

Hillsborough Resources

and the Quinsam Coal Mine: Digging In

By Julie Domvile

Coal producers all over the world are staggering under the burden of the lowest coal price in thirty years, flooded markets and severe recessionary trends in Asia, their biggest market. However, Hillsborough Resources Limited (HLB-TSE) forecast a deteriorating export market for 1998 even before the Asian market collapse and started adjusting its marketing strategy accordingly.

Roderick Hislop, Vice President Coal Sales, says, "We don't know if we have bottomed out in world prices. There are a number of coal producers around the world that are shutting down or going into major suspensions of production. The coal industry is not very healthy economically based on current prices. Nobody can survive on prices in the \$23-\$24 per tonne range. Quinsam Coal's financial survival in 1998 and into 1999 is predicated on domestic contracts at stable prices and a portion of our export sales that are

under term contract conditions."

In 1997 the company made the decision to reduce dependence on low-price export sales and to increase sales to stable domestic purchasers. Quinsam, accordingly, has secured the majority of its sales in the domestic market with three to five-year contracts with indexed pricing. The company also has long term utility customers in Japan that have three year agreements with "referenced" coal pricing. Hislop says of the 1.2 million tonnes of coal that will be produced this year, approximately 300,000 tonnes will go to "grey markets" (spot or tender sales), such as cement companies, at market price.

The Quinsam mine, near Campbell River on Vancouver Island, is the only major coal producer on the west coast of North America that "sits on tidewater." The significance of this is reflected in the low freight cost in the range of Cdn\$10 per metric tonne. Not being reliant on a railway for transport puts

Quinsam coal freight costs at less than half that of the competition.

The Quinsam mine began nine years ago as a very small open cast mine and, after four years, went underground. The mining method employed is room and pillar. There are four sections in the mine, two of which are "Super Sections." In a super section setup, two continuous miners and associated equipment operate along parallel shafts making efficient use of equipment and manpower.

Hislop says there is a public misconception about coal mining being a dirty business. The coal produced is hard, which means a low fines content, minimal handling problems and low dusting. "I do not know of any environmental complaint that Quinsam has encountered since it has been in production. Quinsam is an acid consumer; we dust the mines with limestone which lets us consume acid. We have no acid discharge to the best of my knowledge."

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