FOSTER STOCKBROKING

TALKING POINT

Mining

12 December 2019

Peak Resources Limited (PEK.ASX)

Vertically Integrated Long Life, High Grade Asset Enabling Value Capture

Disclosure

The analyst does not own PEK securities.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own PEK securities.
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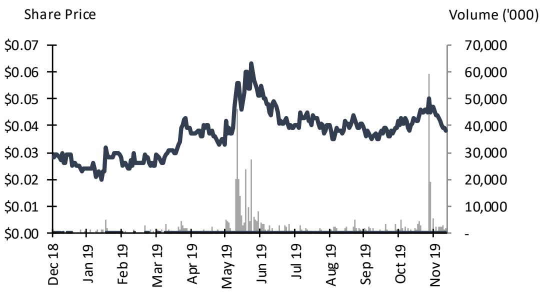
Foster Stockbroking provides equity capital markets and corporate advice to PEK and will receive consideration for this service.

Recommendation	**Speculative Buy**
Previous	N/A
Risk	Very High
Price Target	**$ 0.07**
Previous Target	N/A
Share Price (A$)	**$ 0.038**
ASX Code	PEK
52 week low - high (A$)	0.02-0.63
Valuation (A$), risked	**$ 0.07**
Valuation Methodology	DCF
Capital structure	
Shares on Issue (M)	1,305
Market Cap (A$M)	**50**
Net Cash/(Debt) (A$M) est.	3
EV (A$m)	**47**
Options and warrants (M)	32
12mth Av Daily Volume ('000)	2,090
Board	
Peter Meurer	Non-Executive Chairman
John Jetter	Non-Executive Director
Jonathan Murray	Non-Executive Director
Tony Pearson	Non-Executive Director
Major Shareholders	
Appian	33.4%
International Finance Corporation (IFC)	7.3%
Share Price Graph	



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Event:

- **We initiate research coverage on Peak Resources Ltd (PEK.ASX).**

Analysis:

- **Peak Resources** is an ASX listed company targeting development of its Ngualla rare earth project in Tanzania (100% interest).
- **Long life, high grade asset, simple geology and mining:** 26 year mine life based on Reserve only, and good rare earth oxide grade (4.8% TREO) with low radionuclides. Ngualla has a large, high grade soft bastnaesite ore body with mineralisation from surface, enabling a low cost free dig open pit operation with low strip ratio of 1.8.
- **Integrated rare earth project enables value capture from processing:** proposed UK based rare earth processing refinery to capture downstream value. The company contemplates four separated REO saleable products, including high value NdPr 99% oxide. The company anticipates a competitive operating cost of US$32/kg, on an NdPr basis.
- **Seeking export and debt finance to manage capital intensity:** management is exploring options to assist with the capital expenditure for the project. Even so, Ngualla has a small capital footprint compared to peer developers, given the company envisages separated REO products.
- **Fully proven piloted process,** coupled with mineralogy allowing low reagent consumption, and the ability to produce high grade 45% REO low mass concentrate for processing in the UK refinery. The company will use a selective leach process with low strength acids and no acid roast, and conventional material in construction, with the option to reject cerium.
- **Special Mining Licence (SML) grant and financing updates are upcoming catalysts:** the company has already completed a BFS and optimisation. PEK has received Tanzanian environmental certificates and has submitted Tanzanian SML applications for Cabinet approval. The Teesside Refinery is fully permitted.
- **Estimated cash of $3M in December 2019 and no debt.**

Earnings and Valuation:

- **We have derived a risked valuation of $0.07 per PEK share.** Our valuation is underpinned by a risked NPV_{10} of A$475M for Ngualla and Teesside, assuming US$365M initial capex for 2,800tpa NdPr 99% oxide production. We assume first production in FY24e and long term price of US$60/kg for NdPr 99% oxide. On an unrisked basis, we have derived a valuation of $0.10 per share.

Recommendation:

- We initiate coverage of PEK with a **Speculative Buy recommendation and price target of $0.07/share**, due to its long life, high grade asset, and proposed integrated rare earth project to capture value from downstream processing.
- **Catalysts for the stock** include: 1) granting of Special Mining Licence by the Tanzanian government; 2) financing; 3) offtake agreements; and 4) construction.

PEAK RESOURCES LIMITED (PEK)

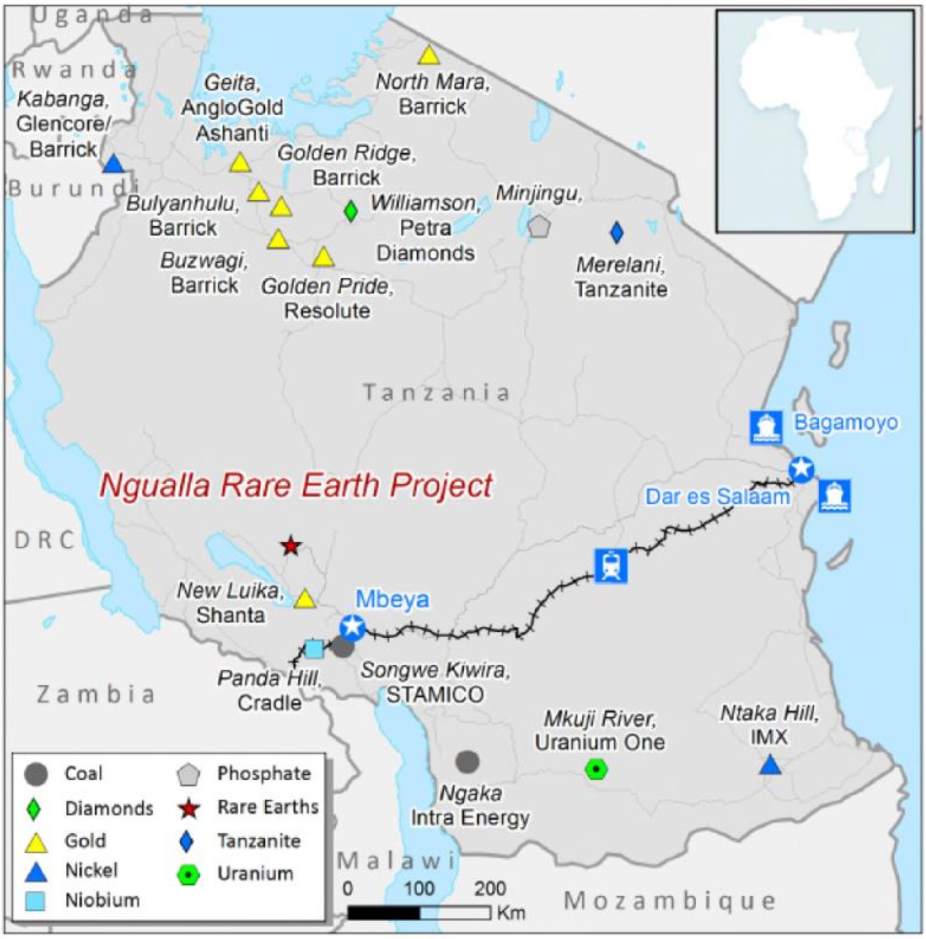
Introduction and Brief History

- Peak Resources (PEK) is an ASX listed mining company, which is developing its Ngualla rare earth project (Ngualla Project) in southern Tanzania with a mine and beneficiation plant at Ngualla, as well as a proposed downstream rare earth refinery in Teesside, United Kingdom. We note that the Ngualla Project refers both to the Ngualla mine and the proposed Teesside refinery.

NGUALLA PROJECT (100% INTEREST) – NGUALLA MINE

- The Ngualla rare earth mine is located in southern Tanzania ~1,000km west of Dar es Salaam and ~150km from Mbeya. Ngualla is also prospective for phosphate, base metals, niobium, and tantalum. Peak has a 100% interest in the Ngualla Project. The Mineral Resource estimate stands at 214.4Mt at 2.2% total REO for 4.6Mt of REO. The Reserve estimate is 18.5Mt at 4.8% REO for 887kt REO.

Figure 1: Ngualla Project Location



Source: Company.

- The Ngualla minesite has an exploration camp southwest of the deposit and all weather dirt airstrip south of the exploration camp.

NGUALLA RESOURCE – AMONG THE HIGHEST-GRADE DEPOSITS

- The estimate of the total JORC Mineral Resource is 214Mt at an average grade of 2.2% for 4.62Mt contained total rare earth oxide (REO). Considering only the weathered bastnaesite zone, the estimate of the Mineral Resources is 21.3Mt at an average grade of 4.8% for 1.01Mt contained REO, with almost 90% of the Resource in the Measured category. The estimates for the Ngualla Resource are tabulated below. We consider it to be among the highest grade rare earth deposits globally.

Figure 2: Ngualla Mineral Resource – Weathered Bastnaesite Zone Only

JORC Classification	Mt	TREO, %	TREO, kt
Measured	18.9	4.75	900
Indicated	1.9	4.85	90
Inferred	0.5	4.43	20
Total	**21.3**	**4.75**	**1,010**

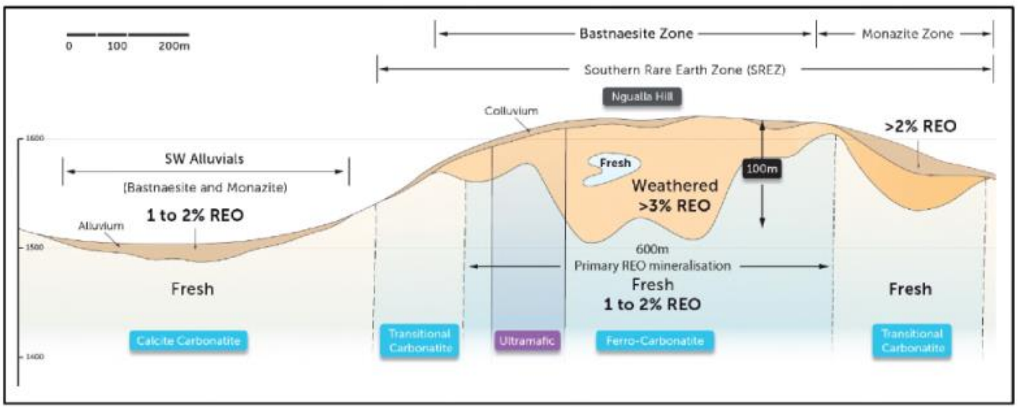
Source: Company.

Figure 3: Ngualla Mineral Resource – Total

JORC Classification	Mt	TREO, %	TREO, kt
Measured	86.1	2.61	2,250
Indicated	112.6	1.81	2,040
Inferred	15.7	2.15	340
Total	**214.4**	**2.15**	**4,620**

Source: Company, August 2016, 1% REO cut-off.

Figure 4: Ngualla cross section with mineralisation



Source: Company.

NGUALLA RESERVE – UNDERPINS 20+ YEAR MINE LIFE FROM RESERVE ALONE

- The company has declared a JORC Ore Reserve at Ngualla of 18.5Mt at an average grade of 4.8% total REO, for 887kt contained total REO. Almost 92% of the Reserve tonnes are in the Proven classification. The estimate for the Ngualla Reserve is exhibited below.

Figure 5: Ngualla Ore Reserve

JORC Classification	Mt	TREO, %	TREO, kt
Proven	17.0	4.78	813
Probable	1.5	5.10	74
Total	**18.5**	**4.80**	**887**

Source: Company, April 2017.

- The company contemplates a long life open pit operation with a low LOM strip. The Reserve alone underpins a 26 year mine life with an estimated 1.8 strip ratio, based on the BFS. The study proposes mostly free dig mining with minimal drill and blast, using conventional open pit, load, haul, and dump mining techniques, and a first stage beneficiation plant at the Ngualla site utilising a barite flotation, regrind, and rare earth flotation to produce a 45% REO concentrate. The BFS anticipates small scale mining with 0.7Mtpa of mill feed, and mining costs estimated at 5% of the average annual operating cost.

TEESSIDE REFINERY – PERMITTED CHEMICAL PROCESSING LOCATION

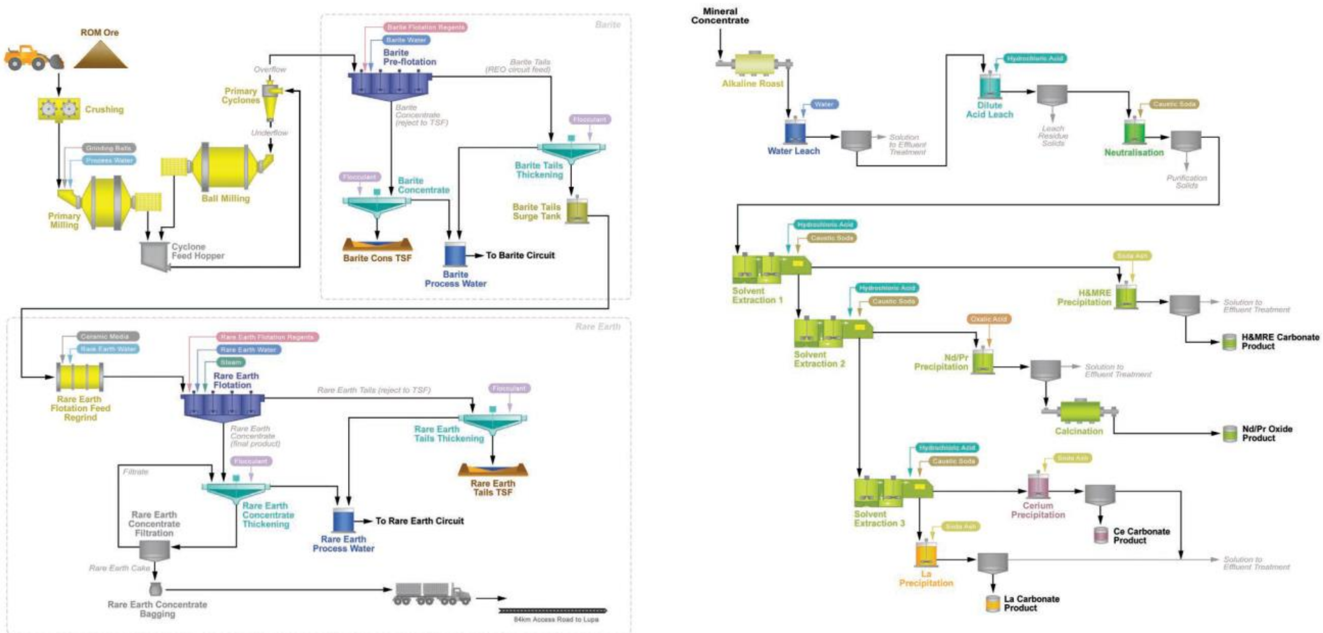
Vertical Integration Enables Value Capture

- PEK is proposing to build a rare earth refinery and separation plant in Teesside, UK. The company entered into an agreement in 2018 for a two year option for a 250 year lease over a 19 hectare parcel of land. The agreement includes an option for a further twelve month extension.
- The company received planning permission from the Redcar and Cleveland Borough Council to allow construction of a rare earth refinery at the identified site in Teesside, UK. The company has also received an environmental licence from the environment agency in September 2018. The environmental licence is required for the operation of the facility.
- The company contemplates 32,700tpa of mineral concentrate will be processed at the Teesside rare earth refinery and separation plant. The refinery will produce 9,290tpa of rare earth oxide equivalent, including 2,810tpa of NdPr 99% oxide.

Figure 6: Teesside Refinery Project Location

Source: Company.

Figure 7: Process Flowsheet Ngualla (LHS) and Teesside (RHS)



Source: Company.

- The company has demonstrated a fully proven piloted process for the downstream processing. The pilot process has shown mineralogy allows low reagent consumption. PEK is able to process a high grade (45% REO) low mass concentrate via a selective leach process, with low strength acids, and without the requirement of acid roasting. The company also contemplates the use of conventional construction material in its processing facilities.
- The flowsheet has the built-in option to reject cerium, a low value product, if desired.
- PEK is working towards obtaining offtake agreements for its proposed products.

NGUALLA PROJECT HIGHLIGHTS – LOW CAPEX, LONG LIFE MINE

Bankable Feasibility Study and Optimisation Study

- The company released a BFS for the Ngualla Project in April 2017, as well as a follow up optimisation study in October 2017. The study and optimisation included detail on pilot plant test work, engineering design, and cost studies.
- The Ngualla Project BFS contemplates a 26 year mine life ultimately to produce 9,290tpa of rare earth oxide equivalent, including 2,810tpa of NdPr 99% oxide, as well as 7,995tpa of lanthanum carbonate, 3,475tpa of cerium carbonate, and 625tpa of SEG and mixed heavy carbonate, which is equivalent to 4,230tpa of lanthanum oxide equivalent, 1,920tpa of cerium oxide equivalent, and 330tpa of SEG and mixed heavy oxide equivalent.
- Mining at Ngualla will be a drill and blast, load and haul open cut operation. The drill and blast will only be on the fresh waste rock, while weathered ore material will be free dig. The feed will be beneficiated at the Ngualla site to a 45% REO concentrate grade after crushing, milling, barite flotation, regrind rare earth flotation, filtration, and thickening processes. The resulting mineral concentrate is trucked and shipped to the refinery at Teesside.
- The Teesside refinery comprises two stages. First, the mineral concentrate undergoes roasting, water leaching, acid leaching, and then neutralisation of the leach solution. Secondly, the solution undergoes solvent extraction (SX) to produce lanthanum carbonate, cerium carbonate, NdPr oxide, and a SEG and heavy rare earth carbonate. The flowsheet allows for the option to reject low value cerium rare earth if PEK desires.
- The key Ngualla mine project parameters are summarised in the figure below.

Figure 8: BFS Summary and Optimisation Study Production Assumptions

PRODUCTION ASSUMPTIONS		
Life of mine (LOM)	yrs	26
Average LOM REO grade	%	4.8
Life of mine strip ratio	x	1.78
Mill throughput, average	tpa	711,000
REO mineral concentrate production, average	tpa	32,700
NdPr mixed oxide 2N production, average	tpa	2,810
Lanthanum oxide equivalent production, average	tpa	4,230
Cerium oxide equivalent production, average	tpa	1,920
SEG and mixed heavy oxide equivalent production, average	tpa	330

Source: Company, updated BFS October 2017. SEG is samarium, europium, gadolinium.

Figure 9: BFS Summary and Optimisation Study Operating Costs

OPERATING COSTS		US$M
Average Operating Cost – Ngualla plus Concentrate Transport	US$M pa	51
Total Consolidated Operating Cost to Final Product	US$M pa	40
Total Consolidated Operating Cost	US$M pa	91
Total Consolidated Operating Cost / NdPr kg	**US$/kg**	**32.24**

Source: Company, updated BFS October 2017.

- In its BFS, the company expects total consolidated operating cost to be US$91M pa, equivalent to US$32.2/kg of NdPr oxide, or US$9.8/kg of REO, which compares very favourably to other developers.

INFRASTRUCTURE

- Ngualla is linked to Mbeya, the economic centre of southern Tanzania, by unsealed road. Mbeya is connected to the deep water port of Dar Es Salaam by both rail and sealed road. Water at the Ngualla site will be sourced from local springs and a planned borefield, with the requirement estimated to be 18L/s. Power will be produced on site by heavy fuel oil powered generator sets and supplemented by a solar farm. PEK estimates a 6MW power requirement.

LICENCES AND PERMITS

TANZANIA SPECIAL MINING LICENCE APPLICATION – PENDING CABINET APPROVAL

- The company lodged a Special Mining Licence (SML) application in August 2017 with the Ministry of Energy and Minerals in Tanzania regarding the Ngualla Project.
- At 31 December 2018, the Tanzanian Mining Commission had confirmed with PEK that it was satisfied with the submitted application and supporting documents and had recommended the licence for approval to the Minister of Minerals. The minister is required to seek cabinet approval prior to the granting of the SML.

PROJECT FUNDING – EXPORT FINANCE TO HELP

- The company will require US$365M in capital to fund both Ngualla and the Tees Valley refinery. This is a relatively modest capital expenditure amount for a vertically integrated rare earth oxide operation. Approximately US$190M of development capital is for the Ngualla site, comprising US$52M for the mine and process and US$138M for Ngualla site infrastructure. Approximately US$157M is needed for the Tees Valley refinery and site. Both these amounts include 10% contingency costs. Capital costs include a US$18M provision for owners' costs.

Figure 10: Ngualla and Teesside Capital Cost Estimate

CAPITAL COSTS	US$M
Ngualla – mine and processing	52
Ngualla – infrastructure	138
Teesside Refinery	157
Owners Costs	18
Total Capital, Pre-Production	**365**

Source: Company, updated BFS October 2017.

- The company has the support of the UK government through the Department for International Trade which includes UK Export Finance as well as locally from the Tees Valley Combined Authority. The Wilton site is also located within an Enterprise Zone with enhanced capital allowance status. Companies located at this site can apply to receive a first year capital allowance of 100% on qualifying plant and machinery currently set to a maximum of 125M euros.
- The company also recently received a letter of interest from the Overseas Private Investment Corporation (OPIC), a US government agency which promotes investment in emerging countries. Subject to usual review and approval processes, OPIC may provide finance to PEK.

SHARE CAPITAL

- PEK has 1,305M ordinary shares on issue and 225M options and performance rights, comprising 215M options, with strike prices in the range of A$0.03-$0.15 and with expiry dates from FY20 to FY23, as well as an additional 10M performance rights.
- Substantial shareholders include Appian with a 33.6% interest in PEK and International Finance Corporation with a 7.3% interest.

Figure 11: PEK Share Capital

Share Capital	M
Fully paid ordinary shares, M	1,305.3
Unlisted options subtotal	214.9
Performance rights subtotal	10.0
Fully diluted shares, M	**1,530.2**

Source: Company.

VALUATION – BASE CASE $0.07/SHARE, RISKED

- We derive a base case valuation of $479M or $0.07/share for PEK. Our valuation is based on NPV_{10} DCF of $475M for the 100% owned Ngualla Project and Teesside Refinery. We estimate a project IRR of 18% and payback of five years. We have applied a risk weight of 75% to reflect the company having completed a BFS and optimised study update in 2017. Our unrisked valuation is $637M or $0.10/share for PEK.
- We have factored in the dilutive impact of future equity to cover the pre-production capex of US$365M. We assume 33%, or US$121M of pre-production capital will be funded by future

equity at 10% discount to last price of 3.8c, with the remainder to be sourced from debt. The company has the support of the UK government through the Department for International Trade which includes UK Export Finance, as well as from the local government Tees Valley Combined Authority.

- We assume long term AUD/USD of 0.73 and the long term price for NdPr 99% oxide of US$60/kg. We have considered only the Reserve estimate in our valuation, and we note the Reserve represents only 22% of the existing Resource. Further, we note there is future potential for the company to convert Resource to Reserve, with some 90% of the Resource in the Measured or Indicated categories, however we have not included these in our present valuation.
- We note the company's optimised BFS of October 2017 presented a NPV_{10} of US$444M, or A$634M assuming 0.70 AUD/USD, with long term assumptions for the NdPr 99% oxide price of US$77.5/kg (real).
- Additional assumptions include corporate tax rate in Tanzania and United Kingdom of 30% and 18%, respectively, and royalty rate of 4.3% and 2%, respectively. We also assume a proposed Tanzanian government 16% free carried interest.

Figure 12: PEK Valuation – Base Case

Company Valuation	**Unrisked A$M**	**Unrisked, A$/sh**	**Risked, A$M**	**Risked, A$/sh**	**1-Risk Factor**
Ngualla and Teesside	475	0.07	356	0.05	75%
Corporate	-26	0.00	-20	0.00	75%
Cash	3	0.00	3	0.00	100%
Cash from equity raise	177	0.03	133	0.02	75%
Cash from options, ITM at valuation	9	0.00	7	0.00	75%
Valuation DCF, WACC 10%, nominal	**$637**	**$0.10**	**$479**	**$0.07**	**75%**
Ordinary shares, M	1,305				
Options, M	225				
Shares from equity raise, M	5,171				
Fully diluted shares, M	**6,701**				

Source: Company, Foster Stockbroking estimates.

SCENARIO ANALYSIS – LONG TERM NdPr SENSITIVITY, LOWER LEVERAGE

- Our valuation of PEK is most sensitive to ultimate price assumptions. For a US$10/kg increase in long term NdPr 99% oxide price, there is a 3c increase to our risked valuation to $0.10/sh.
- To illustrate higher dilution (lower leverage) we assume a 50:50 debt equity ratio, and found a 1c decrease to risked valuation to $0.06/sh.

INITIATE WITH SPECULATIVE BUY RECOMMENDATION, PRICE TARGET $0.07

- We initiate coverage of PEK with a Speculative Buy recommendation and price target of $0.07/share due to its long life, high grade Ngualla asset, and proposed vertically integrated rare earth project to capture value from downstream processing.
- We see a number of milestones for PEK in the near term, including:
  - Special Mining Licence granting by Tanzanian government;
  - Financing;
  - Offtake agreements; and
  - Construction.

BOARD OF DIRECTORS AND KEY STAFF

- **Mr Peter Meurer, Non-Executive Chairman**. MBA, Grad Dip. Biochemistry (RMIT), AICD. Over forty years' experience in the corporate finance sector, and was most recently Non-Executive Chairman of Nomura Australia. Prior roles included Vice Chairman for Citigroup and Merrill Lynch. No other current directorships of listed companies.
- **Mr Jonathan Murray, Non-Executive Director**. Bachelor of Laws and Commerce. Partner at corporate law firm Steinepreis Paganin, who specialises in equity capital raisings, acquisitions and divestments, governance, and corporate compliance. Other current directorships include Hannans Limited and Vietnam Industrial Investments Limited.
- **Mr John Jetter, Non-Executive Director**. BLaw, BEcon, INSEAD. Extensive international finance and M&A experience having previously served as Managing Director, CEO and head of investment banking of JPMorgan in Germany and Austria, and as a member of the European Advisory Council of JPMorgan in London. Has also held senior Management roles with CRA Limited. Serves as a director of Otto Energy Ltd and Venture Minerals Ltd.
- **Mr Tony Pearson, Non-Executive Director**. BComm, AICD. Experienced international natural resources executive and company director. Currently Commissioner at the Independent Planning Commission; prior to this he was a group executive at South Gobi Resources. Prior experience includes Managing Director at HSBC. Also a director of Cellnet Group Ltd.
- **Mr Rocky Smith, Chief Executive Officer**. BS (Chemistry). Chemist with over 35 years' operations and senior management experience in the mineral processing and chemical engineering sectors. Previously Managing Director of Molycorp's Mountain Pass Rare Earth Complex.

RISKS

The following risks may negatively impact the valuation and earnings of PEK:

- **Resource risk.** There is a risk that in the future resources may be negatively revised, impacting the size and quality of the projects.
- **Sovereign risk.** Any change in government, policy, legislation, or fiscal regimes of Australia, Tanzania, or the United Kingdom might impact the ownership, financing, permitting, or economics of PEK's business and valuation.
- **Commodity price risk.** Declines in rare earth prices may negatively impact the revenues and profitability of PEK's project.
- **Currency risk.** PEK share price is denominated in A$, while its commodities are priced in US$. Any increase in the A$ may reduce translational impact of US$ into A$.
- **Operating risk.** Operational issues can occur during the mining, processing, transporting, and selling of the product that has the ability to impact revenues, costs, and profit negatively.
- **Financing and dilution risk.** PEK is not currently generating earnings, although will require funds to advance its project. If the company is not able to source the requisite funding, it might

require highly dilutive equity raising and/or debt that has the potential to dilute shareholders or increase the company's solvency risk.

- **Technology risk.** Changes in technology has the potential to reduce the demand for rare earths decreasing growth, prices, and the profitability of PEK.
- **Management risk and key person risk.** The loss of key executives may cause the performance of the business to deteriorate and a loss of investor confidence.
- **Customer risk** in attracting offtake customers.
- **Economic risk.** Any downturn in economies in which PEK operates could cause lower revenue and earnings for PEK. Slowing economic growth globally may negatively impact PEK's earnings.

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Specific disclosures: The analyst does not own PEK securities at the time of this report. Diligent care has been taken by the analyst to maintain honesty and fairness in writing the report and making the recommendation.

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Review disclosure: The report was authored by the analyst named on the front page of the report and was reviewed and checked by Mark Fichera, Head of Research.

Disclosure review. All the disclosures in the report have been reviewed and checked by Rob Telford, Corporate.