

23 May 2014

**EQUUS MINING ACQUIRES RIGHTS TO  
STRATEGIC COAL ASSETS IN ENERGY DEFICIENT CHILE**

Equus Mining Ltd (ASX: EQE) is pleased to announce it has secured the rights to acquire 100% of Andean Coal Pty Ltd, a company that holds a strategic package of exploration licenses located in Chile's largest coal field, the Magallanes Basin. Chile's high growth in electricity demand and heavy dependency on fuel imports provides an excellent opportunity for new thermal coal project developments.

**Summary of Acquisition**

- Equus Mining Ltd (ASX: EQE) is to earn 51% in Andean Coal Pty Ltd ('Andean') through the expenditure of A\$0.2 million. EQE also has the option to purchase the remaining 49% of Andean for the consideration of A\$0.2 million in shares.
- Andean holds exploration licences covering an area of 170km<sup>2</sup> in three strategic project locations within the Magallanes Basin, recognised as the largest known coal occurrence in Chile. The licences are centred over the main coal bearing unit, the Loreto Formation, which extends over a distance of 200km.
- The three project areas have strong potential to host shallow dipping coal deposits suitable for bulk open cut extraction as indicated by a combination of coal outcrop, float and intercepts in oil & gas wells in the general project vicinity as well as regional work done by BHP and Chile's state owned petroleum company ENAP.
- Currently there are two operating open-cut coal mines within the Magallanes Basin, both utilising direct ship loading facilities. Andean's largest ground holding, the Mina Rica project, is located adjacent to the Pecket coal mine and ship loader.
- Chile is an energy deficient country and imports approximately three-quarters of its energy needs. Similarly thermal coal imports supply three-quarters of domestic consumption. Thermal coal consumption is forecast to grow from 12 million tonnes in 2013 to around 30 million tonnes over the next decade based on government power consumption growth figures and coal remaining at just 27% of the current power generation fuel mix.
- The potential for import replacement together with forecasted strong demand growth of thermal coal by domestic power producers provides an excellent opportunity for new coal project developments in Chile.

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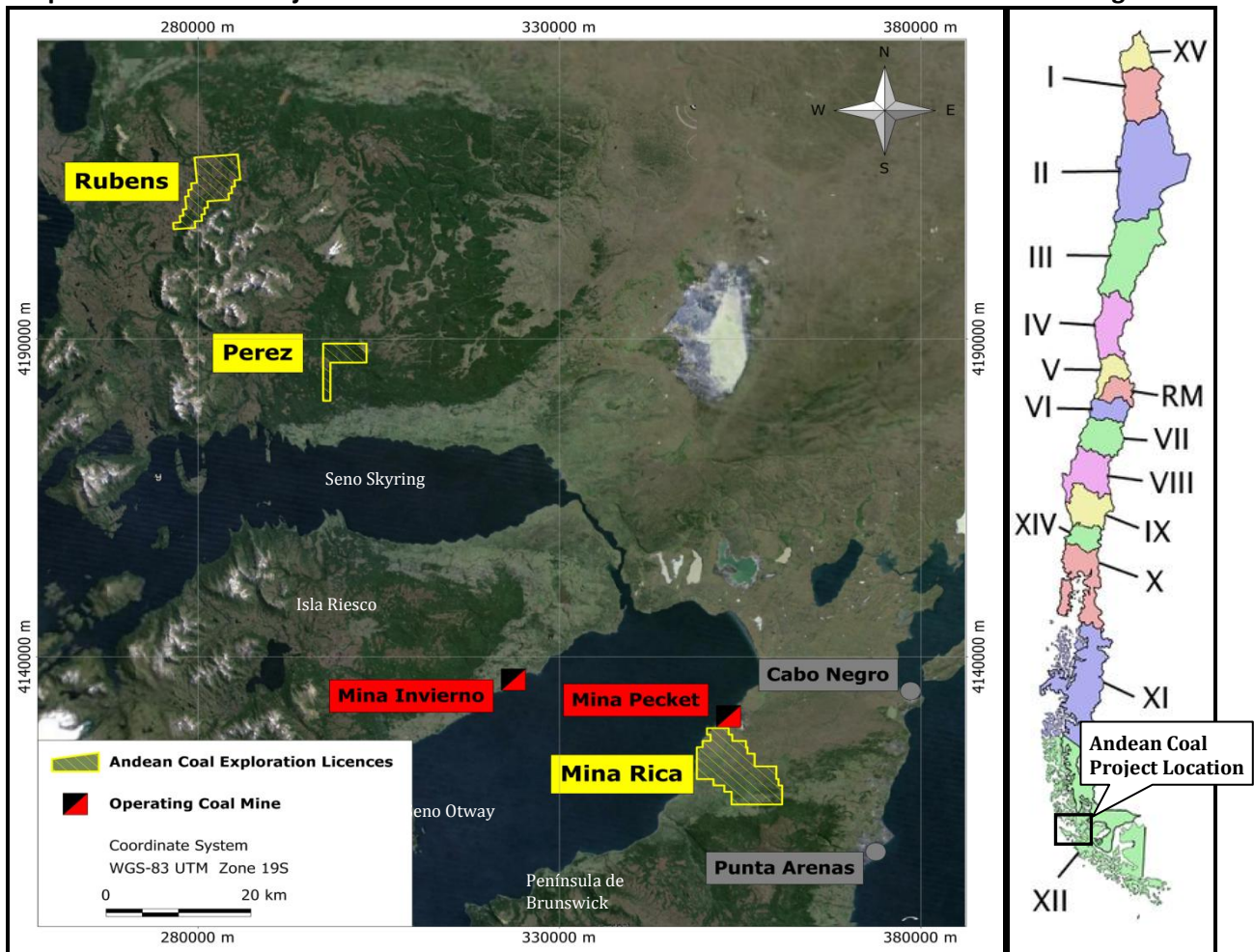
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## Acquisition of Andean Coal Pty Ltd

Equus Mining Ltd (ASX: EQE) is to earn 51% in Andean Coal Pty Ltd through the expenditure of A\$0.2 million on exploration and administration at Andean's coal projects. EQE also has a 2 year option to purchase the remaining 49% of Andean for the consideration of A\$0.2 million in shares.

Andean Coal Pty Ltd, through its 99.99% subsidiary Carbones del Sur Limitada, holds exploration licences covering an area of 170km<sup>2</sup> in three strategic locations within the Magallanes Basin, located in the Chile's XII region (See Map 1). The Magallanes basin is recognised as the largest coal occurrence in Chile and is the centre of a fledgling coal mining industry. Andean's licences are centred over the main coal bearing unit, the Loreto Formation, which extends over a distance of 200km.

**Map 1. Andean Coal Project Location**



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The three project areas have strong potential to host shallow dipping coal deposits suitable for bulk open cut extraction as indicated by a combination of coal outcrop, float and intercepts in oil & gas wells in the general licence areas as well as regional work done by BHP and Chile's state owned petroleum company ENAP. Field activities are about to commence and Equus Mining expects to report on progress in due course.

## Coal Mining in the Magallanes Basin

Coal seams hosted within the Loreto Formation are classified as sub-bituminous with low sulphur and moderate ash. The sub-bituminous rank generally improves from the south to north. Currently there are just two operating open-cut coal mines, both utilise direct ship loading facilities on Otway Sound. Transportation of coal from the Magallanes coal field to markets is via bulk carrier ships (See Photo 1). Whilst the main target market of any new operation would be the domestic power producers along the pacific coast of Chile, the Straits of Magellan also allows international exportation of coal to the Atlantic markets, including the east coast of the Americas and Europe. Approximately 3,000 ships per annum pass through the Straits of Magellan.

**Photo 1. Ship Loader at Mina Invierno**



The largest coal mining operation is Mina Invierno, located on Isla Riesco and is a joint venture between Chilean companies Copec (energy, forestry, fuel stations) and Ultramar (shipping). The mine was commissioned in 2012 and is targeting 3.5 million tonnes in 2014. It is anticipated that production will ramp up to 5 million tonnes per annum with a mine life of around 12 years. Mina Invierno mines sub-bituminous coal with a specific energy of 4,250kcal/kg and 0.37% sulphur. Unbeneficiated thermal coal is loaded directly onto ships up to 140,000 DWT in size. Currently 50% of its coal productions is sold internally to domestic power companies and 50% is exported to countries as far as India and The Netherlands.

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Andean's largest ground holding, the Mina Rica project, is located adjacent to the Pecket coal mine (See Photo 2) and ship loader on the Brunswick Peninsula. Mina Pecket is owned by Chilean mine earth moving contractor Ingeneria Civil Vicente.

**Photo 2. Coal mining at Mina Pecket**



## Chile's Energy Deficiency

Chile is an energy deficient country and imports approximately three-quarters of its energy needs. Over the last 30 years domestic energy production has stagnated whereas Chile's energy consumption has grown considerably, at a compound average growth rate of 5.3% since 1986.

Similarly, thermal coal imports are also three-quarters of domestic consumption and this gap is an obvious market for new domestic produced thermal coal. Demand for thermal coal has grown significantly since the curtailment of gas exports from Argentina in 2007. Initially this resulted in an immediate substitution of gas for expensive oil in domestic power generation, however cheaper coal fired power generation capacity has steadily increased through the conversion of existing capacity as well the construction of new power generation facilities. From 2007 to 2012 an additional 2,155 MW of coal fired power capacity was introduced to the Chile power grid, almost as much as the 2,549 MW added over the previous 70 years.

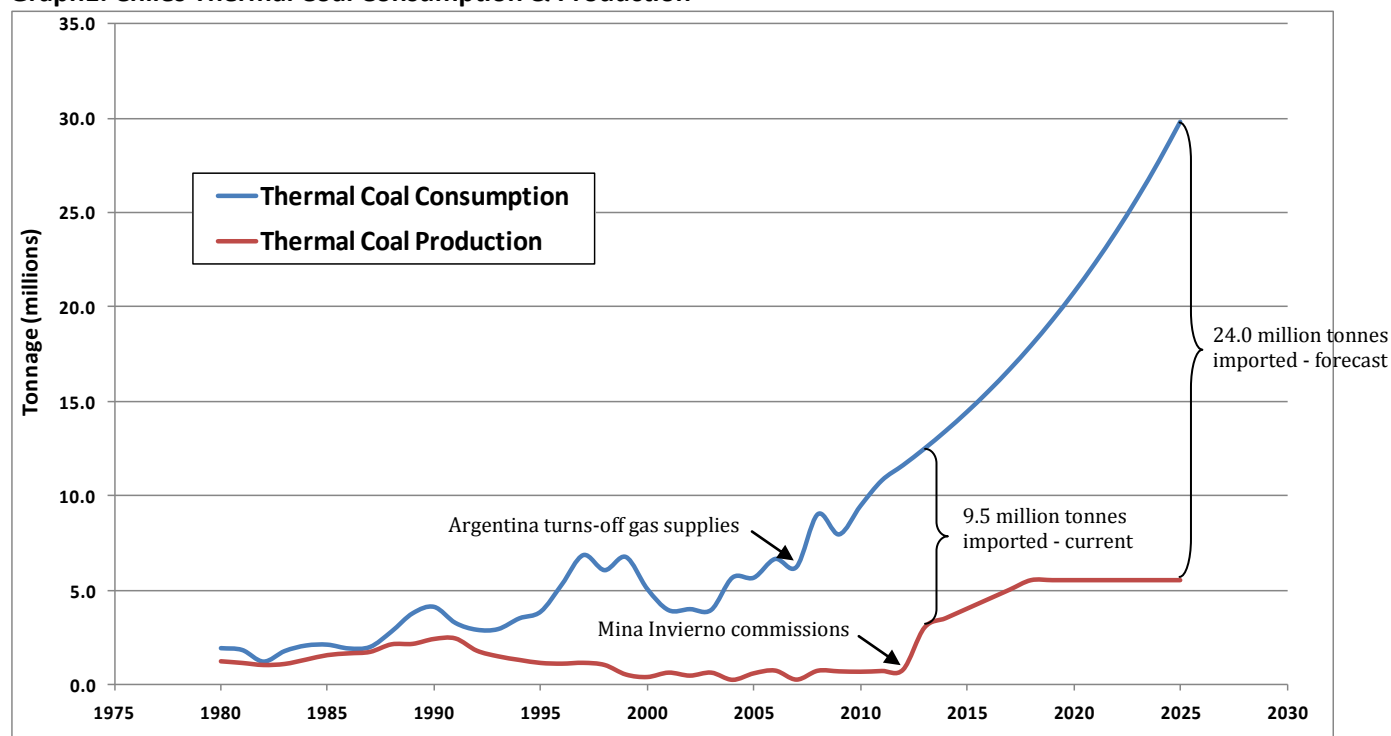
Coal fired power generation (coal consumption) doubled from 2005 to 2012 (See Graph 1). Historical thermal coal imports were from Indonesia, Australia and Colombia. Since 2008 Colombia (69%) has dominated supply with smaller amounts from the US (15%) and Indonesia (8%).

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**Graph1. Chiles Thermal Coal Consumption & Production**



**Sources: United States Energy Information Administration, Chile Government, Site Visits.**

The Chilean government forecasts that 8,000 MW of new power generation projects (from all fuel sources) are needed by 2020 to meet demand growth. Thermal coal consumption can be expected to grow from 12 million tonnes in 2013 to around 30 million tonnes over the next 10 years based on government power consumption growth figures (6%-7%) and coal remaining at just 27% of the current power generation fuel mix compared to a world average of 43%.

The potential for import replacement together and forecasted strong demand growth of thermal coal by domestic power producers provides an excellent opportunity for new coal project developments in Chile.

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