PEACE RIVER COAL

ASSESSMENT REPORT

for the

2006 / 2007 Prospect / Tentfire Exploration Program

PEACE RIVER COAL INC.

ASSESSMENT REPORT

2006-07 Prospect / Tentfire Exploration Program

British Columbia Coal License No.'s 416979, 416980, 416995, 416997, 416998, 416999, 417000, 417033, 417034, 417039

Owner and Operator: Peace River Coal Inc.

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February, 2007

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To: Ministry of Mines Energy and Petroleum Resources
Subject: Prospect & Tentfire Property, Tumbler Ridge, BC
Date: February 2007

1. INTRODUCTION

From late August 2006 to January 2007 Peace River Coal Inc. conducted a program of geological mapping on the Prospect and Tentfire exploration properties. Reconnaissance drilling was completed on the Prospect property only. An abandoned oil exploration road was re-established, and exploration drill roads were constructed to five drill sites. A total of 851.92 meters were drilled and geophysically logged.

2. PROPERTY

2.1 Location

The Prospect property lies in the Peace River Coalfield, within the Foothills of the Rocky Mountains, in northeastern British Columbia. The project area is located approximately 23.6 km southwest of Tumbler Ridge (Figure 1). It is located between the Murray River and the Wolverine River, approximately 8 km north of the Murray River Forest Service Road.

The Tentfire property is immediately adjacent to the Prospect property to the southwest (Figure 1). It lies approximately 27.8 km southwest on Tumbler Ridge (Figure1). The properties are continguous.

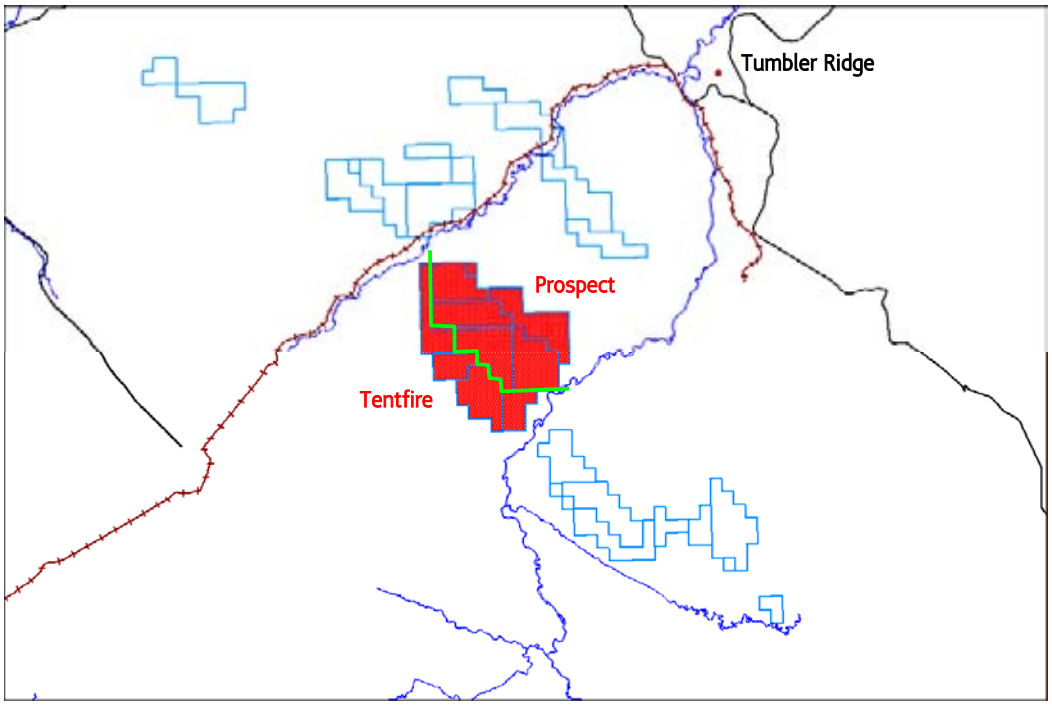


Figure 1: General locality plan of the region, showing Anglo Coal's license areas.

2. Tenure

Anglo Coal Canada Incorporated acquired Prospect property (British Columbia Coal License No.'s 416995, 416997, 416998, 416999, 417000, and 417039), and the Tentfire Property (British Columbia Coal License No.'s 416980, 416979, 417033, and 417034) when the Murray River Group joint venture agreement with Hillsborough Resources Limited was signed. Subsequent to the signing of the joint venture, these licenses were assigned to Anglo Coal Licenses Inc.

It is important to note that in November, 2006, Anglo Coal Canada entered a limited partnership agreement with Hillsborough Resources Limited, and Northern Energy and Mining Incorporated to form Peace River Coal Incorporated.

These licenses make up the Prospect and Tentfire properties, and cover a total area of 8,692 hectares. Prospect totals 5,793 hectares and Tentfire totals 2,899 hectares in area. The majority of exploration was carried out on the Prospect property, specifically license no. 416999. Prospect was named by Dave Fawcett of Hillsborough Resources Ltd. to reflect that the area had not been previously drilled. Tentfire was named after the Tentfire Creek which flows through the area.

Table 1: Prospect & Tentfire property coal tenure licenses

TENURE NO.	PROPERTY	AREA (ha)
416995	Prospect	1485
416997	Prospect	1189
416998	Prospect	1188
416999	Prospect	965
417000	Prospect	891
417039	Prospect	75
416980	Tentfire	521
416979	Tentfire	1041
417033	Tentfire	520
417034	Tentfire	817

3. THE 2006 EXPLORATION PROGRAM OVERVIEW

3.1. Scope and Objectives

The 2006 Prospect/Tentfire exploration program's goal was to determine if the properties contained significant coal resources from either the Gething or Gates coal seams and to establish if these resources warranted further exploration beyond 2006. The program consisted of geological mapping with the objective of defining drilling locations. Drilling subsequently followed.

3.2. History

Both Prospect and Tentfire had not been previously drilled or mapped, apart from 1:50 000 scale mapping completed by the Geological Survey of Canada. There is an abandoned hydrocarbon exploration well (Phillip Petroleum) on license 416999 (Prospect) as well as an old seismic line that crosses all the license areas. Other than these activities, Peace River Coal's program was the first look at coal resources in this area.

3.3. Access & Physiography

The Prospect property is first accessed by the Murray River forest service road, which runs parallel to the Murray River, then by a service road, operated and maintained by Canadian Natural Resources Ltd. The service road is located at kilometer 14, north of the Murray River road. A series of exploration trails were constructed to access the planned borehole locations. A total of 1.14km of access trails was built.

Tentfire is accessed by the Tentfire forestry road, located at kilometer 18.5 on the Murray River forest service road. The road is not maintained and ATV's must be used. The ATV road is completely blocked by the Tentfire creek. Access into the license areas east of Tentfire Creek was gained by foot.

The relief of both properties varies from 1400 to 1900 meters above sea level. The area is covered by spruce forest at the lower elevations and by alpine vegetation at the higher altitudes.

3.4. Mapping – Prospect & Tentfire

Peace River Coal conducted a program of geological mapping on the license areas, during the fall of 2006. The objective was to define the stratigraphy and structure of the project area. The region was mapped on a 1:50 000 scale by the Geological Survey of Canada (GSC), confirming the presence of coal-bearing strata. The mapping was focused on the north-central portion of the Prospect property (No. 416999) and to some extent the adjoining licenses (No. 416995, 417000, and 416998). On the Tentfire property, the mapping was focused in the License No. 416980, 416979, and 417033.

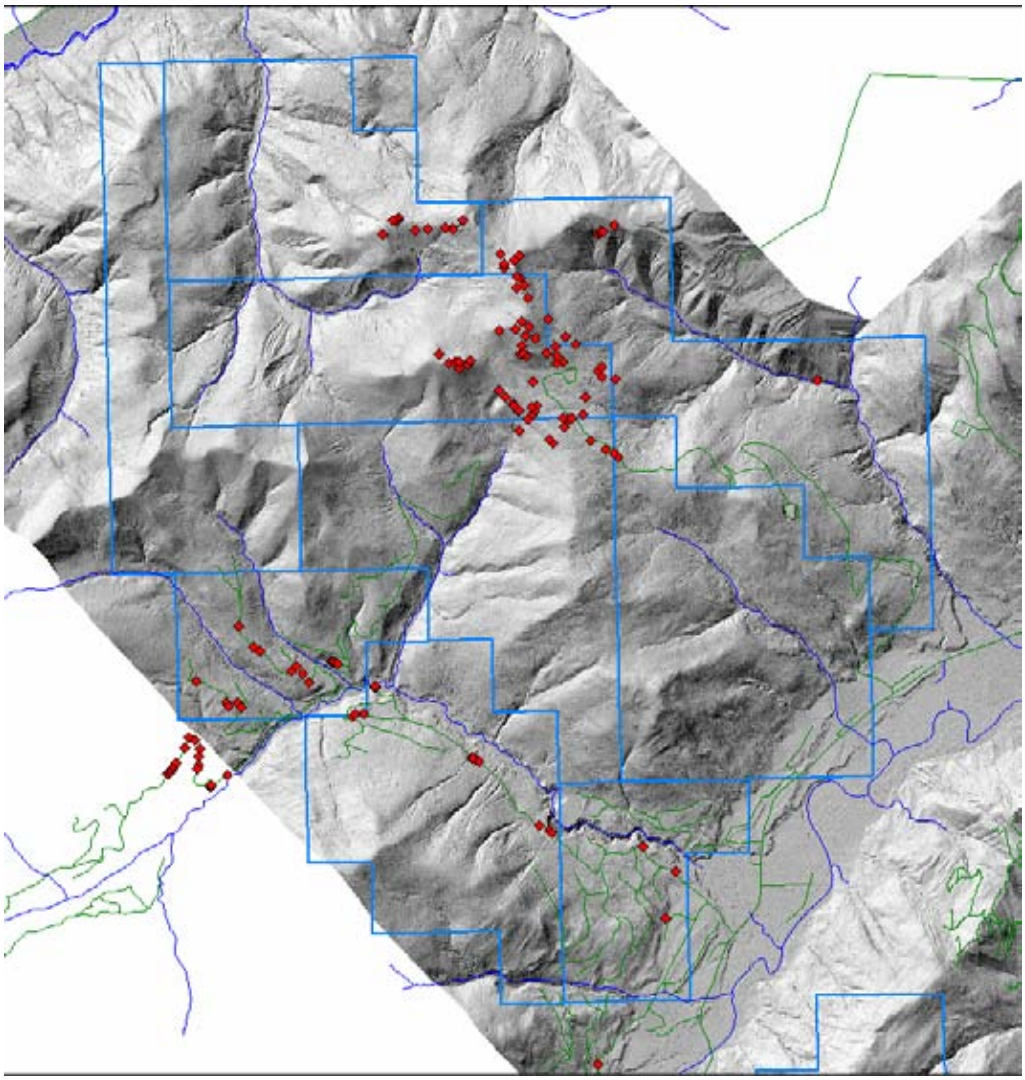


Figure 2: Prospect and Tentfire mapping coverage.

3.5 Drilling - Prospect

Based on the results obtained from the mapping program, five borehole locations were planned and subsequently drilled in the winter of 2006/2007. Drilling on the Prospect property commenced in December of 2006, with a total of five boreholes, spread over three section lines. Three boreholes (P001-P003) were drilled at an interval of approximately 300 m along a section line. The other two boreholes (P004 and P005) were drilled northwest and southeast of this section line to determine the

presence of the Gates and Gething formations, respectively. The position of these boreholes can be observed in Figure 3, with their UTM coordinates (NAD 83, Zone 10) attached in Table 2.

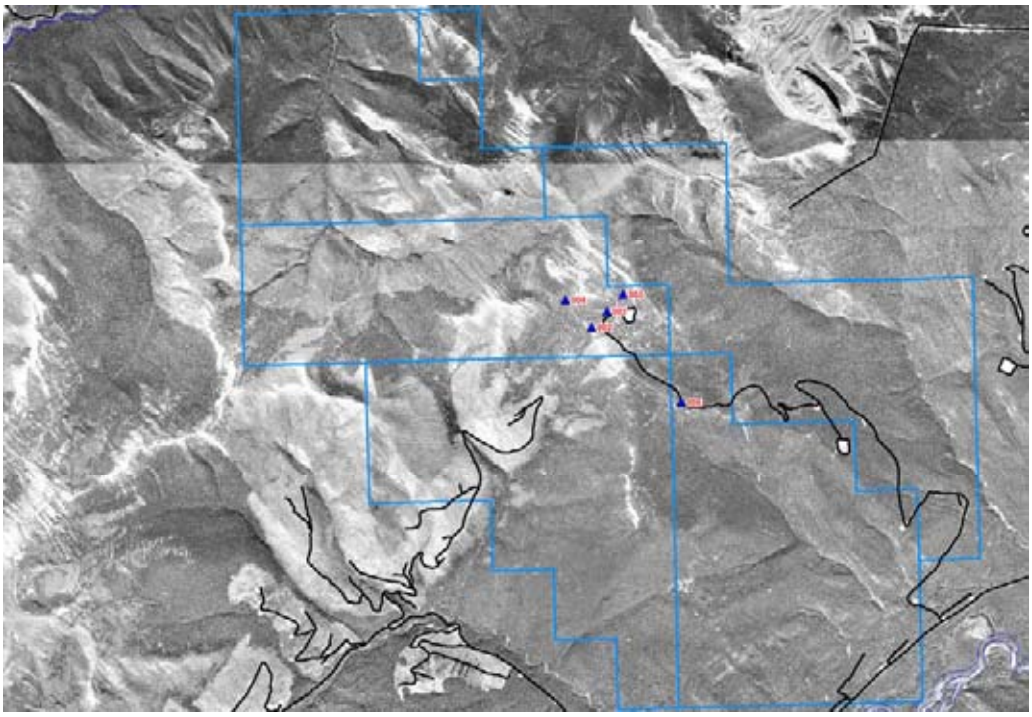


Figure 3: Prospect borehole locality plan.

Table 2: UTM coordinates of the Prospect boreholes.

Borehole No.	X	Y
P001	611888.4	6094003.6
P002	611651.8	6093777.8
P003	612089.1	6094223.8
P004	611343.8	6094149.7
P005	612871.7	6092800.0

4. 2006 / 2007 EXPLORATION WORK

4.1 Geological Mapping

Mapping on Tentfire and Prospect areas took place between June and September 2006. A series of traverses were completed. The mapping team recorded strikes and dips of outcropping strata and made initial interpretations of stratigraphy. Bedding attitudes were analyzed stereographically and a geologic grid established to provide the best cross-sectional orientation for structural analysis (Figure 6). The results of the field mapping were compiled on aerial photographs and transferred to a 1:10 000 scale topographic map and lidar images. Major formations, units, and structures were outlined partially by mapping data and partially by photographic/lidar analysis. A series of 1:10,000 scale cross-sections were constructed; based primarily on this mapping data, and any additional data from the GSC. These cross-sections were then used to make primary structural interpretations and plan drilling locations.

4.2 Drilling Program - Prospect

A total of 851.92 meters were drilled over a period of two months. The drilling contractor, Geotech Drilling Services Ltd., was mobilized onsite on November 24, but cold weather pushed the start of drilling back to December 5. Average drilling was 42.6 m/day over twenty drilling days.

All holes were drilled with open-hole, air rotary drilling. Bit sizes were 4 inches, unless tough drilling conditions meant downsizing or using a tri-cone bit. Boreholes 2

through 5 were cased with steel casing to a depth on 3 meters. Borehole P001 was cased to a depth of 7.63 meters.

Cold temperatures, excessive snow and wind, and the Christmas break caused a total of 16 drilling days to be lost. Drillers moved offsite on January 13, 2006.

4.3 Geophysical Logging

All boreholes at Prospect were geophysically logged by Century Geophysical Corp. of Canada. All holes were logged with three separate tools: gamma/neutron/deviation tool (tool #9057), gamma/density/resistivity/caliper tool (tool # 9239), and a dipmeter/deviation tool (tool # 9411). Century provided Peace River Coal with ASCII .las files and graphic .tiff files of all logs, which are included on the data CD.

Geophysical data from the boreholes indicate that P002, and P005 were drilled into the upper to mid Gething Formation, while P004 is interpreted to have intersected the upper Gates Formation. P001 and P003 are interpreted to penetrate both the lowermost Gates and the upper Gething Formations. All 2006 gamma/density/resistivity logs are included in Appendices A through C.

4.4 Surveying

All boreholes were surveyed by Integrated ProAction Corp. using a Trimble ProXr GPS data collector combined with Terrasync 2.4 software. Base stations were then used to differentially correct the data to sub-meter accuracy. Table 1 displays all of the surveyed coordinates for the Prospect boreholes.

4.5 Sampling and Analysis

A total of five rock samples from the Tentfire area were sent for palynological analysis, to verify the interpreted of the mapping team. The analysis was carried out by Branta Biostratigraphy Ltd. Results were inconclusive as the samples were impoverished and almost barren of palynomorphs (Branta, Davies 2006). See Appendix F for full report.

5. GEOLOGY

5.1 Regional Geology – Prospect and Tentfire Properties

The license area lies within a belt of Mesozoic strata that forms part of the Rocky Mountain Foothills of northeast British Columbia. The area contains Lower Cretaceous sediments of the Minnes Group through to the Boulder Creek Formation (Figure 4, 5). Coal seams of economic interest are found within the Gething Formation of the Bullhead Group and the Gates Formation of the Fort St. John Group. The internal stratigraphy of this Bullhead to Fort St. John Group succession can be generalized as an alternating sequence of marine shales and clastic lithologies (marine to non-marine), reflecting deposition in a series of transgressive / regressive cycles. The Gething and Gates coal seams are believed to have been formed within deltaic depositional environments. Small, uneconomic coal seams have also been noted within the Minnes Group at the base of the succession, and in the Boulder Creek Formation above the Gates Formation. The license area is underlain by a stratigraphic sequence ranging from the Minnes Group strata to the Gates Formation.

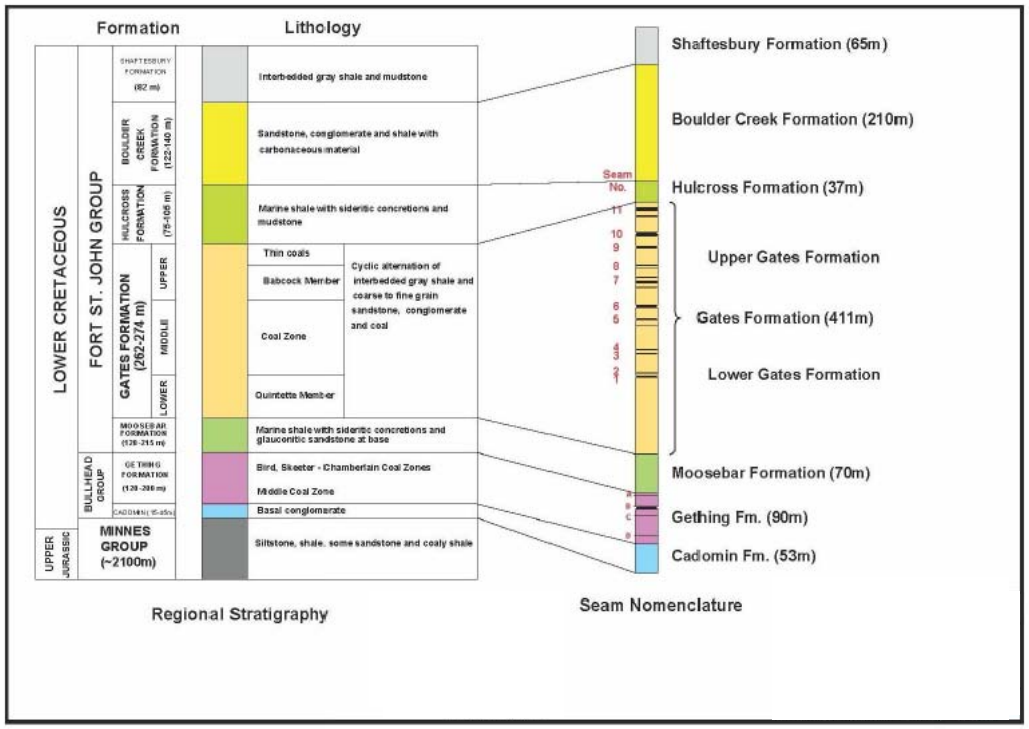


Figure 4: Typical stratigraphic section.

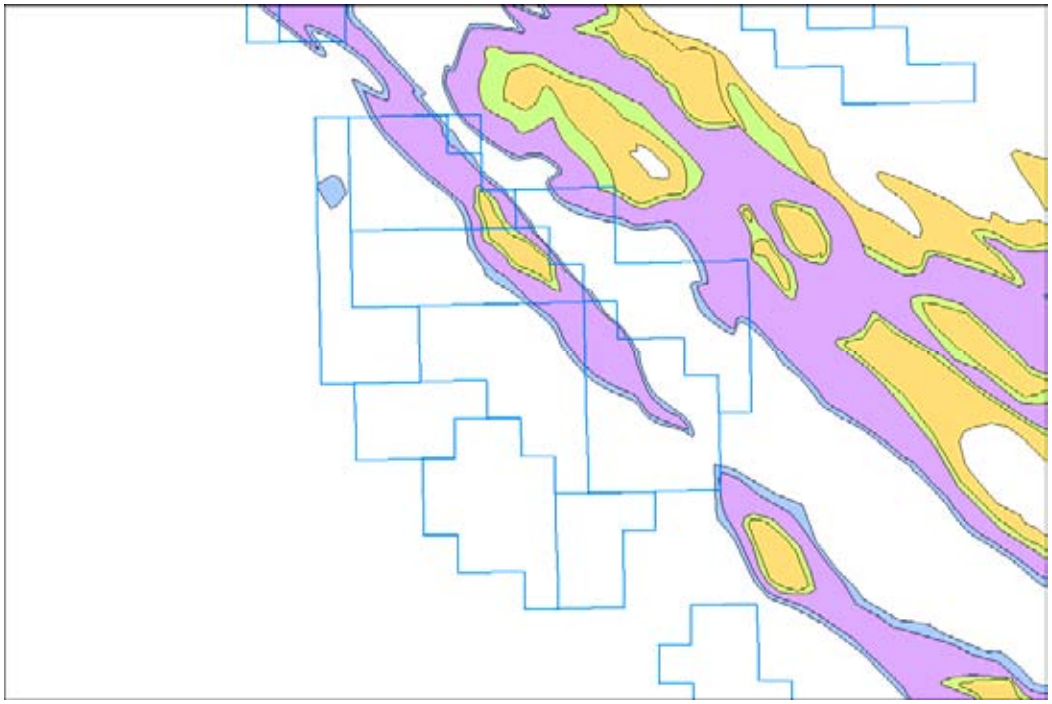


Figure 5: Regional Geology; Prospect & Tentfire

The Cadomin Formation, which unconformably overlies the Minnes Group strata, consists mainly of quartz pebble conglomerate. The Gething Formation conformably overlies the Cadomin Formation and is predominately non-marine sediments, although at least one marine horizon of dark gray shale has been identified through past mapping in the surrounding area. The Gething Formation is recognizable, not so much by its appearance in outcrop, but by its position between the Cadomin Formation below and the recessive Moosebar Formation above.

The Moosebar Formation overlies the Gething Formation and consists of a thick sequence of dark grey marine mudstones and siltstones. The Gates Formation conformably overlies the Moosebar Formation.

The Gates Formation ranges in thickness from 250 m to 300 m. The lower portion of the Gates Formation consists of massive, light-grey, medium-grained sandstone with minor carbonaceous and conglomeratic horizons. It is sometimes referred to as the Torrens Member. Historically, the majority of the coal is confined to the middle and lower Gates Formation, over an interval of approximately 90 m. Some thin seams occur in the upper Gates Formation, just below the Hulcross Formation. These Gates cycles generally represent fining-upward sequences that culminate in coal deposition. Cycles normally begin with laminated, medium to fine-grained sandstone at the base that gives way to carbonaceous shale and then coal.

The Hulcross Formation overlies the Gates Formation and consists of a thick sequence of dark marine mudstones. The Boulder Creek Formation overlies the Hulcross Formation and consists of resistant conglomerate and sandstone strata.

5.2. Coal Seam Development and Correlation in Prospect area

Four stratigraphic units, the Cadomin and Boulder Creek conglomerates, the Moosebar and Hulcross shales, are particularly valuable for regional correlation while the two main coal-bearing units, the Gates and Gething Formations, are less easily distinguished. Reconnaissance mapping located several prominent conglomerate beds associated with the Cadomin Formation. These act as a resistant capping on limbs of the syncline, constraining the extent of the coal bearing strata.

The Gething and Gates Formations are both historically known to contain seams of metallurgical coal in the area surrounding Prospect. Correlations of these two main coal-bearing units within the area are well established. The nomenclature for naming the Gates coal seams is numerically up from the bottom seam. For the Gething coal seams it is done alphabetically down from the top.

Gething Coal

Up to four Gething Formation coal seams have been identified and well correlated regionally. In descending stratigraphic order these are referred to as the A, B, C and D Seams. These coal seams are believed to correlate with the two Gething coal seams in Prospect area.

Peace River Coal's exploration focused on coals of both the Gething and Gates Formations.

Gates Coal

The coal seams found in the Gates Formation are considered the most prolific in northeast British Columbia. Gates Formation coal seams of significant thicknesses first occur in the Bullmoose Mountain area and continue to the provincial border, a distance of nearly 140 km. Eleven coal seams occur regionally, but only the lower Gates Formation coal seams are developed around the license areas. They are named in ascending order from the No. 1 Seam at the base. Only the No. 1, 2, 3, 5 and 6 Seams were developed to any significance at Prospect. The Gates Formation coal seams are generally between one and two meters in thickness. Coal seam thickness data from the five boreholes drilled can be observed in Table 2.

Table 3: Apparent and true thickness of the coal seams intersected in the license area.

Borehole No.	Formation	Seam Name	Apparent Thickness (m)	True Thickness (m)
P001	Gates	S3_2	1.58	1.53
		S3_1	1.78	1.72
		S2_3	2.04	1.97
		S2_2	0.44	0.43
		S2_1	0.82	0.79
		S1_2	0.98	0.95
		S1_1	1.02	0.99
	Gething	A_1	0.58	0.56
		A_2	0.32	0.31
		A_3	0.12	0.12
P002	Gething	A_2	0.5	0.29
		A_1	0.32	0.18
		B_1	5.34	3.06
		B_2	4.58	2.63
P003	Gates	S3_1*	0.52	0.09
		S2_3*	1.94	0.34
		S2_2*	0.08	0.01
		S2_1*	0.86	0.15
		S1_2*	0.82	0.14
		S1_1*	0.72	0.13
P004	Gates	S6_2*	0.98	0.97
		S6_1*	0.9	0.89
		S5_0*	0.4	0.39
P005	Gething	B_1	2.82	0.85
		B_2	4.6	1.4

** Seam Correlation problematic – Actual seam names unknown.*

5.3. Structure and Cross-sections

The Prospect property is an area of complex geologic structure. Geological mapping confirmed the presence of an open syncline which occurs over the majority of license area, and folds all formations from the Cadomin through to the Gates. As with the majority of the regional folding, the syncline plunges to the northwest (Figure 8). One potential thrust fault was mapped, with a general trend of NW-SE, in the northeastern section of the license area. This fault trace was very closely aligned with the fold axis. A possible second thrust or splay from the first thrust was later inferred from the drilling data. Further interpretations were made once the drilling program was completed, and a geological map and six 1:10 000 cross-sections were constructed. The position of selected cross-sections can be observed in Figure 6. Structural cross-section C-C' is shown in Figure 7. The cross-sections were drawn at an azimuth of 045° NE/SW.

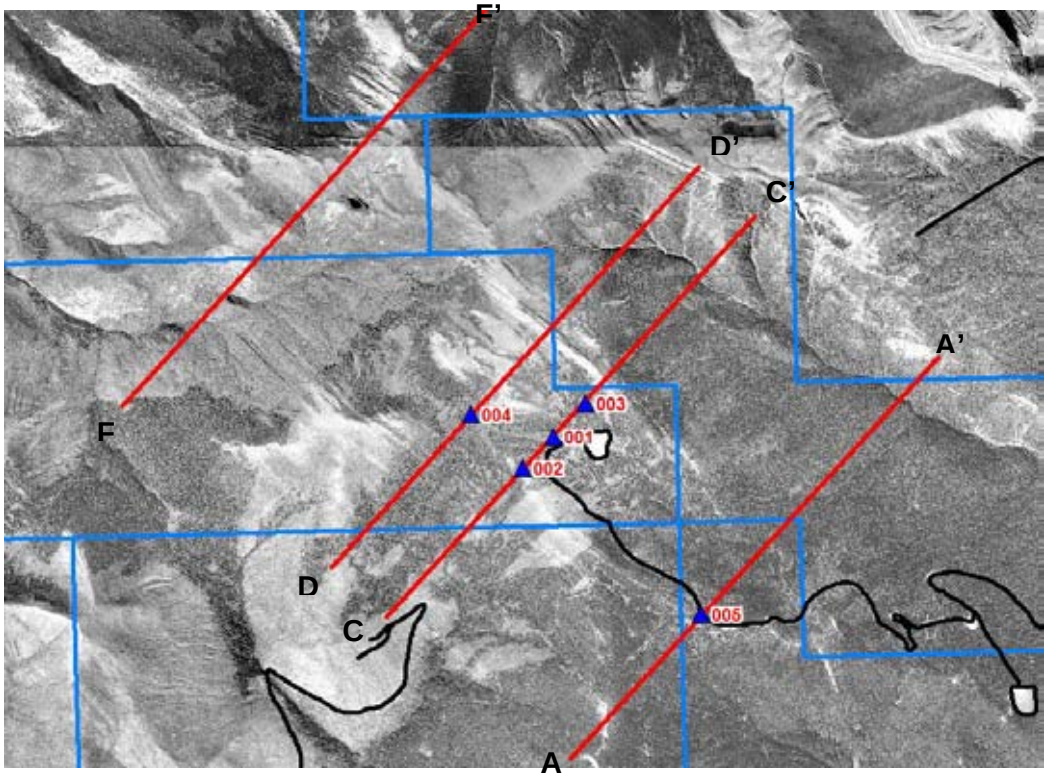


Figure 6: Location of Cross-sections over the Prospect property

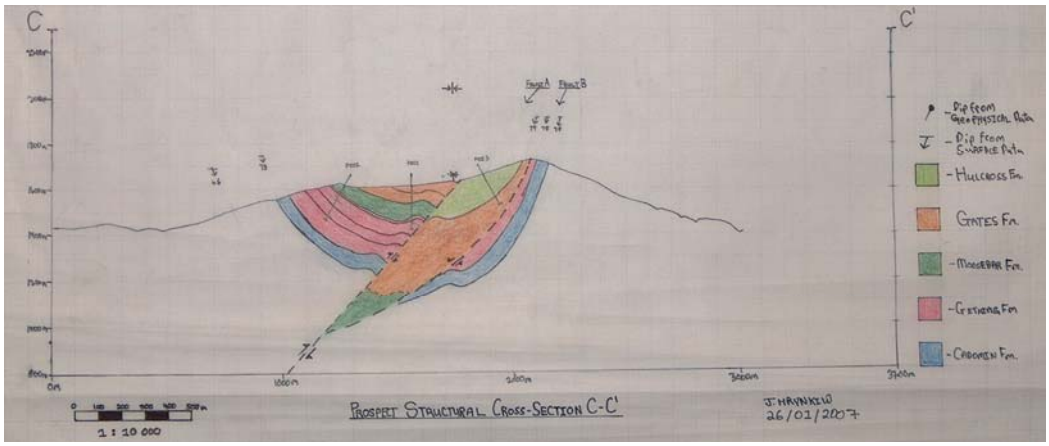


Figure 7: Prospect structural cross-section C-C'

Cross-section C-C' is the main basis for interpreting the structure at Prospect, and will be introduced first. This is because it incorporates surface mapping data, as well as the majority of subsurface borehole data. Three major structures are shown, a syncline, a main thrust (Fault A), and an inferred fault splay (Fault B). Additionally, selected Gething and Gates Formation coal seam intersections from boreholes P002 through P003 are shown. Due to the scale of the section only three of the Gething seams, and one Gates seam were included; they are, in ascending order, the B_2, B_1, A_1, and S2_3 seams.

It is important to note that these are still preliminary interpretations of the Prospect area. More drilling and mapping will need to be done, specifically on the eastern limb. More mapping along the major ridge to the northwest of the section could help determine the actual faulting mechanism as well as Gates Formation thickness.

The main fold is a northwest plunging syncline which runs through the eastern portion of the project area. Stereonet plots of all structural mapping data (Figure 8)

indicate a general orientation of 05°–319° (plunge - trend). A possible thrust fault (Fault A) was predicted nearly parallel with the fold axis. The main evidence used to determine this was the amount of space between the Cadomin Formation on either limb and the fold axis. Since the dips of the Cadomin Formation conglomerates on both limbs are similar, this difference in spacing doesn't seem to be explainable by fold asymmetry alone. Other evidences used to support the presence of a fault were: outcrops found near the fold axis displaying anomalous, near-vertical bedding, and lidar analysis showing a possible fault trace. As well the lowermost dipmeter data from P003 shows dip patterns that may suggest reverse faulting (Appendix D). The apparent presence of the top of the Gates Formation, and Hulcross Formation shale in P003 have led to a possible fault splay (Fault B) being inferred to the east of Fault A. This creates a fault bounded central block that has moved downward relative to the two adjacent blocks. It is difficult to estimate a throws with this fault system, however the sections present throws on the fault in the area of 450 to 550 meters. Displacement on two faults in the Barbour property ranges from 100 to 185 meters (Norwest, Taylor 2006), so although the displacement in the Prospect area is high, it is assumed to be within reason. The implications of this are that the Gates Formation is severely reduced in the study area. On the block west of Fault A, uplift and erosion appear to have reduced its thickness.

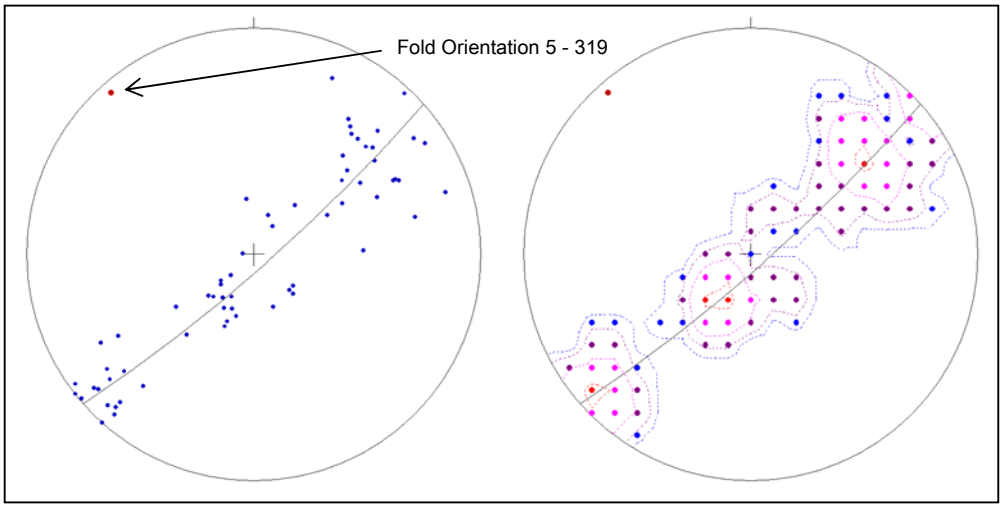


Figure 8: Stereonet Plots of all Prospect structural mapping data

The central block, which may contain the thickest Gates Formation, has been severely affected by faulting, and possibly an element of rotation.

Cross-section A-A' is the furthest section to the south and intersected only borehole P005 (Appendix E). There is a notable lack of surface data in this area. P005 is interpreted to intersect the upper Gething Formation. In this section, it is hypothesized that the two previously mentioned faults have merged into a single fault. A hard conglomeratic unit (See P005 log, 15-30m), was identified first by the driller's logs, and then verified by geophysics. This conglomerate unit is thought to represent the top of the Gething Formation (Bluesky Member?). Nearby outcrops were misinterpreted as Cadomin Formation initially, but the interpretation has since been changed. The dips from the aforementioned outcropping, as well as the borehole deviation log indicate that the Gething Formation is dipping to the southwest; opposite as one would expect for the western limb. This was resolved by

attributing the dip to parasitic folding in the hanging wall block of the fault, and then using that to approximate the position of the fault plane.

Section D-D' intersected only one borehole and surface data (Appendix E). Borehole P004 is of particular interest because it seems to penetrate the lower Gates, the Moosebar, and the upper Gething formations. This allows us a good foundation for characterizing the formation signatures in the Prospect area. This interpretation was based on the coals, and the upper Gething conglomerate. The two faults are interpreted to converge into a single fault at this point. Throw on this fault is in the region of 150 meters. Obviously more subsurface data is needed to verify this, however the topographic high in this area is more likely attributed to the Gates Formation than the Hulcross Formation shale in the central block from section C-C'.

Cross-section F-F' is included to give some regional perspective to the property (Appendix E). The same reverse fault setting is maintained. The position of the Cadomin conglomerate on the western limb is inferred from lidar and extrapolated from surface mapping to the southeast. The throw on this section is interpreted to be 400 meters. However this may be deceiving because there may be some localized folding or faulting in the Cadomin of the eastern limb distorting the section (Figure 10).

Currently there has only been one well-supported section drawn through the license area which incorporates both surface and subsurface data (C-C'). Further exploration is required to constrain the behavior of the Gates Formation, as well any

additional structural features; specifically in the eastern limb area, where the geophysical signature of the Gates Formation needs to be more thoroughly understood. Geophysical signatures in the Prospect area do not resemble other Peace River coal properties. More drilling is needed to characterize the formations at Prospect.

Figure 9: Looking NW along F-F'- Fractured and shifted Cadomin blocks.

Figure 10: Looking SE from F-F' along E limb – potential localized folding and faulting.

6. RECLAMATION

Peace River Coal Inc has an environmental policy to keep disturbance related to exploration contained to the smallest practical area. Existing roads were used as much as possible in the Prospect area. 4.65km of reclaimed PNG road was re-opened, and 1.14km of new exploration access roads were constructed. This meant that in 2006, new surface disturbance was 0.57 hectares.

At the end of the drill program, the Tumbler Ridge area experienced early, heavy snow, which precluded the completion of reclamation. As a result, it was not possible to begin rehabilitation in fall. Decommissioning of trails and reseeding will take place as early as possible in 2007.

7. EXPENDITURES

The expenditure for the 2006 exploration drill program on the Prospect property is summarized in Table 4.

Table 4: 2006 drill program costs for the Prospect property.

Activity	Amount (CAD)
Drilling	$119,416.42
Road Construction	$27,239.35
Geophysics	$10,840.34
Survey	$ 1552.90
TOTAL	**$159,049.01**

* Note costs include GST.

Total expenditure allocated to the entire Prospect-Tentfire Block, including staff, mapping, helicopter support, targeting, drilling, survey and geophysics, was $284,131.00.

8. CONCLUSIONS & RECOMMENDATIONS

8.1 Prospect - Conclusions from 2006/07 Exploration Program

The 2006 exploration program of geological mapping and drilling on the Prospect property found evidence of both Gates and Gething coal seams and began to define the geological structure of the area.

Perhaps the most interesting conclusion from the 2006/07 exploration program is that the Gething Formation coal seams appear to have more resource potential, than the Gates Formation coal seams; in contrast to what was originally thought. This statement is based partly on the topography on the western limb. The topography is relatively flat, with a large thickness of Gething Formation. The western limb has also been affected by a forest fire so exploration access would be cost effective.

The Gething B seam shows the most promising resource potential. In P002, seams B1 and B2 have true thicknesses of 3.06 meters and 2.63 meters respectively. It should be noted however, that the dipmeter data for P002 was not particularly consistent. Since the area is folded, and possibly highly fractured, future boreholes along a section line could be used to independently verify the seam dips and thicknesses. Borehole P005 shows another promising seam at 1.4 meters (B2). Gething Formation exposure along the western limb certainly deserves a closer look

to determine total Gething Formation thickness, individual seam thickness, and coal quality.

8.2 Tentfire - Conclusions from 2006/07 Exploration Program

The licenses of the Tentfire property were found to be entirely underlain by Minnes Formation and as such are not of economic interest for coal.

8.3 Prospect - Recommendations

More information is required to better understand the structure in the Prospect area. Mapping efforts should be focused along the tributary valley northeast of P005 (Figure 11). This would provide more data on both the nature of the faulting and thickness of Gates Formation strata in the area.

Drilling strategies should be re-thought to target Gething Formation seams along the western limb. The western limb is enticing, not only because of resource potential, but it is flat, and a forest fire has burned the majority of trees, making road construction and drilling more cost effective.

In addition, more exploratory boreholes are required on the eastern limb to better constrain the faulting, and understanding of the Gates Formation in the area (Figure 11). However because the total Gates Formation thickness appears to be reduced by faulting and erosion, it is suggested that this remain a secondary priority.

Further exploration within the area south of P005, between the access road and valley slope would also be recommended to determine the extent of the Gething Formation coal seams.

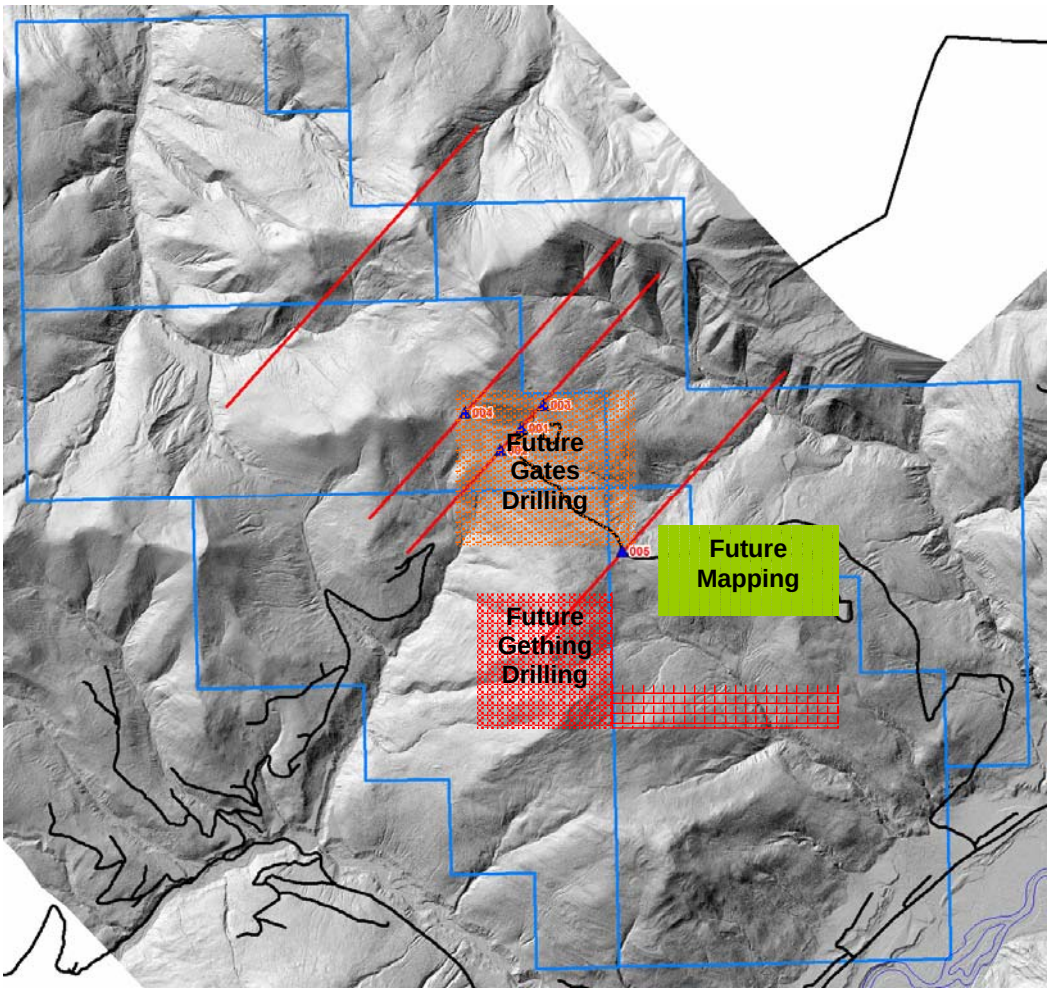


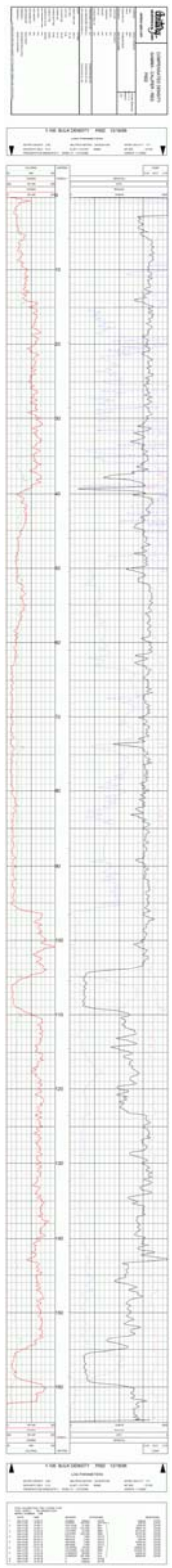
Figure 11: Future Exploration Recommendations

8.3 Tentfire - Recommendations

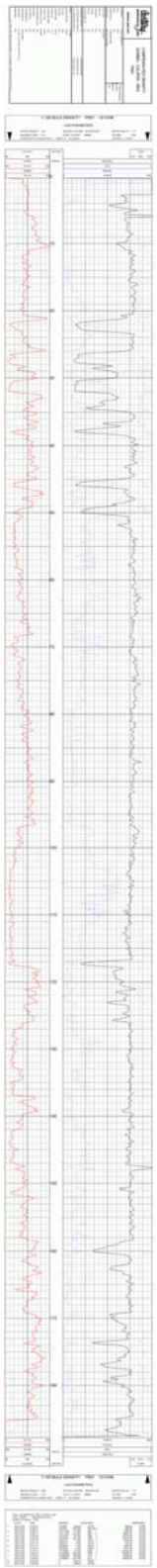
Following assessment of the Tentfire mapping data, the licenses were not renewed on the 30 November 2006 anniversary date.

APPENDIX A

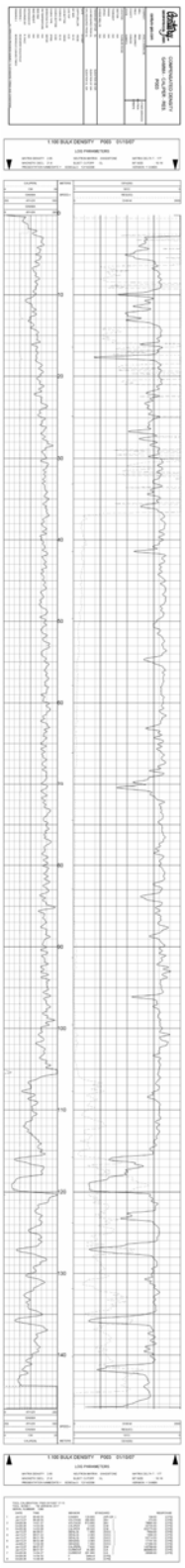
Borehole P002



Borehole P001

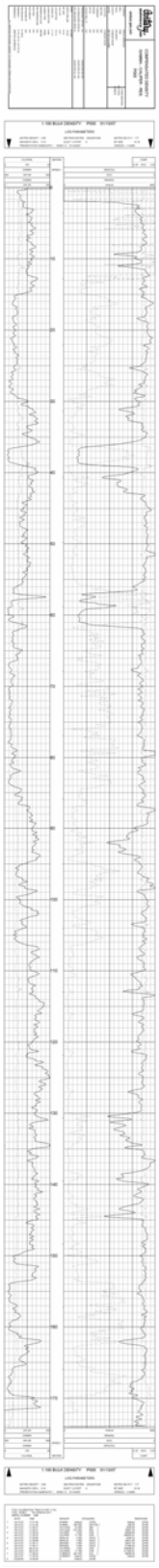


Borehole P003



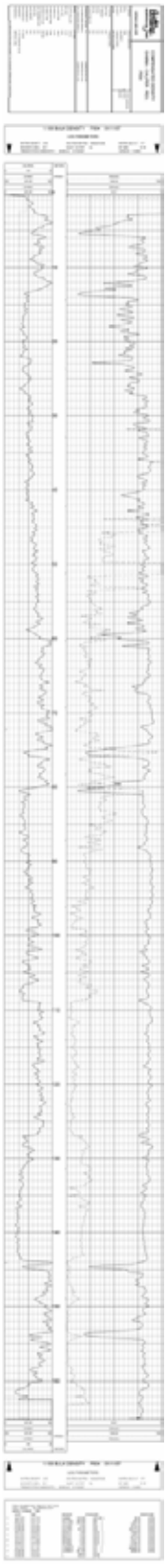
APPENDIX B

Borehole P005



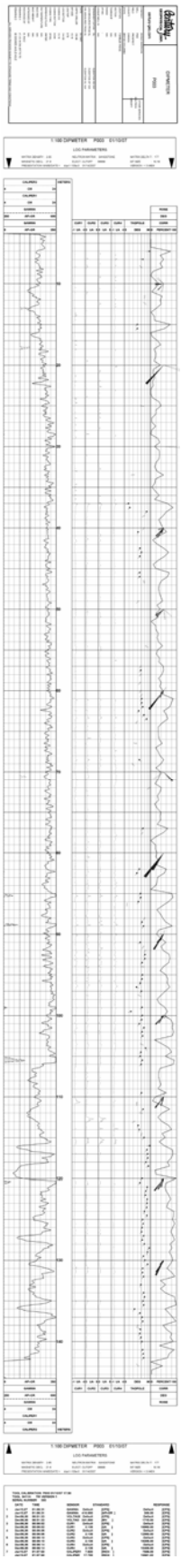
APPENDIX C

Borehole P004

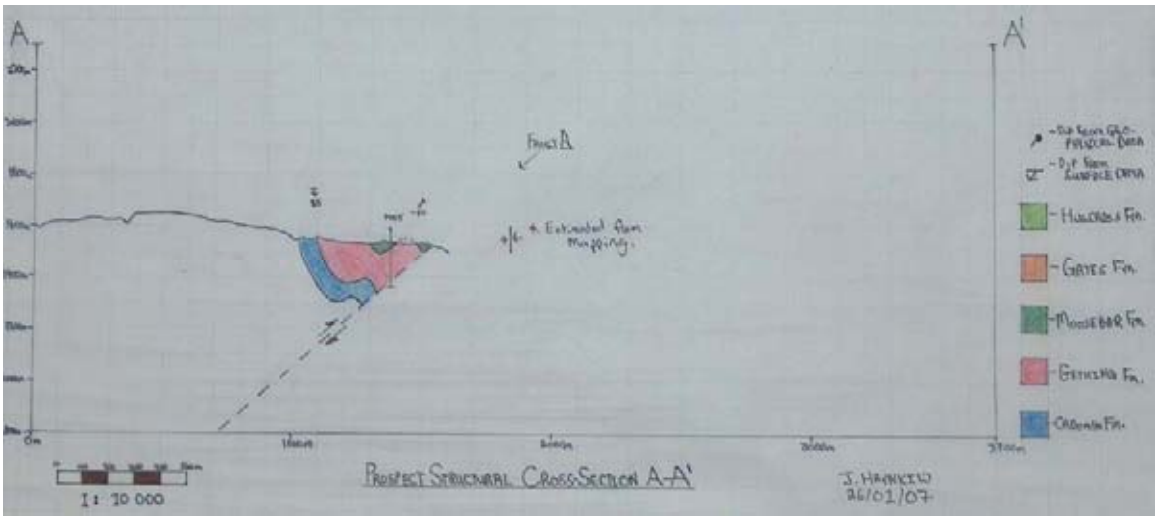


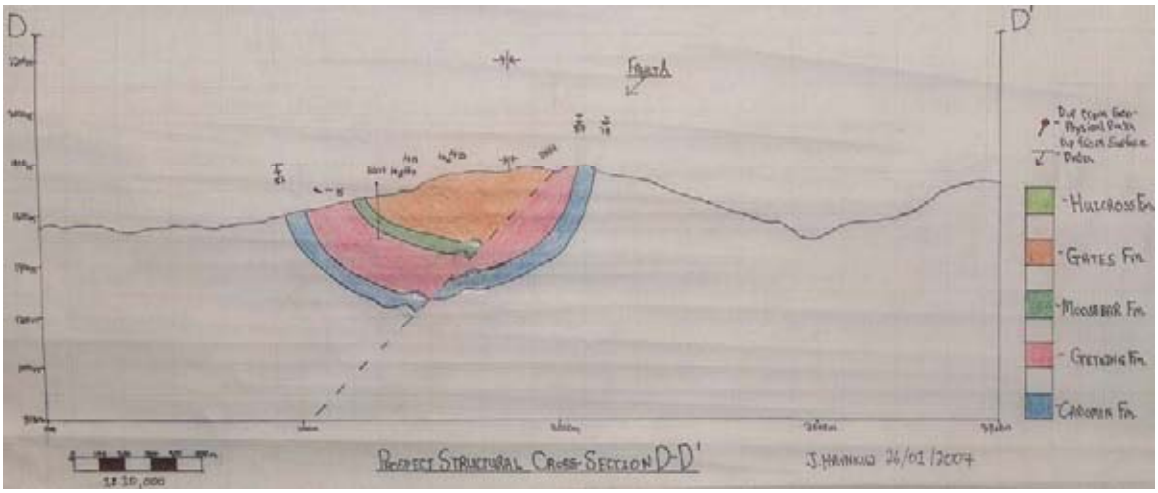
APPENDIX D

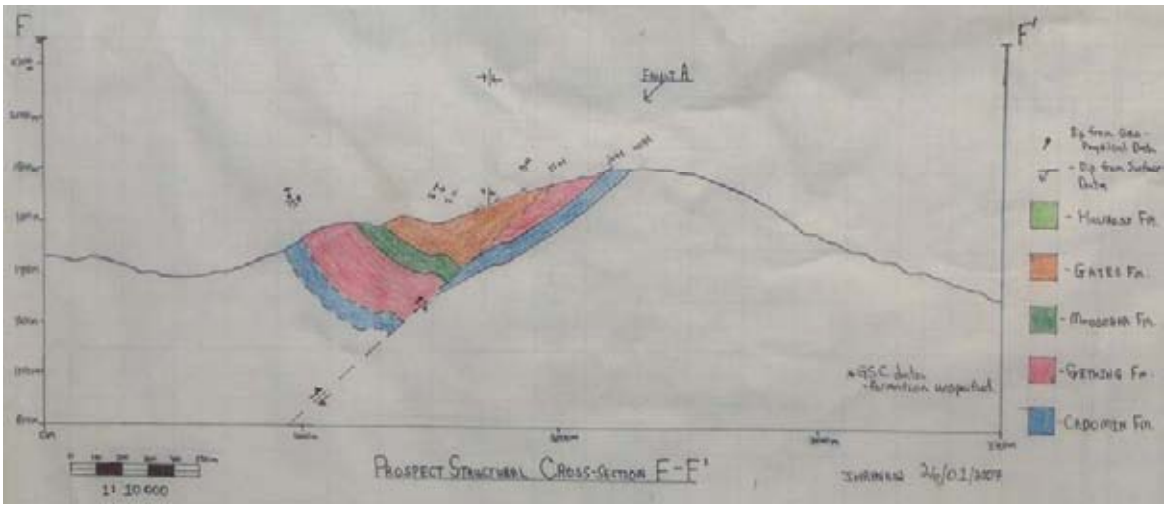
P003 Dipmeter



APPENDIX E


A
A'
Fault A
+/- Estimated from mapping.
Halfcross Fm.
Gates Fm.
Moosebar Fm.
Gething Fm.
Cadomin Fm.
1: 20 000
Prospect Structural Cross-Section A-A'
J. Hannigan
26/01/07


D
D'
Fault A
Halfcross Fm.
Gates Fm.
Moosebar Fm.
Gething Fm.
Cadomin Fm.
1: 20,000
Prospect Structural Cross-Section D-D'
J. Hannigan 26/01/2007


F
F'
Fault A
Halfcross Fm.
Gates Fm.
Moosebar Fm.
Gething Fm.
Cadomin Fm.
1: 20 000
Prospect Structural Cross-Section F-F'

APPENDIX F

APPENDIX G