

COAL

Thu 10/10/2013

## New Age reasoning

Richard Roberts, 25 September 2013



Rail line at the front door.

WHILE portents would appear to be good – and improving – for a significant valuation uplift for ASX-listed New Age Exploration (NAE), mixed signals about the future of coal mining in any form in the UK are perhaps the key constraint on efforts to gain traction for the Lochinvar coking coal story.

Then again it might just be perceptions among Australian investors that the coal sector per se needs to get its house in order in terms of both capital costs and margins before it's worth re-examining for green shoots. This despite the recent improvement in coking coal prices.

New Age CEO Gary Fietz believes they can be reassured on both fronts with regards Lochinvar, with the project in south-west Scotland very much a 'right-place-at-the-right-time' kind of play if all goes to plan.

Speaking to *HighGrade.net* in the wake of New Age announcing an initial JORC-compliant inferred resource of 112 million tonnes at the site drilled in the 1950s by Britain's National Coal Board, Fietz said Lochinvar was acknowledged as a potential economic spark on an otherwise grim backdrop, at least in terms of industry and jobs, of the district around Dumfries, Canonbie and Carlisle on the Scotland-England border.

It also had the ingredients, and was in the right part of the world, to be developed and run at far lower cost than a similar project in Australia where high labour and most other input costs will remain immutable while reworked ideas about productivity evolve into actions and outcomes.

How affordable and profitable Lochinvar might be will become clearer over the next 12 months as results of more drilling due to start next month feed into a scoping study that should wrap up in May next year. Then more drilling is planned to convert the current resource to 'indicated' status and support prefeasibility work in the second half of 2014.

Then the focus will be on a measured resource and final feasibility study.

New Age has about \$A4 million in the bank, which is enough to see it through the next phase of drilling and scoping study.

That gives it a current enterprise value of about \$A6 million – a long way off the likes of ASX-listed Jameson Resources (Canada-focused), Attila Resources (USA), Cokal (Indonesia) and Atrium Coal (Canada), albeit these are more slightly more advanced and in the case of Atrium's similarly 100%-owned Groundhog, far bigger at this stage.

A base-case plan to produce about one million tonnes of saleable coking coal to replace some of the 6Mtpa being imported by British steel mills as near to Lochinvar as Teesside, about 200km away, and as far as Port Talbot in Wales (520km to the south), could cost about \$A200 million using benchmark capex levels from just about anywhere other than Australia.

That is given access is secured to the presently under-utilised West Coast railway line which passes within a few hundred metres of New Age's licence (and which runs to several ports, as well as the steel mills). Again, indicative costs to cart coal via rail to the steel plants are said to range from GBP9/t (\$A15/t) to Teesside, to GBP14/t (\$A24/t) to Port Talbot.

Lochinvar's development blueprint would include a wash plant, mine infrastructure and kit for maybe three continuous miner sections.

Basic back-of-the-envelope calculations add about GBP40/t (\$A70/t) to the GBP9-14/t freight cost of Lochinvar coal supplied domestically.

Naturally Fietz says it's too early to say anything definitive about costs, but he remarked that project construction costs were "significantly" lower in the UK than Australia, while Australian labour rates "are about double [the] UK".

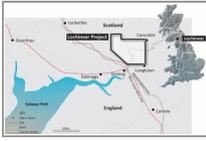
"You've also got to look at the royalty rates. You're talking about a 0.2% royalty versus 15% in Australia," he said. "That makes a massive difference to your costs as well."

Accurate pricing is also a long way off, but on current numbers and knowledge of the coal in the ground at Lochinvar, New Age might secure a similar price to US east coast, high-vol coking coals (around \$A120/t) plus the sea freight differential (about \$15/t) for a net \$A135/t.

Benchmark coking coal prices dipped more than 60% from mid-2011 levels around \$A330/t before recovering to more recent mark of \$150/t.

Fietz, a geologist who spent 21 years in BHP Billiton's iron ore business, said investors may well be spooked by general perceptions about permitting risk in Scotland where opencut mines, coalbed methane recovery, and gas fracking are getting the same cold shoulder from community groups as in the rest of the UK.

Locally there is also the recent disintegration of what remains of the thermal coal mining industry, with massive unpaid environmental bonds a high-profile legacy. The Ayrshire mine closures have also left a lot of people jobless, a prospect that might loom for some nuclear power plant and government munitions plant workers in the vicinity of Lochinvar.



Fietz said the negative publicity around coal in Scotland "has an impact on us and it is negative".

There was some strident opposition to an opencut coal project at Canonbie, and a coalbed methane venture.

"What we need to do is separate ourselves from all that because we're not opencast for a start, and we are going to pay our bonds properly right from the start, and we're not going to have a remediation issue," he said.

"Once we explain that to people we turn them around.

"We've actually had a lot of favourable local press and at the most recent community meeting in Canonbie, where there were over 100 people and the opencast project and methane project got the thumbs down, we got about 90% support.

"There's a lot of support locally, and regionally and nationally, for our project, which is partly due to the jobs Lochinvar would create and also the fact that there isn't a significant impact environmentally.

"It's an underground mine; there is very little surface impact. It's in a rural farming area where there is a very minimal amount of native vegetation remaining – it's all been cleared for grazing – and it's relatively flat. So the environmental impacts are almost negligible and the community support is very strong. It's an area where there is very low employment and we are just about the only major project that could generate employment in the whole region. So we're getting very strong support from the Dumfries and Galloway council ... and we're getting very strong support from the Scottish national government in fact."

New Age has a conditional underground mining licence that needs to be accompanied by a planning licence from local authorities.

"That incorporates a Scottish EPA approval as well," Fietz said.

"It's a fairly well defined process for a planning approval in the UK ... I understand it's actually going to take four months after the planning application is submitted.

"So we're very comfortable that that's not one of the major risk issues for the project, getting through a planning approval."

A mine at Lochinvar might create more than 100 local jobs and perhaps many more indirectly.

"That's regionally very important," Fietz said.

"For this area where there are really no major projects at all on the horizon; in fact quite the opposite."

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