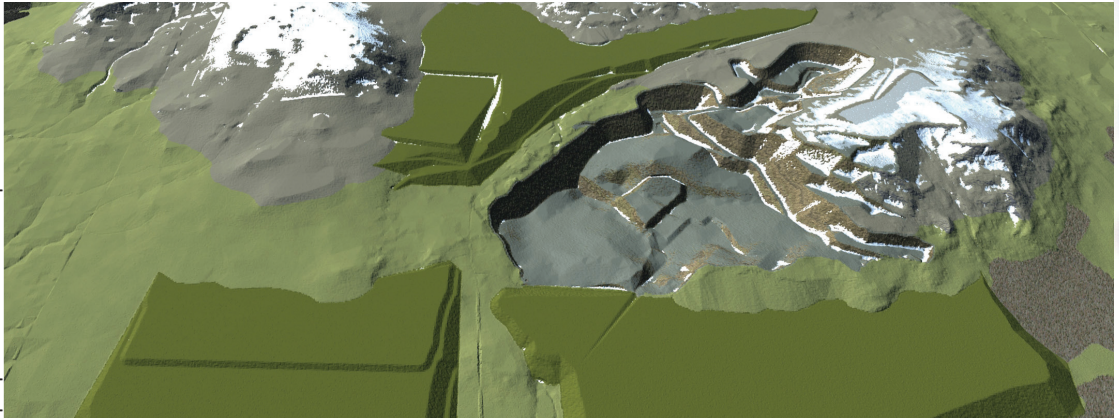


Fortune Minerals' Metallurgical Coal Project Attracts POSCO to Northwest British Columbia

The Mount Klappan anthracite coal project has caught the attention of one of the world's largest steel producers.

By Brandon Larson

A 3-dimensional model of the proposed Lost Fox mine pit.



In mid July, POSCO and Fortune Minerals' respective subsidiaries formed a joint venture to advance the Mount Klappan metallurgical coal project to production. While not a household name in Canada, South Korea's POSCO is well respected in the global steel industry and investment circles for its financial stature and technical innovation.

Interestingly, Warren Buffet's Berkshire Hathaway held a 4.6 percent interest in POSCO on December 31, 2010. Under the terms of the joint venture agreement, POSCO Canada (POSCAN) acquired a 20 percent interest in Mount Klappan and, based on current capital cost estimates, is expected to make total payments and cash contributions of \$181 million to help bring the project into commercial production. Included in this amount is \$30 million in upfront funding, \$20 million of which will be used to complete the permitting process, more detailed engineering, expansion drilling and continued community and stakeholder engagement.

Anthracite represents a mere one percent of the world's coal reserves and Mount Klappan is the only known deposit in Canada. Why is there interest in this somewhat unfamiliar commodity? Being the highest quality coal, it is very versatile and can be used for many applications. Metallurgical uses include Pulverized Injection Coal (PCI), sinter, reductants used in electric-arc steel manufacturing and in ferro chrome and titanium processing, and as a blend coal to make metallurgical coke. It is also used for filter media, power generation, fertilizers and briquettes.

"Simply put, there are insufficient supplies of high quality metallurgical coals to meet growth in demand. Consequently you are seeing increased resource nationalism that has focused attention on security of supply of

critical raw materials," says Robin Goad, Fortune Minerals' President and CEO.

POSCO's goal of expanding steel production to 50 million tonnes will require significant metallurgical coal. While China and Vietnam have been traditional suppliers of anthracite, in 2004 China became a net importer and Vietnam has significantly reduced exports to ensure supplies for its domestic steel and power generation industries. This reduction in coal availability was a contributing factor to POSCO's interest in Mount Klappan.

Fortune Minerals plans to produce an ultra-low volatile PCI product which is increasingly sought after for use by the steel industry in new, more efficient processes. The recent CDN\$ 4.93 billion hostile bid by ArcelorMittal and Peabody Energy for Australia's Macarthur Coal Ltd.—the world's largest producer of PCI—underscores the importance steel makers are placing on securing resource supply.

The Mount Klappan property was originally owned by Gulf Canada Resources Ltd. and following a takeover became part of ConocoPhillips. Fortune Minerals acquired the property from ConocoPhillips in 2002. To date there has been over \$86 million worth of work carried out in research and development of the property, \$65 million of this was done by Gulf Canada in the 1980s.

The Mount Klappan coal project represents one of the world's largest undeveloped deposits of metallurgical coal with Measured Resources of 107.9 million tonnes, Indicated Resources of 123.0 million tonnes, Inferred Resources of 359.5 million tonnes and Speculative Resources of 2.2 billion tonnes. The definitive feasibility study prepared by Marston & Marston Inc., on the Lost Fox deposit, demonstrated run-of-mine coal reserves of 106.3 million tonnes, representing only 3.6 percent of the total resources.

Lump coal and filter media.



The definitive feasibility study indicates that the project generates a \$1.03 billion pre-tax NPV (8 percent) and 25.4 percent IRR from the initial Lost Fox starter pit, using a base case price of US \$175 per tonne for the PCI product. Robin Goad further comments that, "our post-transaction levered after-tax NPV (8 percent) of Fortune's 80 percent share of the currently identified reserve in the Lost Fox deposit is estimated at \$601 million."

Coal production is envisaged at three million tonnes per year as the initial production rate. In addition, there is potential to ramp up production by the mining of additional resources in the Lost Fox and adjacent deposits.

The 15,866 hectare Mount Klappan property is located just over 300 km northeast of the Port of Prince Rupert. This location is especially beneficial for overseas shipping as the use of this port can save up to 36 hours of travel time versus shipping from the Port of Vancouver. The port of Prince Rupert also allows for the use of Capesize ships, resulting in a significant reduction of ocean freight and potential for blending and splitting cargos with other western Canadian coal producers.

However, a major challenge has always been determining the appropriate transportation solution to get the coal to the port, as significant offsite infrastructure is required. The stars now seem aligned. Last year CN Rail provided Fortune Minerals with a commercially competitive quote for rail transport to the Port of Prince Rupert,

which importantly allows for scalability of the project thereby enhancing the economics. Additionally, the federal government has given approval for the Ridley Terminal to expand its capacity from 16 to 24 million tonnes per annum.

Development of Mount Klappan will provide 475 full time jobs for local residents with additional employment required during construction and for ongoing service to the mine. Together with the requisite railway infrastructure, it provides for a sustainable development opportunity for the benefit of the Tahltan and Gitksan communities and all stakeholders in northwest British Columbia.

The recent exposure brought to Fortune Minerals through the meeting of potential partners in Asia for the Mount Klappan project has also attracted interest in their NICO project in the Northwest Territories. Fortune Minerals is planning to operate a mine and mill in the NWT, and a metal processing plant in Saskatchewan. Along with significant gold, cobalt and a bit of copper, NICO also contains the largest deposit of bismuth in the world. **M**

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