



Resources

Stocks Down Under

📖 *The most precious resource for businesspeople is not their time. It's their energy. Manage it well.* 📖

- Robin Sharma (Born 1964), Canadian writer and lawyer

— LEGEND MINING

Banking on gold's poor cousin

— BBX MINERALS

Sure and steady wins the race

— ELEMENT 25

Butcherbird on a song

LEGEND MINING

Banking on gold's poor cousin

Stocks Down Under rating: ★★★★★

ASX: LEG
Market cap: A\$ 281M

52-week range: A\$0.04 / A\$0.215
Share price: A\$ 0.105

In what is becoming a very busy nickel region, Legend Mining is looking ahead to the next big nickel mine in the Fraser Range. Like its competitor, S2 Resources, Legend has experienced a breakthrough in its discovery of nickel mineralisation and is now waiting on assay results from its Mawson prospect. The ongoing news flow from the Range has led to increased confidence in the competing nickel miners but especially Legend, with a share price still above the dismal 6 cent level of March. With the stock returning to a prior support level, we give it four stars.

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BBX MINERALS

Sure and steady wins the race

Stocks Down Under rating: ★★

ASX: BBX
Market cap: A\$ 140M

52-week range: A\$0.085 / A\$0.71
Share price: A\$ 0.33

BBX Minerals is a mineral exploration and technology company engaged in gold and precious metals exploration in Brazil. Aside from its capacity as a miner, BBX is also focussed on developing a new bulk extraction process to better uncover and extract resources in the Amazonas State, where gold mining has ramped up under President Bolsonaro's pro-mining stance despite local opposition. After a series of false starts in its assay process, the company's share price lifted to an incredible 70 cents after a bulk assay market update in September. This stock, however, has some more cooling off to do.

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ELEMENT 25

Butcherbird on a song

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Share price chart



Source: Tradingview

Mawson taking shape after busy September quarter

Legend's latest drilling program at its Mawson discovery has produced the most exciting results so far, with the discovery of thick zones of Ni-Cu-Co (nickel, copper and cobalt) sulphides. Mawson, as part of the Rockford Project, is located in the northern part of the Fraser Range district, 225 km east of Kalgoorlie-Boulder. It's also 120 km northeast from the Nova nickel mine of IGO (ASX: IGO) and 100 km south of Tropicana, the joint venture gold mine between IGO and AngloGold Ashanti. Legend intersected massive nickel-copper sulphides as recently as 21 October at hole RKDD027 with some additional holes picking up nickel and graphite. The diamond drilling program at RKDD027 intercepted 26.5 metres of nickel-copper with 15.45 metres of sulphides across three zones.

Although the Fraser Range is a popular exploration hub, nickel sulphide deposits, like that at Mawson, are considered to be rare, with only three other known sites: Galileo's Lantern Project, the Creasy Group-owned Silver Knight deposit and the Nova mine. Legend had previously been searching the Rockford area for the next big deposit for five years with limited success. It wasn't until December 2019 that its find at Mawson put Legend firmly in the news. The company now controls the largest block in the Range at 3,088 square kilometres with a view to substantially exploring Rockford's eight contiguous exploration licenses.

Uncertainties in meeting 2025 demand

Nickel stocks have become favourable in a short amount of time – in contrast to their isolation just a few years ago. That Electric Vehicle dream seemed like it was going to remain a dream, but recently EV producers like Tesla have projected that it will need up to 1.15 million tonnes of nickel a year by 2030 in order to meet its plan to produce higher quality cathode and battery cells.

Legend's belief in nickel as a definite future-facing commodity has been highlighted by the five-year increase in nickel spot prices compared with the five-year decrease in nickel warehouse stocks. Even with the expected deficits turning into a short-term surplus during the COVID-19 shutdown, Legend expects that the company's five-year plan will parallel nickel's continued favour in battery technology due to the metal's longevity and cost-effectiveness. It's forecast that 15 million Electric Vehicles will be produced in 2025.

Like almost every other resource on the planet, battery producers are facing real pressures of the falling global nickel supply. Legend will likely have to compete for position with others, like Galileo, to produce nickel now that top-producer Indonesia decided to enact a nickel export ban in January. The company sees Indonesia's role in nickel as crucial to a stronger market outlook in the medium term, but Indonesia wants to reduce nickel extraction to a more sustainable rate. That might have had a positive effect on nickel's 2020 price if COVID-19 hadn't driven prices temporarily lower.

A by-product of the ban was also the reduction of raw nickel product sent to China, which has a habit of locking up supply. While Indonesia's primary nickel production is still expected to increase 46% year-over-year to 550,000 tonnes in 2020, that extra production won't be on the global market.

Not shovel-ready, but drill ready

Legend has a cash balance of \$31.5m but will spend \$11m of that on exploration in the near term. The market cap may be close to \$300m, but Legend is still a junior with a plan to progress with one project and develop it into a Nova-style nickel-copper mine. That doesn't seem unrealistic given its recent exploration success and its large, experienced team of joint venture partners, including members of the Creasy Group and Sirius Resources' teams responsible for the Nova discovery in 2012.

In any event, the company is aware that one good prospect doesn't make a whole mine and that even with a big slice of Fraser Range Legend's case is still emerging. Results so far have confirmed that the Mawson intrusion extends both north and east of the known mineralisation, so the next step for Legend will be a 3D model to help give a visual of the whole Nova-style picture.

Legend stock has been easing back since early September, which we believe reflects market impatience with Mawson. The current share price level, however, looks like a good support line, particularly given nickel's continuing strength. That's why we rate Legend four stars.



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Source: Tradingview

Clearing the path in Brazil

BBX controls the Ema, Tres Estados and Juma East Projects in Brazil's Amazonas state. Amazonas, which is the largest state in north-western Brazil, is largely covered in a tropical jungle, although that hasn't stopped either large and small-scale illegal miners from operating in the area – much of which is criticised for threatening both native populations and the Amazon environment.

Despite the extent of the COVID-19 pandemic in Brazil, BBX managed to start its 2,500-metre drilling campaigns at both the Ema and Tres Estados projects in October. The 50-hole program will infill and extend previously tested areas as well as a number of new ones. The company's share price rose from 40 cents to 70 cents in early September after it announced an average grade of 7.12 g/t gold result at Ema, which will allow BBX to build a resource model for the project.

Because of the nature of the deposits (which are prospective for gold, silver and PGEs (platinum group elements) and earlier inconsistent assay results, the company has turned to a new multi-element analytical method to ascertain the content of its prospects. As far back as 2018, BBX had trouble finding consistent

results with normal assay work, so it turned to a bulk assay method where sample extractions are used to make an estimate of the precious metal content.

BBX will work with IPT (Instituto de Pesquisa Technologica) to further test samples at both Ema and Tres Estados. IPT, based in Sao Paulo, is one of Brazil's leading public research institutes for innovation, technology and economic development.

COVID-19 boosts exploration in the Amazonas and BBX's share price

For a company like BBX, we believe the COVID-19 crisis is likely to help its prospects in the long term rather than hinder them. Traditionally Amazonas and its neighbour states have been areas for 'garimpeiro' artisanal miners. However, the pandemic delays and the soaring gold price combined with Brazilian President Bolsonaro's bullish stance on mining will likely result in a bigger presence from big-time explorers in the region. Brazil's planned reconstruction of the Manaus-Porto-Velho highway will give all miners – legal and illegal - easier access to the Amazon. But BBX is not an illegal operation and, unlike artisanal miners, it's not just there to find gold: it's also there to find a better way of extracting PGE'S.

If BBX's methods seem unusual for an explorer, that's because they are. BBX is a technology company as well as a mineral explorer and its principal mission is to find a proprietary and transferable hydrometallurgical precious metal extraction process it can then sell throughout Brazil. By using this system, sample results have been more consistent and repeatable, but it's also confusing some people: BBX went into a trading halt for five months in 2018 because it announced spectacular gold results (299.3 grams per tonne gold and 1971.6 grams per tonne silver) without quality-tested assay results. The company's September market update clearly shows the new style methodology is delivering for BBX, namely, the 7.12 g/t gold grades we noted above.

Raising capital soon

To be honest, BBX's good, but weird results don't serve much of an impetus for it to continue its technology-related work in Brazil. However, they do point to the potential for a future gold mine in Amazonas. The company is going ahead with its planned construction of a pilot testing plant and further drilling programs, although it's behind in its original 2020 timeline.

The trouble for BBX is that there were less than half a million dollars in the bank as of 30 September and gold has been relatively weak since August. Moreover, there's no JORC resource to speak of right now. We believe this can be a four-star company, but not before some more capital gets raised and additional drill results are reported. For now, this one is two stars.

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Share price chart



Source: Tradingview

Building Australia's largest onshore manganese deposit

Element 25 has so far managed to speed ahead with its accelerated development of the Butcherbird Manganese Project near Newman in the southern part of the Pilbara. The company's Prefeasibility Study (PFS), completed in May, showed an initial CAPEX just below A\$15m with a payback of six months and a base case of 312,000-360,000 tonnes per annum with a medium grading of 25-30% manganese. The project has a total ore reserve of 50.6 million tonnes grading 10.3% manganese.

The PFS also looked at the potential for a low-cost manganese export operation, which returned a real (i.e. inflation-adjusted) Net Present Value (NPV) of A\$283m (8%) and an Internal Rate of Return of 223%, based on a 42-year mine life. The company has an advantage in its location, with its proximity to Port Hedland and closeness to Asian markets. Element 25's share price has been on the rise since its March low of 10 cents with the PFS results pulling it up over \$1.00 by in late October.

Further opportunities for high-purity manganese in the market

As the fourth-most used metal in the world after iron, aluminium and copper, manganese is mostly used in steel production, but it's also a battery mineral. Manganese has the usual constraints of increasingly high demand combined with supply constraints, and like every resource (with the possible exception of gold), COVID-19 has disrupted the market for manganese with stockpiles high and prices dragging to US\$4 per dry metric tonne.

Now that Piedmont Lithium (ASX: PLL) has joined with Tesla in a product deal and Tesla itself has revealed its new lithium-ion battery design with a cathode that is 33% manganese, many manganese producers are bullish on the mineral making a comeback in 2021, particularly as the demand for speciality manganese products get more attention.

Element 25 has an ace up its sleeve in that it has suitable concentrate to make high-purity products like electrolytic manganese metal (EMM) on-site. EMM is a component used mainly in cathodes for new and not-so-new battery types, but has been largely overlooked for its uses in battery technology compared to lithium or nickel products. The supply (but not production) of EMM is dominated by China, so there is a case for Element 25 to start producing its own supply, particularly as North America is the biggest consumer of electrolytic manganese. Globally, only 10% of supply goes into high-purity manganese product, but this could increase as battery storage becomes more important to energy solutions.

What Pandemic?

Element 25's share price (and esteem) has risen sharply on the back of its milestones in a hectic year and it remains well-funded as it continues to plan the development of Butcherbird, boosted by both the recent \$3m capital raising and the company's decision to sell its royalty portfolio. Because of Butcherbird's simple geology, low-strip ratio and free dig mining plan, Element 25 is expecting a quick turnaround in cash flow from its concentrate export start-up.

Now that first production is slated for 2021, the company has partially benefitted from the Pandemic's shake-up of steel and battery markets, but some praise should be given for Element 25's logical staged production with extra payback. We see Butcherbird as a resilient project for a resilient metal. Four stars.



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