Research Note
19th October 2015

Elementos Limited

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Recommendation: Speculative Buy

12 month price target: $0.033

Sector:	Materials
ASX Code:	ELT
Share Price:	$0.012
52 Week -	
High:	$0.014
Low:	$0.004
Issued Ordinary Shares:	767.5M
Options:	38.9M
Market Cap:	$9M

Major Shareholders:-

Board & Management:	8.2%
Andrew Carlyle Greig:	21.4%
Other Top 20:	38.3%

Directors and Management:-

Chairman:	Rick Anthon
Non-Executive Director:	Calvin Treacy
Non-Executive Director:	Richard Seville
Non-Executive Director:	Corey Nolan
Chief Executive Officer:	Tim McManus

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Elementos is undervalued on staged tin and tungsten potential at Cleveland

- Elementos Limited is developing the advanced low cost Cleveland tin-copper-tungsten project in Tasmania through a staged commercialisation strategy.
- Cleveland is a large Renison style tin-copper deposit, with a separate world-class long life tungsten porphyry deposit accessible from the same in-place underground infrastructure.
- The three stage development process would commence with: Stage One; tailings re-treatment, Stage Two; open pit mining and Stage Three; underground mining over a total mine life of 15 years.
- A PFS estimated a bite-sized total pre-production CAPEX of $21M for Stage One, which would generate cash at today's prices.
- Stage One cash flow would be sufficient to fund Stage Two, which would fund Stage Three.
- The process plant will treat a minimum of 650,000t and maximum of 900,000t of tin, copper and tungsten ores that would generate a total of $638M in sales of concentrate and $166M in pre-tax cash flow over 15 years.
- Cleveland has significant government and stakeholder support including approvals. A mining lease application has been submitted.
- Infrastructure is in place at Cleveland including power, water, communication, workforce, accommodation and an existing underground decline with development drives.
- While the Cleveland tin-copper orebody is a globally significant tin deposit, the tungsten porphyry deposit is a potential Tier 1 strategic metal asset. The tungsten potential is not factored into the current Elementos share price.
- Proactive Investors estimates a 12 month price target of $0.033, assuming capital funding for Stage One.
- This target does not include exploration upside from drilling of tin and tungsten targets in 2016, or include Stage Two or Stage Three – providing further share price upside. We therefore consider our valuation to be very conservative.

BACKGROUND

Elementos Limited (ASX:ELT) is an Australian metals company that is focused on the development of the advanced stage "brownfield" Cleveland tin-copper-tungsten mine located in north-west Tasmania.

The Cleveland mine was an underground tin and copper producer that operated from 1968 to 1986 under the stewardship of Aberfoyle Limited, and processed 5.7 million tonnes of ore to produce 24,000 tonnes of tin and 10,000 tonnes of copper in concentrate form.

Cleveland is situated at Luina, which is approximately 60 kilometres from the port of Burnie, and is surrounded by well-developed infrastructure that includes sealed all weather roads, electric power, abundant water and a strong mining culture that will also provide a skilled workforce.

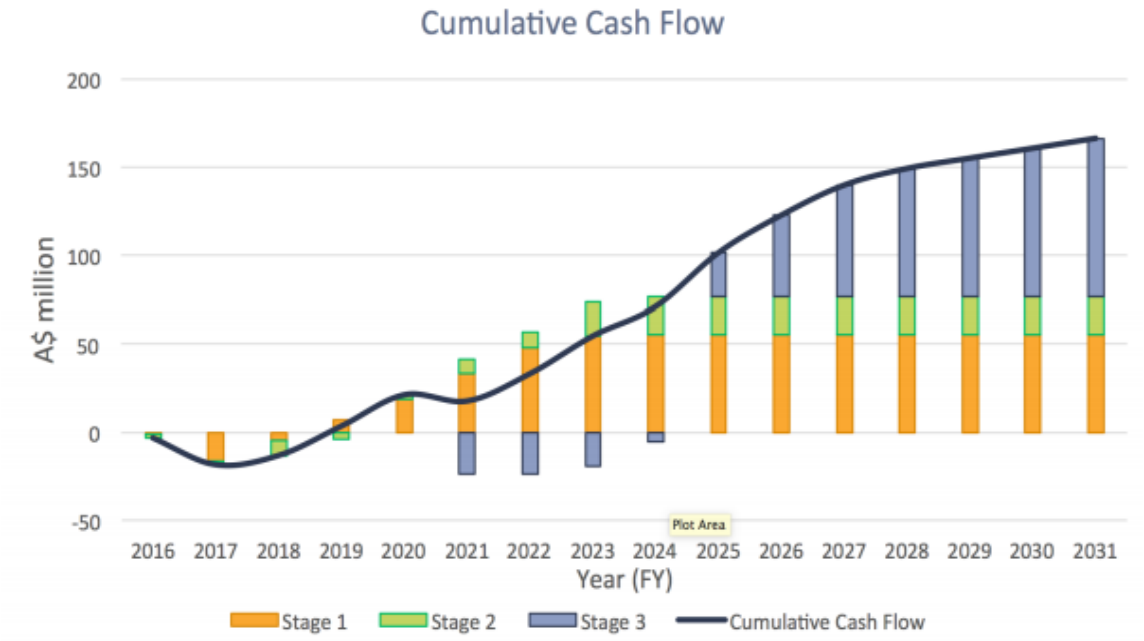
MAP ONE: CLEVELAND MINE LOCATION

The Company recently completed a management restructure as part of an initiative to reduce costs and advance development of the Cleveland Project, and appointed Tim McManus as Chief Executive Officer bringing over 20 years' experience in project development that included roles as Chief Geologist with Xstrata Coal, Regional Manager with AMC Consultants, and Managing Director of Scorpion Energy.

Proactive Investors notes that the management team has completed technical studies that indicate high potential for a long life mine at Cleveland that will develop as a three stage development.

Stage One; tailings re-treatment, Stage Two; open pit mining and Stage Three; underground mining over a total mine life of 15 years.

Pre-production CAPEX is estimated at $20.9 million for Stage One that will generate sufficient free cash flow to fund development of Stage Two open pit mining and Stage Three underground mining.



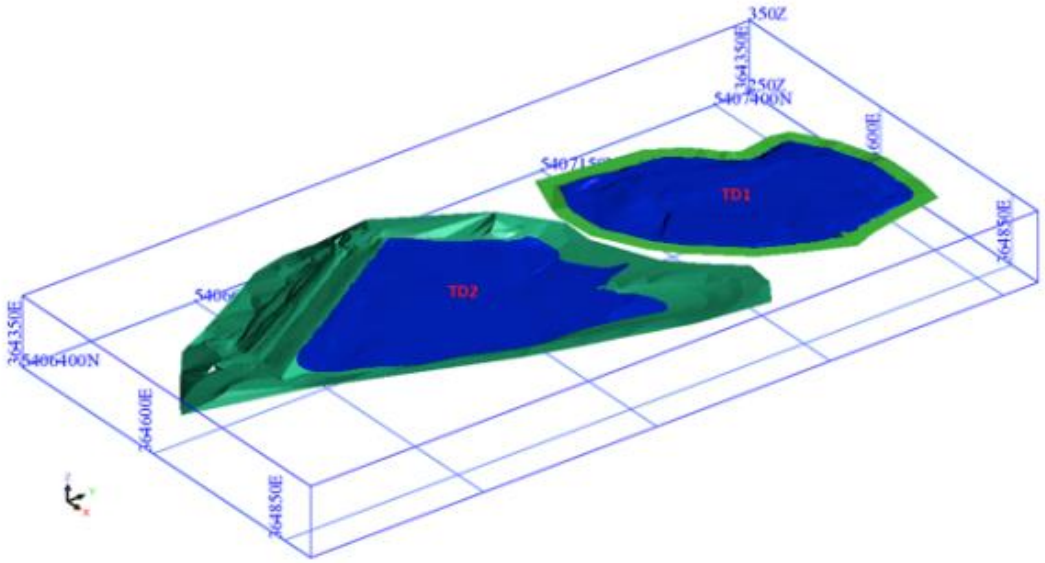
GRAPH ONE: CUMULATIVE CASH FLOW 15 YEAR LIFE OF MINE REACHES $638 MILLION

Cumulative cash flow is currently estimated at $638 million over a 15 year mine life, with high potential to extend beyond a 20 year mine life.

STAGE ONE – CLEVELAND TAILINGS NEAR TERM PRODUCTION IN 2016-2017 TO DRIVE DEVELOPMENT

In August 2015, Elementos completed a Pre-Feasibility Study (PFS) on the wholly-owned Cleveland tailings Project known as TD1 and TD2, and confirmed technical and financial viability with highlights that include:

- Production to commence in 2017.
- Fully allocated cost (C3) is estimated at US$13,137 per recovered tonne of tin, and places the project in the bottom half of the ITRI C3 cost curve.
- Maximum plant feed rate of 650,000 tonnes of tailings per year for a project life of 7 years.
- 47% of tin recovered in concentrate form for a **total of 5,200 tonnes of tin, and 31% of copper in concentrate for a total of 1,500 tonnes of copper.**
- Pre-production capital required of A$20.9 million, with operating cost per tonne of tin recovered of US$7,879 (C1), US$12,055 (C2), and US$13,137 (C3).
- Life of mine average metal price received of US$21,171 per tonne of tin and US$6,900 per tonne of copper for total life of mine (tailings) revenue of A$143.0 million.
- Net cash flow of A$39.0 million to produce a Net Present Value of A$34.0 million (pre-tax) at a discount of 8%, **Internal Rate of Return of 68% (pre-tax**), and pay back of capital within 3 years.



DIARGRAM ONE: LAYOUT OF TAILINGS DAM DEPOSITS TD1 AND TD2

The JORC Probable Ore Reserve is estimated at 3.7m tonnes containing 0.29% tin and 0.13% copper **containing 11,000 tonnes of tin and 4,800 tonnes of copper,** and was generated from approximately 6,000 data points garnered from reliable historical production records that are sufficient for bankable feasibility studies, mine planning and production.

The PFS assumed that contractors would carry out mining and operate on a 24 hour / 7 day basis, and include full environmental controls and a rehabilitation plan to follow completion of tailings reprocessing.

Howcam-Mincore completed an engineering study that confirmed that the tailings require no crush or grind circuit and that a process plant design with conventional gravity and floatation circuits rated at a maximum of 650,000 tonnes per year can produce a tin concentrate grading 51% tin, and a copper concentrate grading 18%, with recoveries of 47% and 31% respectively.

Concentrate will be shipped via Burnie and Melbourne to Asian smelters.

Elementos is proceeding with environmental and mine permitting and Bankable Feasibility Study to support funding of Stage One operations, as well as permit applications for open pit and underground mining operations.

Local community and stakeholders are very supportive for the re-development of Cleveland that is located in a very low risk jurisdiction with a long history of support for mining operations.

CAPEX AND OPEX

Pre-production capital of A$20.9m is required for process plant commissioning and associated processing infrastructure. Post-production capital (including sustaining capital), funded from project cash flows, requires an additional A$9.74 million for a total CAPEX of A$30.6 million.

Contingency allowances include 15% for engineering studies, 15% for budget quotes and 25% for industry benchmarking which makes no allowance for the positive influences of current deflationary pressures and underutilisation within the resources markets and amongst contractors.

Life of Mine OPEX (operating costs) for a recovered tonne of tin on a Net Direct Cash Cost (C1) estimated at A$10,618 / US$7,879 per tonne and included mining, processing, inland transportation, ocean transportation, treatment and sale costs, general administration and copper credit.

Depreciation added A$5,627 / US$4,176 per tonne for a C2 production cost of A$16,245 / US$12,055 per tonne.

Tasmanian Government Royalty added A$1,458 / US$1,082 per tonne for a C3 production cost of A$17,703 / US$13,137 per tonne of tin recovered.

The tin price and foreign exchange rate forecasts for the PFS were derived from Roskill, and copper price forecast from Citi Research, with Roskill forecasting a recovery in tin prices to 2019, and considerable upside after 2020 due to expected supply deficits.

The project is profitable at current spot pricing.

STAGE TWO – CLEVELAND OPEN PITS – FORECAST PRODUCTION IN 2018

In August 2015, AMC Consultants completed and reported a Scoping Study for the Cleveland Open Pits based on a mining inventory of 600,000 tonnes at 0.50% tin and 0.14% copper and concluded:

- Over 98% of the mining inventory derived from JORC Indicated Resource of 828,000 tonnes at 0.81% tin and 0.27% copper.
- Open pit resource has been well drilled and also includes a JORC Inferred Resource of 14,000 tonnes at 0.99% tin and 0.34% copper.
- Five pits with an average **stripping ratio of 5.1** will be mined at a combined rate of 200,000 tonnes per year over 3 years, utilising contract mining.
- The incremental capital cost is estimated at A$6.6 million, comprising A$5.6 million for plant upgrades and A$1.0 million for site works and pre-production waste stripping.
- CAPEX is fully funded by cash flow from Stage One and will require no additional financing.
- The projected additional cash flow from Stage Two operations will boost pre-tax cash flow by over 37% for a total of A$21 million.
- The project is cash flow positive at current tin and copper prices.
- The net direct cash cost (C1) of US$8,303 per recovered tonne of tin places the project in the bottom half of the industry cost curve.

The process plant employed for Stage One will be upgraded with the addition of a three stage crushing plant that includes a closed circuit screening, heavy media separation circuit, and ball mill and classifier circuit.

The upgraded process plant is expected to achieve a tin recovery of 70% at a concentrate grade of 60% tin and a copper recovery of 60% at a concentrate grade of 20% copper.

Elementos is considering commencing Feasibility Studies that include metallurgical test work on combining tailings with fresh rock, drill program to develop near surface mineralisation and financial studies.

STAGE THREE – UNDERGROUND MINING IN 2021

In September 2015 AMC Consultants completed and reported a Scoping Study that is the final stage of a three stage development that takes the Cleveland Project into underground mining and concluded:

- The projected pre-tax cash flow for the underground project is estimated at **A$90 million, and boosts the pre-tax cash flow from Stages One, Stage Two and Stage Three to A$166 million.**
- Refurbishment of the existing 3.5 kilometre long decline and utilisation of 9.7 kilometres of 25 kilometres of underground development minimises development capital.
- Underground infrastructure, orebody geometries and underground conditions **allow use of low cost mechanised bulk mining with large machinery.**
- Mining inventory of 1.2million tonnes at 0.61% tin and 0.22% copper, and 1.7 million tonnes at 0.31% tungsten oxide drawn from a JORC Indicated Resource of 4.2 million tonnes at 0.67% tin and 0.28% copper and Inferred Resource of 2.2 million tonnes at 0.56% tin and 0.19% copper for tin and copper (0.35% cut-off for tin); and 4 million tonnes at 0.30% tungsten (at 0.20% cut-off).
- Annualised underground ore production peaks at 650,000 tonnes, with potential capacity up to 900,000 tonnes.
- The CAPEX requirements are fully funded by cash flow from Stages One, Stage Two and Stage Three – and there are not expected to require additional debt or equity funding.
- The integrated Stages One, Stage Two and Stage Three mining operations are projected to generate **total revenue of A$638 million over a 15 year mine life.**
- Exploration potential remains open along strike and at depth.

CLEVELAND MINE - SIGNIFICANT EXPLORATION UPSIDE

The Cleveland mine geology lent itself to historic low cost mining techniques that employed trackless mining technologies, with ore mined from open-stopes between levels, which were 15 metres apart vertically, and within excellent ground conditions where stopes required no backfilling.

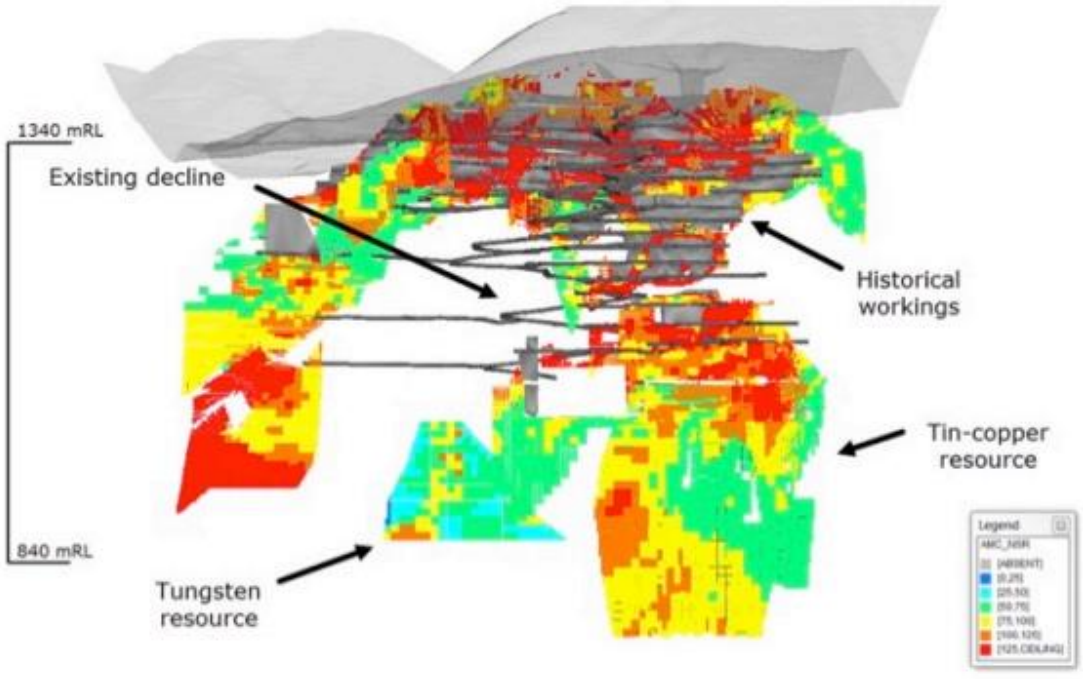


DIAGRAM TWO: CLEVELAND MINE EXISTING RESOURCES

These declines and drives are still in place and provide low cost access to existing tin and copper bearing lenses, and a large tungsten bearing porphyry, with mineralisation open along strike and depth.

Total JORC Indicated and Inferred Resources for open pit and underground resources are currently estimated at 6.6 million tonnes at 0.65% tin and 0.25% copper (at a 0.35% cut-off for tin); and Inferred Resource of 4 million tonnes at 0.30% tungsten (0.20% cut-off), exclusive of open pit resources.

Mineralisation mostly occurs in two styles that include tin (as cassiterite) and copper (as chalcopyrite) bearing semi-massive sulphide lenses that replace limestone, and a tungsten (as wolframite) bearing porphyry.

Tin and copper lenses are steeply dipping with strike lengths of up to 500 metres and widths of 30 metres and are geologically similar to the tin-bearing semi-massive and massive sulphide stratiform mineralisation at Renison.

Proactive Investors notes that resource estimates remain open and that conceptual tin resource potential falls into a range of 3 – 16 million tonnes at 0.6% - 0.7% for an **additional 20,000 – 110,000 tonnes of tin,** and copper of 3 -16 million tonnes at ~0.2% for an **additional 10,000 – 30,000 tonnes of copper.** The potential of the tungsten porphyry system is **up to 60 million tonnes at ~0.3% tungsten**, placing it as potentially one of the world's truly great tungsten deposits of **up to 120,000 tonnes of contained metal.**

MINE DESIGN

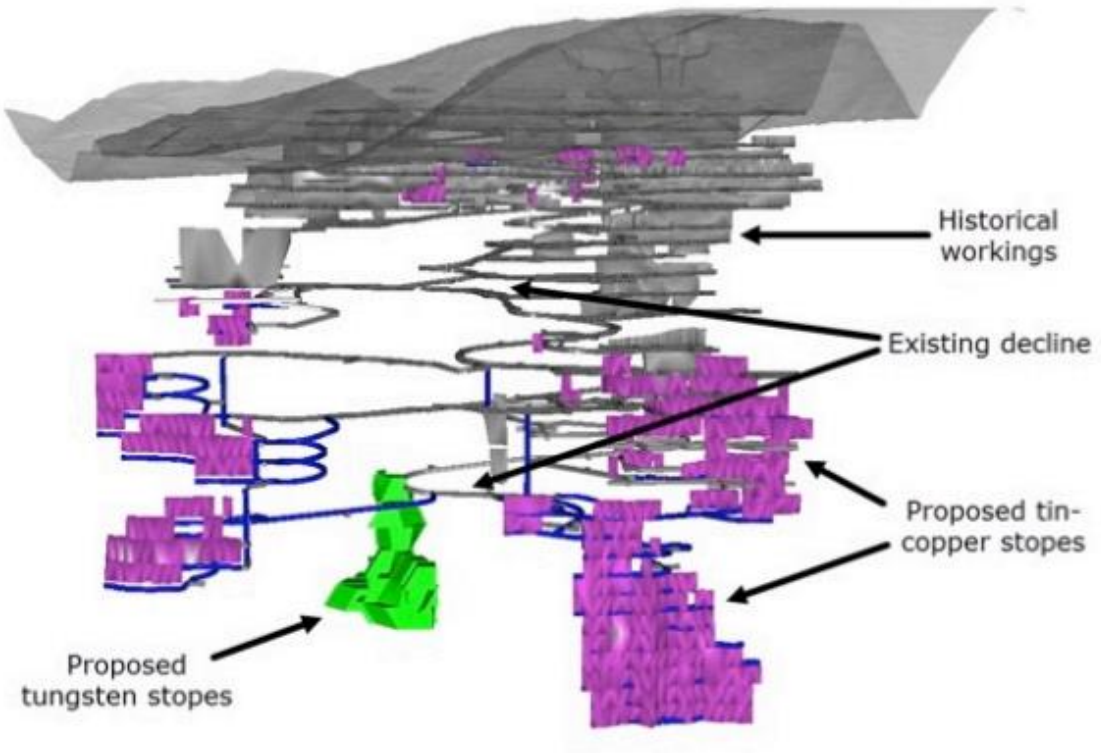


DIAGRAM THREE: HISTORIC DEVELOPMENT AND PROPOSED MINING AREAS

Different ore extraction methods are required for the lenticular geometries that exist for the tin and copper orebodies, and for the massive domed structure that hosts the tungsten orebody.

Technical studies indicate that the historical mechanised sublevel overhead benching method should be adopted in the tin and copper orebodies for an 80% recovery of mineralised ore from new stoping areas, and 50% from old stoping areas and allow for 5% dilution.

Tungsten mineralisation can be recovered via low cost excavation of large stopes for an 80% recovery of mineralised ore and allow for 5% dilution.

The existing decline and significant portion of the underground development will be dewatered over a period of 15 months and then refurbished, with waste generated from mine development dumped into stope voids.

Additional return airways will be added to take exhaust from the deeper levels of the mine and connect with the main exhaust shafts already in place.

Rubber-tyred loaders and trucks will haul ore via a single access decline and employ refurbished lateral access developed during historic mining, and feed ore into the proposed Stage Two Process Plant.

Tin recovery is estimated at 70% to produce a concentrate grade of 60% tin and copper recovery of 60% to produce a concentrate grade of 20% copper.

STAGE THREE OPEX AND CAPEX ESTIMATES

AMC Consultants used benchmark data from similar underground mining operations using mining contractors to estimate average life of mine mining costs of A$55 per tonne for tin and copper ore and A$50 per tonne for tungsten ore.

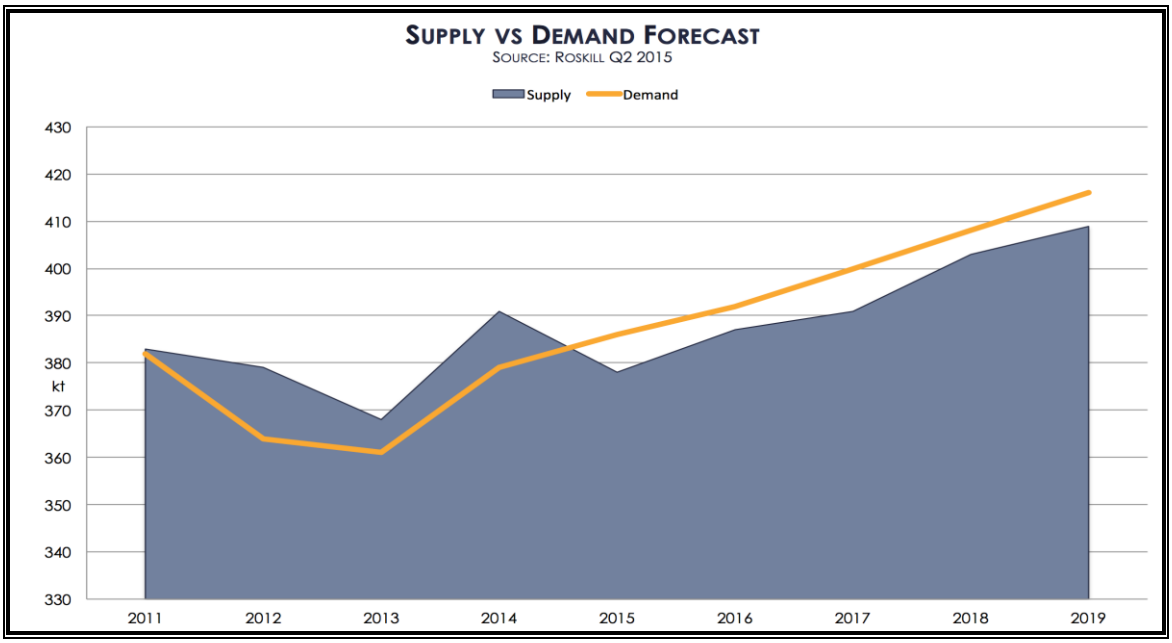
Processing operating cost for fresh tin and copper ore estimated at A$12.55 per tonne, and fresh tungsten ore at $14.55 per tonne, with an additional A$1.00 per tonne for general and administration costs.

Development costs were estimated at a conservative A$3,000 per metre of new development and A$1,000 per metre to refurbish existing development.

The total capital cost, funded from Stage One and Two cash flows, for the redevelopment of the underground operation is estimated at A$28.3 million and includes A$7.5 million for an additional process circuit to produce ammonium paratungstate.

TIN MARKET

Over 50% of tin consumption is used for solder in electronics and electrical goods, 17% in tinplate and packaging and 17% in chemicals. The remainder is used in various applications, including float glass and alloys. Roskill Information Services (Roskill) describes the tin market as currently oversupplied, but forecasts a return to a supply deficit, as it has been for six out of the last ten years, as demand growth outpaces a weakening supply growth.



GRAPH TWO: TIN SUPPLY VERSES DEMAND (ROSKILL 2015)

According to the World Bank, tin's reserves to production ration declined nearly 40% from 2000 to 2011, meaning that current production levels can only be sustained for about 19 more years.

The average Roskill price forecast of US$21,171 per tonne Sn is 4.8% below the average price for the past 5 years. The project is well placed to take advantage of the forecast deficit and higher prices forecast.

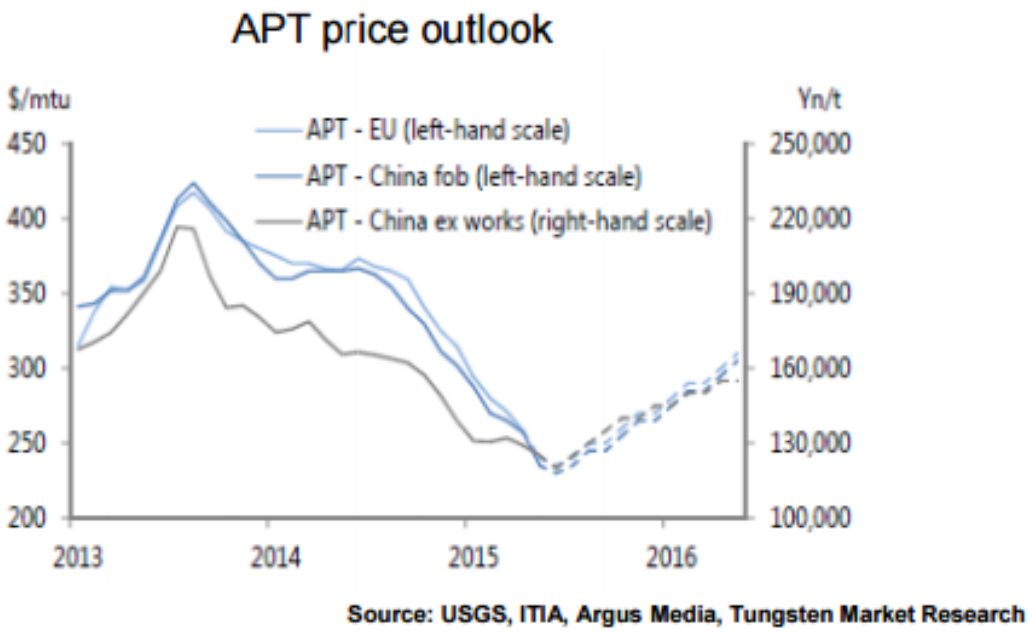
TUNGSTEN MARKET

Tungsten is a corrosion resistant, extremely dense, and high melt point metal that is highly sought for its mechanical and refractory properties that is used as an alloy to provide high strength and wear resistance for tools and parts in the automotive industry, industrial engineering, mining and road construction, aviation, energy oil and gas, health, agriculture and defence applications.

Tungsten pricing is based on a Metric Tonne Unit or MTU which is equal to 10 kilograms or 22 pounds, and is typically sold as an intermediate refined product known as ammonium paratungstate or APT that is sourced from scheelite and wolframite that accounts for about two thirds of global supply, with the balance sourced from the recycling of scrap.

China dominates global supply of primary tungsten with 84% of global mine production of 138,000 tonnes in 2013, and currently prohibits the export of tungsten concentrate that forces non-Chinese industrial consumption to rely on small mines scattered across the globe to underwrite supply, thus making Tungsten a strategic metal to consumers outside of China.

Tungsten demand is driven by China, which requires an additional 12,000 tonnes per year, Indian economic growth of 6%-7% and demand from Japan, which continues to dominate the high value global tool market.



Source: USGS, ITIA, Argus Media, Tungsten Market Research

GRAPH THREE: AMMONIUM PARATUNGSTATE PRICE FORECAST

POTENTIAL TIER 1 TUNGSTEN ASSET IN THE MAKING

While the Cleveland tin-copper orebody is a globally significant tin deposit, the tungsten porphyry deposit is a potential Tier 1 strategic metal asset in the making, double the grade of Wolf Minerals' (ASX:WLF) Hemerdon tungsten and tin project.

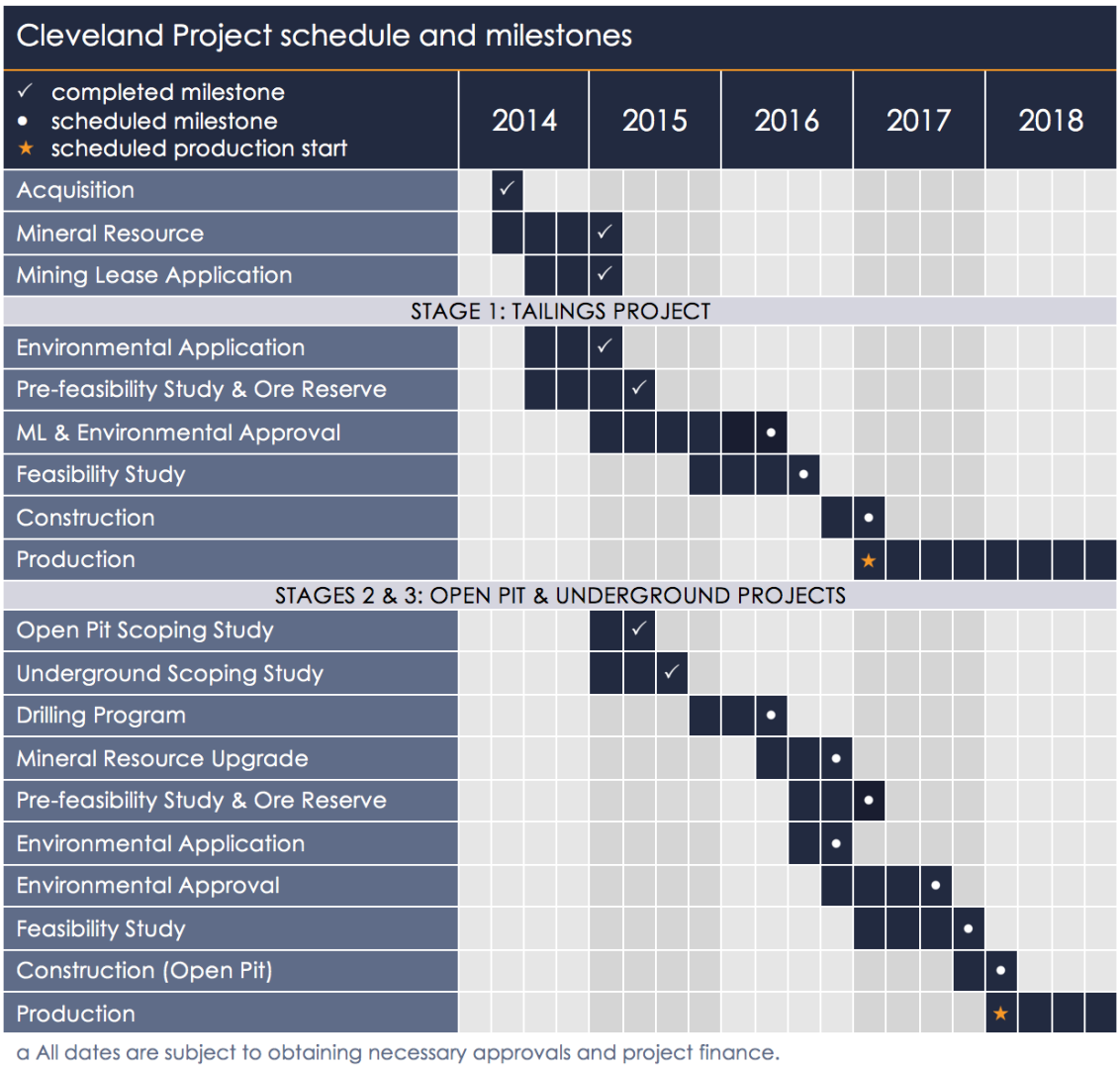
Hemerdon has a Total Measured + Indicated + Inferred Resource of 145.2 million tonnes at 0.15% tungsten and 0.02 tin. Wolf has a market cap of A$255 million.

By comparison, Elementos has a current tungsten initial inferred resource (2004 JORC) of 4.0 million tonnes at 0.3% tungsten. The tungsten bearing porphyry and quartz stock-work known as the Foley Zone has a known strike length of 300 metres, thickness of up to 300 metres, known depth of at least 900 metres, and remains open in all directions.

Proactive Investors notes that the **tungsten resource exploration potential falls into a range of 24 – 60 million tonnes at 0.2% - 0.3%, for an additional 72,000 – 120,000 tonnes of tungsten.**

The tungsten resource will require additional studies to define the grade and extent of the mineralisation and complete technical work for the addition of a conventional process circuit to produce ammonium paratungstate, with a currently assumed recovery rate of 70% tungsten.

TIMELINE WITH MAJOR CATALYSTS



GRAPH FIVE: TIMELINE FOR STAGES ONE, TWO AND THREE AT CLEVELAND

NEAR TERM PRICE CATALYSTS:

- Drilling program for open pit and underground tin, copper and tungsten resources 3Q of 2015 – 2Q of 2016.
- Feasibility Study for tailings project Q3 of 2015 – Q3 of 2016.
- Pre-Feasibility Study and ore reserve statement for open pit and underground mining 3Q of 2015 – Q4 of 2016.
- Funding for tailings project mid-2016.

VALUATION AND ANALYSIS

Elementos has completed Pre-feasibility studies on its Stage One tailings project and Scoping Studies on Stage Two open pit mining and Stage Three underground mining of tin and copper at Cleveland.

Given the momentum Elementos is developing at Cleveland; the robust financial returns of the stages of the project as forecast in the PFS, including low CAPEX and low OPEX and ability to generate cash returns at today's prices, Proactive Investors believes that Elementos is an attractive investment proposition for a substantial cornerstone industry investor.

Given the path to production in 2016/17, we believe this is a possibility in the next 12 months – adding a price catalyst.

Proactive Investors estimates a 12 month price target of $0.033, based on a calculation of the value of Stage One reserve base and assuming capital funding is forthcoming.

This target does not include exploration upside from drilling of tin and tungsten targets in 2016, or include possible value from Stage Two or Stage Three – providing further share price upside.

As noted, the potential tin and copper extensions within the Cleveland mine have conceptual potential for an additional 20,000 – 110,000 tonnes of tin, with an additional Tier 1 tungsten asset in the making.

We therefore consider our valuation to be very conservative.

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