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RESEARCH

Xtract Resources

5th October 2020

Compelling combination of strong cash flow generating gold projects and quality blue-sky exploration copper-gold plays

Xtract Resources is the old Xtract Energy that Executive Chairman Colin Bird rescued back in 2013 and set on a new course. The early acquisition of a Chilean gold mine failed to meet expectations but the Manica Gold mining licence in Mozambique looks to be coming good. The company has been benefiting from a growing profit share from the alluvial gold on its licence area in a neat deal where other parties fund the necessary capex.

■ Growing profit share from Manica alluvials and hard rock gold mining

Profit share from Manica has been growing steadily for a couple of years now but it is about to step up a gear. The same sort of model is being employed at the Fair Bride hard rock deposit where a 35,000oz pa gold operation is set to begin before the year-end. Here, Omnia is providing the \$6-8 million necessary capex and Xtract will get 23% of revenue after costs.

■ On course for £12.5m share of annual mining profits within 12 months

More similar profit-sharing deals are about to come to fruition at Eureka (copper & gold) and Kalenga (copper), dramatically transforming Xtract's fortunes. The board has worked hard on these deals for a while, but it does seem that all the trains are about to arrive at the station at the same time.

■ Blue-sky projects include Bushranger in the hot Lachland Fold Belt

This area in New South Wales is Australia's world-class copper-gold province and elephant country. Here, Xtract has just acquired an open ended JORC resource of 350,000t of contained copper in quite a coup. ASX listed explorers with interests here have recently seen big re-ratings.

■ Big disconnect in the share price as our valuation shows 480%+ upside

We believe our valuation is conservative and initiate coverage of Xtract with a target price of 6.56p and a **Conviction Buy** stance.

Table: Financial overview

Year to end Dec	2018A	2019A	2020E	2021E
Revenue (£'000)	892	1,351	1,400	8,300
PTP (£'000)	(736)	(1,090)	(720)	5,300
EPS (p)	(0.20)	(0.30)	(0.15)	0.86

Source: Company accounts & Align Research

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CONVICTION BUY

– Price target 6.56p



Key data

EPIC	XTR
Share price	1.125p
52 week high/low	2.225p – 0.50p
Listing	LSE
Shares in issue	457.30m
Market Cap	£5.1m
Sector	Mining

12 month share price chart



Analyst details

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IMPORTANT: Xtract Resources (XTR) is a research client of Align Research. Align Research holds an interest in the shares of XTR. For full disclaimer information please refer to the last page of this document.

Business overview

Xtract Resources Operations

Xtract Resources is a resource development and mining company which is focused on acquiring brownfield resource projects to unlock value for shareholders. The company is targeting projects in locations where mining and infrastructure is prevalent and where there are transparent mining regulations.

- **Manica Gold Project** (Mozambique) – Located 4km north of the town Manica, 270km west-northwest of the city of Beira in Mozambique. The project is set to produce 35koz per annum (500kt at 2.62g/t recovered) at a cash cost of US\$556/oz
- **Manica Alluvials Project** (Mozambique) – Xtract entered into an agreement in June 2017 with Omnia, a local gold producer working alluvial deposits nearby the Manica concession. The contract is for 10 years or until the alluvials become depleted.
- **Eureka Copper Project** (Zambia) – Located 100km from Kabwe, west of the Zambian Copperbelt district. This is a small-scale mining licence comprising 345 hectares, where production is set to begin shortly.
- **Kalengwa Processing Copper Project** (Zambia) – Located in the North-western province of Zambia, 800km north-west of Lusaka and 400km south-west of Kitwe. The Kalengwa Copper Mine is believed to have been one of the highest-grade copper mines in Zambia. Historic Kalengwa dumps have the potential to contain 25,000t of copper metal. Copper mining looks set to commence in 2021.
- **Bushranger** (Australia) – Located in the Lachland Fold Belt, New South Wales. The Racecourse deposit has a JORC (2012) compliant inferred resource estimated at 71Mt @ 0.44% Cu (350,000t of contained copper) and 0.064g/t Au using a 0.3% Cu cut-off, which is open ended in both directions.



Alluvial gold mining operation at Manica. Source: Company

Copper market

Due to its multiple industrial uses and low substitution, copper is seen as a global economic bellwether, acting as a decent gauge of global manufacturing activity. The metal is mainly used in construction, power generation and transmission, manufacturing electronic products, along with the production of industrial machinery and motor vehicles. The copper price has quickly sprung back up above the US\$6,000/t level since the COVID-19 downturn after slipping below US\$5,000/t.

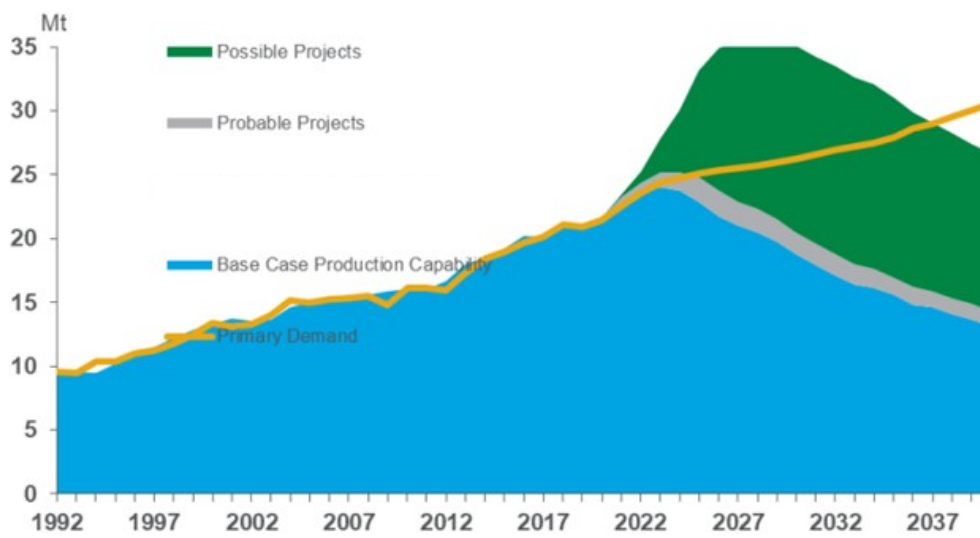


Five-year copper price chart. Source: MarketInsider

Fundamentals seem better than ever for copper. New copper mines are becoming rarer for a number of good reasons. Firstly, fewer new copper mines are being proposed, as mining companies seem reluctant to develop projects in higher risk jurisdictions. Secondly, the low hanging fruit has now gone leaving lower grade, higher strip ratios with higher cost operating models. Thirdly, more impurities make treatment more difficult, not to mention more demanding regulations for the smelter market. With increasingly lower grades being mined globally, this all adds up to the opening up of a supply gap.

The big global shift to renewable energy requires much greater copper intensity as green technology is a heavy user of a number of metals, notably copper, which is an essential element of electric vehicles (EVs), batteries, solar panels and wind turbines. The Copper Development Association reckons that wind turbines Vestas Models V47 and V80 (600kW) use something like 363kg of copper in the motor windings. It depends on the model, but the US Government's National Renewable Energy Laboratory has stated that around 0.7 – 1.8t of copper is required for every megawatt of wind power.

Respected metals research house CRU in its Copper Long Term Market Outlook to 2035 foresees falling production at existing mines combined with a demand boost from EV's. This is expected to result in multi-million tonne per year shortfalls in supply and usher in commensurately higher prices. Meanwhile, the global energy and mining researcher Wood Mackenzie is forecasting a 50% increase in primary copper demand over the same sort of period.



Copper demand and supply. Source: Wood Mackenzie via Arc Minerals

Demand for EVs will impact the copper market as these vehicles have a far higher copper content than ordinary vehicles and between 2019 and 2040, Wood Mackenzie reckons that EV sales will grow at an average rate of 12% per annum. In 2035 it is expected that copper demand from EVs will exceed demand from vehicles powered by internal combustion engines. At the same time, the world's population and power consumption are ever increasing and all power generation and transmission requires copper.

Background

Shares in the company have been trading on the stock market for almost fifteen years, initially as Resmex which was renamed Xtract Energy following the acquisition of Xtract Oil and which ultimately proved a failure. In 2013, the current chairman Colin Bird created a group and raised funds to stabilise the company and sort out the debts. Under the new name of Xtract Resources, Colin and his team ushered in a new strategy of focusing on precious and base metals and the company's name was changed to Xtract Resources.

At that time, Jan Nelson, the ex-CEO of Pan African Resources, was appointed CEO. Early on a host of deals were considered including a joint venture with Polar Star on the Mejillones Phosphate Property in Chile, the Namakwa Uranium Deposit in South Africa and the Chepica gold and copper mine in Chile.

In 2015, Xtract announced the acquisition of the 3990C Manica Gold mining license in Mozambique, which included a number of gold prospects including the Fair Bride open pit gold deposit. The project was acquired from Auroch Minerals (ASX:AOU) for US\$12.5 million of which US\$4.5 million was cash and the remainder paid in shares. At that stage the Fair Bride project was six months away from the completion of a Bankable Feasibility Study (BFS).

Manica was a project that Jan Nelson and Colin Bird (Chairman) had explored as part of Pan African's development programme. At Xtract, Manica was seen as being the vehicle to help progress the company to become a mid-tier gold producer with a complex plant involving an open pit development followed by mining underground to take advantage of gold grades which rose to 4g/t. At one stage, it was proposed that Manica could be sold for US\$17.5 million, but it is good news that the company has hung onto this project.

The Chepica gold and copper mine in Chile turned out to be a bit of a disappointment. It was one of those irritating breccia mines where grades were inconsistent and following the orebody could prove very difficult. The decision was made to close this mine and the company went back to concentrate on Manica and consultants were brought into design a very basic 30,000 ounce per annum pit with a 7 year mine life and a 7-to-1 stripping ratio based on the Fair Bride orebody. While that was planning to be brought into production local mining companies have been granted concessions to mine the alluvial gold.

The move into small scale mining has also been extended into copper. To this end, the company has been successfully exploring Eureka in Zambia, where impressive drilling results have outlined a near-surface oxide potential below the current pit and follow-up 3D modelling work has highlighted some decent anomalies.

Most recently, in June 2020, Xtract announced the acquisition of the Bushranger Copper-Gold Project, located in the Lachlan Fold Belt, New South Wales, which is Australia's world class copper-gold province.

Operations

Over recent years, Xtract has assembled a portfolio of near-term assets which are near surface and can be brought into production with low cash costs within 2 years without any major capital expenditure. In addition, the opportunities being pursued must have good upside growth potential and be located in favourable mining jurisdictions. The management team has shown that they are adept at bringing such opportunities into the company with low acquisition costs.

Manica Gold Project - (Mozambique)

The Manica Gold Project is located 270km west-northwest of the city of Beira in Mozambique, and 4km north of the town of Manica. **The project covers an area of 45.9km² and lies in the Odzi-Mutare-Manica (OMM) Greenstone belt in an established gold mining area which has seen more than 2 million ounces (Moz) gold previously mined.**



Location of the Manica Gold Project. Source: Company

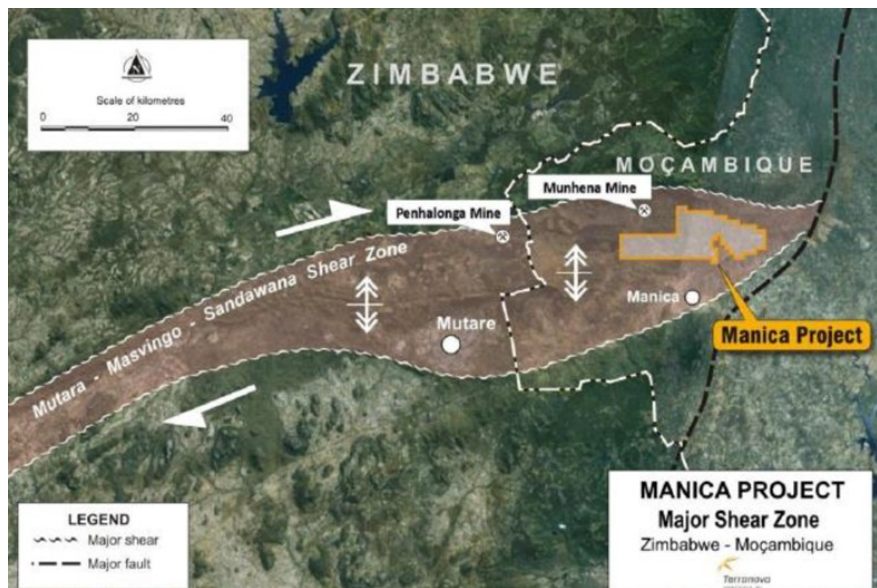
On the Manica licence area, gold is found both in hard rock and alluvial. In the hard rock, Fair Bride is an open pit project with a 1.26Moz SAMREC compliant gold resource which is soon to go into production. Small-scale gold production from alluvials has been ongoing since 2017. Although the company has been involved in a significant amount of exploration work at Manica, still only 10% of the concession has been drill tested.

Geology

The project area is located within the 2.6-2.7 Ga OMM Greenstone belt, a late Archean linear structure which occurs on the eastern side of the Zimbabwe Craton, which formed the northern portion of the larger Kalahari Craton. The eastern extension of the OMM Greenstone Belt is known as the Manica Greenstone Belt and here there is change in the general strike of the greenstone belt due to shearing. The Macequece Formation (where the Fair bride orebody occurs) and the Vengo Formations are seen to be the most important lithologies in the Manica area of the greenstone belt.

The lowermost Macequece Formation mainly consists of ultramafics/mafic metavolcanics with intercalations of banded iron formation (BIFs), serpentine and meta-chert which have been altered by regional metamorphism to become rich talc, chlorite amphibole and tremolite. The Vengo Formation is seen to be a younger, shallower, sedimentary unit that lies over the Macequece Formation.

Mineralisation is oxidised to a depth of about 50- 60m below the surface. The main minerals that make up the host rocks consist of magnetite, hematite, limonite, hornblende, carbonate, sericite, albite and auriferous pyrite, arsenopyrite and pyrrhotite as well as native gold. The host rock lithologies contain orebodies which vary in thickness from 2m to 30m, which are subvertical and with strike lengths of several hundred meters.



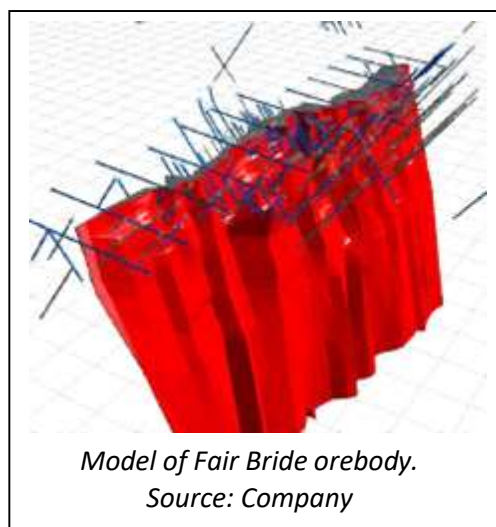
Manica Gold Project's position on a major shear zone. Source: Company

There are three E-W trending synforms (a fold of rock layers that slope upwards) that plunge 20° - 25° to the east within the major OMM Greenstone Belt synform. In some areas, tight isoclinal antiforms have been truncated by thrust faults separated by synforms. Deformation is mainly associated with the Mutare-Masvingo-Sandawana (MMS) strike slip shear zone that extends 500km from Eastern Mozambique to Southern Zimbabwe. Large regional ENE structures of more than 10km in length that vary in trend locally have been created as a result of this shearing. Two adjacent regional shears which host the gold mineralisation within the Fair Bride project are located on the margins of one of the OMM Greenstone Belt synforms. The Fair Bride Project is located on the southern flanks of the syncline and strikes EW.

Fair Bride

Fair Bride is an open pit project with a SAMREC compliant Mineral Resource Estimate (MRE) of 1.26Moz (728k ounces Measured and Indicated). A total of 229 drill holes (31,662m) have been completed on the Fair Bride deposit accounting for 60% of the total drilling on the Manica project, with a total of 137 holes comprising the resource.

The Fair Bride orebody has a mineralised strike of around 1,040m. The mineralisation is well understood, and the geological model shows excellent continuity. This orebody is bounded by a fault in the west and low-grade mineralisation in the east but remains open on dip.



Mineral Resource Category	Tonnage Mt	Au g/t	Au kg	Au Koz
Measured	9.750	1.86	18,130	582.9
Indicated	3.310	1.62	5,368	172.6
Total M& I	13.060	1.80	23,498	755.5
Inferred	0.894	1.17	1,049	33.7
Total Measure, Indicated and Inferred	13.954	1.76	24,547	789.2

Open Pit MRE at 0.5g/t cut-off and final depth of 280m below surface.

Mineral Resource Category	Tonnage Mt	Au g/t	Au kg	Au Koz
Measured	0.005	4.40	24	0.8
Indicated	0.307	2.61	801	25.8
Total M& I	0.312	2.64	825	26.5
Inferred	5.350	2.59	13,874	446.1
Total Measure, Indicated and Inferred	5.662	2.60	14,699	472.6

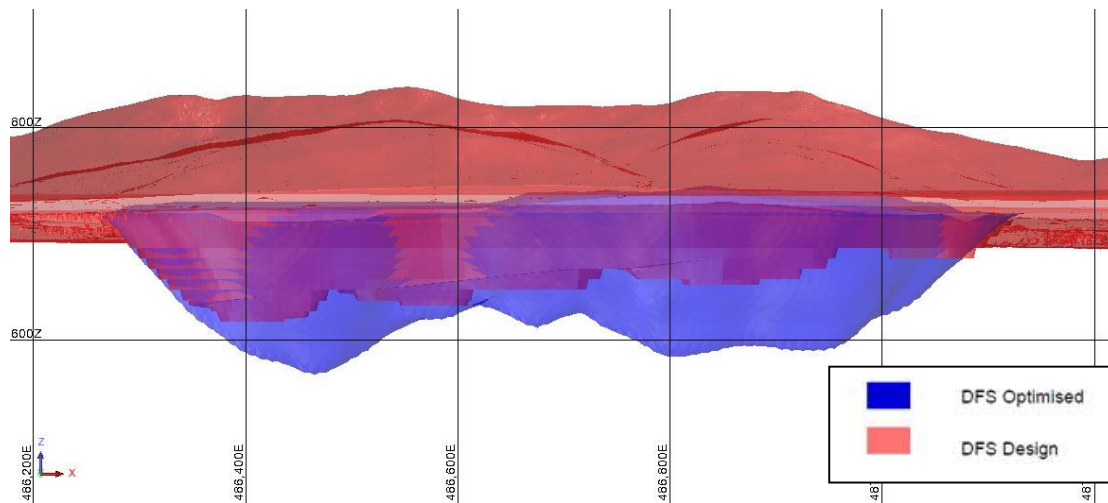
Underground MRE at 1.5g/t cut-off and depth from 280m below surface.

Source: Independent Technical report 04 March 2016.

The Definitive Feasibility Study based on this MRE outlined a project that is set to produce 35koz per annum (500kt at 2.62g/t recovered) at a cash cost of US\$556/oz. This is based on an open pit with a 7 year mine life and a 7.2:1 strip ratio milling 40,000t per month.

DFS key parameters	
Extraction method	Conventional open pit
Life of Mine	7 years
Total ore tonnes processed	3.3Mt (42ktmp)
Total ounces produced	215koz (~31kozpm)
Recovered grade	2.62g/t
Gold price	US\$1,262 per oz
Project payback period	2 years
IRR	41.1%
NPV at 8.4% discount rate	US\$42 million
Capex	US\$43.68 million
All inclusive sustaining cost (breakeven)	US\$556/oz
All inclusive sustaining cost (breakeven)	US\$862/oz

Manica Gold Project DFS key parameters. Source: Company



Fair Bride optimised pit view. Source: Company

Production

There is low cost, near term, ready-to-build production where the metallurgical risk has already been solved as a decent gold recovery has been found to be achievable by fine grinding and pressure oxidation. In 2019, Xtract was given the opportunity to move the Fair Bride project forward from development stage to production within 12 months without any execution risk. A deal was signed with an established mining contractor in the area, Omnia, with a strategy of going for the low hanging fruit and gaining early cash flow.

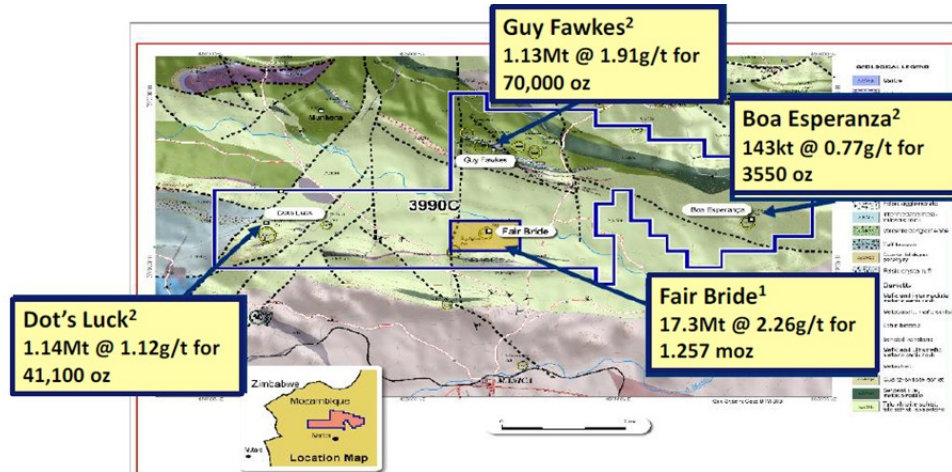
Omnia has a significant portfolio of mining and processing equipment and will be partnering with Xtract on hard rock potential including Fair Bride. Omnia is financing the operation at a cost of US\$6 – 8 million and Xtract will be entitled to a 23% share of revenue on gold sales after costs.

A carbon in leach (CIL) plant will be added to an existing front-end plant which consists of crushing, grinding and ball mill plus a tailings dam needs to be constructed. With this plant up and running the partners will be able to treat any ore in the area.

The operation is expected to have a 7-year life at 35,000oz pa. However, further optimisation is possible and ongoing. Major further exploration opportunities exist within the concession and adjacent area as only 10% of the 4,300ha licence area has been drilled. Nearby, there are additional prospects for further exploration success such as Guy Fawkes, Boa Esperanza and Dot's Luck, which all have declared resources.

In August 2020, the board was able to announce that a mining contractor agreement had been reached with Longhau Tianci Mining Co Ltd for the exploitation of the Guy Fawkes hard rock gold deposit at Manica. The agreement has a 6-year life or until the ore body is depleted or no longer viable. Xtract's 100% own subsidiary Explorator will receive 20% of gold production (after settlement by Explorator of the mining production tax).

Longhau is to begin adit mining and initial underground development during the processing build phase. Certainly, the lead time ought to be minimised as the processing plant is currently located in Mozambique. As previously reported, Guy Fawkes has a SAMREC-compliant Indicated and Inferred Resource of 1.13Mt @ 1.91g/t Au with potential for additional upside in several dimensions.



Exploration potential at Fair Bride. Source: Company

In addition, Longhau have also been appointed to mine the Boa Esperanza hard rock gold deposit on similar terms. Once again, Longhau is to start adit mining and initial underground development while the processing plant is being built. In the past, it has been reported that Boa Esperanza had a SAMREC-compliant Inferred Resource of 143,000 tonnes @ 0.77g/t Au. There are shallow drill intercepts of 15.45m @ 1.35g/t Au which really highlight the potential for higher grade ore shoots. On top of that is further gold potential along a sparsely drilled structural extension to the west-northwest.

Manica Alluvials Project - (Mozambique)

Alluvial gold deposits are natural accumulations of gold which have been liberated from hard rock by weathering. The gold migrates due to gravity and waterflow and ends up in streams where it can be concentrated into valuable gold ore deposits. At Manica, a high frequency of nuggets is found amongst the particle sizes of gold which shows that the gold has not moved far and hence is a good sign for primary hard rock exploration.



Processing alluvial gold at Manica. Source; Company

In July 2017, the company entered into an agreement with Huafi Gold Resources (formerly called Sino Minerals), which is an established alluvial mining contractor. The agreement entitles Xtract's subsidiary Explorator Limitada to 25% of the gold mined, which amounts to a net 19% after Mining Production Tax. The initial contract period is 10 years (with the option of a further 5 years) or the depletion of alluvials.



Processing of alluvial gold at Manica. Source: Company

In June 2017, the company engaged with Omnia to work the alluvial deposits with the contract for the western half of the concessions and lasting for 10 years or until the alluvials become depleted.

Unaudited results for alluvial mining contractors for the Manica Concession for the three-month period ended 30th June 2020 revealed total alluvial mining contractor gold production of 17.59 Kg (equivalent to 566 ounces). Of this total, 5.65 Kg (equivalent to 158 ounces) was attributable to Xtrata's 100%-owned subsidiary Explorator. The combined attributable revenue to Explorator from gold sales and other income for this period amounted to US\$261,679. At the time these results were announced in August 2020, the board reported that negotiations to introduce further mining and processing for both alluvial and hard rock production were progressing.

Eureka Copper Project - Zambia

With the company's focus on copper and the management's in-depth experience of Africa, it is little surprise that Xtract headed to Zambia. The Eureka Copper Project lies 100km from Kabwe, west of the Zambian Copperbelt district. This represents a small-scale mining licence covering some 345 hectares and is accessed via a dirt road from Kabwe. Roan Selection Trist (RST), Vast Resources and Caledonia Resources have all looked at this project over the decades. RST was a big player in the 1960s-90s and built some of the biggest mines on the copper belt but only assayed for copper here and did not test for gold.

At Eureka, Xtract has the benefit of good exploration history and some good drill intercepts. The company has acquired all this past data and used it as the basis to select drill targets. The big interest is a 3.5km long soil geochemical coincident anomaly that has been revealed by regional soil sampling for copper and gold with peak values of 1,315ppm copper and 540ppb gold. There has only been limited drilling in the past within this anomaly, however intersections have been up to 25.7m @ 3.30 copper and 0.25g/t gold including 9.7m @ 5.9% copper and 0.26g/t gold within a shear zone. This resource was mined in 2008 by a local operator extracting something like 1,000t, with a grade of 3% copper apparently being recovered. Mineralisation intersected by historic drill holes and partially mined remains open to the southeast of the pit as well to depth.

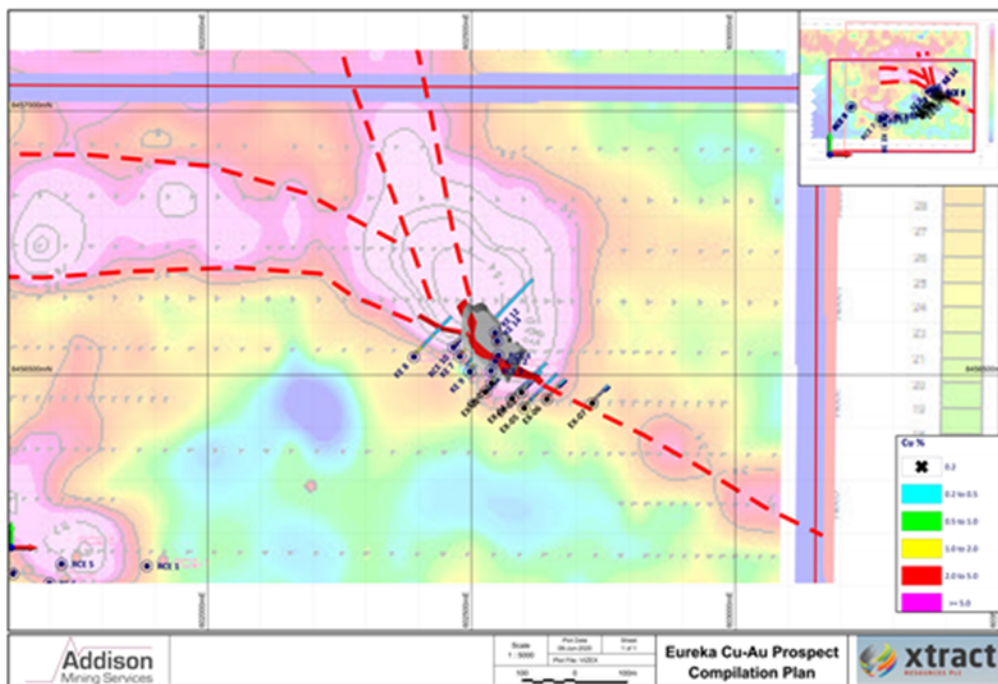
There is a second sub-parallel copper 760m long anomaly also found by soil sampling at Eureka West, which is 1km SW of the main Eureka pit. This is the site of the Villagers Pit which was dug by local artisanal miners. A composite grab sample taken by Xtract from hand-sorted boulder piles at the site returned assays of 9.81% copper, 1.94g/t gold and 13.77g/t silver. The potential here seems to be high as Xtract's geologists believe that the short holes drilled in the past simply missed this target. In addition, past exploration effort has highlight several other geophysical anomalies which just have not been followed up on and may warrant drill testing by the company.

Management believes that this 9% grade copper pit at Eureka West is not the whole story however and have set about looking at the project from a fresh perspective. Xtract's approach has been to focus on the entire strike length because there have been intersections found all the way along this structure. There are plans for step drilling as well as infill drilling, which is just the normal exploration practice the world over but not traditionally down in Zambia. Instead of focusing on a smaller area, Xtract is looking over a larger area in search of a big system. Following a full geochemistry and geophysics programme, the plan will be to drill where these anomalies coincide.

Drilling

The company has completed 7 angled diamond drill holes at Eureka which were focused on testing strike and depth continuity of shallow mineralisation encountered by historic drilling in the 3.5km long soil geochemical anomaly. Drilling results were highly encouraging with the best intersections including 32.0m @ 1.58% copper, 0.07g/t gold (hole EX-01) from 50.0 – 82.0m and 14m @ 0.81% copper, 0.20g/t gold (hole EX-02) from 106.0 – 120.0m. Importantly, hole EX-02 actually ended in mineralisation with the intercept including 4.0m @ 2.35% Cu and 0.53g/t gold at its base.

Geological interpretation of the results of this small drilling programme has suggested that the near-surface gossanous mineralisation discovered at Eureka is most likely to have been remobilised from potentially extensive stratabound sulphides where were found in the basal intercept in hole WX-02. There had been ideas that this might be an Iron Ore, Gold, Copper (IOGC) type of deposit, but these results seem to suggest mineralisation that is similar to the original Copperbelt.



Eureka copper- gold prospect compilation plan. Source: Company

Earlier on this year, consultants Addison Mining Services undertook a 3D modelling study where they digitised the borehole results of the past and combined them with the results from Xtract's drilling programme. This modelling work served to highlight not only shallow oxide copper potential in the vicinity of the open pit but also far larger potential along strike to the northwest, where the deposit bifurcates (split into two) with one limb heading north. The other limb and these limbs go NW where in the 4km distance to the boundary there is an impressive geochemical anomaly that sits on top of a geophysical anomaly. The copper-gold intercept in hole EX-02 also remains down-plunge. Given such strong results, the company plans further drilling follow up in 2020.

In September 2020, the board was able to provide news on the pitting programme designed to track extensions to the Eureka copper-gold deposit on its small-scale mining licence. Exploration pitting along strike from the shallow Eureka copper-gold deposit served to confirm earlier modelling of a strike extension to the northwest with pit channel sample measurements by hand-held XRF analyser returning values up to 2.65% Cu in Pit EX-P3 (in the weathered bedrock). This does indicate the potential to extend the deposit's strike length by more than 50% to 300m plus. Potentially, this zone has been reported to not only remain open to further strike expansion beyond the exploration pitting area but also to be open down-plunge. Pitting at Eureka West indicated the potential for additional width at this target. On the back of these really encouraging results, the team began planning for follow-up drilling with the aim of significantly expanding the Eureka deposit.

Kalengwa Processing Copper Project - (Zambia)

Xtract has the processing rights at the Kalengwa Copper Mine which is located in the North-western province of Zambia 800km north-west of Lusaka and 400km south-west of Kitwe. The Kalengwa Copper Mine is believed to have been one of the highest-grade copper mines in Zambia. In July 2019, the company was able to announce a deal with KPZ International to act as contractor for the Kalengwa Processing project on the copper large scale mining licence number 24401-HQ-LEL.

Historically, from 1970-82, total production of 1.94Mt at 9.44% copper and 50g/t silver was reported, resulting in 15,000t of copper production per annum. However, those figures rather hide the fact that a fifth of the copper was direct smelting ore with a grade in excess of 26% copper. The Kalengwa Mine was owned and managed by Roan Consolidated Mines over the 1970-82 period, the proprietor of a number of the largest mines on the Copperbelt which included the Mufulira, Luanchya, Chambishi and Chibuluma Mines.

Given such rich grades being mined fifty years ago, it is little surprise that the historic Kalengwa dumps and tailings represent an interesting opportunity. Xtract has been appointed as contractor to oversee and commence initial production from the Kalengwa dumps which are thought to contain around 1.34Mt of ore, potentially containing 25,000t of copper metal. The company plans initially to begin a simple ore sorting programme which would then be ramped up to become a more significant ore processing operation over a number of months with an annual production target rate of 6,000t of copper metal. Xtract as contractor would receive 33.33% of net profits from the operation and will be required to fund the necessary capital expenditure.

Tailings have been assessed to contain a historic non-JORC compliant Resource of 2Mt averaging 1.015% copper (20,300t copper) with some by-product silver. Xtract's channel sampling has suggested similar sorts of grades which gives some confidence in that resource figure. Further evaluation test work should be able to confirm the suitability of the tailings for retreatment. Xtract's contract covers not only processing copper ores from the various dumps but also the in-situ ore located within the Kalengwa Mine's processing licence. To this end, an exploration programme will determine the extent of previously reported potential strike extensions to the north and south of this historic open pit to determine the potential for a new open pit operation.

Previous drilling of the orebody down-plunge on the NE and SW flanks of the open pit have demonstrated that further resources remain unexploited in these areas. It does seem that additional drilling has the potential to significantly increase the historically reported non-JORC complaint Resource of 1.45Mt @ 2.50% Cu (for 36.300t of copper metal), that was determined in 1998.



Kalengwa Processing Copper Project. Source: Company

Kalengwa is thought to be an IOCG deposit type, a type which includes Olympic Dam and Earnest Henry in Australia. The confirmed occurrence of intrusive igneous bodies in the mine vicinity is encouraging as such bodies typically act as source rocks/conduits from substantial IOCG mineralisation. Blackthorn Resources has defined over 1Mt of copper in situ at its Kitumba project 180km south-east of Kalengwa based on IOCG copper mineralisation style. Similarities to Kalengwa include host rock age, regional scale faulting and the presence of intrusive source rocks. The board reckons that only the upper supergene mineralisation has been exploited and that operations terminated when Roan believed that they had exhausted the high-grade supergene core.

Previous drilling of the orebody down-plunge and on the NE and SW flanks of the open pit have demonstrated that further resources may potentially remain unexploited in these areas. Xtract believes that additional drilling has the potential to significantly increase the historically reported resources.

Bushranger Copper-Gold Project – (Australia)

In June 2020, Xtract was able to announce the acquisition of ProspectOre Ltd for £1.25 million in shares. ProspectOre has 100% interest in the Bushranger Copper-Gold Project, located in the Lachlan Fold Belt (LFB), New South Wales, Australia's world class copper-gold province where several major mines are currently operating in an area with excellent infrastructure. The LFB contains mines like Newcrest's giant Cadia-Ridgeway operation and has recently seen a big resurgence of interest following the discovery of new, large scale, porphyry systems such as Alkane Resources' (ASX:CCC) Boda discovery which included a 1,167m drill interval grading 0.25% Cu and 0.55g/t Au.

The Bushranger Project hosts the Racecourse deposit, a JORC (2012) compliant inferred resource estimated at 71Mt @ 0.44% Cu (350,000t of contained copper) and 0.064g/t Au using a 0.3% Cu cut-off, which is open ended in both directions. Most recent drilling at Racecourse intersected substantially wider mineralisation - 159m @ 0.37% Cu and 0.21g/t Au (Hole ID BRD001), including 16m @ 0.73g/t Au - and with gold grades increasing with depth. Open ended in both directions means that the deposit remains open down-plunge and along strike, and recent deeper drilling in holes BRD001 and BRD009 has shown that it becomes significantly wider at depth, along with increasing gold grades - see table overleaf.

Western portions of the Bushranger Project are prospective for high-grade gold mineralisation such as the historically mined Mt David and Lucky Draw. Several geophysical and geochemical targets, with characteristics of porphyry style mineralisation, are ready for drill testing.

Hole number	Depth from m	Depth to m	Interval m	Copper %	Gold g/t
BRD001	147	306	159	0.37	0.21
Including	147	209	62	0.50	0.22
including	165	181	16	0.53	0.73
BRD009	317	486	169	0.39	0.09
Including	348	416	68	0.46	0.15
including	400	416	16	0.46	0.51

Bushranger holes BRD001 and BRD009 show that it becomes significantly wider at depth, along with increasing gold grades. Source: ProspectOre

The deposit is open ended in both directions and the propensity for future discovery is good. The gold contribution increases with depth. The geological trend has produced a number of historical mines and recent years have seen a number of important new discoveries in both porphyry copper and epithermal gold.

In August 2020, the board reported that due diligence to verify legal and beneficial ownership of the tenements had been satisfactorily completed. At that time it was also reported that initial planning for the drilling programme had been completed and the permitting process was under way. On completion, Xtract plans to drill up to nine holes, in two phases, at the Racecourse deposit to extend the thickest and highest-grade copper-gold mineralisation within the Racecourse deposit to the northwest. This is beyond the limits of the previous drilling.

A particular interest focus of the forthcoming drilling programme will be the zones of secondary gold enhancement - where up to 6m @ 2.5g/t Au and 1m @ 11.1g/t Au was encountered by previous drilling within the wide copper-gold mineralised intervals. On drilling completion, Xtract plans to re-estimate the Racecourse mineral resource under JORC (2012)

Strategy for growth

Xtract offers a balanced and diversified investment into cash generating and blue-sky projects. The company has an enviable deal flow from which it is able to select opportunities which offer low costs (capex and opex), a low entry price, decent growth potential and which are located in a reliable mining jurisdiction. **At the same time, they provide a good spread of country risk and metal risk.** The current clutch of projects is in the midst of becoming income generators where all the capex seems to be provided by third parties either on a profits share basis with Xtract or under a potential offtake agreement. Profits from these operations have been gradually increasing over the last couple of years, but it looks as though these plays are just about to shift up a gear or two over the next 12 months.

In Mozambique, at Manica in the hard rock Fair Bride play, Omnia is going to provide US\$6-8 million of finance, build a CIL plant and operate the project, with Xtract receiving 23% of income less expenditure. We believe that Fair Bride could already have been in production if it was not for COVID-19. The border needs to re-open with South Africa to get a crane for constructing the CIL plant. If the border opens in August 2020, after 4-5 months of construction then first production could be before the year-end. Once there are the first signs of a loosening of the lockdown, the earthmovers will be brought in for the construction of the tailings dam, with the tanks and pipework fabricated locally.

It does look as though the story at Manica is only just beginning. Fair Bride plans to be mining 35,000oz per annum for 7 years, which out of a total resource of 1.35Moz at Manica, still leaves 1Moz left to be exploited. Below the 150m level the ore becomes refractory, the company was going to process that material with bugs, but instead have re-imagined the project to go for the higher-grade shallower material i.e. the low hanging fruit. With CIL they can expect a recovery rate of 65%, which can be substantially improved with a fine grid. There is also scope for an increased life of mine as the transitional zone could well extend the pit for a couple more years. Also, with the stripping ratio 7.2-to 1 at the planned end of the pit's life, there could be a pit push back, but it all depends on the gold price at that time.

We believe however that there is far greater potential at Manica. The joint venture with Omnia will see the partners committing US\$50,000 a month on a 50:50 basis towards exploration once commercial production has been achieved. This is not drilling to replace produced ounces, but exploration drilling of a series of shallow holes to properly ascertain the true potential, as to date less than 10% of the licence has been drilled. Geologists marvel how over the 10km strike length at Manica there are nearly all the possible types of gold mineralisation, free milling gold, refractory material and a transition zone. There are high hopes for additional potential at 36 new exploration targets which includes Guy Fawkes, Boa Esperance and Dot's Luck.

Manica is seen to be a strange orebody as it has better grades at the top. The feeling that there may be other factors in play and a far larger resource may become apparent during further exploration, which is one of the biggest factors when choosing to embark on such a drilling programme. **If they find something truly large, Xtract is not likely to be involved as Omnia has the right to buy out Xtract for US\$20 million.** However, this would represent a great war chest to go out and acquire a number of decent projects at down to earth prices because the management seem to be good at sourcing impressive projects with attractively low entry prices.

At Eureka, Xtract could be in the midst of re-drawing the Zambian Copperbelt. Xtract believes that the past players at Eureka had in fact looked at the project in a short-sighted manner. The company has decided to look at this opportunity with a fresh pair of eyes armed with all the data from the past. The initial drilling provided excellent results which have apparently sparked serious interest within the industry, so it is obviously very prospective. Old showings serve to highlight the co-existence of sulphides and oxides in the same domain. It does differ in places with the orebody in oxides until 70m deep. But, through painstaking analysis, Eureka has turned out to be Copperbelt but lying 130km away from the Copperbelt as it is known today. Addison Mining digitised boreholes of the past with the latest drilling results and the model coming out well and showing that it is structurally driven with two new limbs of the structure to explore.

Eureka provides the promise of immediate production and some quite exciting immediate income. Over the next couple of months, trenches will be developed at 50m intervals to the boundary and assayed along with the drilling of some short holes along the two limbs of the structure. Getting assays back and determining a rough resource could all happen in a timely fashion which would allow earthmoving equipment to be brought in before the year-end. The board is envisaging two small operations to provide a feed of 350,000 – 400,000t/yr to a mill 150km away. This is expected to bring in US\$350,000 per month to Xtract. On site, there would need to be a concentrator involving spirals or shaking table in order to concentrate run of mine at 5-6 times giving 12% copper which is then much cheaper to truck to the mill. This is likely to need US\$1.5 million of capex for a screening plant, which is expected to be funded via an offtake agreement with a refinery as there seems to be a looming copper shortage.

Expansion into Australia has given the chance to explore in elephant country. There is no doubt that the Lachlan Fold Belt is Australia's world class copper-gold province. **Infrastructure is great as it is just 150km west of Sydney with tarred roads and electricity. Newcrest has some of the world's biggest mines there.** At Bushranger there is 72Mt at 0.44% copper porphyry which is open at depth and along strike together with epithermal exposures near surface to investigate. If they find a min 400Mt then Anglo American can buy an 80% interest, and it is a bonus to have a buyer already in place if they find something bigger. This has all the makings of being a highly impressive project and Xtract successfully gained the Bushranger project as the ASX got hit so hard by COVID-19 that Australian companies found it difficult to finance projects. Strategic and economic mining adviser MinEx Consulting in March 2020 reckoned that The Lachlan Fold Belt was one of the 10 current Hot Spots for global exploration. Apparently, since Boda's big discovery, local operators have reported that they have been surrounded with people pegging. **At that time MinEx pointed out that the average re-rating of ASX listed eight active explorers in the Lachlan Fold Belt was apparently 5.4 times.**

An extremely healthy newsflow is developing here. At Fair Bride there is the erection of the CIL plant and the construction of the tailings dam ahead of gold production beginning at the hard rock operation. At Eureka, there is more drilling to come. Addison will be designing the open pit and there will be an application for a mining licence ahead of an offtake deal and small-scale copper mining. Meanwhile, Bushranger could be hiding untold secrets and the management want to drill this aggressively and the first holes could prove to be a revelation. With so much happening at there is the real prospect of big earnings growth on a quarter by quarter basis.

Financials & current trading

Results over recent years cover the company's move to mining alluvial gold at Manica in Zambia using a number of contractors.

Y/E 31 December £'000s	2015A	2016A	2017A	2018A	2019A
Revenue	-	-	166	892	1,351
Pre-tax profit/loss	-4,575	-3,891	-1,257	-736	-1,090
Net profit/loss	-4,575	-8,939	-1,257	-736	-1,090

Xtract Resources five-year trading history. Source: Company accounts

2019 Results

Financial results for the twelve months ended 31st December 2019 saw Xtract begin to set the scene for becoming a small scale mine developer alongside good quality exploration plays in Mozambique and Zambia. Revenue from gold sales increased by 51% to £1.351 million from the company's share of alluvial gold production at Manica. After £1.814 million of administration and operating expenses and £0.298 million of project expenses, the company recorded an operating loss of £0.791 million and a loss before tax of £1.090 million which equated to a loss per share of 0.30p.

2020 Interim

Results for the six months to 30th June 2020 revealed total alluvial mining contractor gold production of 32.1kg (equivalent to 1,033 ounces). In addition, there was a total of 9.0Kg (equivalent to 289 ounces) attributable to the company's Mozambican operating subsidiary, Explorator. Revenue for the period was £0.61 million from gold sales with the company recorded a net loss of £0.19 million.

Recent developments

In late September, the company was able to announce two funding deals which will be used to help advance its various projects in Zambia and Australia as well as provide additional working capital. Firstly, a placing at 1.20p per share raised £650,000. Secondly, a funding facility for £1 million with Sanderson Capital Partners Ltd, which is basically a standby facility which can provide an additional source of working capital for the company in the context of uncertainty created by COVID-19.

At the time of the placing, Colin Bird, Executive Chairman was able to point out that *"...The Manica cash flow is expected to increase in the fourth quarter as the free milling gold initiatives begin to contribute to cash flow. Additionally, during the fourth quarter the Company will commence definition drilling in Eureka and pit extension drilling in Kalengwa. The Company is considering other means of combating the effect of the COVID-19 border restrictions in Mozambique and South Africa and will keep the market informed."*

Risks

Geological risks

There are a series of technical risk factors concerning the amount of understanding of the geology of the project areas, the mineralisation style being targeted and the distribution and magnitude of the indicators that have been identified in exploration work.

Metal price risks

Metal prices are highly cyclical and changes in the price of gold and copper could have a negative or positive impact on the valuation of the company's projects and revenue from the sales of metals. Over the past twelve years the price of gold has been highly volatile, trading in the range of recently more than US\$2,000 per ounce well up from a low of US\$712. Recent copper price movements are depicted on page 4.

Exchange rate risks

Movements in the value of currencies will have an effect on the company's accounts on translation from US dollars into US dollars. Fluctuations in the value of the US dollar against sterling may influence the valuation that Xtract is awarded by the market.

Future funds

The market for raising funds for small cap companies looks to have had improved from the worse conditions a couple of years ago. However, the global spread of the COVID-19 infection has meant that equity markets have become extremely difficult. Even ahead of the arrival of this pandemic, some recent fund raisings in the resources sector saw share prices being undermined by incoming investors demanding substantial discounts to provide the necessary capital.

Political risk

Mozambique and Zambia are developing countries where there is always some degree of political risk attached to the mining industry. However, these governments seem to be supportive of the mining sector, which represents an important source of foreign earnings.

Board of Directors

Colin Bird – Executive Chairman

Colin is a Chartered Mining Engineer with multi commodity mine management experience in Africa, Spain, Latin America and in the Middle East. He has been the prime mover in a number of public listings in the UK, Canada and South African and is currently Chief Executive Officer of Tiger Resource Finance PLC, AIM quoted Galileo Resources PLCA and Non-Executive Chairman of Jubilee Platinum PLC.

He has been responsible for founding a number of PLC's which have achieved mid-cap status and was the founder of Kiwara PLC which discovered the large copper project Kalumbila currently being developed by First Quantum Minerals Ltd, a US\$ 11 billion quoted company. Colin was appointed Executive Chairman during August 2016.

Joel Silberstein – Finance Director

Joel joined the Company as Chief Financial Officer in June 2013. Prior to this Joel held the position of Group Controller and Vice President Finance of Toronto Stock Exchange quoted European Goldfields Limited, where he supported the executive team in growing a mining concern from exploration through development phases until the Company was taken over by Eldorado Gold Corporation.

He has Honours Bachelor of Accounting Science degree from the University of South Africa and qualified as a chartered accountant with Mazars, Cape Town in 2002.

Peter Moir – Non-Executive Director

Peter's qualifications include B.Sc. Civil Engineering and M.Eng. Petroleum Engineering. He is a Chartered Engineer in the UK and has more than 30 years' experience in technical, operational and commercial aspects of the Exploration and Production business.

Alastair Ford – Non-Executive Director

Alastair has spent most of his career as a mining specialist. He began his career as a journalist on the Investors' Chronicle where he was the mining correspondent and was subsequently editor of Minesite.com until 2013. From 2010-2011, Alastair served as a Non-Executive Director at Mineral & Financial Investments PLC. He re-joined Mineral & Financial Investments PLC in July 2012, as Chief Investment Officer and Executive Director, a position he held until 2017. Alastair is currently a Mining Affairs Consultant for ProactiveInvestors.com, and a Non-Executive Director at Great Western Mining Corporation PLC.

Forecasts

We initiate coverage of Xtract with forecasts for the 2020 and 2021 financial years. Revenue from the company's share of gold sales from the alluvial operation at Manica is expected to total £1.400 million during this period. After operating and administration costs totalling £1.820 million and £0.300 million of project expenses, Xtract is expected to record an operating loss of £0.720 million. The pre-tax loss and the attributable loss are both determined to be £0.720 million which equates to a loss per share of 0.15p.

In 2021, a number of Xtract's cash flow generating projects look likely to come on stream. With Fair Bride, Eureka and Kalengwa seeing initial production and achieving steady state commercial production during this period, in addition to the Manica alluvials project, the share of metal sales is expected to rise to £8.320 million. After operating and administration expenses of £1.820 million and increased project expenses of £0.500 million, an operating profit of £5.300 million is forecast. Due to accumulated past tax losses we see no tax charge for 2021, which results in an attributable profit of £5.300 million which would equate to earnings per share of 0.86p.

Year End 31 December (000s '£)	FY 2018a	FY2019a	FY 2020e	FY 2021e
Continuing operations				
Revenue from metal sales	892	1,351	1,400	8,300
Direct operating	(804)	(795)	(800)	(1,100)
Other operating	(103)	(116)	(120)	(200)
Administration	(746)	(903)	(900)	(1,200)
Operating and administrative expenses	(1,653)	(1,814)	(1,820)	(2,500)
Project expenses	(147)	(298)	(300)	(500)
Operating profit/(loss)	(908)	(761)	(720)	5,300
Other gains and (losses)	64	12	-	-
Finance (cost)/income	108	(341)	-	-
Profit/(loss) before taxation	(736)	(1,090)	(720)	5,300
Income tax expense	-	-	-	-
Profit/(loss) for the period	(736)	(1,090)	(720)	5,300
Attributable:				
Equity holders of the parent	(736)	(1,090)	(720)	5,300
Earnings per share				
Basic profit/(loss) per share (pence)	(0.20)	(0.30)	(0.15)	0.86
Weighted average number of shares	350,560,684	383,625,633	485,231,391	619,465,144
Total shares plus warrants and options	353,456,934	488,936,621	687,806,810	697,431,810

Source: Company/Align Research

Valuation

Events at Xtract are rapidly evolving and over the next 18 months it does look as though tremendous value could be unlocked for all to see. In valuing the company and setting an initial target price for the stock, we have sought to highlight a commonsense value that Xtract could command over the coming 18 months. As we have already highlighted earlier on in this report, there are two clear sides to this well-balanced company, the small-scale cash producing projects where Xtract essentially acts as an absentee landlord collecting a profits share and the blue-sky copper-gold projects. We have sought to place a value on both these elements.

Cash producers

Manica

The level of gold production from alluvials at Manica looks like it could so rise quite strongly as the projects become bedded down. The agreements reached with a number of local mining groups sees Xtract receiving around 20% of the cash generated after costs. In all, there are now three such operations working the company's alluvial licence area and recovery free milling gold. Shortly, another site will be opened up along with a small vat leaching operation which will be looking at a discrete area of the hard rock.

So, production that is currently running at 1.5-2kg a month now to Xtract is expected to rise to 6kg per month within the next 3-4 months. By the year-end there is the real potential of 6kg per month which at \$1,800/oz (or \$58,000/kg) equates to US\$350,000 to the company which after US\$30,000 per month of local costs looks set to generate US\$320,000 a month. Or to be conservative, at least US\$200,000 a month as there is likely to be some element of profit share concerning the small hard rock operation. **All this is being achieved without the company needing to provide any capital.**

Fair Bride

Putting Fair Bride into production on its own would have created far too much dilution for Xtract or required a debt structure that would have made the company a hostage to fortune. A more preferable deal for the management team has been to attract local mining company Omnia to finance this development to the tune of US\$6-8 million and add a CIL plant to an existing crusher and ball mill. Omnia will build and operate the plant.

Fair Bride is being developed as a 35,000 ounces of gold per year open pit mining project with a seven year life. **At nameplate capacity the project should be generating US\$4.5 million a month with costs that Minex has estimated at US\$650/oz, which gives US\$2.8 million per month where Xtract's 23% profit share will be worth \$US\$400,000 -500,000 a month.**

First production is expected to be achieved by the year-end, with steady state commercial production in March 2021. The timings do depend on the re-opening of the border with South Africa, after a COVID-19 lockdown, to bring in the crane to help assemble the plant.

Eureka

Two small operations are planned at Eureka to provide a feed of 350,000 – 400,000t/ya to a mill 150km away. This is expected to bring in US\$350,000 per month to Xtract. On site there would need to be a concentrator involving spirals or shaking table to concentrate run of mine 5-6 times giving 12% copper to be trucked 150km to the mill for processing. Capital expenditure has been estimated at US\$1.5 million for a screening plant, which is likely to be funded via an offtake agreement with a refiner.

Kalengwa

The Kalengwa dumps are thought to contain around 1.34Mt of ore, potentially containing 25,000t of copper metal. The company initially plans to begin a simple ore sorting programme which would then be ramped up to become a more significant ore processing operation over a number of months targeting an annual production rate of 6,000t of copper metal. Xtract as contractor would receive 33.33% of net profits from the operation and will be required to fund the necessary capital expenditure.

US\$	Monthly	Annually
Manica alluvials	200,000	2,400,000
Fair Bride	600,000	7,200,000
Eureka	350,000	4,200,000
Kalengwa	200,000	2,400,000
Total	1,350,000	16,200,000

Xtract's forecast profits share from projects once they reach steady state production.

Source: Align Research

We expect that once these operations reach steady state production an EBITDA in the range of US\$16.2 million or £13 million is achievable. **Valued at a very reasonable multiple of at least 2 or 3 times would suggest a valuation for this arm of the business somewhere in the region of £26 – 39 million or £8.58m - £12.87m attributable to Xtract.**

At this stage, it is worth looking at the prospective PE ratios of London-listed gold producers with a sub-£200 million market capitalisation. **The average 2021 prospective PE ratio is 5.47 times earnings.** Using that kind of prospective multiple with our forecasted earnings per share of 0.86p suggests a share price of 4.70p or £29.0 million (based on 617,465,144 shares being in issue post completion of the Bushranger acquisition), which is a figure we have used in our sum-of-the-parts table.

Company	Share price p	Market Capitalisation £ million	2021 Forecasted EPS p	2021 Prospective PE ratio
Ariana Resources (AAU)	6.0	65.4	0.36	16.67
Caledonia Mining Corporation (CML)	1,352.5	166.0	347.51	3.89
Hummingbird (HUM)	35	123.3	9.84	3.56
Serabi Gold (SRB)	105.5	63.2	34.63	3.05
Shanta Gold (SHG)	17.25	135.0	7.87	2.19
Sylvania Platinum (SLP)	63.0	165.7	18.08	3.48
Average				5.47

2021 prospective PEs of London-listed mining companies with a market capitalisation under £200 million. Source: Digital Look & Stockopedia

Blue sky projects

Xtract has been looking around for good copper projects, a quest which has taken the company from its operational hub in Africa to Australia. **Not enough copper has been discovered in the recent past, which all seems to point towards a looming shortage on the back of the rapid growth in EVs, coupled with an increasing amount of large infrastructure projects being rolled out.** Already there are some quite generous valuations being awarded to copper exploration plays. In the following table we have highlighted a peer group of copper juniors that are active in either Africa or Australia.

The company has three blue sky copper projects in Eureka, Kalengwa and Bushranger, the latter of which is currently in the midst of being quite smartly pushed up the valuation curve following well-designed exploration programmes. Out of these, only Bushranger has a JORC-compliant MRE for the Racecourse deposit, with an Inferred resource estimated at 71Mt @ 0.44% Cu (350,000t of contained copper) and 0.064g/t Au using a 0.3% Cu cut-off, which is open ended in both directions. Even at the lower end of the scale EV/t valuation figures, the acquisition of Bushranger has been shown to be quite a steal in our view. **On the sort of multiples shown, it is not hard to get to a valuation of £25 million. However, we wish to remain conservative and so have assumed that the interests in Eureka, Kalengwa and Bushranger have a combined valued of £15 million.** Although it has to be pointed out that as these projects become de-risked substantially value could be added quickly.

Company	EV £m	Copper tonnes	EV/t £	Comments
IN PRODUCTION				
Strategic Minerals LON:SML Share price: 0.40p Market cap: £7.37m	6.96	48k	140.00	Profitable copper producer actively developing projects prospective for battery material (2019 revenue £2.7m). The Leigh Creek Copper in the North Flinders Ranges, South Australia covers 935km ² . ML5467 Mountain of Light & ML5498 Lorna Doone have total Resource JORC (2012) 3.615Mt @ 0.69% Cu for 24,900t copper Indicated & Inferred). With other defined ore sources (non-JORC) has 5.4Mt @ 0.68% Cu for 37,050t copper. An additional Mineral Inventory of 1.8Mt @ 0.65% Cu, with contained copper of 11.5kt has also been defined for Rosmann East (JORC 2004), the existing heaps at Mountain of Light, West Jubilee and Elsie Adair.
BANKABLE FEASIBILITY STUDY				
Orion Minerals ASX:ORN Share price: A\$0.033 Market cap: £49.5m	52.0	366k	142.08	Diversified base metals explorer/developer with globally significant VMS deposit Flagship Prieska Copper-Zinc Project in South Africa's Northern Cape Province with a Foundation Phase Mineral Resource of 30.49 Mt at 1.2% Cu and 3.7% Zn for 33kt copper. Initial 12-year 2.4Mtpa operation target 22ktpa Cu and 70ktpa Zn. Updated BFS completed May 2020 following successful optimisation and value engineering.

Copper peer group comparison. Source: Align Research

Company	EV £m	Copper tonnes	EV/t £	Comments
SCOPING STUDY				
Aeon Metals ASX:AML Share price: A\$0.11 Market cap: £44.8m	51.0	694k	73.48	The Company has an extensive exploration tenement portfolio in the world-class Mt Isa mineral province in North West Queensland. Aeon Metals' flagship asset, and highest priority tenement, is the 100% owned Walford Creek Project. Vardy/Marley Copper Mineral Resource 18.4Mt @ 2.46% CuEq for 452kt CuEq plus Peripheral Resource of 17.4Mt @1.39% CuEq for 242Kt CuEq. At Scoping Study stage 11yr mine, 2Mtpa process plant and 1.5Mtpa heap leach for copper equivalent output of 42.5ktpa. PFS in progress and in May 2020 it was reported that the Interim Scoping Study reset basis for final Feasibility Study.
Caravel Minerals ASX:CVV Share price: A\$0.105 Market cap: £10.9m	10.6	1,863k	5.69	Copper exploration and development company focused on a new porphyry copper district discovered in a previously unexplored part of Western Australia's Central Wheatbelt. Caravel Copper Project (which combines the Bindi, Dasher and Ophie deposits) 661.9Mt at 0.28% Cu for 1,863kt copper at a cut-off grade of 0.15g/project feasibility studies completed to Scoping Study level.
MINERAL RESOURCE ESTIMATE				
Arc Minerals LON:ARCM Share price: 4.05p Market cap: £39.2m	31.9	102k	312.75	Exploring for copper and cobalt in Africa and has a large portfolio of minerals assets. Zamsort Copper-Cobalt Project (66%) and Zaco (72.5%) in Zambia cover 872km ² of a high prospective region in Zambia. Resource: Non-Code Compliant Resource of copper and cobalt ore in the Ground: 16.59 million tonnes @ 0.94% CuEq. Scoping study at Cheyza planned for Q3/Q4 2020.
KGL Resources ASX:KGL Share price: A\$0.215 Market cap: £43.6m	41.7	391k	106.65	Australian mineral exploration company focused on increasing the current high-grade Resource at the Jervois Base Metal Project in the Northern Territory and establishing a world class, low cost copper mine. Total copper resource estimate stands at 26.6Mt at 1.47% Cu and 24.7 g/t Ag, containing 391kt copper and 21.1Moz silver. PFS expected to be released in Q4 2020.
DRILLING				
Trigon Metals TSX-V:TM Share price: C\$0.36 Market cap: £24.1m	23.1	169k	136.69	Emerging copper producer in Africa's best mining addresses with an 80% interest in five Mining Licences in the Otavi Mountainlands in Namibia. Three of these licences comprise the flagship Kombat Mine which produced 12.46Mt of copper (1962-2008) at a grade of 2.68%. Kombat Mine MRE of 1.529Mt Indicated at 1.14% Cu, 0.72% Pb and 2.88g/t Ag plus 5.511Mt Inferred at 3.05% Cu, 1.25% Pb and 22.93g/t Ag. Ongoing objective is to formulate a Feasibility Study for the Kombat Mine complex

Copper peer group comparison. Source: Align Research

Sum of the parts

All these values were assembled into our SOTP table which gives a valuation of **£44 million**. Based on the number of shares currently in issue (457,303,288), this equates to a value of 9.62p per share. Based on the number of shares in issue once the new placing shares commence trading (519,465,144) the valuation is 8.47p. Taking into account that the new shares to be issued for the Bushranger acquisition will take the current share count to 619,465,144, the per share value is 7.10p. **On a fully diluted basis (687,806,810) the valuation per share comes out at 6.56p, which is the figure that we have chosen to use as our target price.**

Asset	£ million
Cash generator	29.00
Blue-sky projects	15.00
Sub-total	44.00
PER SHARE VALUATIONS	
Based on number of issued shares (457,303,288)	9.62p
Based on the number of issued share once placing shares commence trading (519,465,144)	8.47p
Based on number of shares in issue post Bushranger acquisition (619,465,144)	7.10p
Funds from options and warrants being exercised	£1.11m
Total	£45.11m
Based on the number of shares on a fully diluted basis (687,806,810)	6.56p

Sum-of-the-parts table. Source: Align Research

Conclusion

Xtract offers investors the chance of immediate production and earnings as well as undoubted blue-sky potential. For a small cap miner, the company does have a lot of assets. But Xtract does not need them all to come right for the shares to trade on a far higher valuation moving ahead. Reassuringly, the company's strategy means that it does not need to raise funds to get into production. That will probably come as a refreshing change as management has been able to get projects into production and generating cash with no spend on capex, which is always the big dilution factor.

Fundamentals seem to be getting better than ever in copper. Green technology is a heavy user of copper, with EVs needing five times as much copper as conventional vehicles. Interestingly enough, in response to a COVID-19 inspired economic downturn, governments around the world have been rapidly suggesting infrastructure improvements that will all need copper. There are real concerns about supply as copper is getting scarcer as the average grade mined continues to fall. With these sorts of compelling fundamentals, it is indeed good news that Xtract has been out in search of copper projects and found some real winners in Eureka, Kalengwa and Bushranger.

Xtract provides a refreshing change to the raise and dilute brigade of resources stocks as the management have put together a portfolio of assets that can be brought swiftly into production through innovative deals that negate with the need to fund capex. Over the next 12 -18 months, Xtract's profit share from these operations looks like it is about undergo a period of sustained growth which should give the company a completely different complexion. In addition to this is the blue-sky plays which look likely to attract a lot of attention to the stock as the market becomes more aware of copper's true fundamentals.

Our coverage of Xtract Resources is initiated with a target price of 6.56p and a Conviction Buy stance.

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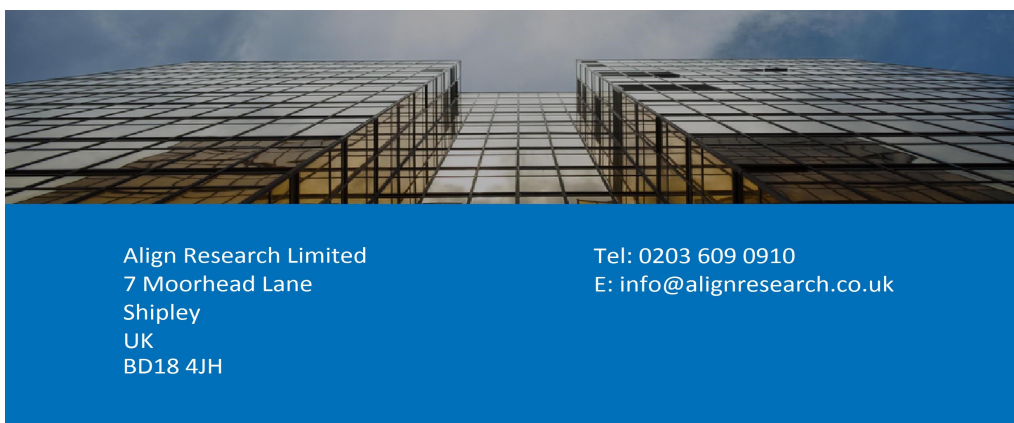
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