

# Amur Minerals

## Drilling suggests larger, higher-grade resource

Exploration updates

Metals & mining

8 December 2015

**Price** 8.25p

**Market cap** £36m

US\$1.5063/£

Net cash (US\$m) at 30 June 2015 8.3

Shares in issue 436.5m

Free float 80%

Code AMC

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (19.5) (44.1) (10.0)

Rel (local) (18.3) (45.4) (5.4)

52-week high/low 42.8p 6.4p

### Business description

Amur Minerals is an exploration and development company focused on base metal projects in Russia's Far East. The company's principal asset is the Kun-Manie nickel sulphide deposit in the Amur Oblast, comprising more than half a million tonnes of contained nickel in at least five deposits.

### Next event

AGM November 2015

Drill assays December 2015

Resource update Q116

### Analyst

Charles Gibson +44 (0)20 3077 5724

[mining@edisongroup.com](mailto:mining@edisongroup.com)

[Edison profile page](#)

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Results from Amur's twin 2015 field season in-fill and step-out drilling programmes at Flangovy have successfully confirmed the continuity of mineralisation with respect to contained metal and thickness over a length of 1,200m, making the promotion of up to 27.4Mt of inferred resources into the indicated category a distinct likelihood when the final results are received in December. The fact that the (length-weighted) average grade of nickel mineralisation was 0.83% (cf a resource grade of 0.56%) and that nearly 83% of nickel metal is observed to be contained in continuous high-grade lenses with an average grade of 1.04% Ni also suggests that the project has the potential to be materially reconfigured to the upside.

Year end	Revenue (US\$)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/13	0.0	(3.7)	(1.0)	0.0	N/A	N/A
12/14	0.0	(2.5)	(0.6)	0.0	N/A	N/A
12/15e	0.0	1.0	0.1	0.0	N/A	N/A
12/16e	0.0	(1.8)	(0.4)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

## Existing resource equivalent to 6.9Moz Au at 1.79g/t

Results from Amur's in-fill drilling campaign at Flangovy and Maly Kurumkon are mutually supportive of historical holes, making the promotion of resources from the indicated into the inferred category likely, while step-out drilling has confirmed the continuation of the mineralised structure by 400m and could be interpreted as being indicative of a single, continuous corridor of mineralisation, approximately 2.5km long, 20-30m thick and at an in-situ grade of 0.7-0.9% nickel, running from Maly Kurumkon through Flangovy to Gorny. Significantly, SRK's original resource estimate was conducted using a block size of 50m x 50m, which contrasts with the c 25m width of mineralisation. As a result, there was a high degree of dilution inherent in the calculation leading, in particular, to a reduced estimated in-situ nickel grade. One of the aims of Amur's in-fill drilling campaign, therefore, was to reduce the drill spacing so that resources can be remodelled using a block size as low as 5m x 5m. Consequently, as well as an improvement in the existing resource's categorisation, it is also possible that additional work will result in a material increase in the in-situ nickel grade of the existing resource.

## Valuation: 44cps for low-grade matte plus upside

In our [Outlook note](#) in July, we calculated values per share for the concentrate, low-grade matte, high-grade matte and refined metal options for Kun-Manie of 56c, 72c, 61c and 73c, respectively, using a 10% discount rate and at our long-term nickel price of US\$22,355/t. Updating this valuation for, say, a 7p share price and increased project leverage (see page 5) revises these estimates to 34c, 44c, 35c and 42c, respectively. However, future substantiation of the geological hypothesis outlined above could materially affect the economics of the project, the most efficient approach to its exploitation and the projected mine plan (and, in particular, the balance of open pit versus underground mining).

## Investment summary

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Kun-Manie is among the largest 25 nickel sulphide deposits in the world and the award of a production licence this year (until 2035) allows Amur Minerals (AMC) to shift its strategy from exploration to pre-production. A pre-feasibility study on the project was completed by SRK in 2007 and envisaged a 4.0Mtpa operation. Subsequent technical work suggested that this could be increased to 6.0Mtpa for 15 years, with the option to develop a smelter to produce either high- or low-grade matte or a refinery.

At our long-term nickel price of US\$22,355/t, we calculated values per share for the concentrate, low-grade matte, high-grade matte and refined metal options of 56c, 72c, 61c and 73c, respectively (fully diluted and assuming 50:50 debt:equity funding). Of note was the fact that the concentrate option captured 77% of the maximum potential value of the project (as represented by the refinery option), but that the low-grade matte option captured 99%.

Since our Outlook note in July, however, a series of exploration drill hole results have been released, which suggest the project has the potential to be materially reconfigured to the upside.

## Exploration

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During the 2015 field season, Amur completed 5,821.4m of exploration drilling (out of a target of 5,000m  $\pm$ 20%), split between two programmes – one step-out and the other in-fill.

### Step-out drilling

The step-out drilling programme comprised two holes (C305 and C306) 400m to the east of the last identified area of mineralisation at Flangovy. Hole C305 duly intersected mineralisation, which confirmed the presence of the host zone and an orientation similar to the already defined structures at Flangovy. This was subsequently confirmed by hole C306 (80m to the northeast of hole C305), which similarly intersected the same peridotite sill containing three discrete, sulphide enriched zones of mineralisation. As previously, the nickel was associated with the sulphides and was near the footwall and hanging wall contacts with the country rock. Although only 35m of the sill was intersected by hole C306 (vs an anticipated 60m), this merely reflected the fact that the drill hole had to be prematurely abandoned, as a consequence of, first, a mechanical failure and, second, the subsequent, permafrost-induced freezing of the drill fluids. In all other respects, however, the grades and thicknesses intersected confirmed the continuation of the mineralised structure by 400m to the east of its previously known limits, representing a 47% increase in the strike length of the original Flangovy area (from 850m to 1,250m) or approximately 14Mt of ore (pro rata) or two to three years of production in the context of a schedule that should fall within a mine plan suitable for use in a definitive feasibility study (DFS).

The sill is observed to thin at depth. However, it has been identified down to 375m and remains 'open' down-dip as well as along-strike to the east and west.

### In-fill drilling

In addition to step-out drilling, a comprehensive programme of in-fill drilling has been completed at Flangovy and along a portion of Maly Kurumkon. Among other things, one of the aims of the in-fill portion of the programme was to double the drilling density in the Flangovy area from the historically spaced 200m drill sections (which yielded inferred resources only) to 100m sections (which yielded indicated resources, based on previous resource classification criteria).

Results (based on a calibrated company-owned Niton unit at a 0.2% cut-off grade) are mutually supportive of historical holes (making the promotion of resources from the indicated into the inferred category likely) and confirm the presence of mineralisation in both grade and thickness. Of note in this context is the fact that the average grade of each intersection was 0.83% Ni (length-weighted) compared to an average JORC grade of the resource at Maly Kurumkon (including Flangovy) of 0.56% Ni. Within this context, notable results include:

**Exhibit 1: Selected 2015 drill results**

Hole	Results 0.2% cut-off grade*		Including high grade intervals at >0.7% Ni	
	Length (metres)	Grade (% Ni)	Length (metres)	Grade (% Ni)
C311	55.8	1.13	42.0	1.20
			9.3	1.26
C314	16.9	0.61	2.4	1.29
C307	31.2	0.88	19.5	1.11
C310	15.5	0.91	12.5	1.02
C309	13.5	0.80	4.5	1.37
<b>Geometric average</b>	<b>26.6</b>	<b>0.95</b>	<b>15.0</b>	<b>1.17</b>
<b>Arithmetic average</b>	<b>26.6</b>	<b>0.87</b>	<b>15.0</b>	<b>1.21</b>

Source: Amur Minerals Corporation. Note: \*Using Niton XL2 500 X-ray fluorescence unit.

Having completed in-fill drilling at Flangovy, Amur began drilling holes at Maly Kurumkon in mid-October. Here, the continuity of a previously identified 60m thick lens of mineralisation was confirmed over a 250m length.

## Conclusion and implications

A summary of Amur's 2015 field season exploration drilling results compared to previous years is as follows:

**Exhibit 2: Exploration drilling results summary, 2015 vs previous**

Heading Left	2015 Niton results*					Historical holes				
	Holes	Average mineralised metres	Grade (% Ni)	Grade (% Cu)	Grade (% NiE)	Holes	Average mineralised metres	Grade (% Ni)	Grade (% Cu)	Grade (% NiE)
Step-out	2	29.0	0.79	0.23	0.91	0	N/A	N/A	N/A	N/A
Flangovy in-fill	14	26.0	0.81	0.21	0.92	12	27.9	0.76	0.22	0.87
Maly-Kurumkon in-fill	5	24.8	0.87	0.23	0.99	6	33.2	0.71	0.19	0.81
Total in-fill	19	25.7	0.83	0.22	0.94	18	29.7	0.74	0.21	0.85

Source: Amur Minerals Corporation, Edison. Note: \*Using Niton XL2 500 X-ray fluorescence unit. NiE = nickel equivalent. Values above are based on a minimum thickness of 3m using a 0.2% Ni cut-off. Waste intervals of less than 3m are included as internal waste.

Amur currently has three consultants working on the mineralisation at Kun-Manie, namely SRK (which conducted the original resource estimates and pre-feasibility study), as well as Wardell Armstrong and Runge Pincock Minarco (all three of which are in the vanguard of the pantheon of technical consultants).

In the context of the broader mineralisation at Kun-Manie, the step-out drilling at Flangovy in particular could be interpreted as being indicative of a single, continuous corridor of mineralisation, approximately 2.5km long, 20-30m thick and at an in-situ grade from 0.7-0.9% nickel, running from Maly Kurumkon through Flangovy to Gorny. Therefore, in addition to Kubuk being remodelled in terms of its geological interpretation, it is entirely possible that Maly Kurumkon and Flangovy will also need to be remodelled in the foreseeable future and that any remodelling is likely to result in an increase in mineralised area and, hence, the in-situ resource.

Within the context of Amur's in-fill drilling programme, it is notable that SRK's original resource estimate was conducted using a block size of 50m x 50m, which contrasts with the c 20m width of the mineralisation. As a result, there was a high degree of (mathematical) dilution inherent in the resource calculation leading, in particular, to a reduced estimated in-situ nickel grade. One of the

aims of Amur's in-fill drilling campaign therefore was to reduce the drill spacing, such that the resource can be re-modelled using a block size as low as 5m x 5m. Consequently, as well as an improvement in the categorisation of the existing resource (eg from inferred to indicated status), it is also possible that additional work will result in a material increase in in-situ nickel grade in the existing resource and (potentially) any additional extensions to the resource.

Two principal conclusions therefore arise from Amur's twin step-out and in-fill drilling programmes:

- Mineralisation at Kun-Manie may be significantly greater in extent than previously recognised (initially between Maly-Kurumkon and Flangovy, but potentially beyond that as well) and could catapult Kun-Manie from the status of a new deposit to that of an entirely new nickel domain.
- The grade of the mineralisation may be materially higher than previously recognised (eg 0.8% Ni vs 0.6%).

Future substantiation of these conclusions, in due course, could materially affect the economics of the project, the most efficient approach to its exploitation and the projected mine plan (in particular, the balance of open pit versus underground mining).

## Timetable and milestones

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In the light of these preliminary internal results from the 2015 field season, it is likely that Amur's resource at Kun-Manie in general and Flangovy/Maly Kurumkon in particular will be remodelled and, as a result, extended and upgraded. Depending on the date of time of receipt of the results of the (independent) Alex Stewart Laboratories core assays, Amur expects to produce an updated resource in Q116. In addition, the resource will be specifically domain modelled into high-grade and low-grade zones to reflect its likely suitability for both underground and open pit exploitation.

On 27 November, Amur announced that it had purchased and taken delivery of a new Boart Longyear LF-90 diamond core drill rig. Now that the largest portion of inferred resources at Flangovy-Maly-Kurumkon has been drilled, the focus of the 2016 field season will be on Kubuk, where up to 17.1Mt of inferred resource may be similarly upgraded to indicated status via an estimated 7-8km in-fill drill programme. In addition, there is potential for a step-out programme to the east and down-dip below 400m. Together with its existing LF-70, the purchase of the LF-90 will double the number of drillable metres that Amur can achieve in a season, while the bulldozers (effectively representing a seed capital fleet) will be mobilised to set up ready access along the full length of the Kurumkon trend in preparation for pre-production development. Capital expended on the rig, including the two new D9R dozers and 329D excavator, was US\$2.48m (including US\$0.4m in refundable VAT).

From the perspective of Russia's legal framework, Amur is currently operating under the auspices of a temporary TEO (note, a Russian TEO equates to a western feasibility study) – the 'temporary' nature of the TEO being to allow Amur to conclude its exploration activities. The key piece of work, to upgrade the status of its TEO from 'temporary' to 'permanent', is a bulk sample. The current field season (typically June to October, weather permitting) being over, Amur is prioritising this piece of work for 2016, to which end suppliers have guaranteed delivery of two D9R Caterpillar bulldozers and an excavator (critical) to site by March 2016. Thereafter, management has stated that it is prepared to fly the bulk sample out from site by helicopter if necessary (note, a 20t bulk sample would require approximately eight helicopter flights to transport).

## Development

The potential for near-term completion of a Russian feasibility study (TEO) raises the question as to how Amur will develop the Kun-Manie project. On account of its having already performed environmental work to the prescribed Russian standard, for example, Amur will 'save' two years in completing a Russian TEO compared with a western-style feasibility study. As such, management estimates that it will cost c US\$3m and take c three years to convert the existing 'temporary' TEO into a 'permanent' TEO of longer if western standards were to be applied. Thereafter, it envisages a two-year construction period in CY18 and CY19 before first production of nickel in CY20. Development according to a Russian TEO could, in turn, lend the project naturally to Russian project finance, in which case management has suggested that an 80:20 debt:equity financing structure could also be feasible.

## Valuation

In our [Outlook note](#) of 22 July 2015, we estimated the net present value of the dividend stream to investors from the development of a toll smelting operation at Kun-Manie (assuming 50:50 debt:equity funding and discounted at 10% per year) to be US\$0.56 per share in FY15, rising to US\$1.00 in FY21 when debt will have been repaid and the first dividend could theoretically become payable (fully diluted).

Of note was the fact that the toll smelting option captured 77% of the maximum potential value of the project (as represented by the refinery option), but that the low-grade matte option captured 99% of the maximum potential value. By contrast, the additional 'value' associated with the high-grade matte and refinery options was largely dissipated by the extra dilution associated with the larger equity fund-raising requirement. A summary of the results of our financial analysis in July 2015 is as follows.

**Exhibit 3: AMC equity valuations by development scenario and discount rate (July 2015)**

US cents per share (post-dilution)	0%	5%	10% (base case)	15%	20%	25%	30%
Toll smelting – US\$312m in equity fund-raising required	159	92	56	36	24	16	11
Low-grade matte – US\$385m in equity fund-raising required	213	120	72	45	29	20	14
High-grade matte – US\$479m in equity fund-raising required	185	103	61	38	24	16	11
Refinery – US\$647m in equity fund-raising required	219	123	73	46	30	20	14

Source: Edison Investment Research. Note: Assuming 50% maximum financial leverage.

At the time of writing, Amur's share price has declined to 7p, with the result that (ceteris paribus) associated equity dilution has increased, although this is, to some extent, offset by the higher assumed leverage (we are applying 80%) as a result of the potential for Russian/eastern funding on account of the pursuit of a development option based on a Russian TEO.

**Exhibit 4: AMC equity valuations by development scenario and discount rate (November 2015)**

US cents per share (post-dilution)	0%	5%	10% (base case)	15%	20%	25%	30%
Toll smelting – US\$139m in equity fund-raising required	103	58	34	21	13	9	6
Low-grade matte – US\$174m in equity fund-raising required	141	77	44	27	17	11	7
High-grade matte – US\$219m in equity fund-raising required	114	61	35	21	13	8	5
Refinery – US\$299m in equity fund-raising required	135	73	42	25	16	10	7

Source: Edison Investment Research. Note: Assuming 80% maximum financial leverage.

Once again, the low-grade matte option prevails as the most efficient deployment of capital, although investors should note that this could change if the resource and mine plan are reinterpreted to accommodate a higher in-situ nickel grade.

## Financials

Amur had US\$1.4m of net cash at 31 December 2014 with a further US\$7.381m available via its funding arrangement with Lanstead Capital LLP (valued at the December 2014 share price of 10.5p). Since the end of FY14, the company's cash position has continued to improve as Amur's share price and traded volumes have increased, resulting in "substantial inflows" from Lanstead, such that the (albeit unaudited) cash position of the group at 30 June 2015 was US\$8.3m (cf cash burn rates of US\$3.9m in FY13, US\$1.7m in H114, US\$2.7m in FY14 and US\$2.7m in H115).

On 1 October, Amur announced the completion of the 2013 equity swap agreement with Lanstead, and confirmed that it had received a total of £8.3m from the placing and agreement in 24 separate settlements. After US\$2.48 in additional capital expenditure therefore, we forecast that Amur will have a net cash position of US\$6.4m as at 31 December 2015, which should be sufficient for it to upgrade its conceptual study to bankable status within three years, before final financing and project execution.

**Exhibit 5: Financial summary**

	US\$'000s	2010	2011	2012	2013	2014	2015e	2016e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>								
Revenue		0	0	0	0	0	0	0
Cost of Sales		0	0	0	0	0	0	0
Gross Profit		0	0	0	0	0	0	0
EBITDA		(1,928)	(2,892)	(1,750)	(2,539)	(2,358)	(2,148)	(2,148)
Operating Profit (before GW and except.)		(1,928)	(2,892)	(1,750)	(2,539)	(2,358)	(1,869)	(1,869)
Intangible Amortisation		0	0	0	0	0	0	0
Exceptionals		(328)	(1,505)	(435)	(151)	1,158	1,672	0
Other		0	0	0	0	0	0	0
Operating Profit		(2,256)	(4,397)	(2,185)	(2,690)	(1,200)	(197)	(1,869)
Net Interest		0	(211)	(1,813)	(1,141)	(161)	2,838	96
Other		0	0	0	0	0	0	0
Profit Before Tax (norm)		(1,928)	(3,103)	(3,563)	(3,680)	(2,519)	969	(1,773)
Profit Before Tax (FRS 3)		(2,256)	(4,608)	(3,998)	(3,831)	(1,361)	2,641	(1,773)
Tax		0	0	0	0	0	(634)	0
Profit After Tax (norm)		(1,928)	(3,103)	(3,563)	(3,680)	(2,519)	335	(1,773)
Profit After Tax (FRS 3)		(2,256)	(4,608)	(3,998)	(3,831)	(1,361)	2,007	(1,773)
Average Number of Shares Outstanding (m)		193.9	271.8	345.1	387.2	431.2	433.8	436.5
EPS - normalised (c)		(1.0)	(1.1)	(1.0)	(1.0)	(0.6)	0.1	(0.4)
EPS - FRS 3 (c)		(1.2)	(1.7)	(1.2)	(1.0)	(0.3)	0.5	(0.4)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>								
Fixed Assets		14,151	13,903	17,928	18,955	12,035	16,514	16,793
Intangible Assets		13,685	13,503	17,084	18,318	11,783	13,195	13,195
Tangible Assets		466	400	844	637	252	3,319	3,598
Other receivables		0	0	0	0	0	0	0
Current Assets		7,215	7,386	8,389	11,074	9,090	6,993	4,941
Stocks		167	165	224	269	237	512	512
Trade Debtors		0	0	0	0	0	0	0
Cash		3,066	4,436	2,048	2,392	1,389	6,398	4,346
Other receivables/other		3,982	2,785	6,117	8,413	7,464	83	83
Current Liabilities		(109)	(102)	(119)	(123)	(407)	(165)	(165)
Creditors		(109)	(102)	(119)	(123)	(407)	(165)	(165)
Short term borrowings		0	0	0	0	0	0	0
Long Term Liabilities		0	0	0	0	0	0	0
Long term borrowings		0	0	0	0	0	0	0
Other long term liabilities		0	0	0	0	0	0	0
Net Assets		21,257	21,187	26,198	29,906	20,718	23,342	21,568
<b>CASH FLOW</b>								
Operating Cash Flow		(1,201)	(2,761)	(1,071)	(1,556)	(1,960)	(2,665)	(2,148)
Net Interest		0	0	0	0	0	2,838	96
Tax		0	0	0	0	0	(634)	0
Capex		(492)	(20)	(3,482)	(2,315)	(748)	(4,200)	0
Acquisitions/disposals		363	0	0	0	0	0	0
Financing		3,527	4,344	2,165	4,242	1,841	9,523	0
Dividends		0	0	0	0	0	0	0
Net Cash Flow		2,197	1,563	(2,388)	371	(867)	4,863	(2,052)
Opening net debt/(cash)		(997)	(3,066)	(4,436)	(2,048)	(2,392)	(1,389)	(6,398)
HP finance leases initiated		0	0	0	0	0	0	0
Other		(128)	(193)	0	(27)	(136)	146	0
Closing net debt/(cash)		(3,066)	(4,436)	(2,048)	(2,392)	(1,389)	(6,398)	(4,346)

Source: Company sources, Edison Investment Research



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