

Wedgetail Exploration (WTE) 26.5c

CRITERION'S eternal quest for undervalued gold plays takes him to the expanses of the Central Pilbara region, more synonymous with iron ore than the lustrous yellow metal.

The prevalent geology hosts 70 per cent of the world's gold, so it's not a bad place to dig holes.

Wedgetail Exploration has been doing just that to the tune of \$20 million, and its backers are about to be rewarded with a pending move to production.

So far, Wedgetail has flown below the investor radar, but management this week has been spruiking its story to the shiny suits and the price has been creeping up.

Wedgetail's 600sqkm Nullagine field, 200km from Port Hedland, boasts a 342,000oz reserve (average grade of 2.4g a tonne) and a resource of 860,000oz.

Wedgetail's master plan — backed by a bankable feasible study — is to become a 70,000oz a year open-cut producer from mid-2007, over a five-year mine life.

An "aggressive" exploration plan is expected to boost reserves.

At most, the resource is 60m deep, so mining is a matter of scooping up the ore and crushing it at an in-situ facility. "It's not hard yakka. From day one, we have had some good grades," says chief Wedgie Peter Woodman.

Wedgetail has a \$60 million market cap and \$20 million in the bank after a \$17.5 million raising.

The plant will be funded by a \$42 million debt facility secured with Westpac. This is subject to forward selling, likely to account for 60 per cent of first-year production (40,000oz), at 15 per cent above the spot price.

At the current spot price of \$820 per ounce, Wedgetail would generate first-year cash flow of around \$24 million. This assumes a cash cost of \$550 per ounce.

Wedgetail's \$60 million market cap thus values the operation at less than three times cash flow, which compares with a rule of thumb of six times for junior miners.

Wedgetail is championed by the listed LinQ Resources, which holds about 30 per cent. LinQ chief Clive Donner is Wedgetail's chair.

"It is a real emerging story rather than (an explorer) that hopefully will make it," Donner says.

We rate Wedgetail a **SPECULATIVE BUY** for the gold bugs. There are the usual risks of exposure to a single mine and the hedging position becoming a burden if production is interrupted.

On recent numbers, Shaw Stockbroking estimates calendar 2007 production of 25,000oz, to generate revenue of \$20 million and a \$3 million profit (EPS of 1.3c).

This rises to 78,000oz in 2008, for a \$10.9 million profit (4.7c EPS). This assumes a long-term gold price of \$US550 per ounce and a US68c exchange rate.