

## Churchill Mining Makes The Most Of Fabulous Times In The Coal Market

*“Coal is hot”, according to Churchill Mining’s representatives in London. Over in Indonesia, Paul Mazak, Churchill’s managing director, wouldn’t disagree. He’s just orchestrated a near 50 per cent increase in the size of Churchill’s land package at East Kutai on the eastern side of the island of Borneo, and expects that by the end of the year his company will be able to boast resources of over 500 million tonnes of coal, of which 100 million will be in reserves. Admittedly this is thermal coal rather than the real high-stakes metallurgical coal used in steel making, but a key use of thermal coal is in power generation, and power looks set to become one of the big issues of at least the first half of this century. There’s famously not enough coal to keep the lights on in South Africa, while in Churchill’s neck of the woods the Chinese are sucking in supply, and Indonesia itself is planning for another 10,000 megawatts of capacity.*

Hence recent market moves in the pricing of coal have been sharply upwards. For metallurgical coal, broker Fairfax deduces from a combination of data lifted from Bloomberg and inferred from BHPBilliton that the prevailing contract price has moved up 200 per cent to around US\$300 a tonne. For thermal coal, the rise is slightly more modest, but when all’s said and done, it’s actually no less sexy at US\$125 per tonne, according to the latest contracts between Japan’s Chubu Electric and Xstrata. That’s a mere 125 per cent rise year on year. Yes, folks, coal is hot.

So it’s a nice time to be expanding an already promising land package in Indonesia, one of the world’s great coal producing countries. The thinking behind the latest addition to Churchill’s holding is simple. According to Paul Mazak, on the portion of East Kutai which Churchill bought into last year there are two sets of seams with a gap of about 50 metres between them. One seam is outcropping, and the other is dipping up towards the surface at an angle of between eight and 10 degrees. Although the theory was thoroughly checked by Churchill’s team of geologists before the company signed any deals, it didn’t take a rocket scientist to work out that the lower seam would eventually hit the surface too. When this salient fact, which will lead to easier and faster mining of greater quantities of coal, dawned on the Churchill, it set about acquiring the ground on which the lower seam hits surface. That, in a nutshell, is the rationale behind the acquisition of an additional 200 square kilometers of ground directly abutting the current drill area for what looks to be the bargain price of US\$1.55 million plus the possible issue of 2 million Churchill shares if the ground proves to contain at least 100 million tonnes in the measured category.

If that’s not a simple enough summary, Paul Mazak can go one better. “Now we can dig two pits”, he says. Should anyone doubt the potential of the area, to the south of East Kutai sits the Pakar property, owned by private Indonesian coal company PT Ilthabi Bara Utama, which contains a JORC compliant reserve of 270 million tonnes, and has just appointed a contract miner for extraction at the rate of 5 million tonnes per year. East Kutai may not turn out to be as big as Pakar, which boasts Merrill Lynch as its off-take partner – yes, the investment bank is now taking delivery of real coal – but, who knows. With the resources and reserves Churchill now looks likely to prove up, the exact size of the property is no longer the most important factor for the consideration of investors and management, although a JORC statement is due this month. The next key issue to settle is who to sell to.

Mr Mazak says that Indian and Chinese thermal power users and traders are nosing about, and with blue-blooded money like Merrills in the district there ought to be no shortage of buyers. Whether East Kutai will in part be financed by an arrangement with an end user remains to be seen. But that there has been a change in the market dynamic, there is no doubt. “It used to be a buyer’s market. It’s now a seller’s market”, says Mr Mazak. “The only way to secure supply is to become involved with the people who are producing.” Or, to put it another way, he says, “it’s a fabulous time to be in coal”.