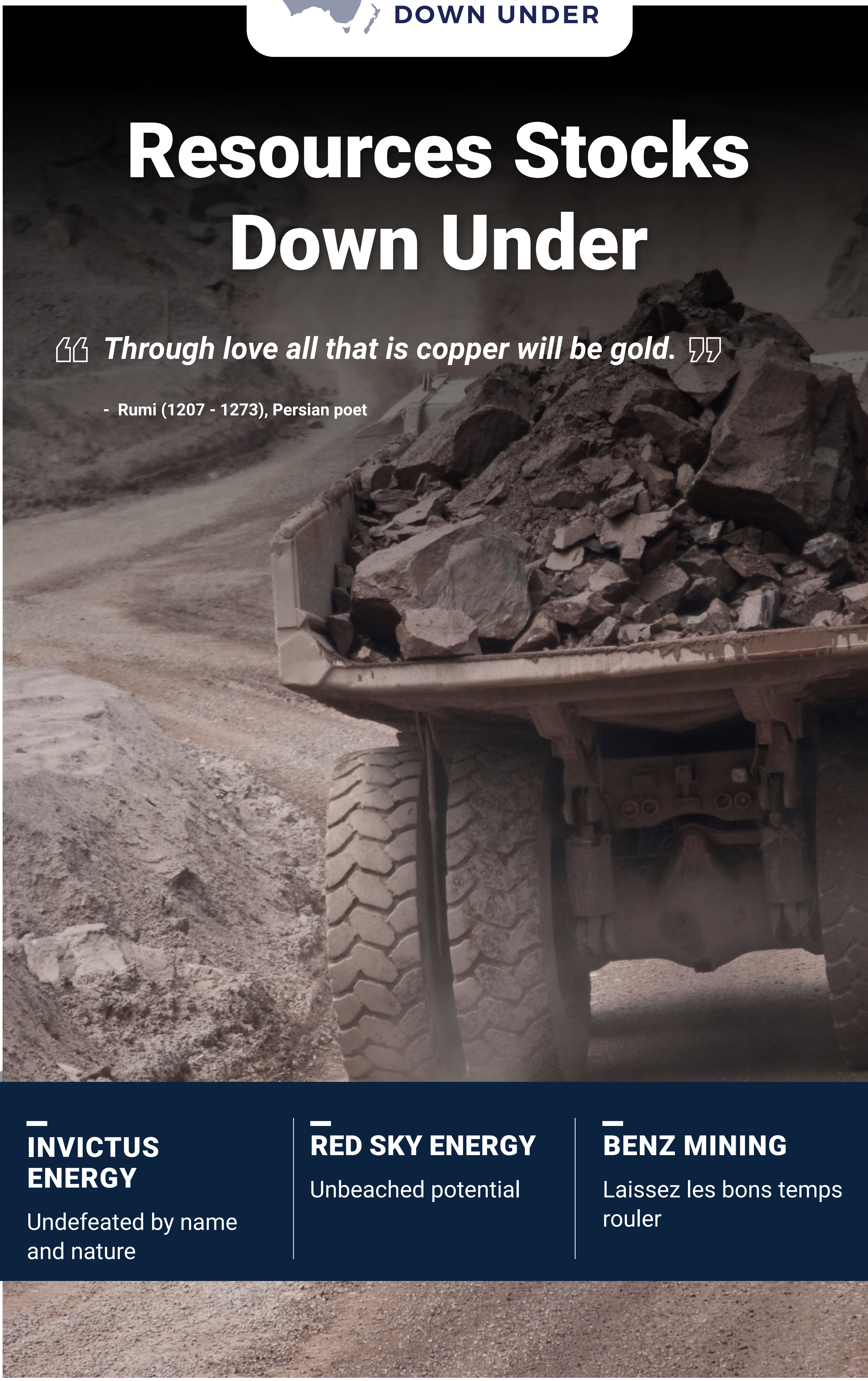
STOCKS DOWN UNDER

23 SEPTEMBER 2021

Resources Stocks Down Under



> *Through love all that is copper will be gold.*
>
> \- Rumi (1207 - 1273), Persian poet

INVICTUS ENERGY
Undefeated by name and nature

RED SKY ENERGY
Unbeached potential

BENZ MINING
Laissez les bons temps rouler

INVICTUS ENERGY

Undefeated by name and nature

Stocks Down Under rating: ★★★★

ASX: IVZ
Market cap: A$87.8M

52-week range: A$0.05 / A$0.245
Share price: A$0.15

You'd be surprised where they are looking for oil and gas these days. The Perth-based Invictus Energy believes that its Cabora Bassa Project potentially hosts a major discovery in, believe it or not, Zimbabwe. All the seismic and other data suggests that the Mzarabani conventional gas and condensate prospect in the Cabora Bassa Basin is rich in both. All Invictus has to do is sink the first well to get the ball rolling on a potential bonanza.

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Market cap: A$42.3M

52-week range: A$0.0015 / A$0.019
Share price: A$0.009

One of the things we love about the oil and gas sector in Australia is how small companies can do things with assets which bigger companies find no longer useful to them. Red Sky Energy is a case in point. Twice now it has acquired old fields from the mighty Beach Energy (ASX: BPT). The market is now betting that good things are coming from some of these cast-offs.

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Things are looking promising for the Canadian gold explorer Benz Mining, a TSX-V company, which cross-listed on ASX just before Christmas 2020. Benz currently has a small, 376,000-ounce resource at its Eastmain Gold Project in Quebec, but is fully funded for 50,000 metres of drilling in 2021. In an underexplored district where high grade gold mineralisation may extend over a 10 km strike length and where there's 45 km of exploration ground in the promising Archean Greenstone Belt, we believe there's potential for a lot of gold to show up.

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Share price chart

Source: Tradingview

When we first heard about Invictus Energy a few years ago we were sceptical. How in the heck, we asked, is oil or gas going to show up in Zimbabwe, a place better known for gold and platinum? Surely the rocks are too old. We forgot for a second that gas-rich Mozambique isn't far away. More importantly, we forgot that both oil and gas have a habit of showing up where they are least expected. Consider China. For a long time, no one believed that country had much in the way of oil. The doubters were proved badly wrong in the late 1950s and early 1960s with the discovery of the Daqing and Shengli fields, both supergiants.

The right kind of play

When the independent consultants estimated the potential riches in Invictus' Mzarabani prospect in July 2019, they got 8.2 TCF of gas and 247 million barrels of oil, on a gross mean unrisked basis (i.e. assuming everything works out). That makes Invictus the proud owner of the largest undrilled conventional onshore oil and gas prospect on the entire African continent. And – get this – a single well can probably go through five Mzarabani targets all hidden under a straightforward four-way dip closure.

How is that possible? Well, consider the geology of northern Zimbabwe. There's a sedimentary basin here called Cabora Bassa, named after the artificial lake the Portuguese created when they dammed the Zambezi back in '74. And within that basin, on its southern margin, there's an anticline called the Mzarabani, sitting as it does in a district of that name in Zimbabwe's Mashonaland Central province. Anticlines, you might recall from high school science class, are the folds with the crest at the top, making them potentially good for trapping hydrocarbons as they float upwards. In the lower part of the Mzarabani anticline there's Karoo source rocks of the right age, namely, Permian and Triassic. And up near the top is a Triassic aged formation, called the Angwa, and some similarly-aged few formations above and below it, all of which look like they've got just the right porosity and permeability to host the Good Stuff. What Invictus likes about the Angwa is that it alternates between source and reservoir rocks, meaning multiple shots on goal.

Thank you, Mobil

Oilmen, and women, who know Africa have known there's something juicy here for a long time. Mobil mapped it all in the early 1990s, at a cost of around US$30m. But when they realised that it was good primarily for gas rather than oil they more or less gave up. Years later, a guy called Scott Macmillan, originally from Zimbabwe but working for Woodside here in Australia, picked up all that 2D seismic, gravity and aeromag for not very much and started again with a rework focused on what was known about how these rift basins work. 80% of the SG471 permit that Macmillan staked out ended up in Invictus Energy from 2018, with Scott Macmillan as Managing Director, or, as we like to call him, Chief Optimism Officer.

Three years after Invictus Energy was put together on ASX it has yet to drill a well on SG471 because it first needed to confirm that it understood the formations correctly. It did that using rock samples from surface and related seepages that it was then able to map underground. The well that will ultimately get drilled will cost about US$10m, which is the sort of money you generally need a partner to get for you. Just before Christmas 2020 Invictus announced that it had a prospective farm-in partner with a non-binding offer, but in early July 2021 the discussions were terminated. And no wonder. By that stage the stock was a lot higher, making the economics of self-funding the well more lucrative and Invictus had raised $8m at 11 cents. The market didn't initially see the termination in an optimistic light and marked the stock down from 19.5 cents on 6 July to 13.5 cents by 29 July. But as at June 2021 Invictus still had $9.1m in the bank. The company is currently getting ready to run some of its own seismic to confirm what it has learned from the Mobil data. Once that's done, it can better site that first well.

More seismic coming and then a wildcat well

Some Australian investors may still think of Zimbabwe as a gangsta's paradise, but we say that if the Mzarabani-1 well yields a discovery, the future will be bright. President Emmerson Mnangagwa has by all accounts done well at making Zimbabwe investment-friendly since 2017. More importantly, southern Africa is markedly short of energy right now, in part because so much of Mozambique's gas flows to its LNG industry.

So, there'll be plenty of customers for whatever oil and condensate Invictus can produce. With energy prices having well and truly recovered from the Covid and price war collapse of mid-2020, and with Invictus's partnering discussions of 2021 having shown that Cabora Bassa has some merit as a wildcat play, we think this stock can continue to recover. Four stars.

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Source: Tradingview

In mid-2020 an investor reading Stocks Down Under asked us to take a look at Red Sky Energy. We declined, because the company was too small. It had just raised $0.4m in a placement at 0.1 cents and the whole company was only capitalised at about $4m. In retrospect we should have paid more attention because Red Sky Energy had Santos as a farm-in partner over some established oil and gas fields that were reasonably worth more than $4m.

A great restart at Innamincka

In mid-2020 Red Sky Energy in its current form was only two years old. In July 2018 the company had announced the acquisition of the 'Innamincka Dome Project' from Beach Energy. If the name Innamincka rings a bell, it may be because that remote South Australian town is not far from the place where the explorers Burke and Wills perished in 1861, right next to the infamous Cooper's Creek, which gives the Cooper Basin its name. A century later, the first ever Santos well (four years before the company-making Gidgealpa-2 well of 1963), was a dry hole called Innamincka-1. Santos and Delhi Petroleum figured the Innamincka Dome, a large anticline in the neighbourhood, was a good place to start looking for what became the vast oil and gas riches of the Cooper.

It's only been in more recent years that the Innamincka Dome has actually hosted oil and gas discoveries, including Red Sky's new fields, which got on the map in 2004 thanks to Innamincka Petroleum. That company discovered the Flax Oil Field about 30 km north of the town as well as the next-door Yarrow Gas Field around the same time. Later in the year came a modest oil field called Juniper. All these fields ended up with Beach Energy because Innamincka Petroleum, which became Acer Energy in 2011, was acquired by Drillsearch in 2012 and that company was acquired by Beach Energy in 2015. Flax had produced for a while, but had been shut in by the bone-crushing oil price downturn of 2014. Yarrow and Juniper were still untouched. In 2018, the three fields were surplus to requirements To Beach Energy, but Andrew Knox, the newly appointed CEO of Red Sky, saw the opportunity to pick up where Innamincka Petroleum left off. The company inherited a 2C contingent resource at Flax of 9.9 million barrels of oil and 24 BCF of gas, and another contingent resource at Yarrow of 20 BCF. Okay, it wasn't much but it was a start, and the leases also had exploration potential.

Thank you, Beach

By September 2019 Red Sky had Santos as a development partner, spending $9m to earn 80%. That would fund 3D seismic and an appraisal well at Yarrow and another appraisal well at Flax. A great deal! However, no one in the market (except maybe the investor who asked us to look) was paying attention. Red Sky stock nudged up to 0.4 cents, but then quickly slid back. Not long after that came the truly horrible oil price rout of early 2020.

It was a different story for both oil and Red Sky after November 2020, when it announced the acquisition of the Killanoola Oil Field in the onshore Otway Basin. Origin Energy had discovered Killanoola way back in 1998 and a second well in 2011 called Killanoola SE-1 had also been a discovery, but eventually Killanoola became another Beach Energy asset that was surplus to requirements. Red Sky jumped at this one. The address was great, in that Killanoola lies in the highly prospective Penola Trough, named for the town where Beach Energy has its Katnook Gas Processing Facility. The field's 2C contingent resource was 2.8 million barrels, but with potential for 7 million. And it was considered a relative no-brainer to restart Killanoola-1 for early cash flow. Sure, the Killanoola-1 oil was considered a bit 'waxy', but that's nothing a good reservoir engineer can't mitigate.

More net pay than earlier operators realised

What took everyone by surprise was the announcement in March 2021 that Red Sky had identified 16 metres of net pay in the Killanoola SE-1 well, whereas it was previously only thought to have 1.5 metres. The market loved that, bidding Red Sky stock from the 0.2 cent level of 19 March 2021 to 1.4 cents on 1 April. By June the stock had settled back to 0.6 but it has since recovered, helped by the discovery of more net pay in the original Killanoola-1 well in May.

Red Sky plans production tests on the two Killanoola wells shortly. Meanwhile Santos' Yarrow gas well will spud before 2021 is out. We think these developments can levitate Red Sky stock again now that it is on multiple radar screens and management has proved that the Innamincka Dome transaction isn't a one-off.

Obviously, it's early days, but we see potential for this company to add further projects to its pipeline as well as benefit from Santos' continued enthusiasm for the Cooper and the stronger oil price environment today. It's also worth noting that Red Sky is in better financial shape, having raised $5.1m at 0.8 cents in early September. So, it's four stars from us.

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Share price chart

Source: Tradingview

There's a lot of reasons why Canada doesn't want Quebec to ever leave the Dominion and one of them is the vast mineral wealth of the province. In gold alone, something like 260 million ounces has historically been produced from Quebec mines. We all know about the famous Val d'Or/Rouyn-Noranda camp, around 500 km north of Montreal. Lesser known are the mines further north, such as Troilus near Lake Mistassini, which has done 8 million ounces, or Newmont's Eleonore mine up near James Bay, which is another 8-million-ounce monster. Benz Mining hopes to continue this story of large mining camps with its Eastmain Gold Project, also in the James Bay region.

A long way north

If you have a map of Quebec handy, find James Bay, which is a large body of water at the southern end of Hudson Bay, and then squint really hard. Hopefully you can see a tiny village called Eastmain on the eastern shore at around 52 degrees North, where the locals are mostly from the Cree First Nation. You'll also likely see a river of the same name as the village. Follow the river up to its headwaters for around 350 km and you've made it to Benz's 220 sq km of claims in the Upper Eastmain River Greenstone Belt. You're now a very long way from anywhere. The only sizeable town in the neighbourhood is Chibougamau, population 7,500, and that's 320 km southwest. Sophisticated Montreal is 750 km southwest.

The Eastmain Project may be a long way away, but you can still drive to it. Quebec Route 167 will get you all the way to Chibougamau and an all-weather road continues from there through Benz's claims to a diamond mine called Renard. That road exists because of Plan Nord, the Quebec government's long-standing initiative to support mining north of the 49th Parallel. Access isn't Benz's only advantage in developing a future gold mine if the company proves up a decent resource. There's the cheap hydropower for which the province is famous. And the Cree Nation was fully supportive of Newmont's Eleonore Mine when it opened back in 2014 and is supportive of Benz's project as well.

And then there's Canada's amazing 'flow-through' share regime, where investors are permitted to claim deductions for a resource company's exploration expenses if that expenditure was incurred in Canada. That was why Benz was able to raise C$10m at C$1.10 in August 2021, when the close on TSX-V that day was C$0.65, which was an 80% premium to the share price. What a great way to limit dilution to existing shareholders!

Let the good assays roll

Benz's project has already played host to a mine not too long ago. Placer discovered the deposit way back in 1969 and in the mid-1990s it was briefly worked, producing ore at a head grade of over 10 g/t gold, with conventional processing and great recoveries. The only thing that killed the Eastmain Mine at the time was low gold prices and the fact that the road at the time was an ice road. Neither issue exists today.

Benz reckons there's considerable upside here because nothing much had happened on the Upper Eastmain in a long time before it showed up. Benz did the first electromagnetic survey since the 1980s. The EM work identified multiple new mineralised zones and suggested about 10 km of strike to work along, of which the existing Eastmain Deposit is just 1.1 km. Just about all the drill holes since mid-2020 have hit mineralisation and many of them have registered high grade intersection. Indeed, in a number of cases there has been visible gold in the core. For 2021 Benz intends to put down 50,000 metres of drillholes so there's likely to be a bit more excitement before the year is out. The first assays from the 2021 campaign only became available in early August, but they were pretty exciting, with intersections like 3 metres at 16.6 g/t from a zone called 'North West'.

We think the lack of good news flow from the 2021 campaign, in terms of metres and grades, is the reason Benz stock hasn't really set the world on fire since its ASX-listing. Benz stock peaked here at A$1.60 on 7 January 2021, but has mostly fluctuated between 70 cents and 90 cents since February. We think that represents good 'base building' activity and the stock should eventually catch up. After all, the market responded when Auteco Minerals (ASX: AUT) was building up its Pickle Crow Project in Ontario (see Resources Stocks Down Under for 18 March) and it did when Aston Minerals (ASX: ASO) got a head of steam at Edleston, also in Ontario (see our 8 July 2021 coverage). And don't forget the favourable response when Matador Mining (ASX: MZZ, 16 September 2021) hit the streets with its Scoping Study for Cape Ray in Newfoundland. With the assay results now starting to flow for Eastmain, we think Benz Mining will be next.

And from a trading point of view, the shares seem to be right at the very important, and apparently strong, support level of $0.68. Four stars from us.

Pitt Street Research Pty Ltd

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