

Emerging Company

Strandline Resources

Coburn Project site visit June 2019

SPECULATIVE BUY (no change)

Current price:	A\$0.14
Target price:	A\$0.38
Previous target:	A\$0.38
Up/downside:	184.1%
Reuters:	STA.AX
Bloomberg:	STA AU
Market cap:	US\$34.58m
	A\$49.50m
Average daily turnover:	US\$0.02m
	A\$0.03m
Current shares o/s	289.3m
Free float:	40.4%



Price performance	1M	3M	12M
Absolute (%)	-6.9	35	3.8
Relative (%)	-10.3	27.9	-2.2

Chris BROWN

T (61) 7 3334 4885

E chris.brown@morgans.com.au

Analyst(s) own shares in the following stock(s) mentioned in this report:

- N/A

- As with the site visit to STA's Tanzanian mineral sands projects earlier this year, the site visit was efficiently planned and executed, to gain insight into the project, the logistics for development, construction, operation and export from the Port of Geraldton.
- STA acquired the Coburn pastoral lease in 2005. Coburn Station was de-stocked and water bores were shut in. "Good neighbour" policies including feral animal and noxious weed control have been in place for over a decade. Formal environmental monitoring – and the site visit - confirm the regeneration of native flora.
- The station covers the Proven and Probable reserves to JORC Code (2012) standards, which will support the initial +20 years of production at 23.4Mtpy. STA has subsequently received all environmental and heritage approvals for development and mining.
- The 40km mine access road joins the Great Northern Highway, approximately 240km north of Geraldton. The Port of Geraldton both imports and exports mineral sands, currently operates well below capacity, and is slated for Strandline's exports.

Valuable heavy mineral product, or separate streams

The recently completed Coburn Definitive Feasibility Study has confirmed a robust project at Coburn with one option costing A\$207M, mining and processing 23.4Mtpy to produce 229ktpy of valuable Heavy Mineral Concentrate, and a second option with a capital cost of A\$257M producing individual concentrates of premium zircon (32ktpy), zircon concentrate (58ktpy), HiTi90 (20ktpy), and chloride-grade (+60% TiO₂) ilmenite (110ktpy).

Tanzania – Tajiri resource upgrade announced

The fixed price EPC contract was issued for the US\$32M Fungoni high grade zircon project, near Dar es Salaam, Tanzania. Nedbank has approved a US\$26M credit facility for the project, which is the current focus for STA. The larger Tajiri resource, in the north of Tanzania is now upgraded to 268Mt @ 3.3% total heavy mineral (from 147Mt @ 3.1% THM), comparable with Base Resources (ASX:BSE) Kwale mine, Kenya.

Figure 1: Coburn first production water bore site – capped and monitored



SOURCE: PHOTO CHRIS BROWN – JUNE 2019

Coburn

The site visit

The site visit incorporated the 3 and a half hour drive from Geraldton along the Great Northern Highway, to the turn-off to the west onto the mine access road. The intersection design is currently being re-engineered in compliance with current road transport regulations.

Development of the re-alignment of the 40km road had commenced previously, along with evaluation of potential subbase and base course material. No development work was in progress at the time of the visit.

We viewed the site of the proposed mine village, the southernmost production bore, and a site west northwest of the bore where heavy mineral in the Upper Zone was panned at surface in a topographic low.

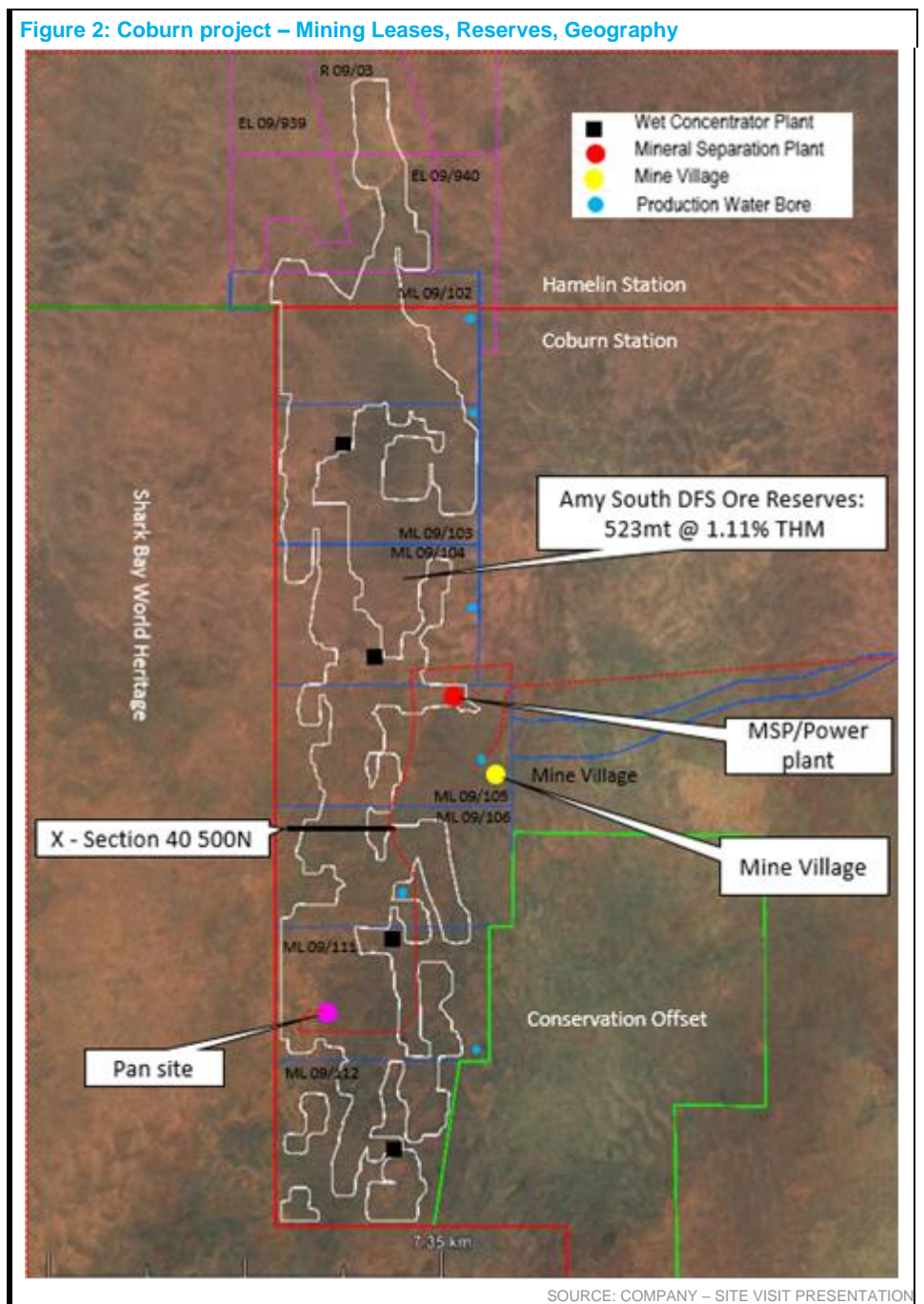


Figure 3: A panned sample – Coburn ML 09/111 – HM rimming top of dish



SOURCE: PHOTO CHRIS BROWN – JUNE 2019

As was noted previously, Coburn Station was de-stocked after purchase in 2005, and the water bores were de-commissioned. The regeneration of native vegetation is evident compared with nearby pastoral operations. Formal monitoring has confirmed what is evident to the naked eye. Strandline also maintains feral animal control practices, and noxious weed eradication programs.

The first +20 years of mining and processing will be from the granted MLs on Coburn Station. The production schedule incorporates continuous backfilling, contouring and rehabilitation. As extraction and processing moves north, the rehabilitated area will connect the Conservation Offset (Figure 2) with the World Heritage area to the west of the granted MLs.

Hamelin Station

Hamelin Station, immediately north of Coburn Station, was also de-stocked, and is operated as a nature reserve by Bush Heritage Australia, and as a research base for studying the Hamelin Pool stromatolites. As with Coburn Station, Bush Heritage maintains active feral animal and noxious weed control programs on Hamelin Station.

The Coburn DFS

The metrics of the Coburn definitive feasibility study options are shown in Figure 4 below. The higher cost Final Product Case, with a pre-production capital cost estimated at A\$257M, incorporates a mineral separation plant (MSP) to produce the different product lines shown. The projected prices for the individual products are shown in the study. Strandline reports that these prices are obtained from TZ Mineral International Pty Ltd, adjusted for the particular characteristics of the Coburn product characteristics.

The HMC Case does not incorporate the MSP. The heavy mineral concentrate (HMC) produced will contain the valuable heavy minerals sold as individual product streams in the alternative case.

Trucking to Geraldton and port and handling charges are incorporated into the operating cost schedules for both options.

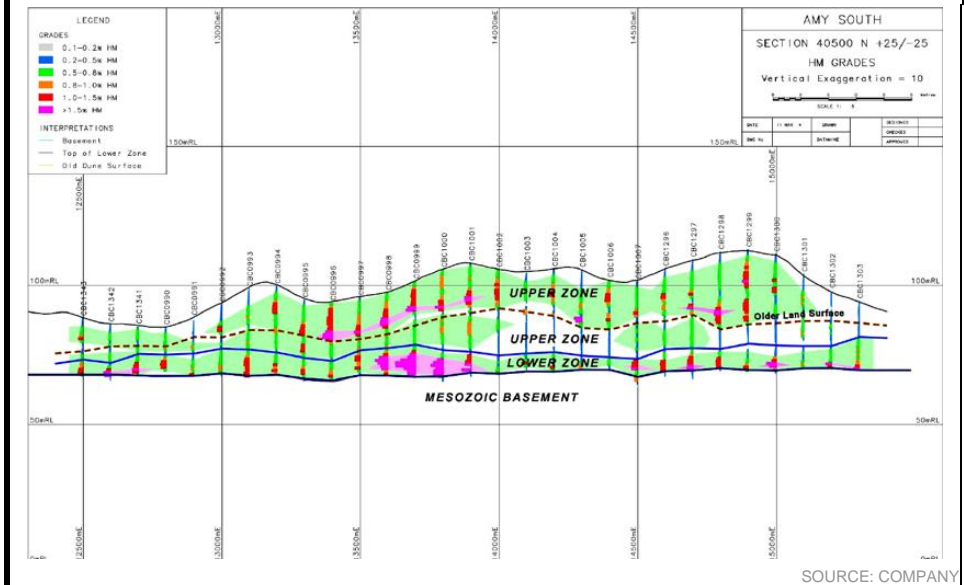
Figure 4: Coburn DFS metrics – April 2019

Description	DFS Final Product Case ³	DFS HMC Case ³
NPV (8% WACC, Real, Pre Tax, no debt) ¹	\$551M	\$481M
IRR	32.3%	36.4%
Capital Expenditure (Pre-production)	A\$257M	A\$207M
Payback Period of Initial Capital from start of production ⁴	2.3 years	2.2 years
LOM Revenue	A\$3,906M	A3,417M
LOM OPEX C1 Costs inc transport	A\$1,778M	A\$1,622M
LOM All-in Sustaining Costs (AISC)	A\$1,973M	A\$1,793M
Revenue to C1 Cost Ratio	2.2	2.1
Annual Average Operating Margin	A\$364/t	A\$305/t
LOM Free Cash Flow (FCF) pre-tax	A\$1,610M	A\$1,357M
Key Assumptions		
Annual Production Rate (Steady State)	23.4Mt	23.4Mt
LOM Production (Ore Mined)	523.4Mt	523.4Mt
Mine Life	22.5 Years	22.5 Years
Annual Avg HMC Produced (from WCP)	129 kt/year	229 kt/year
Annual Avg Premium Zircon Production	32 kt/year	-
Annual Avg Zircon Concentrate Production	58 kt/year	-
Annual Avg HiT90 Production	20 kt/year	-
Annual Avg Ilmenite Production	110 kt/year	-
Exchange Rate (A\$/US\$)	0.72	0.72
Product Price²		
LOM Avg HMC Price (FOB)	-	US\$479/t
LOM Avg Premium Zircon (FOB)	US\$1,480/t	-
LOM Avg Zircon Concentrate (FOB)	US\$495/t	-
LOM Avg HiT90 (FOB)	US\$1,014/t	-
LOM Avg Ilmenite (FOB)	US\$267/t	-

SOURCE: COMPANY

The cross section of the deposit below is Section 40500N. The section, just south of the proposed Mine Village, is shown on Figure 2.

Figure 5: Section 40500N – HM distribution



Queensland		New South Wales		Victoria		Western Australia	
Brisbane	+61 7 3334 4888	Sydney	+61 2 9043 7900	Melbourne	+61 3 9947 4111	West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677	Sydney: Grosvenor	+61 2 8215 5000	Brighton	+61 3 9519 3555	Perth	+61 8 6462 1999
Brisbane: Tynan	+61 7 3152 0600	Place		Camberwell	+61 3 9813 2945		
Partners		Sydney: Reynolds	+61 2 9373 4452	Domain	+61 3 9066 3200	South Australia	
Brisbane: North Quay	+61 7 3245 5466	Securities		Geelong	+61 3 5222 5128	Adelaide	+61 8 8464 5000
Bundaberg	+61 7 4153 1050	Sydney: Currency	+61 2 8216 5111	Richmond	+61 3 9916 4000	Exchange Place	+61 8 7325 9200
Cairns	+61 7 4222 0555	House		South Yarra	+61 3 8762 1400	Norwood	+61 8 8461 2800
Caloundra	+61 7 5491 5422	Armidale	+61 2 6770 3300	Southbank	+61 3 9037 9444	Unley	+61 8 8155 4300
Gladstone	+61 7 4972 8000	Ballina	+61 2 6686 4144	Traralgon	+61 3 5176 6055		
Gold Coast	+61 7 5581 5777	Balmain	+61 2 8755 3333	Warrnambool	+61 3 5559 1500		
Holland Park	+61 7 3151 8300	Bowral	+61 2 4851 5555				
Ipswich/Springfield	+61 7 3202 3995	Chatswood	+61 2 8116 1700	Australian Capital Territory			
Kedron	+61 7 3350 9000	Coffs Harbour	+61 2 6651 5700	Canberra	+61 2 6232 4999		
Mackay	+61 7 4957 3033	Gosford	+61 2 4325 0884				
Milton	+61 7 3114 8600	Hurstville	+61 2 8215 5079	Northern Territory			
Noosa	+61 7 5449 9511	Merimbula	+61 2 6495 2869	Darwin	+61 8 8981 9555		
Redcliffe	+61 7 3897 3999	Mona Vale	+61 2 9998 4200				
Rockhampton	+61 7 4922 5855	Neutral Bay	+61 2 8969 7500	Tasmania			
Spring Hill	+61 7 3833 9333	Newcastle	+61 2 4926 4044	Hobart	+61 3 6236 9000		
Sunshine Coast	+61 7 5479 2757	Orange	+61 2 6361 9166				
Toowoomba	+61 7 4639 1277	Port Macquarie	+61 2 6583 1735				
Townsville	+61 7 4725 5787	Scone	+61 2 6544 3144				
		Wollongong	+61 2 4227 3022				

Disclaimer

The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Disclosure of interest

Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

Regulatory disclosures

Analyst owns shares in the following mentioned company(ies): N/A

Morgans Corporate Limited was Lead Manager to the placement of shares for Strandline Resources Limited and received fees in this regard.;

Recommendation structure

For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

Research team

For analyst qualifications and experience, refer to our website at morgans.com.au/research-and-markets/our-research-team

Research coverage policy

For an overview on the stock selection process, refer to our website at morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy

Research independence statement

morgans.com.au/Research-Independence-Statement

Stocks under coverage

For a full list of stocks under coverage, refer to our website at morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage and morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage

morgans.com.au

If you no longer wish to receive Morgans publications please contact your local Morgans branch or write to GPO Box 202 Brisbane QLD 4001 and include your account details.