



**Breakaway
Research**

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www.breakawayresearch.com

Company Information

ASX Code	SCI
Share Price (22 August 2017)	\$0.026
Ord Shares	196.3m
Market Cap undiluted	\$5.1m
Est. Cash (22 Aug. 17)	\$1.5m
Total Debt	\$0.0m
Enterprise Value*	\$3.6m

*excludes options which are well all out-of-the-money

Directors

Chairman (Non-Executive)	Bob Besley
Managing Director (Executive)	Chris Torrey
Director (non-exec)	Greg Jones
Director (non-exec)	Professor Ian Plimer
Director (non-exec)	Josh Puckridge

Significant Shareholders

Kobia Holdings	3.5%
Blu Bone Pty Ltd	3.0%
BNP Paribas Nominees	2.7%
RHB Securities Singapore	2.7%

Source: Silver City Minerals Limited

Company Details

Address	Level 1, 80 Chandos Street St Leonards, NSW 2065
Phone	+612 9437 1737
Web	www.silvercityminerals.com.au

Price Chart



Source: Commsec

Silver City Minerals (SCI)

New Copper Project is a Potential Game Changer

Recommendation: Speculative BUY

Key Points

- Silver City Minerals has focused on exploring the Broken Hill province for traditional Broken Hill style Lead/Zinc orebodies. Under its IPO mandate, its objective was to test 30 identified targets and it continues to systematically explore these opportunities.
- During this work, the Company has identified significant copper mineralization along a 4 km structure and which includes the Copper Blow prospect. Analysis indicates it has the characteristic of an IOCG deposit (similar to Olympic Dam).
- This target is exciting with copper mineralization evident along this 4 km trend and historical drilling having demonstrated economic intersections including:
 - 11.80 m @ 6.7% copper, 1.92 g/t gold and 14 g/t silver
 - 15.0 m @ 2.7% copper, 0.53 g/t gold and 3.7 g/t silver
 - 19.2 m @ 1.8% copper, including 3 m @ 4.6% copper
- Follow-up selective surface sampling by Silver City Minerals has reaffirmed the copper grades in the historical drilling but also gold grades up to 1.85 g/t and cobalt grades up to 749 ppm. A drilling campaign by the Company is now urgently being finalised and is scheduled to commence on the 28th August.
- The project is particularly exciting given that the copper price has been moving higher and is now around US\$3/lb.
- A recent placement and oversubscribed SPP leaves the Company fully funded and combined with the technical capabilities of Management and the Board, the Company is well placed to execute a successful programme.

Silver City Minerals Ltd has a reputation as a solid explorer in the Broken Hill region with an extensive tenement package. While initially concentrating on the discovery of Broken Hill type orebodies, it has now identified an IOCG target which is significantly younger than the typical Broken Hill style mineralisation and which has only been partially explored by previous companies. The identification of this advanced copper target is a major achievement for the Company as it is likely to represent a 'game changer' in terms of future news flow.

Historical drilling has intersected significant copper mineralisation along a 4 km structure and plotting of these mineralised drill intercepts indicates a number of continuous zones extending down dip and along strike. We are confident that Silver City Mineral's drilling programme commencing next month is likely to deliver some impressive copper intersections. The combination of these copper intersections with the extent of the structural zone will highlight to the market the potential to delineate a significant resource in the future.

Our recommendation is a **SPECULATIVE BUY** for Silver City Minerals on the back of the excitement which is likely to be generated from the August- October drilling programme. With a small market capitalisation, the Company is very highly leveraged to any success from this programme and given the impressive historical copper intersections from past drilling; it would be unlikely that the Company could not replicate intersections at these copper grades along with potential gold, silver and cobalt credits.



Company Overview

Silver City Minerals has a significant tenement position in the Broken Hill Province...

Silver City Minerals ("SCI") is an ASX listed company that was formed in 2008 to explore the Broken Hill province. It had an enviable land position covering 1,586 km² which was aggregated from tenements that were previously owned, under joint venture or purchased by the Company (See Figure 1). The mining of the Broken Hill deposit has been undertaken continuously for over 120 years and readers will recall that it has spawned major mining companies such as BHP and CRA (predecessor to Rio Tinto).

The Copper Blow prospect differs from the traditional Pb/Zn/Ag Broken Hill style targets....

The Company is led by Geologist Chris Torrey and who is supported by a geologically focused Board. During the past few years it has systematically investigated its large tenement position and has identified a new exciting copper project in a province which has been largely dominated by Broken Hill lead/zinc style mineralisation.

The Company is now accelerating exploration on the copper project and which includes the Copper Blow mineralisation. This target is a deviation from the traditional Broken Hill style target but as an Iron Oxide-Copper- Gold ("IOCG") target it is a member of a class containing world class orebodies such as Olympic Dam, Ernest Henry and Selwyn. In line with these orebodies, it is likely to contain gold, silver and cobalt credits and which has already been demonstrated from surface sampling by the Company.

By-product credits include gold, silver and cobalt...

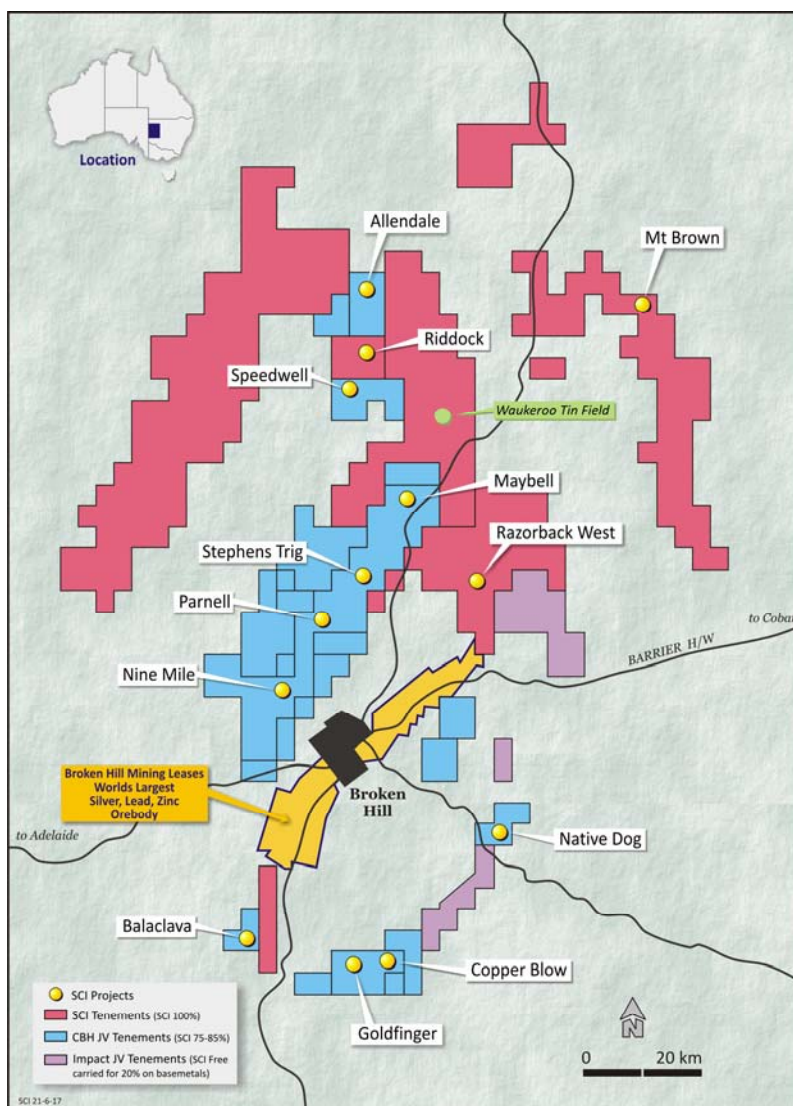


Figure 1. Silver City Mineral's extensive tenement position.



Copper Blow – A New Copper Target In A Lead/Zinc Province

The Copper Blow project is located approximately 20 km to the south of Broken Hill (Figure 1) and forms part of the joint venture tenements between SCI (75%) and CBH Resources Ltd (CBH, 25%). CBH Resources owns and operates the Rasp lead-silver-zinc mine and processing plant at Broken Hill.

Geology

A 4 km linear magnetic high defines a structural zone hosting copper-magnetite mineralisation (See Figure 2.). Previous drilling has focused on the southwestern area where historical workings are present. Old workings also occur in the northeastern region of the zone. The copper-magnetite mineralisation is discordant within the Thackaringa beds and appears confined to the magnetic structure.

It is an iron-oxide copper gold style mineralisation and which is similar to Olympic Dam, Ernest Henry or Selwyn....

It is on a 4km magnetic high....

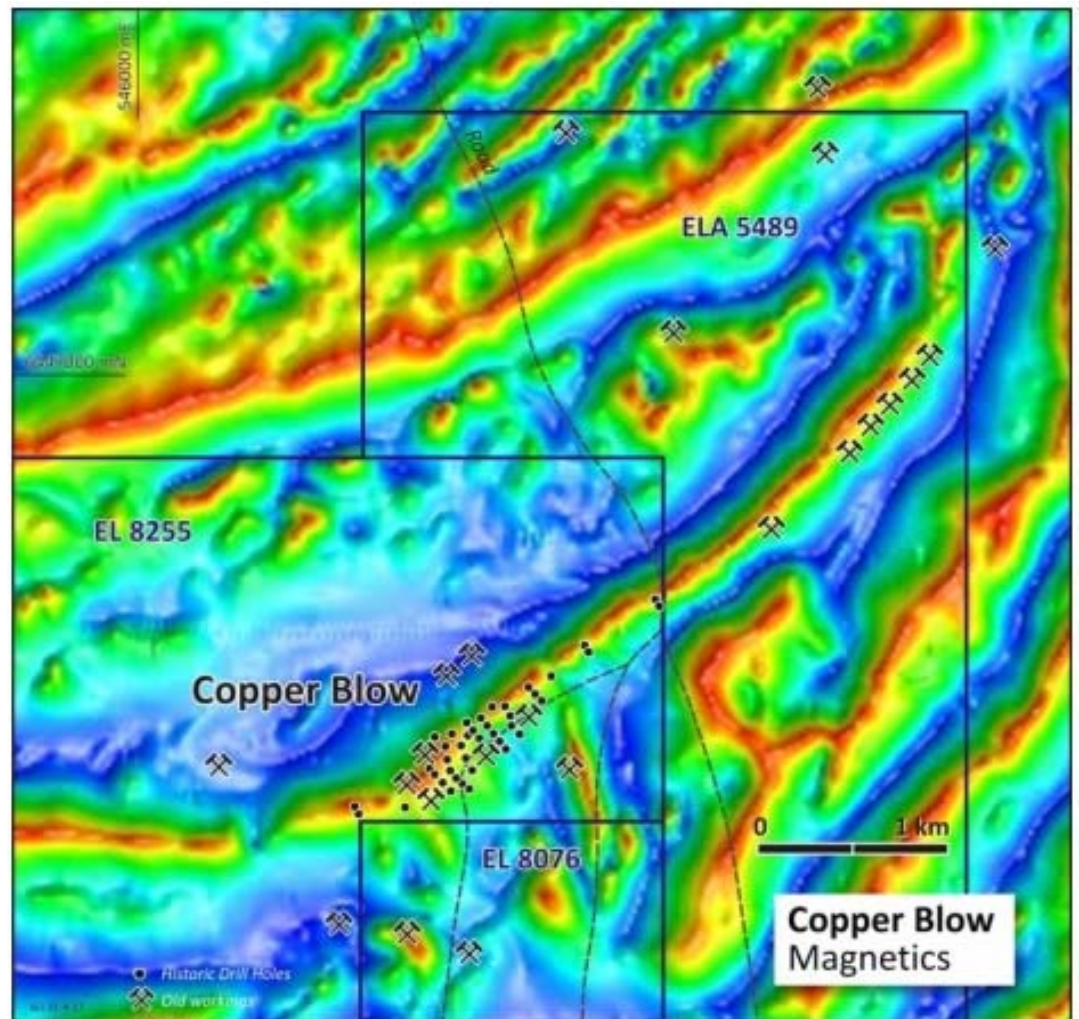


Figure 2. Drilling and old workings on the 4km Copper Blow magnetic feature (Source: Company)

The prevalence of magnetite with the copper-gold mineralisation is typical of IOCG deposits and means that magnetic geophysical surveys are particularly useful at defining the target horizons. As evident in Figure 3 below, many of the high grade drilling intersections corresponds to the magnetic highs (red colours).



Higher copper grades tend to be associated with the mag highs...

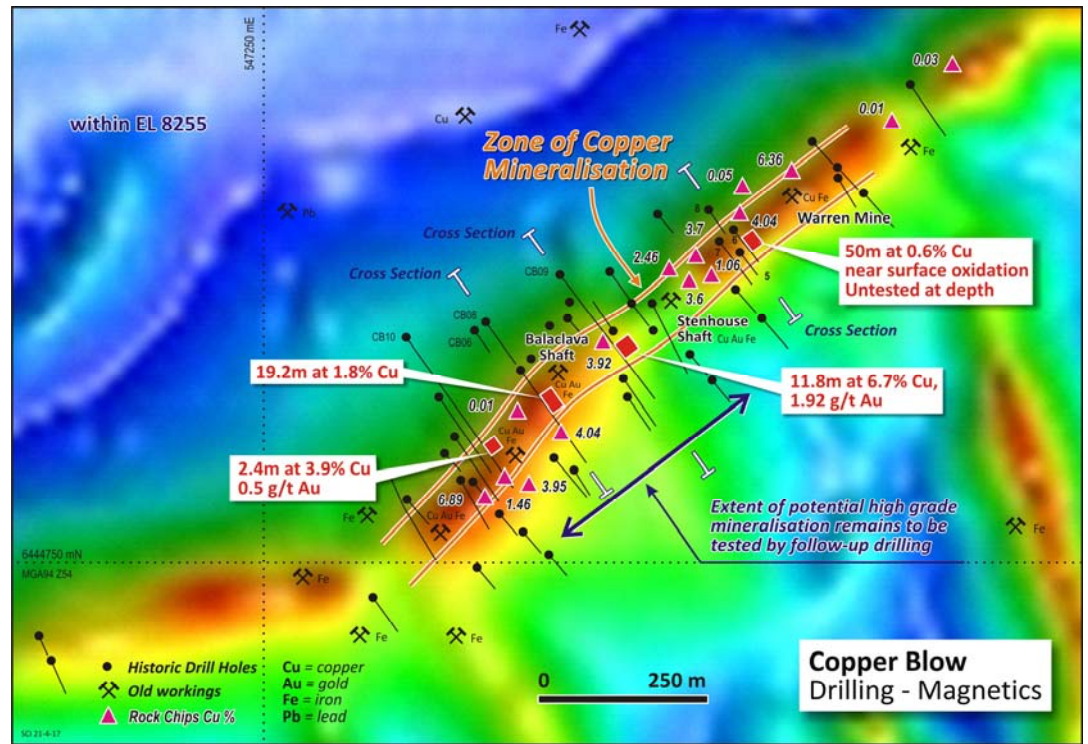


Figure 3. Drilling, surface sampling and old workings on the southern portion of the Copper Blow magnetic feature (Source: Company)

Surface sampling has demonstrated the presence of gold, silver, cobalt and REEs which have not been assayed in the historic drilling....

Silver City Minerals has recently conducted a limited surface sampling programme to analyse for trace elements in the copper-rich mineralisation. Importantly, this type of characterisation has not been conducted previously and the results of this sampling are also presented on Figure 3.

The samples were oxidized and contained abundant copper carbonate minerals leading to highly elevated copper assays with results similar to those encountered during historic drilling in deeper sulphide zones. Copper grades range from 0.01% to 6.89% with an average of 2.6% Cu. However, importantly, the results suggest a number of anomalous trace elements which may have economic potential. These include gold (up to 1.84 g/t), silver (up to 12.6 g/t), cobalt (up to 749 ppm), lanthanum (a rare earth element up to 590 ppm) and molybdenum (up to 198 ppm). The presence of these metals is typical of IOCG mineralisation and can represent important by-product credits.

The historic drilling conducted by previous explorers includes a number of important intersections which demonstrate that:

1. The nature of the mineralisation appears IOCG style given the abundance of magnetite.
2. There are multiple subparallel zones.
3. A number of the mineralised intersections appear to be economic if an adequate resource can be established.

Key intersections are:

- DDHCB06- 15.0m @ 2.6% Cu & 0.53g/t Au (see Figure 4a)
- DDHCB08 – 19.2m @ 1.8% Cu (see Figure 4a)
- DDHCB09 - 11.80m@ 6.7% Cu, 1.92 g/t Au & 14 g/t Ag (see Figure 4b)

Previous drilling indicates potentially economic grades and widths....

Mineralisation occurs in a chalcopyrite-rich magnetite-biotite-quartz rock within a major shear zone. True widths of mineralisation vary between 10m and 15m and the drilling currently indicates that the higher grade occurs between 160m to 220m below the surface.

Figure 4 displays cross-sections which incorporate the mineralised zone discussed above. What is encouraging is that Figure 4(a) demonstrates that the zone at least maintains the same true thickness over the extent of the drilling coverage and there is no reason why it would not continue at depth. This is partly supported by the fact that the historic Copper Blow mine was



Historical workings recovered grades up to 13% Cu ...

developed on five levels with a maximum depth of 60m below surface. Records indicate that mining commenced in 1887 and up until 1937 it had produced 715t of copper ore with grades up to 13% Cu.

The presence of multiple lode zones is also encouraging and in these narrow zones (2.5m – 4.5m) it appears that the grade can attain mineable grades and widths. Indeed, there is an interpretation that the mineralisation may form southwest plunging shoots but this has yet to be tested.

The mineralised zones tend to maintain a relatively constant width ...

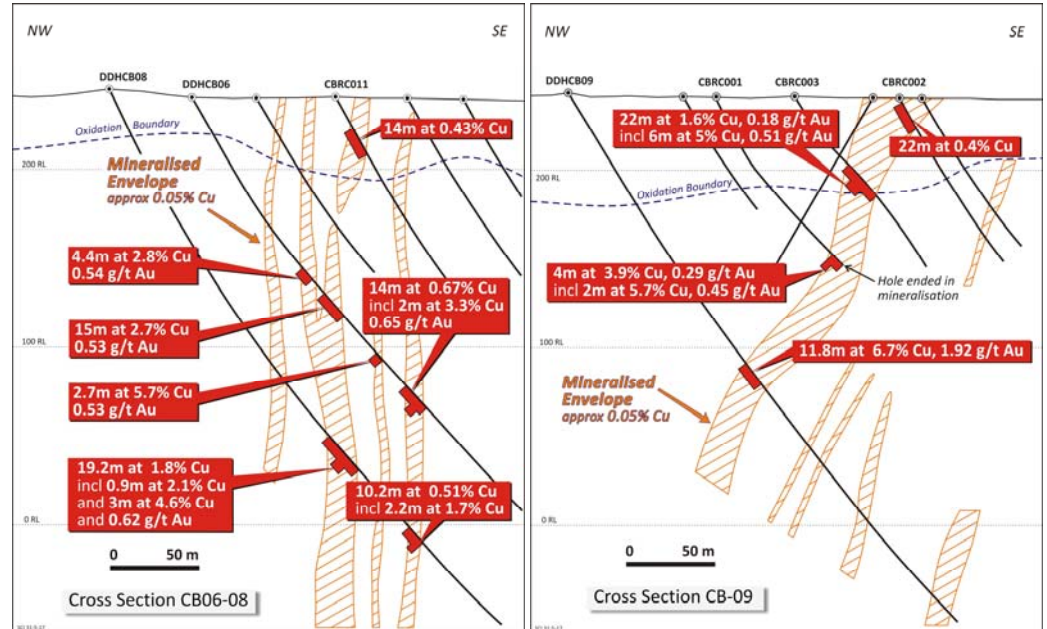


Figure 4. Cross-sections with the interpreted mineralized zones. 4(a) covers drill holes CB 06 to CB 08. 4(b) covers drill hole CB). (Source: Company)

Elsewhere the mineralised zones can be very wide. Figure 5 plots an historical intersection with a downhole length of 86 metres. While the grade is marginal across this intersection at 0.6% Cu & 0.14 g/t Au, it demonstrates that the copper mineralising system is quite extensive in some areas.

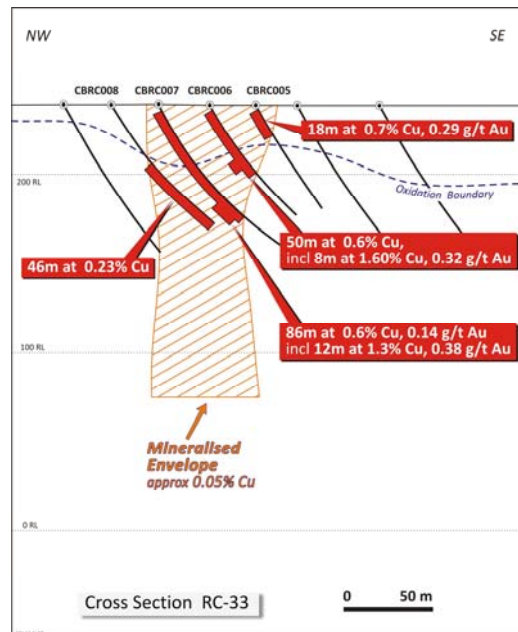


Figure 5. Cross-section with RC-33 and interpreted mineralized zone (Source: Company)

After discovery of the mineralised zones, previous explorers tended to focus on delineating near-surface open pit resources with a number of shallow reverse circulation (RC) drill programmes which only tested the top 100 m to surface.

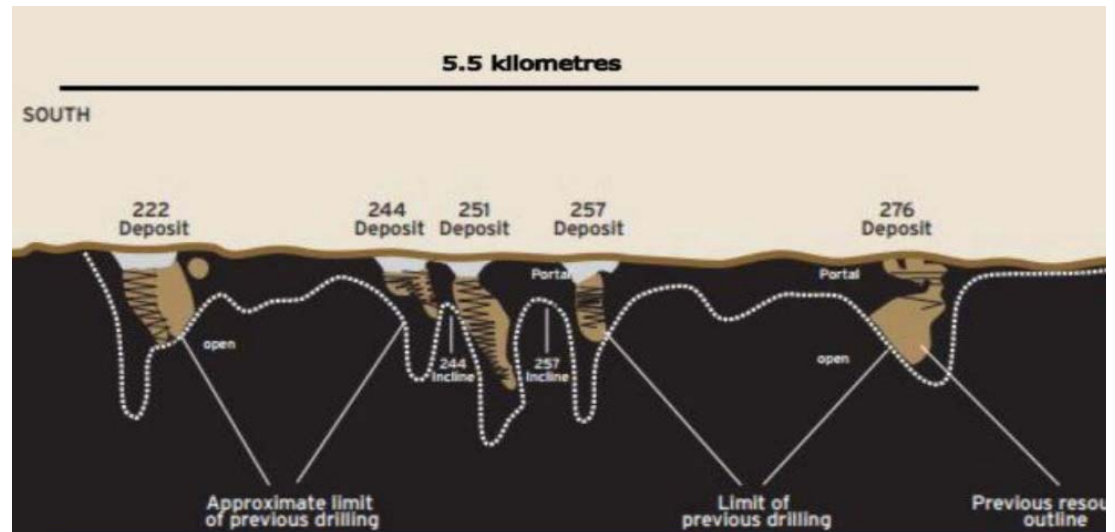


How The Copper Mineralisation May Occur

Silver City Minerals is commencing a step out drilling campaign in August ...

Silver City Minerals is commencing ‘step-out’ drilling programme in August and will utilise the historical drilling as a base for the positioning of the new drillholes. However the potential 4 km length of the mineralised zone could have similarities to the Selwyn line near Mt Isa, Queensland (Figure 6).

Figure 6 shows a long section of the Selwyn line where five separate copper (“IOCG”) orebodies have been discovered. These distinct copper/gold orebodies have a significant vertical extent. This style of mineralisation could be present along the Copper Blow structural zone and which would explain why earlier explorers have missed its potential.



If the mineralisation is similar to Selwyn then it may extend to considerable depths....

Figure 6. Long section of the Selwyn Line near Mt Isa, Queensland. Selwyn is a IOCG deposit and the orebodies have limited strike length on surface. (Source: Company)

Selwyn style orebodies are laterally not continuous ...

The Selwyn group of mines includes five separate copper-gold mines which are all hosted in a magnetite-ironstone horizon extending over 5.5 km with some zones extending down dip for over 500 m at economic grades. Total ore production to-date has been 6.8 million tonnes at 2.1% copper and 4.6 g/t gold.

The structural zone including the Copper Blow prospect has the potential to represent a ‘Selwyn-style’ mineralised system and Silver City Minerals’ imminent drilling campaign could start to uncover this possibility.

As recently noted by the Company, this style of deposit ranges in size from less than 1 million tonnes in the Tennant Creek deposits of the Northern Territory to 10 billion tonnes at Olympic Dam in South Australia. Indeed, Copper Blow is perhaps the first documented IOCG in New South Wales.



Market Capitalisation & Enterprise Value

The market capitalisation of Silver City Minerals is modest at A\$2.9m (Figure 7). Cash reserves are around \$1m and exploration activities have been relatively limited in the first half of CY 2017.

On the 25th July 2017 the Company announced a placement of new shares to sophisticated investors for a total value of \$428,000. This was followed up with a Share Purchase Plan which was 2.5 times oversubscribed with the Company only being able to accept \$250,000. This leaves the Company with approximately \$1.5m in cash as per the Company's announcement on the 18th August 2017. All new shares were priced at 1.8 cents per share.

The Company has a modest market cap...

Parameter		Value
Share price	A\$	0.026
Shares issued	m	196.3
Market capitalisation	A\$m	5.1
Options (likely to be exercised)	m	1.0
Market capitalisation (diluted)	A\$m	5.1
Less		
Cash at 21 Aug 2017	A\$m	1.5
Cash raised from option exercise	A\$m	0.0
Add		
Debt	A\$m	0.0
Enterprise value	A\$m	3.6

Figure 7. Enterprise value calculation

The enterprise value of Silver City Minerals is estimated at only \$2.8m and this estimation is based on the assumption that the 1m options with an exercise price of 4 cents will be exercised in the future. Other options are clearly further out-of-the-money (see Figure 8). If we assume that all the options will be exercised, the enterprise value is less than \$1m given some options have an exercise prices of 10 cents.

The option positions are summarised in Figure 8. Key option trigger points are around 6 cents which provides more than a three-fold increase in the current share price.

Expiry	Number issued	Exercise Price (\$)	Amount Raised (\$)
21-Jul-19	8,722,540	0.067	584,410
02-Dec-19	7,000,000	0.100	700,000
24-Nov-18	1,000,000	0.040	40,000
24-Nov-19	8,500,000	0.060	510,000
Total	25,222,540	0.073	1,834,410

Figure 8. Issued options.



Silver City Minerals Director Backgrounds

Board comprises experienced geologists...

The Board includes members with a wealth of experience in Broken Hill geology and who can provide key support to MD, Chris Torrey who is driving the Company forward.

Mr Bob Besley

Chairman

Bob is a geologist with more than 40 years' experience in the minerals industry in Asia, the Middle East, North and South America, Australia and the Pacific Rim. He spent 13 years with Unocal, seven of those as Manager of Minerals for Australia and the Pacific and was General Manager of Australmin Holdings Limited when that company developed a minerals sands project in eastern Australia and a gold mine in Western Australia. Bob founded and was Managing Director of CBH Resources Limited from its initial ASX listing as a junior to when it was an important Australian zinc/lead/silver producer. He was a founding Director of Kimberley Metals Ltd and is currently Chairman of Image Resources, a company developing a mineral sands mine located north of Perth, WA. Bob has served on a number of Government and Industry advisory boards.

Chris Torrey is a key driver of the Company...

Mr Chris Torrey

Managing Director

Chris is a geologist with over 30 years international exploration experience. He has worked for large mining companies, notable Noranda and Cyprus Amax where he held senior management positions in Australia, New Zealand, Indonesia, United States and Central America. He joined ASX-listed Golden Cross Resources as Exploration Manager in 1996 and was appointed to that Board in 2003, ultimately holding the Chairman's position.

Prior to joining Silver City Minerals in April 2010 he managed a Sydney-based geological consulting business and was the Chief Consulting Geologist to Golden Minerals Company, a North American-based silver explorer and Manager of Silex Exploration Pty Limited.

Mr Greg Jones

Non-Executive Director

Greg is a geologist with 33 years of exploration and operational experience gained in a broad range of metalliferous commodities both within Australia and overseas. Greg has held senior positions in a number of resource companies including Western Mining Corporation and Sino Gold and his experience spans the spectrum of exploration activity from grass-roots exploration through to resource definition and new project generation, as well as mine geology, ore resource/reserve generation and new mine development.

Greg was awarded the Institute Medal for academic excellence whilst at university and is credited with several economic discoveries including the Blair nickel and the Orion gold deposits in Western Australia. He is a director of Eastern Iron Limited, Thomson Resources Ltd and Moly Mines Limited.

**Professor Ian Plimer**

Non-Executive Director

Ian is Emeritus Professor at The University of Melbourne where he was Professor and Head of Geology (1991-2005). He was Professor and Head of Geology (University of Newcastle 1985-1991), DFG Professor at Ludwig Maximilians Universität (Munich: 1991) and Professor of Mining Geology (University of Adelaide 2005-2012). Professor Plimer has published more than 130 scientific papers and is author of multiple best-selling books for the general public.

Professor Plimer's geological expertise is in mineral resources, especially Broken Hill. He serves on the Boards of listed companies; Kefi Minerals Ltd (AIM:KEFI) and unlisted companies (Hancock Prospecting companies [Roy Hill Holdings, Hope Downs, Queensland Coal Investments] and TNT Mines Ltd). He represents Hancock Prospecting on the Lakes Oil NL Board (ASX: LKO) and Sun Resources NL (ASX: SUR). He has served on the boards of Ivanhoe Australia Ltd (ASX:IVA, TSX: IVA) and CBH Resources Ltd (ASX:CBH).

Mr Josh Puckridge

Non-Executive Director

Josh is a Corporate Finance Executive formerly working as a specialist Equity Capital Markets Advisor for Fleming Australia, a Corporate Advisory and Funds Management firm. He has significant experience within funds management, capital raising, mergers, acquisitions and divestments of projects by companies listed on the Australian Securities Exchange.

Formerly Executive Director and Chief Executive of Discovery Resources Limited, Mr. Puckridge structured the acquisition of the Canberra Casino and the relisting of the Company as Aquis Entertainment Limited. He was a founding Director of Windward Resources Limited, seeding and listing the Company and raising more than \$11m. Mr. Puckridge coordinated the change of Board of TopTung Limited (then, Krucible Metals Limited), returning \$5m to its shareholders in 2015; subsequently, the Company acquired a NSW based tungsten project. In November, Mr. Puckridge retired as a Director of Alcidion Corporation Limited (ASX: ALC), having overseen its reverse takeover by Naracoota Resources Limited (ASX: NRR).

Currently he serves as Non-Executive Director of MCS Services Group Limited (ASX: MSG), Chairman of Blaze International Limited and (ASX: BLZ) and Executive Chairman of Fraser Range Metals Group Limited (ASX: FRN). Mr. Puckridge also holds various positions on private company boards.



Breakaway's View

Silver City Minerals is a junior explorer with a low market capitalisation despite having a significant tenement position in the Broken Hill province. It is a respected explorer and has a supportive joint venture partner which has an existing mining operation in Broken Hill.

The completion of its recent capital raise means that the Company is now fully funded to meet its share of the joint venture commitments including the forthcoming drill programme, and removing the previous 'funding' overhang.

The Copper Blow prospect offers an exciting exploration play....

The identification of the Copper Blow project within a 4 km prospective structural zone provides the Company with a 'game changer' project. This iron-oxide-copper-gold ("IOCG") mineralisation differs from the traditional Broken Hill style lead/zinc/silver mineralisation and presents an exciting opportunity for a new copper discovery.

Key features which have led Breakaway Research to this view are:

1. IOCG style mineralisation is a new target for the province. It has not have been a priority for past explorers and hence, the historical exploration has not been very thorough.
2. Recent surfacing sampling has demonstrated the presence of important by-products including gold, silver and cobalt along with the copper mineralisation. Generally, these elements have not been assayed in the mineralised intersections in the historical drilling.
3. The historical drilling has a number of mineralised intersections which have economic grades and widths. These indicate that there may be a viable copper project if an adequate resource tonnage can be delineated.
4. There are multiple subparallel zones which provide scope for significant resource tonnage. These zones do not appear to diminish with depth.

The small market capitalisation means that the Company offers significant leverage to any exploration success....

Silver City Minerals is commencing a significant drilling programme in late August and this will follow up historical drilling results such as DDHCB09 (11.80m@ 6.7% Cu, 1.92 g/t Au). We expect this drilling to return some spectacular results. Combining these results with the significant leverage to exploration success offered by the Company's low market capitalisation, there is a reasonable expectation that positive results will deliver strong share price performance.

Furthermore there is the real chance that the Copper Blow structural zone represents a "Selwyn Line" type structure where multiple copper orebodies may occur but each with a limited strike extent, have not been identified in the past.

Hence Breakaway's recommendation for Silver City Minerals is a **Speculative Buy**.



Analyst Verification

I, Stephen Bartrop, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Research Pty Ltd and the Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Silver City Minerals Limited and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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