

Peninsula powers to be ASX's next uranium producer

Peninsula has 7,500sq km of ground in the Karoo Basin

Peninsula Energy Ltd is lighting up uranium circles around the globe however it has not discounted its prospects on home soil.

"We are looking at projects in Australia. Our intention isn't to do it this year and probably not in the first half of next year. However, in the second half of 2016 and early 2017 we will certainly be on the move," Peninsula executive chairman Gus Simpson told **Paydirt** in Cape Town during Mining Indaba 2015.

Indaba is generally the forum for companies to spruik their African assets, and while Peninsula has the Karoo uranium play in South Africa, interest in the company was centred on its Lance ISR project in the US.

After all, Peninsula had just managed what uranium players and many others in the resources sector haven't been able to in recent times; structure a deal to get a project off the ground.

Late in 2014, Peninsula secured a \$69.4 million fully underwritten institutional funding deal to take Lance in Wyoming into production this year.

The funding arrangement included an institutional placement (\$16.8 million), institutional entitlement offer (\$23.9 million) and retail entitlement offer (\$28.7 million), with the majority of funds coming from institutions such as Resource Capital Fund VI L.P. (RCF), Pala Investments Ltd, BlackRock Funds and JP Morgan Asset Management UK.

Pala's participation in the raising netted the firm a spot on the board with senior executive Evgenij Lorich joining the likes of Warwick Grigor, Neil Warburton and John Harrison as a non-executive director at Peninsula.

Meanwhile, former Uranium One Inc and Cameco Corp mining engineer/manager, Jan Fajgl, was appointed vice president of opera-

tions at Strata Energy Inc – Peninsula's wholly-owned subsidiary in the US.

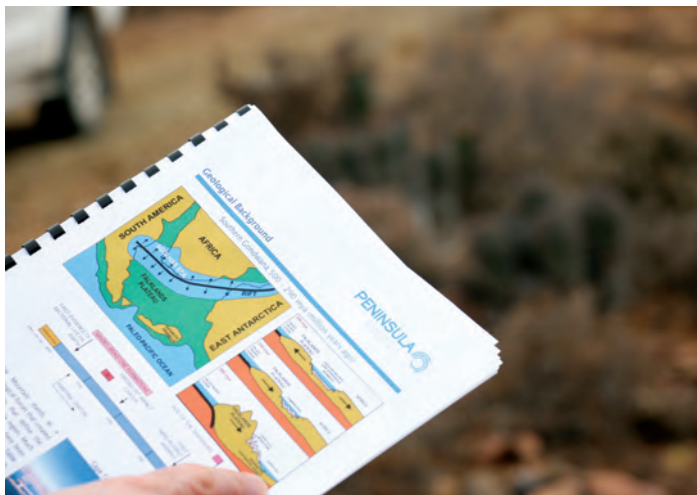
Fajgl will manage operations at Lance which technical director Alf Gillman has steered towards construction of stage one at a capex of \$US33 million.

Originally, debt was the preferred method of financing for the entire three-stage Lance project which is in a jurisdiction accustomed to uranium production since 1951.

However, the long run to nameplate 2.3 mlbpa production at Lance had debt providers insisting Peninsula lock more of its product in contracts which prompted the company to chase alternative funding streams.

"We didn't like that idea of contracting our product at this current pricing structure because we believe prices are going to get a lot stronger," Simpson said.

Contracted prices are largely kept between



Peninsula's share price was less than 2c at the time of print



An extensive trial exercise by Esso took place at Ryst Kuil in 1979

supplier and utility with Peninsula guiding production from stage one at Lance to be 700,000 lbpa at an average \$US53/lb.

All-in cash costs for stage one have been estimated at \$US41/lb however that will reduce over life-of-mine to \$US29/lb in stage three (2.3 mlbpa by 2020) when Peninsula will be receiving about \$US65-75/lb of uranium sold.

Peninsula entered its first sales contract in 2011 for 1 mlb uranium to be delivered between 2015-2020 (about 35-50% of annual sales) at a weighted daily price of \$US73-75/lb. Additionally, Peninsula committed to supply a major US power utility with 912,500lb under current term contract prices.

At the time of print, Peninsula was negotiating with several other utilities for additional sales agreements and hoped to land another contract to further de-risk cash flow for stage one.

Simpson said the company had tested the waters in Asia however it was pursuing contracts in the US and European markets.

"A very important part of our strategy that isn't directly related to mining is the ability to build relationships with our customer base. About 80-90% of uranium is sold under term contracts to utilities, these are not typically publicised and terms not disclosed at the request of the utility," he said.

"When you hear noise around uranium prices and so forth, it is really around a small portion of the business which is the spot price [UxC spot price at the time of print was \$US39.25/lb]. The important thing to understand of this business is that aligning yourself with utilities and contracting with them over the longer-term is fundamental. Our strategy is really to meet the requirements of these utilities which are looking for security of supply."

Peninsula is on track to be one of those reliable sources of uranium supply, with stage one at Lance about 60% complete at the time of print. Simpson was confident that production would start in the second half of 2015 after site works begun in 2013.

Seeing the first of its yellowcake baked this year will be somewhat of a relief for Peninsula-



Esso took 162 bulk samples for 4,050t material during the trial mining phase

la, considering its interest in Wyoming started in 2006.

"The permitting process in the US was a rigorous process. It is a multi-agency process, yellowcake is not considered to be a

toxic substance or radioactive substance; it is just the whole mining licence process. I haven't permitted a uranium mine in Australia but from what people tell me it is probably faster in the US. With more people applying for uranium licences there, it means there are more agency resources allocated to assessing uranium applications," Simpson said.

"It has been a rigorous and lengthy process but we are fully permitted and in construction mode. There is significant potential here for us in what is a first world mining environment and a first world commercial environment. And, it is a place with the leading consumers of uranium in the world."

It is almost 10 years since the company entered the north-east flank of the Powder River Basin, which had been explored between 1970-1979 by the NuBeth JV – made up of Nuclear Dynamics Inc, Bethlehem Steel Corporation and later Pacific Power and Hydro.



There is immediate uranium detection as soon as the meter is turned on at Karoo



Karoo is about a five-hour drive from Cape Town

URANIUM FOCUS



An exploration target of 250-350 mlb uranium has been set at Karoo

The NuBeth JV had discovered a small resource at the Lance projects which Peninsula has now developed into a 20-year project boasting 51.2mt @ 476 ppm for 54 mlb uranium resources discovered at \$US1/lb.

"There is no exploration currently happening at Wyoming. We have 54 mlb there, with 28 mlb recovered for a 20-year mine-life as it is. We will wait until we are cash flow positive out of Wyoming then we will put \$2-3 million a year into exploration to replace the pounds that we are mining," Simpson said.

There are currently 13 historic resources at Lance, with 22 roll fronts extending for a combined 312 line-km which Peninsula sees hav-

ing resources for 70 years or more.

The company has set an exploration target of 158-217 mlb uranium (including the current 54 mlb resource) for 169-196mt @ 426-530 ppm uranium.

"We are also looking at other projects in Wyoming that would compliment what we are doing there because we now have a central processing facility that is licensed to do 3 mlbpa although we will only ever get 2.2-2.3 mlbpa of our own properties at any one time. There are a couple of satellite orebodies sitting in central locations in Wyoming, or close to. We believe if we can acquire one of those, we can put a satellite ion exchange plant there and shipload some of the resin to the central processing facility," Simpson

Simpson's vision for the future is not blurring his plans for the present.

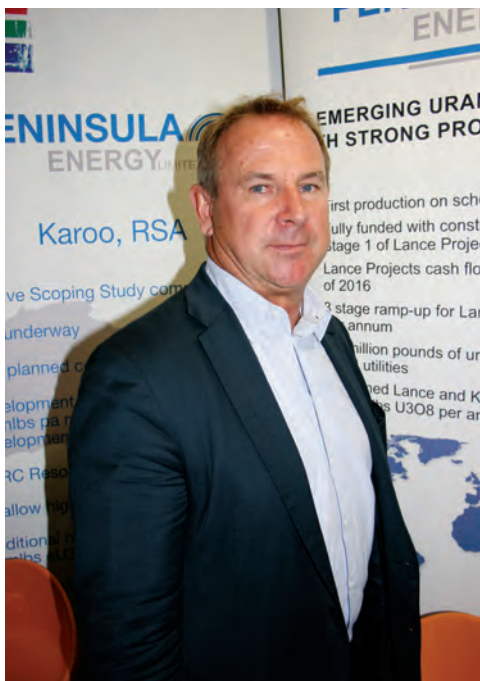
A successful stage one operation at Lance will lead into a 1.2 mlba project in 2018 (stage two) followed by 2.3 mlba (stage three) in 2020.

With \$60 million equity secured to build stage one, Peninsula has debt facilities it can drawdown to fund stage two capex at Lance of \$US35 million, while \$US25 million in debt and \$US53 million working capital would be required for stage three.

"Stage two and three will be dependent on the contracting situation we have going on behinds the scenes, they are progressing very well at the moment and our expectation is that we will see stage two and three ramp-up to 2.3 mlbpa. At that rate we have a very robust project with an NPV of \$US280-290 million; it is low capital intensity relative to other commodities. Also, because of the staged ramp-



DFS at Karoo is expected to start in the second half of 2015, with production targeted in 2017/18



Gus Simpson

up it is very low-risk and produces significant cash flows for the company," Simpson said.

The company has estimated net cash flows for 2015 of \$US3.2 million, free cash, increasing to \$US80 million in 2020.

While Lance is forecast to take Peninsula into cash flow positive territory mid-2016 and offers potential scale-ability for Peninsula, Simpson won't be pigeonholed into one project.

"Our plan over the next 5-7 years is to build a company with diversified supply of about 8-10 mlbpa. The first project to get off the ground is in Wyoming and the second will be our projects in the Karoo," Simpson said.

"What we are looking to do is have three or four mining operations in different geographical locations. We obviously want those mines to be long life and in the first quartile of costs. The diversity of supply also makes us much more appealing than a single supplier."

Simpson mentioned Australia as a destination of choice however the likes of Canada, Namibia and other African nations are also



George van der Walt, Peninsula exploration manager (South Africa), with managing director Gus Simpson and country manager Tefo Maloiane at Indaba

attractive uranium propositions for Peninsula.

Before branching out, the company has the advanced Karoo project, about five hours along the N1 Highway from Cape Town, to contend with.

A PFS is under way, with the company expecting to start DFS activities in the second half of 2015.

As of February 2014, a resource of 56.9 mlb @ 1,108 ppm uranium stood at Karoo, with an additional 49 mlb of historic material that could be converted into JORC resources.

An exploration target of 250-350 mlb @ 900-1,200 ppm is a possibility within Peninsula's holding in the Karoo Basin.

"We have a very large project landholding of about 8,000sq km. It was originally extensively explored by Esso in the 1970s and again we have another 57 mlb JORC-compli-

ant resources at the moment at very good grades. We have completed a scoping study here and are in a PFS. We expect at some time between the mid and end of 2016 to complete the DFS and we will be looking out for financing for this project and a second production centre for ourselves," Simpson said.

A scoping study in 2013 highlighted the potential for a 3 mlbpa operation at Karoo, with Peninsula indicating possible start-up in 2017/18.

With a project on the cusp of production, \$54 million cash, a market cap of \$110 million and available debt to be drawn down to fund expansions at Lance, Peninsula is poised to be even better placed when it cuts the ribbon



Karoo currently hosts a resource of 57 mlb @ 1,108 ppm uranium

at its second mine.

"We are in a very good position for a junior company, with two very large project groups with upside exploration potential. We believe there is a major re-rating for both company and the sector, particularly for our company as we have a clear path to production and the project is committed and we will be the next uranium producer on the ASX," Simpson said.

- Mark Andrews



The trial mining processing facility is 30km from the township of Beaufort West which has a population of 30,000 people