

THE NORTHERN MINER

THE GLOBAL
MINING
NEWSPAPER

www.northernminer.com

JULY 25-31, 2011 • VOL. 97, NO. 23 • SINCE 1915

Fortune, Posco to hook up

BY SALMA TARIKH

To advance its Mount Klappan anthracite coal project in northwest B.C., **Fortune Minerals** (FT-T) is partnering with South Korean steelmaker **Posco**.

Fortune's CEO Robin Goad says the joint venture with the world's third-largest steel producer underlines the project's desirability.

"I sort of characterize this as a validation transaction. It not only brings a lot of financial strength to the project, it also brings in marketing knowledge. And most importantly, it demonstrates to basically the world that this is an important project. And that the material we are going to produce, which is anthracite metallurgical coal, is very much in demand for steelmakers."

Under the JV, Posco would own 20% of Mount Klappan.

Based on current capital cost estimates, the steel giant's subsidiary Posco Canada would provide Fortune with \$181 million. The agreement's closing will bring in \$30 million upfront. That initial payment would be used for more detailed engineering and design studies, along with permitting the 158-sq.-km project.

The rest would fund 20% of the total capital needed for the mine, railway and process plant. Posco would also pay 20% of the production costs, in exchange for 20% of Mount Klappan's life-of-mine product.

The steelmaker would supply another \$17.2 million once the project is in production, to pay some of the expenditures incurred on the property. So far, Fortune has spent \$86 million on Mount Klappan.

With Posco on board, Fortune would cover 80% of the costs, or \$614 million, to build Mount Klappan and the railway infrastructure.

Goad says Fortune is seeking another partner to aid with the financing. "The

agreement with Posco contemplates that we will be bringing in another partner, and we expect the other partner to be coming in at a much higher price . . . and fully funding the project."

A 2010 feasibility study, prepared by Marston & Marston, outlined Fortune's plans to haul coal to the port of Prince Rupert by expanding the existing Dease Lake line, which the **Canadian National Railway** (CNR-T, CNI-N) operates.

Fortune says even with the railway costs, the project has "very attractive" economics. Using a US\$175 per tonne coal price, the after-tax present net value came to \$667.4 million, with a 20.7% internal rate of return.

The other option that the company had was to truck its product to the port of Stewart, 150 km to the northeast.

"But the CN Railway came to us last year with commercially competitive quotes for the rail transport," Goad explains. "And this has always been the preferred option because it's a simple and scalable transportation solution."

It could cost the company \$318 million to upgrade and extend the railway 150 km to the north. The benefits of shipping coal to Prince Rupert include: using the bulk-handling facility to load cape-size ships; the possibility of blending and splitting cargos with other Canadian coal producers; and reducing shipping times to Asia by up to 36 hours.

The study envisioned an open-pit mine and wash plant at the project's Lost Fox deposit, initially producing 3 million tonnes of clean coal a year over a 20-year life. The coal would consist of 10% ash ultra-low volatile pulverized coal injection product used to make steel.

Lost Fox has reserves of 101.7 million tonnes of coal, while the project's measured, indicated and inferred resources amount to 590.4 million tonnes. It has

another 2.2 billion tonnes in the little-used speculative category.

Commercial production at Lost Fox is expected in 2014, at the earliest, Goad says.

Coal and steel markets

With reduced global coal supplies combined with growth in the global steel markets, Goad believes the demand for high-quality metallurgical coals will pick up.

"Generally speaking, the stars are quite aligned. The traditional producers of anthracite coal — China and Vietnam — are either stopping exports, or tailing exports, because they need their own supplies for their own domestic steel and power generation industries."

Global production of anthracite is near 565 million tonnes a year, of which China produces 85%. Vietnam is the second-largest producer, churning out 43 million tonnes a year.

"We have a market condition that is going to be really conducive for strong prices for the foreseeable future, because there is simply a shortage of metallurgical coal on this planet to satisfy the global demand."

The growth in the world steel markets would also increase coal demand, Goad says, adding many people overlook the need for coal in steelmaking. "A lot of people don't realize coal is a fundamental and critical ingredient in steel manufacturing."

According to the World Coal Institute, 64% of global steel production comes from iron made in blast furnaces that use coal.

Based on an analyst's prediction, India is expected to quadruple its steel production over the next decade, Goad says, while Brazil is expected to quadruple production over the next 20 years.

India ranks as the fourth-largest steel producer, with China on top.

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Along with steel manufacturing, anthracite, with its high carbon and energy content, has other uses. It could be used in ferro-chrome, titanium and aluminum processing, or gasified to produce urea fertilizers for agriculture.

The company doesn't expect envi-

ronmental hurdles in moving Mount Klappan forward.

"This is a major undertaking, building a railway, First Nations engagement . . . We spent many millions of dollars on it," Goad says. "We don't see any roadblocks from an environmental perspec-

tive. So, we are very optimistic about the project."

On the Posco news, Fortune shares gained 14¢ to close at \$1.60 on 2 million shares traded. It has a 52-week trading range of 57¢-\$2 per share.