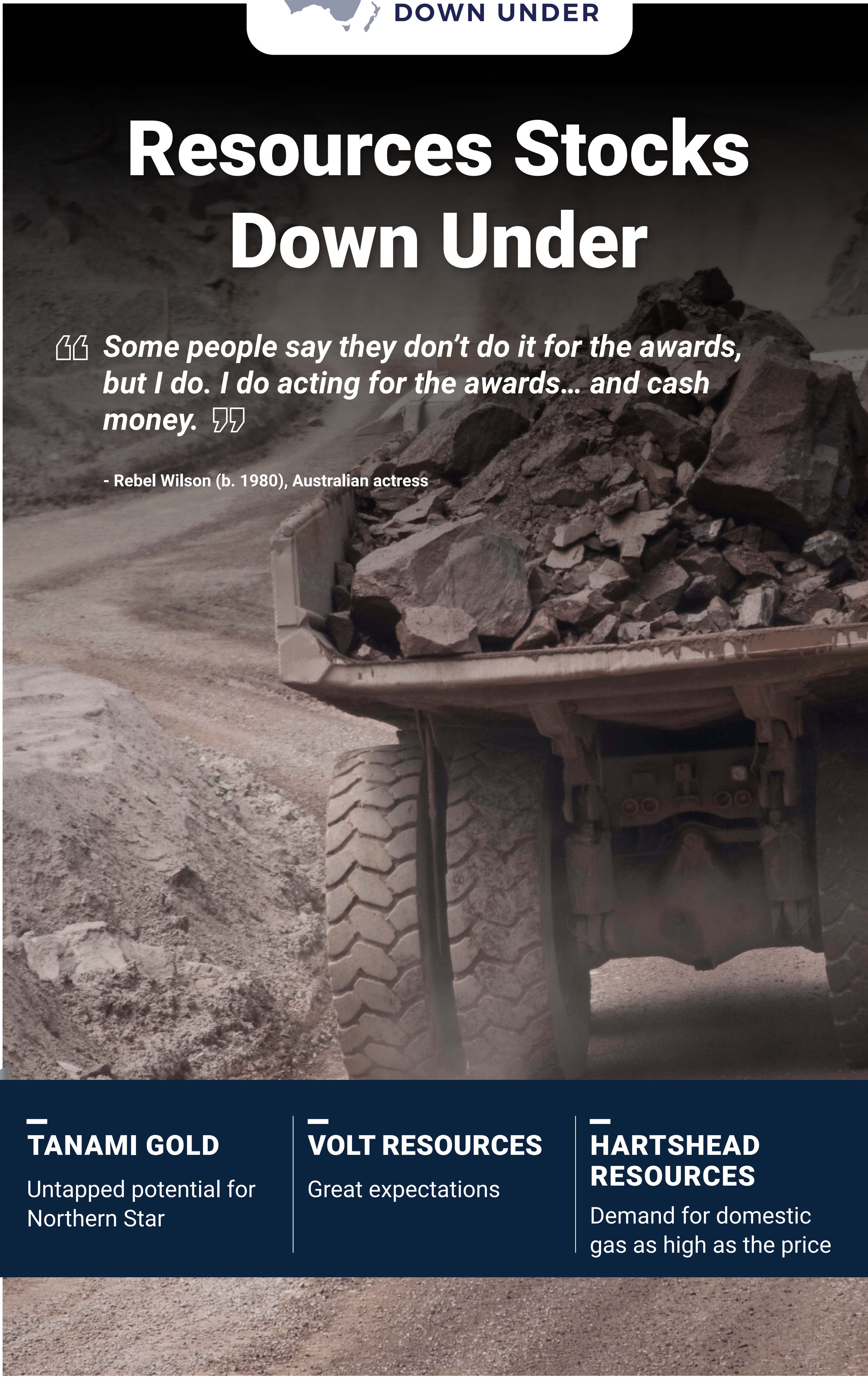
STOCKS DOWN UNDER

27 JANUARY 2022



Resources Stocks Down Under

> *Some people say they don't do it for the awards, but I do. I do acting for the awards… and cash money.*

- Rebel Wilson (b. 1980), Australian actress

TANAMI GOLD

Untapped potential for Northern Star

VOLT RESOURCES

Great expectations

HARTSHEAD RESOURCES

Demand for domestic gas as high as the price

TANAMI GOLD

Untapped potential for Northern Star

Stocks Down Under rating: ★★★★

ASX: TAM
Market cap: A$71.7M

52-week range: A$0.057 / A$0.099
Share price: A$0.058

Tanami Gold is running the long game with its flagship Central Tanami Gold Project, a joint venture in the Northern Territory with Northern Star. Following over a decade of exploration – that's right, over ten years – the two companies are now revising their strategy for the project in an effort to commence mining as soon as possible.

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ASX: VRC
Market cap: A$56.2M

52-week range: A$0.013 / A$0.045
Share price: A$0.02

Graphite and gold explorer and developer Volt Resources has great expectations for its flagship Bunyu Graphite Project in Tanzania, Africa. However, as Bunyu is still a relatively early greenfield project, the company has partnered with another active graphite operation in Ukraine. This operation gives Volt quick access to the European battery market and some much-needed cash flow. The long-term opportunities for high-value graphite product look bright for both projects, with Ukraine offering an incentive to aid first production at Bunyu.

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ASX: HHR
Market cap: A$38.8M

52-week range: A$0.013 / A$0.06
Share price: A$0.023

Formerly Ansila Energy, Harthead Resources is an emerging natural gas explorer with at least four gas fields and multiple drill-ready prospects in the United Kingdom's North Sea. Given the pivot toward renewable energy sources in the UK and Europe and accelerating tensions with Russia, supply-side constraints continue to make domestic natural gas an important part of the energy mix. The company's long term goal is to supply Europe's growing energy demands whilst also supporting the transition to a low carbon future.

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Share price chart

Source: Tradingview

New quarter, new program

Tanami very recently announced a corporate restructure with Joint Venture (JV) partner Northern Star Resources, one of Marc & Stuart's Top Picks (ASX: NST | see 15 November 2021 report), at its Central Tanami Project (CTP). The new deal, completed on 16 September, will see a 50/50 split between the two companies, with NST paying for an additional $15m for an extra 10% interest to finally get the ball rolling at the project, which has been under care and maintenance since 2005. The joint venture will also create a new management company (made up of Tanami and NST representatives) which will manage the future of the project'.

CTP is located 550km northwest of Alice Springs in the remote Tanami desert of the Northern Territory and 90km east of the old Coyote Gold Mine in WA, which the 'Western Tanami Gold Project' covers. CTP has a Mineral Resource Estimate of 30.8m tonnes at 2.8 g/t Au with several encouraging gold prospects set for further work.

Something might be finally happening

As per Tanami Gold's usual news-shy reputation, the JV announcement is the biggest news story to come out of the company in some time. Tanami and NST have a shared exploration and development history, with Tanami offloading the Western Tanami Gold Project to NST for $4m so it could devote more resources to CTP. Since Tanami's resource estimate was completed back in 2013, both companies have taken small steps toward a development decision by focussing on renewed exploration, particularly at the Cave Hill, Jims and

Groundrush deposits. NST has signalled that the Groundrush and Jims deposits are areas of significant interest for the next phase of exploration owing to the highly prospective, but underdeveloped, geological structures in established gold mineralisation.

There's already a resource of 6.7m tonnes at 4.8 g/t Au at Groundrush. The focus of the new programs is a series of priority near-surface targets associated with Groundrush and Jims and, more generally, the Tanami Gold Corridor. There is the potential for some substantial finds as all have been insufficiently drilled in the past. As last year's drilling plans were repeatedly interrupted by COVID-19 closures, Tanami Gold has allocated 12,000 metres of drilling at Groundrush. The drilling aims to target shallow oxide ore at the southern end (with a view to expanding the optimised pit shell), further test the three dolerite areas and target footwall mineralisation to the north of the Groundrush open pit, where historical drilling has previously found gold intersections.

Given time, the JV will also look at plunge-down extensions at Jims while it considers further work at regional prospects, including Crusade and Molech. By the way, we're sure you know what a 'Crusade' is. 'Molech' might be new to some readers. Turns out they named a gold prospect in the Tanami Desert after a Canaanite deity who gets pretty bad press in the Old Testament. Go figure…

The road gets ever longer

The renewed partnership between junior Tanami and the mighty Northern Star, now one of the world's largest gold producers with a market cap over $10bn, may be the boost both companies need to get the ball rolling at CTP. NST obviously offers more than money; it will also aid with indigenous affairs, engineering works and plant design. Tanami Gold isn't exactly strapped for cash either, ending the September quarter with $38m.

With historic production of over 600,000 ounces between 2001 and 2004 under Newmont, Tanami Gold saw potential in Groundrush as far back as 2013, but apart from COVID-19 and bad rain, about the only thing holding Groundrush back has been a low gold price, but that is no longer an issue. With the extra push and a new drill program, Tanami Gold might finally start rolling out the news investors want to hear. Four stars ahead of the next round of drilling.

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Share price chart

Source: Tradingview

High voltage

Volt Resources seems to have hit its stride in Africa, with its Bunyu Graphite Project in Tanzania at stage one development and gold exploration underway at three projects (Kouroussa, Mandiana and Konsolon) in Guinea. Not so long ago, Tanzania was seemingly overrun with Australian explorers looking for graphite, but these days Volt is the leader of the pack, with Bunyu having become the largest graphite project in the country. Located within the East African Graphite Belt 140km from the port of Mtwara, Bunyu has a JORC resource of 461m tonnes at 4.9% Total Graphite Content (TGC) and reserves of 127m tonnes at 4.4% TGC. With all key mining approvals and 100% supply offtakes in place for stage one, Volt has now completed its stage one Feasibility Study based on a processing capacity of 23,000 tonnes per annum (tpa) using a simple drill and blast mining method.

While Volt's gold exploration and auger drilling programs have continued in northeast Guinea, Volt earlier this year doubled down on its involvement in graphite with a deal to take a 70% interest in Zavalievsky Graphite (ZG), which holds the Zavalievsky graphite mine in Ukraine. The location is rather strategic and allows for easy shipment of graphite to market.

Zavalievsky is only 280km south of the Ukrainian capital and the Port of Odessa is only 230km in the other direction. With ZG's existing customer base in Europe and Asia, the Zavalievsky mine is well placed to become a supplier of spherical graphite for battery markets, positioning this company to become a globally diversified graphite producer.

The other important aspect of the mine's location is that it is currently far enough away from the Ukraine-Russian border to not be exposed to any violence or war-related delays so far. Don't get us wrong; there is undoubtedly risk as the Russian-Ukrainian 'conflict' has drastically escalated over the last month. But investors should be aware that for the war to reach this mining operation, Ukraine's capital would likely have to be taken first and that does not seem to be in the cards at the moment. Still, it is a risk.

Zavalievsky opening doors

With Bunyu still in the first stage of development, the 70% acquisition of ZG in April has suddenly made Volt an active graphite producer. At the cost of US$7.6m in total for the company, ZG's mine offers a few strategic advantages, including its location in the heart of eastern Europe close to battery and car manufacturers. We believe this is why ZG already had plans to install a processing plant and equipment to produce spherical purified graphite (SPG) for the Li-ON battery market all over the continent. As those installation plans could be a reality within the next 12 months, for the time being Volt can take advantage of the existing graphite customer base and wide range of high value (99.5%) graphite products to generate enough cash to progress Bunyu.

Although very different in terms of developmental stage, both Bunyu and Zavalievsky have a lot of mine life ahead of them. Zavalievsky has been in operation for 80 years and still has an exploration upside of over 636 hectares of land, while Volt has only covered 6% of Bunyu's project area. Although Bunyu still needs US$32m, or so, in greenfield capital costs, once up and running it will have the same open pit drill and blast, load and haul mining operation as in Ukraine.

We believe this means that Volt is gaining something else just as valuable as cash flow from its Zavalievsky investment, i.e. experience. We believe this experience will assist with commissioning and ramp-up in Tanzania and potentially create a low-risk proposition for financiers and offtake customers. Volt's integration in Europe also provides access to the European Battery Alliance. But the kicker really is ZG's MoU with the European Union to supply critical graphite into the supply chain, which arguably widens Volt's network further.

A greener and more valuable graphite product

With the processing plant plans at Zavalievsky still to be ironed out, Volt's next step at Bunyu is creating a flowsheet design to convert a significant portion of its graphite into battery-ready anode material. Rather than using a conventional method of processing where graphite concentrates are milled and shaped and then purified through acid leaching, the company has decided on an inverted flowsheet, meaning purification is done first using high temperatures (no leaching) to create a better product and minimise environmental harm. With testing ongoing, Volt ideally envisions greater options through its products as it builds toward stage two, which would increase graphite output to 170,000 tpa.

While we believe the more immediate gains for Volt will come from Bunyu and Zavalievsky, it is important to note that Volt expanded into lithium in November 2021. The company purchased a lithium licence in the Jadar North, Petlovaca and Ljig regions of Serbia. Jadar North already has anomalous intersections of lithium and borate identified from limited historical diamond drilling and is adjacent to Rio's famous lithium-borate project. Stage one of the drilling program is set to commence in 3Q22 (calendar year).

Funding at Bunyu is ongoing and after the recent acquisition Volt finished the September quarter with only $3.1m in cash. However, now that it's set to generate cashflow in the near term in Europe as a producer, this company is suddenly in a much better position over other graphite juniors as it enters the graphite supply chain. Bunyu is starting small - the pre-tax Net Present Value for Bunyu during stage one (a seven-year period) is only US$18m at a 10% discount rate. However, Volt doesn't intend it to stay that way. The PFS for stage two at Bunyu valued it at US$1.3bn pre-tax, for a payback of just 1.4 years. With both Bunya and ZG set to deliver, this one is four stars, despite the Ukrainian risk.

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Share price chart

Source: Tradingview

Producers needed

Hartshead owns and operates five contiguous blocks in the Southern Gas Basin in the UK's Continental Shelf of the North Sea. The licence contains multiple gas fields with 354 billion cubic feet (bcf) of underdeveloped contingent gas resources (2C) and drill-ready prospects. The company plans to develop four of those fields in three stages with stage one subsurface interpretation and modelling underway at the Victoria and Viking Wx fields (no, the Wx is not a type – that's the field's name). The work so far has seen the Gas-Initially-In-Place (GIIP) rise to 368 bcf.

Stage two will incorporate the Audrey NW and Tethys North gas fields, which have similar levels of historical production, well penetrations and 3D seismic coverage. Hartshead announced it had received its pre-stack depth processed 3D seismic dataset in late November 2021, while commencing stage two's subsurface work.

Stage three will focus on a complete review of its exploration prospects, with at least two mapped and drill ready. At this stage, Hartshead will engage in frac modelling and design, cost estimates for subsea development options and discussions around commercial transportation.

Gas spot price continues to rise

Hartshead seems to have entered the field at the right time as UK natural gas prices skyrocketed in 2021, an interesting response to increased demand at a time of changing energy generation. Even though renewable energy is increasingly prevalent (the UK will ban new coal projects from 2024) it is not yet at the stage where it can replace fossil fuels. This is rather fortunate for the company as much of the current portfolio has proven historical production from previous operations under major energy companies like BP (LON: BP). Despite being hugely profitable, many majors pulled out to larger fields, leaving un-depleted gas resources behind and an opportunity for a junior, like Hartshead, to aggregate those resources into one commercially viable development.

But with UK gas production on the decline and Europe increasingly turning to imports, Hartshead is confident that natural gas has a central role in the UK's energy transition. At least until nuclear generation increases and hydrogen replacements are established.

Still, Hartshead is aware that its time is limited. The UK government is pushing hard towards a target of net zero emissions by 2050. In response, the company is examining possible solutions, like gas-to-wire, carbon capture and storage (CCS) and hydrogen initiatives in stage one. Hartshead's gas assets are located close to the Bacton Energy Hub in Norfolk, which is a potential site for hydrogen production in the future, meaning there is an opportunity for the company to use its gas as feedstock for blue hydrogen production. For more information on the potential of hydrogen check out our Insight article, *ASX Green Energy stocks … Power up your portfolio!*

We still need heating

A Final Investment Decision (FID) is still two or three years away, but Hartshead has commenced field development planning work at the Victoria and Viking Wx fields. It intends to define the best development concept and gas routes by 2022, which can eventually be utilised to tie in resources from stages two and three. Importantly, Hartshead has already started its hunt for funding through offtakes, vendor financing or lending, but the company ended the September quarter with just $5.6m in cash.

Even though the road to hydrogen production for heating and other applications won't happen overnight, Hartshead's inclusion in Bacton trials offers a much-needed longer-term solution. In the short term, the pivot to gas also continues to support significant merger and acquisition activity among emerging producers. Hartshead expects to deliver its final development concept for stage one in early 2022 and Hodgkin and Lovelace field developments in 2Q22 (part of stage two). Four stars from us.

Pitt Street Research Pty Ltd

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