

Cassius Mining CMD

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			2023	2024
Price:	0.03	EPS	0	0
Shares Out. (in M):	497	P/E	0	0
Market Cap (in \$M):	12	P/FCF	0	0
Net Debt (in \$M):	0	EBIT	0	0
TEV (in \$M):	11	TEV/EBIT	0	0

Description

Thesis summary: Cassius Mining (CMD) is an Australian mining nano-cap (\$8mm USD market cap) with a couple of wildcard assets and a soon-to-be-litigated arbitration claim against the Republic of Ghana for illegal abrogation of their Gbane gold mining licence in the Talensi district, northern Ghana. Whilst undoubtedly not for the faint of heart, this particular arbitration claim possesses a number of unique characteristics that increase the likelihood of a positive outcome. Firstly, this is not a dispute about the theoretical value of minerals in the ground; instead the claim revolves around illegal mining on CMD's tenement by a Chinese company, Shaanxi Mining (that continues, to this day), such that we know, with a reasonably higher degree of certainty, the quantum and value of gold taken from the site. Secondly, an adjacent tenement, just 2.5km away from CMD's land - with zero mining infrastructure or development in situ - was sold in a competitive process, for \$475mm USD (in a lower gold price environment to boot). Thirdly, Shaanxi is deeply unpopular with locals given a history of horrendous safety performance and many deaths on site through bad mining practices - creating a bank of key witnesses able to testify against Shaanxi (and by extension, Ghana), in the forthcoming arbitration. And fourthly - again unlike many other arbitration claims of this type - there exists in the public domain substantial evidence of Ghanaian corruption during the licence abrogation process, such as Ghanaian ministers caught on tape offering bribes to reporters on the story; and key judges meeting privately ex parte with Shaanxi during evidentiary hearings. Again, this makes the ultimate outcome of a third-party arbitration more likely to fall in CMD's favor. Fifthly and finally, Ghana - despite its status as an emerging nation - is actually not a terrible place to be awarded a judgment of this type, given a long history of judgement debt in the country (the result of endemic corruption) that invariably gets paid, even if in arrears.

As it stands, CMD has pegged the preliminary value of their claim against Ghana at 'not less than \$275mm USD' - a number that I think will ultimately be revised up substantially. CMD has recently conducted a capital raise and has enough money to get through to 'seat selection' status in the arbitration (meaning selecting a venue to conduct the proceedings); after that they will likely decide on litigation financing to fund the rest of the process (likely \$8mm AUD and an 18-24month process). Still, even assuming no further bump in the arbitration claim; further 30% dilution on the equity at current levels; settling with Ghana at a 50% headline discount to the claim value; and that litigation financing takes 25% gross of any proceeds, there is still 10x upside from current levels. Said another way, the current market cap -

assuming zero value for CMD's other assets - is ~2.8% of the gross value of the current claim. At a very high level I expect the claim amount to be revised up, substantially, and the equity to reprice to at least 5-6% of theoretical claim value, given the claim's inherent chances of success/quality, over the next six months as the arbitration value is derisked in a series of steps.

This equity trades by appointment and often less than \$50k a day, so this should be for PA/speculation dollars only. Obviously the risk of a total doughnut is real.

Event Background

Shaanxi, the Chinese miner at the center of this story, first began prospecting for gold in the Talensi district of northern Ghana in 2008/09 - totally unlicensed (likely because they had bribed local officials to turn a blind eye). By 2012/13 they had produced a Feasibility Study Report (FSR), still unlicensed, over land that would later be acquired by Cassius. In December 2016, Cassius acquired a gold Prospecting License - the relevant licence for large-scale mining in the country - and within three months (February 2017) had noticed significant evidence of underground and surface trespass by Shaanxi. Note that even at that time, Shaanxi was not in possession of a PL, and instead was simply operating under a 'mining support agreement' (a small-scale licence) to two local mining groups, Yenyeya and Pabortaaba, with a much, much smaller tenement in the vicinity (but not adjoining) the Cassius lease. Note that the Cassius claim totals 14 sqkm, versus the Shaanxi claims (on a mining support basis) at 0.3 sqkm, so from the get-go the Cassius large-scale lease was nearly 50x bigger than the small-scale Chinese leases.

Cassius complained to the Minerals Commission (MinCom), the relevant government body, regarding the trespass after noticing a number of signs, such as a vent shaft on Cassius land (evidence of underground trespass); and numerous drill holes and other evidence of surface exploration drilling on their lease. An independent third-party consultant, SRK, was appointed by MinCom to conduct a survey to examine the extent of Shaanxi's apparent trespass, in April 2017. Despite being largely frustrated by Shaanxi and unable to survey all the underground tunnels/workings and only having 2.5 days to work, even as early as mid-2017 SRK concluded that 'significant evidence of trespass exists.' The full SRK report has not yet been released into the public domain, but many of its broader conclusions are summarized in this investigative journalist report from an Australian newspaper published last year: <https://www.smh.com.au/interactive/2022/blood-gold/>

Despite SRK's damning conclusion and the incomplete nature of the allowed underground survey, Shaanxi was awarded a full Prospecting License in late 2017, directly adjacent to Cassius' lease. Meanwhile, even after Cassius established a JORC Exploration Target in 2018, Shaanxi trespass (particularly sub-surface) continued unabated. Shaanxi then was granted a further mining license over much of the Cassius lease, in 2019 (despite Cassius' PL still being active) - even though Shaanxi had changed their name to Earl International to try to mitigate negative press from years of horrendous mining practices - and finally in February 2020, Cassius' Prospecting License renewal was refused on false grounds - the driver for

international arbitration being pursued now.

The arbitration case

Even though CMD's primary gripe is with Shaanxi, Cassius is pursuing Ghana through international arbitration under breach of contract statutes, claiming, essentially, that Ghana stripped them of their Prospecting License extension on false grounds and as a result needs to pay relief damages in the amount of any lost profits on gold that otherwise would have been legally mined under the licence. The preliminary estimate of this relief claim has been disclosed as 'not less than \$275mm USD' - excluding interest and legal fees, which are also being asked for in relief - but for various reasons I believe will likely prove substantially higher when the final arbitration claim is made.

Under UNCITRAL (United Nations Commission on International Trade Law) rules, international arbitration to resolve contractual breach disputes will first select a tribunal of three members (one appointed by the plaintiff, one by the defendant, and one by UNCITRAL in the Hague); and then a venue for the arbitration hearing will be selected (called 'seat selection'). CMD is asking for London; Ghana is suggesting Accra (surprise surprise). I expect a seat will be chosen in the next couple of months and naturally any non-Ghana location (London, Washington DC, or Singapore are the three most likely locations) would be a catalyst in itself. Thereafter, the arbitration tribunal would gather evidence, over a period of 12-18 months, before a hearing is set to hear both sides summarized arguments (likely over a condensed period, ie, a number of days). The Tribunal would then adjourn for some undetermined period (anywhere from say days to six months) before handing down its judgement. Thus, it is quite likely that the entire process - if not settled in advance - likely takes another 2-2.5 years to resolve.

Why this is a strong arbitration case - the merits are likely decided, it is simply the quantum that will be debated

Putting aside any discussion of the quantum of damages CMD is likely to receive if they win, there are a fair few idiosyncracies that make this case far more promising than a typical mining-related contractual breach case:

- **Shaanxi has been mining, profitably, for years:** first and foremost, in many cases where a mining license is pulled before the mine is even built, it can be difficult to quantify in evidence what a theoretical mine could earn for its operator. This is not the case here. Shaanxi has been profitably mining the tenement ever since Cassius received the PL (late 2016); indeed they are still mining to this very day. Along the way they have published a number of Feasibility Studies; a Scoping Study (including a mine extension plan); and a number of other related documents that will no doubt be entered into evidence demonstrating the eminent quantum and profitability of contained metal. I believe it should be much easier to convince a tribunal on the quantum and nature of lost value when the metal has already been pulled from the ground

than when assumptions on mine development economics need to be thrown into the mix;

- **Damning evidence already in the public domain:** also unusually for a case like this, a large amount of pretty damning evidence has already been aired in the Ghanaian press over the years, suggesting corruption in Shaanxi's favor has run incredibly deep. For example, a local judge, Jacob Boon, was caught meeting with Shaanxi officials the night before a local hearing (where Cassius was attempting to stop Shaanxi's trespass) at his own residence; said journalists were then offered bribes (which were rejected) but the judge ended up recusing himself from the hearing (see here: <https://starrfm.com.gh/2019/02/bni-invites-shaanxi-officials-over-bribery-scandal/>). Further, a government minister responsible for the Talensi district, Rockson Bukari, resigned in disgrace after being caught on tape offering a bribe to another investigative journalist about to publish a piece critical of Shaanxi (see here: <https://www.ghanaweb.com/GhanaHomePage/NewsArchive/Minister-caught-on-tape-attempting-to-bribe-Starr-FM-reporter-741395>).

- **Shaanxi is deeply unpopular in northern Ghana:** There have been numerous protests over the years because Shaanxi has allowed horrendous mining conditions to proliferate in its illegal mines, and - as the linked Sydney Morning Herald article alleges - may indeed be directly responsible for the deaths of 60 artisanal miners, intentionally, during the SRK examination back in 2017. Indeed the company was forced to change their name (to Earl International) back in 2019, because it was deemed too politically charged to grant a full-scale mining license to the Shaanxi entity back then given its torrid history as an operator. As a result, there is a wide pool of furious locals - many ex-Shaanxi employees - who have privileged knowledge of the true extent of their illegal mining and will be more than happy to testify as Cassius witnesses in the forthcoming arbitration;

- **Likely cash settlement:** one of the major risks in pursuing investments like this is halfway through the arbitration, the plaintiff settles with the defendant when the defendant offers something like reinstating the mining license and allowing the company to pursue its mining project (see what happened with Kingsgate Consolidated, KCN.AX, as a perfect example). That is often a disaster for equity returns as then the company needs to actually go about the business of mining, instead of just cashing a check. Here, however, this risk does not exist, since at this point - close to seven years after the first trespass - most all the best seams have probably been mined out. Cassius has zero interest in getting a mined-out tenement back - they are simply going for the cash. The company has suggested any ultimate settlement will simply be returned as a dividend to long-suffering shareholders;

- **Ghana as a decent creditor for any award:** whilst Ghana is, by all accounts, horribly corrupt and definitely a 'dodgy' counter-party, as a country they have something of a long history of being served these kinds of claims (called 'judgement debt') and then paying them. This [report](#), for example, suggests that up to 73% of judgement debt payments - that is, settled claims paid by the government - over the last twenty years are the result of contractual breaches (most always the result of corruption). Whilst there is much public outcry over the existence of this judgement debt, it seems to me (reading a fair amount of Ghanaian press)

that there is minimal pushback on actually paying down the various claims (especially those ordered by international courts) and instead criticism is reserved for the corrupt politicians whose misdeeds create the debts in the first place.

Thinking through the potential quantum of an award

It seems to me, then, that the merits of the case are relatively straight-forward; but demonstrating the quantum of damages will inevitably be a taller order. Here, though, too, there are a number of positive factors reflecting on potential value to Cassius:

- **The Cardinal Resources analog:** Cardinal Resources was an Australian-listed gold explorer with a solitary tenement, barely 2.5kms south of the Cassius PL, that was sold in a competitive auction for \$475mm USD in January 2021. Whilst Cardinal did possess a JORC Resource of 5.1mm oz of gold at the time (implying \$93/oz for in-ground Resources), it was a pure exploration company, with no sub-surface development at all. In other words it was far, far less developed than the Cassius situation - where Shaanxi has/had been mining all along as the 'de facto' miner operating and producing value from the Cassius asset - yet sitting on the same geological structure. I believe the tribunal will accept this arms-length transaction on adjacent land, for an undeveloped in-ground resource, as at least somewhat reflective of value at Cassius.

- **Mined out value:** a good part of the argument to be made will be that Shaanxi has profitably mined on Cassius' land, for years, and that substantially all that value belongs to Cassius given it was drawn from the subsurface under Cassius' lease and during the time (2016-2023, and ongoing) when Cassius was entitled to hold a valid PL. To perform an analysis of the quantum of gold taken, I understand Cassius is commissioning an independent quantum report, drawing both on the SRK expert report (that delineates the extent of trespass and speculates on value taken illegally by Shaanxi from Cassius land); and, crucially, Shaanxi's own published Feasibility Studies and Scoping Studies (that the company has come into possession of). That is to say, the quantum analysis will rely *largely on Shaanxi's own mine plans, materials and operating results* - surely a better signal of the true value extracted than simply an estimate of in-ground resources on an undeveloped site.

I believe a composite of these two factors has been used to estimate this initial \$275mm USD claim amount (though I am not privy to the exact workings/methodology), but I still expect this number to be revised higher when CMD files its final arbitration claim notice because:

- the \$275mm USD does not include interest, which should be incurred on lost profits at LIBOR+6% (looking at other historical Ghana arbitration cases). Since a bulk of the purported value will have been generated 5-6 years ago, this should add substantially to the tally;
- Shaanxi continues to mine at the site;
- gold prices are ~10% higher than when I believe this preliminary claim number was calculated;

- CMD is expressly preparing a third-party quantum damages report, in advance of submission to arbitration, and it seems reasonable to conclude they would start off with a more conservative number then improve it as time and verification allows.

CMD equity - why does this opportunity exist and what could it be worth?

I won't spend too much time on the obligatory 'why does this opportunity exist' question. CMD is a pico-cap, illiquid, left-for-dead miner with zero institutional following and a torrid history. I doubt anyone with more than a couple of pennies knew this even existed, let alone had bothered to investigate the strength of their claim against Ghana, until they recently started disclosing a few more details about it earlier this year. Even so this is a severely liquidity-limited situation so no one of scale will have bothered to do the work.

This creates the opportunity before us because I think *the equity could clearly multi-bag well in advance of any settlement/arbitration outcome simply because the upside skew is so massive here and success optionality seems largely mispriced*. For example, even if we were to assume the \$275mm doesn't grow; that CMD needs to dilute another 30% at current levels; that Ghana settles any final claim for 50c on the dollar; AND that litigation financiers take 25% of any proceeds, I still think the equity would be worth something like 24c, or basically a 10x. Obviously any kind of increase in the statutory claim amount, which seems likely to me, and we are quickly getting into heady deep payout territory (15-25x) if they win. (Keep in mind this accords zero value for anything else the company has, principally a limestone quarry in Madagascar that I understand they are trying to sell for \$8-10mm USD and that would completely derisk the litigation totally, but something I am not budgeting anything for in my valuation at the moment).

Along the way, though, I think the equity can eminently trade up with a bit more option value as over the ensuing months I believe the following will occur:

- **selection of seat for the Arbitration:** assuming this is some neutral (non-Ghana) venue it would automatically derisk the outcome substantially and open up the possibility of a nearer-term settlement;
- **finalization of litigation finance:** until now the company has decided to fund getting the case to seat status on their own, but subsequent to that, I believe they will engage with litigation financiers to solicit the remaining \$6mm USD needed to pursue the arbitration to its completion. Doing so on market terms (here I ping them 25% of gross but in reality other cases have achieved better terms, eg GreenX in Poland was in receipt of I believe 10-15% gross payout terms) would totally derisk the litigation in terms of funding and likely rerate the stock immediately;
- **publication of third-party quantum report:** whilst it remains TBD if this report would make it into the public domain or be sealed for the length of the arbitration, it is my understanding that the company would be bound (under continuous disclosure obligations of the ASX) to release some level of detail with regard the consequences of the report on the value of the company. In other words if or when the damages claim

is revised up (and by how much); and perhaps some or all of the evidence used in calculating said claim, would be disclosed to the market and thus allow the equity to reprice odds of success in the forthcoming arbitration;

- **Elections in Ghana (end 2024):** whilst I expect the context of the traded equity to be many multiples higher before then, the Ghanaian elections at the end of next year would present an opportunity to likely settle the case if the opposition party (NDC) wins. The incumbent president, Akufo-Addo, is term-limited and cannot stand for re-election; but the opposition party was in power when Cassius was first granted their PL and is seen as more sympathetic to the Cassius side (and perhaps more able to simply blame the past corruption and support of Shaanxi on the Akufo-Addo regime). I am not well versed in Ghanaian politics and think this is simply a nice option to have, but am not counting on it.

Summing it all up, this clearly is pretty high octane and could easily be a bagel, but it seems at about 2.5% of theoretical gross value of the claim and with this set of high-level facts, and likely incrementally positive newsflow in the next 6-9 months as the arbitration gathers momentum, the price is simply multiples too low.

I do not hold a position with the issuer such as employment, directorship, or consultancy. I and/or others I advise hold a material investment in the issuer's securities.

Catalyst

- Seat selection
- Update on quantum of the claim (hopefully meaningfully higher)
- Full third-party quantum report published or otherwise methodology explained
- Beginning of arbitration proceedings
- Settlement with Ghana

Messages

No messages