STOCKS DOWN UNDER

7 JANUARY 2021

Resources Stocks Down Under

> *Behind the black portent of the new atomic age lies a hope which, seized upon with faith, can work our salvation.*

- Bernard Baruch (1870 – 1965), Author of the failed Baruch plan

PENINSULA ENERGY

Another dance in the sun

88 ENERGY

The Slope is headed up

SATURN METALS

Apollo Hill turns into Apollo Mountain

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Stocks Down Under rating: ★★★★

ASX: PEN
Market cap: A$ 102M

52-week range: A$0.056 / A$0.22
Share price: A$ 0.14

The Perth-based uranium project developer Peninsula Energy had a good end to 2020 with its stock more than doubling between 15 October and 14 December. The market seems to be coming around to the view that this company's Lance Uranium Project in the US state of Wyoming has a good future ahead of it. With America now setting up a Strategic Uranium Reserve, we're inclined to agree.

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Share price chart

Source: Tradingview

You've got to hand to Peninsula Energy for perseverance: This company's involvement in the Lance Uranium Project, in the Wyoming part of the Powder River Basin, dates back to early 2007. Peninsula was a listed company when it first started work in Wyoming and has remained so for all of the last 13 years. Peninsula actually mined uranium from Lance between 2015 and 2019. Back when uranium was hot, or at least warm, Peninsula was hot with it. Indeed, in February 2011, just before Fukushima, the stock almost got to $6.00. By mid-October 2020, even with uranium slightly out of the doghouse, those shares were changing hands at just 6 cents.

A 54 million pound resource

The Lance Project is located near the town of Sundance, in Crook Country of north-eastern Wyoming. It's pretty much in the middle of nowhere, the nearest big city being Denver, a five hour drive south. Sundance is the reason the American outlaw Harry Alonzo Longabaugh called himself 'the Sundance Kid'. You know, as in Butch Cassidy and the aforementioned kid. Now you know why Peninsula calls its uranium project 'Lance' and not 'Sundance'.

But seriously, folks, it's called Lance because the Late Cretaceous Lance Formation was where they found Peninsula's uranium way back in the 1970s. Lance was not developed back then because the market was never right until the early 2000s boom made Lance look very worthwhile. Peninsula now holds 100% of a JORC 2012 resource holding 53.7 million pounds of U3O8. The company often calls its project the 'Lance Projects' because there's 13 different deposits in the area.

Peninsula's acid trip

When Peninsula finally did get Lance up and running, delivering its first uranium in January 2016, the timing was lousy, with uranium having slumped back to close to US$30 a pound. And things got worse through 2016 and 2017. Peninsula's response, however, was interesting. What the company realised was that it could markedly lower the cost profile of Lance and make it much more competitive if it just changed the way the uranium was extracted.

Uranium, you see, generally isn't mined these days, it's recovered in a process called ISR or in-situ recovery. With this approach the ore stays in the ground, and the uranium is leached out of it. Chemicals are pumped in to the orebody to dissolve it, allowing the 'pregnant' solution to be pumped to the surface where the uranium can be recovered. Peninsula, when it started up at Lance, used an alkali leach because the orebody was sitting in a lot of gypsum and limestone that would supposedly hamper the work of an acid leach.

But in October 2017 Peninsula announced a happy discovery – if the chemists used an acid leach it would not only work at Lance, but markedly improve recoveries. Acids, you'll recall from High School chemistry, are chemicals with a pH below 7, which is why Peninsula's preferred new processing route is called low pH in-situ recovery. The company made the strategic decision to transition to low pH ISR in mid-2018, which was the reason for the 2019 cessation of production so that the change could be made.

Final Investment Decision on the restart in 2021

Should Lance make the transition, there is significant upside. A September 2018 Feasibility Study estimated a Life-of-Mine All-In Sustaining Cost of US$31.77 a pound, which is roughly where uranium is now. On the conservative assumption that uranium is headed up to cope with demand exceeding supply and that US$49 a pound is a reasonable long-term sales price, Lance operated using low-pH ISR has an NPV of US$156m at an 8% discount rate.

The initial capex to make the transition? US$6m or so. You heard that right - a mere six million US dollars, which, to use the American vernacular, is chump change. The State of Wyoming's Department of Environmental Quality gave the key approvals in April 2020 allowing the first low-pH mining units to be developed. Now all that needs to happen is for Peninsula to optimise the low-pH process and be comfortable that uranium market conditions are favourable before making its Final Investment Decision on the restart. That's likely to happen over the next few months.

Thank you Congress

We've previously argued in Resources Stocks Down Under that uranium is headed up, not just because demand is exceeding mine supply, but because a lot of utilities are now 'uncovered' in terms of not having adequate long-term supply contracts. Peninsula was a uranium producer until 2019 so it already has some contracts in place. It will look for more offtake from Lance 2.0 before the Final Investment Decision is made, but the fact that it's an American mine bodes well in terms of securing deals with US utilities.

There's another big advantage Peninsula has as a would-be US uranium producer. When outgoing US President Donald Trump signed the latest omnibus budget bill on 27 December, the bill included $US75m to establish a US national Strategic Uranium Reserve, like the one for petroleum. Congress wants to revive the US domestic uranium mining sector. This should just about do it. Peninsula Energy is four stars from us.

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Share price chart

Source: Tradingview

88 Energy is one of the current crop of hopefuls that believe its fortunes will be made on Alaska's North Slope. This Perth-based company currently has a net position of about 525,000 acres on the North Slope, covering two major projects, one called Icewine and another called Peregrine. At Icewine 88 Energy made a significant condensate discovery with its Charlie-1 well around the time of the oil price crash in April 2020. Peregrine has yet to be drilled after it was acquired in the recent merger with XCD Energy, but an independent resource assessment has suggested an un-risked mean of 1.6 billion barrels. At the moment you can get 88 Energy for only around A$90m with energy stocks remaining out of favour post-Corona Crash.

Prudhoe Bay was no one-trick pony

You may not have heard of the North Slope, which is the top part of the Last Frontier between the Brooks Range and the Arctic Ocean. The Prudhoe Bay field, discovered in 1968, wasinitially estimated to contain 9.6 billion barrels of oil. Prudhoe Bay was nearly double the size of the largest field ever previously found in the entire continent of North America, making it big news even in 1968 when no-one worried much about oil prices.

In the mid-1970s Prudhoe Bay became very important to the future of oil because it started shipping oil down the TransAlaska Pipeline, all the way to Valdez, right when oil production in America's 'Lower 48' was starting to ebb. However Prudhoe Bay was hardly the last word on oil in the North Slope, which continues to generate big finds. For evidence of that, look no further back than 2017, when ConocoPhillips (NYSE: COP) found something like 750 million barrels at its Willow Field. That same year Australia's Oil Search (ASX: OSH) bought a US$400m piece of the action in a group of fields collectively called Nanushuk. The initial discoverer of those fields, a privately held Denver-based company called Armstrong Oil and Gas, believes the Nanushuk fields will yield well over a billion barrels.

Thank you, Charlie

88 Energy's Icewine Project, named after the dessert wine where you freeze the grapes while still on the vine (yes, there is such a drink), covers around 480,000 contiguous acres further inland from where all the really big discoveries have been made. 88 Energy got hold of all this ground as a way of following in the footsteps of the Nanushuk fields that Oil Search is now involved in. Nanushuk actually refers to the geological formation where all that oil was found and that had previously been overlooked because it was presumed the formation wasn't porous enough to host the oil. 88 Energy, after reinterpreting the available 3D seismic data, decided that its territory had multiple stacked drillable prospects and that oil would show up in the Nanushuk and a related formation called Torok.

Sure enough, Charlie-1 discovered condensate in the Torok, while another formation called Seabee looks like it has an oil pay zone. 88 Energy also reckons some unconventional oil will show up in the HRZ shales. We reckon this prospect as well as what has been learned at Charlie-1 will attract a farm-in partner for the next wells.

Harpooning a second project

The Peregrine Project acquisition added another 195,000 acres to the west of Icewine and in between the Willow discovery of ConocoPhillips we mentioned earlier and another, older field called Umiat, which was discovered way back in the 1940s. XCD had picked out two prospects, called Merlin and Harrier, that 88 Energy wants to drill next year and that are, like Charlie, prospective in the Nanushuk and Torok formations. The thinking is that these prospects have now been derisked by a nearby ConocoPhillips well of early 2020 called Harpoon-2. The Peregrine opportunity illustrates an important reason why we think 88 Energy is worth backing. In May 2020, at a time when many in the oil industry were cowering in fear under their desks, 88 Energy was expanding through its merger with XCD Energy, where it offered 2.4 of its shares for every XCD Energy share. We think the winners coming out of the Corona Crisis of 2020 will be the companies that were brave when West Texas Intermediate was trading at minus US$38 a barrel.

Obviously 88 Energy is in the early stages of development for its potential North Slope riches, but we believe the potential for a re-rating is high. On 10 November the company published an independent assessment for Icewine estimating an unrisked total prospective resource as high as 1.77 billion barrels of oil equivalent. When you add that to the Peregrine assessment, there is a lot of potential upside here. $4.7m in cash keeps the doors open for a while until the farm-in partners show up, which is more likely now that oil seems to be making a post-Covid comeback. Remember, this is Alaska folks, a state that prides itself on being pro-mining and pro-oil. Four stars from us.investors even if the millions of carats aren't quite in the bag yet. So, for both Edjudina and Ellendale/Blina, this one is four stars for us.

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Share price chart

Source: Tradingview

Near to where the action is

One of the great things about the Eastern Goldfields of Western Australia is that, in spite of their having been picked over pretty thoroughly since the first discoveries were made in 1892, smart geologists continue to turn up new finds. And those finds are often very close to the needed infrastructure. Take Saturn Metals as a good example. Apollo Hill with its 781,000 resource, still 100%-owned by Saturn, is only about 60 kilometres southeast of Leonora. That means the Gwalia mine of St Barbara (ASX: SBM) isn't far away and neither is the Mt Morgans Mine of Dacian Gold (ASX: DCN), not to mention the venerable Granny Smith Gold Mine that belongs to South Africa's Gold Fields.

Technically, Apollo Hill is not a new find. It was first discovered back in 1986 by a company called Fimiston Mining, which died during the low gold prices of the late 1990s and early 2000s. Other, larger companies kicked over it before it landed with Peel Mining (ASX: PEX) and became that company's flagship at the time it went public in 2007. However, between 2007 and 2018 Peel started to get more interested in some of the base metal discoveries it was making in the vicinity of Cobar in western NSW. It made the decision to spin Apollo Hill out into a new company called Saturn Metals, which started listed life in March 2018.

The higher grades are coming through

At the time of the IPO Apollo Hill had a resource of only 505,000 ounces and the low grade – only 0.9 g/t gold – had never really lit even Peel's fire. However, in 2018 enough investors knew about Apollo Hill's potential to make it worth everyone's while with the $7m Saturn Metals IPO oversubscribed. Within eighteen months Saturn had taken the Apollo Hill resource up to 781,000 ounces. That estimate, however, is far from the end of the story because it only went as far as 180 metres and by late 2019 it was clear that Apollo Hill was open in every direction. With something like 50,000 metres of drill core having been logged at Apollo Hill over the last year or so, investors are expecting the next resource upgrade, due out shortly, to be a big one.

The important thing about Apollo Hill is that recent drilling has started to show where the higher grade pods are so that this is no longer a 1 g/t gold story. The Saturn Metals leadership approached Apollo Hill with a theory that the deposit was really a series of stacked high-grade gold lodes that were largely missed by the wide-spaced drilling employed up to that time. So far, so good in terms of what the infill drilling has done for Apollo Hill. And the targets have continued to be generated into 2020, particularly in the Apollo Hill hanging wall. Drill holes through 2020 in this area have consistently shown good grades. A typical example has been the 18 November announcement when Saturn Metals reported 4 metres at 3.2 g/t gold and 2 metres at 7.4 g/t among numerous intersections generated along the hanging wall. Meanwhile in the main zone, the grades were typically above 1 g/t at between 5 and 12 metres in thickness. The take-home message to investors is that there are few holes going into Apollo Hill that don't return intercepts well above the 0.5 g/t cut-off used in the 2019 resource estimate, and many at levels never seen before.

Great metallurgical profile

The other thing to like about Saturn Metals is the significant regional exploration opportunities. This company has 1,000 sq km of contiguous ground straddling the Keith Kilkenny lineament, which features plenty of gold-prospective shears and faults, and historically has hosted not just Gwalia but Saracen's Carosue Dam gold mine. That makes the neighbourhood prospective for discoveries nearby to Apollo Hill. But until now no explorer has been prepared to take a regional view. Saturn Metals has picked out a few regional targets to go after while it continues to prove up Apollo Hill.

We think the market will respond well to the next resource upgrade, particularly with gold now stabilising at about US$1,850 after a period of weakness from July to early November. Apollo Hill has metallurgy that is gratifyingly simple. With the gold occurring in classic quartz veins, a simple gravity circuit and a modest amount of grinding is all that's required to heap-leach the gold out of the ore. That means that the people who sell cyanide and lime aren't going to make much money out of Apollo Hill, but it also means the cost of production at Apollo Hill will likely be low.

At the moment Saturn Metals reckons that it can develop Apollo Hill as one large open pit. That's a while away yet, but with Dr. Drill delivering a baby in excellent health, this is a four star-stock for us.

Pitt Street Research Pty Ltd

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