881949 Coal Mtn. V 85-7 FORDING

Fording emerges from unbundling

Last week, shareholders in Canadian Pacific Ltd overwhelmingly approved a share distribution which has resulted in the Calgary-based conglomerate being split into five independent public companies. The restructuring, which became effective this Monday (October 1), has resulted in the flotation of Fording Inc., Canada's largest producer of export coal, and the world's largest producer of the industrial mineral wollastonite. The other four companies which have been spun off as a result of the restructuring are PanCanadian Energy Corp., Canadian Pacific Railway Inc., CP Ships Ltd, and Fairmont Hotels and Resorts Inc. The rationale behind the proposal is to unlock the value and potential of the five companies for shareholders. Canadian Pacific's chairman, president and chief executive officer, David O'Brien, said that the decision "would equip all five companies to pursue even greater success by providing them with growth opportunities and direct access to public equity markets".

Fording's business operations are split into three segments: coking coal (called 'mountain operations'); thermal coal ('prairie operations'); and industrial minerals operations. Combined revenue from the three divisions in the six months to June 30, 2001 was US$526.2 million, of which over 86% was from mountain operations, 9% from prairie operations and the remainder from industrial minerals. Net profit for the six-month period was US$44.1 million. At June 30, 2001, the company held US$14.9 million in cash and had total debt of US$109.4 million.

The mountain operations division consists of three open pits, Fording River, Greenhills and Coal Mountain, all of which are located in the East Kootenay coalfields of the Rocky Mountains in southeastern British Columbia. The three pits all operate using conventional truck-and-shovel and dragline methods. Production from Fording River in 2000 was 9.0 Mt of coal, the majority of which was coking coal, although a small amount of thermal coal was also produced. The relocation of a shovel and two trucks to Fording River, plus the acquisition of four large-capacity trucks will increase the operation's output to 10 Mt/y in 2002. Output from the 80%-owned Greenhills operation in 2000 was 4.4 Mt (100% basis) from the Cougar North and Cougar South pits, which again included a small quantity of thermal coal. Finally, production from Coal Mountain in 2000 was 2.3 Mt, with a larger percentage of the coal produced being thermal coal. Total sales for the coking-coal division in 2000 were 15.1 Mt of coal, with the majority of the sales made to Europe (36%) and Japan (32%).

Fording's prairie operations produced 5.5 Mt of coal in 2000, from the Genesee and Whitewood open-pit operations in Alberta. Coal from Genesee is delivered under contract to EPCOR's Genesee power plant, and Whitewood coal is delivered to TransAlta's Wabamun power plant. Both mines operate using conventional dragline mining methods, and are designed to operate on a continuous basis. Fording also has a ten-year contract with Syncrude to remove overburden from Mildred Lake, also in Alberta, which was due to cease in the September 2001 quarter. Furthermore, 3.7 Mt of thermal coal and 3.3 Mt of potash were mined by third parties on Fording properties during 2000, with royalties from this mining contributing 2% to Fording's annual revenue for that year.

The industrial minerals division comprises wollastonite production from Fording's Willsboro operation in New York and the Minera operations located near Hermosillo in Sonora State, Mexico. Total production for 2000 was 107,200 t. In addition tripoli is produced from one open-pit operation in Missouri, which produced 14,300 t during 2000. Used in buffing and polishing applications, a range of tripoli-based products are marketed to the construction and manufacturing industries.

Fording's total coal reserve at June 30, 2001 stood at 1,200 Mt, and the total resource was 11,800 Mt. The reserve at Fording River is 218 Mt, and it has a resource of 3,200 Mt. Greenhills has a reserve and a resource of 114 Mt and 980 Mt respectively, with the reserve at Coal Mountain a much smaller 35 Mt, and the resource 108 Mt. This gives a combined bituminous (which can be either coking coal or thermal coal) reserve for the company of 367 Mt, and a total resource of 4,800 Mt (including 531 Mt listed under 'other', which includes non-operational properties). Thermal coal reserves (sub-bituminous coal) are much higher, at 850 Mt, although 716 Mt is in the 'other' category, and 134 Mt relates to Genesee. The thermal resource totals 7,000 Mt, all contained under 'other'. Lignite coal reserves (lower-quality thermal coal) total 3 Mt and resources 29 Mt.

Total industrial mineral reserves stand at 111 Mt of wollastonite, 257 Mt of potash and 2 Mt of tripoli. An additional 1 Mt of wollastonite and 3,800 Mt of potash are shown as resources.

Shares in Fording, along with shares in the four other newly-independent companies, began trading on the Toronto and New York Stock Exchanges this Wednesday (October 3), following the delisting of Canadian Pacific's shares the previous day. The first day's trading closed at

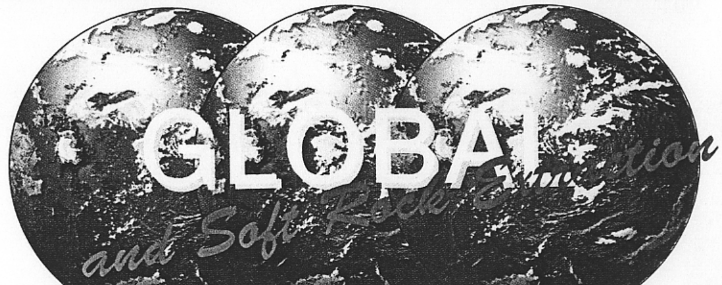
SHARE PRICES AND EXCHANGE RATES

Company	Oct 3 Local	Change 5-day %	Local % hi-lo	US$ mill. Mkt cap.
Alcan (C$)	47.10	3.5	15	9,635
Alcoa ($)	30.99	6.7	35	26,579
Anglo Platinum (R)	296.00	−1.6	24	6,904
Anglo American (£)	7.97	2.2	23	17,250
AngloGold (R)	307.00	8.5	73	3,528
Anglovaal Mining (R)	34.50	1.5	59	409
Antofagasta (£)	4.46	1.4	42	1,298
Arch Coal ($)	16.28	15.4	24	858
Ashanti Goldfields ($)	3.40	4.6	66	382
Asturiana de Zinc (€)	14.82	0.0	98	541
Barrick Gold (C$)	27.50	0.8	80	6,951
BHP Billiton Ltd (A$)	8.84	3.5	27	16,276
BHP Billiton plc (£)	2.85	4.7	37	9,746
Boliden (C$)	0.26	2.0	2	250
Caemi Mineracao (BR)	270.00	6.3	50	388
Cameco (C$)	35.80	−0.6	69	1,270
Cleveland-Cliffs ($)	13.65	−5.9	0	138
CVRD (BR)	50.80	−2.1	77	7,252
Eramet (€)	25.52	−7.2	14	581
Falconbridge (C$)	14.19	−3.8	5	1,601
Freeport-Mc. C&G ($)	10.42	−3.0	35	1,453
Gold Fields Ltd (R)	44.00	18.6	97	2,151
Grupo Mexico (MP)	13.35	−4.4	2	882
Hindalco (Rs)	512.40	2.6	4	796
HZL (Rs)	14.80	29.8	30	131
Iluka (A$)	3.52	6.0	15	380
IMC Global ($)	8.80	3.5	9	1,011
Impala Plat. (R)	309.60	−0.1	20	2,202
Inco (C$)	19.60	9.5	15	2,272
Industrias Peñoles (MP)	8.80	−1.1	37	367
Iscor (R)	24.40	−2.0	69	714
KGHM (Zt)	10.00	−8.7	1	478
Lonmin plc (£)	8.16	−2.4	21	2,116
MIM Holdings (A$)	0.84	2.4	12	726
Minsur(PS)	2.58	3.2	13	304
Mitsui Min. & Smlt. (¥)	355.00	16.0	8	1,645
Newmont Mining ($)	23.52	0.6	86	4,606
Noranda Mining (C$)	14.60	2.5	22	2,219
Norilsk Nickel (Rb)	368.38	0.0	47	2,360
Normandy Mining (A$)	1.37	3.0	91	1,519
Norsk Hydro (NK)	3.23	−0.8	14	9,815
Outokumpu (€)	9.10	9.6	51	1,045
Pasminco (A$)	0.05	0.0	0	28
Peabody Energy (US$)	23.20	−2.7	6	1,204
Pechiney 'A' (€)	41.60	−1.2	30	3,125
Phelps Dodge ($)	26.80	−2.9	3	2,109
Placer Dome (C$)	20.05	−2.7	88	4,189
Potash Corp. of Sask. (C$)	86.95	2.3	30	2,876
PT Tambang Timah (Rp)	925.00	−21.3	5	47
Rio Tinto plc (£)	10.68	5.0	31	16,777
Stillwater Mining (US$)	19.97	−2.8	2	774
Sumitomo Met. Min. (¥)	380.00	7.3	13	1,801
Teck 'B' (C$)	11.10	3.4	17	1,311
UK Coal plc (£)	0.87	−0.9	70	188
WMC (A$)	7.38	0.1	25	4,055
Xstrata (SF)	129.00	−16.8	3	463

Share prices and exchange rates are intra-day Wednesday. 100 in the high/low column indicates that the share is trading at a high, 0 that it is at a low, based on local prices over the past 52 weeks.

Currencies Oct 3

Value of	£	$(US)
$ (US)	1.48	1.00
$ (Australian)	2.97	2.01
$ (Canadian)	2.31	1.57
Ringgit (Malaysian) Fixed official rate	5.61	3.80
Franc (Swiss)	2.38	1.61
Krona (Swedish)	15.68	10.62
Yen	178.12	120.70
Rand (SA)	13.77	9.33
€ (Euro)	1.60	1.09
Markka (Finnish) €1=Mk5.94573		
Franc (French) €1=FF6.55957		
Deutschmark €1=DM1.95583		



NORTH AMERICA

Fording's three-way merger

The take-over battle for Canadian-based coal producer Fording took an unexpected twist in mid-January when all the parties involved announced that they were joining forces. Fording, Teck Cominco, Westshore Terminals Income Fund, Sherritt International and the Ontario Teachers' Pension Plan have agreed that the metallurgical coal assets of Fording, Teck Cominco and the Luscar Energy Partnership (owned 50:50 by Sherritt and Ontario Teachers') will be combined to form the Fording Canadian Coal Trust. The combined metallurgical coal assets will be held via a coal partnership. The assets will include those of Luscar Energy and Consol Energy (namely the Line Creek mine, the Luscar mine, the Cheviot deposit and a 46.4% interest in Neptune Bulk Terminals (Canada)), as well as the assets of Fording and Teck Cominco in the Elk Valley of British Columbia. In turn, the partnership will be owned 65% by the new Fording Trust and 35% by Teck Cominco, which will also contribute C$125 million in cash to, and be manager.

The partnership will be the world's second-largest producer of metallurgical coal, behind BHP Billiton, producing around 20% of global seaborne, high-quality metallurgical coal. Sales in 2003 should be about 25 Mt, compared with the 14 Mt that Fording had forecast for the year.

Fording's president and chief executive, Jim Gardiner, described the deal as "the most significant transformation in the history of the Canadian coal industry". He added: "It is the most significant reshaping and rationalisation of the Canadian metallurgical coal industry that any of us know of." The new proposal is subject, amongst other conditions, to the approval of Canada's Competition Bureau, which was in the process of evaluating the previous offers for Fording. However, Fording does not believe that the deal will be affected by antitrust concerns.

Cost savings from operating synergies under the proposed combination are expected to be significantly higher than the C$50 million estimated under previous offers, although no actual estimate has been released.

US coal still strong

Coal production in the US topped 1 billion s.tons for the ninth consecutive year in 2002, according to the Energy Information Administration 's (EIA) initial estimates. The total of 1,099,898,000 s.tons (997.6 Mt),which is likely to be revised later in the year, currently represents a decline of about 1.9 percent from EIA's preliminary production figure of 101.7 Mt for 2001. The lower production of 2002 is attributed to a milder than normal winter in early 2002, the slower economy, and abundant stockpiles in the first half of 2002.

The leading coal-producing state was once again Wyoming, with 340 Mt (rounded), followed by West Virginia (138 Mt), Kentucky (113 Mt), Pennsylvania (63.5 Mt), Texas (41 Mt), Montana (34 Mt), Indiana (33 Mt), Colorado (32 Mt), Illinois (31 Mt) and North Dakota (27 Mt), according to the estimates. The totals indicate 26 states produced coal during the year.

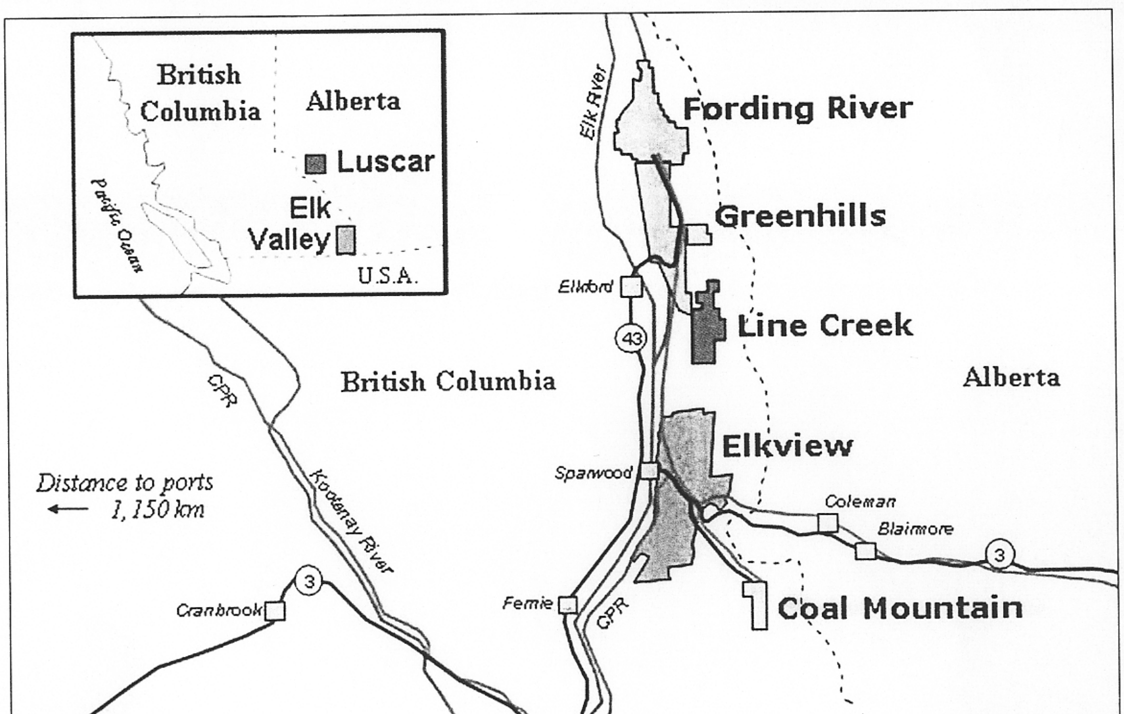
North Antelope Rochelle: biggest

Last year Peabody Energy's North Antelope Rochelle mine confirmed its ranking as the largest coal mine in the US, shipping 67.8 Mt of coal. Peabody reports that North Antelope Rochelle shipped 13% more coal than its nearest competitor and loaded more than 5,100 trains. The mine has about 800 employees and annually injects more than $67 million into the area economy in wages and benefits.

Peabody has three Powder River Basin mines in Wyoming, which in total shipped a record 94.5 Mt of coal in 2002, up slightly over the previous year. The North Antelope Rochelle, Caballo and Rawhide mines serve nearly 80 power plants and produce enough fuel to keep the lights on in 14.5 million American homes.

More clean coal funds

The US Department of Energy has awarded $132 million to two power companies to develop new technologies for cleaner burning coal powered electric plants. Western Greenbrier Co-



Map showing Fording's operations

TG8 → Coal Mtn.

Norilsk halts nickel shipments

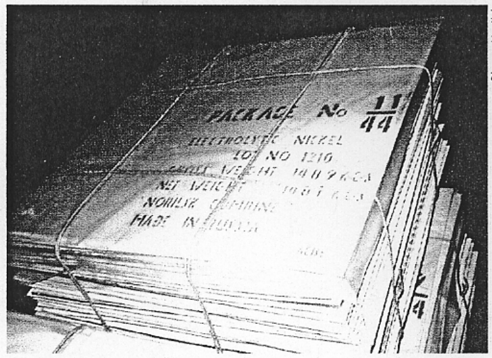


Photo: Norilsk

In tight supply: nickel cathode

MMC Norilsk Nickel is to halt temporarily shipments of nickel from the Arctic port of Dudinka as spring floods have made it impassable.

The length of the closure depends on the port's conditions, but Norilsk, the world's biggest supplier of nickel, estimates that shipments may cease for between four and six weeks.

The London Metal Exchange price for three-months delivery hit US$16,750/t at one point this Tuesday, a seven-month high.

Coupled with a fall in global nickel stocks to just over 5,600 t, the metal's short-term tightness could test the US$17,000/t level, last seen in October last year, according to a resource analyst at ANZ Banking Group.

This represents less than two days of global consumption, which the International Nickel Study Group forecasts will reach 1.3 Mt this year, most of it destined for China, where imports for the first three months of this year climbed to 27,085 t, three times higher than a year ago.

Although the market had speculated that Norilsk could deliver more metal, the company has stated that it has no additional stocks for sale, having sold its 70,000 t of accumulated nickel stocks in 2003 and 2004.

Dmitry Usanov, Norilsk's head of investor relations, said: "Now we have only enough to supply our customers."

As well as lacking stocks to supplement production, Norilsk, which has started reporting quarterly production data for nickel (and copper), declared a 3.3% drop in output for the first three months of 2005 to 59,000 t, compared with 61,000 t a year ago.

Nonetheless, the company expects its annual production this year to remain relatively unchanged from 2004, at 240,000-245,000 t, owing to equipment upgrades and the introduction of new processing technologies.

French nickel producer Eramet SLN has also confirmed that it, too, is unlikely to have extra inventories to fill the shortfall of primary metal expected this year, in spite of expansion plans to boost production.

The company, which is also the world's largest producer of ferronickel, forecasts nickel production of "close to" 70,000 t this year, compared with 55,180 t in 2004, and rising to as much as 75,000 t in 2006.

Although stocks of nickel in London Metal Exchange warehouses are dwindling to 14-year lows owing to robust Chinese demand, giving rise to a US$750-900/t premium for cash-metal over metal for three-months delivery, Outokumpu Oyj of Finland has indicated that material is available for European customers.

According to Michael Cook, chief economist at the Finnish steel producer, the big steel producers are well covered by long-term contracts, plus the fact that "there's lots of scrap around".

LETTER TO THE EDITOR

YOUR recent editorial commented that some of the bidding going on for mining companies clearly reflected a belief that the current strength in commodity prices was likely to continue; that the idea has emerged that things are 'different this time' and that pseudo-authenticity had been added to this delusion by the adoption of catch phrases such as 'super-cycle' (*MJ*, May 6, p2). But at least one aspect of a super cycle – in copper at least – is factual rather than subject to debate.

A mining company could this week have locked in copper prices as far ahead as December 2009 at just above US$2,500/t, well above the perceived long-term equilibrium. Doubtless many miners now financing expansion projects will consider very carefully just such hedging of their price risk – either on their own initiative or that of providers of their loan capital. Anyway, that a super-cycle is on offer in the futures market for copper is a fact.

One thing that is 'different this time' is the dollar in which one is measuring prices. As recently as 2001, the US dollar was overvalued by around 25% against dollar prices of LME metals typically by around 15%. Between then and now, the US dollar has fallen 15% against the yen, 25% against the Canadian dollar, and around 35% against the euro and the Australian dollar. Between now and December 2009, the dollar and the euro are both likely to fall 25-30% against the [Chinese] renminbi.

These currency shifts have moved, and will further move, the cost curves for mining, smelting and refining, expressed in US dollars. The resulting impact on equilibrium prices is not fanciful. On US dollar prices, that is.

If one looks at charts in euros (a rather more serious currency), the copper super-cycle is damped appreciably, and the concept of super-cycles for some other metals gets extinguished. There are also interacting short-term business cycles, around three years long, and phases of much longer-term structural overcapacity and excess stocks, then undercapacity and stock tightness. Their interaction creates a quite genuine super-cycle; though 'super-busts' eventually follow 'super-booms'.

Looked at that way, copper is poised with probably a sharp fall coming in or before the third quarter of 2005, then slow price decline lasting many years ahead. That doesn't sound bullish, and it isn't. But in dollar terms, copper prices could still be well above perceived long-term averages as far ahead as December 2009.

The BME Price Model, for instance, predicts a value of US$2,230/t for December 2009. That is well below today's cash price, indeed is well below today's December 2009 forward price, but well above perceived long-run equilibrium. It will be interesting to see whether the sceptics of the super-cycle idea start to sell far forward copper.

As for BME's view, summed up: we should all start thinking in euros, not dollars; we've actually had the best of a genuine super-cycle already in copper, and it's likely downhill all the way from the third quarter of 2005; finally, copper miners may well see diminishing, but still 'super', profits for some years to come.

Peter Hollands
Bloomsbury Minerals Economics

SUDAMIN BANKRUPTCY

Burgeoning energy and raw-material costs have forced German zinc and lead refiner Sudamin MHD Ltd to file for bankruptcy protection. According to Sudamin's chief executive, Henning Scheu, the company recorded a loss of more than €15 million in 2004, and was losing around €1.5 million a month during the March quarter of 2005. The plant, which refines about 95,000 t/y of zinc and 24,000 t/y of lead, was acquired from MIM Holdings Ltd in 2002 by Sudamin's parent, Cyprus-based Sudamin Investment.

BAOSTEEL-KUMBA PRICING

Shanghai Baosteel Group Corp, China's largest steel producer, has agreed to a 71.5% increase in iron-ore prices from South African-based Kumba Resources Ltd. It has not disclosed, however, absolute price levels nor volumes. Chinese steel makers have been attempting to secure supplies from outside Brazil and Australia to increase their bargaining power, particularly after Melbourne-based BHP Billiton sought to impose a US$7.50-10.00/t surcharge on its sales of iron ore to China (*MJ*, April 15, p1). The Chinese steel makers, which are forecast to account for almost 40% of global seaborne iron-ore this year, have also been irritated by Rio Tinto and Cia Vale do Rio Doce effectively setting this year's benchmark with Japan's steel makers (*MJ*, February 25, p1).

LME APPLICANTS

The London-based investment-banking subsidiaries of international banking giants UBS and Credit Suisse First Boston have applied to join the London Metal Exchange as associate broker clearing members – category 2. This level of membership includes all the features of full membership except the right to trade in the LME's open-outcry 'ring' sessions.

COAL MOUNTAIN DEAL

The Elk Valley Coal Partnership (EVCP) and the local branch of the United Mineworkers of America have agreed to a new five-year collective agreement at the Coal Mountain operations in southeast British Columbia. The agreement, the third consecutive five-year agreement since EVCP's largest shareholder, Fording Canadian Coal Trust (60%), purchased the mine, covers the period from January 1 this year to December 31, 2009. EVCP is the world's second-largest exporter of metallurgical coal, and expects to supply some 27 Mt of high-quality coal products to the international