

# Pacifico Minerals Ltd

## (PMY \$0.006) Speculative Buy, Initiation of Coverage

EUROZ

Analyst	Date	Price Target
Andrew Clayton	11 <sup>th</sup> July 2019	\$0.025/sh

### Cheap, emerging lead producer.

#### Key points

Pacifico Minerals Ltd has a 75% interest in the Sorby Hills Base Metal Project located in the NE Kimberley region of WA.

It has a total resource (open pit) of 29.9mt @ 3.7% Pb, 0.6% Zn and 43 g/t Ag (Indicated rsc 10.8mt).

A PFS (Mar'19) demonstrated strong economics with annual production of ~31kt of Pb and 1.17moz of Ag at a C1 cost of US\$0.30/lb and AISC of ~US\$0.36/lb for 8 yrs. A capital cost of \$95.4m was estimated.

Based on a US\$0.92/lb Pb price and A\$0.70 a pretax NPV8 of \$243m and IRR of 62% was estimated.

Metallurgical testwork has shown very good recoveries at 91%, producing a high 65% Pb concentrate.

Beneficiation is the key (either DMS or ore sorter) increasing grade by 2.12x with ore loss of 10%. The net effect is taking a 3.5% Pb mined grade and upgrading to 6.7% Pb prior to concentrator.

Previous testwork has proven this concept but further work is required for the Optimised PFS.

A recent site visit confirmed the excellent project infrastructure. Sealed roads and grid power to within 20km and 10km of the project and an underutilised port at Wyndham, 50km from Kununurra.

EPA approval already in place for Sorby Hill with extension to start date to April'24.

A 6,000m drill program is underway. This will target upgrading some of the ~20mt of inferred resource into indicated category plus metallurgical samples.

Potential plant expansion from 1mtpa to 1.5mtpa if sufficient resource defined.

PMY aims to complete an optimised PFS by 4th Q CY'19 and a DFS by mid/late 2020.

The recent success of Galena Mining Ltd (mkt cap \$130m) has increased investor awareness of lead projects, market dynamics and potential returns.

Our valuation of \$0.025/sh assumes the PFS estimate and risk adjusts this by 40% to reflect the uncertainty on funding/DFS. We assume a nominal \$20m for the exploration potential.

We initiate with a Speculative Buy recommendation. There are few projects owned by juniors with capex of <\$100m that have the potential to become long life, high margin operations and could ultimately be worth multiples of its current \$14m capitalisation.

Pacifico Minerals Ltd	Year End 30 June	
Share Price	0.006	A\$/sh
Price Target	0.025	A\$/sh
Valuation	0.025	A\$/sh

Shares on issue	2765	m, diluted *
Market Capitalisation	14	A\$m
Enterprise Value	11	A\$m
Deb	0	A\$m
Cash	3	A\$m
Largest Shareholder	Villiers QLD	12.8%

Production F/Cast	2020F	2021F	2022F
Attrib. Prod'n (kt)		4	41
Cash Cost (US\$/lb)		0.41	0.47
Total Cost (US\$/lb)		0.58	0.58

Assumptions	2020F	2021F	2022F
Pb Price US\$/lb	0.95	1.00	1.00
AUDUSD	0.71	0.74	0.75

Key Financials	2020F	2021F	2022F
Revenue (A\$m)	0	16	141
EBITDA (A\$m)	0	11	92
NPAT (A\$m)	0	5	42
Cashflow (A\$m)	0	7	54

CFPS (Ac)	0	0	1
P/CFPS (x)	na	209	0

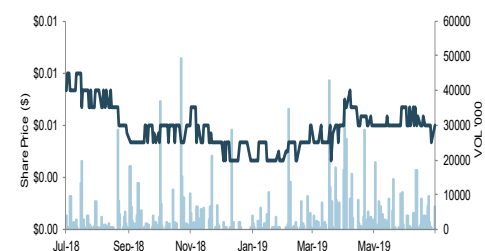
EPS (Ac)	0	0	2
EPS growth (%)	na	na	8
PER (x)	na	3	0

EV:EBITDA (x)	na	1.3	-0.4
EV:EBIT (x)	na	1.6	-0.5

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	-78%	1%	-78%
Interest Cover (x)	na	na	na

#### Share Price Chart



#### Disclaimer

Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Pacifico Minerals Ltd during the last year. Euroz Securities has received a fee for these services.

This analyst declares that he has a beneficial interest in Pacifico Minerals Ltd.

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# Pacífico Minerals Ltd

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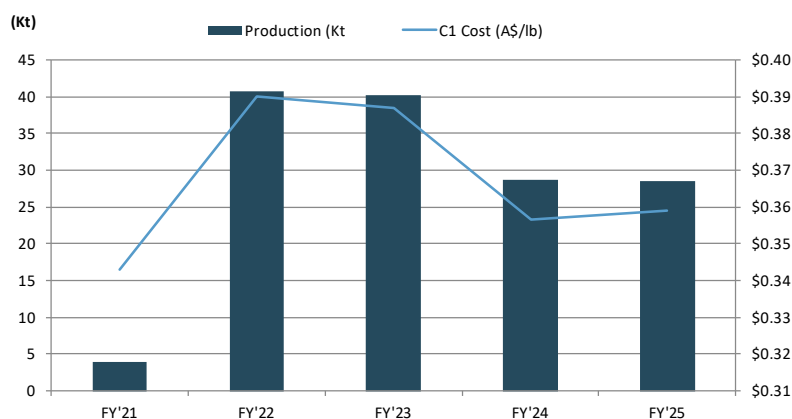


## Key Variables

Val/ Sh		Lead \$								
\$0.02		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.013	\$0.015	\$0.016	\$0.018	\$0.019	\$0.020	\$0.022	\$0.023	\$0.025
	10%	\$0.015	\$0.016	\$0.018	\$0.019	\$0.021	\$0.022	\$0.024	\$0.025	\$0.027
	5%	\$0.016	\$0.018	\$0.019	\$0.021	\$0.023	\$0.024	\$0.026	\$0.027	\$0.029
	0%	\$0.018	\$0.020	\$0.021	\$0.023	\$0.025	\$0.026	\$0.028	\$0.030	\$0.031
	-5%	\$0.020	\$0.022	\$0.023	\$0.025	\$0.027	\$0.029	\$0.030	\$0.032	\$0.034
	-10%	\$0.022	\$0.024	\$0.026	\$0.027	\$0.029	\$0.031	\$0.033	\$0.035	\$0.037
-15%	\$0.024	\$0.026	\$0.028	\$0.030	\$0.032	\$0.034	\$0.036	\$0.038	\$0.040	

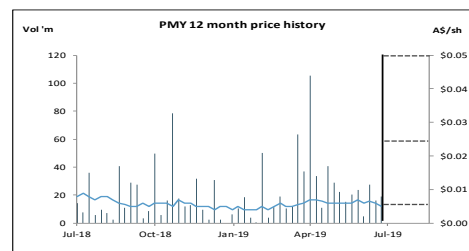
Val/ Sh		Silver \$								
\$0.02		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.017	\$0.018	\$0.018	\$0.019	\$0.019	\$0.019	\$0.020	\$0.020	\$0.021
	10%	\$0.019	\$0.019	\$0.020	\$0.020	\$0.021	\$0.021	\$0.022	\$0.022	\$0.022
	5%	\$0.021	\$0.021	\$0.022	\$0.022	\$0.023	\$0.023	\$0.023	\$0.024	\$0.024
	0%	\$0.023	\$0.023	\$0.024	\$0.024	\$0.025	\$0.025	\$0.026	\$0.026	\$0.026
	-5%	\$0.025	\$0.025	\$0.026	\$0.026	\$0.027	\$0.027	\$0.028	\$0.028	\$0.029
	-10%	\$0.027	\$0.028	\$0.028	\$0.029	\$0.029	\$0.030	\$0.030	\$0.031	\$0.031
-15%	\$0.030	\$0.030	\$0.031	\$0.032	\$0.032	\$0.033	\$0.033	\$0.034	\$0.034	

## PMY - Prod'n & C1 Forecast



Euroz Forecast	FY'20	FY'21	FY'22	FY'23
Silver (US\$/oz)	\$16	\$17	\$18	\$18
Lead (US\$/lb)	\$0.95	\$1.00	\$1.00	\$1.00
AUDUSD	\$0.71	\$0.74	\$0.75	\$0.75

## Our Share Price Sensitivity



## Our Market Sensitivity

Price Target \$0.025/sh

Valuation \$0.025/sh

**Bull Scenario \$0.05/sh**

Sorby Hills is successfully developed as a high margin lead producer based by 2021

**Base Scenario \$0.025/sh**

Sorby Hills delivers a positive DFS in mid/late CY'20 in line with the PFS estimates.

**Bear Scenario \$0.005/sh**

Sorby Hills project stalls due to falling lead prices or optimised PFS delivers a negative result and the project does not get funded.

## Company Summary

Pacífico Minerals Ltd ('PMY') has a 75% interest in the Sorby Hills Lead Silver project located in the Kimberley region of WA. A PFS study delivered a very strong result targeting annual production of 31kt of Pb and 1.1moz of Ag for a minimum of 8 yrs. An optimised PFS is underway with the aim to complete a DFS in mid CY'20.

## Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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# Pacifico Minerals Ltd

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Market Statistics			Year End 30 June				
<b>Share Price</b>	<b>\$0.006</b>	<b>A\$/sh</b>	<b>Directors</b>				
Issued Capital			Richard Monti	Chairman			
Fully Paid Ord	2,313.1	m	Simon Noon	Managing Dir			
Options (var. prices)	452.0	m	Peter Harold	NE Dir			
<b>Total Dil. FPOrd</b>	<b>2,765.1</b>	<b>m</b>	Andrew Parker	NE Dir			
Market Capitalisation (dil)	\$14	m	<b>Shareholders</b>				
Enterprise Value	\$11	m	Villiers QLD	12.8%			
Cash	\$3	m					
Debt	\$-	m					
<b>Asset Valuation</b>			<b>A\$m</b>	<b>A\$/sh</b>			
X (+) Sorby Hills Project (risk adj 40%)			62	0.022			
(-) Corporate			(16)	(0.006)			
(+/-) Hedging			-	-			
(+) Exploration			20	0.007			
(+) Unpaid Capital			-	-			
(+) Cash			3	0.001			
(-) Debt			-	-			
<b>Total</b>			<b>68</b>	<b>0.025</b>			
<b>F/Cast Production</b>			<b>(A\$m)</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Sorby Hills 100%</b>							
Pb in Conc.	Kt	-	4.0	40.7	40.2		
Ag in Conc.	Moz	-	0.24	1.44	1.46		
Cash Costs (C1)	A\$/lb	-	0.34	0.39	0.39		
Cash Costs (incl Roy)	A\$/lb	-	0.41	0.47	0.46		
Total Costs	A\$/lb	-	0.58	0.58	0.58		
<b>Assumptions</b>							
Spot Pb Price	US\$/lb	0.95	1.00	1.00	1.00		
Spot Ag Price	US\$/lb	15.65	17.00	18.00	18.00		
FX Rate ass'd	A\$/US\$	0.71	0.74	0.75	0.75		
<b>Ratio Analysis (A\$m)</b>			<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	
Cashflow	0.00	6.66	53.86	53.74			
Cashflow per Share	0.00	0.00	1.23	1.01			
Cashflow Ratio (x)	na	209.21	0.49	0.59			
Earnings	0.00	4.62	41.66	41.36			
Earnings per Share	0.00	0.20	1.80	1.79			
EPS Growth (%)	na	na	8.06	-0.01			
Earnings Ratio (x)	na	3.02	0.33	0.34			
Enterprise Value	-16.87	14.45	-39.46	-93.20			
EV : EBITDA	na	1.33	-0.43	-1.02			
EV : EBIT	na	1.64	-0.50	-1.18			
NDebt:NDebt+Equity(%)	-0.78	0.01	-0.78	-1.92			
Interest Cover (x)	na	na	na	na			
EBIT Margin (%)	na	56%	56%	56%			
Return on Equity (%)	0%	6%	34%	25%			
Return on Assets (%)	0%	6%	33%	25%			
Dividend (c/sh)	0.00	0.00	0.00	0.00			
Dividend payout ratio	na	0%	0%	0%			
Dividend Yield	0%	0%	0%	0%			
Dividend Franking	100%	100%	100%	100%			
<b>Profit and Loss (A\$m)</b>			<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	
(+) Pb Revenue	-	11	114	112			
(+) Ag Revenue	-	5	27	28			
(+/-) Hedging Revenue	-	-	-	-			
(+) Interest Income	-	-	-	-			
(+) Other Revenue	-	-	-	-			
<b>Total Revenue</b>	<b>-</b>	<b>16</b>	<b>141</b>	<b>140</b>			
Operating Costs	-	(5)	(49)	(49)			
Dep/Amort	-	(2)	(12)	(12)			
WriteOff (expl'n)	-	-	-	-			
O/H + New Bus Dev	-	-	-	-			
Provisions	-	-	-	-			
EBITDA	-	11	92	91			
EBIT	-	9	79	79			
Interest Expense	-	-	-	-			
NPBT	-	9	79	79			
Tax	-	(2)	(18)	(18)			
Minority Interest	-	(2)	(20)	(20)			
<b>NET PROFIT</b>	<b>-</b>	<b>5</b>	<b>42</b>	<b>41</b>			
Net Abnormal Gain	-	-	-	-			
<b>Net Profit After Abnormal</b>	<b>-</b>	<b>5</b>	<b>42</b>	<b>41</b>			
<b>Cash Flow (A\$m)</b>			<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	
Net Profit	-	5	42	41			
+ Working Capital Adj	-	-	-	-			
+ Dep/Amort	-	2	12	12			
+ Provisions & W/O	-	-	-	-			
+ Tax Expense	-	2	18	18			
- Deferred Revenue	-	-	-	-			
- Tax Paid	-	(2)	(18)	(18)			
<b>= Operating Cashflow</b>	<b>-</b>	<b>7</b>	<b>54</b>	<b>54</b>			
-Capex + Development	(40)	(40)	-	-			
-Exploration	-	-	-	-			
-Assets Purchased	-	-	-	-			
+Asset Sales	-	-	-	-			
+Other	-	-	-	-			
<b>= Investing Cashflow</b>	<b>(40)</b>	<b>(40)</b>	<b>-</b>	<b>-</b>			
+ Equity Issues (Rts,plc,opts)	20	-	-	-			
+Loan Drawdown/Receivable	50	-	-	-			
+Loans from(to) other entities	-	-	-	-			
-Loan Repayment	-	-	-	-			
-Dividends	-	-	-	-			
<b>= Financing Cashflow</b>	<b>70</b>	<b>-</b>	<b>-</b>	<b>-</b>			
<b>Period Surplus</b>	<b>30</b>	<b>(34)</b>	<b>54</b>	<b>54</b>			
FX Adjustments	-	-	-	-			
<b>CASH</b>	<b>33</b>	<b>(1)</b>	<b>53</b>	<b>107</b>			
<b>Balance Sheet (A\$m)</b>			<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	
<b>Assets</b>							
Cash	33	(1)	53	107			
Current Receivables	0	0	0	0			
Other Current Assets	-	-	-	-			
Non-Current Assets	45	84	71	59			
<b>Total Assets</b>	<b>79</b>	<b>83</b>	<b>125</b>	<b>166</b>			
<b>Liabilities</b>							
Borrowings	-	-	-	-			
Current Accounts Payable	1	1	1	1			
Other Liabilities	3	3	3	3			
<b>Total Liabilities</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>			
<b>Net Assets</b>	<b>75</b>	<b>80</b>	<b>122</b>	<b>163</b>			
<b>Reserves and Resources</b>							
<b>Mining Inventory</b>				<b>Mineral Resources</b>			
	ore	grade	metal	ore	grade	metal	
	mt	%	kt	mt	%	kt	
Sorby Hills	8.6	3.5%	301	29.9	3.7%	1106	
<b>Total contained Pb</b>			<b>301</b>			<b>1,106</b>	

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## Pacifico Minerals Ltd

### (PMY \$0.006) Speculative Buy, Initiation of Coverage

#### Discussion

Sorby Hills was discovered in 1971 by Elf Aquitaine with stop start exploration programs and preliminary feasibility studies. KBL Mining acquired the project in 2008 and in April'10 entered into a 25% JV with China's largest Lead smelter, Henan Yugang Gold and Lead (\$5m for PFS and offtake of ~ 30% of concentrate).

KBL Mining completed a PFS in Dec'12 based on a mining inventory of 6.2mt producing 20kt of Pb and 715koz of Ag per annum for 10yrs with a capital cost of \$80m. Based on a Pb price of A\$1.05/lb and Ag price of \$27/oz an NPV10 of \$88m was estimated.

At the time, KBL was operating the Mineral Hill Mine in NSW and the main focus of the company. In April'14, Sorby Hills was granted Environmental Approval. Operational issues at Mineral Hill resulted in KBL appointing administrators in Sept'16.

In June'18 PMY reached agreement to acquire 75% of the Sorby Hills project for total consideration of \$4.0m consisting of cash of \$3.6m and scrip worth \$0.5m. The deal closed in Oct'18 with the final payment of \$2.5m made in mid April'19.

Post acquisition, PMY commenced a 12,000m drill program to expand the current 16.5mt @ 4.7% Pb, 0.7% Zn and 54 g/t Ag resource. Encouraging results combined with lowering the Pb cut off grade from 2.5% to 1% culminated in an 83% resource increase to 29.97mt @ 3.9% Pb, 43 g/t Ag and 0.6% Zn. The Indicated resource subset grew from 2.39mt to 10.85mt.

A PFS in Mar'19 delivered a strong result with annual production of ~ 31kt of Pb and 1.1moz of Ag over 8yrs with AISC of US\$0.36/lb based on a capital cost of \$95m. An NPV8 (pre tax) of \$243m and IRR (pre tax) of 62% was calculated.

Infill and extensional drilling is underway targeting a resource upgrade (inferred to indicated) to potentially justify a higher throughput in the optimised PFS which is due in Q4 CY'19.

Lead is the poor cousin to the more familiar copper, nickel and zinc base metal complex but in terms of demand outstrip Ni at 12mt pa. Cannington (South 32) is the only operation where lead is primary metal mined and not a by product. It produces ~ 125kt of Pb pa and 65kt of Zn.

A funding requirement ~ 4-5x larger than the current market capitalisation is always a challenge for any small company. However, the quality of the project and quick capital payback suggests Sorby Hills could support a high level of debt. Other financing options could include; offtake finance, streaming deal, traditional equity or % sale of project. A deal with its JV partner ie project equity for PMY equity, could be value accretive.

A recent site visit confirmed the outstanding logistics and infrastructure of the project as well as the high quality team that PMY is starting to assemble.

Our initial valuation of \$0.025/sh is based on a PFS estimates and a long term lead price of US\$1.00/lb and A\$ of 0.75. We heavily risk adjust our NPV10 (after capex and after tax) by 40% to reflect the PFS status and uncertainties regarding funding.

Once in production, annual attributable EBITDA of >\$60m suggest PMY could demand a 3-4x EV/EBITDA implying a share price of >\$0.08/sh on a fully developed basis.

We initiate coverage with a Speculative Buy recommendation. There are few domestic base metal projects with this margin, mine life and exploration upside and potential for multiples of its current price.

Short to medium term catalysts include;

- Drill results from Sorby Hills 6,000m program,
- Metallurgical testwork to confirm beneficiation is a viable option,
- Optimised PFS in Q4 CY'19.

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# Pacifico Minerals Ltd

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### Valuation

Our valuation is based on the PFS study. Our lead price assumption is \$1.00/lb, Silver is YS\$18/oz and FX of A\$0.75.

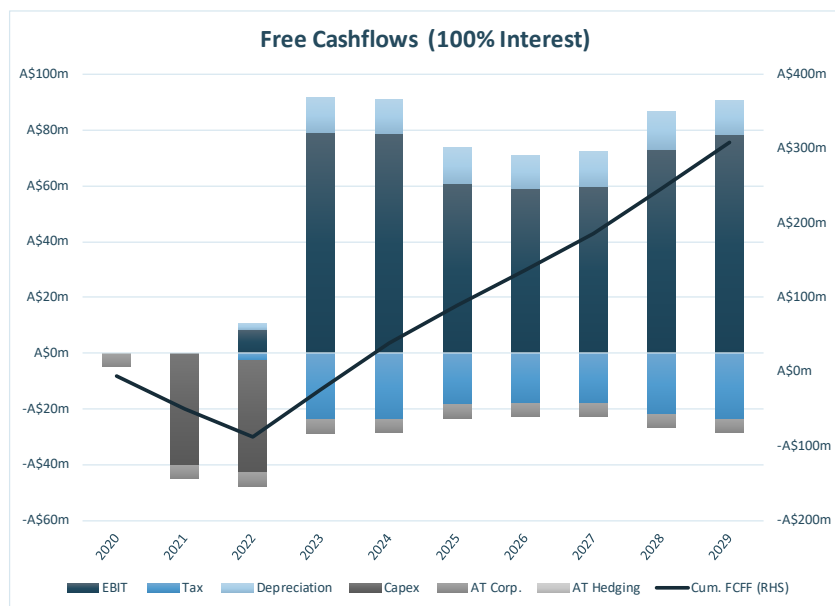
Due to the uncertainty regarding final funding we risk adjust our NPV10 by 40% to derive a current value for Sorby Hills of \$62m

Asset Valuation	A\$m	A\$/sh
(+) Sorby Hills Project (risk adj 40%)	62	0.022
(-) Corporate	(16)	(0.006)
(+/-) Hedging	-	-
(+) Exploration	20	0.007
(+) Unpaid Capital	-	-
(+) Cash	3	0.001
(-) Debt	-	-
<b>Total</b>	<b>68</b>	<b>0.025</b>

We assign a nominal \$20m to the exploration upside and the expansion potential should sufficient resource be defined with the current drilling program.

At this stage we don't consider the expansion potential which, if sufficient resource is defined, could significantly enhance the valuation.

Our LOM cashflow forecasts are outlined below:



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## Sorby Hills Base Metal Project (PMY 75%)

### Location

Sorby Hills is located ~ 50km NE from the regional centre of Kununurra and close to the WA/NT border. The Weaber Plains Road is sealed to within 2km of the project area with plans to seal the remainder to the border. Grid power utilising the Argyle Dam hydroelectricity is available within 30km of the Project area.

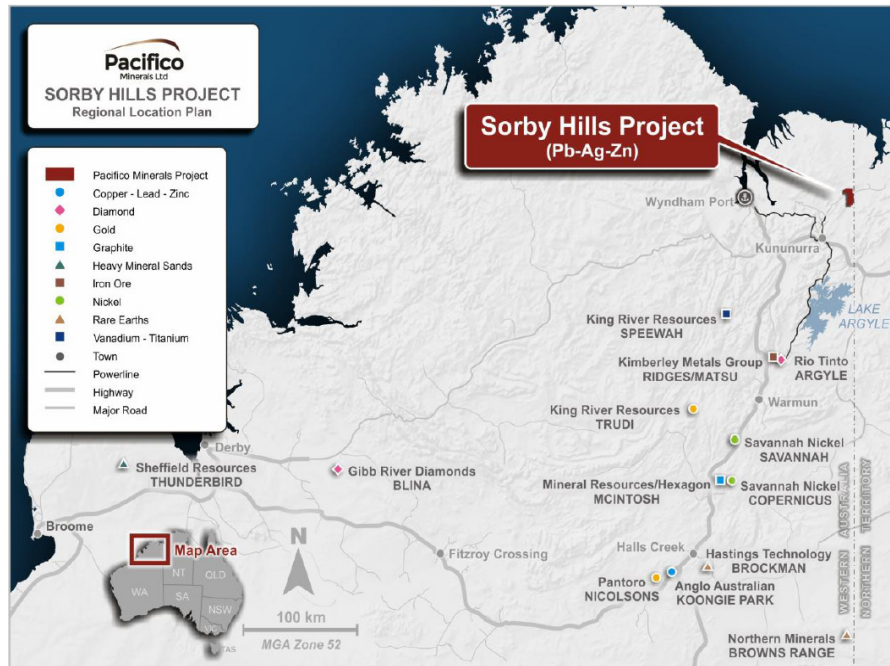


Figure 1: Sorby Hills location

### History

Sorby Hills was discovered in 1971 by Elf Aquitaine and between 1972 and 1988 a total of 889 holes were drilled. Three preliminary feasibility were done between 1974 -1979 before the project was shelved in 2000's due to the Ord River Scheme expansion uncertainty. KBL Mining acquired the project in 2008 and in April'10 entered into a 25% JV with China's largest Lead smelter, Henan Yugang Gold and Lead (\$5m for PFS and offtake of ~ 30% of concentrate).

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#### Mineralisation.

Sorby Hills was originally thought to be a Mississippi Valley Type deposit ('MVT') recent geological assessment has shown Sorby Hills to be sediment replacement system with mineralisation focussed on the contact between the upper Knox Sediments and the lower Sorby Dolomite. Mineralisation consists of 7 discrete carbonate hosted Pb-Ag- Zn deposits. The deposits form a linear NS belt extending over 7km.

The mineralisation is largely stratabound and hosted mainly on the contact between Knox Sediments and Sorby Dolomite and in dolomitic breccia and shales typically developed at the contact, which generally dips shallowly to the east.

The mineralised pods average 7-10m in thickness, are generally less than 1k long and 100-500m wide. There is some structural control to the mineralisation, with the high grade zones, associated with faulting.



Fig 2: Drill core from infill program. Note coarse galena mineralisation.

#### PMY Drilling, Resource and Reserves.

Sorby Hills has been extensively drilled. Post acquisition, PMY drilled 52 holes with some excellent results including;

- 11.7m @ 10.8% Pb, 105 g/t Au and 0.4% Zn from 75.7m
- 20m @ 7.3% Pb, 56 g/t Ag and 0.4% Zn from 11m
- 10m @ 6.6% Pb, 52 g/t Ag and 0.9% Zn from 82m.

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## (PMY \$0.006) Speculative Buy, Initiation of Coverage



CSA Global Pty Ltd, had previously updated the Sorby Hill resource in Aug'18 (16.5m @ 4.7% Pb, 0.7% Zn and 53 g/t Au) at a 2.5% Pb cut off. Incorporation of the the new drill results and a lower cut off grade ( 2.5% Pb to 1% Pb) saw the global resource increase by 82% to 29.97mt. On a like for like basis using the same cut off grade the resource increased by 21% to 19.5mt @ 4.8% Pb, 53 g/t Ag.

JORC Classification	Tonnes (Kt)	Pb %	Zn %	Ag g/t
Indicated	10,850	3.9	0.4	46
Inferred	19,130	3.6	0.7	42
<b>Total</b>	<b>29,980</b>	<b>3.7</b>	<b>0.6</b>	<b>43</b>

A total of 1,199 holes are in the database with 546 holes drilled prior to 2007. Of these 353 holes were retained and an additional 300 holes were drilling the period from 2007-2018. There's been 10 previous drilling campaigns at Sorby Hills.

The lower cut off grade was driven by previous met testwork that Dense Media Separation indicated the ore could be significantly upgraded by 2-3x prior to being fed into the process plant with minimal (<15%) ore loss. In the PFS, PMY used an upgrade factor of 2.12x from the beneficiation.

Importantly, the Indicated resource subset increased by 123% to 10.85mt @ 3.9% Pb, 46 g/t Au and 0.4% Zn. Drilling is mostly completed on a 20-30m (E-W) by a 30-40m (N-S) drill pattern. A nominal drill spacing of 50m is still used at some deposits, largely classified as Inferred.

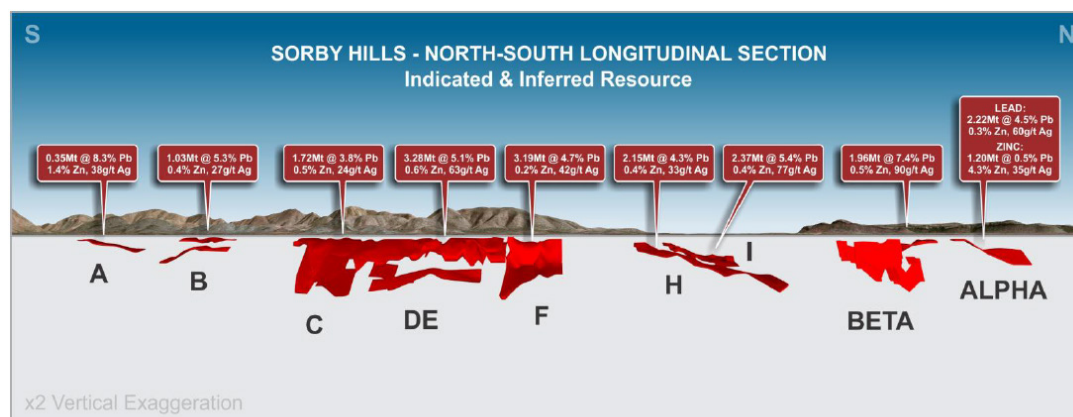


Image: Sorby Hills Looking West Showing Mineralisation at a Slight Oblique View. Red Blocks Represent Mineralisation from the Block Model of the MRE.

As shown in the diagram above the resource is relatively shallow with mineralisation starting at 20m below surface.

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#### Pre Feasibility Study

PMY completed a scoping study in Mar'19 which showed a robust project with a pre tax NPV8 of \$243m and IRR of 62% based on a LT lead price of US\$0.92/lb and A\$ of 0.70.

This was based on a 1mtpa plant treating ore at 3.5% Pb and 43 g/t Ag producing 31.1kt of lead and 1.1mozoz of silver per annum for 8 yrs. Average C1 costs were US\$0.30/lb and AISC of US\$0.33/lb. Initial capex was estimated at \$95.4m. Metallurgical recoveries were estimated at 91% for lead and 87% for silver.

Typical lead concentrate grades are 50-60% with a high concentrate grade >60%. Golden Grove, which produces both a zinc and lead concentrate, produce a 58% lead concentrate and the Cannington mine owned by South 32 concentrate grade is 55%. Sorby Hills concentrate grade is 65% Pb and 1270 g/t Ag and likely to be highly sought after.

Sorby Hill PFS Study		
Mining Inventory		8.64 @ 3.5% Pb 43 g/t Ag
Mining method		Open pit
Strip Ratio		6.6:1
Capex	A\$m	95.4
Throughput	mtpa	1.0
Pb Grade	%	3.5
Ag Grade	%	43
Recoveries		
Pb recoveries	%	91
Ag recoveries	%	87
Production		
Lead Production	kt	31
Silver Production	moz	1.17
C1 Costs	US\$/lb	0.06
ASIC costs	US\$/lb	0.36
Payback	Yrs	1.4
Mine Life	Yrs	8.5
Price Assumptions		
Lead	US\$/lb	0.92
Silver	US\$/oz	15.4
A\$ US\$D	\$	0.7
NPV 8 pre tax	\$m	243
IRR pre tax	%	62
Av EBITDA	\$m	60

The PFS was just based on Indicated Resource of 10.8mt and delivered a mining inventory of 8.65mt. The process flowsheet assumed a single high value, high grade Pb-Ag concentrate. The ore is soft (Work Index of 9.7kWh/t) and hence single stage primary crush, followed by beneficiation plant for DMS using either conventional DMS techniques or the use of ore sorter technology.

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The key assumption in this process is the ability to successfully beneficiate the ore. The PFS assumed an uplift factor of 2.12x for an ore loss of 10%. Practically, this means over the life of mine a total of 8.6mt @ 3.5% Pb would be mined, the HMS/sorter would get rid of 4.5mt and the balance would be put through the concentrator at 0.5mtpa at an average grade of 6.7% PB . The sensitivity on the uplift factor is large – a 1.5x uplift would more the half the pre tax NPV, similarly if a 2.5x uplift could be achieved the pre tax NPV would increase to >\$300m.

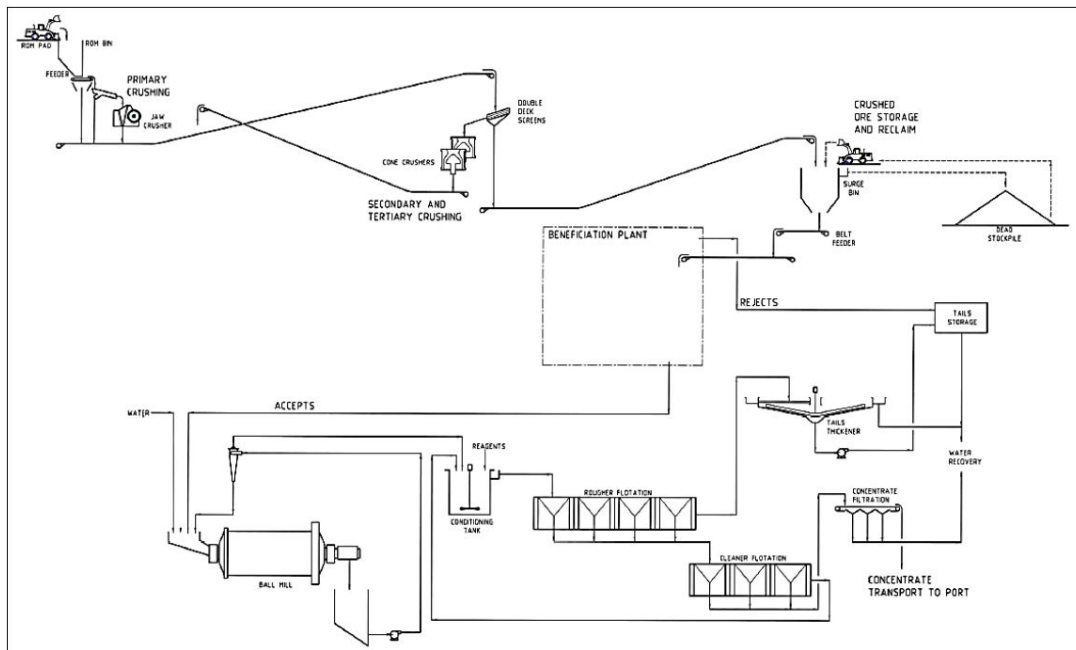


Image: Treatment Plant – Lycopodium Designed Conceptual Flow Sheet.

The capital cost split is outlined below in the table:

PRE-PRODUCTION CAPITAL EXPENDITURE (A\$M)	
TREATMENT PLANT	40
INFRASTRUCTURE	6
TAILINGS STORAGE FACILITIES	2
CONTRACTORS AND CONSTRUCTION COSTS	4
MANAGEMENT COSTS	8
OWNER’S PROJECT COSTS	10
MINING (INC. DE-WATERING, PRE-STRIP)	14.9
CONTINGENCY	10.5
<b>TOTAL PRE-PRODUCTION CAPEX</b>	<b>95.4</b>

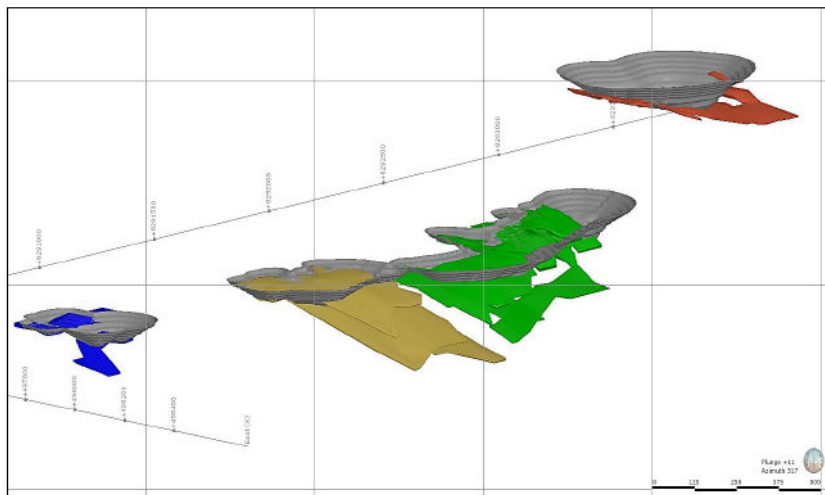
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Mining is all open pit with initial production from three open pits. Its important to note that only the Indicated resource was used in the current mining schedule. The site visit confirmed the flat topography and its anticipated that ore is free dig in the top 30m. There is some scope that pits D and E will join up once further drilling has been completed.



*Image: B, CDE and I Deposits Mineralisation and Pit Optimisation.*

### Expansion Potential

The PFS study was just based on Indicated resource. There is some 19.1mt of similar grade material in the inferred category and a clear opportunity to convert a portion of this inferred resource into the indicated category and hence probable reserves.

The current 6,000m drilling program is targeted to both infill and extend the current resource. We see potential upside for the Indicated resource to increase to >15mt which could justify a plant expansion to 1.5mtpa, producing ~ 45-50kt of Pb and 1.6moz of Ag pa and similar margins. This potential expansion will be explored in the optimised PFS that is underway and will be dependent on drilling success and the economics.

The capital cost is likely to go up but prima facie the economics are likely to be compelling and could result in pre tax NPV8 increasing to >\$300m. We assume no expansion in our current model.

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#### Comparison with other base metal miners

In the table below we compare PMY with two other domestic base metal companies: Galena Mining Ltd ('G1A') and Venturex Resources Ltd ('VXR').

ASX Code	Units	PMY	G1A	VXR
Shares on Issue	m	2,313	364	280
Market Cap	A\$m	13.8	130	50.3
(+) Debt	A\$m	0.0	0.0	0.0
(-) Cash	A\$m	2.7	10.0	5.3
Enterprise Value	A\$m	11.1	120	45.0
Project Interest	%	75	60	100
Mining Inventory	Mt	8.64 @ 3.5% Pb 43 g/t Ag	15.3mt @ 7.7% Pb, 20 g/t Ag	12.6mt @ 3.1% Zn, 1.4% Cu
Capex	A\$m	95.4	154	169
Mining Method		Open pit	Underground	Open pit + Underground
Throughput	mtpa	1	1.2	1.25
Grade	%	3.5% Pb and 43 g/t Au	7.7% Pb and 20 g/t Ag	3.61% Zn and 1.45% Cu
Recoveries	%	91% Pb and 87% Ag	96% Pb	90.7% Zn and 83.5% Cu
<b>Production and Costs</b>				
Metal Production	ktpa	31.1kt Pb and 1.17moz Ag	91kt Pb and 0.76moz Ag	35kt Zn and 15kt of Cu
C1 Costs	US\$/lb	0.30	0.48	0.05
AISC cost	US\$/lb	0.36	0.58	0.06
Payback	yrs	1.3	2	3.6
Mine life	yrs	8.5	14	10.5
<b>Price Assumptions</b>				
Lead	US\$/lb	0.92	0.95	
Silver	US/oz	15.40	14.50	
Zn	US\$/lb			1.20
Cu	US\$/lb			2.85
A\$: USD\$	x	0.70	0.73	0.72
NPV8 pre tax	\$m	243	528	472
IRR pre tax	%	62	50	51
Avg. EBITDA pa	\$m	60	97	80
Project Status		PFS completed	JV with Toho Zinc (\$90m for 40%)	DFS completed
		DFS in mid CY'20	DFS in mid CY'19	EPA permitting and funding required

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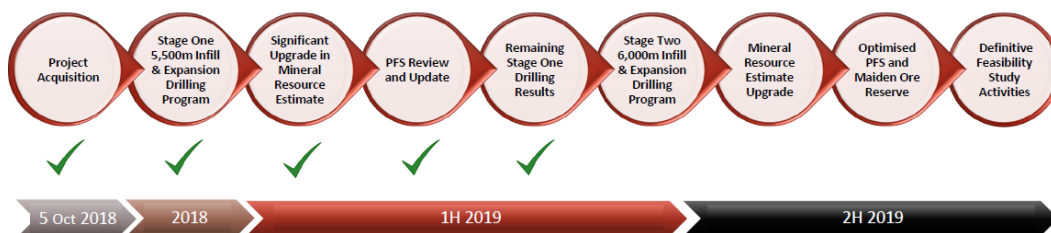
### Points to note

- G1A has been one of the success stories since its IPO in Sept'17 as it completed a positive PFS and sold a 40% interest in project to Toho Zinc for \$90m. This success has been recognised by the market with a 5x uplift since IPO and a current market capitalisation of \$85m.
- G1A is most advanced with a DFS due in mid CY'19 and funding well advanced after its JV with Toho Zinc for A\$90m. Whilst VXR has completed a DFS it remains unfunded.
- VXR is the more familiar Zn/Cu production with both open cut and underground operation but does have the highest capital cost at \$169m and is currently unfunded and still requires EPA approval
- PMY has the lowest capital at \$95.4m, -40% lower than G1A and VXR and hence its IRR is higher than its peers, whilst its NPV is 50% below.
- PMY has the shortest mine life at 8.5yrs, however if drilling is successful we would expect mine life to increase to >10 yrs. G1A mine life includes 30% of mining inventory in inferred resource that requires further infill drilling
- PMY is the only open pit deposit. VXR has 3-4yrs of open pit and the balance underground. G1A is totally underground with mineralisation starting 250m below surface.
- Mine life is longer at G1A but this includes 30% of the mining inventory in inferred resource that needs to be proved up.
- G1A average EBITDA pa is \$97m, higher than VXR @ \$80m and PMY \$60m. Potential for PMY to increase EBITDA to ~ \$80m pa if plant expansion is justified.
- PMY's EV is 1/6 of G1A and 1/4 of VXR.

We believe that should PMY deliver a successful optimised PFS confirming the beneficiation and assumptions, then a market capitalisation of >\$50m is reasonable based on the comparison with G1A and VXR. This also confirms our current risk adjusted valuation of \$69m is reasonable.

### Timeline

Since project acquisition in Oct'18, PMY has made good progress; completing a 5,500m drill program, upgrading the resource and completing a PFS study. The Stage two 6,000m drill program is underway which will culminate in an updated resource estimate in 2nd H CY'19. The optimised PFS study is due 4th Q CY'19 and assuming a positive result will roll straight into a DFS with the aim of completing this in mid/late CY'20.



### Lead Market

Total refined lead production is approximately 12.5mt pa. Mine production equates to around 5.3mt with the balance made up from secondary/scrap metal. Since 2005, refined lead production has increased from 8mt at a rate of ~ 4% pa. Consensus numbers is for this growth to moderate to ~2- 2.5% pa. China production accounts for ~ 45% of world production and it remains a net importer of lead concentrate in the range of 600-700kt pa. Current China refined lead production is ~ 5.5mt pa.

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Lead acid batteries currently account for ~ 70% of lead demand. These batteries are widely used in the automotive industry for starting cars. Other uses include: medical equipment, sound and vibration absorption, cables, chemical industry, solders, weights, etc.

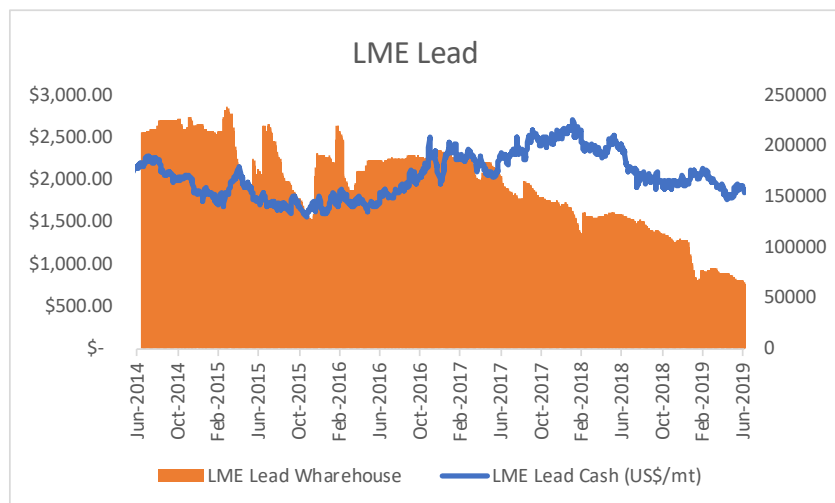
We believe the rapid growth of electric vehicles ('EV's) will have only a limited impact on lead demand for a long time (>5yrs). Lead auxiliary batteries (whilst smaller than batteries for regular cars) continue to be used in all battery and hybrid EV's in addition to the Li-ion or Li MH drive batteries.

The EV industry continues to explore lead based technologies - as both proven, efficient and lower cost input in battery technology. Demand growth from stop-start batteries which uses 25-30% more lead than conventional car batteries should maintain solid demand growth as the world transitions to EV's over the next decade.

Lead - acid also has a role in the electrification of bikes. There are roughly 15m e-bikes sold in China alone each year.

In the past two years lead price has strengthened as mine closures and environmental restrictions in Chian led to concentrate shortages and tightening metal supplies.

LME lead cash prices are currently sitting at US\$ 0.85/lb (A\$ 1.20/lb), roughly 36% off from the 2017 high of US\$1.34/lb (A\$1.55/lb). The lower A\$ has insulated the fall in A\$ terms to around 22%. Over the past five years, we've seen lead prices rise from US\$0.72/lb to a higher base around US\$1.10-1.20/lb level. This off the backdrop of LME lead warehouse stockpiles dropping close to 38% over the same period from about 250,000kt to just above 150,000kt.



In the past few years mine closures combined with environmental restrictions in China has tightened supply. The large Century zinc/lead mine was closed in 2015 (recently restarted) which removed ~ 80kt of supply as well as some smaller mines.

There are few major future lead miners compared to zinc miners despite their co product relationship. The key firm addition is the Goresvsk expansion in Russia which is slated to add an additional 145kt of lead concentrate by 2021.

Domestically there is a lack of primary lead producers with most current operations producing dominantly zinc with lead as by product. Cannington, owned by South 32 is the only primary lead operation producing ~ 125k of Pb in concentrate pa or approximately 7% of world's primary production. Glencore owns the MIM complex which in 2017 produced 435kt of Zinc in concentrate and 155kt of lead in concentrate.

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#### Directors

##### Richard Monti - Non Executive Chairman

Mr Monti has over 30 yrs experience in the mining industry working in the technical, commercial and financial fields of both domestic and international mining companies including Anaconda Nickel, RTZ Exploration and Normandy Group. He was Managing Director of Azimuth Resources Ltd which was subsequently acquired by Troy Resources NL in 2013

##### Simon Noon- Managing Director

Mr Noon is an experienced mining executive and was the co founder and MD of West Rock Resources Pty Ltd until it was acquired by Pacifico Minerals Ltd in 2013. Prior to establishing West Rock Resources, he was Executive Director of NTM Gold where he managed the company from a market capitalisation of \$5m to >\$100m during his tenure.

##### Peter Harold - Non Executive Director

Mr Harold is a process engineer with 30yrs corporate experienced in the minerals industry. Mr Harold is the founder and Managing Director of Panoramic Resources Ltd - a role that he still holds today.

##### Andrew Parker - Non Executive Director

Mr Parker holds a law degree from UWA. He was co- founder and until 2008 was MD of a Perth based corporate advisory and venture capital firm, Trident Capital Pty Ltd. Mr Parker has held a number of executive and non-executive directorships in the last 15 yrs.

Director Shareholder		
	Shares	Options @ \$0.015/sh
R. Monti NE Chrm	22,718,766	4,000,000
Simon Noon MD	26,400,000	8,500,000
Peter Harold NE Dir	4,250,495	4,000,000
Andrew Parker	3,717,596	4,000,000

Top 20 Shareholders.		
	Securities	%
1 VILLIERS QUEENSLAND PL	293,166,665	12.67%
2 ZERO NOM PL	186,588,888	8.07%
3 CITICORP NOM PL	174,844,462	7.56%
4 CHAPMAN CRAIG GRAEME	112,694,999	4.87%
5 AIGLE ROYAL SUPER FUND PL	100,000,000	4.32%
6 SCINTILLA STRATEGIC INV L	53,700,000	2.32%
7 EQUITY TTEES LTD	45,833,333	1.98%
8 CLARK TRAVIS ROHAN	32,400,000	1.40%
9 NOON SIMON ALEXANDER	26,400,000	1.14%
10 BOLTON BARRIE R + LING H	23,836,073	1.03%
11 ELITE SKY INV LTD	23,100,000	1.00%
12 GREATCITY CORP PL	22,718,766	0.98%
13 JOHNSON AMITY BROOKE	19,000,000	0.82%
14 BRIDGEZONE PL	16,410,000	0.71%
15 BOXWOOD PL	16,168,516	0.70%
16 VOGEL JOHN WILLIAM	15,000,000	0.65%
17 RIMOYNE PL	14,851,508	0.64%
18 J P MORGAN NOM AUST PL	13,958,768	0.60%
19 VARADHARAJAH M	13,885,000	0.60%
20 TUBECHANGERS PL	13,130,664	0.57%

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