

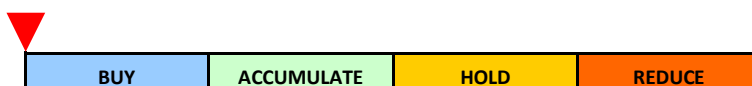
Locantro's Life

Issue 21

24 Feb 2012

WPG Resources Limited (WPG)

“We still have the fire in our bellies to do it all again”



Issued Capital: 257.8m

Price at
23 Feb 2012: 9.1c

Market Capital
at 23 Feb 2012: \$23.465m

Research
Indicator: Buy

The above quote was taken from the Chairman, Bob Duffin's address on 23rd November 2011 and is not only pleasing news for loyal shareholders but also those looking to gain exposure to a junior with the potential “to do it all again”.

WPG sold their iron ore assets to OneSteel Limited for around \$320m and distributed the bulk of the proceeds (net of company tax of \$71m) to shareholders via a return of capital of \$0.42 per share and a maiden dividend of \$0.63 per share which was fully franked. WPG justified the sale at the time based on believing the amount offered was a full and fair price, equity market volatility and the

belief that iron ore prices were unsustainably high and were likely to fall as new production comes into the market.

Locantro's Life believes that WPG is a unique situation in the junior resource sector where their remaining projects, assets and cash holding (following the tax payment) outweigh their market capitalisation with significant growth potential ahead.

Figure 1: Please note this chart is not adjusted for the capital return/dividend but shows historical performance leading up to the iron ore asset sale.



Major Projects

Penrhyn Coal Project

Giffen Well Iron Project

Lake Pidinga Potash Project

Port Pirie

- Held by Southern Coal Holdings Pty Ltd (SCH) a 100% owned subsidiary.
- SCH was earmarked to be used as the joint venture vehicle to be owned equally by WPG and Evergreen Energy Inc. The joint venture has not been consummated as Evergreen has not delivered an effective and exclusive licence to use its coal upgrading technology.
- Evergreen filed for bankruptcy protection under Chapter 7 of the United States Bankruptcy Code.
- **WPG is reviewing its options for participating in the sale process, either alone or in joint venture with others.**
- Adjacent to the underutilised Central Australian railway line.
- Significant exploration upside with perceived low risks if a further drilling program is carried out.
- Penrhyn calorific value on a raw coal basis is 4,000 kcal/kg GAR but testwork has shown that it can be increased to 5,000 kcal/kg using the Evergreen Process.

- Sub-bituminous coal from Australia is being sold to Indian and Chinese groups (sale of Collie Mines in Western Australia and the \$10 billion investment commitment by a Chinese group to acquire undeveloped coal assets in the Galilee Basin in Queensland despite no easy rail or port access).
- In July 2011 WPG announced a maiden 352.4m tonne coal resource estimate for Penrhyn deposit that was previously larger than WPG's previous guidance. The estimate is set out in the following table:
- Ground geophysical and drilling programs carried out as part of the SASE project outlined a significant deposit of magnetite BIF at Giffen Well.
- **Previous drilling at Giffen Well focussed on the magnetite BIF, however the BIF is in places in contact with granite of the Hiltaba Suite. This is a geological setting that is analogous to that at Peculiar Knob where high grade (>60%Fe) massive hematite is located adjacent to the Hiltaba aplite and granite in the footwall.**

Seam Name	Measured Resource	Indicated Resource	Inferred Resource	Total Resource
L (NW area)	-	7.4	-	7.4
L (SW area)	-	8.4	-	8.4
J	75.8	-	1.2	77.0
M	27.0	-	0.5	27.5
G	-	88.9	5.0	93.9
N	-	45.8	4.5	50.3
R	82.6	-	5.3	87.9
Totals	185.4	150.5	16.5	352.4

When assessing the potential value of the Penrhyn coal deposit the following from the Chairman's address (ASX release 23rd November 2011) is of note:

"An independent expert last year valued Lake Phillipson coal, essentially identical Penrhyn but disadvantaged in that it lies in the Amber Zone of the WPA and consequently is burdened by access restrictions that do not apply to Penrhyn which is in the Green Zone at a weighted average of 7.5 cents per tonne of resource. We have a total of 352 million tonnes of resource at Penrhyn with a further 200 to 300 million tonne exploration target. You can do the maths on what Penrhyn might be worth on that basis as well as I can, but its real potential will come from the application of the Evergreen process that potentially will add much more value".

- Since the address Evergreen Energy Inc have applied for bankruptcy protection (24th January 2012), however even if WPG are unsuccessful in the sales process they could still well benefit from potential owners seeking suitable coal projects.

Locantro's Life regards the Penrhyn Coal Deposit as a strategic asset for WPG where the key is to work towards increasing the quality of coal which could attract valuations in excess of 7.5 cents per tonne. Although further exploration could identify a further 200-300 million tonnes it is all about the **quality**.

Giffen Well Iron Project South Australia

- WPG has re-entered the iron business in South Australia with the signing of binding Heads of Agreement with Brisbane based Maosen Australia Pty Ltd covering EL 3945 at Giffen Well.
- Giffen Well was originally part of the South Australian Steel and Energy Project (SASE) but had been relinquished by the time WPG acquired the Peculiar Knob and Hawks Nest tenements from SASE in 2006.
- Lies within the Green Zone of the Woomera Prohibited Area (WPA).
- Located just 25 kilometres from the Carness siding of the Central Australian railway line. **There is direct access to WPG's port facilities at Port Pirie, a distance by rail of 550kms.**

"These contact zones at Giffen Well are considered to be prime conceptual targets that have good potential for the discovery of DSO haematite orebodies such as that at Peculiar Knob and Buzzard at Hawks Nest."

- The Fe grades at Giffen Well are high and are similar to those at Hawks Nest. **The combination of high grades and shallow depth suggests low unit mining costs per Fe unit mined.**

A summary of significant BIF intersections is listed in the following table:

Hole Number	MGA94 m East	MGA94 m North	Depth From (m)	Depth To (m)	Interval (m)	Fe Grade (%)
GW001	477162	6647178	2	81	79	37.1
GW005	476092	6647233	16	70	54	32.3
GW006	475911	6647237	0	20	20	40.3
GW007	477078	6647181	0	88	88	34.0
GW008	477240	6647176	4	100	96	34.8
GW009	476970	6647191	0	60	60	32.5
GW011	476378	6645576	8	100	92	35.1
GW012	476482	6645575	16	100	84	24.7
GW015	476738	6646389	24	40	16	39.2
GW016	476826	6646383	8	92	84	30.9
GW019	477924	6647982	32	56	24	33.1
GW020	477445	6647526	0	100	100	39.2
GW021	477543	6647524	36	68	32	35.4
GW024	477051	6646802	12	100	88	35.0
GW025	477152	6646802	0	100	100	34.1

- The spacing of 26 deeper holes drilled previously on the main BIF strike ridge is too wide to enable a JORC compliant resource to be estimated.
- **WPG has outlined an exploration target of BIF mineralisation in the range of 390-500 million tonnes at a grade between 33% and 38%Fe** (based on the drill hole and other data currently available and is conceptual in nature).

- WPG plans to commence a substantial program of systematic resource development drilling that will provide the basis for a preliminary feasibility study.

The key commercial terms of WPG's agreement with Maosen are as follows:

- WPG will hold its interest in Giffen Well through its subsidiary Giffen Iron Pty Ltd (GIPL);
- GIPL will pay an access fee of \$200,000 (plus GST) and WPG will allot \$330,000 worth of WPG shares to the

"Locantro's Life regards the Penrhyn Coal Deposit as a strategic asset for WPG..."

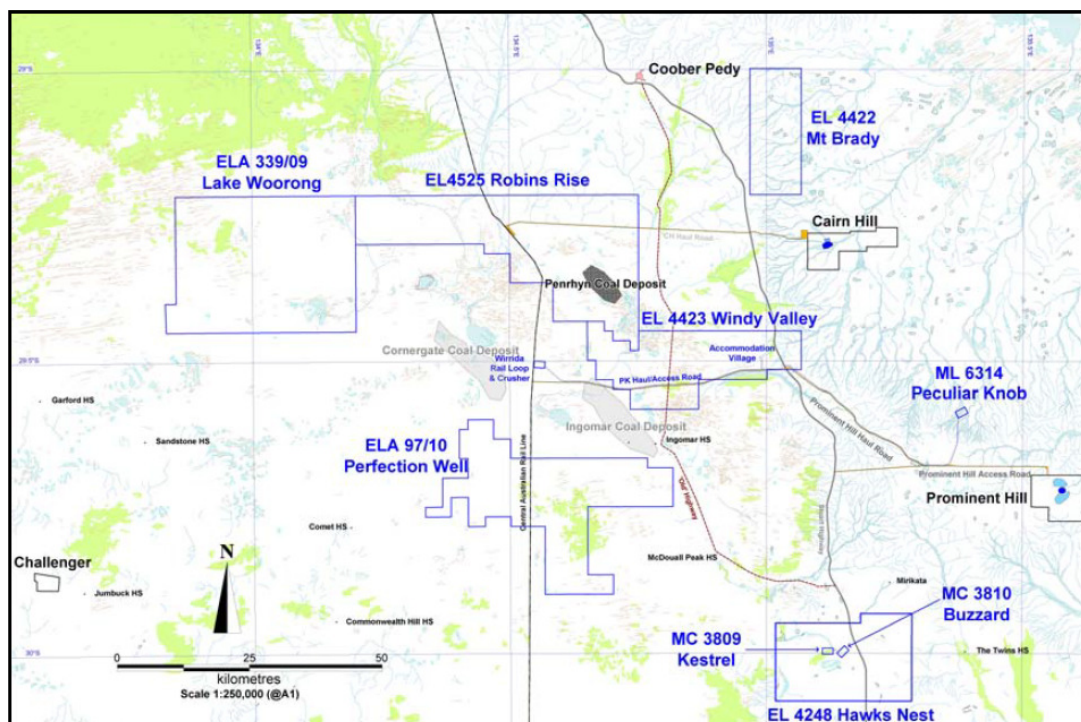


Figure 2: Location map for Penrhyn Coal Project

- vendor when the last of the conditions (renewal of tenement, Defence and landowner access, Native Title (Exploration) agreement) are satisfied;
- The WPG shares will be issued at the higher of 10 cents per share or a 20% premium to the 30 day VWAP on the date of issue;
- GIPL will pay a modest annual retainer to the vendor in recognition of services provided;
- GIPL will carry out a drilling program aimed at outlining a 500 million tonne resource, and will complete a PFS that will cost an estimated total of \$1 million;
- GIPL can earn up to an 82% joint venture interest in the project by the payment of \$5 million to the vendor and funding a bankable feasibility study;
- If a decision to develop a mine is taken GIPL will pay a further \$10 million to the vendor, at which time Maosen has the right to decide whether to retain its equity interest in the project or exchange it for a royalty of \$0.70 per tonne of ore mined; and
- The non-iron ore rights will remain with Maosen.
- Potash is associated with the mineral alunite, which is widely recognised as a common source of potash.
- Key area for WPG's initial exploration lies on EL 4631 which is some 250 kilometres north west of Ceduna. EL4631 and the neighbouring EL4671 have been transferred to WPG's 100% owned subsidiary Southern Potash Pty Ltd.
- **The South Australian Mines Department has drilled a number of shallow holes in an area known as Lake C and this work outlined a body of alunitic clay at least 700 metres long by 150 metres wide. The mineralised zone is about 3 metres thick and lies within a few metres of the surface. These holes returned intersections averaging 7.24% potash.**
- The project area is about 50kms from the Ooldea siding on the Transcontinental Railway, and so there is direct rail access to WPG's port facility at Port Pirie. The key part of the tenement is less than 10 kilometres from the Ambrosia heavy mineral sands mines from which product is trucked 250 kilometres to Port Thevenard at Ceduna.
- **Subject to the completion of all access requirements and the availability of a suitable drilling contractor, WPG plans to commence this drilling program during the next few months.**

One of the key takeaways from the Giffen Well announcement (24th January 2012):

"WPG regards Giffen Well as one of the best iron ore project opportunities available in Australia. For a range of reasons, very little work has been done on it in the last 4 years – the iron ore boom has largely passed it by. WPG is looking forward to advancing the project as aggressively as this can reasonably be achieved over the next few months and years."

Port Pirie South Australia

Lake Pidinga Potash Project South Australia

- WPG owns a large industrial block of land in Port Pirie on which it intended to build an iron ore receipt, storage and load-out facility until the sale of the Company's Peculiar Knob and Hawks Nest iron ore assets was agreed.
- Site has been placed on care and maintenance.
- Key strategic asset which WPG can leverage going forward.
- Potash deposits have been known to occur in the Lake Ifould-Lake Pidinga area of south western South Australia.



Figure 3: Lake Pidinga Potash Project



Figure 4: Port Pirie

Management

Mr Robert Duffin

Executive Chairman

BSc (Hons) , MSc (Hons)

Grad Dip Mgt, FAustIMM

Mr Heath Roberts

Executive Director &

General Counsel

Dip Law (SAB), Grad Dip

LegP (UTS)

Mr Gary Jones

Technical Director

BSc MAusIMM MSEG

Mr Len Dean

Non-Executive Director

BSc (Met)

Mr Dennis Mutton

Non-Executive Director

BSc (Hons), Grad Dip Mgt,

JP, FAIM, MAICD

Mr Lim See Yong

Non-Executive Director

BBA (Singapore)

Information following is taken directly from the Company 's website, <http://westernplainresources.com.au>.

Mr Robert Duffin

Rob Duffin is a company director and consultant to the mining industry, specialising in mining investment analysis, valuations and the provision of mining sector investment advice. He has over 35 years experience in resource exploration and project assessment, including over 20 years experience in mining investment analysis, project valuations and assessments of fair value of securities.

Bob has held senior positions in the exploration divisions of Peko Wallsend Ltd and MIM Holdings Ltd, then two of Australia's largest mining companies, and is a former managing director of Austrex International Ltd. He has lived and worked in mining communities, including periods in Kalgoorlie in Western Australia and Mount Isa in Queensland. He has also worked with three stockbroking firms and was head of research at one of Australia's leading resource sector brokers in the 1980s.

Bob is a director of Ferrowest Ltd. He was a non-executive director of Centennial Coal Company Limited from 1992 until 2007. He is a former director of the UK resources investment company Europa Minerals Group PLC and a former director of a number of other mining and resources companies including Austmin Gold NL, Burmine Limited and Midwest Corporation Limited.

Mr Heath Roberts

Heath Roberts practiced as a commercial solicitor before specialising in corporate advice, company secretarial practice and fund raising, with a focus on the resource and mining sectors.

Heath has had over 14 years broad commercial experience with a range of ASX listed companies including WCP

Resources Ltd, Michelago Ltd, Intec Ltd, Gloucester Coal Ltd and other unlisted resource and mining groups. He has participated as an adviser and principal in a number of ASX listings and corporate reconstructions. He was Company Secretary of the Sydney Kings basketball company in 2001. He has a strong corporate background and significant experience in project assessment and acquisition, transaction negotiation, corporate administration and capital markets.

Mr Gary Jones

Gary Jones is a geologist with over 40 years professional experience in mineral exploration and resource and reserve estimation for various type of mineral deposits including porphyry copper-gold and epithermal gold. He is Managing Director of Geonz Associates Ltd, a leading New Zealand firm of consulting geologists, and has been an independent consultant to the mining industry for the past 24 years during which time assignments have been completed in many parts of the world including Australia, Indonesia, North and South America, Canada and New Zealand.

Prior to setting up his own consultancy Gary worked as an exploration geologist for Geopeko for 15 years in various parts of Australia including 12 years in central New South Wales where he established and managed a new exploration operation for Geopeko. During this time he supervised numerous base and precious metal projects throughout the Lachlan Fold Belt and parts of the New England region and is credited with the discovery of the Northparkes porphyry copper-gold deposits. Following the initial discoveries at Goonumbla, Gary also had a major input into the pegging of a large block of exploration licences in the Lake Cowal region. He planned and supervised the initial regional exploration programs that ultimately led to the discovery of the 4.4 million ounce Cowal porphyry gold deposit. Early in his career Gary worked on iron ore exploration and mining activities in the Northern Territory.

Mr Len Dean

Len Dean has had a 40 year career in the resources sector, with emphasis in the global iron ore industry. He spent 36 years with BHP, finishing in 2000 as Vice President, Coal and Iron Ore Marketing. During his period with BHP he was General Manager, Marketing for BHP Iron Ore in Perth for 8 years, he managed iron ore mining operations at BHP's Yampi Sound mine, and lived and worked at BHP's (now OneSteel's) Whyalla works for 3 years. He was MD of Sesa Goa Limited, India's largest private sector exporter of iron ore, from 2003 to 2006. More recently, he has been an iron ore consultant with a wide client base including Orinoco Iron (Venezuela), Mitsui Iron Ore Development, CVRD (Brazil) and Mineral Enterprises Ltd (India).

Mr Dennis Mutton

Dennis Mutton is a management consultant specialising in natural resource management, primary industries and resources, regional growth initiatives and business-government relations. From 1997 to 2002 he was Chief

Executive of the South Australian Department of Primary Industries and Resources. He has a portfolio of directorships including Bio Innovation SA, and is Chair of the Council of Rural Research and Development Corporations. He is a former member of the Senior Management Council of the South Australian Government, a former Director of Mines, and a former Director of the Australian Rural Leadership Foundation. Dennis lives in Adelaide.

Mr Lim See Yong

Lim See Yong is General Manager and Director of Xin Sheng International Private Limited, a trading company related to Tangshan Xingye Industrial and Trade Group Corporation, an investor in raw materials for the steel industry. He spent 11 years with NatSteel Trade International, a Singapore mill that produces bars and wire rods from scrap. He was NatSteel's chief representative in China for 7 years from 1995. From 2002 to 2006 he was in charge of selling iron ore and steel products to China, and exporting semi and finished steel products to South East Asian markets. See Yong lives in Singapore.

Risk and Reward Analysis

Locantro's Life regards the risk/reward profile of WPG Resources (WPG) has one of the most attractive in the junior resource sector. My aim is to identify these opportunities early with reduced risk and although the share price will ebb and flow as to the broader market and trading activity, WPG provides outstanding downside support through:

- Estimated cash balance post ATO payment of around \$15m or **5.8c per share**.
- The Penryhn Coal project where even applying a conservative 3c per tonne valuation provides another **4c per share in value** (assuming no exploration success).
- Giffen Well, Lake Pidinga and the Port Pirie assets that I have assigned no value for, nor have I placed any value on WPG's management team, corporate relationships and their ability to again grow the company.

Although early days the Giffen Well iron project is shaping up as a very exciting project for the company and if WPG can meet their exploration target of 390-500 million tonnes

between 33%-38% Fe there is the potential for WPG to undergo a significant re-rating.

It should be noted that since WPG's inception in 2004 they have raised \$129m from shareholders and have returned \$270m. I would like to think that WPG possess a satisfied register that would be prepared to support them in any future ventures and/or capital raisings.

Sub 10c I liken WPG to a sprint event where the stock will provide outstanding trading opportunities as the suite of projects is further advanced. The major upside could yet come from WPG again regaining their "free flowing momentum" and I liken this to Usain Bolt passing the baton to a distance runner.

WPG are now by virtue of returning \$270m to shareholders and \$71m to the tax office a junior resource company that now appears to be again building the asset portfolio of something much bigger.

WPG is one of Locantro's Life strongest speculative situations for longer-term growth. Buy up to 9.3 cents.



Figure 5: Penryhn Coal

Analyst

Tony J Locantro
Managing Director



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About the Author

Tony Locantro is the founding and Managing Director of Locantro Capital Pty Ltd, Locantro Asset Management Pty Ltd and Gold Australia Pty Ltd.

He entered the stockbroking industry in 1998 following a career in the NSW and QLD Police Services and prior to founding the above companies was an Associate Director at Patersons Securities Limited. During his stockbroking career, Tony was actively involved in the junior resource sector and undertook major roles in the successful IPOs of Independence Group (IGO) and Medusa Mining (MML).

Over many years Tony has assisted a number of companies with IPO's, capital raisings, on-market support and corporate advice whilst serving a diverse client base. He has also written a number of educational articles for the securities industry through Tribeca, Kaplan and more recently Pinnacle (IFA Magazine). During his service he carried out his own diligent research and completed numerous written client reports, conducted regular site visits and based his stock selection principle on management and the people that drove the investment opportunities.

He has been quoted extensively in the financial press, Dow Jones Newswires and has written articles for Kitco and other sites, and is often quoted on Sky Business Channel.

He is well known as a passionate and well respected supporter of the junior resource industry.

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