



REVIEW OF KEY MINING ISSUES DRAYTON SOUTH COAL PROJECT 2015

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Report prepared for Darley Australia and Coolmore Australia

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Review of Key Mining Issues Relating To The Drayton South Coal Project EIS 2015

PREAMBLE

The author was commissioned to review the Drayton South Coal Project EIS May 2015 and the Drayton South Response to Submissions July 2015 and provide comment on any issues that in his opinion were relevant for the attention of Darley Australia and Coolmore Australia.

THE AUTHOR

Michael White is Resources Consultant. He holds an honours degree in Mining Engineering and an MBA. He has over 25 years' experience in operational and technical roles working for major mining companies in Australia and internationally. He has 14 years' experience working in the open cut coal industry in NSW and Qld including 8 years in the roles of Operations Manager and General Manager.

Executive summary

The key issues identified in this review are as follows:

1. Significant risks exist for the project's ability to deliver the saleable tonnes as per the Production Schedule Summary in the EIS Appendix B Mine Plan Justification based on the following:
 - a. Previous actual significant underperformance (35%) for the period 2008-2014 when compared to previous 2007 EA production schedule for the same period
 - b. The achievability of the annual equipment production assumptions when compared to the 2012 EA assumptions
 - c. The achievability of the life of mine equipment production assumptions due to the significant reduction in project capital and the equipment replacement strategy increasing the risks of poor reliability and reduced annual output
2. Omissions and Errors in the Information Provided
 - a. There is no schedule for the 1.4 million ROM (Run of Mine) tonnes from the existing Drayton mine. This quantity of ROM coal tonnes is missing from the Production Schedule Summary in the EIS Appendix B Mine Plan Justification.
 - b. Incorrect and understated total waste production quantities are shown in the Air Quality and Greenhouse Gas Impact Assessment (table 7.3, p. H-52). If this incorrect data was used in the air quality modelling then the validity of that modelling is questionable.
3. Drayton Mine rehabilitation and closure costs

The existing Drayton Mine Closure Plan is not finalised. It is unclear how the mine closure costs can be correctly estimated given this situation. With regards to the Drayton South Project there does not appear to be any additional cost allowance for Mine Closure of Drayton South mine area infrastructure.
4. The capital expenditure summary estimated over the life of the mine appears to have been underestimated.
5. Drayton South Project strip ratio (SR) is high compared to other Hunter Valley mines, particularly in the first four years of the project. This is a major cost driver for any open cut mine and will be unavoidable for every tonne extracted from the Drayton South reserves as per this plan.

Key Issue 1: Significant Risk in the Delivery of the 2015 EIS Scheduled Saleable Production

Issue 1a: Current and Past Underperformance as an indicator of future performance?

Figure 1. Mine Actual Performance vs 2007 EA Schedule

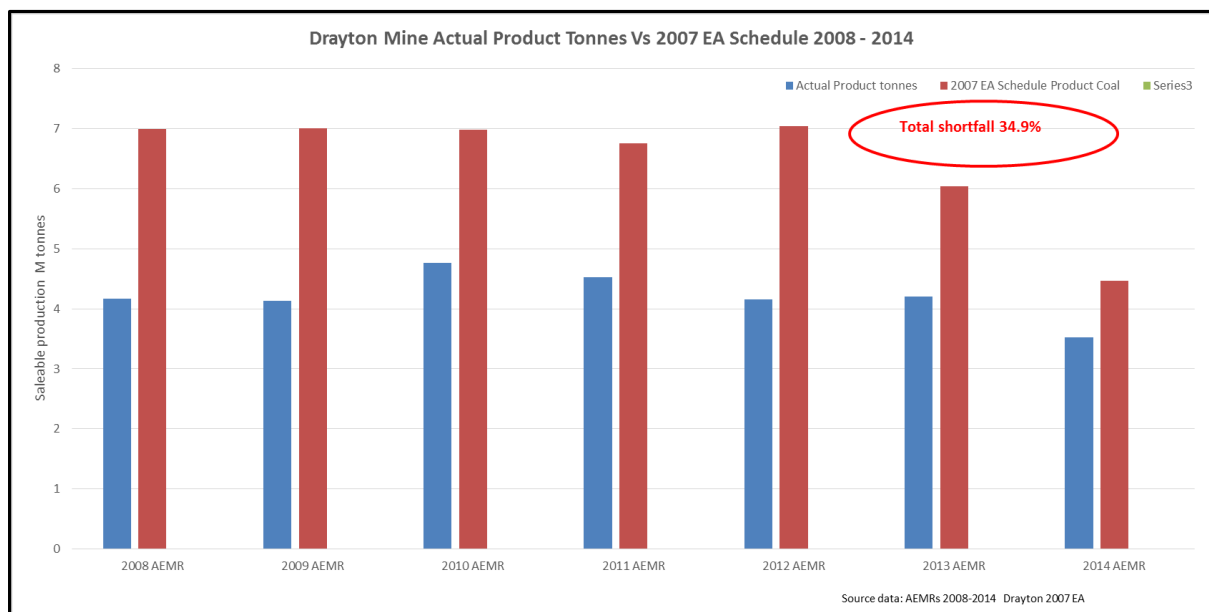
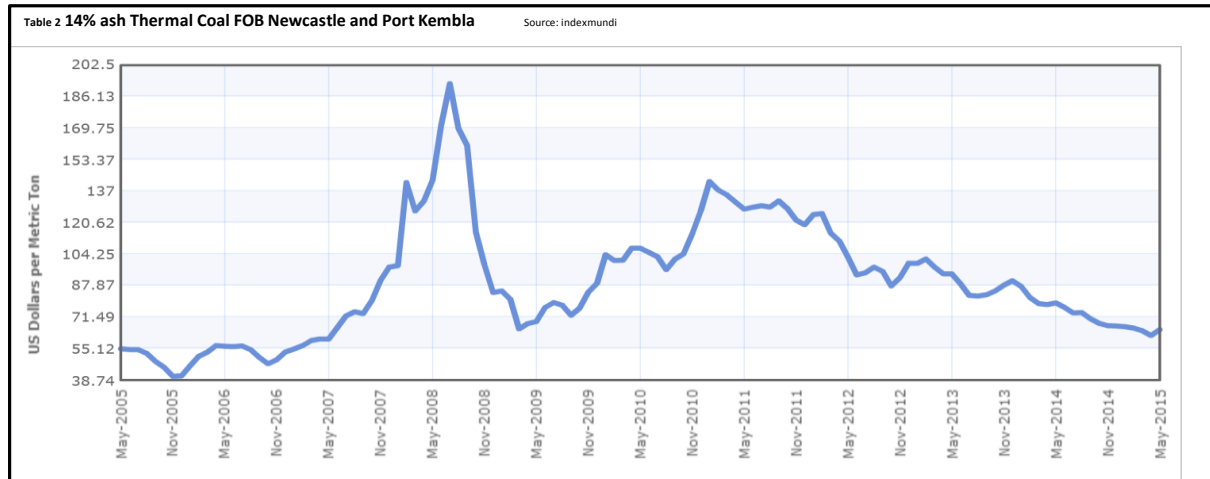


Figure 1 shows that for each year from 2008 to 2014 the actual saleable production was significantly less than the schedule provided in the 2007 EA. The total shortfall in that period was 15.8 million product tonnes or 34.9%. This shortfall occurred during a period of peak and sustained high coal prices when mine operators had strong economic incentive to maximise production levels (see figure 2 below).

It is recommended that the economic analysis for the project include a sensitivity analysis for a range of production level outcomes similar to the previous shortfall (35%) identified here. It is understood the current range used for sensitivity analysis is 20%.

Figure 2. Coal prices in the period May 2005-May 2015.



What happened to the “missing” Drayton coal?

The 2007 EA identified coal reserves at Drayton mine of approximately 52.7 million ROM tonnes. Drayton Mine AEMR information shows that only 35.4 million ROM tonnes were mined in the 2008-2014 period. This would imply that by the end of 2014 there were approximately 17 million ROM tonnes of reserves remaining.

The 2014 AEMR states:

As at 31st December 2014 the remaining total JORC resource is 5.961 million tonnes. Of this ~3.5 million tonnes is within the current mine plan with the balance outside the mine plan in the A 173 lease area. Inventory of coal outside of this is subject to economic and mining method assessment. Resources within the mine plan can be mined within the term of the existing MOP.

Drayton Mine AEMR 2014 p.9

Based on the above information 13.5 million ROM tonnes of reserves were “lost” over the period 2007-2014. This represents both a significant loss in asset value for Anglo and the non-realisation of expected royalties for the State of New South Wales from the coal tonnes that were not produced.

The Department of Planning does not seem to be aware of the facts. Note the extract from the current August 2015 DPE Assessment Report Executive Summary below:

Under the current approval, Anglo is allowed to extract up to 8 million tonnes of run-of-mine (ROM) coal a year until 2017, after which it is required to rehabilitate the mine. However, mining has developed more quickly than expected, and almost all the coal covered by the existing approval has been extracted.

Mining at Drayton mine has in fact been 35% slower than the original 2007 EA schedule. The reason the mine is about to run out of coal ahead of this schedule is because the stated coal reserves have been reduced by about 26% from those stated in 2007.

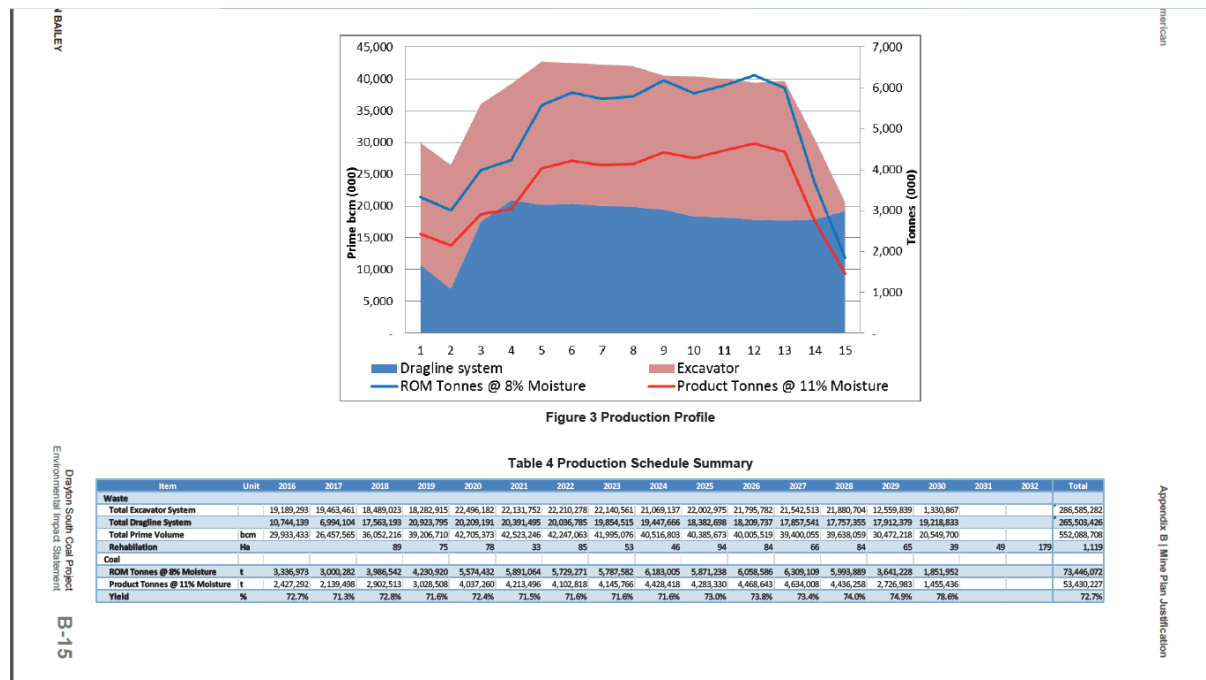
Issue 1b: Major Equipment Fleet Annual Production Assumptions – are they realistic and achievable?

The EIS identifies the following key equipment to be used in the project:

- One BE 1370 dragline
- Two Hitachi Ex 5500 excavators
- Two smaller (Hitachi Ex 3500 & 3600) excavators for coal and parting removal
- A fleet of dozers
- A fleet of 180 tonne (Cat 789B & C) haul trucks

The productivity of the dragline operation is assisted by cast blasting and dozer push. Both the 2012 EA and the 2015 EIS identified the use of these support methods.

Figure 3. 2015 EIS Production Schedule Summary and Production Profile



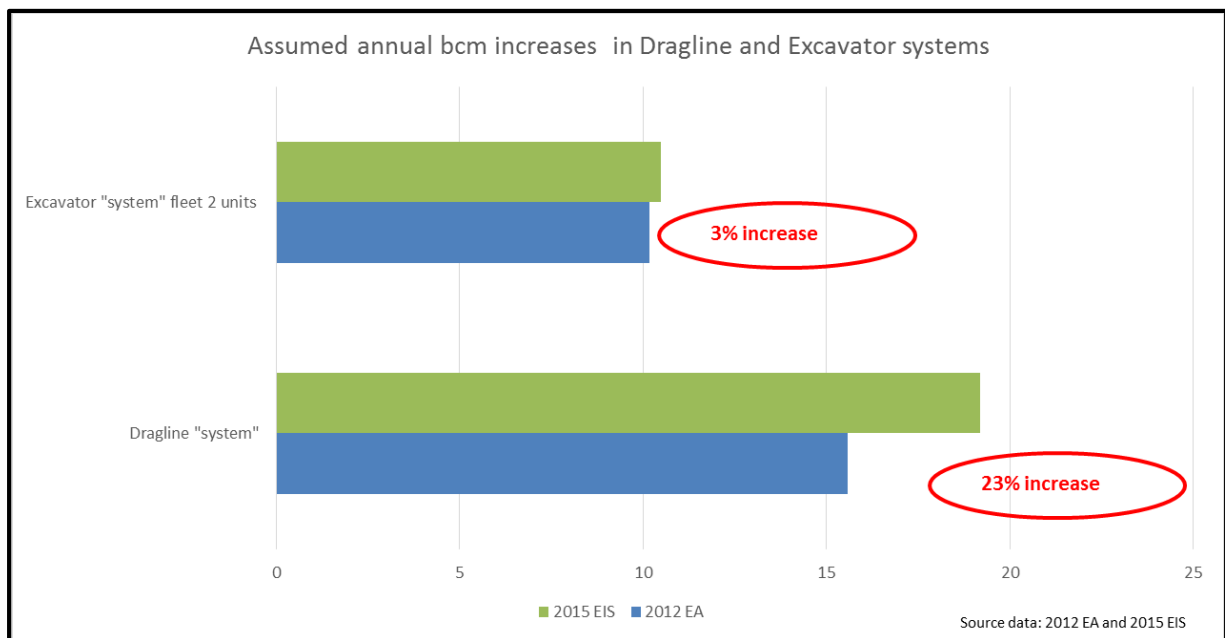
The annual waste movement quantities included in this schedule are labelled as “Total Dragline System” and the “Total Excavator System”. It appears that the cast blasting and dozer push quantities have been aggregated with the dragline prime quantities. This may also be the case with excavator quantities being supplemented with smaller quantities by loaders or dozer push.

This aggregated data makes it difficult to compare the assumed annual production by fleet type against industry benchmark information. In order to accurately assess the actual achievability of the fleet assumptions contained in the EIS, more information and greater transparency as to the data and methods used is required.

Comparing aggregated annual production 2015 EIS vs 2012 EA

Another accepted method of benchmarking is internal benchmarking. This compares the performance of the same types of equipment within a mine against itself at different periods of time. Given that cast blasting and dozer push were identified as supplementary methods assisting the dragline in both the 2012 EA and the 2015 EIS, data comparison for the same fleet “systems” in these two Proposals is a valid assessment.

Figure 4. Comparison of waste fleet annual production 2012 EA vs 2015 EIS



This comparison uses data taken from the Production Schedule Summary in the 2015 EIS and from the 2012 EA, using five sample years of production data (Appendix F, Table 7-2: Air Quality and Greenhouse Gas Impact Assessment).

An increase of 3% in annual output assumptions for the excavator “system” appears reasonable.

The “dragline system” shows an increase of output assumptions of 23%. This is **remarkable and requires further explanation before it could be accepted at face value.**

Additionally, this increase in output warrants scrutiny in light of statements made in the March 2014 Consequential EIA For Retracted Mine Plan. In that EIA it was stated that the loss of Redbank Pit would *negatively* impact dragline productivity for the project. In the current Project Proposal mine plan the Redbank Pit has now been largely removed.

Issue 1c: Life of mine equipment reliability and annual output risks arising from the significant reduction in project capital and the equipment replacement strategy

The 2015 EIS shows reduced life of project capital costs to \$131M. This is a reduction of \$354M from the 2012 EA capital cost of \$485M. The EIS attributes part of this capital reduction to extending the lives of existing equipment and buying second hand replacement equipment at reduced capital cost (compared to buying new equipment).

While these are valid ways to reduce capital spend, there is a trade-off in that this strategy will incur additional operating (maintenance) costs and will increase the likelihood of lower than planned equipment reliability and availability. This increased equipment downtime reduces the annual production capacity of effected equipment.

Figure 4 above shows that the “excavator system” has an average of 10.49 million prime bcms scheduled per year per machine for the first 13 years of mine life. It is unclear how many bcms per year are scheduled to other equipment within the “excavator system”, like loaders or dozers. If the 500 tonne class excavators are scheduled to be moving the major portion of this waste, then they will need to achieve consistently high availability, utilisation of the available time and production rates per hour. Any reduction in this performance would result in a shortfall of production from these excavators.

Key Issue 2: Omissions and Errors in the Information Provided

Issue 2a: Missing ROM Tonnes in the EIS Production Schedule and Production Profile

The project is described as mining 75 million ROM tonnes. The DPE Project Assessment also concurs with this ROM quantity.

The ROM tonnage scheduled to be mined from the new Drayton South area is approximately 73.5 million tonnes. An additional 1.4Mt of ROM coal is planned to be extracted from the existing Drayton mine area.

It appears that 1.4 million ROM tonnes (equivalent to the Drayton mine ROM tonnage) are missing from the Drayton South Project Production schedule, yet the associated waste volume has been included. This appears to be an inconsistent and incorrect presentation of key information.

The life of mine total ROM coal shown in the Production Schedule Summary is 73.446 M ROM tonnes.¹ This is reproduced as Figure 3 above. The dragline waste volumes shown in Year 1 and Year 2 of the Schedule and Profile must be from Drayton Mine based on the information provided in the EIS that the dragline does not relocate to the new Drayton South area (Whynot Pit) until Year 3.

The 2015 EIS describes continuing mining at the Drayton Mine for a period of 15 years. The 2015 EIS does not provide a schedule for the Drayton Mine tonnes. There does not currently appear to be any binding commitment to the timing of extraction of this coal.

Clearly committing to a production schedule that extracts this Drayton mine coal as quickly as possible should be a compatible goal for all stakeholders. It would maximise product tonnage in the earliest years of the project to help cash flow while also enabling mine rehabilitation to occur as quickly as possible in all areas of Drayton mine not required for ongoing use.

The EIS does currently propose progressive rehabilitation at the Drayton mine over the Year 1-Year 5 period.² The 1.4 million ROM tonnes at the existing Drayton Mine appear to be mined in the first 4-5 years from the existing Drayton mine. It is unclear why this is projected to take so long to accomplish. It is noted that some of this activity is mining into old rehabilitated areas and also mining through the site industrial dam (after it is emptied).

¹ EIS Appendix B Mine Plan Justification p. B-15.

² EIS Main Report, Section 3 Project Description Figures 3.11-3.13, pp. 77-79.

Issue 2b: Incorrect data in the Air Quality Model coal and waste Production Schedule

Air quality and greenhouse gas impact statement, Appendix H, Table 7.3 p. H-52.

Table 7.3: Summary of open cut ROM coal and waste production schedule

Pit ID	Material removed		Year 4	Year 6	Year 12
Whynot	Waste (Mbcm)	Dragline	11.9	12.1	17.7
		Excavator	15.9	13.1	20.8
		Partings	0.6	0.6	0.9
		Total	23.11	29.39	17.56
	ROM coal (kT)	Total	3,509	3,781	6,129
Blakefield	Waste (Mbcm)	Dragline	8.3	8.5	0
		Excavator	1.8	2.7	0
		Partings	0	0	0
		Total	0.7	0.8	0
	ROM coal (kT)	Total	667	829	0
Whynot West	Waste (Mbcm)	Dragline	0	0	0
		Excavator	0	5.4	0
		Partings	0	0.4	0
		Total	0	1.1	0
	ROM coal (kT)	Total	0	1,119	0
Total Waste (Mbcm)			23.8	31.3	17.6
Total ROM (kT)			4,176	5,728	6,129

The above table shows that the Total Waste (Mbcm) for each pit is mathematically wrong and that the Total Waste (Mbcm) overall is also mathematically wrong. It understates the total waste volumes in each year when compared to the EIS Production Schedule Summary as follows:

Year	EIS Appendix H Table 7.3 Total (Mbcm)	EIS Appendix B Table 4 Production Schedule Total (Mbcm)	Percentage understated
Year 4	23.8	39.2	39%
Year 6	31.3	42.5	26%
Year 12	17.6	39.4	55%

If this error has been carried through into the air quality modelling the air quality impacts may well have been understated due to the incorrect lower waste movement volumes used and the actual impacts to air quality could be worse than predicted.

Key Issue 3: Drayton Mine Rehabilitation and Closure Costs

The existing Drayton mine has reached the stage of imminent possible closure without a finalised Mine Closure Plan. Concerns regarding progress on Drayton Mine rehabilitation have previously been raised in PAC reports and by DRE in AEMRs. A draft Mine Closure Plan was submitted by Anglo to DRE in December 2014.³ There is also commentary that “a consultation process is currently underway with the relevant government agencies”.⁴

The DPE Assessment Report and the Anglo Response To Submissions includes an additional option for minimising final voids that has been developed and it will apparently be required to be adopted.

Mine closure costs for the existing Drayton mine are identified in the EIS as \$66M and would be incurred at the end of 2015 if the Drayton South Project does not proceed. If the Project proceeds the Mine Closure costs do not change (in real dollar terms) and occur in 2031.

This raises two issues:

- Firstly, how can there be certainty that the \$66 million estimate for the existing Drayton Mine is accurate and adequate if the Mine Closure plan is not finalised?
- Secondly, if the Project does proceed there will be additional Drayton South infrastructure built. The Drayton South Project Mine Closure costs do not reflect the necessary increase to cover removal of this additional infrastructure. The amount of additional capital needed to cover Mine Closure in the Drayton South area is unknown and unaccounted for.

³ EIS Main report, Section 7.14 Rehabilitation, Final Landform and Mine Closure, p.7-102.

⁴ EIS Main report, Section 2, Approved Operations, pp. 2-3).

Key Issue 4: The Required Capital Expenditure for the Project Appears to Have Been Underestimated

EIS Appendix E Economic Assessment p. E-24.

Capital Expenditure	\$M
Boxcut	3
Dragline	34
Power Supply	7
Sound Attenuation Equipment	8
CHPP	16
Water Supply	6
Site Communications	1
AGL Macquarie Conveyor Cutting/Connection	1
Plant Control systems/IM	0
On Site Civils (Inc. Haul Road)	22
Fuel and Lubrication Systems	1
Construction Facilities	1
Edderton Road Relocation	12
Land Acquisitions	2
Project Services	0
Contingency (15%)	17
Total	131

There has been a significant capital reduction of \$354 million in the current Proposal when compared the previous proposal.

The 2015 EIS contains some information as to how this is achieved:

“Sustaining capital spend is largely related to fixed infrastructure refurbishment and capital equipment replacement. The shorter mine life resulting from constraining the resource extraction will lead to a reduced sustaining capital spend. In addition, the prevailing market conditions will drive a number of decisions regarding sustaining capital timing and size. In particular, mobile equipment replacements are now assessed not only in terms of extended operating life but also against the very strong, low hour, second hand market.”⁵

⁵ EIS 2015, Main Report, pp. 3-18 and 3-19.

New mining equipment does not appear to be accounted for, and the EIS document states that existing mining equipment will be utilised for the Drayton South Project. The bulk of equipment to be used for the Drayton South project is not new, and will require ongoing replacements over the life of the project if it is to operate effectively and efficiently. This would likely be required across a full range of equipment from excavators and trucks, dozers, light trucks and light vehicles right down to minor capital items including pumps, welders, generators and tools.

Key production equipment like excavators and trucks would be expected to accumulate at least 6000 engine hours per year per machine. For a 15 year mine life this makes 90,000 hrs required. This exceeds the typical planned life for this type of equipment and this project is not commencing with a new equipment fleet.

The above Table 4.2 Summary of Capital Expenditure does not appear to show any equipment replacement capital.

There is an allocation for \$34 million for the dragline. It is scheduled for a major rebuild in the first two years of the project and will require further major maintenance within the 15-year period.

There is also \$16million allocated for existing CHPP (Coal handling and prep plant).

Excavators

It is believed that the existing Hitachi Ex5500 excavator fleet is at least six years old and that at least one of these two machines will need to be replaced during the project life.

A new replacement machine (Hitachi Ex 5600) would cost approximately \$12 million.

Trucks

Cat 789 truck replacements will also be required during the life of the project. A new Cat 789 with noise attenuation would cost approximately \$4 million per truck. Assuming that only half the Cat 789 fleet required replacement during the project life this would amount to a capital cost of \$52 million.

Wheel size increase on Cat 789 trucks

The project intends to fit larger tyres and rims to some of the trucks to enable them to haul coal 13km to the Coal Preparation Plant. Changing the wheel sizes on the Cat 789 trucks would be typically capitalised and this cost for rims and tyres is estimated as approximately

\$360,000 per truck. Assuming that at least half of the fleet (13 trucks) would need to be converted this would amount to a capital cost of \$4.7 million.

Other annual capital requirements

Minor annual capital is always required, typically for items such as pipelines, in-pit haul road extensions, power line and sub-station moves, smaller equipment replacements and light vehicle replacements. There appears to be no allowance for these items in the EIS. If tightly managed, a conservative estimate for the cost of these items ranges from \$1 million to \$5 million per year. Assuming that minor capital per year averages \$2.5 million and no minor capital is spent in the final two years of the project, then this would amount to \$32.5 million (13 x \$2.5 million).

Excavators	\$12m
Trucks	\$52m
Wheel size increases on Cat 789 trucks	\$4.7m
Other annual capital requirements	\$32.5m

Additional capital items currently excluded	<u>Total \$101.2 million</u>
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The above list is not intended to be exact or complete for the Drayton South Project but it clearly illustrates that the real capital requirement for the project is likely to be significantly greater than the forecast \$131 million.

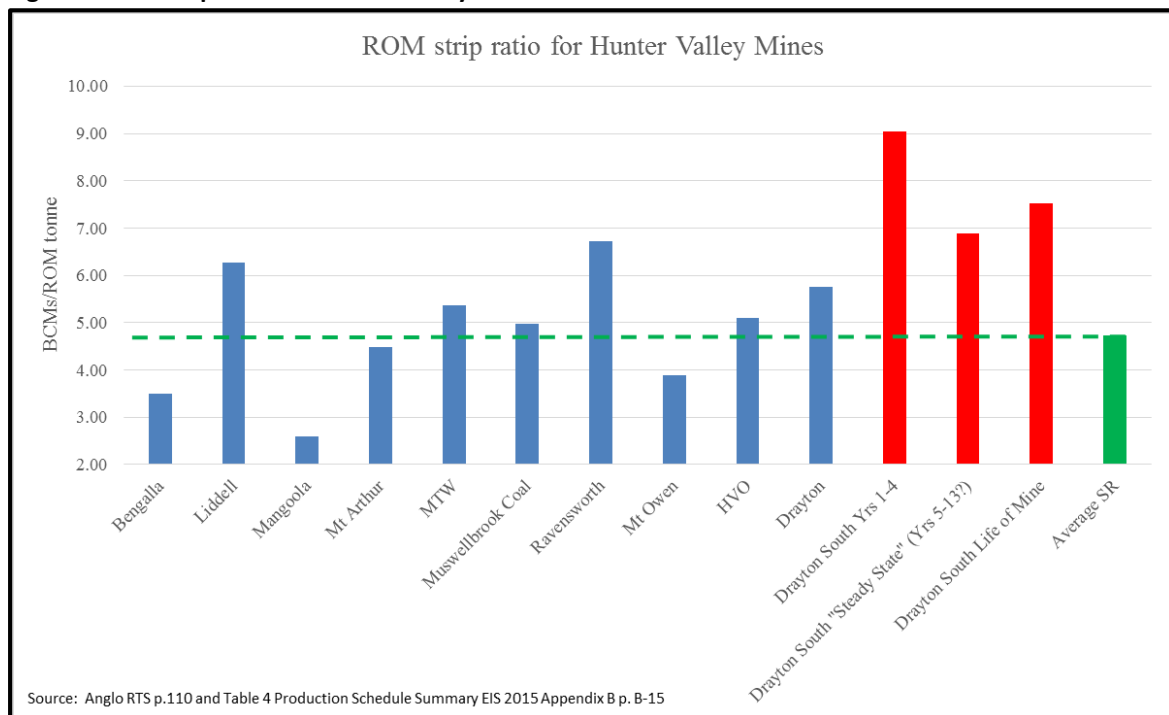
It is acknowledged that purchase of low hour second hand equipment would reduce the capital requirement when compared to new equipment cost. That said it is also believed that the above list is very conservative in its estimate of the additional capital required and not evidently included in the Project Capital estimate.

Key Issue 5: Drayton South Project Strip Ratio (SR) & the Potential Impact on Saleable Coal Cost per Tonne

The EIS expresses the strip ratio as the quantity of bank cubic metres that need to be mined per tonne of ROM coal. Figure 5 below shows the ROM Strip Ratio for Hunter Valley Mines. From this table the following information is clear:

- Years 1-4 of the Project Mine Plan have an average SR of 9.04. This is 92% higher than the average SR for all mines shown of 4.72.
- The life of project average SR is 7.53. This is 60% higher than the SR average across all mines shown

Figure 5 ROM strip ratio for Hunter Valley Mines 2013-2014



The following example illustrates the impact (if unmitigated elsewhere) of this strip ratio difference on mine costs/ROM tonne and product tonne. In this example the proportions of waste moved by excavator/truck and dragline are similar to the Project. The assumed yield is similar to the Project. (The cost information provided is assumed and for example purposes only).

Example Mine A with bcms/ROM tonne SR at 4.72 (All mines average SR)

The mine is moving waste 50% by dragline and 50% by excavator/truck and the yield is 73%

Assumed direct cost/bcm including blasting \$2.50

Direct waste removal cost/ROM tonne \$11.80

Direct waste removal cost/product tonne **\$16.16**

Example Mine B with bcms/ROM tonne SR at 7.53 (Drayton South life of project average SR)

The mine is moving waste 50% by dragline and 50% by excavator/truck and the yield is 73%

Assumed direct cost/bcm including blasting \$2.50

Direct waste removal cost/ROM tonne \$18.83

Direct waste removal cost/product tonne **\$25.79**

Mine A vs. Mine B

Difference in the direct waste removal cost per product tonne \$9.63

Assuming all other costs at both mines are equal, Mine B would need to reduce its other costs by \$9.63/product tonne to offset the SR impacts and achieve the same cost per product tonne as Mine A.

This demonstrates that Drayton South faces a significant cost challenge when compared to its industry peers as a result of the high Strip Ratio of the mine. This is unavoidable because it is a feature of the resource and will be present for every ROM tonne produced in this plan.

Conclusion

This review raises a number of key issues that question the ability to achieve the plan as described, and question the accuracy and level of detail of the information as currently supplied.

These key issues and their potential impact on the economic evaluation of the project and the wider impacts of the project suggests that significantly more information is required before the PAC should be satisfied that it has the ability to properly assess the merits and risks of this proposal.

References

Documents referred to for this review include:

- DPE State Significant Development Assessment Drayton South Coal Project August 2015
- DPE Recommended Development Consent August 2015
- Drayton South Coal Project Response to Submissions July 2015
- Drayton South Coal Project EIS May 2015
- Drayton Mine Extension Background Document for Anglo American Coal December 2014
- PAC Determination Report October 2014
- DPE Major Project Assessment Drayton South Coal Project July 2014
- Drayton South Coal Project Consequential EIA for Retracted Mine Plan March 2014
- PAC Drayton South Coal Project Review Report December 2013
- Drayton South Coal Project EA November 2012
- Drayton Mine Extension EA August 2007
- Drayton Mine AEMRs 2008-2014

Limitations of this report

This confidential review document has been prepared at the request of Mr Ross Cole, Darley Australia, Mr Paddy Power, Coolmore Australia and Ms Hellen Georgopoulos HTBA. This document is intended solely for discussion between Michael White and his clients. It should not be regarded as suitable for use by any other person or for any other purpose and cannot be relied upon except as explicitly agreed in writing by the author. No part of this document may be copied without the prior approval of the author.

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