



Jason Walsh

Coking coal heats up in Appalachia

Jason Walsh and William Cousins of Canada-based Thelon Capital discuss the US coking coal market and the company's investments in Appalachia during a joint interview with SteelOrbis.

Photo: Blake Desculniers, FP Media Inc.

Jason Walsh has served as the President and Director of Vancouver, British Columbia-based Thelon Capital since 2003. Using his 20 years of business experience, including 10 years as a stockbroker, Walsh has been instrumental in building Thelon's substantial resource property portfolio, focusing on development projects in Appalachia.

William Cousins, Thelon Capital's Chief Operating Officer, is also the Managing Director of the company's wholly-owned subsidiary Clear Fork Mining Co., an industrial maintenance company for the coal mining, coke/byproduct plant, heavy equipment, and steel industries.

➤ Thelon recently acquired Tennessee-based Clear Fork Mining. As a Canadian company, what advantages does Thelon see in expanding into the US coal market—Appalachia (a region in the eastern US ranging from northern Mississippi up through the southern tip of New York) in particular?

TC: Thelon, through its acquisition of a private Tennessee mining company, has found Appalachia to have one of the most "pro coal" working environments. This area has a good work force that for generations has worked in the coal fields of Appalachia. The workers are trained to mine efficiently and safely. This area also has some of the best silicon metal/metallurgical coal on the planet.

➤ Do you have any other acquisitions on the horizon?

TC: We are currently in the final stages of acquiring a mid-size coal producer to add to the company's structure. This will give us more equipment to mine with and a larger footprint in the area. We should be able to produce 75,000 to 90,000 tons per month by the end of 2012. That is the goal for this year.

➤ The steel industry is still in recovery mode from the economic crisis of 2009. How have the steel industry's struggles affected the metallurgical coal industry in the last year?

TC: The metallurgical coal market has and will always be very volatile. The market recovered quite well in 2010, but pulled back a bit in 2011. Everyone in the business ramps up production to sell all the coal they can for the highest price, which always floods the market and leads to a price correction. This also impacts the steam coal market. Normally, the price for steam coal follows the rise in metallurgical coal's market price. However, many of these producers will move

their low quality metallurgical coal from the steam market to the metallurgical coal market to try and capitalize on the higher prices. This will then cause a shortage of steam coal, which leads to an artificial rise in its price. The good thing about coal produced from this area in Appalachia, where Thelon is producing, is that it is an "all compliance" steam coal (coal that is minus 1 percent sulfur and low ash), as well as being the best silicon metal market coal available on the planet. The price for these silicon metal coals do not go up and down like metallurgical or low grade steam coal, because it is harder to find or substitute. The price of silicon metal coals generally range from \$200 to \$250 per ton.

➤ Electric arc furnace (EAF) steelmaking, which does not require coking coal, has grown quite prominent in the last few decades. Do you think traditional blast furnaces, which require coal for the steel-making process, will eventually become obsolete in favor of EAFs?

TC: No. The price of electricity is the number one factor in this process; it is still cheaper to produce large amounts of raw steel with a blast furnace. For example, if you have a furnace producing 200 tons of steel with the EAF method, it would require a power plant that would run a small city. Another factor is that the power plants cannot

ramp up that amount of amperage for the EAF for a short period, as EAFs will need to be turned off in order to add material and then start up again. On the bright side, if the EAF method is used for the smaller furnaces, then the need for coal will increase to produce the steam for power generation. Anybody who thinks wind or solar will ever replace coal is not being realistic, and nobody wants nuclear energy in their backyard. All this huffing and puffing about clean energy, natural gas and the like is just that—a lot of hot air. Coal is the base power of this country and we need to embrace it instead of fighting it.

➤ Modernization and the trend toward reducing carbon emissions have even extended to blast furnaces. Recently, an Australian company developed a steelmaking process using scrap tires instead of coking coal, which is cheaper, more efficient, and uses much less energy. Do you think this development has any chance of becoming mainstream?

TC: It could temporarily cut into coal but how many tires are there and what is the cost to the environment to produce these tires? And, by the way, you need coal to produce the tires. This is a great idea to rid the country of used tires, but the first person to open a steel mill that uses scrap tires is in for a shock. If you think coal is a problem to ship and store, then think about the issues to store tires, such as keeping them dry from water and moisture—tires plus water equals mosquitoes.

➤ Does Thelon sell coal both within North America and abroad? If so, how does the export coal market currently compare to the domestic market?

TC: At this time, we sell to the US market. We can sell everything we produce right into the local marketplace of the Appalachian district. However, if we decide to ship overseas, we already have the rail/tipple facility.

➤ What is your forecast for metallurgical coal demand in 2012?

TC: I see the market in correction mode until mid-summer. Then it is up, up, and away again. ■

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William Cousins,
Thelon Capital