STOCKS DOWN UNDER

12 AUGUST 2021

Resources Stocks Down Under

> *You have undertaken to cheat me. I won't sue you, for the law is too slow. I'll ruin you.*
>
> **- Cornelius Vanderbilt aka The Commodore (1794 - 1877), American railroad tycoon**

JINDALEE RESOURCES

Taking on America's lithium vision

RENASCOR RESOURCES

Non-toxic graphite…and lots of it

VIMY RESOURCES

Not if, but when

JINDALEE RESOURCES

Taking on America's lithium vision

Stocks Down Under rating: ★★★★

ASX: JRL
Market cap: A$ 193M

52-week range: A$0.37 / A$4.01
Share price: A$ 3.90

Jindalee Resources is fast becoming one of America's new lithium plays. Although the company has a bevy of mineral projects and investments largely located in Western Australia, three years of hard work at its new flagship McDermitt Lithium Project in the state of Oregon has created new possibilities as well as a jump in the share price. Although it's early days, Jindalee sees McDermitt as its avenue into the country's highly profitable battery and Electric Vehicle industry.

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Share price chart

Source: Tradingview

Gold's fine, but lithium is finer

Jindalee is making sure to cover all of its mineral bases as it continues to build a well-rounded portfolio of lithium, gold and other base metals projects across Australia and North America, but it's the McDermitt Lithium Project which is grabbing all the attention right now. And not just because the town of McDermitt, NV, just across the Oregon border from Jindalee's flagship, is only a couple of hundred miles from Tesla's Reno 'Gigafactory'. It's because the resource at McDermitt keeps getting better and better. Completed drilling from the December quarter has provided a new indicated and inferred mineral resource inventory of 1.43 billion tonnes at 1,320 ppm Li for a total of 10 million tonnes lithium carbonate equivalent (LCE), making McDermitt the largest lithium deposit in the US. McDermitt is joined by another lithium prospect at Clayton North, just 23 km north of Albermarle's Silver Peak Lithium mine in Nevada, where diamond drilling began on 21 July 2021.

Back in Australia, Jindalee is finding more success at its Widgiemooltha project not far from Kalgoorlie, which is prospective for gold, nickel and lithium. Widgiemooltha lies south of Anglo Australian's Mandilla Gold Project (where high-grade intercepts, including 38m at 4.96 g/t Au, have been reported) and north of Mincor Resources' Cassini Nickel Mine. So, the location is great and this is where a new program of works will go after several gold targets later this year. Meanwhile, Jindalee now has an 80% earn-in agreement with

JV partner Torque Metals to explore the gold potential of Maynard's Dam Prospect on the eastern side of the Coolgardie goldfields. And on top of this, Jindalee has several strategic investments in uranium, gold, nickel and copper across WA and Tasmania. However, the excitement around McDermitt has given rise to the company's encouraging share price, which jumped to about $3.00 a share back in April and is now well above $3.50.

Not here to mess around

While Jindalee's lithium plays stand out to investors on their own, Jindalee's strategic choice in McDermitt and Clayton North gives it direct access to America's emerging lithium chain, helped in large part by the neighbour we talked about before – the Tesla Gigafactory. Although the US doesn't necessarily yet have the kind of high stakes battery manufacturing hubs seen in China or Europe, the country is well ahead of Australia in terms of switching to battery and Electric Vehicle production. If President Biden's plan to accelerate zero carbon emissions by 2050 and provide government support for lithium projects is anything to go by, Jindalee expects both its lithium projects to provide long-life supply for domestic and export consumption without the additional royalty costs.

As a sediment-hosted lithium project, McDermitt also provides a short-cut to lower operating costs because of its near-surface mineralisation in soft rocks (meaning less mining) and favourable lithium recovery through acid leaching, which includes the possibility of upgrading lithium content through attrition scrubbing – a process which cleans the clay and removes acid-consuming minerals before reaching the leaching circuit. Previous testing with scrubbing has shown to upgrade lithium content by 60%. The company is preparing a staged process on 1,000 kg of bulk samples from the last drill program from scrubbing to production of lithium carbonate, which will take around six months.

How was McDermitt not picked up earlier?

Following a $9m share placement in the March quarter, Jindalee ended FY21 with $13.3m in cash, well placed to increase the size of the McDermitt project by 67% to 54.6 square km with enough left over to commence the Scoping Study and the next round of drilling in September this year. An exploration diamond drill program is also planned at Clayton North from July onwards to follow up on surface sampling. With such a significant resource upgrade at McDermitt, Jindalee now has a very promising deposit at McDermitt (10.1 million tonnes LCE).

While we wait for some more concrete project economics, the all-important focus is to produce Lithium Carbonate to entice potential US partners. It's helpful to remember that while potential US battery producers are increasingly leaning toward home-grown lithium, the country still only produces less than 2% of the world's supply, meaning that McDermitt could draw some important partnerships. If McDermitt has a disadvantage, it's that other clay-based lithium projects have previously been seen as higher risk than brine projects. But we believe Jindalee has an opportunity to present a low-risk, low-cost and long-term operation. Four stars.

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A prominent opportunity…

Renascor envisages that its Siviour Graphite Project, on the busy Eyre Peninsula, will become a fully integrated battery anode material manufacturing operation producing graphite concentrate for use in lithium-ion batteries. While Siviour's mine and concentrator will be situated 15 km west of Arno Bay on the Eyre, Renascor plans to produce Purified Spherical Graphite (PSG) at a new downstream processing facility in Port Adelaide. Over the last few months, the company has completed successful mineral processing trials achieving purity levels of 99.99% graphite without the use of hydrofluoric (HF) acid in its leaching process. That's right, we said 99.99%. The anode industry standard is 99.95%.

Siviour is, potentially, a very big deal in the graphite world. With 3.8 million tonnes of contained graphite in reserve, it is the second largest graphite deposit in the world outside of Africa. Indeed, only the Nachu Graphite Project in Tanzania, owned by Magnis Resources (ASX: MNS | see 20 October 2020 report), is bigger. For a project of this size, Renascor intends to build Siviour in stages to reduce upfront costs with a Stage 1 average production of 105,000 tonnes graphite concentrate and 28,000 tonnes of PSG over the first four years. With the DFS outlining a project life of 40 years, the Net Present Value is $499m (A$678m) after tax with a 10% discount and an Internal Rate of Return of 33%.

A greener process for longer term gain

While EV momentum is driving the current demand for purified spherical graphite, Siviour's competitiveness will rely not only on high purity concentrate, but on low production costs and a secure mine-to-market pathway. And, importantly, on a cleaner production technique. In China they use HF to make PSG and the battery industry isn't crazy about that because HF is a known toxin. Renascor has spent the last five years perfecting its HF-free caustic roasting technique to produce 99.95% carbon concentrate (the industry standard) to great success. That work has already netted offtake deals with two leading battery manufacturers in Asia. The 99.99% PSG achieved in its July trials appears to further indicate the environmental benefit of the company's process (by substituting hydrofluoric acid for sulfuric acid) as well as the long-term economic implications of future offtake agreements. Naturally, the biggest bonus should revolve around Renascor's production costs, which are already among the lowest in the world where Stage 1 reflects a DFS cost of US$345 per tonne.

Because of its integrated scope, Siviour's highest costs are the $118m mine/concentrator and the $90m PSG facility. But the company's HF-process means that the project could potentially benefit from South Australia's State Energy and Emissions Reduction Deal to inject up to $400m in clean energy projects. While the eventual construction would make Siviour Australia's first functioning PSG operation, some of Renascor's existing offtake contracts depend on that nation – not a huge surprise given the country's 100% hold on PSG processing and 85% (600,000 tpa) take of current anode production. As PSG demand is expected to spike by a compound annual growth rate (CAGR) of 29% to 2030, the company is looking beyond China's influence to secure future offtake deals in north-east Asia and Europe.

…and a more secure future

In the near term, Renascor is working on advancing those binding offtakes with Minguang, Jiangxi Zhengtuo (Zeto) and, most recently, Japan-based anode manufacturer Hanwa. Hanwa will purchase 10,000 tonnes of PSG per year for ten years, one-third of the company's forecast 28,000 tpa PSG production. This third deal now represents 100% of Stage 1 production. As of April, Renascor has commenced work to increase Stage 1's processing capacity beginning with a feasibility study leading to a larger Stage 2 production. As the PSG and concentrate tests inform the design for the PSG facility, the offtake negotiations will inform a final investment decision (FID) sometime in the first half of CY22.

While we at Stocks Down Under never look a critical minerals gift horse in the mouth (especially when it's on home soil), the long-winded design and construction of Siviour means that its investors will be waiting impatiently for some important near-term value drivers – particularly a feasibility study and the possibility of government funding support. Investors who bought this stock at $0.16 have been disappointed for some months now. And they might vent their frustration if progress towards the FID is slow. That said, the technology and the offtakes related to Siviour are impressive. Investors with some patience can look more closely now that Renascor stock seems to be stable at around $0.10. For those long-sighted players, this one is four stars.

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Share price chart

Source: Tradingview

One mine closes, another mine opens

Perhaps an odd choice for a company, the name 'Vimy' stems from Managing Director Mike Young's Canadian heritage, including a family nod to relatives who fought at the Battle of Vimy Ridge during World War 1. As a Canadian victory based on co-operation, preparation and planning, Young hopes the company can bring the same values to the development at Mulga Rock.

You can find Mulga Rock 290 km east-north-east of Kalgoorlie in the Great Victoria Desert. The project is already Australia's largest uranium development with a mineral resource estimate (MRE) of 90.1 million pounds of U3O8. And it's pretty advanced as well. An updated Definitive Feasibility Study (DFS) published in August 2020 provided an improved financial outlook for a proposed 15-year operation that will see annual production of 3.5 million pounds of uranium. Mike Young and his colleagues are now looking for less capital to get started, but the Net Present Value stands at a healthy US$393m – that's A$528m in our money - at a discount of 8% and an Internal Rate of Return of 31%.

Vimy's second project in the NT's Alligator River Uranium Province – the same province that gave us Ranger and Jabiluka – also shows promise. Vimy bought this package in 2018 from Cameco (of Canada's Cigar Lake fame) and has high hopes for the Angularli deposit, the latter of which already has an inferred mineral resource of 24.9 million pounds uranium.

Uranium ‘boom boom’

While Mulga Rock is slightly more advanced than most, having received the appropriate state and federal permitting, the real factor in the project’s success is the uranium price moving well above US$30/lb as global uranium supply continues to shrink. Like most uranium company directors, Young is certain of uranium’s ‘when, not if’ second boom on the basis that the US under Biden is ‘waking up’ to nuclear energy’s role in the green economy. While nuclear’s increased role in renewable energy is clear (it currently represents 55% of carbon-free electricity in the US), Young is right when he says positive sentiment toward nuclear power is the way in which to improve supply contracts. Through Vimy’s initiative to make a low residual impact in the immediate environment, Mulga Rock has the potential to offset 64 million tonnes of CO2 per year equal to 70% of Western Australia’s greenhouse gas emissions.

Since Vimy’s August 2020 DFS refresh, its share price has risen from $0.03 to a $0.17 peak in May. Vimy’s shareholders may not care about Mulga Rock’s green potential, but they do care about the great economics of the project. And there’s more where the August 2020 DFA update came from. The project’s higher quantities of zinc, copper, nickel and cobalt could further improve economics if the company incorporates circuits to produce by-product metals to the tune of US$4-4.5/lb uranium.

A green economy investment?

For its next steps, Vimy now intends to include a base metal mineral estimate and incorporate capital costs for a base metals plant into its total budget, which currently stands at US$255m (A$342m). Over the next 12-18 months, the most pressing matter is to find its financing (and especially offtake contracts) to fund Mulga Rock into production, but a fast-tracking of base metal recovery is one way to raise funds. Since the company had recently started trading on the online OTCQB Venture Market in the US, there is now a much larger window to find support across the US and Canada. And as of April, Vimy managed to raise its target of $20m (at $0.11 a share) from domestic and overseas investors.

Whenever we talk about uranium at Stocks Down Under, it always appears to be a question of when the oncoming ‘boom’ will eventuate, but unlike other ‘green’ mineral booms (like lithium), it’s easy to stack uranium’s failures above its successes. Notwithstanding the fact that many factors (costs, contracts and supply) need to line up to put uranium on a more positive trajectory, the green economy rhetoric spoken by Young and others will make a huge difference to this company’s fortunes. It seems to be working so far for Vimy. Four stars from us.

Pitt Street Research Pty Ltd

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