UCL Resources Limited

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Tuesday, 30 April 2013

Australian Securities Exchange

QUARTERLY ACTIVITIES STATEMENT FOR PERIOD ENDED 31 MARCH 2013

ASX Code: UCL

Recent Announcements:
- IFDC Agronomic Progress Report
- Updated DFS
- Bidders Statement on market offer
- UCL response to Mawarid Bid
- Mawarid holds relevant interest in more than 50%

Issued Capital:
Ordinary Shares 103.6m

Directors:
Ian Ross
Gida Nakazibwe-Sekandi
Steve Gemell
Mohammed Al Barwani
Chris Jordinson

Company Secretary:
John Lemon

HIGHLIGHTS

Namibian Phosphate (Sandpiper Project)

- Agronomic evaluation progress Report by the International Fertiliser Development Center (IFDC), Florida, (USA)
- Updated Definitive Feasibility Study confirms improved potential of the Sandpiper Marine Phosphate Project

Mehdiabad Project

- Negotiations continued with the Iranian stakeholders

Corporate (post reporting period)

- Mawarid Mining LLC lodges an on market bid for UCL Resources Limited
- Mawarid Mining LLC to provide UCL Resources Limited with a A$3.1 million debenture facility
- Mawarid Mining LLC holds a relevant interest of more than 50% in UCL Resources Limited

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Introduction

UCL Resources Limited ("UCL" or "the Company") is focused on:

1. exploration and development of the offshore Namibian Sandpiper Marine Phosphate Project ("Sandpiper Project") with joint venture partners Mawarid Mining LLC ("MML") and Tungeni Investments (Pty) Ltd (Namibian joint venture partner) ("Tungeni") through the joint venture company Namibian Marine Phosphate (Pty) Ltd ("NMP"); and
2. planning the strategic development of the Mehdiabad Zinc Project in Iran.

<u>Namibian Marine Phosphate Project ("Sandpiper Project" or "the Project")</u>

<u>Introduction</u>

The Sandpiper Project is located in Namibia and is held by the joint venture company, NMP. NMP is owned by UCL (42.5%), MML (42.5%) and Tungeni (15%). The free flowing sandy phosphate deposit is located off the coast of Namibia from where it will be recovered by dredging and then beneficiated to a 27-28% P_2O_5 concentrate in an onshore processing plant near the port of Walvis Bay.

<u>Results of Updated positive Definitive Feasibility Study</u>

The updated Definitive Feasibility Study ("DFS") highlighted 3 areas of improvement compared to the previous announcement made in April 2012, they are:

- Steady state cash unit costs (assuming a 3.0Mtpa operation) FOB cost (ex Walvis Bay) – US$52.05 (January 2013, excl. royalties) compared to US$59.70 (March 2012, excl. royalties);
- Reduction in the capital cost to US$323.2m from US$326.3m; and
- An improved selling price (average of US$116.60/t compared to US$105.10/t).

Operating cost estimates

The reduction in operating costs from US$59.70/t of concentrate produced to US$52.05/t of concentrate reflects lower power usage and pumping costs, as a direct result of the reduced quantity of slurry (and water) to be transferred from the buffer pond to the process plant area. This is as a result of the overflow of approximately 10% by volume of the fine material during the dredging process. In addition the operating costs are also positively impacted by the drop of the South African rand against the United States dollar, as a large proportion of the Projects costs are Namibian based.

Capital cost estimates

Capital costs to first production for a 3.0 Mtpa operation are estimated at:

	Pre-production
Capital Costs	US$258.8m
EPCM	US$23.5m
Contingency	US$40.9m
Total Capital Cost	US$323.2m

The small reduction in capital costs (US$326m to US$323m) largely reflects significantly increased capital installation costs resulting from a revised offer from Namwater for supply of the project's fresh water washing requirements offset against the drop of the South African rand against the United States dollar, which has had a positive impact on the Southern African based capital expenditure components.

DRA optimisation study

In addition to but not included in the updated DFS, DRA Mineral Projects (Pty) Ltd carried out a capital and operating cost optimization study which has highlighted a number of areas where reductions can also be achieved, thereby possibly further enhancing the project economics.

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These areas include:

- Undertaking staged construction of tailings storage facilities on an as-needed basis. The DFS costs include a single stage construction to cover the entire 20 years of operation, which is not general industry practice;
- Reducing the number of buffer ponds from three to two without affecting the operation as a result of revised water balance;
- Reducing the screening building height by including a traditional thickener structure (potential cost and environmental improvement);
- Sourcing spirals from a local supplier and adopting triple start units;
- Changing the transportation method of material (buffer pond to plant site) from pipeline to conveyor allowing centralisation of all processing facilities at the plant site and so reducing power requirement and installations at the buffer pond (potential cost and environmental improvement); and
- Possibly moving the buffer pond closer to the beneficiation plant which would result in reduced capital expenditure due to a shorter pipeline (or conveyor), smaller pump sizes and less power requirements.

Product pricing

CRU were requested by NMP to update their previous report, given it was prepared in February 2012. In updating the Report, CRU's opinion of the Rock Phosphate market was more positive as the downturn they anticipated during the course of 2012 did not materialize to the extent predicted. As a result the average price of the product to be sold by NMP into the direct application ("DAPR"), single super phosphate ("SSP") and phosphate acid ("PA") markets in equal proportion resulted in an increase from an average US$105.10 to an average US$116.60 per tonne of beneficiated rock sold over the project period.

CRU's analysis has indicated that the price of rock phosphate produced from Bayovar mine in Peru is the most appropriate benchmark by which to estimate prices for Sandpiper product.[1] In estimating future prices for the Sandpiper Project, CRU have determined discounts to the Bayovar price based on comprehensive value-in-use analysis across each of the three target market segments.

CRU recommended that NMP apply the following discounts to the product range, which UCL included in the updated financial summary:

- DAPR – 5%
- SSP – 9.9%
- PA and blend material – 20%

Financial summary

The economic evaluation of the base case in the DFS was completed using a discounted cash flow analysis on a real basis, using the revenue, operating cost and capital cost assumptions derived in the DFS, tax assumptions based on the current Namibian corporate tax regime and an after tax discount rate of 10%. This economic evaluation projected the following outcomes on a geared basis:

Item	Units	April 2012	April 2013
Mine life	Years	20	20
DFS accuracy	+/-	-5%/+15%	-5%/+15%
Annual steady-state processing throughput	Mtpa	5.0	5.0
Annual steady-state concentrate production	Mtpa	3.0	3.0
Life of mine production	Mt	57.4	57.4
Pre-production capital costs	US$ million	US$326.3m	US$323.2m

[1] CRU strategies, January 2013

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Item	Units	April 2012	April 2013
Life-of-mine average concentrate sales price[2]	US$ / tonne concentrate	US$105.1/t	US$116.6/t
Average steady state cash unit operating cost	US$ / tonne FOB Walvis Bay	US$59.70/t	US$52.05/t
Royalty rate	%	2.0%	2.0%
Namibian corporate tax rate	%	36.0%	36.0%
Discount rate	% post-tax real	10.0%	10.0%
Project NPV (geared)	US$ million	US$297.1m	US$498.0m
Project IRR (geared)	%	23.6%	26.4%
Payback (ungeared following commencement of production)	Years	3 yrs 6 mths	3 yrs 9 mths

Figures are presented in US$ in real terms assuming a base date of January 2013. The results reflect 100% of the Sandpiper Project and are stated on a geared basis.

Marine Environmental Impact Assessment ("EIA")

NMP continues to work with the Namibian Stakeholders and the Ministry of Environment and Tourism ("MET") to advance the marine Environmental Impact Assessment ("EIA") and Environmental Management Plan Report ("EMPR"). Various meetings have been held with the parties to address the specific concerns raised by Ministry of Fisheries and Marine Resources ("MFMR") and other related industries within the Walvis Bay area. The final marine EIA and EMPR were lodged with MET in March 2012 and NMP has since met with the fishing industry stakeholders and MFMR scientists to expand the original pre-dredging verification programme which is included in the EMPR. These consultation processes have now been completed. The revised verification programme and synopsis of meeting outcomes was submitted to MET in December 2012. NMP is currently awaiting the completion of the internal review and assessment process by MET for the grant of the Marine Environmental Contract.

International Fertiliser Development Center ("IFDC")

The objective of the contracted study is to quantify the Phosphate Rock ("PR") reactivity of Namibian Marine Phosphate Rock – NamPhos ("NamPhos") based on:

1. PR solubility;
2. X-ray diffraction; and
3. Greenhouse summer and winter crop evaluation.

The objective is to determine if NamPhos is suitable to be used for direct application in acidic soils and how it performs relative to:

- Triple Super Phosphate ("TSP");
- Gafsa PR from Tunisia;
- Sechura PR from Peru; and
- Egyptian PR.

The Progress Report covered the following activities:

- Activity 1 – Phosphate Rock Characterization;
- Activity 2 – Agronomic evaluation of Direct Application of NamPhos using Soybean as a test crop; and
- Activity 3 – Agronomic evaluation of Direct Application of NamPhos using Brachiaria as a test crop.

[2] Detailed pricing assumptions are provided above

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NamPhos and Egyptian PR were provided by NMP. The conclusions reached from the sample tested and the work completed to date:

1. Clearly show that NamPhos outperformed Egyptian PR based on PR solubility and greenhouse yield;
2. On acid-tolerant and pasture, such as Brachiaria grass, NamPhos will be an excellent substitute for TSP; and
3. PR solubility results indicated that NamPhos may be as reactive as Gafsa and Sechura; however, soybean yields showed that Gafsa and Sechura were more effective than NamPhos.

The winter crop trials to be carried out on test crops of wheat, canola and ryegrass have commenced and the results will be released in Q2 – 2013 as they become available. Preliminary results with rye grass (after two harvests) have shown TSP produced the highest biomass followed by Gafsa, Sechura and NamPhos with similar yields and Eqyptian giving the lowest yield.

<u>Future Work</u>

The work programme for the NMP Joint venture is as follows:

- Finalise the optimisation of capex and final front end engineering design;
- negotiate contracts for dredging, EPCM, and key staff positions;
- construct the extended dredge arm by Jan De Nul;
- continue discussions with potential off-take parties to establish interest for sale of the Namibian concentrate for producing either phosphoric acid or SSP;
- continue with procurement of environmental clearances;
- continue discussions with regard to the available financing options for the development of the project; and
- sustain an effective dialogue with key stakeholders in Namibia to update them on progress of the project and ensure their continuing support.

Mehdiabad Base Metal Project

<u>Introduction</u>

The Mehdiabad Project is carried on by UCL, Karoun Dez Dasht("KDD") and Itok GmbH ("Itok") through an incorporated Iranian joint venture company, Mehdiabad Zinc Company ("MZC"). UCL has to date invested in excess of US$16.8 million on exploration and feasibility activities relating to the Project.

As previously advised, Iranian Mines & Mining Industry Development & Renovation Organisation ("IMIDRO") purported to terminate several agreements governing the Project in December 2006. UCL stated then, and is still firmly of the opinion, that the agreements were invalidly terminated. Since that time UCL has been negotiating with various Iranian parties in an effort to resolve the impasse and progress the Project.

In an announcement dated 7 September 2012 UCL announced that MZC had concluded a 25 year production agreement with IMIDRO. The agreement paves the way the way for development of an operation at the Mehdiabad zinc and lead project which will produce up to 200,000 tonnes of zinc per annum in the form of ingots and concentrate. Under the agreement, IMIDRO has agreed to assist with obtaining any permit, certificate or confirmation required for the project.

MZC has continued to negotiate with the various stakeholders, including IMIDRO in order to advance the development of the Mehdiabad zinc and lead project.

Corporate

<u>Mawarid Mining LLC lodges an on market bid for UCL Resources Limited</u>

A Bidder's Statement dated 23 April 2013 was lodged by Mawarid Mining LLC to acquire all of the issued fully paid ordinary shares of UCL Resources Limited that it does not already own.

Mawarid is offering $0.31 cash for each of the UCL Shares that it does not already own. The Offer is unconditional and will remain open until 7 June 2013, unless extended or withdrawn.

The Offer will not be extended beyond 22 June 2013.

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Mawarid Mining LLC to provide UCL Resources Limited with a A$3.1 million debenture facility

Mawarid has agreed to provide financial support to UCL in the amount of $3.1 million to enable UCL to meet the obligations which it incurs in the ordinary course of its business as and when they fall due.

Mawarid and UCL will enter into a debenture deed to evidence the financial support to be provided by Mawarid to UCL, the principal terms of which shall be:

- the deed shall provide for a $3.1 million three year bullet repayment facility;
- the interest rate applicable will be the lower of LIBOR plus 4% per annum or 7% per annum;
- the facility will only be available for drawdown if Mawarid does not acquire 90% or more of UCL Shares under the Offer by 21 June 2013 provided however that $1 million of the facility will be available for drawdown from 21 May 2013; and
- UCL will be required to obtain Shareholder approval to enable it to grant to Mawarid an exclusive first-ranking registered security interest over all of its present and future assets on the terms applicable to such security transactions.

Mawarid Mining LLC holds a relevant interest of more than 50% in UCL Resources Limited

Mawarid informed UCL that it holds a relevant interest in more than 50.1% of UCL shares and that UCL's major shareholder, Twynam Agricultural Group Pty Ltd, which held 28.59% of UCL's shares had accepted the Mawarid Offer by selling its shares on-market.

Given these developments, and notwithstanding that the independent expert report is yet to be received, the Independent Directors recommended that in the absence of a superior proposal shareholders accept the Mawarid Offer.

Although the Independent Directors continue to recommend that the Company's shareholders accept the Mawarid Offer in the absence of a superior proposal for the reasons outlined in its previous communications, shareholders are encouraged to consider the contents of the Target's Statement that will be released to the market on or before 7 May 2013 before deciding whether to accept the Mawarid Offer.

For further information, please contact:

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Cautionary Statement Regarding Forward-Looking Information

All statements, trend analysis and other information contained in this report relative to markets for UCL's trends in resources, recoveries, production and anticipated expense levels, as well as other statements about anticipated future events or results constitute forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect" and "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. Forward-looking statements are subject to business and economic risks and uncertainties and other factors that could cause actual results of operations to differ materially from those contained in the forward-looking statements. Forward-looking statements are based on estimates and opinions of management at the date the statements are made. UCL does not undertake any obligation to update forward-looking statements even if circumstances or management's estimates or opinions should change. Investors should not place undue reliance on forward-looking statements.