



Elizabeth Benvin, Market Analyst

Fortune Minerals Mount Klappan project integral to Canadian role in coal market

PITTSBURGH (Asian Metal) 6 Jun 12 – Ontario-based Fortune Minerals, a resource company with several mineral deposits and exploration projects in Canada, has focused its sights on the development of the Mount Klappan anthracite metallurgical coal deposits in British Columbia. A joint venture with South Korean company Pohang Iron and Steel (POSCO) could very well increase Canada's position in the metallurgical coal market and give Fortune Minerals a leading role in North American coal exportation.

The joint venture, formally concluded in mid-July of 2011, represents one in a number of important cooperations taking place between Asian steel producers and Canadian resource companies, such as Century Iron's recent agreement with China's Wuhan Iron and Steel Company. Estimates conclude that the current world supply of anthracite coal is lacking, giving Fortune Minerals an advantage with the Mount Klappan project and recent agreement with POSCO. Anticipated total cash contributions to the project by POSCO are estimated at 20% of the total development costs.

"I think companies like POSCO or other enterprises [in Asia] are not so concerned about what they are going to pay for raw materials but whether they will be able to get any [in the future]," Robin Goad, President and CEO of Fortune Minerals, reported to Asian Metal. "I also think that Asian companies have determined that they do not need to necessarily own nor control the resources to achieve the security of getting them."

Canada's abundance of natural resources represents an important opportunity for resource security. The Mount Klappan project remains one of the world's premier metallurgical coal projects as the largest known deposit of anthracite coal in Canada to-date, with measured resources of 107.9 million metric tons, indicated resources of 123.0 million metric tons and inferred resources of 359.5 million metric tons. The project offers many promising features, such as railway development with CN Rail, a Canadian transportation company with integrated services. The railway development project would extend transportation to the desired port.

Currently, the project is at an advanced-stage, with feasibility studies already concluded.

"Just about everything you can imagine has been completed, such as testing for air quality, community consultations, transportation studies, and reserve estimates," stated Goad.

The desired port for shipment to Asia also offers many promising features. The Port of Prince Rupert is a no-ice port with the capability to handle full Capesize vessels (over 150,000t). It also lies 36 hours closer to Asia than the port of Vancouver, decreasing shipping costs. The Port of Prince Rupert currently handles approximately 70% of its 16 Mt/y designed capacity. An approved expansion could increase that to 24Mt/y.

"There are a lot of advantages to this port facility," Goad remarked. "There is an existing world class coal terminal being expanded to accommodate growth in demand for metallurgical coal, and it is accessible to full Capesize vessels. It also offers an interesting opportunity for shared cargoes and blending opportunities with other metallurgical coal producers."

The Mount Klappan project also represents strategic opportunities for smaller Canadian companies to find funding for projects that they might well not have the capital to pursue on their own.

"I think it is important to recognize that there is a scarcity of raw materials and this, coupled with a more competitive steel industry, has been forcing steel producers to vertically integrate," Goad added. "We are starting to see backward integration transactions, very similar to what we have already accomplished. Smaller companies would tend to rely on larger, integrated companies since they do not have the capital to do [these types of projects] themselves. This, however, is a very attractive financing mechanism where we can leverage the need of manufacturer to guarantee sources of supply."

Though China's recent economic downturn has startled companies at every link of the supply chain in steel production, Goad, however, remains confident that recent slumps in activity are not permanent and, ultimately, will not have a significant negative effect on the outcome of efforts at the Mount Klappan site.

"In my opinion, the Chinese economy is still very strong. The government-controlled growth rate will probably be between 8-10%. Even if it drops to 8%, that is still fairly phenomenal," Goad concluded. "Chinese imports of coal and raw materials are still increasing."

Shares of Fortune Minerals (TSE:FT) fell CAD0.01 Thursday to end at CAD0.74 per share at market close.