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*MLM, TEG, GNX, MSV, CZI*

*Impact hits Au/Ag at Silica Hill*

## Indices and Prices

|                |          |
|----------------|----------|
| All Ordinaries | 5,804.00 |
| Energy Index   | 8,688.90 |
| Brent AU\$/bbl | 64.8891  |
| AUS\$/US\$     | 0.7822   |
| Live Gold/AU\$ | 1,626.07 |

As at close 15 August 2017

## Market Moves



Drilling at the Sacgasco (SGC) operated Dempsey gas exploration well in California has progressed below 1,300 metres and should be at the planned first casing point of ~1,600 metres by this evening.

Partners SGC, PCL, XST and UK listed Empyrean Energy have reported 'significant' gas shows from sands encountered in the overlying Forbes Formation. Logging of the top section will shed more light on the scale and likely commercial significance of any gas found so far.

The stock has seen some wild price swings, largely because it is lightly bid and offered. Last Thursday, a seller keen to dump \$20K worth of stock pushed it down from 8.9 cents to 7.3 cents, which is just madness.

### Gold Live AU\$



### All Ordinaries



### S&P ASX 200 Energy Index



### Brent Crude Oil \$AU/barrel



### AU\$/US\$



*Just to reiterate, discovery of 300 Bcf of gas in the structure which is estimated to hold potential for over 1 Tcf of gas, would be worth 50 cps to Sactasco, 2.2 cps to Xstate, 13 pence per share to Empyrean and 0.5 cps to Pancontinental.*

| Dempsey     | WI % | Pay % |
|-------------|------|-------|
| Sactasco    | 50%  | 14%   |
| Empyrean    | 30%  | 56%   |
| Bombora/PCL | 10%  | 20%   |
| Xstate      | 10%  | 10%   |
| Total       | 100% | 100%  |

In the current weak oil & gas price climate, it is hard for a stock to make an impact. Last week FAR made its fourth oil and gas discovery offshore Senegal and the stock has gone nowhere!

StockAnalysis thinks that Dempsey would need to show a very strong gas flow before the market might sit up and take notice, but that does not seem like a high probability.

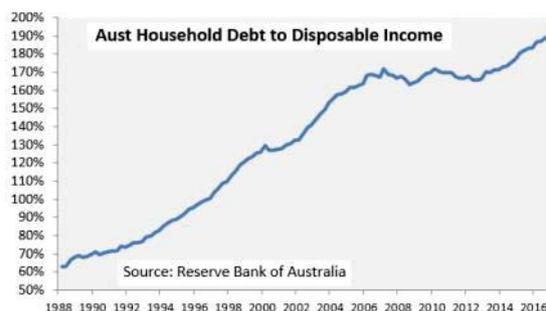
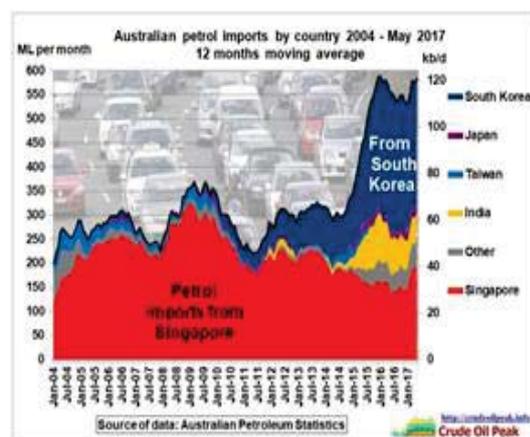
Next week will be the beginning of the Dempsey well's journey through the underlying, Early Cretaceous sediments where several, seismically mapped target zones are predicted.



The market is moving into a period that is typically subject to great price volatility towards the downside. **Market crashes** in 1929, 1987, the bursting dot com bubble in 2001 and the GFC crisis of 2008 all occurred around October while a recent big market correction began in August 2015 and ran through until early 2016.

The profit **reporting season** is also another reason for some reshuffling of equity pricing through September. Some companies will outperform and move higher while others like **Santos** (STO) will disappoint, announcing assets write-downs or new equity raisings, which will inevitably put downward pressure on market valuations.

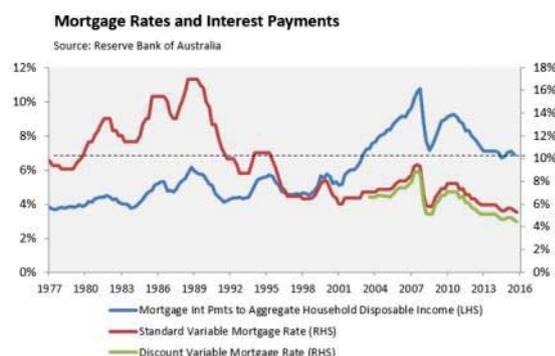
Additionally, September - October is typically the **bombing season for Islamic terrorists**. Ever since September 2001, some nitwits seem to want to create havoc on the streets of western democracies, who they blame for whatever crime seems most appropriate. This year we have a few added exogenous impacts! Not content with assassinating rival blood-relatives in overseas locations, the **North Korean** dictator is now waving his missiles around with great effect. While the likelihood of real conflict remains small, any such event would be massively disruptive to the South Korean powerhouse economy and global trade, with obvious impacts on the safe movement of oil globally.



Finally there is the ongoing and lingering issue of **too much debt** in the global economy. Australia is particularly vulnerable with levels of household debt only surpassed by Switzerland, while national debt is ever-expanding and is currently over 190% of disposable household income with about 76.3% of this debt due to mortgages.

Household debt at current levels creates possible instability in the economy and is more of an issue since housing prices, especially in Sydney and Melbourne, are at bubble territory highs and interest rates have nowhere to go but up over the coming year or two.

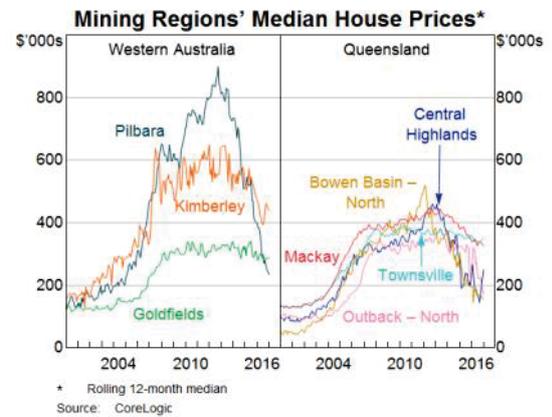
Despite falling interest rates since 1989, mortgage payment as a percentage of household disposable income has risen as the amount of money needed to buy a house has increased. Even after falls from



the pre-GFC highs, interest payments as a percentage of disposable income remain high on an historical basis.

Ultimately, a return to more 'normal', real rates of interest on borrowings, that accurately reflect the risks involved, will lift the cost of home ownership and property prices will fall in Melbourne and Sydney, just as they have done in Perth and the main mining towns impacted by the mining boom and bust.

House prices in WA's Pilbara iron ore and LNG region were bid up by demand derived from the development of new mines and LNG projects in the China driven development madness of the first decade of this Century. Over a 15 year round-trip, house prices in highly impacted areas have virtually retreated to their starting point. Meanwhile, those in Queensland's Bowen Basin and Central Highlands that were impacted by coal mine and CSG extraction developments to fuel the Gladstone LNG cluster, have made a similar return journey over 12 years.



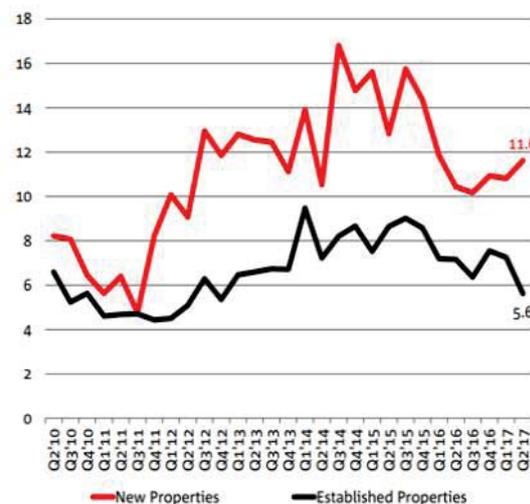
House prices in Perth have made a similar, if not quite as dramatic capitulation over the past couple of years. StockAnalysis fears that a similar, though milder trajectory could be in store for house prices in Sydney and Melbourne, where average costs are now well above anything that is affordable to an ordinary Australian.

Renters are also being hit with a much higher housing cost which is more significant as the percentage of households in rented accommodation rises from 26% in 2001 to 31% today. Renters paying more than 30% of their household incomes for accommodation now account for 37.2% of the total, up from 33.1% in 2006, but there are about 42% of renters in Sydney under stress with accommodation costs.



## DEMAND FOR PROPERTY FROM FOREIGN BUYERS (% OF TOTAL)

Foreign buying activity increased in new property markets in Q2, but fell in established markets...



to halt.

A big part of the housing affordability problem is the impact that overseas **and absentee buyers** have on the market. Recent statistics reveal that 40% of new apartments in Melbourne are being purchased by overseas buyers.

On average, overseas buyers account for between 10% and 16% of all new properties sold around Australia, but in specific areas, discounting houses the percentage of foreign buyers of apartments is very high indeed.

Technically, overseas residents are not allowed to buy existing residences, but they find ways to get around those regulations.

Overseas buyers clearly reduce housing affordability for locals, especially when they buy, lockup and leave those properties so that nobody can live there.

Clearly this is madness and a self inflicted wound to the Australian economy that other markets, like Vancouver, have taken steps

## Noosa round-ups

Here are further ruminations on some of the better opportunities outlined at last month's **Noosa Mining and Exploration Conference**.

Bauxite project developer **Metallica Minerals** (MLM) stood out for value as a remarkable little company. It has 322.4 million shares, giving it a market capitalisation of \$20 million and just \$3 million of cash with a \$2 million debt facility.

The company is now funded to develop a 50% owned, direct shipping bauxite project in Cape York. The Urquhart bauxite project is about to start operation at a rate of 1.5 mt pa, with a target resource of 8-10 million tonnes to generate a pre-tax NPV of around \$80 million, of which \$40 million, or twice its current market capitalisation would accrue to Metallica.

Regionally, the project has potential for an additional 8.5 mt of lower grade material.

The Urquhart project is really a little pot-boiler for Metallica which also has the Sconi Ni-Co-Sc project near Greenvale in Queensland, where Australian Mines (AUZ) has the right to earn a 75% interest. Scandium is an alloying element with aluminium that makes a resulting alloy that is stronger than either pure aluminium or an Al-Li alloy, enabling the use of lighter component parts in transport goods.



**Triangle Energy** (TEG) also impressed. Since buying 78.75% of the Cliff Head oilfield, TEG has massively reduced operating costs and plans work-over and new wells that could lift production from ~1,200 BOPD to >3,000 BOPD, which would also reduce costs per barrel.

The company now has a market capitalisation of ~\$14 million.

StockAnalysis has previously commented on upcoming drilling on the Xanadu prospect by Norwest, Whitebark Energy (formerly Transerv) and Triangle. Even a 5 mmbbl result at Xanadu would be worth over 13.5 cps to Triangle, which would also be in the box-seat to process the oil at its onshore oil facilities that sit just 14 kilometres north of the Xanadu well pad.

Triangle is about to float off its Reid's Dome gas project in the Bowen Basin, leaving it free to focus on Perth Basin opportunities.



Pumped and now solar power company **Genex** (GNX) looks like the sort of 'Clean & Green' company that could actually make money! The \$74 million market capitalisation Genex is 50% of the way through building a 50 MW solar farm on the tailings dam of the old Kidston gold mine in Queensland, where commissioning should occur this summer to deliver (or should I say generate) an estimated EBITDA of ~\$15 million per annum. A 250 MW pumped storage hydro power project, estimated to cost \$300 million will be designed to deliver 1,500 MWhr of power over a 6 hour period, with obvious operating synergies between its operation and the ability to pump water with its cheap solar power.



Genex is likely to sell-down its 'water-battery' project to fund development, once government transmission lines are under construction.

The \$53 million market capitalisation drilling company **Mitchell Services** (MSV) is falling back towards buying territory at 3-3.5 cents per share.

The company works with top tier mining companies and has only 10% exposure to exploration drilling, making it less risky than some others. Mitchell is likely to double the number of drilling rigs it keeps operating this year from 22 to over 40 rigs, resulting in its first year of net profit after tax as EBITDA more than doubles from 2017.

A patient approach is required with this one and we will look more closely once its accounts are published.



With a market capitalisation of just \$18.5 million, cash of ~\$2 million and a major funding partner in Oz Minerals (OZL), **Cassini Resources** (CZI) is very well leveraged to nickel, copper and cobalt.

OZL is spending \$36 million to earn a 70% interest in the West Musgrave JV by completing a feasibility study ahead of a decision to develop.

The Nebo-Babel deposits contains about 840 Kt of both nickel and copper in low grade mineralisation, valued at about A\$82 per tonne, while the nearby Succoth copper deposit contains a further 936 Kt of copper at a low grade of 0.6% Cu.

Partners are focussed on working with a higher grade portion of the mineralisation and appraising new deposits such as One Tree Hill, where drilling found **34 metres grading 1.05% Cu** plus nickel, cobalt and PGEs at a depth of about 320 metres.



This is deep and generally low grade mineralisation, but at the right metal price combination, with the right metallurgy and cost basis, the projects could have wings.

## Drill hole of the week

Impact Minerals (IPT) is extending known mineralisation at its Silica Hill Prospect in NSW. Drilling hit:

- ◆ **14 metres grading 4 g/t gold and 61 g/t silver** including
  - ◆ **3 metres grading 10.4 g/t gold and 20 g/t silver.**

This bulks out at around A\$300 per tonne for the wider intercepts.

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