

1 February 2017

ANGOLA, TANZANIA

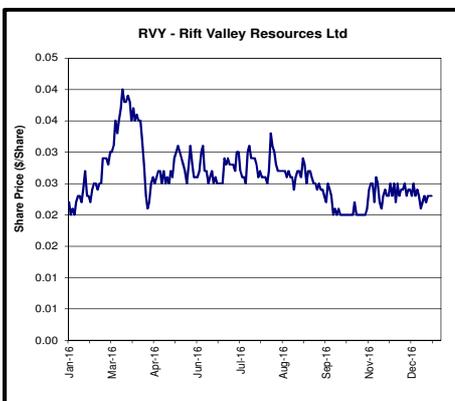
MAGNET METALS, GOLD, COPPER

EXPLORATION

EXCHANGE: ASX:RVY

**CAPITAL PROFILE**

Share price (A\$)		<b>0.023</b>
52 week range (A\$/share)	0.019 to	0.041
Number of shares (M)		<b>634.0</b>
Options and warrants (M)		107.9
Converting notes (M)		0.0
Fully diluted (M)		741.8
Market capitalisation (undiluted) (A\$M)		<b>14.6</b>
Debt (A\$M) - Dec 16		0.0
Enterprise value (A\$M)		<b>13.9</b>
Major shareholders: Merrill Lynch Aust (10.2%), East Africa Int. Ltd (3.4%), JP Morgan Noms (2.96%), W & C Gilmour (2.52%).		
Avg monthly volume (M)		13.3
Cash (A\$M) - Dec 16		<b>0.7</b>
Price/Cash (x)		21.8
Price/Book (x)		0.9
Listed company options:		No



**DIRECTORS**

S Dobson (Non Exec Chairman)  
G Gilmour (MD)  
G Cunnold (Tech Dir)  
G Clatworthy (Non Exec Dir)  
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**RIFT VALLEY RESOURCES LIMITED**

**Longonjo Magnet Metals Project**

Share Price: \$0.023

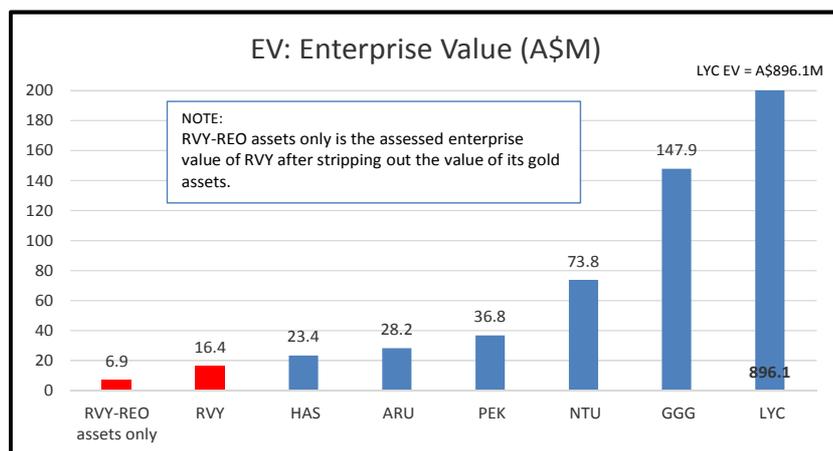
Speculative Buy

Rift Valley Resources' Longonjo magnet metals project in mining-friendly Angola is starting to gain increased focus as a key company asset alongside RVY's 1.1Moz gold resource properties in Tanzania. Longonjo's potential resource size and grade look highly promising (as does a recent desktop metallurgical study), so we have had a preliminary look at the project, evaluating it in relation to other ASX-listed emerging rare earth plays.

**INVESTMENT POINTS**

- ◆ Angola is keen to attract new investment to diversify its oil and gas-dominant economy. Civil war is a distant memory.
- ◆ Magnet metals (neodymium and praseodymium - NdPr) are forecast to be important players in the coming electric vehicle and green energy revolution.
- ◆ Only one current mined source of magnet metals exists outside China. Western auto manufacturers will need more.
- ◆ The potential Longonjo resource size looks significant based on the large scale rare earths anomaly identified.
- ◆ Grades of total rare earths and magnet metals (NdPr) look promising based on shallow trench sampling and composite drill assays.
- ◆ Based on indicative grades, the processing route selected in a recent desktop metallurgical study and availability of low cost reagents and power, the project clearly has the potential to be a low opex operation.
- ◆ Capex could be comparatively low with good pre-existing infrastructure at the project site and proposed sale or toll treatment of concentrates to a rare earths refinery.
- ◆ Based on our early stage appraisal, the project could rank well relative to other emerging magnet metals projects if a significant high grade JORC resource can be delineated.

**ENTERPRISE VALUE COMPARISON – ASX-LISTED STOCKS**



## Angola – Diversifying Economy Keen to Attract New Projects

Angola is in central West Africa, north of Namibia and west of Zambia.



Source: RVY

Population is >24 million and the economy is oil and gas dominant.

The Government is mining friendly and keen to attract new investment outside oil and gas.

Angola has a population of 24.4million (similar to Australia's), nearly half of which reside in the capital Luanda. Angola is the third biggest economy in Sub-Saharan Africa and one of its fastest growing economies. The economy is currently almost totally dependent on oil and gas revenues, which made up about 86% total GDP in 2015.

The good news is that the country is in recovery mode after nearly three decades (1975-2002) of civil war. Infrastructure that was neglected is being rebuilt. The Angolan Government is keen to diversify the economy and is offering attractive incentives to encourage private investment in the non-oil and gas sector. The overall corporate tax rate is 30%, but for mining it is 25%. Subject to negotiation, the Government has indicated that it will offer incentives for significant foreign investment such as corporate tax exemption or reduction for up to ten years, and customs duty exemptions/reductions for up to six years.

## What are “Magnet Metals”?

Magnet metals are a sub-group of the rare earth oxide (“RE”) elements. They comprise the three rare earth elements, Neodymium (Nd), Praseodymium (Pr) – which occur together as “NdPr” – and Dysprosium (Dy).

**Demand for magnet metals (NdPr and Dy) is expected to soar as green energy and the electric vehicle revolution accelerates in the next two decades.**

Magnet metals are important as they are a critical raw material input to permanent magnets that are essential in the development of permanent magnet synchronous motors found in most hybrid, plug-in hybrid and battery electric vehicles (EVs) and generators for wind turbines. NdPr magnets are about three times stronger and one tenth of the weight of conventional permanent magnets, and there is no known substitute to achieve similar performance.

As much as the lithium sector has been ignited by the projected rapid demand growth for lithium in relation to lithium-ion battery energy storage for the impending EV revolution, we see similar demand potential for NdPr being driven by the same revolution in EVs – cars, light duty vehicles and bikes. Demand growth of 10% compound annual growth rate looks readily achievable, which means that demand for NdPr could effectively double in the next 7-8 years (currently 36,500tpa). Over 90% of the world’s magnet metals are mined and produced in China, with only one significant Western world supplier currently operating – Lynas Corporation (ASX:LYC). In the coming decade, the non-Chinese auto makers are likely to be very focused on establishing future secure, stable supply sources from outside China.

## Potential Size of the Longonjo Prospect

**The Longonjo rare earths anomaly shows grades over 0.5% over 6km<sup>2</sup>.**

A soil geochemical sampling program undertaken at Longonjo over an area of 6km<sup>2</sup> defined a large 3.5km long and 1.7km wide >0.5% REO anomaly which remains open to the west. This early stage reconnaissance data indicates that Longonjo has the potential to be a large tonnage project. Our calculations show that if a mineralised resource over that >0.5% anomalous area was defined to a modest depth of 30m (the typical depth of the RAB drilling to date), the total tonnage would be of the order of 500Mt.

## Longonjo’s Magnet Metal Grades – Key to Future Success

**Good grades are crucial for emerging rare earths projects.**

Like most mining operations, grade is king with REO projects. It is particularly so with REO mining and extraction because of the high unit cost of the relatively complex beneficiation and hydrometallurgical separation and refining processes required to produce separated rare earths. The last thing project exponents want to have to do is process large tonnages of host rock in a high cost process, to extract minor quantities of RE’s, and in particular magnet metals.

For that reason, we think that RVY’s Longonjo Project looks very interesting and is likely to attract increasing interest, not only because initial drilling and trenching has indicated grades total REO grades are relatively high relative to its peer group, but also the magnet metal component is also quite high.

## Longonjo grade data

RVY's early stage exploration work to date has not yet generated any JORC resources, but the exploratory drilling and trench sampling undertaken gives a good indication of grade potential.

The exploratory RAB drilling in 2014 generated 168 composite samples. The highest grade returned was 11.32%, the lowest 0.45%, with an **average of 2.96% TREO over all the samples.**

**Exploratory RAB drilling over a wide area has produced a composite assay of 2.96% TREO (total rare earths oxides) with ~20% of that grade being NdPr.**

### Longonjo 2014 Drill Campaign Composite Assay

RVY Drill Campaign	La <sub>2</sub> O <sub>3</sub> %	CeO <sub>2</sub> %	Pr <sub>6</sub> O <sub>11</sub> %	Nd <sub>2</sub> O <sub>3</sub> %	Sm <sub>2</sub> O <sub>3</sub> %	Gd <sub>2</sub> O <sub>3</sub> %	Y <sub>2</sub> O <sub>3</sub> %	Other %	TREO %
	0.78	1.38	0.14	0.45	0.05	0.02	0.05	0.03	2.96

Source: RVY

Based on this composite, the magnet metal NdPr content is 0.59%, or 19.9% of total REO ("TREO") content, which (according to RVY's calculations) represents approximately 75% of the TREO value based on November 2016 REO prices. Importantly, this indicates that Longonjo potentially will generate an acceptably high component of value in the magnet metals.

**A subsequent shallow trench sample over 80m returned a high grade of 6.47% TREO.**

Shallow trench sampling across part of the REO anomaly was undertaken in June 2015. The program provided a composite of approximately 58kg sampled from 4 to 6 metres in depth (below the top soil) along an 80 metre long trench. **Analysis of the homogenised trench sample returned a higher grade of 6.47% TREO.**

We tend to lean towards the 80m composite trench grade data as the best indicator of grade potential, since it was targeted towards the higher grade anomaly zone where mining arguably would be focused. The drill composites were full intercept width (i.e. non-selective) and included all results over a broad area of exploratory drilling.

## Longonjo Desktop Study

**RVY has engaged a highly regarded REO metallurgical consultant to undertake a desktop study for processing options at Longonjo.**

In November 2016 RVY released the results of a desktop study into processing options for Longonjo (ASX release 23 November 2016). RVY engaged Mr Gavin Beer of Met-Chem Consulting to undertake the study, which included review of previous flotation testwork and further acid baking and leaching testwork. The involvement of Mr Beer lends significant credibility to the results and conclusions. He has been extensively involved in REO process technology development over many years. According to the Peak Resources Ltd web site, "*Gavin started his own consultancy business in 2011 providing specialist metallurgical expertise to the to the rare earth industry. He was responsible for the flow sheet development of eight Rare Earth projects worldwide including Peak's Ngualla Project.*"

The highlights of the desktop study as released by RVY are reproduced below:

**Desktop Study Highlights Published by RVY**

**The desktop study indicated positive results...**

**HIGHLIGHTS**

- Beneficiation testwork produced high grade concentrates of up to 19.44% rare earth oxides (REO)
- Subsequent leach testwork on concentrates achieved >89% extractions of the Magnet Metals neodymium and praseodymium
- A metallurgical flowsheet has been developed utilising proven technologies of flotation and acid baking to produce a mixed rare earth carbonate (REC) product
- Strategic Government partner Ferrangol P&P SA
- Excellent accessibility to Road, Rail, Hydroelectric Power and Deep Sea Port
- 75% In-situ value magnet metals neodymium and praseodymium
- Capital Expenditure Estimate and Financial Model advancing

Source: RVY

**...with a standard processing route selected.**

This study confirms that essentially a "standard" flotation/acid bake/water leach processing flowsheet is the preferred option. This flowsheet is similar to those proposed for other projects (e.g. Arafura Resources' Nolans Project). The proposed final product is a mixed rare earth carbonate that would need to be sold or toll treated at a third party refinery offshore.

This conceptual flowsheet represents a low capex option, with reduced capital funding risk for a junior such as RVY. We think the minimal capex route is by far the best approach for this type of project, however the company has indicated that it will also look at the potential financial benefits of a dedicated REO separation plant to treat the combined REO carbonate product.

## **RVY's "Second Mover" Advantage - Developed Project Flowsheets**

**After a large amount of development work by other REO project development companies, the processing technology is now effectively "off the shelf" – a significant cost and risk advantage to "second-mover" companies such as RVY**

It's interesting that in the past ten years, a large amount of work by the next generation of potential magnet metals companies has gone into developing the flowsheets and extraction/refining technologies for efficient production, but no project has reached the point of funding and a formal go-ahead. Much of the technology development was driven and accelerated by the boom in REO prices experienced in 2010-2012, when large amounts of cash could be readily raised by the next generation of REO hopefuls.

Put simply, much of the research and process development grunt work has been done for REO minerals, (much of it involving the company's current metallurgical consultant – Mr Gavin Beer), and recent entrants into the sector such as RVY will be able to take advantage of that as "second movers" able to effectively slot in "off the shelf" processing flow sheets without going to such lengths as the earlier developers.

## Potential Operating Cost Advantages

At this early stage of development, there are a number of factors we have identified which suggest that RVY's Longonjo Project could have a very competitive cost structure, low on the cost curve in terms of unit costs (US\$/kg REO).

These factors are:

**A number of factors indicate that the project could benefit from low operating costs.**

- Mineralisation outcropping at surface.
- Likely to be low cost open pit mining with a low strip ratio.
- Potential high REO grades.
- Testwork indicates a good REO upgrade ratio can be achieved in beneficiation with low mass pull flotation (at modest but acceptable recoveries), meaning unit cost savings through tonnage reduction to the acid bake/leach plant.
- Low cost sulphuric acid source is likely from the Tsumeb copper smelter in Northern Namibia. Acid is the single biggest reagent cost for the acid bake route selected and likely to be a significant component of total opex.
- Availability of low cost power through Angola's hydroelectric-fed power grid. We understand that power can be supplied to site at around US\$0.05/kWh.

## Infrastructure

Accessibility and proximity to existing infrastructure at Longonjo appears to be a strong point for this project, factors which are crucial to minimise capital expenditure and capital funding risk.

### Longonjo Project Infrastructure Issues

**Accessibility and availability of crucial infrastructure at Longonjo is excellent, which is an important factor for minimising up-front capex for African mining projects.**

Electric Power	Power transmission lines from the Gove Dam hydro power plant run close to the project area. Low cost excess power is available from the national grid which far exceeds the Angola's current requirements.
Water supply	Good water availability.
Town proximity and workforce availability	The city of Huambo (Angola's second largest city, population approx. 1.9m) is 60km from the Longonjo project area.
Air links	Huambo has an international airport
Site access	The project area is situated 4km from a national sealed highway that runs from Huambo to the coast (300km).
Transport links	Sealed road and rail access (alongside the road) run direct to the deep sea port at Benguela.
Shipping port	Deep sea port at Benguela.

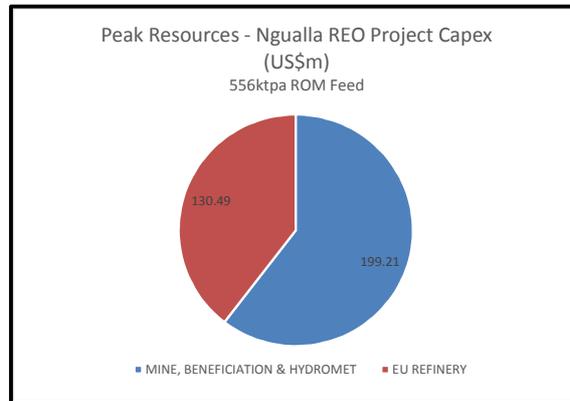
## Low Capex Expectations

Due to the high level of existing infrastructure available to the project site, and the relatively simple proposed flowsheet to produce a combine rare earth carbonate product, we consider that the capex requirements

for the Longonjo Project could be quite modest relative to some of the other proposed projects.

As a broad first approximation of possible capex, we have examined the estimated capital expenditure for Peak Resources Ltd's (ASX:PEK) proposed Ngualla Rare Earth Project in Tanzania (PEK ASX announcement 16 March 2016). PEK's project capex is based on a mining rate of 556ktpa and includes a rare earth refinery to be situated in the EU. The total capex estimate of US\$329.9m includes growth and contingency allowances of 25%.

**We have undertaken an approximate capex estimate for Longonjo based on Peak Resources BFS for its Tanzanian REO project...**



**...and derived a first pass capex estimate of US\$135m for Longonjo.**

We have focused on the mine, beneficiation and hydrometallurgical capex estimate of US\$155.6M. Making allowances for the additional barite pre-float circuit required at Ngualla, the relatively high infrastructure costs at the Ngualla site and the need to build an 84km access road, we have come up with a conceptual comparative estimate of US\$135M for the Longonjo Project, based on a nominal 500ktpa mining rate.

## How Does Longonjo Potentially Rank Relative to Other REO Development Projects?

We have looked at comparative data relative to other ASX-listed REO development companies, in order to gauge broadly where the Longonjo project and the current valuation of RVY sits relative to its more advanced peer group.

### ASX-Listed REO Development/Production Companies

Company	ASX Code	Project	Project Equity	Location	Stage	Share Price (A\$)*	Market Cap (A\$M)	EV ** (A\$M)	12 Month Share Gain
Arafura Resources Ltd	ARU	Nolans	100%	NT	BFS nearing completion	0.083	36.6	28.2	25.8%
Greenland Minerals & Energy Ltd	GGG	Kvaneffjeld	100%	Greenland	Initial FS Completed	0.130	129.9	147.9	348.3%
Hastings Technology Metals Ltd	HAS	Yangibana	70-100%	WA	Sc. Study, PFS Underway	0.081	31.1	23.4	20.9%
Lynas Corporation Ltd	LYC	Mt Weld	100%	WAMalaysia	In Production	0.087	306.3	896.1	-4.4%
Northern Minerals Ltd	NTU	Browns Range	100%	NT/WA	PFS, Pilot Plant Proposed	0.125	80.7	73.8	78.6%
Peak Resources Limited	PEK	Ngualla	75%	Tanzania	BFS nearing completion	0.074	35.3	36.8	4.2%
Rift Valley Resources Ltd	RVY	Longonjo	70%	Angola	Early Exploration, Desktop Study	0.023	14.6	16.4	4.5%

\* Share prices are closing prices as at 27 January 2015

\*\* EV = Fully Diluted Enterprise Value

Data from published company reports. Exchange Rate A\$/US\$ = 0.76 assumed.

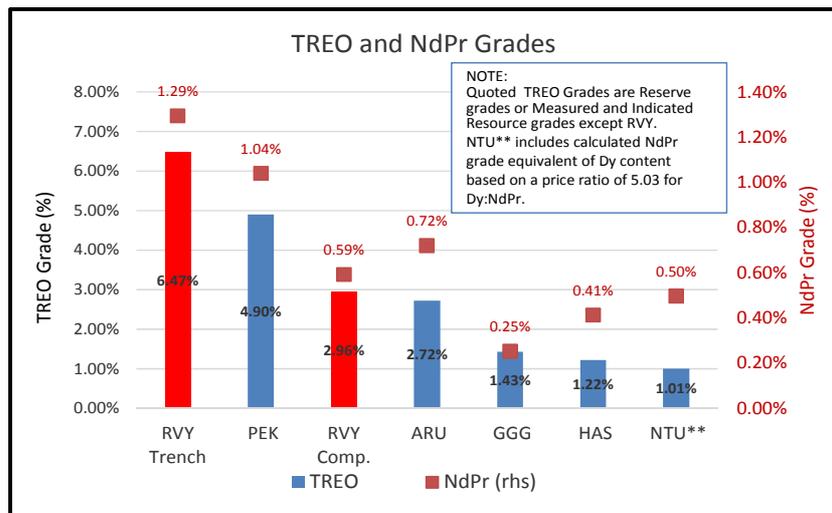
The ASX-listed project developers in the Table all have a major component of magnet-feed NdPr in their projected product mix, or in the case of NTU, Dy, which is also predominantly a magnet feed.

It is important to note that this comparative analysis is based on very preliminary data available for the Longonjo Project. It is based on RCR's evaluation of likely project parameters that would apply to Longonjo if a significant mineable resource is delineated in future exploration programs. It is noted that there is no current defined resource at Longonjo.

**Peer group grade comparison**

The chart below shows RVY trench and composite drill grades relative to published reserve of resource grades (where no reserves have yet been defined) for the five main ASX-listed REO project development companies. The indicative NdPr grades for RVY have been calculated based on the 19.9% ratio of NdPr to TREO from the composite sample detailed earlier in this report.

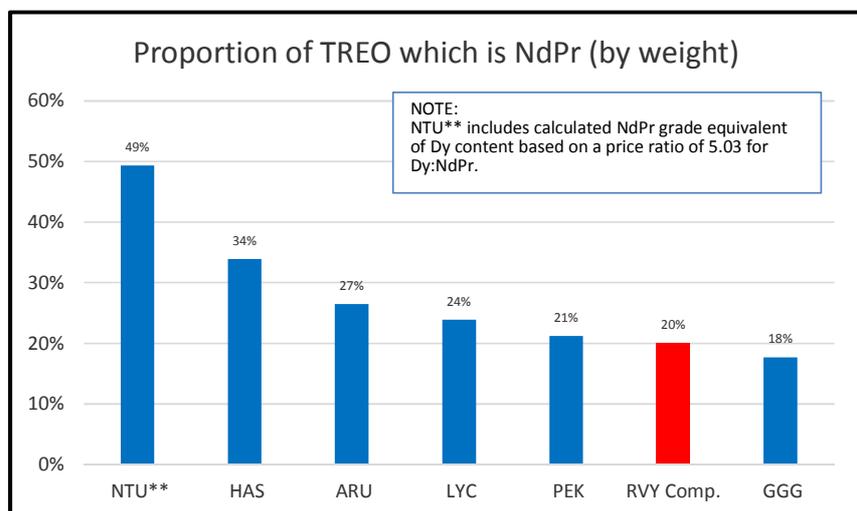
**Initial grade indications based on sampling for Longonjo look very promising relative to the ASX peer group. However it is an early stage exploration project and no substantial resource drilling has yet taken place.**



If the trench grades (based on a composite of an 80m trench) are a guide to the potential grades for Longonjo, then this project looks like it could have outstanding grade potential, both for TREO and NdPr. The lower grade drill composite sample (see earlier discussion) also showed excellent TREO grades and solid NdPr grades.

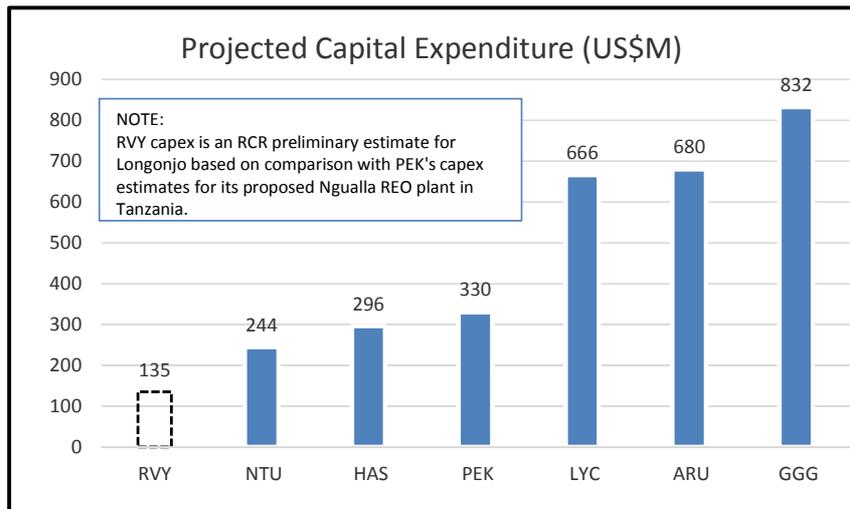
In terms of the proportion of total rare earths ("TREO") assay which is the critical magnet metal REO's NdPr or Dy in the case of NTU, the initial composite sample assay suggests that Longonjo's magnet metal component % is similar to LYC, PEK and GGG, but materially lower than the other three.

**Proportion of total REO grade that is magnet metal (NdPr) is similar to a number of peers.**



### Peer Group Capex Comparison

Based on our estimates the capex for Longonjo would be lowest in class.

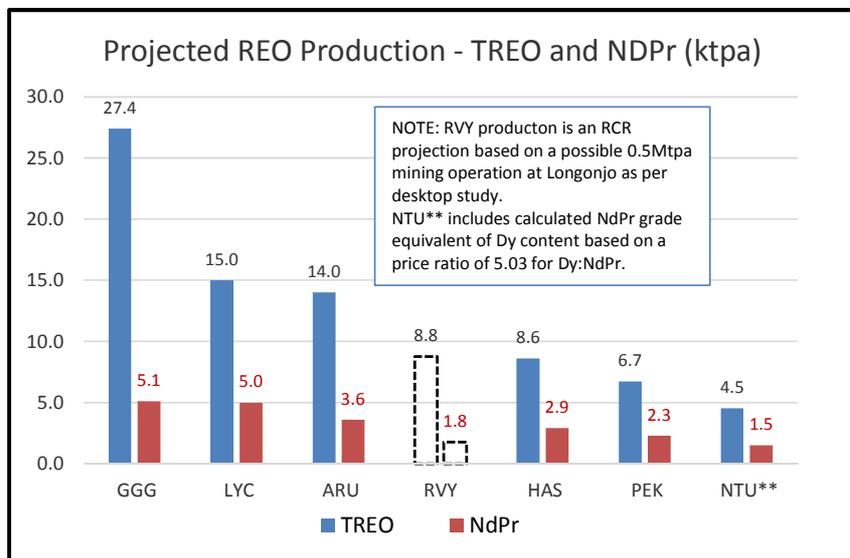


As can be seen from the chart, based on our assumptions as discussed earlier, RVY's Longonjo project would be comfortably at the lower end of capex requirements based on the ASX-listed companies seeking to develop magnet metals projects (or already developed in the case of LYC).

### Future Production

We have calculated a projected TREO and NdPr output for Longonjo based on the data from the desktop study and assumed 0.5Mtpa mining rate for a future project.

We have assumed Longonjo could become a mid-sized REO and magnet metals producer if resources and reserves are proved up.

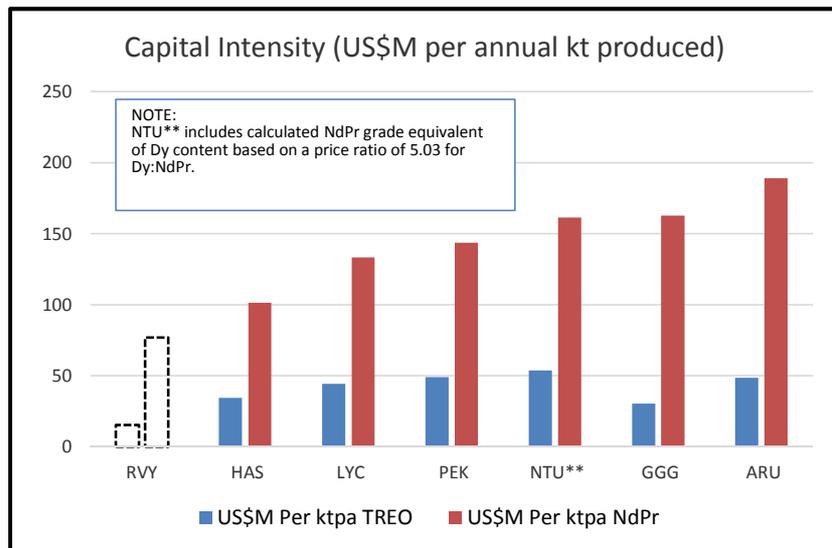


Based on the composite TREO/NdPr grade ratio for Longonjo, our scenario projections indicate that Longonjo could produce just under 9ktpa TREO, but the 1.8ktpa magnet metals (NdPr) output would be lower than most of the peer group.

### Capital Intensity

Based on the modest capex projected for Longonjo, the capital intensity in terms of capex per thousand tonnes of annual output would be lowest in class, both for TREO and NdPr.

Potential capital intensity for Longonjo relative to REO output is expected to be low – important for emerging juniors.



### Enterprise Value Rankings

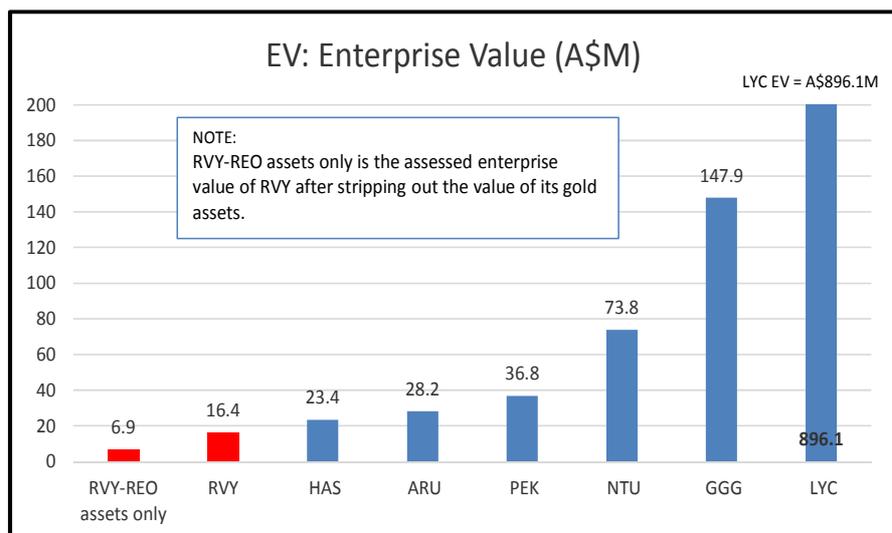
The chart below represents enterprise values (EV's) for the peer group, with two values quoted for RVY:

RVY EV	Current EV of RVY as per current market capitalisation less cash.
RVY EV: REO assets only	Current EV of RVY adjusted for RCR assessed value of RVY's gold assets**.

\*\* RCR assessed value of RVY's Gold assets:

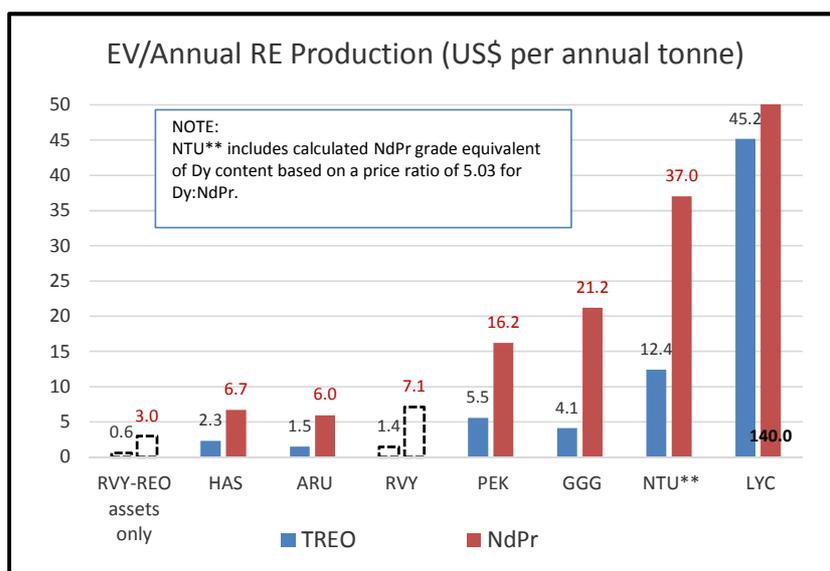
- Total equity in gold resources (Kitongo and Miyabi): 1.11Moz
- Valuation of Gold resources: 50% discount to PCF Capital Gold Transaction Metrics 3-year average (Dec 2016) for gold exploration assets (US\$13/resource ounce).
- i.e. 1.11Moz x (50% x US\$13/oz / 0.76 A\$/US\$) = A\$9.5M

At this early stage, the enterprise value of RVY we allocate to its magnet metals project is very low. However the upside is clear if the project can be developed into a realistic potential producer.



Based on our assessment, the effective current market valuation of RVY's REO assets is only A\$6.6M. This compares to A\$23M for the next lowest of the group (HAS). Note the EV of producer LYC is A\$762M.

Similarly, the cost to buy potential future production in terms of share market valuations presents expectations of strong upside for RVY if the Longonjo project can be further developed as a serious contender for future production.



The EV/RE production ratios (i.e. the cost to buy future production based on current market valuations) give an indication of major potential upside for RVY (based on our possible production profile for this type of project). This upside could be realised if RVY can progress the development of Longonjo into a viable REO (and specifically magnet metals) project over the next few years, by establishing a significant NdPr resource and progressing to a PFS and subsequent BFS.

Indeed the graph highlights the major potential upside for any NdPr project if the project owners can achieve financing, build and commission a project, and actually get into production. The EV/NdPr production ratio for LYC (current producer) of 112.7, at least an order of magnitude greater than those for the development companies, despite the fact that LYC has barely achieved cashflow break-even to date, and that is before any debt servicing costs, which have been renegotiated and deferred to a future date.

**CAUTIONARY NOTE**

This project review is based on an early-stage conceptual analysis of the Longonjo project, and refers to indicative grade data from sampling work, and possible processing options based on early stage metallurgical testwork and a desktop study.

To date Rift Valley Resources Limited has not done sufficient drilling to establish a JORC (2012) compliant resource at Longonjo. There is no guarantee that the Longonjo project will be advanced through the resource definition and feasibility study stages and achieve possible commercial outcomes as indicated in this conceptual study.

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