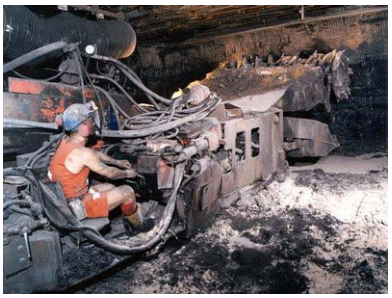

Preliminary Assessment of an Underground Mining Operation on Compliance Energy Corporation's Raven Coal Deposit, Tsable River, Vancouver Island BC.

Prepared for:

Compliance Energy Corporation.
Vancouver, Canada

Prepared by:

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and
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September 5, 2007

Compliance Energy Corporation
Suite 55, 800 West Pender
Vancouver, BC V6C 2V6
Canada.

Attn: **John A. Tapics**
President and CEO

Dear John:

Subject: **Conceptual Study for and Underground Mining Operation on Compliance Energy Corporation's Raven Coal Deposit, Tsable River, Vancouver Island**

This Letter of Transmittal accompanies our final version of the above-captioned study.

The work was undertaken by Dr. Peter Cain, P.Eng. and Mr Alan Craven P.Eng. Mr Craven was responsible for the coal quality and coal preparation plant design. Dr. Cain reviewed the mining proposal and prepared the preliminary financial analysis, as well as compiling the report.

Thank you for the opportunity to assist you in this matter. If you have any questions regarding this report, please call or email the undersigned.

Yours Truly
ASSOCIATED GEOSCIENCES LTD

Peter Cain, Ph.D., P.Eng.
Head of Mining Engineering

EXECUTIVE SUMMARY

- Compliance Energy Corporation holds an option on more than 33,000 ha of property underlain by coal measures strata covering the southern half of the Comox coal basin on Vancouver Island, BC.

- About 3,100 ha of these lands have been the subject of recent exploration leading to the development of a preliminary assessment of an underground coal mine producing about 823,000 tonnes per year of high volatile hard coking coal.

- AGL believes that the Raven property is an exploration "property of merit" with potential to contain significant coal resources in addition to those outlined above. While the present preliminary assessment study has determined that an underground mine on the property could be viable, AGL believes that even if this were not so, the property would still be worthy of further exploration.

- AGL believes that the Raven Property warrants additional exploration and a feasibility study to form the basis of a production decision.

- In 2006 CEC completed an exploration program that included 2,850 m of coring, bulk sampling and 21 line-km of seismic exploration. This work, including the results of previous work on the property, has resulted in the definition of 39.1 million tonnes of measured and indicated resources and 59 million tonnes of inferred coal resources in two seams.

- Although a considerable amount of sampling and washability testing has been conducted on coal from the property, there is still only a limited understanding of the variation in coal quality both areally and within the seam.

- Based on the existing data, AGL believes that, at coal prices forecast for 2008, an underground mining operation can be developed on the property following the basic design concepts established by the previous option-holder. AGL believes that this mine would be profitable at the estimated capital costs, operating costs and productivity assumptions made in this report.

- A preliminary financial assessment of the proposed underground mine results in a life of mine average profit per clean tonne of $30.62 and a life of mine annual excess of income over expenditure of $25.12 million. The estimated net present value (NPV) of the project at a discount rate of 12% is $105.6 million. AGL cautions that these are estimates and may change as other information becomes available. AGL also cautions that these estimates are based on a mine life that exceeds the measured and indicated resource figures, although AGL is confident that additional exploration will prove sufficient resources exist on the property.

- AGL believes that there is potential to optimize the value of the project. This could be achieved by considering an alternate access location to the coal seam, further enhancing the knowledge of the quality of the seam both areally and within the seam itself and by preparing a mine plan which concentrates production in areas of coal that provide CPP yields of greater than the current 40% estimate.

- Further analysis should be undertaken of the drill core sample results, taking into account the geological and geophysical logs and core descriptions. Identification of missing plies and correlation between plies within the sampled section could help explain the wide variations in seam quality.

- Further data on No. 1 Seam should be obtained by further core drilling in the area planned for the initial years of mining. In-fill drilling is required for areas considered for the life-of-mine plan.

- A bulk sample, representative of the planned mining section, should be obtained and subjected to float-sink analysis and clean coal analysis. The liberation characteristics of the middlings material should be determined to understand whether crushing and recycling them will increase overall recovery.

- The difference in washability characteristics of the raw coal when crushed to different top-sizes needs to be understood. A series of washability tests at different top-sizes should be undertaken on sub-samples of the same bulk sample. This will give an indication of the enhancement of the washability characteristic with crushing. It will also give some guidance on size distributions with different degrees of crushing. Flotation tests should be performed on the 0.6 to 0 mm and 0.15 to 0 mm fractions to determine whether to include the flotation process.

- AGL recommends that CEC seriously consider evaluating alternate access strategies for the proposed underground mine, preferably by entering No. 1 Seam from outcrop (for example from the west along Seismic Line 4). This would greatly reduce the time and capital expense required to develop the mine and would result in a significant bulk sample for advanced washability testing as recommended above.

- If this approach is adopted, the main entries of the bulk sample mine could be used as the access for the larger mine. The entries will demonstrate the variation in raw coal and clean coal characteristics over a significant distance and indicate whether there are any trends in ash, sulphur and other quality parameters. The results demonstrated by the test mine should be correlated with the results of core holes in the area.

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1.0 INTRODUCTION AND TERMS OF REFERENCE

1.1 Introduction

During 2005, Compliance Energy Corporation (CEC) of Vancouver, BC entered into an agreement to acquire coal rights that cover approximately 33,200 ha on Vancouver Island from West Fraser Timber Company Ltd (who purchased Weldwood of Canada Limited, prior owners of the coal leases, in 2004). The coal rights include the areas previously optioned by Hillsborough Resources Ltd. (HLB) from Weldwood of Canada. The option agreement includes 100% of the Raven Metallurgical Coal Deposit at the southern end of the Comox coal basin on Vancouver Island.

The terms of the agreement include:

- a $250,000 option payment made in 2005
- an additional payment of $150,000 made on March 20, 2007
- $2,800,000 due on or before November 30, 2007
- $2,000,000 in four equal payments over the next four years based on development milestones and
- $4,000,000 by way of a $0.50 per tonne royalty once production is achieved.

The property is subject to no other royalties. In addition, the Company paid a total of $175,000 to an independent third party for the acquisition of ground contiguous to the Raven property.

In 2006 CEC completed a $2.1 million exploration program on the Raven Project. The program consisted of 12 drill holes totaling 2850 meters and 21 kilometers of geological seismic surveys to confirm coal continuity and geologic structure. As part of the 2006 exploration program, a bulk sample was completed from one of the old adits on the property. Results of this bulk sample were inconclusive and CEC was not able to replicate prior washability and carbonization tests. Washability results from the 2006 drill core did verify previous drillhole washability results producing a yield of 40 to 45% for a metallurgical coal product of 8.5% ash.

The property hosts a 39.1 million tonne measured and indicated resource in two main seams as well as a 59 million tonne inferred resource in the same seams, as reported by CEC in "Technical Report Raven Coal Property Comox Basin Vancouver Island" by O.R. Cullingham Resource Consultant Ltd. and dated June 7, 2007 (CEC, 2007).

CEC is proceeding with the further exploration, testing and development of the Raven Project and recently completed an independently produced resource assessment (CEC, 2007) and an in-house "conceptual study" (Beresford, 2007) for use as a marketing document for the coal and as an introduction to the project for potential investors.

1.2 Terms of Reference

Associated Geosciences Ltd. (AGL) has been retained by CEC to review existing documentation and to produce a preliminary assessment of an underground coal mine, coal preparation plant and transportation infrastructure for the Raven Coal Property in the Comox Coal Basin of Vancouver Island.

The preliminary assessment will be used to introduce potential investors to the property and CEC's plans for its development.

AGL has based the content and level of detail of this preliminary assessment on, among other sources:

> *Pincock Allen & Holt (2000) "Feasibility Studies Minimum Reporting Requirements", Technical Bulletin 2000-1, Lakewood, CO: Pincock Allen & Holt.*

As quoted by Lowrie (2002).

1.3 Capability and Independence

AGL operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resource and financial service industries. Drafts of this report were provided to CEC, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

1.4 Sources and Reliance on Other Experts

AGL has reviewed documents produced for CEC as well as documents produced for and by previous holders of the lands under option. AGL has drawn heavily on the following reports provided by CEC:

> *"Technical Report, Raven Coal Property, Comox Basin, Vancouver Island" prepared for Compliance Energy Corporation by O.R. Cullingham Resource Consultant Ltd. and dated June 7, 2007.*
>
> *"Conceptual Study, Raven Coal Property, Tsable River Coalfield, Vancouver Island" prepared for Compliance Energy Corporation by E.W. Beresford, P.Eng., Mining Consultant and Director, CEC, and dated July, 2007.*

AGL has reviewed the data contained within these reports and made such changes as necessary based on AGL's knowledge and experience.

AGL has discussed CEC's in-house study with Eric Beresford, P.Eng., the author and a Director of CEC.

AGL has not visited the project site.

1.5 Conversion Factors and Currency Exchange

This report uses SI units throughout.

All costs are expressed in 2007 Canadian dollars (CAN$). Where costs have been obtained in US funds or other currencies, these have been converted to Canadian funds.

1.6 Compliance with Regulatory Requirements

Table 1.1: Location of Required Items

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2.0 DISCLAIMER

This technical report is primarily based on information provided by CEC, either directly or from reports prepared by other consultants for CEC and previous option holders. The technical report specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements; excepting such aspects as may directly influence technical, operational or cost issues. CEC provided the financial models that were reviewed for the technical report. AGL reviewed the accuracy and consistency of the models relative to forecasting production, costs and product quality.

AGL has relied upon ownership, resource estimates and mineability data provided by CEC and did not conduct detailed coal reserve, feasibility and/or coal market studies. AGL has conducted valuation, reserve, feasibility and market studies for numerous clients internationally and is familiar with mining, coal reserves and coal markets. Beyond care required for preparing this technical report, AGL makes no representation as to the accuracy of the data provided to AGL

The documents on which AGL has relied have been prepared by internationally recognized engineering, consulting and major mining companies. In addition, data have been provided by CEC. While we have relied on such data in the formulation of our report, we have also checked the data provided for reasonableness.

AGL's opinion is that the information provided by CEC was adequate for AGL to undertake its assignment. AGL did not discover any significant inaccuracy, misstatement or apparent omission in the information provided.

Coal mining, and in particular underground coal mining, is carried out in an environment where not all events are predictable. While an effective management team can identify the known risks and take measures to manage and mitigate these risks, there is still the possibility of unexpected and unpredictable events occurring. It is not possible, therefore, to remove totally all risks or state with certainty that an event that may have a material impact on the operation of a coal mine, will not occur.

3.0 PROPERTY LOCATION AND DESCRIPTION

The information provided in this section has been obtained from CEC's technical report on the Raven property (CEC, 2007).

3.1 Location, Access and Infrastructure

The Raven project area is at the southern end of the West Fraser (previously Weldwood) fee simple coal rights area under option to Compliance Energy Corporation and is part of the Tsable River coalfield at the southern end of the Comox Basin (Figure 3.1).

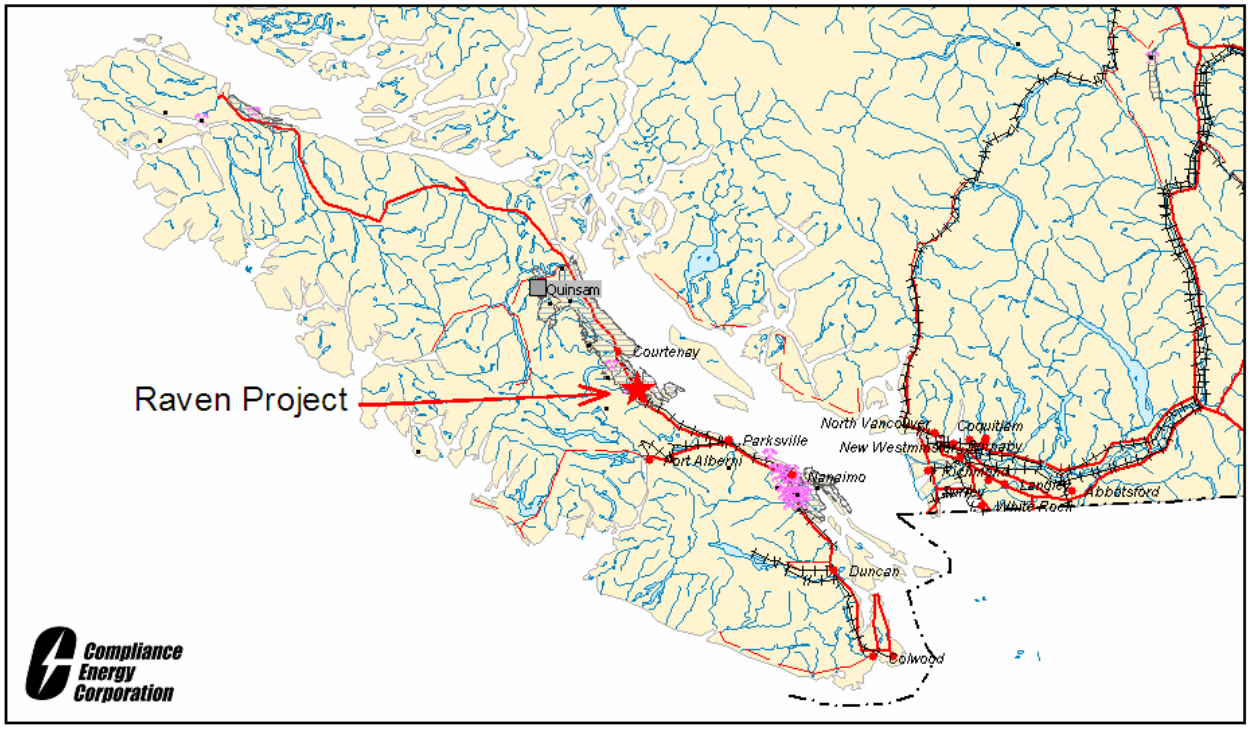

Figure 3.1: Location of the Raven Project on Vancouver Island

The area is located on NTS map sheets (1:50,000) 92F10W and 92F7W or within BCGS (1:20,000) map sheets 092F056 (north) and 092F046(south). The property is directly west of Baynes Sound separating Denman Island from Vancouver Island and extends from Union Bay in the north to Fanny Bay in the south. The area lies within the Nanaimo Mining Division and the Nanaimo; Nelson & Newcastle Land Districts.

The closest community is the city of Courtenay approximately 20 km to the north on the east coast of Vancouver Island. Access to the area is via the Inland Highway which runs parallel to and in part crosses the eastern limits of the area. Local access to all parts of the property is provided by forestry roads and private logging and resource roads.

3.2 Property Description

The Raven property comprises mainly of about 3,100 ha (9 km by 3½ km) of lands for which the fee simple coal rights are held by CEC under an option arrangement from West Fraser (previously Weldwood) (Drawing 1 at end of report). The Raven property lies within the greater 32,000 ha optioned by CEC. In addition, approximately 142 ha of land are held directly by Compliance Coal Corporation through crown coal licence tenure #392561. These lands encompass the Tsable River coalfield at the southern end of the Comox Basin. The proposed mine location is at the southern end of the area under option to Compliance Energy Corporation within the Tsable River coalfield.

The fee simple lands held at the Raven Project carry the right to explore for, develop, mine and win coal and fireclay but they do not convey the surface title. However, the surface rights owner is obliged to allow the undersurface fee simple owner unfettered access to the surface for purposes of exploring for, developing, mining and winning the coal resource.

Surface rights over the property reside with Island Timberland with the exception of a small Crown lot (Lot 88). Agreements were obtained with the timber companies for access and use of logging roads and permission to carry out exploration.

3.3 Permits and Licences

All permits required under British Columbia Law were obtained prior to commencing exploration work. These permits apply to both crown held coal rights and fee simple rights alike. A *Notice of Work* was filed detailing exploration activities and a permit was issued (permit # CX-8-008; Approval #06-0801003-0517) authorizing CEC to proceed with the exploration as planned.

The crown coal licence at the Raven Project is subject to an annual rental fee of $7/ha or $994 per year until 2010 and then increasing to $10/ha.y for a further 5 years and thereafter increasing by $5/ha.y for each 5 year period to a maximum of $25/ha.y.

In British Columbia, fee simple coal lands are subject to an annual mineral land tax of $1.25 per hectare. The annual mineral land tax for the 3100 hectares of fee simple coal lands contained within the Raven Project area is approximately $3,700. There are no annual work requirements or annual payments other than the mineral land tax due to the government; however, there are private agreements between Compliance Energy Corporation and West Fraser governing work to be done and periodic payments.

3.4 Environmental Assessment and Permitting

The proposed underground mine is planned to produce 2,211,000 tonnes of run-of-mine coal per year and when washed through a coal preparation plant is estimated to produce 823,000 tonnes of metallurgical coking coal or alternatively 1,440,000 tonnes of thermal coal, depending on market demands and economics of the day.

A new coal mine producing over 250,000 tonnes per year of production is classed as a reviewable project under the Environmental Assessment Act (EAA) and requires an Approval Certificate from the Environmental Assessment Office (EAO). This approval is required prior to submitting an application for a mine permit under the Mines Act. The EAA review process requires submission of comprehensive environment and baseline information over the project area, description of the mining and reclamation plans and the proposed mitigation measures resulting from the project.

Hillsborough Resources, the previous optionee of the Weldwood now West Fraser coal lands applied for and received approval for an underground mine in 1997 to produce 100,000 tonnes of coal for test mining and production of a washed coal bulk sample for export marketing purposes. The test mine was to be located in the northwest corner of Lot 88, Crown land, South of the Tsable River and this site has also been selected for the CEC Raven Coal mine and this prior approval will help in future review by government.

An application for a test mine for a bulk sample up to 100,000 tonnes does not require EAO approval as it is below the reviewable limit but would require a mine permit from the Ministry of Energy, Mines & Petroleum Resources and reviewed by an all agency Regional Mine Development Review Committee. The Hillsborough Resources test mine was to be the forerunner for a full production application to the EAA for 1.5 million tonnes per year of raw coal production. Collecting of baseline environmental data had commenced for the test mine application and the future larger production mine and included data on:

- Climate
- Geology and description of the deposit
- Water quality, underground and surface
- Fisheries and Aquatic Resources
- -Surficial geology, terrain and soils mapping
- Vegetation and wildlife
- Land status, use and capability.

Compliance Energy Corporation (CEC) has acquired all the previous available environmental baseline data from BC Government archived files and from West Fraser records of the Tsable River Project area. During the exploration and in-fill drilling of the Raven property in 2006, information was obtained on the depth of surficial deposits and drill core samples retained of the coal seam and roof and floor rock for future testing of

acid rock drainage (ARD) potential. When analysed this information will be added to the existing baseline information.

For the EAA application detailed engineering is required for waste dump and stockpile locations, water impoundments, wash plant design, project water balance and water management predictions, mitigation and reclamation

An archaeological heritage study will be required over the proposed mine site area with consultation and review by First Nations

Monitoring and assessment of water quality and fish populations; baseline ground water monitoring program; terrestrial eco system mapping for permitting and reclamation purposes; wildlife and vegetation assessments will be required and added to the environmental work previously carried out on the project site.

The application for a mine permit will require details of the underground mine work system, method of mining and roof support, ventilation and water management for the mine. In addition detailed design of the wash plant, tailings and waste water process, coarse refuse location, mine buildings design, ARD prevention and final reclamation of the site will also be required.

A surface tenure lease will be required from the Crown for the proposed facilities area on Lot 88. Other agency requirements including the Federal Government will be required for a Water License, Waste Management Permit, Heritage (archaeological) investigation permit and an Explosives Storage License.

The Regional District will be involved with re-zoning the surface lease for a mine site. These additional permits and licenses are applied for separately once the EAO office has issued an approval certificate after the EAA review.

Although the EAA time frame for review and approval of this type of project is 255 days (9 months), a realistic time frame for the EAA application including agreement of Terms of Reference, advertising and the Mine Permit application process is estimated at between 12 to 16 months.

3.5 Accessibility, Climate, Local resources, Infrastructure and Physiography

Access to the area is via the Inland Highway, which runs parallel to and in part crosses the eastern limits of the area. The only access from the Inland Highway to the property is the Buckley Bay Mainline where an underpass to the property is available. The Buckley Bay Mainline runs parallel to and to the north of the Tsable River and is a restricted access road controlled by Island Timberlands. Other forestry roads, private logging roads and resource roads

provide access to all parts of the property. All of these roads have access restrictions due to active logging and private land ownership.

The E & N (Esquimault and Nanaimo) railway links Courtenay to Victoria and Port Alberni and lies parallel to the Island Highway and off the eastern edge of the property boundary.

Also running parallel to and off the eastern edge of the property is the main high-voltage power line and the Vancouver Island natural gas pipeline.

The topography of the area is best described as gently rolling to flat lying between the Beaufort Mountains to the west and the coastal plain to the east. Linear northwest trending ridges are interspersed with parallel, flat, occasionally swampy areas. The ridges become more prominent with proximity to the Beaufort Mountains to the west. The northwest-southeast trend of the ridges gives a 'fan' shape to the deposit area constricting the area to the south where the more prominent ridges trend towards the coast and opens up the north in a more expansive peneplain. The total relief over the project area is about 200 m extending from a low of approximately 50 m to a high of 250 m.

The project area is incised by a series of often steep-sided creek and river valleys the most prominent of which is the Tsable River. Other prominent creeks are the Hindoo Creek to the north and the Cowie, Cougar-Smith, and Wilfred Creeks to the south. Drainage is to the east, draining into Baynes Sound.

The area is forested with secondary/tertiary growth conifers and some deciduous birch. The area is an active logging area.

Small gravel pits and rock quarries operated by the timber companies in support of road building are dispersed throughout the project area.

The climate is typical Vancouver Island lowland and dominated by low pressure systems in the winter and high pressure systems in the summer. The winters are characteristically wet and snow does occur but except for higher sheltered areas usually melts fairly quickly. Rainfall in the area is about 1000 to 1100 mm annually. Summers tend to be hot and dry and the area is susceptible to fire closures.

4.0 HISTORY

The information provided in this section has been obtained from CEC's technical report on the Raven property (CEC, 2007).

The Comox Basin area has a history of coal mining centred around Cumberland some 20 km to the north of the Raven property. The only mine in the actual project area was the Baynes Sound Mine which was operated from 1875 to 1877. The location of the mine has been alluded to in reports and correspondence but has not been found on any maps.

The only other mine in the vicinity is the abandoned underground Tsable River Mine to the west of the project area on the north bank of the Tsable River. The Tsable River Mine was operated from 1949 to 1966 during which time approximately 2.0 million tonnes of coal were extracted.

The Raven project area (Tsable River Coalfield) has a long history of exploration and development for coal mining dating back to the late 1800's. Extensive drilling was done in the area by Canadian Collieries during the period 1905 to 1957, outlining a potential resource south of the Tsable River which was to become the target of the recent exploration.

Both rotary drilling and coring was undertaken, but only drillers' logs and/or summary geological descriptive logs are now available. Test adits were driven along the banks of the Tsable River and Cowie Creek during this phase. Due to the downturn in coal demand following the worldwide switch to petroleum and petroleum derivatives no further work was done until 1975.

In 1973 the B.C. government implemented a resource land tax. Weldwood of Canada then embarked on a coal resource evaluation to determine which lands could be relinquished to the Crown in order to reduce tax liability. A regional drilling program was carried out including several drillholes in the current project area. The Tsable River project south of the river was again earmarked as a significant coal deposit.

No further exploratory work was done until 1990 when Consolidated Brinco acquired an option from Weldwood to explore for coal in the southern Comox Basin and specifically in the Tsable River coal field. Brinco carried out drilling, refractive seismic, VLF-EM and mapping in the area south of the Tsable River and outlined what they considered a mineable resource.

In 1991 Consolidated Brinco merged with Hillsborough Resources (HLB) and in 1996/97 HLB carried out further investigative drilling and reflective seismic over the Tsable River project extending the area of resources east and north, including areas on the north side of the Tsable River. HLB made plans to go underground with a test mine near Cowie Creek and obtained a mine permit in 1998. Due to a downturn in coal marketing opportunities, nothing further was done until 2001. HLB wholly owns Quinsam Coal Corporation which operates an underground room and pillar coal mine close to Campbell River.

In the spring of 2001, HLB proceeded with the requisite permitting applications for the opening of the test mine and published a NI 43-101 compliant resource report 'Technical Report on the Tsable River Coal Property, Central Vancouver Island, British Columbia'. Although a mining permit was obtained in Fall 2001, the Ministry of the Environment imposed additional groundwater testing requirements. In their 2001 annual report, HLB noted that:

> *"…Pending a public hearing regarding final permitting, we remain confident that we will receive a waste and reclamation permit that would allow Hillsborough to commence mining operations. Unfortunately, there can be no certainty that permitting will be granted to permit mining of the T'Sable River property."*

Although HLB did complete additional drilling for ground water monitoring in the test mine area, their option on the property expired before they had begun development of the test mine. They were not able to negotiate an extension with the resource owner because (Annual Report, 2002, HLB):

> *"…the owner intends to first pursue exploration of the coal bed methane potential in a portion of its coal resource."*

HLB wrote off the investment relating to their past work on the property.

Drilling on the property prior to 2006 includes 73 holes totaling 13,500 meters. In addition, 13.6 kilometers of seismic surveys were completed in 1996. Historical production from a portion of the property totaled 2 million tons of coking coal during the period 1949 to 1966.

5.0 GEOLOGICAL SETTING

The information provided in this section has been obtained from CEC's technical report on the Raven property (CEC, 2007).

The Property is located near the south end of the Comox Coal Basin, some 15 km south of Cumberland, approximately mid-way up the east coast of Vancouver Island. The geometry of the coal basin in this area is confined to an 8 km strip along the coastline, extending eastward under Baynes Sound and beyond. Up to 600 m of Late Cretaceous Nanaimo Group sediments are defined on the land-based portion of the basin, with a substantial thickening of the sequence to the east under Baynes Sound. Along the western margins where the sedimentary package thins and wedges against the uplifted basement rocks of the Triassic Vancouver Group, the coal measures are moderately to severely stressed by thrust faulting and compressional forces. Further east, the coal measures are more uniform and subjected to much less structural complication.

There are five coal beds in the lower Nanaimo Group Comox Formation sediments in the Tsable River area; two of these, the No. 1 Seam, and the No. 3 Seam are of economic importance. The coal beds are numbered in ascending order. The No. 1 Seam is the lowest seam of the five and occurs a few to 30 m above the base of the Cumberland Member. It is subject to localized areas of non-deposition due to basement "highs", where the unconformable, erosional surface of the underlying Karmutsen Formation has protruded higher than the elevation of the coal-forming swamp environment.

The No. 1 Seam, the prime economic target, is actually a seam zone and comprises thin coals, carbonaceous to coaly mudstones and thin partings of mudstones and siltstones. The zone varies in thickness but is typically from 2.5 to 3.0 m thick.

The No. 3 Seam generally occurs as two coal plies – No. 3 Lower (lower ply) and No. 3 Upper (upper ply). No. 3 Upper Seam is the principal ply contributing to coal resources and is typically 1.0 to 1.6 m thick. No. 3 Upper Seam reaches mineable thickness (1.5 m) in localized areas within the deposit. The stratigraphic separation between the No. 1 and No. 3 seams averages 30 metres.

Dips on the coal seams vary from 24° along the western margins of the basin, to less than 10 degrees and in some cases horizontal in the less-disturbed eastern belt. Within the project area the regional dip is 10° to 15° northeast with dips locally steepening to 25° to 30° in the west adjacent to the erosional edge. The regional dip is complicated by broad folds, thrusts and normal faults.

A major glacio-fluvial sequence of sands and gravels masks the bedrock surface in certain areas. In the southern portions of the Property the glacial sands and gravels can reach thicknesses of 60 metres. Elsewhere, glacial till overburden is 6 to 10 metres thick. Surface exposures of Comox Formation sediments are limited to creek and river valleys and occasional road cuts.

6.0 DEPOSIT TYPE AND MINERALISATION

The following information was obtained from the 2001 technical report published by HLB (HLB, 2001).

6.1 Deposit Type

The seams were originally deposited in backshore lagoonal basins and deltaic sequences along an old Cretaceous shoreline which roughly approximates the present configuration of the east coast of Vancouver Island. These confined lagoonal basins are of limited areal extent. The coal beds were originally formed in a horizontal, tabular plane which has since been broken up and acted on by continental drift and tectonic uplift, causing dislocation and tilting of independent structural blocks. Along the western margin of the deposit, glaciation and erosion have removed some of the coals, exposing isolated coal outcrops along creek channels and river valleys. The coals extend out for an undetermined distance to the east, in to the deeper parts of the basin.

6.2 Mineralisation (Coal Rank)

The coal seams on the Property are classified according to the American Society of Testing Materials (A.S.T.M.) Standard as Medium to High Volatile Bituminous 'A' Coal. According to the Hillsborough Prefeasibility Study of August, 1997 (HLB, 1997) the Tsable River coals can be used for either thermal or metallurgical purposes. The coal is high in volatile content and has strong metallurgical properties, therefore it is unique: no other coals of this type are currently produced in Western Canada.

7.0 EXPLORATION

7.1 Statement of Responsibility

AGL have reviewed the exploration results available in the public domain from previous option holders and have reviewed the results and other documents provided by CEC. AGL has not verified borehole locations or core logs, but has relied on the recently published technical report (CEC, 2007), prepared by an independent "Qualified Person" and published by CEC on their website and on the "System for Electronic Document Analysis and Retrieval" (SEDAR®) website of the Canadian Securities Administrators.

7.2 Reliability of Exploration Results

The exploration programs run on the property have been conducted and supervised by professionals with excellent credentials in the coal exploration field. AGL believes that the exploration results are reliable for the purposes of a preliminary assessment.

7.3 Exploration Targets

The CEC holdings in the southern half of the Comox coal basin are extensive, covering 33,200 ha. Exploration by CEC has been concentrated on the southern half of this area, an area of 3,100 ha, in the vicinity of proposed mine sites developed by previous option holders.

Although the limited exploration area is warranted by the desire to increase confidence in an area of immediate mining interest, AGL believes that there is significant potential for the discovery of coal resources within the remaining (close to) 30,000 ha.

7.4 Exploration Programs

Previous exploration programs on the property between 1905 and 2001 included 73 holes totaling 13,500 meters and 13.6 line kilometers of seismic surveys completed in 1996 These have been described briefly in a previous section. The following description, obtained from CEC's technical report on the property (CEC, 2007), pertains only to their 2006 exploration program.

7.5 Drilling

Drilling commenced June 6, 2006 and was terminated October 27, 2006, after drilling 12 holes for a total of 2,850 metres. Seven holes intersected No. 1 Seam. The drilling was done by Drillwell Enterprises Limited out of Duncan, Vancouver Island, using a rotary core truck-mounted drill. The holes were rotary hammered to core point using air and then switching to coring also using air. Poor core recovery and drilling difficulties plagued the first five holes and a decision was made to bring in mud tanks and equipment to enable coring with mud. Drill hole stability and core recovery improved significantly with the introduction of drilling mud. Part way through the program a dual rotary drill equipped with a drill-thru downhole air hammer was used to case holes through the overburden and to drill ahead to core point. The dual rotary rig

was brought in primarily to set casing through thick deposits of glacial drift and alluvial sands and gravel and was extremely successful. Once core point had been reached the truck-mounted drill equipped to core was moved onto the drillhole to complete the drilling.

Drillholes were geophysically logged with gamma, neutron, resistivity, density, caliper and sonic tools. Deviation surveys were run in all holes and a dip meter was run in two holes only as a check on measured core dips. Due to hole stability problems one hole could not be logged and another was only partially logged.

7.6 Seismic Exploration

A high resolution seismic reflection investigation of the Raven Property was conducted over approximately 21 line kilometers in a series of seven parallel lines by Emerald Exploration Consultants (Emex). The objective was to help interpret and map geological structure such as folds and faults and the continuity, depth and thickness of coal seams. Interpretation of the seismic reflections was accomplished through correlation to drill holes by comparing reflection characteristics against synthetic seismograms developed from sonic and density logs run in approximately 50 drill holes (90/91 , 96/97 and 06 drilling programs) and actual check shots run in 3 drill holes.

The data shows that the various coal seams produce strong reflections; weak reflections exist in the seismic data related to rock/rock interfaces where the coal is deep enough to see a moderate thickness of sedimentary strata. The resultant reflectance characteristics were then used to correlate coal seams between drill holes and extrapolate beyond drill holes. The seismic survey demonstrated the continuity of the coal seams over most of the current project area and showed the potential for the property to be open to the north and south.

Horizon interpretation was based on recognizable reflection character and continuity on an individual line basis. The lateral extent of the seams was clearly evident on each line and the correlation from line to line was almost without doubt. The interpretation of the seismic along the lines in conjunction with drilling results has been used to infer the continuity of coal resources throughout the property area.

7.7 Bulk Sampling

An adit site for bulk sampling was selected based on knowledge of No. 1 Seam subcrop from drillhole information and the existence of a previously excavated adit. The actual site was located by Berkshire Geological Services while prospecting for Compliance in April, 2006.

Bulk sampling at the Raven adit site commenced May 21 with mobilization to the site and portal construction. Adit construction and excavation was carried out by Devrial Resources Inc., of Grande Cache, Alberta.

The adit was advanced 6.5 m until it was ascertained to be free from oxidation. Sodium hydroxide and coke button field tests were done to monitor when the adit had advanced through

the oxidised zone into hard, non-oxidized coal. A 13 t bulk sample was extracted from a crosscut in the adit and the whole job was completed by May 30. Sixteen one cubic metre bulk bags were filled with coal extracted from what was believed to be a representative mineable section including out of seam dilution. The mineable section has a stratigraphic thickness of 2.0 m at the sample point.

The sample was shipped to Hazen Research in Golden, Colorado for washability analysis and bulk washing at their pilot plant.

7.8 Sampling

AGL has reviewed the descriptions of:

- sampling method and approach
- sample preparation analysis and security
- analytical protocols and
- data verification

provided in CEC's technical report (CEC, 2007). The sampling program elements listed above meet acceptable standards, as would be expected from a responsible exploration program conducted and supervised by professionals.

However, AGL notes that the results of sample analysis have not resulted in a definitive characterization of the coal seams. While this might be due to natural variations in seam quality between boreholes, AGL believes that poor core recoveries and the adoption of undifferentiated sampling methods (i.e. not separating the coal seams into logical "plies" prior to analysis) have hindered the characterization of the deposit.

8.0 MINERAL RESOURCE AND MINERAL RESERVE ESTIMATES

The following summary has been summarized from CEC's recently published technical report (CEC, 2007).

8.1 Mineral Resources

Coal resources underlying the Raven Project area have been determined in accordance with *National Instrument (NI) 43-101*, and the referenced documents *Definition Standards on Mineral Resources and Reserves* adopted by the Canadian Institute of Mining, Metallurgy and Petroleum, December 11, 2005, and, as appropriate, *A Standardized Coal Resource/Reserve Reporting System for Canada*, published as Paper 88-21 by the Geological Survey of Canada.

The rank of coal underlying the Raven project area is classified as High Volatile A Bituminous (ASTM) and has an average mean maximum reflectance of 0.92%.

The geology type at the Raven Project is considered by the author to be 'moderate' bordering on 'complex'. The Vancouver Island coal deposits are omitted from the discussion of the complexity of coal deposits in Paper 88-21, however, from analogy, the Comox coal field is not that dissimilar to the structural style of Obed, Bullmoose and McLeod River in the mountains and foothills of Alberta and British Columbia described as moderate in Paper 88-21.

The Raven project area should be considered as an underground mining deposit type. All resources determined for the Raven Project are considered for exploitation using underground mining, CEC notes that there may be small areas localized along the western subcrop limits of the deposit amenable to surface mining. There has been no attempt to delineate surface mining potential in the project area at this time.

A guideline for determining acceptable minimum seam thickness, included partings and coal to rock ratios is provided by GSC Paper 88-21 and repeated in Table 8.1.

Table 8.1: Criteria for Determining Resources for Potential Underground Mining

	Resources of Immediate Interest
Maximum rock partings included in thickness	0.3 m
Minimum coal bed thickness to be included	0.6 m
Minimum aggregate seam thickness	1.5 m
Coal to rock thickness ratio	2:1 or greater
Maximum depth from surface	600 m

Resources quoted by CEC are stated to meet these criteria.

The areal extent of the coal deposit and seam continuity used for calculating resources has been provided from drill holes and high resolution reflection seismic. Drill holes and seismic data

together have been used to enhance geological interpretation of the structure and to provide assurance of seam continuity. Sections constructed perpendicular to strike at 600 m intervals were used to confirm seam sub-crop boundaries and/or fault controlled deposit boundaries.

Drill holes have been used to determine data points for classification of resources. GSC Paper 88-21 provides guidelines with respect to appropriate drill hole spacing for categorizing coal resources in assurance of existence categories. Table 8.2 illustrates these guidelines and indicates the drill hole spacings used in the calculation of resources on the Raven property.

Table 8.2: CEC's Criteria for Determining Resources for Potential Underground Mining

	Measured	**Indicated**	**Inferred**
Recommended Distance from Closest Data Point	0 to 450 m	450 to 900 m	900 to 2400 m
Maximum Distance Used by CEC	150 m	300 m	1800 m

All data was input into a database and resources calculated using inverse distance squared calculations to interpolate and/or extrapolate thickness data to a 25 m grid. Filters were applied for areal and thickness restrictions and resources were output as volumes. A bulk density factor of 1.50 tonnes per cubic metre was applied to volumes to obtain tonnage.

The resources calculated for the Raven project are shown in Table 8.3.

Table 8.3: In Situ Coal Resources for Raven Project

Deposit Type	**ASTM Rank Classification**	**Coal Zone/Seam**	**In Situ Coal Resources (kt)**		
			Measured	**Indicated**	**Inferred**
Surface	Not Determined for this Report				
Underground	High Volatile "A" Bituminous	No. 1 Seam	12,917	19,892	56,424
		No. 3 Upper	1,754	4,430	2,580
	TOTALS		**Measured and Indicated**		**Inferred**
			39,093		**59,004**

8.2 Mineral Reserves

There are no coal reserves estimated for the Raven Project area at this time. There is no current feasibility study.

9.0 METALLURGICAL TESTING AND MINERAL PROCESSING

The information reviewed by AGL to complete this section was provided in CEC's recent technical report (CEC, 2007), an independent assessment of the Raven project conducted by Khan (2006) and a summary of coal quality data for CEC coal properties assembled by Cullingham (2006).

9.1 Review of Metallurgical Testing Data

The data available in respect of coal quality is variable. More work is needed to assess the historic data and further exploration and sampling is required to understand the potential of the property.

Coal in the Raven Project is classed as high volatile Bituminous A with an average reflectance of 0.92. The cleaned coal has good coking characteristics, with an FSI of 8.

Drill core recovery from several exploration programs in the area by Dunsmuir (pre-1996), Hillsborough (1996) and Compliance (2006), was generally poor with only 11 of 38 drill cores reaching No. 1 Seam having the 90% recovery normally considered acceptable. A further nine cores had a recovery between 80% and 90%. Despite the lower core recovery these were included in the analysis presented by CEC (2007).

Previous analyses of the drill core quality data have indicated that the deposit is variable in quality. The three Raven holes with recovery above 80% ranged from 22.8% to 32.6% raw ash (db) and gave recoveries of 39.8% to 44% at around 8.6% clean coal ash (db). Hillsborough reported that the ash content of cores with over 80% recovery could range from 18.6% to 31.4% raw ash (db) with an average of 23.9%. Yields calculated from float sink analysis for a 9.5% ash product range from 39.4% to 70.5% with an average of 53%. Sulphur contents are reported to vary from 0.6% to 2.28%.

A bulk sample was taken in 2006 and analyzed by Hazen and Birtley. The Hazen sample was subjected to float-sink analysis at three size ranges, 50 to 19 mm, 19 to 2.4 mm and 2.4 to 0.15 mm. The results were very different from the drill core analyses with the floats at 1.35 SG being only 10.4% at 10.3% ash from a raw coal with 42.4% ash. The reason for the discrepancy between the raw coal ash content of the bulk sample and that of the drill cores is not established. It is not clear whether the cores sampled included all intermediate dirt bands and covered the full seam section including any rider seams.

Floats at 1.35 SG increased from 4.1% at 11.9% ash in the 50 to 19 mm size fraction to 11.5% at 9.8% ash in the 19 to 2.4 mm fraction and to 29.7% at 6.2% ash for the 2.4 to 0.15 mm fraction. This implies that the coal is inter-banded with high ash material and is released on breaking to a smaller size. It follows that if the top-size fed to the washing plant is reduced then a cleaner coal can be obtained and the recovery at particular ash content is increased. It also indicates that an investigation should be undertaken to establish the liberation characteristics of the middlings material. The fact that the drill cores were crushed to a 6 mm top-size results in the liberation of

coal from reject and could explain why the clean coal from cores is generally significantly cleaner than that from the bulk sample.

The average sulphur content of the clean coal floats at 1.45 SG from Raven drill cores averaged 1.21% while the clean coal from the bulk sample @ 1.45% was 0.98%. Other data gave sulphur contents ranging from below 0.6% in the clean coal to over 3.7%. Again, the product sulphur content appears to reduce with the size.

The results demonstrate that the coal will be very difficult to wash with significant quantities of middlings over the 1.35 – 1.90 SG range tested. As a result it will be difficult to get a precise separation and small changes in SG of separation could result in significant changes in clean coal ash content and recoveries.

9.2 Coal Preparation Considerations

9.2.1 Size Distribution

The size distribution of the raw coal is important in selection of the process route. Raven coal has a Hardgrove Grindability Index (HGI) of 51-53, which means that the raw coal will be relatively coarse, with much fewer fines than the coking coals from the mountain mines of British Columbia and Alberta. The 2006 bulk sample had the following size distribution:

Table 9.1: Sample Size Distribution of Raven Property Bulk Samples

Size	Raw Sample %	Crushed to 50 mm %
+50 mm	39.3	0
50 mm –19 mm	22.3	46.7
19 mm – 2.4 mm	25.6	36.5
2.4 mm – 0.15 mm	10.3	13.3
0.15 mm - 0	2.4	3.5

The coarser run-of mine coal, and coarser product after any crushing (i.e. with less increase in fines content than softer coals) makes the coal easier to wash than coals with a higher proportion of fines.

The bulk sample was mined by manual methods. Use of mechanized mining methods will inevitably lead to a smaller size distribution and this must be taken into account when designing the coal preparation plant (CPP).

The assumption that 6% of the material feeding the CPP will be less than 0.15 mm appears reasonable. This is an important number in that it is proposed not to recover the 0.15 to 0 mm into the clean coal product. Should a lower top-size for raw coal feed be selected, then the

percentage of fines below 0.15 mm will increase and the economics for their recovery (for example, by flotation methods) will become more favourable.

The top-size for washing will depend on the results of proposed liberation tests. It also depends on market acceptance of a lower top-size than 50 mm. While a 12.5 mm top-size may result in lower ash clean coal and increased recovery, it may be less acceptable to buyers on handleability grounds than the coarser product. Thermal drying may have to be considered to reduce moisture levels, particularly if fines recovery is included.

9.2.2 Dilution

The coal quality data available does not include out-of-seam dilution. The mining plan envisages that out of seam dilution could account for 7% of the run-of-mine output. The nature of this dilution is important. Should the dilution be large hard rock, then most will be removed in the planned rotary breaker. However, the floor is reported to be very soft and clayey, such that a coal floor has to be left during development of roadways. Should this soft floor material be included in the run-of-mine coal then it will have adverse effects on the proposed plant as it will break down to a fine size, adversely affect fine coal cleaning and increase the capital and operating costs for fines treatment and tailings disposal. Therefore, the possibility of not taking floor coal to avoid this contamination should seriously be considered.

For the purposes of this preliminary assessment, dilution should be included in the run-of-mine output and plant feed calculations for cost purposes, however, plant recoveries should be applied to the raw coal tonnage without dilution. A more detailed assessment on the effect of dilution on recoveries and coal quality, taking into account the efficiency of separation of the selected processes, should be undertaken as the project proceeds.

9.2.3 Process Considerations

The absence of reliable and consistent raw coal data makes process selection difficult. Table 9.2 shows the three product options and calculated recoveries as examined by HLB in 1997.

Table 9.2: Product Options and Estimated Recoveries, 1997

Product	Clean Coal Ash Content % db	Recovery % a.r.	Price, US$/t (HLB, 1997)	Price times Recovery
Thermal Coal	15.0	70.5	42.5	$29.96
Soft Metallurgical Coal	12.0	58.5	57.0	$33.35
Metallurgical Coal	9.5	43.3	60.0	$25.98

Table 9.2 demonstrates that the relative prices of the three products at a particular time partly determine which product to produce. On this basis, Hillsborough recommended proceeding on

the basis of producing a soft coking coal. Table 9.3 uses 2008 price estimates to update the assessment of the best target coal market.

Table 9.3: Product Options and Estimated Recoveries, 2008 Coal Prices

Product	Clean Coal Ash Content % db	Recovery % a.r.	Price US$/t (2008)	Price times Recovery
Thermal Coal	15.0	70.5	61.0	$43.00
Soft Metallurgical Coal	12.0	58.5	65.0	$38.03
Metallurgical Coal	9.5	43.3	105.0	$45.47

Table 9.3 suggests that optimizing the production of metallurgical coal is the most economic option with a secondary product of thermal coal if it is not possible to meet metallurgical coal quality standards. There are indications that there are areas of the property where cleaning the coal to below 9.5% ash content may not be feasible; the area of the bulk sample is an example.

The conclusion is that the coal preparation facilities should be designed to produce a metallurgical coal whenever possible, but with the option of diverting product coal to the thermal market should the ash content or other parameters not meet required specifications.

To optimize the recovery of metallurgical coal, the recovery of middlings in the primary separation should be considered. The middlings would then be crushed and recycled. Middlings could be added to the thermal coal stockpile to adjust the ash content to the specification values.

The treatment of fine coal below 0.6 mm will need to be carefully considered. The proposal is to use compound water cyclones (CWCs) for treating the 0.6 to 0.15 mm fraction with the 0.15 to 0 mm material sent to rejects. This may be the most economic process route avoiding the use of the more expensive flotation process. Indications from core data suggest that flotation results in a high ash content flotation concentrate, presumably due to the high proportion of middlings present in the raw coal. The CWC process is less efficient than other alternative processes but may be the most cost effective. Further study would be needed prior to finalizing the fines process route.

10.0 COAL PROCESS PLANT AND PRODUCT QUALITY

Based on their review of metallurgical testing and coal quality data presented by CEC, AGL has developed the following coal process plant description and determined a likely coal product quality.

The capacity of a plant to treat 2.0 million t/y raw coal will need to be 500 t/h. Because of the coarse size distribution of the raw coal, it should be possible to split the feed by size at around 12.5 mm and treat the coarser coal in a primary three product dense medium separator producing clean coal, middlings and reject. The 12.5 to 0 mm raw coal would be deslimed at 0.6 mm and fed to a small coal dense medium cyclone circuit. Raw coal at 0.6 to 0 mm would be cleaned in CWCs with the clean coal product classified at 0.15 mm. Fines at 0.15 to 0 mm will be rejected. The middlings from the primary separator would be crushed to 12.5 mm (or lower depending on liberation tests) and added to the feed to the small coal dense medium cyclones with the intention of increasing the overall recovery of metallurgical coal.

If a thermal product is produced, the middlings would be added directly to the product coal without crushing (or better still, SG of separation of the primary separator raised and middlings sent to rejects).

10.1 Coal Process Plant Description

The process route for the CPP will have to be refined as a result of the proposed additional test work. A conceptual process route is described based on currently available information. The primary product would be metallurgical coal. Should raw coal quality not permit metallurgical coal production then a thermal product would be made.

For the purposes of this preliminary assessment, it is proposed to utilize dense medium separation for 50 to 0.6 mm coal and CWC for 0.6 to 0.15 mm coal with 0.15 to 0 mm coal discarded.

Run of mine coal from the mine will pass to a stockpile from which a controlled feed of 500 t/h will pass to a run of mine screen sizing the coal at 50 mm round hole. The oversize material would be fed into a rotary breaker fitted with 50 mm round apertures. Drop tests will have to be undertaken to confirm that the breaker will be effective. If no real upgrading of the run of mine coal is possible, then a simple roll crusher will be installed.

Oversize from the breaker will be sent to rejects while the undersize will join the screen underflow and form the 50 to 0 mm raw coal to the CPP.

The 50 to 0 mm raw coal would be sized at 12.5 mm (or a lower size to be determined). Raw coal at 50 to 12.5 mm will be treated in a three-product heavy medium system to give clean coal, middlings and reject. Clean coal will be rinsed and drained free of adhering medium and passed via a clean coal conveyor to the clean coal stockpile. Rejects will be drained free of adhering medium and conveyed to the rejects conveyor and rejects stockpile. Middlings will also be

drained free of adhering medium, passed through a crusher to reduce the top size to below 12.5 mm, and then transferred to join the 12.5 to 0 mm raw coal.

The 12.5 to 0 mm raw coal and crushed middlings will be sized at 0.6 mm on deslime screens. The 12.5 to 0.6 mm fraction will be fed to small coal heavy medium cyclones where it is separated into clean coal and rejects. Clean coal will be drained and rinsed free of adhering medium, dewatered in centrifuges and transferred to the clean coal product conveyor. Rejects will be drained free of adhering medium and passed to the reject conveyor and stockpile.

The 0.6 to 0 mm raw coal will be fed to two-stage water only cyclones. The cyclone overflow will be passed to classifying cyclones sizing at 0.15 mm. The cyclone underflow will pass to the thickener. The 0.6 to 0.15 mm classifying underflow will be dewatered in a screen bowl centrifuge and conveyed to the clean coal conveyor. The 0.15 to 0 mm classifying cyclone overflow will pass to the thickener, although provision should be made to treat this stream in a small column flotation circuit.

Fine reject and slurries from the plant will pass to a thickener where the solids will settle with the aid of flocculant and clean water will overflow and be recycled to the plant for reuse. The thickened tailings will be dewatered in a pressure filter and then transferred by truck to a fines storage dump. The recovered water will be recycled to the plant. The inclusion of a filter press system allows a closed circuit water system and does not require a large tailings pond. A small settling pond will still be required for plant run-off and emergency situations.

A bypass on the clean coal conveyor system will be installed such that clean coal that does not meet coking coal specifications may be diverted to a separate thermal stockpile. Under these conditions, the middlings from the primary separator would not be crushed but would be added directly to the clean coal.

10.2 Anticipated Product Quality

The potential clean coal product specifications based on the HLB data and work is shown in Table 10.1.

It should be noted that the recovery of metallurgical coal could be increased by 3 to 8% by recirculating middlings or by lowering the raw feed top-size.

AGL's review of the coal quality and washability testing suggests that the coal product will be either metallurgical or thermal, i.e that it will not be possible to produce two separate products.

Table 10.1: Anticipated Product Specification

	Metallurgical Coal	**Thermal Coal**
Yield (%)	40	70
Total Moisture (%)	8	8
Equilibrium Moisture (%)	2	2
Ash (%)	8.5 to 9.5	15
Volatile Matter (%)	33.5	32
Fixed Carbon (%)	57	52
Heating Value BTU's/lb	13600	12500
Sulphur (%)	0.83	0.83 to 1.2
FSI	8	6.5
Grindability	51 to 53	51 to 53
Maximum Dilitation (%)	44-61	
Maximum Plasticity ddpm	1300	
Coke Strength Index	3.3	
Phosphorous in Coal P205 (%)	0.02	
Reflectance	0.92	
Inerts (%)	17	
Fuel Ratio (FCNm)		1.62

11.0 CONCEPTUAL MINING PLAN

11.1 Overview

The CEC project is based on the test mine description submitted by HLB. It includes two stone drifts, each approaching 700 m in length to access the coal, followed by a test mine extracting a bulk sample of 100,000 t by conventional room and pillar methods. Upon successful completion of the test mine and processing of the bulk sample, HLB planned to increase production capacity to commercial levels.

BC mining regulations allow test mines and small mines (<250,000 t/y) to be developed without having to produce a full Environmental Assessment Report, which allows an operator to conduct trial mining and submit the EAR prior to commencing full production.

11.2 Mineable Resource

The measured and indicated in-situ geological resource reported by CEC is 39.1 million tonnes. Of this resource, 6,184,000 t is in No. 3 Seam, leaving 32,909,000 t in No. 1 Seam. Not all of the 32 million tonnes of in-seam resource determined to be contained in No. 1 Seam will be mineable, although as the project proceeds, existing inferred resources will be converted through higher-confidence resources and into the reserve category.

The mining method selected for the deposit is room and pillar mining using continuous miners and shuttle cars, with the depillaring of each section on the retreat. This is a standard method of coal mining, widely used in the US and also at Grande Cache Coal Corporation's No. 7 Mine in Alberta and Quinsam Coal Mine's underground operations at Campbell River, BC about 100 km to the north.

Room and pillar coal mining with pillar extraction (second mining) is a reliable and flexible method of extracting coal. It is particularly suited to moderate to complex geologies, where faulting and variable coal quality affect the mining plan. However, in order to develop a suitable mining plan, the geology and coal quality variations must be better understood than they currently are at the Raven property.

CEC has assumed an extracted height of 2.8 m which is the average thickness of the No. 1 Seam across the property. The resource numbers are based on all coal in the mineable range and excludes low coal and coal with substantial stone partings.

The mineable resource in No. 1 Seam will be affected by:

- areas of coal where the seam section, excluding allowances for high sulphur coal and floor coal, is less than 1.5 m,
- coal pillars left in place against faults and to ensure safe conditions in the workings

- coal left underground and lost due to inefficiencies in the mining method.

Beresford (2007) for CEC determined a mineable resource of 36.36 million tonnes and a mining recovery of 68% overall. AGL estimates that coal recovery overall will be approximately 71% from mined areas, but accepts CEC's estimate of 36.36 million tonnes of mineable coal.

As discussed below, AGL has estimated a mine production rate of about 2.21 million tonnes per year at full production, giving a mine life of about 16.5 y based on mineable resources. For this preliminary assessment, AGL has assumed that sufficient inferred resources will be upgraded to the measured or indicated category to allow a project duration of at least 20 years.

11.3 Mining Productivity

AGL has used a proprietary model to estimate the production capacity of a continuous miner section in a seam height of 2.8 m and using reasonable estimates for available working time and mechanical availability. AGL has estimated an output per section per shift of 2600 t, based on a 4 x 4 shift rotation and a development:depillar production ratio of close to unity.

The model is adjusted by a "condition factor" which takes into consideration the effect of seam gradients on the efficiency of the mining methods and equipment (Table 11.1).

Table 11.1: Derivation of "Condition Factor"

Gradient	"Condition Factor"
10% dip	100%
10% to 13%	90%
13% to 16%	80%
16% to 20%	70%
20% to 25%	60%
+25%	50%

Based on CEC's technical report, seam gradients are expected to be in the range 20% to 25%, which indicates a productivity of 2600 t/shift x 60% or about 1560 t/shift. At this production rate a single section mine could produce about 1,106,000 t/y. An underground mine operating two room and pillar sections at these production levels will achieve nearly 2.2 million t/y.

The productivity of underground room and pillar coal mines is largely determined by the ability of the mine owner to ensure that the continuous miners deployed to win the coal are employed effectively. This requires both sufficient coal transportation and roof support equipment to ensure that the miner can cut continuously and a mine layout that facilitates this.

Based on a 4 and 4 shift schedule operating year round, AGL estimates a total hourly manpower of about 106 with an on-site staff of about 18.

12.0 PRELIMINARY ECONOMIC ASSESSMENT

12.1 Capital Costs

Capital costs asumptions are set out in Table 12.1.

Table 12.1: Capital Cost Assumptions

	Year -1	Year 1	Year 2	Year 3	Year 4
Property Costs					
Option Extension	2800000				
Option Fees		500000	500000	500000	500000
Crown Lease Fees and Taxes		4694	4694	4694	5690
Reclamation Bond	2000000				
Engineering and Permitting	1500000				
Surface preparation – Mine Site	1150000				
Power Line and Substation	1000000				
Surface Infrastructure	1300000				
Coal Preparation Plant	7000000	7000000			
Underground Mining Equipment	10000000	8000000			
Main Entry Driveage	2500000				
Port Facilities	2000000				

12.1.1 Preproduction Expenses

To date approximately $2.5 million has been spent by CEC since 2006 on the acquisition of the West Fraser fee simple coal lands, coal licenses, exploration drilling, sampling, seismic and analytical work, roads and permitting. This expenditure has not been included in the capital costs.

Development of the property is contingent on making option payments to West Fraser of $2.8 million in November, 2007, $2 million in lump sum payments over the next four years and $4 million in royalties at $0.50/t.

12.1.2 Engineering and Permitting

A previous owner of the coal options had obtained Provincial approval for a 100,000 t bulk sample, the mining of which included the development of the main access tunnels into the deposit. CEC anticipate that this approval could be re-opened, allowing development to begin,

with an updated notice of work application to the Ministry of Energy, Mines and Petroleum Resources.

A reclamation bond of $2 million has been allowed in the capital cost structure, reclaimed at the end of the assumed 15 year mine life. Actual reclamation expenses have been charged to operations costs at 75% of this value, on the basis that the cost of CEC reclaiming the property will be less than the cost required by a third party, on which the value of the bond should be based.

In the capital costs analysis reviewed by AGL, CEC had applied a cost of $1.5 million for a full feasibility study and Environmental Assessment Application to the BC government. AGL has retained this estimate and charged it against Year -1 (i.e. as a pre-production expense). However, AGL notes that BC mining regulations typically do not require full EAA reports for small mines; CEC might be able to get into production at 250,000 tonnes per year for 12 to 18 months, allowing more time for the preparation of the environmental report and additional exploration work if they followed the small mines route.

12.1.3 Surface Preparation – Mine Site

The proposed mine site area, covering about 34 ha has already been logged by the land owner, West Fraser. Additional costs to grade the site as required and prepare it for installation of the surface infrastructure have been estimated by CEC as $1,150,000, which AGL considers reasonable.

12.1.4 Power Line and Sub-Station

Power can be brought from a main line 2.4 km away. A substation and connecting electrical switchgear will be required, as well as grounding and fault detection equipment that meets regulatory standards.

CEC has estimated a cost of $2 million for providing power to the site. AGL believes that power line can be run over reasonably level ground for about $200,000 per kilometer, and that the cost of providing power to the site should not exceed $1,000,000.

12.1.5 Surface Infrastructure

Surface infrastructure required includes mine offices, mine dry, maintenance sheds and stores, scale and truck wash. The offices and dry will be portable buildings, and the warehouse/shops will be steel frame structures with cladding. CEC has estimated a cost of $1.3 million to provide these facilities, which might be conservative but is an acceptable estimate at this stage of the project analysis

12.1.6 Coal Preparation Plant

CEC has developed a cost of $13 million for a coal preparation plant and required associated infrastructure. AGL has estimated a cost of $14 million on the basis of discussions with CEC,

but cautions that environmental protection systems required at the mine site to mitigate fugitive dust and additional plant equipment required to meet the specifications updated by AGL may involve higher costs.

12.1.7 Underground Mining Equipment

The productivity of underground room and pillar coal mines is largely determined by the ability of the mine owner to ensure that the continuous miners deployed to win the coal are employed effectively. This requires both sufficient coal transportation and roof support equipment to ensure that the miner can cut continuously and a mine layout that facilitates this.

AGL believes that the production requirement can be met with two continuous miner sections, each operating a miner, three shuttle cars, two roof bolters, a feeder breaker and associated support equipment. AGL's estimate for two complete sections and support equipment is $18 million, with $10 million spent in the first year and 8 million in the second year for the second mining section. The estimate is based on new equipment.

There are several suppliers of reconditioned equipment serving the US underground coal mining markets which can reduce up-front capital costs by 40%. AGL suggests the use of reconditioned equipment to begin the mine, with new equipment purchased for the second section. Capital costs under this scenario are estimated as $8 million in the first year and $8 million in the second year.

Capital costs could be further reduced by either purchasing all reconditioned equipment or by leasing the required equipment.

12.1.8 Main Entry Driveage

CEC estimated the main entry drivage costs as $1.7 million, which includes two stone drifts and cross cuts totaling nearly 1400 m and a 165 m ventilation raise. AGL believes that this cost is more likely to be in the region of $2.5 million once coal handling infrastructure has been included.

The inclusion of two stone drifts represents a significant initial capital cost to the project. AGL believes that options to access the coal seam from outcrop slightly to the west of the proposed HLB mine site should be explored. Although not on Crown land and approximately 4 km further from port, an outcrop access would reduce the need for ventilation raises across the property as mining develops (by increasing the number of entrances to the mine) and allow immediate access to the coal for bulk sample purposes. AGL believes that faulting predicted in the underground workings could be managed more cost effectively than 1400 m of stone drivage.

12.1.9 Port Facilities

CEC has provided an estimate of $2 million for preparation of port facilities at Port Alberni, including coal dumping point, storage sheds and loadout. The preliminary economic assessment assumes that these will be financed by CEC in return for lower port costs from the Port Alberni

Harbour Commission. Initial capital costs could be eliminated or deferred if Port Alberni management could be convinced to finance all or part of the port infrastructure.

12.2 Operating Costs

Operating costs generated by CEC have been reviewed and where necessary adjusted. AGL's estimates of operating costs are shown in Table 12.2.

Table 12.2: Operating Cost Assumptions

Mining Costs	$17.18 per mined tonne
Processing Costs	$5.00 per processed tonne
Site Administration	$0.85 per mined tonne
Environmental	$0.50 per mined tonne
Transportation	$8.57 per clean tonne
Port and Loading Costs	$5.00 per clean tonne
Commissions	$1.00 per clean tonne
General and Administrative	$2.50 per clean tonne
Royalties to West Fraser	$0.50 per clean tonne

12.2.1 Underground Mine

Underground mining costs have been estimated by AGL as $17.18 per mined tonne. These costs include hourly labour and supervision, supplies, spare parts and fuels and lubes.

By AGL's estimates, hourly labour and supervision costs make up 50% of the mining costs. Labour costs could be reduced by working a 5 and 2 schedule, which would lower the production, or by reducing the manpower on each shift, again, at the cost of run-of mine production.

Ultimately, the best combination of manpower, shift schedule and production will be determined as experience is gained in the underground conditions.

12.2.2 Preparation Plant

Preparation plant costs have been estimated at $5.00/tROM and include manpower, materials, power and reagents. Costs of hauling coarse waste and tailings disposal are included in these figures.

12.2.3 Transportation Costs and Port Costs

To export the metallurgical and thermal coal from the Island requires a port with the capacity to take at least Panamax size vessels (up to 65,000 tonnes cargo weight) and a barge load-out for shorter hauls to the Vancouver, Seattle and Tacoma areas. The closest deep water port to the Raven Project is at Port Alberni on a western inlet of Vancouver Island, a distance of 82 km from the proposed Raven mine site.

The existing 2 km of gravel road from the mine site could be connected to the Island Highway just south of Buckley Bay. The junction connector is partially roughed in and would require paving with a north/south ramp and activation by the Ministry of Transportation. The distance from the mine site is 82 km to Port Alberni of which 45 km is on the Island Highway and 35 km on Highway 44, all paved roads.

It is proposed to use B-train trucks carrying 42 t of coal directly to the port. Exporting 830,000 million tonnes per year through Port Alberni would require 58 truck trips per day, 340 days a year. The Port Alberni Terminal Manager and CEO has advised CEC that there is space available at the port for coal storage and loadout. Berth #1 at Port Alberni is 320 metres (1,050 ft.) long with a depth alongside of 11.4 metres (37.5 ft) at low tide and is capable of loading a Panamax vessel.

A larger storage building to hold at least 65,000 t of coal is required to replace the two smaller storage sheds presently on site. A coal load-in and load-out facility is also required, as well as a ship loader which would be constructed by arrangement with the Harbour Commission.

If CEC proceeds with the production of two coal products (e.g. hard coking coal and thermal coal), two coal storage sheds will be required at the port. For the purposes of this economic analysis, AGL has only considered the production of hard coking coal.

A future alternative to truck haulage is to construct a rail loading point on The Esquimalt & Nanaimo (CP) Rail which runs along the Vancouver Island coast to the east of the Raven property. This rail line connects directly to Berth #1 at Port Alberni, although bridge weight restrictions along the route would reduce the size of the train.

CEC has received a budgetary estimate for the truck haul to Port Alberni from a Vancouver Island trucking contractor with experience and equipment required for the coal haul. The rate was about $0.105/t.km or $8.57/t.

CEC has estimated port storage and loading costs as $5.00/t. This is lower than competing loading facilities on Vancouver Island and the mainland. Port Alberni throughput has dropped in recent years as result of pulp mill closures. The low port and loading fees correspond to port management efforts to increase traffic. These estimates are dependent on CEC providing the loading infrastructure for the project. If the infrastructure is provided by or shared with Port Alberni, the costs may be higher than $5.00/t.

12.2.4 Site Administration Costs

These include salaried staff excluding front line supervision and amounts to $0.85 per mined tonne.

12.2.5 Environmental Costs

Environmental monitoring, testing and supervision has been estimated at $0.50 per mined tonne

12.2.6 Commissions and General and Administrative

Commissions paid to facilitate coal sales have been estimated as $1.00 per clean tonne.

Off site general and administrative costs have been estimated as $2.08 million per year. These would typically cover head office, legal and audit costs.

12.2.7 Royalties

The royalty payable to West Fraser ($0.50/clean tonne to a maximum of $4 million) has been included in the operating costs estimates.

12.3 Marketing and Coal Prices

High volatile (HV) coking coal is primarily used with low or medium volatile coals in coke oven blends to produce a blast furnace coke.

The Raven HV coking coal has the majority of the qualities required to use as a blend having a high FSI (8.0), acceptable fluidity (1300 ddpm) and a total dilatation of 80%.

For a blending component of an industrial coke blend a clean coal ash level of less than 9.5% combined with low (<0.85%) sulphur are required.

Any thermal coal produced from the Raven property is expected to have a maximum as received ash of 15.0%, 10-12% moisture, less than 1% sulphur and a heating value of about 12,500 BTU/lb. With these properties it would be characterized as a premium thermal coal. There is a possibility that it could be sold as a semi-soft coking coal suitable for steel making.

Markets for Raven HV coking coal and semi-soft coking coal are the steel mills in Japan, South Korea, Taiwan, China and thermal coal to the above countries plus the Vancouver, Seattle, Tacoma cement industry.

The most recent thermal and coking coal price forecasts seen by AGL were prepared by the National Australia Bank (NAB) in June 2007. Australia is a major exporter of both coking and thermal coal. Quoting the elimination of Chinese exports due to internal demand, infrastructure problems in Australia and slower sales growth from Indonesia, NAB suggests that the 2008 coal year (April 2008 to March 2009) will see price rises of 10% for thermal coal (to US$61.20/t), a

similar rise for semi soft coking coal to US$65.80/t and a 7% rise in hard coking coal prices to US$105/t. AGL has used the NAB price forecast in the financial analysis following.

AGL cautions that these are forecasts; they are made subject to a number of assumptions, any one of which could fail and drastically alter the price regime for all forms of coal. Some market analysts have predicted smaller price rises; others larger, to US$125/t for hard coking coal.

12.4 Preliminary Cash Flow Analysis

The following preliminary cash flow analysis is based on the financial parameters outlined above and assumes an annual production of 2,100,000 raw tonnes from an established underground coal mine, over a 21 year period including 12 months construction and twelve months ramp up to full production. Production in the final year has been estimated as zero while reclamation is carried out.

AGL cautions that this is a preliminary analysis only, based on budget numbers and estimates. However, AGL believes that the estimates presented are reasonable and accurate enough to determine if the project should proceed to the next stage of fund raising and development.

12.4.1 Target Product

Using the operating costs detailed above, AGL has compared the estimated annual returns from the production of metallurgical coal and thermal coal. Table 12.3 details the analysis.

The analysis in Table 12.3 shows a clear preference for the production of lower volumes of metallurgical coal over the production of thermal coal.

Despite the higher recovery of higher ash thermal coal predicted from the run-of mine product and the lower total production cost per tonne ($52.12 compared to $79.91), thermal coal production profits are reduced by the relative weakness of the thermal coal price. Profit per tonne on thermal coal production is estimated as $12.09, with an annual profit of $17.4 million on a production of 1.44 million tonnes.

On the other hand, metallurgical coal production, despite having a slightly higher cost per clean tonne ($79.91/t clean as a result of the much lower recovery), benefits from the much greater sales price estimate and produces a profit of $30.62/t clean and an annual estimated profit of $25.12 million.

In addition to the obvious financial advantages indicated by Table 12.3, AGL believes that the up-side potential for the property to achieve a better CPP recovery rate than the present estimate of 40% during the production of metallurgical coal (either as a result of a better understanding of the seam properties after additional testing or by selectively mining areas of cleaner coal) is also a positive indicator of a preferred metallurgical coal product.

Table 12.3: Comparison of Returns from Thermal and Metallurgical Coal Production

ANNUAL PRODUCTION	**Metallurgical**	**Thermal**
Annual Run of Mine tonnes (thousands)	2,211	2,211
OSD Removed at Breaker (@ 7%)	155	155
Raw Coal Delivered to the CPP	2,057	2,057
CPP Recovery	40%	70%
Annual Clean tonnes (thousands)	823	1,440
ON SITE COSTSs		
Mining Costs @ $17.18/t ROM	37,991	37,991
Processing Costs @ $5.00/t Breaker Product	10,283	10,283
Site Admin Costs @ $0.85/t ROM	1,880	1,880
Environmental Costs @ $0.50/t ROM	1,106	1,106
Reclamation Costs @ $0.01/t ROM	22	22
Total On-site production Costs ($ thousands)	**51,281**	**51,281**
$/t Clean	**62.34**	**35.62**
OFF SITE COSTS		
Trucking @ $8.57/t Clean	7,050	12,337
Port Handling Costs @ $5.00/t Clean	4,113	7,198
Sales Commissions @ $1.00/t Clean	823	1,440
General and Administrative - estimated annual	2,057	2,057
Royalties @ 0.50/t Clean	411	720
Total Off-Site Costs ($/t Clean)	**14,454**	**23,751**
$/ Clean tonne	**17.57**	**16.50**
Total production Costs $/Clean tonne	**79.91**	**52.12**
REVENUE		
Sales price, US$/tonne	105.00	61.00
Exchange Rate	0.95	0.95
Sales price, CAN$/tonne	**110.53**	**64.21**
PROFIT / LOSS PER CLEAN TONNE ($/tonne)	**30.62**	**12.09**
ANNUAL PROFIT ($ thousands)	**25,187**	**17,404**

12.4.2 Preliminary Financial Analysis

Table 12.4 describes the project revenues over the life of the project assuming a metallurgical coal product. Clean coal recovery is estimated at 40%, and a sales price of US$105/t for metallurgical coal has been assumed.

Table 12.4: Summary of Financial Assessment Based on Metallurgical Coal Production

			Year -1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 - 18	Year 19	Year 20
PRODUCTION (kilotonnes)											
Underground Production Including OSD				553	1659	2211	2211	2211	2211	2211	0
OSD removed at Rotary Breaker				39	116	155	155	155	155	155	0
Material Delivered to CPP				514	1542	2057	2057	2057	2057	2057	0
TOTAL Met Coal Produced				206	617	823	823	823	823	823	0
REVENUE											
Met Coal Price	110.53	CAN$/t									
TOTAL REVENUE ($ thousands)				**22,730**	**68,191**	**90,922**	**90,922**	**90,922**	**90,922**	**90,922**	**0**
OPERATIONS COSTS ($ thousands)											
Mining	17.18	$/tROM		9,498	28,493	37,991	37,991	37,991	37,991	37,991	0
Processing											
Met Coal	5.00	$/tROM		2,571	7,712	10,283	10,283	10,283	10,283	10,283	0
Site Administration	0.85	$/tROM		470	1,410	1,880	1,880	1,880	1,880	1,880	0
Environmental	0.50	$/tROM		276	829	1,106	1,106	1,106	1,106	1,106	0
Reclamation Costs											1,500
Operations Costs ($ per mined tonne)				**23.18**	**23.18**	**23.18**	**23.18**	**23.18**	**23.18**	**23.18**	**0.00**
Operations Costs ($ per clean tonne)				**62.31**	**62.31**	**62.31**	**62.31**	**62.31**	**62.31**	**62.31**	**0.00**
OFF SITE COSTS ($ thousands)											
Transportation	8.57	$/t Clean		1,762	5,287	7,050	7,050	7,050	7,050	7,050	0
Port and Loading Costs	5.00	$/t Clean		1,028	3,085	4,113	4,113	4,113	4,113	4,113	0
Commissions	1.00	$/t Clean		206	617	823	823	823	823	823	0
General and Administration	2.50	$/t Clean		514	1,542	2,057	2,057	2,057	2,057	2,057	0
Royalties @ 0.50/tonne	0.50	$/t Clean		103	308	411	411	411	411	411	0
Cumulative Royalty	########	Maximum		103	411	823	1234	1645	2057	7404	0
Off Site Costs ($ per mined tonne)				**6.54**	**6.54**	**6.54**	**6.54**	**6.54**	**6.54**	**6.54**	**0.00**
Off Site Costs ($ per clean tonne)				**17.57**	**17.57**	**17.57**	**17.57**	**17.57**	**17.57**	**17.57**	**0.00**
TOTAL COSTS ($ thousands)				**16,428**	**49,285**	**65,713**	**65,713**	**65,713**	**65,713**	**65,713**	**1,500**
TOTAL COSTS ($/t Clean)				**79.88**	**79.88**	**79.88**	**79.88**	**79.88**	**79.88**	**79.88**	**0.00**
PROFIT (LOSS) ON OPERATIONS ($ thousands)				**6,302**	**18,907**	**25,209**	**25,209**	**25,209**	**25,209**	**25,209**	**-1,500**
CAPITAL COSTS ($ thousands)											
Property Costs and Reclamation Bond			4,800	505	505	505	506	6	6	8	-1,992
Engineering and Permitting			1,500								
Surface preparation – Mine Site			1,150								
Power Line and Substation			1,000								
Surface Infrastructure			1,300								
Coal Preparation Plant			7,000	7,000							
Underground Mining Equipment			8,000	8,000							
Main Entry Driveage			2,500								
Port Facilities			2,000								
TOTAL CAPITAL COSTS			**29,250**	**15,505**	**505**	**505**	**506**	**6**	**6**	**8**	**-1,992**
TOTAL PROJECT INCOME (LOSS)		**$**	**-29,250**	**-9,202**	**18,402**	**24,704**	**24,703**	**25,203**	**25,203**	**25,201**	**492**
TOTAL PROJECT INCOME (LOSS)		**$/t Sold**		**-44.75**	**29.83**	**30.03**	**30.03**	**30.64**	**30.64**	**30.63**	**0.00**

Site operations costs, including mining, processing, site administration and transportation to port are estimated at $62.34 per clean tonne. Off site costs, port, commissions, G&A and royalties amount to $17.57 per clean tonne. Total costs of production are estimated as $79.91, resulting in a profit of $30.62 per clean tonne.

Over the 21-year life of the mine, AGL estimates a pre-tax profit of $25.82 million a year on a total production of nearly 14.8 million clean tonnes. This includes the start-up year with no production, years one and two with production capacities at 25% and 75% respectively, and no production from the final year.

Based on the assumptions outlined above, AGL has determined a project NPV, at a discount rate of 12%, of $105.6 million. At this stage of project assessment AGL warns that this number should be treated with caution as it is based on assumptions which may not be borne out by more detailed assessments.

13.0 INTERPRETATION AND CONCLUSIONS

- Compliance Energy Corporation holds an option on more than 33,000 ha of property underlain by coal measures strata covering the southern half of the Comox coal basin on Vancouver Island, BC.

- About 3,100 ha of these lands have been the subject of recent exploration leading to the development of a preliminary assessment of an underground coal mine producing about 823,000 tonnes per year of high volatile hard coking coal.

- AGL believes that the potential for the unexplored lands to contain significant mineable resources of coal (metallurgical or thermal) is high and that the optioned lands outside the proposed immediate mining area are a "property of merit". AGL believes that the Raven Property warrants additional exploration and a feasibility study to form the basis of a production decision.

- In 2006 CEC completed an exploration program that included 2,850 m of coring, bulk sampling and 21 line-km of seismic exploration. This work, including the results of previous work on the property, has resulted in the definition of 39.1 million tonnes of measured and inferred resources and 59 million tonnes of indicated coal resources in two seams.

- Although a considerable amount of sampling and washability testing has been conducted on coal from the property, there is still only a limited understanding of the variation in coal quality both areally and within the seam.

- Based on the existing data, AGL believes that, at coal prices forecast for 2008, an underground mining operation can be developed on the property following the basic design concepts established by the previous option-holder. AGL believes that this mine would be profitable at the estimated capital costs, operating costs and productivity assumptions made in this report.

- A preliminary financial assessment of the proposed underground mine results in a profit per clean tonne of $30.62 and an annual excess of income over expenditure of $25.12 million. The estimated net present value (NPV) of the project at a discount rate of 12% is $105.6 million. AGL cautions that these are estimates and may change as other information becomes available. AGL also cautions that these estimates are based on a mine life that exceeds the measured and indicated resource figures, although AGL is confident that additional exploration will prove sufficient resources exist on the property.

- From the data reviewed, AGL believes that there is potential to optimize the value of the project by considering an alternate access location to the coal seam, further enhancing the knowledge of the quality of the seam both areally and within the

seam itself and by preparing a mine plan which concentrates production in areas of coal that provide CPP yields of greater than the current 40% estimate.

14.0 RECOMMENDATIONS

- AGL believes that the Raven property is an exploration "property of merit" with potential to contain significant coal resources in addition to those outlined above. While the present preliminary assessment has determined that an underground mine on the property could be viable, AGL believes that even if this were not so, the property would still be worthy of further exploration, and that CEC should retain the property if at all possible.

- Further analysis should be undertaken of the drill core sample results, taking into account the geological and geophysical logs and core descriptions. Identification of missing plies and correlation between plies within the sampled section could help explain the wide variations in seam quality.

- Further data on the No. 1 Seam should be obtained by further core drilling in the area planned for the initial years of mining. In-fill drilling is required for areas considered for the life-of-mine plan.

- A bulk sample, representative of the planned mining section, should be obtained and subjected to float-sink analysis and clean coal analysis. The liberation characteristics of the middlings material should be determined to understand whether crushing and recycling them will increase overall recovery.

- The difference in washability characteristics of the raw coal when crushed to different top-sizes needs to be understood. A series of washability tests at different top-sizes should be undertaken on sub-samples of the same bulk sample. This will give an indication of the enhancement of the washability characteristic with crushing. It will also give some guidance on size distributions with different degrees of crushing. Flotation tests should be performed on the 0.6 to 0 mm and 0.15 to 0 mm fractions to determine whether to include the flotation process.

- AGL recommends that CEC seriously consider evaluating alternate access strategies for the proposed underground mine, preferably by entering No. 1 Seam from outcrop (for example from the west along Seismic Line 4). This would greatly reduce the time and capital expense required to develop the mine and would result in a significant bulk sample for advanced washability testing as recommended above.

- If this approach is adopted, The main entries of the bulk sample mine could be used as the access for the larger mine. The entries will demonstrate the variation in raw coal and clean coal characteristics over a significant distance and indicate whether there are any trends in ash, sulphur and other quality parameters. The results demonstrated by the test mine should be correlated with the results of core holes in the area.

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16.0 GLOSSARY AND ABBREVIATIONS

AGL .....Associated Geosciences Ltd.

a.r. .....As received

BCGS .....British Columbia Geological Survey

CAN$ .....Canadian dollar

CEC.....Compliance Energy Corporation

CPP .....Coal Preparation Plant

db.....Dry basis

FSI.....Free Swelling Index, a property used to assess the coking properties of coking coals

ha.....Hectare(s)

HLB.....Hillsborough Resources Limited

km .....Kilometer(s).

m, m^2 .....Metre(s), square metre(s)

mm .....Millimetre, millimetres

NI 43-101 .....The compliance standard for technical reports required of issuers regulated by the Canadian Securities Administrators.

NPV.....Net Present Value, a financial tool used to compare the value of project alternatives. The NPV of a project at the stated discount rate is the amount of money that would have to be invested in current dollars to get the same return as the project.

NTS.....National Topographic Survey – a Canadian geographic map series.

SG .....Specific gravity

SI.....System Internationale the standard international system of metric units of measurement.

t, t/d, t/y.....Tonne/tonnes, tonnes per day, tonnes per year

US$ .....United States Dollars

17.0 CERTIFICATES OF AUTHORS

17.1 Peter Cain, Ph.D., P.Eng.

I, Peter Cain, Ph.D., P.Eng.

1. Am currently employed by:

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   in the capacity of Head of Mining Engineering

2. Am a Professional Engineer (P.Eng.) registered with the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA-Member No.: M63684).

3. Have over twenty-five years of operating and consulting engineering experience in the coal and minerals industry.

4. Worked in the UK coal industry for British Coal for sixteen years including operational and management supervision of processing plants and the design and review of major projects at headquarters level. Between 1978 and 2006 I was employed by Associated Mining Consultants Ltd. as President and CEO.

5. Have been actively involved on due diligence evaluations of mining projects covering a range of mineral commodities and have had extensive experience in coal projects in North America and internationally, including:

   - Engineering and geotechnical studies for the Cape Breton Development Corporation while employed by Natural Resources Canada in Sydney, Nova Scotia.
   - Mine planning and geotechnical monitoring at the underground operations of Smoky River Coal Ltd, Grande Cache, Alberta.
   - Planning, designing, costing and equipment selection for Grande Cache Coal Corporation's No. 7 underground mine from greenfield site through feasibility study to exchange IPO.
   - Design of an underground room and pillar mine at the Parvadeh coal mining complex at Tabas, Islamic Republic of Iran for the National Iranian Steel Company.
   - Due diligence reviews of several coal properties in Colombia.

- Due diligence of the Quinsam underground coalmine on Vancouver Island, for ITOCHU Corporation.

6. Have specific experience in the design, planning and costing of underground room and pillar coal mines.

7. Have read the definition of "Qualified Person" set out in National Instrument 43-101 and certify that by reason of my education, affiliation with a Professional Association and past relevant work experience, I fulfill the requirements to be a "Qualified Person" for the purposes of NI 43-101.

8. Have been involved in all aspects of the preparation of this report and take professional responsibility for the report excluding the exploration, geology, resource/reserve and coal quality/coal processing sections, which I reviewed prior to publication.

9. Am not aware of any material fact or material change with respect to the subject matter of this technical report which is not reflected in the report, which the omission to disclose would make the technical report misleading.

10. Am independent of the issuers applying all of the tests in Section 1.5 of National Instrument 43-101.

11. Have read National Instrument 43-101 and Form 43-101F1, and the technical report has been prepared in compliance with this instrument and Form 43-101F1.

12. I consent to the filing of the Technical Report with any stock exchange and other regulatory authority and any publication by them for regulatory purposes, including electronic publication in the public company files on their websites accessible by the public, of the Technical Report.

Dated this 5th day of September, 2007 at Calgary, Alberta, Canada

Peter Cain, Ph.D., P.Eng.
Head of Mining Engineering

17.2 Alan Craven, P.Eng.

I, Alan L. Craven, P.Eng.

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2. Am a Professional Engineer (P.Eng.) registered with the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA-Member No.: M32446).

3. Have over forty years of operating and consulting engineering experience in the coal and minerals industry.

4. Worked in the UK coal industry for British Coal for sixteen years including operational and management supervision of processing plants and the design and review of major projects at headquarters level. Between 1978 and 2006 I was employed by Associated Mining Consultants Ltd. as President and CEO.

5. Have been actively involved on due diligence evaluations of mining projects covering a range of mineral commodities and have had extensive experience in coal projects in North America and internationally, including:

   - Due diligence reviews of the Donkin submarine coal resource block for Xstrata Plc. and Arch Coal.
   - Due diligence of the Quinsam underground coalmine on Vancouver Island, for ITOCHU Corporation.
   - Lead involvement or Project Director for Cape Breton Coal Development Corporation's (Devco) operations on Cape Breton Island, Nova Scotia including the feasibility studies for the Donkin Mine and the Phalen Mine
   - Due diligence reviews of several coal properties in Colombia.
   - Review of detailed designs of coal processing facilities for Obed Mountain Coal Mine.
   - Project Director for concept, feasibility, design and supervision during construction of a coal mining complex at Parvadeh, Tabas, Islamic Republic of Iran for the National Iranian Steel Company.

6. Have specific experience in the processing and, mining of coal in both underground and open-pit mines.

7. Have read the definition of "Qualified Person" set out in National Instrument 43-101 and certify that by reason of my education, affiliation with a Professional Association and past relevant work experience, I fulfill the requirements to be a "Qualified Person" for the purposes of NI 43-101.

8. Authored and take professional responsibility for the sections of this report relating to coal quality and coal preparation plant design and performance. I also reviewed the full report prior to publication.

9. Am not aware of any material fact or material change with respect to the subject matter of this technical report which is not reflected in the report, which the omission to disclose would make the technical report misleading.

10. Am independent of the issuers applying all of the tests in Section 1.5 of National Instrument 43-101.

11. Have read National Instrument 43-101 and Form 43-101F1, and the technical report has been prepared in compliance with this instrument and Form 43-101F1.

12. I consent to the filing of the Technical Report with any stock exchange and other regulatory authority and any publication by them for regulatory purposes, including electronic publication in the public company files on their websites accessible by the public, of the Technical Report.

Dated this 5th day of September, 2007 at Calgary, Alberta, Canada

Alan L. Craven, P.Eng.
Advisor