

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 poo-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.

The “smartest guys on the block” in Tungsten



The Sangdong Tungsten/Molybdenum project in South Korea is one that those with longer memories will recall we have covered in the past, with fluctuating sentiments towards management, but never wavering in our interest in the asset itself. I have always found it very attractive and very prospective. After passing through the hands of several controlling groups in

recent years, it is in the throes of bedding down with a serious new ownership group. However as they say “there is many a slip twixt cup and lip” and Almonty Industries (TSXV: AII), the new suitor of Sangdong or more correctly, Sangdong's controlling company Woulfe Mining (CSE: WOF), is actually making its second run at the company in the space of six months.

Tungsten

This metal has been relatively strong in recent years with demand for drill bits in the oil & gas industry and from the machine tool industry keeping the price healthy. Not many mines have come on stream and a number have gone off-stream. It is also not a metal with mega-mines but rather small to medium sized operations. Therefore a constant flow of new mines is required. Most of the mines that have been contemplated in recent years have been reopening of old mines and camps in diverse locations around the world. The space is also typified by "one-mine" miners rather than operators with multiple operations. This has meant most operators have lacked critical mass and also lacked a "pipeline" of future production.

The Revolving Door

In late January it was announced that Almonty had entered into an agreement with Woulfe Mining to merge the businesses of the two companies and create what Almonty claimed to be the leading tungsten company outside of China.

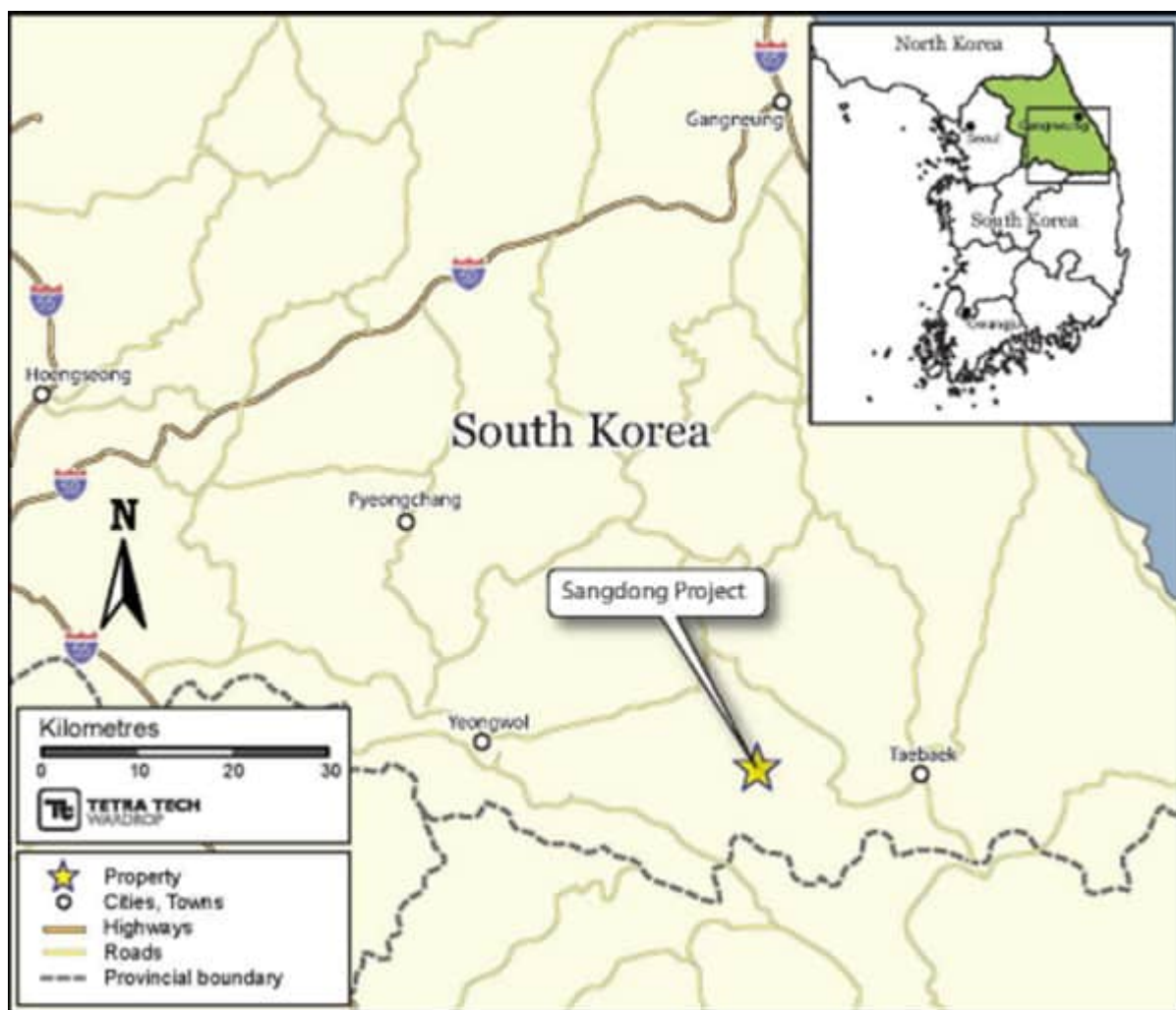
Under the terms of the LOI, Almonty was going to acquire all of the outstanding common shares of Woulfe at a price of CAD\$0.08 per share to be satisfied with a fraction of an Almonty common share. The deal shortly afterwards came to grief with many wondering if it was the predator or the prey that had called it off.

Six months went by and in recent weeks the deal resurfaced. This didn't surprise us as it made eminent sense in the first iteration and should have happened. Logic eventually prevailed and the wedding bells started ringing again and the new deal was cut at the equivalent of 7 cents per share for Woulfe holders. Shows the time value of money is not always positive.

The Asset in Question

Woulfe's principal asset is the 100%-owned Sangdong Tungsten/Molybdenum project located in South Korea, located

187km southeast of Seoul. However this is subject to a third party – the very fickle Israeli group IMC – which may purchase a 25%-ownership interest in Sangdong for US\$35 million. The property is comprised of 12 Mining Rights with an aggregate area of 3,173 hectares.



The Sangdong project was, before its closure in 1992, the world's leading producer of tungsten for 40 years. Low metal prices, not the exhaustion of resources, led to the mine's premature closure. The historical production rate averaged 600,000 tpa mainly from the six-meter thick Main Vein.

The scoping study indicates that the property has over 40 years' of mine life remaining. Substantial underground infrastructure is in place and Woulfe has reopened the mine to a distance of 1.4 km. The above-ground infrastructure includes access to roads, water and power.

Drilling conducted by KORES in 1980-1987 discovered a deep molybdenum deposit below the remaining tungsten skarn resources. The molybdenum content in the Sangdong mineralized zones ranges from 0.04% to 0.06% MoS₂ and an additional zone of molybdenum mineralization, as outlined by historical drilling, lies below the Sangdong mineralized zones.

In 2014 Woulfe completed a de-risking review of its final Feasibility Study report based on the Tetrattech 2012 feasibility report on the Sandong project.

The Resource

After the Dundee interests ousted the Wesson management group it went through the usual “blame the outgoing management” routine and determined: “after a detailed review during the calendar year 2013 that it was urgent and necessary to reassess and de-risk the 2012 TetraTech Feasibility Study of the Sangdong Project”. While we are no great fans of mining consulting firms, we found little to fault in the original FS as the Wesson’s has applied a requirement that capex come in as low as possible with copious use of cheaper labour (imported from Fiji) and second-hand equipment.

Now while the Wesson group is never renowned for being as solicitous of GS&A as of capex, we felt this rewriting of history was just as excuse to mothball the project pending better financing markets and IMC getting their act together on whether they were supporting the project or not.

Woulfe commissioned AMC Consultants Pty Ltd. of Melbourne in August 2014 to undertake a Mineral Resource Update using cut-off grade of 0.4% W03.

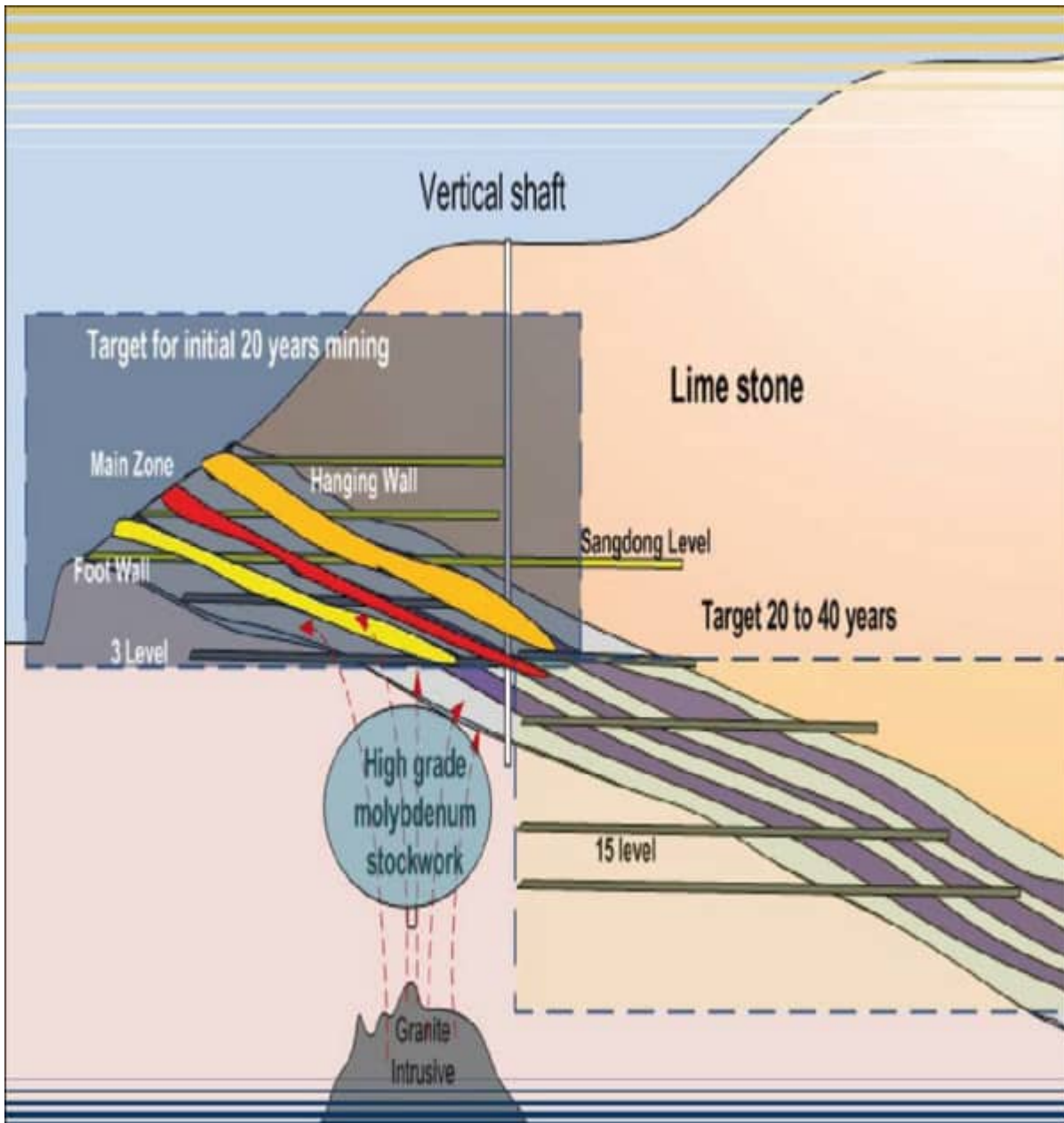
Sangdong - NI43-101 Resource - Oct 2014

	Zone	Tonnes mn	WO3 %	MoS2 %	Contained WO3 metal Mn tonnes
Measured	Main	0.55	0.61	0.066	0.33
	F2	0.86	0.56	0.057	0.48
	F3	0.74	0.55	0.057	0.41
Measured Total		2.15	0.57	0.059	1.22
Indicated	HW	0.19	0.46	0.095	0.09
	Main	0.31	0.62	0.031	0.19
	F2	0.58	0.55	0.029	0.32
	F3	0.57	0.53	0.026	0.31
Indicated Total		1.66	0.55	0.036	0.91
Measured + Indicated		3.81	0.56	0.049	2.12
Inferred	HW	7.93	0.68	0.089	5.38
	Main	0.34	0.74	0.047	0.26
	F2	0.93	0.53	0.073	0.49
	F3	0.76	0.48	0.047	0.37
	F4	1.31	0.52	0.053	0.69
Inferred Total		11.28	0.64	0.08	7.18

The Road to Production

The scoping study on the Sangdong project was completed by Wardrop in March 2010. This signalled an NPV of US\$462 million at an APT price of US\$250 per mtu.

After the scoping study Woulfe's then management started moving forward aggressively with project construction plans. The crushing and grinding sections of the process plant were well advanced at the time we wrote our last major note on Woulfe in December 2012 and all necessary major equipment had been specified. In October 2011, the company took delivery of Metso minerals front end crushing equipment and the Terex feeding equipment which represented the first equipment delivery to the mine site. The equipment was purchased at a significant discount to value. In addition Woulfe had indicated it would be purchasing new European-made crushing and grinding equipment.



The crusher was designed for 2.4 million tonnes per annum and the initial milling capacity will be 1.2 million tonnes per annum, but can be readily expanded to 2.4 million tonnes.

The flow sheet is conventional, with two-stage crushing followed by rod mill grinding and flotation, and tungsten concentrate further processed to produce APT.

In October 2011 the company received an explosives license, built an underground storage facility and initiated the first blast since closure in 1993. The F2 foot wall ore body was blasted. This zone will be the initial point of mining and representative of the initial years of operations. The mine

has now been reopened from one level in the base of the valley floor to the top of the mountain and across the entire 1.2 km strike of the ore body. During the opening, many new target areas were discovered which were initially prepared by Korea Tungsten prior to the 1993 closure of the mine.

Mining

The AMC Report, uses a cut-off grade of 0.4% WO_3 based on a more selective mining approach. Under the new scheme, the first phase of development of the Sangdong Property will be focused on the three immediately reachable levels, with a further 15 levels to be de-watered progressively after start-up of operations. The mine is anticipated to produce 450,000 tonnes of ore in Year 1 of production and reach the final 12 year life of mine capacity of 640,000 tonnes per year, in Year 2.

The main parameters of the proposed mining operation are:

- Life-of-mine (LOM) in Current Mine Plan of 12 years
- Time to Reach Mining Rate 2 years
- Probable Reserve of 13.3 million tonnes at a grade of 0.425 % WO_3
- Recovery 81%
- Average Annual WO_3 Concentrate Production 3,828 to 4,705 tonnes
- Capex of US\$74.4 million compared to a previous projection of US\$151 million

As for the project economics, AMC estimated:

- Average annual revenue WO_3 concentrate of US\$62.1 million
- Earnings Before Sustaining Capital – Annual Average of US\$31.8 million
- Pre-tax IRR of 26%
- Project Total NPV @ 5% Discount Rate of US\$156 million

Conclusion

This note is not the place to speak about the details of all four of Almonty's tungsten mines. I shall leave that to a future opportunity.

The level of advancement at Sangdong is exactly why Almonty is paying to get its hands on this project for, while not exactly "plug-n-play", it is pretty near to being so, with a lot of the capex already having been expended at the time Dundee moved in to oust the Wesson's in 2013.

One can see why Almonty have lighted upon this project as the "next off the cab rank". The company has made a habit of buying up "oven-ready" Tungsten projects, with Sangdong representing number four in this process. It totally shortcuts the finding, testing, proving part and all the sunk capex and instead arrives in the final stages to "take the prize" and who can fault that?

Almonty's goal is to become the "smartest guys on the block" in Tungsten and they have already achieved that goal with their first mine. Within another year or two they will have four producing Tungsten mines, diversified around the globe, with production costs that match or better the Chinese. This metal has been crying out for a consolidator and finally Almonty has arrived to claim the title.

Did Rare Earths Kill Jang Sung-Taek?

Did Rare
Earths kill
North
Korean
General
(also Kim
Jung-Un's
uncle) Jang
Sung-Taek?



Hold that question, as the “cause of death” for any execution in North Korea is far more complex than what appears.

The official bill of indictment was rather lengthy – 2,700 words as published in the DPRK press, supplemented by some culinary suggestions sure to resonate with malnourished North Koreans, such as: “I want to grab Jang by the neck and shove him down a boiling pot.”

According to the charges, Jang was guilty of debauchery in many forms, starting with the world-historical bad taste to be a capitalist-roader in a socialist paradise:

“He let the decadent capitalist lifestyle find its way to our society by distributing all sorts of pornographic pictures among his confidants since 2009. He led a dissolute, depraved life, squandering money wherever he went.”

That passes for a bit of gallows humor in the DPRK, especially when Kim Jung-Un's papa was legendary for jetting his personal chef to Tokyo for sashimi, Iran for caviar, Paris for Hennessy Paradis at \$900 a bottle – to wash down pizza, ordered up from the Pizza Institute of Northern Italy (seriously), and to Havana for, well, Havanas... which he doubtless lit with burning

hundred dollar U.S. notes, bogus of course, as counterfeit Ben Franklins are one of North Korea's most prized exports.

Now, young Kim could be an ascetic – only Dennis Rodman knows for sure – but if Uncle Jang out-debauched the North Korean inner-circle, he would have needed a decent-sized nation's GDP to get it done.

As AP summarized: "Pyongyang's statement called him a "traitor to the nation for all ages," "worse than a dog" and "despicable human scum" – rhetoric often reserved in state propaganda for South Korean leaders."

Ouch!

Jang was also charged with serious architectural crimes: He "ordered that a granite sculpture featuring [Kim Jung-Un's] signature be put in the shade, not in a central spot," and for "half-hearted clapping" during a ceremony lauding Chairman/Supreme Commander/First Secretary/Marshal Kim. That last is truly inspired, recalling the dangers in Soviet days of being the first to stop clapping for Comrade Stalin – earning a one-way ticket to the Gulag – the result of which was often epic-length bouts of what Soviet media described in reports of Stalin's speeches as "prolonged, sustained applause."

Finally, The Economist chimes in: Jang "squandered foreign currency at casinos," and sold off "precious resources of the country at cheap prices."

Now we're getting somewhere.

That single line sent me back to news stories in July 2012, reporting for the first time that North Korea had, in the last days of Kim Jong-Il's life, received a delegation from South Korea in the industrial region of Kaesong – and provided the South a sampling of North Korean rare earths to take home for testing.

The go-between for that meeting? None other than Jang Sung-Taek.

Not long after, in Aug 2012, Jang visited China with all the pomp accorded a head of state. REEs were rumored to be on the agenda. After all, during Kim Jong-Il's final months, North Korea trumpeted a grand bargain with China: The PRC would be given access to North Korea's rare earths deposits, in exchange for the immediate delivery of fertilizer and corn.

Dangling access to the elements in front of REE-hungry South Korea; journeying to China where discussions must have involved whether young Kim would honor his father's REE-for-food swap: Rare Earths were shaping up as a useful commodity – almost as good as nuclear weapons, which North Korea had learned to trade, retract and trade again, for all manner of goodies from the West.

And each time, the point man was Uncle Jang.

So now, rewind to December 5, when out of nowhere – it's not as if journalists are traipsing around Pyongyang – came a story headlined "Largest Known Rare Earth Deposit Discovered in North Korea." The report contained details on a new venture to exploit North Korea's REE riches not with China or South Korea – but with an Australian company, privately-held SRE.

Five days later, Jang was on trial, a day later he was convicted, sentenced and executed. Total elapsed time: one week from the North Korean-Australia REE announcement.

Of course, as so many news reports are tut-tutting, the execution of Jang Sung-Taek may be marked down to the madness of young Jung-Un. Or there may be a method in it – a grand, gansta-style re-trading of a deal his uncle made which met with Jung-Un's disfavor. If the latter is true, this week's window into North Korea's brutality may be paired with an outreach to the West.

If so, it's a page right out of Kim Jong-Il's playbook. Papa would be proud.

For now, however, North Korea's vaunted REE riches remain in the ground, joined there by Uncle Jang. As for the Australians preparing to develop North Korean rare earths, one hopes the terms of the deal are rich indeed – as it appears they're taking the concept of "political risk" to a whole new level. Just ask Jang Sung-Taek.