

**PRELIMINARY ASSESSMENT
DONKIN COAL PROJECT
NOVA SCOTIA**

Submitted to:

**XSTRATA COAL DONKIN MANAGEMENT LIMITED
AND ERDENE GOLD INC.**

November 21, 2007

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EXECUTIVE SUMMARY

In 2007, Xstrata Coal Donkin Management Limited (XCDM) commissioned Norwest Corporation to prepare an Independent Preliminary Assessment of the Donkin coal project located in Cape Breton, Nova Scotia. The report was to be prepared for XCDM and its partner, Erdene Gold Inc. Norwest's report is prepared in compliance with the requirements of National Instrument 43-101 that apply to Preliminary Assessments.

A Technical Report and geological model concerning the property were prepared by McElroy Bryan Geological Services (MBGS) for XCDM and Erdene Gold Inc. in April 2007. In addition XCDM has also prepared an internal report titled Pre-Feasibility Scoping Study dated May 2007. Material in both of those reports has been used in the preparation of this Preliminary Assessment report. The MBGS Technical Report, filed on May 14, 2007, is available for public viewing on SEDAR under the various documents that have been filed by Erdene Gold Inc. The report is entitled "Technical Report Donkin Coal Project" (April 2007).

The MBGS report describes the property as being "located in the northeast of Cape Breton Island and is located almost completely offshore (46° 11' N, 59° 49' W) about 20 km east of Sydney, Nova Scotia". Access to the property is by highway from Sydney, which is Cape Breton's largest community. The Donkin property has been awarded a Special Licence, number 2/06, by the Provincial government. The licence tract totals a little more than 200 km².

The property currently has two slopes that provide access to the Harbour Seam. After receiving the necessary regulatory approvals, XCDM breached the tunnel seals and commenced pumping water from the tunnel in late 2006 in order to reclaim access to the Harbour Seam coal face. This work is now complete and unimpeded access to the Harbour Seam is possible. The Harbour Seam in the Donkin Coal Resource Block, as described in the MBGS report, contains an Indicated Resource of 101 million tonnes and an Inferred Resource of 115 million tonnes. It is further described to have on average 4.5% sulphur and 12% ash and is classified as high volatile A bituminous, high sulphur, medium ash coal. It should be noted that this preliminary assessment is preliminary in nature; it includes mineral resources that are considered to be too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the preliminary assessment summarized below will be realized.

The coal resource lends itself to mining by the longwall mining method. The proposed mine plan will utilize one longwall system and three continuous miner (CM) sections for mine development. After a three-year surface facilities construction period, mine development by CM occurs in Years 1- 5 and longwall production starts in Year 5. The mine has a production life of 33 years and produces 109 million tonnes of run of mine (ROM) coal. Table ES.1 shows the ROM production.

In this report SI abbreviations have been used; in particular the letter ‘M’ refers to a million units of the quantity described.

TABLE ES.1
PRODUCTION – MT (ROM)

Period	Mt
Year 1	0.2
Year 2	0.6
Year 3	0.6
Year 4	0.6
Year 5	1.6
Year 6	4.3
Years 7- 32	98.9
Year 33	1.9
Total	109

Coal is transported to the surface by a slope belt to the coal handling facilities. The coal is then transported to the International Pier at Sydney by rail by mine personnel. Other mine surface support facilities include an administrative building, change house, warehouse, shops and other miscellaneous facilities.

Norwest has developed capital cost estimates for the mining operation, surface facilities, and rail transportation. These costs are based upon a conceptual mine plan, mining equipment selection, conceptual surface facilities, and projected productivities. Table ES.2 summarizes the capital expenditures.

TABLE ES.2
CAPITAL \$M

Period	\$M
3 Year Construction Period	111
Year 1	53
Year 2	34
Year 3	12
Year 4	15
Year 5	89
Year 6	6
Years 7 - 33	269
Total (rounded)	588