



Period ending Tuesday 3rd July 2018 – ASX Resource Companies

BREAKAWAY RESEARCH PORTFOLIO UPDATE – 3RD JULY 2018

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

Table of Contents

BASE METALS SPECULATIVE OR HIGH RISK PORTFOLIO UPDATE	1
BASE METALS SPECULATIVE OR HIGH RISK PORTFOLIO	2
BREAKAWAY RESEARCH	3
IMPORTANT DISCLOSURE/DISCLAIMER	4
APPENDICES	5
Appendix One: KGL Resources Ltd	6

BASE METALS SPECULATIVE OR HIGH RISK PORTFOLIO UPDATE

This week have added KGL to our Speculative or High-Risk Base Metals Portfolio. KGL Resources owns the Jervois copper project in the Northern Territory and while this project has been around for years, aggressive exploration by KGL is transforming this project to a level where development is fast becoming a viable option.

We also like the copper exposure which is available with an investment in KGL Resource. As we report in the note, copper is attractive commodity and probably one of the safest ways of capturing the upside from electric cars, renewable energy as well as more broadly, industrial growth. Copper is often regarded as a futureproof metal because of its widespread industrial use.

This week Reuters report Rio Tinto is seeking copper projects world-wide and has even commented that it is willing to pay out a large premium over market value to secure prime assets. Surprisingly, as an alternative, it is reported to be assessing whether the cumulation of a series of more modest acquisitions may suffice to increase its exposure to copper given the expected future demand increase. "Growth is back on the agenda," Jean-Sebastien Jacques told a mining dinner in London late last week but Rio would be selective, reports Reuters.

Managing Director Kevin Fox of Rio Tinto Ventures, a division set up to hunt for relatively small mining projects, told a mining conference in May it was tough to find quality assets. He noted that the exploration space is not full of wonderful opportunities. Indeed, it has yet to acquire a project even though the division was set up more than a year ago.

Rio Tinto's comment follow BHP Billiton's late last year when it said it is on the hunt for its next big copper project. However BHP's focus is more on exploration and the company is open to forming alliances with junior mining companies. It also commented that miners are having to spend billions of dollars on their existing copper mines just to keep supply steady, as they dig ever deeper for supplies. That's likely to lead to a deficit in supply by the beginning of the next decade, according to the company.

BASE METALS SPECULATIVE OR HIGH RISK PORTFOLIO

The current *Speculative or High-Risk* Portfolio is outlined in the following table. The two laggards in the portfolio are S2 Resources and Silver City Minerals. S2 Resources is a geologically competent explorer and the investment approach is 'sit and hold'. It recently reported some exploration holes from its South Roberts project in Nevada, USA which didn't reveal any substantial mineralisation although they did intersect the prospective host rocks.

Silver City Minerals is continuing exploration on its Copper Blow project near Broken Hill, NSW. While recent assay results have been less spectacular than past results, recent geophysics has identified a large (1 km) IP structure which may have the characteristics of mineralisation associated with an intrusion. The project is becoming bigger and more complex but conversely a discovery may be considerably larger than first envisaged.

Company	ASX Code	Share Price (as at 3 July 18)	Annualised Returns since purchase	Market Capitalisation (\$M)	Main commodity exposure	Rationale
Highlands Pacific	HIG	0.125	125%	142	Cu, Au, Ni	Exposure to world class copper, gold and nickel projects in PNG.
KGL Resources	KGL	0.34	n/a	83	Cu, Ag	Developing the Jervis copper project in the Northern Territory
Panoramic Resources	PAN	0.64	45%	315	Ni, Co	Selected Co play, diversified nickel operations
Peel Mining	PEX	0.47	135%	88	Au, Cu, Pb/Zn	Exploration in the Cobar region, NSW. Recent discoveries including Mallee Bull highlight the potential of the area
S2 Resources	S2R	0.105	-39%	25	Au, Cu, Ni, PGM	Aggressive explorer with proven track record. WA and Finland focus.
Silver City Minerals	SCI	0.038	-43%	9	Cu	Copper Blow is a IOCG project near Broken Hill. Exploration to-date has been promising and there is spare mill capacity nearby at Broken Hill.

A complete update of all portfolios will be provided next week.

BREAKAWAY RESEARCH

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For enquiries, please contact:

Rachel Szabo
Manager Client Services

+61 2 9392 8032

rachel.szabo@breakawayinvestmentgroup.com
www.breakawayresearch.com.au

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APPENDICES

Appendix One: KGL Resources Ltd

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KGL Resources Ltd (KGL)

Jervois Copper Gaining Critical Mass

PORTFOLIOS	RISK
Base Metals	High
Recommendation	BUY
Price (A\$)	0.34
ASX Code	KGL
Date	3 July 2018

MARKET PRICING	
Share Price (A\$)	0.34
Ord Shares	249.9 m
Market Cap undiluted (A\$)	85.0 m
Options & performance rights	0.0 m
Market Cap - diluted (A\$m)	85.0 m
Est. Cash (31 March 2018) (A\$m)	8.0 m
Cash raised from option exercise (A\$m)	0.0 m
Total Debt (A\$m)	0.0 m
Enterprise Value (A\$m)	77.0 m

DIRECTORS & CEO	
Chairman (exec)	Denis Wood
Director (non-exec)	Ferdian Purnamasidi
Director (non-exec)	Peter Hay
Director (non-exec)	John Gooding
Director (non-exec)	Fiona Murdoch

Source: Company

SUBSTANTIAL SHAREHOLDERS	
KMP Investments Pte Ltd	0.26%
Mr Denis Wood	9.20%
Pegasus CP One	7.28%
Marshall Plenty Investments	5.14%

Source: Company

COMPANY DETAILS	
Address	Level 7, 167 Eagle Street Brisbane, QLD, 4000
Phone	+61 7 3071 9003
Web	www.kglresources.com.au

Source: Company



Source: ASX

Company Background

KGL Resources Limited ("KGL", formerly Kentor Gold Limited) is a mineral exploration company focused on developing the Jervois copper project. This project is located on existing mining leases which are situated 380 km by road north-east of Alice Springs in the Northern Territory.

KGL acquired the Jervois project in 2011 and by the end of 2015 it had increased the project's resource base to 30.5 Mt ore containing 327,000 tonnes of copper and 22.6 million ounces of silver. After completing a preliminary feasibility study, it recognized that it needed to increase this resource base to improve the viability of the project. Hence since that time, the Company has been implementing drilling campaigns designed to increase the size and quality of the resource to support a revised mining project capable of operating in the bottom half of the copper cost curve.

What's new?

KGL Resources recently announced an updated Mineral Resource estimate for its Jervois Copper Project with total contained copper increasing by 18% to 384,800 tonnes. However, importantly the overall grade has increased by 43% to 1.53% copper.

The updated resource statement is approaching a level which can underpin a viable operation, particularly when viewed with the potential for ongoing extensions and discoveries in the Company's tenement package. The current statement includes a maiden resource from the Rockface prospect which contains 90,000 t of copper at an attractive 3% Cu grade. The mineralised sequence has a strike length of 12 km and a stratigraphic thickness up to about 600 m.

The Company recently completed a placement which raised \$6.7m and was priced at 40 cents per share. As the heat has come out of the market with the threat of a US-China trade war along with the normally seasonally quieter June and July months, the stock price has drifted lower with the copper price.

KGL Resources progressed the Jervois project from being a remote marginal resource to one which has real potential to be developed. Meanwhile Rio Tinto has recently reported that it is willing to pay a premium for copper assets given the attractiveness of this commodity in the new electric vehicle age. While Jervois may not have appeal to Rio given its size, it nevertheless represents one of the few junior resource exposures to copper outside a major.

*Breakaway Research has a **Buy** recommendation on KGL Resources around \$0.34.*



Background

The Jervois project is located on the Plenty Highways, 380 km by road north-east of Alice Springs in the Northern Territory (see Figure 1). The location is remote and hence the project has often only received sporadic bursts of exploration activity in the past. The Jervois Project is located on two Mineral Licences (ML 30180 and ML 30182) and one Mineral License Application (MLA 30829) located within EL 25429 held by Jinka Minerals, a subsidiary of KGL Resources.

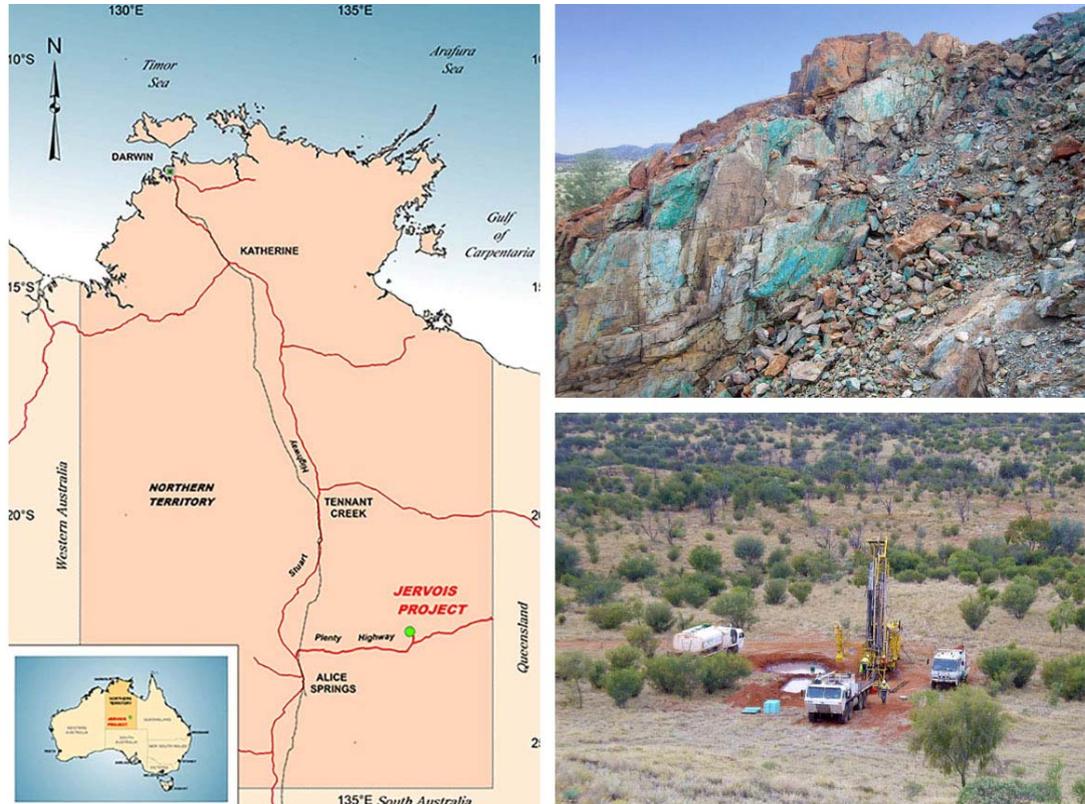


Figure 1 Location of the Jervois Project, Northern Territory (source: Company).

The Company reports that the resources at Jervois are spread across multiple prospects that extend along 12 km strike length in the shape of a “J” curve. Several prospects have the potential for both open pit and underground mining.

However, the recent focus has been on the Rockface prospect where new mineralised zones of increasingly high grade have been discovered using Down Hole Electromagnetic surveying and followed by targeted drilling. As noted earlier, the maiden resource has now been included in the Jervois resource statement.

The exploration cycle has involved drilling followed by Down Hole Electromagnetic surveying which identifies other conductors which are then targeted for drilling. Encouragingly the grades at Rockface have increased progressively with depth (see Figures 2 & 3). Better drilling intersections include:

- 7.34m @ 1.22% copper from 0 m,
- 13m @ 2.14% copper from 255m,
- 9m @ 2.91% copper from 284m,
- 16m @ 3.34% copper from 362m,
- 28m @ 5.08% copper from 435m (including 14m @ 8.89% copper from 436m),
- 10.5m @ 8.76% copper from 478.4m,
- 9.4m @ 11.53% copper from 535.4m,
- 15m @ 7.11% copper from 558m, and
- 10.5m @ 8.99% copper from 645.65m.

The Company reports that all intersections have reported silver and gold values.

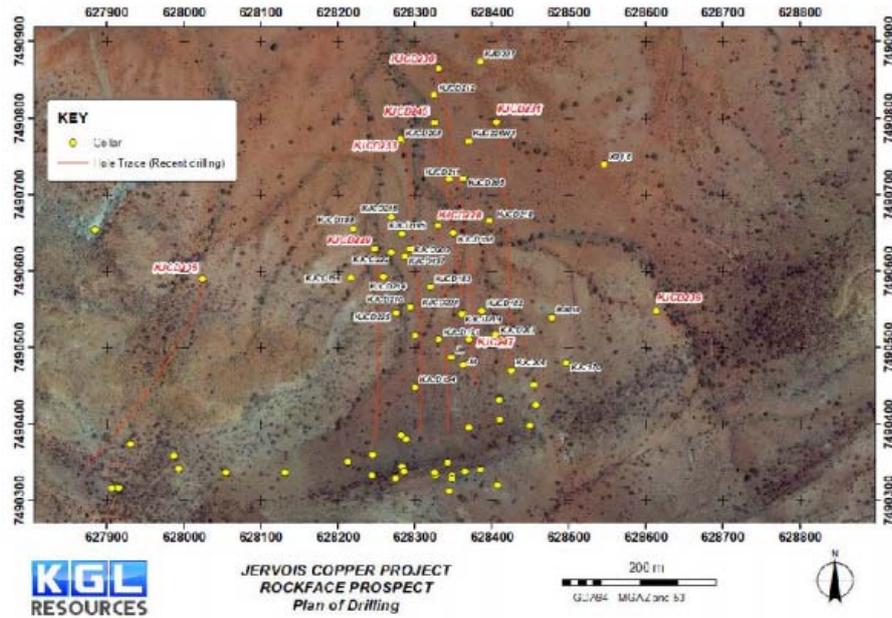


Figure 2 Location of drill collars in the Rockface Prospect (source: Company).

As evident in Figure 3 below, the Rockface mineralised zones appear sub vertical and continuous over several hundred metres.

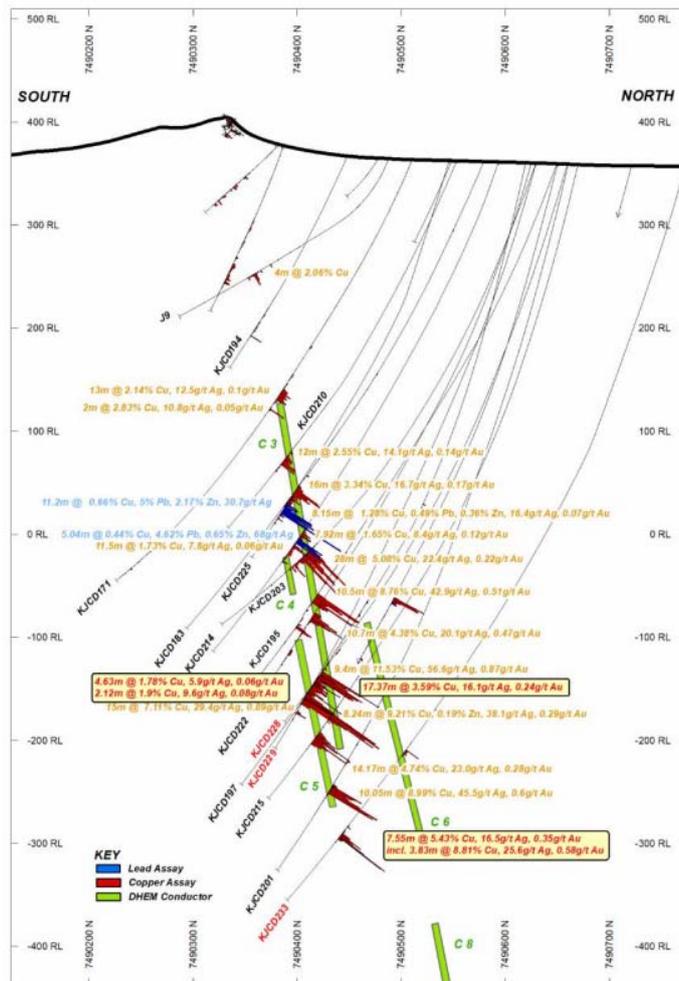


Figure 3. Cross-section through the Rockface prospect (source: Company).



The Company has also completed metallurgical testwork on the Rockface mineralisation which has indicated good recoveries and resultant concentrate grade – more than 95% recovery at 25% Cu concentrate grade.

Resource Update

In late May 2018 the Company reported a revised resource statement which is presented in Figure 4 along with the variance from the 2015 resource statement.

	Category	Mt	Cu %	Ag g/t	Cu kt	Ag Moz
2018	Indicated	11.1	1.39	25.8	153.8	9.2
	Inferred	14.1	1.64	31.9	231.0	14.5
	TOTAL	25.2	1.53	29.2	384.8	23.6
2015	Indicated	11.5	1.18	24.1	135.7	8.9
	Inferred	19	1.01	22.6	191.1	13.8
	TOTAL	30.5	1.07	23.0	327	22.6
Variance	Indicated	-3%	18%	7%	13%	3%
	Inferred	-26%	62%	41%	21%	5%
	TOTAL	-17%	43%	27%	18%	4%

Figure 4. KGL's updated resource statement for its Jervois Project and comparison with the 2015 statement (Source: Company).

The Company has charted the chronological changes to both the copper and silver resource tonnage and grade in Figure 5. This provides a positive trend to higher value ore with greater ore tonnes in the higher confidence *Indicated* category.

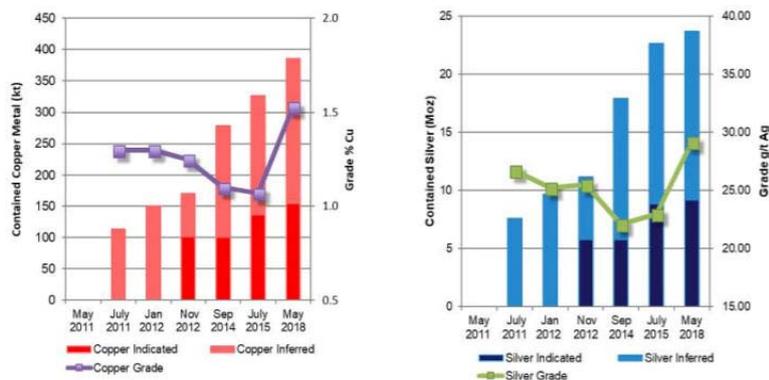


Figure 5. Trends in indicated and inferred resources grades and tonnage over time (Source: Company).

Elsewhere the company is producing a draft Environmental Impact Statement (EIS) for the Jervois Project as well as focusing on stakeholder engagement on the social impact of the planned re-opening of the mine. It reports that it has held meetings with local people at Jervois and locations along the Plenty Highway including the police from Harts Range, and at Alice Springs where representatives from the Northern Territory Government and the Office of the Prime Minister attended. Mining, metallurgical, processing, infrastructure and commercial studies are all progressing.

In summary, the Jervois copper project is gaining momentum and the market is becoming more positive that the project will be re-developed into a viable operation. Encouragingly, with the positive outlook for copper, financing the project is not likely present a problem.



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Breakaway Research Pty Ltd

ABN: 39 602 490 906,

AFSL 503622

T+61293928010 F+61292792727

PO Box H116 Australia Square

Sydney, NSW 2001

Suite 505, 35 Lime Street,

Sydney, NSW 2000