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Speculative

See key risks on page 7. Speculative securities may not be suitable for Retail clients.

9 January 2019

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St George Mining (SGQ)

Renewed Mt Alexander focus and regionally

Recommendation
Buy (unchanged)
Price
$0.13
Target (12 months)
$0.26 (previously $0.30)
Risk
Speculative

GICS Sector

Materials

Expected Return	
Capital growth	**100%**
Dividend yield	**0%**
Total expected return	**100%**
Company Data & Ratios	
Enterprise value	**$36m**
Market cap	**$39m**
Issued capital	**298.1m**
Free float	**94%**
Avg. daily val. (52wk)	**$137,000**
12 month price range	**$0.105 - $0.27**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.145	0.12	0.24
Absolute (%)	-10.3	8.3	-45.8
Rel market (%)	-12.4	15.0	-40.7

Absolute Price

Expanded footprint of high value nickel+ mineralisation

SGQ's considerable diamond drilling over 2018 of electromagnetic (EM) targets in the 75% owned Cathedrals Belt of the company's Mt Alexander Project has expanded the footprint of the high grade nickel-copper-cobalt-PGM mineralisation. While there is much still to be resolved about the geology of the nickel occurrences at the Investigators, Cathedrals and Stricklands Prospects, there is growing evidence now that they do have meaningful connectivity and constitute an economically attractive, high value opportunity that warrants more detailed investigation. Starting at very shallow depths in a granite-dominant ultramafic setting and having very favourable metallurgical processing indications from preliminary test work and the coarse grained nature of the sulphides, the main unknowns of the nickel mineralisation are its extent and the most likely mining methods. The actual classification of the Mt Alexander nickel mineralisation remains to be determined, but the mineralisation still appears to have close affinities to the Raglan style of deposit.

Increased exploration activity with new management

The company's recent appointment of Dave O'Neill as Exploration Manager signals SGQ's intentions to escalate exploration activity at Mt Alexander including definition drilling along the Cathedrals Belt and to initiate regional exploration on underexplored areas, including regionally in the Mt Alexander Greenstone Belt. Dave O'Neill is an acknowledged nickel sulphide expert, having had over 20 years of experience in the mining industry, which included gaining considerable expertise in the nickel sulphide sector through senior roles with WMC Resources, BHP and Western Areas.

Nickel price stabilising around US$5.30/lb

Nickel prices are stabilising at around US$5.30/lb after having retraced by 26% from the recent peak of US$7.14/lb in June 2018 despite the continued production deficit that has significantly reduced LME nickel stockpiles to around 200kt, down from 368kt a year ago. The ongoing production deficit of over 110ktpa is likely to stay around that level for the next few years even with further increases in lateritic nickel output in the form of Asian nickel pig iron and the planned increase in high purity material from several major sulphide producers. Nickel demand is forecast to increase strongly over the next few years from its role as a key ingredient in new generation batteries, particularly for the forecast strong rise in electric vehicle (EV) production.

Investment thesis – Spec. Buy, valn. $0.26/sh (prev. $0.30)

Diamond drilling over 2018 has increased the footprint of the shallow, high value nickel-copper-cobalt-PGM mineralisation in SGQ's Mt Alexander Project, with definition drilling being planned for 2019. SGQ also intends to initiate regional exploration of underexplored parts of the Mt Alexander Greenstone Belt. We have reduced our heavily risked and equity diluted valuation of the company by 13% to $0.26 per share after incorporating the 2018 drilling results and SGQ's current share capital, share price and cash position. We see 2019 as an important year for the company as it increases its activities with a strong focus on moving towards potential nickel development of the Cathedrals Belt. Speculative Buy recommendation retained.

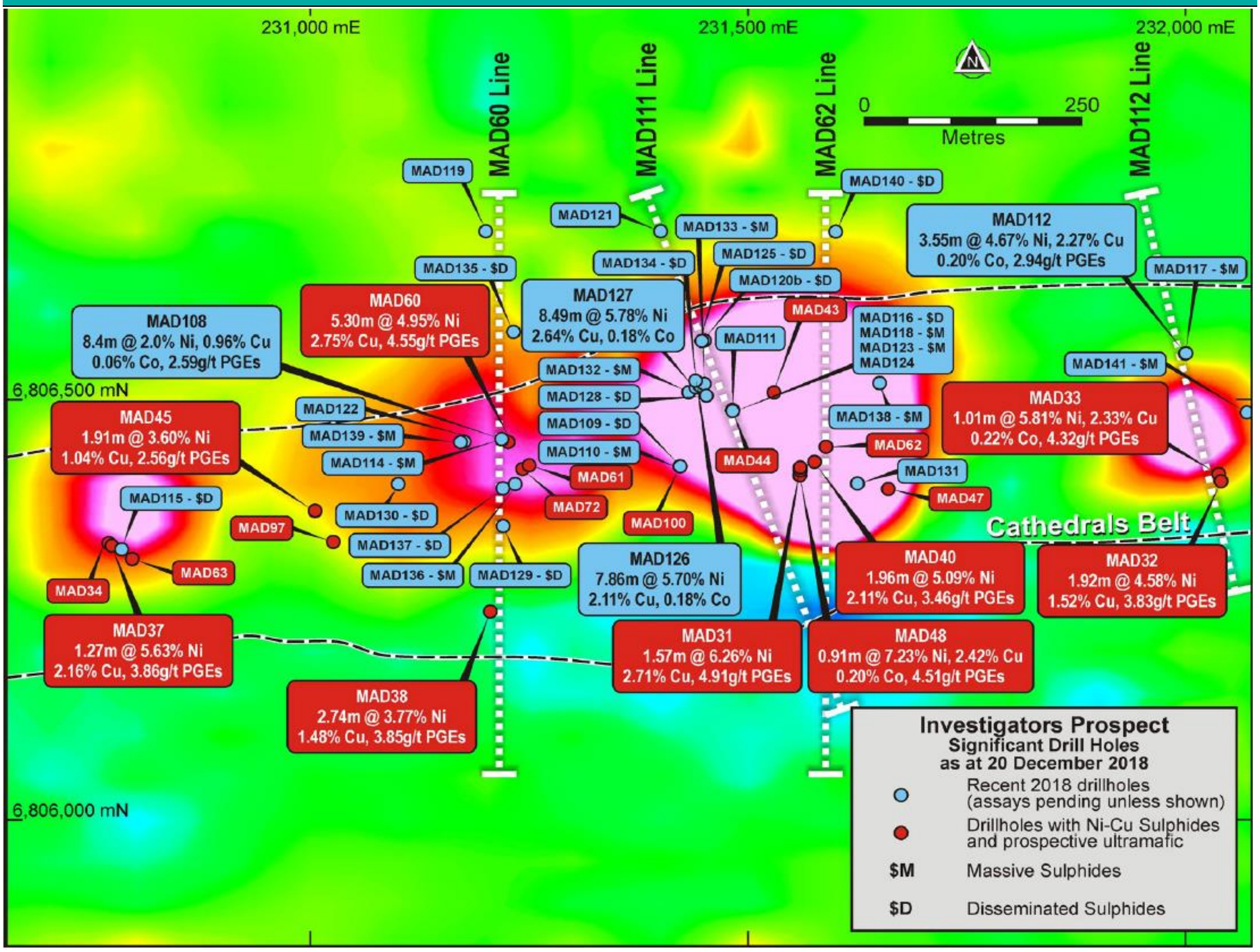
Expanded high value nickel+ footprint

Most recent intersections are the best ever for Mt Alexander

SGQ carried out a considerable amount of diamond drilling over 2018, most of which was directed at testing EM targets in the 75% owned Cathedrals Belt of the company's Mt Alexander Project. The results of this drilling have expanded the footprint of the high grade nickel-copper-cobalt-PGM mineralisation at the Investigators, Cathedrals and Stricklands Prospects. Laboratory assays have recently confirmed that the most recent drill holes at the Investigators Prospect (MAD 126 and MAD127, Figure 1) achieved the best intersections to date at Mt Alexander. The following are summaries of the most recent results from these drill holes:

- MAD126 intersected 7.86m averaging 5.70% nickel, 2.11% copper, 0.18% cobalt, 2.65g/t platinum group metals (PGM) and 0.15g/t gold from 184m down hole, including **5.25m averaging 6.95% nickel, 2.67% copper, 0.23% cobalt, 3.10g/t PGMs (2.52g/t palladium and 0.58g/t platinum) and 0.15g/t gold** from 185m down hole; and
- MAD127 intersected 8.49m averaging 5.78% nickel, 2.64% copper, 0.18% cobalt, 3.61g/t PGMs and 0.19g/t gold from 183.9m down hole, including **6.39m averaging 6.48% nickel, 2.77% copper, 0.21% cobalt, 3.68g/t PGMs (2.96g/t palladium and 0.65g/t platinum) and 0.15g/t gold** from 184.42m down hole

Figure 1 - Plan of Investigators Prospect with drill hole collars over large SAMSON total filed EM anomalies



SOURCE: ST GEORGE MINING LTD

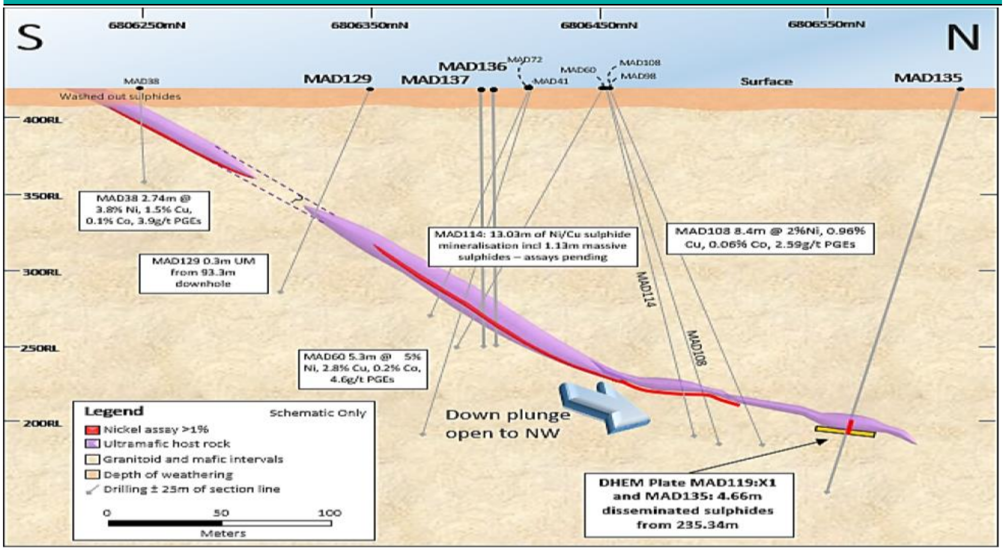
Latest intersections are very high value – in-ground value is over A$1,500 per tonne

We estimate that based on current metal prices, the value of the higher grade parts of the most recent intersections (MAD126 and MAD127) at Investigators has an in-ground value of over A$1,500 per tonne. Even after conservatively allowing for average metal recoveries for the mineralisation, we estimate that tenor of mineralisation could potentially generate an operating margin of well over A$1,000 per tonne. In our modelling of a potential Resource in the Cardinals Belt, we have retained our assumption of a total of 2.5Mt averaging 2.7% nickel, 1.4% copper, 0.2% cobalt and 3.3g/t PGMs and gold, which equates to an estimated mining inventory of 2.1Mt averaging 2.45% nickel, 1.3% copper, 0.2% cobalt and 3.0g/t PGMs and gold and has an estimated nickel equivalent (NiEq) grade of 4.3%.

Growing evidence of mineralisation continuity but more geology still to be resolved

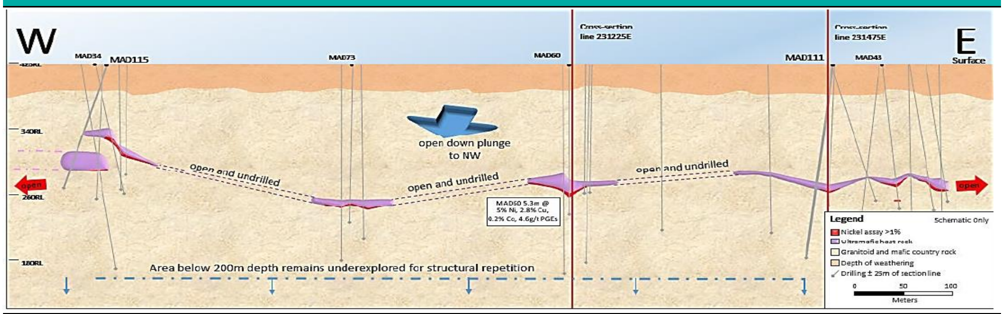
While there is much still to be resolved about the geology of the nickel occurrences at the Investigators, Cathedrals and Stricklands Prospects in the Cathedrals Belt, there is now growing evidence that there is meaningful connectivity (Figures 2 and 3) and the mineralisation constitutes an economically attractive, high value opportunity worthy of more detailed investigation. Starting at very shallow depths in a granite-dominant ultramafic setting and having very favourable metallurgical processing indications from preliminary test work and the coarse grained nature of the sulphides, the main unknowns of the nickel mineralisation are its extent and the most likely mining methods. The classification of the Cathedrals Belt nickel mineralisation remains to be determined, and although there are some differences between it and the Raglan deposits, the Cathedrals Belt mineralisation still appears to have close affinities to the Raglan style of deposit and it may ultimately turn out that the Cathedrals Belt mineralisation is at least a variation of the Raglan style.

Figure 2 - Cross section of the MAD60 section at Investigators



SOURCE: ST GEORGE MINING LTD

Figure 3 - Long section of the Investigators Prospect looking north



SOURCE: ST GEORGE MINING LTD

Valuation reduced 13% on updated data

Our valuation of SGQ (Table 2) has been reduced by 13% as a net result of the following:

- Significantly increased valuation for the Cathedrals Belt Prospects reflecting the 2018 drilling results and incorporating current long term metal price forecasts;
- Using the current share price of $0.13 results in significantly more dilution for the assumed additional (and increased amount of) capital to be raised within the next year ($15.8m compared to raising of $7m and share price of $0.225 previously);
- Updated share capital to incorporate the exercise of listed and unlisted options; the issue of 12.5m unlisted bonus options in February 2018 and expiry of 12.3m of them in April 2018; the $4m placement in March 2018; and the issue of performance rights;
- Updated net cash balance estimated at $2.5m based on the actual net cash balance at 30 September 2018 less forecast expenditure of $1.2m in the December 2018 quarter.

Our valuation (Table 2) is equity adjusted to take into consideration the likely impact of additional equity that we have assumed that SGQ raises in FY19 (Table 1). We have conservatively assumed that this raising will be done at the same share price as the current share price, even though we would actually expect the company's activities such as the definition drilling in the Cathedrals Belt and further exploration success on the company's other exploration projects to enhance the value of these projects. A successfully de-risked project provides the potential for a higher share price over time.

Table 1 - Forecast additional equity to be raised within the next year

Year to June	2019e
Net amount to be raised[1] ($ m)	15.8
Share price assumed ($)	0.13
Number of shares to be issued (m)	121.5
Total number of shares on issue at year end(m)	419.7

SOURCE: BELL POTTER SECURITIES NOTE 1. BEFORE CAPITAL RAISING COSTS

Our SGQ valuation (Table 2) is dominated by the estimate for the Mt Alexander Project. Our Mt Alexander Project valuation is based on a risk-weighted NPV methodology related to a potential open pit nickel mining and toll-treatment operation in the Cathedrals Belt starting in mid-2022 Our valuations for SGQ's other exploration assets in WA are based on our estimates, which are related to anomaly size and features, and geological characteristics. Our valuation of SGQ's mineral assets and total company are $116m and $120m respectively. The total company valuation is equal to $0.26 per share (Table 2).

Table 2 - Summary valuation for SGQ

Assets	Valuation	
	$ m[1]	$/share[1,2]
Project – Mt Alexander (75% in E29/638; 100% in all others)[3]	116	0.26
- East Laverton (100%)	5	0.01
- Hawaii (100%)	2	0.00
- Other mineral interests (100%)	1	0.00
- Total mineral interests	123	0.27
Corporate	(13)	(0.03)
Enterprise Value	**110**	**0.24**
Net Cash[3]	10	0.02
TOTAL ASSETS	**120**	**0.26**

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD DUE TO ROUNDING AND DILUTION EFFECTS
2. BASED ON DILUTIVE CAPITAL OF 452.7M SHARES (INCLUDES EXERCISE OF 33.0M OPTIONS AND PERFORMANCE RIGHTS THAT ARE IN THE MONEY AT THE VALUATION AND FROM AN ASSUMED EQUITY RAISING)
3. BASED ON ESTIMATED CASH BALANCE AT 31/12/18 AND THE EXERCISE OF OPTIONS

Nickel price stabilising around US$5.30/lb

Nickel prices are stabilising at around US$5.30/lb (US$10,800/t Figure 4) after having retraced by 26% from the recent peak of US$7.14/lb in June 2018. The price retracement is despite the continued production deficit that has significantly reduced LME nickel stockpiles to around 200kt, down from 368kt a year ago. The ongoing production deficit of over 110ktpa is forecast to stay around that level for the next few years even with further increases in lateritic nickel output in the form of Asian nickel pig iron and the planned increase in high purity material from several major sulphide producers. Nickel demand is forecast to increase strongly over the next few years from its role as a key ingredient in new generation batteries, particularly for the forecast strong rise in EV production.

Figure 4 - Chart of LME nickel price (in US dollars)

SOURCE: IRESS

St George Mining Ltd (SGQ)

Company description

SGQ is a nickel and gold exploration company which listed in November 2010. It has three principal projects in the northern part of the Eastern Goldfields in the Yilgarn Craton of Western Australia. The company acquired a 75% interest (and is the manager of) the joint venture with midcap nickel producer WSA in the central tenement of the Mt Alexander Project near Leonora in January 2016 containing the east-striking Cathedrals Belt. BHP discovered shallow high grade massive nickel-copper-PGM sulphides in the Cathedrals Belt in 2008 but it failed to capitalise on that after a change in corporate strategy stymied exploration and led them to sell their interest to SGQ in 2016, leaving it to SGQ to drill multiple occurrences of similar mineralisation since December 2016 based on successful EM targeting that has disclosed that high grade shallow nickel-copper-PGMs occurs over a strike length of 3.5km at three main prospects – Investigators, Stricklands and Cathedrals. SGQ also has 100% of four adjoining tenements, giving it a controlling interest in about 250km^2 that makes up the Mt Alexander Project and includes the north-north-west striking Mt Alexander Greenstone Belt that also contains nickel sulphide mineralisation. SGQ owns 100% of the East Laverton Project located about 150km south-east of Laverton, which is prospective for nickel and gold and was subjected to a drilling program in the early part of 2018. The company also owns 100% of the Hawaii Project, which contains the Mt Ida Fault and is located about 25km north of the Mt Alexander Project.

Investment Thesis – Speculative Buy, Valuation $0.26/sh (prev. $0.30)

Diamond drilling over 2018 has increased the footprint of the shallow, high value nickel-copper-cobalt-PGM mineralisation in SGQ's Mt Alexander Project, with definition drilling being planned for 2019. SGQ also intends to initiate regional exploration of underexplored parts of the Mt Alexander Greenstone Belt. We have reduced our heavily risked and equity diluted valuation of the company by 13% to $0.26 per share after incorporating the 2018 drilling results and SGQ's current share capital, share price and cash position. We see 2019 as an important year for the company as it increases its activities with a strong focus on moving towards potential nickel development of the Cathedrals Belt. Speculative Buy recommendation retained.

Valuation

Our valuation of SGQ is based on a sum-of-the-parts set of valuations for the mineral assets of the company along with an estimate for corporate costs and a net cash component. The Mt Alexander Project valuation is based on a heavily risked, discounted cash flow estimate of a potential modest scale mining operation centred on the Cathedrals mineralisation that is trucked to a nearby processing plant for toll milling. SGQ's other mineral assets have been ascribed estimated valuations related to their geological characteristics and potential to host economically significant mineralisation. The net cash component of the valuation is the sum of the current net cash position plus cash from the dilutive exercise of options that are in-the-money at the valuation and net cash from an assumed equity raising within the next year that is assumed to be done at the current share price. The valuation per share is determined by dividing the above determined total valuation by the total number of shares made up of the currently issued shares plus the assumed dilutive options and the shares from the assumed equity raising.

Risks

The key risks for resources investments include, but are not limited to:

- **Commodity price volatility:** Notwithstanding the relatively liquid nature of base and precious metals markets, they can be subject to wide fluctuations in price, particularly during more difficult economic times or major world events. Associated with metal price volatility are potentially different metal prices and foreign exchange rate outcomes to our forecasts.
- **Lack of exploration success:** The difficulty of exploring in the Yilgarn district of WA, where SGQ has its areas, is related to the fact that the region has variable sand, sandstone and/or laterite cover that overlies the geologically complex Archaean bedrock which hosts mineralisation. This means that there is often little or no outcrop and further complexity comes from the nature of the Archaean bedrock, which has suffered variable alteration and weathering and may contain greater than expected geological complexities that may be difficult to resolve without extensive drilling programs and may inhibit the definition of adequate resources and reserves.
- **Lack of funding:** Exploration companies generally do not have a source of revenue and so they require access to funding to enable them to carry out adequate exploration and related development activities in order to continue to develop their operations.
- **Metallurgical issues:** Preliminary metallurgical test work using standard grinding and flotation techniques on samples of massive nickel-copper sulphide mineralisation from the Mt Alexander Project has given very positive outcomes with encouragingly very high nickel and copper recovery results and with no deleterious elements. Subsequent more detailed metallurgical testwork may identify adverse metallurgical characteristics that could need more complicated and expensive processing requirements.
- **Regulatory and social licence approvals:** SGQ is not yet at the permitting stage for any of its projects. While there are currently no indications there would be any difficulties completing the necessary regulatory and social licence approvals processes to enable a suitable potential mining and less likely to be needed processing operation to be established (given availability of suitable nearby plants), prolonged delays can sometimes result from unforeseen and relatively minor adverse regulatory issues and from the need to progress the related negotiations in a very careful and sensitive manner. Various stages of the regulatory approvals process can sometimes suffer unforeseen delays related to changes in personnel involved or from the need to resolve differences in interpretations. There may be some tenements in which the company has an interest or may acquire an interest in future which may contain areas over which legitimate common law native title rights of Aboriginal Australians exist. If native title rights do exist, the ability of the company to gain access to such tenements (through obtaining the consent of any relevant landowners) and to progress from the exploration phase to the development and mining phases of operations may be affected.
- **Development and operating performance:** Development of the high value nickel-copper-cobalt-PGE mineralisation in the Cathedrals Belt is still to be considered, but in the event that it occurs, it would give rise to development and operating risks, which can be mitigated by the appropriate use of well experienced personnel and contractors with demonstrated ability to build and operate nickel mining and processing facilities.
- **Weather impacts:** Cost overruns or operational delays can be caused by severe weather events because site access may be restricted due to the unsealed nature of roads and airstrips in the remote regions in which the company operates.
- **Inappropriate acquisitions:** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.

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.

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The stocks of resource companies without revenue streams from product sales should always be regarded as speculative in character. Since most exploration companies fit this description, the speculative designation applies to all exploration stocks. The fact that the intellectual property base of an exploration company lies in science and is generally only accessible to the layman in a limited summary form adds further to the riskiness with which investments in exploration companies ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Exploration and regulatory risks are inherent in exploration stocks. Exploration companies engage in exploration programs that usually have multiple phases to them where positive results at some stages are not indicative of ultimate exploration success and even after exploration success, there is often insufficient economic justification to warrant development of an extractive operation and there is still significant risk that even a development project with favourable economic parameters and forecast outcomes may fail to achieve those outcomes. Investors are advised to be cognisant of these risks before buying such a stock including **St George Mining** (of which a list of specific risks is highlighted within).

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