

09 Mar 2017

Stock Data

Ticker	SML LN
Share Price:	0.78p
Number of shares	1,218m
Market Cap:	£9.4m
EV:	£8.8m

Price Chart



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Opening a new era in Cornish tin

Key Points

- Strategic Minerals is commencing drilling of its 50% owned Redmoor tin prospect in a historic tin mining district of Cornwall.
- The new, 23-hole, programme is aimed at upgrading and expanding the high grade part of the current inferred resource base of 13.3m tonnes at an average grade of 0.21% tin, 0.32% copper and 0.16% WO₃.
- Early stage exploration in Western Australia has confirmed the mineral potential of the Hann's Camp tenement and encountered grades of up to 1% nickel in two of the three exploration holes drilled to date along with cobalt grades of up to 1.85% over a 2km long strike.
- The cash flow from the Cobre magnetite business more than covers corporate costs and distinguishes Strategic Minerals from many of its peer group as a profitable company.
- Our Base case, based on a "sum-of-the-parts" estimate, values Strategic Minerals at £16.0m or 1.31p/share.
- We see scope to enhance this valuation if the forthcoming drilling programme at Redmoor generates an increased and/or enhanced ore resource estimate.

Summary

Unlike many of its junior mining peers group, Strategic Minerals' Cobre magnetite business in New Mexico provides a source of cash flow to support both corporate costs and the continuing exploration of its Cornish and Western Australian projects.

The portfolio of both Australian nickel/cobalt and Cornish tin projects further diversifies the company's risk profile from both a commodity and geographical perspective, while retaining the benefits of operating in developed economies with ready access to infrastructure, expertise and support services.

The forthcoming drilling programme in Cornwall seeks to extend the vertical and lateral extent of the known deposit at Redmoor and to upgrade the resource estimate from its current inferred status. A successful outcome to this programme provides potential uplift to our base case value estimate of £16.0m.

Figure 1 Historic Mining Activity at Redmoor



Processing plant at Redmoor circa 1920's

Source: SP Angel, Company

Summary

Strategic Minerals is relatively unusual among the junior AIM listed mining companies in having a cash generative asset from its access to the Cobre magnetite stockpile in New Mexico. Although the group's more high-profile activities comprise nickel/cobalt exploration in the Hann's Creek area of Western Australia and the potential rejuvenation of a promising tin district at Redmoor in eastern Cornwall, Cobre provides an important financial safety net which can cover the Group's central overheads.

We have assessed the constituent parts of the company to derive a range of values between £16.0m to £22.4m as summarised in the table below:-

Table 1 Valuation Summary

Strategic Minerals Valuation Summary				
	£m		Pence/share	
	Base Case	Upside Case	Base Case	Upside Case
Redmoor	6.12	8.21	0.50	0.67
Cobre	3.30	5.50	0.27	0.45
Hanns Creek	6.55	8.65	0.54	0.72
Total	15.97	22.36	1.31	1.84

Source SP Angel Estimates

Redmoor (SNC 50%) Cornwall Resources Limited JV

The Redmoor area is an historic tin mining area with a recorded tin, tungsten, lead, silver and copper production from the eighteenth century until closure in 1888. The mines reopened briefly between 1907 and 1914 and again in 1934 and 1943. There was some drilling, amounting to around 12,000 metres conducted during the early 1980s and Strategic Minerals is now planning to drill a further series of exploration holes during 2017 with a view to upgrading and expanding the 13.3m tonnes inferred resource averaging 0.21% tin, 0.16% tungsten trioxide and 0.32% copper which was established using the 1980s drilling.

We estimate the value of Redmoor based on a direct comparison with the market value of the owner of the other 50% of the project and also by comparison with the market value of a basket of 4 other companies with advanced tin exploration/development projects around the world. On this basis, we estimate that Strategic Minerals' interest in Redmoor is worth between £6.9m and £8.2m although there remains scope for an upgrading of this valuation in the event of a successful drilling campaign.

Hann's Camp Nickel/Cobalt (50%)

Strategic Minerals holds a 50% interest in over 400 km² at Hann's Creek in the Laverton area of Western Australia (Central Australian Rare Earths 50%). An initial three-hole drilling programme in June 2016 encountered nickel mineralisation in excess of 20m down-hole width in two of the 3 holes drilled. Recent analysis also shows the presence of prospective levels of cobalt mineralisation.

Based on the market valuation accorded to the ground holdings of 5 other nickel explorers in the region, we estimate that we estimate that Strategic Minerals' holding is worth between £6.55m for the weighted average of the cohort of companies and up to £10.9m if the interest attracts the valuation achieved by the most highly rated of the peer group, GME Resources which has defined a measured, indicated and inferred resource of 81mt at an average grade of 1.03% nickel and .006% cobalt.

Cobre

Cobre is building its magnetite sales volumes, albeit at lower margins. Our conservative estimates suggest earnings of around US\$670k pa which, at current exchange rates and on multiples between 6x and 10x earnings, could be worth £3.3m to £5.5m or 0.27p to 0.45p per share to Strategic Minerals.

Assets

Strategic Minerals has a suite of 3 assets, including the cash generating Cobre magnetite sales operation in New Mexico, nickel and cobalt exploration in the Hanns Camp area of Western Australia and, via the 50% joint-venture with New Age Exploration (NAE) through Cornwall Resources Limited, a stake in the possible resurgence of Cornwall's historic tin mining industry.

Redmoor Tin/Tungsten

The Redmoor area is located in eastern Cornwall on the western flank of the Kit Hill granite in a geological setting analogous to other mineral deposits of south-west England, including those at South Crofty, where Strongbow Resources is looking at restarting tin production in an operation which includes de-watering the flooded portion of the mine.

The Redmoor area is known as a historic mining district with ample evidence of old mine workings, abandoned shafts, waste dumps and derelict foundations of surface installations. The historic Redmoor mine was among the larger mines in the district as shown in the following table (Table XX).

Table 2 Historic Mine Production

Historic Mine Production – Redmoor District					
	Tin (t)	WO ₃ (t)	Pb (t)	Ag (oz)	Cu (t)
Redmoor Mine	506	268	149	9,170	7
Kelly Bray Mine	-	-	-	-	852
Wheal Florence	69	-	-	-	-
Kit Hill	71	112	-	-	0.5
East Kit Hill	151	11	-	-	-
South Kit Hill	41	-	-	-	-
Holmbush	-	3	1,097	-	3,167
Prince of Wales	710	-	-	-	892

Source: Strategic Minerals/NAE

Exploration History & Mineral Resources

During the 1970s and 80s, South West Minerals consolidated mineral licences in the Redmoor area and between 1980-83 drilled a total of 12,146m of diamond core in 35 holes to a maximum of 700 metres.

The South West Minerals data forms the basis of the mineral resource estimate prepared by the consultants, SRK, in December 2015. (See table 3). South West Minerals also commissioned metallurgical and mine design studies but failed to proceed with development in response to falling tin and tungsten prices during the mid-1980s.

Geological information reported by Strategic Minerals and its joint-venture partner, NAE shows 3 principal sets of mineral veins within the Redmoor area

The Johnson's Lode strikes at 080° and dips towards the south at 78°. The lode is approximately 1.4m wide and currently extends over 920m of strike length and around 340m down dip. The company plans to explore a further 350m towards the west, 120m east and up to 200m further down dip with a further 7 drill holes in its forthcoming drilling programme.

The Great South Lode strikes at 065° and dips towards the north at 55°. The structure is reported to average 1.8m in width. The company's drilling programme is expected to explore a further 160m towards the west, 550m to the east and around 70m further down dip.

The SVS (Sheeted Vein System) Lode strikes at 070° and dips towards the north at 70°. The SVS contains approximately 11m tonnes of the 13.3m tonnes inferred resource and is lower grade than the other two veins. It extends, however over a width up to 14m wide and may offer scope for some form of bulk mining techniques. The future drilling work aims to extend the known strike length of the deposit by around 450m potentially adding a further 3-4 million tonnes.

Table 3 Mineral Resource Estimate

Redmoor Inferred Mineral Resource					
	Tonnes (m)	WO ₃ %	Sn%	Cu%	Sn Eq %
Johnson's Lode	0.8	0.36	0.55	0.78	1.37
Gt South Lode	1.5	0.33	0.50	0.32	1.10
Sub Total	2.3	0.34	0.52	0.48	1.19
SVS	11.0	0.12	0.14	0.28	0.42
Total	13.3	0.16	0.21	0.32	0.56

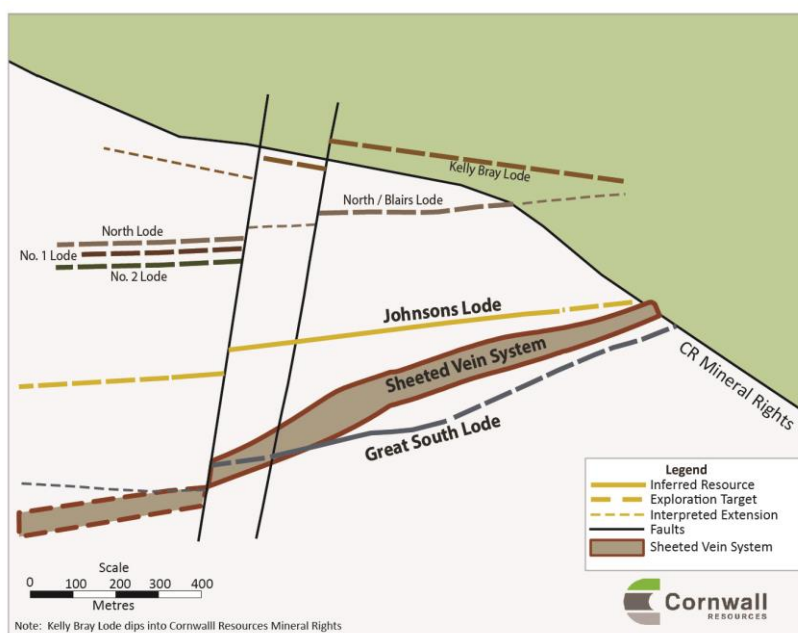
Source: SRK December 2015

Our analysis of the grade ratio correlations of the principal metals suggests that the different veins may result from different mineralisation events. Table 4 Redmoor District Resource Grade Ratios

Table 4 Resource Grade Ratios

Redmoor District Resource Grade Ratios									
	Johnson's Lode			Gt South Lode			SVS		
	WO ₃	Sn	Cu	WO ₃	Sn	Cu	WO ₃	Sn	Cu
WO₃		1.53	2.17		1.52	0.97		1.17	2.33
Sn	0.65		1.42	0.66		0.64	0.86		2.00
Cu	0.46	0.71		1.03	1.56		0.43	0.50	

Source: SP Angel

Figure 2 Redmoor Geological Map

Source: Company

The southerly dip of the Johnsons Lode structure suggests the potential for it to intersect the northerly dipping SVS and Great South structures at depth and it appears that this intersection may provide a subsidiary exploration target.

As Figure 5 demonstrates, there are other vein systems within the area which are not currently included within the resource estimate and which may, in the future, offer potential to extend the resources of the Redmoor project.

Planned Drilling Programme

The company's planned drill programme is expected to start in March 2017. The company has defined collar locations, depths azimuths and inclinations of a total of 23 new drill-holes totaling 2,600 metres of reverse circulation and 4,475 metres of diamond drilling. The work is to be conducted in 2 phases with 13 holes completed in Phase 1 and the balance in Phase 2. Seven

of the holes will target the Johnson's Lode, 13 to look at the Great South Lode and 3 on the Kelly Bray Lode.

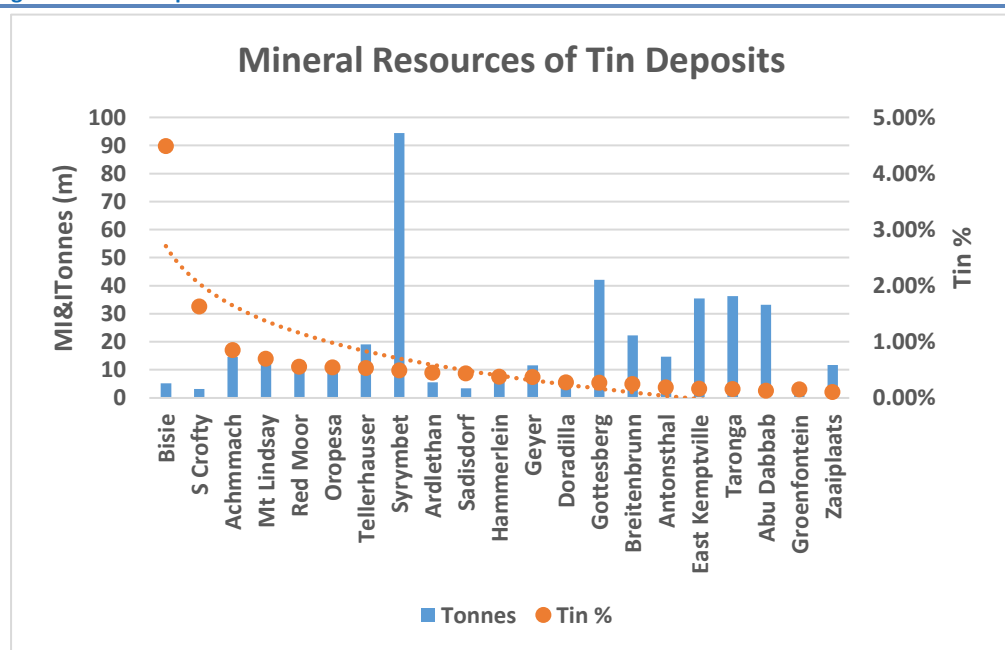
The Redmoor area lies, in part within an area designated as a World Heritage Area. The designation recognises the Cornish mining history and is, administered by Cornwall County Council. The impact of the world heritage status on any applications for future mining remains untested, however there is "a published WHS Management Plan drawn up by Cornwall Council which is supportive of ongoing mining."

Other undeveloped tin deposits

Our analysis of 21 undeveloped tin deposits around the world indicates that, with a grade of 0.55% tin equivalent, Redmoor appears to be the 5th highest grade deposit after Alphamin's Bisie project in the DRC at 4.49% tin equivalent, Strongbow Exploration's plan to reopen the South Crofty mine in Cornwall (1.63%), Kasbah Resources' Achmmach project in Morocco (0.85%) and Venture Minerals' Mt Lindsay project in Australia (0.70%). Redmoor's grade lies on the 76th percentile of the deposits in our analysis placing the deposit in the uppermost quartile of grade.

At this stage, Redmoor's 13.3mt inferred resource ranks 9th in size although, as outlined above, the 2017 drilling programme is aimed at increasing the overall scale of the resource. The largest of the deposits we have identified is the 94.5m tonnes Syrymbet deposit in Kazakhstan which grades 0.49% tin. Other large scale deposits include the 42mt Gottesberg deposit (0.27%) of Deutsche Rostoff in Germany and the 35mt East Kemptville deposit of Avalon Advanced Materials in Canada (0.16%).

Figure 3 Undeveloped Tin Resources



Source: SP Angel

Valuation Yardsticks

There are a number of publicly listed companies with interests in pre-development tin assets which provide a yardstick to assess the value of Strategic Minerals' Redmoor asset. The most obvious and direct comparison is with the Australian listed New Age Exploration which holds the other 50% interest in Redmoor as well as the Lochinvar coking coal project in Scotland, currently shelved pending a recovery in coking coal prices. NAE is currently capitalized at A\$9.9m or the equivalent of £6.12m.

We have identified a number of other pre-development stage tin projects comprising the sole or principal assets of the holding company. In aggregate, these value in-the ground tin resources at £224 per tonne of contained tin equivalent which would value a 50% share in Redmoor's 13.3m tonnes of resource at an equivalent tin grade of 0.55% at £224 per tonne of contained tin in resource or £8.21m before any possible further resource expansion.

Table 5 Value Parameters of pre-development tin assets

Value of pre-development tin assets						
		Market Value		Resource		Value
Company	Deposit	Local	£m †	m (t)	Sn%	£/t Sn
Alphamin	Bisie	141.83	87.03	5.14	4.49	377
Venture	Mt Lindsay	9.58	5.94	13.00	0.70	65
Strongbow	South Crofty	8.69	5.33	3.12	1.63	105
Eurotin	Oropesa	1.44	0.88	12.83	0.54	13
Wt. Average						224

† Exchange Rates £/A\$: 0.62 £/C\$: 0.61

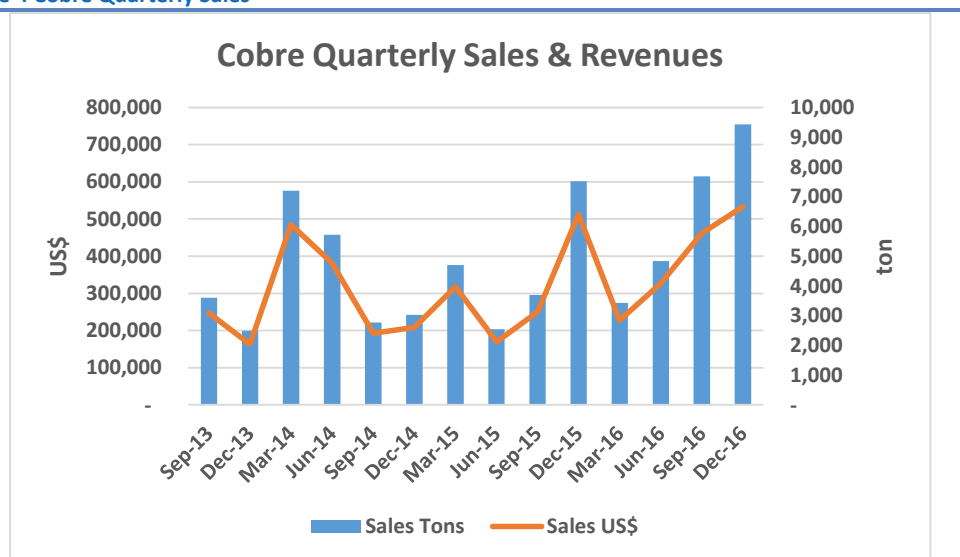
.Source: SP Angel

On this basis, we derive a valuation range for Strategic Minerals' 50% share of Redmoor of £6.12m, based on a direct comparison with New Age Exploration, to £8.21m derived from a basket of other undeveloped tin deposits.

Cobre

Cobre's magnetite sales business in New Mexico, Southern Minerals Group (SMG) has been growing sales volumes in recent quarters. The recent agreement to supply a major customer has seen volumes increase with revenues reaching US\$533,000 on sales of 9,431 tonnes during the quarter ending 30th December 2016.

Figure 4 Cobre Quarterly Sales



Source: SP Angel

The increase in volume has been achieved with some sacrifice of unit prices which dipped from the relatively stable level of around \$65/t to \$56.52/t during the December quarter of 2016.

During 2015, the company generated a pre-tax margin of approximately 45% after allowing for inter-company management fees and, while this is likely to dip in 2016, the company's comments on robust sales from Cobre suggest that a margin of around 40% may be maintained in 2017.

On the relatively conservative assumption that Cobre can sell 35,000 tpa of magnetite at US\$55/t on a sustainable basis and that it can achieve margins of 35% the business could generate profits of around \$670,000 per annum. This suggests that, at current exchange rates of £0.82/\$ and on multiples between 6x and 10x earnings Cobre could be worth £3.3m to £5.5m or 0.27p to 0.45p per share to Strategic Minerals.

It is also an important distinguishing characteristic of Strategic Minerals that, unlike the majority of junior exploration companies, the Cobre operation generates cash-flow for the group freeing any additional funds raised by investors for full deployment in furthering exploration and ultimately project development.

The cash generating characteristics of the Cobre magnetite sales business provides an important differentiation between Strategic Minerals and the majority of its peers among the smaller exploration and development companies on AIM.

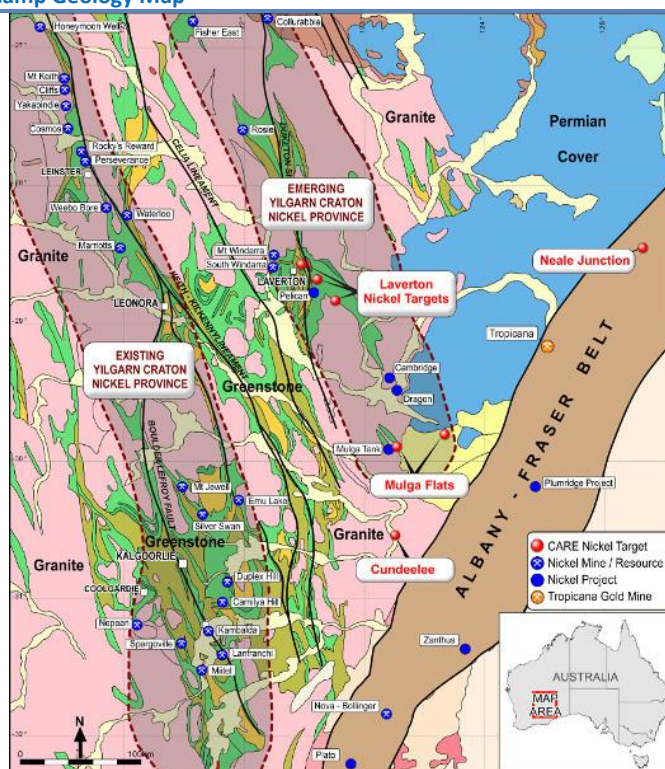
Hanns Camp Nickel

Strategic Minerals holds a 50% interest in the Hanns Creek nickel exploration project in the Laverton nickel area of Western Australia in partnership with Rarus Limited.

The project area covers 424.3 km² within an area of increasing interest for nickel sulphide exploration known as the Eastern Yilgarn Craton Sulphide Province.

Exploration has identified three significant nickel exploration targets; the Forrest, Stirling and Canning prospects. The Forrest target is currently regarded as particularly promising as it lies at the base of the main lava channel of the Hanns Camp ultramafic belt in a favourable setting for the discovery of massive sulphide mineralisation. Geophysical evidence also points to the presence of a conductive anomaly “extending about 900m north from and stratigraphically above the Forrest target [which] points to potential for disseminated nickel sulphide mineralisation in the centre of the main lava channel.

Figure 5 Hanns's Camp Geology Map



Source: Company

A maiden drilling programme comprising 3 holes totaling approximately 850m was completed in June 2016 and identified nickel sulphide and platinum mineralisation in two of the three holes. The results are summarised below:-

Table 6 Hann's Camp - Selected drill intercepts

Hole ID	From (m)	To (m)	Interval (m)	Weathering	Ni (%)	Max Ni (%)
HC001	16	24	8	Extreme	0.91	1.03
HC001	24	28	4	Moderate	0.61	0.68
HC001	28	30	2	Transitional	0.74	0.78
HC001	16	30	14	COMBINED AVERAGE	0.80	1.03
HC001	30	42	12	Transitional	0.58	0.70
HC001	16	42	26	COMBINED AVERAGE	0.70	1.03
HC003	36	50	14	Extreme	0.66	0.97
HC003	50	56	6	Extreme	0.68	0.99
HC003	36	56	20	COMBINED AVERAGE	0.67	0.99

Platinum:

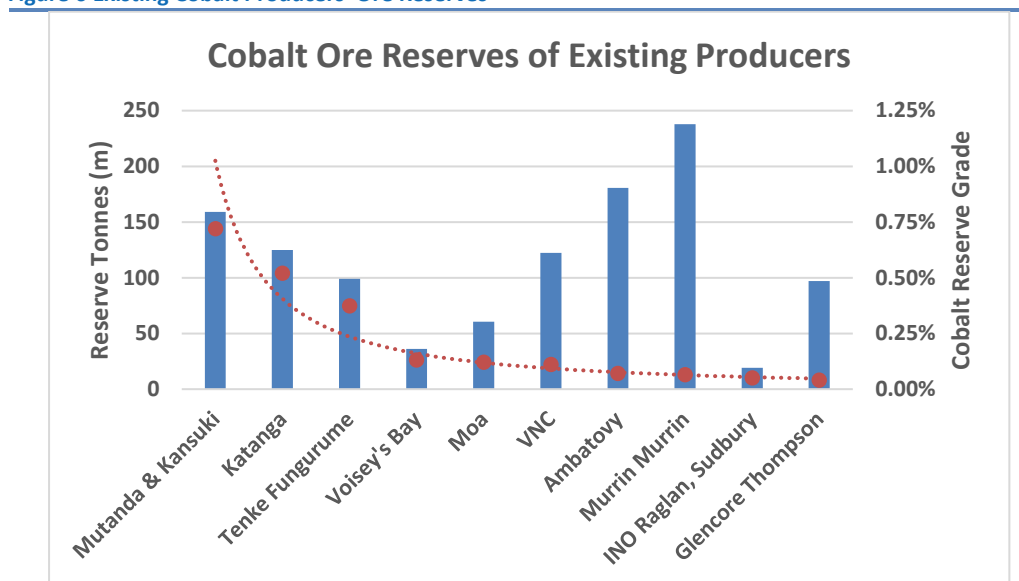
Hole ID	From (m)	To (m)	Interval (m)	Weathering	Pt (ppb)	Max Pt (ppb)
HC003	35	49	14	Extreme	216	392
HC003	51	54	3	Extreme	113	136
HC003	35	54	19	Extreme	187	392

Source: Company

Recent re-assaying of samples from the maiden drilling programme has identified “significant” cobalt mineralisation with drill-hole HC001 intersecting 4m at an average grade of 0.12% cobalt from a depth of 19m. “The cobalt mineralisation at Hann’s Camp is considered significant and geologically unique given the zone overlaps, and is coincident with 10m at 0.4g/t total Platinum Group Elements (‘PGE’) from 36m and peak values up to 21.3% chromium (‘Cr’) and 19% manganese (‘Mn’).”

The evaluation of the cobalt potential at Hann’s Camp is still in its infancy and the viability of developing an economic resource has yet to be demonstrated. However, while we caution against extrapolating the results of a very restricted number of assays too far we note that the grade results obtained so far are of a similar level to the cobalt reserve grades of a number of existing producers.

Figure 6 Existing Cobalt Producers’ Ore Reserves



Source: SP Angel

The battery industry is estimated to consume over 40% of the world’s cobalt supply. Recent moves by China’s CMOC to acquire control of the major Tenke Fungurume mine in the DRC, suggests that if further exploration identifies a meaningful cobalt resource at Hann’s Camp it could assume a strategic importance in the dynamics of cobalt supply to the growing battery industry where demand for cobalt was recently reported by the “Financial Times” to be growing by around 10% pa..

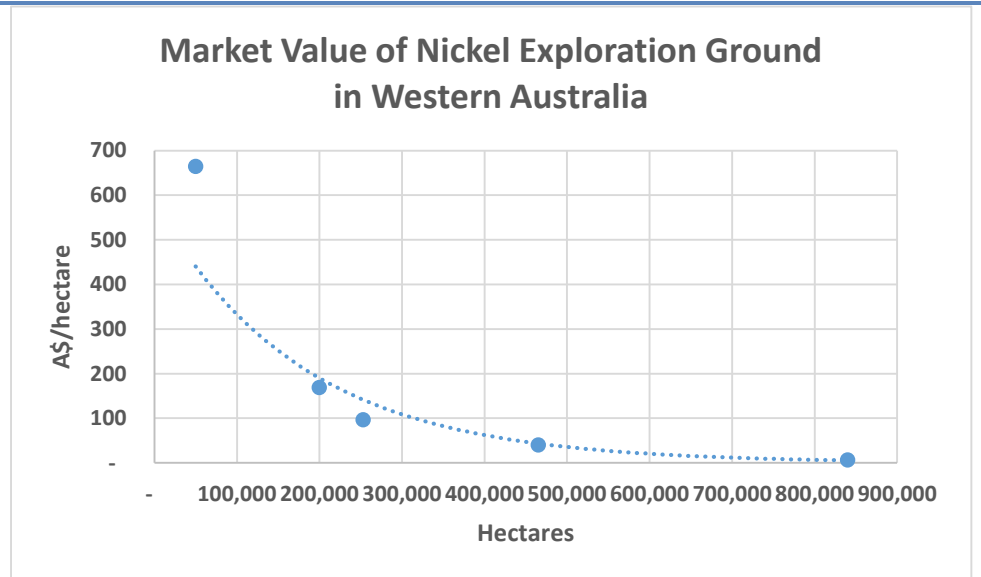
Over the last year, the cobalt price has continued its recovery from the 12 year low experienced during December 2015 rising by around 85% to approximately \$43,000/tonne in February 2017 as the market sought to address a modest supply deficit in the 100,000tpa market and as long-established stockpiles were depleted.

We note that over half of the world supply of cobalt comes from by-product output from the copper mines of the DRC and we are tempted to speculate that, in the longer term future, additional supply from a more geopolitically stable part of the world might prove attractive to consumers who are anxious to establish the probity of their supply chain.

Valuation Yardsticks

The Hann’s Camp property is still at a relatively early stage of exploration, however we have identified five other companies active in early stage nickel exploration in Western Australia which provide a guide to the value of Strategic Minerals’ 50% share of the project (see Appendix2). Based on an estimated market value of A\$500/hectare of early stage exploration licences in the area derived from the accompanying chart, we estimate that Hanns Creek is worth approximately £6.55m or 0.54p/share to Strategic Minerals.

Figure 7 Market Value of Nickel Exploration Tenements



Source: SP Angel

Considering the potential upside, if the CARE licences were to match the rating of the highest valued member of the peer group, GME Resources, at A\$665/hectare, Strategic Minerals' share would be worth £8.65m or 0.72p/share.

Appendix 1

Market Value of Undeveloped Tin Assets							
Company	Ticker	Share Price	MV £(m)	Resources Tonnes (m)	Tin Equivalent %	Contained Metal (t)	Market Value £/ tonne of Tin
NAE	NAE AU	0.023	6.12	13.30	0.55%	36,830	166
Alphamin		0.330	87.03	5.14	4.49%	230,870	377
Venture Min		0.030	5.94	13.00	0.70%	91,000	65
Strongbow		0.150	5.33	3.12	1.63	50,840	105
Eurotin		0.060	0.88	12.83	0.54%	69,535	13
Wt. Average							224

Appendix 2

Market Value of Nickel Exploration Tenements in the Laverton Area					
Company	Ticker	Share Price †	Market Value A\$(m)	Tenement area (hectares) ††	Market Value A\$/Hectare
Apollo	AON AU	0.150	18.71	465,500	40
Classic Minerals	CLZ AU	0.014	5.21	840,000	6
GME Resources	GME AU	0.072	33.23	50,000	665
Legend Mining	LEG AU	0.012	24.41	253,000	96
St George Mining	SGQ AU	0.135	33.80	200,000	169
† Source ASX 8 th March 2017					
†† Company Announcements					

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