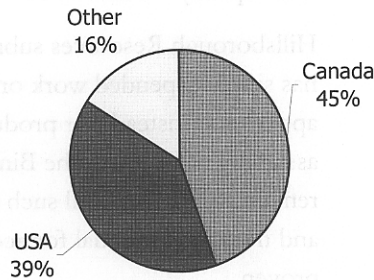


Figure 30: HLB H1/06 sales by destination



Source: Canaccord Capital estimates.

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%. For consistency of comparison with other BC coking coal companies, we are using a total royalty and tax take of 37% in our modeling, once tax pools have been depleted, which we assume to be in 2007. Actual taxes payable would be substantially deferred if Hillsborough Resources continues to develop additional coal properties.

There is a US\$0.50/st royalty payable to the previous owner at Crossville. Private royalties payable at Bingay Creek are \$1-2.75 per tonne for washed coal and 2-4% for raw coal. There is a 1% mine-gate royalty payable to the vendor of the northeast British Columbia properties. There is no private royalty payable at Quinsam.

Ownership and capital structure

Hillsborough Resources is relatively widely held. The largest shareholder Clarica Funds controls 4.8% of shares outstanding, and in total the ten largest shareholders control 13.2%. Shares and options and warrants on issue are presented as Figure 31.

Figure 31: Share structure, millions

Common shares on issue	45.4
Options in-the-money (priced at \$0.78)	1.7
Warrants at \$1.60, expiring 18/8/06	0.2
Fully diluted shares	47.3

Source: Q3/05 company financial report

The property is located to the west of Elk Valley coal leases. The closest railhead is 30 kilometres away near Elkford, on the CP Railway line used by Elk Valley to transport its coal to Vancouver coal terminals. However, in our view, CP Rail congestion suggests that capacity would not be available for Bingay Creek within the next few years.

Hillsborough Resources submitted a small mine permit application in January 2005, but has since suspended work on this application and is considering a full mine permit application instead, for production of around 1 million tpa. At this stage, we are assigning no value to the Bingay Creek resource. We believe that economic viability will remain a problem until such time as sufficient CP Rail capacity can be made available, and note the potential for acquisition by Fording Coal should economic viability be proven.

iv) Quinsam coal-bed methane

Hillsborough Resources also has some growth opportunities related to its coal mining activities. The company has title to coal bed methane in Quinsam's freehold coal reserves, and is currently preparing an exploration strategy with its operating partner Texas Canadian Ventures Inc. A nearby Terasen pipeline could be available for distribution should the venture prove to be commercial.

v) Wapiti thermal coal project

The Wapiti thermal coal property is centered about 40 kilometres north of Tumbler Ridge adjacent to the Heritage Highway. The property was originally explored by Gulf Resources in the 1980s; work included 45 drill holes and two adits. The property was further explored in 2004 by Wapiti Coal Ltd. with 27 holes completed on the Heritage block. A NI 43-101 report is currently being prepared with target completion for January 2006.

The property contains a single seam ranging in thickness from 1.5-2.2 metres over most of the target mine area. The seam is flat-lying with large areas under shallow cover making it suitable to low-cost area mining methods, and low-cost mining with contour mining in conjunction with highwall mining, a common method in the eastern US.

Hillsborough Resources is actively pursuing an alliance with a power producer to develop a mine mouth power plant on the property.

Sales contracts

Hillsborough Resources has a range of contracts in place with major cement producers such as Lehigh and Lafarge in Vancouver and Ashgrove in Seattle. Contract prices are of the order of C\$45 per tonne with yearly escalation. Some coal is also provided locally to the Norske Pulp and Paper Mill in Campbell River, and any excess coal is made available to international markets via the deep water port at Texada Island.

Hillsborough Resources has a five-year contract with the Tennessee Valley Authority to supply thermal coal from its Crossville Mine. Contract price is about US\$41/st with yearly escalation of about US\$0.75/st.