

Analyst, Retail Services
Peter Arden 613 9235 1833

Authorisation
Damien Williamson 613 9235 1958

Peel Mining Limited (PEX)

Mallee Bull is potentially just the first of multiple copper-rich polymetallic deposits

Recommendation
Buy
Price
\$0.38
Target (12 months)
\$0.50
Risk
Speculative

Expected Return

Capital growth	32%
Dividend yield	0
Total expected return	32%

Company Data & Ratios

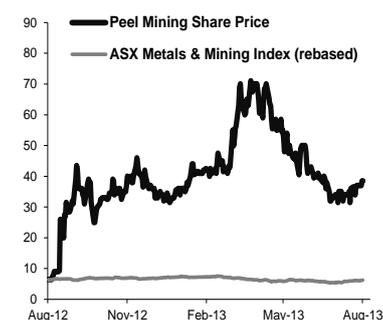
Enterprise value	\$44m
Market cap	\$50m
Issued capital	132.1m
Free float	58%
Avg. daily val. (52wk)	\$0.25m
12 month price range	\$0.074 - \$0.74
GICS sector	Materials

Disclosure: Bell Potter Securities acted as lead broker to the \$1.9m placement in January 2013 and the \$5.1m placement in May 2013 and received fees for that service.

Price Performance

	1mth	3mths	12mths
Price (\$A)	0.335	0.525	0.064
Absolute (%)	13.4	-27.6	493.8
Rel. Market (%)	5.2	-27.6	478.0

Absolute Price



Mallee Bull is a CSA look - alike and could still get bigger

Copper and precious metals exploration company, Peel Mining Limited (Peel), has discovered a significant high grade copper deposit at its Mallee Bull Project south of Cobar, in Central Western NSW. The Mallee Bull deposit displays all the characteristics of the classic Cobar-style deposits (short strike extent but strong depth continuity with structural controls, steep orientation, and high copper grades that have been increasing with depth).

The current exploration program at Mallee Bull is being funded by CBH Resources (CBH) under a staged farm-in agreement in which CBH can earn up to 50% interest in Peel's EL7461 and ML1361 tenements in the Cobar Super Basin by expenditure of \$8.33M. CBH recently completed Stage 2 of the agreement giving it a 30% interest and has committed to payment of the remaining \$3.33M over 12 months to lift its interest to 50%. Peel had cash of \$6.4M at June 2013 to fund its exploration programs.

Peel's drilling has now shown that high grade copper-rich polymetallic mineralisation occurs down to at least 600m below the surface at Mallee Bull. While there seems to be a break in the mineralisation at that depth, experience at the CSA mine indicates this style of mineralisation pinches and swells and occurs in large but discontinuous lenses with strong vertical repetition and in laterally stacked zones. This suggests that there could still be further mineralisation below and/or adjacent to Mallee Bull.

Significant geophysical anomalies point to other deposits

The Mallee Bull discovery resulted from the persistent drilling of coincident electromagnetic (EM) and magnetic geophysical anomalies in an area with anomalous geochemistry. Peel has progressively added to its exploration tenements in the Cobar region and has now established a major strategic holding in the Cobar Mineral Field.

High priority targets within the CBH farm-in area and also within its 100% owned tenements will all be systematically explored with the advantage of Peel's knowledge of the Mallee Bull geotechnical characteristics and geological setting.

While a phase of closer-spaced drilling is required to define the extent of economic mineralisation at Mallee Bull, we think there is currently a potential resource of at least 90kt of contained copper at a grade of about 3% copper. Peel plans to resume drilling on the CBH farm-in area next month. This is expected to include further drilling at Mallee Bull and at the very large and likely related Butchers Dog Prospect (located about 1km north of Mallee Bull). Multiple targets in Peel's 100% owned tenements such as Sandy Creek, Mundoe, Bedooba, Tara and Gilgunnia South are also starting to get active exploration attention, which will include further drilling.

Cobar exploration potential gives longer term upside

We see Peel's discovery of Mallee Bull as one of potentially multiple discoveries of high grade Cobar-style polymetallic mineral deposits in the region and accordingly we recommend Peel as a Buy with Speculative risk. Our price target is \$0.50 but we believe there is considerable upside beyond that given the significance of the Mallee Bull deposit and the quality of Peel's other exploration projects in the Cobar district.

SOURCE: IRESS

Mallee Bull

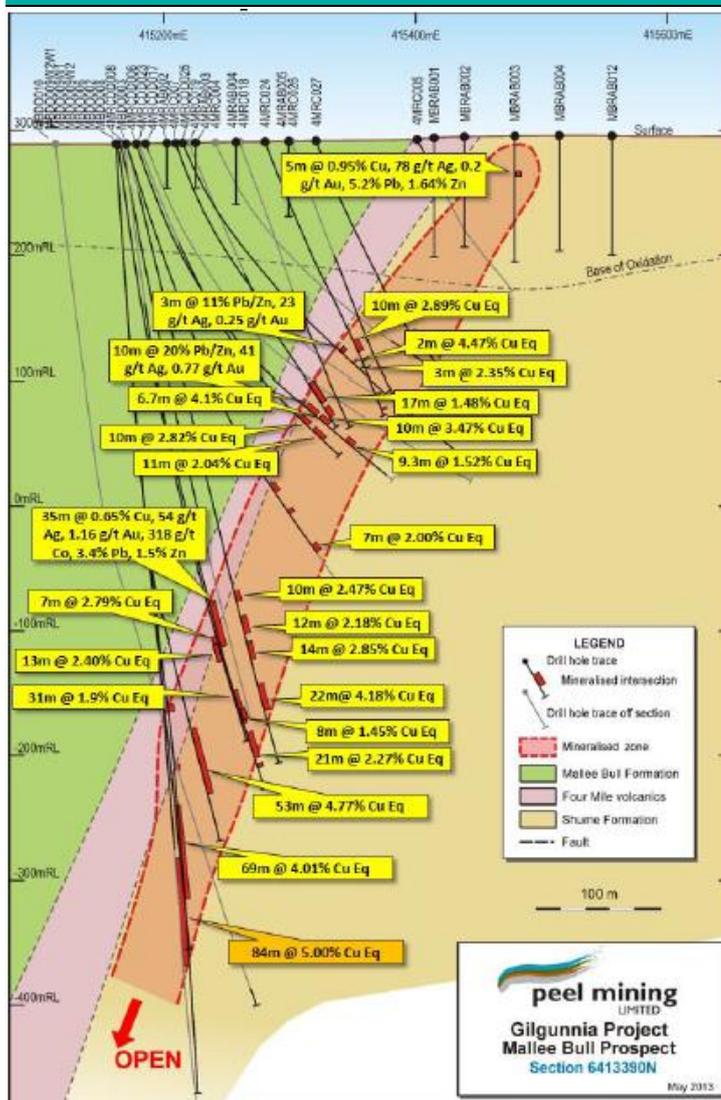
It started with coincident geophysical anomalies

The Mallee Bull deposit is located 100km south of Cobar in Central Western NSW. It is 3km off a major sealed highway and only 15km from the Moomba-Sydney Gas Pipeline.

Peel began targeting the Mallee Bull prospect in March/April 2011. It was a newly recognised coincident EM and magnetic geophysical anomaly located 8km to the east of the May Day gold-silver-lead-zinc-copper deposit (which was mined briefly for gold in the 1990s) and adjacent to the historic Four Mile Goldfield. Initial drilling discovered significant lead-zinc-silver mineralisation but subsequent follow-up drilling in July/August 2011 intersected high-grade Cobar-style copper-silver-gold-lead-zinc mineralisation in massive sulphides. Two further rounds of follow-up RC and diamond drilling intersected massive and/or stringer sulphide mineralisation containing chalcopyrite, galena, sphalerite, pyrrhotite, pyrite and arsenopyrite.

The Mallee Bull deposit is interpreted to be a form of volcanogenic massive sulphide (vms) style of deposit that is located on the nose of an anticlinal structure within a volcanoclastic turbidite sequence. The deposit is a steeply west dipping sub-vertical body (Figure 1).

Figure 1 - Drill hole cross section of Mallee Bull Prospect at 6,413,390N



SOURCE: PEEL MINING LTD

NOTE: MOST RECENT AND DEEPEST DRILL HOLE (MBDD011) NOT SHOWN ON THIS SECTION

The CBH Deal provided funding certainty at a crucial time

Peel entered into a staged farm-in agreement with CBH in May 2012 under which CBH could earn up to a 50% interest in EL4761 and ML1361 which contain the Mallee Bull Prospect by expenditure of up to \$8.33M over three years, which includes reimbursement for past exploration costs. Peel remains the operator of the project.

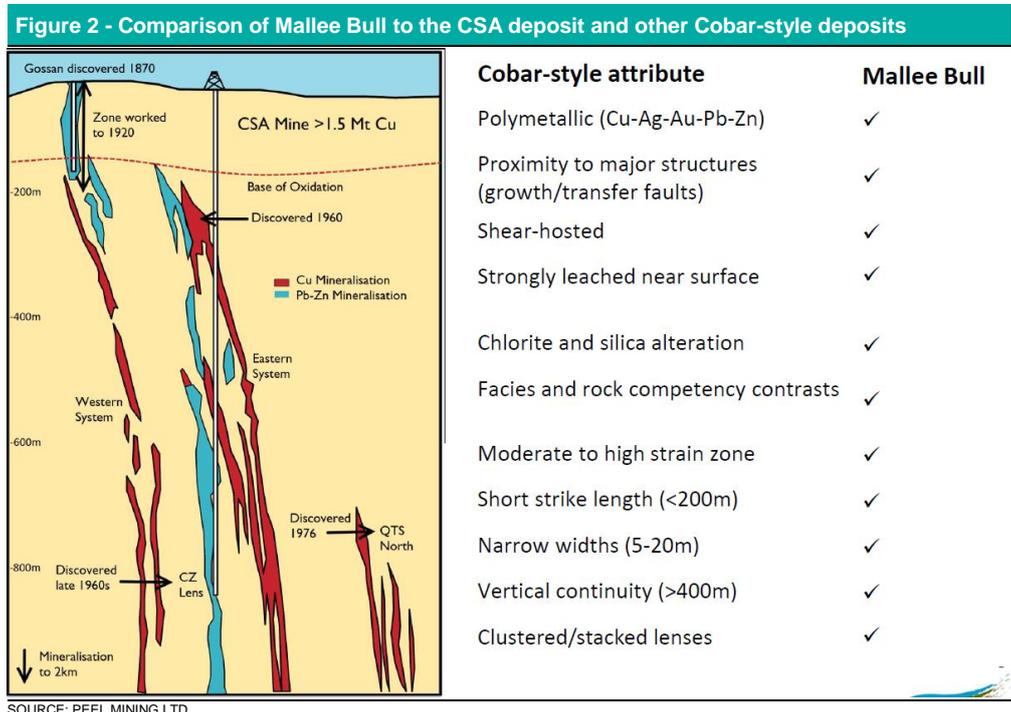
CBH has now earned a 30% interest by payments totalling \$5M under Stages 1 and 2 and has recently elected to go into Stage 3 and increase its interest to 50% by expenditure of an additional \$3.33M in a further 12-month period. CBH can elect to form a joint venture at any stage; the parties can then elect to contribute on a pro-rata basis at that stage or dilute according to an industry standard formula.

Peel now well funded to carry out active exploration programs

With the remaining \$3.33M of funding for Mallee Bull exploration coming in from the CBH arrangement and its own cash reserves of \$6.4M at June 2013, Peel is well placed to fund active exploration at Mallee Bull and on its much larger Cobar Super Basin (CSB) areas.

Mallee Bull has very strong similarities to other major Cobar polymetallic deposits, especially the copper-rich CSA deposit, and could still be considerably bigger with other related zones

Drilling has indicated that the Mallee Bull deposit has a longitudinal extent of at least 700m (it appears likely to come virtually to surface although the upper 100m or so is very weathered in the zone of oxidation) and to extend to a vertical depth of about 600m, at which point it appears there is a zone of complexity. The deepest drill hole (MBDD011 and its wedged hole MBDD011W1) was drilled from a footwall position to test a broad strong chargeability anomaly located to the east of Mallee Bull and also to test for mineralisation at deeper levels within Mallee Bull. The parent hole was recently completed at a final depth of 1,195.8m and a wedge from it went to a similar depth. The parent hole intersected a highly altered and sheared zone interpreted as a possible feeder structure and it intersected some low grade mineralisation (4m averaging 0.43% copper and 6 g/t silver from 996m down hole). The wedge did not intersect any significant mineralisation.



Peel’s drilling just prior to MBDD011 had multiple high grade copper-silver-gold intercepts at depth in holes MBDD009W2W1 and MBDD010 and MBDD010W1 (Figure 1). The intercept in MBDD009W2W1 of 84m averaging 4.4% copper, 38g/t silver and 0.14g/t gold (for a copper equivalent grade of 5%) is the highest grade mineralisation to date at Mallee Bull, confirming its strong similarities to other major Cobar-style deposits, and particularly to the large Glencore Xstrata-owned CSA deposit at Cobar (Figure 2), which is Australia’s highest grade copper mine (with a copper endowment of over 1.5 million tonnes (Mt) of contained copper with grades of up to 10% copper occurring to depths of over 2,000m).

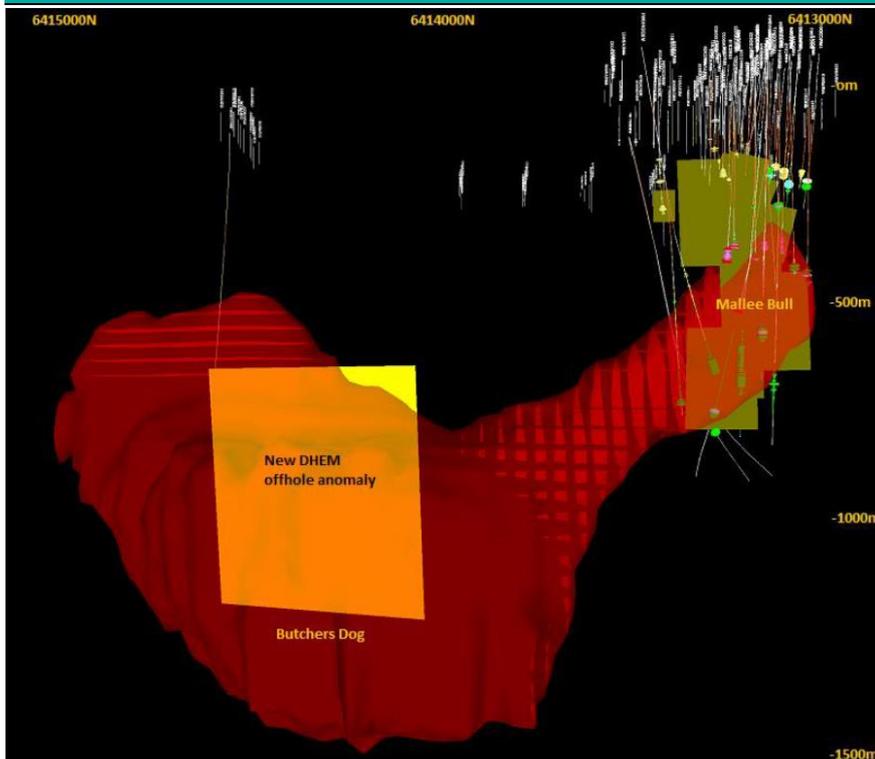
While the most recent and deepest drilling at Mallee Bull did not intersect the strong major copper mineralisation seen in the holes above it, we believe the results of MBDD011 are still indicative of Mallee Bull potentially having a much greater depth extent because Cobar-style deposits are typically structurally complex and locally disrupted - they pinch and swell and they also occur in clusters and as stacked bodies. At some Cobar deposits, and particularly at the CSA mine, there is a trend of grades increasing with depth, which was a feature observed in the Mallee Bull copper mineralisation until the zone of complexity was intersected, so there could be higher grade mineralisation at depth.

Cobar-style mineralisation is typically quite fine grained so a QEM Scan mineralogy study of the major mineralisation types has given some encouraging results that indicate the stringer copper mineralisation zones are dominated by medium to coarse grained chalcopyrite with good liberation characteristics.

Butchers Dog could have important Mallee Bull similarities

Peel recently identified a moderate to strong offhole anomaly (Figure 3) after re-appraising the down hole electromagnetic (DHEM) survey data from the Butchers Dog drill hole BDRCDD001. That hole was drilled in early 2012 and was designed to test the Butchers Dog prospect, which is defined by a very large magnetic anomaly centred about 1km north of Mallee Bull. The newly defined DHEM anomaly is interpreted to be located within 200m of the bottom of BDRCDD001 and correlates well with the trend of magnetic anomalism.

Figure 3 - 3D model of Mallee Bull and Butchers Dog DHEM anomaly

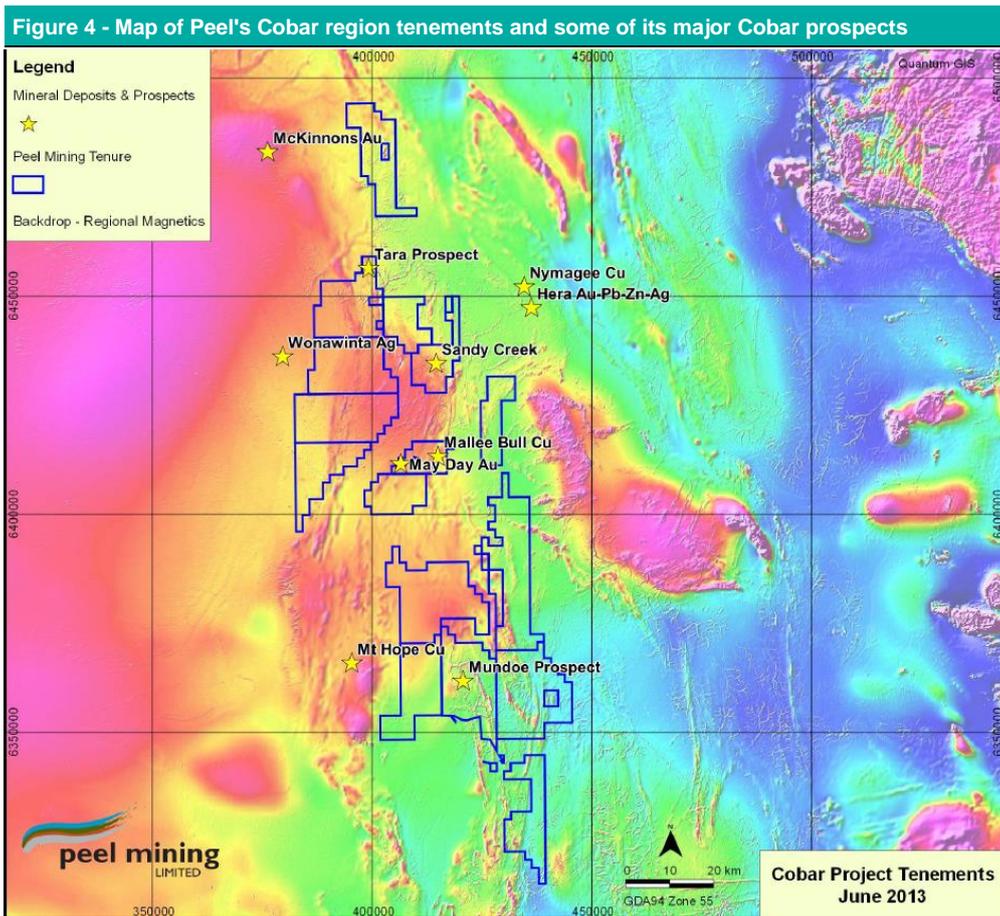


SOURCE: PEEL MINING LTD

The company plans to refine the geometry of the DHEM conductor with additional DHEM surveying prior to drill testing the anomaly in the September 2013 quarter because Peel believes there is high potential for the Butchers Dog anomaly to be associated with similar mineralisation to that at Mallee Bull. The mineralisation associated with Mallee Bull produces both magnetic and electromagnetic anomalism so the company believes there is a strong similarity between the two anomalies and their cause.

Other Cobar Prospects

Peel now has one of the largest and most strategic tenement positions in the highly prospective Cobar Mineral Field where the company has a number of advanced prospects that are 100% owned and which are part of its CSB Project, which is targeting Cobar-style polymetallic mineralisation and vms mineralisation (Figure 4).



The most advanced and highest priority targets outside of Mallee Bull and Butchers Dog in the Cobar region are Sandy Creek, Mundoe, Tara, Bedooba and Gilgunnia South.

The Sandy Creek prospect has only recently been acquired from a private party. Located about 20km north of Mallee Bull and about 80km south of Cobar, the Sandy Creek prospect is regarded as having a similarly strong geochemical anomaly and structural setting to Mallee Bull but it has only had limited (and quite widely spaced) historical drilling (by Pasmenco), which intersected generally low grade lead – zinc mineralization (apart from one hole which intersected up to 8% lead). Previous down hole geophysics (DHEM) has defined strong anomalism that has not been drilled yet and very recently, in undertaking the first field exploration since formally taking over the prospect, Peel has conducted a high-powered DHEM survey and has been able to confirm that there is a strong offhole anomaly that remains practically untested by drilling. The company plans follow-up exploration in the near term.

The Mundoe Prospect has a 2km long geochemical anomaly but has also only been sparsely drilled in the past by other explorers. Peel carried out a limited drilling program in December 2012 that intersected generally low copper and precious metals grades but further exploration is warranted as the company now believes that drilling has only partially tested the targeted area.

Estimate of Potential Resource at Mallee Bull

The company assesses the strike extent of the Mallee Bull deposit to be about 120m currently and we estimate the potential dimensions of the deposit to be up to about 30m thick in the middle (but it seems to taper to very little at the edges) and at least about 510m in the dip direction. These dimensions indicate a mineralised zone containing at least about 2.5 million tonnes (Mt). Assuming an average grade of about 3.5% copper and 45g/t silver, that would contain about 90kt of copper, 4Mozs of silver and 24koz of gold. If the deposit ultimately has Cobar-style dimensions of up to 200m of strike length and extends to a vertical depth of at least 1,300m, it could contain more than 11Mt of mineralisation. Assuming similar average grades, such a deposit could contain about 400kt of copper, 18Mozs of silver and 110koz of gold. Our very preliminary analysis indicates that even if Mallee Bull is not much bigger than currently indicated, it could have net copper production costs of around \$US1.75/lb (after precious metals by-product credits) but if it is much bigger but at similar grades, it could potentially achieve net copper production costs of less than \$US1.50/lb (after precious metals by-product credits).

Mallee Bull is clearly strongly structurally controlled with zones of massive sulphides and stringer sulphides displaying brecciation textures although the copper-rich mineralization appears to be in generally quite competent ground. The deposit is strongly leached near the surface, where there is a strong lead – arsenic geochemical anomaly and the high pyrrhotite content of the ore gives rise to the strong IP and EM anomalies, which have aided its discovery, especially through the use of down hole EM geophysics. The Mallee Bull deposit appears to be on a small limb that is part of a major but likely very deep VTEM geophysical anomaly (known as the Butchers Dog anomaly) that will begin to receive significant exploration attention in the near future.

CSA mineralisation still going strongly at 2km down

While definition of the Mallee Bull deposit is only at a very early stage, there are already very strong similarities between Mallee Bull and the large Glencore Xstrata-owned CSA deposit at Cobar, which is Australia's highest grade copper mine. First mined for its silver-lead-zinc content in 1871, the CSA mine has a total mined and current resource metal inventory of over 1.5Mt of contained copper (from approximately 50Mt averaging 3% copper) and significant additional amounts of lead, zinc, silver and gold which have also been mined at different stages in its history. The mine currently treats about 1.1Mt of copper ore grading around 5.1% copper per annum to produce about 180kt of concentrate grading around 29% copper and containing around 50kt of contained copper. The current Resource is 11.4Mt averaging 5.9% copper and 24g/t silver containing 0.7Mt of copper and 9Mozs of silver in four ore zones. A new shaft is being planned for the mine where shoot-like economic mineralisation has been defined to more than 2km below the surface with the major QTS zones, which are the deepest part of the Resource, containing large ore zones grading over 10% copper.

A key feature of the mineralisation at the CSA mine is its multiple stacked ore zones. While copper-rich ore bodies predominate in the CSA mine, they occur in close proximity to other polymetallic base and precious metals ore bodies and significant amounts of lead, zinc, silver and gold have been mined extensively in the past, sometimes to the exclusion of copper production. The current ore zones at the CSA deposit occur in four ore zones or

systems known as Western, Eastern, QTS North and QTS South. These are a series of depth extensive lenses that contain vein or semi massive to massive chalcopyrite hosted by sub-vertical quartz-chlorite shear zones within a siltstone unit. While Peel has intersected relatively minor zones of lead-zinc mineralisation within the Mallee Bull deposit, it has only seen one main zone of copper-rich mineralisation and has not yet seen any substantial lead-zinc zones. We believe there is a high probability that Peel will discover significant lead-zinc mineralisation and additional major zones of copper-rich mineralisation in step out drilling at Mallee Bull.

Attractive Development Options

The Mallee Bull Prospect is favourably located with respect to infrastructure and potential processing plants. Located 100km south of Cobar, which has major rail access to Newcastle and to Port Augusta, the Mallee Bull Prospect is only 3km off a major sealed highway and 15km from the Moomba-Sydney Gas Pipeline so a stand-alone processing plant could be readily built on site. While there is now only limited information available on the large Cobar mining operations because they are all owned by overseas interests, we understand the Endeavor mine operated by CBH and now owned by Tokyo Stock Exchange-listed Toho Zinc has continued to have mine production problems, which casts some doubt about its longer term operation.

The Endeavor mine is located about 46km north of Cobar and 146km north of Mallee Bull. The mine has been operating at well below its rated capacity of about 1.2Mtpa since being affected by the Global financial Crises in 2008 and is currently operating at a rate of about 720ktpa. The Endeavor process plant is believed to have expansion capacity up to about 1.6Mtpa from its previous configurations. If the Endeavour mine were to remain operating at a reduced rate or were to close in the next few years, the processing plant there would be ideally suited to process Mallee Bull ore.

Concentrate from the Endeavour mine is railed to Newcastle, as is concentrate from other Cobar mines, from where it is then be exported through the Newcastle Shiploader facility, which has a current capacity of 0.5Mtpa (that is capable of expansion) and is fully owned by Toho Zinc.

Although the CSA mine is believed to be currently operating at close to its rated capacity of 1.2Mtpa, Glencore Xstrata are well known for buying and processing ores from other mining operators so there may be an opportunity for the CSA concentrator to be expanded to enable it to process ore from Mallee Bull on a commercial basis.

Valuation and Recommendation

Valuation

We regard Peel as a very attractive copper-polymetallic exploration opportunity with significant upside potential from its interest in the high grade Mallee Bull copper deposit and its 100% owned Cobar projects. We have valued the company's Mallee Bull interest on a net present value related basis on the assumption that a staged operation using toll milling is established in about three years' time. Our base case valuation assumes that a resource with an average grade of 3% copper is mined to produce annual output of about 25kt of copper in concentrate with associated gold and silver. Our upside case valuation assumes a significantly larger copper resource is established that supports a larger stand-alone operation at Mallee Bull and/or in the near vicinity such as at Butchers Dog prospect.

Table 3 - Summary of valuations of Peel

Assets	Base Case		Upside Case	
	\$ M	¢/share ¹	\$ M	¢/share ¹
Mallee Bull Exploration Assets (50%) ²	56	42	129	96
Other Cobar Assets	9	7	20	15
Other Exploration Assets (WA, NSW and NZ)	3	2	5	3
Total Exploration Assets	68	51	154	114
Cash and Other ³	6	5	6	5
TOTAL ASSETS	74	55	160	119

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD DUE TO ROUNDING AND DILUTION EFFECTS

2. ASSUMES CBH EARNS ITS 50% INTEREST

3. EXCLUDES CORPORATE COSTS (INCLUDED IN EXPLORATION)

Recommendation

We regard Peel as a very attractive copper-polymetallic exploration opportunity with considerable scope to discover significant copper and associated metals resources at Mallee Bull and elsewhere in the company's extensive tenements that could be very economically attractive to develop given the high grades encountered to date and the favourable infrastructure in the Cobar Region. The company is in an exciting phase of using its knowledge from the discovery of the Mallee Bull deposit to explore around it for additional deposits and in the wider Cobar district for other similar Cobar-style deposits. The key features of these exploration opportunities include:

- **High grade Cobar-style copper mineralisation at Mallee Bull has been defined** to at least 600m below surface. Although Peel's deepest hole recently drilled into a break in the Mallee Bull mineralisation, the nature of the mineralisation is very similar to other Cobar-style deposits, which pinch and swell and consist of large but discontinuous lenses with strong vertical repetition and in laterally stacked zones. This suggests that there could still be further mineralisation below and/or adjacent to Mallee Bull
- **The company has a number of other advanced prospects near to Mallee Bull that could potentially host additional Cobar-style polymetallic mineralisation associated with large geophysical anomalies such as Butchers Dog**, which will be explored by targeted exploration programs including drilling in the near future
- **Potential for repeats of Mallee Bull-style mineralisation elsewhere in the Cobar region at high priority prospects and target areas including Mundoe, Bedooba, Tara and Gilgunnia South**
- **Attractive infrastructure in the Cobar region gives improved development potential for discoveries such as Mallee Bull**

Accordingly our recommendation for Peel is a **Buy with Speculative Risk**

Risks and Share Price Drivers

We identify the following as the main risks:

- Commodity prices and foreign exchange rate outcomes that are different to our forecasts
- Lack of exploration success and/or greater than expected geological complexities
- Lack of funding to carry out adequate exploration and development
- Adverse weather and operational issues
- Changes to government policy
- Adverse environmental and other regulatory issues
- Cost overruns or operational delays
- Adverse acquisitions of other assets that divert management effort and yield inadequate returns

We identify the following as the main share price drivers:

- Further drilling success at defining extensions and/or repetitions of the Mallee Bull mineralisation that increases its potential size and confirms that it is a significant and economically attractive deposit of copper-polymetallic mineralization
- Positive exploration results at the Butchers Dog prospect
- Positive exploration results at the Sandy Creek prospect
- Successful definition of a substantial maiden Resource at Mallee Bull followed by scoping and other studies that highlight its potential economic development
- Discovery of additional Cobar-style and other mineralisation (such as vms) in the company's extensive tenements in the Cobar district by successful application of geophysics and geochemistry followed by drilling

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Bell Potter Securities Limited

ACN 25 006 390 7721

Level 38, Aurora Place
88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

www.bellpotter.com.au

The following may affect your legal rights. Important Disclaimer:

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. In Hong Kong this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded, Bell Potter Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Disclosure: Bell Potter Securities acted as lead broker to the \$1.9m placement in January 2013 and the \$5.1m placement in May 2013 and received fees for that service.