

Major Catalysts Coming: Feasibility Study, Finance Package and Investment Decision

Australian Mines (AUZ) has significant events on the near horizon as it works towards the commencement of construction its flagship Sconi Nickel (Ni) Cobalt (Co) project.

Financing Sconi The Key

AUZ is favourably positioned for a successful funding outcome given the current robust backdrop for battery metals-related projects such as Sconi, strong support from the Queensland government and a binding offtake agreement with LG Energy Solution (LGES). AUZ are confident of finalising the funding package prior to the end of June 2022 and targeting to secure project financing, complete the Final Investment Decision (FID) and proceed into full construction by the end of CY2022.

We expect first production approximately 24 months thereafter.

Revised Feasibility Study Q2 CY2022

Another key milestone is to deliver an updated Feasibility Study (FS). The binding offtake agreement with LGES requires delivery of a mixed hydroxide precipitate (MHP). MHP is a bulk concentrate product requiring less extensive/complex processing than the previously planned sulphide process route as detailed in the existing Feasibility Study. AUZ plan to deliver an optimised FS with a lower capex option in Q2CY2022.

New Key Management Sought – Positive Move

AUZ are seeking a new CEO, CFO and Chief Project Engineer. The right experience and skills are required to finance and deliver a large scale, complex and capital-intensive project such as Sconi. We see this move by AUZ as a very positive move, recognizing what has been achieved to date while acknowledging that alternative skills are required to drive the project forward.

Nickel and Cobalt Prices – Continued Momentum

Ni and Co prices have strengthened considerably over 2022 and are currently at US\$14.70/lb and US\$37/lb respectively. This provides substantial cash margins compared to our estimate of Sconi’s AISC profile based on an MHP production process of <US\$3/lb Ni. Ni and Co are two of the most significantly exposed metals to the key macro themes of electrification and decarbonisation, and the focus on new mine supply is increasingly evident for both governments and industry.

Valuation: A\$0.76 Risked NPV (Previous A\$0.73) Ni Price Forecasts Raised

Sconi is well advanced and large scale, we forecast capex of US\$882m. We believe a strong Ni market and interested counterparties are aligning to overcome the final hurdle of funding and realising the value evident in the project. We have increased our risked, fully diluted NPV to A\$0.76/share (from A\$0.73) off the back of higher forecast Ni pricing offset by an increase in capex estimate. Risks include capex funding, cost inflation, and commodity pricing.



The primary asset of Australian Mines Limited (AUZ) is a 100% interest in the Sconi nickel-cobalt-scandium project in Greenvale, approximately 250km west of Townsville in North Queensland. The project is favourably located near established infrastructure and a skilled workforce and has a binding offtake agreement with LG Energy Solution.

<https://australianmines.com.au/>

<https://sconi.com.au/>

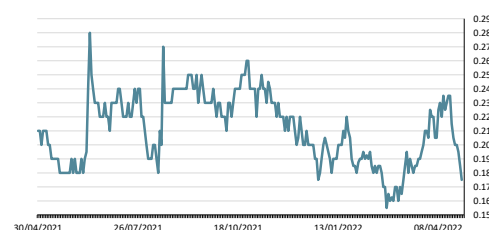
Stock	ASX: AUZ
Price	A\$0.175
Market cap	A\$75m
Valuation (per share)	A\$0.76 (Previous A\$0.73)

Next steps

1HCY22: Updated Feasibility Study for MHP process route

1HCY22: Secure funding for Sconi capital costs

AUZ share price (A\$) – 1 year



Source: FactSet.

Michael Bentley

Exhibit 1 – Company summary Y/E 30 June

MARKET DATA						
Share Price	A\$/sh	0.175				
52 week high/low	A\$/sh	0.16/0.28				
Valuation	A\$/sh	0.76				
Market Cap (A\$m)	A\$m	75				
Net Debt / (Cash) (A\$m)	A\$m	(3)				
Enterprise Value (A\$m)	A\$m	72				
Shares on Issue	m	430				
Options/Performance shares	m	1				
Other Equity - Equity Raising	m	609				
Potential Diluted Shares on Issue	m	1,040				

INVESTMENT FUNDAMENTALS						
		Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Reported NPAT	A\$m	(3.5)	(4.5)	(3.3)	1.9	(3.6)
Underlying NPAT	A\$m	(3.5)	(3.4)	(3.3)	1.9	(3.6)
EPS Reported (undiluted)	¢ps	(1.0¢)	(1.2¢)	(0.6¢)	0.2¢	(0.3¢)
EPS Underlying (undiluted)	¢ps	(1.0¢)	(0.9¢)	(0.6¢)	0.2¢	(0.3¢)
Underlying EPS Growth	%	-70.7%	-15.1%	-33.1%	-131.5%	-290.7%
P/E Reported (undiluted)	x	n/m	n/m	n/m	1.0	n/m
P/E Underlying (undiluted)	x	n/m	n/m	n/m	1.0	n/m
Operating Cash Flow / Share	A\$	(0.00)	(0.00)	(0.01)	0.00	(0.00)
Price / Operating Cash Flow	x	n/m	n/m	n/m	73.0	n/m
Free Cash Flow / Share	A\$	(0.02)	(0.01)	1.23	(0.30)	(0.84)
Price / Free Cash Flow	x	(9.6)	(14.0)	0.1	(0.6)	(0.2)
Free Cash Flow Yield	%	-10.4%	-7.1%	700.3%	-170.6%	-480.1%
Book Value / Share	A\$	0.10	0.09	1.33	0.69	0.69
Price / Book	x	1.7	1.9	0.1	0.3	0.3
NTA / Share	A\$	0.10	0.09	1.33	0.69	0.69
Price / NTA	x	1.7	1.9	0.1	0.3	0.3
Year End Shares	m	363	396	430	1,039	1,039
Market Cap (spot)	A\$m	63	69	75	182	182
Net Debt / (Cash)	A\$m	(3)	(4)	(537)	(367)	506
Enterprise Value	A\$m	60	66	(462)	(185)	688
EV / EBITDA	x	n/m	n/m	n/m	n/m	n/m
Net Debt / Enterprise Value		(0.0)	(0.1)	(7.4)	(5.1)	7.0

PRODUCTION AND PRICING						
		Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Nickel Production	kt	-	-	-	-	-
Cobalt Production	kt	-	-	-	-	-
Nickel Price (US\$/lb)	US\$/lb	5.8	8.4	11.0	11.0	11.0
Cobalt Price (US\$/lb)	US\$/lb	13.0	22.0	25.8	26.5	27.3

12-Month Relative Performance vs S&P/ASX Metals & Mining						

Profit & Loss (A\$m)						
		Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Sales		0.0	0.0	0.0	0.0	0.0
Expenses		(3.3)	(3.1)	(3.1)	(3.2)	(3.3)
EBITDA		(3.3)	(3.1)	(3.1)	(3.2)	(3.3)
D&A		(0.2)	(0.2)	(0.2)	(0.2)	(0.3)
EBIT		(3.5)	(3.4)	(3.4)	(3.5)	(3.6)
Net Interest		0.0	0.0	0.0	5.4	0.0
Profit Before Tax		(3.5)	(3.4)	(3.3)	1.9	(3.6)
Tax		0.0	0.0	0.0	0.0	0.0
Underlying NPAT		(3.5)	(3.4)	(3.3)	1.9	(3.6)
Exceptionals		0.0	(1.1)	0.0	0.0	0.0
Reported Profit		(3.5)	(4.5)	(3.3)	1.9	(3.6)

Balance Sheet (A\$m)						
		Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash		3.2	3.6	537.1	880.3	7.3
Receivables		0.1	0.0	0.0	0.0	0.0
Inventory		0.0	0.0	0.0	0.0	0.0
PP&E		0.7	0.5	3.4	315.8	1,185.6
Other		33.9	33.1	33.1	33.1	33.1
Assets		37.9	37.2	573.7	1,229.3	1,226.0
Creditors		0.1	0.4	0.4	0.4	0.4
Debt		0.0	0.0	0.0	513.3	513.3
Leases		0.6	0.3	0.3	0.3	0.3
Provisions		0.0	0.1	0.1	0.1	0.1
Other		0.0	0.0	0.0	0.0	0.0
Liabilities		0.7	0.8	0.8	514.2	514.2
Net Assets		37.3	36.4	572.8	715.1	711.9

Cashflow (A\$m)						
		Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash From Operations		(1.9)	(1.8)	(2.8)	(2.9)	(3.0)
Interest		0.1	0.1	0.0	5.4	-
Tax		-	-	-	-	-
Net Cash From Operations		(1.8)	(1.8)	(2.8)	2.5	(3.0)
Capex		(0.1)	(0.0)	(0.0)	(309.3)	(866.7)
Exploration		(4.3)	(3.2)	(3.2)	(3.3)	(3.4)
Investments (Net)		(0.5)	-	533.3	-	-
Free Cash Flow		(6.6)	(4.9)	527.4	(310.1)	(873.0)
Proceeds from issue of shares / (buyback)		6.7	5.6	6.1	140.0	-
Proceeds / (Repayment) of Borrowings and Sell		(0.2)	(0.2)	-	513.3	-
Dividend		-	-	-	-	-
Net Increase / (Decrease) in Cash		(0.1)	0.4	533.5	343.2	(873.0)

Source: AUZ, MST Access.

Sconi Project – Major Catalysts Ahead

AUZ is on the cusp of achieving the remaining critical milestones of securing funding and delivering an updated Feasibility Study, prior to the Sconi project moving into full construction. Current market conditions around securing funding for critical battery minerals / metals likely the most favourable in recent memory.

Sconi looks to be a strong project in the current commodities environment. A binding offtake agreement (subject to finance) with Korea's LG Energy Solution for 71ktpa Ni and 7ktpa Co for an initial 6-year term, provides a significant vote of confidence in the Sconi asset. The project is well advanced with a substantial amount of historical work having been completed. With commodity market sentiment remaining buoyant, AUZ is strongly positioned to secure the necessary financing and advance into construction during 2022.

We expect that achieving its upcoming milestones will represent a significant de-risking catalyst for AUZ, which and provides an Australian-based, carbon-neutral exposure to the anticipated rapid growth in demand for battery metals.

Recap on the Sconi project

As a reminder, the Sconi project is a large-scale, long-life operation situated in North Queensland, just ~250km west of the major regional city of Townsville. The project has a defined Ore Reserve (57mt @ 0.58% Ni and 0.08% Co) and 30-year operation life outlined in the June 2019 Bankable Feasibility Study (BFS). The current BFS has projected average annual nickel sulphate production of 46.8ktpa (61.0ktpa over years 2-10) and average annual cobalt sulphate production of 7.0ktpa (10.1ktpa over years 2-10), supplemented by a scandium oxide product, for pre-production capital expenditure of US\$974m. Crucially, the low operating costs estimated in the BFS of US\$1.96/lb (AISC FOB including royalties) place the project in the first quartile of the global cost curve and position it to maintain robust economic fundamentals through the cycle.

LG Energy Solution offtake for MHP product

While the June 2019 BFS is the most current technical documentation available, the binding offtake agreement signed with LG Energy Solution (LGES) in August 2021 is for finished product in mixed hydroxide precipitate (MHP) form. MHP is a bulk concentrate product requiring less extensive/complex processing compared to the previously planned sulphide process route. The agreement is for the entirety of Sconi's production over an initial 6-year period commencing in 2024. The offtake is subject to a single condition precedent: that AUZ secures the necessary finance for construction prior to 30 June 2022 (or such later date as the parties may agree).

Securing Funding – The Key to Sconi

We expect, and the company is confident of completion of financing by the end of June 2022,

AUZ continues to work towards securing project financing, completing the Final Investment Decision (FID) and proceeding into full construction by the end of CY2022.

We expect first production approximately 24 months thereafter.

Funding Negotiations Strongly Underpinned

The confirmation and clarification of the structure of the financing package to provide for Sconi's required pre-production capex is the critical step in finalising the binding offtake agreement with LGES and to take the project through to FID and commence construction. Negotiations are well advanced with a number of counterparties and that AUZ is on track to secure binding agreements. AUZ are confident and we expect finalisation of the package prior to the end of June 2022, (the LGES offtake agreement allows extension of time for funding past June 2022 if both parties agree).

The key items underpinning the attractiveness of Sconi are:

- The increasing demand profile for ethically sourced nickel and cobalt materials supported by the rapid expansion of the electric vehicle and clean energy storage markets
- The Sconi Project being world class by scale, quality and ESG parameters
- The binding long form Offtake Agreement with LG Energy Solution for 100% of the projected future production from the Sconi Project over its first six years
- The Queensland Government's Prescribed Project status for Sconi¹³ which will facilitate and expedite the development of Sconi
- The Queensland Government's conditional financial package for Sconi through the Jobs and Regional Growth Fund
- Due diligence discussions with the Northern Australia Infrastructure Facility (NAIF) for potential Sconi project financing
- Australian Mines owning 100% of Sconi and being fully funded until its target project financing date, on or before 30 June 2022 (or such later date as the parties may agree)

Considering the potential funding package structure

We have estimated capex for Sconi of US\$882m (an increase of \$50m from our initiation – see valuation section for more details). The forthcoming optimised Feasibility Study will provide confirmation of capex; until this time, our estimate is subject to a significant degree of uncertainty given the revised scope of the process plant. Nonetheless, we believe this estimate represents a reasonable basis to contemplate the potential structure of the project funding package.

We believe the most likely project financing solution is likely to incorporate:

- senior debt accounting for 50–60% of capex
- a mezzanine component including the federal government backed Northern Australia Infrastructure Fund (NAIF) or corporate/strategic parties offshore
- a potential sell-down of project equity if required
- a 'stub' equity component.

The Sconi Project is attracting supportive interest from a range of parties to fulfill the senior and mezzanine debt components, given its attractive ESG credentials (fulfilling a critical objective in battery metal supply chains globally: to source reliable supplies of raw materials ex-China) and location in Australia.

We assume approximately ~40% of total pre-production capex is secured in debt (~US\$385m allowing extra for working capital / exploration), with an additional ~US\$400m from a sell-down of a 40% stake in the project to a strategic partner.

Exhibit 2 – Sconi funding breakdown – MST estimates

FINANCING ASSUMPTIONS	US\$m	A\$m
Debt	385	513
Project selldown	400	533
Equity	105	140
Total	890	1,187

Source: MST estimates, AUZ.

As such, we assume that the project will ultimately be owned 60% by AUZ, and that it will target a final equity funding requirement of ~US\$105m (A\$140m). We assume that AUZ will be able to finalise the equity component at 23¢/share. We incorporate the full impact of this equity dilution into our valuation.

Should AUZ confirm the prerequisite funding components (debt and strategic project equity stake) on terms broadly in line with our estimates, we believe the company will face few challenges in securing the final equity component via a raising given the significant investor interest in companies exposed to battery metals.

Full funding may be achieved without a project selldown: We consider there is a reasonable probability that Sconi could be funded without the need for a selldown to a strategic partner.

Projects that are related to the battery industry and have strong ESG credentials can attract alternative finance such as green bonds and green energy funds. The Sconi project’s technical and economic fundamentals provide a strong platform for AUZ to look to a range of project financiers, including various export credit agencies (both Australian and international), commercial banks, mezzanine financiers, and international banks (for both debt and equity capital).

Another Key Milestone – Revised Feasibility Study – Q2CY2022

Feasibility Optimisation – Confirmation of MHP

The Sconi project has been subjected to extensive technical work and analysis as part of detailed studies completed by AUZ, as well as the array of information available from the prior mining operation and investment at Greenvale completed by the prior owners. The initial BFS completed by AUZ was released in November 2018, followed by an optimisation in June 2019 to incorporate a Resource upgrade which materialised in the interim.

Offtake involves lower capex, technical complexity and operational risk than previous BFS

While previously targeting the production of sulphates made broad sense given the higher value-add of the finished product, the pivot to MHP from sulphates implies more modest capex requirements for the processing plant relative to the June 2019 BFS. This will be clarified in the optimised Feasibility Study due for release this quarter.

The offtake agreement established with LGES implies a substantial revision to the processing infrastructure as the circuit will no longer be required to incorporate sulphate crystallisation. AUZ has provided a number of indicative statements confirming the impact of the pivot from sulphates to MHP production. These include:

- lower capital expenditure (a significant component of capex would have been associated with developing the process circuit through to value-added products such as sulphate versus producing a relatively simple concentrate)
- less technical complexity and operational risk (both would have been higher when upgrading the ore into sulphide form)
- a potential increase in the throughput capacity of the processing plant to accommodate the annualised volumes implied by the offtake agreement.

Cost pressures to be more than offset by commodity prices

In our AUZ initiation report (11 November 2021), we estimated that switching to an MHP processing facility and excluding the sulphates circuit would likely reduce total capex by 15% to US\$832m (from US\$974m). Since this time, broad cost inflation pressures have taken hold in the global economy and we expect that Sconi's capital expenditure will also experience some of these pressures. As a result we have estimated an increase in capex of US\$50m to bring our capex estimate to US\$882m. Given the strong commodity price environment, particularly around battery metals we have also revised our Ni and Co price estimates, more than offsetting the effect of the increased capex estimate. See our valuation section for more detail.

New Management Sought – A Positive Move

Australian Mines intends on bolstering the management team to accelerate the Sconi Project by commencing a search to appoint a new Chief Executive Officer (CEO), a new Chief Financial Officer (CFO) and Chief Project Engineer. The right experience and skills are required to finance and deliver a large scale, complex and capital-intensive project such as Sconi.

The Company recognises that there has been a great deal achieved to get the project to where it is but sees that there is a different type of experience and skill set required to take the project forward to construction and operations.

It is intended that the current CEO and Managing Director will continue in this role until the appointment of the new CEO, following which the existing CEO will assist with the transition and take up newly created role of General Manager – Exploration within the Company.

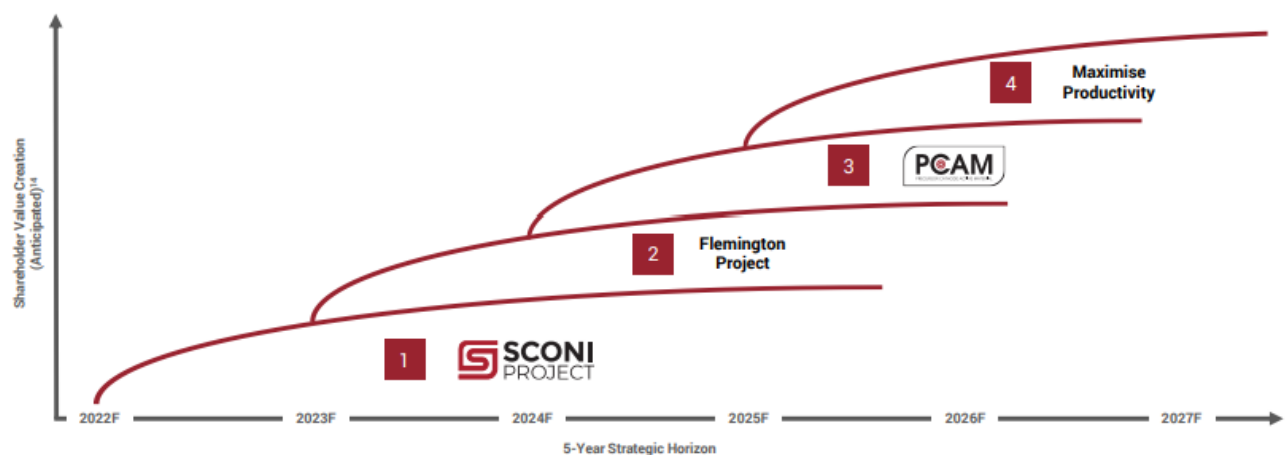
We see this move by AUZ as a very positive move and recognition of what has been achieved to date but that alternative skills are required to drive the project forward. We also see the retention of the existing CEO within the business as important, as the years of corporate memory are retained within the business.

Pipeline of Upside Options: Exploration at Sconi, Potential Second Production Hub at Flemington and P-CAM Expansion

In a recent strategy update presentation, AUZ confirmed its longer-term vision for developing a multi-asset company based on its existing asset portfolio. This vision incorporates four 'strategic pillars' (see Exhibit 3), encompassing:

- the world-class, long-life Sconi nickel-cobalt-scandium project (Queensland)
- the Flemington cobalt-nickel-scandium project (New South Wales)
- P-CAM downstream processing expansion
- a productivity and efficiency focus to add value.

Exhibit 3 – AUZ five-year strategy (2002–2027)



¹¹ For illustrative purposes only (not to scale).

Source: AUZ.

Sconi – Further Exploration

AUZ has noted that there have been incoming, non-solicited enquiries from several global players within the electric vehicle and/or battery supply chain sector in relation to the possibility of expanding the scale of the Sconi Project and any future output from that potential expansion.

In response to these enquiries, the Company also recently commenced further exploration across Sconi targeting nickel and cobalt mineralisation potentially occurring outside the current Ore Reserve and Mineral Resource.

As the project's initial production is fully taken up by the offtake agreement with LGES, we see this move as prudent and a first move towards setting Sconi as a longer term, higher production project with a diversity of customers.

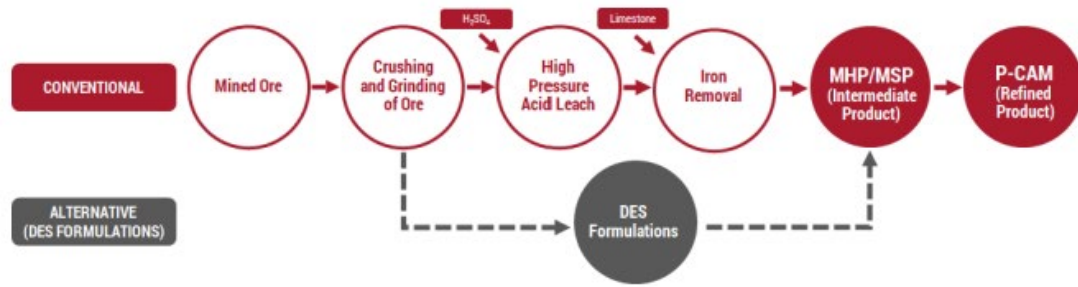
Flemington – A Second Potential Production Hub

AUZ has earmarked its 100%-owned Flemington cobalt-nickel-scandium project as a possible second production hub, targeting first production by 2026. Flemington is situated 370km west of Sydney in New South Wales.

AUZ recently confirmed that a proof-of-concept study had been conducted to investigate the use of Deep Eutectic Solvents (DES) to target extraction from Flemington's lateritic ores as an alternative to High Pressure Acid Leach (HPAL) extraction and confirmed metal recoveries at high levels across all three mineral types contained in Flemington ores.

A DES is a fluid generally composed of two or three cheap and safe components that are capable of self-association, often through hydrogen bond interactions, to form a eutectic mixture with a melting point lower than that of each individual component. DES are generally liquid at temperatures lower than 100°C. These DES exhibit similar physical-chemical properties to the traditionally used ionic liquids, while being much cheaper and environmentally friendlier.

Exhibit 4 – Conventional and alternative processing flowsheets



Source: AUZ.

While Flemington remains early stage, further work on the potential use of DES leaching is anticipated to provide for lower capital expenditure, a more scalable process plant, more benign environmental management issues and strong metallurgical recoveries. Following on from this initial work, AUZ has now commenced a pre-feasibility study focused on DES recovery which it expects to complete over the next 6 months.

P-CAM Expansion – Further Value Creation Potential in the Medium Term

The Sconi and Flemington projects have the potential for further optimisation and value creation via the addition of Precursor Cathode Active Material (P-CAM) production circuit infrastructure. A scoping study was completed by Ausenco in mid-2021 which derived an incremental project NPV for integration of P-CAM infrastructure at Sconi (using an 8% discount rate) of A\$352m for an additional capital cost of A\$105m.

The P-CAM circuit produces a value-added product specifically targeted at nickel-cobalt-manganese battery manufacturers. Following the receipt of the scoping study results, AUZ’s Board elected to undertake a more advanced pre-feasibility study on the P-CAM circuit, with a Perth based pilot P-CAM plant constructed and integrated within AUZ’s HPAL demonstration plant.

These facilities are intended to give offtake partners confidence in product characteristics as a basis of agreeing terms for offtake. We believe the economic fundamentals of the addition of P-CAM have improved significantly in line with the continued increase in key commodity prices as well as the ongoing emphasis on targeting products specifically aligned with battery cell manufacturing. As such, we see significant potential for this investment over the medium term. However, AUZ’s near-term focus is likely to remain solely on getting Sconi funded, constructed and into production.

Nickel Market: Short Squeeze Drives Huge Price Action; Long Term Looks Strong as Batteries Play Increasing Role

Recent History: A Huge Shake-up in the Nickel Market

Ni is traded on the London Metal Exchange (LME) and over the past decade has traded roughly between US\$4.50/lb and US\$9.00/lb. After suspension of trading in early March, the LME Ni market is once again trading, with prices currently at ~US\$15/lb.

Russia invades Ukraine, prompting buyers to seek alternative sources

Russia's invasion of Ukraine in late February shook the Ni market, as Russia is the world's third-largest Ni supplier. The invasion saw Ni buyers looking for alternatives to Russian sources. The Ni price moved sharply higher in the week after Russia's invasion.

Prices spike in early March

In early March the Ni market unravelled, with prices rising in huge leaps, hitting a US\$45/lb high on a 250% price spike in little more than 24 hours. The market was chaotic and billions of dollars in losses were accumulated for those with a short position in the market, leading the LME to suspend trading for the first time in 30 years. So what happened?

The spike drove a 'short squeeze' which drove prices higher. This is when traders who previously bet on a drop in the price are put in an ever-tighter financial position by rising prices, as they are forced to buy into the market to cover their short position. Other participants may also push up prices in anticipation of that short covering.

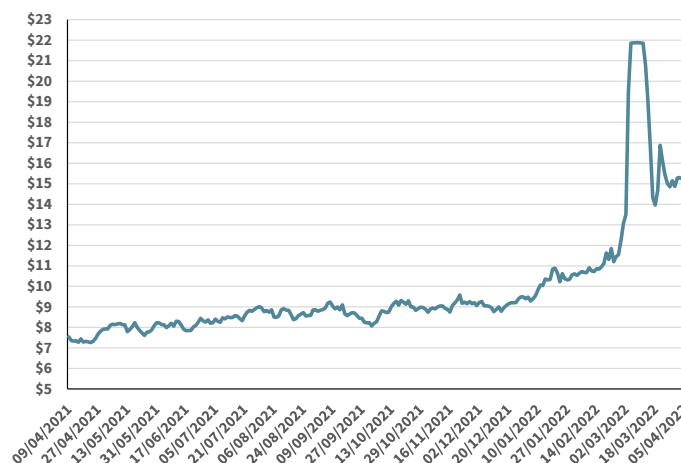
The short squeeze focused on Chinese production and trading company Tsingshan, which was planning to bring 850kt of nickel matte into the market in 2022 and took a position that the price would go down as a result. On the other side of the market was Glencore, with half the ownership of the Ni on the LME.

On 7 March, the Ni price began to rise sharply, surging from \$13.50/lb to more than \$23/lb, creating a large amount of margin calls. Tsingshan's were roughly \$3 bn and its obligations were much larger than its cash and bank credit. Some of Tsingshan's bankers started to buy back Ni contracts, sending the price of Ni spiralling ever higher.

LME suspends trade

On 8 March the LME suspended trading, saying that the day's price movements 'created a systemic risk to the market'. The decision meant traders wouldn't need to pay margin calls on the basis of the \$35/lb Ni price. Effectively, it rewound the market to the moment when prices closed on 7 March at \$21.80/lb. Tsingshan's short position has now racked up billions of dollars in losses. The company's bankers have agreed to support the company going forward.

Exhibit 5 – Ni price, 1 year (US\$/lb)



Source: FactSet.

Going Forward: Battery-Related Demand to Play Growing Role in Overall Ni Demand

Over the medium to long term, Ni demand will be incrementally driven by the battery market off the back of EV demand. Recent shifts in legislation that favour EVs will likely result in a surge in demand for Ni units to be used in battery production. Despite the general adverse economic conditions encountered in 2020 as a result of COVID-19, EV battery sales exceeded all expectations. 2020 saw EV batteries consume around 200,000 tonnes of Ni, with well over 300,000 expected this year. Total Ni demand is around 2.4mt. Market consensus appears to be that by 2030, battery-related demand for Ni will be around 1.7mt, or 35% of total forecast Ni demand.

The use of high-quality Ni in EV batteries represents a long-term driver for demand and upside to the Ni price. Battery manufacturers are now adopting battery chemistries with higher Ni content. Ni demand from the battery sector could account for as much as 35% of the total Ni market within the next decade. The Ni market is likely to encounter significant supply deficits over this time and we expect prices to rise, incentivising new production capacity. A recent announcement by Jaguar, outlining how the Land Rover-owned business will be all-electric by 2025, demonstrates the scale growth Ni will likely encounter in the near future. The UK's goal to outlaw the sale of wholly petrol and diesel cars from 2030 is an indication of where the global motor vehicle industry is heading and the forces which will drive Ni demand.

BHP's view on Ni supports this view, with its Chief Commercial Officer stating in late 2021: 'Demand for nickel in batteries is estimated to grow by over 500 per cent over the next decade, in large part to support the world's rising demand for electric vehicles.' 85% of BHP's Ni is now sold to global battery material suppliers.

BHP has recently signed an agreement with Tesla for the long-term supply of some 18,000 tonnes of Ni per year. Tesla has acted early to secure significant volumes of Ni to fuel its lithium-ion battery demand, with an estimated 50% of Tesla's battery chemistry to be high-Ni cathode.

BHP's deal with Tesla can be seen as positive for the Australian Ni market generally (and the global Ni market more broadly).

Cobalt Market: A Quick Look at 2022 and Beyond

What Will Drive the Cobalt Market Going Forward?

The most significant driver of cobalt (Co) demand remains lithium-ion batteries, which are most used in consumer electronics, EVs and energy storage systems (ESSs). A key decision point for the take up of EVs remains ownership costs. Market consensus is that EVs and internal combustion engine (ICE) vehicles will reach price parity by 2024.

EV purchase subsidies, as part of generous post-COVID economic stimulus across EU and China, will accelerate demand significantly.

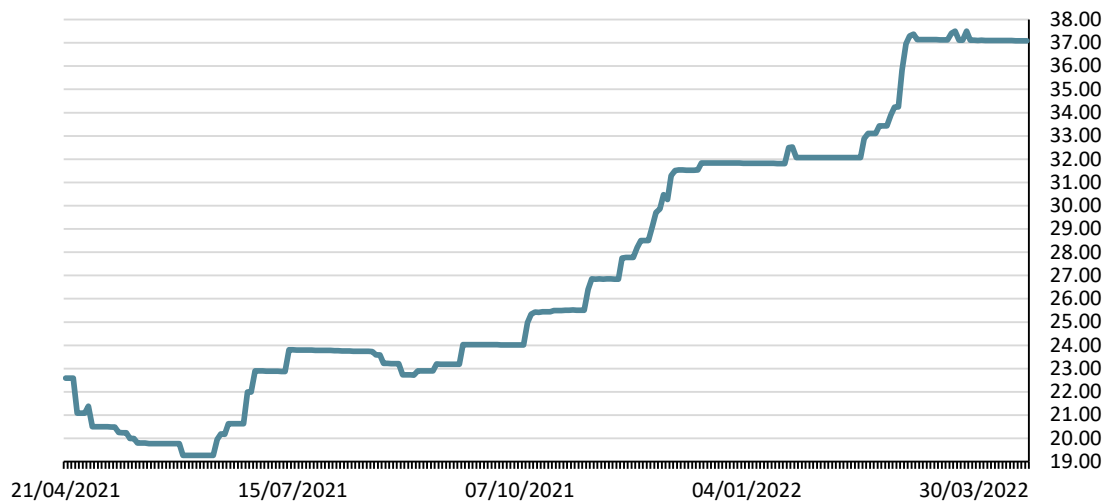
98% of Co produced is a by-product of either Ni or copper mining (~5–15% of mine revenues), making it somewhat of an ‘accidental’ metal. The production of Co is thus incentivised by firmer Ni or copper prices, rather than on its own merits. The Democratic Republic of the Congo (DRC) produces 71% of Co today. The top 5 Co producers control ~53% of global supply, typically sourced from DRC-based operations. China then processes 80% of global intermediates producing cobalt metal or cobalt salts.

Secondary (scrap/recycled) supply of Co remains small scale but, as increasing quantities of EV batteries begin to be recycled, we would expect this market to grow.

Cobalt Price Forecasts

Co prices have risen significantly in 2022, similar to many commodities, particularly those in the battery-related space. We expect the Co market will be relatively strong going forward given increased demand from the battery market, but also recognise that this market is small and can be highly volatile. Our price assumption for Co is US\$25/lb, escalated at 3% per annum. Continued strength in the market may see an upward revision to our estimates.

Exhibit 6 – Cobalt price, 1 year (US\$/lb)



Source: FactSet.

Valuation: Nickel Price Revisions More than Offset Increase in Capex and Drive Higher Valuation

Base-Case NPV Valuation of A\$0.76/Share (Previous \$A0.73/Share)

Our base-case, risked NPV-based valuation for AUZ is A\$0.76/share on a fully diluted basis, up from A\$0.73/share previously on higher Ni price forecasts (see Exhibit 7) offset by an increase in capex assumption. AUZ shares are trading at a significant discount to our assessment of the underlying value of the Sconi project, incorporating our forecast project parameters, even after weighting our calculated valuation for the risks typically associated with the remaining uncertainty for projects at this stage of advancement.

Sconi is a substantial project with robust underlying economics based on the detailed economic analysis in the prior BFS, and we expect this to remain the case with the forthcoming update to incorporate the MHP process route. In the medium term, the addition of dedicated processing infrastructure to commercialise the significant scandium at Sconi could add further value.

We have applied a 75% probability/risk weighting for Sconi ahead of the publication of feasibility study information with regard to the MHP process and finalisation of financing.

We believe the risks to the valuation are balanced against the clear signals of State Government and offtake support, as well as the project's prior operating history, significant detailed technical work completed, and proximity to established infrastructure and a skilled workforce.

Exhibit 7 – Base-case, risked NPV-based valuation of A\$0.76/share

NPV OF PROJECTS	US\$M	Ownership	Risk Weight	A\$M	A\$/share	Previous Valuation A\$/share	Valuation Methodology
Sconi MHP	1,253	60%	75%	752	0.72	0.68	Risked Project NPV
Sconi Scandium	50	100%	50%	33	0.03	0.04	MST Estimate
Flemington and Other	40	100%	50%	27	0.03	0.03	MST Estimate
ENTERPRISE NPV	1,343			812	0.78	0.75	
Corporate Costs	(19)	100%	100%	(25)	-0.02	-0.03	NPV of Corporate Costs
Net Cash (Debt)	2	100%	100%	3	0.00	0.01	Ast at 30 Sep 2021
Equity Value	1,326			790	0.76	0.73	
WACC					10.0%		
AUDUSD					0.75		
Shares on issue m (Undiluted)					430		
Options m					1		
Additional Equity Required m					609		
Shares on issue (Fully Diluted)					1,040		

Source: MST estimates, AUZ.

Key assumptions – base-case NPV valuation

Our base-case NPV assumes Sconi will commence first production in FY25. We assume that AUZ will ultimately own 60% of Sconi, after a sell-down of a 40% stake to a strategic partner for ~US\$400m to provide funding for pre-production capital expenditure. We assume that, in conjunction with the sell-down proceeds, the project will secure ~40% of its capex requirements in debt (~US\$385m), with final equity funding required of ~US\$105m.

Full funding may be achieved without a project selldown: We consider there is a reasonable probability that Sconi could be funded without the need for a selldown to a strategic partner.

Projects that are related to the battery industry and have strong ESG credentials can attract alternative finance such as green bonds and green energy funds. The Sconi project's technical and economic fundamentals provide a strong platform for AUZ to look to a range of project financiers, including various export credit agencies (both Australian and international), commercial banks, mezzanine financiers, and international banks (for both debt and equity capital).

Given the current low interest rate environment, we believe AUZ could achieve funding on attractive terms.

Capital cost: Capital cost is clearly a crucial assumption, and with a revised/updated Scoping Study and BFS work yet to be released following the pivot from sulphate production to MHP, there is a degree of uncertainty surrounding this figure. While much of the process plant infrastructure will be similar to what was outlined in the BFS from June 2019, we have primarily relied upon the capital intensity information provided to the market by AUZ to arrive at our estimate adopted in deriving our valuation.

The pivot to MHP implies a less capital-intensive process plant component of the total capex estimate. Utilising the capital intensity guidance provided by AUZ in a prior ASX presentation of US\$49,000/t, we arrived in our initiation report at a revised capex estimate for the construction of the Sconi project of US\$832m. However, given recent global supply chain issues and general inflationary pressures we have increased our capital estimate to US\$882m, an increase of US\$50m

Nickel price – a more complex but also more bullish picture: The Ni market has seen a substantial shake-up in recent months. Although we do not see the current price of ~US\$15 as sustainable, we do believe that the market has structurally changed given the need for Ni as a key input to batteries. We also see recent turbulence in the Ni market as indicative of the market’s extreme tightness and tendency to experience price shocks, with the Ni price particularly volatile due to the market’s relatively small size.

We previously assumed a Ni price base of US\$7.00/lb escalating on a yearly basis. We now take a different approach, and have significantly raised our near-term Ni price assumptions as follows:

- starting FY23 at US\$11.00/lb and holding that price for two years
- tapering down to a long-term price of US\$9/lb starting in FY25
- assuming 5% pa growth from that base.

We believe this reflects the tightness of the Ni market while acknowledging that higher prices will encourage some further supply into the market over the longer term.

Cross-Check Spot Valuation of A\$1.16: Supports our Positive View

Applying today’s spot prices to our model (Ni: US\$14.70/lb, Co: US\$37/lb, and USD/AUD: 0.71) we arrive at a spot price valuation of A\$1.16.

Financials –Landholder Compensation Payment in March Quarter

The last reported cash balance as at 31 March 2022 was A\$3.051m.

Quarterly cash burn has been reasonably predictably tracking at ~A\$1.5m per quarter, however in the March quarter the expenditure increased to \$2.6m. A one-off payment of \$1.557m was made in the March quarter for the up-front compensation payment & reimbursement of expenses to the landowners of “Lucky Downs” station in relation to the Sconi Project – Greenvale Mining Lease Compensation Agreement, which will be subject to the Greenvale mining lease. The company also received A\$0.4m in R&D refund from the Federal Government.

Based on the March quarter’s expenditure (with the compensation payment excluded) of A\$1.3m there is enough cash to last the company 2.5 quarters, or the middle of Q4 CY2022. The Company continues to target a project finance date for Sconi on or before 30 June 2022 (or such later date as the parties may agree).

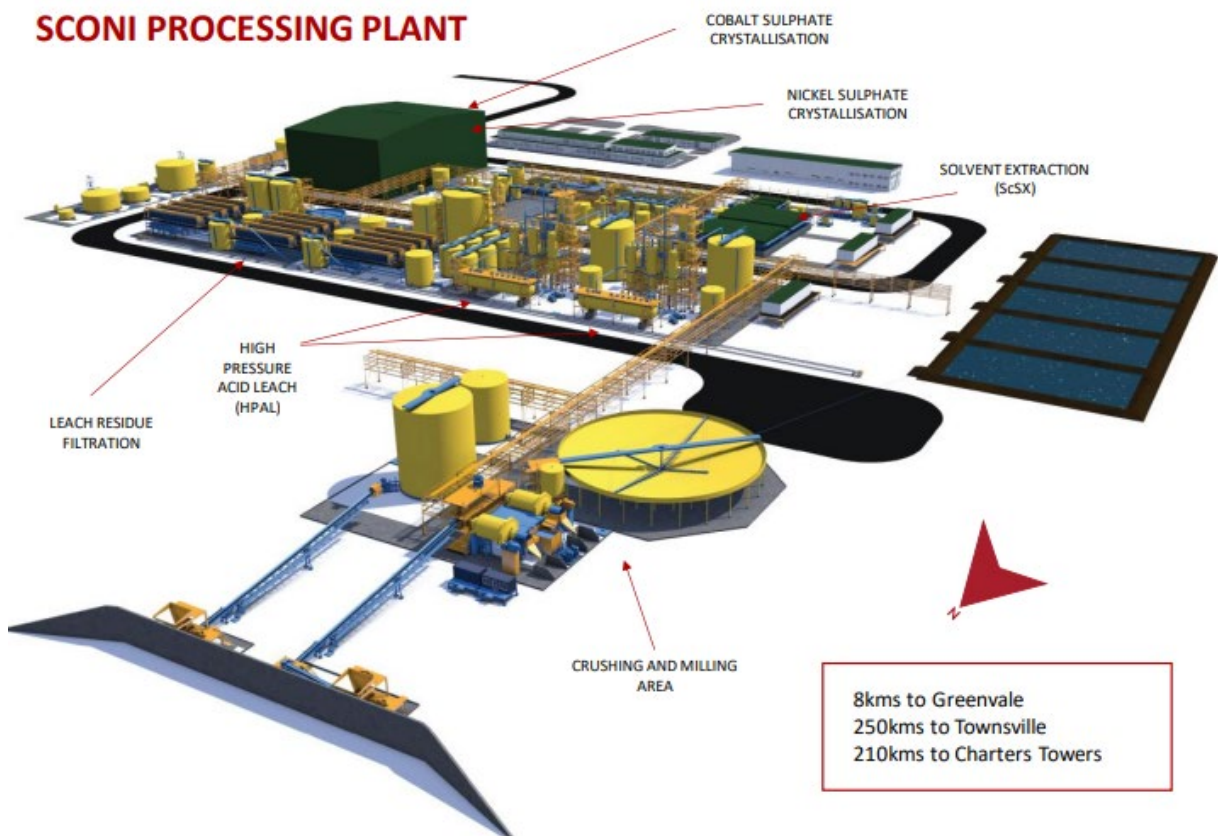
Appendix 1: The Sconi Project

The 100%-owned Sconi Project is a nickel-cobalt-scandium deposit with an Ore Reserve of 57.3mt grading 0.58% Ni and 0.08% Co. The broader Mineral Resource at Sconi totals 75.7mt grading 0.60% Ni and 0.08% Co. The project is situated approximately 250km west of the major regional Australian city of Townsville (population of ~200,000).

The Sconi deposit is estimated as part of the 2019 Bankable Feasibility Study (BFS) to support a 30-year project life which was expected to produce 1.4mt of nickel sulphate, 209kt of cobalt sulphate, and 1,441t of scandium over the life of the project. Life-of-mine average annual production was estimated at 46.8ktpa of nickel sulphate and 7ktpa of cobalt sulphate at total cash costs of US\$1.96/lb Ni (AISC). Total pre-production capex of US\$974m has been estimated and AUZ's management team targets first production in 2024.

Following the receipt of an offtake agreement with LG Energy Solution, the proposed processing plant will be modified to target production of MHP as a finished product. While AUZ remains in the process of updating the technical study information and economic analysis to incorporate this change of design, the demands around MHP as a finished product are less technically complex and will be less capital intensive, providing reasonable scope to assume that the project will be simplified and remain economically robust when the details of these revisions are made public.

Exhibit 8 – Sconi processing plant design – 2019 Bankable Feasibility Study



Source: AUZ company reports.

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