



Stavely Minerals Ltd.

Ticker: ASX: SVY Share price: A\$0.67 Market cap: A\$143.8m Cash: A\$13.8m (31/3/2020)

Debt: Nil

Enterprise Value: A\$130.0m Shares Outstanding: 214m Executive Chair & MD: C. Cairns Technical Director: J. Murphy

NED: P. Ironside NED: A. Sparks



Prices as of the close of business 20 July 2020

Contact details:

Roger Breuer (Analyst) +44 (0)20 7389 5010 rbreuer@agam.co.uk

Charlie Cannon-Brookes +44 (0)20 7389 5017 cbrookes@agam.co.uk

Simon Catt +44 (0)20 7389 5018 scatt@agam.co.uk

Richard Lockwood +44 (0)20 7389 5013 rlockwood@agam.co.uk

Stavely Minerals Ltd.

High-Impact, High-Grade Copper in Australia.

Stavely Minerals' are serious mineral explorers, led by an impressive geologist, Chris Cairns. The company are exploring for Tier-1 copper deposits in Australia, arguably the best mining jurisdiction in the world.

In September 2019, Stavely made a high-grade copper discovery when hole 50 intersected 32m at 5.9% copper, 1.0 g/t gold and 58.0 g/t silver from only 62m downhole. The intersection included 2m at 40.0% copper, 3.0 g/t gold and 517.0 g/t silver. The drill core pictured below is from 85m downhole.



The Cayley Lode, as it's now known, is being drilled over 1km of strike and to a depth of 200m. The strategy is to define an economic open-pit project first. An end-of-year maiden resource of 15Mt at 1.3% copper and 0.3 g/t Au seems highly achievable, with further upside to come. Our simplified-NPV calculations suggest a 20Mt resource at similar grades would back-stop the company's current market capitalisation. **This is important for investors, since the upside potential from exploration below 200m would effectively come for free.**

Hole 50 validated a theory that mineralisation showed a remarkable similarity to the copper-lode-style ore found at the Magma Mine in Arizona, where structurally-controlled copper-gold lodes are found at shallower depths. It was a huge break-through. After all, the Magma Copper Mine was in operation for 71 years and sits above the giant Resolution porphyry (BHP/Rio). The Stavely Project is a strongly oxidised system with low pH fluids, and is carrying a lot of metal. The exploration potential is enormous. Recently released seismic data has identified **two potential porphyry targets** sitting at depth, that the company plan to drill early next year. Stavely have a proven-management team that own 30% of the shares. According to Chris Cairns, 'While there are never any guarantees in exploration. This represents the most compelling discovery opportunity I have seen in my career.' The Stavely team are hunting for Cadia Ridgeway – Mark 2.

Prepared by Arlington Group Asset Management Limited 47/48 Piccadilly, London, W1J 0DT See important disclosures at end of this report

The Northparkes mine is located in New South Wales, Australia and commenced open-pit operations in 1994. Block-caving started in 1997.

Stavely Minerals' Thursday's Gossan prospect has interested mining companies and geologists for decades. In the early 1990's the project was held by North Limited who were looking to repeat the success of their Northparkes copper-gold porphyry discovery. After drilling a few holes with modest grade copper-gold intercepts, they dropped the property in the mid-1990's. Since then, the tenement has been subject to earn-in and JV agreements with Newcrest, CRA Australia (now part of Rio Tinto) and Beaconsfield Gold. The promising signs were there but no-one had made a break-through.

In 2013, Chris Cairns and his team had parachuted out of Integra Mining, after selling the company to Silver Lake for A\$426m, and were looking for new projects. By May 2013, their new vehicle, Stavely Minerals had completed the purchase of the Stavely and Ararat projects from BCD Resources.

Chris Cairns had examined drill core at the Stavely Project and believed that the acidic alteration in the core suggested the top of a large system, and that a porphyry potentially lay preserved at depth.





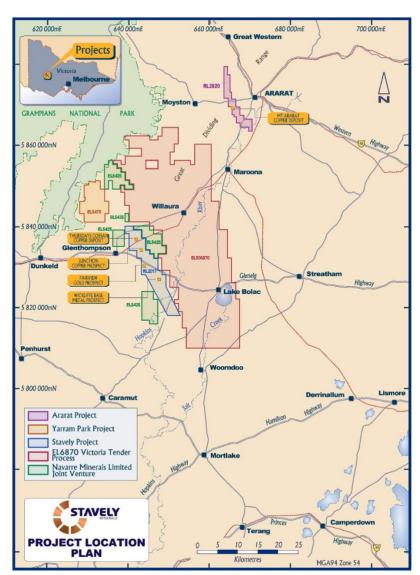
Source: Stavely Minerals 2019 Presentation.

The Stavely Project:

Stavely Minerals now controls 1,461 square-kilometres of ground in Victoria, with multiple prospects. However, the two cornerstone assets are the 100%-owned Stavely Project (blue outline in figure on following page) and the 100%-owned Mt Ararat Copper Project (purple outline in figure on following page).

The Stavely Project includes; Thursday's Gossan Deposit, Junction Copper Prospect, Fairview Gold Prospect & the Wickliffe Base Metal Prospect.

Stavely Project Location Map



Source: 14 July 2020 Stavely Minerals ASX release.

When Stavely acquired the Stavely Project, the Thursday's Gossan prospect already had an Inferred JORC resource of 28.1 million tonnes at 0.4% copper. The resource covered a chalcocite-enriched blanket occurring 30 to 80 metres below surface and was based on 225 shallow holes.

Thursday's Gossan Chalcocite Copper August 2013 Inferred Resource (JORC 2012 Edition)											
Lower Cu Cut (%)	Tonnes (Mt)	Copper Grade (%)	Contained Copper (Kt)								
0.2	28.1	0.4	106.9								
0.3	16.7	0.5	78.6								
0.5	3.9	0.8	30.3								

Source: Stavely's 2014 Prospectus

The majority of exploration since 2014 has focused on Thursday's Gossan, targeting a Tier-1 coppergold porphyry.

Stavely, however, were interested in drilling deeper. Drilling at the Thursday's Gossan prospect began in 2014 with assays from the first hole, SMD001, announced 24 August 2014.

Broad intervals of low-grade copper mineralisation (82m at 0.12% Cu, 46m at 0.19% Cu and 28m at 0.15% Cu) were encountered in the first hole supporting the thesis that SMD001 had 'intersected the edge of, or drilled over the top of, a large porphyry copper system.'

Notably, at 293m depth in hole SMD001, Stavely geologists identified a biotite (potassic) altered xenolith. A xenolith is a type of rock that is not from its surrounding environment and has been 'introduced from elsewhere'. The word literally means 'foreign rock'. Stavely described the xenolith as a 'rock fragment ripped up from depth by an intrusive dyke' and suggested that 'a target zone of better developed copper-gold mineralisation remains at depth beneath SMD001.'

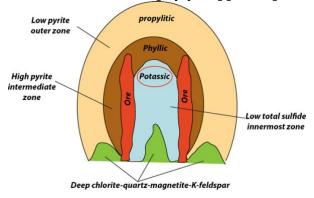
Hole 1 (SMD001): Biotite (Potassic) Altered Xenolith Encountered at 293m depth.



Source: Stavely Minerals, 28 August 2014.

So, why is this potassic-altered xenolith important? If we consider the alteration zoning of a copper porphyry (see image below), the heart of the deposit is a potassic-altered region that often contains biotite. By implication, the potassic-section of a nearby porphyry could be the original source of the xenolith, before a powerful geological event displaced the rock to its current environment.

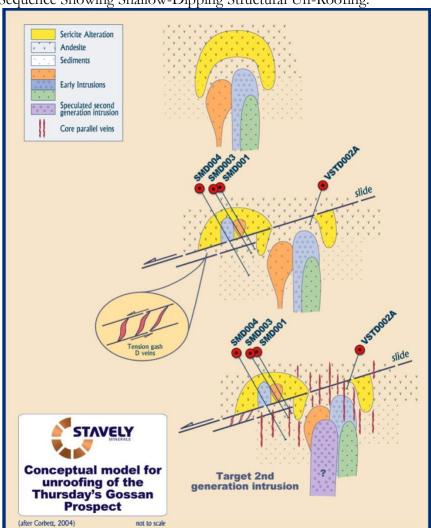
Cross Section of a Porphyry Copper Deposit (Lowell & Guilbert)



'Mother nature has had 500 million years to move the furniture around downstairs.' C. Cairns Using the knowledge gained from the first drill holes, Stavely set about trying to locate the Porphyry at depth.

By January 2015, they concluded that a shallow dipping fault structure had displaced the geology of the deposit.

Sequence Showing Shallow-Dipping Structural Un-Roofing:

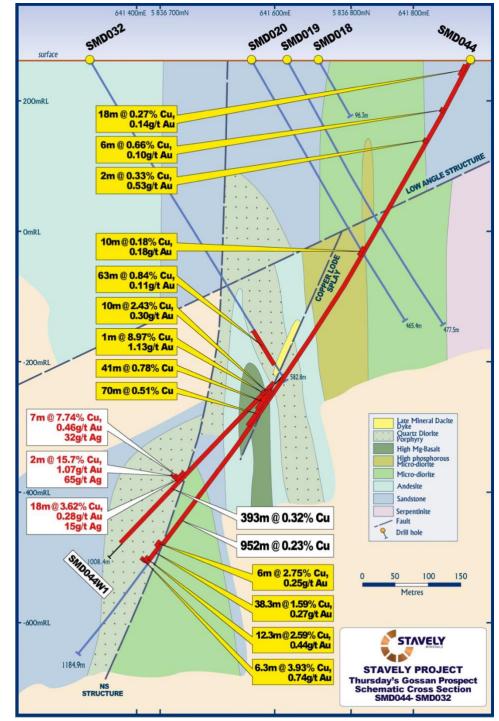


Source: Stavely Minerals' ASX Release 27 January 2015.

Chris Cairns commented at the time that they, 'were also the first to recognise the influence of a major shallow-dipping fault at depth. This may go some way to explaining the lack of success of previous explorers.'

Evidence of a porphyry nearby?

Locating the porphyry proved elusive over subsequent years but progress was made with hole SMD044 in 2019. The hole intersected 952m at 0.23% copper, not only reflecting a very large system but analysis of the core towards the bottom of the hole suggested 'cooling hydrothermal fluid in a near porphyry setting.'



Hole 44 - SMD 044 Cross Section:

Source: Stavely Minerals' 23 April 2019 ASX Release.

A technical report titled 'Comments on the Significance of Diamond Drill Hole SMD044 at the Stavely Porphyry Cu-Au Project, Western Victoria, Australia.' by world-renowned consultant geologist Greg Corbett was released in February 2019.

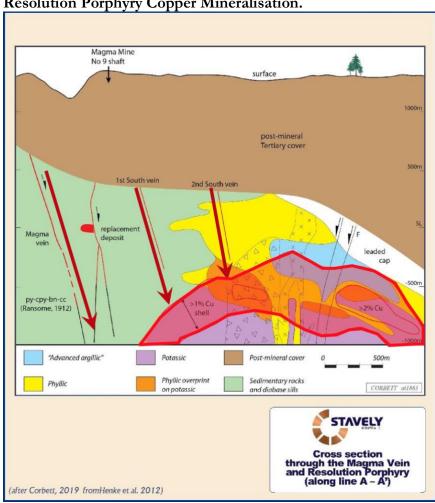
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Bornite and Chalcocite are high-order copper minerals. Chalcocite molecules contain approximately 80% copper by weight. Bornite molecules contain approximately 64% copper by weight.

The report stated that;

'Significant bornite-chalcocite mineralisation has recently been intercepted from 890-928.3 meters by diamond drill hole SMD044 (38.3m at 1.59% Cu, 0.27g/t Au and 8g/t Ag) meters at Thursdays Gossan, in the northern portion of the much larger Victor zoned hydrothermal alteration. This drill intercept is hosted within the major NS trending steep west dipping Thursdays Gossan Fault which has been traced laterally with drill intercepts for some 750 metres and remains open to the south. The copper mineralisation overprints earlier pyrite D veins, which are well developed throughout the recent Thursdays Gossan drill core, with a para-genetic sequence of chalcopyrite -> bornite -> chalcocite -> tennantite-tetrahedrite, typical for fluid evolution of a cooling magmatic hydrothermal fluid. The Magma vein adjacent to the Resolution Porphyry Cu, Arizona, is described (Ransome, 1912) with a similar pyrite-> chalcopyrite -> bornite -> chalcocite paragenetic sequence.'

Relationship Between Magma Mine Copper Lodes and the Resolution Porphyry Copper Mineralisation.



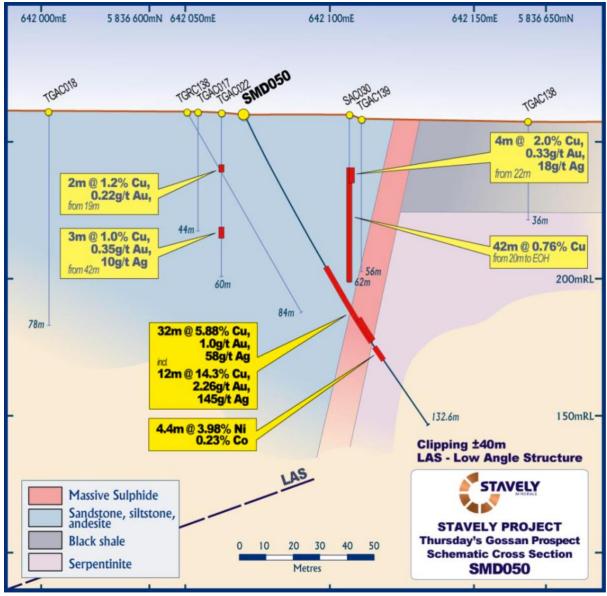
Source: Stavely Minerals' ASX release 12 March 2019.

Chris Cairns commented in March 2019, 'The analogy being applied is the relationship between Magma Copper Mine's structurally-controlled copper-lodes and the Resolution porphyry (1.8Bt at 1.53% copper – Rio Tinto, 2018), considered to be the source of the mineralising fluids being drawn away from the porphyry and migrating within dilatant structures. This copper-lode style of mineralisation is more proximal to the porphyry source than would be high sulphidation-style copper-gold mineralisation and provides very significant encouragement that the source porphyry is not far away.'

Hole 44 led to a decision to drill a shallow, structurally-controlled target along a steeply-dipping Ultramafic Contact Fault. This strategy effectively targeted similar, structurally-controlled Magma Copper Mine lode veins found at shallower depths to the Resolution porphyry in Arizona.

Hole 50:

SMD 050 Drill Section:



Source: Stavely Minerals' ASX release 26 September 2019.

The strategy was a resounding success, proving that Stavely were on the right track with the geological model. The hole intersected 32m at 5.88% copper, 1.0 g/t gold and 58 g/t silver from 62m downhole. Interestingly, after the copper-gold-silver mineralisation, an intersection of 4.4m at 3.98% nickel and 0.23% cobalt was also intersected, **suggesting a heavily-mineralised system**.

By June 2019, the intercept in hole 85 had extended the mineralisation of the shallow copper-gold lode, now named the Cayley Lode, to **over 1.5km of strike**, remaining open along strike in both directions and down-dip.

Thursday's Gossan Drill Collar Location Plan:

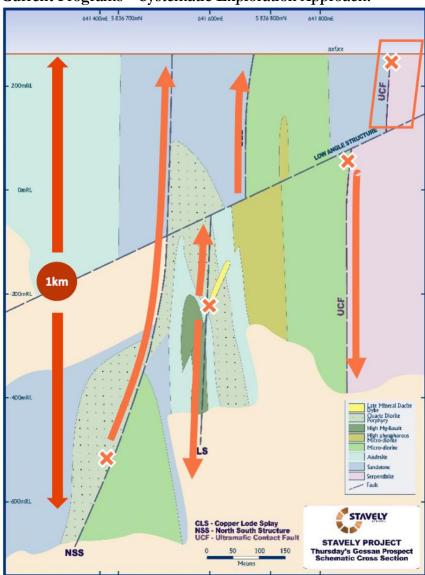


Source: Stavely Minerals' ASX Release, 15 June 2020

It took 71 years of operation to mine the structurally controlled copper-gold lodes at the Magma Copper Mine in Arizona. Stavely are taking a **systematic exploration approach**. First, they are drilling out the Cayley Lode over 1km of strike where the deposit sits within 200m of surface. This is to delineate an economic, open-pit project which can provide a path to cashflow.

What's exciting, is that this appears to be the tip of the iceberg. The current drilling is taking place on the structure within the orange box in the figure below. However, mineralisation has been found on the other structures shown. Ie. the Ultramafic Contact Fault (UCF) below the Low Angle Structure, the Copper Lode Splay (CLS) the North South Structure (NSS). This is a cross section and doesn't show the strike potential. And these are only the structures known so far.

Current Programs – Systematic Exploration Approach:



Source: Stavely Minerals' June 2020 Presentation.

Exploration Potential:

In our opinion, the exploration potential is excellent.

As mentioned, three structures containing lode-style mineralisation are known, and it is likely that others will be found by following up on aeromagnetic data, structural analysis and geochemistry, and consideration of known drill intercepts at depth. Each lode could potentially contain 15Mt of high-grade mineralisation to a depth of 500m below surface and another 15Mt from 500m to 1,000m below surface, based on conservative estimates of 750m strike length and 15m widths. If the analogy with the Magma deposit is valid, strike lengths could be considerably more than this.

In summary, lode-style resources of at least 50Mt could be ultimately outlined to a depth of 500m and another 50Mt to 1000m. Note that there are a few deeper intercepts in the Cayley Lode, for example;

SMD085: 23.0m at 1.1% Cu, 0.1 g/t Au from 339m and 4m at 4.4% Cu, 0.3 g/t Au, 7.9 g/t Ag from 357m.

SMD088: with 15.6m at 1.3% Cu, 0.2g/t Au, 5.0g/t Ag from 342m.

SMD089: 9.7m at 3.1% Cu, 1.0g/t Au, 26g/t Ag.

If strike lengths are doubled then the potential tonnage could also double.

Analysis of the copper sulphide zones shows the presence of bornite and enargite mineralisation in deeper drill holes, suggesting that copper and gold grades may increase with depth.

Extract from The Story of the Magma Mine: Between 1910 and 1951, 8.8m tons of ore were recovered. The ore averaged 5.5% Copper, 0.033 oz of gold and 2.2 oz of silver.

Stavely are using the Magma deposit as a geological analogy. The Magma Vein was an exceptionally high-grade copper-gold-silver vein that was mined from underground and directly linked to the Resolution porphyry deposit at depth. It appears that this analogy is valid and has been backed-up by some extremely thorough scientific work done by Stavely and its consultants. This work includes;

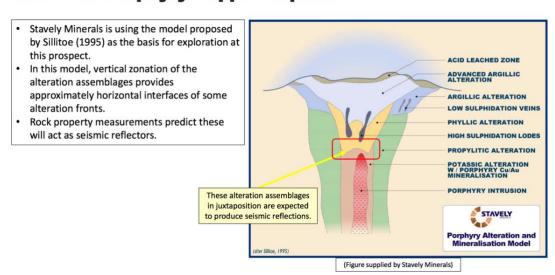
White mica infrared absorption work, light sulphur isotope studies, K and Sr geochemistry, spectral measurements, U-Pb geochronology, copper sulphide species distribution, alteration assemblage zonation analysis and petrology, whole rock lithogeochemistry and vein characteristics.

The discovery of a Porphyry would be a game-changer.

The Porphyry Potential:

Stavely have recently released the results of a HiSeis Pty seismic survey taken at the beginning of 2020. The survey showed 'good reflectivity throughout the seismic sections' and 'supports the mineralisation model adopted by Stavely Minerals.' The rock property measurements from drilling suggests that high reflectivity takes place at the top of the potassic zone in the alteration system This region is shown by the red rectangle in the slide below.

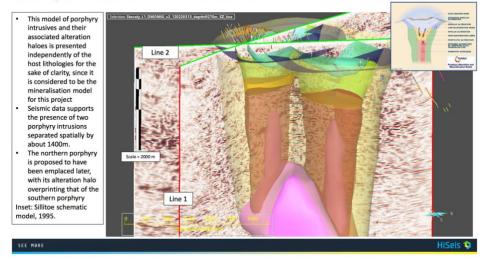
Idealised Porphyry Copper Deposit



Source: HiSeis Interpretation Report of Thursday's Gossan, 9 September 2020.

Crucially, 'seismic data supports the presence of two porphyries.'

Interpreted Alteration Surfaces



Source: HiSeis Report of Thursday's Gossan, dated 9 September 2020.

Stavely intend to drill two ~1,500m deep holes to test the reflectors defined in the seismic data. The holes are currently planned to begin in the New Year and will be drilled concurrently

Cayley Lode Open Pit Project Potential Economics:

Going back to the economics of the Cayley Lode open pit project. We've built a simplified, back-of-the-envelope NPV, as a sense check, that considers transporting whole-ore by rail for processing by a third party. After all, a rail line crosses the Stavely Project tenement, and could prove beneficial in reaching early cash flow.

The process of moving the rail line on the project boundary will likely take up to four years, and so we've considered a simplified NPV starting in four years' time.

Simple NPV Valuation Based on Third Party Toll Treatment of Direct Shipping Ore:

THE STAVELY PROJECT															
AUDUSD	0.7														
Copper	3.0														
Gold	1,800														
Silver	19.0														
Lbs per Tonne	2204.6														
Grams per ounce	31.10347														
Period (Annual)			-4	-3	-2	-1	1	2	3	4	5	6	7	8	9
0.00															
Ore	T (10-)						20.0	16.5	12.0	0.5		2.5	0.0	0.0	0.0
Beginning Inventory	Tonnes (Mln)						3.5	3.5	13.0 3.5	9.5 3.5	6.0 3.5	2.5 2.5	0.0	0.0	0.0
Mined	Tonnes (Mln)														
Ending Inventory	Tonnes (Mln)						16.5	13.0	9.5	6.0	2.5	0.0	0.0	0.0	0.0
Strip Ratio (Waste:Ore)	6														
Waste Rock Moved	Tonnes (Mln)						19.3	19.3	19.3	19.3	19.3	13.8	0.0	0.0	0.0
Total Rock Moved	Tonnes (Mln)						22.8	22.8	22.8	22.8	22.8	16.3	0.0	0.0	0.0
Copper Price	USD						3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Throughput	Tonnes (Mln)						3.5	3.5	3.5	3.5	3.5	2.5	0.0	0.0	0.0
Copper Grade	%							1.3%			1.3%		1.3%	1.3%	1.3%
Copper Recovery	%						88%	88%	88%	88%	88%	88%	88%	88%	88%
Contained Tonnes Copper	Tonnes (k)	1,000					45.5	45.5	45.5	45.5	45.5	32.5	0.0	0.0	0.0
Contained Lbs Copper	Lbs (Mln)	1,000									100.3		0.0	0.0	0.0
Recovered Lbs Copper	Lbs (Mln)						88.3	88.3	88.3	88.3	88.3	63.1	0.0	0.0	0.0
Recovered Lbs copper	Los (Min)						00.5	00.5	00.5	00.5	00.5	05.1	0.0	0.0	0.0
Gold Grade	g/t						0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Gold Recovery	%						50%	50%	50%	50%	50%	50%	50%	50%	50%
Recovered Gold Ounces	Ounces (k)						16.9	16.9	16.9	16.9	16.9	12.1	0.0	0.0	0.0
Silver Grade	g/t						15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Silver Recovery	%						50%	50%	50%	50%	50%	50%	50%	50%	50%
Recovered Silver Ounces	Ounces (Millions)						0.84	0.84	0.84	0.84	0.84	0.60	0.00	0.00	0.00
P	A.C. (A.E.)						264.0	264.0	264.0	264.0	264.0	100.2	0.0	0.0	0.0
Revenue Copper	A\$ (Mln)										264.8		0.0	0.0	0.0
Revenue Gold	A\$ (Mln)						30.4	30.4	30.4	30.4	30.4	21.7	0.0	0.0	0.0
Revenue Silver	A\$ (Mln)						16.0	16.0	16.0	16.0	16.0	11.5	0.0	0.0	0.0
Gross Concentrate Revenue	A\$ (Mln)						311	311	311	311	311	222	0	0	0
Treatment & Refining Charges	9%						26.5	26.5	26.5	26.5	26.5	18.9	0.0	0.0	0.0
Net Revenue	A\$ (Mln)						284.8	284.8	284.8	284.8	284.8	203.4	0.0	0.0	0.0

Mass Pull	DMT (Mln)	4%					0.14	0.14	0.14	0.14	0.14	0.10	0.00	0.00	0.00
Mining Costs (Material Moved)	A\$/t	5.0					113.8	113.8	113.8	113.8	113.8	81.3	0.0	0.0	0.0
Transport	A\$/t	8.0					27.8	27.8	27.8	27.8	27.8	19.9	0.0	0.0	0.0
Toll Processing	A\$/t	13.5					47.3	47.3	47.3	47.3	47.3	33.8	0.0	0.0	0.0
Transport to Refinery (China)	A\$/t	91.0					12.7	12.7	12.7	12.7	12.7	9.1	0.0	0.0	0.0
Operating Costs							201.6	201.6	201.6	201.6	201.6	144.0	0.0	0.0	0.0
State Royalty	%	2.75%					7.5	7.5	7.5	7.5	7.5	5.3	0.0	0.0	0.0
Operating Income							75.7	75.7	75.7	75.7	75.7	54.1	0.0	0.0	0.0
Capital Expenditure															
Moving Railway	A\$ (Mln)					5.0									
Property Acquisition	A\$ (Mln)					10.0									
Drilling & Studies	A\$ (Mln)					15.0									
Plant	A\$ (Mln)					0.0									
Sustaining Capital	A\$ (Mln)						0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	A\$ (Mln)					30.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PP&E Beginning of Period	A\$ (Mln)					0.0	30.0	26.7	23.7	21.1	18.7	16.6	14.8	13.2	11.7
Additions	A\$ (Mln)					30.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	A\$ (Mln)					0.0	3.3	3.0	2.6	2.3	2.1	1.8	1.6	1.5	1.3
PP&E End of Period	A\$ (Mln)					30.0	26.7	23.7	21.1	18.7	16.6	14.8	13.2	11.7	10.4
Simplified NPV															
Operating Income	A\$ (Mln)						75.7	75.7	75.7	75.7	75.7	54.1	0.0	0.0	0.0
Less Capex	A\$ (Mln)					30.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less Tax Rate	30%						21.7	21.8	21.9	22.0	22.1	15.7	0.0	0.0	0.0
Free Cash Flow	A\$ (Mln)		0	0	0	-30.0	54.0	53.9	53.8	53.7	53.6	38.4	0.0	0.0	0.0
Discount Rate	8.0%														
		_													
NPV (After Tax - A\$ Mln)	153.7														

At this early stage, there are many assumptions made in the above calculation and it's important to point out that no reserves have yet been defined. But in our opinion, it helps with understanding where Stavely Minerals are from an investment perspective and highlights that an economic project appears to be materialising.

Porphyry exploration is risky business but an economic project for the shallow, open-pit Cayley Lode seems highly achievable, back-stopping the company's current market cap. With this in mind, the exploration potential from drilling other deeper structures (underground potential) and the potential for locating a porphyry effectively comes for free.

Conclusion:

Stavely Minerals continues to make excellent progress drilling out the shallow Cayley Lode over 1km of strike. Recent drilling has also confirmed that mineralisation continues above and below a fault known as the Low Angle Structure (LAS) suggesting that this fault's influence is simply a modest offset to the mineralisation. Mineralisation has been intercepted at drill depths of greater than 900 metres suggesting a **large system is in place.**

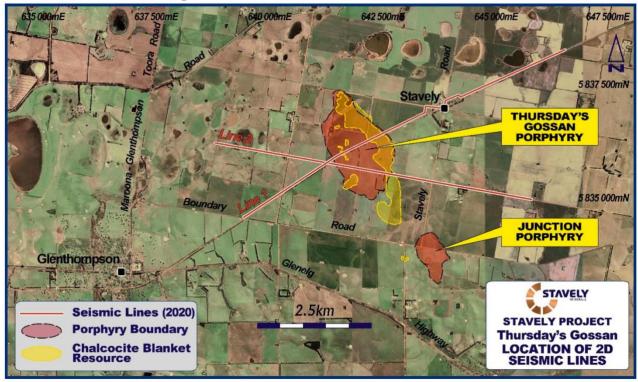
Drilling will likely accelerate going forward with 6 rigs expected on site from September. A maiden JORC Mineral Resource on the Cayley Lode is targeted for the second half of 2020. Drilling will continue to help build a picture of the structural geology of the deposit.

The structurally controlled copper lodes are similar to the Magma Vein copper lodes found at the Magma mine. You can follow the Magma copper lode veins to the Resolution copper porphyry, which contains 1.8billion tonnes of ore at 1.53% copper. A porphyry has not been intersected yet at Stavely, but the evidence is mounting that a porphyry is located nearby. The copper lodes are looking promising but the big prize might be buried nearby. Stavely intend to drill two ~1,500m deep drill holes to test the clearly defined reflectors observed in recently acquired seismic data. The deep holes are planned in the New Year. The majors, no doubt, will be watching closely.

REPORT END

APPENDIX

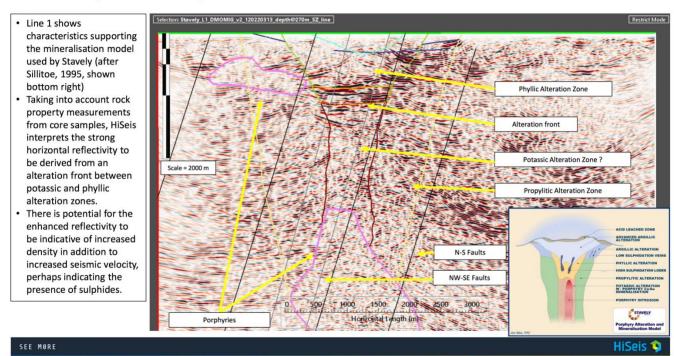
Seismic Line Location Map:



Source: Stavely Resources' ASX Release 15 July 2020.

HiSeis Seismic Report on Thursday's Gossan:

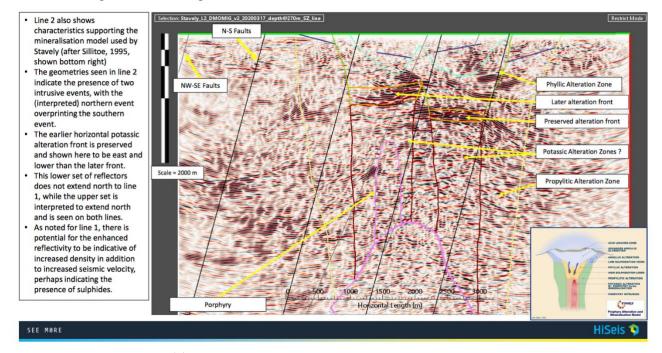
Line 1 (DMOMIG) with Alteration and Structural Model



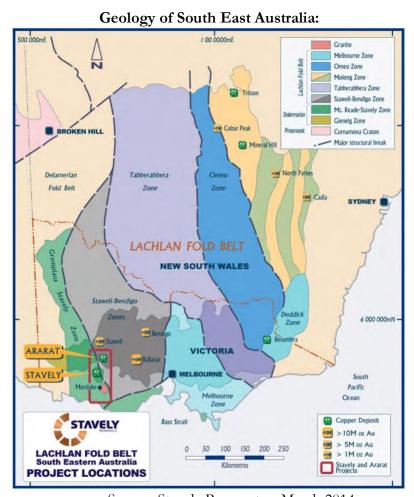
Source: HiSeis Report of Thursday's Gossan, dated 9 September 2020.

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Line 2 (DMOMIG) with Alteration and Structural Model



Source: HiSeis Report of Thursday's Gossan, dated 9 September 2020.



Source: Stavely Prospectus, March 2014.

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