIS

1995 HIGHLIGHTS

- Completed restructuring and refinancing of the Quinsam Coal Mine
- Entered into agreement with the BC Transportation Financing Authority ("BCTFA") to fund a $9.0 million coal transportation, storage and handling upgrade
- Commenced expansion program to double production to 1.2 million tonnes of clean high volatile thermal coal
- Raised cash proceeds of $4.7 million from the first stage of $10.0 million equity financing
- Increased production of clean coal by 14% to 590,000 tonnes
- Bench mark price for thermal coal increased by 18% to U.S. $40.30/tonne
- Returned to profitability, net income of $1.0 million or $0.10 per share

FINANCIAL RESULTS OF OPERATIONS

Net income for the year ended December 31, 1995 increased to $1.0 million or $0.10 per share compared to a net loss of $3.5 million ($0.36 per share) for the same period in 1994.

The net income realized includes a gain of $2.7 million on the sale of 2.1 million shares of Canabrava and a gain on dilution of $1.5 million from a subscription in common shares in Quinsam by Marubeni.

Operating losses for the years ended December 31, 1995 and 1994, were $3.4 million and $1.9 million respectively. 1995 results reflect a significant decline in contract revenues to $0.9 million in 1995 from $9.7 million in the prior year.

In 1995, revenue from coal sales increased 56% to $28.7 million on sales of 669,000 tonnes at an average price realization of $42.93 per tonne compared to $18.4 million from sales of 451,000 tonnes at $40.81 per tonne in 1994. The net price realization in 1995 increased only marginally, as the full benefit of the increased 1995 bench mark price could not be realized by the Company due to circumstances which required the Company to enter into certain contractual pricing arrangements prior to the completion of the 1995 Australian bench mark price negotiations. Approximately 84% of 1995 sales volume was exported, primarily to Japan.

Returned to profitability, net income of $1.0 million or $0.10 per share

Mine production of clean coal reached the highest annual rate in the operation's history with production of 590,000 tonnes compared with 518,000 tonnes in 1994. This 14% increase is the result of the Company's expansion plan to gradually increase annualized production capacity to 1.2 million tonnes by the end of 1996. Cost of coal production for 1995 was $38.47 per tonne, marginally higher compared to the previous year, and partly due to higher manpower and training costs.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS AND LIQUIDITY

In 1995, cash flow from operating activities was $1.6 million compared to $0.2 million of cash used in 1994. Working capital increased to $0.6 million at December 31, 1995 from a deficiency of $9.5 million a year earlier.

Investing and financing activities reflect the proceeds from the sale of 1,100,000 common shares of Quinsam by the Company to Marubeni for $1.1 million and the subscription by Marubeni for, and the issuance by Quinsam of, 10,000,000 common shares of Quinsam for $10.0 million. Capital expenditures during 1995 amounted to $11.3 million compared to $2.6 million in 1994. These costs were related primarily to ongoing expansion of production facilities at the Quinsam Mine.

Revenue from coal sales increased 56% to $28.7 million

The sale of 2.1 million shares of Canabrava generated net proceeds of $2.7 million. At year end the Company owned 4,797,337 common shares, which represents approximately 17% ownership interest of Canabrava.

Long term bank loans and lease obligations increased $3.4 million from December 31, 1995 over the prior year. In the second half of 1995, the Company issued 2.4 million common shares for net proceeds of $4.1 million. These funds were raised to support the restructuring and expansion plan of Quinsam.

As part of the expansion program, Quinsam entered into agreements with the BCTFA to provide financing up to $9.0 million for the upgrade of the seven kilometre portion of the Argonaut Road to the mine site, and to construct the new facilities at the Middle Point Terminal. In return, Quinsam will pay BCTFA user fees for the facility and upgrade.

In addition, Trilon Bancorp Inc. arranged a $5.0 million term loan in favour of Quinsam, secured by a fixed and floating charge over the assets of Quinsam. In return for arranging and providing the term loan, Trilon and Northgate Exploration received options to purchase 500,000 and 250,000 common shares of Hillsborough, respectively, at an exercise price of $1.80 per share. The options expire on May 16, 2000.

In connection with the restructuring and refinancing, Hillsborough has also arranged an operating line of credit with its Bank for the purpose of financing inventories up to $5.0 million which can be increased to $7.0 million upon the achievement of certain sales targets.

As at December 31, 1995, the Company had a cash balance of $5.3 million compared

Loading shuttle car

to a cash deficit of $7.1 million in the same period in 1994. This significant improvement was the result of the Quinsam refinancing and the realization of proceeds from the first phase of the equity issue.

Subsequent to year end, on March 13, 1996 the Company completed the closing of a private placement of 2.85 million Special Warrants for gross proceeds of approximately $5.4 million which was the final phase of the equity financing plan. 65% of the gross proceeds have been released to the Company while the remaining 35% of the proceeds raised have been placed in escrow and will be released upon the issuance of a receipt for a final prospectus qualifying the common shares to be issued on the exercise of the Special Warrants.

As a result of equity financings and improved operating cash flow, the Company's financial resources will enable it to carry out the 1996 capital expansion plan and commence exploration at its T'Sable River metallurgical coal project.

OUTLOOK

The outlook for Hillsborough is very positive. The new operation plan provides for increased productivity and cost reductions through capital improvements and much improved mining methods during 1996. The Company will also carry out an exploration program designed to upgrade the resource base of its high volatile metallurgical coal deposit at the T'Sable River project and continue work, subject to positive results.

In addition, the Company expects to further increase shareholder value through the holding of the 17% interest in the Canabrava Diamond project in Brazil, and by improving operating results in its contracting division, Canadian Mine Development.

The new operation plan provides for increased productivity and cost reductions

Conveyor in full production of coal

Expansion of coal production by world producers will be required to meet increased demand

During the Coal Year commencing April 1, 1996, Hillsborough expects that its average sale price realization will be in the U.S. $35.00/tonne range. The bench mark price for 1996 has been established on a roll-over basis at U.S. $40.30 per tonne for 10% moisture, 6700 kcal/kg., 0.5% sulphur Australian thermal coal.

Based on estimates provided by coal industry representatives at the Canadian Coal Association Conference, the Coal Trans Conferences and the Australia-Japan Coal Conference, the world demand for high volatile thermal coal is expected to increase at least through to 2010, based on the increased power plant construction scheduled to occur in several Asian countries. Expansion of coal production by world producers will be required to meet the increased demand. The Company is well positioned to benefit from these positive developments.

RISKS

The level of profitability of the Company in future years will largely depend on the thermal coal price, the Canadian/U.S. exchange rate, and the extent to which the production plans of the Quinsam mine are achieved. However, it is believed that there is minimal risk in the Company achieving or bettering its production schedule at the mine.These plans include hedging foreign currency exchange risks to the extent permitted and management's efforts to control costs which are also affected more or less by general inflation rates and other factors inherent in the mining industry. As coal is not traded as a commodity, there is no efficient market to hedge the price of coal.

AUDITORS' REPORT

To the Shareholders of Hillsborough Resources Limited:

We have audited the consolidated balance sheets of Hillsborough Resources Limited as at December 31, 1995 and 1994, and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 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.

Arthur Andersen & Co.

Vancouver, British Columbia
February 16, 1996
(except as to Note 10, which is as of March 13, 1996).

Consolidated Balance Sheets

As at December 31	***1995***	*1994*
ASSETS		
CURRENT ASSETS:		
Cash and term deposits	**$ 5,323,559**	$ 388,583
Receivables	**3,683,810**	2,629,190
Inventories (Note 2)	**2,111,336**	4,445,514
Prepaid expenses	**248,944**	31,089
	11,367,649	7,494,376
CAPITAL ASSETS (Notes 3 and 5)	**35,577,767**	27,200,366
INVESTMENTS AND DEFERRED CHARGES (Note 4)	**3,264,535**	4,292,514
	$ 50,209,951	$ 38,987,256
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank operating loan	**$ -**	$ 7,471,397
Accounts payable and accrued liabilities	**8,607,104**	6,366,997
Current portion of bank loans and lease obligations (Note 5)	**2,083,190**	2,150,688
Income and resource taxes payable	**107,933**	996,937
	10,798,227	16,986,019
BANK LOANS AND LEASE OBLIGATIONS (Note 5)	**6,598,444**	3,133,200
OTHER LIABILITIES (Note 6)	**438,712**	158,096
DEFERRED INCOME TAXES	**1,095,000**	1,095,000
MINORITY INTEREST	**8,391,462**	-
	27,321,845	21,372,315
COMMITMENTS (Note 9)		
SHAREHOLDERS' EQUITY:		
Capital stock (Note 7)	**29,470,226**	25,183,711
Contributed surplus	**853,438**	853,438
Deficit	**(7,435,558)**	(8,422,208)
	22,888,106	17,614,941
	$ 50,209,951	$ 38,987,256

Approved by the Directors:

.... Director .... Director

HILLSBOROUGH RESOURCES LIMITED

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Operations and Deficit

For the years ended December 31	**1995**	*1994*
REVENUES:		
Coal	**$ 28,741,073**	$ 18,417,385
Contract	**914,243**	9,740,480
	29,655,316	28,157,865
EXPENSES:		
Coal production	**25,752,721**	16,978,097
Contract	**826,714**	6,355,931
Depreciation, depletion and amortization	**3,013,900**	2,916,378
Interest	**1,011,219**	1,329,611
General and administrative	**2,497,313**	2,515,142
	33,101,867	30,095,159
Operating loss	**(3,446,551)**	(1,937,294)
OTHER INCOME (EXPENSE):		
Gain (loss) on dilution of ownership in subsidiary	**1,541,897**	(1,086,741)
Gain on sale of investments	**3,066,335**	2,172,633
Other income (loss), net	**(22,811)**	398,761
Write-off of exploration mineral properties	**-**	(2,142,007)
Income (loss) before provision for income and resource taxes and minority interest	**1,138,870**	(2,594,648)
PROVISION FOR INCOME AND RESOURCE TAXES (Note 8)	**309,450**	943,000
Income (loss) before minority interest	**829,420**	(3,537,648)
MINORITY INTEREST	**157,230**	-
Net income (loss)	**986,650**	(3,537,648)
DEFICIT, beginning of year	**(8,422,208)**	(4,884,560)
DEFICIT, end of year	**$ (7,435,558)**	$ (8,422,208)
EARNINGS (LOSS) PER SHARE	**$ 0.10**	$ (0.36)

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

Consolidated Statements of Changes in Financial Position

For the years ended December 31	***1995***	*1994*
CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES:		
Net income (loss)	**$ 986,650**	$ (3,537,648)
Add (deduct) items not affecting cash-		
Depreciation, depletion and amortization	**3,013,900**	2,916,378
Minority interest	**(157,230)**	27,655
Gain (loss) on dilution of investment in subsidiary	**(1,541,897)**	1,086,741
Gain on disposal of investments and other assets, net	**(3,111,436)**	(2,714,725)
Write-off of exploration mineral properties	**-**	2,142,007
	(810,013)	(79,592)
Changes in non-cash operating accounts	**2,412,806**	(126,965)
	1,602,793	(206,557)
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES:		
Purchase of capital assets	**(11,285,932)**	(2,553,515)
Adjustment for the deconsolidation of subsidiary	**13,621**	(642,949)
Change in investments and deferred charges	**623,061**	(818,659)
Proceeds from sale and issuance of shares in subsidiary	**10,433,165**	2,419,822
Proceeds from disposal of investments and other assets	**3,060,404**	2,488,911
	2,844,319	893,610
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES:		
Increase (decrease) in bank loans and lease obligations, net	**3,397,746**	(2,382,321)
Proceeds from stock options exercised	**159,900**	-
Proceeds from sale of special warrants	**4,126,615**	-
Increase in due to Marubeni Coal Canada Ltd.	**275,000**	-
Repayment of convertible debentures	**-**	(3,000,000)
	7,959,261	(5,382,321)
Increase (decrease) in cash	**12,406,373**	(4,695,268)
CASH, beginning of year	**(7,082,814)**	(2,387,546)
CASH, end of year	**$ 5,323,559**	$ (7,082,814)

Cash is comprised of cash and term deposits, net of bank operating loan.

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

Notes to Consolidated Financial Statements

December 31, 1995 and 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Hillsborough Resources Limited (the "Company"), and its 63% owned subsidiary, Quinsam Coal Corporation ("New Quinsam") and its wholly-owned inactive subsidiaries, Mine Services International Inc., Can Am Airlines Inc. and American Dorset Inc.

During 1994, the Company and its former wholly-owned subsidiary, Quinsam Coal Corporation ("Old Quinsam"), initiated plans to expand coal production at the Quinsam Coal Mine to 1,200,000 tonnes per annum (the "Mine Expansion"). In connection with the Mine Expansion, the Company and certain of its subsidiaries were reorganized on May 15, 1995. The reorganization involved (i) the amalgamation of the Company and its subsidiaries, HRL Coal Inc. and Old Quinsam, and the transfer of the coal operations to New Quinsam, the new subsidiary company, and (ii) the financing of New Quinsam as well as the Mine Expansion.

The corporate restructuring eliminated certain intercorporate holdings and consolidated the group's coal assets in New Quinsam. The restructuring also facilitated the related financing of the Mine Expansion and improved the financial and working capital position of New Quinsam and the Company. The financing of New Quinsam was comprised of the following:

(i) an equity investment of $11,100,000 by Marubeni Coal Canada Ltd. to acquire a 37% interest in New Quinsam consisting of a $1,100,000 purchase of common shares from the Company and a $10,000,000 subscription for common shares in New Quinsam;

(ii) the provision of up to $9,000,000 for improvements to transportation infrastructure by the BC Transportation Financing Authority;

(iii) a $5,000,000 term loan arranged by Trilon Bancorp Inc.; and

(iv) an operating line of credit of up to $7,000,000 from the Toronto Dominion Bank.

Income Recognition

Coal Revenue

Revenue from the sale of coal is recognized when legal title is transferred to the purchaser. A substantial portion of revenue is generated from sales to customers outside of Canada.

Contract Revenue

Contract revenue is recognized as services are rendered and related contract costs are expensed as incurred, which approximates the percentage of completion method of income recognition. Claims by the Company arising out of contracts are generally recorded in the year such claims are resolved. Provisions are made for the full amount of anticipated losses in the period in which they are first determined.

Coal Inventory

Coal inventory is valued at the lower of average cost and net realizable value.

Supplies Inventory

Supplies inventory is recorded at the lower of average cost and net realizable value. In 1995, the Company changed its accounting policy for supplies from the expense method to the inventory method. At December 31, 1995, the Company determined the value of the supplies inventory to be $403,545 and has recorded this amount as supplies inventory. The effect of this change in policy in 1995 is to increase income before income taxes by $403,545. This change in accounting policy has not been accounted for on a retroactive basis as the necessary financial data is not reasonably determinable.

Capital Assets

Quinsam Coal Mine

Commercial open pit mining operations commenced at the Quinsam Mine in April 1989 and commercial underground operations commenced in July 1990. Development and waste removal costs capitalized prior to the start of commercial operations, reduced by revenues during that period, are amortized using the unit of production method based on proven reserves included in the current mine plan. Subsequent development and waste removal costs are expensed, except costs associated with an increase in capacity which are capitalized.

Costs associated with the Texada Island ship loading facility are amortized based on the estimated tonnage to be handled over the current mine plan.

Buildings, plant and equipment are recorded at cost. Depreciation for buildings and plant is provided on the straight-line method based on the estimated useful lives of the assets according to the current mine plan. Depreciation for equipment is provided on the declining-balance method based on the estimated useful lives of the assets. The depreciation rates range from 5% to 50%.

Exploration Mineral Properties

Investments in exploration mineral properties are recorded at cost. In those cases where exploration activities are conducted jointly with others, only the Company's proportionate interest in the related mineral projects is included in the financial statements. All costs of acquiring mineral properties are capitalized and related costs of financing, including interest, and exploration and development costs are deferred on a project basis. Those exploration expenditures financed by flow-through funding, which transfers the tax deductibility of mineral exploration expenditures to investors, are recorded at values reduced by the estimated cost to the Company of income tax deductions renounced to investors.

When a property is put into commercial production, the related investment is amortized over a period of years, based on the unit of production method. If the carrying value exceeds the anticipated net recoverable amount, the excess is charged to earnings immediately. If a project is abandoned, the investment is written off immediately.

The recovery of the carrying amount of exploration mineral properties is dependent upon the future commercial success of related properties or the proceeds of disposition.

Contracting and Administrative Assets

Contracting and administrative assets are recorded at cost. Depreciation is provided using the declining-balance method over the estimated useful lives of the assets. The rates applied to the principal classes of depreciable assets are as follows:

Buildings	5%
Furniture and fixtures	20%
Equipment	30% to 50%

Deferred Financing Costs

Deferred financing costs are costs incurred related to arranging the financing of New Quinsam and the restructuring of the Company, and will be charged to earnings on a straight-line basis over five years.

Reclamation

The estimated cost of reclamation is accrued over the period of the current mine plan based on the estimated cost of restoration.

Investments

Investments are recorded at cost.

Foreign Currency Transactions

Trade transactions denominated in foreign currencies are recorded in Canadian dollars at the exchange rate prevailing at the time of the transaction.

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at the exchange rate prevailing at the balance sheet date.

Comparative Amounts

Certain of the comparative figures have been reclassified to conform with the current year presentation.

2. INVENTORIES

	1995	*1994*
Coal	**$ 1,707,791**	$ 4,445,514
Supplies	**403,545**	-
	$ 2,111,336	$ 4,445,514

3. CAPITAL ASSETS

	1995	*1994*
Producing mining properties-		
Quinsam Coal Mine-		
Mine acquisition and development costs	**$ 15,383,770**	$ 13,765,587
Texada Island ship loading facility	**1,646,917**	1,675,062
Buildings, plant and equipment	**24,857,863**	16,533,646
	41,888,550	31,974,295
Exploration mineral properties	**3,318,512**	2,262,605
Contracting and administrative assets-		
Land	**452,789**	452,789
Buildings	**996,873**	996,873
Equipment	**5,727,226**	5,727,379
Furniture and fixtures	**168,108**	188,509
	7,344,996	7,365,550
	52,552,058	41,602,450
Less- Accumulated depreciation, depletion and amortization-		
Mine acquisition and development costs	**2,886,051**	2,356,083
Texada Island ship loading facility	**878,871**	879,309
Buildings, plant and equipment	**7,848,493**	5,905,145
Contracting and administrative assets	**5,360,876**	5,261,547
	16,974,291	14,402,084
	$ 35,577,767	$ 27,200,366

At December 31, 1995, capital assets include equipment under capital lease with original costs totalling $7,748,804 (1994- $8,249,041).

4. INVESTMENTS AND DEFERRED CHARGES

	1995	*1994*
Guaranteed investment certificates, bankers' acceptances, and treasury bills	**$ 903,007**	$ 1,999,145
Shares in Dorset Exploration Limited	**256,390**	256,390
Shares in Canabrava Diamond Corporation	**538,383**	774,050
Deferred financing costs	**1,533,178**	818,659
Deferred foreign exchange loss on capital lease obligations	**33,577**	444,270
	$ 3,264,535	$ 4,292,514

The guaranteed investment certificates, bankers' acceptances and treasury bills have been lodged as security for mining permits and other obligations.

In connection with a business reorganization in 1990, the shares of Dorset Exploration Limited are held in trust for the settlement of stock options.

During 1994, the Company sold shares in its former subsidiary, Vector Diamond Corporation ("Vector"), for a gain of $2,172,633. On November 1, 1994, Vector amalgamated with Signa Technologies Inc., a wholly-owned subsidiary of Southwestern Gold Corporation. The successor company is named Canabrava Diamond Corporation ("Canabrava"). As a result of the amalgamation, the Company ceased to exercise significant influence over the operations of Canabrava. At December 31, 1995, the Company holds a 17% interest in Canabrava and accounts for the investment as a portfolio investment at cost.

4. INVESTMENTS AND DEFERRED CHARGES (continued)

	1995		1994	
	Cost	Market Value	Cost	Market Value
Dorset Exploration Limited	**$ 256,390**	**$2,172,500**	$ 256,390	$ 3,011,875
Canabrava	**538,383**	**8,395,340**	774,050	15,174,141

5. BANK LOANS AND LEASE OBLIGATIONS

	1995	1994
Term loan, bearing interest at 10.14%, repayable in semi-annual installments of $500,000, excluding interest, commencing November 15, 1996, secured by a first charge on the Quinsam Mine Property	**$ 5,000,000**	$ -
Term loan, bearing interest at prime plus 1%, repayable in monthly installments of $2,600, excluding interest, secured by a first mortgage on land	**200,642**	231,842
Term loan, bearing interest at 9.5%, repayable in monthly installments of $1,377, including interest, secured by a first mortgage on land	**86,905**	94,923
Liabilities under capital leases of equipment	**3,394,087**	4,957,123
	8,681,634	5,283,888
Less- Current portion of bank loans and lease obligations	**2,083,190**	2,150,688
	$ 6,598,444	$ 3,133,200

Credit Facilities

New Quinsam's credit facility at December 31, 1995 is comprised of a $5,000,000 operating loan facility with a $2,000,000 operating reserve. Advances on this facility bear interest at the bank's prime rate plus 0.25% and are secured by a first floating charge debenture covering coal inventories and certain accounts receivable. At December 31, 1995, no advances had been drawn on this line of credit.

New Quinsam has a $1,500,000 letter of credit facility and a $4,000,000 U.S. foreign exchange contract facility available with the Toronto Dominion Bank. New Quinsam has not drawn on these facilities during 1995.

Covenants

As at December 31, 1995, New Quinsam was in breach of certain financial ratio and coverage covenants relating to the $5,000,000 term loan. The lender has agreed to waive these breaches at December 31, 1995 and during 1996 as a result of New Quinsam's implementation of its revised capital expenditure program under certain conditions. Accordingly, the appropriate portion of the term loan has been classified as long-term.

Lease Obligations

Approximately one third of the Company's capital lease obligations are denominated in U.S. dollars and include leases with effective fixed interest rates between 6.5% and 11%. Capital lease obligations denominated in Canadian dollars primarily have a floating interest rate of prime plus 1.25%.

Included in cash and term deposits is $300,000 pledged as security for the lease obligations.

Future minimum payments under capital leases of equipment, excluding interest, for each of the next five years, are as follows:

1996	$1,594,927
1997	695,468
1998	342,784
1999	633,711
2000	127,197
	$3,394,087

6. OTHER LIABILITIES

		1995		*1994*
Reclamation	**$**	**163,712**	$	158,096
Due to Marubeni Coal Canada Ltd.		**275,000**		-
	$	**438,712**	$	158,096

The amount due to Marubeni Coal Canada Ltd. bears interest at prime plus 1.15% beginning September 1, 1995 and interest is payable quarterly beginning March 31, 1996. Repayment of principal will be made in two equal installments on September 30, 2002 and March 31, 2003.

7. CAPITAL STOCK

	Number of Shares	Amount
Authorized-		
Unlimited number of common shares		
Issued and outstanding-		
Balance, December 31, 1993 and 1994	9,696,818	$ 25,183,711
Issued for share purchase options	96,334	159,900
Exercise of special warrants	2,400,000	4,126,615
Balance, December 31, 1995	**12,193,152**	**$29,470,226**

A Director and Employee Incentive Stock Option Plan, approved by the Directors in 1989, allows for options to be granted to directors and key employees to purchase common shares of the Company provided that the aggregate number of common shares reserved for issuance at the date of grant of any option does not exceed 10% of the total issued and outstanding common shares. The option price will be determined by the Board of Directors at the time an option is granted. The option price will not be less than the market price of the common shares less the maximum discount permitted by regulatory authorities.

The following table outlines activity with respect to the Company's stock options during 1995.

Option Price	$1.50	$1.75	$2.05	$2.10	Total
December 31, 1994	560,000	-	197,000	-	757,000
Issued	-	280,000	-	200,000	480,000
Exercised	(68,334)	-	(28,000)	-	(96,334)
Expired/cancelled	(271,666)	-	(101,000)	-	(372,666)
December 31, 1995	**220,000**	**280,000**	**68,000**	**200,000**	**768,000**

On December 19, 1995, the Board of Directors approved a new stock option plan and the issuance of 325,000 share options at $1.70 per share to directors and employees and 126,000 compensation shares at $1.70 per share to employees under this plan. The plan requires approval by the shareholders and the regulatory authorities.

Special Warrants

On August 16, 1995, 2.4 million special warrants were issued, under a special warrant indenture made between the Company and Montreal Trust of Canada, as trustee. A prospectus was filed dated December 8, 1995 to qualify the common shares for distribution, and on December 21, 1995, 2.4 million common shares were issued upon the exercise of the special warrants. The special warrants were sold at a price of $1.95 per special warrant for gross proceeds of $4,680,000. The agent received 100,000 share purchase warrants to acquire 100,000 common shares of the Company at a price of $2.50 per common share, until December 31, 1996.

Other Options

In return for arranging and agreeing to provide financing, Trilon Bancorp Inc. and Northgate Exploration Ltd. received option agreements to purchase 500,000 and 250,000 common shares of the Company, respectively, at an exercise price of $1.80 per share. The options expire on May 16, 2000.

Weighted Average Number of Common Shares

The earnings (loss) per share is calculated based on the weighted average number of common shares outstanding of 9,805,030 for the year ended December 31, 1995 (1994- 9,696,818).

8. PROVISION FOR INCOME AND RESOURCE TAXES

	1995	1994
Provision for current income and resource taxes	**$ 309,450**	$ 943,000
Provision for deferred income taxes	-	-
Provision for income and resource taxes	**$ 309,450**	$ 943,000

The provisions for income and resource taxes are analyzed in the following table to show the taxes that would be payable by applying statutory tax rates to the Company's pre-tax earnings, and the taxes actually provided in the accounts.

	1995	1994
Income (loss) before provision for income and resource taxes	**$ 1,138,870**	$ (2,594,648)
Combined statutory tax rates	**45%**	44%
Tax at statutory rate	**$ 512,000**	$ (1,142,000)
Adjust for tax effect of-		
Resource allowance	**(284,000)**	(273,000)
Non-taxable portion of capital gains	**(308,000)**	-
Losses not tax effected	**486,000**	2,534,000
Utilization of previously unrecognized deferred tax assets	**(313,000)**	(292,000)
Resource and large corporation taxes	**124,000**	137,000
Other	**92,450**	(21,000)
Provision for income and resource taxes	**$ 309,450**	$ 943,000

For income tax purposes, the Company has tax deductions available to be utilized in future years totalling $54 million. When claimed, a substantial portion of these tax deductions will result in the creation of deferred income tax liabilities.

9. BC TRANSPORTATION FINANCE AUTHORITY

In 1995, BC Transportation Finance Authority ("BCTFA") agreed to provide New Quinsam with up to $9,000,000 to improve and construct coal transportation, storage and loading facilities to be used by New Quinsam under a Project User Agreement. New Quinsam is committed to construct these facilities which will be owned by BCTFA.

For the use of these facilities, New Quinsam has agreed to pay monthly usage fees determined by the volume of clean coal transported in the period September 1, 1996 to August 31, 2011.

As at December 31, 1995, New Quinsam has recorded $1,700,000 in receivables representing amounts incurred and to be reimbursed by BCTFA.

10. SUBSEQUENT EVENT

On March 13, 1996, the Company entered into a guaranteed agency agreement with Newcrest Capital Inc. and Sprott Securities Limited. The agreement provides that the Company will issue 2.85 million special warrants at a price of $1.90 per special warrant for gross proceeds of approximately $5,400,000. Each special warrant will entitle the purchaser to acquire, at no additional cost, one common share. The Company intends to file a prospectus to qualify the common shares issuable on the exercise of special warrants.

HILLSBOROUGH
Resources Limited

CORPORATE INFORMATION

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Udo E. von Doehren*
Arthur R. Fraser*
Allan T. Cloke*
Edwin Cohen*
*Member of the Audit Committee

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Senior Vice President - Finance, Chief Financial Officer & Secretary

Joseph I. Tatak, P. Eng.
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Targets Met
Goals Achieved

HILLSBOROUGH
Resources Limited