



25 June 2013

Elementos Limited (ELT)

Cleveland tin project : 53kt tin JORC

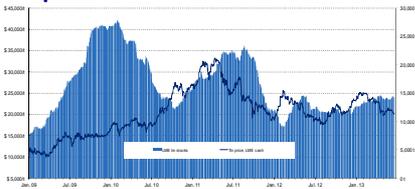
ELT transitions from explorer to developer by acquiring the Cleveland project, which has 53kt tin, 20kt copper and 8.8kt tungsten in JORC Resources

<p>Recommendation BUY</p> <p>Price 1.7c</p> <p>Valuation 12.2c</p>	<p>Elementos has announced a merger with the unlisted Rockwell Minerals, the major asset of which is the Cleveland tin-copper and tungsten project in Tasmania, which has over \$1.5B in JORC contained metal.</p> <p>We estimate that the hard rock tin-copper project has a NPV of \$95m, for a capital investment of \$80m; an IRR of 46%. We expect that ELT will secure a strategic investor to take a 30% stake in the project and secure debt.</p> <p>ELT's commitments are then funded.</p>
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Snapshot

Market Cap. \$2.6 million (pre-merger)
 Shares on Issue 154.3m pre-merger
 406m post-merger

Tin price v. LME stocks



Elementos is an ASX listed explorer with a portfolio of tenements in N-W Qld, focussing on the copper-gold-cobalt areas at Millenium and Selwyn South and also three copper and gold projects in Chile and Argentina.

ELT announced its merger with Rockwell Minerals in April 2013, adding the Cleveland tin-copper project. Cleveland was mined by Aberfoyle from 1968 to 1986, with 5,645kt of ore extracted to sell about 24kt of Sn and 10kt of Cu in concentrate.

Cleveland has an advanced 60kt tin-equivalent JORC Mineral Resource. The mine is near infrastructure, including power, water and sealed roads, with the port of Burnie about 70km away by road.

It has near term cashflow potential from a low cost tailings resource and significant potential to expand the tin-copper resource, both at depth and along strike. There is also a tungsten resource at depth.

Cleveland Tin – Hard Rock Project

Cleveland tin project has total JORC resources of 6.1Mt, grading 0.68% Sn and 0.25% Cu, for nearly 42kt of contained tin plus 15kt copper.

Beer & Co estimates that it will cost about \$80m in capital to produce about 3,600t/yr of tin, at an all-up cash cost of about US\$ 7.00/lb.

We estimate an after-tax NPV of \$A 95m for 100% of this project. We expect that ELT will sell a stake of about 30% to finance development.

We estimate that first product would be at the end of 2016, when we expect tin prices to peak with the closure of Minsur's San Rafael mine.

Proven mining and metallurgy, and 4 km decline in place from historical operation significantly de-risks project and reduced future cap.ex.

Tailings Project

There are 3.85Mt of tailings grading 0.30% Sn and 0.13% Cu.

Beer & Co estimates that for cap.ex of about \$25m, assuming about 50% recovery of the tin and 75% recovery of the copper, to produce about 5,500t of tin over 4 years, generating an after-tax NPV of \$30m.

We expect that ELT will seek a partner for this project independent of the hard rock project, as the product may be non-standard.

Potential

There is significant exploration potential for tin-copper mineralisation at depth and along strike.

Cleveland also has a tungsten resource, which is presently 2.9Mt at 0.30% WO₃, but with intercepts of 177m and 162m, it is believed to have the potential to be significantly larger. However, this is a longer term project.

Elementos : An emerging producer

Background

ELT has announced a merger with the un-listed company, Rockwell Minerals. Rockwell's main asset is its 50% share of the Cleveland tin mine in Tasmania, and its option to buy the balance (final payment \$700k by 31 Dec 2013).

ELT has announced a merger with the unlisted company, Rockwell Minerals.

Rockwell minerals' asset is the Cleveland mine, which has 6Mt of hard rock resources, grading 0.68% Sn and 0.25% Cu, along with some tailings.

Cleveland was operated from 1968 to 1986 by Aberfoyle, mining 5,645kt of ore and producing about 24kt of Sn and 10kt of Cu in concentrate.

Figure 1 shows that the mine has JORC resources, from a review of stored drill core and operational records.

In this analysis, we are able to ascribe a value to both the hard rock tin - copper resources and also the tailings, but in our view the tungsten resource needs significantly more work before any more than a nominal value can be ascribed to it.

Conceptually, it would be possible to develop the tailings first, which could be brought into production while the hard rock resources are being progressed through feasibility.

However, we see potential issues with this approach :

- The metallurgical test-work to date suggests a recovery of about 35% - 50% to a marketable tin concentrate (>50% Sn), but much higher recovery (63% - 68%) to a lower grade concentrate, for which it will be more difficult to find a buyer
 - If a fuming plant is built, as has been proposed by Renison to treat their tailings, then that becomes a potential buyer, so it is best to wait until that is resolved before proceeding
- The tailings project could be joint ventured with a party different to the one that would be interested in the hard rock project.

Development Scenario

In this analysis, we focus on the hard rock resources.

In our view, ELT will need to raise equity from its shareholders to complete environmental clearance and a scoping study. We expect that this will require \$2m - \$3m and take about 12 months.

We project that ELT will then seek a strategic equity, or possibly an industry investor to upgrade the work to bankable standard. This should take a further 12 months, at a cost of \$5m - \$7.5m.

The final step will be to seek an industry partner, such as a tin smelter, consumer or trader, to buy a share in the project, which will fund ELT's equity investment.

Figure 1 : Cleveland mine – JORC Resources

Cleveland mine, hard rock Tin and Copper Resources			
		Sn grade	Cu grade
Indicated	4,239 kt	0.70 %	0.28 %
Inferred	1,880 kt	0.64 %	0.19 %
TOTAL	6,119 kt	0.68 %	0.25 %

Cleveland mine, Tin and Copper Resources in tailings			
		Sn grade	Cu grade
Inferred	3,850 kt	0.30 %	0.13 %

Cleveland mine, Tungsten Resources		
		WO ₃ grade
Inferred	2,930 kt	0.30 %

Source : ELT ASX announcement, April 2013, Beer & Co

Beer & Co propose a development scenario focussed on the hard rock Resources, while seeking to monetise the tailings.

Total cap.ex is \$82m, excluding feasibility studies.

First product is projected for end 2016.

Cash cost is projected to be under \$7/lb

Figure 2 summarises the projections made by Beer & Co in this analysis.

Our analysis is based on exploiting the JORC resources. We are confident that the mine will have a significantly longer life than the current resources.

Figure 3 shows the resulting cashflows generated by the project, as well as the details of our commodity price assumptions (we use a discount rate of 10% for the industry investor, but no value for franking credits).

Figure 2 : Cleveland development

	Hard-rock
First product	Dec. 2016
Capital expenditure	\$A 89m
Ore processed annually	740 kt
tin recovery	70 %
Annual tin production	3,600t
Total tin produced	28,881t
all in cash cost	US 699 c/lb
Project NPV	\$A 96m

Source : Beer & Co estimates

Figure 3 : Projected cashflows Cleveland mine, hard rock tin-copper project

		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
AUD-USD		0.950	0.938	0.888	0.840	0.830	0.830	0.830	0.830	0.830	0.830
Tin price	USD /t	24,750	25,000	27,750	30,750	32,000	25,000	25,000	25,000	25,000	25,000
Copper price	USD /t	6,614	6,614	6,614	6,614	6,614	6,614	6,614	6,614	6,614	6,614
Tin sold	tonnes	0	1,507	3,529	3,626	3,626	3,626	3,394	3,315	2,632	
Copper sold	tonnes	0	603	1,425	1,554	1,554	1,554	1,554	1,181	1,055	837
Tin Revenue	USD m	0	38	98	112	116	91	91	85	83	66
smelting charges	USD m	0	(3)	(8)	(9)	(10)	(8)	(8)	(7)	(7)	(6)
Net copper revenue	USD m	0	4	8	9	9	9	9	7	6	5
Cash Costs	USD m	0	(23)	(45)	(44)	(45)	(46)	(47)	(49)	(50)	(42)
Royalties	USD m	0	(2)	(5)	(6)	(6)	(5)	(5)	(4)	(4)	(3)
Dep'cn & Amort'sn	USD m	0	(9)	(17)	(16)	(16)	(16)	(16)	(10)	(2)	0
E B I T	USD m	0	4	31	45	48	25	23	22	25	20
Interest Expense	USD m	(1)	(4)	(3)	(2)	(2)	(1)	(0)	(0)	(0)	0
Tax Expense	USD m	0	(0)	(8)	(13)	(14)	(7)	(7)	(6)	(8)	(6)
N P A T	USD m	(1)	0	19	30	33	17	16	15	18	14
Project Cap.Ex	USD m	(58)	0	0	0	0	0	0	0	0	0
Sus. Cap. Ex	USD m	0	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(2)	0
Net Project Cashflow	USD m	(59)	7	34	43	46	30	30	22	18	14
N P V =	US\$ 91m			IRR = 43%							

Source : Beer & Co estimates

Selling a 30% stake in the Cleveland project to a strategic investor, who can assist with project finance, should generate sufficient cash to pay for the equity needed to develop the project

Our valuation of the hard rock project is \$A95m (after feasibility studies). Sale of a 30% project stake to a potential off-take partner who can assist in securing debt finance should provide sufficient funds for ELT's equity contribution, which means that ELT may not need to raise more equity to fund development

Our indicative valuation of the tailings project is USD 29m. Sale of a 50% stake would provide ELT with enough capital to fund its share of equity in a \$A 25m development; we expect that ELT will need to retain a stake in the project to ensure effective development.

In our view, the tin industry is amenable to special development options due to the tight supply conditions, especially with the largest single mine, San Rafael which supplies about 10% of the world's supply, to shut in 2017, while significant demand, for solder in the electronics sector, is insensitive to price.

Appendix 1 has more background on the tin industry.

Valuation of Elementos

Figure 4 shows our projected cashflow, after-tax, for ELT from each asset. It shows our projected tax payments as well the net cash from operations and project and sustaining capital and also the cash received from the sale of a 50% interest in the tailings project and a 30% interest in the hard rock project.

Figure 4 : Beer & Co projected cashflows for Elementos

		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Cleveland, hard-rock, afer tax, 70% share	AUD m	(1.9)	(6.0)	(22.8)	3.5	19.1	28.2	30.2	16.1	20.4	18.1	14.8	11.8
franking credits		0.0	(0.2)	0.3	6.9	11.0	12.2	6.4	6.2	5.6	6.4	5.1	0.0
Cleveland Tailings, afer tax, 50% share	AUD m	(0.5)	(10.3)	7.8	9.2	11.7	7.4	0.0	0.0	0.0	0.0	0.0	0.0
franking credits		0.0	0.4	1.9	2.5	3.6	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Asset sales		12.4	30.1										
ELT corporate costs	AUD m	(2.0)	(2.0)	(3.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Equity raised		2.5	5.0										
Cash balance		10.5	27.5	11.7	29.9	71.3	117.4	150.1	168.4	190.4	210.9	226.8	234.6

Source : Beer & Co estimates

To derive a valuation for ELT, we have discounted the cashflows in Figure 4 using a discount rate of 12%. Figure 5 shows that we have then risked these valuations and also given some value for taxes paid through the franking credits generated.

Beer & Co value ELT at 12.2c/share

Figure 5 : Detail of Elementos valuation

	discount rate = 12 %	30 June 2013		
		risk	100%	Product per share
Cleveland, hard-rock		75%	\$A 42 m	\$A 32 m 5.4 c
franking credits		45%	\$A 27 m	\$A 12 m 2.0 c
Cleveland Tailings		60%	\$A 13 m	\$A 8 m 1.3 c
franking credits		36%	\$A 7 m	\$A 2 m 0.4 c
Asset Sales		75%	\$A 34 m	\$A 26 m 4.3 c
Tungsten		nom.	\$A 5 m	\$A 5 m 0.8 c
ELT other exploration		nom.	\$A 2 m	\$A 2 m 0.3 c
ELT corporate costs		100%	(\$A 21 m)	(\$A 21 m) (3.6c)
Equity raised		100%	\$A 6 m	\$A 6 m 1.1 c
TOTAL			\$A 115 m	\$A 72 m 12.2 c
shares on issue			154.3m	FPO shares
SPP raising		1.8 c	29m	new shares
Issued to Rockwell		55%	225m	new shares
Scoping Study			80m	new shares
BFS			100m	new shares

We are bullish on tin.

We have a BUY recommendation

Source : Beer & Co estimates

Figure 5 shows that our base case valuation for ELT is now 12.2c/share, including some nominal value for the exploration assets.

Conclusions

We are bullish on tin. We are confident that ELT is able to deliver this project.

We are confident that a fair valuation for ELT is a multiple of the current share price.

In the current risk averse environment, there are some real gems, and ELT is one, though it does come with a funding risk.

We initiate research on ELT with a BUY recommendation.

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