Mining Journal
mining-journal.com

European exploration: Investing for tomorrow

Publishing Date: 30 May 2014 1:15pm GMT
Issue/Supplement: MJ 30/05/14
Author: Richard Roberts

Apparently, few investors are seeing a potential long-term need from Europe's steel industry for local, competitively priced coking coal as clearly as wealthy Singaporean investor Chee Siew Yaw. At the equity pricing level at which he's been participating in early work by Australian-listed juniors New Age Exploration Ltd and Balamara Resources Ltd in Scotland and Poland, respectively, Yaw is not putting buckets of money on the line for his belief that fairly modest, overlooked coking coal resources in these jurisdictions can become long-term, profitable suppliers to domestic steel companies.

But he is punting on the ability of Australian management teams with high-level exploration and project development skills and experience to realise the value in opportunities passed over, or not properly recognised, by others. And the projects are still at formative stages of advancement, reflected in New Age's market capitalisation this week of about US$9 million and Balamara's US$30 million, which means there is still plenty of scope for things to go wrong.

So, while New Age and Balamara have few friends in a depressed coal-price environment and one in which new supply is seen as a problem rather than a solution, they do have the likes of Yaw and James McClements' Resource Capital Funds in the US who are looking at the situation a little differently.

A much improved and more stable picture for mineral exploration and development in the UK is helping New Age's cause. Similarly, Poland is welcoming foreign investment in its ailing mining sector.

New Age managing director and chief executive Gary Fietz told Mining Journal development of an underground coking-coal mine at Lochinvar in southern Scotland was being viewed locally as a potentially important economic stimulus in a job-hungry district, while its strategic importance was not lost on those in higher government.

“There’s 6Mt/y of coking coal demand in the UK [steel industry] and 23Mt in western Europe… and absolutely no domestic supply in the UK,” he said. “If we can get 20% of that [UK market] we’re laughing.

“Beyond that, though, there is not much supply in western Europe and what is there is [out of] Russia and/or all mine-mouth stuff. Seaborne or rail-traded [local] coking coal supply is minimal.”

As with New Age at Lochinvar, Balamara’s managing director Mike Ralston sees a 1Mt/y (saleable) coal mine at Nowa Ruda in southwestern Poland as its initial focus, with Balamara’s project potentially tapping insitu infrastructure – via existing underground workings that need remediation – as well as the surface rail and other physical resources that make a greenfields project at Lochinvar more attractive.

Ralston, Balamara’s Polish-born executive chairman Derek Lenartowicz, Fietz and New Age’s chairman Alan Broome, are all experienced Australian mining executives drawn to a large neglected (by outsiders) coal exploration and development landscape in Europe.

In Nowa Ruda, Ralston sees a project with the US$100 million a year headline earnings rate (at US$70-75/t mine-gate production costs/US$150/t coking coal price) capable of transforming a junior. Mine refurbishment, offtake and the business case and finance for a US$100 million project are the primary hurdles.

New Age is in the trickier position of negotiating land access agreements with numerous surface landowners, including lords and dukes, and not having an old mine blueprint to give it 3D insights into the 110Mt resource being targeted on the Solway Basin, nor probable mining conditions. So it is still several months away from providing a clearer picture on project economics that will hinge on the increasingly likely need for a mini-wall (short longwall) to complement continuous-miner production. Polish and Chinese suppliers of cheaper equipment are already being sounded out.

The first four drill-holes in a new six-hole programme – supplemented following a recent successful equity fund raising – have been drilled, yielding favourable results. Ongoing geotechnical and coal quality analysis, encompassing the next two holes, will take a further four weeks or so. New Age is targeting a September release of an updated indicated resource and scoping study, when it will be hoping for a re-rating of its market value in the lead-up to a new round of fund raising.

Fietz told Mining Journal importation of an experienced Irish driller and better drill rig had transformed the speed and efficiency of exploration, and, as importantly, enabled the company to ensure its land access and remediation procedures were done to Australian standards. Local drillers with the same equipment and experience were previously found to be lacking.

“It was taking us six to seven weeks to do a hole last year,” he said. “The first hole we drilled in this programme took 20 days and the last hole [400m deep] they drilled took 12. So they’ve learnt the ground conditions and each hole got better and better.

“I’ve been around these drill sites last week and the sites drilled a month ago you can hardly tell we were there. So that’s exactly the community picture we want to get across. And from the cost point of view and schedule point of view it’s critical as well. It’s still a little bit more expensive than Australia because there’s a lot more competition there, but it’s much closer now.”

Land access negotiations and agreements have caused minor delays so far, though not from the Dumfries and Galloway Council, which will ultimately be called on to approve a planning permit for development, which has provided access to land with an old school on it. That access helped with the latest drilling and is a sign of the local government support for the exploration campaign.

New Age has also won clearance to access small pockets of land within the broader Duke of Buccleuch estate, with which it hasn't yet negotiated a land access agreement for drilling.

"We have a very good relationship with the local community," Fietz said. "We work hard at that.

"We've got 24 surface drilling access agreements signed with local farmers so far – almost all the farmers in the area have now signed up for the surface drilling and we've been successful in dealing with almost all of them with one or two exceptions.

"We believe we will ultimately be able to reach an agreement to drill on Buccleuch's land, but in the meantime what we've done is found pieces of that area not held by Buccleuch and signed agreements with the owners to get access to drill. So we've got enough access now to get a full indicated resource, with some very small gaps in between that a competent person is very likely to be able to join up. So it's not a big issue for us in terms of getting to the indicated resource drill-out."

Getting about 40% or more of the overall 110Mt exploration target from inferred to indicated under JORC standards is the aim, with that volume of material sufficient then to underpin a satisfactory view of scoping-study level project economics.

While most of the coal to be mined is expected to be between depths of 300-400m, shallower coal exists in the north, while seams are known to go to 1,000m in some areas. The "moderately gassy coalfield" would require de-gassing before mining (or via underground workings).

Geotechnical assessment to date has indicated strong roof conditions in some holes – competent siltstones and mudstones, with a sandstone band above that – and weak in others (softer mudstones and some shearing in the mudstones), but there is more work to do.

"We're not sure at the moment if the roof conditions will support economic secondary extraction via room and pillar and a continuous miner operation, so we're running the two options in our study," Fietz said. "[But] it's certainly looking more probable that we're heading towards a mini-wall with a 2Mt/y mining rate [instead of 1Mt/y], which means we need to keep working on the resources side as well because you'd be chewing it up twice as fast."