

January 17, 2014

North America | Canada | Mining

DR. KALLIWODA | INTERNATIONAL

Update

BUY

Target Price:
C\$1.50

	Mining
Country:	Canada
ISIN:	
Bloomberg:	NCF.CN
Reuters:	NFC.TO
<hr/>	
Last Price (CAD):	0.26
MktCap (CADm):	22.36
No. of Shares (in m)	91.29

Shareholders Structure:	
HDI & NCF Mgmt	24%
Free Float	76%

Price Performance (in %)	
1 month	-4%
3 month	5%
12 month	-35%

Northcliff Resources, stock price in C\$



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Northcliff Resources

Globally-important, long life, low-cost and near-term producer secures a financing partner for Sisson Project

Key investment considerations:

- Northcliff Resources Ltd. recently announced it has entered into agreements for Todd to provide up to \$39 million in funding for the "Sisson Project" located in central New Brunswick, Canada, in exchange for a direct interest in the Sisson Project and shares in Northcliff. Todd is a subsidiary of the family owned Todd Corporation, one of New Zealand's most successful companies and which has a growing portfolio of mineral investments.
- Tungsten market fundamentals remain strong with robust prices and continued supply restrictions out of China. These factors underpin the investment case for advanced tungsten deposits in low risk jurisdictions. Todd is an important strategic investor in the Sisson Project as Northcliff sets out to permit, build and operate the Sisson mine in New Brunswick.
- Northcliff Resources Ltd. news release dated January 29, 2013 confirmed positive results for a Feasibility Study in accordance with NI-43-101 on its 100%-owned Sisson Project, verifying the long-life open pit tungsten and molybdenum development as a technically and economically robust project.
- Results suggest a post-tax net present value (NPV) of Cdn\$418 million for the project at an 8% discount rate, an internal rate of return (IRR) of 16.3% and a 4.5 year payback on initial capital expenditures of Cdn\$579 million. Pre-tax NPV is Cdn\$714 million with IRR at 20.4% and a 4.1-year payback.
- Proven and Probable Mineral Reserves contain 22.2 million metric tonne units (mtu) of tungsten trioxide (WO₃) and 155 million pounds of molybdenum (Mo) at an \$8.83/t Net Smelter Return (NSR) cut-off.
- At an average annual production of 557,000 mtu of APT, Sission has the potential to produce up to 8% (based on 2010 levels) of world primary tungsten demand from politically stable Eastern Canada, with excellent existing infrastructure and logistics to connect to North American, European and Asian tungsten markets.
- Very competitive cash cost for tungsten at US\$153/mtu, assuming bi-product credits from molybdenum production priced at long term molybdenum prices of US\$15/lb.
- The Sisson project is currently undergoing a joint federal and provincial environmental impact review, expected to be completed by late 2014.
- Our valuation indicates that Northcliff Resources Ltd. is significantly undervalued. The ratio EV/NAV is far below median and average for comparable tungsten development companies and below the price paid by Todd for its investment.
- We hold a buy recommendation and set a target price at C\$1.50.
- At its recent market capitalization of Cdn\$22.36 million, Sission delivers remarkable valuation potential based on its underlying project value, a peer group comparison and the referenced Todd transaction.

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1 Company and Project Profile

Northcliff Resources Ltd. is a mineral development company, based in Vancouver, Canada and associated with the Hunter Dickinson group of companies, a global diversified mining group with over twenty-five years of mineral development success. Northcliff's continued focus is on developing the advanced stage Sisson Tungsten-Molybdenum Project located in New Brunswick, Canada. In January 2013, Northcliff released the positive results of the Sisson Project Feasibility Study, followed by a NI 43-101 Technical Report published March 13, 2013.

The Sisson property offers a large tungsten-molybdenum deposit that is amenable to open pit mining. Tungsten and molybdenum mineralization takes place in veins, stringers and disseminations in four zones on the 18,880-hectare Sisson property. Building on historical exploration work undertaken by previous owners, Northcliff launched into a program comprised of drilling, engineering and environmental studies in 2010 to advance the Sisson Project through feasibility and into permitting.

Northcliff completed the study, which confirms the project is economically viable, in January 2013.

Feasibility Results

Results suggest a pre-tax NPV Cdn\$714 million with IRR at 20.4% and a 4.1-year payback. Post-tax net present value (NPV) is expected at Cdn\$418 million for the project at an 8% discount rate, an internal rate of return (IRR) of 16.3% and a 4.5 year payback on initial capital expenditures of Cdn\$579 million.

Proven and Probable Mineral Reserves contain 22.2 million metric tonne units (mtu) of tungsten trioxide (WO₃) and 155 million pounds of molybdenum (Mo) at an \$8.83/t Net Smelter Return (NSR) cut-off.

At an average annual production of 557,000 mtu APT, Sission has the potential to produce up to 8% (based on 2010 levels) of world tungsten demand from politically stable Eastern Canada, with existing infrastructure and logistics to connect to North American, European and Asian tungsten markets.

The study suggests very competitive cash costs for tungsten at US\$153/mtu APT, assuming long term prices of US\$350/mtu for APT and bi-product credits from Molybdenum production at a long term molybdenum price of US\$15/lb.

On July 31, Northcliff submitted to the federal and provincial governments an Environmental Impact Assessment (EIA), which was made publicly available in late August. The study, prepared by Stantec Consulting, concluded that the Project as designed would not have any significant

adverse environmental effects. The approval of the EIA from both governments is expected by management to be received in late 2014.

2 Strategic Financing with Todd Corporation

On October 3, 2013, the Todd Corporation of New Zealand acquired 15% of Northcliff stock in a \$5 million private placement at \$0.36 per share representing a 20% premium to the 30-day V-WAP and an 11.5% direct interest in the Project for \$14 million. This two tiered investment results in Todd holding effectively a 25% interest in the Project.

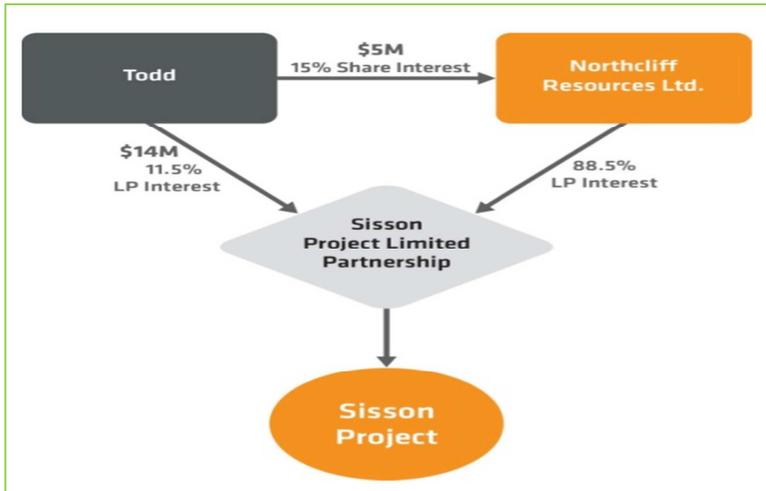
Todd's staged investment provides significant value potential to Northcliff shareholders as the project advances in the upcoming year. The implied project value of \$121.7m (being 11.5% for \$14 M) in Todd's initial investment results in a price to NAV multiple of 0.28 times. Todd also holds an option to acquire an additional 10% in the project for \$20 M, implying a potential project value of \$200 M, equal to a price of 0.48 times the feasibility study reported NAV. The option would bring Todd's total effective interest in Sisson up to 33.5%

Northcliff will continue as operator of the project. The Todd Group has a long term strategic interest in tungsten and other critical metals. Todd has also invested in the Hemerdon tungsten-tin project through a 20% shareholding in Wolf Minerals. Todd has diversified interests in oil and gas, minerals, electricity generation, energy retailing, property development, healthcare, telecommunications, and technology.

Financial structure of Todd Corporation investment's

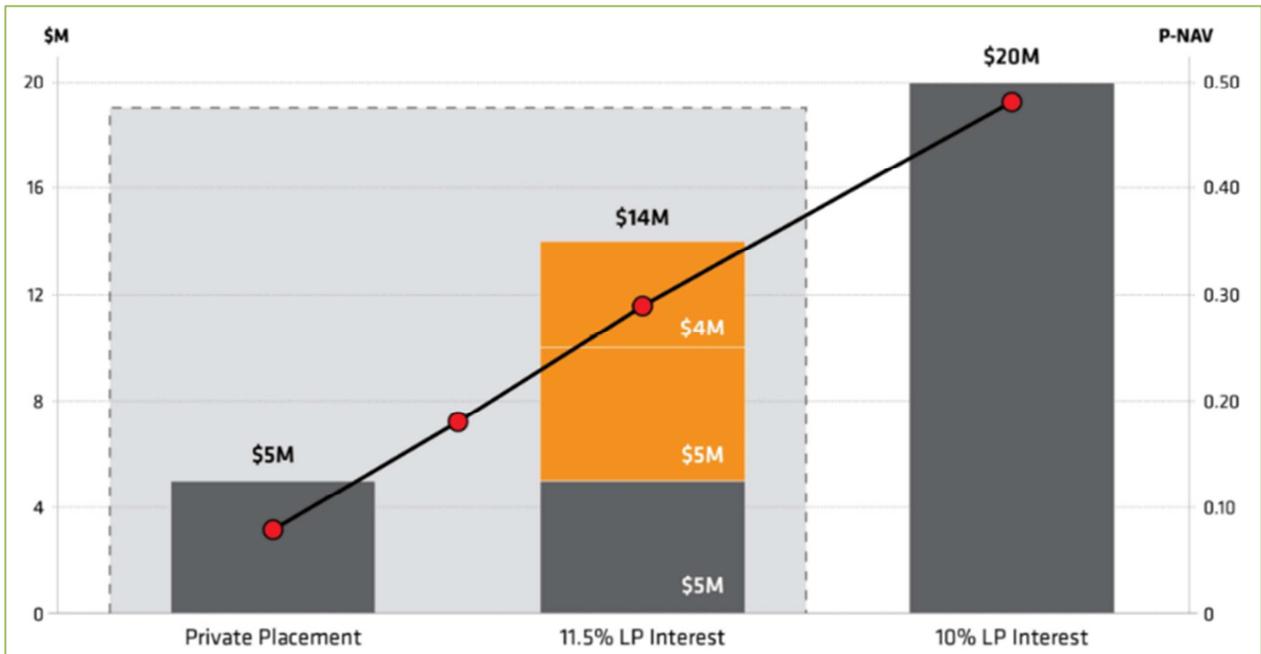
The \$14M of project interest consideration is payable on a staged basis. The first tranche of \$5M is due on execution with the remaining two tranches of \$5M and \$4M due upon completion of agreed project milestones. Failure to complete the full \$14 M investment will result in Todd divesting its entire interest in the Limited Partnership. Todd will have the right to maintain its 15% shareholding by participating pro-rata in any future common share offering. Subject to certain exceptions, Todd will not be able to sell its shares in Northcliff until 24 months after closing.

Financing with Todd Corporation



Source: Northcliff Resources © 2013

Implied value of Todd Corporation Financing



Source: Northcliff Resources © 2013

NAV is based on the \$418M post-tax NPV reported by Samuel Engineering in its 2013 Feasibility Study on the Sisson Project. The \$14M consideration from Todd is payable on a staged basis as noted above. The option to acquire an additional 10% interest can be exercised at any time by Todd up to a final investment and construction decision by the partners.

The above chart highlights the consideration paid by Todd, relative to the Project's underlying NPV. This NAV is based on the \$418M post-tax NPV reported by Samuel Engineering in its 2013 Feasibility Study on the Sisson Project. The \$5M in private placement proceeds at \$0.36 per share has an implied price of 0.08 times the NAV.

At \$0.36 per share for the private placement, this was a 20% premium to the 30 day V-WAP and is 50% more than its recent trading price.

The \$14M consideration, when fully paid, implies a total project value of \$121m, or a 0.28 P-NAV. This would be equivalent to approximately \$1.13 per share $((\$418m \times 0.28 \times 88.5\%) / 91.3M \text{ shares})$. Taken together, the consideration paid for Todd's combined initial interest of \$19m for effectively 25% of the project was equivalent to \$0.74 per share $(\$19M / 25\% \times 75\% / 77.4M \text{ shares})$.

The option value, exercisable at any time up to a construction decision, at \$20M for an additional 10%, values the project at \$200M, or 0.48 times the underlying NAV. This would be an implied share price of \$1.73 per share $((\$418M \times 0.48 \times 78.5\%) / 91.3M \text{ shares})$

Since Todd is a pure financial investor and none of the project off-take (production) has been committed, we anticipate Northcliff will now be pursuing additional project level partners for off-take and investment. Assuming a debt leverage of 2/3 for the \$579 million capital requirements, the project will need approximately \$193 million equity from the ownership group. If Todd executes its 10% option, it will own 21.5% in the Sission project and be responsible for ~\$40 million of the equity. Northcliff could provide \$20 million coming from the 10% sale to Todd, resulting in further \$133 million equity to be provided by one or multiple project level off-take partners with any residual coming from Northcliff.

3 Valuation

With feasibility stage tungsten projects trading in the range of 0.09 to 0.70 times their underlying project NPV and \$2.3 to \$15 per P&P mtu, there remains considerable share price upside for investors in Northcliff as it trades at the very low end of the range, currently at 0.07 times.

Capitalization	Million
Outstanding Shares	91.3
Current Market Capitalization	22.36
Cash and Cash Equivalents	(\$1.16)
Debt	Nil
Enterprise Value	21.20
Project Net Present Value $(\$418M \times 88.5\%)$	\$369
Contained Tungsten (WO3) Equivalent $(27M \text{ mtu} \times 88.5\%)$	24 M mtu
EV / P&P Reserve (WO3)	1.2 / mtu
EV / NAV Multiple	0.06x

Source: Northcliff Resources, Dr. Kalliwoda International | Research © 2013

The above calculations are based on public company information, quoted share price, and technical reports. Project Post-Tax NPV estimated based on flat long term APT price of \$350/mtu, calculated based on reported proven and probable reserves of WO3 equivalent as at January 29, 2013.

We use a peer-comparison valuation metric based on EV/NAV to value the potential of Northcliff Resources (TSX: NCF) relative to its peers.

EV/NAV Peer Comparison

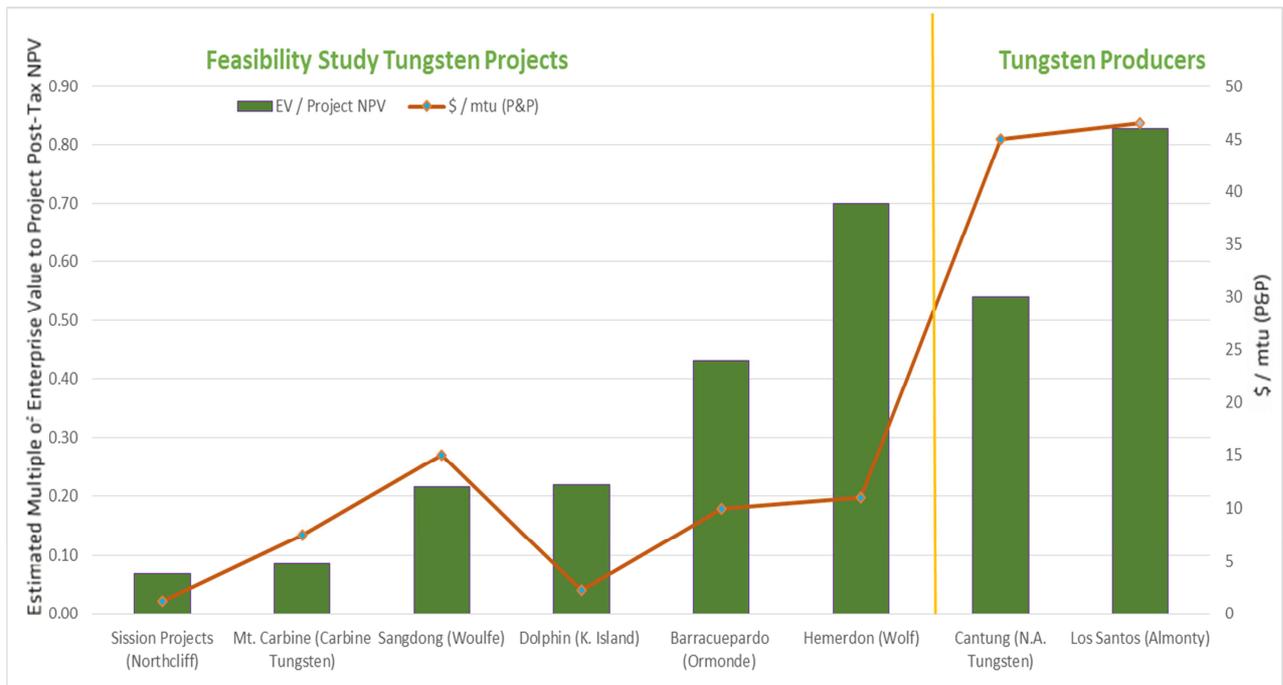
Following the sale of 11.5% in the Project to Todd Corporation, Northcliff retains an 88.5% interest in the project, valued at \$369 million based on results of the feasibility study. We have confidence in a long-term tungsten price of US\$350/mtu and molybdenum at US\$15/lbs. Based on the high Tungsten production levels anticipated in years 2 to 5, we apply a price discount during these years, resulting in a base case post-tax project NPV of Cdn\$ 309 million for 88.5% ownership. We have confidence in the company's operating cost assumptions.

The figures below: (1) present our peers valuation comparison and (2) graphical representation of the potential upside on the basis of an EV/NPV peer- comparison.

Peer-comparison valuation

Phase of the Project	Company/Project	EV/NPV	\$ / mtu (P&P)	MktCap	Debt	Cash	EV	NPV
Feasibility Study Tungsten Projects (FSTP)	Sission Projects (Northcliff) in CAD	0.07	1.2	22.36	0.00	1.16	21.20	309.00
	Mt. Carbine (Carbine Tungsten) in AUD	0.09	7.5	13.36	0.00	1.46	11.90	139.33
	Sangdong (Woulfe) in CAD	0.22	15	33.00	10.10	1.95	41.15	190.17
	Dolphin (K. Island) in AUD	0.22	2.3	13.50	4.86	1.46	16.90	76.82
	Barracuepardo (Ormonde) in EUR	0.43	10	35.70	0.00	2.28	33.42	77.38
	Hemerdon (Wolf)	0.70	11	79.20	7.30	18.60	67.90	97.00
Tungsten Producers	Cantung (N.A. Tungsten)	0.54	45	25.00	38.80	0.20	63.60	117.72
	Los Santos (Almonty)	0.83	46.5	22.90	6.50	2.90	26.50	32.02
FSTP Average without Sission (1)		0.330733	9.16					
FSTP Median without Sission (2)		0.220	10					
Mean, Median Average		0.275366	9.58					

Source: Dr. Kalliwoda International | Research © 2013, as at November 08, 2013.



Source: Dr. Kalliwoda International | Research © 2013

At its current market capitalization, Northcliff represents tremendous valuation potential relative to its underlying project value and its peer group.

Whilst we can argue that the entire tungsten sector is undervalued due to an overall negative sentiment towards the junior mining industry, the company appears comparatively undervalued, despite its positive economics, advanced permitting stage, successful transaction with the Todd Corporation, low anticipated production cost and logistical advantages.

4 Conclusions and Recommendation

We calculate \$309m as target NPV based on a conservative assumption of the economics of the project and then reduce NCF's share in the NAV from 88.5% down to 78.5% (C\$274m after Todd has exercised the 10% option).

We must weigh both the current "risk off" sentiment in the junior mining sector, consideration where the valuation should reasonably trend towards and the companies financing. We argue that, Wolf Minerals Limited (Hemerdon) looks to be the best analogy, as it also has Todd as an investor, is also in a politically stable country and has completed its feasibility study. They are ahead of Northcliff in having contracted off-takers and have secured most of their financing. On this basis they are trading at around 70% of NAV, significantly above the peer average. However, we would suggest limiting the NAV multiple for the next 12 months to 0.50 times commensurate with the option price Todd is expected to pay on its additional 10%.

This would leave NCF's share at 0.50 pNAV = C\$137m. The total issued and outstanding shares would be 91.3m. **To conclude, we issue our 12 month target price of c\$1.50 and a Buy Recommendation.**

This leaves strong upside potential on various fronts including, higher project NPV based on higher commodity prices or adding external tungsten concentrate feed to its APT processing facility, higher or cheaper project debt leverage, and higher market appreciation of company value relative to project NPV. Interim financing risks associated with a junior developer are reduced by the recent transaction with Todd. Risk are primarily linked to conflicting information on current tungsten APT prices, in a market that lacks full transparency. We see any current drop below the conservative long-term price of tungsten or molybdenum as a short term effect that should subside by the time the company commences production. The anticipated low production cost and the politically safe jurisdiction are the overriding positive features of the Sisson project.

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Analyst Dr. Norbert Kalliwoda

BUY:	Based on our analysis, we expect the stock to appreciate and produce a total return of at least 10% over the next twelve months
ACCUMULATE:	Based on our analysis, we expect the stock to appreciate and produce a total return between 5%- 10% over the next twelve months
HOLD:	Based on our analysis, we expect the stock to produce a total return between -5% and +5% over the next twelve months
REDUCE:	Based on our analysis, we expect the stock to cause a negative return between -5% and -10% over the next twelve months
SELL:	Based on our analysis, we expect the stock to cause a negative return exceeding -10% over the next twelve months and should be sold

Additional Disclosure

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