

Mine News Story <http://www.minesite.com/>

Date: February 02, 2006

Wedgetail Spreads Its Wings And Could Be The First New Player In Australia's Modern-era Gold Rush

By Our Man In Oz

Apart from death and taxes there are two other, less well known, certainties in life. One is that only a fool says the market is wrong. The other is never to claim to have spotted the first cuckoo of spring. At risk of breaking both these second-tier immutable laws in one hit there is a small mining company on the Australian Stock Exchange which appears to be grossly misunderstood by the market, and which could be the first new player in the next phase of Australia's modern-era gold rush. Wedgetail Exploration has the hallmarks of an under-valued stock, and it might also one day win recognition for being the company which breathed life into the near-dead small end of the Australian goldmining sector. Fortunately, or unfortunately, for Minesite's man in Oz who is prepared to stick his neck out, judgment on both counts is not far off and by the end of the year everyone will know if Wedgetail is as good as it looks – or whether Minesite will be looking for a new man in Oz.

The key to Wedgetail, named after Australia's biggest eagle, is the old Nullagine goldfield in the Pilbara region of Western Australia. Long known as the site of patchy gold occurrences, Nullagine was actually worked before the discovery of Kalgoorlie and the better known fields to the south. Famous prospectors, such as Russian Jack, pushed hand-made wheelbarrows south from the Kimberley through Nullagine and nearby Marble Bar. Some of these old-timers had walked, or sailed, north from the Victorian fields, and then across the "top end" of Oz. What Wedgetail has been able to do is discover sufficient gold in a series of structures the old-timers walked over, to justify the installation of the first modern processing mill in the region -- and to continue discovering more gold as it finalises the number-crunching before an expected go-ahead decision on a 75,000-to-100,000 ounce a year project around the end of March, with first gold possible by Christmas.

With the gold-price high and rising the profit margin on Wedgetail's plans seems to be getting better every day. Asked for his view of the gold price, Wedgetail's recently appointed chief executive, Peter Woodman, gave a one-word answer: "fantastic" – followed, naturally, by much laughter. Woodman, who was project development manager for Wedgetail succeeded Frank Vanspeybroeck, who remains a non-executive director. Another clue to the rising level of confidence at Wedgetail can be found in the wording of the statement accompanying the management shuffle. Wedgetail chairman and former Rothschild senior executive, Clive Donner, said the switch reflected "the company's changing status from gold explorer to emerging gold producer".

The rudimentary numbers on Nullagine are that it currently contains a resource of 13.26 million tonnes of material grading 2.02 g/t for 860,000 ounces of gold. The gold will be mined from a series of relatively small open pits, a re-run of Australian gold in the 1980s, the biggest being Golden Eagle which contains 466,000ozs. The furthest any ore will be hauled to the plant which is earmarked to go next to the Golden Eagle site is 45kms. Wedgetail's plan is to install a one million tonne a year plant at a capital cost approaching A\$30 million, and produce gold at around A\$400 an ounce over an initial five-year campaign. Processing is simple with a gold recovery rate of 90 per cent forecast.

A year ago these numbers produced the somewhat skinny profit margin of A\$160 an ounce. Today, with the Australian gold price at A\$750/oz the margin is a more than comfortable A\$350/oz which, at a production rate of 75,000oz leaves around A\$26.25 million sticking annually to the fingers of Wedgetail management – and no doubt with some making its way to the banks which are said to be queuing up to fund Nullagine. "We've had approaches from four banks," said Woodman. "They all seem to be attracted by the short payback on the capital cost and the potential for the project to grow."

While future expansion might be on the agenda one of the keys to the approach being adopted by Wedgetail is that its directors appear to believe that enough drilling has been done to start a mine. That is obvious from the focus being applied to the bankable feasibility, and the orderly succession with Vanspeybroeck, the founder of the company, quietly stepping back into a non-executive role to let a determined younger operator move into the chief executive's chair.

Issues remain for Woodman to deliver on Wedgetail's promise, perhaps a reason why the stock slipped marginally to A3.7 cents today, close to its 12-month low of A3.4 cents, and also close to half its high of A6.7 cents set last March. At its latest price, and with a rather ridiculous 1.09 billion shares in issue, Wedgetail is capitalised at an untaxing A\$40.3 million. The market is obviously thinking about how the Nullagine mine will be funded; and the critical ratio of debt to equity and whether a share issue, or major restructuring of some form, is on the way. There is also the question of what to do with the old Bullfinch processing plant which Wedgetail proudly acquired for Nullagine but which is now found to be in need of a serious overhaul. One number tells that story; 21 – the number of conveyors on the plant, which Woodman wants to get down to a far simpler configuration. On a brighter note, a high quality issue for the feasibility study is the need to reconfigure the pit design because the higher gold price has turned marginal material into ore.

While there seems little doubt that Nullagine will win its green light in the next few weeks, a potential trigger for the share price, there is the question as to whether this is the first cuckoo of a new spring in the Australian gold sector. On this score Woodman agrees with the view of Minesite's man in Oz. "That is very much the situation," he said. "We equate this in our road shows to the Tanami region. This a gold belt which has never been explored by one company before. It's been little groups that got together in the 1990s for a heap leach operation and then went dot.com because the gold price was a lot lower then" Enough said!