Wednesday, May 28, 2014

HALLGARTEN & COMPANY

Coverage Update

Christopher Ecclestone
cecclestone@hallgartenco.com

Metals X (ASX: MLX)

Strategy: LONG

Key Metrics		
Price (AUD)	$	0.24
12-Month Target Price (AUD)	$	0.45
Upside to Target		88%
High-low (12 mth)		$0.08 - $0.27
Market Cap (AUD mn)	$	396.5
Shares Outstanding (millions)		1,652.0

(Yr end June)	2013	2014e	2015e
Consensus EPS		$0.03	$0.04
Hallgarten EPS		$0.056	$0.069
Actual EPS	$0.005		
P/E	49.197	4.3	3.5
Dividend	n/a	$ 0.01	$ 0.015
Yield	0.0%	4.2%	6.3%

Metals X

An Opportunistic Consolidator

- \+ The purchase of the Alacer gold asset portfolio in Australia was a stroke of genius as well as being a bargain deal
- \+ The company is seeing strong revenues from its gold production
- \+ Tin perspectives are good as the Indonesians restrict exports of tin concentrates
- \+ The purchase of the Meekatharra assets has also been achieved at a bargain basement price
- \+ The potential exists for Metals X to be a leading second-tier gold producer in Australia by the end of 2014
- \+ Has APAC Resources of Hong Kong and Jinchuan as major shareholders
- ✖ The increasing focus on gold is pushing tin so far into the background that it is now almost irrelevant
- ✖ The Meekatharra project has been ill-starred in recent times
- ✖ Further financing might be needed but debt looks doable with positive cashflows

Temporary Schizophrenia

We have been torn on this stock in the recent past. Metals X, when we first came to look at it, was solely a tin producer through its 50% ownership of the Bluestone Mines Tasmania Joint Venture. However the company undertook a transformative step in the third quarter of 2013 when it snapped up the Australian gold assets of Alacer for a bargain price and became a major gold producer. This muddied the waters for those seeking after a pure tin exposure and caused us to give it a thumbs down as a tin play (not unsurprisingly) but to regard what it was doing with the Alacer assets as very skillful and exemplary So Metals X in our tin report was rated a Neutral as a tin play but we regarded it as a Long as a gold play. It has now even more entrenched itself as a gold story through the purchase of the storied Meekatharra assets of Reed Resources (a stock we covered BEFORE it owned those assets). Through this deal Metals X has definitely confirmed it is now a gold-focused story and meriting an update from us.

And the other Gold Assets

In the gold space, Metals X already had some interests beyond the Alacer purchase, but neither of those is producing. It is useful to mention them at this juncture, despite them scarcely having relevance until now, as they mesh with Metals X purchase of the Meekatharra property. These longer held assets are the Central Murchison Gold Project (with a JORC-compliant Total Identified Mineral Resource estimated at 4.95 mn oz and Probable Reserves of 1.17 mn oz) and the gold/copper Rover project with a (1.22 mn oz AuEq JORC Resource).

The Meekatharra Deal

In recent weeks Metals X announced it had agreed a transaction with the Deed Administrators of GMK Exploration Pty Ltd (Subject to Deed of Company Arrangement) for the sale and purchase of the assets comprising the Meekatharra Gold Project (of which more anon).

The key terms of the Purchase/Sale Agreement are:

- an estimated purchase price of around $7.7million comprised of:
  - $7.1M cash
  - the transfer of 24 million shares held by MLX in Reed (which, on a 10-day VWAP prior to this announcement, would be valued at approximately $600,000)
- it is subject to approval by the creditors of GMKE, Foreign Investments Review Board, ministerial consent and assignment of 3rd party interests
- completion expected prior to 30 June 2014.

And Paying Off the Creditors

In connection with the financial outcome that will follow from completion of the sale, Reed provided the Deed Administrators with a proposal for a variation of the current deed of company arrangement (DOCA Proposal), which would improve the return of non-Reed unsecured creditors of GMKE compared to a liquidation of GMKE. Reed is the largest creditor of GMKE by value, with its claim comprising approximately 78% of the total claims against GMKE.

The Deed Administrators will put the DOCA Proposal to creditors for approval at a meeting of GMKE's creditors. The Deed Administrators are supportive of the DOCA Proposal and intend to recommend that creditors vote to approve it. A pool of funds is expected to be available for the remaining unsecured creditors of around $3.5 million, which under the statutory adjudication process is currently expected to be distributed by the Deed Administrators of GMKE in 2H14.

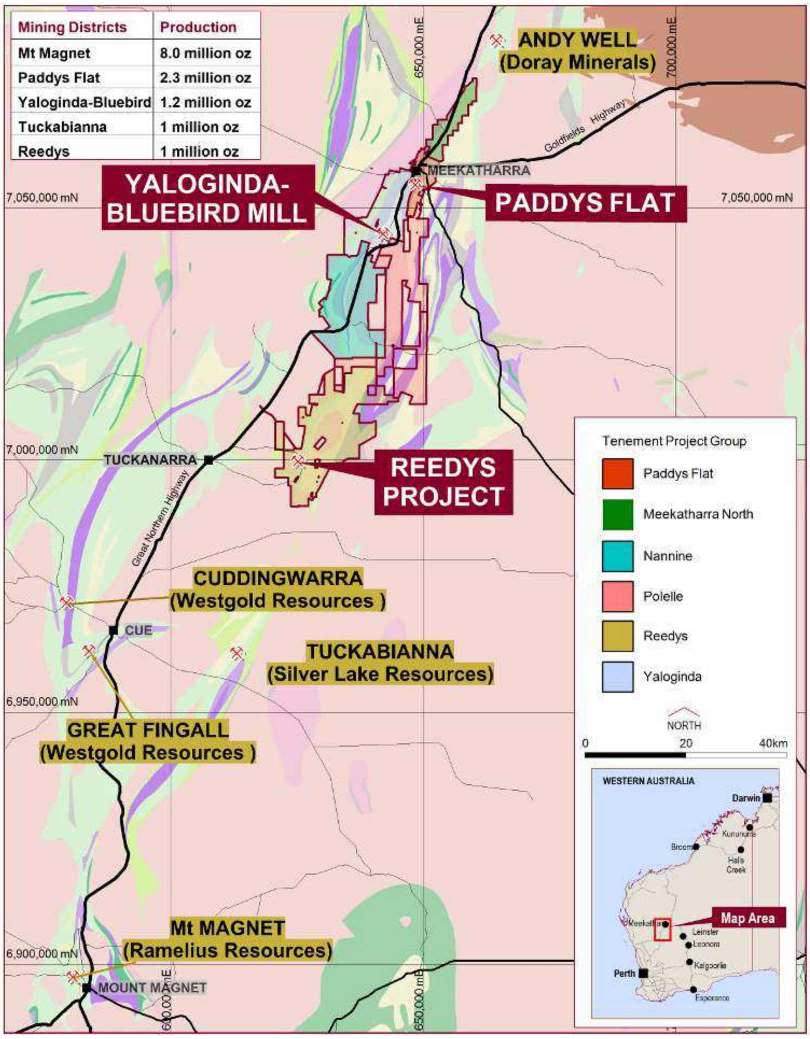
Following the final distribution to creditors under the DOCA Proposal and the retirement of the Deed Administrators, the claims of all creditors of GMKE (including Reed) would be extinguished in full.

The Meekatharra History

The Meekatharra gold project, which is located in central Western Australia, was acquired by Reed Resources (RDR.ax) for $28.4mn in January 2011 and was placed into voluntary administration on August 16, 2013. Somewhat ironically Reed had purchased the project from Mercator Gold which had itself come to grief in the 2008 financial crisis because it had become overburdened with debt on this project. Reed almost straight away raised $40mn to get Meekatharra working again but clearly this was not enough forcing Reed to pass on the parcel.

The project consists of a tenement holding of almost 1000km^2 and is located within the Murchison District of Western Australia. This area of Greenstones is host to multiple multi-million ounce deposits such as Mt Magnet (8 mn oz production) and Tuckabianna (1 mn oz production). At the time of Reed's acquisition of the property in January 2011 resources were estimated at 2.5 mn oz Au @ 1.7 g/t, reserves of 500k oz Au @ 3.5 g/t and infrastructure including a 3 mn tpa processing plant, a 200-man camp, offices and a 7 MW diesel power plant with a replacement value of over AUD$100 million.

The Greenstones within the tenement package host several deposits with proven historical production in excess of 1 mn oz. Paddys Flat near Meekatharra has historical gold production of 2.3 mn oz, the Bluebird mining centre has produced 1.2 mn oz and the Reedy Mine has produced 1 mn oz.



Underground mining was largely historical (pre 1950's) with most modern mining (post-1980) being undertaken through open pits exploiting the shallow resources. The site has infrastructure to support a workforce of 184 and a mill capable of processing up to 3 mn tpa.

The previous owners of this tenement holding have included Metana Minerals, Dominion Mining, St Barbara Mines and Mercator Gold.

Geology

The geology within the Greenstone sequence is variable, complex and has been intensely structurally deformed by both intruding granitoids and by tectonic events. This has provided an extensive plumbing system for gold bearing fluids to exploit. As such the project hosts a widespread suite of varying mineralisation styles from massive stock-work orebodies to narrow high grade vein style deposits.

The Resource

Resources at time of acquisition of 2.5 mn oz and 0.5 mn oz reserves were last calculated at a gold price of $750-$800/oz. After Reed acquired the property, the mining and geology team re-modelled and re-optimised the main resources at current economics with a view to targeted resource conversion and expansion. In March 2012 a new resource estimate was announced for Meekatharra which added an additional 283,000 ounces of gold in Indicated and Inferred Mineral Resource, representing an 8.5% increase in total gold resources to 3.59 million ounces.

	Classification	Tonnes	Grade (g/t)	Total Ounces
Meekatharra North	Indicated	1,164,200	1.8	65,700
	Inferred	184,600	1.6	9,300
Sub-Total		**1,348,800**	**1.7**	**75,000**
Paddy's Flat	Indicated	25,231,700	1.6	1,280,687
	Inferred	13,389,000	1.6	670,034
Sub-Total		**38,620,700**	**1.6**	**1,950,722**
Yaloginda	Indicated	10,249,000	1.7	563,603
	Inferred	6,291,000	1.7	346,877
Sub-Total		**16,340,000**	**1.7**	**910,480**
Nannine	Indicated	611,000	1.6	30,900
	Inferred	243,000	1.6	12,700
Sub-Total		**854,000**	**1.6**	**43,600**
	Indicated	2,740,000	3.1	276,401
Reedys	Inferred	3,955,000	2.7	337,859
Sub-Total		**6,695,000**	**2.9**	**614,260**
Total	Indicated	39,795,900	1.7	2,217,291
Total	Inferred	24,062,600	1.8	1,376,770
Total		**63,858,500**	**1.8**	**3,594,062**

Recent Operating History

Reed's initial plans were to produce 120,000 to 150,000 ounces of precious metals per year. A feasibility study and mining plan was developed to exploit multiple ore-streams from multiple sources, reducing the mining risk and allowing sustainable mining and exploration within the Murchison District.

The phasing of this strategy was expressed by the company at the time as being:

- Stage 1 was to focus on the Yaloginda region which has produced one and half million ounces to date. In the first 23 months 134,000 ounces was to be produced from four "low risk" open pits - Bluebird, Batavia, Whagamata and Surprise, all within 6.5km of the Bluebird mill.

- Stage 2 was to exploit the remaining 618,000 ounces of Reserves and would have seen the focus expand from open pit to open pit and higher grade underground production at Paddy's Flat to the north and Reedys to the south in addition to ongoing operations at Yaloginda.

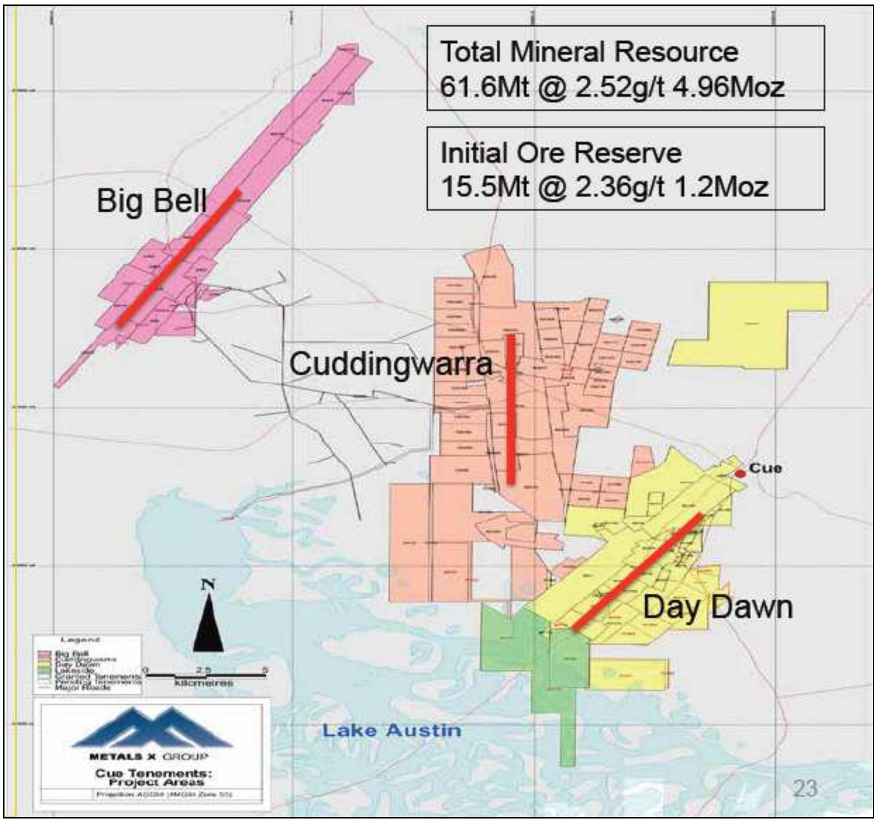
- Stage 3 of Reed's strategy was to executed concurrently with Stages 1 & 2 and would have utilised targeting and exploration techniques to convert as many of the remaining 2.8 million ounces of resources to Reserves whilst also defining additional Resources and Reserves.

The Reed strategy was halted at stage 1 as the company began to struggle with the plant's operating performance, a declining gold price and increasing working capital requirements. In July 2013, Reed announced the deferral of Stages 2 & 3 until there was a sustained increase in the prevailing gold price and an improvement in market sentiment.

Reed placed its subsidiary, GMKE in voluntary administration on August 16 2013. The administrator continued to operate the project until the end of 2013 during which period 1.26 million tonnes at a head grade of 1.22 g/t Au was mined and 1.52 million tonnes at a head grade of 1.11 g/t was processed with a metallurgical recovery of 94.6% to produce 51,087 ounces of gold.

Metals X's Vision

As mentioned briefly earlier the Central Murchison Gold Project (CMGP) was somewhat on the backburner while Metals X focused firstly on tin and then on integrating the Alacer assets. The concession is shown on the map below. The Murchison Province, approximately 600 km northeast of Perth, is the current focus of significant gold development activity in Western Australia. The Meekatharra Gold Operations are located approximately 100 km north of the CMGP.



With the arrival of the Meekatharra project the company intends to create a district-wide gold mining presence combining the latest purchase with the CGMP which has had historic production of 5.5 million ounces of gold. It hosts two of only four historic individual mines that have produced over 1 million ounces of gold. The three key gold mining centres of the CMGP are Big Bell, Cuddingwarra and Day Dawn, south of Cue.

The Total Mineral Resource estimate is 5 million ounces (62.8 mn tonnes @ 2.48 g/t Au) and Probable Reserves of 1.17 million ounces (15.5 mn tonnes @ 2.36 g/t Au).These were estimated in a Definitive Feasibility Study completed by Metals X's wholly-owned subsidiary, Westgold Resources Ltd in early 2013. The ore feeds to that plant were from the re-processing of old tailings, re-worked and virgin open pits The fundamental objective of the DFS was to have the longer-term base feed coming from proved higher grade underground mines. The DFS concluded that an annualised production rate of approximately 100,000 ounces within an initial 11 year mine life was feasible.

Under that development scenario, the DFS estimated a capital cost of $117 million to build a new 1.5 mn tpa plant and to bring the project to production.

A falling gold price and a review of the regional opportunities led Metals X to delay plans to build a new plant and await developments in the region. Metals X's strategy was to increase its gold production without exposing its shareholders to excessive capital risk.

The Plan

The forced sale of Meekatharra at a lower than liquidation price provided the opportunity Metals X had been looking for to build on its gold production. We would agree the company now has a good and proven skillset in the gold production space and that CMCP with Meekatharra makes sense. Synergies with the very distant ex-Alacer assets are somewhat less credible for us.

The company contends that the acquisition price of $2 per ounce of resource, with all the plant and infrastructure in place, is extremely attractive and we would have to agree with that. They have certainly paid way less than previous buyers of Meekatharra so have less to lose if it does not work out.

One of the <u>most</u> important considerations is that the capital expenditure of $117mn previously envisaged in the CMGP DFS is no longer necessary and has been replaced with this low-cost acquisition of a 2.5 mn tpa plant, camp and associated infrastructure for a mere $7.5mn. Their contention is that the Meekatharra deals means that there is no longer any construction risk and no construction lead-time. The CMGP component of the combined project will have marginally higher operating costs as those ores will need to incur the transport cost to the Meekatharra mill. Metals X believes that the additional operating cost and working capital risk, as opposed to the large capital cost to construct a new plant creates significant operating flexibility and avoids any obligations imposed by debt funding that would be required.

The consolidated profile of the merged projects would look like:

- ✓ 8.5 million ounce Total Mineral Resource (126 mn tonnes @ 2.10 g/t).
- ✓ 1.89 million ounce Total Ore Reserve (26.7 mn tonnes @ 2.20 g/t Au).

- ✓ 2.5 mn tpa CIP process plant (fully refurbished).

Production at Meekatharra

Despite historically being the site of substantial underground mines up to the 1950s the recent approach to all these mining centres has been to bulk mine lower-grade open pits and to cut-back previously mined open-pits driven solely by pit-optimisation algorithms without appropriate consideration of economic return, progressive cash flow management and physical risk. A more sensible approach to the newly expended mineralisations discovered at the various Meekatharra pits would be to potentially go underground, improving the grade and minimizing the stripping. Open pits had mainly been an expediency, which didn't work out profit wise in recent years.

One might be forgiven for mistaking the photo (below) of the Bluebird CIP plant for something on a model railway layout as it looks so pristine.

The Alacer Deal – Taking Candy from Babies

This transaction was the purchase, announced in September 2013 and closed in late October 2013, of the Australian assets of Alacer. This is a portfolio which represented the bulk of the Avoca assets which came to Alacer in the merger several years ago of Anatolia Development with Avoca Gold. This "merger of equals" at the time had a $2bn market cap. Under the agreement Metals X agreed to pay Alacer A$40 million with a working capital adjustments based on specific current assets and current liabilities, and gold dore at hand as at 30 September 2013.

The assets include the Higginsville Gold Operations, which consists of a 1.35 mn tpa gold plant (pictured below), the Trident and Chalice underground mines, and various associated plant and infrastructure.

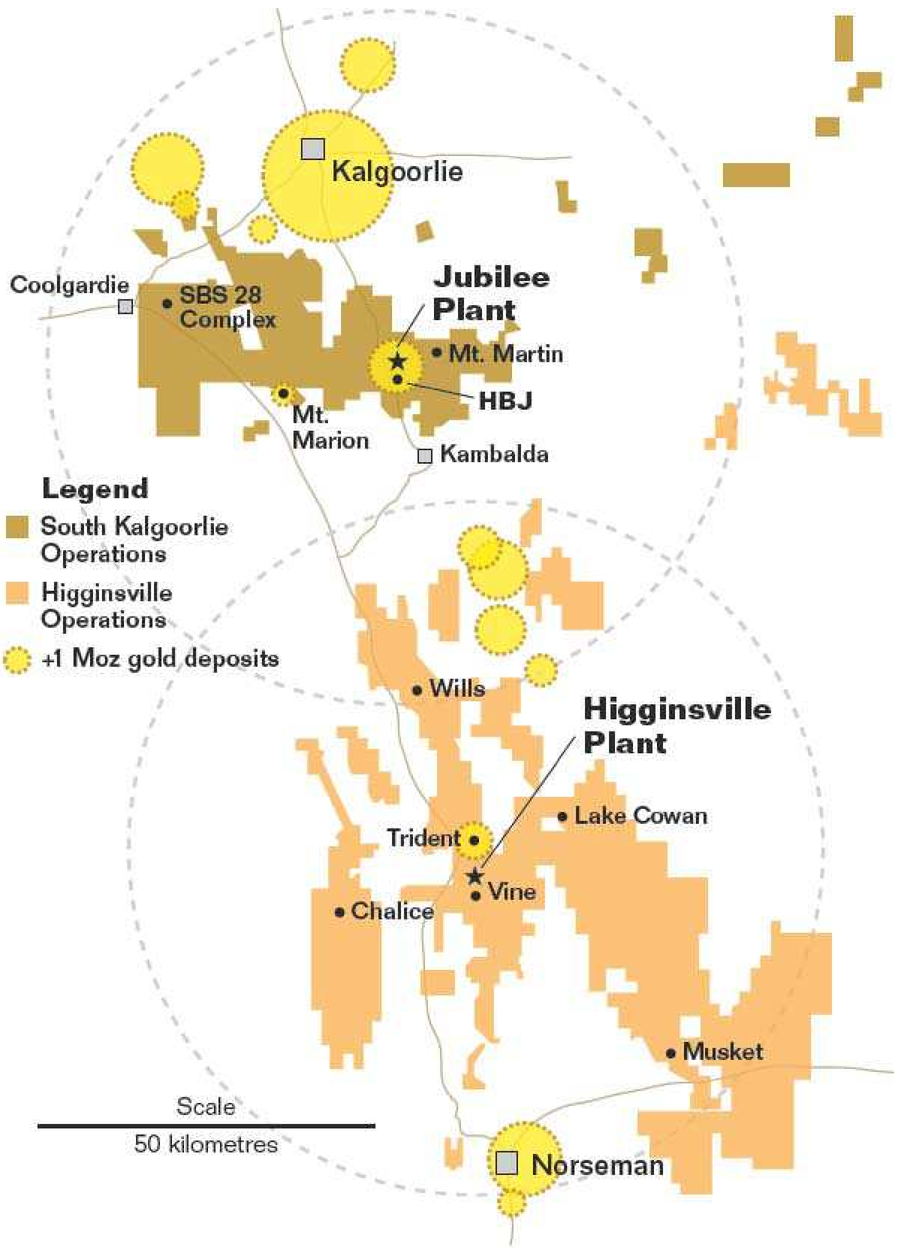
Higginsville had a NI 43-101 Mineral Resource as at 31 December of 15.9 million tonnes at 3.0 g/t Au containing 1.55 million ounces of gold. As it is an operating mine that would have been diminished since that date.

The acquisition also included the producing asset of the South Kalgoorlie Operations, which consists of a 1.2 mn tpa gold plant, a diverse list of open pit and underground mining opportunities and various associate infrastructures. The NI 43-101 Mineral Resource for this project, as at 31 December 2012 was 87.8 million tonnes at 2 g/t Au containing 5.69 million ounces of gold.

Metals X announced at the time that it intended to operate the mines on a going concern basis with no halt to gold production. This was a massive retreat for Alacer. The rationale for the sale was that total cash costs at Higginsville and South Kalgoorlie had risen in recent years. In the quarter ending June 30 they stood at $1,268 per ounce gold on production of 41,622 ounces gold. That compared to total cash costs at Alacer's Çöpler mine in Turkey at $395 per ounce (but closer to $900 on an all-in cost basis) on 68,195 ounces gold of production.

An Embarrassment of Riches

The December quarter results for Metals X showed that the Alacer buy was a bargain indeed and raises a lot of questions about the operating competence of Alacer. In the first quarter of operations, Metals X shrunk the production at Higginsville from 298K tonnes to 238K tonnes. Tonnes processed did not decline as much (these were 251k as clearly there must have been some stockpiles to work on). Head grade was up from 5.08 g/t to 5.46 g/t, recovery was pretty much the same and gold produced was 42,443 oz versus 47,310 ozs in the last quarter that Alacer operated it. Now the embarrassing part for Alacer is that the total cost of sales under Metals X management was a mere AUD$903 per oz (which equates to around US$850 per oz.



At South Kalgoorlie the gold production doubled to 8,844 ozs from the levels of the last quarter Alacer operated that facility. Total cash costs were AUD$818 per oz, giving an operating margin of over $500 per oz. Capex spend to achieve this doubling was zero……

Earnings Metrics - Gold					
South Kalgoorlie	**Sept Qtr (Alacer)**	**Dec Qtr**	**March Qtr**	**TTM**	
Gold produced (ozs)	4,375	8,844	3,208	12,052	
Revenue (Imputed) (millions)		12.24	4.51	16.75	
Gold Price Received AUD$/oz		1,384	1,406	698	av.
Cash Operating Costs $/oz		785	422	302	av.
Cash Cost of Sales $/oz after tolling credit		751	426	294	av.
Cash Operating Surplus (EBITDA)		7.35	3.20	10.55	
Depreciation & Amortisation $/oz		67	276	86	av.
Total Cost of Sales $/oz		818	702	380	av.
Higginsville	**Sept Qtr (Alacer)**	**Dec Qtr**	**March Qtr**	**TTM**	
Gold produced (ozs)	47,310	42,443	45,141	87,584	
Revenue (Imputed) (millions)		58.40	65.50	123.90	
Gold Price Received AUD$/oz		1,374	1,452	707	av.
Cash Operating Costs $/oz		699	654	338	av.
Cash Cost of Sales $/oz		825	800	406	av.
Cash Operating Surplus (EBITDA)		23.40	29.50	52.90	
Depreciation & Amortisation $/oz		78	198	69	av.
Total Cost of Sales $/oz		903	979	471	av.

The cash operating surplus in the first two quarters exceeds the totality that Alacer paid for the two properties. This means that the new owners have stumbled upon a financial gusher which definitively puts tin into the back seat even with the strongest of projections for output or cash costs at Renison.

The Tin Assets

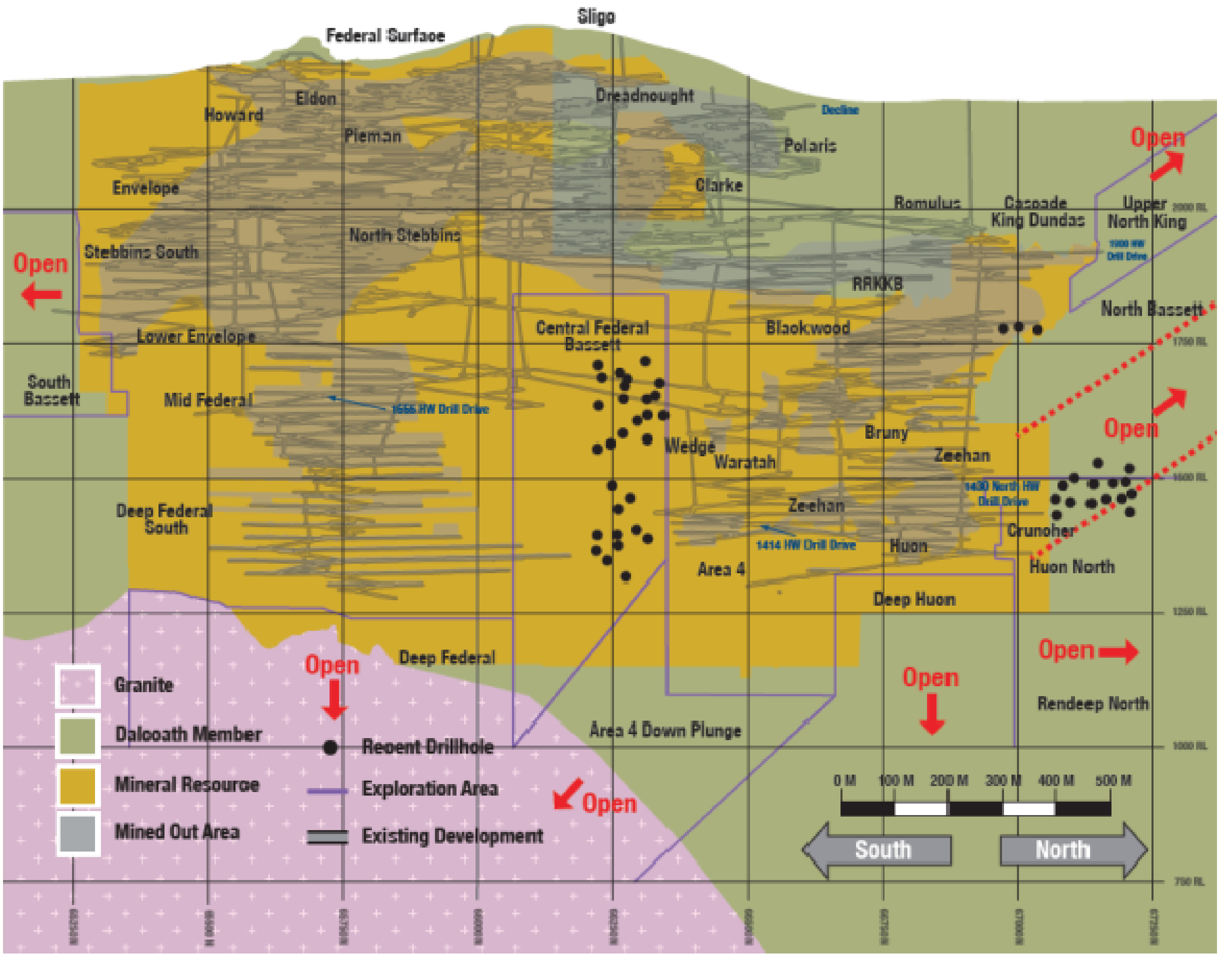
The main asset of the JV is the Renison mine complex located on the west coast of Tasmania with its hard rock tin deposit. The partner in the JV is Yunnan Tin, one of the world's largest tin players. The key assets of the Joint Venture are the Renison Tin Mine, a 700,000 tonne per annum tin concentrator plant and the Renison Expansion Project (Rentails), a tailings recovery project. Renison remains the only major tin project in production in Australia, at least at the current moment.

In 1890 tin-bearing gossan was found near Argent River by George Renison Bell. He claimed land and formed the Renison Bell Prospecting Association. In 1934 "Paddy" O'Dea amalgamated adjoining leases and mines into the Renison Associated Tin Mines NL. Hard rock mining began in 1936, from an iron-sulphide cassiterite strata-bound replacement body in dolomite. The Renison Bell mine became the largest tin mine in the world.

The Mount Lyell Mining and Railway Company Limited acquired the mine in 1958 and new ore reserves were found at depth. In 1965, a sharp increase in the price of tin stimulated intense exploration. The mine owners, Renison Limited, embarked on a AU$10 million development introducing a trackless cut and fill operation used diesel loaders and trucks via a decline into the ore zones. A combined gravity and flotation processing plant treated the ore.

In the 1970s Renison Bell gave its name to the historical conglomerate RGC (Renison Goldfields Consolidated) which once owned and operated mines in Tasmania, Western Australia, Queensland, Northern Territory, Florida, West Virginia, Papua New Guinea and Indonesia.

From the 1980s, production quotas, low tin prices, increased costs and industrial strife led to financial difficulties. Efficiencies were made through mining higher grades of ore and control of the dilution of the ore. In 1996, the $34 million Rendeep Project was implemented to develop deeper ore reserves, including an underground crusher and shaft were installed in 1996 to reduce transport costs. RGC sold the Renison Bell Mine to Murchison United NL a Brisbane-based Australian company, in August 1998.

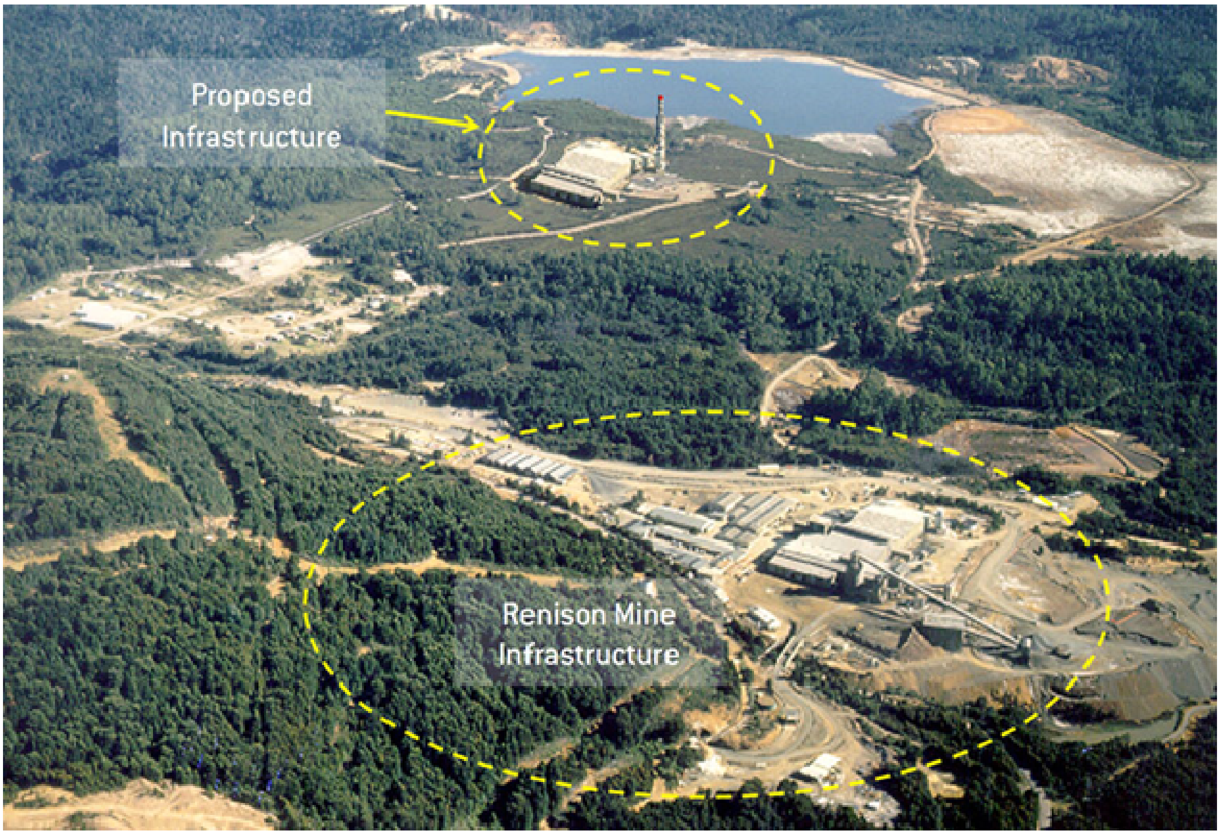


Despite the various efficiency measures made in the previous decade Murchison United was operating the mine during a period of very low tin prices and, in July 2003, went into administration and the mine production ceased.

In April 2004 the mine was purchased by Bluestone Tin Limited. It operated the mine and mill at Renison Bell, under continuing low tin prices, until placing the operation into care and maintenance in September 2005. Bluestone Tin Limited, changed its name to Metals X Limited, recommissioned the mill and mine in 2008 with the first tin produced in August 2008.

The Geology

The Renison Bell Deposit is a substantial tin orebody, estimated to contain 26 mn tonnes of 1.46% tin. The mineralisation is associated with Devonian aged granite plutons. The orebody is the largest of three major, stratabound, carbonate replacement, pyrrhotite-cassiterite deposits in western Tasmania. It is located within the Dundas trough, which is a structural domain, underlain by a thick sequence of siliciclastic and volcaniclastic rocks. Three shallowly dipping dolomite horizons located within the sub-aerial to shallow marine neoproterozoic Success Creek group and the overlying shallow marine early cambrian Crimson Creek formation host the mineralisation.



The current Resource is 245,000 tonnes of tin metal, 78% of which is JORC measured and indicated category. The project is targeting annualised tin production of 7-8,000 tonnes at an operating cash cost of approximately A$12-13,000/t, comparing favourably with current tin prices.

The current mining reserve estimate is 45,700 tonnes of contained tin with a resource of 153,000 tonnes of contained tin. In 2012, Metals X increased the mining reserve estimate by 23% and the mineral resource estimate by 13%.

Goals

The company is pushing for annualised tin production of 7-8,000 tonnes and getting operating cash costs down to approximately AUD$12-13,000 per tonne, which obviously compares favourably with current tin prices. In the most recent quarter for which results were available (March 2014) the company's tin operations:

- Mined 157,814 tonnes @ 1.37% Sn a QoQ increase of 9%
- Tonnes processed were 153,124 tonnes @ 1.38% Sn
- Tin metal in concentrates were slightly lower than December qtr at 1,1411 tonnes
- Cash cost of sales were up to AUD$20,010/t Sn

Earnings Metrics - Tin						
MLX 50% share	**June Qtr**	**Sept Qtr**	**Dec Qtr**	**March Qtr**	**TTM**	
Tin metal produced (tonnes)	1,512	1,586	1,534	1,411	6,043	
Revenue (Imputed) (millions)	16.07	18.53	18.90	17.80	71.30	
Tin Price Received AUD$/t	21,100	23,370	24,673	25,258	23,600	av.
Cash Operating Costs $/t tin	15,530	15,156	14,512	16,800	15,500	av.
Cash Cost of Sales $/t tin	17,640	17,506	17,675	20,010	18,208	av.
Cash Operating Surplus (EBITDA)	2.61	4.67	5.40	4.00	16.68	
Depreciation & Amortisation $/t tin	2,903	3,356	2,888	2,473	2,905	av.
Total Cost of Sales (C3) $/t tin (EBIT)	20,543	20,862	20,573	22,482	21,115	av.

Overall output was impacted by lower head grades with, in particular, unexpected grade variability in two stopes mined during the quarter was the main cause. Cash costs still have a long way to go before meeting the targeted AUD$12-13,000 per tonne.

The Rentails project aims to re-process and recover tin from an estimated 18.957 million tonnes of tailings that have an average grade of 0.44 per cent tin and 0.21 per cent copper, that remain at the site from the historic processing of tin ores from the Renison Bell mine.

Our Take on Tin

Opinions on the state of the tin market are more consistent than in any other metal that we know of. Even without the Indonesian action, everyone agreed the tin supply situation was sailing into a crisis, the type of crisis that is usually good for producers. Unfortunately there are either too few producers to share this potentially good fortune and/or even fewer available in easily accessible equity markets. The ASX has a few, the TSX has scarcely any.

Tin prices have been on the rise for a few years now so theoretically market forces should have lured some new players into the metal, however the better days (as in metals like Antimony) have also coincided with generally dire mining financing markets and the blowback from the excesses of the Rare Earth boom. Specialty metals, no matter how robust their virtues, have found it tough to attract promoters prepared to set up vehicles for specific metals and then finance them. Additionally the vast bulk of geos seem to have mainly precious and base metal experience, with those interested in the most challenging metals having headed to academia during the lean years. This was demonstrated amply in the REE boom where the number of really skilled geos would fit in a phone booth, the rest were frantically searching Wikipedia to bone up on the subject. That is not to say tin doesn't have geos, for production has been ongoing in South East Asia and Bolivia but they tend to have home patch focus. A student from a North American mining school coming up to graduation in 2008 saying they wanted to pursue a career in tin would have found themselves regarded as mad.

So the problem is in many ways more one of promotion. Large-scale tin deposits exist in familiar and non-exotic mining locales such as those held by Avalon and UCore and the long history of exploiting tin in Australia. The latter nation has had tin miners come and go but there have almost always been some in existence. The feast or famine in North America has not been conducive to creating listed vehicles to pursue tin opportunities even if there were competent QPs to assess the projects being promoted.

Whether vehicles exist or not, the tin price outlook for the next decade is most promising while the production profile is looking decidedly weak. The financing market remains unconducive for the proliferation of new tin stories, which in many ways is good news for those already in existence as there will be less “interference to run” on the path to production.

The danger to avoid now is a situation like that which has evolved at Metals X where a temptation to diversify risk by channeling tin profits into a gold business has essentially left the tin activity as a sideline. Any prospect of Metals X building a tin major from consolidation seems to have gone out of the window. That just leaves a plethora of juniors to be picked off by the Chinese. However this is not necessarily a bad scenario for portfolio investors if they pick the right “victim” at the best (i.e. lowest) price point.

The Nickel Project

The other asset that Metals X holds that predates the Alacer deal is the sizeable Wingellina nickel project. This project is part of the larger regional Central Musgrave Project, one of the largest undeveloped nickeliferous ‘pure oxide’ limonite accumulations in the world. The recent strong upturn in Nickel’s fortunes prompted by the Indonesian ban on exports of unelaborated concentrates is seen by Metals X as propitious for moving Wingellina out of the shadow of the gold and tin operations.

The Wingellina Project consists of 187 mn tonnes of ore at 1% nickel and 0.08% cobalt. Over 167 mn tonnes or 90% of this resource is classified as Probable Mining Reserve. The mineralogy of the Wingellina ore is a major strength of the project as unlike most Australian nickel laterite projects, Wingellina ore has characteristics suited to High Pressure Acid Leaching, with high iron grades (resource average 47% Fe_2O_3) and a very low concentration of magnesium (resource average 1.6% Mg).

Metals X has completed a Feasibility Study which defined a robust project with a minimum 40 year mine life at an average annual production rate of 40,000 tonnes of nickel and 3,000 tonnes of cobalt. The Feasibility Study assumed a nickel price of US$20,000 per tonne nickel, US$40,000 per tonne cobalt and an A$/US$ exchange rate of 0.85, resulting in an estimated NPV at 8% of $3.4 bn at a production cost of US$3.34/lb after cobalt credits. Samsung are partnering with metals X to prepare a detailed Feasibility Study. Until recently the market had little appetite for new nickel projects and Australia has a number of mothballed nickel producers at the moment. CapEx and cost overruns have left a bitter taste for backers of *de novo* nickel mines in recent years so we see this marking time for the moment but the perspectives definitely look better.

The Board and Management

Peter Newton – Non-Executive Chairman since December 2012. He was a stockbroker for 25 years until 1994. Since then he has been a significant participant in the Australian resource industry as an investor and a director of a number of listed companies. In recent years he has been the Chairman of both Hill 50 Limited and Abelle Limited. Mr Newton is also the Chairman of the Company’s Remuneration Committee.

Peter Cook – the Chief Executive Officer and Executive Director is a Geologist (BSc (Applied Geology)) and a Mineral Economist (MSc (Min. Econ), MAusIMM). In recent years he has been the Managing Director of Hill 50 Limited, the Chief Executive Officer of Harmony Gold Australia Pty Ltd, Managing Director of Abelle Limited and Chairman of both Metals Exploration Limited and Aragon Resources Limited. He has considerable experience in the fields of exploration and project and corporate management of mining companies.

During the past three years he has served as a director of the following public listed companies:

- Westgold Resources Limited* (Appointed March 2007)
- Aragon Resources Limited* (Appointed May 2007)
- Pacific Niugini Limited* (Appointed August 2009)
- Kingsrose Mining Limited (Appointed October 2010 – Resigned August 2012)
- Aziana Limited* (Appointed May 2011)
- Mongolian Resource Corporation Limited (Appointed June 2013).

Warren Hallam – an Executive Director is a Metallurgist (B. App Sci (Metallurgy)) and a Mineral Economist (MSc (Min. Econ)) and holds a Graduate Diploma in finance. He has considerable technical and commercial experience within the resources industry. In recent times he was the Managing Director of Metals Exploration Limited. During the past three years he has served as a director of the following public listed companies:

- Westgold Resources Limited* (Appointed March 2010)
- Aziana Limited* (Appointed May 2011).

Xie Penggen, a Non-Executive Director, is a Minerals Processing Engineer with over 24 years of experience in the mining industry. Mr Penggen commenced his career within the Jinchuan Group where he has undertaken various operational, technical and management roles. He is currently an executive in Jinchuan's global investment group which is responsible for the Group's international investments.

Yimin Zhang acts as the Alternate Non-Executive Director Xie Penggen. He is the Chief Representative for Jinchuan Australia and is also an Executive Director of Sino Nickel Pty Limited. Mr Zhang has worked for Jinchuan since 1981 and has been posted to several overseas positions to which he has been involved in numerous Jinchuan co-operative ventures. Mr Zhang was also recently a Director of Albidon Limited. Mr Zhang holds a Diploma from the Metallurgical and Architectural Institute of Chung Chan.

Andrew Ferguson is a Non-Executive Director. He is an Executive Director and the Chief Executive Officer of APAC Resources Limited. He holds a Bachelor of Science Degree in Natural Resource Development and worked as a mining engineer in Western Australia in the mid 1990's. In 2003, he co-founded New City Investment Managers in the United Kingdom. He has extensive experience in fund management and was the former co-fund manager of City Natural Resources High Yield Trust. In addition, he managed New City High Yield Trust Ltd and Geiger Counter Ltd. He worked as Chief Investment Officer for New City Investment Managers CQS Hong Kong, a financial institution providing investment management services. He has 14 years of experience in the finance industry specialising in global natural resources. Mr Ferguson also serves on the Company's Audit and Remuneration Committees.

Simon Heggen is a Non-Executive Director and holds a Bachelor of Economics and Bachelor of Laws Degrees from the Australian National University and worked in Investment Banking during the late 1980's and early 1990's before joining Wesfarmers' Business Development team in Perth. In 1995 he returned to Melbourne to join WMC Resources Limited in a senior corporate development role. In that position he worked on many of the transactions and development projects undertaken by the company up to and including the BHP Billiton takeover. Following that, he worked for the Cement Division of Boral

Limited in Sydney as General Manager, Business Development & Strategic Planning. He then worked in stockbroking and as a consultant to the Resources sector before becoming Managing Director of a listed exploration company. He has around 28 years' experience in strategic planning, corporate development, M&A and corporate finance within the Resources sector. He is Chairman of the Company's Audit Committee and also serves on the Remuneration Committee.

Paul Cmrlec - Non-Executive Director (Appointed - 23 July 2013) holds a Bachelor of Mining Engineering degree from the University of South Australia. He has extensive experience in feasibility studies and project development and has held a number of operational and planning roles, including the position of Underground Manager at several Western Australian gold Mines. He is currently the Managing Director of Pacific Niugini Limited and was previously a Non-Executive Director of Westgold Resources Limited, the Group Underground Mining Engineer for Harmony Gold Australia Pty Ltd and the Group Mining Engineer for Metals X. In addition to operational mining roles, his recent experience includes the general management of major feasibility studies for the Wafi Copper-Gold deposit in Papua New Guinea, and the Wingellina Nickel-Cobalt deposit.

Risks

The prime risks we can envision with the latest developments are:

- Biting off more than its can chew in adding another project so soon after the Alacer buy
- That operating costs (including transport) make production from a combined Meekatharra/CMGP operation too high
- Operating problems with the mine(s)
- Financing of the CMGP start-up
- A steeper drop-off in tin grades

Conclusion

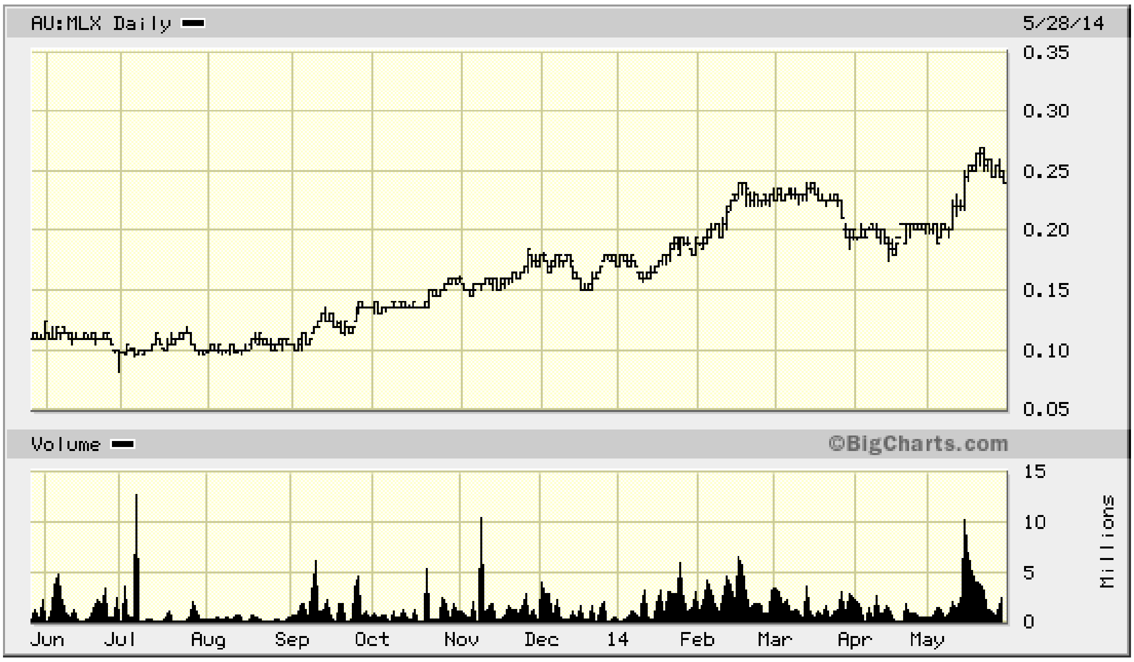
Metals X now styles itself as a "Diversified Mining House". Be that as it may, they are supreme vultures and have seemingly done very well again in the Meekatharra transaction in picking up a sizeable asset at a fraction of replacement value. This was also a good transaction for Reed Resources as it got it off the hook for a past transaction that had arrived in its hands already ill-starred. Now it can refocus on its main projects in lithium and vanadium.

This latest swoop meanwhile meshes with, and brings into the realms of possibility, the CMGP project, which had been idling awaiting an alignment of the financing planets. The negation of most of the capex of the CMGP is a major coup. Excepting the need to transport ore, the transaction looks ripe to produce economies on all fronts and transform CMGP from a long lead-time capex drain into a plug-n-play synergistic asset.

The chief problem we have with Metals X is style-drift, as they would say in the hedge fund industry. Nowhere is it written that the company has to devote itself exclusively to one metal but unfortunately the purchase in the second half of last year of Alacer's Australian gold mine may have been a bargain but it definitely muddied the waters for those wanting a pure play in the tin space. Metals X weakened its status as the premier tin play with the Alacer transaction, and the Meekatharra deal has made the tin assets look more like an eventual spin-off or sale.

The nickel and original gold assets were regarded as moot as long as the company was a tin producer. Now though the Alacer deal has shone the light away, probably forever, from the tin focus. On fundamental grounds and regarding Metals X as just “any other mining company” it is undoubtedly very attractive and its deal with Alacer was nothing short of daring and brilliant.

Our previous Neutral rating that arose from the company’s half-tin/half-gold status has now been jettisoned in favour of a **Long** rating to reflect its new preponderance in low-cost gold production. Our 12-month target price has been raised from 33 cts to 45 cts on the higher earnings outlook and the likelihood of greater market cognizance of the momentous change effected here in such a short timeframe.



Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Hallgarten's Equity Research rating system consists of LONG, SHORT and NEUTRAL recommendations. LONG suggests capital appreciation to our target price during the next twelve months, while SHORT suggests capital depreciation to our target price during the next twelve months. NEUTRAL denotes a stock that is not likely to provide outstanding performance in either direction during the next twelve months, or it is a stock that we do not wish to place a rating on at the present time. Information contained herein is based on sources that we believe to be reliable, but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer to sell or as a solicitation to buy securities.

Hallgarten & Company or persons associated do not own securities of the securities described herein and may not make purchases or sales within one month, before or after, the publication of this report. Hallgarten policy does not permit any analyst to own shares in any company that he/she covers. Additional information is available upon request.

Web access at:

Research: www.hallgartenco.com

60 Madison Ave, 6th Floor, New York, NY, 10010