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Wolf Minerals Closes In On A Funding Package For The Development Of The Hemerden Tungsten Deposit In The UK

By Sally White

Wolf Minerals holds an option over the Hemerden tungsten project, considered by the British Geological Survey to be fourth largest tungsten deposit in the world. It's situated just a municipal bus ride from the centre of the Devon city of Plymouth. Yes, that is Devon UK.

An unusual proposition, yes, given that mines in the UK are few and far between. But interest has been strong, and the company's share price has held up remarkably well over recent months, in spite of a nominal £55 million shortfall on the £110 million that will be required to put Hemerden into production. That share price strength is a strong sign that the market is confident that the funding gap will, in due course, be closed.

Within a matter of days the company should take receipt of the first £55 million in project finance that it needs, having appointed UniCredit Bank, ING Bank and Caterpillar Financial to provide senior debt finance back in December 2011. Regarding the other £55 million, the official line is that discussions are continuing with potential off-take partners to provide subordinated debt so as to reduce the potential dilution that shareholders will face in any equity financing.

Wolf has already has an off-take agreement for tin concentrates with Traxys, the £5 billion international metal trader and finance group which is also a 9.8 percent shareholder. And the other end-users are likely to be Western companies too. Among the names in the frame are Plansee, Wolfram Bergbau/Sandvik or HC Starck, any of whom would be viewed positively by financiers as acceptable counter party risks.

Broker Hargreaves Lansdown reports that talks are underway to bring in other cornerstone partners who could put up between £19 million and £24 million in equity funding, which the company is not denying. What's more, says Hargreaves, the three largest shareholders, Resource Capital Fund, Traxys and RMB Resources, are expected to maintain their combined 31.7 per cent stake in any share placing.



Drilling at Hemerden

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If so, says the broker, "that would effectively add another £16 million to the pot." Assuming these plans are achieved, reckons the broker, Wolf's remaining equity finance requirement would be between £14 million to £19 million. "While that is still a sizeable amount", continues Hargreaves Lansdown compared to Wolf Mineral's market valuation, we do not believe it will struggle to get investor support. UK mining stories are rare and this project has numerous attributes, including low operating costs and its main commodity, tungsten, continues to show price strength."

Tungsten is widely used to toughen alloys, and demand has been growing steadily in recent years as developing economies have continued to grow. Once-upon-a-time China was the jaor exporter. But no more. It currently produces around 80 per cent of the world's tungsten, but prefers keep most of it for its own use. UK-based international minerals research and forecasting group Roskill Information Services suggests that tungsten demand looks set to exceed supply by 2015.

In that context, and given that the UK's economic growth remains stalled, it's hardly surprising that the potential development of Hemerdon has just been given a strong thumbs-up by UK Minister of State for Trade, Lord Green of Hurstpierpoint.

As outlined by UK broker Evolution back in October, the numbers for Hemerden seem to stack up nicely. The mineral resource currently stands at 401.4 million tonnes grading 0.13% WO₃, and 0.02% tin. Wolf anticipates first tungsten production will come in the last quarter of 2014, and that within a year production will be running at an average annual figure of 345,000 metric tonne units, which would represent around 3.5 per cent of global supply.

A contractor has been selected to construct the Hemerdon link road, and no other large scale facility, such as airstrips, powerlines or accommodation is required. That's partly because this isn't an entirely new project. Back in the 1970s, international miner AMAX spent over £20 million to prove up a resource base, build an access decline and carry out a feasibility study. The price of tungsten declined, which made AMAX shelve the project. It remained neglected until Wolf acquired it from the landowners in 2007.

Evolution estimates reckons that Hemerden has an ungeared, post-tax net present value of between £74 million and £114 million. It offers an internal rate of return (IRR) of between 21 and 26 per cent and payback in around three years, based on a conservative tungsten (APT) price of US\$360 a metric tonne. The current price is closer to US\$430, which leaves plenty of room for manoeuvre.

This will be a relatively low cost mine, as it's open pit, and won't suffer from any significant deleterious elements in the concentrate. Costs are likely to come in at around US\$105 per mtu, including tin credits.

Wolf chief executive Humphrey Hale says the UK is a good place for a mining company: "The UK has a long mining history and a workforce that knows about open pit mining". As an Englishman who did geology at Cardiff, he should know.