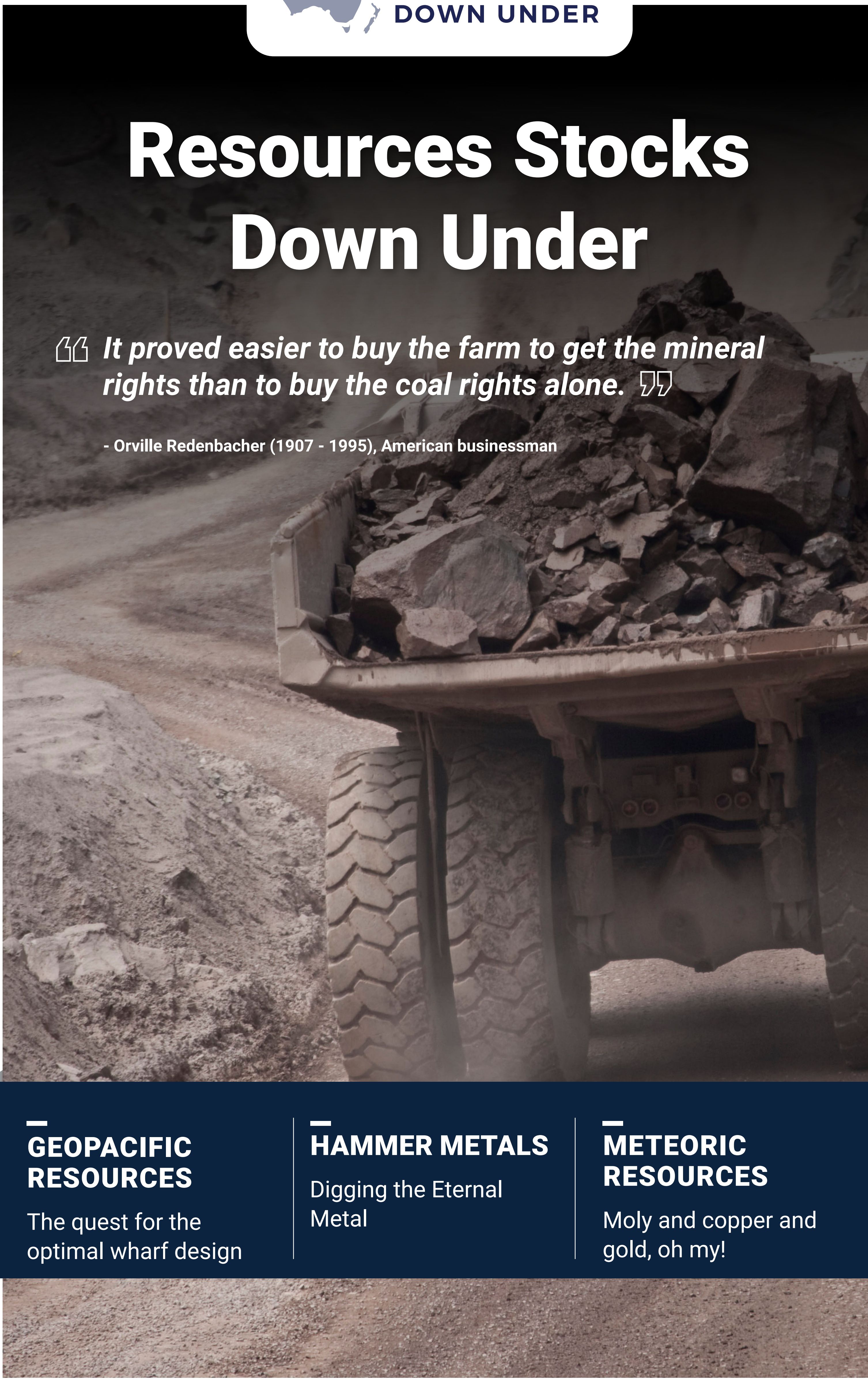
STOCKS DOWN UNDER

18 NOVEMBER 2021



Resources Stocks Down Under

It proved easier to buy the farm to get the mineral rights than to buy the coal rights alone.

- Orville Redenbacher (1907 - 1995), American businessman

GEOPACIFIC RESOURCES

The quest for the optimal wharf design

HAMMER METALS

Digging the Eternal Metal

METEORIC RESOURCES

Moly and copper and gold, oh my!

GEOPACIFIC RESOURCES

The quest for the optimal wharf design

Stocks Down Under rating: ★★★★

ASX: GPR
Market cap: A$109M

52-week range: A$0.20 / A$0.60
Share price: A$0.20

The gold project developer Geopacific Resources hasn't quite come around since we last wrote about it in this publication on 5 June 2020. At that time the stock was trading at $0.45 and the company was seeking project financing for its forthcoming Woodlark Gold Mine in Papua New Guinea. Close to eighteen months later the financing has been secured, but the project has been slightly delayed because, of all things, the cost of a wharf on Woodlark Island.

READ MORE

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Digging the Eternal Metal

Stocks Down Under rating: ★★★

ASX: HMX
Market cap: A$42.3M

52-week range: A$0.031 / A$0.155
Share price: A$0.05

Hammer Metals is a copper-gold explorer holding two projects in two of Australia's great metal provinces. While it looks at the greenfield gold potential in the Eastern Goldfields of WA, the company's other copper prospects in Queensland have led to a new joint venture with a major Japanese copper miner and renewed exploration of historically underexplored deposits. At this early stage, the strategy is to continue building the resource with new targets in the pipeline. The stock has been weak for a while now, but once it starts to base-build it can potential be good buying.

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Much like fellow copper-gold explorer Hammer Metals (ASX: HMX), of which more below, Meteoric Resources is targeting gold and copper at two promising, but underexplored projects, in Australia and Brazil. Both the Palm Springs and Juruena Copper-Gold Projects have historic workings, which the company continues to exploit. But that underexplored potential has also led to new discoveries on both continents.

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Share price chart

Source: Tradingview

If you're looking for an ASX-listed company that knows how to spot a bargain, Geopacific Resources is a good candidate. This is the company, you'll recall, that in July 2016 farmed into the Woodlark Gold Project in an arrangement where it could earn 75% of what was estimated to be a 2.1-million-ounce deposit for just $19m in exploration expenditure. Sure, Woodlark Island was a long way from anything, lying as it did around 600 kilometres east of Port Moresby. Still, $25m in total value for a project where other parties had previously invested about $150m more than made up for any inconvenience with regard to the location. And that 2.1 million ounces still turned into just 1.6 million once you converted the JORC 2004 resource to JORC 2012.

A company-making mine

By November 2018 we were starting to get an idea of the upside. A Definitive Feasibility Study had shown that A$202m in capital expenditure would bring into production a mine with a post-tax NPV of $197m at an 8% discount rate. With a low waste-to-ore ratio and near surface mineralisation, the first five years of that mine would be particularly good years, averaging 100,000 ounces per annum at an All-In Sustaining Cost of only about A$866 per ounce. Life of mine AISC for all 967,000 ounces to be produced would be A$1,033 an ounce. Not bad, wouldn't you agree?

The only downside we could see in mid-2020 was Woodlark Island itself, whose remoteness could make getting this mine up and running slightly challenging. The mine itself was straightforward, with ore that was free milling and only needing a conventional carbon-in-leach plant to process. And we argued that there was precedent for mines starting up on remote islands, with the two most obvious examples being the Lihir mine of Newcrest (ASX: NCM | see 19 April 2021 report) and the Simberi mine of St Barbara (ASX: SBM | see 19 July 2021 report). Little did we suspect that logistics would be a slight problem down the track.

All funded and ready to go…almost

By October 2020 Geopacific had tentatively secured US$100m in debt funding from the Canadian resources financier Sprott and shortly thereafter the equity component was nailed down with a $140m raise at $0.42 per share. A 'Project Execution Update' published in November 2020 put a new post-tax valuation on Woodlark of A$347m at an 8% discount rate. Under the new plan, A$255m in capital costs brings into production a 13-year mine producing 980,000 ounces of gold at an All-In Sustaining Cost of A$1,239 an ounce.

With the funding more or less in place, Geopacific was working on the relocation of some houses and the early civil works for the mine by early 2021. The company had intended to commence construction of the mine in the second half of 2021 and, potentially, pour the first gold before the end of 2022. With the financial close of the project financing completed in late June 2021, it looked like all systems were go for Woodlark. And when Geopacific announced a fresh round of drilling in late September investors started to get excited, since there was potential for that drilling to not just do grade control for the initial mine, but move on to exploration drilling that could expand the scope of the mine. And then, on 11 November, disaster seemed to strike.

Project delayed, but with a higher gold price

11 November was when Geopacific Resources issued a Project Development Update that the market really did not like, marking the stock down 25%, to $0.24. The key issue was related to logistics. Specifically, the wharf planned for Woodlark Island was going to be costlier on the original design than first thought. Geopacific's engineers were working to reduce that cost, but obviously that initial blowout meant potential amendments to the funding arrangements.

Geopacific stressed that the Sprott folks remained supportive. But if that issue with the wharf wasn't enough, heavy rains on the island and the ongoing COVID-19 pandemic in PNG had also caused delays. We believe the time lost is in months, not in years, but it pushes the first gold pour out to early 2023. In the meantime, we think the fundamentals of Woodlark are sound. Remember, the gold price to model the company's latest valuation of Woodlark is only A$2,200 per ounce, which is just over US$1,600. Gold is currently over US$1,850 an ounce and, we believe, headed higher.

The thing about mine development, which any professional will tell you, is that anything that can go wrong, will go wrong at some point. The question for Geopacific is, are the current problems fatal or are they merely stuff for the engineers to optimise. Since it's the latter, we reckon the 11 November share price decrease might represent a buying opportunity. Interestingly, the one thing that's not being delayed is the upcoming 20,000 metres of drilling. There's a number of reasons why the Eric Sprott got involved in this project and this potential for more gold is likely one of them. Four stars from us.

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Share price chart

Source: Tradingview

Going at it, hammer and tong

Hammer has two major projects in two world-class metal provinces: the Bronzewing South Gold Project in the Yandal Belt, WA and the Mount Isa Project in, you guessed it, Mount Isa, Queensland. Spanning 2,000 square km, the Mount Isa project surrounds a number of early-stage greenfield prospects with high-quality iron oxide copper gold (IOCG) potential, including the Kalman, Jubilee (a 51% joint venture with Glencore), Overlander and Elaine prospects. Each of these are currently undergoing studies to access likely development options. Recent success at Mt Isa includes the discovery of the underexplored Trafalgar copper-gold deposit, which joins the north-north-east copper-gold trend located in the Fountain Range Fault. The latest exploration update on 2 November 2021, put mineralisation intercepts at 32m at 0.49% Cu and 0.17g/t Au from 17m. This included 4m at 1.8% Cu and 0.36g/t Au from 41m and 3m at 1.32% Cu and 0.41g/t Au from 18m.

Over in WA, Hammer has also found a strategic tenement position at the Bronzewing South Project, which consists of five exploration prospects located 65 km north-east of Leinster, all within a 20 km radius of the mothballed Bronzewing Gold mine and processing plant owned by Northern Star Resources (ASX: NST), which is one of Marc & Stuart's Top Picks. With an impressive list of neighbours and the Yandal Belt's estimated 24 million ounces of gold, Hammer is pursuing a number of high-priority targets along 5 km of strike at Bronzewing South, as well as anomalies in the Orelia trend nearer to Northern Star's Orelia Gold Project.

New deal, new targets

Hammer's exploration success at Mt Isa has led to one really big development, in the form of new joint venture partner Sumitomo Metal Mining, replacing former partner JOGMEC, which is Japan's state-owned energy and mining agency (the letters stand for Japan Oil, Gas and Metals National Corporation).

Sumitomo, one of the largest Japanese keiretsu, has been in the copper game since the late 16th century of you trace its history right back to its source, so it's fair to say that the new partner brings a lot of expertise (and funding) for a new, greenfield project in the Queensland outback.

While the Sumitomo agreement is still being finalised, it's expected that the Japanese company will fork out $6m for a 60% share, with the next exploration program for the reminder of CY21 concentrating on the Trafalgar trend. While this is big for a junior, the joint venture excludes the company's existing 100%-owned resources outside the Trafalgar trend, but Hammer has its own plans for lookalike Trafalgar targets, such as the historical Lakeview copper target, 7 km north, in its 4,000 metre RC drill program in the hope of delineating new extensions.

Since much of Mt Isa's prospects are the result of small historical artisanal workings (or in Trafalgar's case, basically no exploration), most of the company's focus for the reminder of CY21 will be its aggressive copper campaign. But Hammer is still keeping its eye on multiple new gold zones in the Yandal. Much of the attention is on the North Orelia prospect, next to Northern Star's Orelia Gold Project, with the recent 10,000 metre 308-hole air core program finding strong intercepts and anomalous zones. Gravity surveys confirm that these new zones are directly south of the original Bronzewing Gold pits and former 4-million-ounce gold mine.

While the mine is currently on care and maintenance, both of Northern Star's Bronzewing and Orelia open pits are undergoing redevelopment, adding speculation that the processing plant may be recommissioned.

News flow (and assays) still pending

Outside the new joint venture, Hammer is well-funded for all of its scheduled programs with $9m cash at the end of September and no debt. That $10m was augmented by April's $5m placement at $0.095 a share. As the next step at Mt Isa will be to build a critical mass copper inventory within a 15-metre radius of Trafalgar, the company will look at its more advanced prospects at Black Rock, Sunset and Neptune and their potential to add resources to Elaine's 9.3 million tonnes at 0.82% Cu and Jubilee's 1.41 million tonnes at 1.41% Cu. While Hammer waits for final assay results from Lakeview and Overlander, follow-up drilling at Trafalgar is planned for mid-October.

Following the discovery of the five new anomalous zones in the Yandal, the company is planning for an RC program for one of the analogue targets 300 metres south of the Bronzewing deposit and additional aircore drilling at North Orelia, but otherwise the promise of copper is the real concern.

Since the successful findings at Trafalgar, Hammer's share price has lifted to $0.13 in February, now down to $0.06. But now that Sumitomo has taken over JOGMEC, the company is expecting a greater degree of urgency in exploration while finds its current level. Three stars ahead of what we think can be a period of base building.

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Share price chart

Source: Tradingview

Clear the way

Meteoric's flagship Palm Springs Gold Project lies 27 km south-west of Halls Creek in the Kimberley region of Western Australia. Palm Springs includes a 20 km strike and is an advanced exploration play thanks to past production at the old Butchers Creek Gold mine, which is incorporated into the project's mining lease. Outside of Butchers Creek, there are also signs of historic workings at the Golden Crown deposit (which includes the Faugh-a-Ballagh prospect, named after an Irish war cry meaning 'clear the way') only 3 km north-east. Together, Butchers Creek and Golden Crown have a maiden mineral resource of 5.7 million tonnes at 2.0 g/t Au for 357,000 ounces.

Over in Brazil, the company has produced plenty of gold hits above 90 g/t Au at the Juruena Copper-Gold Porphyry Project, located in the state of Mato Grosso in central Brazil. Juruena consists of three separate, but adjacent deposits, including two high-grade epithermal gold deposits at Donna Maria and Querosene, and the Crentes copper-gold deposit hosted in the Juruena Fault. Exploration at Donna Maria and Querosene led to an updated gold resource of 1.9 million tonnes at 6.3 g/t Au for 387,000 ounces in July with all three deposits remaining open at depth.

Meteoric rise

Having only acquired Palm Springs in mid-2020, Meteoric has managed to quickly update the resource through its focus on mining data from historical exploration and previously overlooked sections. The Butchers Creek open pit mine, which operated between 1995-97 under Precious Metals Australia, produced 50,000 ounces, but never had an official JORC resource, giving Meteoric that extra incentive to dig deeper. Much of the available unmined ore sits at the bottom of the pit floor at the southern end, confined to an anticlinal hinge (or arch-like shape) with untested parallel structures at each side suggesting further mineralisation.

The company's strategy of targeting anticlinal hinge zones has already paid off, with visible gold observed at three intervals. Even the non-visible intersections have been good, such as a recent cut through 57 metres at 1.6 g/t Au. It's fair to say that the next round of drilling will likely lead to an upgrading of the Butcher Creek's resource and, potentially, fast-track a Scoping Study for the project's underground and open pit potential.

With the Palm Springs 'Spring' RC drilling program south of Butchers Creek underway, the company can also revel in the mid-year molybdenum and copper sulphide discoveries spanning over 600 metres at two diamond drill holes at Juruena. These may point to a larger mineralised copper-moly system. Juruena has its own extensive history of artisanal gold mining – it's a big thing in Brazil's interior – but its past output was much greater than Butcher Creek at over 500,000 ounces gold in the 1980s gold rush. Meteoric is finding bits and pieces of a massive IP (induced polarisation) anomaly directly below the Juruena Fault Zone with copper-gold porphyry potential.

The anomaly is 2,000 metres long, 1,200 metres wide and less than 500 metres below the surface. While the recent 40% growth in the resource stems from the gold mineralisation at Donna Maria and Querosene, the company plans to explore the copper potential with five extra holes once assay results are known.

It all hinges on the hinge

Meteoric stock has had a bad year. It was north of $0.07 when 2021 started, but it's way below that now, even though the news has been good all year. Blame the weaker gold and copper price, but at some point, we predict this one will come good. The progress of discovery at both projects has attracted significant investor support. Retail giant Gerry Harvey, of Harvey Norman fame, is a fan. Okay, don't necessarily watch this company because Gerry likes it – he knows more about washing machines than he does about RC drilling rigs – but the Melbourne investor Tolga Kumova is also a backer and he knows his way around the resources space.

Gerry and Tolga were both buyers late last year and were part of a group that took a $4m placement at $0.10. While the majority of those funds have gone into exploration at both projects, the company hasn't made any direct plans for the extra 24, 100%-owned, tenements in the Alta Floresta Belt in the Mato Grosso, well-known for its gold deposits.

With a cash balance of $4.75m at the end of June 2021, Meteoric announced that the final assays from its 2021 drilling program at the Butchers Creek Deposit found 29m at 2.0g/t Au [286m] and 9m at 1.4g/t [311m]. These results confirm strong gold mineralisation at the site. With a better resource, the company can move faster toward its Prefeasibility Work, but not until its RC program is completed. With two solidly growing resources, so far the reward is well outweighing the risks for those with patience.

We think this is a four-star play, but we might need to 'fight the tape' for a while. Let's call it three stars for now, but watch Meteoric carefully at about $0.01 if it falls that far.

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