

Cradle Resources Ltd

Positive PFS results

Overview

Cradle Resources has released a positive Pre-Feasibility Study (PFS) for their Panda Hill Niobium Project in Tanzania. Overall the results of the study were robust and support our belief that Panda Hill is on track to become a Niobium producer by 2018.

Key results of the PFS included extending the mine life to 30 years, initial capex (inc. working capital) of US\$195m, cash costs of US\$22/kg and an improvement to the mined head grade (LOM 0.54% Nb₂O₅, 0.68% Nb₂O₅ years 1-10).

Cradle recently announced the appointment of Claude Dufresne as a consultant to assist in securing offtake agreements for the sale of ferroniobium. Mr Dufresne was responsible for the sales and marketing of ferroniobium produced by the Niobec mine from 2001 to 2012.

Niobium is used in high strength low alloy steel production - which makes steel stronger, lighter more durable and heat resistant. Niobium's demand has been growing by approximately 8% per annum over the past decade and its price has been at record highs over the past few years. There are only three producers of niobium globally, with over 90% of the world's production coming from Brazil.

Catalysts

Key share price catalysts over the next 12 months include:

- Tremont – 3rd instalment – 2Q/3Q15
- Resource upgrade – 2Q15
- Further metallurgical results – 3Q15
- Definitive Feasibility Study – late 15 / early 16;
- Niobium Offtake - late 15 / early 16;
- Project Finance – late 15 / early 16; and
- Decision to mine - 1H16.

Investment View

We have slightly increased our valuation from **\$0.53 to \$0.54 per share** based on the results of the PFS and a 2Mtpa operation.

As highlighted in the PFS, Cradle will focus on a smaller 1Mtpa operation in the DFS. We have therefore also considered a scenario that examines a 1Mtpa operation for the first 5 years of production, before increasing to 2Mtpa operation. **This scenario would see our valuation slightly drop to \$0.51/share.**

However, we believe the potential benefits of this scenario outweigh the slightly higher valuation from the PFS. This scenario would see a **reduction in the initial Capex** as well as reduce the **offtake requirement** (offtake is essential for debt financing). Thereby making **debt financing** more achievable within the current production timeframe.

PFS RESULTS - UPDATE

Mining - Development

March 2015

Share Price	A\$0.22
Intrinsic Value per share	A\$0.54
Implied Return	145%

Company Information

ASX Code	CXX
Ord Shares	147.5M
Options	9.6M
Market Cap	A\$32.7M
Cash (Dec 14)	A\$2.9M
Total Debt (Dec 14)	A\$0.0M

Board & Management

Craig Burton	Chairman
Grant Davey	MD
Evan Cranston	NED
Didier Murica	NED

Substantial Shareholders

Verona Capital	17.6%
Edwards Family	10.4%
Arredo Pty Ltd	9.5%
Aviemore Capital	8.4%

Share Price

52 week High	A\$0.22
52 week Low	A\$0.14
3m avg dail vol	51k
3m avg daily value	A\$9k

Initiation Video

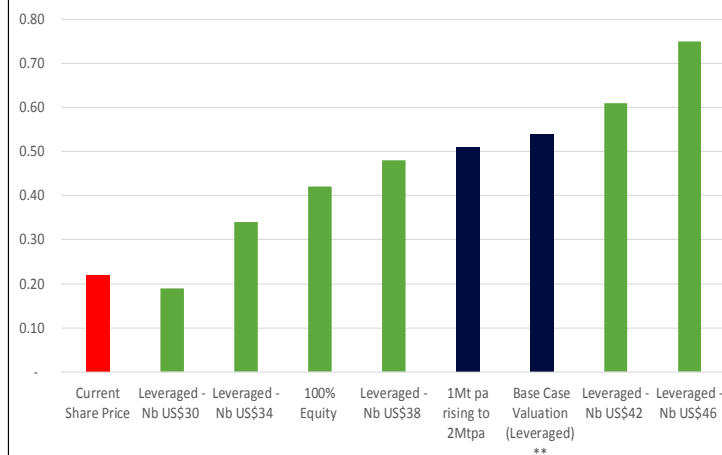


Cradle Resources

Company Ticker	CXX.ASX	Cash - TSI Estimate (A\$)	2.9
Shares on issue - current (m)	147.5	Debt (A\$)	0.0
Share Price (A\$)	0.22	EV (A\$m)	29.5
Market Cap (A\$m)	32.4	Valuation/share (A\$)	0.54
Industry	Mining - Niobium	Intrinsic Value - TSI (A\$m)	258.9
Stage of Development	PFS	Implied Return (%)	145%
Project Location	Tanzania	P/NAV (x)	0.41

Year end: 30 June, Att. Ownership (50%) shown unless otherwise stated

Valuation	Disc' rate	Ownership	NAV	Valuation/share (A\$)*	Ratios	2017	2018	2019	2020
Panda Hill - Base Case Valuation (Leveraged)**	10%	50%	\$180.9	\$0.37	EPS (A\$)	(-\$0.00)	\$0.09	\$0.15	\$0.15
Unpaid capital & new equity			\$75.1	\$0.16	FCFPS (A\$)	(-\$0.27)	\$0.10	\$0.16	\$0.16
Cash - TSI Estimate			\$2.9	\$0.01	P/E ratio (x)	-64.9	2.4	1.5	1.4
Total NAV			\$258.9	\$0.54	P/FCF (x)	-0.8	2.2	1.4	1.4
* Fully diluted for options, convertible note and project dev				* 484.3 M shares	EV/EBITDA	-20.4	0.7	0.4	0.4
**Inclusive of tax & corporate costs					Shares on issue (m)	484.3	484.3	484.3	484.3



Earnings (A\$ m)	2017	2018	2019	2020
Revenue & other Inc.	\$0.1	\$104.1	\$150.0	\$151.7
Operating Costs	\$0.0	\$55.4	\$79.1	\$79.1
Other Expenses	\$1.5	\$3.5	\$3.5	\$3.5
Exp & Eval	\$0.0	\$0.0	\$0.0	\$0.0
EBITDA	(-\$1.4)	\$45.2	\$67.4	\$69.0
Depreciation	\$0.0	\$3.9	\$5.6	\$5.7
Interest Expense	\$0.0	\$4.3	\$3.9	\$3.1
Tax	\$0.0	(-\$7.6)	(-\$13.5)	(-\$13.7)
Profit (loss) after tax	(-\$1.4)	\$44.7	\$71.4	\$74.0

Balance Sheet (A\$ m)	2017	2018	2019	2020
Cash	\$1.1	\$49.7	\$114.4	\$180.7
PPE & Exp. & Dev.	\$117.4	\$114.5	\$111.0	\$108.2
Total Assets	\$119.3	\$164.8	\$226.0	\$289.7
Senior Debt Facility	\$56.3	\$56.3	\$44.9	\$33.6

Price Assumptions	2017	2018	2019	2020
Niobium Price - (\$US / kg)	\$40.00	\$40.00	\$40.00	\$40.00
Niobium Price - (A\$ / kg)	\$52.63	\$53.33	\$53.33	\$53.33
FX (\$A:\$USD)	0.76	0.75	0.75	0.75

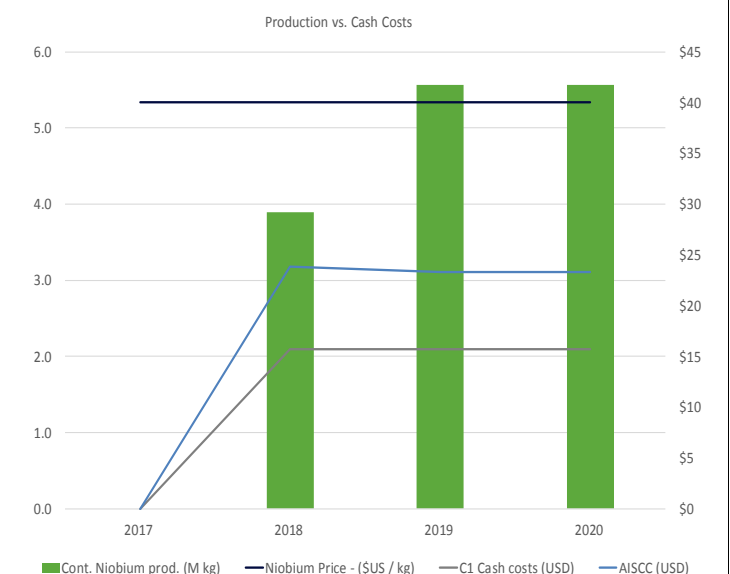
Cash flow Generation (A\$ m)	2017	2018	2019	2020
Cash flow generated	(-\$1.4)	\$48.6	\$64.7	\$66.4
Equity Placement	\$71.8	\$0.0	\$0.0	\$0.0
Capital Expenditure	\$128.0	\$0.0	\$1.0	\$2.0

Production Profile (100% Project)	2017	2018	2019	2020
Ore Mined (Mt)	0.0	1.4	2.0	2.0
Tonnes Mined (Mt)	0.0	4.6	6.6	6.6
Strip Ratio	0.0	2.3	2.3	2.3
Head Grade %	0.00%	0.68%	0.68%	0.68%
Cont. Niobium mined (M kg)	0.0	9.5	13.6	13.6
Ferro-niobium prod. (M kg)	0.00	5.90	8.43	8.43
Grade %	0%	66%	66%	66%
Cont. Niobium prod. (M kg)	0.00	3.90	5.57	5.57

Cash costs - kg	2017	2018	2019	2020
C1 Cash costs (USD)	\$0.00	\$15.74	\$15.74	\$15.74
C1 Cash costs (AUD)	\$0.00	\$20.99	\$20.99	\$20.99
AI SCC (USD)	\$0.00	\$23.86	\$23.29	\$23.33
AI SCC (AUD)	\$0.00	\$31.82	\$31.05	\$31.10

Resource (100% Project)	Tonnes	Nb2O5%	Nb2O5 Content (kt)	As at (date):
Indicated	5.4	0.6	33.5	31 - Oct - 13
Inferred	76.4	0.5	389.6	31 - Oct - 13
Total	81.8	160.9	423.1	31 - Oct - 13

Source: Company Data, TSI Assumptions



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