

## SKY METALS (SKY)

INITIATION: TALLEBUNG LOOKING FOR A TIN BAGGER

Analysts

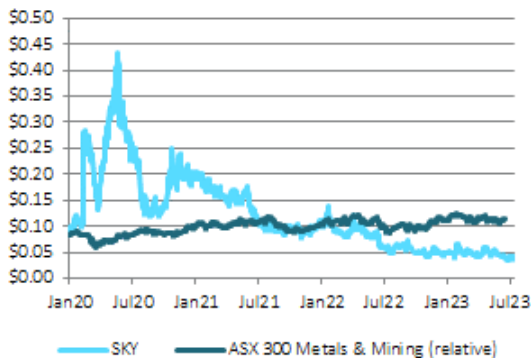
Carlos Crowley Vazquez  
& Rex Adams

Date

31 July 2023

SPEC BUY	SHARE PRICE	TARGET PRICE	IMPLIED RETURN
	<b>\$0.04</b>	<b>\$0.15</b>	<b>266%</b>

### SHARE PRICE CHART



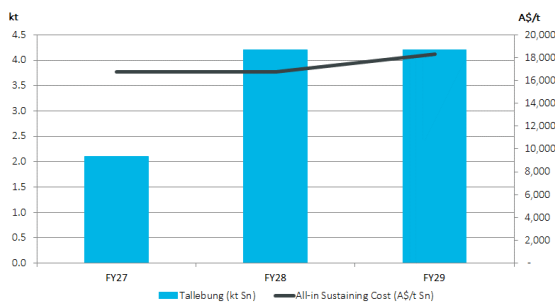
### COMPANY DATA & RATIOS

Share Price (\$ per share)	0.04
Target Price (\$ per share)	0.15
Implied Return (%)	266%
Enterprise Value (\$m)	16
Diluted MCap (\$m)	20
Diluted Shares (m)	477
Avg Daily Value (\$m)	0.02
Free Float (%)	100%
GICS	Materials
Commodity	Tin

### MAJOR SHAREHOLDERS

Rigi Investments	8%
Board & Management	10%

### TALLEBUNG PRODUCTION VOLUMES & AISC



### HISTORIC TIN FIELD WITH BULK MINING POTENTIAL

SKY Metals has an interesting portfolio of 10 exploration projects in NSW. Tallebung is the most advanced one (drilling and testing since 2019) and is shaping up to become a simple and potentially very profitable tin mine under a positive macro environment for this critical metal. SKY's recent drilling and ore sorting results, combined with historic mining records and studies SW of the historic Tallebung alluvial tin field point to a consistently coarse cassiterite-hosted tin deposit with strong potential for a capital efficient, low cost, bulk mining operation. SKY recently published a Maiden Resource and has delineated an Exploration Target that we believe provides sufficient scale to support development of Tallebung. **The deposit is located near surface (low strip, open pit mining), mineral processing test work on multiple bulk samples suggest high recoveries with most cassiterite being liberated at a very coarse crush size, which combined with excellent results using TOMRA XRT ore sorters point to a material uplift in grade (3x) and mass rejection (67%) which reduces size and cost of processing facilities. In addition, access to existing infrastructure enhance project economics.**

SKY is chaired by Norm Seckold, who has extensive experience de-risking and developing resource projects into production and led by Oliver Davies who has over 10 years' experience on exploration and operational roles in NSW with SKY, Alkane Resources (ALK) and Evolution Mining (EVN).

### EXPLORATION UPSIDE: KEY INVESTMENT DRIVER

Our investment thesis on SKY is centred on Tallebung and based on a mining inventory that incorporates the current Exploration Target. While we believe this Exploration Target is deliverable within a short timeframe and at relatively low cost (highly value accretive), we note there is further exploration upside at Tallebung and adding 3Mt @ 0.18 Sn (i.e. one year of mine life in our financial model) adds \$27 million (i.e. more than SKY's current market capitalisation) to the un-risked NPV of our financial model.

Beyond Tallebung, SKY is advancing exploration work at Doradilla (tin and REE exploration upside) and Narriah (tin, tungsten and potentially lithium upside). In addition, SKY has another 7 exploration projects providing exposure to tin, gold and copper.

### TIN: THE OFTEN-FORGOTTEN CRITICAL METAL

Tin is potentially the most under-rated metal providing the key function of solder across key global thematic including electrification and digital transformation. Tin is now a critical metal due to most current supply coming from China, Indonesia, Peru and Myanmar with expectations that Indonesia and Myanmar could ban tin mining and/or exports in the near term.

### CATALYST RICH

(i) convert Exploration Target into resource, deliver Indicated Resource, (ii) bulk sampling across the deposit to grow confidence in low-cost sorting upgrade and metallurgy, (iii) Tallebung Scoping Study, (iv) test work at Doradilla and Narriah discovery drilling.

### INITIATE WITH SPEC BUY RATING, \$0.15 TARGET PRICE

We initiate on SKY with a SPEC BUY recommendation and a \$0.15 target price, an implied potential return of 266%. To assess project economics, we developed a DCF model, applying a 65% risk factor to account for its early-stage nature. On a fully diluted basis, SKY's NAV/share is \$0.15. Upon successful construction and ramp-up (post capex and fully de-risked), a NAV/share of \$0.44 could be expected (Dec. 2027).

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## INVESTMENT THESIS

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### MACRO – WHY TIN?

- Tin is a critical metal supporting the key trends of electrification and digital transformation globally due to its main application as electrical contact material across electronics, renewable energy and EVs.
- Global tin production is largely concentrated in China, Indonesia, Peru and Myanmar. Indonesia and Myanmar are currently considering banning tin mining or exports which highlight the need to diversify sources of supply, particularly for Western consumers. The imminent disruption of 7% of global supply, due to a mining suspension in Myanmar's Wa State from August 2023 is attracting attention.
- Limited investment in new tin supply over the last decade contrasts with strong expected demand growth of +40% by 2030. The International Tin Association (ITA) indicates US\$1.4Bn are required to be invested in new tin supply to minimise forecast deficits by 2030.

### STOCK SPECIFIC: WHY SKY METALS?

Sky Metals Limited (SKY:ASX) is a A\$20M market cap tin exploration company operating in NSW. It owns 100% of the Tallebung Tin Project and other 9 tin, gold and copper/gold projects in NSW. As at 30 June 2023, SKY Metals had \$3.9M in cash and no debt.

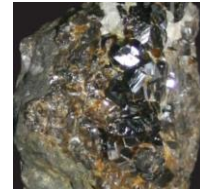
Our investment thesis for SKY is summarized below:

- **LARGE NUGGETY NATURE OF CASSITERITE, POTENTIAL FOR BULK MINING AND SIMPLE PROCESSING AT HISTORIC TALLEBUNG MINE:** SKY has recently identified Tallebung's tin deposit as having very favourable geological and metallurgical characteristics. The coarse liberation size of the cassiterite at Tallebung points to low amounts of energy required to crush, grind and sort the ore using TOMRA X-Ray Transmission (XRT) sorters, achieving high recoveries, high purity ore and rejecting nearly 70% of the mass (increasing the grade by 3x). The material reduction in ore through the plant requires a smaller and simple gravity and concentration plant to produce a high grade (60%) tin concentrate with low impurities.
- **CRITICAL MASS AND EXPLORATION UPSIDE:** Tallebung has a Maiden Resource Estimate of 10.2Mt @ 0.18% tin and an exploration target of 16-21Mt at similar grades. We expect that a 25-30Mt @ 0.18% tin mining inventory would support development of a bulk mining operation. As the resource is located near surface and the flow sheet has been preliminarily tested (samples on TOMRAs and production of high-grade tin concentrate) with excellent preliminary results, we envisage a low capex / low opex 3Mtpa operation over +8 years (producing 4.2 ktpa tin) to be the base case with mine life expansion, subject to further exploration success.
- **SUPERIOR CAPITAL INTENSITY:** Historic mining activity at Tallebung left behind key infrastructure including powerlines to site, all-weather haul roads (to and within site) and a historic water supply that further reduces start-up costs for future mining operations. In addition, the significant reduction of material after ore sorting, with high tin recoveries, represents a capex reduction for the balance of the processing plant.
- **PROJECT PORTFOLIO:** SKY also holds a majority interest in 9 exploration projects in NSW with interesting potential.
- **CATALYST RICH:** Sky recently completed a capital raising to continue drilling Tallebung (resource extension and infill drilling) as well as commence baseline environmental and concept studies. Near term news flow includes: (i) convert exploration target into updated resource, including an Indicated Resource, (ii) Tallebung Scoping Study, (iii) assessment of Doradilla's tin and REE deposits, and (iv) drilling at Narriah tin and tungsten project.
- **CORPORATE CAPABILITY:** SKY is Chaired by Norm Seckold, who has an extensive track record in acquiring attractive early-stage assets and generating substantial shareholder returns by taking these into production and/or monetising these at an advanced stage. SKY is led by Oliver Davis, who has over a decade of exploration and operational experience in NSW and is supported by a Board of experienced industry veterans including Richard Hill and Rimas Kairaitis.

## TIN: THE GLUE METAL

### THE GLUE SUPPORTING AN INCREASINGLY ELECTRIFIED AND DIGITAL WORLD

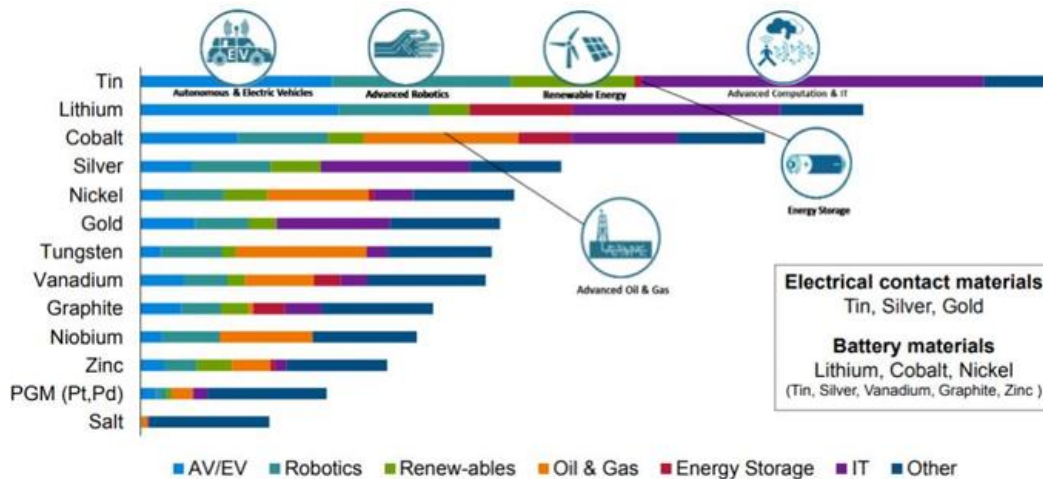
Tin is a silvery-white, slightly bluish-tinged metal which does not occur as a native element, but rather must be extracted from its naturally occurring mineral ores. The main mineral ore for tin is cassiterite (SnO<sub>2</sub>).



It has a wide range of commercial and industrial applications, due to its useful performance characteristics as tin metal is soft, nontoxic, ductile, malleable, durable, exhibits high corrosion resistance and alloys well with other metals. These features make it suitable for use in solder, brass, bronze, plating (to protect other metals from corrosion) and various chemicals. As the International Tin Association indicates: “Tin is called the spice element because a little of it is present everywhere in ways that are essential to our quality of life.”

Of its multiple applications, one of the key uses of tin is in solder. Solder is a fusible metal alloy used to bond metal workpieces together. With tin usually serving as the main constituent in many solder alloys, it is estimated that around 50% of all tin produced goes into solder – mainly for electronics.

FIGURE 1: TIN IS THE OFTEN FORGOTTEN CRITICAL METAL

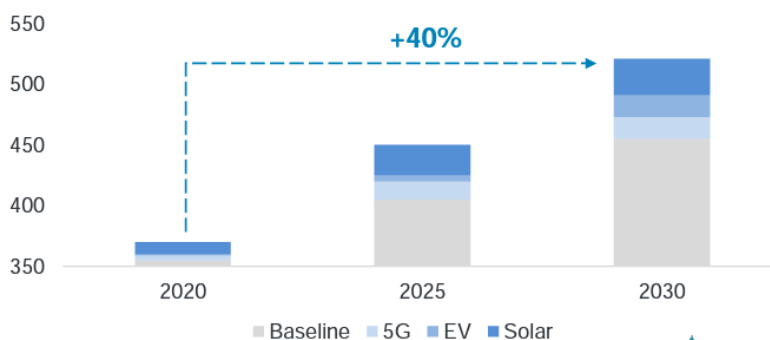


Source: Rio Tinto, MIT

### LT PRICE OUTLOOK

Tin has historically grown in direct correlation to GDP growth. However, tin demand is expected to grow 40% by 2030, driven by new technology applications adding on top of traditional solder and electronics driven growth.

FIGURE 2: TIN DEMAND GROWTH FROM NEW APPLICATIONS (KT SN)

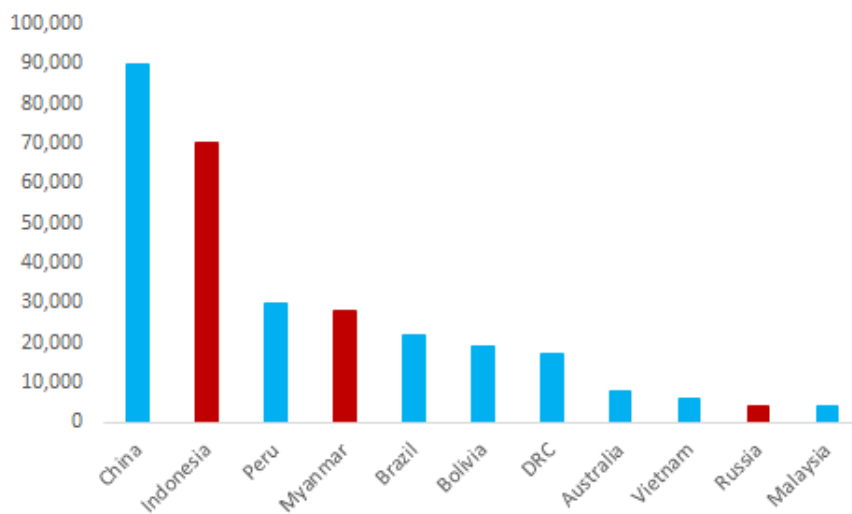


Source: International Tin Association (2022)

Most tin is produced in non-Western jurisdictions with Australia being the exception (Renison Tin Mine). Concerns regarding geopolitical risks have driven Western countries, including Australia, to include tin in their critical minerals list. Key examples of geopolitical concerns include:

- China and Indonesia control nearly 50% of global supply and both countries have had issues with illegal mining and processing.
- Indonesia is expected to ban exports of unprocessed tin concentrate (i.e. follow its nickel model).
- One of the largest global suppliers in Peru (San Rafael de Minsur) recently experienced protests and suspended operations for a short period of time - affected circa 9% of global supply.
- In Myanmar, the United WA State Army plans to suspend tin production in the area that it controls from August 2023 – representing 7% of global supply.

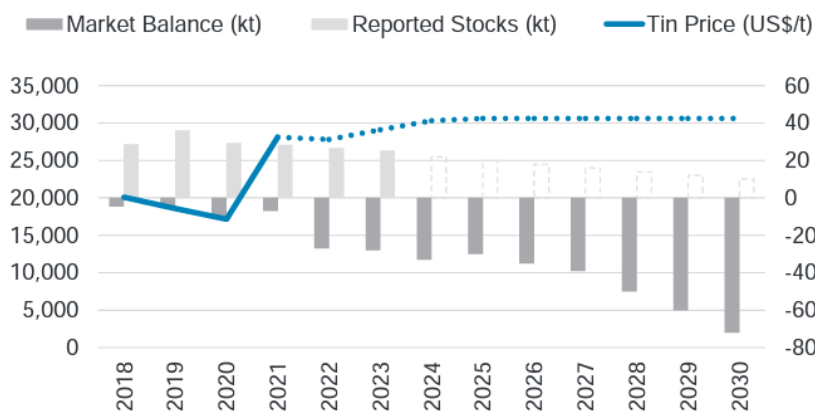
**FIGURE 3: TIN SUPPLY BY COUNTRY (TPA)**



Source: International Tin Association

New sources of supply are expected from a limited number of mine expansions and a shortlist of emerging mines. Combined with the expected high demand growth, deficits can be expected from 2024.

**FIGURE 4: TIN MARKET BALANCE AND PRICE OUTLOOK**



Source: International Tin Association

The ITA estimates the sector needs circa US\$1.4Bn of investment to deliver 50,000 tonnes per year more tin by the end of the decade.

## COMPANY OVERVIEW

Sky Metals Limited (SKY:ASX) is a A\$20M market cap exploration company operating in New South Wales. SKY Metals was re-listed in 2019 (previously Planet Gas), following the acquisition of Big Sky Metals and a capital raising of \$4.5M to focus on its tin and tungsten projects. SKY also launched a gold exploration strategy and farmed into three Herron Resources tenements (now Develop Global).

SKY has 100% of its flagship Tallebung Tin Project, recently announced a maiden resource and an exploration target to reach critical mass to develop this emerging tin project. Favourable geological and metallurgical characteristics of the cassiterite at Tallebung, combined with existing infrastructure are expected to support project development. SKY also owns 100% of the Doradilla Project prospective for tin and REEs and has majority interests in several projects prospective for tin, copper and gold.

Tallebung is located approximately 70km north-west of Condobolin in central New South Wales. It is a large scale, hard rock tin deposit with minor selective historic mining mainly during the 1960-70s. Infrastructure in place from historic mining operations includes:

- All weather haul roads to and across site,
- Powerlines to the historic alluvial tin field,
- Established past water supply and
- Historic tailings dam, only 1/3 full.

**FIGURE 5: PROJECT LOCATION MAP - NSW**



Source: Company

In addition to 100% of Tallebung and Doradilla Projects, SKY holds:

- 100% of the New England Tin Project (EL 9200 and 9210),
- a Joint Venture with Develop Global Ltd (ASX:DVP) over the Cullarin and Kangiara Projects (SKY 80%),
- 100% of Caledonian gold and copper/gold project and
- 100% of the Iron Duke copper/gold project.



## TALLEBUNG: TARGETTING CRITICAL MASS + LOW CAPEX

### PROJECT OVERVIEW

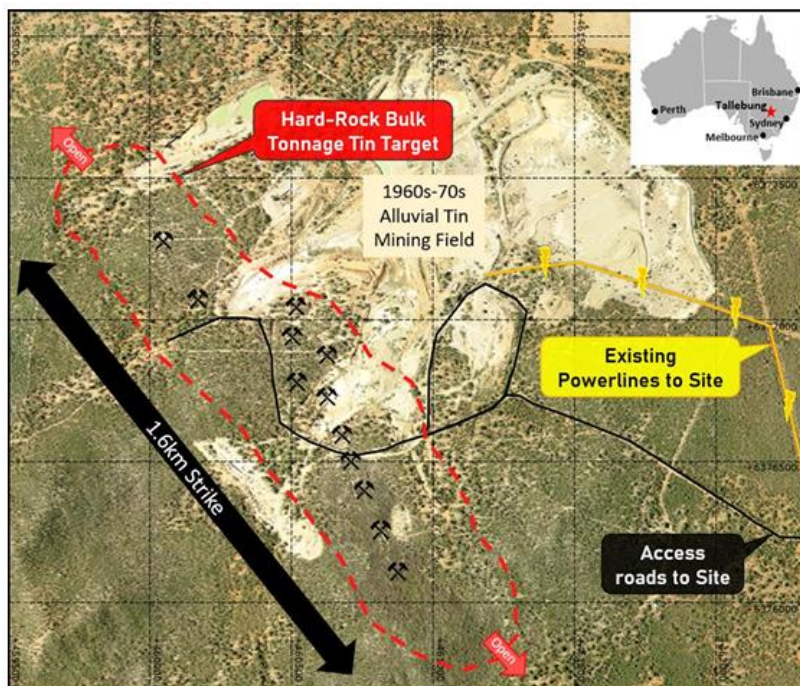
The Tallebung tin field includes a series of historic alluvial and deep-lead tin deposits as well as high-grade tin-tungsten lode deposits which have a recorded historic production of 3,300 tonnes of tin concentrate (potentially higher). SKY has identified a zone with hard-rock bulk mining potential.

Following initial drilling and test work, SKY has estimated a maiden mineral resource (10Mt @ 0.18% tin). Tallebung has the potential to become one of the simplest hard rock tin mining operations globally as the coarse cassiterite breaks open easily with simple crushing and very positive results have been observed by using TOMRA XRT ore sorters (increase tin grade by 3x, to +0.56% tin, and materially reducing mass going through a simple gravity and concentration plant). Tallebung's tin can be cost effectively concentrated to a saleable +60% tin con.

The exploration target of circa 20Mt @ 0.18% tin points to the potential to reach critical mass that, combined with infrastructure in the area, represents a potential capital efficient development.

Recent exploration results point to wide and high-grade sections of the mineralisation and the potential to commence mining at surface at higher grade sections.

**FIGURE 6: TALLEBUNG SITE OVERVIEW**



Source: Company

### GEOLOGY AND RESOURCE

The Tallebung tin field is prospective for high-grade lode, porphyry style and bulk tonnage tin-tungsten mineralisation. The relative position of the lodes, in the zone immediately above a granite carapace, points to the potential for a large, bulk mineable porphyry tin deposit at moderate depths.

Outcropping mineralisation is developed over 2km as sheeted/stockwork quartz-cassiterite wolframite sulphide veins within Ordovician sediments likely sitting above a mineralising granite. The prospectivity of the targets are further enhanced by the presence of the Ardlethan Tin Deposit (historic production >31kt Sn) located along strike and representing mainland Australia's largest historic tin producer.

Tallebung’s tin is primarily hosted in cassiterite (tin oxide) and forms large nuggets which makes it uniquely easy to process.

In March 2023, SKY published a Maiden JORC-2012 Inferred Mineral Resource Estimate for Tallebung of 10.2Mt @ 0.18% Tin, representing 18.4kt of contained Tin, at a 0.10% Tin cut-off grade.

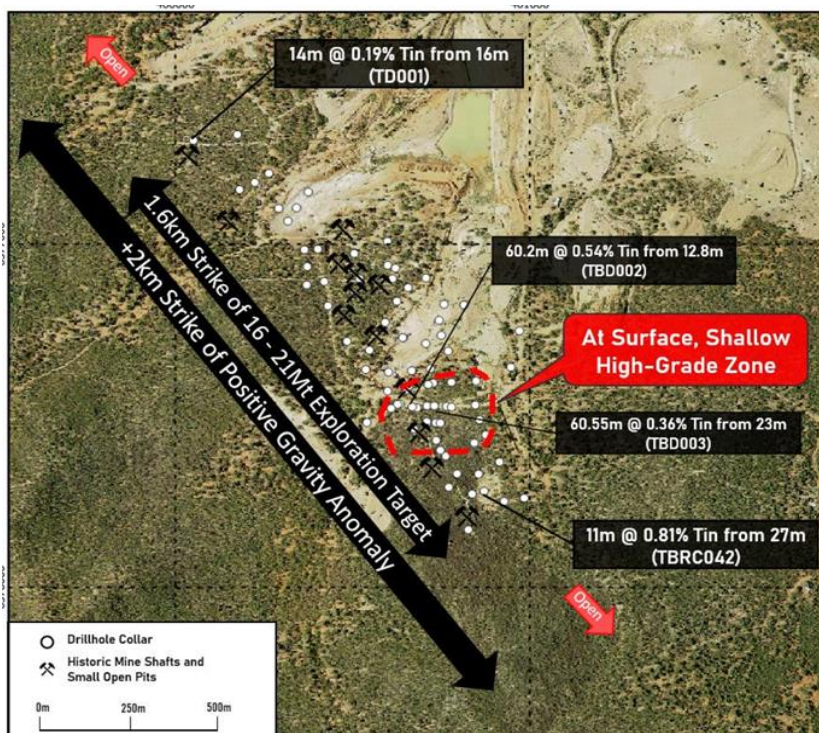
**TABLE 1: MAIDEN MINERAL RESOURCE ESTIMATE**

Category	Tonnage	Grade		Contained Metal	
		Tin %	Tungsten %	Tin kt	Tungsten kt
Inferred	10.2	0.18	0.03	18.0	2.7

Source: Company

The resource is open along strike and down dip illustrating strong potential to materially extend the maiden estimate. SKY has a short-term Exploration Target of 16-21Mt @ 0.18% tin which could potentially be converted into resource by the end of CY23. The MRE combined with the exploration target is expected to result in sufficient scale to support the economic development of a bulk mining operation.

**FIGURE 7: AERIAL ILLUSTRATION OF TALLEBUNG**

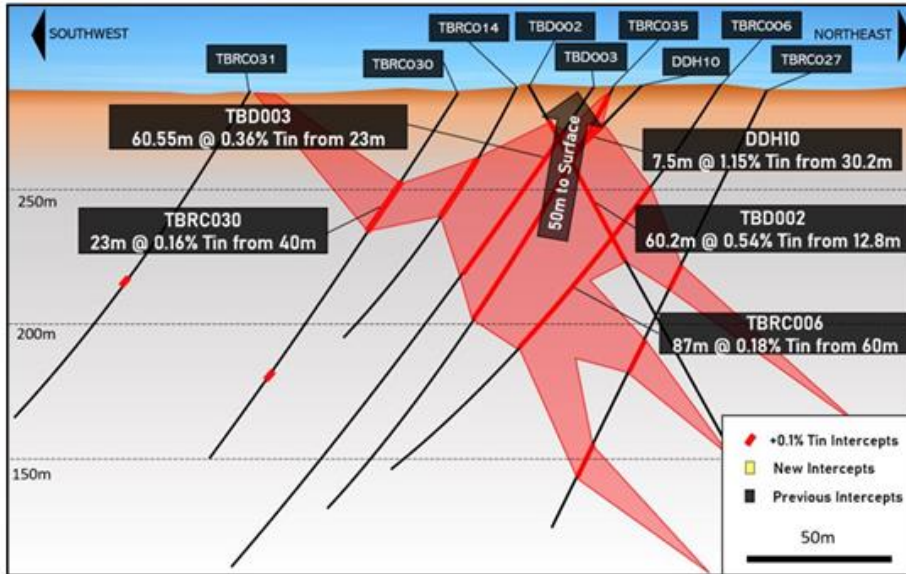


Source: Company

The resource is located near surface with sections of high-grade mineralisation at surface pointing to potential low strip, bulk mining operations. SKY has also identified a much larger strike target, based on gravity anomalies, that requires follow up work and could represent a materially larger resource.



FIGURE 8: CROSS SECTION OF SHALLOW HIGH-GRADE ZONE

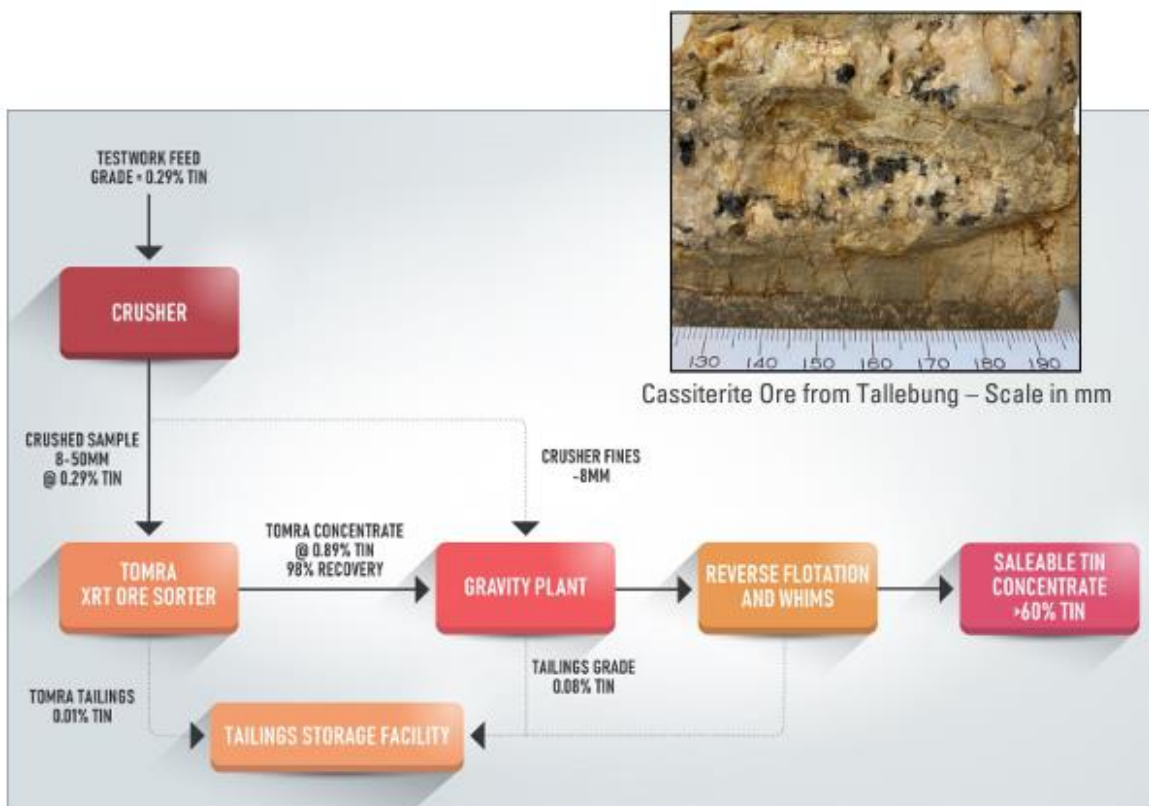


Source: Company

### PROCESS FLOWSHEET

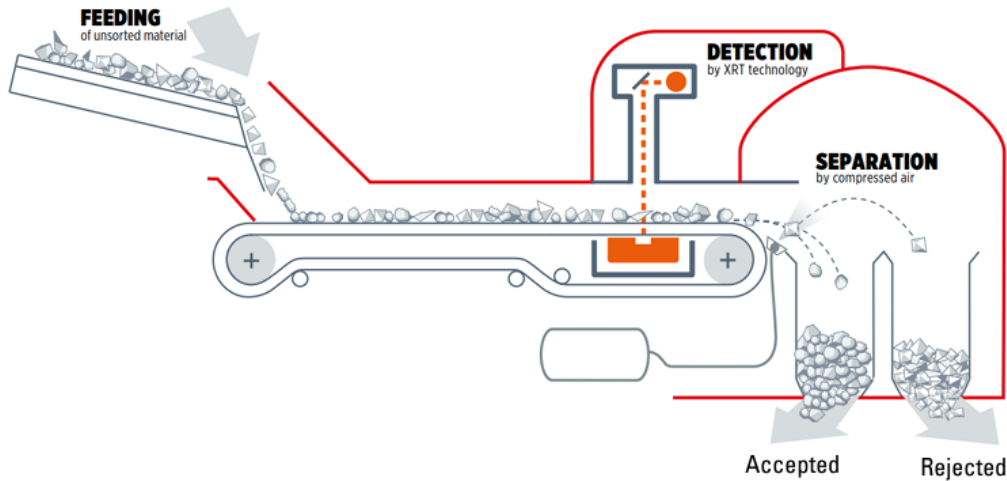
SKY's process flowsheet for Tallebung comprises ore crushing and grinding, ore sorting (using TOMRA XRTs), gravity separation and reverse sulphide flotation (and magnetic separation to reduce smelter penalties) to produce a +60% tin concentrate.

FIGURE 9: SIMPLE PROCESS FLOWSHEET



Source: Company

The combination of coarse and nuggety cassiterite with TOMRA's sensor based sorters results in industry leading efficiencies via material grade uplift and mass rejection, representing lower volumes moving through the back end of the flowsheet.

**FIGURE 10: TOMRA ORE SORTER**


Source: Company

We note TOMRA ore sorters are being used or have been tested across multiple tin operations (including at Renison in Tasmania) and projects. However, the grade uplift observed at Tallebung through recent test work (both from drill chips and a 542kg bulk sample from multiple locations) is materially higher vs key peers. This material uplift in grade (3x or average grade of 0.18% to 0.54%) with 98% tin recovery and 67% of mined mass rejected upfront implies a smaller and lower-cost plant to produce the same amount of saleable tin concentrate.

**TABLE 2: COMPARATIVE EFFICIENCY OF TOMRA XRTS**

Company	Mine/Project	Location	Stage	Description
Metals X	Renison	TAS, Australia	Production	Grade uplift of 15%, Mass rejection 18%
Elementos	Oropesa	Andalucia, Spain	PFS	Grade uplift of 24%, Mass rejection 25%
First Tin	Taronga	NSW, Australia	PFS	Grade uplift of 53%, Mass rejection 66%
<b>SKY</b>	<b>Tallebung</b>	<b>NSW, Australia</b>	<b>Pre-SS</b>	<b>Grade uplift of 200%, Mass rejection 67%</b>

Source: Company Announcements

In addition to the benefits demonstrated by testing multiple samples of Tallebung’s cassiterite on a TOMRA XRT, the gravity processing method to concentrate the tin at Tallebung only uses water recycled through the plant. This further reduces water requirements and avoids using significant quantities of chemicals required by other tin concentration processing methods.

## INFRASTRUCTURE

The historic nature of the Tallebung tin field has the key advantage of having key non-process infrastructure already in place. This infrastructure includes:

- Site Access – The Nymagee Condobolin Road is a sealed road located 33Km from Tallebung and there are haul roads constructed to the project site
- Power – powerlines run to the historic alluvial tin mining field
- Water source – historic pumping station on the Lachlan River

## INDICATIVE TIMETABLE

SKY expects to complete a scoping study during Q4CY23 and has commenced an 8,000m drilling program comprising resource infill and extension drilling as well as mine concept studies.

**FIGURE 11: TALLEBUNG PROJECT INDICATIVE TIMETABLE**

Project	Activities	FY2023	FY2024	
		Q4	Q1	Q2
Tallebung	Resource Infill and Extension Drilling Program			
Tallebung	Mine Concept Studies			
Tallebung	Second Resource Estimate			
Tallebung	Mine Scoping Studies			
Tallebung	Baseline Environmental Studies			
Tallebung	Resource Extension Drilling Program			

Source: Company

Following completion of a positive scoping study, PFS/DFS studies would follow with development financing expected by end CY25 and development during CY26, resulting in first tin by early CY27.

## SITE VISIT

BOEQ visited the Tallebung Tin Project in July 2023 to gain a deep understanding of the project's location, history, topography, geology and access to infrastructure.

Tallebung lies at the northern end of the Wagga Tin Belt, a 300 km long N-NW trending region where highly fractionated late Silurian granites have intruded Ordovician shales and sandstones producing multiple tin-tungsten deposits. Most of the identified deposits are quartz vein systems and associated alluvials, however the Ardlethan mine 80 km to the south operated by Aberfoyle Ltd 1961-1986, was the largest hard rock tin mine in mainland Australia. In the order of 9Mt grading 0.46% Sn were mined at Ardlethan and about 5Mt of a similar resource remain. The main ore zones were hosted in two breccia pipes within the mine granite.

Most other tin mines in the region have been small scale apart from Tallebung which had a long history of small-scale vein mining until a substantial alluvial operation was established in the late 1960's and operated until the 1980's. The large open pits which remain suggest quite large production and it is thought the reported production of 3,300t of concentrate significantly understates the output. Very little modern exploration has been applied to the region except for recent years at Tallebung. With the sheeted vein system extending over at least 1.6km strike length, a gravity anomaly suggesting 2km, and indications of veins in old workings across a width of over 100m we think the exploration target is quite conservative. A previous deep drill hole by YTC confirmed vein mineralization extends to 500 m below surface so this is a large system.

### Historic alluvial workings



### Outcropping veins rich in cassiterite



Source: Blue Ocean Equities

We think the region is analogous to the Northeast Tin Fields of Tasmania where Devonian granites intrude similar Ordovician sediments. Large scale alluvial operations in the late 1800's produced substantial quantities of tin into smelters in Launceston. Hard rock production smaller with the exception of Aberfoyle and Storeys Creek mines which operated between 1930 and 1980's where tin and tungsten were mined underground from a sheeted vein system of high-grade quartz veins, somewhat similar to the more extensive Tallebung vein system.



The area is relatively flat. The site has excellent access via sealed road from Condobolin with a small section of all-weather road to site. The project sits on Crown Land and we sighted power lines, historic infrastructure and extensive historic workings and structures.

Drill Core



Historic Shaft



Source: Blue Ocean Equities

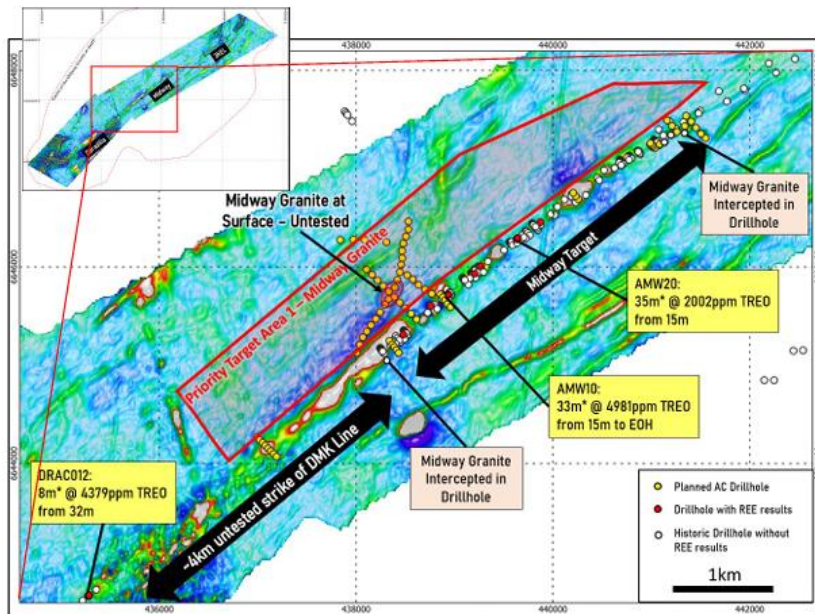


## LARGE PROJECT PORTFOLIO

In addition to Tallebung, SKY has 9 projects in NSW. Of these, SKY is progressing work at the Doradilla Tin and REE Project as well as its Narriah Project.

The 100% owned Doradilla Project comprises three tin deposits previously discovered in the 1970s: Doradilla, Midway and 3KEL, the 16km strike of these is named the DMK Line.

**FIGURE 12: 16 KM STRIKE LENGTH AT DMK LINE**



Source: Company

Following from recent work at this large-scale tin system, SKY discovered a widespread and high-grade rare earths mineral system within the three tin deposits on the DMK Line. Some of the best mineralisation was found at the Midway deposit, which is the closest to its source, the underlying Midway Granite. The REE mineralisation is hosted in the +60m thick clays over the DMK Line. SKY has assayed historic drill core for REE which combined with additional drilling at Midway and between Midway and Doradilla has extended the REE mineralisation. SKY is currently undertaking test work to develop extraction pathways for the high value REE and Tin mineralisation, with samples being sent to ANSTO.

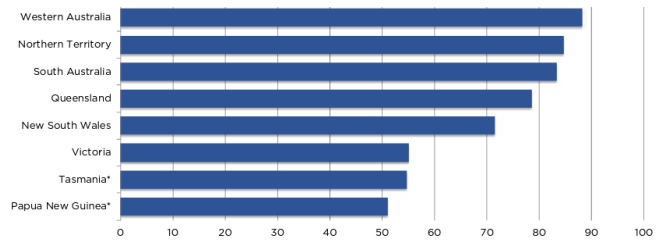
SKY has also recently initiated work at the recently acquired Narriah Project. This project covers an area of numerous historic tin and tungsten mines on the prospective margins of the 16km long mineralising Erigolia Granite in NSW. We believe there is enough historical mining to suggest there is a tin bearing granite driving mineralisation and the regional geophysics outlines the granite pluton but most of it is sand covered. In addition to tin and tungsten mineralisation, pegmatites have been mapped in the historic underground mines from the 1970s but were never assayed. The widespread and variably thick sand cover over the project area makes it difficult to identify these pegmatites at surface and SKY is planning to commence a diamond drilling program to test these targets.

In addition to its exposure to tin via Tallebung and Doradilla, SKY's project portfolio offers exposure to gold and copper via multiple exploration projects. SKY's gold exploration strategy has focused on the identification and testing of advanced McPhillamys-type, multimillion-ounce gold targets in the Late Silurian stratigraphy of NSW. In addition, in 2021 SKY acquired 100% of the Galwadgere Copper-Gold project from Alkane which has a Maiden Inferred JORC Resource of 3.6Mt @ 0.82% Cu and 0.27 g/t Au.

## NSW: OPEN FOR MINING

NSW has world class deposits of base metals, precious metals, industrial minerals and coal. Mining activity is an important economic driver of the NSW economy although not to the scale of WA or QLD. Over recent years NSW has lagged most Australian states as an attractive mining investment destination. However, there is a current trend that points to a strong resurgence in support for mining activity and new development in NSW.

**FIGURE 13: MINING INVESTMENT ATTRACTIVENESS INDEX**



Source: Fraser Institute (2022)

During 2023, we have observed a number of important development approvals, including complex greenfield developments such as MacPhillamys and Bowdens, that illustrate this trend.

**TABLE 3: MINES RECEIVING DEVELOPMENT APPROVAL IN 2023**

Date	Mine	Company	Description
Feb-23	Tomingley Au	Alkane Resources ASX:ALK Mcap \$424m	Open cut & u/g mine extension: Roswell & San Antonio deposits 1.75Mtpa operation, LOM 9 years and relocation of Newell Highway
Mar-23	McPhillamys Au	Regis Resources ASX:RRL Mcap \$1.4Bn	One of Australia's largest undeveloped open-pittable gold resources (2Moz Au Reserve), approx. 10-year mine life, 7Mtpa throughput with traditional crush, grinding & CIL flowsheet.
Mar-23	Federation Zn, Pb, Au	Aurelia Metals ASX:AMI Mcap \$141m	U/g mine only development - processing at existing Peak and Hera sites 0.6Mtpa LOM 8 years
Apr-23	Bowdens Ag, Zn, Pb	Silver Mines ASX:SVL Mcap \$245m	26 kilometres east of Mudgee, Australia's largest undeveloped silver deposit. 2Mtpa open pit operation, LOM 23 years conventional SAG and ball mill circuit, differential flotation, thickening and dewatering

Source: Company Announcements, Independent Planning Commission of New South Wales

In addition, the NSW Government has articulated a Critical Minerals Strategy to support positioning of NSW as a major global supplier and processor of critical minerals and high-tech metals. This support includes the \$130m activation fund to accelerate investment in the sector, of which circa \$100m remain available. We believe that SKY may be able to access some of these funding.

## INVESTMENT PROPOSITION

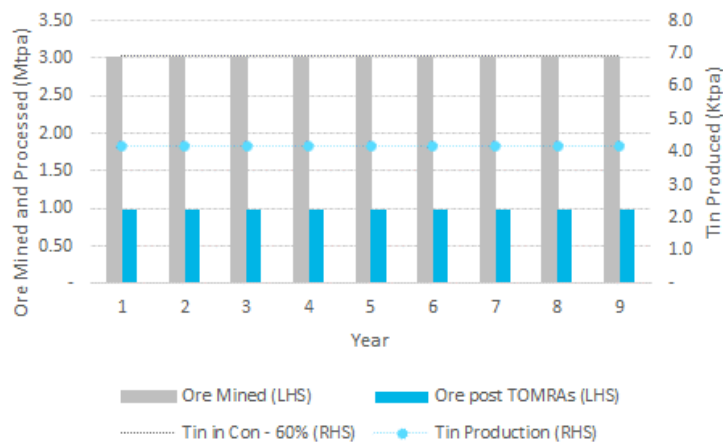
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### VALUATION

To assess the potential value of a bulk mining operation at Tallebung, we put together a financial model for a development based on a 3Mtpa mining operation with crushing and ore sorting delivering a mass reduction to 1 Mtpa for the gravity circuit and concentrator to produce 6.9 ktpa of 60% tin concentrate (4.2ktpa of contained tin). We assume SKY is successful in extending the mining inventory via its short-term Exploration Target to 25Mt @ 0.18% tin, resulting in an initial mine life of +8 years. At this scale and taking into account both the existing infrastructure at the historic Tallebung tin field and favourable nature of Tallebung's cassiterite, we believe that the low capex requirement would result in a relatively straightforward financing task (assuming 50% debt, 50% equity). Mine life extension could also be expected through additional exploration success.

### KEY ASSUMPTIONS:

- Open pit operations only
- 3.0 Mtpa mining operations commencing at surface (average strip ratio of 1.8x with 1x over initial two years)
- 3.0 Mtpa ROM ore crushed and fed to TOMRA XRTs with 95% tin recovery, average grade uplift from 0.18% to 0.54% and mass rejection of 67%
- 1.0 Mtpa ore fed through gravity plant and flotation/magnetic separation circuits with recoveries of 82% tin recovery (total process recovery 78%) to produce 4.2 ktpa tin in a 60% tin concentrate (6.9 ktpa concentrate)
- 95% payability due to low impurities
- Indicative Capex estimate of ~A\$40M comprising 3Mtpa mine pre-strip and start-up cost, crushing and TOMRA XRT ore sorters and 1Mtpa gravity plant and concentrator plus upgrades to existing infrastructure
- Working capital and other costs assumed at \$5M
- Tin price based on spot: US\$28,500/t and AUD/USD 0.70 (A\$40,714/t)
- Average AISC of ~A\$19,380/t based on:
  - Average mining costs of A\$4.5/t and average 1.8x strip
  - Processing to ore sorting costs of \$5.5/t
  - Processing costs to 60% tin con of \$17/t
  - Transport and logistics of \$80/t of tin concentrate
  - G&A of A\$1.5/t
  - NSW royalty rate of 4.0% ex mine
  - Sustaining costs representing 3% p.a. of upfront capex
- De-risking and development timeframe as guided by SKY Metals for the completion of Scoping Study and estimated by BOEQ through feasibility studies and development finance in the Dec 2025 quarter and first tin in the March 2027 quarter
- Development funding done via a 50% debt financing and a 50% equity financing (at a premium to current share price)
- DCF done on a post-tax basis (Australian corporate tax of 30%) with an 8% real discount rate

**FIGURE 13: TALEBUNG ILLUSTRATIVE PRODUCTION PROFILE**


Source: Blue Ocean Equities

**TABLE 4: TALLEBUNG KEY METRICS**

Project Metrics		BOEQ	Comments
Mine life	years	8.3	MRA + Exploration Target
Initial Capex	A\$M	40	Assumes simple flowsheet & minor upgrades to existing infrastructure
Sustaining Capex	A\$M p.a.	1.2	
Working Capital, Other	A\$M	5	
ROM processed	Mtpa	3.0	Likely bulk mining scale assessed for 25Mt Mining Inventory
Ore processed post TOMRAs	Mtpa	1.0	67% mass rejection with +95% tin recovery
Total recoveries	%	77.9	Expected to be higher
Avg prod. contained tin – LOM	Ktpa tin	4.2	
Tin Price	US\$/t	28,500	Spot
Ave C1 Costs	A\$/t	17,440	
Ave AISC	A\$/t	19,380	
<b>Operating Cash Margin</b>			
Avg Operating Cash Margin	A\$M	82.0	
Royalties	%	4.0	
Corporate tax	%	30.0	
<b>Financial Metrics</b>			
IRR, post-tax	%	162	
Equity NPV, post-tax, un-risked	A\$M	290	
Discount rate	%	8.0	

Source: Company, Blue Ocean Equities

- Based on an indicative development timeline, for the equity analysis, we arrive at a **geared, un-risked, post-tax equity, NPV (8%) of A\$239m** and a **risk adjusted NAV of A\$84m** by assuming:
  - SKY funds A\$40M development capital and A\$5M working capital and other costs via a combination of equity and debt:
    - A\$22.5m is funded by debt, representing 50% gearing
    - The balance A\$22.5m is funded by a development equity raising

- We apply a 65% discount to our un-risked valuation to account for its pre-scoping study stage, development risks and potential future dilution
- To arrive to a risked NAV, we have deducted to the risked equity NPV the NPV of corporate overheads, attributed some value to exploration to reflect some upside from SKY's other 9 projects and deducted net debt
- To estimate the NAV per share we have estimated the level of dilution at key de-risking stages, including:

Stage	NAV/share	Basis
Current	0.15	477m shares + options on issue, 65% risking
At Development Financing	0.27	563m shares on issue, 40% risking
Post Construction and Ramp Up	0.44	788 shares on issue, 0% risking

- **Funding requirements to FID** covered by capital raisings to fund feasibility work to development financing
- **Development equity raising of A\$23m** – assumed share price re-rating following key de-risking (feasibility, debt finance) and favourable macro environment done at over 10 cents per share

We consider that due to the attractive features of the Tallebung Project, including capital efficiency, low cost profile, exploration upside, attractive margins, favourable location (in a safe, stable jurisdiction) and the strong medium term price environment driven by expected deficits in the tin market it could be expected that SKY will get support from Australian investors, capital markets and potentially offtake partners to develop Tallebung on its own (i.e. without the need to secure a strategic partner or sell down a substantial minority interest). However, the option to minimise dilution at the development equity raising via a strategic could be attractive if SKY's share price does not re-rate as it reaches FID.

We also consider that while there is significant upside to our valuation from the de-risking of the Tallebung Tin Project following completion of feasibility and approvals workstreams, the potential to add a second project into production could be a major value driver for shareholders. If SKY Metals delivers Tallebung feasibility, offtakes, funding, construction and commissioning its shareholders will benefit from a material value re-rating process, which combined with exploration success at Tallebung or any of its multiple projects represents further upside from mine life extension and the potential to increase production via a second project.

## BASE CASE SENSITIVITIES

The table below illustrates Base Case sensitivities to Tallebung valuation:

**TABLE 5: TALLEBUNG NPV SENSITIVITY TO TIN PRICE AND DISCOUNT RATES**

NPV post-tax (A\$m)		Tin Price (US\$/t)				
		18,500	23,500	28,500	33,500	38,500
Discount rate (real)	6%	93	208	323	437	552
	7%	88	197	306	415	524
	8%	83	187	290	394	498
	10%	73	168	262	356	451

Source: Blue Ocean Equities



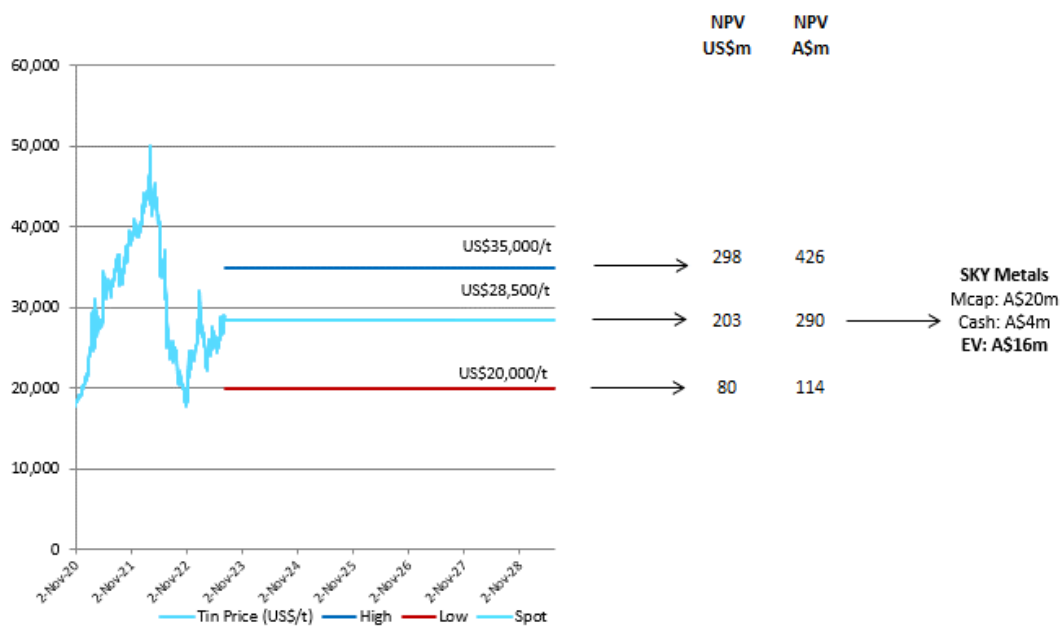
**TABLE 6: TALLEBUNG IRR SENSITIVITY TO TIN PRICE**

IRR post-tax (A\$m)	Tin Price (US\$/t)				
	18,500	23,500	28,500	33,500	38,500
	142%	211%	279%	348%	416%

Source: Blue Ocean Equities

### We are bullish on tin prices over the medium term but what if we're wrong?

Tallebung's valuation is highly sensitive to tin prices. While our view is that by first production in FY27 tin prices are likely to be higher vs current spot, Tallebung's NPV at lower prices remains attractive vs SKY's current market value of A\$20m.

**FIGURE 14: TIN PRICE IMPACT ON TALLEBUNG NPV**


Source: Blue Ocean Equities

## Key Risks

SKY Metals is exposed to all the normal risks associated with developing and operating mining projects, including geological, metallurgical, feasibility, approvals, funding, construction, commissioning and ramp up risks.

Assuming SKY Metals makes the transition into production from Tallebung, its revenues will be derived from the sale of tin concentrate. Fluctuations in the prices of tin as well as the Australian dollar could impact the company's reported cash flow (in A\$), profitability and share price.

As SKY Resources has 10 projects in NSW, an investment in SKY also carries Australian sovereign risk and NSW regulatory risk. However, it is worth noting that Australia (and NSW in particular) is considered materially lower sovereign risk than many of the other jurisdictions which host tin deposits like China, Indonesia, Peru, Myanmar, Bolivia and Brazil.

**MODEL SUMMARY: FINANCIALS & NAV**

**SKY Metals**
**Code: SKY**
**Stock Details**

Recommendation:	<b>SPEC BUY</b>		
Target	\$0.15	Share Price	\$0.04
NAV	\$0.15	52 Week High	\$0.12
Implied Return	266%	52 Week Low	\$0.03

Enterprise Value	\$16m
Diluted MCap	\$20m
Diluted Shares	477m
Free Float	100%
Avg Daily Value	\$0.02m

Macro Assumptions	FY22	FY23E	FY24E	FY25E	FY26E
Exchange Rate (A\$/US\$)	0.73	0.69	0.70	0.70	0.70
Tin Price (US\$/t)	40,182	23,446	28,500	28,500	28,500
Tin Price Realised (A\$/t)	55,382	34,220	40,714	40,714	40,714

Profit & Loss (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Revenue	-	-	-	-	-
Operating Costs	-	-	-	-	-
<b>Operating Profit</b>	-	-	-	-	-
Corporate & Other	(2)	(1)	(1)	(1)	(4)
Exploration Expense	-	-	-	-	-
<b>EBITDA</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
D&A	(0)	-	-	-	-
<b>EBIT</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
Net Interest Expense	(0)	0	0	0	0
<b>Pre-Tax Profit</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
Tax Expense	-	-	-	-	-
Underlying Profit	(2)	(1)	(1)	(1)	(1)
<b>Significant Items (post tax)</b>	-	-	-	-	-
Reported Profit	(2)	(1)	(1)	(1)	(1)

Cash Flow (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Operating Cashflow	(1)	(1)	(1)	(1)	(1)
Tax	(0)	-	-	-	-
Net Interest	0	0	0	0	0
<b>Net Operating Cash Flow</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
Exploration	(3)	(3)	(3)	(2)	(2)
Capex	-	-	-	-	(20)
Acquisitions / Disposals	-	-	-	-	-
Other	-	-	-	-	-
<b>Net Investing Cash Flow</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(2)</b>	<b>(22)</b>
Equity Issue	6	4	4	6	23
Borrowing / Repayments	-	-	-	-	23
Dividends	-	-	-	-	-
Other	-	-	-	-	-
<b>Net Financing Cash Flow</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>45</b>
Change in Cash Position	1	(1)	0	3	22
FX Adjustments	-	-	-	-	-
<b>Cash Balance</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>5</b>	<b>27</b>

Balance Sheet (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Cash	3	3	3	5	27
Other Current Assets	0	0	0	0	0
PP&E	1	1	1	1	21
Exploration & Development	16	19	21	23	25
Other Non Current Assets	0	0	0	0	0
<b>Total Assets</b>	<b>20</b>	<b>22</b>	<b>25</b>	<b>30</b>	<b>73</b>
Debt	-	-	-	-	23
Other Liabilities	1	1	1	1	1
<b>Net Assets</b>	<b>19</b>	<b>21</b>	<b>24</b>	<b>29</b>	<b>50</b>

Ratio Analysis		FY22	FY23E	FY24E	FY25E	FY26E
Diluted Shares	m	377	463	512	585	859
EPS - Diluted	Ac	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)
<b>P/E</b>	<b>x</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>
CFPS - Diluted	Ac	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)
<b>P/CF</b>	<b>x</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>
FCF - Diluted	Ac	(0.4)	(0.3)	(0.3)	(0.2)	(2.5)
<b>P/FCF</b>	<b>x</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>

Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-

Enterprise Value	A\$m	16	17	18	18	31
<b>EV/EBITDA</b>	<b>x</b>	<b>(6.6x)</b>	<b>(13.5x)</b>	<b>(14.0x)</b>	<b>(14.2x)</b>	<b>(21.9x)</b>
ROE	%	(12%)	(6%)	(5%)	(4%)	(3%)
ROA	%	(11%)	(6%)	(5%)	(4%)	(2%)

Net Debt / (Cash)		(3)	(3)	(3)	(5)	(5)
Gearing (ND/(ND+E))	%	n.m.	n.m.	n.m.	(23%)	(32%)
Gearing (ND/E)	%	n.m.	n.m.	n.m.	(19%)	(24%)

Resource	Target Resource				
	Mt	% tin	kt	Mt	EV/t Sn
Indicated	0	0	0	25	626
Inferred	10.2	0.18	18.4	30	522
	10.2	0.18	18.4	EV/t Sn	
			852		

Tallebung has potential to reach a resource of ~25-30Mt near term

Earnings Sensitivity		FY25E	FY26E	FY25E	FY26E
		A\$m	A\$m	%	%
Tin Price	US\$/t +10%	n.m.	n.m.	n.m.	n.m.
Exchange Rate	A\$/US\$ -10%	n.m.	n.m.	n.m.	n.m.

Valuation	Risking	Stake	A\$m	A\$/sh
Tallebung (unrisked)	-	100%	245	0.51
Tallebung (risk-adjusted)	65%	100%	86	0.18
Exploration			5	0.01
Corporate & Other			(22)	(0.05)
Debt			-	-
Cash			4	0.01
Option Strikes			-	-
<b>Risk adjusted NAV</b>			<b>72</b>	<b>0.15</b>
				<b>0.27</b>

Source: Blue Ocean Equities

## BOARD & MANAGEMENT

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### Norm Seckold, Chairman

Norm has over 40 years of experience in the full-time management of natural resource companies. His experience includes being Chairman and Director of listed companies Bolnisi Gold NL, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals NL, Palmarejo Silver and Gold Corp. and Cockatoo Coal Limited. He is currently Chairman of Alpha HPA Limited and Deputy Chairman of Nickel Industries.



### Richard Hill, Non-Executive Director

Richard has over 25 years of experience in the mineral resources sector as a geologist and solicitor. He has a successful track record of guiding ASX listed mining companies from the exploration and discovery phase through to development in a range of commodities. These have included past roles as founding Director for Aurelia Metals Ltd and Strandline Resources Ltd as well as Chairman of Genesis Minerals Ltd. Richard is currently Chairman of both Accelerate Resources Limited and New World Resources Limited.



### Rimas Kairaitis, Non-Executive Director

Rimas has over 25 years of experience in minerals exploration and resource development in gold, base metals and industrial minerals. In his most recent role, he was the founding Managing Director and CEO of Aurelia Metals (ASX: AMI), which he steered from a junior exploration company to a profitable NSW based gold and base metals producer. Rimas is also the Managing Director of Alpha HPA Limited.



### Oliver Davies, Chief Executive Officer

Oliver has been a geologist with SKY since listing in 2019. He was appointed Exploration Manager in 2021 and CEO in early 2022. Oliver was previously in exploration and operational roles with Evolution Mining and Alkane Resources in NSW and Qld. He has worked closely on several successful NSW exploration projects including Evolution Mining's significant expansion of the Lake Cowal gold resource and with Alkane's regional exploration success at Tomingley and Boda.



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Blue Ocean Equities Pty Limited acted as Lead Manager for the SKY Placement in May 2023.

One of the Analysts of this report owns shares in SKY Metals.



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