

## NEWS RELEASE

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### **Optimised Mine Feasibility Study Delivers Robust Results**

20 December 2013: Ncondezi Energy ("Ncondezi" or the "Company") (AIM: NCCL) is pleased to announce a mine update, following completion of an optimised mine feasibility study (the "Mine FS"). The Mine FS focused on confirming the technical and economic viability of an open strip mining operation, capable of supplying sufficient coal to meet the requirements for its 300MW integrated thermal coal mine and power plant project (the "Ncondezi Project"), which is located near Tete in northern Mozambique.

#### **Highlights:**

- Open pit, truck and shovel contractor mining operation supplying domestic grade coal to 2x150MW Circulating Fluidised Bed power station
- 25 year Life of Mine ("LoM") operation with contingency to supply up to 40 years LoM
- Average annual production of 1.5 million tonnes ("Mt") of domestic grade coal
- LoM average strip ratio is 0.61 BCM/tonne
- LoM average yield is 92%
- Capital cost estimate of US\$53 million, excluding box cut
- LoM operating cost of between US\$15 to US\$20 per tonne
- Coal transfer price to the power plant of between US\$22.50 to US\$27.50 per tonne based on nominal post tax mine IRR of 18%
- Expected ungeared Mine Net Present Value ("NPV") of c. US\$37 million based on a 10% real discount rate

The Mine FS, prepared by KPMG Services (Pty) Ltd South Africa, was based on the recently upgraded 120Mt Measured Resource Area, located within the South Block of the Ncondezi Project Mining Concession 5967C. Within the South Block, the most optimal mining area identified has been named the South Mine. It covers an area of 200 ha and has the resources to provide coal to the 2x150MW Circulating Fluidised Bed power station (the "Ncondezi Power Project") for a period of 25 years, plus a contingency of approximately 50% or an additional 15 years.

The objective of the Mine FS was to identify and confirm the technical and economic viability of the South Mine as a dedicated supplier of coal feedstock to the Ncondezi Power Project. Based on information received from the Ncondezi Power Project the coal energy requirement, as measured in GigaJoule ("GJ") requirement, is estimated at c. 23 million GJ per annum which translates to a requirement of c. 1.5 Mtpa of coal (Air Dried ("AD")) at an approximate CV of 15.5 MJ/kg (AD).

The Ncondezi Project coal resource with its near surface multiple coal seams lends itself to open cast 'truck and shovel' mining of the overburden/ interburden and coal seams. The 25 year LoM average strip ratio is 0.61 BCM/tonne, and the LoM average yield is 92% as most of the raw coal does not require washing. The updated coal yields are a significant improvement over the initial 55% yields originally envisaged and this improvement is a result of further coal product optimisation. The higher yields have made a positive impact on the mine by reducing the amount of equipment required and the amount of material that needs to be moved.

Mining will be undertaken utilising suitable hydraulic excavators and front-end loaders that load coal and waste into suitable rear dump trucks. The coal from the pit will be hauled to the Run of Mine (“ROM”) tip approximately 500m from the pit. The distance between the ROM tip and the coal face will increase with the advancing pit. From the ROM tip, raw coal will pass through a Coal Handling and Process Plant (“CHPP”) where it will be crushed and screened and, where required, washed before being transported by a 2km overland conveyor to the power plant.

The total number of staff required during steady state production is expected to be 207 people.

A capital cost estimate of US\$53 million has been prepared in line with the project battery limits and a number of reputable contractors were approached to supply estimates to establish both the mine and CHPP, as it is assumed that both the mining and processing will be undertaken by contractors. The capital cost estimate includes mine infrastructure, the CHPP, a proportion of the common infrastructure shared with the Ncondezi Power Project, owners capex and a contingency.

The execution plan for the mine will be based on the ramp up and steady state requirements of the Ncondezi Power Project. It is estimated that the Ncondezi Power Project will have a construction period of approximately 36 and 40 months and the mine has an estimated construction period of c. 24 months. Currently, the target commissioning for the mine is January 2018 with first capital draw down required from January 2016.

The capital cost estimate excludes a box-cut establishment cost of US\$21 million relating to the mining operational cost over the 24 month construction period. Over this period 1.8 million bcms of waste needs to be removed and 1.2Mt of ROM will be produced and processed into 900,000 tonnes of coal product. 500,000 tonnes of the box-cut product coal is expected to be sold to the Ncondezi Power Project for commissioning and initial stockpile. A credit for coal sold to the Ncondezi Power Project during the construction period (second half of 2017) is expected to be offset against the capital requirement for the box-cut. The residual box-cut coal product of 400,000 tonnes will be sold to the Ncondezi Power Project during the first year of steady state operations in 2018.

The operating cost over the LoM is expected to be between US\$15 to US\$20 per saleable tonne of coal, based on contractor quotes and benchmarking. Operating costs include mining contractor cost (which includes fuel, labour, maintenance, consumable costs and stay-in-business capital related to mining), utilities (i.e. power and water), CHPP operating cost (which includes consumables, labour, maintenance etc) and any other overhead costs incurred during the life of the operation.

The main output from the Mine FS is a coal transfer price to the Ncondezi Power Project which is driven by a required nominal after tax equity return of 18%. The coal transfer price amounts to between US\$22.50 and US\$27.50 per saleable tonne (AD). The coal transfer price assumes a debt to equity funding split of 70:30 and includes taxes and royalties in accordance with current Mozambican tax legislation (namely corporate tax of 32% and royalties of 3%).

Based on a median coal transfer price of US\$25 per saleable tonne, the mine project ungeared NPV at a 10% real discount rate is expected to be c. US\$37 million.

Following completion of the Mine FS, it is the Company’s intention that the mine will enter into a 25 year binding Coal Supply Agreement (“CSA”) with the Ncondezi Power Project to ensure security of supply at the required qualities to the Ncondezi Power Project. A CSA Heads of Terms was signed in October 2013 setting out the broad principles for the CSA, and it is expected that the binding CSA will be agreed in Q1 2014.

The next step towards finalising the binding CSA is to get binding contractor quotes for the mine and CHPP establishment and LoM operating costs to increase accuracy of information and the robustness of the Mine FS to ensure a binding coal tariff offer can be made. The Company is planning to launch a formal RFQ process in late January 2014 and select preferred contactors before the end of Q1 2014.

The binding CSA is a key document required for finalisation of the Final Form Power Purchase Agreement, which is also targeted for completion at the end of Q1 2014.

**Enquiries:**

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**Ncondezi Energy** owns 100% of the Ncondezi Project which is strategically located in the power generating hub of the country, the Tete Province in northern Mozambique. The Company is developing an integrated thermal coal mine and power plant in phases of 300MW phases, up to 1,800MW. Commissioning is planned for 2017, followed by commercial operations in H1 2018. The first 300MW phase is targeting domestic consumption in Mozambique using reinforced existing transmission capacity to meet current demand.