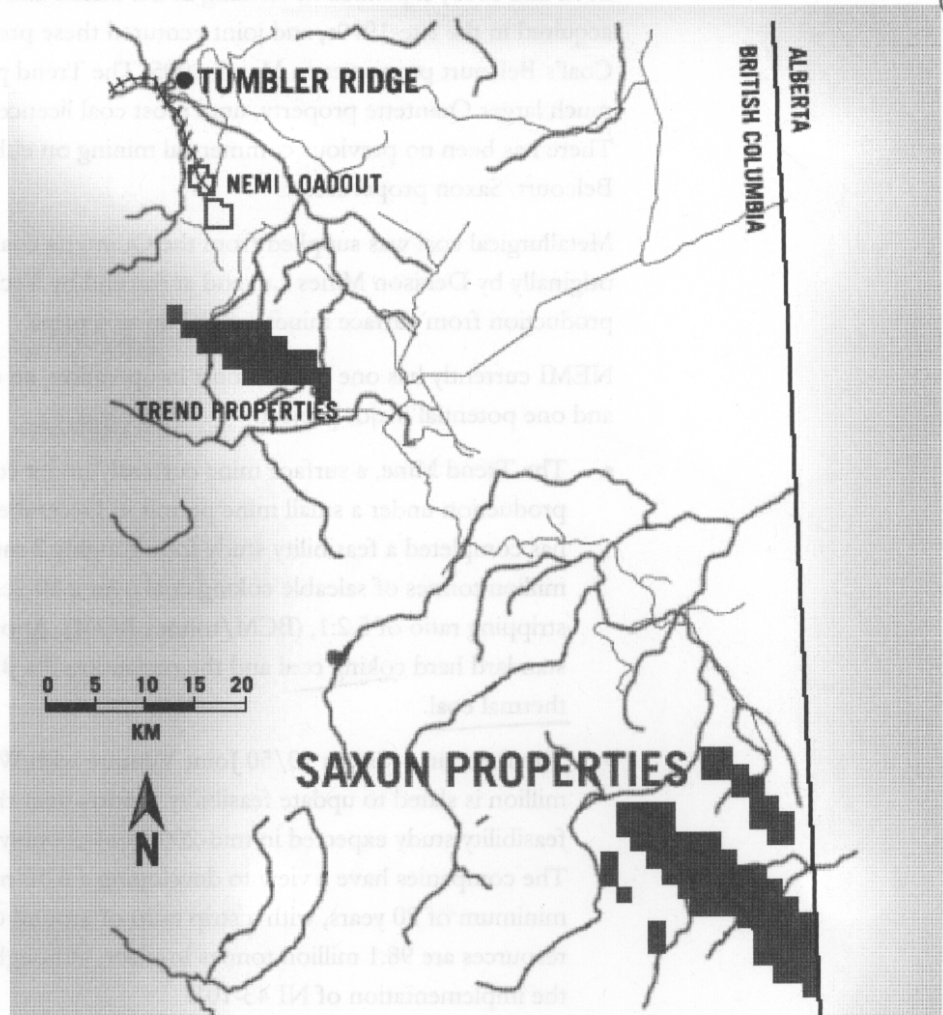


Trend
888955 → NEMI 48
Trend
(+Trend)

Figure 35: NEMI location map



Source: Company report

The reserve base

Technical reports have been prepared for the Trend Full Mine by Norwest Corporation in November 2005, for the Trend Small Mine by Norwest Corporation in April 2005, and by JHP Coal-Ex Consulting for the Extension Block of the Trend Coal in June 2004. These reports were all prepared in accordance with the requirements of NI 43-101.

Current reserves (November 2005) are summarized in Figure 36. Drilling activity has consisted of 60 drill holes totaling 6,152 meters at Trend South (including 45 totaling 4,345 meters by NEMI between 2002 and 2004), and 68 drill holes totaling 5,903 meters at Trend Extension (all undertaken by NEMI between 2002 and 2004).

The Gates formation contains most of the coal seams of economic interest and consists of 262-274 meters of sandstone, shale, and coal. Deeper than the Gates formation, the

→ Trend

NEMI acquired the Trend and Roman properties near Tumbler Ridge in 2000, and in 2002 and 2003, expanded its holding in the Saxon and Omega projects, which it had acquired in the late-1990s, and joint ventured these properties with Western Canadian Coal's Belcourt properties in March 2005. The Trend property was once part of the much larger Quintette property, until most coal licences were relinquished in 2000. There has been no previous commercial mining on either the Trend or the Belcourt/Saxon properties.

Metallurgical coal was supplied from the Quintette coalmine between 1983 and 2000, originally by Denison Mines Ltd and at the end by Teck Cominco. Annual raw coal production from surface mines ranged up to 6 mtpa.

NEMI currently has one mine almost in operation, an expansion plan for that mine, and one potential major project:

- The Trend Mine, a surface mine currently under construction, is due to commence production under a small mine permit in December 2005. However, the company has completed a feasibility study for a roughly 2 mtpa coal mine to produce over 16 million tonnes of saleable coking coal over a 10-year period, at a life-of-mine stripping ratio of 5.2:1, (BCM/tonnes ROM). About 93% of the coal reserve is standard hard coking coal and the remaining 7% of the coal reserve is oxidized thermal coal.
- The Belcourt – Saxon 50/50 Joint Venture with Western Canadian Coal. \$20 million is slated to update feasibility reports over the next few years, with a pre-feasibility study expected in mid-2006 and possibly a feasibility study by end-2006. The companies have a view to developing a 6-10 million tonne pa operation for a minimum of 20 years, with a strip ratio of around 6:1. Measured and indicated resources are 98.1 million tonnes in-place, although they were estimated prior to the implementation of NI 43-101.

OVER

Gething formation consists of 120-200 meters of sandstone, shale, coal, siltstone, and conglomerate.

Trend reserves are classified as “moderate” geology type reserves, (deposits affected to some extent by tectonic deformation). Norwest describes outer foothills deposits such as Trend as being “characterized by homoclines or broad open folds with bedding inclinations of generally less than 30° ... faults may be present but are relatively uncommon and generally have displacements of less than 10 meters.” In particular, some faulting has been detected in the eastern part of the Gates formation in the Trend extension Block, while none have been reported elsewhere.

In determining reserves, NEMI used a maximum strip ratio of 11:1, (BCM: tonne ROM), and a minimum in-place seam thickness of 1 meter.

The Belcourt – Saxon 50/50 Joint Venture accounts for an additional measured and indicated resource of 98.1 million tonnes in-place.

Figure 36: NEMI coal reserves & resources, million tonnes

Formation	Status	Mine Area	Reserves (million tonnes)			Additional Resources (M&I) In-Place
			In-Place	Recoverable	Saleable	
Gates	Operating	Trend South	8.7	9.4	7.4	
Gething	Operating	Trend South	1.8	2.0	1.5	
Gates	Potential	Trend Extension	8.1	8.8	6.8	
Gething	Potential	Trend Extension	1.3	1.5	1.0	
Gates		Trend				29.3
Gething		Trend				5.8
Gates	Potential	Roman	-			
Gething	Potential	Roman	-			
Total			19.8	21.6	16.6	35.0

Source: Company reports

Type and quality of coal

The Trend Full Mine project includes a new coal preparation plant. The Trend Small Mine process plant currently under construction only washes the coarse, >6.35mm material, with the undersized material bypassed as raw coal fines. Washed coarse coal and unwashed fine coal will be then blended to produce a 9.5-11% ash product. As part of the Trend Full Mine project, a new preparation plant will be constructed within the area of NEMI's coal licences, re-using much of the facility currently under construction but adding fines processing down to 0.045mm material. Target specifications are presented in Figure 37. With the exception of the ash content and calorific value of about 7,300 kcal/kg, Trend Small Mine target product specifications are similar. Norwest, in its Technical Report, has also presented Quintette specifications for comparison.

Trend processed coking coal would be classified as medium-volatile hard coking coal with pricing at standard Fording Coal levels. NEMI estimates the higher ash Trend Small Mine product would sell at an approximately 7% discount.

Figure 37: Trend Full Mine coking coal target specifications

	Trend Full Mine	Quintette (ave)
Moisture (at port)	8%	8%
Proximate analysis (dry basis)		
Ash	7-8%	9.6%
Volatile Matter	23-25%	22.30%
Fixed Carbon	67-70%	68.10%
Sulphur	<0.5%	0.44%
Phosphorus	0.03	
Calorific Value	7,900 kcal/kg	
FSI	6-7	5-7

Source: Company reports

Coal quality by seam is presented in Figure 38. After processing, the clean medium volatiles Gates coal seams show ash generally in the 7-9% range and FSI values in the seven to eight range. The clean Gething coal seams are low to medium volatiles and lower ash at mostly less than 5%. However, an FSI range of 2.5 to 9 suggests Gething coals will provide a lower quality clean coking coal. The Trend Full Mine plan indicates an 85/15 split between Gates and Gething coals, and we expect that on-site blending could produce one standard acceptable coking coal product, depending upon whether or not Gething coals could sell as a stand-alone product without incurring a discount.

Description of mines

The Trend Full Mine plan includes two mining areas: the South Block and the Extension Block, within which there are a total of three pits accessing six seams of Gates coal measures, and five small pits accessing four seams of Gething coal measures. The pits are designed with average stripping ratios of 6.0 in the Gates formation and 3.2 in the Gething formation.

The Trend Mine (Full and Small) will employ conventional truck and shovel methods, with overburden drilling and blasting, and coal drilling and blasting depending on bedding dip. Tercon Construction Ltd. is contracted to mine the coal and overburden at the Trend Small Mine on a unit rates basis, and the Trend Full Mine feasibility study is based on continued contract mining for at least five years. Clean coal plant yields range from 73-76%. The coal processing and wash plant is located an average of 5.6 kilometres from the coal mines (1.6 kilometres for the Trend Small Mine processing plant currently under construction).

Lomak Trucking will provide contract coal hauling from the preparation plant to the coal loadout facility, a distance of 24 kilometres for the Trend Small Mine. The Trend Small Mine plan uses 60 tonne haul trucks underloaded to 40 tonnes to meet highway load requirements. The Trend Full Mine plan includes construction of a dedicated haulage road to decrease the haulage distance to the new processing plant location from 24 kilometres to 20 kilometres and to allow full truck loading, for a cost saving of the order of \$2 per tonne saleable coal, which could amount to as much as 4% of total mine-site costs in FY/07.

Figure 38: Trend property coal quality estimates, in seams of economic interest, shallowest seam first

Mine Area	Seam	Thickness, (meters)	Raw Coal Quality, average per seam				
			Ash (%)	Volatile Matter (%)	FSI	Sulphur (%)	Phosphorus (%)
Trend South - Gates	D	2.2	6.8	27.0	7.5	0.5	0.025
	E	2.6	8.0	26.0	8.0	0.5	0.063
	F	2.6	4.0	26.2	8.5	0.4	0.042
	G	3	9.0	24.1	8.0	0.4	0.050
	J	4.7	7.3	22.8	8.0	0.3	0.007
	total, weighted ave.	15.1	7.1	24.8	8.0	0.4	0.034
Trend South - Gething	Bird	1.7	3.4	21.9	9.0	0.9	0.002
	GT1	1.3	3.3	21.1	6.0	0.4	0.001
	GT2	2.2	4.0	20.8	5.0	0.5	0.003
	GT3	2.9	5.9	19.4	2.5	0.4	0.003
	total, weighted ave.	8.1	4.4	20.6	5.1	0.5	0.002
Trend Extension - Gates	D1	1.2	NA	NA	NA	NA	NA
	E	3.2	7.3	27.7	8.5	0.4	0.015
	F	3.1	8.9	26.0	7.5	0.3	0.089
	J	6.1	7.2	24.8	7.5	0.4	0.036
	K2	2.8	6.9	24.1	7.5	0.6	0.010
	total, weighted ave.	16.4	7.5	25.5	7.7	0.4	0.038
Trend Extension - Gething	Bird	1.1	NA	NA	NA	NA	NA
	GT1	3.9	3.6	21.8	3.0	0.4	0.005
	GT2	1.2	4.6	23.4	7.5	0.4	0.036
	total, weighted ave.	6.2	3.8	22.2	4.1	0.4	0.012

Note: %s are on a dry coal basis

Source: Company reports

Rail and port contracts

NEMI's metallurgical coal will be transported via CN Railway Company a total distance of 975 kilometres for loading at Ridley Terminals near Prince Rupert. A Transportation Agreement is in place with CN Railway Company based on estimated tonnages. We don't know the nature of the contractual relationship with Ridley Terminals, but presume it is pending resolution to the federal government's sale of the coal terminal.

Construction performance

NEMI is about to move from the construction phase to the operating phase at the Trend Small Mine. Construction commenced in May 2005. The total CAPEX estimate is \$45 million plus 410 million for working capital, including:

- Minesite infrastructure and facilities at \$2.8 million.
- 1.2-1.8 mtpa clean coal (up to 2.1 mtpa of feed) processing plant and coal handling facilities at \$14 million.
- Rail infrastructure and load-out facilities at C\$11.5 million. Of this, about \$3.5 million is for the rail loop and coal load-out, and \$8 million to re-establish 16 kilometres of rail track to connect to the Tumbler Ridge Branch Line and on to Ridley Terminals. The rail track had been removed after the closure of the Quintette mine. The new track will be under the operating control of CN

Railways, and NEMI hopes to recover some or all of the costs in the event third parties utilise the replaced track. The most likely third party user would be Hillsborough Resources

The company has recently advised that project costs and CAPEX are within management's expectations and budgeting. CAPEX incurred up to June 2005 (last reported results) amounted to \$11.7 million.

Production profile

NEMI is expecting production from its Trend Small Mine to commence on schedule in Q4/05, with an initial production rate of 60,000 tonnes per month. However, upon commissioning, the company intends to implement a plan to increase production based upon eventual approval of the Trend Full Mine permits. We are assuming just under 500,000 tonnes of clean coal production in H1/CY06. (In the unlikely (in our view) event that the Trend Full Mine permit is delayed towards the end of 2006, the implication would be that NEMI would either need to apply for an extension under its existing permit, or in the worst case, may need to limit total 2006 Trend Small Mine production to 480,000, which is the 240,000 tpa Small Mine permit limit plus 240,000 tonnes carried over from 2005.)

Trend Full Mine production is scheduled to start in July 2006. However, we believe it prudent to allow at least a three month delay, and there will be downtime in late 2006 or 2007 as the process plant and associated facilities are re-located. Trend Full Mine production is scheduled to ramp up to about 2 mtpa of saleable coking coal in 2008.

We are assuming the production profile in Figure 39. Essentially, this assumes mining to depletion of current reserves (but not resources) at the current operating mines, but with no allowance for development of new mines. Through the life of the operation, 1.5 million tonnes ROM, or about 1.2 million tonnes saleable thermal, oxidised coal will be mined and stockpiled.

Figure 39: Assumed NEMI production profile, million tonnes

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Trend metallurgical coal	0.0	0.6	0.9	1.5	2.1	2.1	2.1	1.8
Trend oxidized thermal coal	0.0	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Total coal production	0.0	0.8	1.0	1.7	2.3	2.3	2.3	2.0

Source: Company data, Canaccord Capital estimates

Expansion projects

NEMI has a number of potential growth options:

- Trend Full Mine development.
- Resource addition adjacent to its Trend property.
- The Belcourt – Saxon Joint Venture with Western Canadian Coal.

i) Trend Full Mine development

In November 2005, NEMI published a feasibility study to increase Trend Mine production from 240,000 tpa of coarse-washed 9.5-11% ash saleable coking coal to approximately 2 million tpa of coarse and fines washed 8% ash coking coal. (The current Trend Small Mine permit is for 240,000 tpa. Actual production should be closer to 60,000-80,000 tonnes per month during the first six months of operation.). NEMI intends to apply for an Environmental Assessment Office Certificate and Mine Permit by January 2006, and expects these permits to be in place by mid-2006.

The production profile of the feasibility study is presented in Figure 40. We note that the stripping ratios will be relatively high during the initial years of production.

Figure 40: Trend Full Mine feasibility study coal and waste production, by calendar year

	H2/06	2007	2008	2009	2010	2011-2015	Total
In-pit waste, 000 BCM	2730	6198	14155	15653	14948	64380	118064
ROM coking coal, 000 tonnes	388	854	2286	2846	2656	12192	21222
ROM Thermal coal, 000 tonnes	39	111	180	270	168	809	1577
stripping ratio, BCM/ROM tonnes	6.4	6.4	5.7	5.0	5.3	5.0	5.2
Saleable coking coal at port	266	721	1773	2213	2073	9272	16318

Source: Company report

The Norwest Technical Report of November 2005 has estimated NPV₁₀ of \$79m pre-tax (or about \$1.50 per reasonably-diluted share pre-tax), and \$49 after-tax (or about \$0.95 per share), based on:

- Life-of-mine CAPEX of \$55.8 million plus 10% contingency, including \$13.6 million for access and infrastructure, \$5.5 million for design and permitting, \$7.7 million for tailings and water management and \$32.5 million for process and coal handling. All Trend Small Mine capital costs are treated as sunk costs. Initial CAPEX estimates are about \$47 million plus 10% contingency.
- Average mine-site operating costs of \$41.60 per tonne and rail and port, (+ 5-10% contingency), overhead and administration costs of \$28.80 per tonne, both of which seem sensibly conservative estimates.
- Life-of-mine stripping ratio of 5.2 (BCM/t ROM)
- C\$/US\$ exchange rate of \$0.82.
- Metallurgical coal export price falling to US\$67 per tonne in year six and beyond. (We are assuming US\$73 per tonne long-term for standard medium volatility hard coking coal.)

ii) Resource addition adjacent to the Trend property

A 2005 summer drill program of 24 new holes of total distance 2,640 meters, re-logging of 14 old drill holes and some trenching will allow re-evaluation of the geology and coal resources on Roman Mountain Block. Historical resources within this block, as estimated by Denison Mines Ltd. in 1975-76 are in the range of 22-27 million tonnes.

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
Holtlander	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,