

Fortune smiles on Arctos anthracite project in BC

By Marian Hookham

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The stars appear to be finally aligning for Canadian-listed Fortune Minerals to develop by 2016 what is said to be one of the world's largest undeveloped anthracite deposits.

Located in north-west British Columbia, the Arctos deposit has been a frustrating off-on proposition for years for a whole host of reasons.

High infrastructure costs, permitting issues, uncertain global markets for anthracite, and even the previous name of the project, all conspired to delay its development. Previously known as Mount Klappan, the project was renamed because some critics thought mining would remove the entire mountain, which is incorrect according to Fortune.

An important game-changer for the long-delayed project came last year in the shape of a capital injection from Korean steel major, POSCO which acquired a 20% stake in the project for \$181M.

And last week, Fortune released the third Definitive Feasibility Study for the Arctos project, which now has start-up of commercial mining in 2016, targeting Asian export markets.

The new DFS has upgraded both the reserve base and the mine life which have made the mine economics more attractive. Run of mine coal reserves are up 18% to 124.9Mt while mine life has been extended from 20 to 25 years based on a 10% ash product.

The updated study is based on an open pit truck and shovel mine with a life of mine average in-pit stripping ratio of 6.2:1 bank cubic metres and wash plant producing

3Mtpa of washed coal, consisting of a premium 10% ash ultra-low volatile PCI.

The coal will be moved by rail to the Ridley coal terminals at the port of Prince Rupert, requiring an upgrade of the existing Dease Lake Railway Line and a 150km extension.

The study has also increased the estimated cash cost to C\$127.61/t FOB, (US\$ 129.53) placing Arctos among the lowest cost Canadian metallurgical coal producers, according to Fortune. Transport costs account for about C\$33.63 (\$34) of that total.

An important question is: Has the time come to bring such a project to fruition?

First a bit about anthracite.

While most anthracite mined globally is used to generate domestic heat, high grade and ultra high grade anthracite is valued for its carbon content. In metallurgical applications it is used as a direct coke replacement and as a blend with hard coking coal to make coke. It is the only coal that can be used as sinter feed and for the processing of ferroalloys.

Growing demand for anthracite in metallurgical applications has been driven by rising costs of coking coal with some analysts predicting a supply shortfall of 50Mtpa over the next few years.

Until recently global seaborne trade in anthracite has been relatively minor compared with other coal types. In 2011 anthracite trade for use in metallurgical coal applications totalled around 25Mt with Japan the biggest importer, taking around 3.7Mt, according to estimates from Mechel

Carbon. Major seaborne importers are Japan, China, Korea, India and Brazil.

The main exporters of anthracite used for metcoal applications are Russia, Ukraine, Vietnam, China, South Africa, and the USA.

Another North American based company, Reading Anthracite is positioning to respond to an upsurge in demand saying there are now 10 countries importing US anthracite. They estimate US-produced anthracite totalled roughly 2.2Mt in 2011, of which 405kt was exported. This year exports are predicted to increase to 420kt and to 600kt in 2013.

The big question from a supply perspective is whether the two big producers, China and Vietnam, start exporting large volumes again. Most commentators think that's unlikely even though the two are likely to retain a supply position to Japan, Korea and Taiwan.

A company like Fortune will be competing with Russian and Ukrainian anthracite supply targeting emerging economies China, Brazil, Russia and India as likely buyers.

Anthracite pricing is tricky given the coal can be priced relative to thermal or PCI coal, depending on quality. (The most highly prized anthracite is sold in lump form for domestic heating, but is a limited market and the coal is difficult to transport.)

Given the low-vol PCI benchmark is currently at around \$125/t FOB, Arctos coal is not in the money right now but by the time production kicks off, all predictions point to an improvement in the global economy and metallurgical prices at a level that supports Fortune's output.

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