HD **Australian Mining Sector Update: May 2014**

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Recent announcements

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AurizonBaosteel Resources AustraliaAurizon OperationsAquila ResourcesASX-listed announced on 5 May 2014 a joint conditional off-market takeover offer by and to acquire 100% of the share capital of ASX-listed . If the offer becomes unconditional, accepting Aquila shareholders will receive $3.40 cash for each Aquila share they hold, valuing Aquila at approximately $1.4 billion. At the time of announcing the takeover offer, the bidders had a relevant interest in approximately 19.8% of Aquila shares (held by Baosteel and its associates). The Aquila shares accepted into the takeover offer will be allocated between the bidders such that, following the successful completion of the offer, Aurizon will own up to 15% of the Aquila shares and Baosteel will own all of the remaining Aquila shares acquired under the offer. If the offer closes with the bidders owning between 50% and 90% of Aquila Shares, Aurizon will own 10% of Aquila and the Baosteel will own the remaining Aquila shares acquired.

Pluton ResourcesCockatoo Island projectWise Energy GroupASX-listed iron ore miner announced on 16 April 2014 that it has entered into an agreement with JV partner in the , ASX-listed (WEG), to negotiate in good faith to acquire WEG's 50% JV interest in the project. As part of the acquisition, the parties will also seek to negotiate to terminate the sales and marketing agreement between Pluton and WEG, and to buy back WEG's 48,845,070 Pluton shares (or to have WEG sell those Pluton shares). During the 180 day negotiation period, Pluton will pay all of WEG's approved sums payable under the Cockatoo Island JV Agreement, while any of WEG's income from the sale of any JV product will be used to reimburse Pluton for such payments. If, at the end of the 180 days, a legally binding sale agreement between the parties is not entered into or completed, any amounts Pluton paid on WEG's behalf will be deducted from WEG's portion of the sale of any JV product, Pluton will resign as the manager of the joint venture on notice from WEG (with the parties to negotiate the appointment of a new manager), and WEG may give notice to cease operations at the Cockatoo Island project (with the parties to negotiate an alternate solution to operate the joint venture).

Energy DevelopmentsEnvirogenTahmoor CollieryTeralba CollieryGlennies Creek Coal MineOaky Creek Coal MineGlencore XstrataValeOn 11 April 2014, ASX-listed integrated energy company announced that it has entered into a conditional sale and purchase agreement to acquire the Australian waste coal mine gas (WCMG) power generation business of . Envirogen owns and operates four WCMG power stations which are located at New South Wales' , and , as well as at Queensland's . With a combined capacity of 43 MW, the four power stations provide methane abatement and clean energy to and . Energy Developments expects that the conditions precedent in the sale and purchase agreement will be satisfied within one month.

Recently completed deals

Cockatoo CoalBlackwood CorporationFurther to our reporting in the February 2014 edition of the Australian Mining Sector Update, ASX-listed announced on 22 April 2014 that is has completed the compulsory acquisition of the remaining shares in coal exploration company . As the final tranche consideration for the takeover over offer of Blackwood Corporation, Cockatoo Coal has issued 31,062,662 fully paid ordinary shares.

Market rumours and opportunities

Iron Ore HoldingsBuckland Iron Ore projectBungaroo South MineMineral ResourcesIron Valley projectFurther to our reporting in the December 2013 edition of the Australian Mining Sector Update, Mergermarket has reported that ASX-listed iron ore miner (IOH) is seeking a 50% equity partner for its flagship located in Western Australia. The Buckland project consists of the , with a JORC-compliant reserve of 127 Mt grading 57.6% iron, and associated infrastructure. The mine is anticipated to produce 8 Mtpa for a reported 15 year mine life. Ideal partners for the Buckland project would reportedly include medium-sized iron ore producers, as well as engineering companies and infrastructure groups. ASX-listed has been tipped as a logical partner for the Buckland project, with an existing agreement between IOH and Mineral Resources already in place for IOH's . IOH reportedly has approximately A$60 million of cash in the bank with no debt and anticipates completing a deal by the second half of 2014.

West Pilbara Iron Ore projectAccording to the Australian Financial Review , Western Australia's Premier Colin Barnett has reportedly suggested that an ownership restructure for the whereby the mine and its associated rail and port infrastructure are treated as separate investments may attract renewed interest and may be the best way of progressing the stalled project.

Aquila ResourcesAMCIPOSCOBoasteelThe West Pilbara project is lead by ASX-listed , with and being its JV partners. Further to our reporting in the December 2013 edition of the Australian Mining Sector Update, such a restructure of the West Pilbara project may reportedly persuade China's , who owns a 19.8% holding in Aquila, to invest in the project. Despite claims that AMCI was considering selling its share of the West Pilbara project, AMCI has reportedly confirmed its commitment to the project stating that it has no exit plans.

Iron RoadCentral Eyre Iron Ore projectMergermarketMergermarket has reported that ASX-listed iron ore miner is targeting equity and offtake partners for its located in South Australia. Citing Iron Road's Managing Director Andrew Stocks, has reported that Iron Road intends to retain a 50% interest in the Central Eyre project and aims to incorporate equity partners into the project as soon as possible, preferring equity partners who are different from any offtake partners secured. The Central Eyre project has a reported mine life in excess of 25 years and an expected capacity of 21.5 Mtpa of concentrate. The capex of the Central Eyre project is estimated to be valued at US$3.98 billion according to a definitive feasibility study of the project.

Adani EnterprisesGVK GroupIndia's mint has reported that Indian conglomerates and reportedly anticipate reaching financial close by either the end of 2014 or early 2015 for their coal projects located in Queensland's Galilee Basin and their associated rail and port infrastructure projects connecting to Abbot Point. Reportedly, GVK expects construction on its project to commence in 2015.

Coal IndiaGVK GroupFurther, India's mint has reported that state-owned has received in excess of 60 proposals from various companies to purchase equity in their coal mines. ASX- listed Rio Tinto and India's are reportedly among the companies to have submitted proposals to Coal India, according to an unnamed Coal India executive. Further to our reporting in several 2013 editions of the Australian Mining Sector Update, Coal India is believed to have approximately US$5.82 billion reserved for the acquisition of overseas assets in the next five years.

Regulatory updates

TRANSPORT AND OTHER LEGISLATION AMENDMENT BILL 2014 (QLD)

The Transport and Other Legislation Amendment Bill 2014 (Qld) was introduced into the Legislative Assembly on 3 April 2014 and proposes to amend the Mineral Resources Act 1989 (Qld).

The Bill's objective is to ensure that mining leases which overlap rail corridor land (regardless of whether surface rights are involved) should only be granted where the applicants of such mining leases have consulted with and sought the approval of the relevant owner of the rail corridor land - that is, either the Minister for Transport and Main Roads or the Coordinator General.

Further, the Bill also proposes replacing the quantified distances in relation to excavation near railway works with an obligation on the mining lease holder to not excavate land near railway works if such excavation is likely to adversely affect the railway works.

Other news

QUEENSLAND'S LAND COURT RECOMMENDS APPROVING THE ALPHA COAL PROJECT WITH CONDITIONS

Alpha Coal projectOn 8 April 2014, Queensland's Land Court delivered its non-binding recommendations in relation to the , recommending that if the project were to be approved, it should be subject to a number of conditions concerning water monitoring, licences and compensation issues.

 

GVK GroupHancock ProspectingThe Alpha Coal project is a joint venture between India's and Australia's and is located in Queensland's Galilee Basin. With a capacity of 32 Mtpa and an expected mine life of 30 years, the project represents one of the most significant regional and economic developments in Queensland's history.

Alpha Coal's project proponents, environmentalists and affected landowners alike have welcomed the Land Court's decision to recommend conditions be imposed if the project is to proceed, and the Queensland Government is now charged with determining which (if any) conditions will be imposed on the project, consistent with the Land Court's decision.

BREE PREDICTS AN INCREASE IN RESOURCES AND ENERGY COMMODITY EXPORT EARNINGS

On 26 March 2014, the Bureau of Resources and Energy Economics (BREE) released its Resources and Energy Quarterly Report for the March 2014 Quarter. According to the Report, Australia's resources and energy commodity export earnings are predicted to increase at an average rate of 8% per year from 2013-14, totalling an estimated A$284 billion in 2018-19.

Iron ore is set to be Australia's second largest contributor to higher export revenue over the medium term (behind LNG), while coal export volumes are also anticipated to rise over the medium term. Forecasts currently have thermal coal and metallurgical coal exports pegged to grow at a rate of 5.1% and 3.8% per year respectively, totalling 244 Mtpa and 181 Mtpa respectively in 2018-19.

BREE's Executive Director Bruce Wilson has commented that increased production and exports are expected for several commodities as the resources boom in Australia transitions from the investment phase into the production phase and many new projects begin operation. Additionally, Wilson has stated that while lower prices for many commodities have resulted in pressure on profitability and competitiveness in recent times for some Australian producers, he believes that the Australian resources industry will remain resilient over the medium term.

COST CUTTING IMPROVES THE QUEENSLAND RESOURCES SECTOR'S COMPETITIVENESS

In its latest edition of the State of the Sector Report for the March 2014 Quarter, the Queensland Resources Council (QRC) has stated that Queensland's resources sector is sitting on more competitive footing with its global competitors thanks to the implementation of extensive cost management programs, paired with significant productivity gains.

QRC's Chief Executive Michael Roche has commented that a survey of QRC members reveals a majority of companies are now positioned in the lowest two quartiles of the global cost curve in 2014 as a result of their cost cutting measures. Last year, most of those companies were positioned in the top two quartiles.

Despite these encouraging findings, the QRC has stated that it still believes more can be done in terms of labour, taxation, electricity, regulation and rail costs and is continuing to encourage governments and infrastructure providers to do their part in keeping the resources sector competitive.

INDIA REVOKES COAL SUPPLIES TO INCOMPLETE POWER STATIONS

Coal IndiaMining Weekly has reported that India's Power Ministry is set to revoke coal supply assurances to thermal power projects which have failed to reach completion and instead allocate those coal supplies to other operating power plants or projects nearing completion which do not yet have a fuel supply agreement in place with .

The Ministry has reportedly stated that it would take into account project delays which were beyond the promoting companies' control. However, the Ministry estimates that a total of approximately 10,000 MW of generating capacity has missed completion deadlines and is therefore at risk of having its supplies reallocated.

GLOBAL TENDER TO IMPORT THERMAL COAL PUT FORWARD BY INDIA'S NTPC

NTPCIndia's largest power producer is considering a global tender to import 7 Mt of thermal coal to supply 12 of its thermal power plants throughout India. NTPC is expected to import a total of 15 Mt of coal during 2014/15 in order to supplement projected shortfalls in domestic coal supplies during this period.

NTPC has announced intentions to reduce its dependence on imports and instead invest heavily in the development of its captive coal mines. However, despite estimated reserves of 3 billion tonnes, NTPC's captive coal blocks have failed to meet production targets of 3 Mt of coal by 2013/14 and 37 Mt by 2017.

Of NTPC's current 42,964 MW of installed capacity, in excess of 37,000 MW is coal-based.

 

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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