Refinery Progress at NLRC's Placentia Bay; Altius Benefits

By Andrew K. Burger
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BAKU, Azerbaijan (ResourceInvestor.com) -- Along with lack of sufficiently comfortable marginal crude supply, lack of upstream refining capacity is one of the main factors underlying the rapid rise in oil prices during recent years. That makes projects such as Newfoundland & Labrador Refining Corp.'s (NLRC) C$5 billion, 300,000 barrel per day (bpd) petroleum refinery at Placentia Bay, Newfoundland – the first new refinery project in North America in three decades - all the more significant.

Altius Minerals Corp [TSX:ALC] owns a 37% equity interest in the NLRC refinery and is a founding member of the Canadian-UK investor group designing and developing the project. Events were moving quickly at the end of 2007 as a string of news was released, including the signing of engineering, technology, materials supply and labour agreements.

Agreement With Labour, Environmental Clearance Obtained

On Dec. 20, 2007, NLRC announced that it had concluded a collective Memorandum of Settlement with the Resource Development Council representing member construction unions and the NLR Employers' Association for labour related to the construction of the Placentia Bay refinery.

Construction is expected to begin in spring 2008 and the refinery project is expected to take four years to complete. At its peak, it is expected to provide more than 3,000 construction jobs and provide employment for around 750 thereafter during operation. The labour agreement will ensure the employment of "thousands" of skilled Newfoundland and Labrador tradespeople, according to NLRC.

Both parties to the labour agreement see the need to attract tradespeople to Newfoundland to work on the project. Hence, both parties will be approaching the provincial government to obtain a Special Project Declaration that NLRC says is essential "to justify the commitment necessary for projects of this magnitude."

The labour agreement is positive in at least two respects, according to Hayward Securities' analyst David Beasley: "1) it provides stability for the labour costs of construction which should reduce the market implied risk of capital cost overruns, and 2) it should further local support for the project as it will allow thousands of skilled Newfoundland and Labrador trades people currently working elsewhere (Alberta, for example) to return to their home province."

Also in late December, the Canadian Environmental Assessment Agency issued its comprehensive study report (CSR) regarding permitting for construction of the project's marine terminal. A public consultation period ended on January 24 and a final decision is expected from federal authorities before mid-year.

Bringing It All Together

NLRC on Dec. 5 announced that it had entered into technology licensing and engineering agreements with UOP and ConocoPhillips [NYSE:COP]. A Honeywell company [NYSE:HON], UOP LLC will supply technology, basic engineering services and equipment related to the production of low-sulfur, high quality cleaner burning fuels, including the UOP Unicracking and the UOP Unionfining processes. UOP's CCR Platforming process, which produces high ocstane gasoline blending components and hydrogen from naphtha, and the UOP Penex process, which enhances the quality of refinery gasoline pools, will also be used.

Conoco-Phillips Co. will supply its ThruPlus Coking Process technology. ThruPlus is an advanced thermal process used to upgrade low value, heavy hydrocarbon residues into higher value, light hydrocarbon liquids.

In late November, the Placentia Bay refinery group announced that a Memorandum of Understanding (MoU) for the provision of engineering, procurement and construction management services had been signed with SNC-Lavalin Inc. [TSX:SNC] and an agreement for the provision of heavy-walled steel reactor vessels signed with Japan's IJK consortium.

The scope of activities contained in the MoU with SNC-Lavalin covers basic engineering, front-end engineering and design, detailed engineering, procurement, project management services, and construction management. SNC-Lavalin has worked with NLRC on the Placentia Bay refinery project since early 2006 and has thus far contributed to the completion of its feasibility study, the preparation of its design basis memorandum, environmental assessment and various other activities related to the project's overall management and coordinating third-party licenses.

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NLRC's agreement with IJK consortium calls for the latter to fabricate and deliver specialized, "long lead-time" heavy-walled steel vessels needed to construct the refinery's process units. IJK is a consortium made up of Japan Steel Works Ltd., Kobe Steel Ltd. and I.P.S. Services Inc.

Valuing Altius

Its stake in NLRC is Altius's single largest asset. Haywood Securities' Beasley in a recent research note rated Altius's shares as "Sector Out-Perform" and valued the company's shares at C$41; they're currently trading just above C$27.

Beasley uses a sum-of-parts valuation method to put a C$9.50 per share estimate on the value of Altius's mining assets, which include a 10% interest in the Labrador Nickel Royalty Limited Partnership (LNRLP), which in turn owns a 3% net smelter return royalty in the Voisey's Bay nickel district. Beasley calculates the NPV for Altius' post-dilution equity stake in NLRC and its refining margin royalty to be approximately C$33 per share.

Altius has inked more than 40 joint ventures in the mineral exploration space spread across the commodities spectrum since the company was established.

"It remains a core business within our Company and our philosophy to 'build through partnership' is sound and it is this JV model and discipline that has lead to successes like Aurora and Rambler," said corporate development officer Chad Wells.

The latter two JVs have progressed to the point where Aurora Energy Resources [TSX:AXU] in March 2006 went public on the TSX and Rambler Metals & Mining Plc [TSX:RAB; AIM:RMM] did likewise, listing on the TSX as well as the London Stock Exchange's Alternative Investment Market.

Altius had held 43.2% of Aurora Energy Resource's shares plus royalty interests in its Central Mineral Belt uranium project and 30% of Rambler's shares but took significant profits and now has only a modest holding in Aurora Energy, but it is still involved with Rambler.

In late November, management decided the best way to put its sizeable cash position - some C$170 million - to work was to buy back its own shares. A 5% share repurchase program was announced and launched. Up to 1.542 million shares will be repurchased through "normal course issuer bid" and the Toronto Stock Exchange. The program lasts one year. Altius is limited by TSX regulations to purchasing a daily maximum 39,760 of its own shares daily.

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