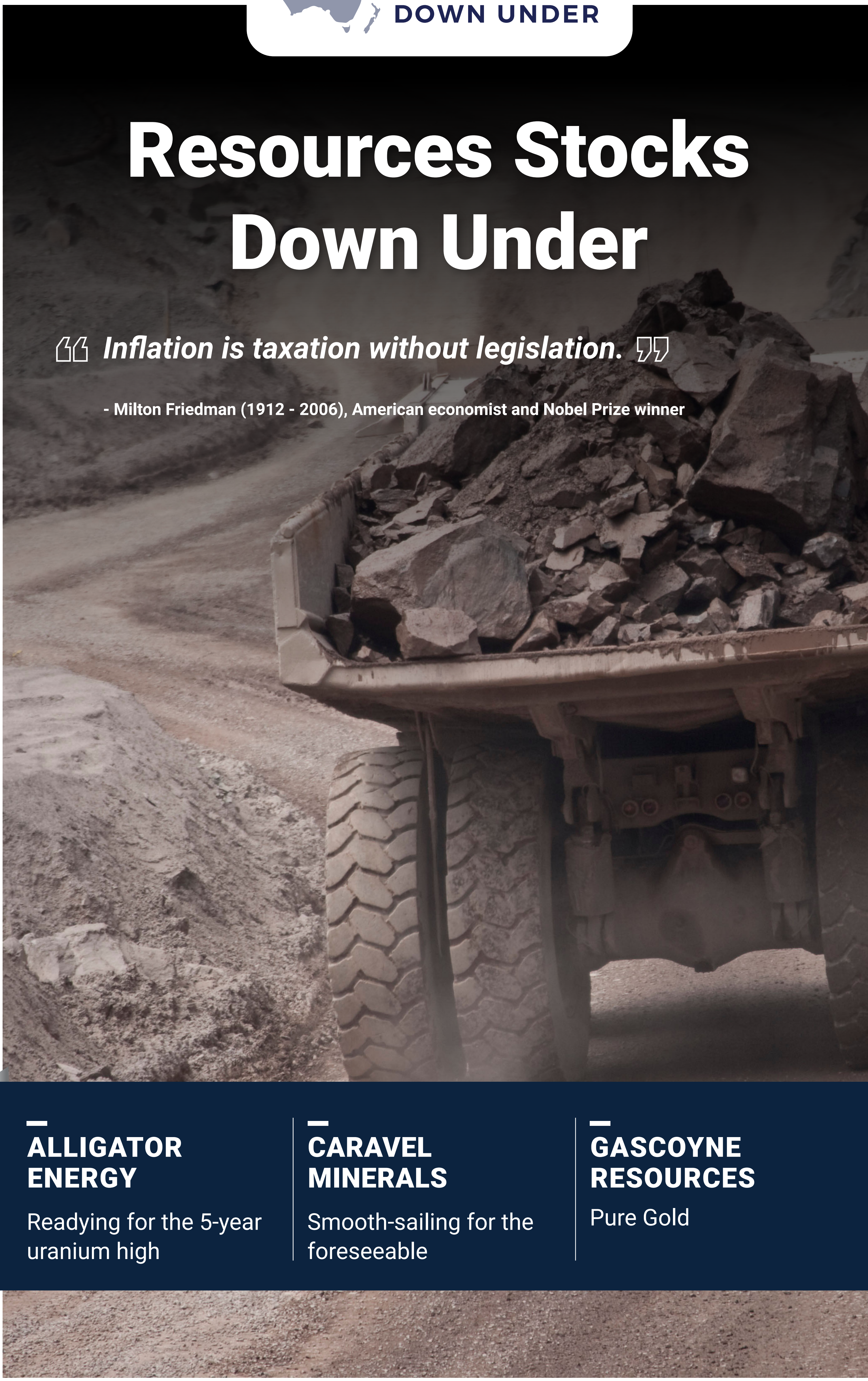
STOCKS DOWN UNDER

9 DECEMBER 2021



# Resources Stocks Down Under

> *Inflation is taxation without legislation.*
>
> - Milton Friedman (1912 - 2006), American economist and Nobel Prize winner

## ALLIGATOR ENERGY

Readying for the 5-year uranium high

## CARAVEL MINERALS

Smooth-sailing for the foreseeable

## GASCOYNE RESOURCES

Pure Gold

## ALLIGATOR ENERGY

Readying for the 5-year uranium high

Stocks Down Under rating: ★★★★

**ASX: AGE**
**Market cap: A$173M**

**52-week range: A$0.007 / A$0.115**
**Share price: A$0.057**

Alligator Energy is focused on making sure its flagship Samphire Uranium Project in South Australia is production-ready for when (and if) approvals come forward for a fourth uranium mine in the state. Although uranium's return has been slow, the company is one of many juniors ready to fill the uranium supply deficit that's been emerging for some years now.

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Smooth-sailing for the foreseeable

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**Market cap: A$129M**

**52-week range: A$0.12 / A$0.63**
**Share price: A$0.335**

For a long time, many thought WA's Wheat Belt was good for one thing – wheat. These days it's attractive for other commodities as well, such as copper. Caravel Minerals reckons its Caravel porphyry copper project down there is a company maker with an expanding resource base. With the copper supply deficit looming, Caravel is already considering other copper regional prospects, including a Julimar-style prospect in the Yilgarn Terrane.

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### Share price chart


*Source: Tradingview*

### New ground, old ground

Now with three uranium projects in Australia and a nickel-cobalt project in Italy, Alligator is rushing to fill the gap in uranium supply as support for nuclear energy continues to grow. The company's flagship Samphire Uranium Project in South Australia has the easiest path to production with an inferred resource of 47 million pounds of uranium suitable for the low-cost 'in-situ recovery' (ISR) method, where uranium is pumped to the surface. Alligator hopes to demonstrate the cost effectiveness of the ISR route in an upcoming Scoping Study, expected to hit the streets next year. The project contains the high grade Blackbush and Plumbush deposits, both of which provide expansion opportunities.

Elsewhere in Australia, Alligator is still working on expanding its Alligator Rivers Uranium Project (ARUP) way up in Arnhem Land and not far away from the major uranium deposits at Ranger and Jabiluka. ARUP contains multiple uranium targets in a well-defined uranium bearing zone, including one called Caramel with 6.5 million pounds of uranium grading 0.31%. Concurrently to ARUP, Alligator is continuing its geophysics work to target new ISR-style deposits at its Big Lake Uranium Project in the Cooper Basin, SA.

### Filling the uranium void

As uranium slowly begins to shed its past and lift again – it's now over US$40 per pound – Alligator has high hopes to address the growing supply deficit. But as Australia shows no real signs of adopting nuclear energy anytime soon, none of that uranium will be used locally. In May, the company formed an exclusive partnership with the American arm of global commodities trader Traxys, which will help Alligator pursue long-term offtakes and financing (potentially up to US$15m) for Samphire. The initial cost to Traxys of US$250,000 (plus an annual fee of US$125,000) is small change compared to the possibility of long-term sales contracts and project growth, especially now that the Biden administration has signalled its support for nuclear energy in its climate action plan – in comparison with Australia's 'action plan', which so far is much less clear-cut.

That change in attitude towards uranium has also directly affected Alligator's prospects with a significant rise in its share price to $0.11 in September and enough investor support to fund a first capital raise of $10.7m in August for Samphire's scoping and feasibility work. That raise also helped to facilitate the acquisition of a new tenement block from Stellar Resources (ASX: SRZ) just south of the Plumbush deposit. High-resolution ground magnetics at Blackbush in April have provided greater clarity on existing historical data, with the potential to infill drill the high-grade core and enhance the current 32.7-million-pound resource.

Samphire's momentum has been enough to fund a second capital raise of $11m primarily directed at acquiring 100% of the Big Lake Project and its ISR potential. On 8 December 2021, Alligator provided the market greater insight into Samphire after releasing a drilling update. The company had completed 5 out of 14 planned sonic core holes and the detailed geological logging and core sampling results are expected in approximately six weeks.

### The alligator in the room

The Samphire opportunity is helped by South Australia's clear support for uranium mining with three other uranium mines in production and an existing industry framework, but there are still a number of hurdles to development at Samphire and the other uranium projects, including community backlash and supply contracts.

With $11.1m in cash at the end of September, Alligator is carefully using its funds to continue work at home and in Italy. Italy? Yeah, not a uranium plan, but the company's project in the Piedmont covers historic nickel-cobalt-copper mines first worked in the 19th century and where recent drilling has uncovered high-grade nickel.

Alligator's dual-commodity portfolio of uranium and energy metals gives the company more leverage now that uranium is seemingly returning to favour. Here's a company that has a place on the Solactive Global Uranium Index – the largest exchange-traded fund (ETF) in the uranium space – but also has membership to the European Battery Alliance.

However, for the near term it's uranium that will drive more investor interest, in our view. With multiple drill-ready uranium targets in the pipeline and progress being made on Samphire, this company is well placed. Four stars.

# CARAVEL MINERALS

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### Sailing ahead of the pack

If your regular haunts are City Beach and St Georges Terrace you don't have to drive far to get to the Caravel Copper Project – it's only in Wongan-Ballidu Shire, a mere 120 km north-north-east of Perth, between the towns of Calingiri and Wongan Hills in Western Australia's famed Wheatbelt. We've known for a long time that the Yilgarn Craton can send porphyry style copper-molybdenum-gold this far south. And, after a decade of exploration, Caravel now has a Mineral Resource Estimate of 1.18bn tonnes at 0.24% Cu for 2.84 million tonnes of contained copper, with potential to grow the resource further. The company's 2019 Scoping Study predicts an initial mine production of 16 million tonnes per annum (or 45,000 tonnes copper) for the first five years of a projected 25-year LOM, with a ramp-up to 30 million tonnes per annum (65,000 tonnes copper).

Of particular interest are the Bindi, Dasher and Opie deposits, with Bindi's resource acting as starter pits for the first five years, while mining at Dasher will begin at ten years. Bindi and Dasher represent a combined 576 million tonnes.

At this stage, capital expenditure at 16 mtpa is estimated at $418m, with a free cashflow of $3.1bn ($10bn over 25 years), a base case Net Present Value of $1.05bn (at a 10% discount rate) and an Internal Rate of Return of 20%. But get this: That's based on US$3.00 a pound copper. The metal remains stubbornly north of US$4.00 a pound right now.

### ‘Moly’ offering a second windfall

From 2003 to 2013, both Dominion Mining and Kingsgate Consolidated spent time searching for gold in the Wheatbelt, collecting 200,000 geochemical soil samples showing areas of anomalous copper at the site, but Caravel is now standing on the shoulders of those giants. Much of the data has gone into building a large resource base at Bindi, Opie and Dasher over the last 10 years. Much potential exists to extend further resources at each defined deposit as well as several other prospects including at Ninan, Kurrali and Opie West.

Now that Caravel has outlined its simple start-up strategy at Bindi, the next stage will surround revised pit optimisation and mine design to determine the lowest costs and highest NPV possible. Although the project clearly benefits from its closeness to Perth, it also isn’t too far from access to renewable energy hubs and two export links at the ports at Bunbury and, when you think about it, even Geraldton.

With copper now hovering around US$9,000 per tonne or US$4.00 a pound, depending on your preferred market, Caravel is another junior making strides at the right time, but its molybdenum resource is another point to get excited about. Commonly found in copper and tungsten deposits, molybdenum, Element No. 42 on the Periodic Table, has more than doubled in value over the last year to over US$40 a pound because of its use as a steel-strengthening alloy. Caravel has previously defined molybdenum and silver intercepts at Bindi East and Bindi West as potential by-products, and its 10,000-metre infill drilling program in the June quarter will go towards increasing the grade and copper-molybdenum distribution for the ongoing Pre-Feasibility Study. With the newest RC drill results showing wide zones of mineralisation at Bindi East, the company’s share price had been sailing to new highs as recently as June.

### More opportunities on the horizon

With everything seemingly so straightforward for Caravel, the PFS is estimated for completion shortly with an updated JORC resource expected anytime in the third quarter. Much of the engineering, tailings infrastructure and environmental and heritage approval work is still in the pipeline, but after 10 years the company remains confident of a swift route to production. Perhaps a more exciting prospect for Caravel is what lies beyond the project boundary in the south-west Yilgarn Terrane, with the Julimar discovery of Chalice Mining (ASX: CHN) highlighting the region’s exploration potential.

That geochemical sample data includes regional scale copper anomalies and provides a unique geological advantage in identifying new opportunities. And the company’s other prospects at Mt William (Nickel-PGM) and Toolbrunup (Nickel-Cu-PGM) are next project contenders. Toolbrunup in particular has a familiar lack of exploration and a similar scale and style of magnetic anomaly nickel, copper and PGM targets present at the Julimar intrusion. Having raised $7.5m at $0.275 in the June 2021 quarter, Caravel is sailing toward development during copper’s expected supply deficit with new copper, nickel and PGM opportunities on the horizon. In fact, the Caravel Copper Project PFS is expected in 1Q22 (calendar year). Although, as of 30 September 2021, the company only had two quarters of funding left, so we should expect another capital raise soon.

The trouble for Caravel right now is that the price of copper has come off highs earlier this year, meaning that this ship is becalmed for a while. There’s clearly a copper mine when Caravel’s ship comes in, but right now the market is less interested. That’s why we’re going to call this one three stars for now. At about $0.20 we reckon it’s more like four stars.

# GASCOYNE RESOURCES

## Pure Gold

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### Share price chart


*Source: Tradingview*

### Another merger in the Murchison

Gascoyne Resources owns the Dalgaranga Gold Mine, 70 km northwest of Ramelius Resources' Mt Magnet mine in the Murchison region of WA. Ore is currently supplied by the Gilbey's Main open pit with smaller ore sources at the Gilbey's South, with another deposit (Plymouth) tracked for commencement of mining in the second half of calendar 2021. Diamond drilling below the old Sly Fox open pit has yielded results that indicate a strong potential for a future higher grade underground development.

A 2.5-million-tonne per annum CIL processing plant capacity, currently processes 210,000-240,000 tonnes per month. So, life is good for the folks who run Dalgaranga and the operation could end up with a longer than expected life with Gascoyne exploring regional opportunities in surrounding tenements, including the Tanqueray prospect, Hendricks prospect and Greencock trend. Dalgaranga's resource today is 25.2 million tonnes at 0.8 g/t Au for about 650,000 ounces.

300 km north of Dalgaranga, in the Gascoyne region that gave Gascoyne Resources its name, are the company's Glenburgh and Mt Egerton development projects, which could potentially evolve into a joint second production hub. Glenburgh has a 16.3-million-tonne resource at 1.0g/t for 510,100 ounces spread over 11

deposits. The aim at Glenburgh/Mt Egerton is to expand the mineral resource again before a Feasibility Study is initiated. Gascoyne's regional endeavours stretch as far as Mumbakine Well still further north. But now that the company has agreed to merge with junior explorer Firefly Resources (ASX: FFR), it will add another 196,000 ounces of mineral resources and provide another greenfield discovery area to explore to the west, of which more in a moment.

### No failure in failure

Gascoyne has undergone a surprising transformation over the last four years. After hitting a rough patch in 2019 with lower than expected grades and strip issues at Dalgaranga a year into the mine's life, the company went into Administration. However, a fortunate turnaround in production that saw nine consecutive months exceeding 6,000 ounces a month meant that Gascoyne was able to avoid the sale of the mine and recapitalise. Part of that recapitalisation was a capital raise of $85.2m, which lowered debt significantly. But such a raise was only possible as a result of the company diverting funds for a cutback to access Gilbey's Main Zone and steepen the western wall. All of this potentially risky, but quick work over a three-month period led to a more robust mineral resource estimate and life-of-mine plan, and the kind of gold hits both Gascoyne and its Administrators knew were possible.

There have been other measures to optimise throughput and processing capacity – including a reconfigured CIL process to improve recoveries – but fast forward to 2021 and this company has growing gold exposure throughout Western Australia and consistent numbers at Dalgaranga, which produced 80,000 ounces in CY2020 and 77,000 ounces in FY2021. The latter number was impressive because it included bad weather in June and earlier COVID-19-related shutdowns. Consistent production at Dalgaranga meant Gascoyne could boost its exploration budget to $6.2m on positive cashflow of $9.5m.

### No looking back now

When it recommenced quotation in October 2020, Gascoyne's share price more or less tracked sideways, trending between $0.40 and $0.60, but the Firefly merger announcement in June prompted a derating. That was because the transaction was scrip-based, with Firefly shareholders set to receive 0.34 new Gascoyne shares for each Firefly share held. The market decided at the time that Gascoyne wasn't getting a good deal.

We think the market will change its mind sooner rather than later. Think about it. The Melville gold deposit at Firefly's Yalgoo Project is only 110 km trucking distance west from Dalgaranga and comes with more than 100 targets worth exploring in more detail. Sure, it's a relatively new deposit with no open pit work, but the Melville deposit offers shallow, reasonable grade ore, with 243,613 ounces at 1.45 g/t Au available now (increased 24% on 6 December 2021). A few additional drill campaigns from now this golden cache could look a whole lot bigger. The merger was finally implemented on 10 November 2021.

### Ask Dr Drill, again

We think success in realising value from Firefly will confirm the 'new Gascoyne' as a quality gold company as far as investors are concerned. We already had Dalgaranga humming, guiding to a three-year production range of 70,000-80,000 ounces per annum at an AISC range for FY22 of A$1,600-A$1,700.

Then we got a new resource definition and exploration drill program at Dalgaranga, Glenburgh, Mt Egerton and Greencock. And now we get all the upside from Yalgoo too.  Greenfield structures like Greencock and Tanqueray, by the way, might be all it takes to bring investors back to Gascoyne, with early holes showing impressive intercepts like 28m @ 2.5 g/t Au at Tanqueray.

With plenty of near-term regional exploration news in the hopper, we see potential for Gascoyne to get its mojo back in the near term, particularly now that it's flush with a cash balance of $26.4m at 30 September 2021. While the company waits on assay results from some RC drills at Tanqueray, Glenburgh and Mt Egerton, the impetus now is to find a pathway to increased production – and keep its streak – now that Yalgoo's part of the picture. Four stars.

**Pitt Street Research Pty Ltd**

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