

April 21, 2005

Price: C\$0.43

Peat Resources (PET)

Alternate Energy

With thermal coal prices now reaching US\$60 a tonne and the Ontario government's decision to close its coal-fired generators by 2007, there is renewed interest in exploiting Canada's vast peat resources – estimated at the equivalent of 29 billion tonnes of coal. Peat Resources is the only company actively developing Canada's peat fuel resources.

KEY POINTS

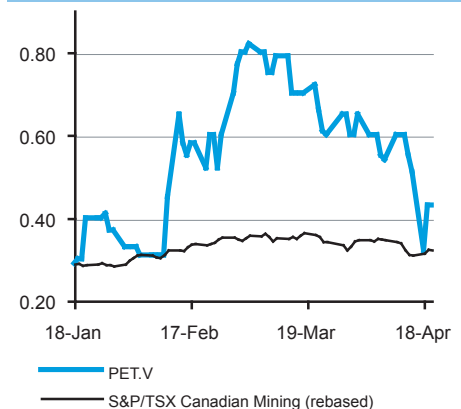
- Peat is an attractive alternative to coal for power generation**

Processed peat fuel offers equivalent energy content to coal with substantially lower sulphur and mercury emissions levels and a 20-25% lower impact on greenhouse gases than coal
- Peat Resources first project provides for production of 1 million tonnes per year over 20 years.** Peat's first project is being developed in northwestern Ontario, approximately 130km from Thunder Bay. Indicated resources are sufficient to support an extraction facility of one million tonnes per year of peat at 10% moisture content for a 20 year life.
- Ontario's commitment to close its coal-fired generators is a significant opportunity.** The Ontario government's decision to close its coal-fired power stations by 2007 is an opportunity for unconventional energy sources such as peat fuel. Peat Resources believes that peat fuel could replace coal with minimal conversion costs at Ontario Power Generation's (OPG) existing coal-fired plants, such as the electricity generators at Thunder Bay and Atikokan. OPG has few alternatives.
- If its project can be developed, a value of C\$2.22 a share**

Peat Resources needs to successfully complete its full feasibility studies and agree on long term contracts before project financing can be secured. If these can be achieved, we estimate the value of its existing project to be C\$153.6m net of required funding. Approximately C\$2.22 per share on the Company's fully expanded capital.
- Some hurdles, but share price overstates these**

There are hurdles to overcome, particular in negotiating long term contracts for its product. A more likely scenario is that the project is delayed and contracts are concluded in a less favourable energy market. Even then we estimate the operating project to be worth approximately C\$0.87 per share.

Price chart



Company information

Listing	
TSX Venture Exchange	PET.V
Recent Price	C\$0.43
High-Low	C\$0.85-0.25
Shares Issued (m)	25.86
Fully Diluted (m)	35.09
Market Cap (C\$m)	11.1
Management Ownership	14%
Advisors	IBK Capital

This report was sponsored by the company. However, our research complies with all FSA recommendations that arise out of CP172 and CP176, i.e., that it is **independent** of any broking or trading interests; and CP205, i.e., that it complies with **standards for objectivity**.

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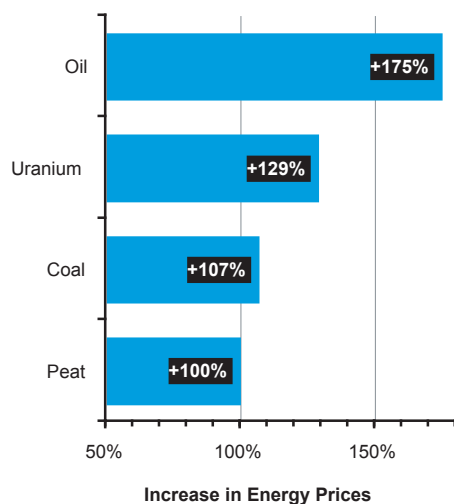
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Overview

Increases in energy prices



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Background

Peat Resources – an early stage company

Peat Resources' ultimate objective is to identify and develop peat bogs for the extraction of peat fuel principally as an alternative to coal in electricity generation. It is initially targeting thermal power plants such as the Ontario Power Generation's plants at Atikokan and Thunder Bay, Ontario. The Company is developing its first project in northwestern Ontario, some 130 kilometers from Thunder Bay.

High energy prices are encouraging development of alternative energy supplies

The dramatic rise of coal and oil prices during the past year is driving the search for alternative energy sources. Thermal coal is now selling for over US\$60 a tonne, a 107% increase in price since 2002. Peat's processed peat fuel offers comparable energy levels to coal.

Fuel peat is a viable alternative to coal for power generation

While not a common fuel source in North America, peat is used extensively in Ireland, Scandinavia and Eastern Europe.

In the longer term, environmental concerns underpin increased use...

In the longer term, the relative merits of peat energy will be supported by its significantly lower levels of mercury and SO₂ emissions and its 20-25% lower impact on greenhouse gasses than coal.

..and market opportunities

The Ontario government's decision to close its coal-fired power stations by 2007 is an opportunity for unconventional energy sources such as peat fuel. Peat Resources believes that peat fuel could replace coal with minimal conversion costs at Ontario Power Generation's existing coal-fired plants, such as the electricity generators at Thunder Bay and Atikokan. The proximity to Peat's property would result in relatively low marketing and transportation costs.

Thunder Bay Project

The Company holds Land Use Permits (“LUPs”) from the Ontario Ministry of Natural Resources for the exploration of approximately 186,500 hectares of land centered around the town of Upsala. Exploration has defined 56 individual peat lands of which 32 have been explored, with 4 major study areas.

Sufficient resources for 20 years of production

Estimates of indicated and measured resources compliant with National Instrument 43-101 indicate sufficient resource to support an extraction facility of one million tonnes per year of peat at 10% moisture content for a 20-year life.

Phase 2 feasibility studies dependant on funding

The Company is currently raising approximate C\$10m to complete feasibility studies and increase its resource portfolio. Following the successful completion of its feasibility study a further C\$120m of project financing, predominantly debt, will be required to develop production facilities.

Some stakeholder concerns still to be addressed

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 Nations reserves; and the near-by rural communities.

Negotiating long term fixed take-or-pay contract with OPG

The Company is seeking to negotiate a fixed take-or-pay style contract with OPG at approximately C\$70 per tonne. It is not clear whether this will be achievable. It is likely that financing for production facilities will be dependent on securing a long term contract.

Approximately 2 years to develop

The Company estimates that production can be established within the next two to three years. However, there is a significant possibility of delays in establishing operations and compliance with environmental assessment processes.

Net Cashflow of C\$42m pa before tax

At full production the project is expected to generate cashflow of C\$42m before tax.

Peat pellets as fuel



Valuation

If Peat's project can be successfully developed, a value of C\$153.6m (C\$2.22 per share)

The company is at an early stage of developing its operations and has yet to establish long term contracts for its planned production. For investors, the key points of concern are:

- **Successful completion of the feasibility study:** the Company has built a considerable body of experience over the last two decades. Given the Company's background and experience, we think it likely the feasibility studies will be successful;
- **Market acceptance:** it is likely that the Company will need to enter long term fixed take-or-pay contracts to be able to secure project financing for its production facilities. Peat is at an early stage of such discussions.

In addition there is uncertainty over the cost and timing of establishing the Company's extraction facilities and the ongoing operating costs. These issues will not be resolved until the completion of the engineering and feasibility studies. The company will need to raise further funds to establish production facilities.

Peat Resources' plans to identify and develop further projects either as the resource owner or operator for other owners of peat resources. There is the potential for the Company to significantly increase its value above the potential of the current project as further opportunities are identified.

The Company has committed to convert to an income trust in 2008. The effect of this is that the company will cease paying corporate tax. This will benefit certain classes of investors who will be able to defer the increased income tax liability.

As Peat successfully moves through feasibility and securing long term contracts there will be considerably more certainty over its valuation. On current assumptions, if Peat is able to achieve this then we estimate its existing project to be worth C\$153.6m (after funding). Put another way, the current share price implies the market believes Peat has less than a 1-in-10 chance of successfully developing this project.

There is work to be done, particular in negotiating long term contracts for its production. A more likely scenario is that the project is delayed and contacts are concluded in a less favourable energy market. Even then we estimate the final operating project to be worth approximately C\$0.87 per share.

Our view – base case valuation of Peat Resources (long-term contract rate of C\$70/t)

Potential value to current equity holders of
 Thunder Bay Project C\$153.6m
 - per share C\$2.22

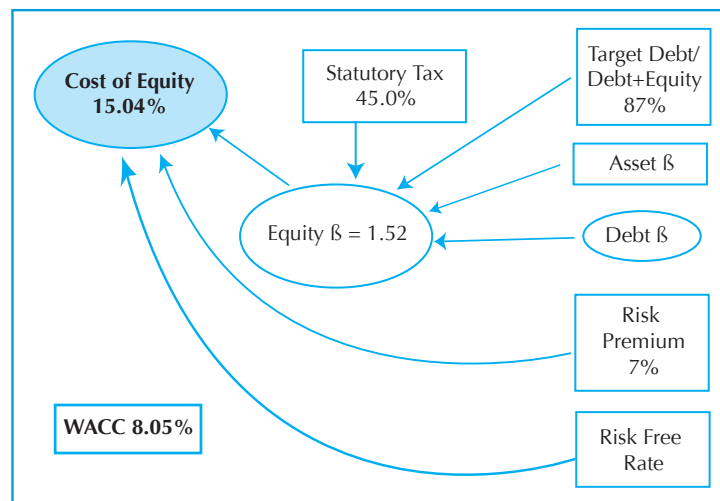
Key Assumptions

Normalised Pretax Cashflow C\$42m
 Long term contract rate* C\$70/t
 Gearing Level 87%
 Cost of Equity 15%
 Cost of Debt 9%

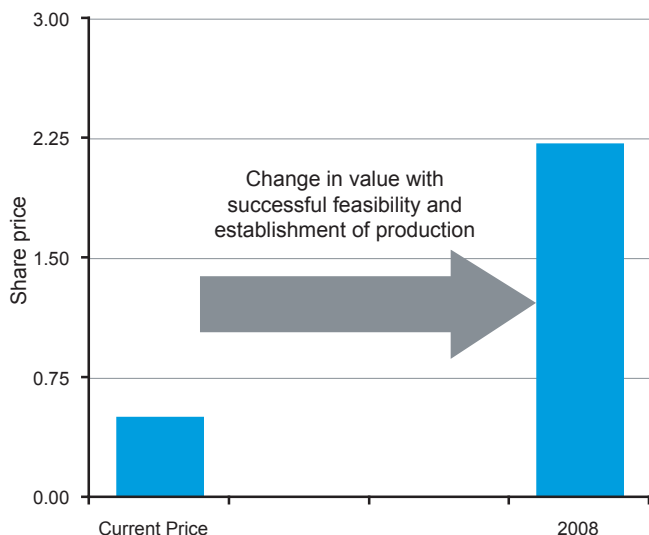
Other Assumptions:

- company converts to income trust in 2008
- terms of long term contract include inflation adjustment factor
- further C\$10m raised to fund feasibility
- further C\$16m raised to fund project development
- * current energy equivalent price of coal

Weighted Cost of Capital



Change in price as uncertainty removed



Sensitivity of valuation of Thunder Bay project

Potential value of Thunder Bay project to equity holders*

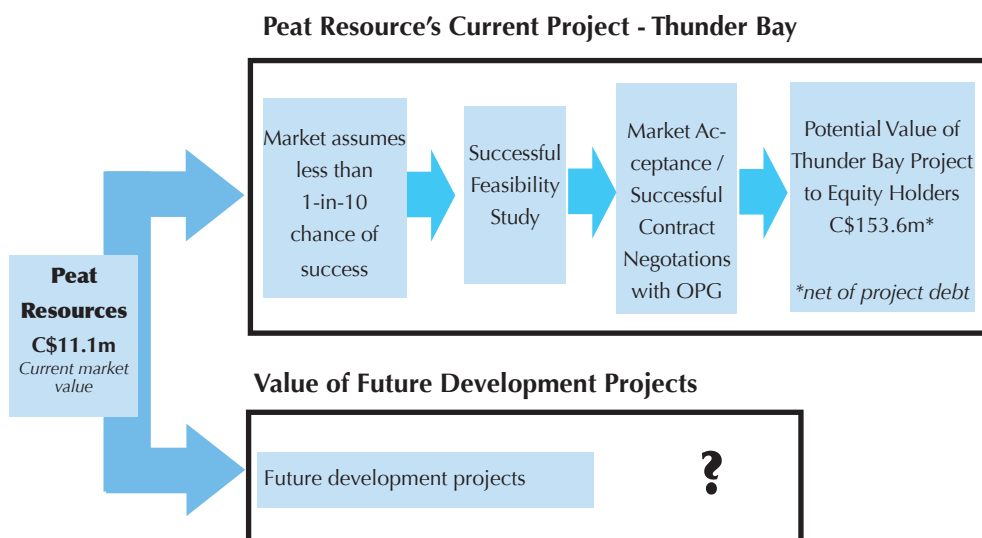
Production Start	Base Contract Rate (C\$/t)			
	60	70	80	140
2008	93.5	153.6	213.7	574.3
2009	78.8	134.4	190.0	523.7
2010	65.2	116.7	168.1	477.0

Per share

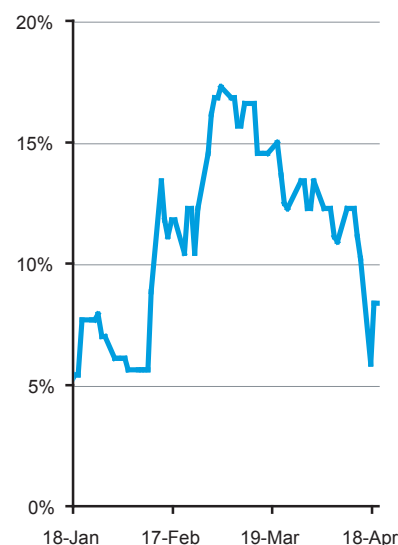
Production Start	Base Contract Rate (C\$/t)			
	60	70	80	140
2008	1.31	2.22	3.14	8.68
2009	1.08	1.93	2.78	7.90
2010	0.87	1.66	2.45	7.19

* * after deducting project debt and allowing for dilution of planned fund raisings

What the market is telling us



Market's view of chance of success



Key risks

Market Risks:

- **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:** Despite on-going discussions with Ontario Power Generation, Peat's key target market, 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.

Project Risks:

- **Limited experience and unproven technology:** While the Company has extensive mining experience, they have 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 recently 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 tpa at 10% moisture content. (Resource definitions provided in Appendix 2 on page 21.)
- **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 near-by rural communities. These may result in delays in establishing production.
- **Funding/Dilution:** Peat Resources must raise sufficient funding, estimated at around C\$130 million, to cover the cost to explore, identify, mine, and process the peat, and bring it into commercial production. This will result in equity dilution given the modest current market capitalisation, even though C\$10m is likely to be successfully raised next month from a private placement of C\$10m of units. In our opinion, project funding will depend on securing long term fixed take-or-pay contracts.

Peat Resources Limited was formed in 1980 to explore, develop, produce, and market peat as a substitute for coal in power-generating plants.

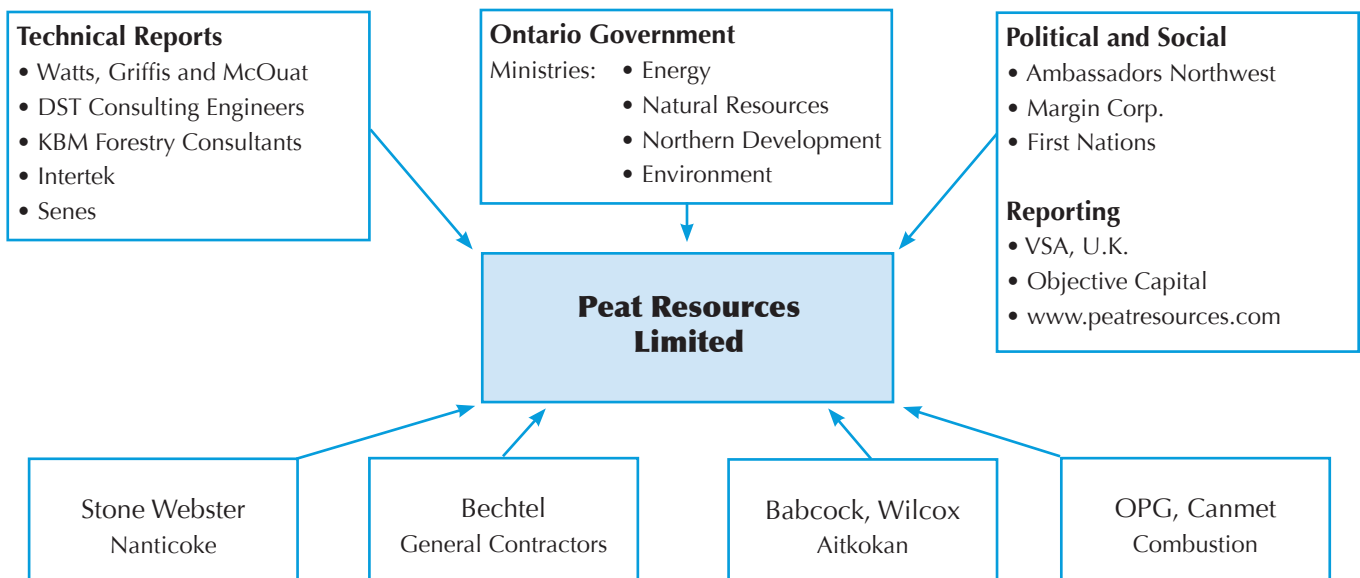
During the late 80s and early 90s the Company conducted extensive research into peat harvesting and processing technologies. The Company's project was placed on hold in the mid-1990s due to low energy prices. With the rebound in energy prices and the Ontario government's commitment to eliminate coal-fired electricity generation in the province, Peat has reactivated the project.

Peat Resources' ultimate objective is to identify and develop peat bogs as either operator or a resource owner for the extraction of peat fuel principally for use in electricity generation, initially for thermal power plants such as the Ontario Power Generation's plants at Atikokan and Thunder Bay, Ontario.

The Company is currently developing its first project near the town of Upsala in northwestern Ontario, some 130 kilometers from Thunder Bay. During the winter of 2004/05 the Company spent C\$1 million on sampling and testing to delineate more fully the extent of the available resources in the permit area. Estimates of indicated and measured resources (compliant with National Instrument 43-101) indicate sufficient resource to support an extraction facility of one million tonnes of peat per year at a 10% moisture content level for 20 years. This will be one of the largest peat extraction facilities in the world.

The Company is currently raising approximate C\$10m to complete feasibility studies and increase its resource portfolio. Following the successful completion of its feasibility study a further C\$120m of project financing, predominantly debt, will then be required to develop production facilities.

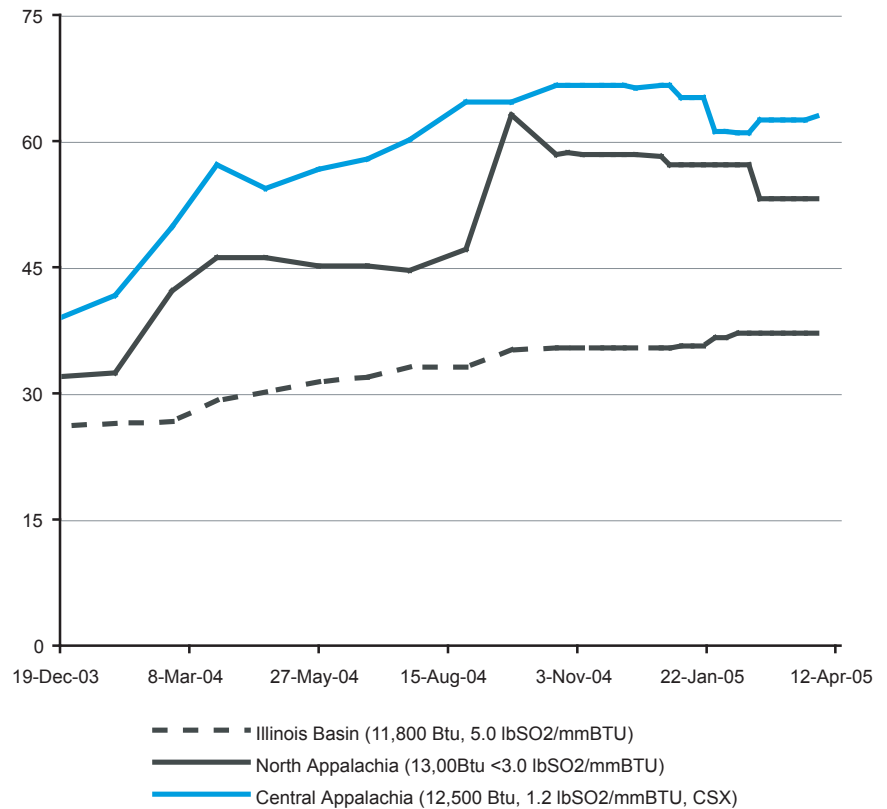
Peat Resources – relationships for the implementation of the project



Source: Company

The Market for Peat Fuel

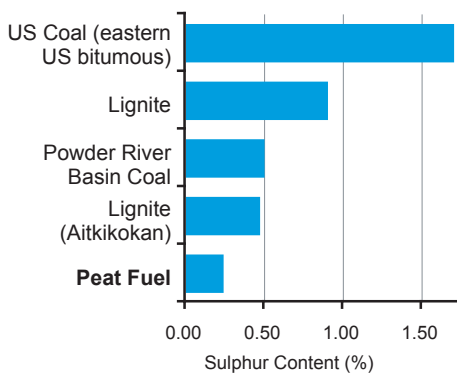
Average Weekly Coal Commodity Spot Prices



Role of Peat Fuel

Rising energy prices and increasing environmental concerns are encouraging the exploitation of unconventional energy sources such as peat fuel.

Sulphur content of fuels



Dry matter	Sulphur
Peat Fuel	0.24%
Lignite	0.90%
Lignite (Atikokan)	0.47%
Powder River Basin Coal	0.50%
US Coal (eastern US bituminous)	1.70%

Source: Ontario Hydro Ltd. (1990) Combustion Characteristics of a Processed Peat Sample

The price of coal has increased substantially over the last few years, driven mainly by China whose economic growth is running at between 8% and 9% annually, while its energy consumption is growing at 12% a year. Thermal coal is now selling for over US\$60 a ton. Similarly, oil prices rose dramatically last year and have regularly exceeded US\$50 a barrel. Some commentators are even speculating on levels as high as US\$100/bbl.

In the longer term, the relative merits of peat fuel will be supported by higher energy prices, allied with increasing regulatory pressure on oil and coal energy in terms of its environmental impact.

Of particular interest are mercury and sulphur dioxide emissions where peat fuel offers appreciably lower levels than for North American coal supplies. In the US coal market the soaring SO₂ allowance prices (currently above US\$700 per short ton) are already increasing the value of inherently low-sulfur 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 those allowances.

Less certain will be the impact of the Kyoto Treaty and any move to carbon emission pricing that may result. Canada signed-up to the Treaty in 2002 and needs to cut carbon emissions to 6% below 1990 levels by 2010.

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 to 20%, for example, in Ireland.

Company's Strategy

The Company plans to identify and develop properties in close proximity to large Canadian customers or where transport costs make it economic to ship further afield.

Its initial interest has been Ontario because of its extensive local knowledge, a lack of competing local coal supplies, and the provincial government's "commitment" to phase out coal-fired electricity generators by 2007.

Peat Resources believes that peat fuel could either replace coal (or lignite) or mix to fire existing coal-fired plants, such as Ontario Power Generation's (OPG) electricity generators at Thunder Bay and Atikokan. The proximity to Peat's Upsala property would result in relatively low marketing and transportation costs.

The Company is seeking to negotiate a fixed take-or-pay style contract with OPG for these plants at approximately C\$70 per tonne – or similar to the price of coal on a BTU basis. This highlights the C\$120m issue of whether a coal-fired power generator will agree to 'lock-in' peat offered via a take-or-pay contract on the basis of what they might see as current high coal prices or will instead seek to a) purchase at a sizable discount to spot prices and/or b), will expect a linkage mechanism to spot prices such that peat input costs would fall back if the price of coal declines.

The Company argues that given the power generators can no longer burn coal the appropriate benchmark is in fact the equivalent price of gas – or some C\$140 per tonne, not including the substantial capital and opportunity costs of converting their coal fired plants to gas. Naturally the power station owners might contend that even though they cannot burn coal a 'shadow' coal price is best.

It is not clear the degree of OPG's commitment to considering the conversion of either or both of the Thunder Bay and Atikokan coal-fired electrical generators to burning peat. A formal commitment from OPG would certainly place the project on a solid footing.

Peat processing plant



Aitkokan coal facility



Potential market in Great Lakes area



Another consideration is that the time and cost required to convert a coal-fired generator to operate using only peat unclear.

While there is urgency for a solution for OPG's plants, other electricity utilities located in the Great Lakes region represent potential markets for Peat Resources, although transportation costs to these sites would inevitably be higher. Examples of other potential peat users within Canada include: (a) other coal-burning electricity stations; (b) northern Ontario industrial plants, such as Abitibi or Bowater Resources' pulp mills; (c) mining and smelting operations; and (d) remote communities and First Nation communities.

Peat Resources is also in the early stages of considering properties in Newfoundland for supplying peat to the US east coast markets.

Peat Resources is currently developing its first project near the town of Upsala in northwestern Ontario, some 130 kilometers from Thunder Bay.

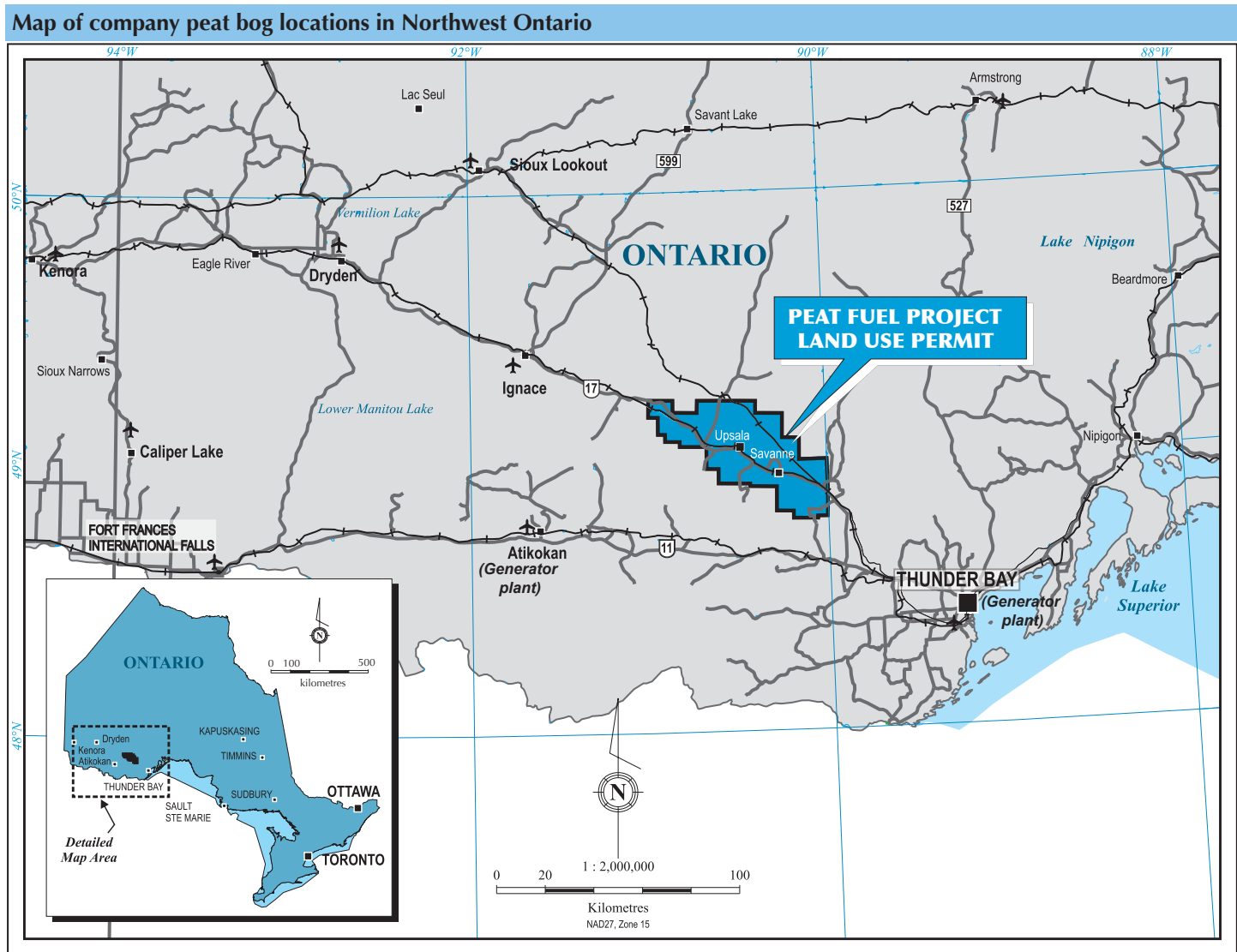
Thunder Bay Project

The Company holds Land Use Permits (“LUPs”) from the Ontario Ministry of Natural Resources for the exploration of approximately 186,500 hectares of land. Exploration has defined 56 individual peat lands of which 32 have been explored, with four major study areas.

Project Location

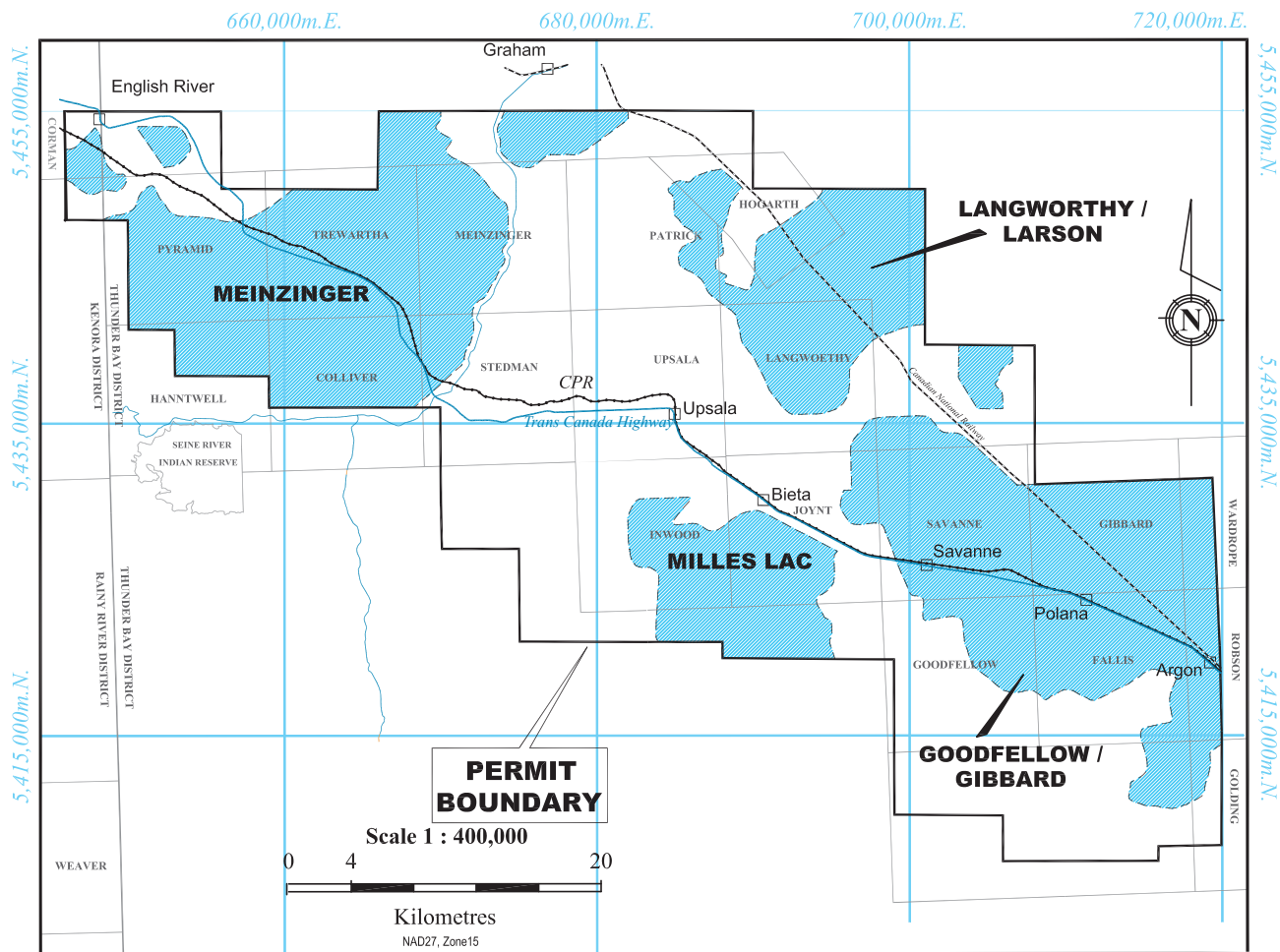
The area where the Company’s project is located is serviced by Canadian Pacific Railway (CPR), and the Trans-Canada Highway (Highway 17). OPG operates coal-fired thermal generating stations at nearby Thunder Bay and Atikokan.

There are also two First Nation reserves, Lacs des Mille Lac and Seine River, which are located on the southern perimeter of the property. These reserves form the Lac des Mille Lacs First Nation, which is represented by the Bimose Tribal Council of Treaty 3. The reserves are not occupied with band members living in the adjacent area.



Map courtesy of Watts, Griffis and McQuat

Map of company peat bog locations in Upsala Area in Northwest Ontario



Map courtesy of Watts, Griffin and McQuat

The peat bogs

The principal bogs and the townships (see diagram) where they are located are as follows:

Name	Township	Size (hectares)
Trewartha	Trewartha	1,500
Meinzinger	Trewartha, Meinzingler, 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

Trewartha and Meinzingler 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. (Source: Company)

Land use permits

The Company has held the rights to the property under a series of Land Use Permits issued by the Ontario Ministry of Natural Resources. The LUPs are granted for one year and must be renewed annually. Once the project reaches the development stage, the Company will enter into a longer-term lease agreement.

The permits have a number of conditions, including the following:

- 1) exploration activities shall be limited to core sampling;
- 2) no exploration is to be carried on within 800 meters of the bald eagle nests on Doats, Muskeg Lakes, and Lac Des Mille Lacs;
- 3) only peat exploration activities are to be conducted;
- 4) bulk sampling is limited to 500 m³ per site; and
- 5) excavation created as a result of exploration is to be rehabilitated to the satisfaction of the Ministry of Natural Resources.

None of these conditions restrict the Company in carrying out a comprehensive evaluation of the property.

Resources

Selected peat lands in the permit area have been explored by Peat Resources, the Ontario Geological Survey, and more recently by DST Consulting Engineers (under contract to Peat) with extensive peat resources being identified.

At the beginning of April, DST provided resources estimates compliant with the requirements of National Instrument 43-101. Of 54 defined individual peatlands varying in size from 74 to 1421 ha, DST explored thirty in terms of indicated resources and two as measured resources.

DST estimates resources for fuel peat at 10% moisture as:

- **Inferred Resources:** 0.8 million tonnes
- **Indicated Resources:** 18.5 million tonnes
- **Measured Resources:** 4.0 million tonnes

(Source: DST Consulting Engineers, Inc., 2005 Exploration Project, Fuel Peat Project, Northwestern Ontario, Canada)

Preliminary testing data indicates significant volumes of high-grade peat with an energy content of 8,500 BTU/pound, which is equivalent to, or better than, the energy content of coal that is currently used in electricity generation.

Analysis of calorific value of peat v. coals used in electricity generation

Properties	Upgraded Peat Fuel Res. Div.	Lignite (Design Fuel)	Lignite (Atikokan) Actual	Powder River Basin Coal (subbituminous)	U.S. Coal (eastern U.S. bituminous) Res. Div.	U.S. bituminous Actual
Proximate Analysis (as received)						
Calorific value (Kj/kg)	20,750	16,430	16,300	18,600-20,500	31,550	30,300

Source: Ontario Hydro Research Division, Report No. 90-174-P

Exploitation Issues

1. Environmental Issues

Drainage is likely to be 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. Moreover, the adverse impact of bog drainage can be mitigated by settling ponds and directing the drainage flow to adjacent wetlands to act as a filter or buffer before it reaches the surrounding rivers or lakes.

During the production phase, the environmental impact will depend on the method of harvesting or mining that is used. Dry harvesting can result in airborne dust. Wet mining or dredging could lead to the aforementioned drainage issues. The post-production phase will require planning to return the land to a condition that is suitable for subsequent use. An environmental consultant (SENES) has been engaged to undertake the necessary surveys, studies and consultations.

2. Stakeholder Issues

The development of the Thunder Bay project will require the establishment of working relationships with numerous stakeholders and the Company has stated that it has been engaging with stakeholders at both the local and provincial levels.

(a) Provincial Government Agencies/Regulations

- Ministry of Natural Resources (land use permits for exploration of the peat lands have been obtained and discussions have been initiated on various other regulatory matters);
- Ministry of the Environment (potential environmental assessment requirements; monitoring of water and air quality. Company staff and the Company's environmental consultants are maintaining ongoing liaison with Ministry officials on regulatory matters);
- Ministry of Transportation (Highway 17 and other road access issues);
- Ministry of Northern Development and Mines (Company has a close working relationship); and
- Ministry of Energy (Company has ongoing liaison with senior officials.)

The Peat and Peatland Disposition Policy of the Ministry of Natural Resources guides the two-stage provision of permits for Crown land that is to be developed. The first stage is the exploration and evaluation of the resources, while the second stage is development and production. Successful completion of the first stage is mandatory before receiving the Ministry's permission to proceed to stage two.

(b) Forestry Industry

Bowater and Abitibi-Consolidated hold large forestry concessions on parts of Peat Resources licensed property. Once development starts, the use of private logging roads will have to be arranged. Abitibi holds the rights to a peat land northeast of the land held by Peat Resources.

(c) Railways

The CP mainline runs parallel to Highway 17 in the middle of the permit area. Arrangements will need to be negotiated for access crossings of this line and possibly the location and construction of rail sidings. The railway companies will also need to be consulted about drainage and the possible impact on the foundations of their railway tracks.

(d) First Nation Peoples

Two First Nation reserves are located in the area but they lie outside the boundaries of the land permits held by Peat Resources and are currently not inhabited. The Company is developing a strategy for engagement of First Nations groups in the implementation of the peat fuel project.

(e) Communities

Hunting, fishing, and commercial trapping is undertaken in the area near the Savanne River and in the Lac des Mille Lacs area. A number of private cottages are located near the lakes in the region. Peat Resources has already initiated discussions with members of these communities (e.g., Savanne River Lodge) on the environmental and economic impact of its planned development. Savanne River Lodge provided accommodation services to the field crews during the winter 2004/5 field programmes and is very supportive of the project.

Project Development and Financials

Projected Phase 2 costs

	C\$m
Engineering Testing	3.0
Process Engineering Design	4.5
Environmental Plan	1.0

Total cost 8.5

Development costs

Production Facilities	C\$m
Capital cost	120.0

Total Cost 120.0

Estimated cash operating costs*

	C\$m
Operating Costs	
- Labour	8.1
- Plant maintenance	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 Costs 28.0

* based on 1m tonnes per yr, 10% moisture

Source: Company

Key milestones

Secure additional sites across Canada:	2005
Final development phase, Thunder Bay:	Q1 2006
Completion of C\$120 million financing:	Q1 2006
First Peat Fuel Production, Thunder Bay:	2008
Second Production Site:	2009

Source: Company

During the winter of 2004/05 the Company spent C\$1 million on sampling and testing to delineate more fully the extent of the available resources in the permit area. Resource estimates indicate sufficient high-grade peat to support an extraction facility of one million tonnes of peat per year with a moisture content of 10%.

A further C\$8.5 million will be required to complete the second phase of engineering and feasibility studies. The Company is currently seeking C\$10m to meet these requirements and acquire two further properties.

Following the successful completion of feasibility studies, approximately C\$120m will be required to develop production facilities at Upsala. It is likely that 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\$16m 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 Thunder Bay and 2009 for a second plant. There is a significant possibility of delays in establishing extraction operations. Ultimately, project financing will be dependent on securing a long-term commitment from a significant customer.

Given the early stage of development it is difficult to accurately estimate ongoing production costs. The Company estimate these will amount to C\$28m per annum.

Select historic financial information

6 months ending Nov., C\$ **2004**

Balance Sheet:

Cash	95,576
Other Current Assets	7,490
Deferred Project Costs	1,784,089
Other Assets	0
Total Assets	1,887,155
Current Liabilities	1,044,885
Debt Obligations	133,550
Total Liabilities	1,178,435
Shareholders' Equity	708,720
Total Liabilities & Equity	1,887,155

Book Value (S.E.) Per Share 0.09

Statement of Income/(Loss):

Operating Income	0
Non-Operating Income	0
General & Administrative Expense	(149,911)
Amortization & Non-Cash Items	0
Stock-based Compensation	0
Other Expenses	0
Net Income (Loss)	(149,911)

Shares Outstanding 8,059,655
Earnings (Loss) Per Share (\$0.02)

Statement of Cash Flow:

Net Income (Loss)	(149,911)
Amortization & Non-Cash Items	0
Cash Flow from Operations	(149,911)
Capital Expenditures (Properties)	(130,965)
Other Investing Items	0
Working Capital Changes	44,730
Free Cash Flow	(236,146)
Equity Financing	320,000
Debt Financing	0
Change in Cash	83,854

All direct costs associated with the development and exploration of peat fuel are capitalized 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. Shareholders' Equity has been augmented by an C\$3.6 million issue in January 2005.

Peat Resources is an exploration company that has yet to attain production. As a result, it does not produce any revenues, only expenses and, therefore, Net Losses. It has to fund exploration and development through the capital markets. Costs have been well contained to date.

To date, the Company has spent very little on property development. However, this is about to change as the Company moves forward to bringing its property to the commercial stage. This will entail considerable new financing, expected to be in the order of C\$130 million.

Outlook:

- **Revenue:** The Company is at an exploration and development stage and currently has no revenues. Following successful completion of further feasibility studies, production financing and establishment of the Company's extraction facilities, its annual full production rate is expected to be one million tpa of 10% moisture peat. Full production is expected to be sustainable for 20 years. The Company has had preliminary discussions at indicative long-term contract rates of C\$70 per tonne.
- **Burn Rate:** The Company's burn rate is now C\$25,000 monthly or C\$300,000 annually, and is expected to rise significantly as it nears commercial production. The Company has sufficient funds to undertake the current exploration program, including environmental assessment. However, a further C\$10m is required to complete feasibility studies on its Thunder Bay project and a further C\$120 million to commercialize the project.
- **Capital Structure:** The Company has approximately 25.86 million shares outstanding (which will rise to 45.86m on 15/5/05 once the planned private placement closes). The current market capitalization is C\$11.1 million. The number of fully diluted shares is 35.09 million (65.09m as of 15/5/05). The Company had C\$125,000 in loans payable as of November 30, 2004.
- **Warrants:** The number of warrants outstanding are as follows:

Number	Average Exercise Price	Expiry Date
8,902,344	C\$0.25	January 10, 2007

- **Past Financing:** In the fourth quarter of 2004, the Company raised C\$350,000. In January 2005, the Company raised an additional C\$3.6m, which has been used on activities leading to the pre-feasibility study including refining resource estimates to the “Indicated” etc level.
- **Future Financing:** In May 2005 the Company is seeking to raise C\$10 million via the issue of 20m units (a unit comprising 1 share and half a warrant to acquire 1 share). This provides for a program of process development, engineering test work, and environmental, market, and financial studies, that would lead to the completion of a feasibility study by early 2006. A further C\$120 million of project financing will be required to commercialize the Company’s Thunder Bay project. This funding will depend on the Company having secured long term markets for its fuel peat.

Appendix 1: Management

Leon La Prairie, B.Sc., P.Eng., *President & CEO, Director*

Mr. La Prairie has been the President and CEO of Peat Resources since 1980. Through his own company, La Prairie Limited, he has extensive joint venture experience with the majors including Noranda Mines Ltd., Falconbridge Nickel Mines, Dome Petroleum, Inco Ltd., Imperial Oil, Rio Tinto Ltd., Hudson Bay, Rayrock, Eldorado, Urangesellschaft Ltd., and Conwest Exploration Ltd.

Peter Telford, B.Sc., PhD., *COO and Director*

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.

Patrica Mannard, BA., *Secretary, Treasurer, CFO and Director*

Ms. Mannard has 15 years financial reporting experience within the junior mining sector.

William Allen, *Director*

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

John Dowsett, B.A.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.

John Loewen, *Director*

Mr. Loewen has had fifteen years of international stock brokerage and investment banking experience, principally in energy and resources. He is a partner in Loewen & Partners, a private equity finance firm.

Andrew Rickaby, *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 worked for Inco Ltd., Canadian Johns-Manville, Canadian Mine Services, and Denison Mines Limited.

Slava 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 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 2: Definitions

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.

The CIM terminology and definitions used in this report are as follows:

Qualified Person

Estimates of mineral resources or reserves and the resulting Technical Reports therefrom 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.

Mineral Resource

Mineral Resources are 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.

Inferred Resource

An Inferred Mineral Resource 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.

Indicated Mineral Resource

An Indicated Mineral Resource is that 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.

Measured Mineral Resource

A Measured Mineral Resource is that 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.

Appendix 3: Images of the peat and sampling process



Extracting peat core samples in Ontario



Extracting peat core samples in Ontario



Examining a peat core sample



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