
Analyst Ideas of the Week – East Africa Metals Announces Robust PEA

www.researchfrc.com



Sid Rajeev, B.Tech, MBA, CFA
Head of Research

East Africa Metals Announces Robust PEA

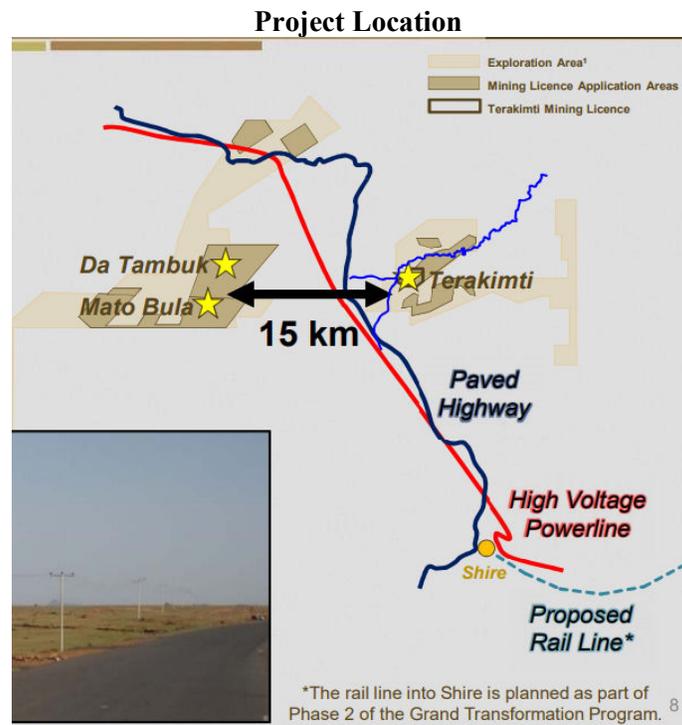
East Africa Metals Inc. (TSXV: EAM / Share Price: \$0.23 per share/ FRC Fair Value Estimate: \$0.54 per share) – EAM announced results of their Preliminary Economic Assessment (“PEA”) conducted on three of its gold projects in the Federal Democratic Republic of Ethiopia by Tetra Tech today. The projects include:

1. 100% owned Mato Bula Gold Copper Project (“Mato Bula”),
2. 100% owned Da Tambuk Gold Project (“Da Tambuk”) and
3. 70% owned Terakimti Gold Heap Leach Project (“Terakimti”)

The PEA results were very encouraging and the market reacted favorably as the share price was up 18% today on the news.

EAM’s projects are located in the Arabian-Nubian Shield (“ANS”) - one of the most under-explored prospective gold regions in the world. In December 2017, the company received a

Mining Licence for the Terakimti oxide gold project. The company is awaiting Mining Licenses for Da Tambuk and Mato Bula. The Mato Bula and Da Tambuk projects are 5 km apart, and the Terakimti gold project is approximately 15 km from Mato Bula and Da Tambuk. **We believe the three mining licenses will offer EAM the potential to proceed to a district scale production scenario.** Management believes that the recent PEAs indicates the potential to advance to production over the next 18 to 24 months.



Source: Company

The following table summarizes the PEA results:

	Mato Bula Gold Copper	Da Tambuk Gold	Terakimti Gold ^x	Total
Mine Life (years)	8	4	4	
Tonnage	3,335,000	650,000	1,086,000	5,071,000
Processing Rate (tpd)	1,400	550	715	
Commodity Price				
Gold (US\$/oz)	\$1,325	\$1,325	\$1,325	
Copper (US\$/lb)	\$3.00			
Silver (US\$/oz)	\$17	\$17	\$17	
Recovery				
Gold	86.4%	93%	65%	
Copper	87.4%			
Silver	50.0%	50%	30%	
Annual Production				
Gold (oz)	34,750	24,000	17,800	76,550
Copper (Mlb)	1.67			2
Silver (oz)	4,780	6,000	57,250	68,030
Initial CAPEX (US\$, M)	\$54.2	\$34.0	\$17.2	\$105.4
Cash Cost (C1) - US\$ per Au oz	\$412	\$420	\$465	
AISC - US\$ per Au oz	\$620	\$642	\$649	
Post-tax NPV @ 8% (US\$, M)	\$56.7	\$13.0	\$13.2	\$82.9
Payback (years)	3	1.9	2.4	
Post-Tax IRR	28.40%	28.60%	30.10%	

x - 100% attributable to Terakimti operation.

Source: EAM – April 30, 2018 Press Release

As shown in the table above, the combined initial CAPEX is US\$105 million. The average **operating cost ranges between US\$412 to US\$465 per oz**, which is significantly lower than our preliminary estimate of US\$503 per oz.

The combined after-tax Net Present Value (NPV) at 8%, of the three projects, was US\$82.9 million. **Based on today's C\$/US\$ exchange rate of 1.28, we estimate the NPV is C\$107 million, or \$0.64 per share.** Note that we estimate these studies used almost 100% of the oxide indicated resource at Terakimti, but only 75% of Da Tambuk, and 60% of Mato Bula's resource estimates. The studies did not include any of Mato Bula North's resources, nor Terakimti's supergene and primary sulphide resources.

Our valuation models, presented in our initiating report dated April 11, 2018, are not directly comparable as we had accounted for 100% of the resource estimates on all of the company's projects in Ethiopia, and modelled a larger operational scenario of up to 3,000 tpd, with a total initial CAPEX of US\$175 million. We had also used a higher discount rate of 13.5%, for

conservatism, which provided a base-case NPV of \$83.5 million. Our NPV at 8% was \$185 million.

We are not making any changes to our fair value estimate at this time and will publish a detailed update report after the technical reports are published. Our rating on EAM's shares is a BUY with a fair value estimate of \$0.54 per share. The company is currently in discussions with a number of parties for project financing.

Los Andes Copper Ltd. (TSXV: LA / Share Price: \$0.29 per share/ FRC Fair Value Estimate: \$1.72 per share) – Los Andes announced last week that it has entered into a financing agreement with Resource Capital, wherein RCF will invest \$8.84 million by acquiring 26.80 million units at a unit price of \$0.33. Each unit will consist of a common share and half warrant (exercise price of \$0.50 for 5 years). We consider this highly positive as RCF is already a significant investor in the company. Los Andes is currently preparing an updated resource estimate, and an updated preliminary economic assessment, on the 100% owned Vizcachitas copper-molybdenum porphyry project located in central Chile, which are expected to be completed in the coming months. As mentioned in our initiating report, we expect a significant increase in both tonnage and grade, which we believe will positively impact the updated PEA.



Anthony De Ruijter, B.A. (econ)
Analyst

Sunniva Inc. (CSE: SNN / Share Price: \$9.28 per share / FRC Fair Value Estimate: \$47.66 per share) – On April 25, 2018, the company announced that FY2017 financials would be delayed till after market close on Tuesday April 30, 2018. The company will be holding an earnings call at 11:30 am EST/ 8:30 am PST on May 1, 2018, to discuss the quarter’s results. We will be releasing an update report on the company following the earnings call.

Isodiol International Inc. (CSE: ISOL / Share Price: \$0.87 per share / FRC Fair Value Estimate: \$2.51 per share) – On April 24, 2018, the company announced the launch of new CBD products developed jointly with Level Brands Inc. (NYSE American: LEVB), a marketing and licensing company based out of New York. The two companies had entered into a licensing agreement in January 2018, to jointly develop CBD consumer products under several of Level’s family of brands.

The new products announced include:

- A CBD pain-relief cream, marketed under Level Brand’s Subsidiary Ireland Men One.
- A CBD oral spray marketed under BeTrū | Kathy Ireland® Health & Wellness.
- CBD edibles under the Chef Andre Carthen Edibles brand.

These products are expected to debut in the summer of 2018, with products available at retail stores and online stores nationwide.

The announcement confirms the material development of the licensing agreement, demonstrating that Isodiol may potentially benefit from the breadth of Level Brand’s distribution. Due to the share issuance obligation to Level Brands Isodiol maintains as part of the licensing agreement, the expedited roll-out of products under Level Brand’s retail channels is of significant importance to Isodiol’s future earnings.

Furthermore, on April 26, 2018, the company announced that their subsidiary, BSPG Laboratories Ltd., had received government approval for the manufacturing of CBD under certificate number UK API 48727. This is a material development as it provides Isodiol with the approval necessary to begin exportation of pure, natural CBD to any global jurisdiction, subject to pharmaceutical regulations. This allows Isodiol to become the go-to CBD supplier for CBD drug development, R&D, clinical studies, clinical trials, and other pharmaceutical applications. Given Isodiol plan to complete the world's largest CBD processing facility in China by Q1-2019, Isodiol may have up to 20,000 kilos worth of Active Pharmaceutical Ingredient quality ready to meet demand for the above applications. With regulatory approval from one of the worlds leading health authorities (the United Kingdom Medicines and Healthcare Products Regulatory Agency), Isodiol moves forward with their status as a globally leading CBD company reinforced.

Lexaria Bioscience Corp. (CSE: LXX / Share Price: \$1.97 per share / FRC Fair Value Estimate: \$4.64 per share) – On April 25, 2018, the company announced that it had entered into an out-licensing agreement with GP Holdings LLC (“GP”), whereby Lexaria provides GP with its DehydraTECH™ drug delivery technology for use in GP’s cannabis-infused beverage products. GP is a cannabis-infused beverage contract manufacturer and co-packer based in California, with its new bottling facility expected to commence production within the next two quarters. GP has acquired five-year semi-exclusive rights to Lexaria’s DehydraTECH™ for an undisclosed sum and royalty on revenues related to products utilizing Lexaria’s technology. In addition, GP has also acquired matching exclusivity rights for the use of DehyrdaTECH™ in topical skin products, which GP intends to develop as well.

Further expanding their list of licensees, the development cements the viability of Lexaria’s strategy to grow through a technology out-licensing revenue model. As we forecasted in our initiating report, the company’s main commercial focus in the near-term would be opportunities in the legal cannabis space. The company have thus far amassed a significant number of licensing agreements with U.S. based cannabis companies, as well as one prospective Canadian cannabis edibles manufacturer, reflecting our forecasts. We expect the number of licensees to grow rapidly, as Lexaria is concurrently expanding their IP portfolio, strengthening the appeal of their drug delivery technology.

Disclaimers and Disclosure

The opinions expressed in this report are the true opinions of the analyst(s) about any companies and industries mentioned. Any “forward looking statements” are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. Companies mentioned in this report may be covered by FRC under an issuer paid model or be candidates for coverage. FRC may hold shares in some companies mentioned in this report. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC’s research is ranked by Investars. Full rankings and are available at www.investars.com.

To subscribe for real-time access to research, visit <http://www.researchfrc.com> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company, industry, and/or stock’s performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward-looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE’S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report. The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.

©2018 Fundamental Research Corp. “ 10+ Years of Bringing Undiscovered Investment Opportunities to the Forefront “

www.researchfrc.com

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT