CALL FOR PROPOSALS FOR EXPLORATION / DEVELOPMENT OF THE DONKIN COAL RESOURCE BLOCK, CAPE BRETON COUNTY, NOVA SCOTIA

Prepared for
Nova Scotia Department of Natural Resources

December 13, 2004

PINCOCK ALLEN & HOLT
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Prepared by
Pincock, Allen & Holt

John I. Kyle, P.E.

A Division of Hart Crowser
274 Union Boulevard, Suite 200
Lakewood, Colorado 80228-1835
Fax 303.987.8907
Tel 303.986.6950

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1.0 PREAMBLE

The Nova Scotia Department of Natural Resources (DNR) is issuing a call for proposals for the exploration/development of the Donkin Coal Resource Block, Cape Breton, Nova Scotia. The format used in the Call for Proposals follows the protocol developed by DNR for seeking expressions of interest in mineral properties in Nova Scotia. DNR has engaged Pincock, Allen & Holt (PAH), an internationally respected mining engineering consulting company, as an expert consultant, to assist DNR to develop the Call for Proposals, prepare evaluation criteria, evaluate proposals, and develop recommendations as to the successful proponent.

As stipulated in the Call for Proposals:

- The Minister of Natural Resources and the Province will make the final decision regarding the successful proponent.

- DNR and the Province reserve the right to modify the terms of the Call for Proposals at any time, at its sole discretion.

- This Call for Proposals should not be construed as a contract to purchase goods or services. The Province is not bound to accept any proposal of those submitted. Proposals will be assessed in light of the evaluation criteria.

- Subsequent to the submission of proposals, interviews may be conducted with some of the proponents, but there will be no obligation to receive further information, whether written or oral, from any proponent.

- All costs and expenses incurred by proponents evaluating and developing proposals will be the responsibility of the proponent. DNR and the Province are not responsible for any costs or expenses incurred by any company or individual in the process of developing a response to this Call for Proposals.

- DNR and the Province are not responsible for the accuracy or completeness of the resource information that has been assembled by DNR and made available for the Call for Proposals. It is the Proponents responsibility to review the data and become familiar with local conditions and take them into account while preparing their proposals. Qualified (see section 3.4.1) proponents are encouraged to visit the website and data room that are being provided by DNR, visit the community and the Donkin Peninsula, and become thoroughly familiar with existing and potential future conditions regarding exploration/development of the coal block. DNR accepts no responsibility for the integrity of available information. It is the responsibility of the Proponent to determine the validity of all provided and available information as their proposals are generated.

- The Province will not be obligated in any manner to any proponent whatsoever until a mineral title has been duly executed relating to an approved proposal.

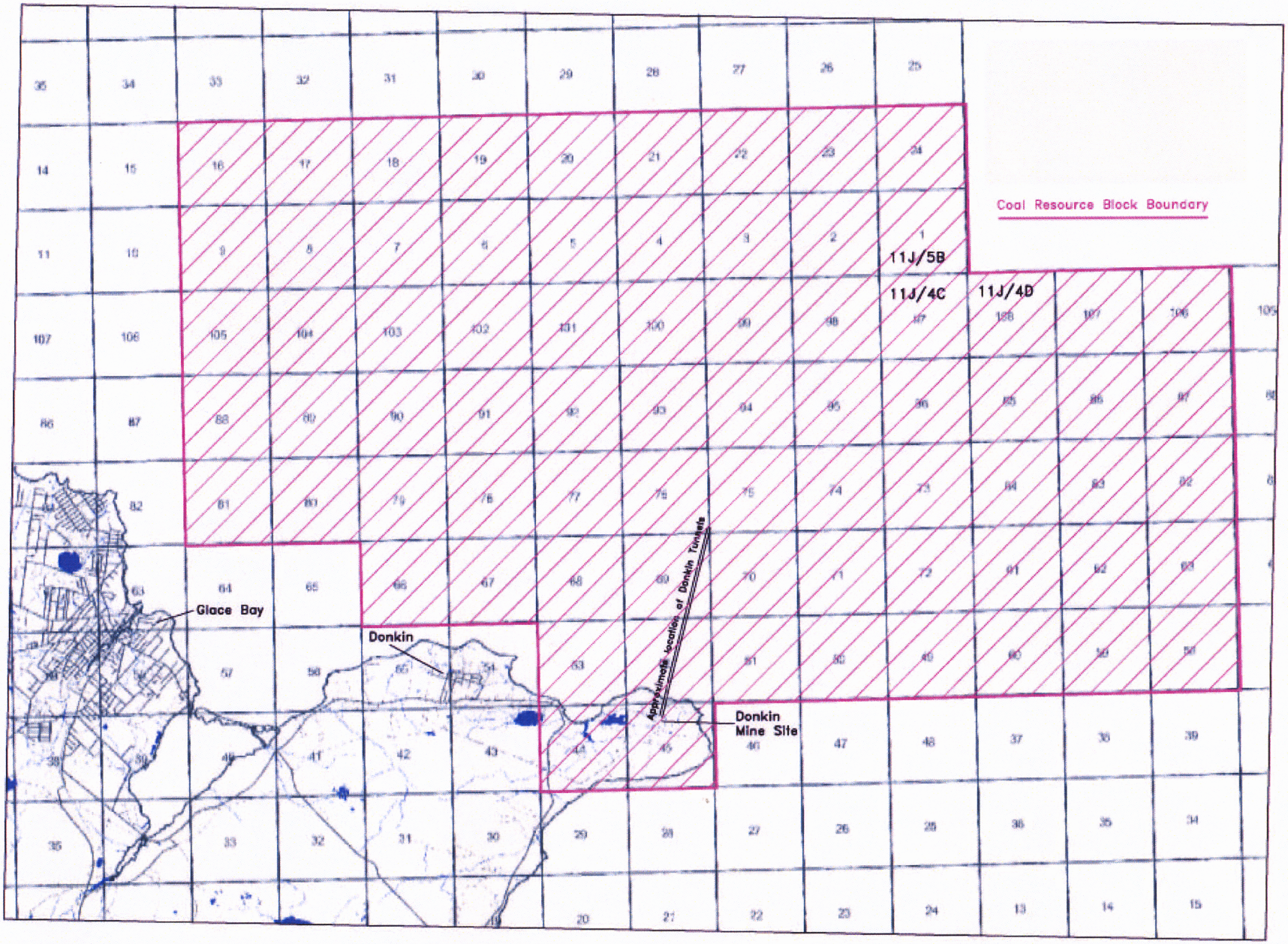
2.0 INTRODUCTION

DNR is accepting proposals from interested Proponents for the exploration/development of the Donkin Coal Resource Block within the Sydney Coalfield. The successful Proponent will be provided the exclusive right to apply for mineral tenure for the coal resource area provided in the Call for Proposals. In response to this Call for Proposals, proponents may recommend revisions to the resource block area outlined below.

The Donkin Coal Resource Block area being made available is described below and shown in Figure 2-1.

Area	Map	Tract	Claims
Donkin Coal Resource	11-J-04-C	44, 45	All
		49, 50, 51, 52, 53	All
		66, 67, 68, 69, 70, 71, 72	All
		73, 74, 75, 76, 77, 78, 79, 80, 81	All
		88, 89, 90, 91, 92, 93, 94, 95, 96	All
		97, 98, 99, 100, 101, 102, 103, 104, 105	All
	11-J-04-D	58, 59, 60, 61, 62, 63	All
		82, 83, 84, 85, 86, 87	All
		106, 107, 108	All
	11-J-05-B	1, 2, 3, 4, 5, 6, 7, 8, 9	All
		16, 17, 18, 19, 20, 21, 22, 23, 24	All

The area described above contains historical mine workings, notably on the west side of the resource block. Historical mine plans are available from the Department of Natural Resources and the Cape Breton Development Corporation. Proponents are responsible to give appropriate consideration to all historical mine workings when calculating coal reserves and developing safe mining concepts.



Prepared by
PINCOCK, ALLEN & HOLT
274 Union Boulevard, Suite 200
Lakewood, Colorado 80228
Phone (303) 986-6950

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NOVASCOTIA DEPARTMENT OF NATURAL RESOURCES

Project Name
Donkin Coal Resource

FIGURE 2-1
LOCATION OF THE DONKIN COAL RESOURCE BLOCK AREA

Date of Issue
Nov/2004

Drawing Name
Fig2-1.dwg

2.1 *Background*

The Sydney Coalfield contains the largest coal resource in Eastern Canada. Twelve (12) major coal seams occur in the coalfield. Their average thickness varies from 0.9 meters to 2.1 meters, with local areas showing thickness up to 3.0 meters. In the past, eleven (11) coal seams have been documented as having been mined at one time or another.

With the cessation of coal mining activities by the Cape Breton Development Corporation (CBDC), the mineral rights to areas previously held by CBDC were surrendered (Special Lease No. 90-2, July 2003). Therefore, DNR has developed an open Call for Proposals process to allow interested parties to make submissions for the orderly exploration/development of the Donkin Coal Resource Block. The resource block lies adjacent to the eastern boundary of prior underground mining operations. Historically, extensive underground mining has been conducted west of the Donkin Block. Donkin now represents the most eastern extension of the coalfield that is accessible from the north coast of Cape Breton and is the last primary block of un-mined coal that can be mined from the coast.

During the late 1970s and 1980s, CBDC evaluated the mining potential of the Donkin Coal Resource Block. Extensive work efforts and funds were expended to conduct exploration programs, define the coal resource, access the coal deposit, and evaluate potential mining operations. This work included the expenditure of approximately C$ 100 million to develop two access tunnels down to the coal seams beneath the sea floor. The level of information currently available from exploration programs, various analytical studies, and prior mine development operations provides valuable insight that can limit the risk of evaluating the coal deposit.

Exploitation of the Donkin Coal Resource Block will require undersea mining operations. This type of exploitation has a long history of success in the Cape Breton area. The exploration methodology and risk assessment techniques of developing a coal deposit for undersea mining operations are unique and require full technical analysis and understanding by Proponents submitting proposals. The risks of exploring, re-accessing the tunnels, and developing an economic undersea coal mining operation should be thoroughly understood by Proponents.

The coal resource offering excludes surface land area, where the current access tunnel portals exist, that will be required for mine development and operation.

Proposals made in response to this Call for Proposals will be assessed based on the technical, economic, and Proponent capability to provide exploration, project development, financial strength, experience, and resources to bring the Donkin property to fruition. An exploration/development concept is requested for DNR evaluation as a measure of assessing proposals. In addition, consideration of the economic development benefits to Nova Scotia and the development opportunities generated for the local community that result from development of the Donkin coal resources will be taken into account. The perceived risk of the proposal concept to achieve stated

development goals will be considered. The factors considered will include, but will not be limited to, the criteria outlined in Section 3.2 Proposal Content and Format.

Proposals that include a Nova Scotia value-added industry using Donkin coal must demonstrate conclusively that this value-added industry is economically viable and self-sustaining, based on a Donkin equivalent coal at world price, inclusive of delivery costs. Proposals that include a Nova Scotia value-added industry based on Donkin coal must demonstrate that the value-added industry can sustain economic viability under the following circumstances:

- the Donkin Mine is not successfully developed;
- development of the Donkin Mine is delayed by unfavorable circumstances; and/or
- after development, there are extended interruptions in supply of coal from the Donkin Mine.

Proposals that include a Nova Scotia value-added industry that are based on Donkin coal valued below world price, will not be assigned any score for the value-added industry component of this Call for Proposals.

2.1.1 Sydney Coalfield

The Sydney Coalfield underlies the north coast and adjacent off shore areas of Cape Breton Island. Total coal production from Nova Scotia between the years of 1863 and 2000 totaled 455.2 million tonnes, of which 329 million was produced from the Sydney Coalfield. Sydney coal is classified as high volatile A bituminous, according to the American Society for Testing and Materials (ASTM) coal classification system. Studies have shown that the coal rank increases from west to east and with depth of cover over the coal.

Principal underground mining operations in the Sydney coalfield ceased with the closure of the last operating mine in the fall of 2001. Most of the mining was conducted by room and pillar and longwall methods. Due to the difficulties of exploration below the seabed, historical mine development was based upon inference from current mining areas and very limited drilling. Drilling by drill ship is difficult, expensive, and sterilizes a significant block of coal within the coal seam so that it is un-mineable in the future. The risk profiles for these coal properties and the assessment methods do, therefore, differ from land-based coal resources.

The most recent underground mines were all owned by CBDC, a Federal Crown Corporation formed by an Act of Parliament in 1967. The information generated by CBDC when they analyzed Donkin has been subsequently provided to DNR. Since the mines were closed, extensive closure and reclamation activities have taken place. However, many assets, inclusive of modern administration buildings and mining equipment are yet available for procurement by potential mine developers of the Donkin resource. Information on the available assets can be found at: http://www.devco.ca/. Closure, dismantlement, reclamation, and environmental mitigation continue on the CBDC assets but these properties and assets may be of interest to Proponents.

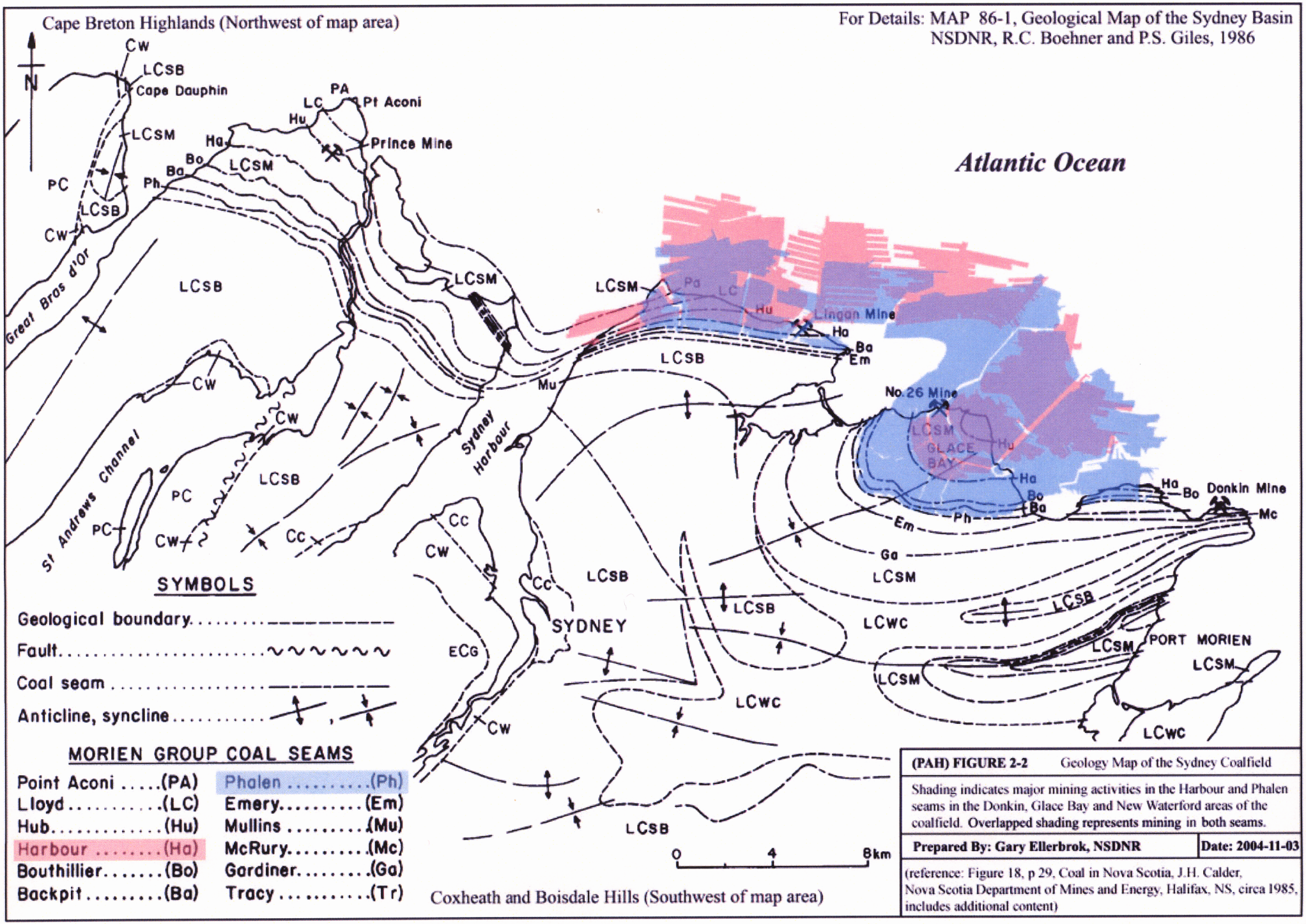
The Sydney Coalfield (Figure 2-2) contains the largest coal resource in eastern Canada. The approximately 2,000-meter-thick coal-bearing Morien Group underlies a roughly triangular area with an apex south of Sydney and a base off the south coast of Newfoundland. More than 98 percent of the coalfield is submarine; however, 12 of the known major coal seams (Figure 2-2) outcrop on land. Their geological settings are reasonably well known through surface exposure and underground workings. The only direct information available on their offshore geology comes from deep coal mines and the 20 wells drilled for petroleum and coal, and this data is largely limited to the area within 10 km of the Cape Breton coast. Geophysical techniques, primarily seismic surveying, have been used to define the geological structure of the greater part of the submarine basin. Figure 2-3 provides a legend for the geologic units shown in Figure 2-2.

The depositional environment is largely fluvial. The river systems had their headwaters in a mountainous upland whose present-day eroded remnants are represented by the crystalline rocks of the Forchu/East Bay structural blocks and the Cape Breton Highlands. Great volumes of coarse sandy sediments accumulated in a braided river environment, leaving 900 m or more of sediments in the eastern part of the basin where deposition was initiated and subsidence was greatest. The braid-plain migrated steadily westward. As the stream gradients decreased, the rivers, now flowing over an extensive, possibly coastal flood-plain, took on the character of meandering streams with fewer major channels. These river channels were separated by broad marshy flats, which became the focus for deposition of muds (overbank deposits) when the rivers flooded.

Early clastic deposition and a later initiation of major peat deposition occurred in the southeastern part of the basin. Significant peat accumulation began with the formation of the Tracy seam, the lowest mineable seam in the section. The progressive westward onlap of younger seams reflects the overall development of the Morien Group. The later seams (Harbour, Hub, and Point Aconi) are well developed over most of the basin. Throughout Morien time the center of deposition remained in the easterly Donkin area where the seams attained their greatest thickness. The seams invariably deteriorated near the western basin margin where they split due to an influx of sediments from the highlands.

The major structural features of the Sydney coalfield are the bounding faults (the Mountain fault on the west and the Mira River/Bateston fault on the southeast) and the large-scale folds, which define a broad structure known as the Sydney synclinorium. These northeast-trending folds closely reflect the underlying basement structure and probably represent draping and differential compaction of the sediments over the uplifted basement blocks (e.g., Coxheath Hills and Boisdale Hills).

The coal seams dip gently, approximately 5 to 10 degrees, toward the deeper offshore basin center except where affected by the northeast-trending open flexures. Even on the flanks of these folds, dips rarely exceed 15 degrees. The fact that seams tend to be somewhat thicker in the synclines than over the anticlines suggests that these structures are at least in part contemporaneous with deposition of coal.



(PAH) FIGURE 2-2 Geology Map of the Sydney Coalfield

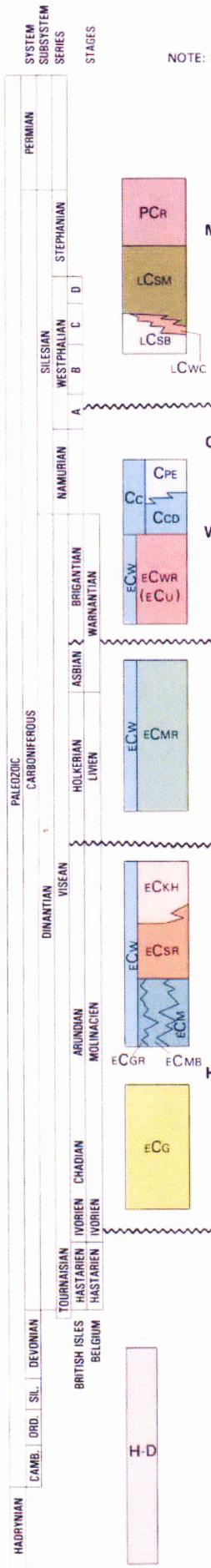
Shading indicates major mining activities in the Harbour and Phalen seams in the Donkin, Glace Bay and New Waterford areas of the coalfield. Overlapped shading represents mining in both seams.

Prepared By: Gary Ellerbrok, NSDNR | **Date: 2004-11-03**

(reference: Figure 18, p 29, Coal in Nova Scotia, J.H. Calder, Nova Scotia Department of Mines and Energy, Halifax, NS, circa 1985, includes additional content)

LEGEND

NOTE: Specific age ranges for Carboniferous lithostratigraphic units are not precisely defined.



Undivided *PERMO-CARBONIFEROUS* (PCR): Redbeds: red sandstone, siltstone and shale (present in the offshore only).

MORIEN GROUP

SYDNEY MINES FORMATION (LCSM): grey mudstone, shale, siltstone and sandstone with minor red mudstone, siltstone, diagenetic carbonate, algal limestone and major economic coal seams.

WADDENS COVE FORMATION (LCWC): red and grey siltstone, mudstone, sandstone, calcrete, (silicrete) and minor coal.

SOUTH BAR FORMATION (LCSB): grey sandstone, pebbly sandstone with minor conglomerate and mudstone and rare coal.

Regional unconformity

CANSO GROUP (CC: undivided)

POINT EDWARD FORMATION (CPE): red and minor grey-green variably calcareous siltstone and sandstone, minor limestone.

CAPE DAUPHIN FORMATION (CCD): grey shale and siltstone with red shale and minor limestone, rare gypsum and anhydrite.

WINDSOR GROUP (ECW): undivided Windsor Group

WOODBINE ROAD FORMATION (ECWR): red siltstone, sandstone and conglomerate with intercalated marine limestone and dolostone and minor gypsum and anhydrite; rhythmic alternation of these rock units is characteristic.

UIST FORMATION (ECU): similar to the marginal onlap facies of the Woodbine Road Formation, name from the Loch Lomond Basin and applied only in the map area south of Mira Bay.

disconformity

MEADOWS ROAD FORMATION (ECMR): red siltstone, sandstone and conglomerate with gypsum and anhydrite and thin intercalated marine carbonate beds; rhythmic alternation of these rock units is typical.

disconformity

KEMPTHEAD FORMATION (ECKH): halite, grey and white with thin interbeds of anhydrite and grey-green siltstone, minor carnallite and sylvite; known only in the subsurface.

SYDNEY RIVER FORMATION (ECSR): anhydrite and gypsum, red conglomerate and sandstone, grey siltstone and shale with minor halite, limestone and dolomitic limestone in variable proportion as interbeds.

GAYS RIVER FORMATION (ECGR): limestone, minor dolostone, thinly bedded, argillaceous, in part peloidal, locally thickly bedded and highly fossiliferous in mound shaped deposits resting upon pre-Carboniferous rocks.

MacBETH BROOK FORMATION (ECMB): limestone in part dolomitic, laminated and/or banded, stromatolitic, sparsely fossiliferous, locally calcareous shale.

MACUMBER FORMATION (ECM): limestone in part dolomitic, laminated, peloidal sparsely fossiliferous. Known only at the southwestern end of Boisdale Hills but inferred to be present in some of the deeper parts of the Sydney Basin including St. Andrews Channel.

HORTON GROUP

GRANTMIRE FORMATION (ECG): red conglomerate, sandstone and shale with minor pedogenic limestone.

Regional angular unconformity-nonconformity.

Undivided HADRYNIAN TO DEVONIAN ROCKS: (H-D) volcanic rocks, granitoid rocks, shale, slate, sandstone, conglomerate variably deformed and metamorphosed; may include rocks previously assigned to the Fourchu, George River, Bourinot and Kelvin Glen Groups. These rocks were not mapped other than in the vicinity of the limits of the Carboniferous Sydney Basin rocks.

(PAH) FIGURE 2-3
GEOLOGIC LEGEND

2.2 *The Donkin Coal Resource*

The Donkin Coal Resource Block occupies the eastern boundary of the existing mines off the coast of Cape Breton Island. It can be seen that Donkin represents the eastern extension of submarine mining and the last large defined Sydney coal resource block available for potential mining operations. The block comprises an area of roughly 100 square kilometers.

Activity at the Donkin Coal Resource Block has been dormant since two access tunnels were driven down to the Harbour seam in the mid-eighties and then allowed to fill with water in the early nineties. The mineral boundaries of the property are established for the Donkin Resource Block so that sufficient area is available for exploration/development activities where economical mining might be expected (see Figure 2-1).

The Cape Breton location of the Donkin resource has much to offer in terms of resource and support of potential mining operations. These offerings include:

- A coal block with significant size, potential, and access to domestic and international markets;
- A coal block in an established and proven mining district with proven extraction methods and long histories of production and safety;
- A coal block with two developed access tunnels and surface access definition;
- A local workforce with extensive underground coal mining experience;
- A local community that is accustomed to underground coal mining in the area and would welcome the return of coal mining jobs to the local economy;
- Local towns and communities with established services for future labor and materials and supply support requirements for the mine;
- A ready mine services capability that can re-establish capacity in the region;
- Two local coal-fired power stations capable of consuming Donkin coal, if sulfurous oxide emission standards can be achieved;
- A nearby rail connection that can provide access to another two coal-fired power plants located in Nova Scotia;
- Two nearby deepwater port facilities in the Sydney Harbour that are equipped to provide coal into the international coal market; and

- A potential transportation right-of-way along an old rail bed linking the portals with rail and shipping infrastructure.

The Donkin resource area is shown in Figure 2-4. This map shows the Donkin surface area, coal ports, local towns and villages, roads, proposed right-of-way, and rail.

The Donkin Coal Resource Block has a very valuable asset in the two exploration tunnels that were driven to access the coal seams. These tunnels are side-by-side and generally measure 7.6 meters in diameter. Each is about 3.5 kilometers in length. They were mined sequentially and completed in 1984 and 1987. The first kilometer of the first tunnel was driven by conventional blasting and mining methods and is, therefore, about 5 meters high. The tunnels accessed the Harbour seam where a crosscut was driven into the coal seam to allow channel samples and bulk samples to be taken. Due to a poor coal market and high annual maintenance costs, they were allowed to flood in 1992. Before the tunnels were allowed to flood, engineering studies were performed to assess the impact of flooding on the integrity of the tunnels for possible future use. Both the tunnel portals were sealed and the surface site reclaimed (See Figure 2-5). The tunnels were sealed with bulkheads, backfilled to the surface, and then allowed to flood.

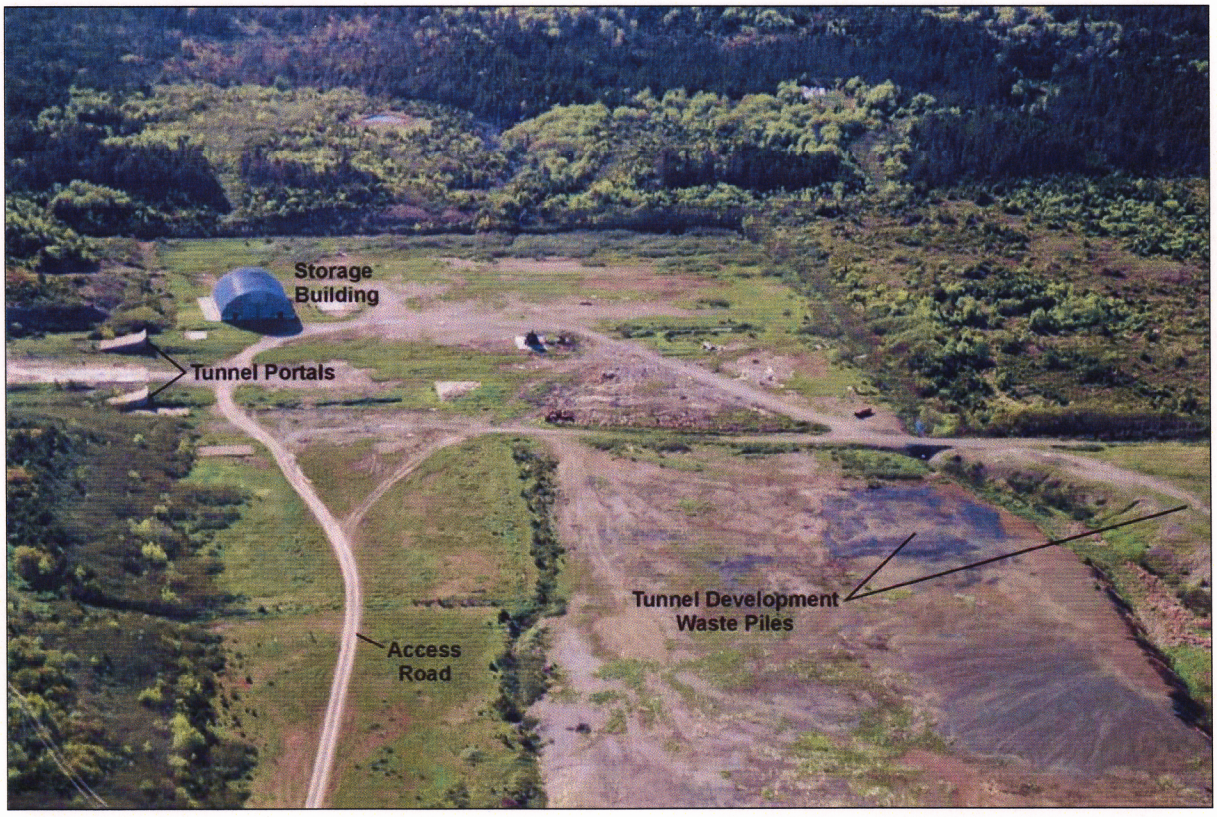
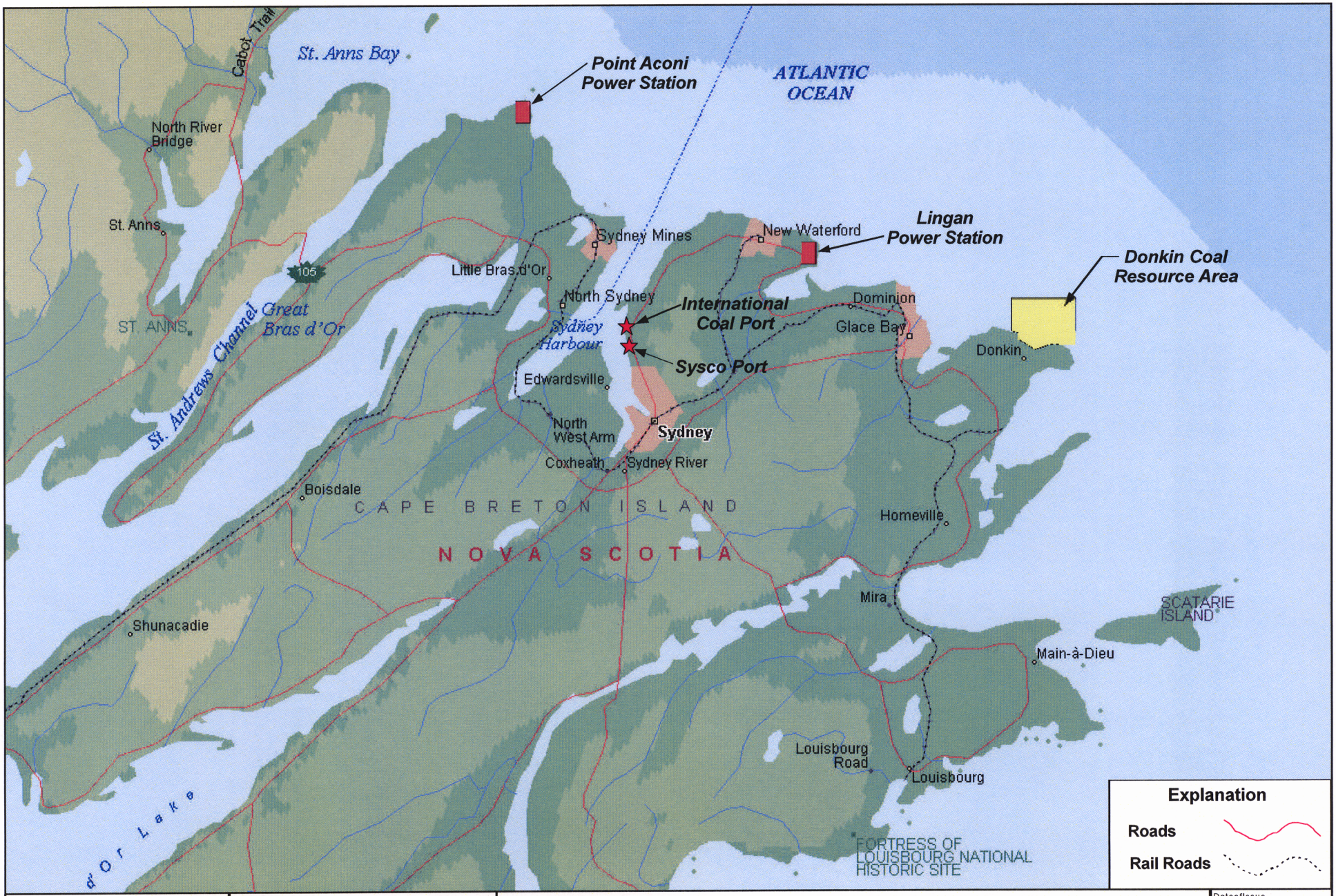


FIGURE 2-5
Donkin portals, buildings, and tunnel waste piles.



Prepared by
PINCOCK, ALLEN & HOLT
274 Union Boulevard, Suite 200
Lakewood, Colorado 80228
Phone (303) 986-6950

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NOVA SCOTIA DEPARTMENT OF NATURAL RESOURCES

Project Name
Donkin Coal Resource

FIGURE 2-4
LOCAL AREA MAP

Date of Issue
Oct/2004

Drawing Name
Fig2-4.cdr

Exploration of Donkin began in earnest during 1977 with the drilling of coal seams from a drill ship. This work continued into 1978 and 1979, with a total of 11 holes drilled during the three-year period. The coal seams encountered in the Donkin Coal Resource Block area are shown in Figure 2-6. The coal seams of primary interest are the Harbour, Hub, Lloyd Cove, and the Point Aconi. The Harbour seam, because of its consistency across the resource block, has typically been the primary point of focus for the resource.

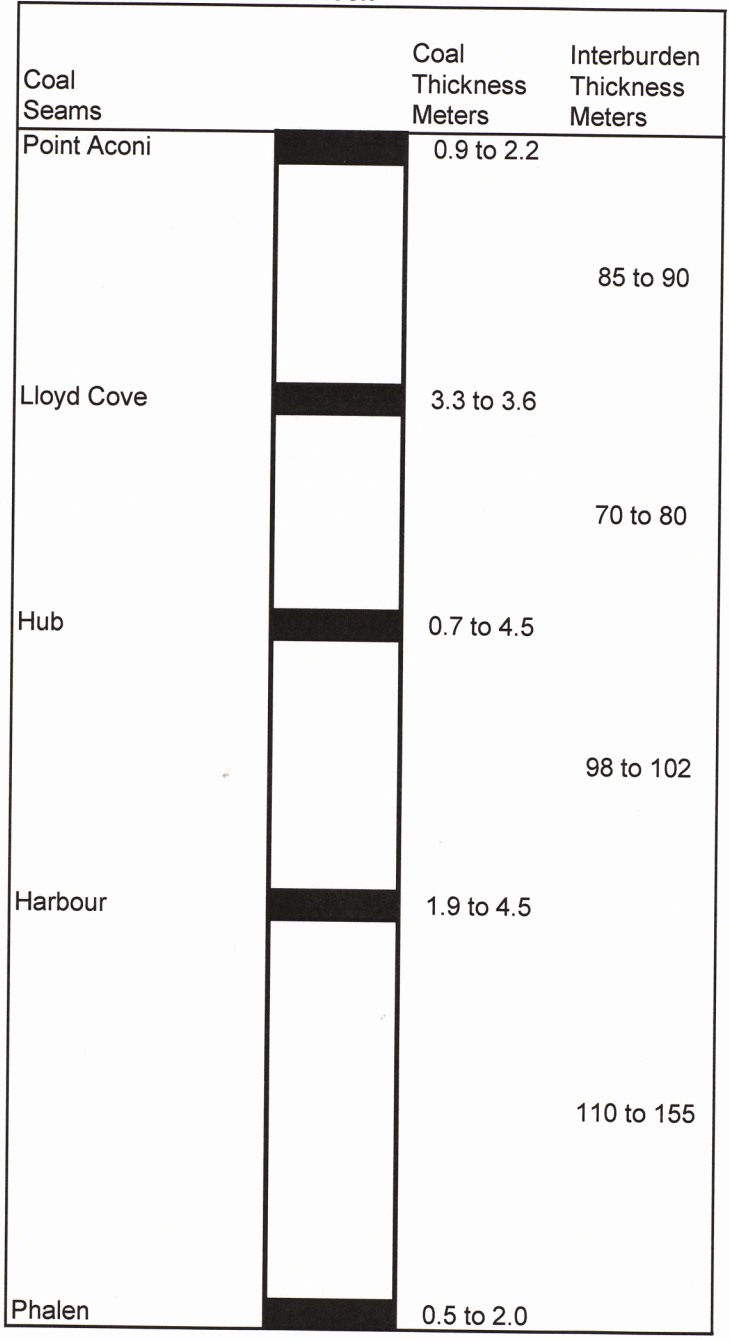
In addition, numerous geological and geotechnical studies were conducted and include:

- Marine Bottom and Sub-bottom Geophysical Surveys;
- Offshore Seismic Surveys
- Sparker Surveys
- Resource Estimation Studies
- Coal Quality Estimation
- Geologic Model Development (Electronic Version)

Beyond the coal resource characterization, many engineering studies were conducted. These include:

- Geotechnical Studies
- Hydrologic Studies
- Transportation Studies
- Feasibility Studies
- Environmental Studies
- Ventilation Studies
- Mining Studies
- Beneficiation Studies
- Coal Combustion Studies
- Coalbed Methane Resources Studies

FIGURE 2-6
Nova Scotia Department of Natural Resources
Donkin Coal Proposal
Typical Geologic Profile
Donkin Coal Resource Block



The coal resource has been estimated using CANMET[1] coal resource estimation guidelines as models. The estimated volumes of coal were calculated using the radii of influence shown in Table 2-1[2].

TABLE 2-1
Pincock, Allen & Holt
Donkin Coal Proposal
Coal Resource Estimation Assumptions

	Radii of Influence – Meters	
Resource Level of Confidence	Harbour and Phalen Coal Seams	Other Coal Seams
Measured	800	400
Indicated	2400	800
Inferred	2400 (to a 1200 m Depth)	2400

The coal seam data source included data generated from drill holes and old mine workings. The results obtained from channel samples taken from the crosscut off of the tunnels have not been included in this data set. The estimated coal resources are shown in Table 2-2. The resources were estimated for the coal seams appearing to be of interest for mining; however, the coal quality was summarized for the primary three seams with the highest potential for mining operations. The total coal resource was estimated to be 1.9 billion tonnes for all five seams and 1.4 billion tonnes for the primary three coal seams. The area of interest is shown in Figures 2-1and 2-7.

The coal quality estimates for each of the three primary coal seams are provided by showing the average calculated values for thickness, and contents of ash and sulfur. This information is supplemented by showing the 95 percent confidence interval range for each of these parameters. It can be seen that these ranges are rather wide. As mentioned earlier, the drilling program from a ship was difficult and the end result was poor core recoveries. Sidewall cores were used to obtain additional information about the quality of the coal.

It is absolutely necessary that the Proponents review the quality of information obtained during exploration of the Donkin Coal Resource Block. Current questions exist as to the reliability of the resource estimate and the quality of coal projected for the coal in the Donkin block because of the poor recovery of core samples. DNR takes no responsibility for the resource estimates and quality of coal projected by CBDC and/or others and encourages proponents to fully examine the available information and develop independent opinions as to the meaning of the data, the methodologies employed to obtain the data, and the conclusions that have been reached by others.

---

[1] Coal Resources and Reserves of Canada, Department of Energy, Mines and Resources, H.U. Bielenstein, et al, Canada Centre for Mineral and Energy Technology (CANMET), December 1979.
[2] Donkin-Morien Development Project Volume II - Geology - Appendix G, Page G-1 through G-6, AMCL, 1981.

TABLE 2-2
Nova Scotia Department of Natural Resources
Donkin Coal Proposal
Estimated Coal Resources (a)
Donkin Coal Resource Block

Coal Seam	Resource Classification	Area Square Kilometers	Coal Million Tonnes	Resource Classification Percent	Average (b) Thickness Meters	Ash Percent	Sulfur Percent	95% Confidence Interval Thickness Meters	Ash Percent	Sulfur Percent
Point Aconi (c)	Measured	3	7	5%						
	Indicated	9	20	14%						
	Inferred	56	114	81%						
	Total	68	141	100%						
Lloyd Cove	Measured	3	14	4%						
	Indicated	9	42	12%						
	Inferred	61	289	84%						
	Total	73	346	100%	3.39	13.10	4.39	3.03 - 3 75	2.1 - 23.7	1.34 - 7.36
Hub	Measured	6	30	6%						
	Indicated	16	86	18%						
	Inferred	63	355	75%						
	Total	84	471	100%	3.05	14.00	5.40	0.54 - 5.56	7.3 - 20.9	3.23 - 7.45
Harbour	Measured	37	124	20%						
	Indicated	75	301	49%						
	Inferred	48	188	31%						
	Total	160	613	100%	2.92	12.40	4.38	1.05 - 4.79	4.8 - 20.4	1.27 - 7.97
Phalen (d)	Measured	29	79	23%						
	Indicated	83	179	52%						
	Inferred	41	89	26%						
	Total	153	348	100%						
Total	Measured	77	255	13%						
	Indicated	191	629	33%						
	Inferred	269	1,034	54%						
	Total	537	1,918	100%						
Total Excluding the Point Aconi and Phalen Seams										
	Measured	45	168	12%						
	Indicated	100	429	30%						
	Inferred	172	832	58%						
	Total	317	1,429	100%	3.08	13.10	4.72			

(a) As reported by Associated Mine Consultants Ltd. in their 1981 Donkin-Morien Development Project Feasibility Study Using Canadian Standards.
(b) Reported Averages are based on poor conventional core recovery and augmented by sidewall core methodology and interpretive assumptions.
(c) The Point Aconi coal seam quality averages were not summarized due to coal seam thickness and high stratigraphic position and subcrop location.
(d) The Phalen coal seam quality data were not summarized due to its variable nature and inferior quality.

FIGURE 2-7

Photograph of Donkin Site looking northwest showing portal area, building, access roads, power lines, tunnel waste piles, and wetlands area northwest of the waste piles.

The potential coal market includes a domestic market that is currently importing coal. In addition, Donkin coal may have international market potential due to its proximity to international shipping ports. The market potential includes:

- The domestic primary steam coal market includes 1245 MW of power plant capacity from coal-fired stations that require about 3 million tonnes per year. The stations and an approximate straight line distance from Donkin to the facilities are provided below:
  - Lingan Power Station – 600 MW - 20 km
  - Point Aconi – 185 MW - 40 km
  - Point Tupper – 150 MW - 135 km
  - Trenton – 310 MW - 215 km

For more information about these plants, see:

http://www.nspower.ca/AboutUs/OurBusiness/PowerProduction/OurPlants.html

- The international coal market can be accessed through two ports that are near the Donkin Property. The ports are located side by side on the east bank of Sydney Harbour. The ports and an approximate straight line distance from Donkin to the facilities are provided below:

  - International Coal Port (Logistec) – 30 km

  - Sysco Wharf – (Provincial Energy Ventures) – 30 km

For more information see:
http://www.logistec.com/en/location_detail.php?IdMenu=3&SBout=2&IdLocation=42&IdRegion=3

and

http://www.provincialenergy.com/

for the International and Sysco ports, respectively.

Mine development projects in Nova Scotia require review and permitting by the Province of Nova Scotia and may also require review and permitting by federal government agencies. A summary of regulatory reviews and permitting requirements for mine projects is explained in the document "A User's Guide to the 'One Window' Process for Mine Development Approvals". A digital copy is available at:

http://www.gov.ns.ca/natr/meb/ic/ic56.htm

There are local environmental issues that must be considered in the development of a mine. These include, but are not limited to:

- The wetlands area just west of the portals on the north coast (see Figure 2-7);

- Greenhouse gas emissions from coal mining and their implications for Nova Scotia's and Canada's commitment to the Kyoto Protocol;

- Noise and dust generation;

- Increased local traffic;

- Potential surface and groundwater impacts;

- A coastal bird sanctuary along the coast surrounding the property (See Figure 2-7);
- A local windy environment; and
- Infrastructure impacts resulting from mine development.

Proponents are required to detail their approach to address greenhouse gasses and other environmental issues.

3.0 CALL FOR PROPOSALS

Purpose: The Nova Scotia Department of Natural Resources (DNR) Call For Proposals for the exploration/development of the Donkin Coal Resource Block, Cape Breton, Nova Scotia has been prepared with the following goals:

- Provide economic and social benefits to the community and the Province through efficient use of the Province's mineral resources;
- Ensure that the opportunity to develop the Donkin resource is exercised by a company with the financial, technical and managerial capabilities to independently finance and develop the mine;
- Provide for the private sector development of the Donkin coal resource in a safe and environmentally sustainable manner;
- Ensure that all costs for project evaluation, proposal development and all future project development and operating costs are financed through private sources of funds (debt, equity, etc.). The governments of Nova Scotia and Canada have stated publicly there will be no government financing to assist or support the exploration, development or operation of the Donkin coal resource.

Proposals must include a description of the economic and social benefits the proposed project will provide.

The process of calling for proposals for the mineral rights of this coal resource is outlined as follows.

3.1 *Purpose*

The purpose of the Call for Proposals is to seek qualified Proponents interested in evaluating the exploration/development potential of the Donkin Coal Resource Block. Interested parties are being provided an opportunity to assess the resource block information and submit a proposal that provides the best overall exploration/development plan for the resource block.

The coal resource area included in this Call for Proposal is defined by prior mining activities within coal seams to the west of the Donkin Block, drill holes, geophysical and geological evaluations, and by two tunnels that access the coal seam. Constraints on future development may include, but are not limited to, existing land uses, potential environmental sensitivities, previous mining activity, etc. Proponents submitting proposals are required to investigate and report how these constraints will affect the overall project development opportunity. The Proponent's understanding of and approach to deal with these issues will be taken into consideration as proposals are evaluated.

The Mineral Resources Act and Mineral Resources Regulations govern mineral exploration and development in the Province of Nova Scotia. All minerals, including coal, are reserved to the Crown and the Crown owns all minerals in or upon land in the province and the right to explore, work, and remove those minerals. Mineral title for coal has been withdrawn from "normal" application under the Act and can only be issued as a Special Exploration License and Special Mining Lease approved by the Governor in Council. The successful proponent to this Call for Proposals will be entitled to make application under the Mineral Resources Act for a Special Exploration License or Special Mining Lease, as deemed most appropriate by the proponent based on their interpretation of the geological information available through this Call for Proposals or from other sources. Proponents are encouraged to review and understand the obligations and requirements of this legislation prior to preparing a response to this Call for Proposals. Digital copies of the legislation and regulations are available at:

Nova Scotia Mineral Resources Act: http://www.gov.ns.ca/legislature/legc/

Nova Scotia Mineral Resources Regulations: http://www.gov.ns.ca/just/regulations/regs/mrregs.htm

3.2 *Proposal Content and Format*

Proposals must be accompanied by a bid deposit in the amount of C$150,000. The bid deposit must be in the form of a certified cheque or money order payable to the Minister of Natural Resources. Deposits will be promptly returned to unsuccessful Proponents.

The successful Proponent must prepare, submit, and ensure DNR receives a "Special License" or "Special Lease" application within two-hundred-and-seventy (270) days of the date of the Department's formal acceptance of the Proponent's proposal. The bid deposit will be forfeited to the Department of Natural Resources if an application is not received by DNR within two-hundred-and-seventy (270) days, if the requirements of legislation are not met in the submitted application, or if the submitted application is not acceptable to DNR for recommendation to the Executive Council. Bid deposits will be returned to the successful Proponent after decision by the Executive Council.

Each response to this Call for Proposals must contain sufficient detail to demonstrate that the Proponent has the technical and financial resources to undertake and complete the proposed exploration/development program. This information should include, as a minimum, the following:

- Proponent Company Information
- Company Financial Summary
- Underground Mine Exploration, Development, and Operating Experience Summary
- Senior Management Summary
- Technical Team Summary
- Marketing Capability Summary
- Proposed Exploration Concept and Source of Exploration/Development Funds

- Summary of the Perceived Risk of the Project and the Approach to Manage These Risks
- Estimate of Economic and Social Benefits of the Project to the Local Community, Municipality and Province
- Statement of Environmental Impacts, Procedures and Strategies to Minimize or Mitigate these Impacts

The content of the proposal details for each item are provided in Appendix A *"Proposal Submission Information and Forms"* along with forms that are required to be completed.

3.3 *Submission of Proposals*

Proposals must be submitted in sealed envelopes that are clearly identified on the exterior with the following text: *"Proposal for Exploration/Development of the Donkin Coal Resource Block, Cape Breton County, Nova Scotia."* Proposals must be received by the Registrar of Mineral and Petroleum Titles at the following address prior to 16:00 AST on March 11, 2005.

Registrar of Mineral and Petroleum Titles
Nova Scotia Department of Natural Resources
3rd Floor, Founders Square
1701 Hollis Street
P.O. Box 698
Halifax, Nova Scotia B3J 2T9

An Original and five (5) Copies of each Proposal are required.

Proposals received after the closing date and time will not be considered.

Proposals sent by facsimile or other electronic means will not be accepted.

3.4 *Proposal Information Package*

3.4.1 Qualified Bidder

DNR seeks exploration/development of the Donkin Coal Resource and therefore offers this Call for Proposals to entities with the required financial, technical and management capabilities. Bidders should demonstrate their proven capability for coal exploration and underground mine development along with their capacity to develop the Donkin Coal Resource Block. As an option, DNR may allow qualification of a proponent (in the absence of being able to demonstrate recent underground coal mine exploration and development activity) if reasonable evidence that an entity has the financial, management, and technical capacity to conduct underground coal mine exploration and development activities. Regardless, the proponent's demonstrated experience in offshore (sub-sea) underground coal mine exploration and development activity will be considered as a favorable asset.

Access to the DNR database for the Donkin property will be provided to Proponents who can demonstrate to the satisfaction of DNR the basic capabilities and experience to explore/develop an underground coal resource. DNR requires the following basic bidder qualification information be provided to DNR by Proponents:

- Name of the company;
- Summary of company activities;
- Number of underground coal properties explored during the past 10 years or provide evidence of a demonstrated capacity to explore underground coal properties;
- Number of underground mines developed during the past 10 years or provide evidence of a demonstrated capacity develop underground mines;
- Number of underground mines operated during the past 5 years or provide evidence of a demonstrated capacity to operate underground mines;
- Proponent contact name, address, telephone, and email;

Proponents should email their bidder qualifications to the contact provided in Section 3.4.2. A fee of C$1,000 is required after DNR review and acceptance of the Proponent as a qualified bidder. Upon acceptance of the Proponent by DNR as an acceptable Proponent and payment of the fee, DNR will provide the Proponent with access to the website and/or data room at DNR.

3.4.2 Proposal Information Resource

The coal resource information provided by CBDC and others to DNR is available to Proponents through a DNR secure website and in a data room at DNR's Halifax, Nova Scotia offices. The information dissemination website is located at: http://www.gov.ns.ca/natr/meb/donkin. Contact information concerning website access requirements and scheduling of visits to the data room is provided below. The purpose of the website information base is to provide Proponents with much of the pertinent information and data regarding the coal resource and the tunnels which provide access to the coal resource.

Contact information for bidder qualification and website and data room access scheduling is:

Name:	Mr. Gary Ellerbrok
Address:	4th Floor, Founders Square 1701 Hollis Street P.O. Box 698 Halifax, Nova Scotia B3J 2T9

Telephone Number:	902-424-3227
Fax Number:	902-424-2584
Email address:	ellerbgw@gov.ns.ca

The data room has been established at the address shown above.

3.5 *Proposal Evaluation*

A Review Panel will be assigned to make recommendations on the relative merits of the proposals that meet the minimum information requirements and indicate a Proponent's capability to successfully proceed with the exploration/development of the coal resources. All proposals will be evaluated on the criteria as set out in *Section 3.2 Proposal Content and Format* of this Call for Proposals. Appendix B – Donkin Coal Resource Block Call for Proposals Evaluation Guide for The Review Panel" sets out the criteria and the relative weighting for each criteria.

The Review Panel may comprise senior staff from various Departments of the provincial government including but not limited to Natural Resources, Energy, Environment & Labour, and Economic Development as well as the expert consultant (Pincock, Allen & Holt), who has been contracted by DNR to assist in this Call for Proposals process.

DNR reserves the right to reject any or all proposals or to carry out negotiations with any one or more Proponents on any aspect of any proposal as the Department considers appropriate.

3.5.1 Announcement of Results of the Call

The results of this Call for Proposals will be announced within 90 days of the closing date for bid submissions. DNR reserves the right to extend the announcement date.

3.5.2 Requirements of Successful Proponent

The successful Proponent must meet the requirements of the *Mineral Resources Act* when applying for a "Special License" or for a "Special Lease." Proponents must make an application for a "Special License" or "Special Lease" as explained in Section 3.2.

Issuance of a "Special License" or "Special Lease" is subject to the approval of the Governor in Council, as provided in Section 22 of the *Mineral Resources Act.* Acceptance of a proposal by the Minister of Natural Resources is not to be construed as an acknowledgement that the requirements of the *Mineral Resources Act* have been met or that a "Special License" and/or a "Special Lease" will be issued.

The successful Proponent will be responsible for obtaining all approvals or permits required to execute its proposal, including environmental approvals.

APPENDIX A:
PROPOSAL SUBMISSION INFORMATION AND FORMS

Proponent Company Information

Company Name: _____
Street Address: _____
City: _____
Province/State: _____
Country: _____
Postal Code: _____
Telephone No. _____

Proponent Contact: _____
Title: _____
Street Address: _____
City: _____
Province/State: _____
Country: _____
Postal Code: _____
Telephone No.: _____
Email Address: _____

Summary of Recent Information

Statistic	Years				
	1999	2000	2001	2002	2003
Total Coal Production (tonnes)					
Underground Coal Production (tonnes)					
Number of Underground Mines Operating					
Number of Coal Properties Explored (Approx.)					
Number of Underground Mines Developed					

Provide any descriptive information here and attach any formal company brochures as an appendix. Note the coal volumes are expressed in metric tonnes.

Company Financial Information

December 31, 2003 Statistics in Canadian currency (assume a foreign exchange rate as of the proposal submission date, if necessary).

Financial Statistic	**C$**
Total Revenue	$
Total Net Profit (after taxes, depreciation. Royalty, etc.)	$
Total Assets	$
Total Liabilities (Excluding stockholder's equity)	$

Underground Mine Development and Operating Experience

Provide the following information for the number of underground mines explored and/or developed during the last 10 years, list all projects and add extra lines if necessary:

Property/Project Name	**Year(s) Work Conducted**
Exploration Property Names	
1.	
2.	
3.	
Mine Development Project Names	
1.	
2.	
3.	

In the absence of being able to demonstrate recent underground coal mine exploration and development activity required above, reasonable evidence that an entity has the financial, management and technical capacity to conduct underground coal mine exploration and development must be provided.

Demonstrated experience by an entity in offshore (sub-sea) underground coal mine exploration and development activity will be considered as an asset. Please describe sub-sea mine operating experience.

Provide any descriptive information that you wish.

Senior Management Summary

Please provide the following information or an explanation of how you will meet these needs:

Position	**Experience (a)**	**Experience (b)**
Chief Executive Officer		
President		
Vice President, Operations		
Vice President, Marketing		
Vice President, Engineering		

Note:

(a) Years of experience in present position

(b) Years of coal industry experience

Provide any descriptive information that you wish.

Available Technical Team Summary

Please provide the following information or an explanation as to how you will meet these needs during the first year of project exploitation and indicate the experience the individuals have:

Position	Experience (a)	Experience (b)
Program Manager		
Project Manager		
Exploration Manager		
Mine Development Manager		

Note:
(a)Years of experience in present position
(b)Years of coal industry experience

Provide any descriptive information that you wish.

Marketing Capability Summary

Please provide the following information (as of December 31, of 2003):

Statistic	*Units*	*Value*
Number of employees in Marketing Staff	Quantity	
Total coal tonnes (metric) sold in 2003	Tonnes	
Tonnes coal sold on domestic market	Tonnes	
Tonnes coal sold on international market	Tonnes	

If no history exists, provide a description of how the marketing staff will be developed.

Provide any descriptive information here and attach any formal company brochures as an appendix.

Proposed Exploration Concept and Source of Exploration/Development Funds

Provide a description of your plan to explore the property. Provide the following information separately for both the exploration and the development programs:

- Exploration Program
  - Work program description;
  - Tentative work schedule with timing of events;

- Primary work program activities;
- Work plan objectives; and
- A conceptual estimate of the costs for each program.

■ Mine Development Program

- Work program description;
- Tentative work schedule with timing of events;
- Primary work program activities;
- Work plan objectives; and
- A conceptual estimate of the costs for each program.

For the development program, assume that any exploration data existing or required supports the development of an underground mine. For the development program provide a description of your approach to bring the mine into production.

Summarize the conceptual estimates of the costs required to both explore and develop the property and state how you propose to provide the funds necessary for both exploration and development stages. Provide definition on how the financing would be procured, the experience you have in procuring financing, and other projects that have been similarly financed by yourself and/or others. The government of Nova Scotia does not intend on providing financing for the project.

For vertically integrated proposals, please describe how the project would be financed, provide examples of past similar successes in financing, explain how independent financing would be secured, and demonstrate that the project would be viable at current world coal prices.

Summary of the Perceived Risk of the Project and the Approach to Manage These Risks and Environmental Issues

Summarize the risks associated with the project and describe your concept of how you will deal with these risks to mitigate them to the greatest extent.

Summary of the Value of the Proposal to Nova Scotia

Summarize the benefits your proposal will have for Nova Scotia in terms of:

- Benefits for the local community and the municipality;

- The province, and Canada.

Describe any proposed integrated concepts in sufficient detail to allow the evaluation team to fully understand the potential viability and value of the project wherein value-added concepts (such as a new power plant) are proposed for the Donkin coal resources.

Statement of the Environmental Impacts, Procedures and Strategies to Minimize or Mitigate these Impacts

Summarize the environmental impacts perceived and the procedures and strategies that you believe would be implemented to minimize or mitigate potential impacts. For example, summarize your approach to manage the environmental issues of the coastal bird sanctuary, wetlands, greenhouse gasses, and social issues.

APPENDIX B:
DONKIN COAL RESOURCE BLOCK CALL FOR PROPOSALS
EVALUATION GUIDE FOR THE REVIEW PANEL

Scoring Attribute	Maximum Score – Points
Proponent Entity Strength or Capacity in Coal Sector	5
Overall Entity Financial Strength	10
Underground Mine Development and Operating Experience or Capacity	5
Senior Management Experience	5
Technical Team Experience	5
Marketing Experience	5
Proposed Exploration/Development Concept and Source of Funds	35
Risk Approaches	10
Value of the Proposal to Nova Scotia	10
Strategy to Minimize Environmental Impact	5
Overall Proposal Quality	5
Total	100