

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

Another relatively lacklustre week with the emerging key challenge for investors at the moment is the ability of the US to withstand rising interest rates with a total of three - rate increases expected this year.

Record highs posted by US equities markets particularly with recent US retail data, has boosted confidence in the

American consumers' ability to build economic growth although the bond markets suggests traders are cautious.

Last week's downgrade by Moody's of long-term Chinese local currency rating to A1 from Aa3 on the back of concerns over rising debt and the slowing economic growth rate is similar to Fitch's downgrade to A+ and is one notch lower than the AA- rating by S&P. Not surprisingly the Chinese Government was not pleased.

WEEKLY COMMODITY PRICE MOVEMENTS

It has been a mixed week for commodity prices with base metals generally softer apart from lead and zinc. Precious metals were higher and the bulks were lower.

Base metal stocks have generally been declining with the decline in zinc stocks particularly noticeable. In Shanghai warehouses they are at their lowest since January 2015 and highlight the tightness with Chinese smelter cuts driven by feed shortages. Inventories have slid on the Chinese exchange since a peak of 199kt in early March. In our view, base metals are now consolidating at prices which will increase as demand increases in 3Q CY2017 on low stock levels.

Chinese trade data for April indicated increased imports for refined zinc as Chinese overall zinc metal production remained flat despite increased zinc concentrate imports.

WEEKLY COMMODITY PRICE MOVEMENTS CONTINUED

Scrap copper imports were lower and reflect a lack of significant price advantage over refined copper metal. Refined copper imports are expected to improve from a low in April as China's domestic inventory has also trended lower and physical premiums have increased.

It is important to note that recent zinc and nickel prices have been partly driven by China cracking down on pollution within the industry as part of broader restrictions on steel and other high pollution industries. This is highlighted in Tangshan City where the steel industry continuously fails to meet new air quality standards

COMMODITY PRICE AND INDEX MOVEMENTS OVER THE WEEK

Commodity Prices	Price/Level (today)	Price/Level at 22 nd May 2017	Weekly Change	Market Movements	Price/Level (today)	Price/Level at 22 nd May 2017	Weekly Change
Base Metal Prices (US\$/lb)				Broad Market Indices			
Copper	2.49	2.58	-3.4%	DJIA	21,080.28	20,894.83	0.9%
Lead	0.95	0.94	1.7%	FTSE-100	7,547.63	7,496.34	0.7%
Zinc	1.19	1.19	0.4%	S&P/ASX 200	5,707.10	5,771.20	-1.1%
Nickel	4.10	4.24	-3.3%	Mining and Energy Indices			
Aluminium	0.88	0.88	0.7%	S&P/ASX 200 Resources	3367.70	3441.60	-2.1%
Tin	9.32	9.36	-0.4%	S&P/ASX 300 Metals & Mining	2898.30	2979.60	-2.7%
Cobalt	25.29	24.72	2.3%	S&P/ASX 200 Energy	9520.00	9556.80	-0.4%
Molybdenum	7.82	7.82	0.1%	S&P/ASX All-Ordinaries Gold	4346.90	4408.10	-1.4%
Precious Metal Prices (US\$/oz)				Global Mining			
Gold	1268	1259	0.7%	S&P/TSX Global Mining	65.33	66.45	-1.7%
Silver	17.41	16.95	2.7%	Commodity Indices			
Platinum	951	938	1.3%	CRB Index	183.68	187.76	-2.2%
Bulks & Oil				LME Index	2769.80	2726.60	1.6%
Oil WTI (US\$/bbl)	49.95	50.70	-1.5%	S&P GSCI	2256.83	2288.84	-1.4%
Thermal coal (US\$/t)	73.85	74.40	-0.7%	Baltic Dry	912.00	954.00	-4.4%
Iron ore (US\$/t)	61.25	61.91	-1.1%	Overnight snapshot			
Exchange Rates				Sources include Bloomberg, Macquarie, TradingEconomics, S&P, Commsec, Xe.com, marketindex.com, Reuters, Breakaway Research yahoofinance.com			
AUD/USD	0.740	0.766	-3.4%				
EUR/USD	1.120	1.076	4.1%				
USD/ZAR	12.97	13.03	-0.5%				

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 30 th May)	Market Capitalisation (\$M)	Main Commodity Exposures	Rationale
Cooper Energy	COE	0.385	416	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	4.75	15,444	Fe	Leveraged to iron ore prices, improving cost structure and cash flow reducing debt.
Independence Group	IGO	3.45	1,854	Au, Ni, Zn	Diversified WA portfolio with strong base metal exposure
Oz Minerals	OZL	7.31	1,980	Cu	Copper play (Prominent Hill, SA) with portfolio of growth projects
Resolute Mining	RSG	1.15	899	Au	Dominantly West African gold production, low debt, \$283m in cash and an aggressive exploration strategy
Sandfire	SFR	6.02	934	Cu	Copper play (DeGrussa, WA) with active management
South32	S32	2.70	13,933	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 are likely to 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 30th May)	Market Capitalisation (\$M)	Risk	Main commodity exposure	Rationale
Atlas Iron	AGO	0.014	148	High	Fe	High leverage to higher than expected Fe prices, strong cash flow and increasing resilience
Hillgrove Resources	HGO	0.075	14	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	0.028	16	High	Cu	Is developing its flagship Productora copper project on the coastal range in Region III, Chile.
Kidman Resources	KDR	0.48	145	High	Li	Advancing a world class lithium project in WA
Lepidico	LPD	0.013	23	High	Li	Lithium 'game-changer' technology
Panoramic Resources	PAN	0.22	99	High	Ni, Co	Selected Co play, diversified nickel operations
Peel Mining	PEX	0.20	33	High	Au, Cu, Pb/Zn	Exploration in the Cobar region, NSW. Recent discoveries including Mallee Bull highlight the potential of the area
S2 Resources	S2R	0.19	46	High	Au, Cu, Ni, PGM	Aggressive explorer with proven track record. WA and Finland focus.
TNG Limited	TNG	0.14	113	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	0.275	131	Medium	Au	Its Sanbrando Gold Project in Burkino Faso is being developed and moving towards 150koz pa production in 2019.

BREAKAWAY SPECULATIVE PORTFOLIO UPDATE

We have increased the Speculative Portfolio to include two additional stocks, Peel Mining (ASX Code: PEX) and S2 Resources (ASX Code S2R).

Peel Mining has been exploring in the Cobar area of NSW for many years. The stock experienced a strong rally on the discovery of the Mallee Bull copper target but then drifted lower for some months. Recently it has focused on the Wirlong project which was defined by historic copper workings, a >2km multi-element geochemical anomaly, and various geophysical anomalies. The prospect subject to a farm-in agreement with Japan Oil, Gas, Metals National Corporation (JOGMEC). JOGMEC has earned a 40% interest through expenditure of \$4 million, and is now earning a further 10% interest through an additional \$3 million expenditure.

Elsewhere the Mallee Bull prospect has been given new life with the discovery of the near surface T1 zinc-lead-silver lens which means that it may represent an attractive early production opportunity that can be pursued ahead of the development of Mallee Bull's predominant copper-silver-gold mineralisation.

These deposits are potentially Cobar-style deposits which are renowned for vertical continuity of mineralisation. Australia's highest grade copper mine, the CSA mine, is an example of a Cobar-style deposit, showing strong vertical development of mineralisation to more ~2,000m below surface

While both projects are in joint ventures, it means that there has been significant drilling activity in an area that has been revitalised through Peel's exploration success. Breakaway Research believes that Peel represents an attractive component of the *Speculative Portfolio*.

Our other addition is **S2 Resources**. This is managed by Mark Bennett and his team and who have been responsible for discovering the Nova nickel project leading to the \$1.8 billion takeover of Sirius Resources by Independence Group. With \$19.3 million cash reserves as at 31st March 2017, the Company is well cashed up to aggressively explore its project portfolio.

Its projects range from traditional WA goldfield areas to Scandinavia. It was an early mover and is now significant ground holder in Central Lapland Greenstone Belt (CLGB) of Finland. It has already some sniffs of zinc-copper-silver-gold VMS mineralization at the Skellefte project, Sweden where it has identified over 100 EM anomalies in the first ever VTEM surveys in the area. To-date it has drilled only 7 out of 100 anomalies.

Elsewhere it has been increasing the Baloo gold resource at Polar Bear project, WA to 4.22Mt @ 2g/t Au for 264,000oz gold while the deposit remains open down dip and down plunge. In summary, Breakaway Research believes that some of the hype has now dissipated from the S2 Resources share price but the Company has the funding, projects and expertise to be able to deliver another success.

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.

Seasonally, resource stocks perform well in the period from September to February the following year and we would expect the same trend to occur this year.

Hypothetical Portfolio Returns	30 th May 17	15 th Feb 17	Performance
Lower Risk Portfolio			-17%
Speculative Portfolio			-15%
Mining and Energy Index Performance			
S&P/ASX 200 Resources	3367.7	3595	-6%
S&P/ASX 300 Metals & Mining	2898.3	3204.8	-10%
S&P/ASX 200 Energy	9520.0	9220.8	3%
S&P/ASX All-Ordinaries Gold	4346.9	4707.8	-8%
Global Mining Index Performance			
S&P/TSX Global Mining	65.3	72.15	-9%
Commodity Indices Performance			
CRB Index	183.68	193.63	-5%
LME Index	2769.80	2904.20	-5%
S&P GSCI	2256.83	2405.30	-6%
Broad Market Indices Performance			
DJIA	21080.3	20611.86	2%
FTSE-100	7547.6	7302.41	3%
S&P/ASX 200	5707.1	5809.10	-2%

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 30th May)	Market Capitalisation (A\$m)	Risk	Main commodity exposure	Rationale
Artemis	ARV	0.08	21	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.
Auroch Minerals	AOU	0.18	15	High	Pb/Zn	Drilling has commenced on the Alcoutim Cu-Zn Project (earning 75%) in the Iberian Pyrite Belt, Portugal.
Investigator Resources	IVR	0.036	20	High	Cu	IVR has commenced drilling at the Nankivel copper-gold porphyry target.
Oro Verde	OVL	0.013	9	High	Au	Drilling is being carried out on the Nicaraguan Topacio Gold Project with Newcrest to fund the initial 1,650 metre program of seven diamond drill holes and opting to extend the programme.
St George Mining	SGQ	0.13	34	High	Au, Ni	Drilling on various prospects in Mt Alexander and East Laverton projects.
Zinc of Ireland	ZMI	0.007	7	High	Zn	Option over the Galmoy processing plant, About to commence 3000m drilling programmed on Kildare project, Ireland

WATCHLIST PORTFOLIO UPDATE

We have included two new stocks, Auroch Minerals and St George Mining as both are commencing or are in the midst of interesting drilling campaigns.

Auroch Minerals (ASX Code: AOU) has a strategic project (Alcoutim) in the Iberian Pyrite Belt in Portugal and has commenced drilling. The Alcoutim tenement occurs directly along strike from Neves Corvo (>200 Mt of Cu-Zn resources), has the same geologic package of rocks, and has multiple coincident: gravity, EM and magnetics targets which highlight its prospectivity.

St George Mining has been working on the Mt Alexander and East Laverton projects. Drilling on the Investigators, Cathedrals and Stricklands prospects have all returned encouraging nickel sulphide intersections and further drilling could intersect an economic target. We will see how this unfolds over coming months.

Lastly, we have dropped **Toro Energy** (ASX Code: TOE) due to a lacklustre uranium price and a project that is not compelling at the current uranium prices.

We have also dropped **Trek Minerals** (ASX Code: TKM) from the *Watchlist* as the Company has drilled some relatively narrow higher grade zinc zones from the Company's maiden drilling program at the Dikaki Prospect. The Dikaki Prospect is within the Kroussou zinc-lead project in Gabon. Assays included:

- 24.7m @ 2.9% Zn eq. from 2.0m (DKDD003) including 2.8m @ 20.1% Zn eq from 7.7m
- 37.1m @ 2.0% Zn equivalents from 2.3m (DKDD001) including 1.3m @ 8.6% Zn eq from 11m and 12.5m @ 4.0% Zn eq from 14.5m

While the mineralisation suggests that the broader Cotier Basin is a prospective target for exploration, the grades from these drillholes are not high enough in our view to maintain a position on our *Watchlist*.

COMMODITY DEMAND IS CHANGING MORE QUICKLY THAN YOU THINK!

A revolution is about to occur in metal demand as the world economy embraces electric vehicles. While we are all familiar with electric vehicles and hybrids, a large part of the population does not realise that their purchase of a new car in the next few years will likely be an electric vehicle. Indeed confronted with the choice of purchasing a new petrol or diesel car that may depreciate rapidly rather than a new electric vehicle, it will come down to simple economics.

Why do we think this will be the case? Look at these facts:

One of Germany's legislative bodies has already moved to ban petrol-powered cars in favour of electric vehicles by 2030. While seems a long way into the future, it sets a target that will potentially apply across the EU. Indeed, many German car brands, including BMW, Mercedes-Benz and Volkswagen, are already rolling out battery-powered vehicles. BMW launched its first fully electric production car, called the BMW i3, back in 2013, while Audi unveiled an all-electric version of its R8 supercar, the Audi R8 e-tron, in 2015.

Recently Daimler has commenced a €500m expansion of lithium-ion plant in Germany and is following through with plans to aggressively develop 10 new electric vehicles to market by 2020. The investment is planned to quadruple existing battery capacity at the site with is run by Accumotive, a subsidiary of Daimler.

Meanwhile in the US electric vehicle (EV) sales in the U.S. in January 2017 indicate a 70% year-on-year increase in monthly sales and maintain strong momentum from 2016. Overall U.S. EV sales jumped by 37% in 2016 and by year-end there were about 30 different EV offerings, with total sales of 159,139 vehicles. Five different models sold at least 10,000 units in 2016, namely, Tesla Model S, Tesla Model X, Chevrolet Volt, Nissan Leaf, and Ford Fusion Energi. More than half of all EV sales took place in California, driven by the state's zero-emission vehicle (ZEV) mandate, which requires that a certain percentage of an automaker's sales must be ZEVs. California's goal is to put 1.5 million ZEVs on the state's roads by 2025.

In China the government is pushing for more electric cars on its road, proposing that all carmakers ensure new energy vehicles account for 8% of their fleet by next year and while it has drawn some criticism from its industry, it has demonstrated the Government's commitment to electric vehicles.

In 2014, public charging stations still didn't exist in Beijing but today there are thousands of public electric car charging stations. However there is a significant impetus for Chinese citizens to purchase electric cars as any local in places like Beijing can purchase one while there are restrictions on petrol and diesel car ownership and you must sometimes wait years in the 'car lottery' to be able to purchase one.

The relative ease of buying electric vehicles is part of a national push to put 5 million electric vehicles on China's roads by 2020. In 2016 alone China produced almost 500,000 while there were sales of 28 million cars, electric vehicles accounted for less than 2% of sales.

Since 2012 China has spent billions of renminbi subsidising its electric car industry. Both consumers and carmakers receive generous subsidies and tax exemptions and incentives. The government is also investing heavily into infrastructure by building 100,000 new public charging stations in 2017. The government is on a quest to become a world leader in electric vehicle production which also helps solve pollution issues in Chinese cities. Battery technology is steadily improving, but there is a concern that expectations are too high but nevertheless the government has set a clear strategy for the future.

So how does it affect our investment strategies?

At Breakaway Research we see a number of changes that will occur. Apart from fewer service stations, less mechanical repairs, lower oil prices, declining second-hand car market, etc. our main focus is on the potential changing demand in commodities. In particular, we see an unexpected increase in demand for certain base metals, lithium, rare earths.

Recently Glencore highlighted some of these aspects at a Merrill Lynch Conference where CEO Ivan Glasenberg noted that the electric vehicle revolution is happening and its impact is likely to be felt faster than expected. He outlined the metal consumption in electric cars across batteries, charging points and the car itself. Glencore estimates that in copper alone, the consumption is around 160kg per vehicle.

<p>Battery (250kg)⁽⁷⁾ (NCM 1,1,1)</p> <p>+ c.38kg Copper + c.11kg Cobalt + c.11kg Nickel</p>	<p>Car (EV-ICEV)⁽⁷⁾</p> <p>+ c.100kg Copper</p> <p>(Contained in Cu motors and inverters for motors and charging)</p>	<p>Charging Point⁽⁵⁾</p> <p>+ c.20kg Copper</p>
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Source: Glencore

Glencore estimates that demand for copper and nickel could increase as follows:

- 2020 – additional 373,000 Cu, and an additional +40,000 Ni
- 2205 – additional 1.65 million tonnes Cu and an additional 210,000 tonnes Ni
- 2035 – If a rapid adoption scenario where 95% of global vehicles are electric vehicles, this would require an additional 20 million tonnes Cu, 1.8 million tonnes Ni and 679,000 tonnes Co

Of course a downside is that there will be a decline in demand for platinum group metals (UBS forecast a 53% decrease in demand).

Breakaway Research believes that the market will start to acknowledge these demand changes where base metals, lithium and REE are the winners and perhaps iron ore, coal and oil are the losers. Also within the base metals complex there will be winners and losers as copper, nickel and cobalt look exciting while lead is less so. Interestingly zinc is experiencing a supply short fall and is more likely to experience a surge from increased construction activity – perhaps President Trump's rebuilding of America!

BREAKAWAY RESEARCH

Breakaway Research Pty Ltd

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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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