

Extreme reaction to Ionic's Scoping Study

The two stand-out commodities in the last few weeks have been copper and gold, while iron ore continues to be as strong as steel. It is great to see gold back above US\$1,800/oz, justifying the breakouts on a number of the gold stocks. However, the renewed enthusiasm hasn't had a big impact on most gold exploration yet. Sentiment has been improving and this is reflected in the new high for the Metals and Mining Index, but not everything is going up. You still need to be selective.

Relations between China and Australia are being strained further, but what can we do? While the Chinese are using guerrilla-like tactics with many commodities in a trade-based Cold War, as they try to intimidate this country into submission, they are still taking all the iron ore that we can ship. That is helping our economy, but I can't help but hear echos of "Pig Iron Bob" in the background. China is still the elephant in the room (or the giant panda). If disruptions come out of left field to disrupt our equity markets, they are most likely going to have something to do with China.

The Butchering of Ionic

One would have to say that the extraordinary reaction of the market to Ionic's Scoping Study was ... extraordinary. In the ordinary course of events a scoping study should be seen as a useful document in that it gives you an idea of whether or not a project is worth pursuing, on first pass inspection. It is rare that a scoping study gives a project the thumbs down because a company will usually have an inkling of what it is going to say before it is formalised. Whatever the actual scoping study says, it is important to note that it is only +/- 50% accurate. So, it certainly isn't iron clad.

Once completed, the findings of a scoping study serve as a basis on which to prepare a pre-feasibility study (PFS). A PFS will compare a number of different development scenarios that will recommend a preferred route to production, and a Definitive Feasibility Study (DFS) will provide detailed costings on that preferred route. It may be bankable or not, depending upon the amount of detail.

A wall of selling and a 43% fall in the price

In the case of Ionic's Makuutu project, I could see nothing in the Scoping Study to cause me to sell my shares, but that didn't stop the selling of 257 million shares (\$10.5m) by others on the day of the release, and 763 million in the subsequent four days. I picked up another two million at 2.8¢ as I thought the sell-down was excessive.

The details of the Scoping Study

The Base Case Scenario over an 11 year mine life, and using current rare earth prices for the first few years, gave a life of mine EBITDA of A\$1.7Bn and a NPV₈ of \$428m. Compare that to the market capitalisation of \$92m, after the recent falls.

Initially production would be from one module at a rate of 2.5 Mtpa, with incremental modules in years two, four, six

and nine to take total capacity to 12.5 Mtpa. Capex for the first module would be a modest US\$89m. The second module would cost another US\$40m, while the incremental modules would cost something in between.

The AISC would be US\$36.40/kg of REO produced, or if scandium credits are included, US\$23.70/kg. That compares favourably with the basket US\$60-65/kg price of products today. Thus the operating margin is good, but it is anyone's guess what the prices will be a few years down the track.

But what about the elephant in the room?

We have been speculating as to why the market didn't like the release, and the suggestion has been that the short mine life of only 11 years is very disappointing. If so, then we need to look at this issue.

The release is substantially different to what was originally drafted, but our friendly stock exchange decided to take the scalpel to the text and significantly downsize the numbers. Apparently, there is an unwritten rule that the ASX will only allow a scoping study to incorporate a maximum proportion of Inferred Resources under assessment to 30% of the total tonnage. It is of the opinion that any more than this would be ascribing too much value to Inferred Resources. That meant Ionic could only release numbers on an 84 Mt production target, but that doesn't mean to say the remaining 198 Mt in the Inferred category should be totally ignored by shareholders. If that was included the mine life would be more than 27 years and the NPV could more than double; but the ASX wants us to ignore that possibility. In this instance it has been very damaging to the shareholders' hip pockets. So much for the regulator's paternalism! What about the exploration potential on top of that?

The main reasons why the Makuutu Project is preferable to refractory rare earths projects still remain. The ability to start modestly and ramp up over time offers a distinct advantage as it assists in minimising dilution up front. The US\$89m start-up capex is much less intimidating than the A\$593m capex quoted by Hastings (HAS). Ionic's subsequent modules can be partially funded out of cash flow.

Why should we hold rare earths stocks anyway?

The reason for holding a rare earth company today is not because a spreadsheet tells us with any accuracy what the prospective earnings will be. It would be foolish to forecast numbers and have any great belief in their accuracy; that is why I wouldn't bother. So many things can change. We should just be looking at a scoping study as a litmus test, and waiting for increasing certainty and confidence as time goes by.

The reason for holding any rare earth stock is the thematic that China can hold the world to ransom when it comes to rare earth supplies. As each month goes by, and we see China becoming more hostile in the oceans and towards its

trading partners, the greater the perceived risk. The strategic risk is undeniable. Appetite for rare earths investments will wax and wane, but it is not going off the table. That is the reason why spreadsheets and fundamental analysis is of limited value in making money trading these companies.

One other possible influence

There has been publicity in recent weeks about the Ugandan Governments interest in taking 15% equity in mining projects. Maybe that has scared away investors, but what does it mean? We don't know. It is almost routine that African countries roll out these sort of ideas from time to time. Often it is due to internal politics and grandstanding. Until there is definite legislation we can only guess, but in all likely-hood there is likely to be an element of project specific flexibility. Governments want revenue from taxes and they want jobs and skilled training of workers. A 15% stake is one way of extracting value, but it is not necessarily the most effective, depending upon many considerations.

So is Ionic a buy or a sell here?

As you know, I am very reluctant to label a stock as a buy or sell. I tell you what I know, and leave it to you to decide for yourself. Here, I have already bought some more and I am grateful for the lower price in doing so, so you know what I think.

How long will the price take to recover? It may be days or it may be weeks. Confidence has definitely taken a kick in the guts, but the stock market can be likened to a game of snakes and ladders. I love buying when others are selling en masse, but that takes nerves and patience .. and a diversified portfolio.

Ionic has a very busy 18 months ahead as it will quickly move into the PFS, pilot/demonstration and BFS phases of project preparedness. It will obviously have to drill hundreds of more shallow holes to upgrade the status of the Inferred Resources. That might cost \$2.5m, but with \$12m in the bank there is good funding. All this means that there should be good news flow.

Disclosure: Interests associated with the author own shares in Ionic

Southern Hemisphere - a forgotten copper stock

Some years ago I kept an eye on Southern Hemisphere Mining (SUH), a company with a large low-grade copper deposit in Chile. Back in the day it drilled 54,000 m at a cost of US\$18m, being 59 diamond and 188 RC holes, to come up with a Measured and Indicated Resource of 149 Mt at 0.41% CuEq (Cu 0.29%, Au 0.12 gpt). For those of you who like to see big intercepts, it did report 440m at 0.75% Cu, 366m at 0.63% Cu and 326m at 0.56%. However, for all of this work it was not able to demonstrate commerciality at the time.

Its share price performance was rather mundane and not even the backing of Euroz was enough to get the market excited. So, the Llahuin project went nowhere. It became yet another low grade copper project in South America that was shelved until the next cycle; a stranded asset.

As recently as May 2020, the share price had fallen to 0.7¢ and the market capitalisation was only \$0.8m. Since then it raised \$0.54m in August at 1¢ a share, and \$2m at 2.5¢ in

December 2020. The market capitalisation is a modest \$9.8 now with the share price hovering around 4¢.

They say a rising tide floats all ships, and that the lowest grade projects offer the greater leverage to higher copper prices. So, maybe the share price has been a beneficiary of both of these maxims, but is there another angle to consider?

But what about gold?

The current management is firmly of the view that the project was not properly assessed for the gold potential as it was all about copper previously. Much of the previous drilling was on 80m spacings, which leaves plenty of opportunity to miss the gold potential. The company is about to conduct a 3,000m drill program to test for gold. It will be interesting to see how it goes.

Uranium flutter in the market

We are still seeing punters playing uranium stocks from time to time, as evidenced by the flutter last week in a number of uranium plays such as Boss Energy, Lotus Resources, Peninsular Energy, Thor Mining and Vimy.

Without passing comments on the merits of any of these stocks, I continue to believe that the interest in uranium is coming more from optimists than realists. Sure, nuclear power should be our preferred source of base load green electricity, but there are still many objectors. The path to any new uranium developments is long and difficult, more so than with any other commodity due to intense pushback from environmental groups and governments that lean to the green.

Looking at the fundamentals of supply and demand for uranium, there are still large stockpiles around the world and plenty of shut-in capacity that can be brought back on stream. The uranium price really needs to move higher to justify the recent enthusiasm. Being contrarian is not the secret to making money in this space, unless you are a long term thinker with very patient capital.

Buoyant Diamond Market

In its Q1 report released yesterday, Lucara Diamonds (LUC) said "The diamond market began 2021 in a healthier position than it has at any stage over the past five years... following a strong holiday sales period, particularly in China and the United States".

Rumble and Zenith have a Company Maker

The performance of Rumble Resources (RTR) and Zenith Minerals (ZNC) subsequent to the release covering the first two holes has been nothing short of sensational. It is a long time since a zinc discovery has induced this sort of market reaction, but then, this is a seriously large project that doesn't come along every day.

Some readers have questioned the strategy of Rumble going to market so quickly to raise \$40m at 50¢ on two counts. Firstly, only two holes have been assayed. What about the rest of them? It would be reasonable to think that the best looking holes were sent for assay, which could mean that the subsequent holes might not provide intervals as large or as rich. Secondly, if Earacheedy is as big as they think, then shouldn't the company delay issuing shares until a later date with the chance of getting a higher price?

In response to the first query, in my opinion, a prudent director should be raising money if it is offered to the company after such a huge increase in the share price ...

especially if it is a “bought deal” (I don’t know if this was the case, but it probably was). Yes, the immediately subsequent holes might not be as good, but who really knows? Such a raising places the company in a very strong position with regards to finances. Regarding the second query; none of us have crystal balls. Take the money while the ducks are quacking and don’t worry about dilution. To do so would be very small minded.

While most of the action has been in Rumble, with Zenith hot on its tails, don’t lose sight of the fact that Zenith is in an enviable position. It has a 25% free carried interest to feasibility. That means it can sit back without having to fund the drill-out of the project, which will be a costly excise.

As a final comment, the willingness of the market to support a new zinc discovery augers well for other base metals exploration projects in Australia. The eyes of the speculators have been opened up to the possibilities. Which company will be the next one to bring assays to the market?

Hillgrove is delivering on the copper drilling

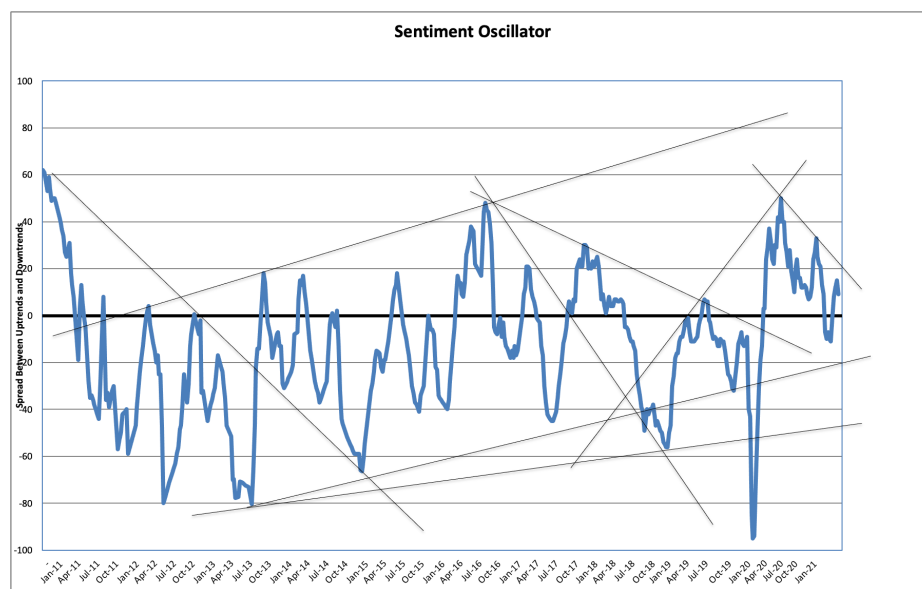
A few weeks back we highlighted Hillgrove (HGO) as a copper stock that was on the path to recovery, owing to renewed optimism regarding depth extensions at the Kanmantoo mine in the Adelaide Hills. Last week it released three drill hole results with the best length being 170.6m at 1.01% Cu and 0.11 gpt, from 339m down hole.

That included an interval of 23m at 2.48% Cu and 0.24 gpt gold. Another hole returned 19.5m at 1.93% Cu and 0.36 gpt gold. This was a positive result that caused the share price to double at one point last week. Turnover jumped from the usual sub 1 million shares to 103 mill. shares on the day, so it was good for the traders. The drilling program is continuing, meaning that we could see more trading opportunities (depending upon subsequent intercepts and assays).

Alicanto about to drill the “Swedish Treasury”

Alicanto has announced that it is starting to drill the high grade Sala silver project in Sweden. Expectations are high that we should expect some very good results from extensions to the orebody. When mining finished at Sala in 1908, it had produced more than 200 Moz of silver at an estimated average grade of 1,244 g/t and grades reported as high as 7,000 gpt. Four holes drilled in November 2012, suggest the Sala mineralisation remains open at depth and along strike, having intersected high-grade mineralisation including 0.67m at 844 g/t silver and 16.3% lead at 250m below surface.

Disclosure: Interests associated with the author own shares in Alicanto



Sentiment Oscillator: Sentiment softened a little over the week. There were 39% (41%) of the charts in uptrend and 30% (26%) in downtrend on Friday’s close.

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.

Indices	Code	Trend Comment	
All Ordinaries	XAO	at high	
Metals and Mining	XMM	new high	
Energy	XEJ	lower	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N	new high	HPA
Adriatic Resources	ADT	testing downtrend	zinc, polymetallic
Alkane Resources	ALK	spike out of downtrend on drill result	gold, zirconia
Alicanto Minerals	AQI	stronger	base metals, silver, gold
Altech Chemical	ATC	on support line	HPA, anodes
Alto Metals	AME	testing resistance line	gold exploration
American Rare Earths (was BPL)	ARR	testing uptrend	rare earths
Apollo Consolidated	AOP	down	gold exploration
Arafura Resources	ARU	on support line	rare earths
Ardea Resources	ARL	bounced back to trend line	nickel
Aurelia Metals	AMI	rallying	gold + base metals
Australian Potash	APC	breaching trend line	potash
Auteco Minerals	AUT	down	gold exploration
BHP	BHP	rising again	diversified, iron ore
Base Resources	BSE	weaker	mineral sands
Beach Energy	BPT	down, near lows	oil and gas
Bellevue Gold	BGL	rallying	gold exploration
Blue Star Helium	BNL	testing support	gas, helium
Boab Metals	BML	down	silver/lead
Breaker Resources	BRB	improving	gold exploration
Buru Energy	BRU	slump on placement	oil
Calidus Resources	CAI	still down	gold
Capricorn Metals	CMM	rising	gold
Caravel Minerals	CVV	new high	copper
Celsius Resources	CLA	surge higher	uptrend
Chalice Gold	CHN	new high	nickel, copper, PGMs, gold exploration
Chase Mining	CML	gently rising	nickel/copper/PGE
Chesser Resources	CHZ	down now	gold exploration
Cobalt Blue	COB	weaker	cobalt
Cyprium Metals	CYM	back to highs	copper
Danakali	DNK	breached uptrend	potash
Davenport Resources	DAV	rising again	potash
De Grey	DEG	steeply higher	gold
E2 Metals	E2M	downtrend	gold exploration
Ecograp (was Kibaran)	EGR	down	graphite

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Element 25	E25		breached uptrend	manganese
Emerald Resources	EMR		rising	gold
Euro Manganese	EMN		breached downtrend	manganese
Evolution Mining	EVN		rising	gold
Firefinch	FFX		strongly higher	gold
First Graphene	FGR		breached short term downtrend	graphene
Fortescue Metals	FMG		rising again	iron ore
Galaxy Resources	GXY		rising again	lithium
Galena Mining	G1A		off its highs	lead
Galilee Energy	GLL		pullback	oil and gas, CBM
Genesis Minerals	GMD		down	gold
Gold Road	GOR		rising	gold
Hastings Technology Metals	HAS		down	rare earths
Hazer Group	HZR		rallying	hydrogen
Highfield Resources	HFR		rising	potash
Hillgrove Resources	HGO		spiked higher on drill intercept	copper
Iluka Resources	ILU		new high	mineral sands
Image Resources	IMA		sideways	mineral sands
Independence Group	IGO		bouncing	gold
ioneer (was Global Geoscience)	INR		breached downtrend	lithium
Ionic Rare Earths (Oro Verde)	IXR		collapse on scoping study	rare earths
Jervois Mining	JVR		rising again	nickel/cobalt
Jindalee Resources	JRL		at highs	lithium
Kairos Minerals	KAI		breached support line	gold exploration
Kin Mining	KIN		sideways	gold
Kingston Resources	KSN		down	gold
Kingwest Resources	KWR		down	gold
Latitude Consolidated	LCD		uptrend	gold
Legend Mining	LEG		turned down at resistance line	nickel exploration
Lepidico	LPD		down	lithium
Lindian Resources	LIN		testing downtrend	bauxite
Lithium Australia	LIT		down	lithium
Los Cerros	LCL		rising again on drill results	gold exploration
Lotus Resources	LOT		surge to new high	uranium
Lucapa Diamond	LOM		breaking downtrend	diamonds
Lynas Corp.	LYC		testing downtrend	rare earths
Magnetic Resources	MAU		uptrend	gold exploration
Mako Gold	MKG		down again	gold exploration
Manhattan Corp	MHC		down	gold exploration
Marmota	MEU		still down	gold exploration
Marvel Gold	MVL		on support line	gold exploration
Matador Mining	MZZ		new uptrend	gold exploration
MetalTech	MTC		heavy fall	gold
Meteoric Resources	MEI		down	gold exploration

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MetalsX	MLX		near highs	tin, nickel
Metro Mining	MMI		down again	bauxite
Mincor Resources	MCR		down	gold/nickel
Musgrave Minerals	MGV		rising	gold exploration
Myanmar Minerals	MYL		breaching downtrend	lead, zinc, silver
Nelson Resources	NES		slump out of uptrend	gold exploration
Neometals	NMT		rising	lithium
Northern Minerals	NTU		testing uptrend	REE
Northern Star Res.	NST		rising	gold
Oceana Gold	OGC		testing downtrend	gold
Oklo Resources	OKU		down	gold expl.
OreCorp	ORR		breached downtrend	gold development
Orocobre	ORE		steeply higher	lithium
Oz Minerals	OZL		new high	copper
Pacific American Holdings	PAK		sideways	coal
Pantoro	PNR		breached support line	gold
Panoramic Res	PAN		breaching uptrend	nickel
Peak Minerals	PUA		new low	copper exploration
Peak Resources	PEK		shallower downtrend	rare earths
Peel Mining	PEX		testing support	copper
Peninsula Energy	PEN		rallying	uranium
Poseidon Nickel	POS		down	nickel
Perseus Mining	PRU		testing downtrend	gold
Pilbara Minerals	PLS		back to highs	lithium
Polarex	PXX		down	polymetallic exploration
Queensland Pacific Metals	QPM		new high	nickel/cobalt/HPA
Ramelius Resources	RMS		rising again	gold production
Red5	RED		testing downtrend	gold
Red River Resources	RVR		down	zinc
Regis Resources	RRL		new low on large financing	gold
Renegen	RLT		heavy fall	gas, helium
Resolution Minerals	RML		new low	gold exploration
Resolute Mining	RSG		down	gold
RIO	RIO		rising again	diversified, iron ore
Rumble Resources	RTR		surge to new high	gold exploration
Salt Lake Potash	SO4		down	potash
St Barbara	SBM		testing downtrend	gold
Sandfire Resources	SFR		new high	copper
Santos	STO		testing uptrend	oil/gas
Saturn Metals	STN		breached downtrend	gold exploration
Sheffield Resources	SFX		rising	mineral sands
St George Mining	SGQ		risen to resistance line	nickel
Silex Systems	SLX		secondary downtrend	uranium enrichment technology
Silver Mines	SVL		testing downtrend	silver

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Sipa Resources	SRI		testing downtrend	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		breached steepest downtrend	coal
Strandline Resources	STA		pullback	mineral sands
Sunstone Metals	STM		improving	
Talga Resources	TLG		testing downtrend	graphite
Technology Metals	TMT		sideways	vanadium
Tesoro Resources	TSO		down	gold exploration
Theta Gold Mines	TGM		down	gold
Thor Mining	THR		testing downtrend	gold exploration
Tietto Minerals	TIE		at lows	gold
Titan Minerals	TTM		sideways	gold
Venturex	VXR		surge on funding	zinc
Vimy Resources	VMY		steeply higher	uranium
West African Resources	WAF		higher	gold
Westgold Resources	WGX		breached downtrend	gold
West Wits Mining	WWI		off its highs	gold
Western Areas	WSA		testing downtrend	nickel
Whitehaven Coal	WHC		breached uptrend	coal
Wiluna Mining	WMX		down	gold
Yandal Resources	YRL		rising again	gold exploration
Zenith Minerals	ZNC		surge to new high	gold exploration
Zinc Mines of Ireland	ZMI		rising	zinc
Totals	39%	56	Uptrend	
	30%	43	Downtrend	
		145	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

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Weightings of Sectors Represented in the Company Charts			
Sector	No. of Companies	Weighting	
Gold	33	22.8%	
Gold Exploration	26	17.9%	
Nickel	12	8.3%	
Copper	9	6.2%	
Oil/Gas	6	4.1%	
Lithium	8	5.5%	
Zinc/Lead	7	4.8%	
Rare Earths	7	4.8%	
Mineral Sands	5	3.4%	
Iron Ore/Manganese	5	3.4%	
Potash/Phosphate	5	3.4%	
Coal	4	2.8%	
Uranium	4	2.8%	
Graphite	2	1.4%	
Bauxite	2	1.4%	
Silver	2	1.4%	
Cobalt	1	0.7%	
Tin	1	0.7%	
Diamonds	1	0.7%	
Other	5		
Total	145		

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