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Peel Mining Limited (PEX:AU) Rating Update

This review of Peel Mining Limited has been prepared in accordance with the **PortfolioDirect** stock rating framework described on pages 2-4.

PortfolioDirect/_{resources} offers strategy and portfolio recommendations for independent investors. The rating framework has been developed to assist investors and their advisers to grade individual stock risk so as to better match stocks in their own portfolios with their personal risk profiles and to take account of the differing risk characteristics of potential investments when structuring their portfolios.

A **PortfolioDirect** stock rating is not intended as a forecast of future share price movements. Share prices will be influenced by a range of factors including, significantly, macroeconomic conditions and the current cyclical positioning of the sector which are not taken into account in determining a stock rating. The **PortfolioDirect** analytical framework separates the view about market direction from the stock risk analysis contained in this review.

The most important driver of a stock rating for a company being reviewed is an assessment whether the company is likely to meet its exploration and development targets within the timeframes sought by investment markets and, when development has occurred, its ability to maintain positive value momentum over future years.

The Investment Decision Snapshot

Commodity Exposure	<i>What is the mineral to which the company is principally exposed?</i>	Base metals
Location	<i>Is the development or exploration site in or near an established mineral province?</i>	New South Wales - in an established mineral province
Focus	<i>Is the company involved in single or multiple commodities or projects requiring capital rationing?</i>	Moderate - a single regional exposure but several prospects raising the risk of competition for capital
Time horizon	<i>Do investment returns depend on (i) a reduction in risk over the medium term, (ii) specific near term events or (iii) a future change in cyclical conditions?</i>	The company's plans are likely to extend over the medium to longer term as it makes it assessments of drill targets and completes exploration programs
Investment proposition	<i>Can potential investment returns compensate for the amount of capital and time required?</i>	The company's value would be highly leveraged to an unexpected discovery but accumulating opportunity costs will need monitoring
Portfolio positioning	<i>What roles could the company play in a portfolio? Are other companies able to fulfill these roles more effectively?</i>	The company offers an exposure to an established nonferrous mineral region justifying retention in an investment portfolio as one of a selection of geographically diverse exploration opportunities
Liquidity	<i>How easily can buyers or sellers of the stock be accommodated?</i>	Moderate to low liquidity will limit market access for some classes of investor

Important Information Regarding the Preparation of this Report

This report is not intended as an offer or solicitation with respect to the purchase or sale of a security. Nothing in this report should be taken as a recommendation. Peel Mining has been rated without taking into account the particular objectives, financial circumstances or needs of any particular investor. Before taking any decision based on this communication, an investor should assess his or her own circumstances and seek professional advice.

This report is based on information disclosed publicly by Peel Mining at the date of the report, information otherwise available in the public domain at that time and analysis and technical inferences drawn by the staff of E.I.M. Capital Managers Pty Ltd, the publisher of **PortfolioDirect**.

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Peel Mining has not had an opportunity to comment on the report or request any amendments prior to its publication.

Trading in PortfolioDirect Rated Stocks by E.I.M. Capital Managers

Stocks rated in accordance with the criteria outlined in this communication may be bought or sold by E.I.M. Capital Managers on behalf of clients or funds whose investments are managed by the firm. Specific investment objectives and individual portfolio considerations may result in transactions by E.I.M. Capital Managers that are not consistent with **PortfolioDirect** ratings for individual stocks.

Stock Rating Criteria

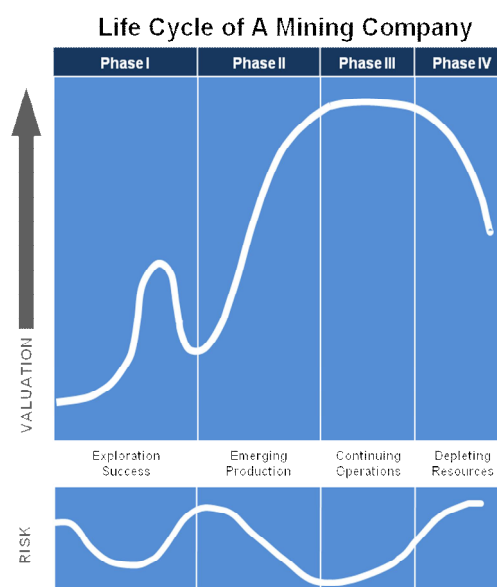
E.I.M. Capital Managers categorises sector investments based on the four phases in the life cycle of mining and oil and gas companies.

Phase I: the exploration phase during which relatively small amounts of capital may be deployed with the prospect of a high return but when investors also risk losing all the funds subscribed prior to the company having an agreed development plan.

Phase II: the emerging production phase in which companies are able to demonstrate access to a commercial resource and add value by meeting key development milestones along an agreed development path.

Phase III: the phase of continuing operations in which organic volume growth is limited and commodity price movements become the dominant driver of earnings and value.

Phase IV: a period typically characterised by falling ore grades and rising costs requiring additional capital to prevent output contracting.



Phase I companies will be scored (on a five point scale) on their potential to confirm a commercially viable development within an acceptable investment market timeframe. The duration of the investment horizon might vary from time to time depending on market conditions but will usually extend to a period of up to 24 months. Judgements will be based on publicly available information, including clarifying conversations with company management, and the resulting geological inferences drawn by E.I.M. Capital Managers analysts.

Phase II companies will be scored on a five point scale on their capacity to deliver positive value momentum (i.e. the ability to generate increasing fundamental value over future years without any reliance on higher commodity prices).

Since Phase III companies, by definition, no longer have any material organic growth prospects, they will generally fail the 'positive value momentum' test. A Phase III company may still play an important portfolio role depending on its relative financial strength, its capacity to withstand periods of cyclical weakness due to the competitiveness of its cost structure and its potential, arising from a large resource base, to operate through multiple economic cycles. Phase III companies will be scored on a five point scale on their absolute value proposition and how they meet these additional criteria.

No inferences about share price performance should be drawn from the rating of an individual stock. Investment returns will be influenced by a range of factors, some of which are included among the **PortfolioDirect** rating criteria, as well as investment market expectations about a range of macroeconomic variables. The **PortfolioDirect** rating does not take account of macroeconomic or investment market conditions that play a role in setting the price levels of securities.

There may be points in the cycle when stocks assessed by **PortfolioDirect** as being relatively risky and given a relatively low score on the **PortfolioDirect** rating scale are capable of producing relatively strong investment returns. This may arise, for example, because of strong leverage to changes or expected changes in market conditions among stocks with unusually depressed share prices or very small current market values.

Significant Investment Risks

In addition to general equity market risks reflecting unexpected changes in global economic or political conditions, investors in the resources sector may incur further risks specific to investments in the sector.

Commodity market risk: Resources sector investment returns are generally more volatile than returns from other equity market sectors due to the earnings of resources companies being exposed to commodity price and foreign exchange movements. Commodity prices can be influenced by a range of factors including economic events, which might affect the volume of commodities used, monetary policies which might affect levels of speculation and changes in output reflecting levels of industry exploration, investment and production disruptions.

Operational risk: Companies may fail to meet their development goals as a result of unexpected external influences, including political conditions and natural phenomena, as well as the skill base and operational capabilities of company management. Companies engaged in exploration activities may fail to locate or define mineral deposits of a sufficient size to be commercially viable.

Funding risk: Since companies in the resources sector require ongoing funding for development, expansion and maintenance of output, changes in financial market conditions can affect the value of investments adversely through the cost or availability of capital.

Regulatory risk: The value of investments in the sector may be affected adversely by changes in government policies relating to the conditions under which mine developments are permitted, including the need for more stringent environmental controls, higher taxation or royalty rates or requirements for local equity participation.

Small companies risk: Small or early stage companies generally have less diversified income streams, less stable funding sources and weaker bargaining positions with their counterparties than larger companies. The securities of small companies may also be less liquid than those of larger companies making the purchase or sale of securities more difficult or costly to complete, possibly with an adverse impact on portfolio performance.

How does PortfolioDirect rate a Phase I company?

Phase I companies have yet to confirm a commercially viable development. The **PortfolioDirect** rating system scores Phase I companies on the potential to confirm a commercially viable development within two to three years. A company still seeking to define a resource will be assessed on how its exploration or development properties, as well as the company as a whole, measure up against 10 individual criteria.

1. Consistency with recognised deposit types.
2. Proximity to other discoveries.
3. Adequacy of funding to complete a critical program of drilling or analysis.
4. The track records of key executives driving exploration programs on behalf of the company.
5. The company's possession of unique or innovative insights leading to reinterpretation of previous geological assessments.
6. A strong focus on a specific geographic region.
7. The likelihood of a market surprise arising from a change in view about the quality of a potential mineral resource.
8. The likelihood of a market surprise arising from a change in view about the size of a potential mineral deposit.
9. The potential to resolve outstanding technical parameters within a reasonable investment horizon.
10. Whether the company's share price has already been re-rated by the share market.

A Guide to the PortfolioDirect Rating Report

Each **PortfolioDirect** company rating report addresses questions affecting business outcomes and potential investment standing under five separate headings.

Primary Development Assets

- What are the most important geological or operational attributes of the company?
- Where are the assets located and what is the availability of local infrastructure?
- What potential impact does location have on business outcomes?
- How was ownership achieved - corporate exploration, acquisition or farm-in - and what obligations remain to the vendors or partners?
- Do historical outcomes on or near these exploration properties say anything about likely mineral characteristics on the company's own assets?
- Are there identifiable technical issues that need addressing before further work can be completed?

Regulatory Standing

- What approvals have been received?
- What additional approvals will be necessary to meet business goals?
- Has the company been in breach of any regulatory requirements at this site or elsewhere on any previous occasion?
- Can the company show a commitment to environmental and social needs?

Project Potential

- What scale of development is anticipated or, if judgements about this cannot be made presently, what must happen before such a judgement can be made?
- What operational or market constraints might affect the project potential?
- What is the likely range of project capital needs in the event of development?

Capacity to Meet Targets

- What skills does the company currently have available?
- What additional or alternative skills will be needed for the next stage of activities?
- How does the track record of the existing management impact current judgements about the capacity of the company to meet its targets?
- What financial resources are currently available? Are they adequate for the targets being set?
- Are there unresolved technical, financial or regulatory matters that could impact the achievement of business targets?

Rating Discussion

- Into which development phase has the company been classified?
- What are the key criteria against which the company is being benchmarked?
- How does the company stand against the rating criteria for a company at this stage of development?
- Are there criteria which have been more or less important in coming to a rating decision?
- Are there matters which might affect the rating in the future?
- Are there any special attributes displayed by the company that might impact on its role in a portfolio?
- How have historic investment returns affected judgements about current and future market risk?

Company Rating Update

Peel Mining Ltd (PEX:AU)

NR 1 1+ 2 2+ 3 3+ **4** 4+ 5

Recent Events

What has happened to cause a review of the company's PortfolioDirect rating?

The company has completed the next stage of exploration activities foreshadowed in the earlier **PortfolioDirect** rating review.

The company has reported initial results after drill testing geophysical and geochemical anomalies at its Wirlong prospect in New South Wales (ASX 11 March 2015). Drilling was aimed at testing the depth expression of an extensive geochemical anomaly as well as defined geophysical targets from an earlier airborne magnetic survey. The program intersected base metal mineralised zones including 4 metres at 3.04% Cu and 12 g/t Ag from 196 metres depth (WLRC 005, down hole thickness) and 2 metres at 2.99% Cu, 1.08 g/t Au and 16 g/t Ag from a deeper target in hole (WLRC 006, down hole thickness) but neither hole penetrated the targeted geophysical anomaly.

An exploration hole (with a diamond tail) on the Sandy Creek prospect 20km north of the Mallee Bull discovery directed at a geophysical anomaly intersected massive sulphide mineralisation in fractured and altered rocks at a vertical depth of 490 metres.

A high resolution Orion 3D DC/IP and MT survey carried out over a 5 square kilometre area covering the Mallee Bull prospect and surrounding leads resulted in identification of a large base metal in soil anomaly coincident with a gravity anomaly at "the Crucible" northwest of Mallee Bull.

What's Different?

How do recent events differ from prior expectations about what will drive company investment returns?

There was nothing in the results to change earlier views about the source of future company investment returns.

A geological system of the type with which the company is working can be extensive at depth but hard to define owing to a relatively small surface expression and pipe-like geometry. The greater prospect area also has various data sets which are incomplete and cannot be related to a broader geological target. The high resolution Orion 3D DC/IP and MT survey is an attempt to resolve these issues before the next stage of exploration work in the vicinity of Mallee Bull. Somewhat inconclusive drilling results at Wirlong have extended the opportunity costs being incurred by current shareholders.

Rating Impact

What have been the key influences on a rating change?

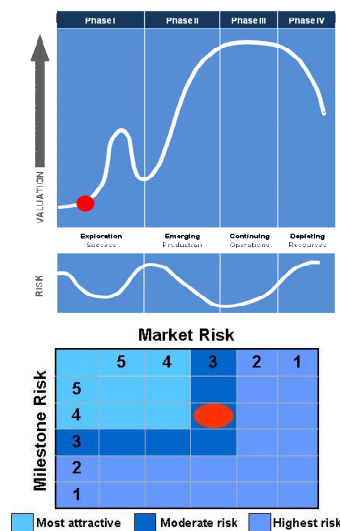
There has been no change to the **PortfolioDirect** rating which will remain subject to ongoing exploration progress. The key positive influences on the rating are a prospective regional location, strong leads for future drilling and analysis and, by the current standards of the industry, a relatively secure financial position enabling the necessary work to be undertaken.

Investment Consequences

What is the impact of recent events on the investment prospects of the company and how investors should react?

After strong share price rises and in the absence of quick follow-up exploration results to confirm project viability, stock returns in this market sector are highly likely to decline. While the knowledge base is being steadily improved, a rejuvenated shareholder base willing to look at the exploration potential afresh and, with that, an unexpectedly solid exploration outcome may be necessary to improve investment outcomes.

Results confirming the commercial viability of the company's prospects may require accumulation of data over a prolonged period rather than a single unexpected drilling result. However, the key attributes of the area in which the company is working suggest that it could be retained in an investment portfolio as one of a selection of geographically diverse exploration opportunities. ■



Company Rating Review

Peel Mining Limited (PEX)

Development Stage: Phase I

Selection Criteria: Corporate subscriber initiated

Rating:  4

Recent Company Events

- The company reported a maiden resource for the Mallee Bull prospect in May with a high grade copper sulphide resource of 3.92Mt.
- Metallurgical test results for Mallee Bull indicated a high quality feed for a conventional processing route.
- In September, the company announced new funding initiatives totalling \$7.2M from a New South Wales exploration grant and a farm-in agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC).

Primary Development Assets

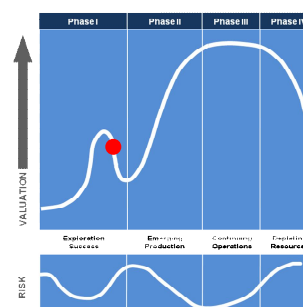
Mallee Bull copper project, Central New South Wales, (Peel Mining 50%, CBH Resources 50%)

The Mallee Bull discovery is located within the Gilgunnia project area consisting of two granted leases located 100km south of Cobar in central New South Wales with access via a sealed road. The tenement package covers the historic gold and base metal workings at May Day and sits adjacent to the historic 4-mile goldfield. Both historic workings were modest in scale.

The project sits within a broader sequence of Silurian-Devonian age Cobar-Mount Hope rocks consisting of various sediments and volcanic units. The northern Cobar region consists of predominantly sedimentary units with tuffaceous units, while the southern Mount Hope region consists of predominantly felsic volcanic rocks. The immediate Mallee Bull area is interpreted to be located in an area of overlay between these two geological domains.

In late 2010, an airborne electromagnetic geophysical survey was flown over the May Day and Butchers Dog areas following up a relatively large magnetic anomaly immediately north of the 4-mile goldfield. The Mallee Bull system was recognised in January 2011 noting coincident strong electromagnetic and magnetic anomalies. Drill testing of the anomaly over July and August 2011 intersected a massive and a stringer breccia zone with strong copper and precious metal values leading the company to announce in August a "new Cobar-style" copper discovery (ASX 2 August 2011). Further drilling confirmed this initial interpretation (ASX 11 January 2012, 15 March 2012).

There have been three drill programs to date. The first program tested mineralisation to a vertical depth of 300m. The second program, to November 2012, tested mineralisation below 400m with the deepest intersection at 600m. The third program focused on lateral extensions of the mineralisation as well as infill evaluation.



Statistical Risk Measures

Deviation from	
• 15 week moving average	-17%
• 25 week moving average	-32%
• 50 week moving average	-54%
Historical return ranking (1-100)	
• 2011-June 2013	1
• Since 1 July 2013	97
Return volatility¹	2.5X
Liquidity²	23%

1. Relative to sector median
2. Turnover for 12 months as % of current shares



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The discovery sits within a sequence of volcanoclastic turbidities of the Silurian-Devonian Cobar Superbasin with sulphide mineralisation located within the "nose" of a tight anticlinal fold. The sections through the discovery show a steeply dipping mineralised zone predominantly of brecciated and stringer material with some sections of massive sulphide material that may be fragments within breccia. The mineralisation sits in a zone between two different rock types with each having different physical properties. A sequence of deepwater sediments occurs on the footwall and a package of volcanoclastics (the Four Mile volcanics) sits above the mineralised zone which is defined with strong chlorite alteration. The strong structural association gives confidence to exploration targets immediately south of the discovery.

The company uses the underground C.S.A. copper-lead-zinc mine at Cobar as an analogy to the geology seen at Mallee Bull. The similarities are numerous including a common age, a common setting within a package of Cobar Super basin sediments, the near-vertical shoot-like geometry of the deposit (with sub-parallel copper and zinc-lead lenses) and a strong structural association. The structural association at C.S.A. mine was described in 1990 with a description of deformed bedding, shearing and cleavage within chloritic sediments (Scott A.K and Phillips K.G, C.S.A copper lead zinc deposit Cobar, Geology of Mineral Deposits of Australia and Papua New Guinea, AusIMM Monograph 14, 1990). This analogy appears to be well founded on the observed geology.

In May, the company and its joint venture partner reported a maiden resource at Mallee Bull defining a high grade copper-silver-gold deposit containing 90,000t of copper and 4Moz of contained silver. The resource estimate drew on a database of 79 RAB holes, 19 RC holes and 51 pre-collared diamond drill holes that had been drilled by Peel since 2011 for a total of 32,655 metres. The mineralisation dips at 75 degrees to the west. The resource estimation divided the deposit into a central mineralised domain, a hanging wall domain and a footwall mineralised domain with upper and lower components. (ASX 27 May 2014). Consistent with the Cobar system analogy, the deposit has a fairly restricted lateral geometry with a very elongated depth extension.

The resource was estimated using a 1% copper equivalent cut off grade. The equivalent grade calculation employed recovery factors of 85% for the copper, 90% for silver and 66% for gold. Estimations were provided for other cut off grades (up to 1.8% Cu equivalent) as well as no cut off grade which was very close to the figure presented below and attests to the strong geological boundaries of the high grade material.

The estimation used upper cuts for grades. For the key Central domain, copper grades were cut to 4.5% and cut grades of 5% and 10% copper were applied to the two Footwall domains.

Dimensions of mineralised domains

	Strike	Vertical extent	true width
Hanging wall domain	240 m	375 metres	1- over 10m av. 4.3 m
Central Mineralised domain	100m N-S	130 metres	1 -6 metres av. 2.9 m
Foot wall domain	270 m	690 metres	1- over 10m av. 6.4 m

Mallee Bull Resource, May 2014

Cut off grade 1% Cu equivalent

Measured Resource	-			
Indicated Resource	0.62 Mt	1.73 % Cu	29 g/t Ag	0.54 g/t Au
Inferred Resource	3.30 Mt	2.40 % Cu	32 g/t Ag	0.30 g/t Au
Total	3.92 Mt	2.3 % Cu	32 g/t Ag	0.3 g/t Au

The company reported results of metallurgical test work from high grade samples in the June quarter. The resource estimate referred to first pass work undertaken by Peel Mining in 2013 and 2014 which indicate copper recoveries of 95% and silver and gold recoveries of 90% and 60%, respectively. Recent testing of very high grade sulphide material suggested a recovery of 88% to a copper concentrate grading 24.7%. Testing of high grade stringer sulphide material indicated copper recovery of 94.2% to a 30.2% copper concentrate.

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Both tests used the same flotation reagents. The massive sulphide material had been found to be more problematic than the other ore types due to the relative fine grain size of the material and a high content of non-mineralised sulphides (pyrite, pyrrhotite, ASX 31 October 2013). This result reflects these attributes but also highlights that, with additional regrind capacity, it can be accommodated within a processing campaign with other parts of the deposit.

The company is evaluating the possibility of introducing a pre-concentration stage to the flow sheet aimed at upgrading the mill feed through the rejection of less dense non-sulphide material primarily located between and on the margins of the mineralised domains. This could see a much smaller milling configuration and/or the potential to employ a more bulk-scale underground extraction method.

Butchers Dog prospect, Central New South Wales, (Peel Mining 50%, CBH Resources 50%)

The Butchers Dog prospect is defined by strong geophysical anomalies located approximately 1km north of the Mallee Bull deposit. The prospect is within the CBH Resources joint venture.

In October 2013, the company refined the parameters of the target which had been initially defined on magnetic surveys over the area. The company had drilled a single hole which intersected a broad zone of chlorite alteration with minor sulphides (ASX 11 October 2013). A down-hole geophysical log identified an off-hole conductor. Since the drilling of the Butchers Well prospect, the company has undertaken another type of geophysical survey (a magnetotelluric survey) which shows the Mallee Bull mineralisation (in some way confirming its applicability to this type of deposit) but encouragingly showing a new target only 500m north of Mallee Bull between Mallee Bull and Butchers Well. This target was tested in October (with holes MBDD013 MBDD014) but the results were disappointing with only minor sulphide encountered associated with chlorite and silica alteration.

The Butchers Well area and the Butchers Dog prospect remain key targets for the company. In a presentation in early 2014, the company noted the anomalous geochemistry of the chloritic alteration zone encountered in hole BDDD001 and noted the sulphides may represent a disseminated pyrrhotite alteration envelope of a richer accumulation (ASX 21 February 2014). This was in addition to a strong down-hole EM conductor that was reported, being approximately twice the intensity of Mallee Bull. In March, a second hole was drilled to test this conductor and, in the June quarter, the company reported that hole BDDD002 intersected a broad zone of disseminated and fracture fill pyrrhotite at a down hole depth of 930 metres. The hole was drilled to a depth of 1,086.5 metres but no significant grades were reported. As with the initial hole, the observed geology was interpreted to potentially reflect the margins of a Cobar style system. A down hole survey confirmed that the main electromagnetic target had been intersected in the broad pyrrhotite alteration zone which dips shallowly to the southwest.

Subsequent analysis of the prospect has found that the down hole electromagnetic anomalies that had been drill tested are not the same geophysical feature as the main Butchers Dog magnetic anomaly. This would imply that the primary geophysical target remains untested. In the June quarter, the company noted that the geophysical data of the prospect was subject to further analysis in light of the results of hole BDDD002. The shallow dip of the intersected pyrrhotite zone is at odds with the observed magnetic anomaly and what would be expected for a Cobar style mineralised system.

Cobar Superbasin Project (Peel Mining 100% subject to JOGMEC earning up to 50% over five years)

Peel Mining holds a tenement package encompassing 14 granted EL covering 3,062 square kilometres. The tenement package grew with the acquisition of certain Cobar Basin tenements from listed entity OZ Minerals which included EL 7519, located immediately south of Mallee Bull, and a number of exploration licence applications to the northwest (ELA 4562, 4574, 4575 and 4576). These northwest tenements are to the immediate east of the stalled Wonawinta silver project of formerly listed Cobar Consolidated.

In 2013, the company moved quickly to evaluate the tenement and completed a helicopter-borne electromagnetic survey over EL 7519 which identified a number of magnetic anomalies. A

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program of detailed geochemical sampling has since been undertaken over two northeast trending zones (2013 Annual Report, ASX 31 October 2013). The broad Greater Cobar Super basin tenements include prospects at Sandy Creek, Wirlong/Red Shaft and Mundoe.

Sandy Creek prospect

The Sandy Creek prospect is located 20km north of the Mallee Bull discovery. The company took an option over this tenement in May 2013 (ASX 21 May 2013) and secured ownership with the drilling of a single evaluation hole. The tenement was acquired from a private vendor for \$775,000 with payment in stock and cash (up to 50%).

The prospect shares distinct geological similarities to Mallee Bull in being on the eastern margin of a major package of magnetic rocks and potentially on a common north-trending regional structure. The area was covered in the helicopter-borne electromagnetic survey applied to other tenements which showed a distinct anomaly that was untested by previous exploration work. In the September quarter of 2013, the company described the results of the single exploration diamond hole (PSC DD001) reporting wide zones of pyrrhotite (25m down-hole disseminated from 237m, 9m variable sulphides) and a 4m thick zone of lead dominated sulphide mineralisation from 493 metres down hole. The lead-rich zone graded 9.63% Pb, 1.1% Zn and 48 g/t Ag.

In the June quarter, the company detailed the results of an ongoing campaign of geochemical sampling of the prospect which has defined a strong north south arsenic anomaly and mineralised float and outcrop in the area. A strong lead anomaly has been defined in the southwest portion of the prospect with drill testing expected in coming months.

Wirlong prospect

The Wirlong prospect is located to the northeast of Sandy Creek within an interpreted wedge of deformed Shuttleton Formation felsic volcanics within basin sediments. The prospect is a new target for the company reporting in the June quarter a large zone of sericitic alteration parallel with a 450 metre long north-trending lead soil anomaly (ASX 30 July 2014). The area has historic small scale base metal workings. The company has undertaken a program of rock chip sampling of the volcanoclastic rocks reporting anomalous base metals. A RAB drill program is being planned to test the lead anomaly and a deeper IP anomaly located to the northwest of the historic workings. The company is evaluating a potential volcanogenic sulphide system.

Mundoe

The Mundoe tenement is located 50km south of Mallee Bull and 90km west of the town of Condoblin and covers 300 square kilometres of target basin geology. Geological reinterpretation by Peel Mining has suggested that the target rocks are dipping in a different orientation to past interpretations offering some exploration potential.

The available information shows a series of fairly deep historic holes that may have been drilled under the exploration target (ASX 18 April 2012). Peel Mining undertook a program of 9 RC holes (for 1753m) in late 2012 to test its hypothesis. The results were supportive of the interpretation leading the company to be "highly encouraged" and plan further work (ASX 31 October 2013). The best results from the 2013 drill program were 13 metres at 0.76% Cu and 28 g/t Ag from 106m down-hole depth in hole MUR 003, with intervals approaching true thickness.

Regulatory Standing

The Cobar Basin projects (including Mallee Bull) are located on New South Wales exploration leases. The Mallee Bull tenement is held under a 50% joint venture with CBH Resources, a subsidiary of Toho Zinc. CBH Resources met its final funding commitments to Peel Mining to earn this position in 2014. The project sits on exploration licence EL 7461 which includes a modest size mining licence (ML 1361) over historical gold workings at May Day. In April 2012, the company purchased Wirchilleba Station the farm which covers the Mallee Bull project (ASX 18 April 2012).

Project Potential

The Mallee Bull deposit is currently subject to a scoping study by CBH Resources and Peel Mining. The result of this study is expected in September 2014. Any development would still require a program of infill drilling to lift the confidence of the resource to allow the definition of reserves for

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mine planning purposes and a more extensive program of ore characterisation and metallurgical test work.

Development plans for Mallee Bull remain at an early stage. There are a number of development alternatives available to treat this material beyond the establishment of a new ore processing facility at the Mallee Bull site. A number of permitted processing facilities occur in the region including the Endeavor Mine (formerly Pasminco Elura) which has spare capacity and is nearing the end of the life of the operation as underground resources are depleted. Endeavor Mine is owned by joint venture partner CBH Resources.

The Mallee Bull resource, while high grade, is relatively small and unlikely to support a stand alone mine development. The Hera mine of Aurelia Metals was developed off a similar scale resource but the precious metals content was higher. The underground Tritton copper mine located east of Cobar was built in 2005 with a proved and probable ore reserve of 8.94Mt at 2.86% Cu (Tritton Resources Target Statement in relation to bid by Straits Resources 13 July 2006). The Tritton mine resource inventory is a useful benchmark to assess what resource threshold would be needed to advance a development decision at Mallee Bull.

The company is currently scoping a number of development scenarios at Mallee Bull which may overcome the resource threshold and see the development of an underground mine with the sale of crushed and/or beneficiated material to regional processing facilities. The Mallee Bull material appears to have relatively simple metallurgical characteristics and grade to make the sale of ore a potential development option. The use of part of the Endeavor mill may represent a possible option with ore transport costs a major factor. Investors will need to wait for the outcomes of the scoping work to assess the likelihood of a development of this type.

Another option for Peel Mining and CBH Resources is to identify more resources to augment the existing resource base and lift it to the scale to allow the development of a stand alone copper mine. The exploration potential of the immediate Mallee Bull area could be consistent with this option not only from the down dip extension of known lenses but also from the near prospect targets (such as Butchers Dog) which have been partly tested revealing disseminated pyrrhotite alteration.

Unfortunately, the style of mineralisation sought by Peel Mining is often highly attenuated with a very modest "footprint" from surface. Such systems are difficult to locate and test although Peel Mining has demonstrated a capacity to do this adding weight to the possibility that additional systems could be found. The analogous and much larger CSA mine has been in production since 1960 and is a worthy exploration target. It has comparatively high grades with typically simple metallurgical characteristics offering the potential for a long life operation covering multiple commodity price cycles.

Cobar Superbasin prospects

The portfolio of Cobar Superbasin tenements and prospects have exploration potential. As with the Mallee Bull area, the prospects are both geologically complex and occur in areas of historically modest mining activity. The JOGMEC funding package which will allow active exploration programs on these prospects is an endorsement of the prospectivity of the properties.

The Sandy Creek prospect shows similarities to the Butchers Dog prospect located immediately north of Mallee Bull. Drill testing of the prospect has identified a thick zone of pyrrhotite alteration and the presence of base metals. Soil sampling has detected an elongate arsenic anomaly which has been seen as an indicator of structure. Drill testing of this structure (as contemplated for later in 2014) is consistent with an exploration model directed at the search for Cobar style systems.

The Wirlong prospect is a relatively new opportunity. The prospect has an extensive alteration profile with a coincident lead in soil anomaly which appears to be related to the alteration. The prospect is located in an isolated wedge of deformed volcanoclastics within a much more extensive sequence of basin sediments. The system may be a more lead rich variant of the Cobar style system or something different such as a volcanogenic style system.

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Capacity to Meet Targets

The management of the company has demonstrated a capacity to manage the acquisition and permitting of exploration tenements in New South Wales. Where this has been done with third parties, deals appear to have been well priced and sometimes better than transactions among other parties.

The company has shown it is able to carry out exploration activities leading to drill targets and defined resources although the resources at Mallee Bull remains predominantly in the lower confidence inferred category.

The ability to conduct well directed grass roots exploration is evident in the portfolio of Cobar Basin projects including Sandy Creek and Wirlong, each offering the potential of a meaningful exploration discovery.

Management has yet to demonstrate a capacity to complete the feasibility studies aimed at de-risking the financial and technical parameters of a project. A scoping study is due later in 2014 which should point set a development direction for Mallee Bull.

The company's experience relating to the exploration of massive sulphide systems in the Cobar Basin is augmented by the involvement of established base metal miner CBH Resources as a 50% joint venture partner at Mallee Bull. The CBH Resources funding has largely paid for a drill commitment at Mallee Bull as well as funding the two deep holes at the Butchers Dog prospect.

At the end June 2014, the company held \$3.11M cash. The company had projected expenses of \$0.991M to September 2014 with some \$0.735M relating to exploration and evaluation costs (ASX 30 July 2014). The company has a record of raising funds from the issue of new equity. In May 2013, the company raised \$5m with a placement of stock at 49c (ASX 28 May 2013). The company had previously raised \$1.9m at 31.5c in January 2013.

On 22 September, Peel Mining announced that it had been granted \$193,500 in co-funding from the New South Wales Government through its New Frontiers Co-operative Drilling program. This is a dollar-for-dollar funding initiative to encourage innovative exploration and drill testing of prospective but under-explored parts of the state (ASX 22 September 2014). The grant was specifically awarded to the Mundoe, Sandy Creek and Orana prospects.

At the end of September, the company reported that it had entered a Memorandum of Agreement (subject to approval from the Foreign Investment Review Board) with Japan Oil, Gas and Metals National Corporation under which JOGMEC could earn up to a 50% project interest in a portfolio of exploration tenements that comprise the Cobar Superbasin project. Peel Mining will remain the operator of the tenements. The agreement requires a minimum exploration expenditure of \$0.5M and \$4M in funding over an initial three year period to earn a 40% interest. An additional 10% interest can be earned through spending a further \$3M over two subsequent years (ASX 30 September 2014). The funding commitment will underwrite a quality exploration program on these properties.












Rating Discussion

PortfolioDirect has classified Peel Mining as a Phase I company. The **PortfolioDirect** rating system scores companies on the potential to confirm a commercially viable development within a timeframe acceptable to investment markets. A company still seeking to define a resource and whose investment potential relies primarily on exploration success will be assessed against the criteria summarised in the table below.

Peel Mining was among the five companies with the highest investment returns in the sector during the cyclical downturn which commenced in early 2011. During that time, the share price rose more than sevenfold (between July 2012 and April 2013) before losing virtually all those gains and returning to prices which had prevailed prior to the rise. Since the cyclical trough in sector values at the end of June 2013, Peel Mining investment returns have been among the lowest 5% of those available to investors in the sector.

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Phase I Rating Scorecard	
Milestone Risks	
Consistency with recognised deposit types.	
Proximity to other discoveries.	
Availability of funding to complete a critical program of drilling or analysis.	
The track records of key executives driving exploration programs on behalf of the company.	
The company's possession of unique or innovative insights leading to reinterpretation of previous geological assessments.	
A strong focus on a specific geographic region.	
The potential to resolve outstanding technical parameters within a reasonable investment horizon.	
Market Risks	
The likelihood of a market surprise arising from a change in view about the quality of a potential mineral resource or oilfield.	
The likelihood of a market surprise arising from a change in view about the size of a potential mineral deposit or oilfield.	
Whether the company's share price has already been re-rated by the share market.	
The likelihood of a near term capital raising	

This price pattern is not especially unusual. In the absence of quick follow-up confirming exploration results to demonstrate project viability, stock returns in this market sector display a high probability of reverting to the norm after strong share price rises.

Price patterns of the sort experienced by Peel Mining also often reflect the sometimes narrow base of investors following exploration companies with low market values. After an initial bout of buying in response to news, insufficient follow through from a replenished investor base may prevent higher prices being sustained.

Peel Mining is now in a no-mans-land in terms of its market position. The market risk is significantly lower but the likelihood of another strong response to exploration outcomes may have been reduced for the time being. A rejuvenated shareholder base willing to look at the exploration potential afresh and, with that, an unexpectedly solid exploration outcome may be the necessary remedies.

The company released a maiden resource statement in May 2014. As expected, the resource was of a modest size but of a relatively high grade. Meanwhile, the company has completed several steps toward a clearer understanding of the development opportunity at Mallee Bull. Test work specifically on the higher grade pyritic-pyrrhotitic massive sulphide ore showed it could be treated with the rest of the ore in a floatation circuit to produce high specification copper concentrate. There will be opportunities for project enhancement through delineation of shallower resources in the Mallee Bull or surrounding areas.

Whatever the eventual prospects for Mallee Bull, as time passes, the ability of this asset to help support above normal investment gains diminishes. The nature of the analytical work now required to demonstrate economic viability will also tend to take this prospect beyond a reasonable investment timeframe.

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The company is an active explorer with a proven track record of high quality work but significant exploration funding for prospects outside Mallee Bull has not been available. The JOGMEC involvement, with a potential spend of up to \$7M over five years, boosts the evaluation programs previously planned for the December quarter and beyond. The funding commitment will help overcome limitations that might have arisen in pursuing mineralisation at depth in these areas or in subsequently estimating resources.

The JOGMEC funding agreement eases the financial pressures that might have otherwise emerged albeit at the cost of a diluted tenement position. Market risks associated with near term capital raising efforts will also have been reduced although, at recent rates of cash usage, recourse to more equity appears necessary before the end of the first half of 2015 to ensure continuity of exploration and analytical efforts. ■

Abbreviations and Symbols

lb	pound	cif	cost, insurance and freight
oz	troy ounce	fob	free on board
Koz	1,000 troy ounces	fot	free on truck
Mlbs	million pounds	g/t	grams per tonne
kg	kilogram	ppm	parts per million
t	tonne	RC	reverse circulation
kt	1,000 tonnes	RAB	rotary air blast
Mt	1,000,000 tonnes	U ₃ O ₈	yellowcake (uranium)
Mtpa	million tonnes per annum	Fe/FeO	iron/iron ore
kL	kilolitre (1,000 litres)	SiO ₂	silica
ML	megalitre (one million litres)	Al ₂ O ₃	alumina
GL	gigalitre (one billion litres)	P	phosphorus
ha	hectare	TiO ₂	titanium dioxide
m	metre	ZrO ₂	zirconium dioxide
m ³	cubic metre	LOI	loss on ignition
km	kilometre	mg/l	milligrams per litre
A\$	Australian dollar	Mj/kg	mega joules per kilogram
\$M	million dollars	EBITDA	earnings before interest, tax, depreciation & amortisation
US\$	United States dollar	EBIT	earnings before interest & tax
MG/GW	megawatt/gigawatt	ROM	run of mine
ct	carat	LOM	life of mine
bbl	barrel	MOU	memorandum of understanding
mbd	million barrels a day	VTEM	Versatile Time Domain Electromagnetic
MBOE	million barrels of oil equivalent		


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