



# ASX and Media Release

## Giffen Well iron ore project option agreement

WPG Resources Limited (ASX:WPG) has decided to allow its option to acquire a 25% joint venture interest in the Giffen Well magnetite iron ore project in South Australia to expire unexercised. To exercise this option, WPG would have been required to pay \$5 million to the project's owner yesterday.

The company said that despite the encouraging results of its prefeasibility study (PFS) announced on 8 March 2013, the current market uncertainties meant that the risk profile for the project was too high unless the asset could be acquired on more attractive terms.

That had not been forthcoming despite extensive negotiations with the owner.

As a result, taking into account the highly constrained capital environment for the mining sector, the company decided that it was in the best interest of shareholders to pursue other objectives.

In parallel with its work on the Giffen Well project, WPG has been reviewing other opportunities which have been brought to the company and will now put more emphasis on this program.

Expanding on its decision, the company said that the PFS – which is a 3,000 page proprietary document owned 100% by WPG - showed that the viability of the Giffen Well iron ore project would be enhanced by WPG's ability to take advantage of its 100% owned strategic assets, being the Penrhyn coal project and port assets at Port Pirie, to deliver a long-term, economical, integrated project.

Nevertheless, the current market uncertainties about the outlook for Chinese growth have negatively impacted that country's steel consumption and the outlook for the world's iron ore market and given the chequered record of magnetite projects recently developed in Australia, the risk profile of Giffen Well was considered too high unless the asset could be acquired on more attractive terms.

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This sentiment has been reflected in early discussions that have been held after approaches from potential major investor groups and industry participants, including steel mills.

The Giffen Well resource estimate is a total of 689.1 million tonnes at an average grade of 31.4% Fe. Paying \$5 million for a 25% interest in the project implies a value of 3 cents per tonne of resource, even ignoring the \$3 million expended by WPG on the PFS. WPG's analysis of listed mining companies with similar magnetite resources suggests the stock market is attributing a value to them of 2 cents per tonne of resource. In other words, to exercise the option would have required WPG to pay 50% more than the value the market would likely have attributed to the resource post transaction.

WPG's stock market analysis has also shown that undeveloped magnetite iron ore asset values have fallen by 30% in the last 3 months and by more than 60% since the option agreement was negotiated a little over a year ago.

WPG's efforts to restructure the terms of the transaction, to better reflect the intrinsic value of the resource and the synergy bought to the integrated project by WPG's existing assets, have been unsuccessful. Absent a restructuring of the terms, WPG was unwilling to proceed with the transaction and is of the view that the Giffen Well project, in isolation, is unlikely to be developed within any reasonable time frame.

Commenting on the Company's decision, WPG's Executive Chairman Bob Duffin said he was disappointed that a sensible outcome could not be negotiated with the project's owner.

"The mining sector is adjusting to a capital constrained environment now", he said. "There is a very limited pool of investors willing to fund the estimated \$40 million required to complete the project's BFS, let alone those willing to fund the \$1.5 billion capital expenditure required to bring the project into production. Our cash balance at 30 March 2013 was \$11.2 million, sufficient to fund the exercise of the option had we so chosen, but it would have been necessary to raise additional funds to make meaningful progress on the BFS. I am mindful of the dilutionary impact of share issues at a time of low share prices", he said.

WPG is now accelerating its program reviewing new project investment opportunities. According to a recent Bloomberg report, more than 150 listed mining companies have less than \$1 million in cash on their balance sheets. WPG's strong cash position will help it to pursue good investment opportunities, as well as to participate in divestments by majors and companies under external administration.

#### **Further Information**

For further information please contact WPG's Executive Chairman Bob Duffin on 02 9247 3232 or 0412 234 684.