



Resources

Stocks Down Under

🗨️ *We Spaniards know a sickness of the heart that only gold can cure.* 🗨️

- Hernán Cortés (1485 - 1547), Spanish conquistador and conquer of the Aztecs

CORE LITHIUM

Finally, some lithium momentum

AUTECO MINERALS

Polite gold

AZURE MINERALS

It's a Mexican stand-off

CORE LITHIUM

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Stocks Down Under rating: ★★★★★

ASX: CXO
Market cap: A\$ 234M

52-week range: A\$0.013 / A\$0.42
Share price: A\$ 0.22

While we know that the 'Lithium Boom' has had its setbacks (pandemics notwithstanding), there are signs that the green mineral is beginning to pick up again. Core Lithium believes it is in a position to become Australia's next active lithium producer at its Finniss Lithium Project at a time when lithium prices are at a three-month high. Although the company plans to start construction this year, an updated Feasibility Study is still needed to establish the quickest route to production.

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AUTECO MINERALS

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Share price chart



Source: Tradingview

The next Australian lithium producer

The Finniss Lithium Project covers 500 square kilometres within the NT's Bynoe Pegamite Field, 88 km south of Darwin. During the December quarter Core Lithium completed its lithium resource infill and exploration program at Finniss, with a focus on the Grants deposit. The company has managed to find significant upside to Finniss' mineral resource value, with a 52% increase in the Mineral Resource Estimate (MRE) last June, to 15 million tonnes at 1.3% lithium oxide.

Core Lithium's April 2019 Definitive Feasibility Study (DFS) initially highlighted a production of 175,000 tonnes per annum lithium concentrate for an initial 3.5 year period, but the newly indicated mineral resource is likely to contribute to the company's planned DFS update and bankable life of mine in first quarter 2021. For now, the company is looking at a start-up CAPEX of A\$85m using a Dense Media Separation (DMS) process with no flotation circuits, with a speculative yearly revenue of A\$160m.

Core Lithium is nail-bitingly close to the start of construction. The Australian government just granted Finniss Major Project Status, and Core believes that it can mobilise the shovels from the second half of this year. But when it gets started we believe it can get a lot bigger than initially planned. Most of its attention to date has centred on only three deposits - Grants, BP33 and Carlton – which form the basis of the open pit. There's

actually more that can be incorporated in subsequent iterations of the project. The company's share price soared to 40 cents on January 25 in recognition of lithium's recent comeback and the maturity of Finniss.

Electric Vehicles a clear drawcard

Lithium carbonate prices in China recently surged to a three-month high at an average price of \$6,000 per tonne. In Core Lithium's case, China's demand is something to get excited about, particularly now that it has a connection to Tesla. The company's largest shareholder and offtake partner, China's Sichuan Yuhua Industrial Group, has signed a supply deal with Tesla to provide battery-grade lithium hydroxide over the next five years, which shows that American and Chinese companies are still talking to each other in spite of the tensions of the last few years. Core Lithium already has its first offtake agreement, a five year deal with the Geneva-based Transamine.

Core Lithium is well placed geographically, with Finniss only 25 km away from supporting infrastructure (gas, rail and power station) and an hour away from the closest port to Asia in Darwin. If China's price push continues and that is reflected domestically, that is an added incentive for spodumene producers like Core to act fast. Although Finniss is not the only lithium spodumene project to come online in the next year, spodumene supply remains tight due to a destocked supply chain, pushing the price further to \$450-500 per tonne compared to December's \$300-450 range.

There's no sense in being limited

Core Lithium has met several licensing milestones in recent days, including the Environmental Impact Study (EIS) and the management plan for the mine and processing plant. The strategy to begin small in its exploration work (at Grants, Carlton and BP33) means that Core Lithium now has \$40m cash to restart further exploration work and optimise the DFS ahead of the Final Investment Decision and start of construction. There is a number of identified extension deposits (Hang Gong, Sandras, Booths and Lees) to pursue as well as potential greenfield acquisitions in Byloe to consider.

At this point, we give Core Lithium a four-star rating on the basis of its sound fundamentals, including the quick progress, capital efficiency and agreements, but a little bit of that rating comes down to purely good timing. While global lithium prices remain flat, we'd say the recent price spike in China, as that country pushes for more Electric Vehicles, is a sign of good things to come.



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Source: Tradingview

Forgotten gold in the sunset country

Pickle Crow – which is 11 km southwest of the town of Pickle Lake and sits adjacent to the Crow River, hence the funny name – is starting to come into its own since Auteco began the first diamond drilling campaign at the site in 50 years. The campaign, which started in May 2020, has helped to upgrade the project's gold inventory several times, with September's most recent resource update giving an inferred 1 million ounces at a massive 11.3 g/t gold. That update raised the company's share price to 16 cents.

Pickle Lake may be in the middle of nowhere – the nearest town of any size is Thunder Bay, Ontario, 530 km to the south on Lake Superior – but that is more than made up for by the nearly 1.5 million ounces the mine historically produced at a cool 16 g/t. Not to mention Auteco's stated intention to break that record by targeting areas beyond the 3.5 km zone where the inferred resources lies.

The company did two successful share placements last year, raising \$5.1m in April and \$30.4m in July, to aid its 45,000 metre exploration program targeting regional areas with little to no modern exploration work. Auteco's binding earn-in agreement with First Mining (TSX: FF) gives the company the right to acquire up to 80% of the project and the grant of 2% net smelter royalty to the tune of just over \$15m.

Repeating the past

Pickle Crow has a long history as one of Canada's best-known, but no-longer-producing gold mines. It was a big payer from day one in 1935 and was able to keep going all the way to 1966 when high operating costs ran up against the silly Bretton Woods gold price of US\$35 per ounce. Between those two dates Pickle Crow helped finance the growth of a great Canadian success story now called Teck Resources (NYSE: TECK), which these days is probably best known for its metallurgical coal mines. It's even rumoured that Pickle Crow continued to pay-off after shutdown, with one unknown, but resourceful person allegedly managing to make off with the last three gold bars. Since the 1960s Pickle Crow has had various owners and attempts at a comeback, including one by PC Gold before it merged with First Mining.

Pickle Crow is a fine mission for an Australian company like Auteco, whose current backers have a track record revitalising the Bellevue Gold Mine in Western Australia. That was another forgotten asset for twenty years until Bellevue Gold (ASX: BGL) turned it into a 2.3 million-ounce resource. Auteco's investor following from Bellevue, and the amount of capital raised, shows there is confidence in the company's ability to replicate that success with Pickle Crow, particularly now that it's only started updating the resource and has the room to expand regionally in all directions.

The so-called 'Uchi Subprovince' – a collection of greenstone belts in northwestern Ontario – is home to many Tier 1 gold projects (several of which are Australian projects) and Auteco has already expanded Pickle Crow tenement collection from 176 to 496 sq km. At this point, the biggest hurdle is the existing, but old infrastructure – which could cost \$300m to be replaced – in a relatively isolated area only accessible by flight or dirt road.

Bellevue Mark 2

Although Auteco technically has a focus is on vanadium and titanium through its joint venture with Mithril Resources (ASX: MTH) at the Limestone Well Project in WA – where it can also achieve 80% interest for \$2.5m – the company sees Pickle Crow as the asset most likely to become 'Bellevue Mark 2'. Now that the ongoing exploration program has covered roughly 20,000 metres, Auteco can use its cash position of \$29m to unlock near-mine extensions along shear structures and increase the resource a bit more in the second quarter of 2021.

Auteco stock has been base-building lately, as optimism around the exploration butts up against a weaker gold price. We think the quality of the project can prevail once gold stabilises. Forgotten mines like Pickle Crow are being remade all the time, but rarely has the starting quality been as high as Auteco's. And of course, Auteco can bring 50 years of new technology to Pickle Crow. Throw in the arrival of other Australian explorers to the region and this suggests the makings of a four star re-rating ahead.

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Share price chart



Source: Tradingview

That golden hue

In an effort to minimise risk and ensure the long-term upside, Azure Minerals has concurrent projects running in Western Australia and Mexico, although it's the Western Australian projects that are receiving the most attention. In November, Azure announced assay results from its maiden drilling program at the Andover Nickel-Copper Project in the West Pilbara, confirming the presence of high-grade mineralisation. This kicked up the company's share price to 52 cents. As of mid-February, the company has completed 10 diamond drill holes over 4,266 metres at the VC-07 prospect. Azure believes VC-07 is a substantial mineralised system and will expand along strike in its 30,000-metre drilling campaign.

The potential of Andover seems to have moved the company's flagship Oposura Zinc-Lead-Silver Project in northern Mexico from the top spot, which Azure shuttered in February 2020 as COVID-19 spread through the country. Situated in the mining-friendly state of Sonora, Oposura has a total resource of 3.1 million tonnes at 5.0% zinc, 2.7% lead and 18 g/t silver and is at an advanced stage of development, with a scoping study underpinning a low-cost operation with an EBITDA of US\$178m over six years, a Net Present Value of US\$84m and an Internal Rate of Return of 76%. The project can achieve an annual production of 19,000 tonnes of zinc, 10,000 tonnes of lead and 145,000 ounces of silver for a six-year mine life.

Forget Mexico, we're twinning with Creasy Group

Azure previously described WA and Mexico as 'mining twins', pointing to the similarities in Mexico's low-risk tier 1 jurisdiction and well-established mining culture (with Mexico still the largest silver producer in the world), but recent red flags have put the country's investment attractiveness into question. Mexico has a highly-skilled mining workforce and even higher mineral exploration potential. But Australian companies have encountered key challenges to success including difficulty obtaining permits and titles, which has led to fear and uncertainty about the government's commitment to new developments. President Andres Obrador (of the left-wing Morena Party) says he doesn't plan on granting new mining concessions, leaving Azure and others somewhat in the dark about the level of support foreign companies can expect.

This was evident before the pandemic hit, meaning it's fortunate that Andover is proving so prolific while the company's Mexican projects undergo 'low-key' work. Andover is a joint-venture with Creasy Group (40%), so even if you've never heard of Andover before, that recent excitement suddenly becomes much more understandable. Azure picked up Andover and a number of other WA-based prospects – including the Turner River, Meentheena and Coongan – from Creasy Group in July last year, which makes sense when you look at the success of Mark Creasy's previous ventures and the growth in Western Australian copper projects. Turner River, which is within walking distance of De Grey Mining's Mallina Project, has similar geology to Mallina and Hemi, while Meentheena and Coongan (in the eastern Pilbara) have their own prospective epithermal gold deposits, meaning that Azure has some further exploration work to do.

Having the backing of the Creasy Group will undoubtedly put Azure in greater investor esteem, especially as Andover is showing multiple electromagnetic targets and sits close to Julimar and Nova.

Porque no los dos?

Now that Azure's board has pivoted its interest back to Western Australia, what is likely to happen to its Mexican assets? Given that there is no certainty of a return to work without a nationwide vaccination program, the 12-month hiatus seems to have killed the company's wish to return, but it's still unclear whether Oposura or Alacran have a future under Azure. The company has wisely begun a strategic review of all its Mexican assets after receiving expressions of interest for those projects, indicating that it looks at all options, including full or partial sale or de-merger. Whatever the final choice, Azure has hinted that there is still a window to advance the WA and Mexican projects concurrently – as long as there is enough support to do so.

At the end of December, Azure's cash balance was \$37.4m (as a result of November's successful \$37m capital raise) and roughly \$20m of that will go to Andover's 2021 drill-out campaign. The next target will be the VC-23 prospect, 3 km northeast of VC-07, which shows multiple electromagnetic conductors to access with surveys in progress.

While the company's investors may be rightly hoping that Oposura in particular has a future with Azure, we can't fault the company for questioning the feasibility of those assets long-term. Those WA projects have given Azure a new lease and a new direction, and it's possible that Andover could result in another tier 1 development for the company. Four stars.

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Pitt Street Research Pty Ltd is founded on more than 40 years of combined experience researching companies in a range of different sectors.

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