objective corporate research

April 2007

Alternative Energy Sector
Listing: TSX Venture (PET.V)

Peat Resources

Peat Resources is a junior alternative energy play, the only listed company developing Canada's vast peat fuel resource. Peat is an environmentally friendly alternative to coal for generating electricity, as its energy content is equivalent to coal but it has lower emissions of sulphur, mercury and ash.

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Company Update

Contents

I certify that this report represents my own opinions.

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About Objective Capital:

Objective Capital is a leading UK provider of objective corporate research.

We offer investors two levels of insight – a regular survey of the complete small and mid-cap segment, highlighting those stocks where attention should be focused, and our detailed institutional-quality, sponsored research coverage. As always, our research doesn't offer trading recommendations or advice but an objective uptodate assessment of the prospects, and risks, of the companies we cover.

While the companies we cover sponsor our research, it is always written on behalf of our readers. It is of the essence of our research that it be **independent** — that is opinions, estimates and valuations be solely those of Objective's analyst; **objective** — that is based upon verifiable data; and **transparent** — that is based upon explicit assumptions.

Our research complies with all FSA recommendations as may arise out of CP172 and CP176, i.e., that it be independent of any broking or trading interests; and CP205, i.e., that it comply with standards for objectivity.

Key Points

23 April, 2007
Price: C$0.21

Recent funding will allow Peat Resources to continue with its plans for a pilot peat processing plant. The stock is a junior energy play on an environmentally-friendly alternative to coal in electricity generation offering an equivalent thermal content after processing, and lower emissions of sulphur, mercury and ash.

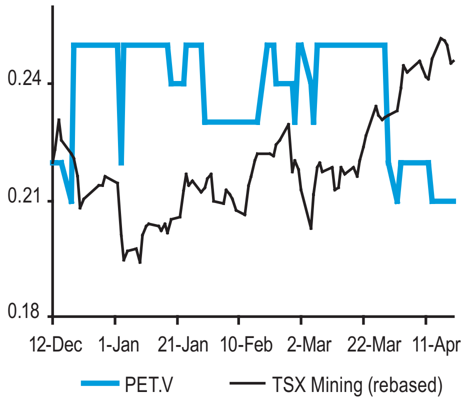
- ***Significant property portfolio accessible to key markets***
  Peat Resources is continuing to develop the property it has under permit, some 100 km from the Atikokan Generating Station in northwestern Ontario. The company hopes to mine the peat, pelletise it and sell it to the Ontario Power Generation (OPG) to replace coal in the generators at Atikokan and Thunder Bay. Management believes there are enough resources to support output of 1 million tonnes of peat at 10% moisture content per year for some 20 years. The company also has properties in Newfoundland and potential for further expansion as Canada has the largest concentration of peatlands in the western world, equivalent to an estimated 29 billion tonnes of coal.

- ***Peat is an attractive alternative to coal***
  In April 2006, the Ontario Ministry of Energy[1] stated that peat, then priced at C$95 per tonne, is the most abundant and economic of alternative biofuels for the Atikokan Generating Station. Little capital is required to retrofit the generators. The report expressed support for Peat Resources' operations, underpinning the company's potential.

- ***Sufficient funding in the short term***
  Peat Resources is loss-making, reflecting the early stage of the exploration programme. At year-end, the company had C$4.9m in cash (2005: C$1.4m), following two placings which raised circa C$4.2m gross. The company's projected cash burn of C$1m per annum in 2007 leaves it with sufficient funds for the next two years. However, the company must look for additional financing to complete the environmental assessment, engineering process design and feasibility report on the northwestern Ontario project, as well as to continue work on the Newfoundland properties.

- ***Early stage, long awaited contract with OPG would underscore confidence***
  While the Ontario government's decision to close all coal fired power stations is positive for the conversion to peat, the company has yet to negotiate a long-term contract with OPG, a pre-requisite for project financing. OPG is actively considering the use of biomass such as peat as an alternative fuel for its coal burning stations.

Price chart (C$)



Company details

Quote	
Shares	
-TSX Venture	PET.V
Hi-Lo last 12-mos. (p)	0.15 - 0.37
Shares issued (m)	39.4
Fully diluted (m)	84.8
Market Cap'n (C$m)	8.7
Advisor:	IBK Capital
	www.IBKCapital.com
Website:	*www.peatresources.com*

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[1] "Assessment of the Viability of Exploiting Bio-Energy Resources Accessible to the Atikokan Generating Station in Northwestern Ontario" (the "Ontario Bio-energy Report")

Overview

Peat Resources Ltd was founded in 1980 and listed on the Toronto stock exchange in 1981. In the early 1990s, development work was put on standby, due to low fuel prices. Since 2004, local interest in peat for electricity generation has revived on increases in energy prices, concerns over climate change and the commitment by the Ontario government to eliminate the burning of coal for power generation.

The company's strategy is to provide an environmentally-friendly peat fuel at an economic price for use in thermal plants. The first market will be northwest Ontario electricity generation stations, and then locations accessible to shipping in the Great Lakes Basin area, US.

The company has exploration licenses for developing peat for a property some 130km from Thunder Bay in northwestern Ontario, covering some 200,000 hectares and containing an estimated preliminary resource of 45 million tonnes (at 50 per cent moisture content) of fuel-grade peat. It is estimated that Canada's vast peat resources have the equivalent of 29 billion tonnes of coal.

In March 2005, the company released a resource evaluation report identifying over 200 million tonnes of *in situ* fuel-grade peat on its property near Upsala, 130 km northwest of the city of Thunder Bay. Analytical work showed that the fuel-grade peat is low in sulphur content; contains no mercury; and can be produced with energy values superior to coal. In January 2006, the company reported that a methane monitoring programme confirmed that peat extraction and reclamation would reduce methane emissions and lead to a net reduction of greenhouse gas emissions at the extraction sites.

In April 2006, a report published by the Ontario Ministry of Energy endorsed Peat Resources' strategy and was highly favourable towards the company and the use of peat fuel at the Atikokan Generating Station in northwestern Ontario.

In October 2005, the company obtained exploration rights for 34,450 hectares of prospective peatlands in western Newfoundland, to expand potential reserves and to access potential peat fuel markets in eastern Canada and the US. In October 2006, these permits were renewed and new rights obtained for peatlands in western and central Newfoundland. The Government of Newfoundland and Labrador is encouraging the company to accelerate its operations with offers of technical and financial assistance.

The company is at the exploration stage and is generating no revenues.
On 30 November 2006, the company had cash of just over C$3m compared to C$1,860 at the 31 May 2006 year-end. The increase was due to an equity round which raised C$4.2m gross. The funds are to be applied to the engineering process design; the construction of a small-scale processing facility; the completion of the Environmental Assessment for development of the Upsala properties; and an evaluation of the resource of the Newfoundland properties. With a projected cash-burn of C$1m per annum in 2007, the company should have sufficient funds for the next 2 years. Net assets as at May 2006 were C$3.6m.

Commercialisation is still some way off. The company has yet to sign a deal and is seeking to negotiate a fixed take-or-pay style contract with OPG at c. C$90 per tonne. In the meantime the company intends to use the pilot plant results to clarify the feasibility of achieving commercialisation.

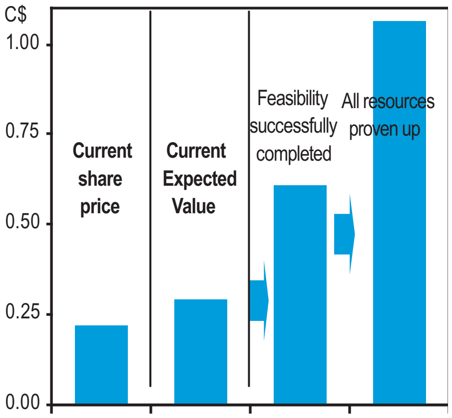
This remains an early-stage proposition in that Peat Resources has yet to develop mining methods and refine the pelletisation process. Some C$150m of project financing will be required to commercialise the Thunder Bay project. It is a prerequisite that the company secures the long term contracts from OPG. The project is expected to generate cash flow of C$47m pa before tax, at full production.

Taking core samples

Source: Company

Valuation

Change in price as uncertainty removed



Our valuation approach

Peat Resources is at an early stage of developing its operations and has yet to establish a long term contract for production from its Thunder Bay property that will be necessary to secure project financing. The company will also need to raise further funds to establish production facilities.

We have valued Peat Resources based on assessing the economic potential of the company's key property after accounting for:

- the likelihood that economic feasibility will ultimately be proven;
- the risked level of current mineable resources;
- and the likely economics if actual operations are to occur (tax, operating costs etc).

Our key assumptions

Peat Resources' key asset is its Thunder Bay property located near Upsala. Our base case assumptions for this property are:

- the property currently has an indicated resource of 18.5m tonnes and 4m measured tonnes. Our analysis assumes a risked mineable resource of 12.9m tonnes with no further expansion.
- assuming pilot production is successful and full feasibility can be proven, construction will take 18 months leading to full operations beginning in 3 years at a rate of 1 million tonnes/year. Capex is anticipated to be approximately C$150m to develop operations and C$8m for further feasibility and development work.
- we have assumed that extraction costs will average C$40 per tonne and a long term contract rate of C$90/tonne [2] will be achieved. The company has indicated it will face a tax rate of 45%.
- Peat Resources is in the process of demonstrating its pilot production process. Even if it does, there is a chance that it will not be able to negotiate suitable contracts with a major buyer or demonstrate economic feasibility. We have assumed an overall 48% probability of success in taking the project to full operation.

Our results

After allowing for likely economics and development risk our analysis suggests an expected value of C$22.0m for the company. After allowing for outstanding warrants, further dilution for funding for feasibility and the equity portion of development capex, this values Peat Resources' ordinary shares at C$0.29 per share compared to a current price of C$0.21.

There is the potential for the company to increase its value as its Newfoundland properties are further developed and incentives for development in that province are realised.

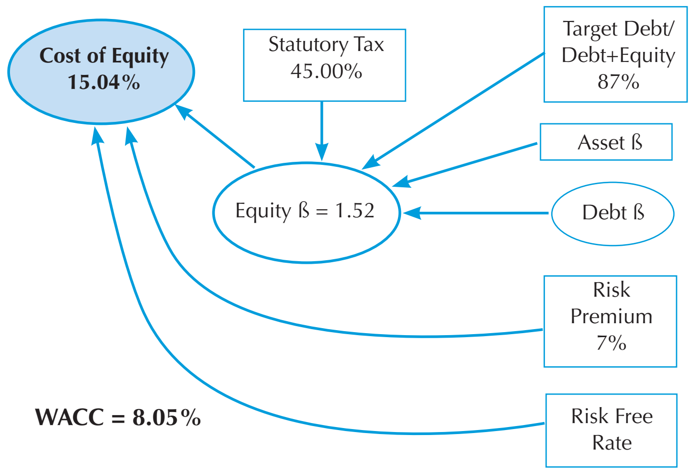
[2] As assumed in Ontario Bio-energy Report. We have assumed terms will include a mechanism for inflation adjustment

Valuation Summary

Scenarios for extraction cost	Base Case (C$40/t)	Low cost (C$35/t)	High cost (C$50/t)
Net value of production	112.0	136.6	62.7
Probability of mining success	*57%*	*57%*	*57%*
Expected net value of production	63.9	78.0	35.8
Probability of reaching mine development	*48%*	*48%*	*48%*
Expected value of deposit	30.7	37.5	17.2
Less:			
- expect pre-development costs	8.0	8.0	8.0
Expected value of project	22.7	29.5	9.2
effective risk haircut	*80%*	*78%*	*85%*
Less: options & warrants	0.7	1.0	0.2
Value of equity	22.0	28.4	9.0
Value per share before dilution (C$/share)	0.56	0.72	0.23
Dilution from further fund raising*	*48%*	*47%*	*50%*
Value per share (C$/share)	0.29	0.38	0.11

* assumed impact of dilution of further fund raisings

Weighted Cost of Capital



Sensitivity to Contract Rate and Production Start

Potential Equity Value (C$m)*

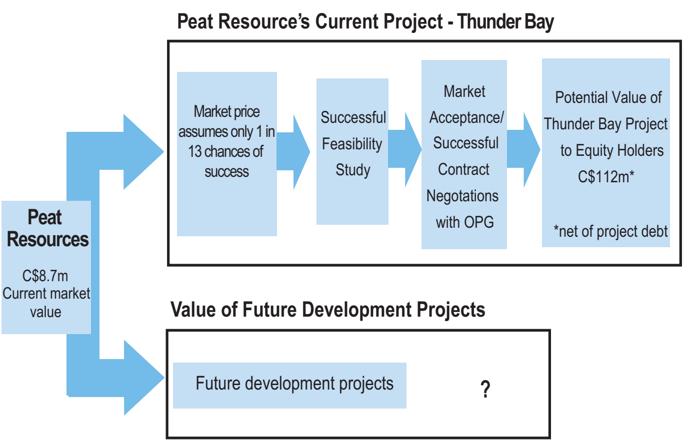
Production Start	Base Contract Rate (C$/t) 70	90	100	140
2010	-4.3	**22.0**	34.8	85.9
2011	-7.7	16.9	28.8	76.1
2012	-10.8	12.1	23.2	67.1

Per Share*

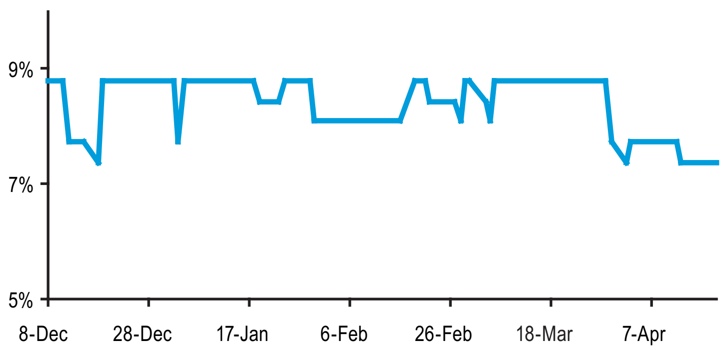
Production Start	Base Contract Rate (C$/t) 70	90	100	140
2010	0	**0.29**	0.47	1.18
2011	0	0.22	0.39	1.05
2012	0	0.16	0.31	0.92

* after allowing for dilution of required fund raisings

What the market is telling us



Market's view of chance of success



Key Risks

Market

Energy demand & prices

The price of peat has been influenced of late by the surging market price of competing energy sources, notably coal and oil. The sharp price escalations experienced in the last two years in all energy commodities may be reversed, notwithstanding higher energy needs from developing countries. This could undermine the economics of peat as an alternative fuel.

Market acceptance

While Ontario Power Generation, Peat's key target market, is publicly examining the potential of using biomass fuels such as peat there is as yet no commitment from OPG as a potential purchaser of the company's product. This could undermine Peat Resources' commercial production objectives and timeframes.

Alternative energy sources

Peat fuel is in competition, not only with oil, gas and, particularly, coal, but also with renewables (wind and solar projects) and the promise offered by fuel cell technology. Moreover, the emergence of cheap fuel-cell-based distributed generation capacity may radically change the demand of major power generators.

Environmental

Drainage is the most serious environmental issue prior to production. Peat bog waters are acidic with a pH range of 4 to 5. However, carefully managed draining of peat land can improve the growth of vegetation and create a habitat more suitable to a wider range of wildlife at the edges of the peat land.

Mining processes

During the production phase, the impact will depend on the method of mining. Wet mining or dredging could lead to the drainage issues discussed above. Post-production will oblige the company to make the land suitable for subsequent use. An environmental consultant (Dillon) has been engaged to undertake the necessary surveys, studies and consultations. These are due to be completed in 2007 as part of the requirements of the environmental assesment process.

Project

Limited experience and unproven technology

While the company has extensive mining experience, it has limited specific experience of operating large scale peat extraction facilities. In addition, the extraction and processing technology for harvesting, dewatering and pelletising peat is untested in Canada. This could result in delays in commissioning production facilities and production short falls.

Resource status

As outlined by DST Consulting Engineers Inc, the majority of the company's resources are still of the Inferred or Indicated status. DST indicated that at a 10% moisture content numbers are thus: 0.8m tonnes Inferred; 18.5m tonnes Indicated; and 4.0m tonnes Measured. Further exploration and delineation work is therefore required, although the peat resources are already adequate to support a production target of 1m tonnes per year at 10% moisture content.

Stakeholder issues

There are a number of stakeholder issues that have to be addressed, including those with: the Ontario government; the forestry industry; the railways; the two First Nation reserves; and the nearby rural communities. While the company has established positive relationships with the local communities and First Nations these could still result in delays in establishing production.

To date Peat Resources has held public consultions with, *inter alia*, First Nations (FN) groups Seine River FN, Lac Des Mille Lacs FN, Thunder Bay and with members of the Treaty 3 council. A public Open House was held on June 28th 2006.

Funding/Dilution

Peat Resources must raise sufficient funding, estimated at around C$150 million, to cover the cost to explore, identify, mine, and process the peat, and bring it into commercial production. Even with debt based project funding this will result in equity dilution given the modest current market capitalisation. In our opinion, project funding will depend on securing long term fixed take-or-pay contracts.

Corporate Overview

History

1980	Founded
1981	Listed on Toronto Stock Exchange
Early 2005	Evaluation of NW Ontario properties
October 2005	Exploration licenses for 34k hectares of prospective peatlands, central Newfoundland covering 9,650 ha high quality peatlands
September 2006	C$4 million private placements finalised
January 2007	C$900,000 worth of warrants exercised

Shareholding structure

	%
RAB Special Situations Fund	22.80
Total institutional holdings	23.44
Insiders	10.00

Source: Company and Objective Capital

History

The company's history is set out in the accompanying table which traces developments from the foundation in 1980 to the revival in activity since October 2005.

Capital structure

Peat Resources succeeded in effecting a placing of C$3.8 million net of issue expenses (C$4.2 million gross) during the current financial year which means that the company has raised C$7.4 million net of expenses during the past three years. The funds raised have been earmarked for project development to the stage of establishing a pilot plant.

Currently, the company has 39.40 million shares in issue, along with outstanding warrants for 33.34m, special warrants for 8.5m and share options for 3.57 million shares respectively, giving a potential fully-diluted figure of 84.8 million shares in total.

Summary of properties

The company's properties are set out in the accompanying table. Under the "Living Legacy" policy of the government of Ontario, Trewartha and Meinzinger Bogs are designated as "Areas of Natural and Scientific Interest" and are not available for development.

Summary of Peat's Ontario properties

Name	**Township**	**Area** (hectares)
Trewartha	Trewartha	1,500
Meinzinger	Trewartha, Meinzinger, Stedman & unsurveyed territory	4,225
Inwood	Inwood, Joynt & unsurveyed territory	1,461
Mille	Lacs Joynt & unsurveyed territory	2,409
Langworthy	Langworthy & unsurveyed territory	701
Goodfellow	Goodfellow & Savanne	2,384
Gibbard	Gibbard	1,496
Fallis	Fallis & Gibbard	2,471
Argon	Fallis, Robson, Golding & Block No.2	1,005
Total		**17,652**

Summary of Peat's Newfoundland properties

Region	**Avg Expiry Date**	**Area** (ha)
St George's Bay	8-Oct-07	9,200
Gander	17-Jan-08	41,125
Terra Nova	1-Feb-08	14,050
Avalon	6-Feb-08	72,275

Source: Company

Market

Some $4.6 trillion globally has been invested in energy generation during the course of the last ten years, with the International Energy Agency (IEA) estimating that global energy demand will grow by 50% by 2025. Rising demand from China, India and the US is driving growth. High oil and gas prices and evolving technologies are reducing the cost differential of renewable and alternative energy. Thermal coal is now selling at some US$50 a ton, up from $30 per ton three years ago; and oil is currently over US$60, off highs of US$78 a barrel in August 2006.

Industry and government alike now take account of global warming in their thinking about corporate planning, security of energy supply, economic growth and social welfare. The Stern Report, recently published in the UK, goes some way to monetise the investment required to avoid disaster by reason of global warming. In the worst case, global consumption per head could fall by 20%. To stabilise at manageable levels, emissions need to stabilise in the next 20 years and fall between 1% and 3% after that. According to Stern, this would cost 1% of global GDP. The IEA predicts that by 2030, $1 trillion will be invested in renewable energy sources, excluding hydroelectric dams.

In the longer term, the attraction of peat fuel is likely to be sustained by higher energy prices, coupled with regulatory pressure on oil and coal energy by reason of their environmental impact. Peat fuel offers appreciably lower levels of mercury and sulphur dioxide emissions than North American coal. In the US coal market, rises in the prices of sulphur dioxide (SO2) allowances are increasing the value of low-sulphur coals, while the new Clean Air Interstate Rules (CAIR) will effectively retire one half of existing regional allowances by 2010, driving up the cost of the allowances remaining. Unlike similar operators in Europe, Peat is unlikely to suffer concerns over habitat loss as 81% of peatlands remain in a pristine state in Canada compared for example to 20% in Ireland.

The formation of peat fuel

The formation of peat is a slow process. It takes approximately 10 years for 1cm of peat to form. This is because waterlogged conditions make for a lack of oxygen, which prevents micro-organisms such as bacteria and fungi from decomposing the dead plants. In fact, unlike most other ecosystems, the dead plants in peatlands do not decompose. Different types of peatlands develop because of differences in climate (atmosphere, annual rainfall), soil type (pH), source of nutrients for plant growth and plant species.

Global distribution

Peatlands are found in all parts of the world except deserts and arctic regions. The most extensive areas are located in the northern hemisphere. It is estimated that there are at least 1 billion acres of peatland in the world, or about 4.5% of the total land area.

Peatlands cover an area of approximately 515,000 sq km in Europe. Prior to the 1970s, large areas of peatland in Western Europe were reclaimed for agricultural use. Between 1950 and the 1980s, some 50% of peatlands were drained in Finland for forestry.

Until recently, peatland was deemed uneconomic in North America, owing to the availability of cheap oil, coal and natural gas. Now, however, peat is gaining momentum as a replacement for coal, with Canada already the leading producer of horticultural peat.

According to the International Peat Society (IPS), energy peat production in Europe in 1999 was 21.5 million tonnes of air-dried peat. Finland led with some 7.5 million tonnes of production; number two was Ireland with 4.7 million tonnes; and the third was the Russian Federation with 3.7 million tonnes.

Energy peat is mainly used locally, but small amounts of peat briquettes are exported from Estonia to Sweden and Finland, as is sod peat from Estonia, Scotland and Finland to Sweden and milled peat from Finland to Sweden. IPS data show that there were over 800 companies producing peat in 1999.

Major peat deposits

Country	Estimated Peatlands	Location
Former U.S.S.R.	371 million acres	Russia (Siberia)
Canada	272 million acres	All provinces have large deposits.
U.S (w/Alaska)	124 million acres	Florida, Michigan, Minnesota, Wisconsin
Africa	84 million acres	Kenya, Uganda, Burundi, South Africa
Europe	62 million acres	Finland, Sweden
South America	15-25 million acres	Venezuela, Guyana, Brazil, Argentina, Chile
Central America & West Indies	7 million acres	Cuba, Jamaica, Panama
Australia & Oceania	< 2.5 million acres	New Zealand, New South Wales, Queensland, Eastern Highlands

Source: IPS

Canadian market

The Canadian WEC Member Committee reports a total area of peatland of more than 1.1 million sq km, greater than that of any other country. Deposits of peat are widely distributed, with the largest in the Northwest Territories (23% of the Canadian total), Ontario (20%) and Manitoba (19%).

The Ontario government spends circa US$1 bn per year importing coal for power plants, with 80 per cent coming from the US and 20% from Western Canada. In northern Ontario, 1.4 million tonnes are imported for electricity power plants in Atikokan and Thunder Bay. Coal-burning electricity plants in the Great Lakes area of the United States consumed more than 220 million tons of coal in 2000.

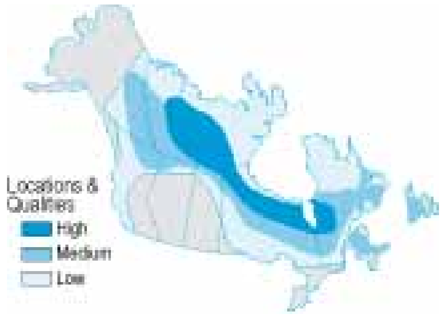
Peat fuel is an attractive and environmentally friendly alternative to coal. Higher humification grades of peat contain, with some variance, about 8500 BTU per pound of heat energy, as much or more than coal, and much more than the lignite, of which 1.4 million tonnes a year are burned by OPG at its 230 MW plant in Atikokan and 326 MW plant in Thunder Bay. Unlike coal, peat is low in ash, sulphur and mercury; it gives rise to levels of greenhouse gases which are 20-25% lower than coal. Efforts to reduce acid rain by decreasing sulphur emissions makes peat fuel attractive to a wide range of industries and electrical utilities.

Peat Resources believe that the Atikokan and Thunder Bay coal-fired generators can easily be adapted to run on clean-burning peat, or peat mixed with other fuels, like propane. OPG has conducted combustion tests on the fuel which demonstrated encouraging results with less moisture, and higher heat content per pound.

Peat is cheaper than coal at $1.80 per million BTU versus $2.60 per million BTU for coal. Peat Resources has developed a cost effective process to produce peat fuel with a thermal value comparable to coal, that is 9,600 BTU/lb. Peat Resources estimates that the full cost for peat fuel is $30 to $55 per tonne and has identified a preliminary resource of 22 million tonnes at a 10% moisture content. This would allow an annual production of one million tonnes of peat fuel for 20 years. These reserves are readily accessible to the plants at Atikokan and Thunder Bay.

The Ontario government has committed to close its coal fired generators. In March 2006, the Ontario government announced a new Standard Offer Programme for electricity generated from renewable energy sources. Under the plan, the Ontario Power Authority will purchase electricity produced by wind, biomass or small hydro at a guaranteed base price of 11 cents per kWh. These prices are well above the provincial rate of 5.5 cents per kWh. The Ontario government's goal is 1000 MW generated from renewable sources and we understand that half of that total is expected to come from biomass. The Ontario Bio-energy Report used high estimates for harvesting ($11 per bone dry tonne), processing ($39 per BDT), and transportation ($15 to $45 per BDT, dependent on distance). Even so, the projected cost of peat fuel is competitive with lignite, the coal currently burned at the generating station. New technologies making for greater cost and energy efficiencies are being developed by Peat Resources. These are expected to reduce the production costs of peat fuel. Even now, before any such reductions, the cost of electricity from peat is below other bioenergy alternatives ($82 per MWh vs. greater than $89/MWh).

Canada's primary deposits



Source: Company

This is largely because the capital costs of converting the Atikokan plant for peat are minimal and the proximity of Peat Resource's property reduces marketing and transportation costs.

Competition

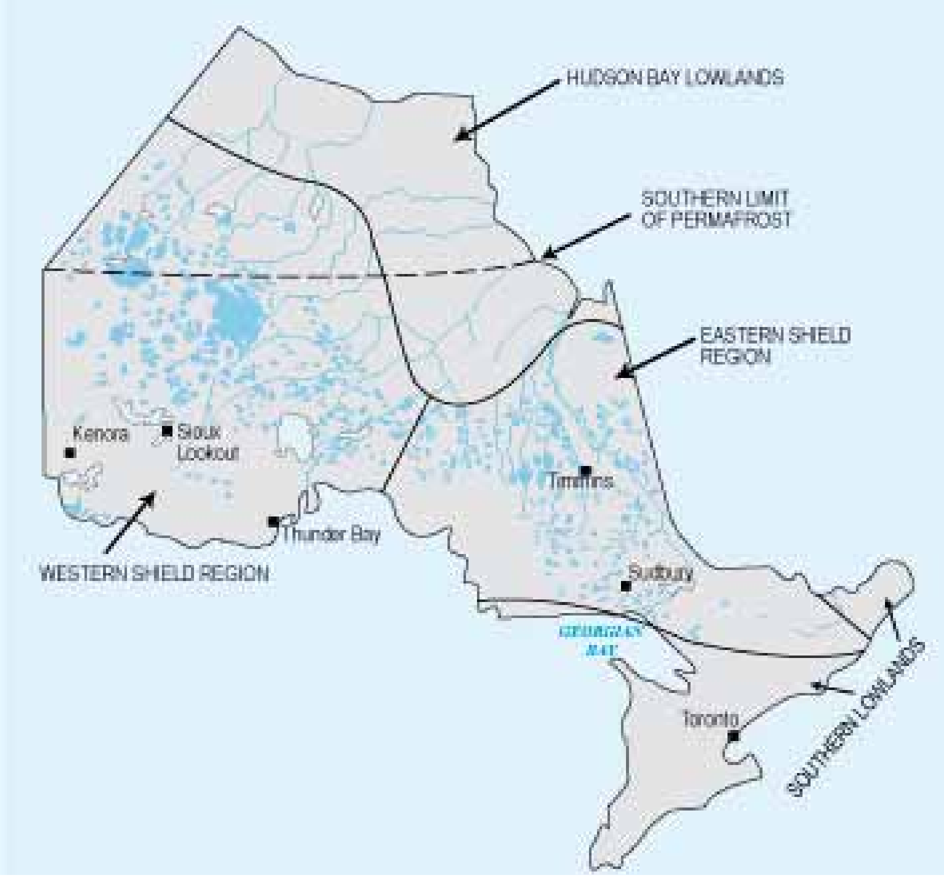
The IPS estimates that there are 800 companies involved in peat resource exploration and production around the world. Peat Resources is the only company mining the peatlands in Canada. The Ontario Bio-energy Report states that peat fuels, at C$95 per tonne, are the most abundant and economic option compared to other alternative fuels, when it comes to replacing coal power generation at OPG's Atikokan plant.

Costs of selected energy sources

	Peat Fuel	Wood/ Wood Waste	Garbage
Project Capital Costs $/MWh	$1	$11	$22
Operations and Maintenance Costs $/MWh	$23	$28	$33
Fuel Cost $/MWh	$58	$51	$58
Energy Cost LUEC $/MWh	$82	$89	$114

Source: Forest BioProducts Inc. (FBi) , (retained by the Ontario Ministry of Energy to evaluate alternative feedstock options for replacing coal power generation at the Atikokan Generating Station). Information provided separately by FBi shows natural gas LUEC: $98/MWh and nuclear LUEC: $88/MWh.

Peatland distribution in Ontario



Source: Company

Peat Resources has exploration licenses for developing approximately 18,000 hectares of peatlands in northwestern Ontario and a further 10,000 hectares of high-quality peatlands in Newfoundland. Of these the Trewartha and Meinzinger Bogs are currently designated as Areas of Natural and Scientific Interest under the Ontario government's Living Legacy policy and are not available for development. Preliminary resource estimates of Peat's Ontario properties indicate a contained resource of 45 million tonnes (at 50 per cent moisture content) of fuel-grade peat.

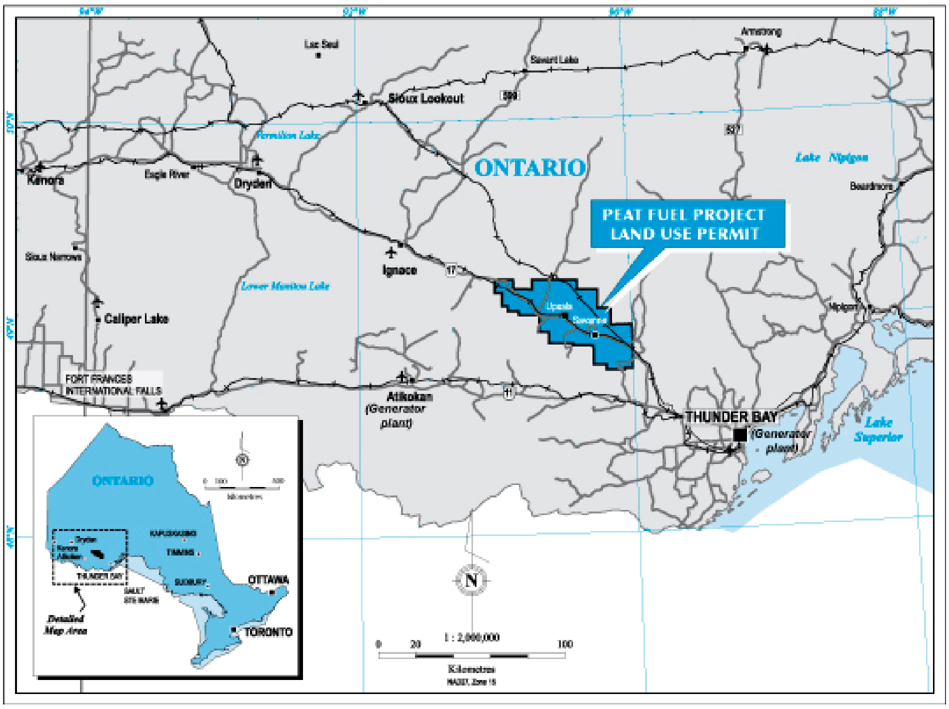
Summary of Peat's properties

Name	**Township**	**Size** (hectares)
Trewartha	Trewartha	1,500
Meinzinger	Trewartha, Meinzinger, Stedman & unsurveyed territory	4,225
Inwood	Inwood, Joynt & unsurveyed territory	1,461
Mille Lacs	Joynt & unsurveyed territory	2,409
Langworthy	Langworthy & unsurveyed territory	701
Goodfellow	Goodfellow & Savanne	2,384
Gibbard	Gibbard	1,496
Fallis	Fallis & Gibbard	2,471
Argon	Fallis, Robson, Golding & Block No.2	1,005
	Total	**17,652**

Source: Company

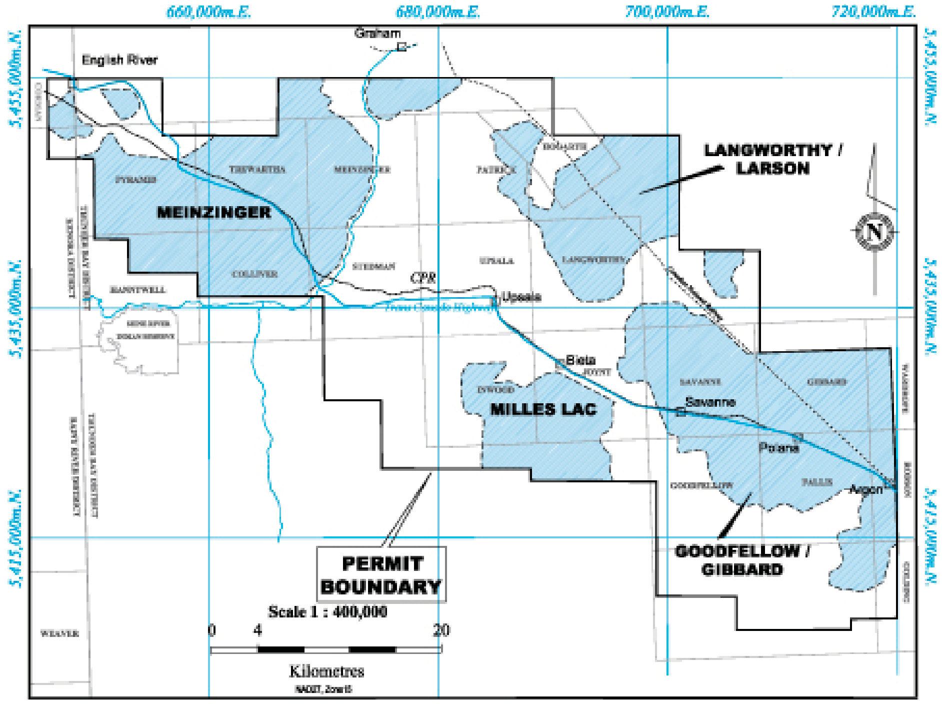
Project location

Company peat bog locations in Northwest Ontario



Source: Watts, Griffis and McOuat

Peat Resources' Land Use Permit



Source: Watts, Griffis and McOuat

Peat processing plant

Peat pellets as fuel

Source: Company

Selected fuel characteristics

	Peat Fuel	Lignite
Moisture %	6.50	33.00
Ash %	5.20	9.80
Sulphur %	0.22	0.40
BTU/lb	8,925	7,070

Source: Ontario Hydro Report 90-174P

Progress

Between 2004 and 2005, Peat Resources completed the stage 1 exploration programme on its property in northwestern Ontario and identified substantial resources of fuel-grade peat. The estimates for fuel peat at 10% moisture were indicated resources of 18.5 million tonnes and measured resources of 4.0 million tonnes. The company is now undertaking stage 2 exploration, by way of environmental surveys, bulk sample testing, and engineering studies for extraction equipment selection, dewatering and drying processes, and biomass conversion technologies.

By way of background, peat can be mined using either a dry or wet method. The selection of the most suitable mining method is mainly dependent on site-specific climatic and terrain conditions. In dry mining, the area is first drained and allowed to undergo natural drying over a period of time. The loosened surface dries rapidly and is then scraped off. Peat is cut and collected into heaps before transport to the user. The usual moisture content of the product is about 50%. In wet mining the peat is removed from the bog and transported to a plant for further dewatering and thermal drying. Peat Resources intends to use the wet mining system.

The company has developed a cost-effective process to produce an environmentally acceptable peat fuel with calorific value comparable to coal. The process consists of four stages: wet mining, mechanical dewatering, thermal drying and pelletisation. The processed peat fuel has a thermal value of 9,600 BTU/lb (100% solids). Combustion burns of coal/peat by Ontario Hydro's Research Division, now Kinectrics Inc. showed that peat had a lower ash content and less sulphur emission than lignite.

Phase II	
	Cost (C$)
Continuing Environmental Plan	300,000
Engineering Testing	500,000
- Bulk sample testing for mine equipment selection	
- Bulk sample testing for dewatering and drying equipment selection	
- Bulk sample testing of biomass conversion technologies at CANMET Energy	
Process Engineering Design	1,000,000
- Optimization of engineering design for mining and processing; equipment selection of equipment supplies	
General and Administration	100,000
Contingency	200,000
TOTAL	**$2,100,000**

Source: Company

Should the feasibility studies be successful, approximately C$150m will be required to develop production facilities at Upsala. If long term fixed contracts can be secured with OPG then up to 80% can be funded as debt. The company will need to raise a further C$20m in equity to support development of production facilities.

The company projects that production can be established within the next two to three years: 2008 for the first plant and 2009 for a second plant, but in the nature of things, delays may occur in establishing extraction operations. Ultimately, project financing will be dependent on securing a long-term commitment from a qualified customer.

Given the early stage of development it is difficult to gauge ongoing production costs with any precision, though the company has offered preliminary estimates of C$30-C$50 per tonne.

In the early 1990's when Peat Resources prepared its cost estimates of producing peat as an alternative fuel in Ontario, coal was selling for US$21 a ton and oil was selling for US$12 a barrel. The delivered cost of US coal is now more than US$35 a ton. The price for crude oil is over US$60 a barrel. Energy costs at this level make peat competitive with coal and crude oil. Basic requirements for peat fuel are high calorific value, low ash content, low levels of sulphur and mercury, and high bulk density. Raw peat in Ontario which has undergone sufficient *in-situ* decomposition, meets these requirements.

Costs of selected fuels

Fuel	**($ / million BTU)**
Processed Peat Fuel	$ 1.80
Ontario Coal $	2.60
Natural Gas	$ +8.00
Heavy Oil	$ +7.00

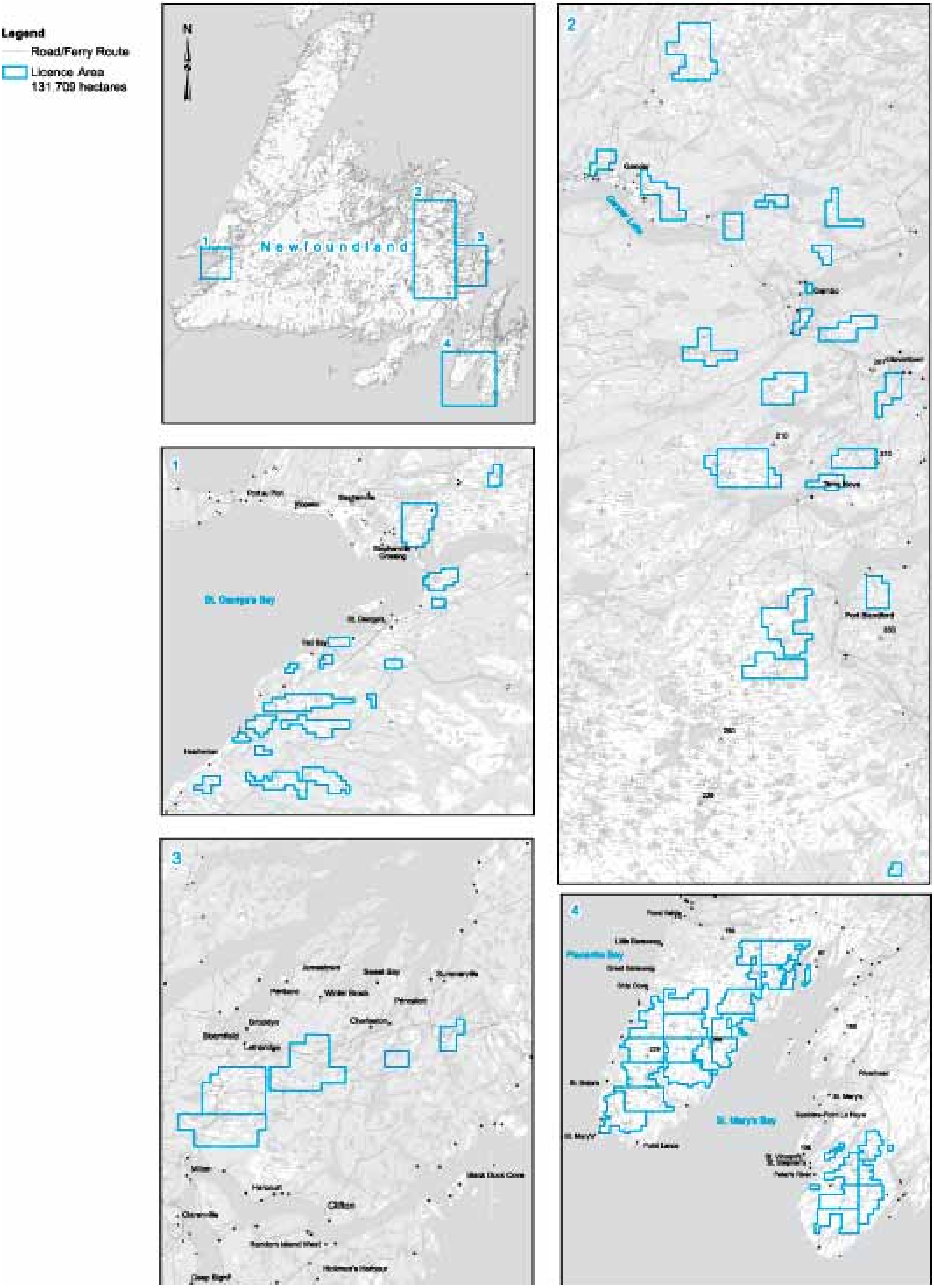
Estimated cash operating costs

(based on 1m tonnes per yr, 10% moisture)

	C$m
Operating Costs	
- Labour	8.1
- Plant maintanence	2.7
- Other	4.6
Total Operating Costs	***15.4***
Administration & Sales Costs	
- Labour	1.1
- Other	0.7
Total Admin & Sales Costs	***1.8***
Peat Fuel Transport Costs	10.5
Other	0.3
Total Cost	**28.0**

Source: Company

Location of Peat's Newfoundland properties



Source: Company

All direct costs associated with the development and exploration of peat fuel are capitalised as deferred project costs as incurred and until proven non-recoverable. If a property proceeds to development, these expenses will be amortized over estimated revenues.

As at 30 November 2006, assets totalled C$7,044,033 compared to C$3,645,106 at the year ending 31 May, 2006. Current liabilities were reduced to $139,421 from $220,218. In 2006, some $191,699 was defrayed by project expenditures ($266,353 in 2005).

Balance sheet		
12 months ending May (C$)	**2005**	**2006**
Cash	914,259	36,783
Other current assets		
Deferred project costs	2,800,778	3,608,323
Other assets		
Total assets	3,715,037	3,645,106
Current liabilities	230,927	220,218
Debt obligations	3,550	
Total liabilities	234,477	220,218
Shareholders' equity	3,480,560	3,424,888
Total liabilities & equity	3,715,037	3,645,106
Book value per share	0.14	0.13
Income statement		
Operating income	0	0
Non-operating income	10,395	4,886
General & administrative expenses	-348,256	-413,933
Amortisation		
Non cash item (stock based compensation)		-174,825
Other expenses		
Total	-348,256	-588,758
Net income (loss)	-337,861	-583,872
loss per share	0.02	0.01
Cash flow		
Net loss	-337,861	-583,872
Amortisation and non cash items		174,825
Working capital changes	-938,566	36,195
Cash Flow from operations	-1,276,427	-372,852
Capital expenditure (properties)	-1,147,654	-807,545
Debt	-5,000	-3,550
Other investing items		
Free Cash Flow	-1,152,654	-811,095
Equity financing	3,249,790	353,375
Change in cash	820,709	-830,572
Cash position at the beginning of the year	11,723	832,432
Cash position at the end of the year	832,432	1,860

Source: Company

Fund raising (C$ m)				
Year end 31 May	**2005**	**2006**	**2007**	**Total**
Shares issued	3.881	0.350	2.525	6.756
Special warrants issued	0.000	0.000	1.700	1.700
Warrants exercised	0.000	0.041	0.000	0.041
Issue costs	0.601	0.037	0.422	1.060
Net funds raised	3.280	0.354	3.803	7.437

Source: Company and Objective Capital

Summary warrants issued			
	Million	**Exercise**	**Value** (C$m)
Agent's warrants @ 0.50	0.100	27/10/07	0.05
Warrants @ 0.50	0.500	27/10/07	0.25
Total warrants	**0.600**		**0.30**

Source: Company

Share options granted

Share options have been granted to key management.

	Million
Options @ C$0.20	1.000
Options @ C$0.50	2.570
Total share options	**3.570**

Source: Company

Leon La Prairie, B.Sc., P.Eng., Chairman
Mr. La Prairie was originally the President and CEO of Peat Resources since 1980. Through his own company La Prairie Limited, he has extensive joint venture experience with companies such as Noranda Mines Ltd, Falconbridge Nickel Mines, Dome Petroleum, Imperial Oil, Rio Tinto Ltd, Hudson Bay, Rayrock, Eldorado, Urangesellschaft Ltd., and Conwest Exploration Ltd.

Peter Telford, B.Sc., PhD, President and CEO
Dr Telford has had over 30 years of experience in management, policy and scientific roles within the environment, energy, mining and broad management fields of government and the private sector. Dr. Telford was the former manager of the Ontario government's Peat Inventory Project (Energy Resources Program, Ontario Geological Survey) along with senior positions with Ministries of Natural Resources, Northern Development and Mines, Environment and Energy.

Patricia G Mannard, B.A., Secretary, Treasurer, CFO and Director
Ms. Mannard has 15 years financial reporting experience within the junior mining sector.

William G Allen, LLM, Director
Mr. Allen is the founder and partner of Allen & Allen, a law firm specializing in securities and business law.

John S Dowsett, B.Sc., P.Eng., Director
Mr. Dowsett is a former Director of Exploration for Inco Limited. His experience includes mine management in Mexico and mineral exploration in Australia, Brazil, Canada, Ireland, Malawi, Mexico, South Africa, United States and Zimbabwe as well as hydrocarbon exploration in Guatemala and Botswana. He has work with PRL since its formation.

John C Loewen, Director
Mr. Loewen has had fifteen years of international stock brokerage and investment banking experience, principally in energy and resources. He is a CEO and partner in Loewen & Partners, a Toronto based private equity finance firm and previously worked for Deutsche Bank Securities in South Africa as a commodities analyst covering base metals and energy resources.

Andrew C Rickaby, B.Sc., Director
Mr. Rickaby is the former Vice President of Mining Operations and Environment for Denison Mines Ltd. He has over 40 years of operations and management experience having also worked for Inco Ltd., Canadian Johns-Manville and Canadian Mine Services and was the Chair of the Ontario Mining Association.

Robert Wright, BSc., CA, Director
Mr. Wright is the former Managing Director of the North American Utilities and Power Group for TD Securities Inc. He has extensive experience in the financial and energy sectors.

Slava I Golod, B.Sc., Peat Project Manager
Since 2004, Mr. Golod has served as Peat Project Manager for Peat Resources. He has over 15 years experience in the industry in Belarus, Latvia and Atlantic Canada and is professionally trained in the technology and mechanization of peat mining.

K. Wayne McLellan, B.Sc., M.Sc., P.Eng., Regional Manager
Mr. McLellan has been with the Ontario Ministry of Northern Development and Mines where he was involved with Ontario's peat resources inventory program.

Appendix: Definitions

Bog: a peatland which receives water solely from rain and/or snow falling on its surface.

Fen: a peatland which receives water and nutrients from the soil, rock and groundwater as well as rain and/or snow

Indicated Mineral Resource (note 1, source CIM): part of a Mineral Resource for which quantity, grade or quality, and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques.

Inferred Mineral Resource (note 1, source CIM): is that part of a Mineral Resource for which quantity, and grade or quality, can be estimated on the basis of geological evidence and limited sampling, and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling.

Measured Mineral Resource (note 1, source CIM): part of a Mineral Resource for which quantity, grade or quality, and physical characteristics are so well established that it can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling, and testing information gathered through appropriate techniques.

Mineral Resource (note 1, source CIM): sub-divided, in order of increasing geological confidence, into Inferred, Indicated, and Measured categories.
A Mineral Resource is a concentration or occurrence of natural, solid, inorganic, or fossilized organic material in or on the Earth's crust in such form and quantity and of such grade or quality that it has reasonable prospects for economic extraction.

Mire: a peatland where peat is currently forming and accumulating.

Qualified Person *(note 1, source CIM)*: Estimates of mineral resources or reserves and the resulting Technical Reports there from must be prepared by or under the direction of, and dated and signed by, a Qualified Person ("QP"). A QP means an individual who is an engineer or geoscientist with at least five years experience in mineral exploration, mine development, production activities, and project assessment, or any combination thereof, including experience relevant to the subject matter of the project or report, and is a member in good standing of a Self-Regulating Organization.

Peat: Organic residues of plants, incompletely decomposed through lack of oxygen.

Peatland: an area with a naturally accumulated peat layer at the surface

Note 1

The Canadian Institute of Mining, Metallurgy, and Petroleum ("CIM") published "Mineral Resource and Reserve Classification: Categories, Definitions, and Guidelines" in September 1996. This report is now widely used as a reference and a system for classifying and reporting resources and reserves in Canada. In June 1997, the Ontario Securities Commission and The Toronto Stock Exchange established the Mining Standards Task Force, which released a final report in January 1999. One of the primary recommendations of the report was the adoption by the Canadian Securities Administrators in National Instrument 43-101 ("NI 43-101") of the CIM guidelines for the estimation, classification, and reporting of resources and reserves. NI 43-101 was subsequently adopted.

Characteristics of sphagnum peat and other horticultural peats

Type of Peat	**Range of Nitrogen** (%)	**Range of Water Absorbing Capacity** (%)
Sphagnum moss peat	0.6-1.4	1,500-3,000
Hypnum moss peat	2.0-3.5	1,200-1,800
Reed-sedge peat (low lime)	1.5-3.0	500-1,200
Reed-sedge peat (high lime)	2.0-3.5	400-1,200
Decomposed peat	2.0-3.5	150-500

Type of Peat	**Range in Ash Content**	**Range in pH**	**Range in Vol. Weights** (lbs./ft.^{3})
Sphagnum moss peat	1.0-5.0	3.0-4.0	4.5-7.0
Hypnum moss peat	4.0-10.0	5.0-7.0	5.0-10.0
Reed-sedge peat (low lime)	5.0-15.0	4.0-5.0	10.0-15.0
Reed-sedge peat (high lime)	5.0-18.0	5.1-7.5	10.0-18.0
Decomposed peat	10.0-50.0	5.0-7.5	10.0-40.0

Source: Canadian Sphagnum Peat Moss Association (CSPMA)
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Objective Capital

Andy Hartwill
Andy was for many years UK & Global Strategist at SG Hambros, latterly Soc Gen Securities. Prior to this he was UK and European Strategist for Paribas, and Head of Research at Capital House and Spencer Thornton. He is a regularly guest on Bloomberg and CNBC.

Alexandra Harrison, M. Sc (Mining Geology)
Alexandra Harrison holds a BSc in Applied Geology and an MSc in Mining Geology and has over ten years experience in exploration and mining. She worked in precious and base metals and in energy world wide, before coming to London where she has been involved with several junior AIM and TSX-V listed resource companies.

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