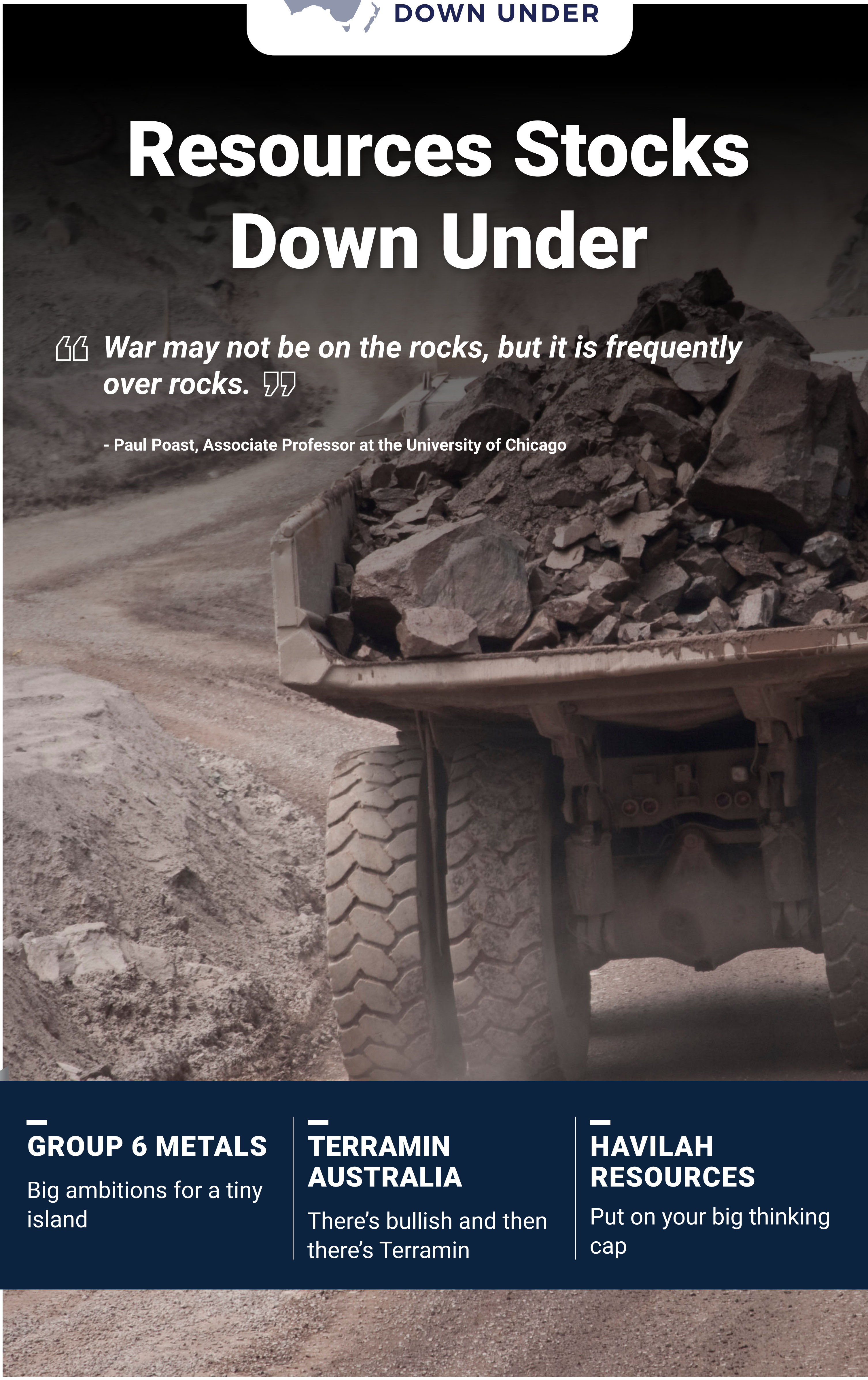
16 DECEMBER 2021

STOCKS DOWN UNDER



Resources Stocks Down Under

"War may not be on the rocks, but it is frequently over rocks."

- Paul Poast, Associate Professor at the University of Chicago

GROUP 6 METALS

Big ambitions for a tiny island

TERRAMIN AUSTRALIA

There's bullish and then there's Terramin

HAVILAH RESOURCES

Put on your big thinking cap

GROUP 6 METALS

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Stocks Down Under rating: ★★★★

ASX: G6M
Market cap: A$85.1M

52-week range: A$0.094 / A$0.355
Share price: A$0.135

Group 6 Metals (previously known as (King Island Scheelite) has finally found the perfect time to schedule a restart at its flagship Dolphin Tungsten Project, previously one of Australia's longest-running tungsten mines. Although it will take serious work and funding, renewed demand and government support could give Dolphin (and the tiny island it sits on) a great comeback story.

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Market cap: A$61.4M

52-week range: A$0.028 / A$0.05
Share price: A$0.029

The Adelaide-based explorer Terramin Australia may have faced a few hiccups over the years – including major delays to unlocking production at its flagship Tala Hamza Zinc Project in Algeria – but a renewed focus on gold and copper projects in its home state are starting to look a lot more straightforward, possibly even driving its focus away from zinc. At this point, any production would be a start.

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Junior explorer Havilah Resources seemingly has the mineral resources to be the producer of everything – starting with its promising copper-gold projects in South Australia and NSW, but continuing into iron ore, rare earths and even uranium. With over 16,000 square km of exploration tenements in the Curnamona Craton, the company's strategy is to start minimally with a starter gold open pit at the western end of the large Kalkaroo gold-copper sulphide deposit and build up from there. We like this company's direction. The stock, however, might be weak for a while.

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Share price chart

Source: Tradingview

It's good to be the King (Island)

G6M has just started on redevelopment plans for its brownfield tungsten project, which is located on the company's old namesake, King Island. Better known for its beef and cheese, King Island is located 80 km off the coast of northwest Tasmania and hosts a population of 1,500. The other part of G6M's former name, scheelite, refers to calcium tungstate mineralisation, which is a source of tungsten on the island. After producing tungsten from scheelite ore for the better half of the last century, the original Dolphin mine is still one of the highest-grade tungsten deposits in the world, with a probable ore reserve of 4.43 million tonnes at 0.92% tungsten and much more to explore.

While a Definite Feasibility Study is in progress, a revised feasibility revealed last December gave the project a Net Present Value of $241m and a 43% Internal Rate of Return. It also flagged start-up capital of only $72m to restart the mine. In August 2021, G6M secured $70,000 in funding from the Tassie government to test new tungsten mineralisation extensions identified through previous drilling. Okay, it's not $72m, but that $70,000 will join the $10m state government loan granted to the company to help restart mining operations, something nearby Grassy is hoping to see. Yes, that's the real name of a town, postcode 7256, on King Island's southeast coast. We're not sure if there's a Knoll in the neighbourhood. And given the mine is at Grassy we're not sure if we can really call this a 'brownfields' development.

Rising from the pit

All jokes aside, if G6M succeeds at Dolphin it will be thanks in part to standing on the shoulders of giants who kept the predecessor mine going from 1912 to 1990 and were only forced to shut it down due to the crash in tungsten prices. G6M estimates that only 50% of ore had been mined up to that point with another 10 million tonnes of tungsten still in reserve.

Naturally, the biggest hurdle to a restart is infrastructure improvements, but with state funding and extra community support from Grassy behind it, the company envisages a reopen at the open pit as soon as 2022 with the additional opportunity to double the mine-life through underground mining and extensions at a separate pit at Bold Head. With roughly $800,000 put aside for the equipment needed to build a new processing plant, G6M has also bought an adjoining property giving it greater access to the Port of Grassy a kilometre away from the mine, with no rail links needed.

With all environmental approvals and mining licences secured, G6M was able to make the process of getting that $72m a little easier with its $5.6m share placement at 20 cents per share in March. G6M has owned the Dolphin mine for 16 years, but it wasn't until the $10m funding announcement in February that serious investors threw their money in, causing the company's share price to jump to 24 cents. Perhaps what those investors should have been looking at is G6M's earlier revamped feasibility study, which points to a possible six-year underground operation at 300,000 tpa after an initial eight years of open-cut operations at 400,000 tpa at a cut-off grade of 0.7% tungsten. The governmental support from both state and federal levels, combined with the upgraded study has prompted the company to scale-up its current pilot scale testing for ammonium paratungsten (APT), the most commonly traded form of tungsten. The APT price has recently improved to around US$300 per mtu.

Further testing imminent

Although a long time has passed for the Dolphin mine since its heyday in the 40s and 50s – where both World War II and the Korean War really helped to maintain high tungsten pricing – the re-emergence of tungsten demand offers a new lease for both the company and the wider Grassy community, particularly if the DFS meets expectations. Much of the support to reach $72m will come from offtake agreements, where those offtakers are keen to get tungsten free of Chinese control. G6M currently has two offtake agreements with tungsten power supplier Wolfram Bergbau for 35,000 mtupa and Kalon Resources for 98,000 mtupa. Overtime that could yield $33m and $69m in sales respectively.

With a cash balance of $4m at the end of September, G6M has undertaken metallurgical test work using Metal Gravity Separation (MGS) to separate scheelite minerals with encouraging metal recovery results and is now working on a full-scale testing. Earthworks and civil construction are expected to be completed by September next year. As with most revamped brownfield projects, Dolphin holds a lot of promise (especially for the workers at Grassy), but there are still a few testing and DFS hurdles to overcome. Four stars.

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Share price chart

Source: Tradingview

So much potential and so much time

Terramin Australia has an impressive list of base and precious metal projects, which include the Bird-in-Hand Gold (BIHGP) and Angas Zinc Projects in South Australia and the Tala Hamza Zinc Project in Algeria. The company is currently negotiating joint venture terms for Tala Hamza in what is becoming an almost decade long saga, with the joint venture split 65% to Terramin and 35% to two government-controlled companies.

Similarly, the company is awaiting the final approval of its Mining Lease Application for BIHGP, 30 km east of Adelaide near the town of Woodside, after several years of dispute with the South Australian wine industry over plans to build next door to each other. The company also owns the Angas Zinc Mine in Strathalbyn, which is only 35 km north of BIHGP and currently on care and maintenance.

Located 15 km south-west of the city of Bejaia on the Algerian coast, Tala Hamza holds a resource of 68.6 million tonnes at 4.6% zinc and 1.2% lead, with 125 km covering promising lead-zinc and copper additions. Assuming the approval process and joint venture structure is completed, the project could provide premium zinc and lead concentrate across Europe. On the flip side, Terramin is having a slightly easier time consolidating its action plan for BIHGP and Angas, with an extra joint venture agreement with a global miner lifting the company's chances to add another copper-gold resource.

Gold fever taking over

Over the last decade, numerous setbacks – including calls to dismiss the board over the slow developments in Algeria – may have cast doubt on Terramin's production prospects, but the positive 2018 Pre-Feasibility Study (PFS) for BIHGP might finally re-establish what was once South Australia's most historic gold venture. The BIHGP was originally one of 17 gold mines in SA's Woodside Goldfield which produced around 30,000 ounces of gold in the late 1800's before closing in 1935. Today, BIHGP's updated resource estimate of 650,000 tonnes at 12.6 g/t Au pairs very well with the company's existing mining and processing facilities at the nearby Angas Zinc Mine and plant facilities. These can be modified to produce 44,700 ounces of gold ore and concentrate at a low All-In Sustaining Cost (AISC) of $959 per ounce. As per the PFS, Terramin expects the project to generate a Net Present Value of $141m (at a 10% discount rate) and a very nice Internal Rate of Return of 80.5% over four years of production.

While Terramin attempts to breathe new life into BIHGP and Angas, the apparent standstill at Tala Hamza reflects the disparity between the route to production in a jurisdiction like South Australia compared to Algeria, which continues to grapple with political unrest as it has for much of the last 30 years. Because the country remains relatively underexplored with few new mining projects, new legislation in 2018 has been part of the government's plan to attract foreign investment, but that instability continues to be a conspicuous barrier.

While Terramin understands that the Algerian mining regulator is ready to provide the project approvals, until the joint venture structure is defined the company looks to have a new gold focus over zinc. That's not such a problem given the presence of multiple historic sites at BIHGP the company could revisit (further along strike and underground) to deliver additional sources of mineralisation down the line.

Maybe this is the year?

As it waits for those project approvals at Tala Hamza and BIHGP, there remains much bigger exploration opportunities to be had with the help of committed major. Although the company had an earn-in agreement with Newmont Mining for the South Gawler Project located in the northern Eyre Peninsula – which hosts broader gold, silver, copper and zinc deposits – Newmont has disposed of that agreement and instead opted to acquire a 51% interest in the Wild Horse copper-gold prospect, 15 km east of Murray Bridge in the Adelaide Hills. As aerodynamic surveys have found a large magnetic orebody stretching 1,300 by 2,000 metres, both will work together in the fourth quarter to fast-track a drilling program, with Newmont spending $3m.

Depending on whether you'd describe Terramin as bullish or just bullheaded, that steadfast attitude might make something of BIHGP with a clearer action plan – and that will only become clearer once the company can successfully acquire the right partnerships or financing, or both. While the market hasn't been kind to the company – its share price sits around 3 cents compared to highs of 20 cents back in 2017 – it has sufficient cash of $5.8m at the end of the June quarter to push BIHGP forward as a starting point. Four stars on some forward momentum.

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Share price chart

Source: Tradingview

If you like your investments to have Biblical names, you're going to love Havilah Resources. In the Good Book you only have to get to Chapter 2 Verse 11 of Genesis before it's telling you about a river flowing from the Garden of Eden which 'compasseth the whole land of Havilah, where there is gold'. The Havilah we're talking about today not only has gold but also copper, cobalt and iron ore across five projects in South Australia and New South Wales. However, like the original Havilah, gold is currently where the money is at, thanks to the more than 3 million ounces of gold contained in the flagship Kalkaroo Copper-Gold Project in north-eastern SA.

Kalkaroo is now a step closer to a mining development decision after the release of a positive Pre-Feasibility Study. As one of Australia's largest undeveloped open pit copper-gold deposits, Kalkaroo has a JORC resource of 1.1 million tonnes of copper, 3.1 million ounces of gold and 23,000 tonnes of cobalt. Havilah's immediate objectives at Kalkaroo, as with its Mutooroo Copper-Cobalt Project nearer Broken Hill, will be lower capex and gold starter pit operations with an emphasis on discovering additional resources in the surrounding region to extend the life of its mining operations.

Outside of the gold and copper portfolio, Havilah also has 450 million tonnes iron ore JORC resource at the Grants and Maldorky Projects, which are both amenable to upgrading to a sought after 62% Fe product that could potentially be exported through Port Augusta. The very diversified nature of Havilah's copper-gold assets (which includes molybdenum, tungsten, uranium and other rare earth minerals) has pushed the company's share price higher in CY21, to $0.17.

Use the (market) force

A significant advantage of having such a diversified portfolio is the ability to choose the right project at the right time and that is exactly what Havilah is doing with Kalkaroo given gold and copper prices remain reasonably high. The last three RC drilling campaigns since February have consistently demonstrated mineralisation at high copper and gold grades in both the western and eastern sections of the orebody, with plenty of room to add resources along the 100 metre wide connecting mineralised fault zone. Even though the orebody remains open in all directions, the Pre-Feasibility Study for Kalkaroo supports an average annual production of 30,000 tonnes of copper and 72,000 ounces of gold over 13 years for a $332m spend.

While Kalkaroo makes up one part of the company's bigger vision for a long-term development, in the interim the pit provides a Net Present Value of $564m (at a 7.5% discount rate) and an Internal Rate of Return of 26% at copper and gold prices more than 30% below current levels.

While it considers three additional untested prospects within 5 km of the Kalkaroo pit, Havilah envisions a similar starter pit scenario at Mutooroo's shallow copper-cobalt resource (mostly above 150 metres), although drilling indicates the massive sulphide lode is still going strong 400 metres below surface. That's an encouraging starting point for a longer-term underground mine. The drilling crew is presently exploring for extensions of the Mutooroo open pit resource to the north.

Very encouragingly, Mutooroo is surrounded by many prospects with historic ore-grade intercepts, including West Mutooroo, Trinity and King Dam. With no follow up over the last 40 years, the likelihood of discovery of additional resources is high. One of the newest discoveries is the Cockburn prospect, with sulphide mineralisation over 20 metres width, similar to the massive Mutooroo sulphide lode.

Where does it end?

Perhaps the most exciting element of the company's exploration activities surrounds the regional Curnamona Copper Belt as a potential future source of rare earth elements (REEs). Apart from further diversifying the portfolio, collaborative research with the University of South Australia has identified bastnäsite in oxidised gold ore. Yes, there is a real mineral called 'bastnäsite'. As the umlaut above the second 'a' will have suggested, it's named after a mine in Sweden. In fact, this mineral is presently the main source of REE in the world, including the more expensive neodymium, which the world needs more of in the 21st century. As long as the bastnäsite can be economically recovered, the REE could add significant by-product revenue to help build Kalkaroo.

For an aspiring junior, Havilah has checked a lot of commodity bases, but now its most pressing concern is financing and engineering design studies for the West Kalkaroo processing plant so the project can kick off in 2022. With $4m in cash at the end of June, Havilah has decided that it would be best to divest its uranium assets through an IPO to raise $10m – likely because of South Australia's supportive framework for uranium mines and the improving nuclear energy climate. This stock is three stars on the copper-gold potential in the first instance, but once the stock stabilises, four stars is where Kalkaroo can take Havilah.

Pitt Street Research Pty Ltd

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