

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

As we come to the end of another financial year, it is worth recalling that the last few months have been relatively lacklustre with most of the gains during the last year having been recorded in the

October 2016 to February 2017 period. As evident on the indexed chart below, the ASX 200 will record around a 10% gain over the year to 30 June 2017, which is a good performance given the current low interest rate environment. The 300 Metals & Mining index has been more spectacular with almost a 25% rally over the year but this would have been almost 40% if it had held the gains attained in mid-February.

However if the charts (see Pages 2 & 3) are extended back to the index at 100 as at 30 June 2014, it is evident that the 300 Metals & Mining index fell by more than 50% to bottom in Dec15/Jan16 and therefore any recovery came off a relatively low base.

Hence the recovery of the 300 Metals & Mining Index through to mid-Feb 2017 represented a 12 month period of recovery relative to the ASX 200 until it peaked in mid-Feb 2017 (Figure 2).

The peaking of the resource sector in mid-Feb 2017 representing a time when there were ongoing copper supply disruptions, iron ore prices were still relatively high and there was a feeling of optimism around President Trump “rebuilding America.”

WEEKLY OVERVIEW CONTINUED...



Figure 1. The S&P/ASX 200 and 300 Metals & Mining Index – 12 month timeframe.

Therefore the movements highlight that from trading perspective that it takes courage to hold stocks through the May to August low period when stocks traditionally weaken.

Breakaway Research's view is that investment in the August/September period could offer attractive returns with commodity prices increasing in the September – November period. However it may then be time to exit in the February-March 2018 period. While there is volatility in the sector, this volatility provides the returns for nimble traders

WEEKLY OVERVIEW CONTINUED...

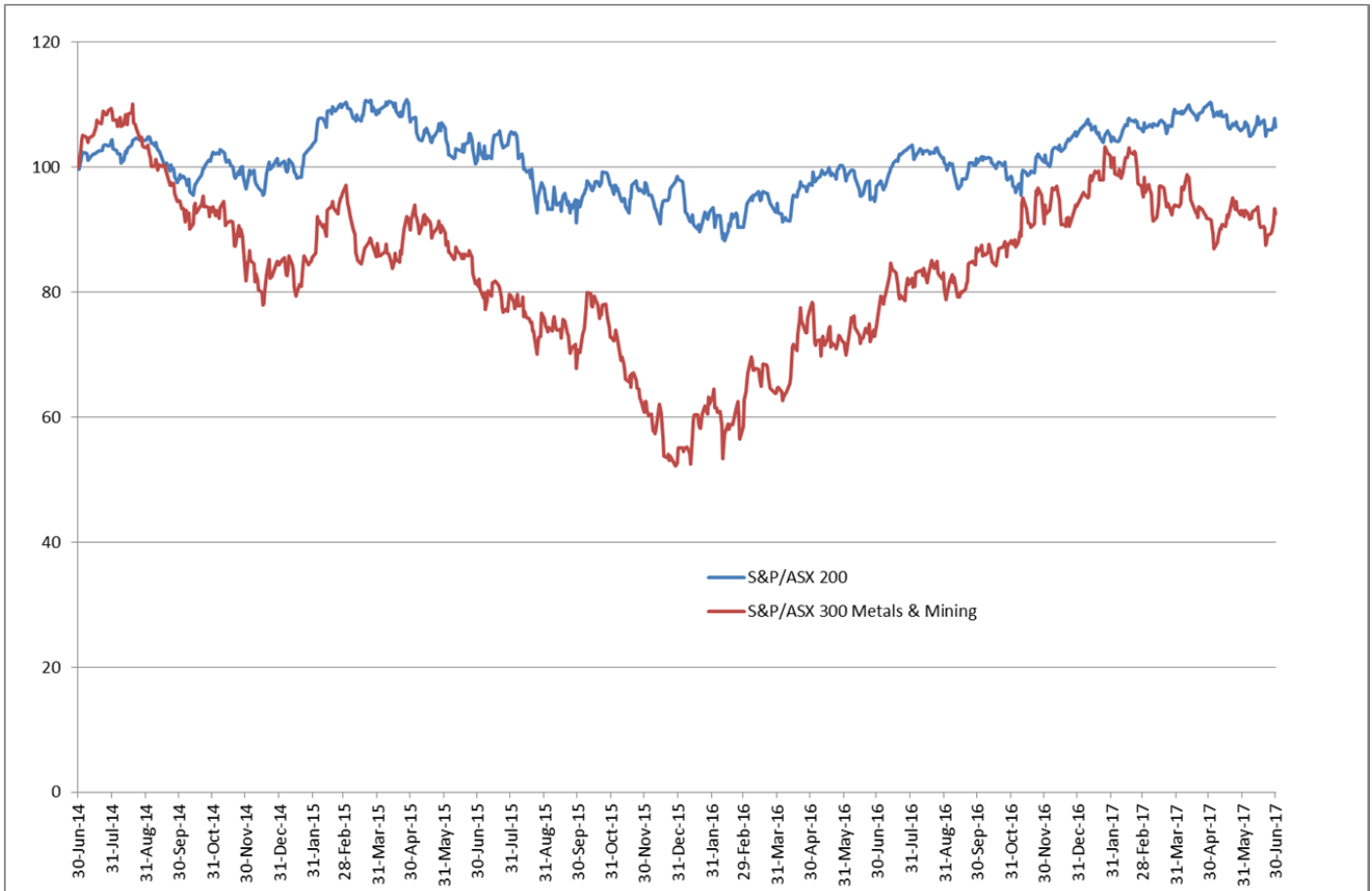


Figure 2. The S&P/ASX 200 and 300 Metals & Mining Index – 3 year timeframe.

MONTHLY COMMODITY PRICE MOVEMENTS

Over the last month it has been a mixed performance for commodity prices with base metals moving higher but precious metals and bulk commodities starting to soften. The movements reflect the appreciation of the US dollar with the US interest rate rise (softening commodity prices) followed by US dollar depreciation as the EURO and UK economies strengthen (increasing commodity prices)(below).

MONTHLY COMMODITY PRICE AND INDEX MOVEMENTS

Commodity Prices	Price/Level (today)	Price/Level at 31 st May 2017	Monthly Change	Market Movements	Price/Level (today)	Price/Level at 31 st May 2017	Monthly Change
Base Metal Prices (US\$/lb)				Broad Market Indices			
Copper	2.69	2.57	4.8%	DJIA	21,287.03	21,008.65	1.3%
Lead	1.04	0.95	9.5%	FTSE-100	7,350.32	7,519.95	-2.3%
Zinc	1.25	1.17	6.5%	S&P/ASX 200	5,818.10	5,724.60	1.6%
Nickel	4.20	4.05	3.7%	Mining and Energy Indices			
Aluminium	0.87	0.87	-0.8%	S&P/ASX 200 Resources	3326.80	3360.80	-1.0%
Tin	9.21	9.27	-0.7%	S&P/ASX 300 Metals & Mining	2928.20	2907.00	0.7%
Cobalt	27.12	25.56	6.1%	S&P/ASX 200 Energy	8818.90	9360.90	-5.8%
Molybdenum	7.12	7.81	-8.9%	S&P/ASX All-Ordinaries Gold	4434.60	4384.90	1.1%
Precious Metal Prices (US\$/oz)				Global Mining			
Gold	1244	1266	-1.7%	S&P/TSX Global Mining	62.17	64.67	-3.9%
Silver	16.83	17.27	-2.5%	Commodity Indices			
Platinum	914	943	-3.1%	CRB Index	173.62	181.45	-4.3%
Bulks & Oil				LME Index	2823.70	2757.50	2.4%
Oil WTI (US\$/bbl)	45.08	48.43	-6.9%	S&P GSCI	2112.81	2241.61	-5.7%
Thermal coal (US\$/t)	77.50	72.75	6.5%	Baltic Dry	920.00	878.00	4.8%
Iron ore (US\$/t)	55.70	60.93	-8.6%	Overnight snapshot			
Exchange Rates				Sources include Bloomberg, Macquarie, TradingEconomics, S&P, Commsec, Xe.com, marketindex.com, Reuters, Breakaway Research yahoofinance.com			
AUD/USD	0.768	0.766	0.3%				
EUR/USD	1.142	1.076	6.1%				
USD/ZAR	13.02	13.03	-0.1%				

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 assesses as generally large enough to have a number of producing operations, have market capitalisations that are generally in excess of \$500m and have more resilient balance sheets 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 June)	Market Capitalisation (\$M)	Main Commodity Exposures	Rationale
Cooper Energy	COE	0.38	433	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	5.19	16,223	Fe	Leveraged to iron ore prices, improving cost structure and cash flow reducing debt.
Oz Minerals	OZL	7.38	2,234	Cu	Copper play (Prominent Hill, SA) with portfolio of growth projects
Resolute Mining	RSG	1.19	910	Au	Dominantly West African gold production, low debt, \$283m in cash and an aggressive exploration strategy
Sandfire	SFR	5.66	911	Cu	Copper play (DeGrussa, WA) with active management
South32	S32	2.70	14,534	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. However we have dropped IGO as this stock has been a major aggregator of tenements around the Nova nickel discovery and has paid hefty prices for these acquisitions. Nickel is also one of our least preferred commodities.

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 outperform.

Today's weakness also reflects the last day tax loss prior to the end of the financial year – and many stocks have moved lower despite increasing commodity prices overnight.

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 30 th June)	Market Capitalisation (\$M)	Risk	Main commodity exposure	Rationale
Atlas Iron	AGO	0.014	130	High	Fe	High leverage to higher than expected Fe prices, strong cash flow and increasing resilience
Hillgrove Resources	HGO	0.082	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	0.025	13	High	Cu	Is developing its flagship Productora copper project on the coastal range in Region III, Chile.
Kidman Resources	KDR	0.61	203	High	Li	Advancing a world class lithium project in WA
Lepidico	LPD	0.013	25	High	Li	Lithium 'game-changer' technology
Panoramic Resources	PAN	0.22	96	High	Ni, Co	Selected Co play, diversified nickel operations
Peel Mining	PEX	0.19	32	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	0.16	40	High	Au, Cu, Ni, PGM	Aggressive explorer with proven track record. WA and Finland focus.
TNG Limited	TNG	0.15	121	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	0.365	174	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 maintained our current position in the Speculative Portfolio. Strong movers have been West African Resources (WAF) on gold resources and Kidman Resources (KDR) progressing its trial to defend its Earl Grey lithium project.

As with the *Lower Risk Portfolio* mentioned earlier, most share prices have been impacted by the falling commodity prices and geopolitical uncertainty. However the portfolio is now starting to modestly outperform the benchmark 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 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.

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 June 17	15 th Feb 17	Performance
Lower Risk Portfolio			-17%
Speculative Portfolio			-8%
Mining and Energy Index Performance			
S&P/ASX 200 Resources	3326.8	3595	-7%
S&P/ASX 300 Metals & Mining	2928.2	3204.8	-9%
S&P/ASX 200 Energy	8818.9	9220.8	-4%
S&P/ASX All-Ordinaries Gold	4434.6	4707.8	-6%
Global Mining Index Performance			
S&P/TSX Global Mining	62.2	72.15	-14%
Commodity Indices Performance			
CRB Index	173.62	193.63	-10%
LME Index	2823.70	2904.20	-3%
S&P GSCI	2112.81	2405.30	-12%
Broad Market Indices Performance			
DJIA	21287.0	20611.86	3%
FTSE-100	7350.3	7302.41	1%
S&P/ASX 200	5818.1	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 30 th June (A\$)	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.
Investigator Resources	IVR	0.036	20	High	Cu	IVR has commenced drilling at the Nankivel copper-gold porphyry target.
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 now excluded two stocks from the *Watchlist Portfolio* and these are Auroch Minerals Ltd which reported relatively disappointing drilling results from its Alcoutim Cu-Zn Project in Portugal and also Oro Verde Ltd which reported unexciting results from the drilling of the Rebecca vein at its Topacio project in Nicaragua.

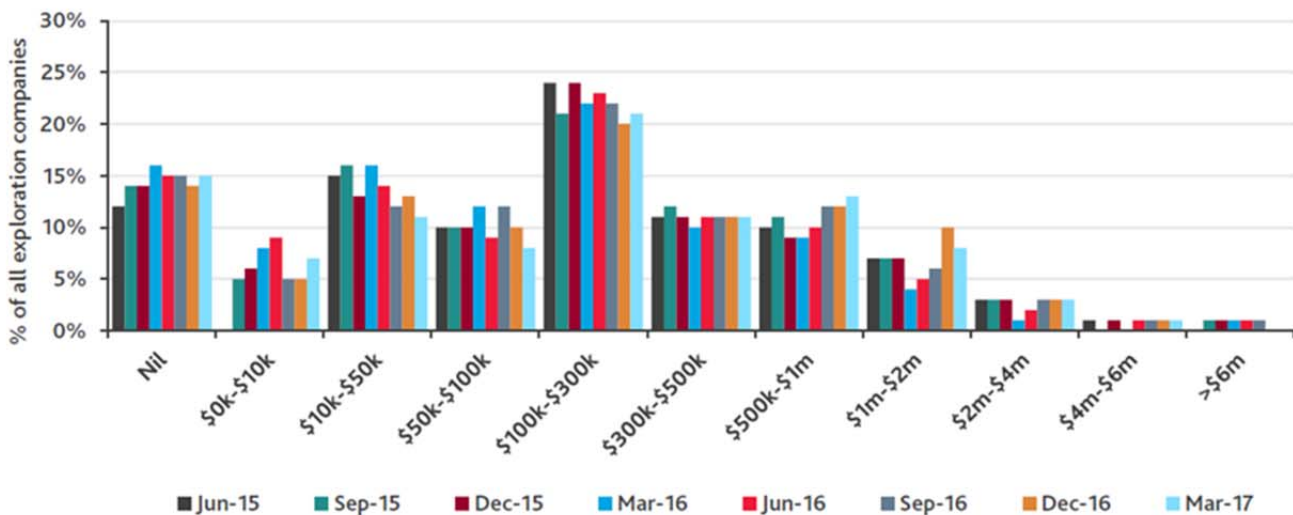
The other stocks remain on hold as we wait for the results from their various exploration programmes to emerge. At this stage none of the stocks have 'graduated' to the *Speculative portfolio*.

EXPLORATION EXPENDITURE TRENDS

In this report we have included a chart from a recently released BDO report titled *Exploration Quarterly Update*. BDO reports that total exploration expenditure fell from \$354 million for the December 2016 quarter to \$305 million for the March 2017 quarter. This is despite an increase in the number of companies lodging Appendix 5Bs, with average exploration expenditure falling from \$0.51 million to \$0.44 million.

It is not uncommon for exploration expenditure to decrease from the December to the March quarter, however BDO notes that the decrease from the December 2016 quarter to the March 2017 quarter is much smaller than previous years.

TOTAL EXPLORATION EXPENDITURE



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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