

Almonty – Tungsten Consolidator Attracts a Powerful German Supporter

☒ We have highlighted before the rising star of Deutsche Rohstoff Allianz. At the time of writing our last piece someone pooh-pooed the concept and said that it hadn't taken off and was losing altitude. We suspect their judgement was based on not many deals being done. But that we would attribute to their not being many serious stories around in the specialty metals space. Let's face it, the Canadian mining scene is a case of the Ancient Mariner: "Water, water everywhere and not a drop to drink" with a plethora of dead and dying juniors who never had any intention of getting serious. Both Japanese and German end-users have honed their skills at spotting a faker heading in their direction. Just because they can spot the useless doesn't mean that they are not interested in genuine stories.

However to confuse matters, there is the Allianz and a very similarly named company called Deutsche Rohstoff A.G..

A Welter of News

In recent weeks, Almonty Industries, one of the champions of the Tungsten space (the other being the one-mine Wolf Minerals) has come out with a stream of positive news. Chief amongst these was the closing of a sizeable financing and the approval of the merger with Woulfe Minerals. If nothing else this transaction has removed one of the confusing sound-alike players from the space. It also spares us from the bad pun that originates from Tungsten's other name, Wolfram. Ugh..

Closing Sangdong

Firstly though, the takeover of Woulfe has closed. While it

looked certain there have been false starts in the past so it is a blessed relief that everything closed as per plans. Under the arrangement, each Woulfe common share was exchanged for 0.1029 of one Almonty common share. This resulted in Almonty issuing a total of 34,806,205 Almonty common shares to the former Woulfe shareholder base.

The company announced at the same time that it was organizing a non-brokered private placement of 2,100,000 common shares at a price of \$0.80 per share for aggregate gross proceeds of \$1,680,000.

Anything but a Drag

Over and above the aforementioned deals, the curtain has been pulled back on the relationship between Almonty and Deutsche Rohstoff AG (i.e. DRAG).

The financing involving DRAG that was announced consisted of a secured convertible debenture for \$4mn as well as an unsecured bridge financing of \$2.1mn. Amongst other uses the loans were to be used for the partial repayment of indebtedness of a subsidiary of Woulfe Mining. This facilitated an agreement with TaeguTec Ltd. for an extension to March 31, 2016 of the existing indebtedness of Sangdong Mining Corp (Woulfe's subsidiary) to TaeguTec. This debt amounts to CAD\$11.33 million and had been due on September 15, 2015. Some CAD\$5.00 million was repaid from the proceeds of the Debenture Offering and the Bridge Loan on the due date. Where DRAG comes in is that it DRAG now holds the Debenture, which is convertible (at the option of DRAG) into common shares of Almonty at \$0.81 per share. Fortunately it can also be converted at the option of Almonty (at the same conversion price) if Almonty raises at least \$22.5mn in equity capital in another offering.

The DRAG position

The most obvious sign of the evolving linkage between Almonty and this German investor came with the announcement that Dr.

Thomas Gutschlag, the CEO of DRAG, has been appointed to Almonty's board. He co-founded DRAG in 2006 and has been its CEO since January 2015 and prior to that was its CFO. He is a qualified economist with a degree in economics from the University of Heidelberg and a doctorate from the University of Mannheim.

DRAG is a public company listed on the Frankfurt Stock Exchange with the goal to identify, develop and then realise value from resource projects in North America, Australia and Europe. Its current focus is on the development of oil and gas opportunities within the United States, as well as metals such as gold, copper, rare earth elements, tungsten and tin.

DRAG currently controls 12.2 million common shares of Almonty (approximately 14.1% of the issued and shares of Almonty), and it also owns another \$6mn convertible debenture of Almonty (maturity of 2.5 years with a coupon of 4%) that is convertible at the option of DRAG into common shares of Almonty at a conversion price of \$1.45 per share. Clearly that is not going to be converted soon but if Tungsten turns up then indeed Almonty might put the conversion price in the money. In which case, DRAG would add a further 4.9 million shares of Almonty, taking DRAG to an 18.7% holding.

The latest debenture issue though juices this up further so if it is converted in full then DRAG will end up with approximately 22.3% of the then issued and outstanding common shares of Almonty post-exercise.

Conclusion

Almonty keeps delivering on the Tungsten front. Now it has to move Sangdong forward at a fair clip to get the stock price up and trigger the debenture conversions. In the meantime it has the production in Spain and Australia moving along well. I would not be surprised to see it also be offered other prospective assets like Mactung and Sojitz's Panasquiera mine

in Portugal. The former is a potential big capex drain but the latter would fit in well and was originally sold to Sojitz's by Almtonty's management in their previous reincarnation. Maybe Sojitz would accept stock for it. Time will tell.