



SPEC BUY

Current Price \$0.70
Valuation \$1.25

Code: LM8
Sector: Materials

* All figures in AUD unless stated otherwise

Shares on Issue (M):	174
- fully diluted (M)	178
Market Cap (\$M):	121
- fully diluted (\$M)	124
Cash (Apr 22)	37
Debt (Apr 22)	0.0
Net cash (\$M):	37
Enterprise value (\$M):	84

52 wk High/Low (ps):	\$1.25	\$0.34
12m av. daily vol. (Mshs):		0.3

Resources:

	Tonnage	Grade	Cont. Ni
	Kt	% Ni	Kt
Foster 85H	687	2.4	17
Foster N75C	413	2.3	10
Foster South	339	4.7	16
Warren	211	3.0	6
Baker	568	2.8	16
Total	2218	2.9	64

Historical Estimates:

	Tonnage	Grade	Cont. Ni
	Kt	% Ni	Kt
Jan	865	2.0	16.9
Foster Main	300	2.1	6.3
Total	1165	2.0	23.2

Board & Management:

Non-Exec. Chairman	Liam Twigger
Managing Director	Edmund Ainscough
Non-Exec. Director	Ian Junk
Non-Exec. Director	Ashley McDonald
Non-Exec. Director	Deborah Lord
Exploration Manager	Aaron Wehrle
Company Secretary	Jessamyn Lyons

Share Price Graph and trading volumes (msh)



Please refer to important disclosures at the end of the report (from page 11)

Wednesday, 15 June 2022

Lunnon Metals (LM8)

Baker Rises

Analyst | George Ross

Quick Read

Lunnon Metals (LM8) has reported its initial Mineral Resource Estimate (MRE) for the Baker deposit at the Kambalda Nickel Project (KNP). The reported MRE is in line with our prior expectations and provides us with confidence that the KNP will continue to yield Resource growth.

Key Points

Baker Resource: The Baker nickel sulphide deposit was discovered nine months ago. An initial Resource of 568kt grading 2.8% Ni for 15.8kt of contained nickel metal has now been reported. Baker includes Indicated and Inferred Resources of 295kt at 2.75% Ni and 273kt at 2.82% Ni respectively.

The Resource also accounts for copper, cobalt, palladium, and platinum, which may ultimately provide payable credits. Baker is the first nickel sulphide discovery within the immediate Kambalda nickel camp since IGO found Moran in 2008.

Project Resource Inventory: In the 12 months since LM8's IPO, the KNP Global Resource inventory has increased 65% to 2.2Mt at 2.9% Ni for 64kt of nickel metal. In the medium term, we expect the conversion of remnant Historical Estimates from Jan and Foster to add a further 23kt of in-ground nickel metal. In the longer term, we expect the recently acquired Kambalda North areas to add further tonnages.

Peer Comparisons: The addition of Baker to the KNP Resource inventory has driven down LM8's EV/NiEq tonnes in resources comparative ratio. If nickel metal tonnages from non JORC compliant Exploration Targets and Historical Resources are accounted for, LM8 scans more cheaply against peers.

Recommendation

We maintain our SPEC BUY recommendation and adjust our valuation down slightly to \$1.25 per share (previously \$1.27). We have factored in additional Reserve and Study activity in the 2023-2026 period, reducing our valuation.



Lunnon Metals (LM8)

Equities Research

Analyst: George Ross

Recommendation	Spec Buy
Current Price	\$0.70
Valuation	\$1.25

Sector	Metals & Mining
Issued Capital (Mshs)	174
Market Cap (M)	\$121
Date	Thursday, 16 June 2022

Profit & loss (\$M)	Unit	2022E	2023E	2024E	2025E
Sales Revenue	A\$M	0	90	135	164
+ Other income/forwards	A\$M	0	0	0	0
- Operating costs	A\$M	0	-37	-55	-67
- Royalties	A\$M	0	-5	-7	-8
- Corporate & administration	A\$M	-4	-4	-4	-4
Total Costs	A\$M	-4	-46	-66	-79
EBITDA	A\$M	-4	44	69	85
- margin	%	0%	49%	51%	52%
- D&A	A\$M	0	-3	-5	-9
EBIT	A\$M	-4	41	64	76
+ Finance Income/Expense	A\$M	0	0	1	2
PBT	A\$M	-4	41	65	79
- Tax expense	A\$M	0	-11	-29	-17
- Impairments and other	A\$M	0	0	0	0
NPAT	A\$M	-4	30	36	62

Cash flow (\$M)	Unit	2022E	2023E	2024E	2025E
+ Revenue	A\$M	0	90	135	164
- Cash costs	A\$M	-4	-46	-66	-79
- Forwards	A\$M	0	0	0	0
-Tax payments	A\$M	0	0	-11	-29
-Stamp duty	A\$M	0	0	0	0
+ Interest & other	A\$M	0	0	1	2
Operating activities	A\$M	-4	44	59	59
- Property, plant, mine devel.	A\$M	0	-34	-11	-38
- Acquisition/ asset sale	A\$M	0	0	0	0
- Exploration	A\$M	-8	-2	-2	-2
Investment activities	A\$M	-8	-36	-13	-40
+ Borrowings	A\$M	0	20	0	0
- Lease payments	A\$M	0	0	0	0
- Dividends	A\$M	0	0	0	0
+ Equity	A\$M	30	20	0	0
Financing activities	A\$M	30	40	0	0
Cash change	A\$M	34	120	72	99

Balance sheet	Unit	2022E	2023E	2024E	2025E
Cash & bullion	A\$M	37	157	229	328
Other Current Assets	A\$M	0	0	0	0
Total current assets	A\$M	37	157	229	328
Property, plant & equip.	A\$M	0	34	40	69
Exploration	A\$M	0	0	0	0
Investments/other	A\$M	0	0	0	0
Total non-curr. assets	A\$M	0	34	40	69
Total assets	A\$M	37	192	269	397
Trade payables	A\$M	6	41	40	59
Short term borrowings	A\$M	0	20	0	0
Other	A\$M	1	6	8	10
Total curr. liabilities	A\$M	7	68	48	69
Long term borrowings	A\$M	0	0	0	0
Other	A\$M	0	0	0	0
Total non-curr. liabil.	A\$M	0	0	0	0
Total liabilities	A\$M	7	68	48	69
Net assets	A\$M	31	124	221	328

Financial Ratios		2025E	2026E	2027E	2028E
GCFPS	A¢	28.5	29.8	37.5	14.4
CFR	x	3.7	3.6	2.8	7.4
EPS	A¢	30.0	22.9	26.1	17.2
PER	x	3.5	4.6	4.1	6.1
DPS	A¢	0.0	0.0	0.0	0.0
Yield	%	0%	0%	0%	0%
Interest cover	x	0.0	0.0	0.0	0.0
ROCE	%	110%	101%	138%	82%
ROE	%	24%	17%	15%	7%
Gearing	%	0%	0%	0%	0%

Shares		2025A	2026A	2027A	2028A
New shs issued/exerciseable	M	0.0	2.2	2.1	0.0
Average issue price	\$ps	0.0	0.0	0.0	0.0
Ordinary shares - end	M	206	206	209	211
Diluted shares - end	M	206	209	211	211

Company Valuation Summary	A\$M	A\$/sh
Post-Tax Kambalda Nickel Project NPV(6%)	292	1.50
Study Maturity / Technical Risk (25%)	-73	-0.37
Exploration Value	58	0.30
Corporate Overheads	-44	-0.23
Cash	31	0.16
Current Debt	0	0.00
Future Option/Equity Dilution	-20	-0.10
Total	244	1.25
** Value per share calc. assuming successful KNP (North) acquisition		

Directors & Management	
Liam Twigger	Non-Exec. Chairman
Edmund Ainscough	Managing Director
Ian Junk	Non-Exec. Director
Ashley McDonald	Non-Exec. Director
Deborah Lord	Non-Exec. Director
Aaron Wehrle	Exploration & Geology Manager
Jessamyn Lyons	Company Secretary

Resources & Estimates Mar '22	
JORC COMPLIANT RESOURCES	2.2Mt at 2.9% Ni
Indicated	1.3Mt at 3.2% Ni
Inferred	0.9Mt at 2.5% Ni
HISTORICAL ESTIMATES	1.1Mt at 2.8% Ni
ARGONAUT EXPLORATION TARGETS	3.5Mt at 2.4% Ni

Argonaut model Mar '22	
TOTAL INVENTORY	
All projects	3.3Mt at 2.62%

Price Assumptions	Nickel
Nickel (2023-2024)	US\$25,000/t
Nickel (2025-2032)	US\$20,000/t

Baker Resource

The initial Baker nickel sulphide Resource is reported as 568kt grading 2.8% Ni for 15.8kt of nickel metal (Table 1). This compares favourably with Argonaut’s previously predicted 550kt at 2.8% Ni Exploration Target. LM8’s Baker Resource includes Indicated and Inferred Resources of 295kt at 2.75% Ni and 273kt at 2.82% Ni respectively.

The ~225m (vertical) by ~200m (across) mineralised ‘Baker Shoot’ plunges approximately 27° to the southeast and extends at least 480m. The Baker shoot remains open down plunge.

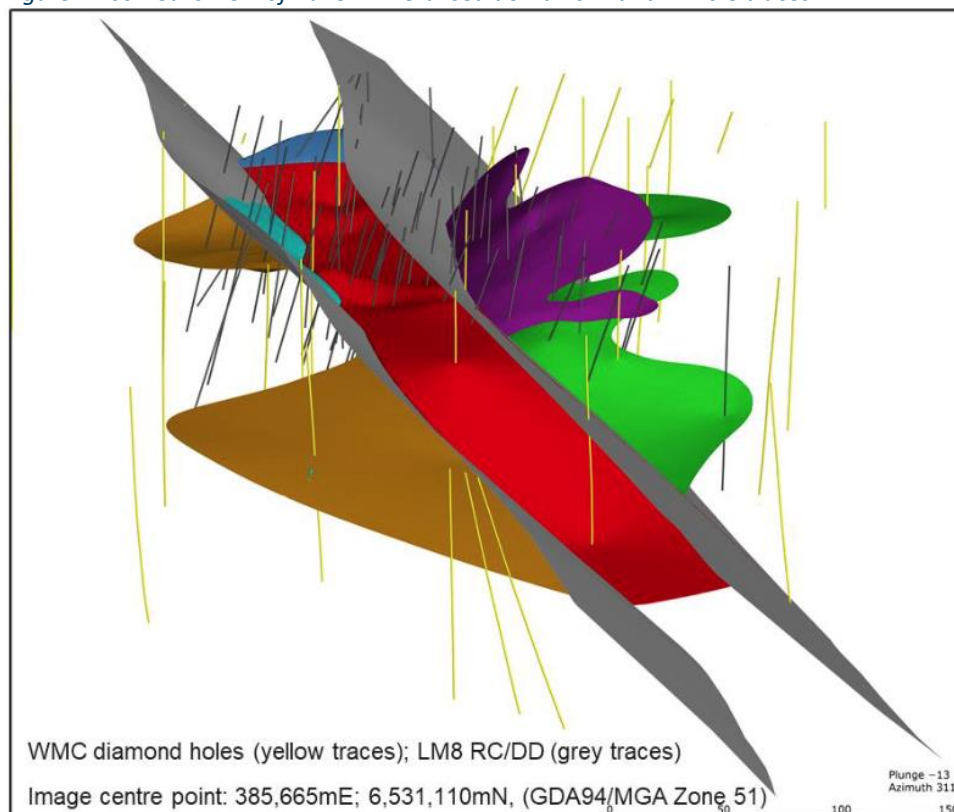
Future technical work will include metallurgical and geotechnical studies for contribution towards mine planning. 8,000m of RC and 3,000m of diamond drilling will be completed in the coming months to infill and extend the Baker Resource.

Table 1: Reported Baker Resource.

Baker	tonnes	Ni %	Cu %	Co %	Pd g/t	Pt g/t
Indicated	295,000	2.75	0.23	0.05	0.42	0.20
Inferred	273,000	2.82	0.26	0.05	0.50	0.24
Total	568,000	2.80	0.24	0.05	0.46	0.22

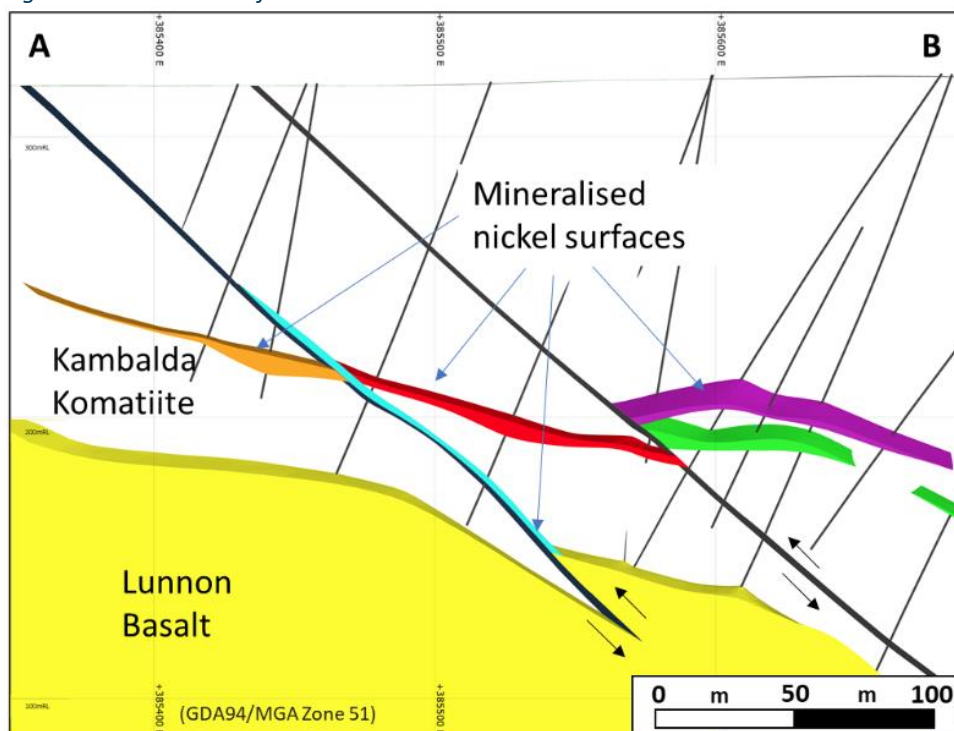
Source: LM8

Figure 1: Isometric view of Baker mineralised domains with drill hole traces.



Source: LM8

Figure 2: Section view of Baker Resource with structural model.



Source: LM8

Project Resources & Exploration Targets

An updated inventory of Resources, Historical Estimates and Argonaut Exploration Targets is presented in Table 2. In the 12 months since LM8’s IPO, the KNP Global Resource inventory has increased 65% to 2.2Mt at 2.9% Ni for 64kt of nickel metal. In the medium term we expect the conversion of historical Estimates from Jan and Foster to add a further 23kt of in-ground nickel metal. The recently acquired Kambalda North areas are expected to add major Resource tonnages in future years. To accommodate this, we have added an additional \$2M in drilling expenditure to our cash flow model in the years 2023-2026.

Table 2: Inventory of JORC 2012 Resources, Historical Estimates and Argonaut Exploration

DEPOSIT	CUT-OFF Grade Ni%	INDICATED			INFERRED			TOTAL			
		Tonnes kt	Grade Ni%	Cont. Ni kt	Tonnes kt	Grade Ni%	Cont. Ni kt	Tonnes kt	Grade Ni%	Cont. Ni kt	
JORC 2012 Resources	Foster N75C	1.0%	271	2.6	6.9	142	1.9	2.6	413	2.3	9.5
	Foster 85H	1.0%	387	3.3	12.8	300	1.3	3.8	687	2.4	16.6
	Foster South	1.0%	223	4.7	10.5	116	4.8	5.5	339	4.7	16.0
	Warren	1.0%	136	2.7	3.7	75	3.7	2.7	211	3.0	6.4
	Baker	1.0%	295	2.8	8.1	273	2.8	7.7	568	2.8	15.8
	Sub Total	1.0%	1,312	3.2	42.0	906	2.5	22	2,218	2.9	64.3
Historical Estimates	Jan								865	2.0	16.9
	Foster Main								300	2.1	6.3
	Sub Total								1,165	2.0	23.2
Argonaut Exploration Targets	Silver Lake								2,200	2.5	55.0
	Fisher								1,000	2.2	22.0
	Other Areas								300	2.0	6.0
	Sub Total								3,500	2.4	83.0
	Grand Total		295	2.0	8	273	2.0	8	5,233	2.3	122.0

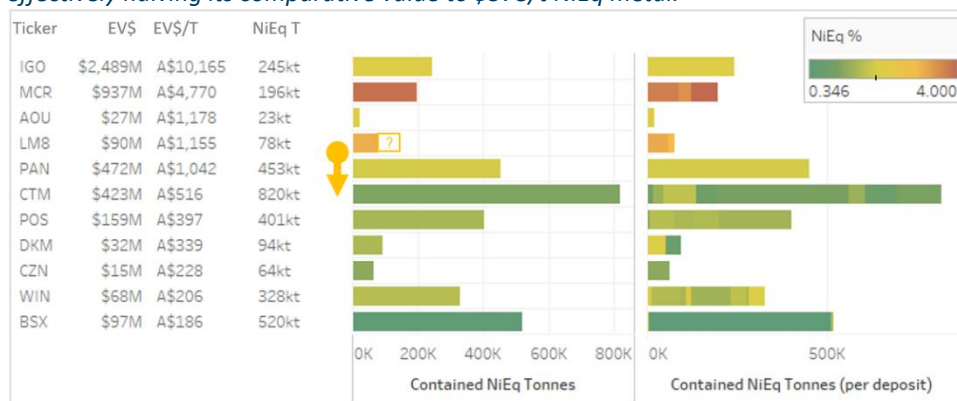
Source: LM8 and Argonaut

Peer Comparison

Figure 3 presents LM8’s nickel equivalent resource inventory compared with ASX listed nickel sulphide peers. LM8’s inventory compares favourably by average grade, and we expect tonnes to be expanded rapidly through definition of residual resources at Jan Shaft, Silver Lake and Fisher. Further upside is provided by the potential of new discoveries like Baker.

Based on current JORC Resources, LM8 is currently trading A\$1,155/t of contained nickel equivalent metal (Figure 3). This is comparable to explorer peer Auroch Minerals (AOU) and slightly higher than producer Panoramic Resources (PAN). Calculating \$EV/t NiEq ratio including Historical Estimates and Argonaut Deposit Estimates, LM8’s ratio drops to A\$578/t NiEq.

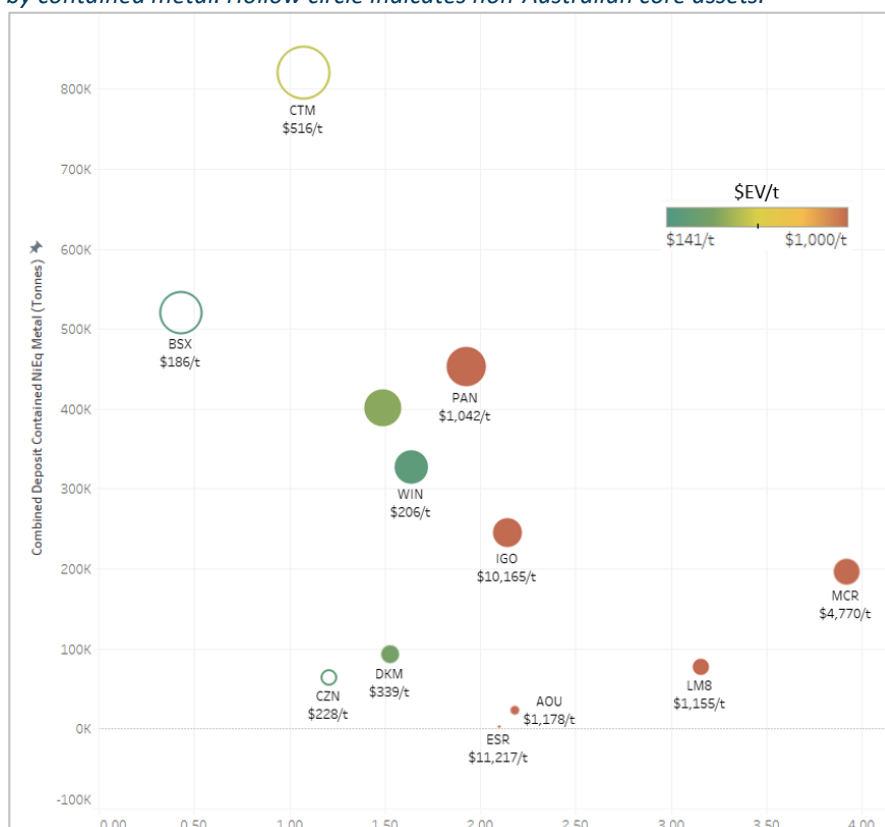
Figure 3: Statistics for Nickel sulphide focused ASX listed companies sorted by EV\$/T Nickel equivalent metal. Left pane chart displays combined nickel contained tonnes and grade. Right pane displays data as individual deposits. IGO EV calculated with allowance for IGO’s lithium assets. Argonaut expects Silver Lake and Fisher could double LM8’s Resource base, effectively halving its comparative value to \$578/t NiEq metal.



Source: Argonaut with data from SP Global and Company Reports

Figure 4 displays full deposit inventories (contained nickel equivalent metal) versus NiEq % grade for ASX listed sulphide focused companies. Companies are both labelled and coloured by \$EV/t contained nickel equivalent metal. Companies with higher grade inventories tend to be priced on a higher \$EV/t basis.

Figure 4: Deposit inventory comparison (NiEq tonnes) for ASX listed nickel sulphide focused companies versus NiEq grade. LM8 current JORC 2012 Resources and Resources plus Historical Estimates, Argonaut Estimates and Exploration Targets scenarios shown. Scaled by contained metal. Hollow circle indicates non-Australian core assets.



Source: Argonaut with Company, Factset and SP Global data

LM8's Resources plotted against ASX peers

Valuation

Our project valuation is based upon a development scenario that includes rapid successive development of the Baker and Warren shoot deposits in 2023 and 2024. Mining would then transition to Foster South, followed by Foster 85H and Foster 75C. The Silver Lake and Fisher Mines would be redeveloped in parallel from 2026 and 2027 respectively.

Our cash flow model assumes that LM8 will be able to fast track development due to the presence of existing Mining Licenses. Our model includes preproduction and growth capital costs estimated at \$74M over life of mine including dewatering, historic working reconditioning and additional decline development for Baker and Foster South.

Our valuation assumes a fast-tracked development with a 10-year mine life

We have assumed that mined ore will be transported to the BHP sulphide concentrator in Kambalda for processing. The model assumes a flat 70% payability for nickel metal. It should be noted that increasing competitive tension within the region prompted by Pure Battery Technologies proposed Kambalda hydrometallurgical processing plant may provide upside to our current payability assumption.

Figure 5: Argonaut's proposed production schedule for the KNP with payable nickel metal (assumed 70% payability).

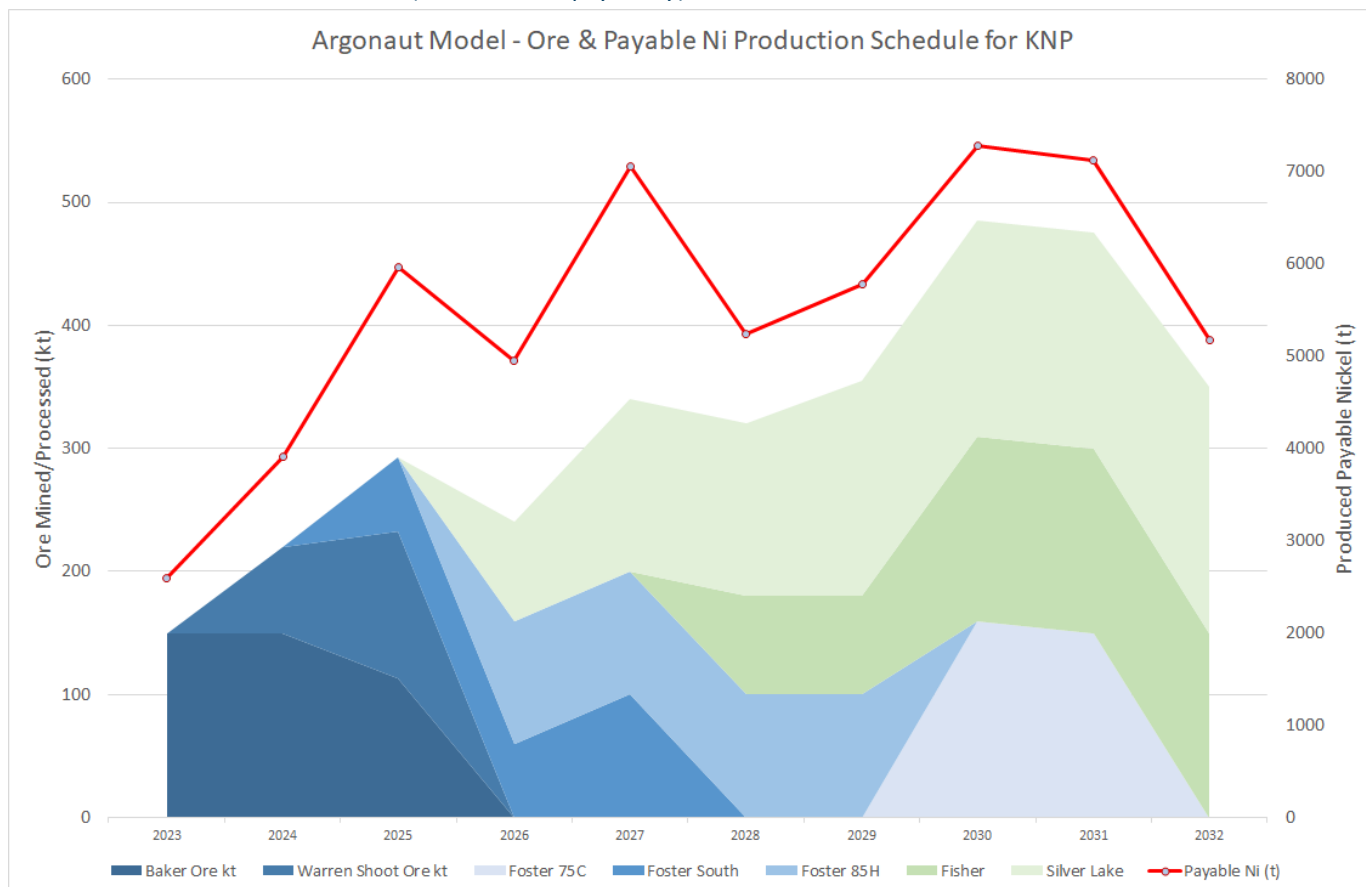


Figure 6: Argonaut's scheduled mining inventory for the KNP production model. Mineable inventory derived from JORC 2012 Resources and Argonaut in-house estimates.

Deposit	Ore Scheduled	Diluted Ni Grade %	% Estimate Used	Assumed AISC
Baker	413	2.7	75%	4.5
Warren Shoot	190	2.9	90%	4.5
Foster 85H	400	3.0	58%	4.5
Foster 75C	310	2.4	75%	4.5
Foster South	220	4.5	65%	4.0
Silver Lake	1085	2.4	49%	4.5
Fisher	610	2.1	61%	4.5

Source: Argonaut

Figure 7: Project cash flow model assumptions.

Parameter	Unit	Value
Concentrator Recovery	%	93%
Payability	%	70%
Mining Cost	\$/t ore	\$150
Surface Haulage Cost	\$/t ore	\$8
Processing Cost	\$/t ore	\$55
Administration Cost	\$/t ore	\$7
Sustaining Capital Cost	\$/t ore	\$90
Conc. Trans/Handl Cost	\$/t ore	\$5

Source: Argonaut using comparable scoping study sourced figures.

US\$25,000/t nickel price for 2023-2025, then \$20,000 thereafter

Our model assumes ~5% dilution of resources and utilises costs presented in recent Scoping Studies for comparable projects owned by MCR and DKM. We assign a US\$25,000/t nickel price for years 2023-2025 and US\$20,000 thereafter.

Our project model generates a post tax NPV₆ of A\$292M value, equivalent to A\$1.50 per share of listed capital plus dilution for the proposed Fisher-Silver Lake Deal.

Our cashflow model includes \$8M in capitalised drilling/studies for 2022, \$4M in 2023-2026 and \$2M per annum in 2027-2028.

Our company level valuation applies a 25% discount to the project valuation to account for various risks including:

- Absence of Scoping or Feasibility level studies
- Uncertainty surrounding the condition of historic workings
- Uncertainty of dewatering success
- Uncertainty regarding geotechnical risk

Our company model includes \$58M in exploration upside for the KNP project area.

We also account for ~\$30M current cash on hand (post April raising) and build in \$20M in dilution for future raisings and option conversion. We anticipate debt will be partially utilised for initial funding requirements and be paid back rapidly from positive cashflows.

Figure 8: Company level valuation based on basic project model. Accounts for current assets and future dilution.

Company Valuation Summary	A\$M	A\$/sh
Post-Tax Kambalda Nickel Project NPV(6%)	292	1.50
Study Maturity / Technical Risk (25%)	-73	-0.37
Exploration Value	58	0.30
Corporate Overheads	-44	-0.23
Cash	30	0.16
Current Debt	0	0.00
Future Option/Equity Dilution	-20	-0.10
Total	244	1.25

Source: Argonaut

Summary

We maintain our Speculative Buy recommendation and adjust our company valuation slightly down to \$1.25 per share. Our reduction in valuation (previously \$1.27 per share) was driven by additional provision for future Reserve drilling and studies. LM8 has delivered an excellent initial Resource from Baker in nine short months. With ongoing drilling at various deposits, we suspect there are plenty more buns in oven at the Kambalda Nickel Project.

Key Risks

Deal Completion

We assume successful completion of a deal to acquire the Silver Lake and Fisher mine areas.

Permitting & timing

Our modelling assumes the presence of existing Mining Licenses will enable LM8 to fast-track development. Delays to permitting would adversely affect our valuation.

Mineable inventory

Argonaut's mineable inventory is based on proportions of published Resources, historic estimates and Argonaut exploration estimates.

Metallurgical performance

Metallurgical performance is based on comparable deposits within the region.

Marketable product quality

We assume that nickel sulphide concentrate quality will be of marketable standard and without high quantities of deleterious elements.

Commodity pricing

Our valuation assumes nickel prices will be sustained over the coming decade. We use a US\$25,000 nickel price for operational years 1-3 and US\$20,000 thereafter

Costs

Cost assumptions are based on incomplete information or informal estimates. Operating and capital costs assumptions rely on our knowledge of industry rates.

Exploration success

We have assumed that the Baker discovery will be converted into a mineable Reserve. Failure to do so would fundamentally change the outcome of our valuation.

Interest rates/discount rates

Argonaut takes cash flow risk into account when choosing discount rates for different projects. Our valuation is sensitive to the discount rate used.

Unashamedly

Board & Management

Mr Liam Twigger – Non-Executive Chairperson

Liam is the Deputy Chairperson and Executive Director of Argonaut which recently merged with PCF Capital Group, which Liam founded in 1999. Liam is Chairman of Solgold Plc, a London and TSX listed resources company focussed on the discovery, definition and development of copper and gold deposits in Ecuador.

Mr Ian Junk – Non-Executive Director

Ian has a Bachelor of Engineering (Mining) (Hons) from the WA School of Mines and has a detailed understanding and long history with nickel mining in Kambalda. In the past,

having worked as a Mine Manager at various Kambalda nickel mines for Western Mining Corporation (WMC), he then played an integral role in the revitalisation of many WMC Kambalda nickel mines when they were divested in the early 2000s. Mr. Junk has played significant roles in the exploration, development and commissioning of various other mining operations around Australia, through his own mining entities and contracting companies.

Mr Ashley McDonald – Non-Executive Director

Ashley is the nominee for Gold Fields Limited. He is currently Vice President Corporate Development for Gold Fields and has played a key role in a number of the company's key growth transactions including acquiring the Granny Smith, Lawlers and Darlot gold mines from Barrick in 2013, acquiring a 50% interest in the Gruyere gold mine in 2016 and evaluating the various funding options for Gold Fields key development asset Salares Norte (capex US\$830M) in Chile in 2020.

Ms Deborah Lord – Non-Executive Director

Deborah has a Bachelor of Science (Geology) (Hons) from the University of Melbourne and more than 30 years' experience in the resources sector in Australia, North and South America. Her previous experience includes roles with Western Mining Corporation, Placer Dome, SRK Consulting and BHP.

Mr Edmund Ainscough – Managing Director

Ed led the acquisition of joint venture rights to the Foster/Jan Nickel Project (in 2014) and the acquisition of the Great Southern project (in 2016) from Silver Lake Resources now owned by Medallion Metals Ltd, of which he is also a Non-Executive Director. A geologist by training, he has extensive operational experience (gold, copper and tin) in Australia, Africa, the UK and New Zealand. He was previously a senior member of the Gold Fields executive team in Australia where he held a key business development role reporting to the Executive Committee until 2008. He was the last Chief Geologist for WMC at the St Ives Gold Mine, overseeing a \$25 million per annum drill budget and the addition of over 2.0 million ounces to reserves during his tenure.

Mr Aaron Wherle – Exploration & Geology Manager

Aaron is a geologist with 25 years' experience in Australia, Canada and the Philippines. He has significant directly relevant operational experience having worked for WMC at St Ives in the Kambalda district for a number of years in a variety of production roles before being promoted to the site management team as Exploration Manager. In this role under new owner Gold Fields Ltd, he played a key part in the ramp up of drilling activities to dramatically increase the gold resource base in support of a new 4.8mtpa processing facility.

Jessamyn Lyons – Company Secretary

Jessamyn is a Chartered Secretary, a Fellow of the Governance Institute of Australia and holds a Bachelor of Commerce from the University of Western Australia with majors in Investment Finance, Corporate Finance and Marketing. Ms. Lyons is also a Director of Everest Corporate and Company Secretary of Dreadnought Resources Limited (ASX:DRE), Doriemus PLC (ASX:DOR), Stealth Global Holdings Ltd (ASX:SGI), Ragnar Metals Limited (ASX:RAG) and EchoIQ Limited (ASX:EIQ).

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Important Disclosure

Argonaut acted as Joint Lead Manager in the Placement to raise \$30M in April 2022 and received fees commensurate with this service. The Chair of Lunnon Metals Ltd (LM8), Mr Liam Twigger also holds roles with the Argonaut Group: Deputy Chair of Argonaut Limited and Executive Director, Corporate Finance. Mr Twigger is not involved in the creation of research material on LM8 in any way. The views expressed in LM8 research material accurately reflect the relevant analyst's personal views about LM8.

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