

30 May 2019

AUSTRALIA

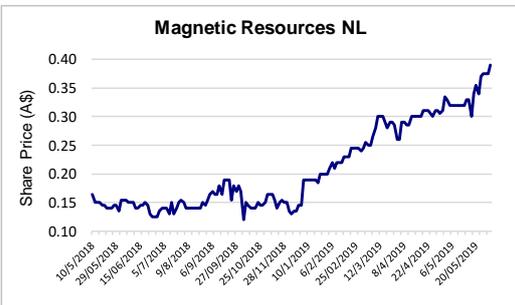
GOLD

EXPLORATION

EXCHANGE: ASX: MAU

CAPITAL PROFILE

Share price (A\$)	0.38
Target Price (A\$) 12mth	0.60
52 week range (A\$/share)	0.39 to 0.11
Number of shares (M)	202
Options and Other (M)	29
Fully diluted (M)	231
Market capitalisation (undiluted) (A\$M)	76.8
Cash (A\$M): Mar19A	2.7
Enterprise value (A\$M)	71.9
Avg monthly volume (M)	1.5
Cash (A\$M): Jun19E	4.9



MAGNETIC RESOURCES NL

Exploring large-scale gold anomalies in the right street address

Share Price: A\$0.38

Speculative Buy

Magnetic Resources has enjoyed impressive share price gains in 2019, against a backdrop where explorers are mostly languishing amidst a high degree of caution from investors.

Key potential appears the large-scale gold anomalies being delineated, adjacent to Dacian's (ASX: DCN) Jupiter/Mt Morgans mine area.

Whilst too early to speculate the extent of what lies beneath the surface near Laverton, WA, clearly being in the right location is important and already extensive gold mineralisation is apparent.

We have a Speculative Buy, with a 12-month target price of 60cps, predicated on the continuation of exploration success particularly the H9 anomaly extension along strike and at depth.

INVESTMENT POINTS

- ◆ **Well Situated:** Large tenement positions in the Leonora and Laverton districts of Western Australia, in close proximity to numerous large (3-10Moz) deposits, existing mining operations and good infrastructure.
- ◆ **Large scale (3.1km long) gold anomaly defined at Hawk's Nest,** 10km NE of Dacian's Mt Morgan operations. The 2.1km strike length sheared porphyry target recently was extended to the south west by 1km through soil sampling. Drilling has uncovered extensive, shallow gold mineralisation, which is yet to be tested at depth.
- ◆ **Strategic Location:** Wallaby mine (Gold Fields, 100%) has been going since 1998, and now at almost 2km underground and still profitable. This mine is 20km from Hawks Nest, and the large 3.5Mtpa mill is forecast to continue to be under-utilised. Dacian's Jupiter mining complex is 10km west. This means both stand-alone development and toll-treatment may be options, assuming delineation of a JORC resource of economic potential.
- ◆ **Proven exploration method:** The technique of using magnetic signatures of nearby gold deposits to explore the district, followed up with extensive geochemistry (Aircore, RAB) appears to be paying off, with a high rate of discovery achieved in the last twelve months, which could lead to further deposits being uncovered in the area over time.

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COMPANY STATISTICS

Year End June	Mar-19A	Jun-19E	FY'17A	FY'18A	FY'19F
Exploration/Development (A\$M)	0.33	0.45	0.90	1.55	2.10
Corporate (A\$M)	0.21	0.25	0.54	1.06	1.10
Exploration/(Expl.+ Corporate) (%)	61	64	63	59	66
Funding duration at current burn (years)					1.5
Shares on issue (pr end) (M shares)	191	200	115	142	200
Drilling - RAB/Aircore (m)	0	0	3,167	10,006	8,000
Drilling - RC/Diamond (m)	2,576	3,500	2,690	7,311	10,000
Land holding ('000 ha)*	10	10	10	10	10
Capital raisings (A\$M)	0.00	0.00	1.95	1.35	7.70
Other funding (A\$M)	0.0	0.0	0.0	0.5	0.0
Cash (A\$M)	2.70	4.87	0.72	0.55	4.87
Cash backing (Ac/share)	1.4	2.4	0.6	0.4	2.4

* Tenements held and under application. Quarters refer to calendar year. Drill metres are RCR estimates.

COMPANY COMMENT

Overview: Magnetic Resources (MAU) has a strategic landholding within a short distance from major gold mines, near Laverton, Western Australia. In total MAU hold around 223km² in the Laverton region and 198km² near Leonora, WA (Figure 1).

MAU's exploration method of following up ground magnetics with soils, rock chips and scout drilling appears successful, with one gold anomaly defined over 3km in length at **Hawks Nest**, Laverton (Figure's 2, 3). Only shallow drilling has been conducted to date, with deeper RC drilling planned.

Over 30,000m of aircore/RAB and RC drilling has been carried out by MAU over the last two years, identifying large-scale shallow mineralisation across the region, particular at the H9 anomaly (**Hawks Nest**) where consistency has been demonstrated.

A program of 96 RC holes for 3360m recently commenced, to follow up drilling success.

The prospect is located approximately 10km from Dacian's (ASX: DCN) Mt Morgans operations.

Additional gold targets have been identified at **Mt Jumbo**, and **Mt Jumbo east** (Figure 3) situated only 5km north of the Wallaby Mine. At **Mt Jumbo east** a 600m long gold anomalous zone has been delineated through geochemical sampling and limited drilling.

A recent 11hole RC program revealed encouraging results including 4m @ 2.3g/t Au from 60m (MMJE2RC09) and 12m @ 1.1g/t Au from 40m (MMJE2RC10).

Additional RC drilling is proposed in coming months to gain a better understanding of geology and potential targets for more extensive drilling programs based on the exploration model of structural hosted gold deposits.

The exploration thesis in the district therefore appears twofold, firstly to uncover bulk-tonnage low grade, near-surface mineralisation and the second to identify higher grade structural/intrusive related deposits at depth, for example the Wallaby mine. This deposit is defined by a mafic conglomerate, intruded by a magnetite-actinolite syenite pipe. Gold mineralisation is associated with zones of low to moderate magnetic susceptibility. A similar geological model is being applied at **Hawks Nest** and surrounding prospects, however magnetic signatures vary between deposits in the district, so structural geology (faults) also comes into play.

In the Leonora Area, there are two main areas of focus, the first is to the east where over 10km of anomalism has been identified at **Mertondale** and **Christmas Well**, in close proximity to deposits held by gold developer Kin Mining (ASX: KIN).

The second focus area is called Birthday Patch near Willuna. Both areas have both high-grade gold intercepts reported, with recent discovery of large gold nuggets at Christmas well by local prospectors.

Company history: After raising A\$5m, MAU listed in April 2007 to explore for a range of commodities in Western Australia, including gold, uranium, nickel and other metals.

In 2008 iron ore exploration was added to the priority list, with scoping studies commenced on the Jubuk and Ragged Rock Iron Ore Projects, completed in 2012.

By 2016 the focus turned to the gold projects, with additional tenements applied for and exploration commenced around both Leonora and Laverton.

George Sakalidis returned as MD (having left in 2014, founding director of Image Resources, ASX: IMA) and led the exploration effort to define large gold anomalies through a combination of geophysics and geochemistry. Drilling commenced in 2017 and has continued since then, with a

focus on shallow drilling to define potential bedrock gold targets for deeper RC and diamond work.

Key issues and risks:

JORC potential: With an acceleration in exploration occurring following the market re-rating, the opportunity is to both continue to define the strike potential, along with conducting deeper RC drilling to assist in understanding the geological controls and lithology of mineralisation.

With its current funding in place, MAU is undertaking continuous drilling, continuing the recent of quick, shallow holes (<50m depth) to delineate the strike extent of bedrock gold anomalism for later follow-up. There is no point drilling too many deeper holes until you are confident they are being correctly situated and what your target is.

Resources take time: A planned drill out of a 3km+ gold anomaly to JORC Inferred is likely to be assessed once further information is obtained on the potential ore geometry, depth extent and structural model for the discovery. At this stage it is too early to speculate on either the size potential of the discovery, or the likely timeline to declaration of any JORC resources. Based on the cash balance and market capitalisation of the company, we anticipate a continuation of drilling in 2019, providing ongoing newsflow.

Neighbours: With Wallaby mine (Gold Fields, 100%) 20km from Hawks Nest (mill running well below capacity) and Dacian's Jupiter mining complex 10km west, the area is known for large deposits (3-10Moz range) hence it can be stated there is potential for deposits of similar scale to be discovered over time within MAUs tenements. This will require deeper drilling and JORC classification, as expected.

Other comments:

To date the company appears to have only scratched the surface with shallow drilling, and the true picture should emerge over the next 6-18 months of the potential for mineralisation persistence at depth and strike in locations like Hawks Nest, and in other targets yet to be subject to extensive drilling.

Both the Leonora and Laverton regions contain large gold endowments, and numerous mines have been constructed or are planned in close proximity to MAUs tenements. Any resources delineated may have strategic value in the future to nearby operators, should MAU be in a position to define potentially economic resources.

Australian gold explorers with resources, nearby to existing mining operations, have become increasingly valuable on a strategic basis since the gold price rally to record highs in A\$ terms closer to A\$1900/oz.

Investment Comment:

RCR's 12-month share price target is A\$0.60/share. This target price is based on the expectation of the discovery of extensive bedrock mineralisation of potential economic widths at the Laverton and/or Leonora gold prospects, and a continued buoyant A\$ gold price environment.

As with any exploration story, we expect discovery will take time, with resultant share price volatility as drilling results are released periodically and investors take their own view on discovery potential.

Any investment in MAU is speculative, and investors should be aware of the need for ongoing equity financing at this exploration stage. A medium-term view is recommended.

KEY TENEMENTS

Region	Project	Commodity	No. Tenements	Area (ha)	Project Status	State
Laverton	Mt Jumbo/Hawks Nest	Gold	13	1,246	PL/EL	West. Aus
Various	Exploration Lease App	Gold	5	674	ELA	West. Aus
Leonora	Exploration Leases	Gold	38	6,024	EL/PL	West. Aus
	<i>Subtotal</i>		56	7,944		
Other	Optioned Areas	Gold	12	1,565	PL/EL/ML	West. Aus
	Non-managed	Iron Ore	5	106	EL	West. Aus
	<i>Grand Total</i>		73	9,615		

Laverton Gold Projects (MAU, 100%)

Exploration Summary

MAU has conducted a sizeable amount of work in the Laverton region in the last two years, building on the strategy of searching for magnetic signatures resembling those of the large gold deposits of the region.

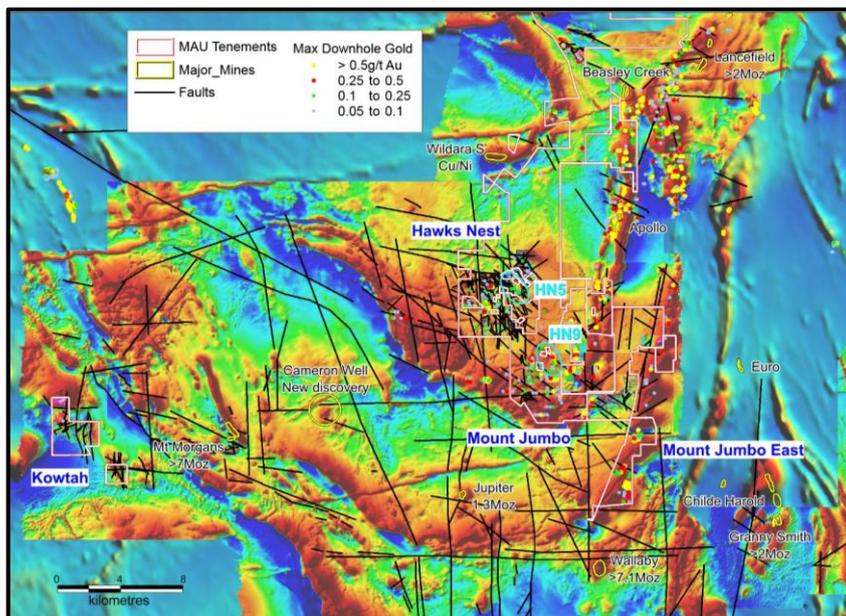
Hundreds of kms of ground magnetic surveys have been completed (>500km at **Hawks Nest** alone) which have then been followed up with soils, rock chips and shallow drilling to define bedrock gold targets (Figure 1).

At Hawks Nest, over 400 RC/RAB holes have been completed (average depth of RC around 50m), defining a 2.1km gold anomaly, recently extended to over 3km through soil sampling, and open to the north and south (Figure 3, H9 anomaly).

Mineralisation is associated with sheared porphyry and porphyry/mafic contact zones, hosted in quartz vein and stockwork type disseminations. The anomaly is up to 150m in width, with a shallow dipping (20°) contact zone in the porphyry. Other targets have also been defined in the district (Figure 4).

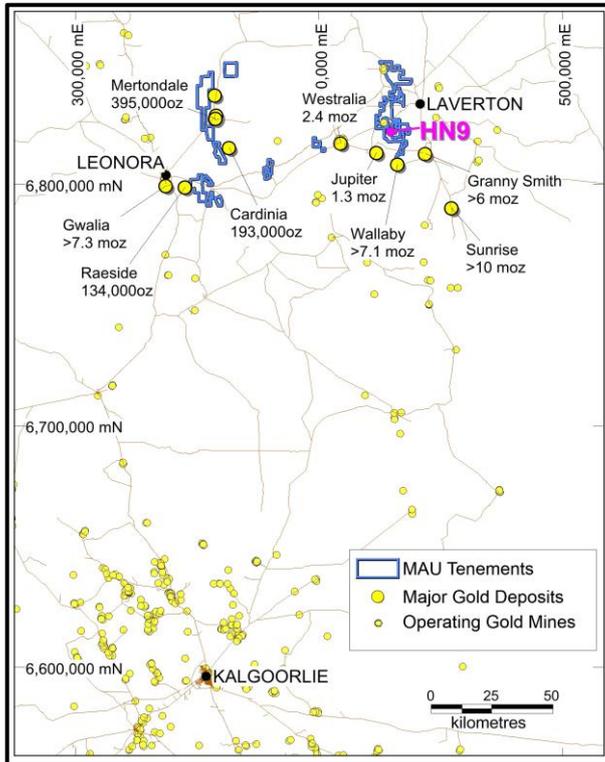
Most intersections are modest in width and grade (1-2g/t across 2-5m) however relatively shallow (20m) and extensive in strike length, giving indication that reasonable tonnages with open-cut potential may be defined (Figure 5).

Figure 1) Magnetics with location of Hawks Nest and nearby mines/prospects



Source: Company Presentations

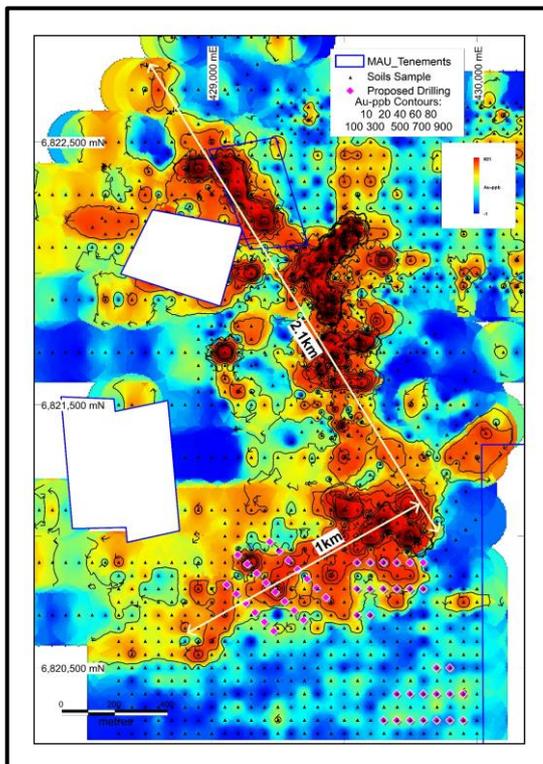
Figure 2) Regional location of prospects



Source: Company

Strategic ground adjacent to major gold deposits, particularly in the Laverton area

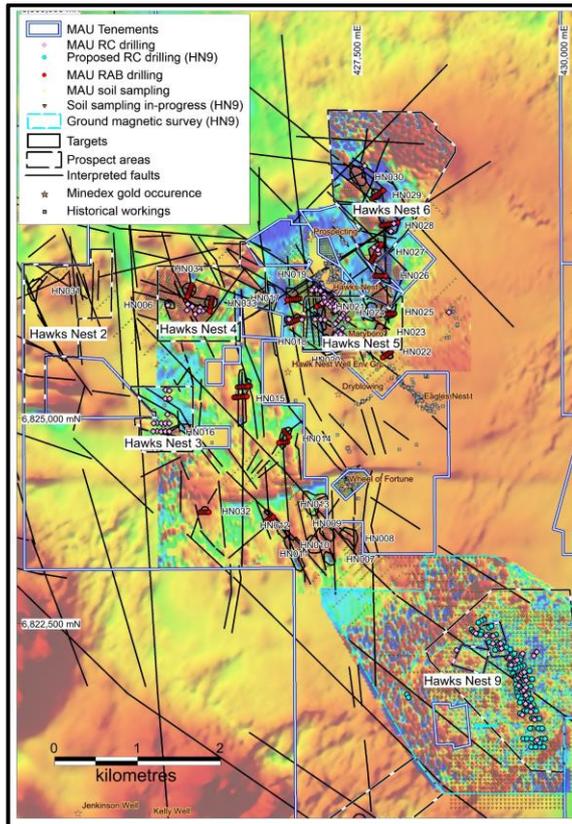
Figure 3) Soil anomaly, Hawks Nest prospect



Source: Company ASX Release dated 22/05/19

Extensive soil-anomaly delineated for over 3km at **Hawks Nest**, Laverton

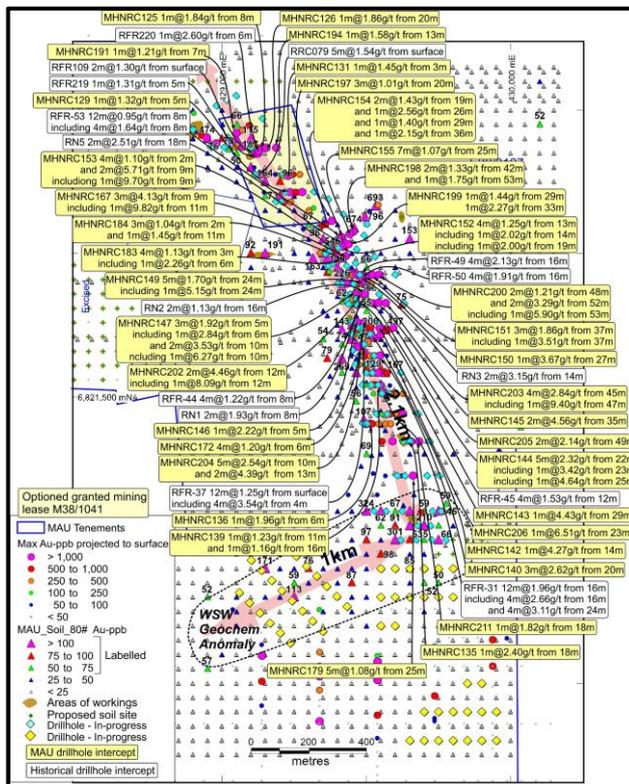
Figure 4) Magnetics and gold prospects, Leonora project areas



The exploration technique of ground magnetics and soil sampling appears to be effective

Source: Company Presentations

Figure 5) Drilling & anomaly distribution, Hawks Nest (H9)



Drilling has identified shallow gold mineralisation across 2.1km of strike length, with a further 1km to the south-west yet to be tested

Source: Company ASX Release dated 22/05/19

Leonora Gold Projects (MAU, 100%)

MAU has 183km² of tenements in the Leonora region of WA, in close proximity to the Cardinia and Mertondale prospects (5km away) held by gold developer KIN Mining (ASX: KIN) and gold explorer NTM Gold (ASX: NTM) amongst other landholders in the district.

There are 10.4km of multi-element geochemical targets identified at **Mertondale** and **Christmas Well**, with local prospectors recently finding 70oz of gold nuggets in a short period of time in the north of the tenements (Figure 6).

Close-spaced aeromagnetics has been utilised to define targets, based on interpretation of the Mertondale Shear Zone and related fault splays (Figure 7). Shallow (<5m) reconnaissance drilling of 900 RAB holes was conducted in the last year, with 26 RC holes to shallow depth (<60m).

At **Christmas Well** one intercept recorded 2m @ 15.1g/t Au from 16m (MCWRB38) with numerous other intercepts of up to 5m @ 1g/t Au. At **Nugget Patch** (Mertondale) prospectors continue to uncover large amounts of gold with trench sampling revealing results up to 35g/t Au.

Figure 6) Gold nuggets uncovered in 2018 (Mertondale project)



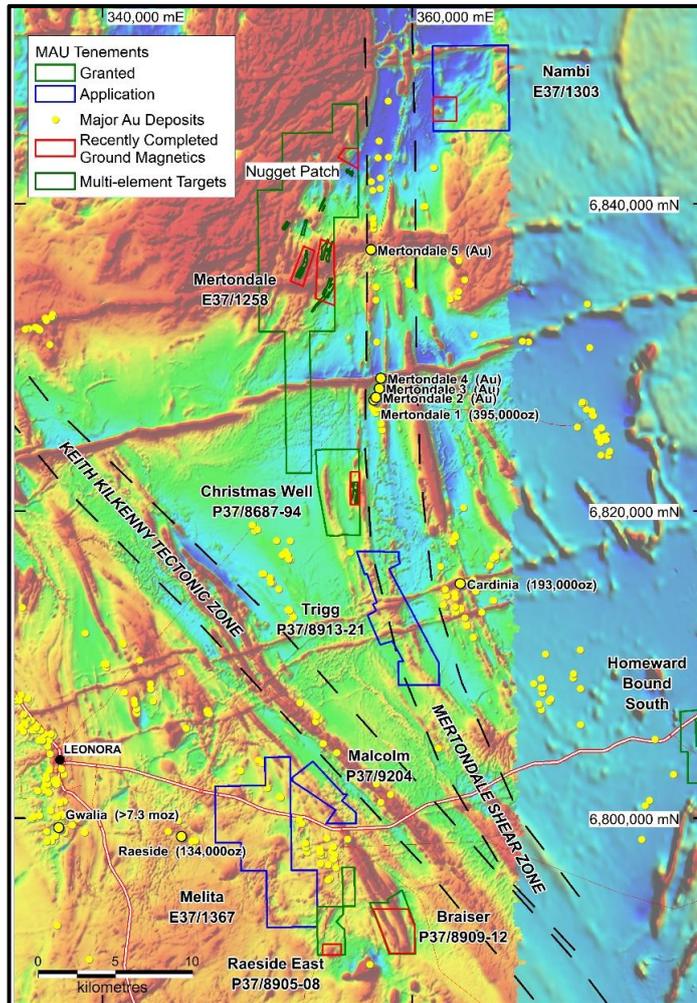
Source: Company Presentations

To the north around 123km east of Wiluna, MAU has a deal with a local prospector to explore the **Birthday Patch** tenements (37km²). A recently granted application (E53/1981) covers a 9km extension of the interpreted shear zone to the north and 6km to the south.

At **Homeward Bound**, the tenement covers a 5km strike length of the Federation shear zone, 40km east of Leonora. A review of historical data has revealed a 600m long target along a north-trending shale unit, where past drilling encountered intercepts including 3m @ 8g/t Au from 12m and 6m @ 2.6g/t Au from 32m in reconnaissance work.

Work planned includes further soil sampling, closer spaced geophysics (ground magnetics) and followed by drilling once targets are clearly defined.

Figure 7) Leonora Gold Project, regional magnetics showing gold prospects and tenements



Source: Company Presentations

Prospective tenements near Leonora, covering over 5km of the Federation shear-zone, along with other structural and magnetic targets

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