



Profitable at current tin prices

Cleveland tin : start with a low cost tails retreatment, generating cash for open cut and under-ground

Recommendation

BUY

High Risk

Price

1.0c

Valuation

3.7c

Products : **Tin**

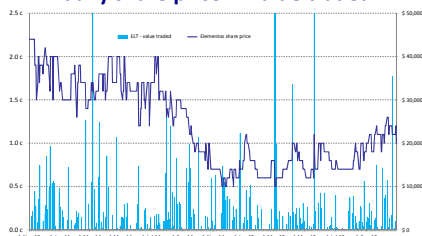
With copper and tungsten

- ELT has published a PFS to re-process 3.7Mt of tailings, grading 0.30% Sn and 0.13% Cu, at a rate of 650kt/yr, recovering 47% of the tin, producing 900t/yr of tin at an all-in cost of US 467c/lb.
- The tailings project is expected to come into operation during 2017 at a capital cost of \$A 21m.
- It will generate enough cash, even at today's prices, to develop opportunities identified in published scoping studies on hard rock operations, including a tungsten Resource at depth.
- Beer & Co's modelling gives a positive valuation at today's prices, with significant upside from better tin prices.

Snapshot

Market Cap	\$7.7m
Cash on hand (30 Sept.)	\$0.35m
Shares on Issue	767.5m
52 Week High	1.3c
52 Week Low	0.4c
1 month / 6 month VWAP	1.1c / 1.0c

ELT : daily share price v. value traded



The Cleveland tin-copper mine was operated by Aberfoyle, from 1969 to 1986. It closed due to the tin price collapse.

ELT has published a pre-feasibility study on re-processing the existing tailings, and scoping studies on developing a small open cut resource and re-starting under-ground operations.

Cleveland has tin-copper resources, with a tungsten deposit at depth. .

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Cleveland, Tasmania

Cleveland is a tin-copper deposit that was mined by Aberfoyle (ABF) until 1984, and shut when the tin price collapsed. It is about 60km from Burnie in North-West Tasmania.

ELT's Development Plan

There have been significant advances in tin metallurgy since Cleveland was first developed, with advances in gravity technology for finer grained material, plus flotation and leaching. ELT's testwork confirms modern gravity and flotation technology with re-grind and leaching of the tails should recover 47% of the tin to a concentrate grading 51% Sn from the tailings.

Later Stages

ELT has published Resource estimates of

- 840kt in an Open Cut, grading 0.8% Sn and 0.27% Cu
- 6.6Mt under-ground, grading 0.63% Sn and 0.25% Cu; and
- A separate tungsten Inferred Resource of 4.0Mt grading 0.3% WO3.

These will be developed subsequently.

Beer & Co's analysis shows that ELT will generate sufficient cash from the tailings operations that it will not need to raise further equity for later development.

Beer & Co valuation

Even at current price, Beer & Co has a positive valuation of ELT.

At our base case prices, which are consistent with prices in 2014, our valuation is more than 3x the current share price, with significant value growth over time as the projects are progressively de-risked.

Beer & Co is bullish on tin. ELT has low capital cost and significant upside potential at Cleveland. We affirm our BUY recommendation.

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Elementos : Cleveland tin project, plus

Background

ELT is focussed on the Cleveland tin project in north-west Tasmania.

Cleveland was originally developed by Aberfoyle and operated from 1968 to 1986, when it closed due to the collapse in the tin price.

ELT is focussed on the Cleveland project, in north-west Tasmania. As shown in Figure 1, Cleveland is an historic mine, having been mined by Aberfoyle Limited, from 1968 to 1986. It is located in the Mt Read volcanics, and has many historic and current mining operations near-by.

The Cleveland operations were shut following the tin price collapse in October 1985.

As a result of the historical operations, the Cleveland project consists of :

- Re-processing nearly 4Mt of tailings, grading about 0.30% Sn and 0.13% Cu;
- Development of 600kt of open pittable material;
- Re-development of the previously mined under-ground mine, which has 6.6Mt of Resources grading 0.63% tin and 0.25% copper;
- Potential development of tungsten mineralisation which has a Resource estimate of nearly 4Mt and a further Exploration Target of 24Mt, at 0.3% WO₃; and
- Base and precious metals potential in the Cleveland tenements.

The first stage is to re-process 3.7Mt of tailings, grading 0.30% Sn and 0.13% Cu.

650kt is to be re-processed each year, recovering 47% of the tin to produce over 900t/yr of tin and 240t of copper in concentrate

Development

On 3 August, 2015, ELT announced the results of a pre-feasibility study on the tailings resource. The expected pre-production capital cost is \$21m to process 650kt/yr to produce over 900t of tin and 240t of copper each year at an all in cash cost of US\$ 10,300/t of contained tin.

This project will generate sufficient cash to finance the development of an open cut resource, which will require an additional \$6.6m in capital to exploit a mining inventory of 601kt, grading 0.50% tin and 0.14% copper.



Source : ELT ASX announcement, 7 March 2014

The tailings project generates the \$6.6m cash needed to develop a number of small open cut mines, even at current prices.

Mining 200kt/yr, grading 0.50% tin and 0.14% copper, with recoveries of 70% of the tin and 60% of the copper

The cost to bring the underground mine back into operation is only \$15m, and this cash is generated by the surface operations

This project will generate sufficient cash to finance the development of an open cut resource, which will require an additional \$6.6m in capital to exploit a mining inventory of 601kt, grading 0.50% tin and 0.14% copper.

ELT announced the results of a scoping study on this project on 20 August.

The Cleveland underground mine was shut in 1986 when the tin price collapsed and there is significant development in place. ELT announced the results of a scoping study, to process 1.9Mt of material, grading 0.60% tin and 0.22% copper.

The scoping study estimated a pre-production capital cost of \$14.8m, which can be financed by the cash generated by the shallow operations.

Figure 2 the metallurgical performance expected by ELT as a result of their testwork as well as the operations of the Renison mine.

Figure 2 : Expected metallurgical performance

	Recovery			Concentrate grade		
	Tin	Copper	WO ₃	Tin	Copper	WO ₃
Hard Rock	70 %	60 %	70 %	60 %	20 %	95 %
Tailings	47 %	31 %		51 %	18 %	

Source : ELT 3 August, 20 August , 3 September 2015, Beer & Co

Projected Outcome

Figure 3 shows Beer & Co's base case commodity price assumptions and the financial outcomes.

Figure 3 : Beer & Co's projected outcomes for ELT

AUD m		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
AUD-USD		0.836	0.706	0.700	0.700	0.700	0.700	0.700	0.700	0.700	0.700	0.700	0.700	0.700
Tin price	USD/t	18,961	18,122	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
Copper price	USD/t	6,352	5,625	6,325	6,725	6,725	6,725	6,725	6,725	6,725	6,725	6,725	6,725	6,725
Tungsten / APT	USD/mtu	255	199	293	350	350	350	350	350	350	350	350	350	350
Metal Sold														
Tin	0t	0t	347t	1,060t	1,338t	1,338t	2,167t	1,967t	1,674t	1,636t	1,519t	1,837t	1,837t	
Copper	0t	0t	99t	268t	318t	318t	687t	705t	454t	418t	464t	492t	492t	
Tungsten	0t	0t	0t	0t	0t	0t	0t	24t	510t	543t	543t	543t	543t	
Revenue														
Tin	0	0	11	34	43	43	70	63	54	53	49	59	59	
smelting charges	0	0	(1)	(3)	(3)	(3)	(5)	(5)	(4)	(4)	(4)	(4)	(4)	
Net copper revenue	0	0	1	2	3	3	6	6	4	4	4	4	4	
Tungsten	0	0	0	0	0	0	1	25	27	27	27	27	27	
Cash costs	0	0	(5)	(15)	(18)	(18)	(35)	(47)	(46)	(47)	(47)	(47)	(46)	
Royalties	0	0	(1)	(2)	(1)	(1)	(3)	(5)	(4)	(4)	(4)	(5)	(5)	
Corporate	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation	0	0	(2)	(3)	(3)	(3)	(7)	(8)	(8)	(8)	(8)	(4)	(4)	
E B I T		(1)	(2)	2	13	19	18	25	30	22	20	18	31	31
Net Interest	0	0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(0)	(0)	0
Tax Expense	0	0	(1)	(3)	(5)	(5)	(7)	(9)	(6)	(6)	(5)	(9)	(9)	
N P A T		(1)	(2)	1	8	12	12	17	20	15	14	12	21	22
Total Shares on Issue	633.3m	765.8m	1,502.7m	1,502.7m	1,502.7m	1,502.7m	1,502.7m	1,502.7m	1,502.7m	1,502.7m	1,502.7m	1,502.7m	1,502.7m	1,502.7m
New shares issued	470.2m	132.5m	736.9m	0.0m	0.0m	0.0m	0.0m	0.0m	0.0m	0.0m	0.0m	0.0m	0.0m	0.0m
Capital Expenditure	0	(9)	(16)	(4)	(3)	(15)	(13)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Cash balance	1	0	(13)	1	4	11	35	47	51	71	88	93	83	

Source : Beer & Co estimates

Figure 3 also shows the financing that Beer & Co has assumed for ELT these outcomes :

- Beer & Co assumes that ELT needs to raise about \$1.5m in equity in this calendar year, to complete feasibility studies for the tailings project and organise project financing, and that this is done at about the current share prices;
- Beer & Co assumes that ELT needs to raise a further \$8m in equity finance, to supplement project financing, to bring the \$20m tailings project into operation.

Beer & Co's valuation of ELT

Figure 4 shows the detail of Beer & Co's risked valuation of ELT, including the impact of financing, tax and equity issues.

Figure 4 : Detail of Beer & Co's risked valuation of ELT

	discount rate = 12 %	30 June 2015		2-Nov-15	
		risk	100%	Product	per share
Tailings	80%	\$ 9m	\$ 7m	0.5 c	0.7 c
franking credits	48%	\$ 2m	\$ 1m	0.1 c	0.1 c
Open Cut	80%	\$ 16m	\$ 13m	0.8 c	0.9 c
franking credits	48%	\$ 5m	\$ 2m	0.2 c	0.2 c
Underground Sn-Cu	36%	\$ 47m	\$ 16m	1.0 c	1.2 c
franking credits	20%	\$ 17m	\$ 3m	0.2 c	0.3 c
Tungsten	35%	\$ 11m	\$ 4m	0.3 c	0.3 c
franking credits	20%	\$ 6m	\$ 1m	0.1 c	0.1 c
Corporate	100%	(\$10m)	(\$10m)	(0.7c)	(0.7c)
Cash / Debt	100%	\$ 1m	\$ 1m	0.1 c	0.0 c
Equity raisings	100%	\$ 9m	\$ 9m	0.6 c	0.6 c
TOTAL		\$ 112m	\$ 47m	3.1 c	3.7 c
shares on issue, June 2015		766m	F P O shares	34.4m	Options Issued
		737m	issued 2015-16	21.0m	Options ex'd
		0m	issued later		

Source : Beer & Co estimates

Figure 5 shows that our valuation is sensitive to both risk weighting, with the un-risked valuation representing the value today of successful delivery, and commodity price assumption.

Figure 5 : Sensitivity Beer & Co valuation

	Spot prices	Expected prices	Base case
risked	0.6 c	3.7 c	5.0 c
Un-risked	1.0 c	5.7 c	7.7 c

Source : Beer & Co estimates

Conclusions

Figure 5 shows a base case valuation of 3.7c/share. It also shows that a positive recommendation needs better commodity prices than currently, with significant upside at base case prices, of \$3.05/lb copper, \$25,000/t tin and \$350/mtu APT, to 5.0c and further to 7.7c if the project is delivered as expected.

Our expected prices are the same for copper and APT, but only \$22,500/t for tin, which is less than the price in 2014, while our copper and tungsten prices are in line with the 2014 price.

Beer & Co re-initiates research on ELT with a BUY, High Risk recommendation on ELT

Beer & Co's risked, base case valuation of ELT, after allowing for tax and financing, including equity issues, is 3.7c/share

At spot prices, our risked valuation is a discount to the current share price.

Beer & Co's base case valuation is more than 3x the current share prices.

The current share price reflects the current metal prices, and we expect metal prices to improve.

Beer & Co re-initiates research with a BUY, High Risk, recommendation on ELT

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