→ Belcourt
–Saxon

These resource estimates were reviewed by JHP Coal-Ex Consulting Ltd. In 2002, who classified 26.2 million tonnes of potentially open-pit mineable resources as inferred, in-place and of immediate interest. There is further resource potential at two other coal blocks: Hambler and Q West. NEMI sees potential for up to 3 mtpa total production at its Tumbler Ridge and adjacent properties.

iii) The Belcourt – Saxon Joint Venture

In March 2005, NEMI and Western Canadian Coal formed a 50/50 joint venture for the exploration and development of NEMI's Saxon and Omega properties and Western Canadian's Belcourt properties. The companies have a view to developing a 6-10 million tonne pa operation for a minimum of 20 years, with a relatively low strip ratio of around 6:1 (BCM waste: tonne ROM coal, from Belcourt 2000 study.) $20 million is slated to update feasibility reports. A pre-feasibility study is expected in mid-2006 and possibly a full feasibility study by end-2006. Royalties are payable to Western and NEMI on product revenue from each partner's contributed properties, and the Joint Venture is obligated to pay private royalties of 0.75% on the Belcourt properties and 1% on the Saxon and Omega properties.

The Belcourt and Saxon properties are located some 85 kilometres southeast of Tumbler Ridge. The region is not currently connected by railroad, and about 90-100 kilometres of track, including civil works, would be required to connect with the CN Tumbler Ridge Branch Line for transport to Ridley Terminals.

Measured and indicated resources are 98.1 million tonnes in-place (see Figure 41). The Saxon resource was estimated prior to implementation of NI 43-101. However, the February 2004 JHP Coal-Ex Consulting Technical Report noted that they represent an acceptable methodology for resource quantification. The Belcourt resource is from a May 2000 Preliminary Feasibility Study from Norwest Mines Ltd, and are not NI 43-101 compliant.

Figure 41: Saxon / Belcourt JV resources

	Measured	Indicated	Inferred	Total	Speculative
Saxon Group					
Saxon East		53.1	55.0	108.1	110.0
Saxon South			67.5	67.5	58.0
Omega			44.8	44.8	107.0
Total		53.1	167.3	220.4	275.0
Belcourt Group					
Red Deer	7.0	6.5	16.0	29.5	54.0
Holtslander	19.5	12.0	7.7	39.2	18.3
Total	26.5	18.5	23.7	68.7	72.3
Total JV	26.5	71.6	191.0	289.1	347.3

Source: Company data

The Saxon properties were previously held by Denison Mines Ltd. and their various joint venture partners, and were explored between 1970-1979. 16,354 meters of drilling, 13 adits, and 159 trenches were completed on the Saxon property. Some bulk sampling, coal quality analysis, and coke testing was conducted at the time. 2,516 meters of drilling, one adit, and about 40 hand trenches were completed on the Omega property.

Prior work recognizes Saxon coals as very good to premium hard coking coals. Coal seams of economic interest are in the Gates Formation, and are ranked as medium to low volatility bituminous coals, which could mean that some of the coking coal resource could sell at a premium to the more usual medium volatile coking coals of elsewhere in British Columbia, although Omega coals have lower coking quality. Quoting from the February 2004 Technical Report: "Based upon the results of traditional coke tests, Saxon East and Saxon South coals have been recognized as very good to premium hard coking coals, exhibiting favourable coking indices. Limited data on ash analyses suggests that these coals may also have high estimated CSR (coke strength after reaction). Tests performed on Omega coals have indicated that these coals can be used as a direct replacement for premium low volatile blending coals with equal or higher strength values than the reference blend." Cumulative coal seam thickness at Saxon South is 22 meters.

A summary of key clean coal quality characteristics is presented in Figure 42.

Figure 42: Belcourt / Saxon coal quality

	Ash %	Volatile Matter %	FSI (range, seam-by-seam)
Saxon East	6.6-7.2	20.0-21.8	3.5-9, ave 7.1
Saxon South	5.6-8.4	23.0-27.1	4-8.5, ave 7.3
Omega	5.5-9.8	17.1-21.2	1.5-9, ave 4.7

Source: Company data, (originally from Denison Mines Ltd. for Saxon and Omega)

There are no CAPEX estimates available, but given the lack of infrastructure, we would expect of the order of $500 million or more, including up to $200 million for up to 100 kilometres of new railroad, or a capital cost in the order of C$50-75 per tonne. Assuming operating costs of about C$35 per tonne, (Fording Coal's Q3/05 unit cost was C$36.50 per tonne) transport and port costs of about C$25 per tonne (comparable to current costs to export via Ridley Terminals) and a required return of 15%, a break-even coal price could be as high as about C$70-75 per tonne or about US$62 per tonne at today's exchange rate.

At this stage, and given the history of coal mining infrastructure development in western Canada, the back-of-the-envelope project economics may not justify the investment in additional port capacity at Ridley Terminals beyond current 16 mtpa. However, the project is still a long way from feasibility study completion, and while we are assigning no specific value to the Saxon/Belcourt Joint Venture, we recognize the potential should coking coal prices stay around current levels for much longer than most observers currently believe.

Sales contracts

NEMI has appointed Japanese trading company Itochu Corporation as its exclusive marketing agent for a period of ten years into key markets. Itochu has also entered into a Heads of Agreement to purchase some guaranteed tonnages over a five-year period. At the same time, NEMI is continuing to finalise a series of formal coal purchase agreements with a number of international buyers. NEMI has yet to test the small amounts of oxidized coal, and to establish a marketing plan for its sale. Until a market can be established, we are not including oxidized coal sales in our modeling.

Taxation

British Columbian coal royalties are a minimum 2% of net current proceeds, credited against a 13% net revenue tax which begins once certain capital and pre-production costs have been recovered. BC provincial corporate taxes are 12%. We note that the Trend Full Mine feasibility study assumes income tax payments commence in 2008 and that total BC royalty and income tax payments amount to 40% of earnings before taxes and royalties in 2009, but for consistency of comparison with other BC coking coal companies, we are using 37% in our modeling. Actual taxes payable would be substantially deferred if NEMI continues to develop additional coal properties.

There is a 1% private royalty on sales at the Trend property.

Ownership and capital structure

Coal International plc is the major shareholder in NEMI. Following the November 2005 purchase of 4.8 million shares at $1.75 per share, Coal International plc has control or direction over 9.6 million shares, 19.6% of the total outstanding, including shares owned by Cambrian Mining plc. We note here that Cambrian Mining plc owns 20.2% of shares outstanding of Western Canadian Coal.

Shares and options and warrants on issue are presented in Figure 43.

Additional to these options and warrants on NEMI stock, Itochu Corporation has an option to purchase a 10% interest in the Trend property, based on a yet-to-be-determined independent valuation. While not options on the stock itself, we include this option in this summary at an estimated value of four million shares to more fully demonstrate potential dilution, (although given that any transaction is expected to be at a fair value, we exclude this option from our financial modeling). We note that the 19.4 million warrants expire in June 2006, and given the strike price and the current share price are in our view unlikely to be exercised.

Figure 43: Share capital, millions (estimated, after current financing)

Common shares on issue	53.1
Options in-the-money (at $1.35), ave exercise price of $1.00	1.3
Options out-of-the-money (at $1.35), ave exercise price of $1.79	4.0
Warrants at $1.75	0.7
Warrants at $2.50, expiring 6/6/06	19.4
Warrants at $1.85 expiring June 2007	3.7
Fully diluted shares	82.6
Itochu option, yet to be priced	Equivalent to about 4

Source: Q3/05 company financial report, plus December 13 announcement