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HALLGARTEN & COMPANY

Coverage Update

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Colonial Coal International

(TSX-V: CAD, FSE: A1C8BM, OTC: CCARF)

Strategy: LONG

Key Metrics

Price (CAD)	$0.30
12-Month Target Price (CAD)	$0.86
as a takeover target (CAD)	>$1.70
Upside to Target	192%
12 mth high-low	$0.24-$0.65
Market Cap (CAD mn)	$44.17
Shares Outstanding (millions	149.7
Fully Diluted (millions)	190.0

Colonial Coal Intl

An Invite to the Coal Predators' Ball

- + Management has past form in positioning coal assets for sale to the highest bidder at the most opportune moment, entering into joint ventures, or taking projects to production
- + A recent appointment of a past close collaborator of management in previous reincarnations means the company is now essentially in "sale mode" with the goal being the repeat of the past successful asset vending
- + The price of coking coal has stabilized over the last two years and is now standing at more than twice the level of its nadir in mid-2016
- + Two hard coking coal (HCC) projects strategically positioned in western Canada to service Asian steel producers
- + Colonial Coal was recognized as a Venture 50 company in 2019
- + Using a conservative metric of USD$1 per in situ tonne of resource then, between the two projects, a valuation of around USD$700mn would be appropriate
- ✘ A strategy of projects/company acquisition by a larger player the company is somewhat at the mercy of corporate development decisions, which are outside its control
- ✘ The fortunes of coking coal are closely tied to the steel industry which in turn is closely correlated with global economic activity, particularly in emerging economies. Any slowdown in global activity could impact production of steel and thus coking coal prices

Repopulating the SWAT Team

Colonial Coal's most recent announcement seems to have gone way over the heads of the market but has far greater significance than such an action at any other listed TSX-V developer. Appointments to advisory boards were at one time rather dime a dozen (particularly in the Rare Earth and Lithium booms) as managements tried to stretch a few gurus across a densely populated sub-sector. However, Colonial Coal's announced that David Fawcett had "kindly agreed" to be appointed as an advisory member to the company's Board of Directors has hidden meaning. He is essentially the final piece in rebuilding the team that sold two major coal companies in the past via a frenzied auction process at the end of the last coking coal boom.

David Fawcett is a mining engineer with over 40 years of experience in the coal industry, primarily in the western Canadian coal industry. He has had a broad range of responsibilities from early stage geology and exploration, through feasibility and regulatory processes, to operations, management and executive positions for major, intermediate and start-up companies.

During the first half of his career, he held positions with established mining and development companies such as Consolidation Coal Company, BC Hydro, Dentherm Resources (Denison Mines) and Smoky River Coal. Through the second half of his career, he moved into a more entrepreneurial mode with participation in start-up and development companies such as Pine Valley Coal, Western Canadian Coal, NEMI Northern Energy & Mining, Hillsborough Resources, Jameson Resources and Allegiance Coal.

He has been the recipient of several coal industry awards including the Canadian Institute of Mining Coal Award in 2011, the British Columbia Association of Mineral Exploration E.A. Scholz Award in 2012 and the Coal Association of Canada's Award of Distinction in 2015.

A Proven Formula of Building Value

The management at Colonial Coal are no strangers to the "build it and they will come" philosophy of mining evolution. The team built up and advanced the core metallurgical coal assets belonging to Western Canadian Coal and Northern Energy & Mining (NEMI) during the go-go years of the Commodity Supercycle. Those assets were acquired for an eye-watering multi-billion dollar price. In the more subdued environment of the current decade the team has sallied forth to repeat the building process. Underlying met coal prices initially looked challenging but now have returned to robust good health and yet the investor universe is still confused between met coal and thermal coal in the age of global warming. There is no replacing met coal in the steel making process.

Much to the pundits' surprise coking coal has risen from the dead and yet few, besides Colonial, have focused on creating a new pipeline of projects to meet this opportunity.

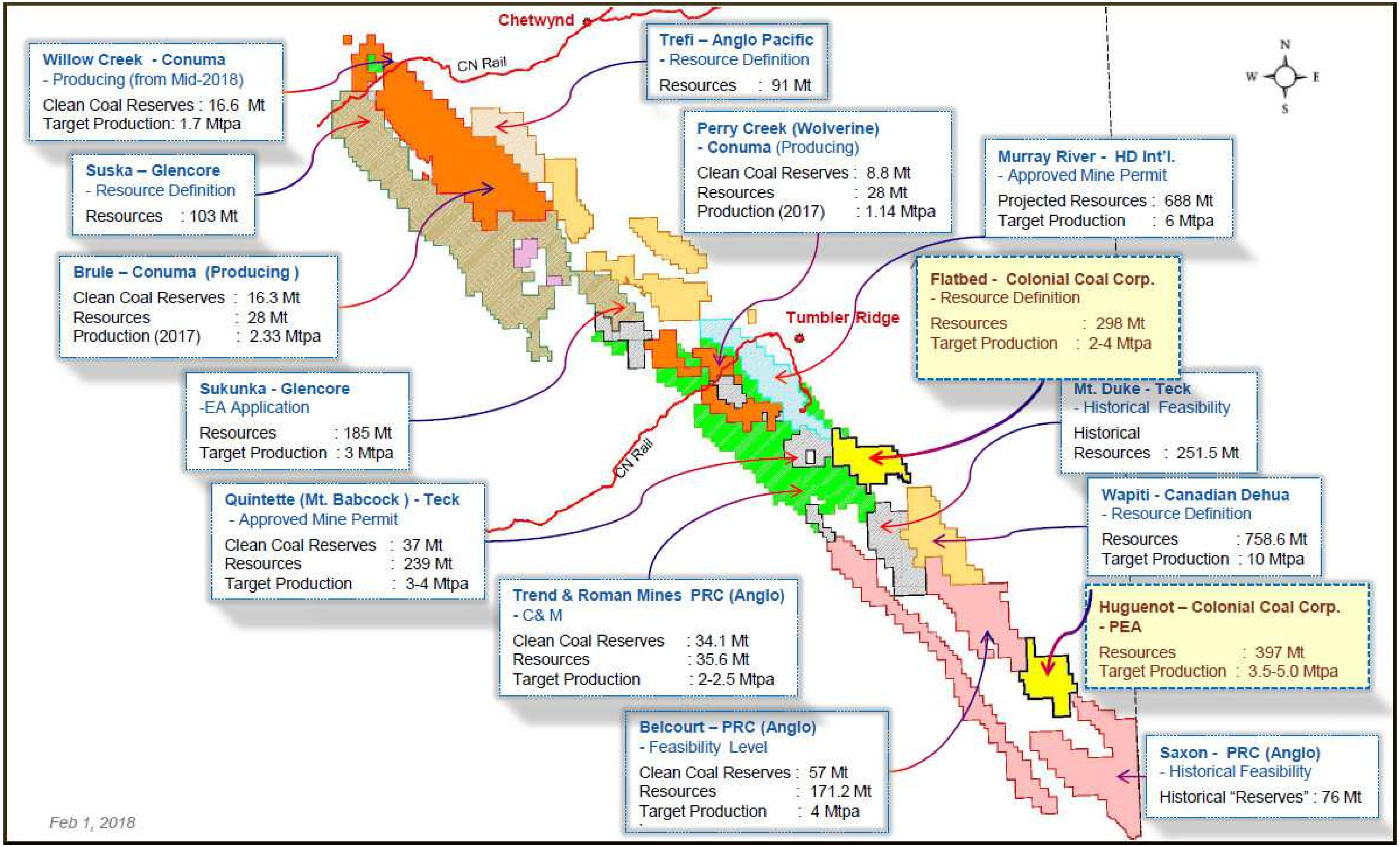
In this coverage update we shall revisit the attractions of Colonial Coal's two HCC projects and the implications for valuation in possible takeout scenarios.

A Densely Populated Field

Although coal was first discovered in the Peace River region in 1793, subsequent operations were limited to small tonnages to serve local needs. The expansion of steel production in the mid-1960s, led by the Japanese steel mills, stimulated worldwide exploration for coking coal. In western Canada, exploration focused largely on coal deposits located within the Rocky Mountain Foothills of British Columbia and Alberta.

By the mid-1970s, most of the land within the Peace River Coalfield that contained a potential for surface and underground mineable coal had been acquired by various mining and O&G companies. In northeastern British Columbia, this work culminated in the opening of the Quintette and Bullmoose coal mines which operated from 1983 to 2000 and 1984 to 2003, respectively.

The map below shows the current coal land status of the majority of the district, with Colonial Coal's properties highlighted in yellow.



Chetwynd
CN Rail
Willow Creek - Conuma
- Producing (from Mid-2018)
Clean Coal Reserves : 16.6 Mt
Target Production: 1.7 Mtpa
Trefi – Anglo Pacific
- Resource Definition
Resources : 91 Mt
Suska – Glencore
- Resource Definition
Resources : 103 Mt
Perry Creek (Wolverine)
- Conuma (Producing)
Clean Coal Reserves : 8.8 Mt
Resources : 28 Mt
Production (2017) : 1.14 Mtpa
Murray River - HD Int'l.
- Approved Mine Permit
Projected Resources : 688 Mt
Target Production : 6 Mtpa
Brule – Conuma (Producing)
Clean Coal Reserves : 16.3 Mt
Resources : 28 Mt
Production (2017) : 2.33 Mtpa
Flatbed - Colonial Coal Corp.
- Resource Definition
Resources : 298 Mt
Target Production : 2-4 Mtpa
Tumbler Ridge
Sukunka - Glencore
-EA Application
Resources : 185 Mt
Target Production : 3 Mtpa
Mt. Duke - Teck
- Historical Feasibility
Historical
Resources : 251.5 Mt
CN Rail
Quintette (Mt. Babcock) - Teck
- Approved Mine Permit
Clean Coal Reserves : 37 Mt
Resources : 239 Mt
Target Production : 3-4 Mtpa
Wapiti - Canadian Dehua
- Resource Definition
Resources : 758.6 Mt
Target Production : 10 Mtpa
Trend & Roman Mines PRC (Anglo)
- C& M
Clean Coal Reserves : 34.1 Mt
Resources : 35.6 Mt
Target Production : 2-2.5 Mtpa
Huguenot – Colonial Coal Corp.
- PEA
Resources : 397 Mt
Target Production : 3.5-5.0 Mtpa
Belcourt – PRC (Anglo)
- Feasibility Level
Clean Coal Reserves : 57 Mt
Resources : 171.2 Mt
Target Production : 4 Mtpa
Saxon - PRC (Anglo)
- Historical Feasibility
Historical "Reserves" : 76 Mt
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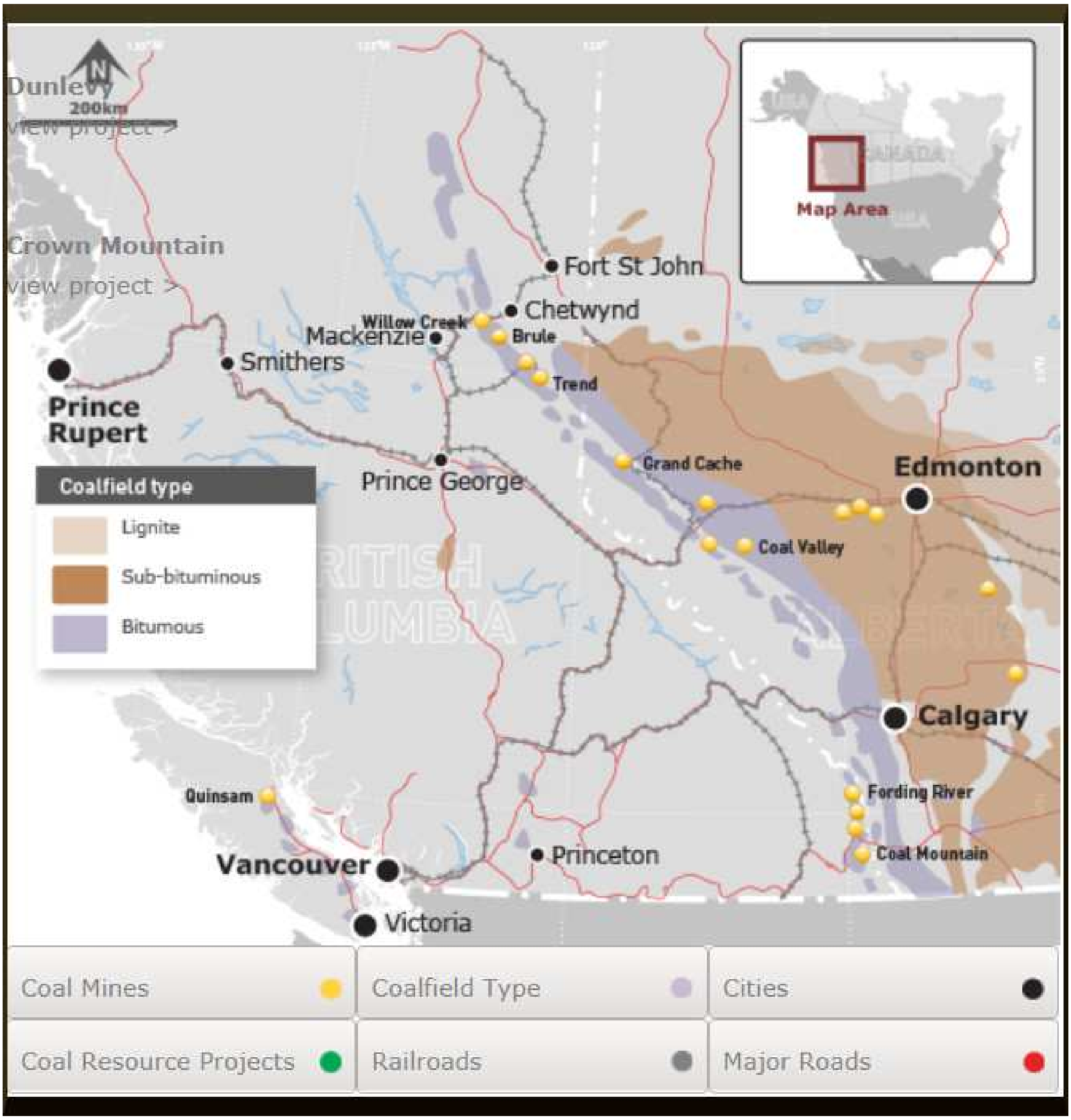
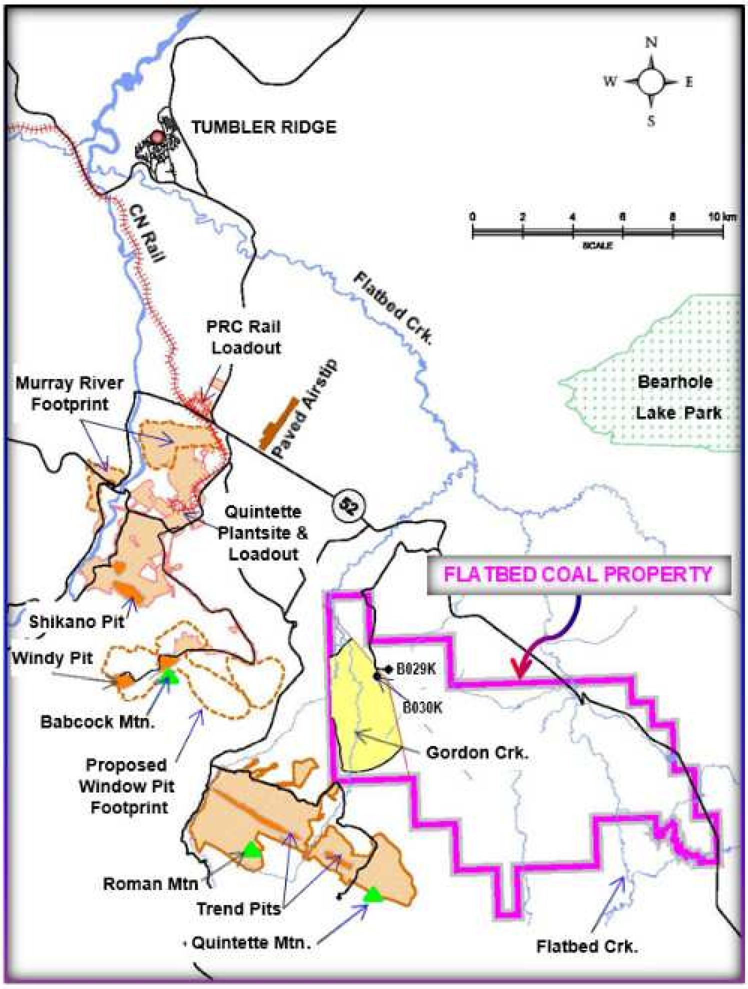
Farther afield, there are significant coalfields to the east of those held by Colonial Coal, but these deposits are of thermal coal.



The Flatbed Project

The Flatbed Coal project covers a total area of 9,607 ha and consists of one contiguous block of eight coal licenses. The property is located within the Peace River Coalfield, approximately eight and 10 kilometers from the existing Quintette and PRC (Trend-Roman Mine) loadouts, respectively and



approximately 27kms south-southeast of the town of Tumbler Ridge.

The position of the property with respect to population centres, roads, rail lines, coal mines and other major coal deposits is shown in the map at the right.

Flatbed is located adjacent to Anglo-American's Trend mine (under care and maintenance since January 2015), Teck's proposed Window open pit (Mt. Babcock, Quintette), and close to HD Mining's advanced underground coal mining project at Murray River.

Flatbed Resource

A NI43-101 compliant Resource estimate on the Gordon Creek area of the Flatbed property was prepared by Norwest in January 2018. Using a 1.0m minimum seam thickness, and depth of cover limit of 900m, an in-situ underground mineable coking coal Inferred resource of 298mn tonnes was estimated. The coking coal underground resource estimates are summarized in the table at the right.

Flatbed - Gordon Creek - Resource

Seam ID	Formation	Category	Tonnes mn
B	Gates	Inferred	52.2
D	Gates	Inferred	36.6
E	Gates	Inferred	19.1
F1	Gates	Inferred	21.0
F2	Gates	Inferred	49.2
G	Gates	Inferred	34.8
J	Gates	Inferred	54.2
K	Gates	Inferred	30.9
Total		**Inferred**	**298.0**

From the results of the initial coal quality testing program on Gates Formation coal seams in the Gordon Creek area, Seams B to G would be marketed as hard coking coals while Seams J and K, meeting the requirements of semi-soft coking coals, would be better marketed as premium PCI coals.

Analytical results indicated that the Gates coal seams within the Gordon Creek area are metallurgical coals and coal from Seams B to G would yield a coking coal product after beneficiation in a wash plant at an 8% to 9% ash air dried basis (adb) product range.

The Flatbed PEA

In late 2018 the company reported the results of a PEA for the Gordon Creek area of the Flatbed property. The NI 43-101 compliant PEA was prepared by Stantec Consulting Services.

The PEA is based on a conceptual underground mine plan that targets 111.6mn run-of-mine tonnes of resource, with a yield of 51%, producing 57.4mn tonnes of clean coal over a mine life of 30 years. Seam E is not mined and Seams F1 and F2 are combined to form one mining section referred to as Seam F.

In full mine operation, projected clean coal production ranges from 1.6mn tonnes per annum to 2.6mn tonnes per annum, averaging approximately 1.9mn tonnes per annum.

Economics

The PEA, utilising an exchange rate of US$1.00 equals CAD$1.30, estimated that the Gordon Creek project has an indicative after-tax (and royalty) net present value of US$690.5mn (CAD$897.7mn). This calculation used a 7.5% discount rate, and produced an IRR of 24.4%, based on a weighted average coking coal price of US$164.80 per tonne and a premium PCI coal price of US$140.50 per tonne.

Pre-production capital cost for the underground mine is estimated at US$300mn (CAD$391mn), with additional sustaining capital of US$406mn (CAD$528mn) over the life-of-mine.

The payback of initial capital is estimated to be within three years from the start of coal production.

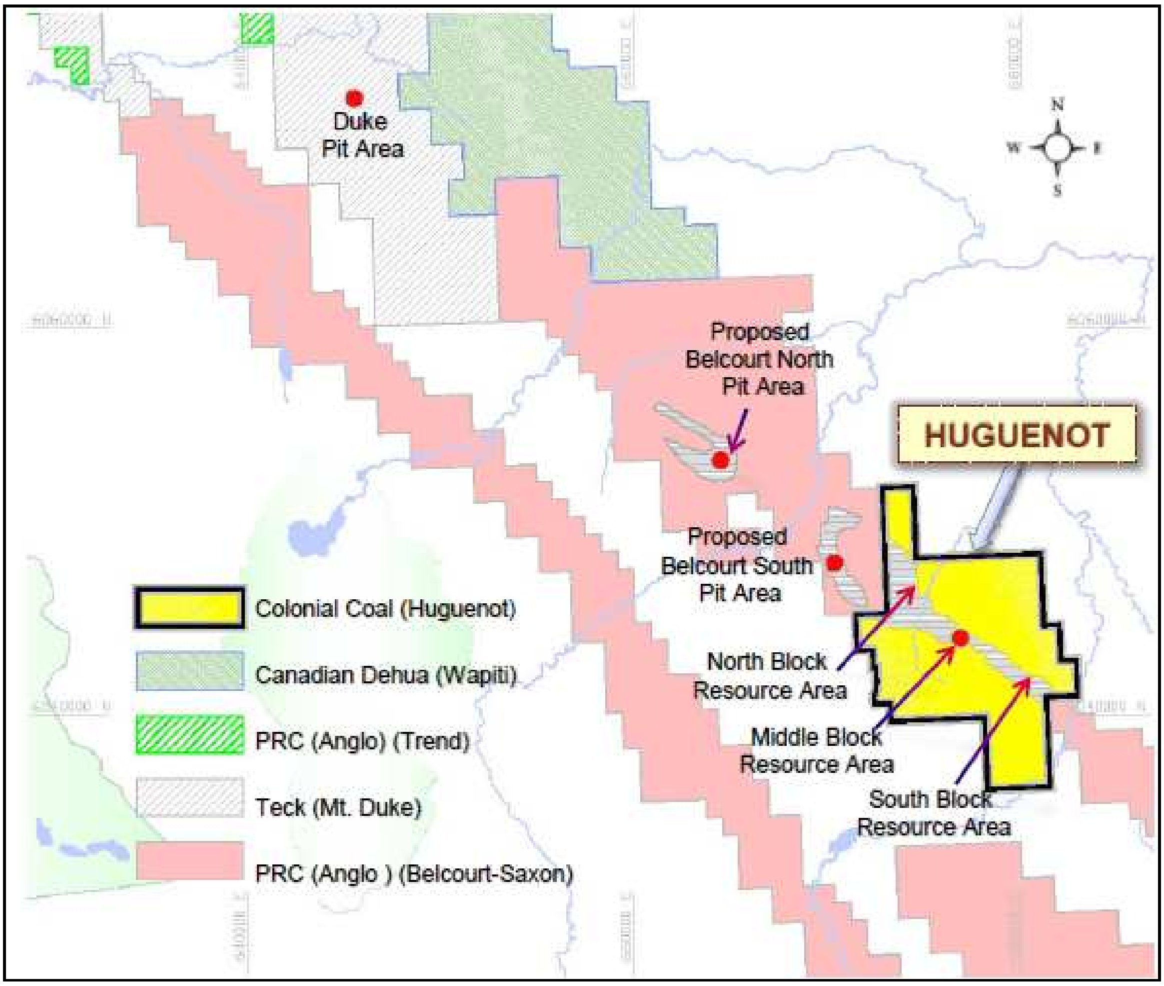
Opex

Total costs FOB port, including direct mine site costs, offsite costs and indirect costs are estimated at US$80.91 (CAD$105.19) per tonne. This includes mine site costs of US$41.16 per tonne, offsite costs of US$25.42 per tonne for trucking, rail car loading, rail and port charges, and indirect costs of US$14.33 per tonne for mineral taxes, royalties and corporate overhead.

The Huguenot Project

The Huguenot Coal Project covers a total area of 9,531 ha and consists of one contiguous block of 17 coal licenses that encompass previously explored deposits.

The property is located approximately 125 road-km from the currently idled Quintette mine load-out and 132 road-km south-southeast of the town of Tumbler Ridge, and is amenable to open pit and underground mining. The coal quality is a premium, hard coking coal (HCC) product.



The Huguenot property covers part of the old Belcourt property initially owned by Denison Mines Limited, but later joint ventured with Gulf Canada Resources. Exploration of the property began in 1970 and carried on until the early 1980's. This work defined three major targets for open pit mine development; two (at that time called Red Deer and Holtslander) are located north of the Huguenot property and one (Omega) lies to the south. More recent exploration on these three areas was carried out in 2005 and a feasibility-level study supporting surface mines on the Belcourt North (Red Deer) and Belcourt South (Holtslander) projects was completed in January 2009.

The southern end of the Belcourt South pit lies just 477m north of the Huguenot property boundary.

Huguenot Resource

A PEA on the Huguenot property was prepared by the specialist coal consultants, Norwest Corp., in September 2013. It included HCC resource estimates for all three Blocks, categorized as mineable using either surface or underground mining methods.

Total in-situ surface mineable resource estimates using a 0.60m thickness cut-off are: 131.95mn tonnes of Measured and Indicated (Measured = 96.2mn tonnes; Indicated = 35.75mn tonnes), plus 0.53mn tonnes of Inferred.

Total underground resource estimates using a 1.5m minimum thickness are: 145.73mn tonnes in-situ Measured and Indicated (Measured =18.85mn tonnes; Indicated = 126.88mn tonnes), plus 118.66mn tonnes of in-situ Inferred resources.

The Huguenot HCC open-cut and underground resource estimates are summarized in the table below:

Huguenot Resource Estimate

	Open-Cut				Underground			
	Measured Mt	Indicated Mt	M & I Mt	Inferred Mt	Measured Mt	Indicated Mt	M & I Mt	Inferred Mt
North	58.32	7.91	66.23		7.18	30.41	37.59	86.84
Middle	37.88	9.02	46.90	0.53	11.67	19.5	31.17	1.58
South		18.82	18.82			76.97	76.97	30.24
Total	96.2	35.75	131.95	0.53	18.85	126.88	145.73	118.66

The Huguenot PEA

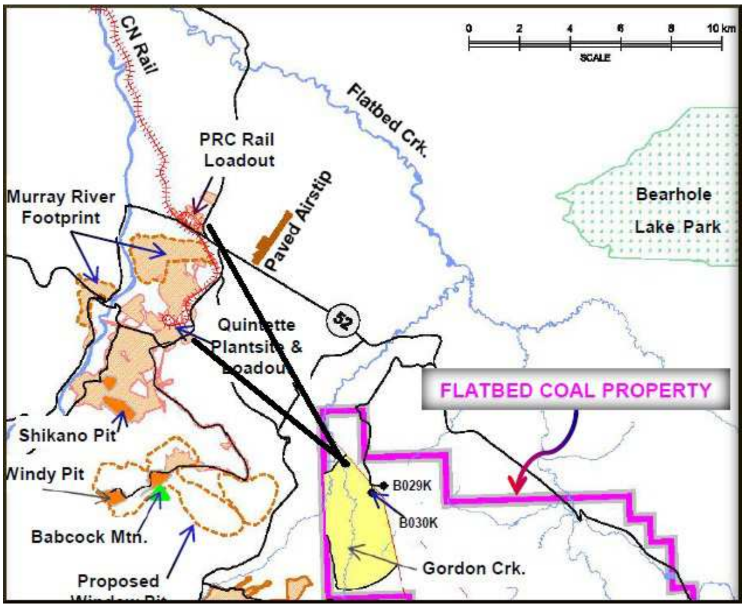
The updated Huguenot PEA dates from 2018, being a revision of the initial version dating from 2013. Over time, the economics have been strengthened by the CAD moving from parity with the USD at that time to a significant discount at the current time. Therefore, the updated PEA uses an exchange rate of US$1.00 equals CAD$1.30.

- Projected mine life of 31 years, with the open pit (Years -1 - 14) and underground (Years 3 - 31) operating simultaneously during Years 3 – 14
- Total projected clean coal production of 89mn tonnes over a mine life of 31 years
- The Huguenot Project has an indicative after-tax (and royalty) net present value of US$1.166 bn (CAD$1.516 bn), using a 7.5% discount rate, and an IRR of 33%, based on a coal price of US$172 per tonne
- The financial analysis suggested that the break-even price is less than US$116, US$120, and US$125 per tonne for discount rates of 5%, 7.5% and 10%, respectively
- The PEA indicates that for a 15% IRR, a minimum coal price of US$135 would be required

Logistics

Production from Huguenot and Flatbed would be shipped by rail to export terminals on the west coast of British Columbia. The rail lines out of the Peace River Coalfield are operated by a Class I Canadian carrier (CN Rail, largest railway company in Canada) and have available capacity to support future production from Huguenot and Flatbed.

The PEA on the Gordon Creek deposit assumed that the output would be trucked 16km by road to the existing rail line south of Tumbler Ridge. The rail line would be accessed via a loadout located in the area of an existing coal loadout operated by Peace River Coal. Costs for trucking product coal to the proposed loadout were included in the project's operating cost projections.



From the existing rail loadouts, coal is hauled by rail approximately 1,000 km to the Ridley Terminal in Prince Rupert. Coal from Huguenot would require an additional 85km rail haul from a rail load out at the proposed plant site, while coal from Flatbed would only require a spur line a few kilometres in length to connect to existing rail.

The Ridley Terminal is a deep water port with a total coal capacity of 18mn tpa. It has one of the deepest, ice-free natural harbours in the world and is 100% owned by the Government of Canada. The port is capable of supporting cape-size vessels (i.e. 250,000 DWT).

Comparables

The table below shows Flatbed coking coal relative to Canadian comparables:

Flatbed Compared

	Flatbed Coking Coal[1]		Canadian NEBC HCC[2]	Canadian SEBC HCC[2]
	Min	Max		
Total Moisture (% as received)	8	9	8 - 9	8
Volatile Matter (% dry)	20.74	25.24	23.0 - 24.5	21.0 - 27.0
Ash Content (% dry)	7.97	8.93	8.25 - 8.60	8.5 - 9.6
Sulphur Content (% dry)	0.44	0.90	0.45 - 0.55	0.35 - 0.75
Free Swelling Index (FSI)	6	8	7 - 8	6 - 8
Mean Max Reflectance of Vitrinite (%)	1.18	1.39	1.15 - 1.25	1.08 - 1.35
Maximum Fluidity (ddpm)	12	1135	150 - 300	40 - 300
Phosphorus in Coal (% dry)	0.049	0.089	0.008 - 0.040	0.010 - 0.065
Base/Acid Ratio of Ash	0.080	0.215	0.12 - 0.18	0.07 - 0.10
Coke Strength after Reaction (CSR)*	51	70	58 - 60	68 - 72

Note: * = Calculated

1) Results based on laboratory scale washing and testing of exploration samples.

2) Results based on full washing plant under operating conditions.

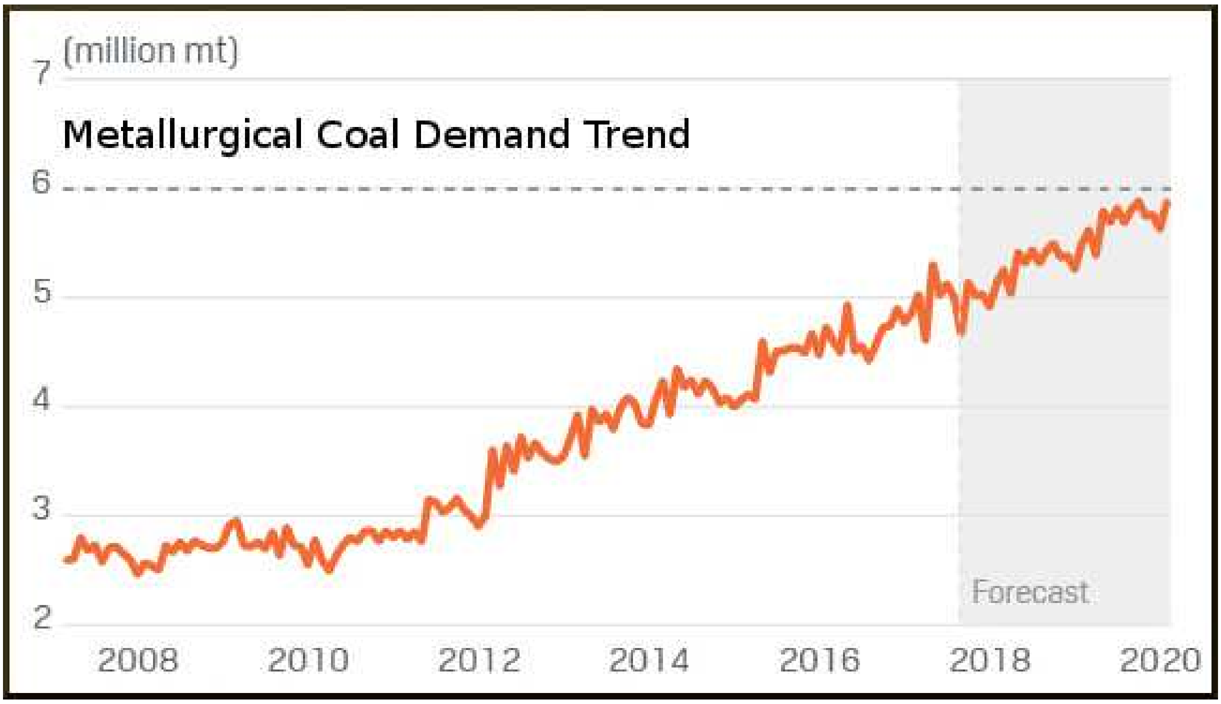
And here we see comparables for Huguenot versus other Canadian product:

Huguenot Vs Canadian Comparables

		Huguenot Coking Coal	Canadian NEBC HCC	Canadian SEBC HCC
Total Moisture	% as received	9%	8 - 9%	8%
Volatile Matter	% dry	22.5 - 23.5%	23 - 24.5%	21 - 27%
Ash Content	% dry	8.5 - 9%	8.25 - 8.6%	8.5 - 9.6%
Sulphur Content	% dry	0.40%	0.45 - 0.55%	0.35 - 0.75%
Free Swelling Index (FSI)		6.5 - 7	7 - 8	6 - 8
Mean Max Reflectance of Vitrinite	%	1.15 - 1.2%	1.15 - 1.25%	1.08 -1.35%
Gieseler maximum fluidity	(ddpm)	100	150 - 300	40 - 300
Phosphorus In Coal	% dry	0.04%	0.008 - 0.04%	0.01 - 0.065%
Base/Acid Ratio of Ash		0.08 - 0.10	0.12 - 0.18	0.07 - 0.10
Coke Strength After Reaction	(CSR)	60 - 65	58 - 60	68 - 72

Coking Coal Price Dynamics

Coking coal is joined at the hip with the steel industry and the vibes in that space have been confusing if not entirely negative as the jungle drums of the trade war have been beating with renewed vigour. Despite this the steel industry is not looking as battered as one might expect.

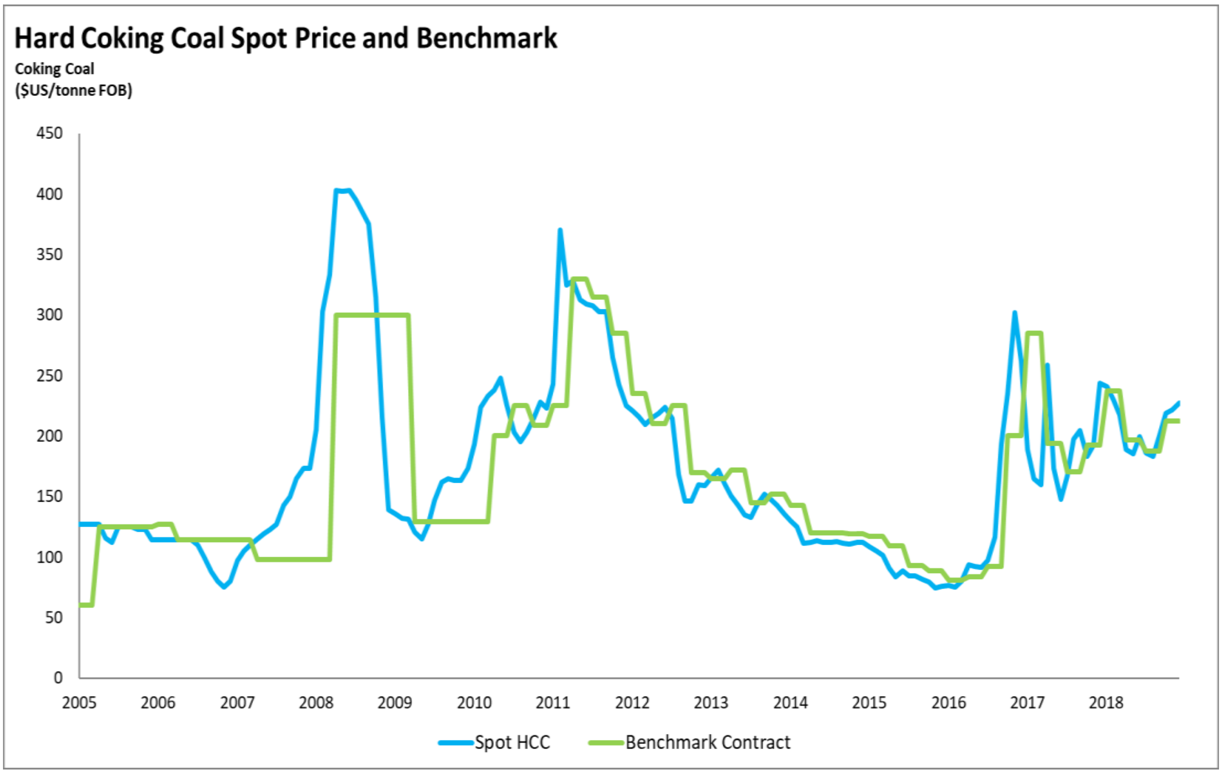


Source: World Steel, S&P Global Platts

According to World Steel Association, 70% of steel produced today uses coal, and China is the most important part of the puzzle as it produces half of the total crude steel in the world. With China as the largest consumer of metallurgical coal, in recent years its rising crude steel output has pulled coking coal prices higher.

It was inevitable that, with the Commodities Supercycle being driven by the Chinese and the key underpinning of that Supercycle being steel, that coking coal should have been driven up by that economic phenomenon and then sucked back down as sentiment turned against bulk minerals and, indeed, all minerals after 2011.

As can be noted from the chart below, HCC prices have risen from the dead three times in the last 15 years. The first was in the run-up to the great crash of 2008, the second wind came a few years after that. Then a long five year slump was only broken by an upsurge in 2016.



The 2016 move was attributed to rising coking coal demand in China, compounded by new restrictions on the coal mining industry there, which reduced domestic supply and put further upward pressure on metallurgical coal prices. At the time, Metal Bulletin reported that the Chinese government implemented a cap on the number of working days for miners, which curbed domestic production of metallurgical coal. This helped push the coking coal price higher from mid-2016 with a trebling which then prompted the inevitable pullback.

Some feel that that the “trade war” between China and the US will prompt the Chinese government to provide further economic support to domestic industries, especially the infrastructure sector, which would support steel production and ultimately coking coal demand. We are more inclined to a view that the Chinese economy’s growth rate has been long overstated and may in fact be in low- (to no-) growth mode at the current time.

An Outside View

In an industry trend analysis published in the first half of this year, Fitch Solutions forecast the coking coal price for 2019 at $195/tonne. Their analysis predicted prices would remain elevated, with strong demand from China’s steel sector due to economic support from the government to the slowing Chinese economy.

On the supply side, Fitch expected production misses from Australia to keep the market tight.

On the demand side, Fitch forecast that China would maintain its dominance in the producers' market for coking coal, with absolute coking coal production increasing from 536mn tonnes in 2019 to 551mn tonnes by 2028, with production in 2028 being triple that of the second-largest producer, Australia (184mn tonnes).

Over the longer term, in 2026, Fitch predicted that Russia will surpass Indonesia as the third largest coking coal producer in the world, and that over the years, China, Australia and Indonesia will slowly lose the global market share of coking coal production to Russia, India and Mongolia. Though India's coal is of notoriously poor quality.

Our View

Steel is unlikely to continue rollicking along at current levels, however, the lack of new production in recent years means that replacement of existing mines must soon become a priority. China appears overstated to us as a factor going forward. India is a rising star on the user end while Canada has not been given its likely due as the rising new producer of HCC.

This augurs for maintenance of prices in the USD$180-220 range, with surprise spikes on climatic or trade tussle-induced concerns.

It is useful to reiterate the view of management at Colonial Coal: "…. at US$180 a tonne, everybody makes good money. The steel companies make money, the coal companies make money, and everybody's in good shape".

This is particularly true for Canadian and Australian coking coal vendors who are operating with a strong competitive currency advantage in comparison to US producers.

The Strategy

In broad terms the game plan at Colonial Coal is to repeat the strategy that management pursued at the two coal companies that David Austin previously founded, Northern Energy & Mining and Western Canadian Coal. The latter company was sold to Walter Energy in late 2010 for CAD$3.3 billion while in 2011 Anglo acquired the remaining 25% of PRC (held by NEMI and Hillsborough Resources) for $166mm ($664mn for 100%).

Gina on the Prowl?

Gina Rinehart, Australia's richest person, may not be everyone's favorite but for investors in met-coal assets she has been a godsend. In 2019 as she waded into the space with an aggressive bid for a Canadian player and introduced Australia as a potential new source of predators, where they had previously only prowled on their own patch. Ms Rinehart is nothing if not resourced as Forbes puts her estimated net worth at AUD$14.8bn (US$10.35bn). Her vehicle, Hancock Prospecting had more than

$3bn in cash reserves at the point where it made its latest takeover move.

In February of 2019, Hancock Corporation, a wholly-owned subsidiary of her vehicle Hancock Prospecting, launched an all-cash offer worth up to $591mn to acquire the remaining shares in ASX-listed coal explorer Riversdale Resources, which has a prominent position in the Western Canadian coalfields with its Grassy Mountain coal project in Alberta forecast to produce 93 million tonnes of coking coal over a 24-year mine life.

Hancock launched a bid to acquire the other 80.2% of Riversdale, in which it then owned a stake of 19.8% of the issued shares, at a price of $2.20 per share. The Rinehart interests had acquired its initial Riversdale stake in August of 2018 for AUD$68.9m. Then Hancock raised its offer price to $2.70 a share in May, up from its initial offer of $2.20 in February. The turning point for the Riversdale bid came in May of 2019 when Resource Capital Fund (RCF VI) accepted the bid. The offer had achieved 99.9% acceptances in late May and the company moved to compulsory acquisition mode. With the offer price increased the value of the full transaction was around AUD$725mn (USD$491mn).

Hancock Prospecting, in a joint venture with Rio Tinto, holds a 50% interest in the 46mn tonne per annum Hope Downs Project. The company also holds a 70% interest in the Roy Hill iron ore project. In 2018 it acquired Atlas Iron, and also has various iron ore exploration projects in the Pilbara, including its Mulga Downs project.

Grassy Mountain was viewed by some commentators as a good strategic fit for Hancock adding to its existing iron ore interests in Hope Downs, Roy Hill and Atlas Iron.

Parallels?

The Riversdale transaction is useful in two respects. Firstly it adds Australians to the potential buyers list for BC coal assets, which has hitherto not been the case. Secondly it gives a transaction to compare with Colonial's assets. The most obvious comparison is between The Grassy Mountain asset and Colonial's Huguenot. Grassy Mountain has a projected 93 million tonnes of product coal over its currently proposed 24-year mine life while Huguenot has a similar(ish) total projected clean coal production of 89mn tonnes over a mine life of 31 years.

It is also notable that with sulphur content at 0.40%, the HCC product from Huguenot is expected to be among the lowest sulphur HCC from Canada, which will positively affect the valuation of the coal.

Then Flatbed gives an extra kicker on another 60% (producing 57.4mn tonnes of clean coal over a mine life of 30 years).

Thus if Riversdale is "worth" slightly under USD$500mn, then Colonial Coal's project pairing is worth at least USD$700mn and quite possibly more as it is significantly nearer to Pacific ports and Huguenot has a top-grade HCC product.

Possible Outcomes

In the past we have employed a measure to assess the potential dollar value of asset sales of a rough US$1 per tonne of HCC in the ground. This gave a valuation of USD$278mn to Huguenot on just the M&I resource and potentially another US$119mn when applying the same metric to the Inferred resources. Using the same approach at Flatbed (where the entire resource is Inferred) then one would add a further $298mn in value.

With the current market cap around CAD$46mn (USD$35mn) this would imply that the stock is trading at way less than one twentieth of the combined value of Huguenot and Flatbed, using the very conservative $1 per in-situ tonne metric.

It is also useful to consider the similarities between now and when the previous Western Coal and NEMI deals were consummated. A number of years have gone by since the last fevered moment in the coking coal space but it is interesting to look at some differences between now and then:

- In 2010, coking coal was at US$140 per tonne and the US Dollar was at parity with the Canadian dollar
- In 2019 coking coal is around US$200 per tonne and the US dollar is at $1.33 to the Canadian dollar

The move in price and currency juices up the valuations at which asset sales are likely to be transacted compensating for the absence of the euphoria that existed at the tail end of the Supercycle period when the last bout of transactions were undertaken.

It should also be remembered that back at the end of the last decade it was widely posited that the acquirers would be steel mills in Asia or at least big industrial mining groups, particularly from China while, in reality, the most aggressive bidders were Western mining groups bent on accumulation.

This time around it will be both the Western groups (with Australians now in the mix) needing to replace depleted reserves to remain in the game, and the end-users, who will most likely slug it out to get positioned in new developments.

Risks

There are a number of potential risks that should be taken into consideration:

- Global economic conditions deteriorate due to a rising interest rate scenario or slowing growth or both
- Exchange rates moving closer to parity with the US dollar
- That the coking coal price moves sharply lower
- Financing difficulties
- An acquirer fails to materialise

The main dangers for Colonial Coal are the co-related risks of a slower global economy (with steel production slackening) and a consequent slide in prices for coking coal if steel industry demand softens.

It is not a fanciful projection to posit that insufficient projects will appear to satisfy coking coal demand as there has been underinvestment for some years now and new districts are not being identified (if they indeed exist). If realized, this scenario would extend the upward price cycle, making a campaign by majors to mop up independents such as Colonial Coal more likely. Thus the prospect of predators sitting on their hands is unlikely.

Conclusion

Colonial's management have gone into overdrive, with their latest addition to the team in the push to generate an auction of all or part of the company. In putting back together the management team which was so successful in their previous incarnation at Western and NEMI they hope to repeat the process from last time that paid off so handsomely. The Colonial Coal management team has patiently worked their assets through the most recent mining lull with the goal of producing a similar feat to that which they pulled off in 2010 and 2011. As we have noted before Colonial Coal looks ripe for "slicing and dicing" with Huguenot or Flatbed or both being eminently saleable assets now that both have a PEA in hand.

China is no longer perceived as the sole driver of demand in the steel space with India as a rising power. However, through the long drought of 2011-2016, when investor interest in mining was at a multi-decade low and when certain metals/minerals were regarded as untouchable, Colonial Coal continued to advance its collection of synergistic assets in British Columbia with the goal of servicing the still burgeoning Asian demand for coking coal.

The mining markets in general are in a "trade war"-induced swoon that bears little comparison with reality. Life goes on and, moreover, production of steel goes on so the rough treatment meted out to the met coal mining stocks is somewhat ludicrous when one considers the firmness of prices of seaborne met coal due to supply and other problems. Steel production has continued apace in the emerging economies, particularly the rising star, India, and there has been little done in recent times to add to future reserves to service need when the global economy picked up. This is where Colonial comes to the attention of those looking for the next addition to the supply equation.

Even using a very conservative valuation of US$1 per in-situ tonne at Huguenot and Flatbed the stock is trading at one twentieth of realizable value of its two main assets.

We reiterate Colonial Coal as a **LONG** in our Model Mining Portfolio and confirm our 12-month target price of CAD$0.86 in normal trading circumstances or northwards of CAD$1.70 in a takeover situation.

Important disclosures

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