Queenslander Paul Ingram: You can pick Heavener's quality coking coal up off the ground; and transport links bring Arkansas close to Brazilian steelmakers. **Photo: Ben Potter**

BEN POTTER FORT SMITH, ARKANSAS

From a garage office in Fort Smith, Arkansas, where Hanging Judge Parker strung up 79 men in the late 1800s, a gang out of Queensland is fixing to float a coalmine.

Brisbane geologist Paul Ingram says the Heavener coking coalmine straddling the Arkansas-Oklahoma border should yield 1.7 million tonnes annually within just a few years.

At that rate, if Ingram's team has the projections right, the mine will earn at least $US60 million before tax a year through to 2033.

Heavener will cost about $US200 million to redevelop, Ingram tells *The Australian Financial Review*, and be worth about half a billion dollars by early next year, when holding company Ouro Mining plans to float on the Australian Securities Exchange.

"We want to keep it private until we are cutting coal. We don't want to IPO a maybe," Ingram says.

Ouro will seek about $US50 million from the public next year. It's raising $US15 million privately now and $US25 million in August to fund this year's work.

Ingram, 59, wants to have it all lined up by December – mining permits, plans, a $US100 million debt facility, equipment and sales to steelmakers.

His gang of Queenslanders, a Victorian and a West Virginian, is part of a network of miners fleeing Australia's high costs, taxes, red tape, poor logistics and anti-coal sentiment to chase their fortunes abroad.

Junior explorers are saying, "Dammit, why would we take any risk in Australia? It's now the land of bureaucracy. Let's go and do it offshore," Ingram says.

'PRETTY MONGREL PLACES'

It's not just developed countries such as the US that are attracting Australian miners.

A year ago, the Department of Foreign Affairs and Trade found there were at least 230 Australian companies with approximately 650 mining projects spread across 42 countries in Africa.There are also junior miners with operations in countries such as Chile, including Condor Blanco's copper mines, as well as south-east Asia (including PanAust's gold and copper mines).

Ingram and his team have worked some "pretty mongrel places" from China to Borneo and Mozambique over the years, and had a hand in big coal deals in Mongolia and Queensland.

It's not always easy for miners who venture offshore. Another US-based coal junior, Ambre Energy, was last year forced to postpone a planned $200 million listing on the ASX due to a slump in coal prices and a legal dispute with a joint-venture partner.

But Heavener stands out, Ingram says. It has quality coking coal – you can pick it up off the ground – and lower costs than Australian mines. There's a choice of rail and river routes to ports on the Gulf of Mexico, close to fast-expanding Brazilian steelmakers.

Working and living in a converted garage and some condos overlooked by Fort Smith's Southside Rebels High School football field, Ingram's team has much to do to realise its vision.

There's West Virginian mining engineer Ed Pitrolo, Victorian finance whizz John Fisher-Stamp, and Queenslanders Steve Morgan (operations manager) and Harry Mustard (exploration manager).

They're heartened by a just-in feasibility study from Weir International, which put the output of the first stage at 1 .5 to 2 million tonnes a year, based on a 67 million tonne reserve in a two-metre seam.

They'd been aiming for about a million tonnes each year, Ingram says.

CONSERVATIVE ESTIMATES

With projected operating costs of $US107 a tonne, and a free on board (port) price of $US167 a tonne, that first stage supports the initial public offering target enterprise value of about $US600 million, including $US100 million of debt.

Ingram thinks this could prove conservative. First, he says investment banks to which Ouro is talking ahead of its IPO are relaxed with higher valuations.

Secondly, the initial mine plan is based on 125 metre-wide panels. That's narrow for modern longwall mining. A punch longwall mine comprises a large number of panels set out along the coal seam.

The length of each panel is roughly the width of the coal seam at that point – or its depth into the mountainside – between two and three kilometres along Heavener's 18 kilometre exposed edge.

The machinery – heavy overhead shields to protect the operators, giant rotating shears, and a conveyer belt – chews back and forth across each panel and removes the coal until the panel is exhausted.

Then it turns around via so-called gate roads punched in the coal seam, and chews out the next panel in the other direction. As the machinery slices through each panel, the shale, mudstone, sandstone and soil above it fall in behind the moving shields.

It will take 12-18 months to mine each panel. When Ouro Mining is comfortable with the way things are going, it could double the panel width to 250 meters. (Five hundred metres is common in Australia; whereas a panel can be up to 1000 metres in China.)

That could boost output to 2 million to 2.5 million tonnes a year, Ingram says. Profit should increase commensurately.

There is room on the coal seam to open another mine, perhaps with a partner sharing the cost. It should cost less than the first mine because surface development work is already done, and there's as much as 201 million tonnes of coal in the entire mine, Ingram says.

"It's a big project – well, big for a small company."

UNDER THE RADAR

Still, Heavener's been low key enough to have flown under the radar of America's coal giants. The previous owner, local company Farrell Cooper, mined only the open cut, because of the pricing structure at the time, and sold the coking coal as less valuable thermal coal for power generation.

Heavener's coal is a highly sought after blending coal, with low volatility and strong swell – the ability to support the load of iron ore and coke above it in the steelmaking oven. Blending it with high-volatility coal gives the best of both worlds.

That should make it attractive to Brazilian steelmakers, Ingram says. They're expected to increase their demand for coking coal from about 12 million tonnes a year to over 30 million tonnes from 2012 to 2015.

The Heavener mine has its own rail spur, courtesy of Kansas City Southern, and can get to the Port of New Orleans by rail or river, and Port Arthur and Corpus Christie in Texas by rail.

From there it's much cheaper to reach Brazil than either Asia or Europe by Panamax container ship from the Gulf. "You can not get a better logistics position than this," comments Ingram.

Operating costs are another plus – something that is obviously important to counter the high risks that are inherent in any junior mining venture.

Each panel is entered independently, which saves the cost of building so-called sub-entries and sealing exhausted panels, and makes the mine safer because it means disasters are less likely to occur.

All-in labour costs in American coal mines come in under $US30 an hour, about a third of Australian rates. Heavener's total cost to produce a tonne of coal and deliver it to a port for export is $US107, against $US130 to $US150 in Australia.

CONFIDENCE IN PRICES

Falling coal prices and demand are two things that could upset Ouro mining's plans for Heavener.

For now, though, Ingram feels good about the coking coal price. He thinks the free on board (port) price will "have a two in front of it" in a year's time.

The gassiness of the mine, and the 10 degree incline of the seam, are technical hurdles that need to be overcome, says Ed Pitrolo, who's designing the underground mine with help from outside groups.

The gas isn't enough to extract commercially, but it's enough to cause explosions, and has to be removed in advance.The incline isn't as steep as some mines elsewhere but it's tough on equipment.

"It's all manageable," Pitrolo says.

Ingram was alerted to the Heavener mine by Larry Li, the San Francisco based chairman of Ouro Mining, whom he knew – along with some other Ouro Mining directors – from past ventures in China and elsewhere.

"We are all part of this gang that goes way back , 40 years ago," he says.

Li had commissioned a report based on old studies and drilling samples from about 300 holes. It was enough to say, "Let's jump in," Ingram says.

They raised $US20 million, with $US17 million from Taurus Funds Management, which specialises in early-stage resource plays and is chaired by former Wallably captain Nick Farr-Jones.

Taurus executive Gordon Galt, a former Newcrest mining CEO, is on the Ouro Mining board. Like a "family arrangement", Ingram says.

Starting last May, they drilled and tested samples from 34 holes, conducted seismic and gas exhaustive testing, pored over old studies of the mine, came up with their punch longwall mine plan, and whistled up the Weir report.

Now they're raising $US15 million, and another $US25 million in August, to fund preliminary development, mine design and marketing.

They're also talking with financiers and potential customers about debt facilities, including equity for minimum supply deals.

The potential offshore exodus of junior explorers bodes ill for Australia's future resource base, says Pat Hanna, executive director of Cokal, a junior developing a coking coalmine in Kalimantan, Indonesia.

"If you're saying it's going to take 10 years to develop a mine in Australia, then 10 years from now there's not going to be many new mines when the current mines that the big companies own start to hit their economic limits," Hanna said in Miami in January.

"They're not going to be able to go out and find little companies to buy and take over."

Ingram is not quite so dramatic. Australia will continue to dominate the export coking coal trade, he says.

But its high costs create opportunities in the few other places with good, accessible coal. He points to Australia on a map. "That's going to call the shots," he says. Then he points to America. "That's going to make the money."

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