

Keyword: Wolf Minerals

# INTERVIEW-Higher prices make British tungsten mine possible

- \* Offtake agreement to be signed within months
- \* Production to start in Q1 2014 at Hemerdon mine
- \* Special steel demand, China supply restriction boost tungsten prices

By Silvia Antonioli

LONDON, Jan 9 (Reuters) - Higher strategic metals prices and a desire among end users for alternative suppliers to China have made mining tungsten in Britain a profitable option, the head of explorer Wolf Minerals said on Monday.

Wolf Minerals is developing the Hemerdon tungsten wolframite project in Devon, south-west England, on what - according to the latest available study by the British Geological Survey - is the world's fourth largest tungsten deposit.

The Hemerdon project, a few miles from the port city of Plymouth, could start producing tungsten, a rare metal used in alloys, steel and hard materials, within two years.

This would offer western tungsten processors supply security and an alternative to China, the top producer of the metal, Wolf Minerals executive managing director Humphrey Hale told Reuters in a telephone interview on Monday.

"The UK has a long mining history and there is a workforce who knows about mining... We find it's a good place to do business," said Hale, who was born in Wales but is based in Australia.

"The price of tungsten has risen strongly but new supply has not increased as much and end users need security of supply."

Wolf Minerals estimates its production costs will be at about \$105 per metric tonne unit (MTU), compared with current

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market prices of about \$420-430 per MTU in western Europe for imported material <APT-CHINA>.

Each metric tonne unit is equal to 10 kg.

Tungsten rose to record high prices in mid-2011, supported by growth in the aerospace industry, which uses large volumes of high grade steel, and by export restrictions from China which has a conservation policy for minerals considered strategic.

The Hemerdon deposit, which was mined in the first half of the last century, also contains some tin.

Among the advantages of mining in Britain, Hale listed a safe business environment, infrastructure in place, easy access to the market and a knowledgeable, relatively cheap workforce.

He put higher environmental costs, difficult red tape and sometimes mistaken investor perceptions among the disadvantages.

"People don't think that you can operate an open pit mine in the UK but this is the fourth largest tungsten deposit in the world," Hale said.

#### OFFTAKE AGREEMENT

Many mining projects have been delayed due to the worsening credit situation in the last few months.

Wolf Minerals was no exception and had to push its planned production start back to 2014 from 2013.

"When the equity market gets tighter people start to sell assets, and the specialty end of the spectrum is the first to be sold," hale said.

The explorer, however, last month mandated UniCredit, ING Bank and Caterpillar Financial to provide 55 million pounds (\$84.74 million) of project finance and is now in advanced talks with a number of industrial participants to secure an offtake

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agreement that is likely to be signed within the next few months, Hale said.

Offtake deals, generally negotiated before a mine is built, allow the buyer to lock in the purchase of part of the producer's future output in exchange for providing finance.

"We have been talking to some Western and Chinese tungsten manufacturers but we see Western end-users as our strongest partners...There are already some front runners," Hale said.

The explorer now expects to start production in the first quarter of 2014 and will have a 6-month ramp-up period to reach average production of 345,000 metric tonne units of tungsten per year.

"There are few tungsten projects at such an advanced stage and most projects have been delayed due to the financial situation," Hale said.

"In the current conditions only the best projects can make it."

(Editing by Anthony Barker)

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