Sightline INSTITUTE

Ambre Energy: *Caveat Investor*

A money-losing energy startup takes a big risk on coal exports

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Executive Summary

The decline of US coal demand has sparked renewed interest in exporting American coal to Asia. One of the highest-profile players in the coal export arena is an Australian firm called Ambre Energy, which is planning two controversial export terminal projects on the Columbia River in Washington and Oregon.

But the coal export debate has largely overlooked a curious fact: Ambre Energy barely qualifies as a coal company. The company's annual reports reveal that the Australian-based venture has never made a profit, and has virtually no track record in mining or selling coal, either in the US or abroad. Worse, an in-depth look at the company's financial statements, as well as public records of other companies that have done business with Ambre, reveals a firm with deeply troubled finances, including:

Minuscule revenues. the firm has collected only $6.6 million in worldwide revenues over the past 7 years.

Massive losses. Ambre has accumulated $124 million in losses on its balance sheets.

Failed Australian venture. The firm recently admitted that it lost $10.9 million on a failed coal project in Australia.

Huge liabilities. The company is on the hook for hundreds of millions of dollars for mine reclamation and site cleanup, retiree medical and pension benefits, and costs arising from a recent legal settlement.

Troubled assets. Ambre may see little value from some of its assets, including a $65 million bond cash holding dedicated for mine reclamation, and $19 million in shale oil development costs.

High borrowing costs. The company has taken out multi-million dollar loans with annual interest rates of at least 10 percent, and a "balloon" loan charging 12 percent interest.

Massive capital needs. Ambre needs to raise about $1 billion to bring its coal export plans to fruition.

Potential investors in Ambre, as well as the communities and businesses hoping to benefit from the firm's business, would be wise to consider Ambre's finances and troubled history before committing money or other resources to the company's export ventures.

Introduction

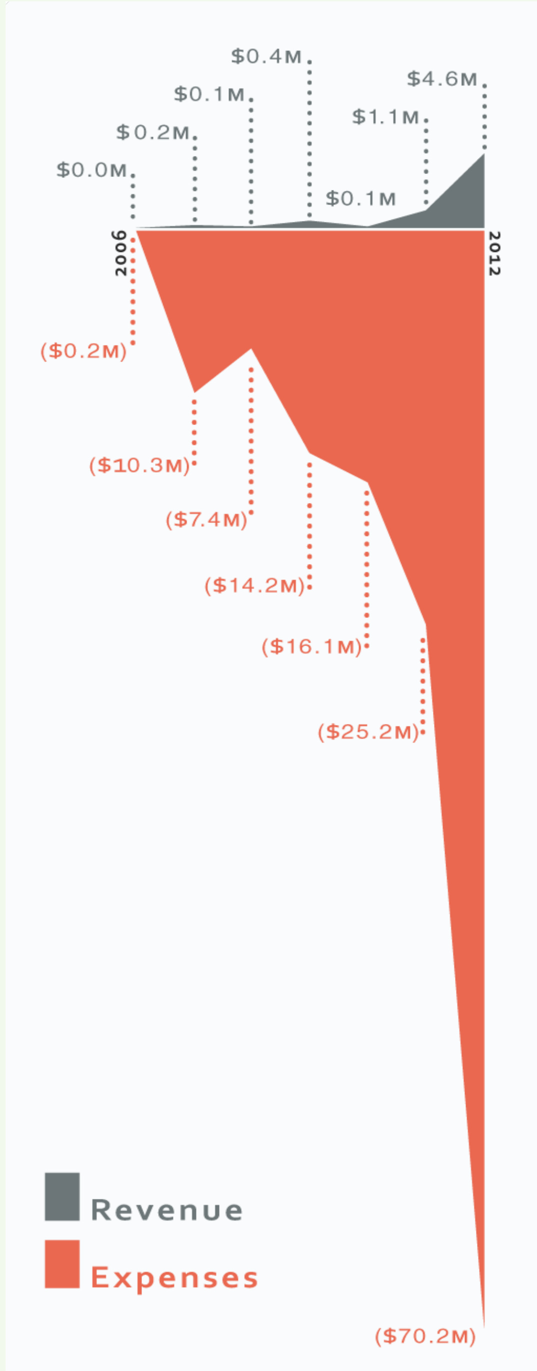
America is turning away from coal. Domestic demand for the mineral has fallen substantially since 2008, as electricity generators have spurned the fossil fuel in favor of cleaner burning natural gas.[1] In desperation, many US coal producers have shifted their gaze towards Asian energy markets, and some have initiated plans to export their product to China, Japan, and Korea through ports in the Pacific Northwest.

One of the highest flyers in the Northwest's coal export game is little-known **Ambre Energy.** The Australian-based company's proposal to ship coal by rail from Montana and Wyoming to terminals on the Columbia River, and then on to Asia, has earned the ire of tribes and citizens' groups; piqued the interest of regulators; and filled the business press with stories of lawsuits and deceptions—as well as talk of handsome profits to be made from the coal trade.

Yet the Northwest's coal export debate has largely overlooked a curious fact: *Ambre Energy barely qualifies as a coal company.* The company's annual reports reveal that the firm has virtually no track record in mining or selling coal, either in the US or abroad.

Worse, a look at Ambre's financial statements reveals a sea of red ink. The company has never made a profit. It has accumulated Aus$124 million dollars◆ of losses over 7 years, while bringing in less than Aus$7 million in total revenues.[2] In FY2012 alone, Ambre's expenses exceeded its income by more than Aus$65 million. (See Figure 1.) More than half a decade after it was founded, the company remains

Figure 1. Ambre Energy has suffered accelerating losses.



Note: All figures in Australian dollars, compiled from data in Ambre Energy, Ltd. annual reports. "Revenue" represents operating revenue, and "Expenses" represents the net of all other categories of ordinary income and expenses. See Appendix 1 for details.

◆ This report uses the symbol "Aus$" to refer to values denominated in Australian dollars, and the symbol "$" to refer to values denominated in U.S. dollars. Over the past several years, the Australian dollar has traded close to parity with the U.S. dollar: for example, Aus$124 million currently equals about $131 million in US dollars. For simplicity, readers can think of Australian and US dollars as roughly equal.

little more than a high-risk startup struggling to establish a toehold in the coal business—suggesting that Ambre's vision of lucrative coal exports may stem not from savvy experience but from equal measures of hope and hype.

A Short History of Failure

Ambre Energy was founded in June 2005 by an industrialist named Edek Choros, who had made his fortune developing an Australian coal mine, dubbed the "Millennium mine," which he promptly sold to a rival company.[3] With Ambre, Choros hoped to develop the technology to convert Australia's abundant deposits of dirt-cheap, low-quality coal into a substitute for oil. The company's promotional literature touted the growing specter of Peak Oil—the theory that global oil production would soon decline—and hinted at the financial promise of processing low-quality coal for use as an alternative to increasingly scarce petroleum.

Headquartered in Australia, the new company applied in September 2005 to patent its so-called Hybrid Energy System, "designed to convert coal into char, gas and hydrocarbon liquids through retorting."[4] Eleven months later Ambre entered into a joint venture to develop and commercialize its coal-to-liquids technology, and had begun eyeing a large deposit of low-quality, high-ash coal in rural Queensland, Australia, to use as a feedstock.[5] The company pursued its coal-to-liquids strategy for years—testing its technology, assaying coal deposits, pursuing regulatory approvals from the Queensland government, and looking for technical and financial partners to bring its speculative vision to life. These startup activities didn't come cheap. In the 2007 fiscal year alone, Ambre spent Aus$10.6 million but earned less than Aus$160,000 in total revenues.[6]

Ambre's spending spree proved fruitless.

Ambre's spending spree proved fruitless. As revealed in Ambre's FY 2008 annual report, a University of Utah research team, sponsored by Ambre itself, determined that the Hybrid Energy System "was not the most efficient system" for creating an oil substitute[7]—a discovery that helped render Ambre's patent and its associated research and development investments essentially worthless.[8] All the while, the red ink kept flowing. The company and its subsidiaries notched a net loss of more than Aus$7.2 million in the fiscal year that ended in June 2008, while collecting less than Aus$142,000 in revenues.[9]

When the global financial crisis struck in late 2008, it took the steam out of both global capital markets and worldwide petroleum demand—a double jolt that revealed the inherent riskiness of Ambre's capital-intensive coal-to-liquids bets.

From Coal-to-Liquids to Coal-to-Asia

Ambre had little left to lose in the financial collapse. Its proprietary technology had proven unworkable. It had no customers or revenue to speak of, and its profit and loss statements showed mostly red ink. Yet ironically, the company found itself in a position to view the global economic downturn not as a crisis but as an opportunity: a rare chance to buy distressed coal assets at bargain prices. And like many of its more established competitors, Ambre came to believe that exporting coal to Asia—particularly China, where coal consumption continued to rise despite the global recession—

offered a shot at a payoff that could save the troubled company. So Ambre shifted course, beginning a search for cheap coal mines within shipping distance of Asia. Over the next two years, the company's public statements increasingly touted the promise of coal exports, while deemphasizing its coal-to-liquids ventures.

The company soon settled on a strategy: Ambre would aim to export US coal to Asian markets via shipping terminals on the Columbia River. Like its coal-to-liquids efforts, Ambre's coal-to-Asia plan was a high-stakes gamble. The fledgling venture would face massive startup costs, regulatory hurdles, deep-pocketed US rivals, volatile Asian markets, and a host of coal-rich Pacific Rim competitors who were eyeing the very same export markets.

For the fiscal years 2006 through 2012, the company accrued losses of Aus$124 million on its balance sheets, while garnering just Aus$6.6 million in revenue worldwide.

Undeterred by the long odds, Ambre launched its coal-to-Asia plan in the summer of 2010 by by forming a subsidiary dedicated to developing the site of a former aluminum smelter on the banks of the Columbia River in Longview, Washington into a coal terminal. Ambre planned to use the site to move coal from trains onto ocean-going vessels bound for Asia. Ambre executed a purchase agreement for the site in August 2010, filed permit applications two weeks later, and acquired a lease on the site in January 2011. Then in May 2011, the company entered into a lease option agreement at Oregon's Port of Morrow, also along the Columbia, for a similar coal transshipment project. And in November of 2011 Ambre purchased a 50 percent stake in two operating US coal mines, one in Wyoming and another in Montana.[10]

With the acquisition of those mines, more than six years after Choros founded the enterprise, Ambre Energy had finally become a coal company—at least on paper.

But it was a costly achievement. For the fiscal years 2006 through 2012, the company accrued losses of Aus$124 million on its balance sheets,[11] while garnering just Aus$6.6 million in revenue worldwide. In each of the last three years the company's Australian auditors warned of impending financial collapse, noting that at the end of the 2012 Fiscal Year:

> [Ambre Energy] has recorded a loss of $65,397,000 for the year…[T]he Board has forecast that without further funding the consolidated entity will deplete its current cash reserves within twelve months.
>
> If this planned funding or alternative sources of capital are not obtained, there exists significant uncertainty whether Ambre Energy Limited and its controlled entities would be able to continue as a going concern and therefore may be forced to realise its assets and extinguish its liabilities other than in the normal course of business and at the amounts stated in the financial report.[12]

Ambre has managed to stave off bankruptcy so far. But virtually all of Ambre's bets in the coal trade have met with trouble.

Money-Losing Mines

In November 2011, Ambre purchased a 50 percent interest in two mines—the Decker mine in Montana and the Black Butte mine in Wyoming—from a company called Level 3 Communications. Level 3's primary business is selling internet bandwidth; its coal interests lingered as a legacy investment by a former incarnation of the company.[13] Level 3 was triply interested in shedding its coal holdings: first, because coal mining was a distraction from its core business;[14] second, because coal profits were waning and one of its two active mines was losing money; and third, because it was legally on the hook for mine cleanup and reclamation after the mines ceased production—liabilities that, according to Level 3's financial statements, amounted to $105 million at the beginning of 2011.[15]

Level 3's coal business suffered from two other vulnerabilities. First, each of its two operating coal mines was serviced by a single railroad—unlike many of its major coal-producing competitors, who could seek lower shipping costs by picking and choosing among two or more rail lines. Second, Level 3's coal was expensive to mine, with production costs "as much as four and five times greater than… certain competitors," according to the company's financial statements.[16]

Level 3 proved so eager to rid itself of its coal holdings that it let Ambre purchase them for less than Aus$5 million.[17] Still, Ambre compensated Level 3 handsomely for the mines; in addition to the up-front payments, the Australian company also assumed Level 3's massive long-term liabilities for cleaning up and reclaiming the mines after production ceased, as well as pension and medical obligations for retirees who had worked at Level 3's mines. As a result, and even though little money changed hands during the transaction, Level 3's financial statements showed a $72 million dollar gain from the sale, mostly from shifting liabilities off their balance sheet and onto Ambre's.

> ***Ambre soon found itself embroiled in a lawsuit over the Decker mine.***

Ambre' acquisition also brought the company an immediate risk of short term losses in the mining business. Level 3's coal revenues had fallen dramatically over the previous decade. Its pre-tax earnings on its coal business declined from roughly $20 million in 2002 to essentially nothing in 2009, rebounding to a scant $4 million in 2010.[18] The Decker mine was especially troubled: Decker coal sales fell from 7 million tons in 2007 to about 3 million in 2010 and 2011.[19] Independent analysts, as well as Level 3 itself, believed that the mine was nearing the end of its financially viable life.[20] According to internal financial documents, the Decker mine lost $21 million in 2011 alone, and the company projected an $11.9 million loss in 2012.[21] Prior to Ambre's purchase, the mine's managers had apparently planned to cut its losses and close Decker at the end of 2013, when its one remaining coal production contract expired.[22]

To make matters worse, Ambre soon found itself embroiled in a lawsuit over the Decker mine. The suit, filed by Cloud Peak Energy (which owned the other 50 percent stake in Decker) accused Ambre of violating the terms of its agreements to shutter the mine, while squeezing its partner out of management decisions, claiming that Ambre was:

> …significantly abusing its obligations and responsibilities as day-to-day Manager, unilaterally acting outside the approved budget and underlying mine plan, engaging in a campaign of public and other unauthorized communications to pursue the Ambre Entities' unapproved agenda for Decker, and engaging in various self-dealing transactions among the Ambre Entities and their affiliates.[23]

The lawsuit further accused Ambre of "raising the expectations in the local community regarding jobs and economic development where such expectations may not be justified," while complaining of a "loosely defined export redevelopment proposal lacking basic information and transparency…built upon a foundation of self-dealing among the Ambre entities."[24]

Ambre countersued Cloud Peak soon thereafter. The company resolved both lawsuits in December 2012, when Ambre agreed to buy all of Cloud Peak's interests in the Decker mine. But the agreement came at a premium: Ambre agreed either to pay Cloud Peak Aus$57 million in cash if it could raise the money by March 31, 2013, or else to issue a promissory note for Aus$64 million to be paid at a later date. (Considering that Ambre paid a mere $5 million for the first 50 percent of the Decker mine together with a stake in the better-performing Black Butte mine, the settlement seems exorbitant.) More expensive still, Ambre agreed to assume Cloud Peak's cleanup liabilities for the Decker mine, which includes posting a $70.7 million reclamation bond.[25]

> ***"A small-time Queensland resources company…at risk of financial collapse."***

But as steep as these costs have been, they may prove a minor nuisance compared with Decker's other financial challenges. Ambre's year-end financial statements for June 2012 show that the Decker mine's liabilities outweighed its assets by Aus$55 million, and that the mine lost Aus$17 million during the fiscal year.[26] In November of 2012, the mine announced plans to lay off many as 75 of its 162 workers. Ambre gave few details, but attributed the layoffs to "ongoing expense management activities"—a hint that the mine continues to hemorrhage money.[27]

Boxed Out in Queensland

Although Ambre had turned much of its attention to its US coal export plans by 2011, it hadn't completely abandoned hopes to mine and process low-value coal in Queensland, Australia.

But the project had run into fierce local opposition. The coal deposit that Ambre hoped to mine lay in a fertile agricultural area, and the region's farmers increasingly spoke out against the project, arguing that Ambre's plans would harm both their livelihoods and their quality of life. In March 2012, Ambre's opponents gained a key ally, as the newly-elected premier of Queensland announced his opposition to the mine.[28] Still, Ambre continued to move the project forward, ultimately angering the community so much that farmers rallied against the company. The episode prompted an article in T*he Australian*, that country's largest newspaper, which described Ambre as "A small-time Queensland resources company…at risk of financial collapse."[29]

Soon afterwards, Queensland's premier made his position official, stating in a public letter: "To be absolutely clear, no company, whatever it chooses to call itself, has a right to develop a mining operation in the Felton Valley, and companies will not be able to secure such a right under the Government."[30] Ambre's opponents say that the premier's opposition settled the matter: "as far as we are concerned," stated one community leader, "we have won the battle." In statements to the press, however, Ambre said it hadn't given up hope, and would consider re-petitioning the government at a later date.[31] Yet Ambre's 2012 annual report shows that the company has completely written off its Queensland coal mining assets and claimed a loss of Aus$10.9 million on the debacle.[32]

Shipping Terminals: Deceptions, Delays, and Disappointments

Ambre has touted its coal terminal plans as a key selling point to potential investors; the company hopes to position itself as a "vertically integrated" venture that owns both coal and the facilities to export it. But Ambre's coal terminal plans have faced mounting problems—including high costs, permitting delays, fierce public opposition, and evidence of systematic deceptions about the scale of its ambitions.

Ambre took its first foray into the coal terminal business by signing a lease-and-purchase agreement at a former aluminum smelter along the Columbia River in Cowlitz County, Washington; the agreement had been planned since the summer of 2010, and was executed in January 2011 after months of delay. A review of Ambre's financial statements suggests that the company avoided paying cash up front for the terminal lease, but instead committed to long-term cleanup expenses—including demolishing, removing, and disposing of existing structures on the Longview site.[33] Dubbing the site the "Millennium Bulk Terminals-Longview" (a name that hearkens back to Edek Choros's original Millennium coal mine), Ambre told county regulators that the site would handle alumina and cement as well as coal, in amounts totaling 5.7 million tons per year.

> ***Millennium Bulk Terminal has been dogged by reversals, delays, and revelations of massive costs.***

But after the county approved the plan, a legal challenge uncovered evidence that Ambre executives had actually been aiming to export up to 80 million tons of coal per year[34]—fifteen times as much as the company had admitted to in public. An internal email from a project executive urged that the company postpone announcing its expansion plans for at least two months after the project's initial approval, warning that if it acted sooner, "Millennium will be perceived as having deceived the agencies" and the company's "good reputation would be lost overnight." The revelation of these emails, and of the scope of Ambre's undisclosed plans, damaged the company's relationship both with local officials and with the surrounding community.

Since then, the Millennium Bulk Terminal has been dogged by reversals, delays, and revelations of massive costs. In March 2011, Ambre pulled its initial permit application for the coal terminal.[35] Just over a week later, it said that it would re-launch a new application.[36] The following February it did so, aiming for a facility that could handle up to 44 million tons of coal per year—nearly 8 times as much as the amount the company indicated in its initial application. Ambre stated that the new facility would cost $600 million, including cleanup and construction costs.[37] Adding to Millennium's woes, in July the US Army Corps of Engineers declared that the new project would require Ambre to prepare a full Environmental Impact Statement—potentially delaying the project for years.

Because of these delays, another Ambre terminal project has moved forward much faster than Millennium. Shortly after Ambre signed its lease agreement at Longview, the company secured a site at Oregon's Port of Morrow, also on the Columbia River, which has access to both of the rail lines that run near Ambre's two operating coal mines

Ambre has announced intentions to ship up to 8 million tons of coal to Asia via Morrow. But for the international coal trade, Morrow has a key disadvantage: it is too far upstream on the Columbia to service ocean-going ships. To make use of its terminal at Morrow, Ambre plans to barge the coal downstream to yet another port on the Columbia: Port Westward, to the northwest of Portland. It's a costly plan with significant logistical challenges. Ambre has announced its intention to build a small fleet of covered barges—at a cost of $75 million[38]—to ferry coal downstream. Transferring the coal at two separate facilities on the Columbia would increase labor and handling costs, as well as increasing the costs of constructing the terminals themselves.

Ambre has had one small piece of luck: the US Army Corps of Engineers has not yet decided whether it will require Ambre to prepare a full Environmental Impact Statement for its Morrow project. For now, Ambre is proceeding with a more limited Environmental Assessment, while the Corps of Engineers decides whether the project requires a protracted and costly Environmental Impact Statement. The option of requiring an EIS for the Morrow project remains very much alive, however, and the overwhelming majority of the roughly 30,000 public comments on the project urged the Corps to require Ambre to prepare a full Environmental Impact Statement.[39]

Ambre's plans face further regulatory and public relations challenges. In November of 2012, the Oregon Department of State Lands postponed action on a proposed permit for the Morrow facility, citing a failure to properly notify the Yakama Nation about the project. And the Port of Morrow plans have generated growing opposition in nearby communities. Ambre had hoped to commence coal shipments at Morrow sometime in 2013, but the company recently announced that it likely would be forced to delay coal shipments until 2014.[40]

In an ostensible piece of good news for the project, the company announced in mid-2012 that two Korean power companies, Korea South East Power Co. Ltd. and Korea Southern Power Co. Ltd., had agreed to purchase up to 5 million tons of coal per year from Ambre for 10 years, as soon the company was ready to start shipments.[41] Yet it's not clear that this announcement means much. Ambre's documents describe the value of this agreement as "[Aus]$3.5 billion at market prices at the date of signing." This suggests that the two Korean companies are simply willing to buy coal from Ambre at prevailing market rates—not that Ambre will get a guaranteed price, let alone a price premium, for its coal. Regardless, the heart of the agreement was that the two Korean companies extended a one-year loan to Ambre, totaling about Aus$19 million, through a complex financial instrument. The loan carries interest rates of up to 10 percent per year, a strikingly high rate at a time when interest rates are near record lows. By comparison "junk" bonds—the riskiest of rated securities—currently yield less than 6 percent.[42] Indeed, the terms of this loan, lurking beneath what seemed to be good news for Ambre, make the Korean agreements look more like a sign of weakness than of strength.

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Ambre's Financial Lifeline

The past several years have seen Ambre post massive losses, lose virtually all hope of developing its Australian mining project, enter into a contentious lawsuit with its mining partner that ended in a costly settlement, assume hundreds of millions of dollars of long-term cleanup and pension obligations, stumble over new regulatory hurdles, take on high-interest loans, and postpone its most promising export project. These troubles, along with broader challenges in the financial markets, forced Ambre to postpone an initial public offering that it had hoped would raise at least Aus$100 million in desperately needed capital.

All of which raises a question: how has this troubled company managed to keep itself afloat?

The answer is a deep-pocketed financier who now sits on Ambre's board: Ross Bhappu, a principal at mining-focused, Denver-based venture capital firm Resource Capital Funds (RCF). A review of Ambre's financial statements suggests that an infusion of cash from Resource Capital Funds may have saved Ambre from bankruptcy at the end of 2011—and allowed the company to pursue its risky coal export ventures. Dr. Bhappu's venture capital fund put up the Aus$60 million in capital, plus a separate $25 million loan, that allowed Ambre to take possession of Level 3's coal mines in November 2011. A month later, RCF injected an additional Aus$10 million into Ambre, after another investor pulled its money out of the company.[43] And in December 2012, Bhappu's firm expanded its earlier Aus$25 million loan to a line of credit totaling $50 million—$30 million of which Ambre had used by late December 2012. This line of credit carries an interest rate of 12 percent per year, with interest payments deferred and added to the principal each month. [44]

What looked like a can't-miss investment—one that yielded a payday for those who sold stock at the peak—has yielded a bitter disappointment for value-seeking "buy and hold" investors.

Curious footnotes in Ambre's last two financial reports underscore both Ambre's shaky financial footing, and Bhappu's influence on the company. As of late 2011, Edek Choros—Ambre's founder, CEO, and managing director—owned options that gave him the right to buy 50 million unissued shares of Ambre by year end, at just Aus$0.20 per share. Around the same time that Resource Capital Funds was considering its investment in Ambre, Choros agreed to cancel 20 million of those options. In their place, Ambre issued options with a much higher exercise price—Aus$1.10 to Aus$1.25—to other executives of the firm. Then, on December 31, 2011, Choros allowed his remaining 30 million stock options to expire, unexercised. It was a striking move, given that the options would have allowed Choros to purchase a significant stake in the company for just Aus$6 million. Ambre's board subsequently granted Choros 30 million new options, but at the much higher exercise price of Aus$2.47 per share—more than 12 times as high as the strike price of his previous options.

The explanation for these odd transactions remains a matter of speculation. Perhaps Choros didn't think his Ambre options were actually worth a paltry 20 cents per share. Perhaps he lacked the cash to exercise them himself, and couldn't find another investor willing to pay $6 million for a substantial stake in Ambre. Or perhaps Resource Capital Fund simply refused to put its money into the firm unless Choros renounced his stock options—which, if exercised, would have substantially diluted the value of RCF's investment. (As a condition of investing in Ambre, RCF did insist on anti-dilution rights that guarantee that the venture capital firm can receive additional shares in Ambre at no cost whenever Ambre issues new shares below a set share price.)[45] Regardless of the reasons, the fact that Ambre was either unable or unwilling to raise money from the sale of 30 million low-priced stock options highlights Ambre's dependence on the investment by Bhappu's Resource Capital Fund.

Bhappu is best known for another risky investment that paid off handsomely: his investment in Molycorp, a rare-earth minerals mining company. After helping bring Molycorp public, Bhappu quickly turned an initial $110 million investment into stock shares that, as of early 2011, were valued on paper at $1.2 billion. Bhappu's prescience was heralded in Forbes magazine piece (titled *"Best. Private Equity Deal. Ever (Maybe)."*). This praise came just a few months before Molycorps' share price peaked at more than $74 per share.[46] Bhappu looked like a wizard, and his venture capital fund attracted new investors eager to partake of his magic.

As of January 2013, though, Molycorp's shares have fallen below $9 per share, erasing most of those early gains. In early November, 2012, the US Securities and Exchange Commission launched an investigation into the company's public disclosure records, creating further uncertainty and turmoil for the company. The stock fell again in early 2013, after the company warned of weak earnings in the coming year. What looked like a can't-miss investment—one that yielded a payday for those who sold stock at the peak—has yielded a bitter disappointment for value-seeking "buy and hold" investors.

In some ways, Molycorp's tumble was predictable: even the laudatory Forbes article suggested that rare-earth minerals had become "an investment fad, some would argue a bubble." Bhappu's wizardry, some would argue, was in getting the timing right—that is, guiding an initial public offering to take advantage of a short-lived investment fad—rather than in fostering long-term value. One could be forgiven for believing that Dr. Bhappu is hoping for a repeat performance with Ambre: a chance to reap quick financial rewards from a startup company in an overhyped industry, either by bringing Ambre public or by selling it to another, larger firm.

Conclusion: *Caveat Investor*

Despite Ambre's confident public statements about its coal export plans, a careful review of its financial statements and history reveals a company on shaky financial footing: a risky endeavor with few assets, little revenue, massive liabilities, and little chance of profits soon.

Minuscule revenues. Since 2005, Ambre has taken in only Aus$6.6 million in total revenue.

Massive losses. Ambre has accumulated losses of at least $124 million dollars over its history. The firm lost $65.4 million in fiscal year 2012 alone.

Limited, encumbered, and troubled assets. At the end of the 2012 fiscal year, Ambre's balance sheet listed nearly $99 million in net assets—which might seem like a substantial sum. Yet the plus side of the company's balance sheet is dominated by a single $65 million bond, held in trust for the exclusive purpose of reclaiming Ambre's mines. Ambre also counts $19 million of development costs for oil shale leases as "assets," even though its auditor has warned the company may never see a penny from those leases unless it can finance and develop a system to extract and process oil shale at a profit—a decades-old pipe dream for the US petroleum industry.[47] Ambre's balance sheet further lists more than $20 million in "intangible assets," which represents the development and acquisition costs for its coal terminal projects—which will likely be worth far less than $20 million if Ambre's export plans fail to meet with regulatory approval.

Money-losing coal mines. Each of Ambre's two mines operated at a loss in fiscal year 2012, after considering amortization and depreciation costs. Recent losses at the Decker mine exceeded $17 million.

Regulatory uncertainty. The Corps of Engineers has already required Ambre to prepare a time-consuming Environmental Impact Statement for the larger of its two proposed coal export projects. The agency may still require the same for Ambre's smaller project. And according to recent news reports, Ambre now faces regulatory scrutiny for its plan to avoid paying high royalties to the US government by having one of its own subsidiaries purchase coal at the company's own mines at a low price, and then re-sell that coal at a higher price in Asia.[48]

Huge long-term liabilities. Ambre has had more success in accumulating liabilities than in generating profits. The company is responsible for over $40 million in reclamation costs for its ownership stake in the Black Butte mine; roughly $135 million in reclamation costs for the Decker mine; and as much as $46 million of additional "contingent liabilities" for reclamation at the two sites. Also, under the terms of a recent legal settlement Ambre must also pay rival Cloud Peak Energy at least $57 million for the purchase of the remaining 50 percent stake in the money-hemorrhaging Decker mine. Ambre has an additional $9.6 million in obligations for pension and retirement benefits for employees of a defunct coal mine that the company purchased in 2011, as well as millions of additional dollars in obligations for its own employees, for non-cancellable lease commitments, and for cleaning up the Millennium Bulk Terminals site in Longview, Washington.

Diluted shares. Ambre has already issued 406 million shares of stock. Given that Ambre estimates its total equity at less than Aus$100 million, each of these shares is worth less than 25 cents. In addition, Ambre has issued share purchase options for an additional 106 million shares. Any new investor in Ambre would face a substantial risk that their invested capital would be diluted among the existing shareholders.

High borrowing costs. Ambre's 2012 financial report reveals that it is paying 10 percent interest rates to investors from Korea, and 12 percent to Resource Capital Funds—strikingly high interest rates in today's low-interest environment.

Nearly $1 billion in capital needs. To get its Morrow-Pacific project underway, Ambre will need to invest roughly $242 million to build coal barges and to prepare the two coal transfer sites on the Columbia River.[49] Ambre states that its proposed Longview, Washington export terminal will require an additional $600 million investment. The company's acquisition of the Decker mine will require the company to pay at least $57 million to a rival coal company, plus an additional $70.7 million to post a mining reclamation bond. All told, Ambre will need to secure nearly $1 billion in new capital to move its business plan towards completion.

There are still more reasons to be wary of Ambre. The company's complicated business structure, which includes 26 subsidiaries, raises questions about transparency. Its high borrowing costs, coupled with actions by some investors to withdraw money from the company, suggest that those most familiar with Ambre's finances consider it a shaky venture. To the extent that the company has any track record at all, it is a record of failure, punctuated by a complete write-off of its Australian coal mining assets. And even if the company can obtain both the cash it needs to survive in the short term and the much larger amount of capital it needs to fully pursue its export plans, it still has no guarantee of making a profit, given the volatility of international coal markets and the fierce competition the company will face from more established competitors.

As of February 2013, Ambre still appears to be searching for the capital it needs to fulfill its coal export ambitions. Perhaps the company's most potent asset in that search is found not in its balance sheet or income statements, but in the story it tells about itself: a tale of ready profits from exporting US coal to Asia. Now, it's up to potential investors to decide if the lure of that story is enticing enough to take a risk on a company with shaky finances, a troubled history, and a cloudy future.

To that question, one can only say: *Caveat investor*.

About the Author

Clark Williams-Derry directs research and communications for Sightline Institute. His research and writing over a 20 year career has spanned climate and energy policy, sustainable transportation, sprawl and smart growth, voting theory, agricultural policy, and wetlands preservation.

Sightline Institute is a not-for-profit research and communications center—a think tank—based in Seattle. Sightline's mission is to make the Northwest a global model of sustainability—strong communities, a green economy, and a healthy environment.

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Appendix 1. Ambre Energy, Ltd. consolidated income statements for Fiscal Years 2006 through 2012.

	2006	2007	2008	2009	2010	2011	2012
ORDINARY INCOME / (EXPENSES)							
Revenue		156,753	141,696	426,516	117,681	1,090,462	4,630,000
Other income		53		64,477			232,000
Share of gains/(losses) from joint ventures							(10,105,000)
Share of gains/(losses) from associates							(47,000)
Gain on business combination							5,768,000
Depreciation and amortisation expense		(701,408)	(1,204,389)	(1,524,361)	(1,527,784)	(1,554,874)	(2,158,000)
Employee benefits expense	(33,345)	(508,917)	(1,555,747)	(3,925,081)	(4,275,486)	(6,685,350)	(10,908,000)
Foreign exchange gains/(losses)		(346,684)	(65,491)	543,963	(57,351)	(121,524)	29,000
Impairment expense							(10,857,000)
Finance costs					(224,413)	(1,459,433)	(11,395,000)
Consultants and professional expense		(634,009)	(737,407)	(1,452,932)	(2,341,423)	(6,940,935)	(10,940,000)
Insurance expenses						(343,114)	(559,000)
Loss on disposal of fixed assets							(216,000)
Loss on disposal of financial assets			(131,108)		(69,583)		
Office property lease expense				(377,022)	(552,083)	(591,651)	(1,009,000)
Research and development expense	(180,000)	(366,235)	(2,665,776)	(2,928,720)	(2,127,099)	(2,063,036)	(1,167,000)
Recruitment and relocation expense						(279,602)	(509,000)
Repairs and maintenance expense						(366,313)	(1,218,000)
Share based payments expense		(7,455,162)	(827,100)	(2,932,174)	(3,362,504)	(1,920,380)	(8,992,000)
Travel expenses			(334,810)	(571,170)	(618,707)	(1,018,740)	(1,756,000)
Loss of minority interest prior to acquisition			673,305				
Other expense	(33,344)	(716,851)	(556,575)	(1,067,441)	(1,404,171)	(2,465,793)	(4,189,000)
PROFIT/(LOSS) BEFORE INCOME TAX	(246,689)	(10,572,460)	(7,263,402)	(13,743,945)	(16,442,923)	(24,720,283)	(65,366,000)
Income tax (benefit)/expense	(67,500)	(344,942)			(447,551)	(572,439)	1,000
PROFIT/(LOSS) FOR THE YEAR	(179,189)	(10,227,518)	(7,263,402)	(13,743,945)	(15,995,372)	(24,147,844)	(65,367,000)
Attributable to members of the parent entity	(179,189)	(9,387,674)	(7,193,978)	(13,743,945)	(15,995,372)	(23,129,390)	(62,759,000)
Loss attributable to minority equity interest (also "non-controlling")		(839,844)	(69,424)	(4,567)		(1,018,454)	(2,607,000)
OTHER COMPREHENSIVE INCOME / (EXPENSES)							
Actuarial gains (loss) on pension and retirement benefit schemes							(655,000)
Share of other comprehensive income from equity accounted investees							(1,725,000)
Exchange differences on translation of foreign operations					(1,452,816)	(4,865,705)	(4,699,000)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(179,189)	(10,227,518)	(7,263,402)	(13,793,378)	(17,448,188)	(29,013,549)	(72,446,000)
Profit/ (loss) attributable to members of the parent entity	(179,189)	(9,387,674)	(7,193,978)	(13,793,378)	(17,448,188)	(28,020,002)	(69,782,000)
Attributable to non-controlling interest				(4,567)		(933,547)	(2,664,000)

Notes: *All figures compiled by Sightline Institute from Ambre Energy, Ltd. annual reports for Fiscal Years 2007 through 2012, available at* http://www.ambreenergy.com/reports-and-presentation_1*. Headings, text and some numbers may differ from the original presentations to provide for consistent comparisons among years and to correct minor errors in Ambre's own publications. All figures denominated in Australian dollars.*

Appendix 2. Ambre Energy, Ltd. consolidated income statements for Fiscal Years 2006 through 2012.

	2006	2007	2008	2009	2010	2011	2012
CURRENT ASSETS							
Cash and cash equivalents	1	3,982,145	12,180,297	4,297,221	2,909,037	10,980,040	20,300,000
Trade and other receivables	19,999	74,004	101,226	80,019	141,163	487,901	2,697,000
Financial assets	66,689	1,029,652					
Current tax assets	69,104	414,535			447,551	572,439	
Other current assets		12,226	33,611	54,737	171,896	1,038,554	2,391,000
TOTAL CURRENT ASSETS	155,793	5,512,562	12,315,124	4,431,977	3,669,647	13,078,934	25,388,000
NON-CURRENT ASSETS							
Investments in equity accounted investees							36,914,000
Financial assets		1,574,320			131,088	154,015	64,750,000
Property , plant and equipment		4,742,063	3,835,707	4,705,181	3,571,086	15,862,499	21,809,000
Intangible assets		3,463,614	2,881,477	3,258,232	2,796,600	12,994,949	20,566,000
Exploration and evaluation assets				30,111,826	29,451,258	25,246,016	19,163,000
Other non-current assets		3,875,682	23,570,490	249,192	243,569	229,507	541,000
TOTAL NON-CURRENT ASSETS		13,655,679	30,287,674	38,324,431	36,193,601	54,486,986	163,743,000
TOTAL ASSETS	155,793	19,168,241	42,602,808	42,756,408	39,863,248	67,565,920	189,131,000
CURRENT LIABILITIES							
Trade and other payables	315,982	442,225	1,989,327	573,291	665,481	1,631,871	5,847,000
Other financial liabilities					4,871,741	9,843,101	43,796,000
Employee entitlements					143,311	267,284	383,000
Short-term provisions		11,586	1,516,762	110,294		759,601	1,296,000
TOTAL CURRENT LIABILITIES	315,982	453,811	3,506,089	683,585	5,680,533	12,501,857	51,322,000
NON-CURRENT LIABILITIES							
Other financial liabilities					83,444		
Employee entitlements				17,882	17,366	65,812	155,000
Share of net liabilities of joint ventures							28,537,000
Other long-term provisions							10,125,000
TOTAL NON-CURRENT LIABILITIES				17,882	100,810	65,812	38,817,000
TOTAL LIABILITIES	315,982	453,811	3,506,089	701,467	5,781,343	12,567,669	90,139,000
NET ASSETS	(160,189)	18,714,430	39,096,719	42,054,941	34,081,905	54,998,251	98,922,000
EQUITY							
Issued capital	12,000	9,994,200	48,449,019	58,747,769	64,497,625	89,496,566	176,443,000
Convertible notes					362,792	670,814	
Reserves		6,771,349	5,565,453	13,800,391	15,710,079	11,631,615	17,550,000
Retained earnings	(172,189)	(9,559,863)	(16,753,841)	(30,493,219)	(46,488,591)	(69,617,981)	(124,016,000)
Parent interest	(160,189)	7,205,686	37,260,631	42,054,941	34,081,905		69,977,000
Minority equity interest		11,508,744	1,836,088			22,817,237	29,015,000
TOTAL EQUITY	(160,189)	18,714,430	39,096,719	42,054,941	34,081,905	54,998,251	98,992,000

Notes: *All figures compiled by Sightline Institute from Ambre Energy, Ltd. annual reports for Fiscal Years 2007 through 2012, available at* http://www.ambreenergy.com/reports-and-presentation_1. *Headings, text and some numbers may differ from the original presentations to provide for consistent comparisons among years. All figures denominated in Australian dollars.*

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