GLOBE METALS & MINING LIMITED (GBE)

27 August 2009

Speculative Buy

Globe has successfully established a significant niobium resource in Malawi at a very modest cost, and is making significant progress in establishing the economic viability of the project. The company still faces the task of securing long term contracts, as well as project financing requirements. Nevertheless, Lonsec believes the recent JV agreement sets a baseline valuation and recommends Speculative Buy.

Investment data

ASX Code	GBE
Share price (26 Aug 2009)	$0.32

Issued capital

FPO Shares	70.3 m
Unlisted Options	3.0 m
Market Cap (fully diluted)	$23.5m

Shareholders

Major Shareholders	
Mark Sumich (MD)	9.3%
TPG-Axon	8.9%
Top 20 Shareholders	~55%

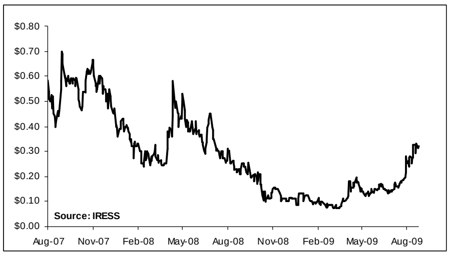
Cash Reserves

Cash Balance (30 Jun 09)	$2.8m

Directors

David Sumich	Chairman
Mark Sumich	Managing Director
Julian Stephens	Executive Director

Share price performance



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Joint Venture to fund Bankable Feasibility Study

Globe Metals & Mining is an African-based specialty metals and uranium resource company. Its main focus is the multi-commodity (niobium, tantalum, zircon and uranium) Kanyika Niobium Project in Central Malawi. Following the successful completion of a scoping study in June 2008, a pre-feasibility study was commissioned in September 2008. The company recently announced that it has entered into an agreement with a South African engineering company to fund a bankable feasibility study (BFS).

Key Points

- Globe has entered into a formal joint venture agreement with Thuthuka Group Limited, a South African multi-disciplinary engineering company, whereby Thuthuka will invest US$10.6m for a 25% interest in the Kanyika Niobium Project.
- Thuthuka brings technical expertise relevant to the Project, including metallurgical processing, acid handling, process and civil engineering and water and chemical treatment, and its investment is a vote of confidence in the project.
- The US$10.6m investment by Thuthuka is expected to fund ~85% of the estimated cost of the BFS, which is expected to commence immediately and is due for completion by December 2010. Thuthuka is required to complete its designated components of the BFS by no later than April 2011. Globe will be responsible for additional geological work (infill drilling, resource and reserve estimation, geotechnical and hydrogeology) as well as marketing (price, supply/demand, product specification, off-take agreements), Thuthuka for the balance of the BFS.
- The pre-feasibility currently underway is expected to be completed by Q4 2009, the study to be fully funded and carried out by Globe.

Moving forward

- A critical aspect of the pre-feasibility study is metallurgical test work. A mini-pilot programme, expected to be complete in Q4 2009, will provide product samples to potential off take partners.
- Discussions with potential off-takers continue. To date, the company has signed Memoranda of Understanding with two potential off-takers for 1,050t of niobium metal (some in the form of Nb_2O_5, some as FeNb) which represents around 35% of planned production. Given that around 95% of global ferro-niobium is sold under long term contacts, securing off take agreements for a significant proportion of niobium metal production is a likely pre-requisite for debt financing.
- In order to complete the pre-feasibility study and to provide its share of the BFS costs, an equity capital raising of around A$4m is likely in the short-medium term.
- There should then be no need for additional capital until early calendar 2011 when the BFS has been completed. Globe's share of project finance is likely to be in the order of US$120m. The most likely source of finance would appear to be off-takers, metal trading houses or Chinese investment groups, similar to the recent Galaxy Resources transaction.
- The main risks, in addition to product pricing, are securing appropriate off take agreements and project financing.

What is the project worth?

- The company's most recent financial forecasts indicate a Project NPV of ~US$200m, based on annual production of 3,000tpa of niobium metal, a capital cost of US$152m, a price of US$39/kg Nb metal and a mine life of 20+ years.
- Thuthuka's recent US$10.6m (A$12.9m) investment for a 25% interest values the Kanyika project at A$51.6m. On this basis, Globe's 75% interest is valued at A$38.7m or $0.55 per share, a premium of around 66% to the current share price excluding any exploration upside. Lonsec rates Globe a Speculative Buy on that basis.

The Kanyika Project and Niobium at a Glance

- Although Kanyika is described as a multi-commodity resource, niobium is expected to make up almost 80% of the revenue split.
- Niobium supply is dominated by three mines which collectively supply more than 85% of the world's niobium needs. The largest, CBMM in Brazil, alone accounts for 70% of world supply, has a 250m thick ore body, free-digging open pit operation, a grade more than 6x that of Kanyika higher grade material and reserves believed to be sufficient to supply current world demand for 500 years. In addition, it is planning to increase productive capacity by almost 80% by 2013. The other mines also have the capacity to increase production. On the positive side, significantly lower grades than CBMM were obviously not a deterrent for Anglo American and IAMGOLD (Niobec) to enter the market.
- Domination of supply by three producers, all capable of increasing production, implies potential difficulties in breaking into the niobium market without secure off-take arrangements. The flipside is that limited choice of supply could result in potential customers supporting new entrants. An absence of Chinese domestic production may further encourage new entrants. Fortunately, Globe's market share would only be about 3% and therefore unlikely to provoke an adverse response from existing producers. Subject to getting off take agreements in place, Globe should be able to coat-tail CBMM pricing. There is also flexibility in the proportion of FeNb and Nb_2O_5 that can be produced by Globe, an option that is not available to either Anglo American or Niobec.
- Kanyika is a reasonable-sized deposit capable of supporting a +20 year mine life. The ore body appears to be robust; mineralisation appears to be well defined with strong continuity both along strike and down dip. As a result, resource definition is not seen as a major risk.
- The current high grade resource is 24.0Mt at a grade 0.38% Nb_2O_5, containing 91,170 metal tonnes. Grades of the other metals are 100 ppm U_3O_8, 174ppm Ta_2O_5 and 0.56% $ZrSiO_4$. This higher-grade component is contained within an overall resource of 55.3Mt at a grade of 0.30% Nb_2O_5, 80 ppm U_3O_8, 140 ppm Ta_2O_5 and 0.50% $ZrSiO_4$.
- The scoping study completed in June 2008 was based on annual production rates of between 3,000tpa and 4,000tpa niobium in ferro-niobium. Mining is by conventional open pit means, with low waste:ore ratios. Proposed treatment is by an established process (which will nevertheless require substantial additional test work and pilot plant studies), with only ferro-niobium (containing a little tantalum) and zircon initially being recovered. The initial capital cost was estimated at between US$156m and US$177m, with on-going capex, over a 20-year period, of between US$180m and US$201m. Unit operating costs (excluding royalties) were estimated at US$25/tonne treated. Almost 70% of these costs relate to processing. The accuracy of estimates is ±30% for mining costs and ±50% for all other items.
- In its most recent presentation to Chinese investors (June 2009), the company flagged changes to the proposed flow chart which indicate that it intends to produce 3,000t of Nb in ferro-niobium, 194t tantalum and 117t of U_3O_8.annually. The expected capital cost is US$151.7m, with operating costs (including weak and strong acid processing) of US$42.80/tonne treated.
- Malawi is seen as one of the lower risk African countries. Major projects include Paladin's Kayelekera uranium mine, while several Australian, Canadian and UK listed companies are actively exploring.
- Niobium is a steel strengthening agent. For example, around US$4 worth of niobium used in the manufacture of a mid-sized vehicle allows a 100kg savings in the weight of steel used. The markets for niobium products are not particularly transparent. The bulk of the niobium is sold in the form of ferro-niobium and around 95% of this is sold under long term contracts.
- The main uses of niobium are in high strength, low-alloy steel and stainless and high strength steels (bridges, buildings, car bodies, oil and gas pipelines), super alloys (jet engines, aerospace, turbines), superconductors and solid electrolytic capacitors. Main substitutes are vanadium and molybdenum for HSLA steels, titanium and tantalum for stainless/high strength steels, tantalum, molybdenum and tungsten for high temperature applications and more recently, aluminium in the automotive industry.
- Annual consumption is around 65,000t with 85% of this consumed by the steel industry – 10% of all steel products contain niobium as an additive. Consumption has increased 7.9% pa over the period 1990-2008 compared to a 4.1% pa increase in steel consumption.
- The price was stable at around US$16/kg from 2001 to 2007 before rising sharply in response to increased demand from the steel industry. By May 2008, spot prices had risen to US$39.70-US$41.90/kg with producer prices at US$35.30-$36.40/kg. In November 2008, a benchmark contract price of US$43.00-US$46.00/kg was reported. The current ferro-niobium price is around US$37-38/kg. Independent analysis by Roskill Information Services suggests that the adjustment in 2007 was inevitable after flat pricing over a prolonged period and predicts that the price will remain at current levels in the immediate future. An important guide will also be its price relative to readily available

substitutes (vanadium, molybdenum, titanium, tantalum, tungsten). The relatively stable price of niobium tends to differentiate it from other potential substitutes, particularly vanadium.

- The company has appointed A & M Minerals as its marketing adviser. A & M is a London-based specialised trading company with offices in New York, Hanoi and Sao Paolo, which focuses on tantalum, niobium, tungsten and tin minerals.
- Globe has indicated that it could be in production by mid-2012. This will largely depend on BFS progress, securing off take agreements and project financing.

Research Index – Globe Metals & Mining Limited (GBE)

Date	Analyst	Title/Event	
23 April 2009	Basil Burmeister	Developing a niobium project in Malawi	(8 Pages)

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