

## Cadence Minerals - value waiting to be unlocked

Cadence Minerals has built a robust portfolio of base and battery metals with ample opportunities for shareholder value creation. Recent developments have helped to substantially increase the potential of two of the group's asset positions, while adding to the overall corporate valuation. Our sum-of-the-parts (SotP) indicative fair value is 43.6p.

- **Amapa PFS presents favourable economics and builds a platform for a definitive feasibility study.** NPV<sup>10</sup> \$949m, profit after tax \$2.96bn, Life of Mine (LOM) gross revenue \$9.39bn, IRR 35%. Maiden ore reserve 195.8mt at 39.34% Fe.
- **Cadence Minerals' battery metals exposure is potentially world-class.** KDNC's exposure to lithium may have taken a back seat as the Amapa PFS was completed, but their assets have the potential to play an important part in meeting EV demand for critical minerals.
- **Public equity holdings valuations suggests material undervaluation of the KDNC portfolio.** Our sum-of-the-parts analysis suggests private holdings are not adequately reflected in the current £22m market cap.

### Corporate History

Incorporated way back in 2004 as Rare Earth Minerals, the London-based company changed its name to Cadence Minerals in March 2017. The group's principal business is to acquire a diverse portfolio of direct and indirect interests in exploration and producing rare earth minerals and/or metals projects and assets.

It is an early-stage investment and development company within the mineral resource sector and is listed as an investment company on both the LSE AIM market and on the Aquis Stock Exchange (AQSE:KDNC).

The Cadence board has a blend of mining, commodity investing, fund management and deal structuring knowledge and experience, that is supported by access to key marketing, political and industry contacts. These resources are leveraged not only in its investment decisions but also in continuing support of its investments, whether it be increasing market awareness of an asset, or advising on product mix or a path to production.

The company's Chief Executive Officer is Kiran Morzaria, who holds a B.Eng. from the Camborne School of Mines and an MBA (Finance). He has over 20 years' experience in the mineral resource industry, working in both operational and management roles. The first four years of his career were spent in exploration, mining and civil engineering, after which he was involved in the acquisition, recommissioning and eventual sale of the Vatukoula Gold Mine.

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EPIC Code	KDNC.L
Market Cap	£22.2m
Current Share Price	12.9p

### Income Statement

Income Statement 6 months to end June 2022

	£000s
Income	(4,149)
Operating Profit	(5,055)
Pre-Tax Profit	(5,045)
Total Profit for Period	(5,045)
EPS	(3.136)

### Balance Sheet

Income Statement 6 months to end June 2022

	£000s
Non-Current Assets	8,963
Current Assets	12,963
Cash and Equivalents	1,994
Liabilities	166
Equity	21,760

### Bull Factors

- » Amapa PFS complete
- » Exposure to battery metals
- » Undervalued vs NAV
- » Diverse portfolio

### Bear Factors

- » Depressed junior miner sentiment
- » Amapa time to production

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Sources: Company reports, Bloomberg

## Group Investment Policy

The group's investment policy follows both a 'private equity' and a 'public equity' approach and can be either on an active or passive basis. Its private investments include mineral exploration and development projects, run either through joint venture companies or joint venture licenses, operated by the joint venture company with in-country partners who have the requisite knowledge and expertise to advance projects.

The company has taken an active part in the management and decision making of its investee companies, using legal agreements to provide negative control mechanisms to protect its investments. The focus is to invest in mining companies that are significantly undervalued by the market and where there is substantial upside potential through exploration success and/or the development of a mining project towards commercial production.

Cadence's goal is to assist management to rapidly develop the project up the value curve and deliver excellent returns on its investments. Ultimately the aim is to make capital gains in the short to medium term.

## Projects

The company is focused on creating a diverse portfolio of direct and indirect interests in Lithium, Iron Ore and Rare Earth Element deposits. The company's projects include Cinovec Lithium, Amapa Iron Ore Mine, Sonora Lithium Project, and Yangibana rare earth project.

### Amapa Iron Ore

Situated in northeast Brazil, Amapa is a large iron ore project, which as a mine was previously owned by Anglo American and generated significant profits. After getting involved in the project, Cadence has diligently worked away at recapitalising the mine, re-establishing a footprint in the area, shipping some iron ore stockpile and getting an important study out into the feasibility of a 'brownfield' re-opening the mine. That pre-feasibility study for the Amapá Iron Ore Project has now been completed, and its results have recently been announced. Completion of the Amapa Ore Reserve Estimate supports a planned 16-year mine life. Cadence acquired 30% of Amapa for approximately US\$9.3m, while it also has an option to take that stake up to 49%.



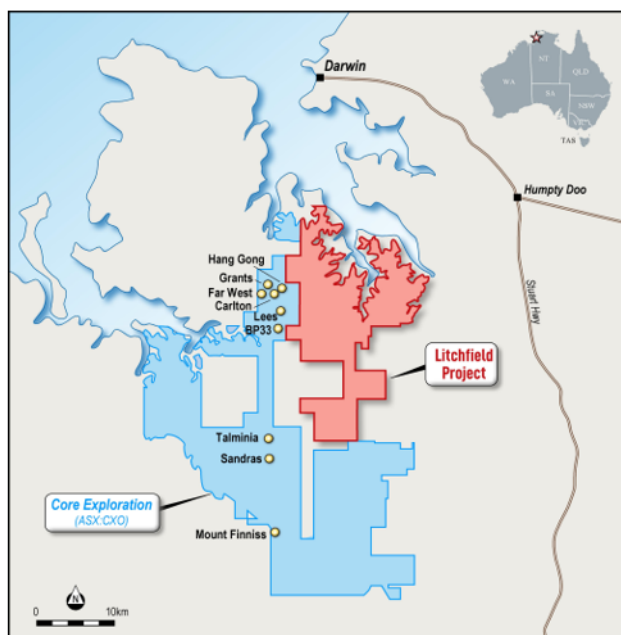
The Pre-Feasibility Study, announced in early January 2023, reached a major milestone in the rehabilitation of the project, which is now predicted to produce 5.28m dry metric tonnes per annum (Mtpa), consisting of 4.36 Mtpa at 65.4% Fe and 0.92 Mtpa at 62% Fe concentrate. This important study gave the project a NPV of \$949m. As a matter of interest Anglo-American valued its 70% stake in Amapa at \$462m.

## Evergreen Lithium

In July 2022, Cadence sold its 31.5% stake in Lithium Technologies and Lithium Supplies to Evergreen. The terms of the sale included an initial consideration of Aus\$ 3.16m (£1.77m) in Evergreen shares, with a further Aus\$ 6.63m (£3.72m) due in Evergreen equity on the achievement of certain performance milestones. Evergreen is currently expecting a listing on the Australian Stock Exchange at a listing price of A\$0.25 which will value Cadence's stake at A\$3.96m.

Evergreen's project sits in the Litchfield pegamite belt in Northern Australia in close proximity to the world-class Finnis Project operated by Core Lithium.

FIGURE 1: LITCHFIELD LITHIUM PROJECT, NORTHERN TERRITORY



## Sonora Lithium Project

Situated in the Sonora State in Northern Mexico, the Sonora Project holds one of the world's larger lithium resources and benefits from being both high grade and scalable. The polyolithionite mineralisation is hosted within shallow dipping sequences, outcropping on the surface.

The Project operator is Bacanora Minerals, recently acquired by Gang Feng, with Cadence Minerals owning 30% of the Megalith Joint Venture. Cadence's exposure relates to the El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions.

## Yangibana Rare Earths

The Yangibana Project is located in the Gascoyne region of Western Australia, approximately 250 km northeast of Carnarvon.

Cadence's 30% interest in tenements covers a small portion of the Yangibana rare earths project and potentially represents one year of the 16-year mine-life. In June 2022, Cadence entered into a binding agreement to sell its working interests and tenements in Yangibana to Hastings Technology Metals (ASX: HAS) for Aus\$9m (£5.1m), satisfied by the issue of 2.45m Hastings shares, representing 1.9% of its equity.

## Valuation

Our indicative fair value target of 43.6p is based on a sum-of-the-parts (SotP) analysis of Cadence Mineral's major public and private assets.

We intentionally limit our indicative fair value assumption to current and achievable market valuations in the case of public assets. In the case of private assets, we utilise the latest available third-party technical reports and studies with risk base adjustments applied.

		Risk-Based Valuation Local Currency	Valuation £m	KDNC Ownership	KDNC Value £m
European Metal Holdings	Public	68.79	68.79	7.20%	4.95
Hastings Technology	Public	319.07	178.46	1.90%	3.39
Sonora	Private	125.30	104.27	16.70%	17.41
Evergreen	Private	45.40	25.39	8.70%	2.21
Amapa Iron Ore	Private	189.80	157.94	30%	47.38
				<b>Total</b>	<b>75.35</b>
Shares in issues	173m			<b>Fair Value P/S</b>	<b>43.6p</b>

- » GBP/USD: 1.2017
- » AUD/GBP: 0.5593
- » EMH share price: 36p
- » Hastings share price: A\$2.47
- » Correct 28/2/2023

Our fair value target does not forecast future values of publicly traded assets, we use reasonably and currently achievable market valuations. We feel this conservative approach leaves room for upside revisions to the fair value target, given the depressed nature of public portfolio company share prices and uncertainty around Mexican lithium assets. We have purposely excluded small holdings such as MacArthur for our fair value. Our indicative fair value does not dilute any outstanding warrants.

### Amapa

Cadence Mineral's flagship asset is valued on a 20% of the projects NPV to adjust for the risks at the PFS stage. Our fair value encompasses Cadence Mineral's 30% stake and \$949m NPV<sup>10</sup> assumed by the PFS concluded in early 2023. We feel this provides ample opportunity for our risk assumptions to be revised to the upside as the project progresses.

### Hastings Technology

Cadence Minerals secured a liquidity event for their Yangibana Rare Earth holdings through the sale of their 30% interest in the project for a consideration of A\$9m. Consideration was paid by 2.45m newly issued shares in ASX-listed Hastings Technology Metals. We base the value of Cadence's exposure on the current share price of A\$2.26.

### Evergreen Lithium

According to ASX regulatory filings, Evergreen Lithium are set to list on the Australian Stock Exchange in early March. The company will raise A\$7m at an issue price of A\$0.25. The IPO will value Cadence's stake at A\$3.96m.

### European Metal Holdings

Cadence Minerals holds a 7.2% stake in London-listed European Metal Holdings. We base the value of Cadence's exposure on the current share price of 36p.

## Sonora

The situation at Sonora has been thrown up in the air by the recent decision by the Mexican government to nationalise all lithium production. This will ultimately raise questions around all projects in the country and makes the task of valuing lithium assets in the jurisdiction problematic. In our view, it reduces the ability to make comparisons to similarly mineralised assets based on LCE market prices or extraction techniques. With the Mexican government's fluid approach to how their nationalisation will play out, we feel forecasting an outcome for foreign-owned Mexican lithium assets is a speculative exercise.

The difficulties now presented by the political environment in Mexico make achieving a liquidity event for the Mexalit asset problematic, which is reflected in the higher risk base for the project, in our view.

Our valuation of Cadence's Sonora holdings assumes the \$1.253bn NPV for the entire Sonora project provides a basic and limited indication of the value of Cadence's 30% stake in El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1.

The 2018 Technical Report for the Sonora project provided a Measured & Indicated and Inferred total of 8,817 m/t, of which 1,478 m/t is attributed to Cadence Minerals. This equates to a 16.7% exposure to the entire resource. Applying a risk adjustment of 10% to the Sonora NPV and to the resource attributed to Cadence Minerals brings us to £17.42m.

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