

Friday 26th September, 2014

Northern Minerals – \$9 million R&D rebate received, boosting cash position – Maintain Spec Buy

Northern Minerals (ASX: NTU, Share Price: \$0.25, Market Cap: \$110m) is our sole Portfolio rare earths exposure. We introduced the company to our Portfolio during July 2011 and our most recent coverage of the stock was in MLW 184 earlier this month. The company's massive ~10,500 sq km acreage package within the Gardiner–Tanami province on the Western Australia/Northern Territory border, has strong potential to develop into a reliable supplier of high-quality rare earths to a growing Asian market.

The company has just announced having received its 2013/14 research and development (R&D) rebate totaling \$8.99M - a huge bonus that will help fund finalization of its Browns Range Feasibility Study.



Market Significance

Northern Minerals' share price has firmed from a recent low of \$0.11 during May to a recent high of \$0.285 this month on the back of extremely strong trading volumes. Not bad for a stock in a sector (rare earths) that hasn't received much positive press of late. What it shows of course is that high-quality companies with expert management teams and robust projects can still provide outstanding returns for investors – and this underpins our MineLife investment philosophy. The recently completed PFS has confirmed robust project economics for Browns Range, where the aim is to commence rare earths production by H2 2016.

Announcement Detail

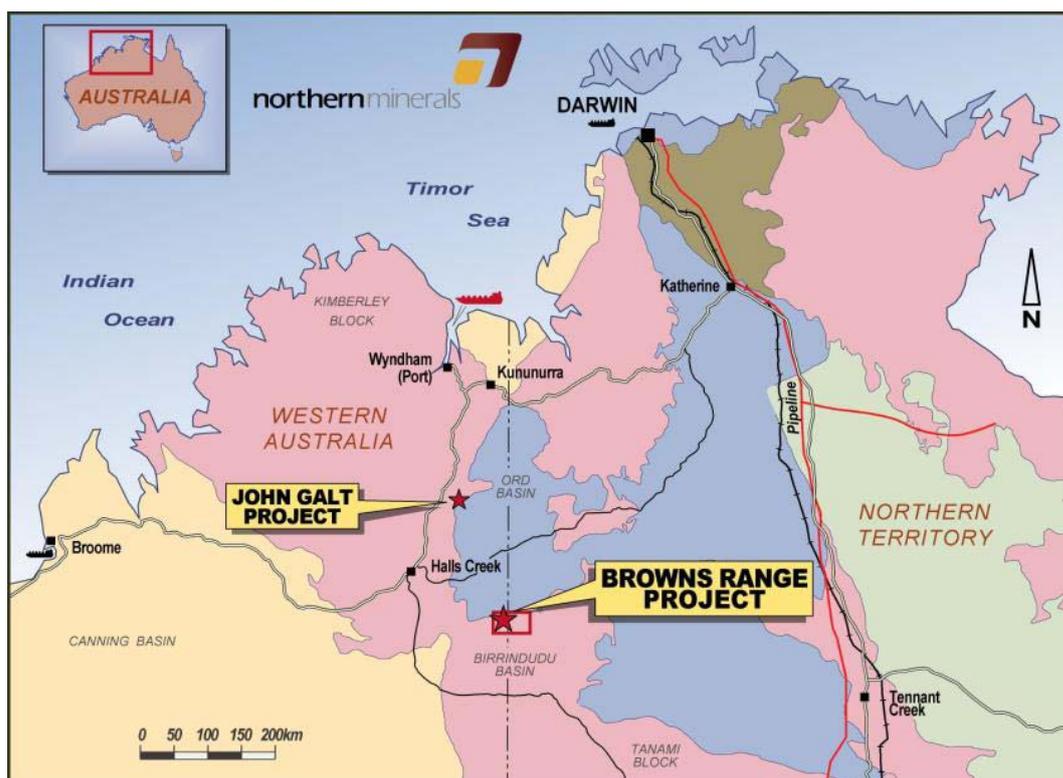
The company has just announced a major financial bonus in the form of its 2013/14 research and development (R&D) rebate, which totals \$8.99 million. The rebate reflects the significant amount of work undertaken by the company during the 2013/14 financial year in advancing the Browns Range rare earths project in Western Australia towards production status.

The rebate provides a competitive advantage for the company by enabling it to extend and expand its work programs without having to undertake dilutionary capital raisings. Specifically, the rebate will provide funding requirements for completion of the Browns Range Project Feasibility Study at the end of 2014, and maintains the project's pathway to first production by the end of 2016. In addition, it has also allowed the existing \$6 million drawdown facility with Macquarie Bank to be retired.

Project Overview

In our previous coverage we highlighted the completion of the company's Preliminary Feasibility Study (PFS) for its Browns Range Project. The PFS confirmed robust project economics, based on a conventional mining operation involving both open-cut and underground operations, along with a relatively simple processing flow-sheet with all infrastructure located on site. The project includes a base-case production rate of 279,000kg of dysprosium annually, contained within 3,200,000kg of high-purity mixed rare earth (RE) oxide.

The PFS verifies the potential for Browns Range to be the first significant world producer of high-value dysprosium outside of China. Dysprosium is an essential ingredient in the production of NdFeB (neodymium-iron-boron) magnets, which are used in clean energy and high-technology applications. Dysprosium is in high demand and in critically short supply globally.



The permanent magnet sector’s forecasted growth from 2014 to 2020 is expected to be 8-12% annually, which could increase as secure sources of dysprosium supply such as Browns Range come on stream.

While current dysprosium prices are lower than in recent years, global producers are forecasting prices to steadily increase over the next six years due to this demand pressure, with Chinese production continuing to consolidate and global demand increasing for environmentally responsible HRE sources.

The four Brown Range deposits discovered since 2010 remain open at depth and have significant additional exploration potential. Several other prospects displaying similar geological characteristics to Wolverine have also been discovered at Browns Range, which supports the potential for further significant dysprosium discoveries.

Project Features

The PFS has reinforced that the xenotime mineralisation at Browns Range is the company’s key competitive advantage, allowing the delivery of a high-value, high-purity, dysprosium-rich product to market. The high concentration achieved through the beneficiation process has resulted in a competitive pre-production cost estimate, making the project a globally competitive dysprosium supplier.

A financial evaluation of the project was undertaken based on data from the PFS, which has confirmed the value and economic robustness of the project - with an after tax Net Present Value (NPV) estimated at \$446M, an Internal Rate of Return (IRR) of 33% and a 3.3-year payback.

Production Timeline

Following completion of the PFS, the company will move into a full Feasibility Study, which is targeted for completion by the end of 2014. The company is continuing to progress necessary project approvals and will be working on further funding initiatives to take the Project into production in 2016.



Summary

Despite all of the ups-and-downs associated with the rare earths sector and the junior resources space over recent years, the company's Brown Range project remains immensely attractive. Its capacity to produce a high-grade concentrate from a relatively simple flow-sheet should provide a significantly shorter timeframe to production, along with much lower capital costs than typical REE projects. It is common for REE projects to take up to 10 - 15 years to transition to production status and commence cash flow generation. By contrast, Browns Range is targeted for production by 2016.

The company is a classic example of a well-managed company with a great project and a meticulous approach to appraisal and development. Such a company represents the ideal opportunity for true resource investors. We already retain a strong position in the company; however, we maintain our Speculative Buy recommendation around current price levels for those investors without current exposure.

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