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Tertiary's Scoping Study At The Storuman Fluorspar Project Indicates A Potential Revenue Of US\$787 Million Over The Life Of The Mine

By Alastair Ford

The Storuman fluorspar deposit in Sweden has been well established as the lead project inside Tertiary Minerals for some time now. There are others inside the company, notably the Ghurayyah tantalum-niobium project in Saudi Arabia, and various gold, iron ore and other mineral prospects in Finland. But one way or another these have stalled, or at the very least are on the back-burner following the global financial crisis. Storuman, by contrast, is very much on the front foot.

Tertiary has just released the results of a scoping study undertaken by consultants at Scott Wilson to investigate the economics at Storuman. And Tertiary's chairman Patrick Cheetham is very pleased with the results. For a capital spend of US\$46 million, the company will be able to deliver net operating cash flow of an average of US\$17 million per year over the first five years, meaning that payback will take less than three years. Cash flow over rest of the project life isn't quite as robust, under either of the project scenarios that Scott Wilson present, but on the basis of an 18 year mine life the overall pre-tax profit that the project brings in should amount to US\$137 million. Stretching it out to a 23 year life, which Scott Wilson thinks is highly likely, the overall profits rise to US\$174 million.

The difference is a question of strictly verifiable data. By gathering together historic data from 39 holes drilled by a previous owner and data from the 10 holes that Tertiary itself has put into the ground, the company was able to come up with a resource estimate back in November last year which amounted to between 28 million and 31 million tonnes grading between 11.2% and 12.3% fluorspar. The level of certainty wasn't quite high enough to meet the standards required by Australia's Joint Ore Reserves Committee, however, which is why Scott Wilson has modeled one scenario which it thinks realistic on the basis of the known data, but also one much more conservative one.

Well and good for now, but a resource base like that won't be good enough in the long run, especially at the point when Tertiary starts to go looking for its US\$46 million. So it's with that in mind that Patrick Cheetham is about to press the "go" button to get more drilling underway. "There's huge exploration potential", he says, simply. He's hoping to add tonnage, but also, with luck, high grade tonnage. If he's successful in that endeavour, then those high rates of initial cash flow may well be stretched out further than the currently-projected first five years.

There's also possible upside from any improvement in the fluorspar price. The scoping study used today's price of around US\$357 per tonne, but for illustrative purposes included a project valuation on the basis of the average price for 2009, which was US\$413 per tonne. On the basis of that disparity in price, the project net present value (NPV) at Storuman leaps from US\$33 million to just over US\$100 million, and the internal rate of return (IRR) leaps from 24 per cent to 45 per cent. Needless to say, Patrick Cheetham is a long-term bull on the fluorspar price, based on the likelihood of increased demand from the world's emerging economies.

In the meantime, the markets liked the progress that Tertiary was able to demonstrate with the release of this study, and pushed the company's shares up by nearly 20 per cent to 3.25p. It may be that Tertiary will need more money before too long, if it's to undertake a full-scale drill programme of the kind that Storuman now merits. As to how the money will come in, Patrick will only say, "we're looking at funding options". It's understandable that he'd be chary of flagging further dilution, but on the other hand, at some stage it's more than likely that an off-take partner will want to come and take a serious look at Storuman. It may still be a bit early yet, with the JORC numbers still some way off, but it won't do Tertiary any harm if it keeps its options open.

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