Colonial Coal issue new PEA for Huguenot with improved economics

Colonial Coal {TSX.V: CAD}

Published an updated PEA for their Huguenot hard coking coal project in B.C.

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Comment

This new look at the project, is to have a stand-alone open pit mine, expanding the pit, to incorporate more coal than originally planned , then introduces the concept of leasing rather than buying the mining equipment, producing a $200 million capex saving.

This is an excellent job by Colonial, and achieved using Conservative coking coal prices, which is the correct thing to

do..

The objective was to examine the project economics to achieve an improvement, and they have achieved that in spades, shaving some $200 million of the initial CAPEX if they utilise leased mining equipment instead of purchasing outright. This makes a lot of sense, and makes the project far more attractive financially..

They have considered the use of trucking coal in lorries up to the railway loadout, rather than installing a new rail spur, which again looks the correct decision, lowering capex and speeding up the time the mine can be put into production, as logging roads already exist.

.This is a good update and Stantec and Colonial Coal's management team have created a much more attractive project at 40% lower capex yet still delivering the same IRR,

Please note this ignores the underground resources.

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Colonial Coal releases Huguenot PEA results

2019-11-26 07:46 ET – News Release

Mr. David Austin reports

COLONIAL COAL ANNOUNCES RESULTS OF A PRELIMINARY ECONOMIC ASSESSMENT FOR AN OPEN PIT ONLY MINE AT ITS HUGUENOT PROJECT

Colonial Coal International Corp. has released the results of

a recent preliminary economic assessment for a stand-alone open-pit option at the company’s 100-per-cent-owned Huguenot coking coal property, located approximately 85 kilometres southeast of Tumbler Ridge in northeastern British Columbia.

This PEA for the stand-alone open pit mine on the Huguenot Project is preliminary in nature and there is no certainty that the forecast results stated in the PEA will be realised. In addition, the PEA includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorised as mineral reserves, and there is no certainly that the preliminary economic assessment will be realised. Furthermore, mineral resources that are not mineral reserves do not have demonstrated economic viability.

The PEA report, prepared by Stantec Consulting Services Inc. (“Stantec”) in accordance with CSA National Instrument 43-101 (“NI 43-101”) standards, will be completed and filed on SEDAR (the System for Electronic Document Analysis and Retrieval) within 45 days. The results of the PEA show that the Huguenot Project continues to demonstrate positive economics, has viable development options and is worthy of advancement.

The current PEA report builds upon an original PEA report prepared in 2013 by Norwest Corporation that was updated in 2018 by Norwest, now Stantec, using then current scoping level cost estimates and economic analyses. The mining studies previously reported (September 24, 2013 and July 10, 2018 and by way of corresponding 43-101 Technical Report filings) were based upon exploiting the coking coal resources by a combination of open pit and underground mining methods.

During the 2018 update, Stantec recognised an opportunity to significantly expand the open pit to higher stripping ratios, with correspondingly higher recoverable tonnages of surface mineable coal, thereby creating the opportunity to examine a surface stand-alone mining option in a new PEA.

This PEA does not include any further evaluation of the underground resources nor any potentially mineable coal associated with these resources.

For the current study, Stantec used previously reported surface mineable resources to develop a revised conceptual mine plan to exploit the coal resources utilising a stand-alone open pit, in contrast to the previous approach of a combined open pit and underground mine. Stantec completed a more detailed analysis of the open pit design and equipment selection than was carried out previously, that yielded larger mineable open pit tonnage, longer mine life and a lower cost mining operation. In addition, alternative means of product coal transportation were considered which resulted in a revised plan to transport coal by conventional haul trucks from the mine to the existing rail line south of Tumbler Ridge, as opposed to the previous concept of direct rail transport from the mine. The trucking concept has the advantage of lower capital costs, lower risk and a shorter construction schedule than the rail option.

Highlights of the revised PEA report are summarised herein. All costs are in US dollars but, where Canadian dollar equivalents are provided, they have been converted using an exchange rate of US$1.00 equals CAD$1.316.

A summary of the financial analyses is presented in the following tables; the results show the after tax (including royalty) net present values (NPVs) at various discount rates and internal rates of return (IRRs) for a range of coal prices. For the benchmark coal price, Stantec has used US$174 per tonne. They note that, while a discount may be applied to the benchmark price for Huguenot product coal, they consider the potential discount to be within the range of values presented in the tables below.

The capital expenditures are based on two scenarios. The first scenario assumes that all major mining equipment is purchased outright in the year in which it is required for the mining operation. This includes replacements as they are required over the life of the mine. The second scenario assumes that the major mining equipment will be leased in the year in which it is required for the mining operation and that replacements will also be leased when the equipment needs to be replaced.

Highlights:

- Based on the purchased equipment scenario the financial analysis suggests that the coal price required to achieve a zero NPV at discount rates of 5%, 7.5% and 10%, respectively, is about US$113, US$120 and US$125 per tonne. A coal price of US$137 per tonne is required for an IRR of 15%.
- Based on the leased equipment option the financial analysis suggests that the coal price required to achieve a zero NPV at discount rates of 5%, 7.5% and 10%, respectively, is about US$114, US$119 and US$125 per tonne. A coal price of US$137 per tonne is required for an IRR of 15%.

- Measured and Indicated surface mineable coal resources total 132.0 million tonnes, with an additional Inferred resource of 0.5 million tonnes. Not included in the current PEA are in-situ underground mineable resources totaling 145.7 million tonnes (Measured and Indicated) and 118.7 million tonnes classified as Inferred.
- The current PEA economic analysis is based on a conceptual open pit mine plan targeting 99 million run-of-mine ("ROM") tonnes of resource at an overall stripping ratio of 10.5:1 (bank cubic metres (bcm):ROM tonnes), yielding 72 million tonnes of product coal over a mine life of 27 years. The previous PEA identified a smaller open pit with ROM tonnage of 56 million tonnes at a stripping ratio of 8.6:1, that yielded 39 million tonnes of product coal over 13 years.
- Projected clean coal production from open pit mining operations ranges from 0.7 million tonnes per annum ("Mt/a") to 3.0 Mt/a, averaging approximately 2.7 Mt/a.
- Potential coal production is identified as hard coking coal similar to coking coal currently exported from northeast British Columbia.
- The stand-alone open pit cash operating costs for the purchased equipment scenario are estimated at US$55.08 per tonne of product coal at the mine gate. The cash operating costs for the leased equipment scenario are estimated at US$61.47 per tonne.
- Estimated direct operating plus offsite costs for the purchased equipment scenario (i.e., FOB cost), total US$91.90 per clean tonne (excluding production taxes and royalties). The FOB cost for the leased equipment scenario is estimated at US$98.29 per clean tonne (excluding production taxes and royalties)
- Pre-production capital cost for the proposed mine in the purchased equipment scenario is estimated at US$510 million, with additional sustaining capital of US$215 million over the life-of-mine (LOM). Pre-production capital cost in the leased equipment scenario is

estimated at US$303 million, with additional sustaining capital of US$42 million over the LOM.
- The Huguenot Project’s proposed payback of initial capital is estimated within four years from start-up of operations for both scenarios.

This press release has been reviewed and the scientific and technical disclosure disclosed herein approved by Derek Loveday, P.Geo., of Stantec, a Professional Geologist and a Qualified Person as defined in NI 43-101.

About Colonial Coal International Corp.

Colonial Coal is a publicly traded coal corporation in British Columbia that focuses primarily on coking coal projects. The northeast Coal Block of British Columbia, within which our Corporation’s projects are located, hosts a number of proven deposits and has been the subject of M&A activities by Anglo-American and others.

We seek Safe Harbour.