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## Northeast sees boom in coal markets

### The rush could generate new jobs and \$1 billion in investment

Scott Simpson  
Vancouver Sun

Tuesday, October 12, 2004

Mining companies are scrambling all over northeast British Columbia in a determined rush to grab a share of a new and apparently permanent market that has emerged in China and the rest of Asia.

The northern coal rush could create a thousand full-time jobs for B.C. miners and generate \$1 billion in capital investment by 2010, according to Peace River South MLA Blair Lekstrom.

It could also turn Tumbler Ridge, which has suffered economically from the recent decommissioning of the Quintette and Bullmoose mines, back into a northern boomtown.

Minister of State for Mining Pat Bell corralled senior executives of five junior



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mining firms for a recent meeting to discuss the situation, and all agreed that B.C. has never been in a better position to take advantage of the growing global market for metallurgical or steelmaking coal.

B.C. currently has about 21 per cent of the global market for metallurgical coal and ships an average of 26 or 27 million tonnes per year to foreign buyers in Europe, Asia and South America.

The seagoing export market for metallurgical coal is 210 million tonnes and the biggest shipper is Australia, with 110 million tonnes of that amount.

But Australia's ports and rail systems are currently at capacity, while B.C. is only at 55 per cent.

That means there's room in British Columbia's rail and shipping system to carry another 20 million tonnes into a market where demand recently shot up by 30 million tonnes.

"To put some perspective on it, right now in China they are building 10 million new homes a year. There are only 10 million homes in all of Canada. In the United States in a big year they build 1.3 million homes," Bell said.

"They are building them largely out of concrete with steel reinforcement. So there is a huge additional consumption in the world marketplace for steel.

"Not just there, but as a result of the demand for homes, cars, refrigerators, stoves, and everything else that's going on in the Asian marketplace right now."

Demand is expected to grow by the equivalent of two Japans by 2010, according to Pine Valley Mining vice president Mark Fields.

Globally, the metallurgical coal market is a \$10-billion-a-year industry -- and according to Fields the price is estimated to go up "substantially" next year.

That would follow a 20-per-cent price increase in the price of metallurgical coal, as announced last December by the operators of the country's largest metallurgical coal operation, in B.C.'s Elk Valley.

That increase was twice what analysts had been predicting and represented the biggest price hike since the 1970s.

The price is annually set in negotiations in December among Japan, Australia and Canada, and serves as a benchmark price for all contracted coal deliveries in the fiscal year that starts the following April.

That price announcement was the best thing that ever happened to B.C. producers, according to Fields and other prospective mine operators.

Pine Valley almost immediately gained the financing to develop its project, after several years of unsuccessful effort. "That's why we're in production today -- because of that price change," said Fields.

Pine Valley is the first metallurgical coal mine to open up in B.C. in 20 years, will employ more than 100 people when its operation reaches production capacity of two million tonnes next year, and expects to annually generate \$85 million for the B.C. economy.

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Pine Valley began shipping PCI, or pulverized injection coal, to Asian and European steelmakers last month at \$52 US a tonne -- \$7 higher than the global price for annual buyers and \$20 higher than PCI was fetching two years ago.

PCI is a lower-grade product than the high quality coking coal produced in the Elk Valley, but new steelmaking technology is turning it into a sought-after alternative because of its somewhat lower price.

But Fields said the price for PCI is following coke upwards.

"Next year we don't know where it's going to go, but based on the forecast for metallurgical coal we are probably looking at \$60 a tonne," Fields said.

Cline Mining Corporation director Gord Gormley said it became apparent last month that a vast new opportunity was emerging for coal producers when a Japanese steelmaker told the Canadian Coal Conference that surging Chinese demand would change the market "forever."

Last year for the first time, China shifted from being a net exporter to a net importer of metallurgical coal and no one expects the former situation to reemerge.

"Their comment was simply that the market was going to be affected forever by China, and by the recognition that China's demand for coal was not going to go away."

By 2010, the demand for metallurgical coal in China, India and other Asian countries is expected to be about double the volume currently taken up by China.

That means higher prices should hold steady -- so the real rush is to capture a share of the market over the long term, Gormley said.

Cline's Lossan project is about 15 kilometres southwest of Pine Valley's Willow Creek mine and is still in a comparatively early stage of development.

The company recently obtained \$300,000 for exploration work and is in negotiations for another \$6 million for field work, feasibility and environmental studies, and permit applications.

The company wants to produce one million tonnes of PCI and coking coal annually by 2006 -- with similar capital investments and employment levels to Pine Valley.

"Part of the urgency is that everyone around this table is entrepreneurial, and if we don't do it, someone else will. It's not so much that the market will dry up, it's that someone else will eat your lunch if you don't get out there," Gormley said.

The company with the most aggressive plans is probably Western Canadian Coal Corp., which recently appointed former Mining Association of B.C. president Gary Livingstone as its president and CEO.

Western has a \$180-million market cap and plans to annually produce as much as 10 million tonnes of metallurgical coal by 2014.

Livingstone just returned from a trip to London, where he obtained the company a seat on the Alternative Investment Market, and also recently announced \$20 million in funding for development of the company's projects.

The Dillon/Brule mine project is the most advanced, and Western expects to produce 100,000 tonnes of product from it this year and 700,000 tonnes in 2005, plus a further 500,000 tonnes from its Wolverine mine.

The Dillon mine in particular benefitted from recent changes to the government's Coal Act that streamlined application processes for new mines.

It took only 83 days from the time Livingstone dropped off a mining application at provincial offices to approval of the permit.

"When you are raising money on the international markets, having a supportive government, and supportive policies, is key to any of us being able to survive," Livingstone. "I can state that without that support, our company would not be doing what [it's] doing right now in British Columbia."

Western anticipates capital spending of \$260 million by 2007, and operation spending of \$250 million by 2008 -- and 360 permanent full-time mining jobs by 2008.

Peter Sheehan, vice president of operations for Northern Energy & Mining Inc., said "everything is in place" to make development of the northeast happen.

Northern has raised \$10 million this year for its projects and expects to employ more than 200 people and annually contribute about \$100 million to the B.C. economy.

Applications to develop the company's Trend property, with an estimated resource of 60 million tonnes, were submitted to government in August and the company held an open house in Tumbler Ridge on Oct. 6 to talk about the project.

Metallurgical coal may be the most lucrative product, but it's not the sole opportunity in the northeast.

David Fawcett of Aurora Coal & Minerals Inc. is focusing on thermal coal markets in Asia.

There's no shortage of thermal coal in the world, but demand is strong enough to support a small but productive mine, especially since the infrastructure is already in place, Fawcett said.

Aurora's Wapiti coal project is located 30 kilometres north of Tumbler Ridge.

The company has been carrying out resource and mining assessment work since mid-July and is now advancing plans for mine development.


The next milestone is a baseline environmental study in mid-2005, followed by regulatory applications in December 2006, with annual production of a million tonnes of thermal coal for Asian markets.

MLA Lekstrom noted that with the recent shutdowns of the Bullmoose and

Quintette coal mines, the northeast is hungry for local jobs.

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