



# Resources

## Stocks Down Under

📖 *When your children are teenagers, it's important to have a dog so that someone in the house is happy to see you.* 📖

- Nora Ephron (1941 - 2012), American journalist

### COBALT BLUE

Blue sky potential

### CONICO

Proof that Greenland isn't all bad news

### AMERICAN RARE EARTHS

Just what Joe ordered

# COBALT BLUE

Blue sky potential

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Stocks Down Under rating: ★★☆☆

**ASX: COB**

**Market cap: A\$ 77.6M**

**52-week range: A\$0.083 / A\$0.515**

**Share price: A\$ 0.26**

Named after the bluish, silvery metal of the same name, atomic number 27, Cobalt Blue does exactly as it says on the tin: the company aims to produce cobalt sulphate for the battery industry with its flagship Thackaringa Cobalt Project just outside of Broken Hill in western NSW. The project is a primary cobalt project, still a rarity considering the difficulty in sourcing enough cobalt to meet the desired supply. With its current program already attracting potential customers for future Thackaringa output, Cobalt Blue is on track to de-risk and further extend the life of the project.

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# CONICO

Proof that Greenland isn't all bad news

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Stocks Down Under rating: ★★☆☆

**ASX: CNJ**

**Market cap: A\$ 63.2M**

**52-week range: A\$0.013 / A\$0.075**

**Share price: A\$ 0.068**

26 July was a great day for the Perth-based explorer Conico. The company had just started drilling at a project called Ryberg, prospective for copper and nickel, among other minerals. The first hole had hit significant sulphide mineralisation, and the market reacted favourably, jumping Conico stock from \$0.034 to \$0.057. Conico has high hopes for Ryberg. The only potential downside is the location. Ryberg, you see, is in Greenland, a jurisdiction that many think is now anti-mining.

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## Share price chart



Source: Tradingview

## Green energy exploration

As one of the few cobalt pure plays on the ASX, Cobalt Blue (let's call it COB for short) is working towards full construction of Thackaringa in time for the expected cobalt price recovery and upswing in demand. Since 2016, COB has completed 30,000 metres of drilling and provided an ore reserve estimate of 72 million tonnes at 710 parts per million cobalt. The same production update in the September 2020 quarter also offered an optimised Pre-feasibility Study (the original PFS having been completed back in 2018), with \$70m less capital expenditure (now \$560m) and a 20% increase to annual mining and concentrate capacity, at 6.3 million tonnes per annum.

One reason for the 2020 optimisation is the replacement of the original standalone process plant storage facility with an 'integrated waste landform' for the co-disposal of waste and tailings, which could offer a lower footprint as ore reserves grow. Since the main aim is to provide battery-ready cobalt sulphate product for battery makers, the company has so far spent 1,000 hours on a Global Cobalt Sample Program at its pilot plant and is now actively planning the design for a large-scale demonstration plant to treat around 3,000-4,000 tonnes of ore. With a long-life project of 17 years, the project has a current Net Present Value of \$792m at a 7.5% discount and an Internal Rate of Return of 22% based on a production target of 98 million tonnes at 690 ppm cobalt.

## **A change in direction**

Not surprisingly, the big swing toward cobalt demand is led by green technology – notably Electric Vehicle (EV) and battery production – with battery production now accounting for 57% of cobalt demand. But while the battery industry has gone gangbusters, the cobalt supply is still underwhelming, with only 100,000 tonnes produced each year, with most of being a by-product from copper, iron or nickel mines. Similar to lithium's quick price rise a few years ago, the cobalt price rose to a staggering US\$95,000 per tonne in early 2018, with the excitement over EVs before falling back to US\$25,000 per tonne in 2019. While cobalt is rising again, that doesn't change the widening supply gap, making the company's road to primary cobalt producer fairly unique and Thackaringa the largest primary cobalt project outside of Africa.

Handily for COB, its integrated refinery model for battery-ready product differs from some others in that it is capable of producing intermediate Mixed Hydroxide Product (MHP), which can then be refined into cobalt sulphate for use in lithium-ion and new-age Nickel-Cobalt-Manganese batteries. While the company has some promising non-binding agreements for sulphate with big players, like Mitsubishi, the production of MHP at its pilot plant is garnering attention from possible off-takers across Asia, Europe and Australia. The success of the pilot plant will further underscore the necessity of a large-scale demonstration plant to cement relationships and improve the process. The leap in COB's share price from 12 cents to 43 cents from December to February coincides with the start of pilot plant work, but those improved reserve and cost-cutting measures also helped, as did the decision to source cobalt from waste.

## **Blue is the warmest colour**

Since the next Feasibility Study is still forthcoming, COB will consider a few more optimisation opportunities, the most important of which will be further capital cost reductions, improved metal recoveries and the conversion of additional ore reserves to extend the life of the Thackaringa project. With a significant history behind it, Thackaringa – an original part of the Broken Hill lead/silver mining complex – still exhibits Broken Hill-style mineralisation with lead, zinc, nickel and copper by-products, so there is added potential for a resource count of minor metals in future works. Metallurgical test work has uncovered quantities of nickel in the mixed hydroxide product.

While the pilot plant informs the feasibility study work, COB expects a sized upgrade to a full demonstration plant sometime in the September 2021 quarter. As the company gets on with fundraising efforts, it has also signed a Memorandum of Understanding with optimisation provider Honeywell to de-risk the project further. After so much effort on the pilot plant work, the next significant milestone should be a much-needed feasibility study to provide longer outlook at the project. Four stars from us.



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Source: Tradingview

Yeah, we admit it...just like Warren Buffett, we at Stocks Down Under don't always get it right in the near term. In March 2021, when we assembled the inaugural 'Marc and Stuart's Top Picks' list of stocks we really like, we included Greenland Minerals, ASX: GGG. We liked the fact that the Kvanefjeld Rare Earths Project was so far advanced and so large in scope in an environment where the world needed more of what that project in southern Greenland had to offer. What we didn't count on was the people of Greenland electing a new government led by a party whose key election promise seemed to be the banning of development at Kvanefjeld. Greenland Minerals stock had been 18 cents before the 6 April election. By 21 April it was down to \$0.071. Interestingly, Greenland Minerals stock has now stabilised around \$0.10 and seems to be recovering.

## Greenstones in Greenland

And no wonder. It turns out that Greenland, under its new Prime Minister, Múte Bourup Egede, isn't so much anti-mining as it is anti-uranium. The voters didn't like the fact that Element No. 92 would be a key by-product at Kvanefjeld. The fact that the government has allowed the public consultation process on the proposed mine to continue is therefore a hopeful sign.

With that background in mind, let's consider the recent re-rating of Conico, whose Ryberg Project, along with another project in Greenland called Mestersvig, was picked up in late 2020 to supplement a Western Australian cobalt-nickel project that wasn't really going anywhere. Ryberg covers a 4,500 sq km block on the east coast of Greenland prospective for a number of minerals, but not, thankfully, uranium. Ryberg is, like most potential mining company-makers, in the middle of nowhere. The nearest town in Greenland is Tasiilaq, which is 400 km southwest, while Isafjordur in Iceland is a 430 km boat trip southeast, and it's from Iceland that all the equipment and personnel are flown or sailed in. The area is under-explored historically, but the recent sampling work has been promising, as has the electromagnetic surveying. Basically, Conico has discovered a new greenstone belt in which there's a lot of massive sulphides worth drilling. For the 2021 season, Conico decided to go after two prospects at Ryberg, one called Miki and another called Sortekap, and a nine-hole diamond drill campaign was planned.

## **Nice work so far**

The first drill hole at Ryberg – the one that woke investors up to the potential of the 'new' Conico in late July – was MID001, at the Miki prospect. There were three magmatic sulphides reasonably close to surface that looked interesting, and the samples had assayed up to 2.2% copper, 0.8% nickel, 0.1% cobalt, 3.3 g/t palladium and 0.2 g/t gold. As we noted above, significant sulphide mineralisation came up in the core of this hole and it looked like there was a lot of pyrrhotite and pentlandite and a bit of chalcopyrite in those sulphides. Was it a copper-nickel sulphide discovery? Obviously, it's too early to say, but with the prediction about sulphides coming true in the first hole it was worth paying attention to. MIDD002 and MIDD003, about which Conico had something to say on 30 July, continued the good, albeit very early, news regarding sulphides, as did MIDD005 and MIDD006 on 11 August, where more pyrrhotite and chalcopyrite showed up.

What would make the shareholders very happy is for Ryberg to be a repeat of Voisey's Bay. That's the uber-rich nickel deposit in Labrador that got sold in 1996 for C\$4.3bn, only three years after Robert Friedland had seemingly magicked it out of nowhere. At Ryberg, as magma intruded into sediments of the Kangerlussuaq Basin and then saturated the mafic-ultramafic rocks there, you got magmatic sulphides at surface with a globular appearance. At Voisey's Bay these kind of globular sulphides were the giveaway that massive sulphides were located further down with nickel beyond the dreams of avarice. Russia's Norilsk-Talnakh, the largest-known nickel-copper-palladium deposits in the world, work in a similar way. As for Ryberg...well, let's give it a few more drilling seasons, but so far, so good.

## **Drilling on thin ice**

Is it worth taking the plunge into Conico now? We'd be a little cautious. Remember, the ice is thinning in Greenland, but it's still pretty cold up there so exploration, and therefore news flow, is seasonal. Also, the July spike was so sharp it may provoke a retracement. That said, Conico directors James Richardson and Guy Le Page have been so impressed they were in the market buying stock right after the 11 August announcement.

With several more holes to go at Ryberg for this season, there was potential for more excitement and that's before Conico's other Greenland play, Mestersvig, is even touched by a drill bit. Mestersvig once hosted a rich lead-zinc mine called Blyklippen that was last worked from the late 1940s to the early 1960s. For investors with a bit of patience who are comfortable with the sentiment risk associated with the word 'Kvanefjeld', Conico is four stars.

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## Share price chart



Source: Tradingview

It's been two years since Broken Hill Prospecting got itself into the rare earths business. The company had been working to develop the Thackaringa Cobalt Project near Broken Hill, but cobalt was plumbing the depths in mid-2019. When the opportunity to buy the La Paz Rare Earths Project came up, the company jumped at the chance, announcing the acquisition in August 2019. Thackaringa went to Cobalt Blue (ASX: COB) in early 2020 and in July 2020 Broken Hill Prospecting became American Rare Earths.

## The right kind of project at the right time

The La Paz Project is so-called because it's located in La Paz County of western Arizona, about 170 km northwest of Phoenix. The location couldn't be better, and not just because all the relevant infrastructure is in place. More importantly, it's in Arizona. In the 2020 Fraser Institute Annual Survey of Mining Companies, published in February 2021, only Nevada was more attractive as a mining investment destination. In the previous survey Arizona was ninth on the list, but various reforms bumped it way up the list.

La Paz wasn't a new project in 2019. Indeed, it had been discovered way back in 2010 and there had been an NI-43-101-compliant resource estimate by 2011, but the project had missed the 2011 window where rare earths prices had spiked thanks to Chinese export restrictions. What American Rare Earths got eight years later was the chance to prove up a major project because the mineralisation had only been defined down to about 30 metres. One of the attractions of La Paz was that it didn't have any radioactive elements in it and was therefore not going to be hampered by the anti-uranium sentiment that has impacted Greenland Minerals with Kvanefjeld, for example. It did have one element that was non-controversial. Once American Rare Earths got started at La Paz it realised pretty quickly that the project could be valuable for scandium, a key 'lightweighting' metal used in aluminium alloys as well as in fuel cells which has seen good prices in recent years.

## **Possibly the biggest undeveloped rare earths play in America**

By November 2020, American Rare Earths had a JORC 2012 resource for La Paz of 128 million tonnes grading 373.4 million ppm TREE, that is, Total Rare Earth Elements, and in early August 2021, this upgraded to 170.6 million tonnes at 391 ppm TREE. That upgrade also included an initial estimate for scandium. American Rare Earths director Geoffrey Hill liked the news so much he was an on-market buyer of stock shortly thereafter. And no wonder. La Paz is basically a low grade deposit, but makes up for that with size and with these scandium credits. What's encouraging is that the resource seems to be open in multiple directions and further drilling is planned so we're likely to see more resource upgrades as American Rare Earths takes the project in the direction of feasibility work. American Rare Earths believes it could end up as the largest undeveloped rare earths project in the United States.

American Rare Earths is now developing a pipeline of rare earths projects behind La Paz. In mid-2021, it completed the acquisition of the Laramie Rare Earths Project, 70 km from the town of that name in southeastern Wyoming. The vendor was Zenith Minerals, ASX: ZNC, a company we wrote about in [Resources Stocks Down Under on 27 MAY 2021](#) that is more focused on exploration plays in Australia. Around the same time American Rare Earths announced it was picking up the Searchlight Project in Nevada, not far from the world-famous Mountain Pass Rare Earths mine that straddles the California-Nevada border and has made MP Materials (NYSE: MP) a >US\$6bn company. Both of the new projects are at a relatively early stage of development, but it helps to establish American Rare Earths as a serious player in the rare earths space.

## **Helping Joe sleep at night**

As evidenced by February's 'Executive Order on America's Supply Chains', the Biden administration made it a priority to rejuvenate the US as a player in the production of rare earth materials. No surprises there - China has long been the Saudi Arabia of rare earths. In an environment of increasing tension between that country and the US, Uncle Sam is not going to rest easy until there's a comfortable amount of rare earths that it can access without saying 'by your leave' to Beijing. We think this is likely to result in some advantages for American Rare Earths as it develops La Paz down the track.

The August 2021 resource upgrade at La Paz prompted the first decent re-rating in American Rare Earths stock since September 2020. However, we think there's more where the recent upswing came from. By next year this company intends to have a Preliminary Economic Assessment of La Paz published. If that's any good, there might be a path for American Rare Earths to be the next Lynas. Four Stars.



## **Pitt Street Research Pty Ltd**

95 Pitt Street, Sydney, NSW 2000, Australia

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