



Weekending Thursday 20th April 2017 – ASX Resource Companies

BREAKAWAY MINING WEEKLY

Recommendations/ Deals/ Listings/ Resource Updates/ Drilling Results; Drilling Underway/ Production/ Existing Projects/ Existing Projects in the Resources Sector

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WEEKLY OVERVIEW

Well it has certainly been an interesting week as the world refocused from the US cruise missile attacks in Syria and coming head to head with Russia to the current US confrontation with North Korea's Supreme leader Kim Jong-un. It wasn't a quiet Easter break to say the least!

In other news, UK Prime Minister Theresa May calls a surprise election in the UK for the 8th June and as such, the FTSE has wiped out 2017 gains on the announcement while the GBP has appreciated.

Iron Ore Price

The major commodity story which has been occurring for some weeks now is the decline in the iron ore price. The prices are now 28% below its mid-February high of US\$94.25/t and stockpiles across 42 ports in China, the total iron ore inventory is at a record-high level of 133 Mt. What is clear is the extent of speculative investment in China's iron ore futures market by retail investors, which has driven the price movements. These investors can react to changing news on infrastructure spending quickly and send the price lower. Meanwhile supply is expected to increase by the major iron ore producers and contribute to the 70Mt surplus estimated by Citigroup analysts.

Our expectations are that it will stabilise at current levels but still generate healthy margins for lower cost producers.

GLOBAL ECONOMY GAINING MOMENTUM—FOR NOW REPORTS THE IMF

In encouraging economic news, the IMF has confirmed its outlook for stronger global economic growth rates for 2017-18, slightly revising its estimates upwards to 3.5% this year and 3.6% in 2018. This compares to a 3.1% increase recorded in 2016 and forecasts for 3.4% and 3.6% growth rates in 2017 and 2018 estimated in its January 2017 release.

“Stronger activity, expectations of more robust global demand, reduced deflationary pressures, and optimistic financial markets are all upside development,” the IMF reported. In particular, the US is expected to post an acceleration in growth through the two year horizon to 2.3% and 2.5% in 2017/18, up from 1.6% in 2016. The Euro-area growth is estimated to remain broadly unchanged from 1.7% recorded in 2016 – 1.7/1.6% in 2017/18 while China, in line with market expectations, to continue gradual deceleration from 6.6% and 6.2% in 2017/18 from 6.7% in 2016.

Global Economy: Gaining Momentum

Latest growth projections

(Percent change)

	Projections		
	2016	2017	2018
World Output	3.1	3.5	3.6
Advanced Economies	1.7	2.0	2.0
United States	1.6	2.3	2.5
Euro Area	1.7	1.7	1.6
Germany	1.8	1.6	1.5
France	1.2	1.4	1.6
Italy	0.9	0.8	0.8
Spain	3.2	2.6	2.1
Japan	1.0	1.2	0.6
United Kingdom	1.8	2.0	1.5
Canada	1.4	1.9	2.0
Other Advanced Economies	2.2	2.3	2.4
Emerging Market and Developing Economies	4.1	4.5	4.8
Commonwealth of Independent States	0.3	1.7	2.1
Russia	-0.2	1.4	1.4
Excluding Russia	1.8	2.5	3.5
Emerging and Developing Asia	6.4	6.4	6.4
China	6.7	6.6	6.2
India	6.8	7.2	7.7
ASEAN-5	4.9	5.0	5.2
Emerging and Developing Europe	3.0	3.0	3.3
Latin America and the Caribbean	-1.0	1.1	2.0
Brazil	-3.6	0.2	1.7
Mexico	2.3	1.7	2.0
Middle East, North Africa, Afghanistan, and Pakistan	3.9	2.6	3.4
Saudi Arabia	1.4	0.4	1.3
Sub-Saharan Africa	1.4	2.6	3.5
Nigeria	-1.5	0.8	1.9
South Africa	0.3	0.8	1.6

Source: IMF, April 2017 *World Economic Outlook*.



**INTERNATIONAL
MONETARY FUND**

COMMODITY PRICES

It has been a lacklustre week with nearly all commodities and indices lower. Iron ore was 6.6% lower during the week.

COMMODITY PRICE AND INDEX MOVEMENTS OVER THE WEEK

Commodity Prices	Price/Level (today)	Price/Level at 12 th Apr 2017	Weekly Change	Market Movements	Price/Level (today)	Price/Level at 12 th Apr 2017	Weekly Change
Base Metal Prices (US\$/lb)				Broad Market Indices			
Copper	2.51	2.54	-1.4%	DJIA	20,404.49	20,591.86	-0.9%
Lead	0.98	1.02	-4.1%	FTSE-100	7,114.36	7,348.99	-3.2%
Zinc	1.15	1.17	-2.4%	S&P/ASX 200	5,804.00	5,934.00	-2.2%
Nickel	4.21	4.39	-4.1%	Mining and Energy Indices			
Aluminium	0.86	0.85	0.3%	S&P/ASX 200 Resources	3352.80	3538.30	-5.2%
Tin	8.98	8.80	2.1%	S&P/ASX 300 Metals & Mining	2904.50	3082.90	-5.8%
Cobalt	24.95	25.06	-0.5%	S&P/ASX 200 Energy	9309.10	9674.90	-3.8%
Molybdenum	6.76	6.76	-0.1%	S&P/ASX All-Ordinaries Gold	4697.60	4885.50	-3.8%
Precious Metal Prices (US\$/oz)				Global Mining			
Gold	1279	1274	0.4%	S&P/TSX Global Mining	66.08	67.67	-2.3%
Silver	18.22	18.31	-0.5%	Commodity Indices			
Platinum	968	962	0.6%	CRB Index	188.09	189.30	-0.6%
Bulks & Oil				LMEX Index	2708.50	2840.60	-4.7%
Oil WTI (US\$/bbl)	51.60	53.21	-3.0%	S&P GSCI	2327.19	2351.47	-1.0%
Thermal coal (US\$/t)	82.05	82.05	0.0%	Baltic Dry	1296.00	1262.00	2.7%
Iron ore (US\$/t)	68.65	73.50	-6.6%	Overnight snapshot			
Exchange Rates				Sources include Bloomberg, Macquarie, TradingEconomics, S&P, Commsec, Xe.com, marketindex.com, Reuters, Breakaway Research yahoofinance.com			
AUD/USD	0.750	0.766	-2.1%				
EUR/USD	1.071	1.076	-0.5%				
USD/ZAR	13.28	13.03	1.9%				

BREAKAWAY RESEARCH PORTFOLIOS – IDEAS FOR INVESTORS

Breakaway Research maintains two portfolios and a watch list outlined in the following tables. They are designed to provide ideas to investors where Breakaway Research considers there are opportunities to outperform the resource sector indices. However the portfolios are presented as 'general advice' and do not consider the financial or otherwise circumstances of the investor and of course, investment in the resource sector is often speculative in nature given the multiple variables which drive the share prices.

BREAKAWAY LOWER RISK PORTFOLIO

The *Lower Risk Portfolio* list stocks which Breakaway Research assess as generally large enough to have a number of producing operations, have market capitalisations that is generally in excess of \$500m and a more resilient balance sheet in comparison to companies in the other portfolios. Breakaway Research considers that the companies listed in the portfolio have the right exposure to the current momentum in the sector and/or are likely to surprise on the upside.

Company	ASX Code	Share Price (as at 20th April)	Initial Recommended Share Price (buy up to, \$)	Market Capitalisation (\$M)	Main Commodity Exposures	Rationale
Cooper Energy	COE	0.352	0.39	254	gas/oil	Attractive gas play in Eastern Australia, recent acquisition of Santos assets in Bass Street provides exposure to rising prices in the Eastern Australian Gas market
Fortescue Metals Group	FMG	5.29	6.78	20,364	Fe	Leveraged to iron ore prices, improving cost structure and cash flow reducing debt.
Independence Group	IGO	3.24	3.84	2,013	Au, Ni, Zn	Diversified WA portfolio with strong base metal exposure
Oz Minerals	OZL	7.29	10.00	2,497	Cu	Copper play (Prominent Hill, SA) with portfolio of growth projects
Resolute Mining	RSG	1.17	1.73	991	Au	Dominantly West African gold production, low debt, \$283m in cash and an aggressive exploration strategy
Sandfire	SFR	5.79	6.42	1,014	Cu	Copper play (DeGrussa, WA) with active management
South32	S32	2.74	2.95	15,705	Al, Mn, Zn, Pb, Ag, Met Coal	Diversified portfolio of assets in 'industrial' commodities, particularly leveraged to steel and aluminium demand

BREAKAWAY LOW RISK PORTFOLIO UPDATE

We have been battered in both our Low Risk and Speculative portfolios as 'pure plays' have been dealt severely by the market in a regime of falling commodity prices. We have confidence in our stock selection which is positioned for an upswing in the markets as global economic growth becomes the major theme rather than the geopolitical tensions which are occurring today.

Even gold stocks haven't fared well despite the increase in the gold price.

BREAKAWAY SPECULATIVE PORTFOLIO

The *Speculative Portfolio* comprise stocks which offer special situations where recent drilling results or other exploration activities, commodity exposure and/or momentum could generate significant above market returns. However, the companies/projects have a higher level of risk than the companies recommended in the *Lower Risk Portfolio* described above.

Company	ASX Code	Share Price (as at 20th April)	Initial Recommended Share Price (buy up to, \$)	Market Capitalisation (\$M)	Risk	Main commodity exposure	Rationale
Atlas Iron	AGO	0.016	0.047	320	High	Fe	High leverage to higher than expected Fe prices, strong cash flow and increasing resilience
Hillgrove Resources	HGO	0.072	0.063	18	Very high	Cu	Restructuring and a \$5m raising has alleviated short term cash problems. Better production performance and an outlook of improving copper prices could significantly derisk the company.
Hot Chili	HCH	0.034	0.042	20	High	Cu	Is developing its flagship Productora copper project on the coastal range in Region III, Chile.
Kidman Resources	KDR	0.39	0.505	132	High	Li	Advancing a world class lithium project in WA
Lepidico	LPD	0.013	0.014	26	High	Li	Lithium 'game-changer' technology
Panoramic Resources	PAN	0.29	0.39	144	High	Ni, Co	Selected Co play, diversified nickel operations
TNG Limited	TNG	0.14	0.165	129	Medium	Va, Ti, Fe	Mount Peake Vanadium-Titanium-Iron project represents a significant project. Todd River Resources demerger creates short term uncertainty
West African Resources	WAF	0.255	0.25	94	Medium	Au	Its Sanbrando Gold Project in Burkino Faso is being developed and moving towards 150koz pa production in 2019.

BREAKAWAY SPECULATIVE PORTFOLIO UPDATE

As mentioned earlier, most share prices have been impacted by the falling commodity prices and geopolitical uncertainty.

HYPOTHETICAL PERFORMANCE

Breakaway Research provides hypothetical performance estimation for investors to view the performance of our stock selections. The calculations assumed an equal investment of \$1000 at the time of the stock recommendation and utilises a procedure developed for Stock Resource Pty Ltd by one of the top four accounting firms. It is important to note that past returns may not be an indicator of future returns.

Both portfolios have underperformed the broader market indices and which reflects the diversification in the indices, particularly the domination of BHP and RIO and which tend to outperform in a falling market. Nevertheless, we maintain our faith and expect to outperform in an upswing.

Hypothetical Portfolio Returns	20 th April 17	15 th Feb 17	Performance
Lower Risk Portfolio			-18%
Speculative Portfolio			-18%
Mining and Energy Index Performance			
S&P/ASX 200 Resources	3352.8	3595	-7%
S&P/ASX 300 Metals & Mining	2904.5	3204.8	-9%
S&P/ASX 200 Energy	9309.1	9220.8	1%
S&P/ASX All-Ordinaries Gold	4697.6	4707.8	0%
Global Mining Index Performance			
S&P/TSX Global Mining	66.1	72.15	-8%
Commodity Indices Performance			
CRB Index	188.09	193.63	-3%
LME Index	2708.50	2904.20	-7%
S&P GSCI	2327.19	2405.30	-3%
Broad Market Indices Performance			
DJIA	20404.5	20611.86	-1%
FTSE-100	7114.4	7302.41	-3%
S&P/ASX 200	5804.0	5809.10	0%

BREAKAWAY WATCH LIST RECOMMENDATIONS

Stocks within the *Watchlist Portfolio* are in the process of potentially exciting exploration activities on prospects that offer significant upside if the results/activities yield positive results. These companies often have low cash reserves and low market capitalisations meaning that they offer significant leverage to any success but have attendant high risk.

Company	ASX Code	Share Price (as at 20th April)	Market Capitalisation (A\$m)	Risk	Main commodity exposure	Rationale
Artemis	ARV	0.068	29	High	Au	Drilling at the Carlow Castle Co Au Cu Project has produced encouraging results from the first 3 holes from an 8 hole program.
Trek Metals	TKM	0.041	9	High	Zn	Drilling on the Kroussou Project in Gabo will commence in Q1 2017 and follows up high grade grab samples. Low cash reserves.
Oro Verde	OVL	0.016	15	High	Au	Drilling is about to commence on the Nicaraguan Topacio Gold Project with Newcrest to fund the initial 1,650 metre program of seven diamond drill holes.
Toro Energy	TOE	0.036	96	Medium	U	Attractive uranium portfolio, awaiting Federal Government approvals, change of Gov't and uranium policy risk in WA
Investigator Resources	IVR	0.036	22	High	Cu	IVR has commenced drilling at the Nankivel copper-gold porphyry target.
Zinc of Ireland	ZMI	0.01	12	High	Zn	Option over the Galmoy processing plant, About to commence 3000m drilling programmed on Kildare project, Ireland

WATCHLIST PORTFOLIO UPDATE

Nothing material has occurred during the past week which has not already been reported in our Mining Daily.

TECH AND MISSILES

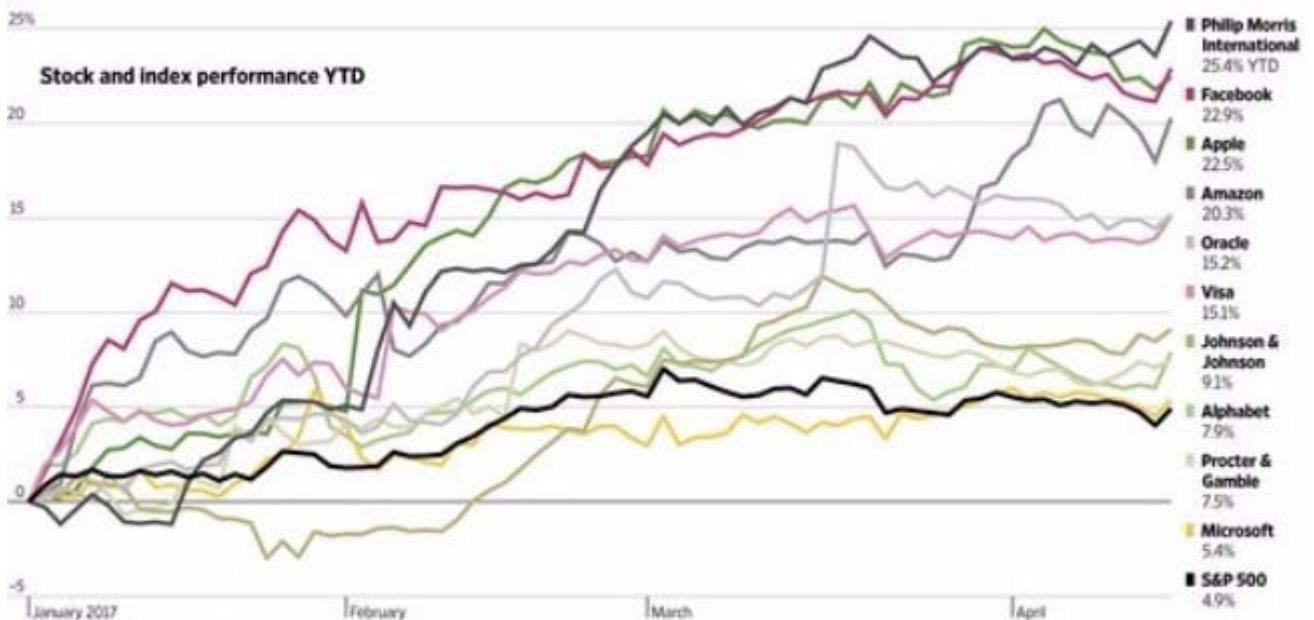
We have including two interesting charts that have come across our desk during the week. The first is the domination of tech companies in the US S&P 500 as outlined below.

Shoulders of Giants

Gains in a handful of stocks, mostly technology and internet, are responsible for 52.5% of the S&P 500's advance in 2017 through Wednesday. Apple, Facebook and Amazon.com by themselves account for nearly a third of the increase.

Share of S&P 500's percentage change*

Apple	Facebook	Amazon	Alphabet	Philip Morris	Johnson & Johnson	Microsoft	Oracle	Visa	Procter & Gamble
15%	8%	7.5%	4%	4%	3%	3%	3%	3%	2%



Market capitalization, in billions

Apple	Alphabet	Microsoft	Amazon	Facebook	Johnson & Johnson	Procter & Gamble	Visa	Oracle	Philip Morris
\$744.1 billion	\$502.3	\$506.0	\$431.1	\$409.2	\$340.8	\$231.1	\$208.9	\$182.2	\$178.0
3.7%	2.9%	2.5%	2.2%	2.0%	1.7%	1.2%	1.0%	0.9%	0.9%

*Share of S&P 500 weight

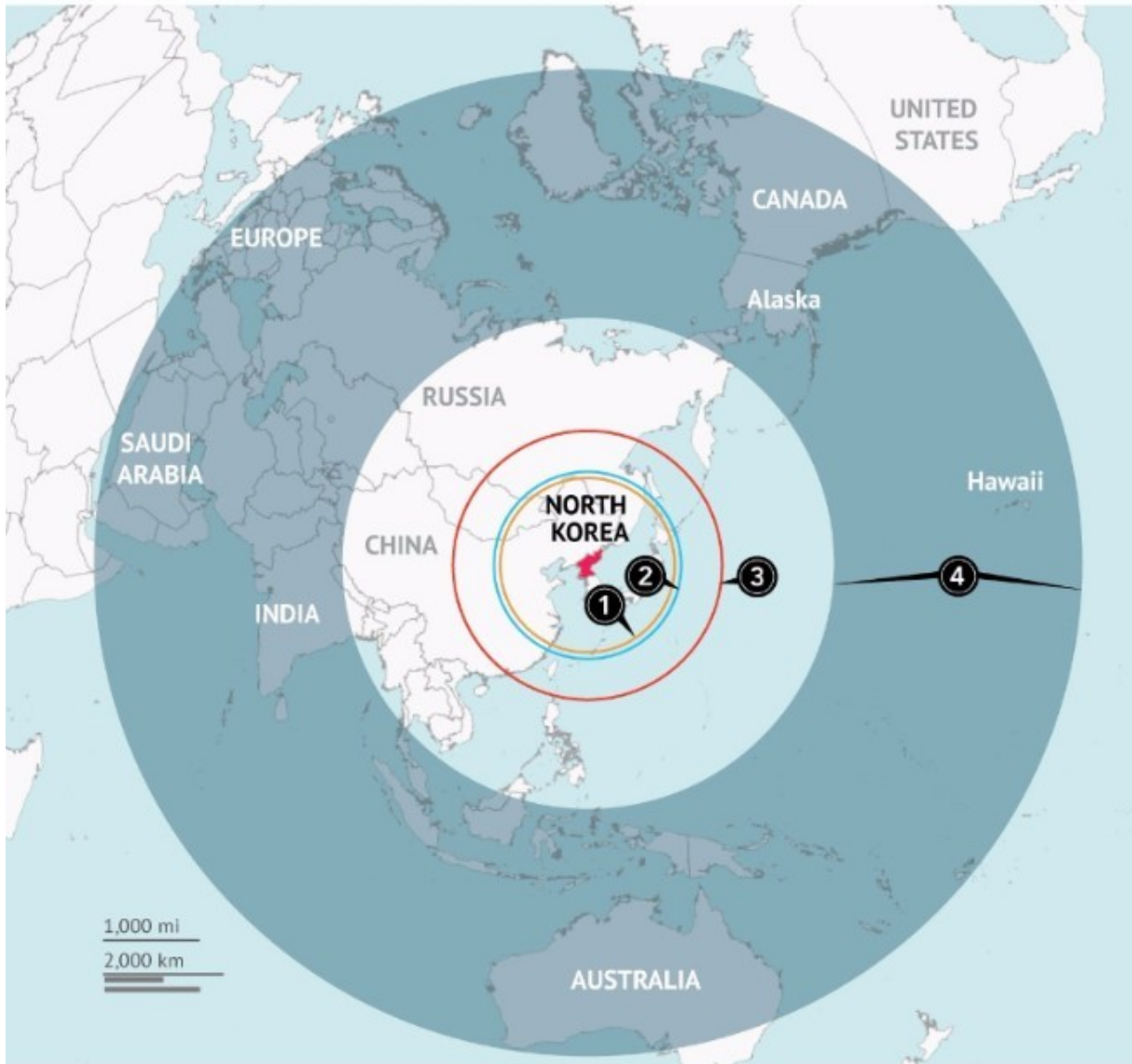
**Near-to-date through Wednesday

Sources: Fundstrat (Share of gains); FactSet (market cap); WSJ Market Data Group (performance)

THE WALL STREET JOURNAL.

The second chart is the estimate range of selected North Korean missiles – an issue creating market uncertainty!

Estimated Range of Selected North Korean Missiles



①
NODONG 1
Range: 1,300 km
Status: Operational

②
NODONG 2
Range: 1,500 km
Status: Presumed operational

③
TAEPODONG 1
Range: 2,000 km
Status: Operational

④
TAEPODONG 2
Range: 4,000-8,000 km
Status: In development

Source: Federation of American Scientists

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BREAKAWAY RESEARCH

Breakaway Research Pty Ltd

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Breakaway Mining Daily and the Breakaway Mining Weekly are part of a subscription based package available to investors. Stocks recommended are presented in our weekly portfolios (low risk and speculative) while we also provide a 'watch list' portfolio with companies that offer interesting opportunities but with significant risk.

Breakaway Research also provides commissioned research which is available to resource companies, is displayed on our website and distributed to the Breakaway Research database. Breakaway Research screens companies for suitability and merit prior to issuing a mandate to the company to produce an independent research report. Companies that mandate Breakaway Research may or may not appear in the portfolios offered to subscribers as these portfolios will take into account other factors such as commodity price trends, existing portfolio construction, sector momentum, etc. which may not form part of a mandated research report.

The team at Breakaway Research comprise experienced analysts with more than 25 years experience in geology and investment banking.

For enquiries, please contact:

Rachel Szabo
Manager Client Services

+61 2 9392 8032

rachel.szabo@breakawayinvestmentgroup.com

www.breakawayresearch.com.au

AUSTEX MINING PTY LTD

Rob Murdoch - Principal Consultant

Austex Mining Pty Ltd

BA FAusIMM CP FAIG

Austex Mining Principal Rob Murdoch is an Australian geologist who has specialised in the management of junior resource companies for 30 years. His experience enables Rob to provide a quick and valid assessment on the potential of impact of many announcements, for example those involving new discoveries, drill results or resource upgrades and tracks the progress of companies on their various exploration or development projects.

Austex maintains an extensive database on all ASX listed resource companies, their corporate situations and the status of their various projects. This database helps to identify industry and investment trends which may not be apparent otherwise. Breakaway Research is extremely pleased to be able to utilise Rob's extensive experience in both corporate and technical capacity to assist in identifying resource investments that will directly benefit our subscribers.



PO Box 1677, NEW FARM QLD 4005

Phone: +61 418 712 011

rmurdoch@ustexmining.com

www.austexmining.com

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