

Rafaella Resources Limited

Diversified Metals and Mining

BUY

RFR A\$0.07

TARGET PRICE A\$0.37

The Santa Comba Project in Spain is RFR's flagship project. Tungsten and tin were mined in commercially significant quantities between 1980 and 1985 from underground. There has been significant recent investment in a new process plant, and the project maintains a strong social licence to operate.

The recent discovery of a near-surface resource at Santa Comba suggests meaningful additional shallow tonnage could be developed via low cost, open pit mining. The significant upside in resources can also add substantial value to the project.

Further allure is added by the proximity to deep water ports via sealed roads, grid power and developed infrastructure. Together with key industry support from Transamine and HC Starck and a number of funding options, this is a compelling opportunity to re-commission the mine and fast track production and cash flow.

We rate RFR a BUY with a valuation of AUD27M and price target of AUD0.37ps.

Company Data

Issued Ordinary Shares (incl Restricted)	72.6 M
Market Capitalisation	\$5.1 M
Free float (%)	N/A
12-month high/low	\$0.21/\$0.05
Average Daily Turnover (\$m)	N/A
% S&P/ASX200	N/A
DDM Ranking	N/A
% All Ordinaries	N/A
GICS Industry Group	Materials

Source: FactSet, EverBlu Capital

Share price performance

RFR – ASX



Source: IRESS

Ready, Set,.....

Rapid Production Build-Up

- The Santa Comba project is located in a productive tin and tungsten province in Spain, is permitted for underground and partially permitted for open pit mining until 2068, with a recent JORC (2012) Inferred Resource.
- Following the successful capital raising of AUD2.6M in connection with its acquisition of the Santa Comba tungsten project RFR is moving swiftly with resource drilling recently completed and a feasibility study well underway.
- Transamine Trading SA has agreed to support the project with 100% offtake for three years and has agreed to provide marketing and logistics services as well as committing AUD1M support followed by a further AUD0.5M upon the delivery of a positive feasibility study and the grant of any development financing that allows advance to construction, subject to final documentation.
- The metallurgical test work programme is also progressing with samples sent for preliminary tests. RFR has engaged leading ore sorting company Tomra Sorting GmbH and engineering consultancy Grinding Solutions Ltd to advance the met programme. The test-work commenced in parallel with the drilling programme to fast track the feasibility study.

Low Capex Requirement

- The project is located adjacent to an operating quarry and concrete plant, and close to infrastructure including a sealed road, three deep-water ports.
- Large capital expenditure plant items are already on site. Conveyors, crushers, plant and a product shed are already setup and the council has allowed the use of its building as mine offices.
- Underground workings are already established largely eliminating the need for initial underground development.
- Limited pre-stripping required for the open cut as surface mineralisation can be accessed via the current quarry workings.

Resource Upgrade Imminent

- The recent large near-surface resource discovery on the property remains mostly undrilled and the company has just completed a drilling programme to both extend and increase confidence in the previous Inferred Resource.
- RFR has completed 65 holes for 8,750m of drilling.
- Assay results confirm the project hosts near-surface resources amenable to low cost, open pit mining. Importantly, the initial assay results come from outside the pre-existing near-surface MRE, confirming continuity of tungsten mineralisation.
- The resource upgrade is expected in Q2 2020, laying the foundation for a further upgrade to reserves once the feasibility study is complete.
- Significant upside in the size of the resource exists which would enhance the value of the project substantially. Our upside Case indicates a possible valuation of AUD139M or AUD1.91/share.

Company Background

Summary

RFR raised AUD5M in a successful IPO and commenced trading on the ASX on 26 July 2018. Prior to listing, Rafaella acquired two projects, the McCleery Project (cobalt and copper) in Yukon Territory, Canada, and the Sandstone Project (gold) in Western Australia, on the basis that they were under-explored and thus had significant development potential.

In May 2019, RFR announced that it had entered an agreement to acquire Galicia Tin and Tungsten Company (GTT) which owns the mining licences comprising the Santa Comba tin and tungsten project in northwest Spain. The project is fully permitted for underground and partially permitted for open cut mining and has most infrastructure in place to allow a fast track to production.

To support the development of the proposed acquisition in Spain, RFR announced in May 2019 that it would conduct a share placement to raise AUD2.6M which has since been completed and will go toward conclusion of the resource drilling campaign and feasibility study on the Santa Comba Project.

RFR is also currently furthering its understanding of its McCleery project with a geochemistry mapping programme scheduled for June 2020.

RFR recently decided to dispose of its 100% interest in the Sandstone Project to Westar Resources Ltd, a private gold exploration company, focussing cash resources on fast tracking the development of the Santa Comba Tungsten Project.

Valuation & Price Target

Summary

We have based our valuation of the RFR using Net Present Value analysis based on metrics supplied by RFR and estimates made by EverBlu.. Using our Base Case Scenario we assess RFR at AUD27M. Assuming 72.6M shares on issue this translates into a value of AUD0.37 cents per share.

Valuation

There are not very many exclusive tungsten producers / developers / explorers listed globally that share the unique characteristics of RFR's Santa Comba project. The ability of RFR to be able to fast track production and cash flow also adds comparison challenges. As RFR is both exploring as well as re-commissioning sections of the project we believe that RFR will soon be considered a potential producer and should enjoy a rapid revaluation once the market recognises this.

FIGURE 1: SANTA COMBA PROJECT ASSUMPTIONS AND SCENARIOS

Item	Base Case	Upside Case
LOM (years)	11	20
Production Start	2022	2022
Tungsten Price (USD/mtu)	250	250
Tin Price (USD/t)	16,000	16,000
Exchange Rate (AUD:USD)	0.70	0.70
Ore Reserve	6Mt@ 0.22%WO ₃ & 0.015%Sn	30Mt @ 0.22%WO ₃ & 0.015%Sn
Capital Expenditure (USDm)	8	35
Annual Ore Processed (kt)	680	1,800
WO ₃ Grade (%)	0.22	0.22
Sn Grade (%)	0.015	0.015
WO ₃ Recovery (%)	70	70
Sn Recovery (%)	65	65
WO ₃ Payability (%)	80	80
WO ₃ Conc Grade	65	65
Total Cash Costs (USD/mtu WO ₃)	135	110
Depreciation (% of Capex)	10	5
Annual Maintenance Cap (USDm)	0.5	1.0
Tax Rate (%)	25	25
Discount Rate (%)	7.5	7.5

GTT is assessing development of the project, initially focusing on an open pit operation within the current aggregate mining permitted area. This would involve completion of the construction of the processing plant, and

commencement of contractor operated open pit mining after feasibility studies at an estimated capital cost of USD8M. Using our base case parameters in Fig. 1, a long term WO₃ price of USD250/mtu results in project a value of AUD27M whilst at USD300/mtu the value jumps to AUD52M. With issued share capital at 72.6M, this translates into AUD0.37/share and AUD0.72/share respectively.

FIGURE 2: BASE CASE VALUATION AND SENSITIVITY - AUDM

Discount Rate (%)	WO ₃ Price (\$/mtu)		
	250	300	350
5.0	34	65	96
7.5	27	52	78
10.0	21	43	65

Source: Company, EverBlu Estimates

EverBlu has assessed an upgraded scenario with production initially commencing from the open pit, followed by Mina Carmen underground and Vilar underground and finally a long-life larger open pit operation. Total pre-production capex under this scenario is estimated at USD35M. Under this scenario, 680 ktpa of ore is treated for the first 2 years and then throughput ramps up to 1.8Mtpa (LOM of 20 years). The valuations are reflected in the table below but being able to extend the life, as well as increase production could see valuations in the vicinity of AUD139M or AUD1.91/share.

FIGURE 3: UPSIDE CASE VALUATION AND SENSITIVITY - AUDM

Discount Rate (%)	WO ₃ Price (\$/mtu)		
	250	300	350
5.0	195	304	414
7.5	139	223	306
10.0	101	166	231

Source: Company, EverBlu Estimates

The Santa Comba Project (100%)

Background

The Santa Comba project is located in a historically productive tungsten and tin province and close to deep-water ports, and is permitted for underground and partially permitted for open pit mining. A recent JORC (2012) Inferred Mineral Resource in both areas has been established. The recently discovered large, near surface resource on the property, amenable to open pit mining, remains mostly undrilled. An offer of offtake and associated 100% project debt financing subject to a positive feasibility study has been secured via a leading global German-based consumer, H.C Starck Tungsten GmbH.

The focus of RFR's recently completed drilling programme was to upgrade and define extensions to the near-surface JORC Mineral Resource Estimate in order to confirm the base case production scenario for the feasibility study. This updated resource is expected during Q2 2020.

In June 2019, RFR announced that a far larger near-surface exploration target had been defined at the Santa Comba project, which forms the basis for the Company's upside case with a far larger open cut operation. That same month, Transamine Trading SA, the world's oldest independent and privately-held commodities trading company conditionally agreed to provide both financial and operational support to the Santa Comba project.

The Santa Comba underground was mined in commercially significant quantities between 1980 and 1985, before becoming uneconomic due to low tin and tungsten prices. However surging demand and prices for tungsten and tin – valued for their varied industrial uses including construction, automotive, aerospace and electronics – means RFR believes there is a compelling opportunity to re-commission the mine given the low capex requirements. In addition, the recent discovery by GTT of the near-surface resource at Santa Comba suggests significant additional shallow tonnage could be developed via open pit mining.

FIGURE 4: SANTA COMBA PROJECT, GALICIA, SPAIN



Source: Company Reports

Galicia Tin & Tungsten (GTT)

GTT holds 15 granted mining licences, valid until 2068, in the province of La Coruña (part of the autonomous community of Galicia). Galicia is a top-tier mining jurisdiction and the region is known as a rich tungsten and tin province. The mining licences cover the 7km long Santa Comba mineralised granite massif. The Project is fully permitted for underground and partial open pit mining. The partially permitted open pit covers an existing aggregates quarry mine and includes two thirds of GTT's current near surface JORC Inferred Resource, suggesting several years of mining before having to extend the permitted area. GTT defined maiden JORC (2012) MRE in 2016 for both near-surface disseminated and underground vein-style mineralisation following its maiden drilling program and assessment of historical data.

FIGURE 5: SANTA COMBA PROJECT PROCESS PLANT



Source: Company Reports

Management intends to focus on developing the newly discovered near-surface mineralisation, which looks to be amenable for open pit mining.

Geology

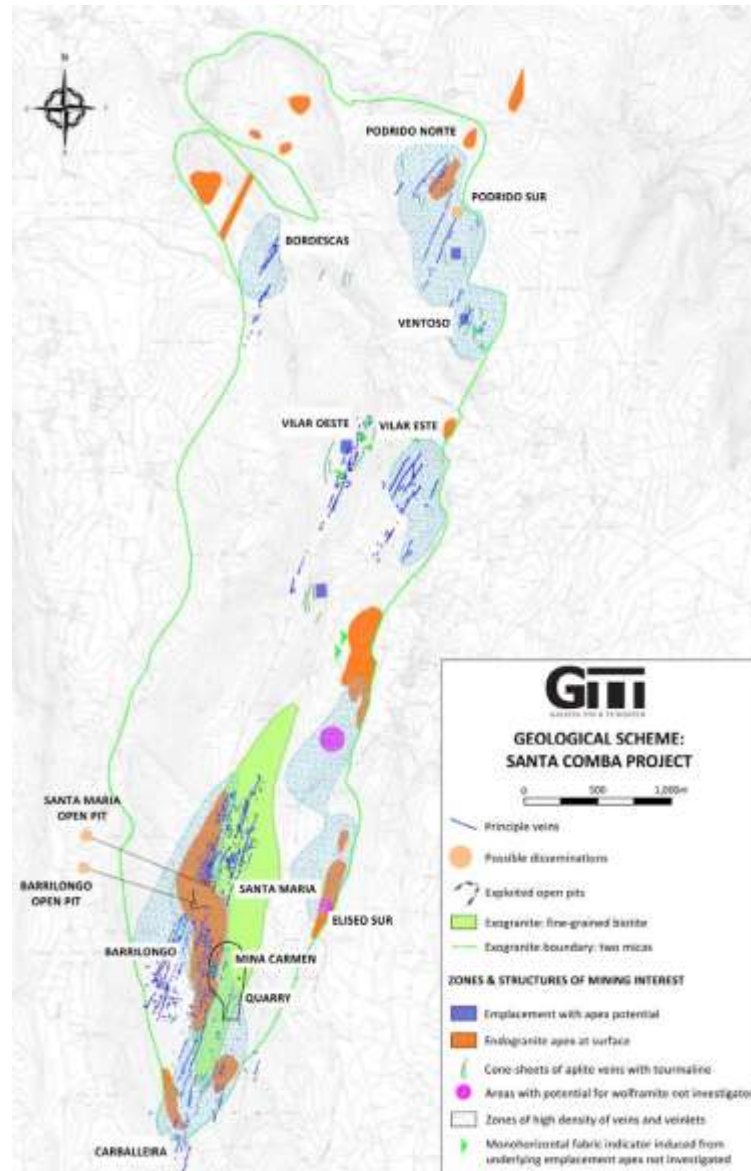
Santa Comba is the property name and also the general name for the large granite batholith that hosts the tungsten-tin vein-type mineralisation. Mina Carmen refers to the pre-existing Santa Comba underground mine. The aggregate quarry operations is situated above the central Mina Carmen underground mine and contains additional resources of disseminated and vein-hosted wolframite mineralisation. Mineralised areas adjacent to Mina Carmen include Santa María and Barrilongo, both of which were sites of artisanal mining and more modern mining methods utilised by CMSC (Compañía Minera Santa Comba). CMSC subsequently sold the mine to French group Coparex in 1980.

In the surrounding region several other sites of mineralisation and historic artisanal mining are identified collectively termed the "North Zones". The main prospects in this area include, but are not limited to:

- Vilar Este (East) and Vilar Oeste (West) prospects: 3km NNE of Mina Carmen. These prospects have the potential for additional underground operations and have been the subject of scoping level studies by previous owners
- Podrido Sur and Podrido Norte: 5km NNE of Mina Carmen. Also the site of historical mining.

- Eliseo Sur: 800m NE of Mina Carmen. Rock chip sampling and drilling has delineated a highly prospective area that is an obvious target for additional open pit mining operations.

FIGURE 6: SANTA COMBA PROJECT – GEOLOGY AND PROSPECTS



Source: Company Reports

There are two basic mineralisation styles:

Vein mineralisation

As is common in narrow vein-hosted tungsten deposits, the mineralisation has an irregular distribution within the veins, both vertically and horizontally. This is highlighted in face maps produced by Coparex at development drift fronts. Mineralisation is formed mainly of crystal masses consisting of wolframite, cassiterite and in some areas, scheelite. Accompanying minerals are mainly sulphides (arsenopyrite, pyrite and chalcopyrite), tourmaline and garnet.

There is a certain zonal structure of the veins at the prospect scale in relation to the hosting granite. In the southern area, tin content increases and is linked to arsenic. These are at their maximum in the metamorphics in the south. The metal zonation has been interpreted to reflect a general southward dip to the entire vein

system. Fracturing is post-mineralisation, such as the Restrevas and Carballeira faults, which have a dextral sense. Minor fractures also occur but do not affect the exploitation.

Based on the current knowledge of the Project area, underground mining will focus on individual wolframite bearing quartz veins and open pit mining will focus on the areas where the granite host contains disseminated wolframite and veinlets of economic grade (e.g. Quarry and Eliseo Sur prospects).

Disseminated mineralisation

Disseminated wolframite mineralisation typically occurs as isolated grains of 1 - 2mm in size and exceptionally in clusters up to 5cm in diameter. This style of mineralisation occurs exclusively within the endogranite lithology and is particularly prevalent above the Mina Carmen workings within the quarry area.

Mineral Reserves And Resources

The Project hosts a high-grade, vein-hosted underground JORC (2012) Inferred Mineral Resource estimate of 234,000 tonnes at 0.95% WO₃ and 0.28% Sn contained within 4 primary veins within the historic Mina Carmen underground mine. Extensive underground development (~7km), vein and gallery (stope) exploitation records and mine planning information from the Coparex historical operations enabled GTT to build up detailed 2D and 3D models of the primary mineralised underground veins. This information was used in the estimation of the MRE.

FIGURE 7: SANTA COMBA PROJECT - MRE

Area	Classification	Tonnage (Mt)	Grade (WO ₃ %)	WO ₃ (kt)
Surface	Inferred	5.1	0.20	10.4
Underground	Inferred	0.2	0.95	2.2
Total	Inferred	5.3	0.24	12.6

Source: Company Reports

1t W = 1.26t WO₃

The near-surface disseminated and veinlet JORC (2012) Inferred MRE is based on 23 drill holes (2,275m) conducted over less than 10% of the prospective endogranite lithology. 5.1 million tonnes with an average grade of 0.203% WO₃ has been defined. Individual lode widths range from 2m to 30m. As part of the feasibility studies, RFR will assess this style of mineralisation for potential open pit mining.

FIGURE 8: RESOURCE DRILLING OF SANTA COMBA MASSIF



Source: Company Reports

Feasibility Study

RFR has appointed John Webster to the role of Feasibility Study Manager in which he will be responsible for delivering the Feasibility Study and ensuring that the Santa Comba Project optimises the mine plan and process flow sheet.

Mr Webster brings considerable expertise in high grade narrow vein underground mining and the application of gravity processing, all highly relevant to the Santa Comba Project. He has worked in senior operational roles in underground and open pit mines in the UK, Russia, and Kazakhstan with a specialisation in gold, copper, tin and tungsten. He graduated from the Camborne School of Mines as a mining engineer in 1980.

RFR has engaged Tomra Sorting GmbH ('Tomra') to conduct ore sorting test-work on bulk samples using 1 to 3 tonnes of the Santa Comba ore to validate and quantify the potential benefit to be derived from ore sorting at the mine site. Other benefits that may accrue include the upgrading of sub-grade ores (below cut-off) and highly diluted high-grade veinlets. The review of both open pit and underground ore sorting methods will form part of a review of equipment to lower mining costs. Early test-work has indicated that the Santa Comba ore should be amenable to ore sorting and its benefits.

Tomra is a world-leading German engineering firm that provides ore sorting technology to the mining and other industries. Tomra already successfully provides ore sorting services to the tungsten mining industry.

The application of ore sorting allows the mine to deliver a higher-grade pre-concentrate to the process plant, thereby reducing energy and water consumption by requiring a lower throughput plant to produce the same output of end product.

An optimum process flowsheet for plant design and equipment selection, process recoveries and economics will be configured. Capex and Opex calculations for the process plant will be driven by this work.

Drilling Update

RFR recently announced strong assay results from the its current drilling programme at GTT.

The results have confirmed continuity of tungsten (wolframite & scheelite) mineralisation with the initial drill hole being located ~60m along strike from pre-existing drill hole intersections. The tungsten mineralisation intersected occurs to the east of the JORC (2012) Inferred MRE, thereby supporting RFR's ambition to expand the resource base. To date, 65 drill holes have been completed on the project totalling 8,750m. The majority of the drilling has occurred in and adjacent to the operating aggregate quarry area where the majority of the JORC (2012) Inferred MRE was previously defined. An updated JORC Resource report is expected in Q2 2020.

The McCleery Project (100%)

The McCleery Project is located within the Yukon Territory, Canada, approximately 170km southeast of Whitehorse, the territorial capital of the Yukon. Teslin, the nearest town, with a population of 2,000 is approximately 40km southwest of the Project.

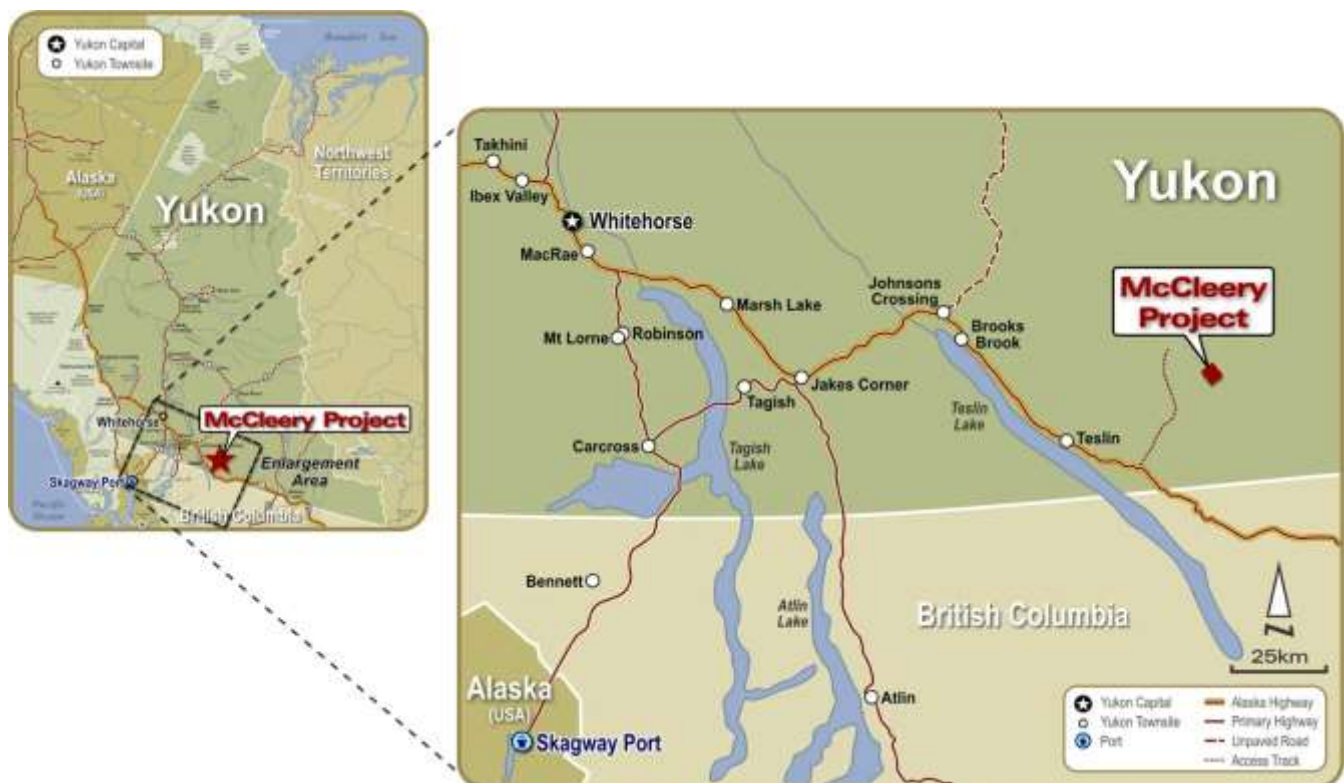
RFR undertook a number of activities in FY19 that culminated in the obtaining of final modelling results from a Versatile Time Domain Electromagnetic (VTEM) survey of the Project.

In August 2018, RFR secured 142 new claims adjoining the McCleery Project, engaging local geological consultants in Whitehorse to study regional historical exploration information. That same month, RFR discovered its first new copper sample at the Project. It views the additional copper occurrence as adding support to the potential for a larger mineralised system in the area of the Project. Given the nature of the mineralisation recorded, RFR booked a VTEM survey to cover both the new and original areas of the Project. The survey was flown from the nearby town of Teslin, Yukon, and surveyed an area consisting of 454-line kilometres. At the same time the entire geochemistry of the Project was compiled into a single database, then mapped and modelled.

The presence of modelled VTEM anomalies coupled with the established copper, gold and base metal occurrences at the Project has given RFR and its technical team significant confidence to plan programmes to test the various targets within the Project for VMS/skarn style mineralisation.

RFR is currently scheduling a geochemical mapping programme to further study the anomalies, scheduled to commence in June 2020.

FIGURE 9: THE MCCLEERY PROJECT



Source: Company Reports

23 April 2020

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EverBlu Capital provides research services to its client. Mr Van Der Wath is a Research Analyst and has over twenty eight years' experience in the financial services industry, particularly in financial analysis, research report writing and portfolio management as well as twelve years' practical mining experience as a Mining Engineer. Mr Van Der Wath joined the EverBlu team in 2016 where he has been involved in the research and publication of reports. Prior to this Mr Van der Wath worked at a number of financial entities where he held Director, Head of Research, Portfolio Manager and Analyst positions. Mr van der Wath holds a Bachelor of Science (Mining Engineering) and a Graduate Diploma in Engineering (Industrial) from the University of the Witwatersrand and a Bachelor of Commerce from the University of South Africa. He also holds Mine Manager's Certificates of Competency in both Metalliferous and Coal Mines.

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EverBlu Capital Analyst Gavin Van Der Wath, the author of this report has been in contact with Rafaella Resources Limited as part of the preparation of this report, for the verification of facts.

EverBlu Capital declares that it acted as Lead Manager in the Initial Public Offering of Rafaella Resources Limited announced by the ASX on 24 July 2018 for which it received fees.

23 April 2020

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EverBlu Capital declares that it acted as Lead Manager in the \$2.8 million Rafaella Resources Limited Capital Raise announced by the ASX on 19 August 2019 for which it received fees..

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