MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MAY 31, 2006

This Management Discussion and Analysis ("MD&A") reviews the business and financial performance of Cline Mining Corporation ("Cline" or "the Company") for the six months ended May 31, 2006. It was prepared using information that is current as of July 12, 2006 and should be read in conjunction with the unaudited consolidated financial statements for the six months ended May 31, 2006, as well as the consolidated audited financial statements and for the year ended November 30, 2005 together with the related Annual MD&A. The Company's financial statements include those of its subsidiaries, Iron Ore Corporation of Madagascar SARL ("IOCM") and URAMAD, Uranium Corporation of Madagascar SARL ("URAMAD") and have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars.

Certain information set forth in this MD&A includes management's assessment of the Company's future plans and contains forward-looking statements. Although this information is based on the Company's current internal expectations, assumptions and estimates, it may prove to be incorrect. These forward-looking statements are not guarantees of future performance and undue reliance should not be placed on them. They are subject to unknown risks and uncertainties which may include, among other things, changes in economic and market conditions; inherent uncertainties associated with estimating reserves; changes to legislation; commodity prices; ability to renew licenses; and actions by governmental or regulatory authorities.

OVERVIEW AND DESCRIPTION OF BUSINESS

Cline is in the business of locating, exploring and developing mine mineral resource properties and substantially all of the efforts of the Company are devoted to these activities. The Company’s corporate goal is to become a profitable, growth-oriented miner of Canadian and international mine product resources of merit. The Company owns metallurgical coal, iron-ore and uranium properties located in Canada and Madagascar. The Company has completed feasibility reports and is at the mine permitting stage with respect to its Lossan and Lodgepole coal mine properties. Both coal mine projects are located in British Columbia, Canada; Lossan is in the Peace River coalfield in the northeast area and Lodgepole is in the Crows Nest Coalfield in the southeast. Both properties contain metallurgical coals for use in steelmaking scheduled for export into world steel mill markets. The two properties contain a total of 340.7 million tonnes of coal in place calculated and compliant with Canadian National Instrument 43-101.

In addition to Lossan and Lodgepole, the Company has other coal properties and claims in British Columbia, including Sage and Cabin Creek and Crown Mountain in the Southeast area, and additional coal properties in the northeast area of B.C. The Sage and Cabin Creek properties contain major coal resources of high quality metallurgical hard coking coal in place. The development of these two properties is subject to a revision by the B.C. Government of its current coal development policy in the southeast area of the Province where a coal mining moratorium is in effect.

The Company also owns the Bekisopa iron-ore deposit property and the Morondava uranium property in Madagascar. This Bekisopa iron-ore property includes the extensive exploration data base prepared by BRGM, the French Government exploration company, the United Nations (Development Program) and the Government of Madagascar. The Company is evaluating its development options and alternatives in light of the significant iron ore demand and price increases in the international marketplace, and interest expressed to the Company by the steel industry. The Company is in discussions with respect to financing and carrying out an extensive uranium exploration program on its Morondava uranium properties, which cover an area of approximately 9,994 square kilometres within the Morondava Basin of Madagascar. The Uranium properties include the data bases from earlier work carried out by Cogema of France, the United Nations (PUND) and OMNIS the resource agency of the Government of Madagascar.

Mitsui Matsushima Co. Ltd., the Japanese coal mining company and ThyssenKrupp MinEnergy GmbH of Germany, are significant shareholders of the Company and marketing and sales agents for the sale of coal in their respective exclusive sales territories around the world. Both companies are represented on the Board of Directors of Cline.

The Company operates in one industry, with properties located in Canada and Madagascar.

REVIEW OF OPERATIONS AND PROJECTS

The Lodgepole and Lossan Mine Projects

The Lodgepole coal mine project is located in the Crowsnest coalfield of southeastern British Columbia approximately 33 kilometres from the Canadian Pacific Rail line near Elko. The Lossan coal mine project is located approximately 15 kilometres southeast of the main Canadian National Rail line in the Peace River Coalfield of northeastern British Columbia.

The Feasibility Studies on the Lossan and Lodgepole coal mine projects were completed by Norwest Corporation and G. R. Technical Services Ltd. respectively in December 2005 and January 2006. The following table provides a summary of the NI 43-101 based resources and the reserves used from the resources to meet the coal production requirements under the Feasibility Studies:

PROPERTY	IN PLACE RAW COAL RESOURCES (millions of tonnes)		PRODUCT COAL RESERVE * (millions of tonnes)	PRODUCT STRIP RATIO (bank cubic meters of waste per product coal tonne)
	Measured	Indicated		
LOSSAN	108.8	77.3		
	186.1		13.9	10.2:1
LODGEPOLE	105.9	48.7		
	154.6		40.6	8.0:1

* **Note**: The Product Coal Reserve has been taken from the In Place Raw Coal Resources to provide the clean coal sales projected and required to meet the first phase of each mine development, as provided in the respective Feasibility Studies mentioned above

The annual product coal production for sale and related mines planning data are shown on the following table:

PROJECT	ANNUAL PRODUCT (000's tonnes)	MINE LIFE (Years)	NO. OF OPEN PITS	NO. OF WASTE DUMPS	AVERAGE PRODUCT STRIP RATIO (Years)	AVG. HAUL DISTANCE MINE TO PLANT (Km)
LOSSAN	1,000	13	7	8	10.2 : 1	18
LODGEPOLE	2,000	20	1	1	8.0 : 1	1.5

The coal preparation plants for both mine developments are conventional state of the art facilities. The Lodgepole plant is similar in design to the existing Elk Valley Coal Corporation plant reflecting the treatment of fine coal typical of southeastern B.C. coal deposits. The Lossan plant is simpler in design due to the coarser nature of the Gething coal seams in the northeast coalfield.

The Lossan mine will produce both medium volatile metallurgical coking coal and Pulverized Coal Injection (PCI) coal. At Lodgepole, low volatile PCI coal will be produced which can also be marketed as a blend component in hard coking coals. The product quality parameters are as follows:

PROJECT	MOISTURE	ASH	VOLATILE	SULPHUR	FSI
LOSSAN (PCI)	8%	8.0%	24.0%	0.37%	+2
LOSSAN (MET)	8.2%	8.5%	26.5%	0.37%	+6
LODGEPOLE (PCI)	8%	10.0%	19.1%	0.45%	+2

Lodgepole Current Work

The British Columbia Government mine permitting processes have commenced for the development and construction of a 2 million tonne per year product open pit coal mine in accordance with the recently completed Feasibility Study.

The first formal permitting meeting for Lodgepole was held with the British Columbia Environmental Assessment Department in Cranbrook B.C. in late March. The timing for completion of the Government permitting will be dependent upon the extent of the process requirements.

Lossan Current Work

The Feasibility Study recently completed for the Company covered the development of a coal mine to produce a total of 1 million tonnes per year of metallurgical coking coal and Pulverized Coal Injection (PCI). The Company commissioned a further study and evaluation by Marston Canada, Ltd. from the project data base and existing mine plan model. This study is being used as the basis to evaluate and assess the potential to improve the initial mine development economics, including reducing the initial and overall stripping ratio, assessing the development of earlier coal production from a Small Mine (under 250,000 tonnes per year), custom processing raw coal, initial processing through a smaller modular coal preparation plant and long term full mine production options. A formal mine permitting application is pending a review of the study and a decision respecting the optimum mine plan economics and development program.

The Sage Creek & Cabin Creek Coal Mine Projects

The Sage Creek and Cabin Creek coal mine properties are located in the southeastern area of British Columbia to the south of the Elk Valley Coal Partnership's Coal Mountain coal mine and Cline's Lodgepole coal mine project. The Company confirmed through its independent NI 43-101 report in 2004 that these coal properties are high quality value metallurgical coking coal resources estimated in the 43-101 at 154.8 million tonnes of coal in place. The development of these mine resource properties is presently subject to a revision by the B.C. Government of its current coal policy in the southeast area of the Province where a coal mining moratorium is in effect. The British Columbia Government has notified Cline that the Sage Creek development rights will not be granted to any party other than Cline. The Company has recently received an independent engineering Scoping Study for the development of a mine on this important metallurgical coal Resource. The Scoping Study was sized at a coal production rate of 2 million tonnes per year for an initial 23 years which projects to revenues of $3.7 billion at current coal prices.

Crown Mountain Coal Project

The Company owns three Coal Licenses on Crown Mountain in the Crowsnest coalfield of southeastern British Columbia. B.C. Ministry of Energy and Mines Reports show in-place coal resources of 6.5 million tonnes from earlier reconnaissance work on the property (non 43-101 compliant – please refer to the Annual MD&A regarding historical resources). The coal is medium volatile metallurgical coal and Cline believes there is significant potential for additional coal resources. Cline plans to carry out a drilling and exploratory program this summer and the requisite work permits have been issued by the British Columbia Government.

Morondava Uranium Project

The Company, through its Madagascar subsidiary Uranium Corporation of Madagascar SARL (URAMAD) owns Permit rights to the Morondava uranium properties in Madagascar. The Permits cover an area of approximately 9994 square kilometres in the Morondava Basin which is infilled and layered with sediments, most notably the Karoo formation which hosts uranium. Under the agreement with the Government of Madagascar, the Company owns 80% of the issued shares of URAMAD and the Madagascar Government agency OMNIS owns the remaining 20% share interest. The Permit area was previously explored during the uranium cycles of 1956 to 1963 and 1979 to 1982 by the United Nations (PUND), OMNIS and later Cogema of France. The Company has the extensive data base including airborne survey and drill results. Cline plans to carry out a new state of the art high-sensitive radiometric airborne survey over the 7,000 radioactive areas previously identified to confine the anomalous areas to uranium, excluding potassium and thorium which were not technically capable of being distinguished in the early years. The Company is presently in advanced discussions with respect to the financing of a uranium exploration program on its Morondava uranium properties to commence this summer and includes drilling and the new advanced airborne survey.

Bekisopa Iron- Ore Property

The Company owns the Bekisopa iron-ore property in Madagascar and is presently evaluating iron-ore and related development opportunities at the instance of and in conjunction with its strategic partners in the steel industry. Bekisopa has an extensive data base of earlier exploration and test work prepared separately by BRGM, the French Government exploration company, the United Nations (Development Program) and the Government of Madagascar. Bekisopa covers an area of 25 square kilometres.

The data base reports the iron formations as being primarily magnetite with iron grades across the deposit at between 25 per cent and 65 per cent (density 2.5 to 4.75) averaging 45 per cent. The elluvial lateritic surface part of the deposit reported grades of between 40 per cent and 65 per cent iron. The results reported include extractions in the order of 70 per cent by magnetic separation with an additional flotation unit.

The United Nations data indicates that the resource tonnage of the deposit could approach 150 million tonnes. Following two phases of study on the property in 1976 and 1977, the resource tonnage was estimated at 98.6 million tonnes. The Bekisopa iron-ore deposit would be amenable to extraction by open-pit-mining methods. The UN further concludes that the available data indicate that the iron deposit is of considerable economic interest and require further evaluation. (The resources referred to above are historical in nature and were compiled before National Instrument 43-101. Cline has not explored this potential or independently analyzed the reports; therefore, these historical results should not be relied upon. Cline believes these historical results provide an indication of the potential of the property and are relevant to ongoing exploration).

Cline Lake Gold Property

The Company owns the Cline Lake Gold Mine property near Wawa, Ontario, Canada. The Cline Mine was a previous small gold producer. More recent work, including 50,000 feet of drilling by Noranda Exploration Company, Limited, identified four areas on the property with economic potential. The Company announced some time ago that it considered it prudent to carry out a modest program to seek to enhance the opportunity and determine how best to maximize shareholder values in the property.

In September 2005, the Company completed a 2500 foot drill program which was designed to test for a continuation of the 88-60 zone below the sill, previously discovered by Noranda. Both holes successfully intersected the zone below the sill, thus opening up an extensive area for further drill testing along strike in both directions and down-dip.

OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Highlights of Quarterly Results:

Quarter Ending	Revenue (interest income)	Net Loss	Net Loss per Share
May 31, 2006	$80,621	$286,248	$0.005
February 28, 2006	64,743	361,519	0.007
November 30,2005	80,942	979,451	0.018
August 31, 2005	60,260	364,841	0.007
May 31, 2005	41,912	749,725	0.015
February 28, 2005	41,298	154,951	0.004
November 30, 2004	13,410	137,510	0.003
August 31, 2004	96	158,711	0.006

Three months ended May 31, 2006 compared to the three months ended May 31, 2005

For the quarter ended May 31, 2006, Cline recorded a net loss of $286,248 compared to a net loss of $749,725 in the same quarter the previous year. The net loss for the quarter ended May 31, 2006 includes a non-cash charge of $Nil (2005 - $413,000) for stock-based compensation expense. Travel and accommodation decreased to $52,188 from

$73,792 for the same period in 2005 principally as a result of additional travel in 2005 with respect to negotiation of agreements and property assessments. Consulting and management fees have increased to $114,615 from $102,600 in 2005 due to additional expenditures required for external consulting services. Director's fees and related expenses have increased to $52,668 from $41,718 in 2005 due to increased attendance requirements at meetings by directors during the current quarter. Legal and audit costs have decreased to $15,486 from $42,367 in 2005 as a result of increased legal work in the prior year. Expenditures relating to investor and public relations decreased to $36,307 from $57,330 in 2005 due to the termination of external investor relation services. Interest income of $80,621 (2005 - $41,912) reflects an increase in general interest rates and the investment of additional funds from the exercise of warrants during the current quarter. The write down of other assets in the amount of $19,981 (2005 - $Nil) reflects the write-off of advances to Ridley Shippers Coalition Corp.

Exploration and development expenditures for the three months ended May 31, 2006 amounted to $732,269 compared to $1,758,125 for the comparative period in 2005. This decrease results from decreased work compared to 2005 when feasibility studies were underway on both the Lossan and Lodgepole coal properties. These feasibility studies were completed in December 2005/January 2006. Mineral property acquisition costs for the same periods were $100,000 and $110,664 respectively.

In accordance with the change in accounting policy as described in this MD&A, a non-cash charge of $Nil (2005 - $413,000) was recorded for stock based compensation..

Six months ended May 31, 2006 compared to the six months ended May 31, 2005

For the six months ended May 31, 2006, Cline recorded a net loss of $647,767 ($0.011 per share) compared to a net loss of $904,678 ($0.019 per share) in the same period the previous year. The net loss for the period ended May 31, 2006 includes a non-cash charge of $Nil (2005 - $963,000) for stock-based compensation expense and a provision for future income tax recovery of $Nil (2005 - $614,000).

Property assessment costs of $43,784 (2005 - $Nil) incurred during the period related principally to work on the Company's Sage Creek/Cabin Creek coal properties. Consulting and management fees for the current period increased to $243,600 compared to $207,975 in the same period the prior year, as certain consulting costs were expensed in the current period whereas in 2005 they were capitalized as deferred exploration and development expenditures. Director's fees and expenses increased to $103,024 during the current period compared to $78,056 for the corresponding period in 2005 due to increased travel and meetings. General, administrative and office costs increased from $78,056 in 2005 to $110,299 due to increased Madagascar overheads and certain expenditures relating to the Lossan and Lodgepole coal projects which were capitalized as deferred exploration costs in 2005and are now being expensed. Expenditures on transfer agent and filing fees increased principally as a result of the Company's graduation to the Toronto Stock Exchange. The write down of other assets in the amount of $19,981 (2005 - $Nil) reflects the write-off of advances to Ridley Shippers Coalition Corp.

Deferred exploration and development expenditures for the six months ended May 31, 2006 decreased to $1,468,087 compared to $2,935,625,868 in 2005 due to the completion of the Company's feasibility and environmental studies in December 2005/January 2006 on the Company's Lossan and Lodgepole coal properties.

Interest income of $145,364 ($2005 - $83,210) was earned during the period on the investment of the Company's cash balance. The increase over 2005 reflects increased interest rates.

Financing Activities

During the six months ended May 31, 2006, the Company received $2,745,850 from the exercise of warrants and $20,000 from the exercise of stock options.

Liquidity and Capital Resources

As at May 31, 2006, the Company had cash and cash equivalents of $9,797,787, a decrease of $94,433 from November 30, 2005. Funds from the exercise of warrants and options as detailed under Financing Activities above provided a total of $2,765,8850 (2005 - $435,638) during the six month period. In addition, interest income contributed $145,364 (2005 - $83,210) during the same period. Expenditures on exploration, development and property acquisitions during the six months ended May 31, 2006 resulted in a negative cash flow of $1,619,880. The Company's working capital position at May 31, 2006 was $8,356,580 compared to $7,828,477 at November 30, 2005.

The following is a condensed summary of the Company's cash flow for the current quarter with comparative figures for the six months ended May 31, 2005.

	Six months ended May 31, 2006	Six months ended May 31, 2005
Cash and equivalents, beginning of period	**$ 9,892,220**	**$ 8,527,179**
Items not involving cash	35,167	353,707
Cash used in operations	(1,269,875)	(635,552)
Issuance of shares, net of issuance costs	2,765,850	435,638
Mineral property interests and related accounts	(1,619,880)	(3,056,289)
Acquisition of capital and other assets	(5,695)	(37,833)
Net decrease in cash for the period	(94,433)	(2,940,329)
Cash and equivalents, end of period	**$9,797,787**	**$5,586,850**

Contractual Obligations

Other than the financial obligations as set out below, there are no contractual obligations that will materially affect the Company's future liquidity; however, the Company's plans for the development of the British Columbia coal properties will significantly impact cash flow. Significant additional resources will be required to bring these properties to production. Based on the Feasibility Study Reports received by the Company, the estimated capital costs to bring the Lossan and Lodgepole Coal Properties to production are $57 million and $155 million respectively. It is anticipated that funding will be obtained through private placement of shares and/or project financing.

As at May 31, 2006 the Company’s contractual obligations included:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Operating Leases	$ 44,258	$ 57,814	$ 3,423	$ Nil	$ Nil

Commitments

In order to maintain its mineral properties in good standing, the Company is required to make annual payments of approximately $63,000 in coal licence fees to the government of British Columbia and $127,000 in exploration permit fees to the Government of Madagascar.

On October 6, 2005, the Company exercised its option to acquire the Lossan Coal property. In addition to the payment of $900,000 included in accounts payable and accrued liabilities at May 31, 2006 the Company is also required to issue 250,000 common shares. As of May 31, 2006 and the date of this MD&A the transfer of the property, the payment of the option price and the issuance of the shares had not been completed.

Transactions with Related Parties

During the six months ended May 31, 2006, companies or businesses controlled by officers or directors were paid consulting and management fees totalling $231,600 (2005 - $235,975) including $ Nil (2005 - $48,000) included in mineral properties and deferred costs. In addition, officers of the Company who also acted as directors were paid $24,000 (2005 - $36,000) in directors fees and a company controlled by an officer was paid $6,000 (2005 - $6,000) with respect to office support services.

Accounts payable and accrued liabilities at May 31, 2006 in the amount of $1,602,780 (November 30, 2005 - $2,254,375) includes amounts due to, or accrued as payable to, related parties in the amount of $86,837 (November 30, 2005 - $37,533) and is recorded net of amounts due from related parties of $35,464 (November 30, 2005 - $35,620). The parties are related by virtue of their shareholders or principals acting as directors or officers of the Company. These transactions were in the normal course of business and are measured at the consideration established and agreed to by the noted parties.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 of the audited financial statements for the year ended November 30, 2005. Two of these policies, due to the nature of the Company's business, are significant to the financial results of the Company. These policies relate to the use of estimates and the capitalization of mineral property expenditures and are set out below:

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclose contingent assets and liabilities, and report amounts of revenue and expenses during the period. Actual results could differ from estimates. During the fiscal periods presented, management has made a number of significant estimates and valuation assumptions, including estimates of the useful life of capital assets, the recoverability of investments and mining assets and the fair value of financial assets and liabilities. These estimates and valuation assumptions are based on present conditions and management's planned course of action as well as assumptions about future business and economic conditions. Should the underlying valuation assumption and estimates change, the recorded amounts could change by a material amount.

Mineral properties

The Company considers its exploration costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration costs including acquisition costs, field exploration and field supervisory costs relating to specific properties until those properties are brought into production at which time they will be amortized on a unit-of-production basis based on proven and probable reserves or until the properties are abandoned, sold or considered to be impaired in value at which time an appropriate charge will be made.

The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration, development and future profitable production or proceeds from disposition of such properties. Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions.

FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, receivables, prepaid expenses and deposits, accounts payable and accrued liabilities approximates their fair value due to the relatively short-term maturities of these instruments. The fair market value of marketable securities was $111,318 at May 31, 2006 (November 30, 2005 - $129,685).

Cash and cash equivalents include cash and bank term deposits and are stated at cost. Investments of cash and cash equivalents are of sufficient quality and diversity to ensure a high probability of liquidity at such times as needed to meet financial obligations.

OUTSTANDING SHARE DATA

Authorized Capital: Unlimited number of common shares without par value

Issued and outstanding shares as at May 31, 2006: 60,996,100 common shares

Warrants Outstanding as at May 31, 2006			
Number of warrants	**Number of shares**	**Exercise Price**	**Expiry Date**
5,000,000	5,000,000	0.75	January 8, 2007

Options Outstanding as at May 31, 2006		
Number	**Exercise Price**	**Expiry Date**
500,000	0.10	April 23, 2007
150,000	0.10	May 27, 2007
300,000	0.20	October 17, 2008
600,000	0.82	January 6, 2010
550,000	0.82	March 9, 2010
940,000	0.82	September 7, 2010
500,000	0.82	February 2, 2011

CONFLICTS OF INTEREST

Certain directors of the Company also serve on the board of directors of other natural resource exploration and development companies, thereby providing the possibility that a conflict of interest may arise. Any corporate decisions made by such directors are made in accordance with their duty and obligation to deal fairly and in good faith with the Company and such other companies. Directors are required to declare and refrain from voting on matters on which they have a conflict of interest.

OWNERSHIP AND LAND TITLE

Although title to the mineral properties has been reviewed by or on behalf of the Company, no assurances can be given that there are no title defects affecting such properties. The Company has not conducted surveys of the claims or licences in which it holds direct or indirect interests; therefore, the precise area and location of such claims may be in doubt. Accordingly, the properties may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, these undetected defects. In addition, the Company's coal properties may be subject to native land claims.

RISKS AND UNCERTAINTIES

The exploration and development of natural resources is a highly speculative activity that involves a high degree of financial risk. The risk factors, which should be taken into account in assessing the Company's activities, include, but are not necessarily limited to, those set out below. Any one or more of these risks could materially affect the Company and should be considered in assessing the Company's overall activities. These risks and uncertainties are detailed in the Annual MD&A

MARKET OUTLOOK

A significant factor in the outlook for the Company is the price of metallurgical coal used in steelmaking which is influenced by numerous factors beyond the Company's control, including international economic and political trends, fluctuations in currency, interest rates, competition, and improvements in mining and production methods. The global demand for hard coking (metallurgical) coal continues to rise, as crude steel production expands in pace with buoyant economic growth, particularly in China, India and other developing countries. The global supply of hard coking coal has been slow to adjust to increased demand, with a scarcity of higher quality Greenfield metallurgical coal properties available for economic development. This has also been compounded by a shortage of large scale mining equipment. Additionally, rail and port capacity limitations are expected to continue well into 2007. Early settlements for hard coking coal prices for the upcoming April 1, 2006 to March 31, 2007 Contract coal year have recently been reported between US$105 and US$116 per tonne. As a result of these supply-demand fundamentals, dominant hard coking coal exporting countries such as Australia and Canada are well positioned to meet long term demand for metallurgical coal.

The supply-demand balance for Pulverized Coal Injection (PCI) coal and semi-soft coking coal are less predictable, and a short-term supply surplus is expected to influence contract prices this next Contract year. Excessive ordering of PCI and semi-soft coals in 2005, together with a seasonal reduction in crude steel production has resulted in inventories at the steelmakers. This has led to an overcorrection in pricing for low volatile PCI and semi-soft coals, with settlements projected for this next Contract year in the mid to high US$60's per tonne depending on qualities

Medium and longer term, the Company believes that the market fundamentals for high quality PCI coals will be sustained and the difference between PCI coal and premium hard coking coal prices to narrow. As well, more mills like those in South Korea and Europe are increasing the ratio of PCI coal, which should improve demand and lead to prices more reflective of their value in reducing steel making input costs, than their relationship with lower quality coal.

Overall, given the forecasts for continued economic growth and steel demand in Asia, India and throughout the world, the Company anticipates the global steel industry will continue to be strong and that markets for metallurgical coal will stay robust.

UNINSURED RISKS

The Company, as a participant in mining and exploration activities carries insurance to protect against certain risks in such amounts, as management considers adequate. The Company may, however, become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Company may incur a liability to third parties (in excess of any insurance coverage) arising from negative environmental impacts or any other damage or injury.

CORPORATE GOVERNANCE

The Company's Board of Directors approves the financial statements and ensures that management discharges its financial responsibilities. The Board accomplishes this principally through the audit committee, which is composed of independent non-executive directors. This committee meets annually with the auditors and periodically with management to review financial matters. The Board of Directors has also appointed a compensation and corporate governance committee composed of non-executive directors.

OTHER INFORMATION

Additional information related to the Company including the Company's Annual Information Form is available on SEDAR at www.sedar.com and on the Company's website at www.clinemining.com.