

Michael O'Connell – Presentation

Independent Planning Commission Hearing 9th April 2019

Re :- Dartbrook Coal Modification 7

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Intro

Thank you for the opportunity to address the Commission today.

My name is Michael O'Connell and I am a resident of Aberdeen living in the southern part of the township. My grandfather came to this locality approximately 120 years ago.

I am a recently retired corporate banker having spent circa 40 years working in Australia and overseas specializing in the provision of structured commodity finance and structured trade finance.

I am a co-founder and co-owner of **FinMasterclass** a business formed to provide bespoke training in commodity finance and in trade finance to financial institutions, and others involved with commodities and international trade.

I would like to speak to the Commission today in two parts :- firstly as a resident of Aberdeen and secondly from the perspective of a banker.

Before I commence my address I would like the Commission to note :-

- Generally I am not opposed to mining nor the controlled use of coal *per se*; and
- I am pro business, investment, development & job creation – but, not at any cost.

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My Comments as an Aberdeen Resident

- I am not a mining or environmental expert so I will only state that I have real concerns in respect to increased risks to our communities from a mine on our doorstep via issues with :- air quality, coal dust, dust, gas, noise & light pollution and pollution of water resources. – Also accidents happen even at the most well run and controlled sites and this mine appears to have a particularly problematic history.

I trust that the Commission will closely examine the abovementioned and other risks during your deliberations.

My Comments from a Banker's Perspective

- The circa 40 years spent in banking have no doubt shaped my way of thinking.
- In some ways Government in this instance is not unlike a bank with you the Commission acting in a similar “gatekeeper” manner to a bank’s Credit/Risk committee? Albeit I do realise there are a range of additional considerations that the Commission must take into account.

If I were being asked to consider this venture as a bankable or investment proposition, these are some of the issues, risks and uncertainties which I would raise with my Credit/Risk Committee, and which I believe any potential banker/investor would be cognizant of.

This list of items and related comments are not exhaustive:-

- 1. Is the customer, management and staff satisfactorily experienced in the business/industry of the proposed venture?**
 - *This is extremely important as inexperienced operators greatly increase the chances of mismanagement of the business and for things to go wrong.*
- 2. What is the history of this asset? What is driving the customer to enter into the business venture?**
 - *Previous mine history suggests this is a complicated mine with many challenges including high operational risks to staff. Previous experienced owner operators have sold or mothballed this asset.*
 - *Is the customer intending to operate the mine itself, or lease it to another entity, or perhaps try to sell it for a profit should the modification be approved?*
- 3. Does the proposed venture meet the bank's policies?**
 - *Some major banks in Australia have advised that they will either no longer support new thermal coal projects or only consider those where coal specifications exceed a very high level. International banks, hedge funds and others may have different policies.*
- 4. Will the proposed venture be able to service its debt, cover its costs, meet its obligations and be profitable? Is it adequately capitalized and does it in need have the meaningful support of its parent to assist with operating requirements and or unforeseen circumstances?**
 - *This is important as generally speaking a business experiencing financial difficulty may tend to cut corners including reduced adherence to environmental and safety requirements.*
 - *Without reviewing the business plan and projections of the proponent which I am not privy to it is difficult to fully comment on its financial forecasts & viability. I do note however that the vendor Anglo has still not been paid in full for its sale of the Dartbrook mine.*
 - *The parent entity Australian Pacific Coal whilst a publicly listed company has a negative net worth of circa AUD14.79 mln as at 31 Dec 2018 and its auditors Hall Chadwick have qualified their accounts as follows:- **Quote** ... the Group's current liabilities exceeded its current assets by \$11,706,808. As stated in Note 1, these events or conditions, along with other matters as*

set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern.....**Unquote**

- Therefore in the absence of additional capital and or funding it would appear that the parent entity is not in a good financial position and would be unlikely to be able to assist its subsidiary, the proponent if so required.

5. Does the proposed venture have the support of local government and the local community? Are all inherent risks and damages etc. satisfactorily mitigated and or compensated for by the proponent? (This forms part of a bank's corporate and social responsibility policy requirements.)

- I note the objection of the UHSC, the reservations expressed by the Muswellbrook Shire Council and the community objections to the original application and the further objections being presented here today.
- The State of NSW is to receive royalty payments however from a monetary compensation perspective local government appears to be inadequately compensated e.g. a proposed payment of \$100,000 p.a. to UHSC appears tiny. This appears inequitable also in comparison to the proposed royalty payments to existing financiers Messrs Robinson (Snr) & Paspaley of \$2 per mt coal produced and sold and the mine vendor Anglo of \$3 per mt coal sold.
- Local community is said to benefit from increased employment and business opportunities however these items are only aspirational targets? Anecdotal evidence suggests that in other townships mining staff are being imported from external areas adding to traffic congestion and other social issues.
- It is unclear, perhaps unlikely if any significant direct monetary compensation will ever find its way to the local townships and farms who will bear the brunt of adverse impact from the proposed mine and plant.

6. In summary the asset is located in very close proximity to townships and farms with significant risks of adverse impact to the communities. Dartbrook mine has presented previous experienced owners with unacceptable challenges. Full financial picture is not accessible however the parent entity has negative net worth & its current liabilities exceed its current assets. Corporate and social responsibility requirement outcomes are not yet fully determinable. On the information available however this would appear to be a difficult banking/investment proposition for a responsible lender/investor to approve.

7. Thank you for the opportunity to address the Commission today.