

# 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

A torrid week for commodities and resources and continues a steady decline since the high point in mid-February 2017. Overriding themes have been the weaker than expected data emerging from China (recently the PMIs) and the rebuilding of some inventories on the LME, particularly in copper. On a big ‘picture view’, it is likely that we will have to wait this out until the end of the northern hemisphere summer as seasonally, interest in resources starts to pick up in late August/September. This corresponds to a pickup in manufacturing following the northern hemisphere holiday season.

The old adage ‘sell and May and go away’ continues to be accurate! With President Trump’s rhetoric on ‘re-building America’ and geopolitical tensions having a day by day in increasingly subdued impact on markets, there are unlikely to be the drivers of commodity price increases and corresponding resource stocks. The exception may be gold but in our view, the risk is equally weighted in both directions.

## WEEKLY COMMODITY PRICE MOVEMENTS

It has been a subdued week for base metals, precious metals and the bulks. The bulks, particularly iron ore and coal have remained in the news and reflecting the pace of the slow-down in China. Nevertheless, at these iron prices, the major Australian producers are generating good margins.

Gold and other precious metals fell with waning geopolitical concerns and the weaker oil price has unnerved the market.

**COMMODITY PRICES**
**COMMODITY PRICE AND INDEX MOVEMENTS OVER THE WEEK**

Commodity Prices	Price/Level (today)	Price/Level at 27 <sup>th</sup> Apr 2017	Weekly Change	Market Movements	Price/Level (today)	Price/Level at 27 <sup>th</sup> Apr 2017	Weekly Change
<b>Base Metal Prices (US\$/lb)</b>				<b>Broad Market Indices</b>			
Copper	2.50	2.59	-3.4%	DJIA	20,951.47	20,981.33	-0.1%
Lead	0.99	0.99	0.1%	FTSE-100	7,248.10	7,237.17	0.2%
Zinc	1.16	1.19	-1.9%	S&P/ASX 200	5,876.40	5,921.50	-0.8%
Nickel	4.07	4.16	-2.3%	<b>Mining and Energy Indices</b>			
Aluminium	0.87	0.89	-2.5%	S&P/ASX 200 Resources	3274.80	3332.50	-1.7%
Tin	9.04	9.06	-0.2%	S&P/ASX 300 Metals & Mining	2803.30	2891.20	-3.0%
Cobalt	24.97	24.95	0.1%	S&P/ASX 200 Energy	9383.80	9194.50	2.1%
Molybdenum	6.76	6.80	-0.7%	S&P/ASX All-Ordinaries Gold	4192.20	4405.00	-4.8%
<b>Precious Metal Prices (US\$/oz)</b>				<b>Global Mining</b>			
Gold	1228	1264	-2.8%	S&P/TSX Global Mining	62.67	64.82	-3.3%
Silver	16.50	17.26	-4.4%	<b>Commodity Indices</b>			
Platinum	893	944	-5.4%	CRB Index	178.54	183.24	-2.6%
<b>Bulks &amp; Oil</b>				LME Index	2739.70	2788.10	-1.7%
Oil WTI (US\$/bbl)	45.92	49.25	-6.8%	S&P GSCI	2223.81	2249.84	-1.2%
Thermal coal (US\$/t)	79.00	83.85	-5.8%	Baltic Dry	1004.00	1154.00	-13.0%
Iron ore (US\$/t)	66.59	70.44	-5.5%	<b>Overnight snapshot</b>			
<b>Exchange Rates</b>				Sources include Bloomberg, Macquarie, TradingEconomics, S&P, Commsec, Xe.com, marketindex.com, Reuters, Breakaway Research yahoofinance.com			
AUD/USD	0.741	0.766	-3.3%				
EUR/USD	1.097	1.076	2.0%				
USD/ZAR	13.66	13.03	4.8%				

## **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 4th May)	Initial Recommended Share Price (buy up to, \$)	Market Capitalisation (\$M)	Main Commodity Exposures	Rationale
Cooper Energy	COE	0.355	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	4.97	6.78	20,364	Fe	Leveraged to iron ore prices, improving cost structure and cash flow reducing debt.
Independence Group	IGO	3.00	3.84	2,013	Au, Ni, Zn	Diversified WA portfolio with strong base metal exposure
Oz Minerals	OZL	6.75	10.00	2,497	Cu	Copper play (Prominent Hill, SA) with portfolio of growth projects
Resolute Mining	RSG	1.14	1.73	991	Au	Dominantly West African gold production, low debt, \$283m in cash and an aggressive exploration strategy
Sandfire	SFR	5.60	6.42	1,014	Cu	Copper play (DeGrussa, WA) with active management
South32	S32	2.68	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 continue to recommend the same stocks in the low risk portfolio and the expected weakness over the next few months represents a good 'accumulation' phase, particularly on soft days in the market. On a performance basis, the portfolio has underperformed since the February market highs but this reflects the fact that the stocks have higher leverage to movements in commodity prices in comparison to the more diversified stocks. When the market moves higher, they will outperform.

## 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 4th May)	Initial Recommended Share Price (buy up to, \$)	Market Capitalisation (\$M)	Risk	Main commodity exposure	Rationale
Atlas Iron	AGO	0.015	0.047	320	High	Fe	High leverage to higher than expected Fe prices, strong cash flow and increasing resilience
Hillgrove Resources	HGO	0.06	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	0.03	0.042	20	High	Cu	Is developing its flagship Productora copper project on the coastal range in Region III, Chile.
Kidman Resources	KDR	0.36	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	0.25	0.39	144	High	Ni, Co	Selected Co play, diversified nickel operations
TNG Limited	TNG	0.15	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	0.245	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 with the *Lower Risk Portfolio* mentioned earlier, most share prices have been impacted by the falling commodity prices and geopolitical uncertainty. Hence the underperformance relative to the major indices.

## 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.

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

Hypothetical Portfolio Returns	4 <sup>th</sup> May 17	15 <sup>th</sup> Feb 17	Performance
Lower Risk Portfolio			-21%
Speculative Portfolio			-23%
<b>Mining and Energy Index Performance</b>			
S&P/ASX 200 Resources	3274.8	3595	-9%
S&P/ASX 300 Metals & Mining	2803.3	3204.8	-13%
S&P/ASX 200 Energy	9383.8	9220.8	2%
S&P/ASX All-Ordinaries Gold	4192.2	4707.8	-11%
<b>Global Mining Index Performance</b>			
S&P/TSX Global Mining	62.7	72.15	-13%
<b>Commodity Indices Performance</b>			
CRB Index	178.54	193.63	-8%
LME Index	2739.70	2904.20	-6%
S&P GSCI	2223.81	2405.30	-8%
<b>Broad Market Indices Performance</b>			
DJIA	20951.5	20611.86	2%
FTSE-100	7248.1	7302.41	-1%
S&P/ASX 200	5876.4	5809.10	1%

## 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 4th May)	Market Capitalisation (A\$m)	Risk	Main commodity exposure	Rationale
Artemis	ARV	0.09	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	0.04	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	0.014	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	0.035	22	High	Cu	IVR has commenced drilling at the Nankivel copper-gold porphyry target.
Zinc of Ireland	ZMI	0.008	12	High	Zn	Option over the Galmoy processing plant, About to commence 3000m drilling programmed on Kildare project, Ireland



## WATCHLIST PORTFOLIO UPDATE

A number of quarterly reports have been issued (as we have reported in our Mining Daily) but in most cases, we are still waiting on the completion of drilling programmes and initial assays.

**Artemis did report that its drilling** had confirmed high grade copper intersections at Whundo which had scope to substantially increase the copper oxide resources at the project, Whundo. From a 20 hole programme, significant results from the first 8 holes included:

- 7 metres at 4.45% Cu from 13 metres (AWRC001)
- 13 metres at 3.03% Cu from 5 metres in (AWRC002)
- 7 metres at 3.62% Cu from 18 metres (AWRC007)
- 2 metres at 5.61% Cu from 24 metres (AWRC008).

The results appear encouraging and we will wait for further results and a discussion with management on the impact of these results to determine the merits of an upgrade.

Elsewhere, on 30 March 2017 Toro was notified that the Federal Minister for Environment and Energy proposed to approve the Extension to the Wiluna Uranium Project subject to conditions. A ten day comment period was granted to Toro and various government agencies which concluded prior to the Easter break. Toro is now awaiting finalisation of the approval process. We will wait for this approval process to play out but it is shaping up that Toro may be able to develop the project.

## APRIL IN REVIEW

Resource company changes are outlined below. In terms of new entrants, a relatively quiet market.

Resource companies listed (as at 30 April 2017)	781
During the month, there were:	
IPO/relistings	2
Companies moving out of resources	1
Companies delisted	1

The following table outlined that share price movement during April were largely down.

Companies whose	Number	Percentage
Share Price Rose:	179	25%
Share Price was the same:	125	17%
Share Price Fell:	424	58%
Companies Trading for the full Month	728	100%

Positive share movements during April were with stocks with exposure to mineral sands (HMS) and zinc. The worst performing sectors were in stocks with exposure to uranium, fertilisers and tin.

Commodity Group	Number of Share Prices Increasing	Total Number in Sector	% increasing
Bauxite	2	9	22%
Coal	12	41	29%
Cobalt	2	11	18%
Copper/Sb/Mo	12	67	18%
Diversified	1	3	33%
Fertilizers	2	18	11%
Gemstones	1	6	17%
Gold	64	213	30%
Graphite	8	26	31%
HMS	9	14	64%
Investment/opportunity	1	10	10%
Iron	6	40	15%
Lithium	12	48	25%
Nickel/PGE/Sc	6	29	21%
Oil & Gas	27	113	24%
REE/ Niobium	2	10	20%
Silver	1	6	17%
Tin	1	7	14%
Tungsten	1	5	20%
Uranium	1	25	4%
Vanadium	1	5	20%
Zinc/Lead	4	9	44%

Significant share price rises (positive movement >50% during April) and commodity exposure were limited and did not continue earlier trends from the last three months.

COMMODITY	Apr-17	Mar-17	Feb-17	Jan-17	Dec-16	Nov-16
Bauxite	0	1	0	0		
Coal	1	1	1	1	0	0
Cobalt	0	0	8	1		
Copper	1	7	2	4	2	4
Gemstones (Diamonds)	0	0	0	1	1	0
Gold /Silver	3	3	8	6	4	6
Graphite	1	2	0	1	1	0
HMS	0	1	0	0	2	2
Iron Ore	0	2	1	7	2	1
Lithium	2	0	5	4	1	2
Minor & Strategic Metal	0	3	2	4	0	2
Nickel	0	2	1	1	1	0
Oil & Gas	3	5	2	4	5	5
Potash/Phosphate	0	0	1	1	0	0
Uranium	0	0	1	7	1	0
Zinc/Lead/Silver	0	2	3	2	0	0
<b>Total</b>	<b>11</b>	<b>29</b>	<b>35</b>	<b>44</b>	<b>20</b>	<b>21</b>

There were only 11 companies with significant share price rises (positive movement >50%) during April and many had share prices less than a few cents. The most significant movements were with SPI, KIN and TLG.

Position	CODE	COMPANY	LOCATION	COMMODITY	REASON	Rise % in April 2017	Share Price (cents) as at 30 April 2017
1	KRL	Kangaroo Resources	Indonesia	Coal	Drilling	100%	2.4
2	MPE	Magnum Gas & Power	Botswana, US, WA	Oil, Gas	Seeking Opportunity	100%	0.2
3	SPI	Spitfire Resources	WA, Qld	Au	Acquisition	100%	16.0
4	KIN	Kin Mines	WA	Au	Emergent Production	95%	36.0
5	PGS	Planet Gas	SA, NSW	Oil, Gas	Drilling	70%	1.7
6	CYU	Chinalco Yunnan	Mexico	Ag, Au	Acquisition	67%	1.0
7	CMY	Capital Mining	WA	Co, Li	Acquisition	67%	1.5
8	TLG	Talga Resources	Sweden	Graphite	Emergent Downstream	66%	83.0
9	ARG	Argosy Minerals	Argentina	Li	Drilling/Evaluation	58%	6.3
10	PRL	Petrel Energy	Uruguay, Spain	Oil, Gas	Drilling Planned	56%	3.9
11	ANL	Amani Gold	DR Congo	Au	Exploration	54%	4.0

## **BREAKAWAY RESEARCH**

### **Breakaway Research Pty Ltd**

Breakaway Research is an authorised representative of the Breakaway Investment Group Pty Ltd AFSL 290093. Breakaway has been researching mining and energy companies for more than 10 years and successfully combines technical and financial evaluation of resource companies to provide superior research.

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.

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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.



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