

THE NORTHERN MINER

THE GLOBAL
MINING
NEWSPAPER

www.northernminer.com

JANUARY 24-30, 2011 • VOL. 96, NO. 49 • SINCE 1915

Fortune Minerals advances on two fronts

BY IAN BICKIS

VANCOUVER — **Fortune Minerals** (FT-T) goes into 2011 with big ambitions for its two feasibility-stage projects after a year of steady progress.

In British Columbia, the company's Mount Klappan anthracite coal project now has a clearer path forward thanks to improved transportation metrics, while in the Northwest Territories the company made strides to increase the resource and advance metallurgy at its polymetallic NICO project.

For Mount Klappan, the challenge has always been how to economically move the coal from the project to port, either 150 km southwest at Stewart or 330 km southwest at Prince Rupert. The company produced feasibility studies in 2005 and 2008 looking at rail and trucking options, but transit was always an issue. At one point a long pipeline was even considered.

"We investigated slurries, we investigated conveyors; this project is all about transportation," says Robin Goad, president and CEO of Fortune Minerals, in a phone interview.

The big change came last August when Fortune went back to **Canadian National Railway** (CNR-T, CNI-N) seeking better terms on establishing a rail line and shipping coal to the port of Prince Rupert.

"CN came back with a very competitive quote that was commercially competitive with the trucking option," says Goad. "That is a whole new ball game ... now, basically for only about \$50 million in additional capital (compared to the trucking option), we have a solution that is not only simpler, but it's also scalable."

Initially the company plans to produce about 3 million tonnes of coal a year, but expects to ramp that up to 6 million and then 10 million tonnes a year. Goad says the trucking option, which would have

seen a fleet of trucks hauling coal to Stewart, was basically maxed out at 3 million tonnes.

Shipping the coal to the Ridley Terminals in Prince Rupert has the added advantages of significant extra capacity at the port itself, the ability to use larger Cape-sized ships, the possibility of blending and splitting cargos with other producers, and cutting as much as 36 hours of shipping time to Asia.

The rail option will require Fortune to spend \$318 million to upgrade and extend the railway 150 km north, while the trucking option would have required building a 100-km-long access road as well as upgrading the Stewart facilities. The company is benefitting from extensive work done previously to extend the rail line that was never completed.

With the rail option now in play, Fortune revisited its feasibility study for the project. In the new study, using a base case US\$175 per tonne coal price, the after-tax internal rate of return works out to 20.7% and the after-tax net present value, using an 8% discount, comes in at

\$667.4 million.

Goad emphasizes that the project is a "world-class deposit" with significant room for growth. The feasibility study is based on the Lost Fox deposit alone, which contains 101.7 million tonnes of coal reserves, while the project has a global resource of 2.8 billion tonnes.

The vast majority of the global resource is in the little-used speculative category, but reserves alone could support a 20-year mine life at 3 million tonnes a year. Goad says he is not concerned about the company's ability to upgrade the resource.

"It's not like gold that pinches and swells...it's there. We've got wide-spaced drilling, it really is just a drill density issue," explains Goad. "Our plan is to get it into commercial operation and then upgrade those resources."

The company will spend the year working to secure a partner, re-engage the environmental assessment process, strengthen relationships with local First Nations, and generally complete the permitting process, all of which was some-



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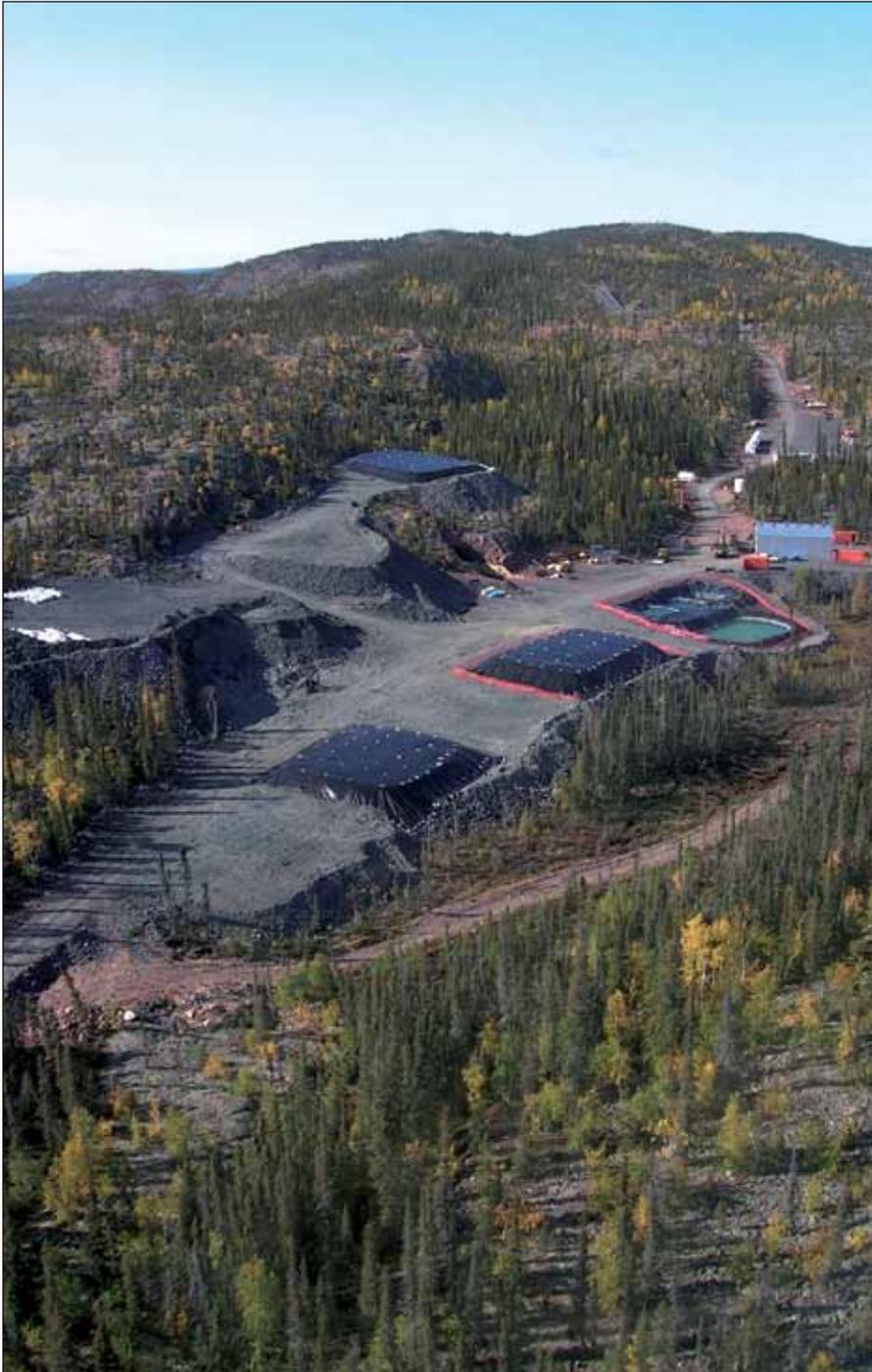
Visitors from the Tlicho First Nation tour Fortune Minerals' NICO gold-cobalt-bismuth project 160-km northwest of Yellowknife, N.W.T.

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An aerial view of Fortune Minerals' NICO gold-cobalt-bismuth project in the southern Northwest Territories.

what on hold as transit options were worked out.

Meanwhile, in the Northwest Territories, the company continues to push forward its gold-cobalt-bismuth NICO project, which hosts reserves of 31 million tonnes of 0.91 gram gold, 0.12% cobalt, 0.16% bismuth and 0.04% copper.

The company conducted a 37-hole summer drill program that returned several high-grade gold hits, and should lead to an updated resource in early 2011. Goad notes that while in gold equivalents the project hosts roughly 4 million oz. gold, in gold alone it has 907,000 oz.; a number he wants to boost.

“What we wanted to do with the current drill program is get above that optically important threshold of one million ounces, where we’d basically get some respect for just the gold content alone,” he says.

NICO has in recent years been the priority for the company as it seeks a partner to develop Klappan and waited for coal prices to recover, but Goad says he expects the coal project to gain momentum now that it has the revised feasibility study.

With steady progress on both projects, and the active coal market, Goad adds that the company is open to the idea of splitting the company.

“It’s not something that we would have considered a year ago, because we just would have created two very weak companies, but there may be a reason to separate the assets and that’s something that we’re looking at all the time.”

The company’s stock price has benefited from progress on both projects, as well as a hot coal market with lots of merger and acquisition activity. Since early last September, Fortune’s share price has climbed from around 60¢ to a 52-week high of \$1.72 on the last day of trading in 2010. The company has 106 million shares outstanding.