



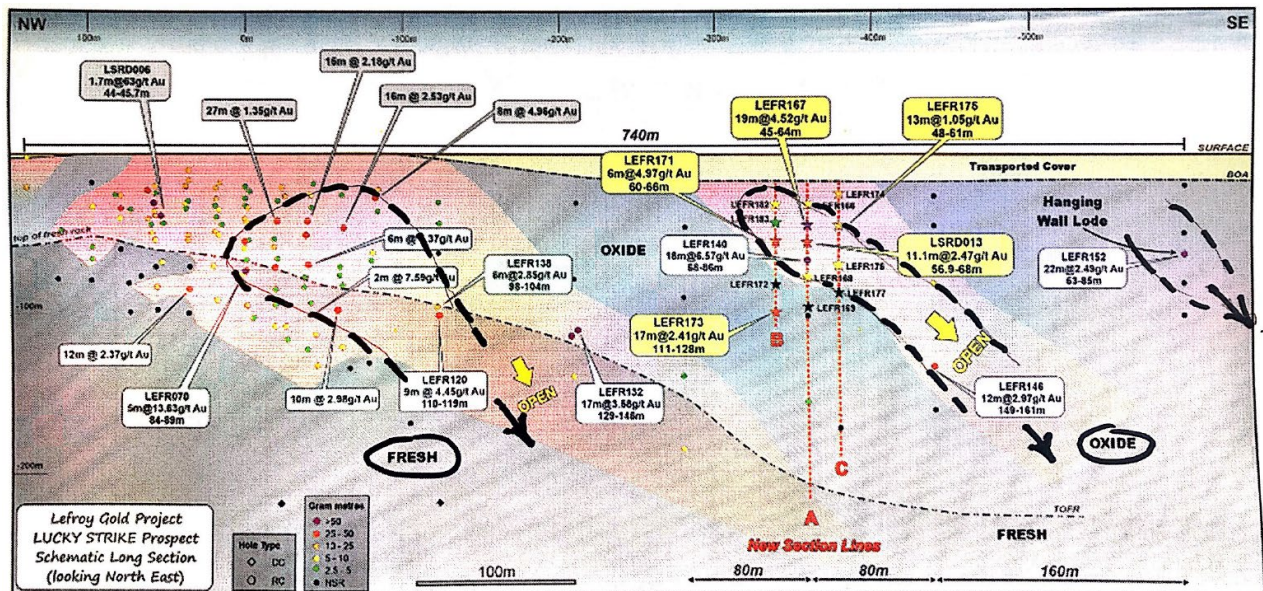
LEFROY EXPLORATION LTD

LEX:AU, \$0.19. Market cap A\$19m

Further impressive drill results from Lucky Strike

Gold discovery from initial drilling at Hang Glider Hill

- LEX reported several encouraging gold intercepts at its 100%-owned Lucky Strike project, located some 60km SW of Kalgoorlie.
- The recent round of drilling has started to deliver some geometry to what appears to be a second ore shoot within the Lucky Strike trend. Several encouraging, close-spaced drill holes are starting to show continuity within what now appears to be a SE plunging ore shoot.
- It is possible that there are now two or perhaps three ore shoots within a 700-800m strike of the Lucky Strike structural trend. The entire trend extends over some 5km and has been lightly explored elsewhere.



Source: Modified from LEX release, 20 November 2019

- It is still too early for LEX to start putting resources around these discoveries. Further drilling is expected to commence in January 2020. Already we can see the potential for perhaps 100koz of contained gold at a grade of perhaps 2-2.5gpt. A maiden resource is due in 1Q20.
- In this note we discuss the opportunity for LEX to monetise Lucky Strike. The area south of Kalgoorlie now has an acute shortage of soft, easy to mill oxide ore after 30-40 years of mining. We see a ready market for any discovery made in the area by Lefroy.
- LEX has also announced results from the first drill holes (since 1993) at the Hang Glider Hill project, some 17km to the NW of Lucky Strike. Further drilling is to take place in early 2020 following up two gold-bearing intercepts.

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Bridge Street acted as Lead Manager and Book Runner for a placement of 19m shares at 20c in August 2019 for which BSCP received fees. See disclaimer.

INVESTMENT VIEW

As we noted in an earlier report, LEX has accumulated a significant land position within rocks of the St Ives and Mt Monger gold fields, themselves extensions of the major crustal sutures extending south from the world class Kalgoorlie goldfields. The Lake Lefroy JV is well funded, and managers Gold Fields Ltd (GFI, earning 70% with the expenditure of \$25m) have excellent local geological knowledge and all the exploration tools necessary to find the next 'big one'. The St Ives mill is rated at 4.7Mtpa, so GFI are strongly motivated to identify reserves given the last stated reserve position of 19Mt (or around 4 years). Any discovery here, especially a higher grade deposit, in our opinion would accelerate development. LEX would be an immediate beneficiary. With good science and a little geological luck an orebody will emerge from the recently identified anomalies.

Simultaneously, LEX is drilling the Lucky Strike structure in an effort to put together a resource and has commenced drilling at the Hang Glider Hill prospect. Early results are interesting.

The next 6 months will have plenty of news flow. With a market cap of under \$20m and two fully funded exploration programmes, LEX appears inexpensive* for a company exploring in "elephant country". Any encouragement from either programme should see a strong rerating of the LEX share price.

(* LEX as yet has no resources/reserves against which to apply a yardstick valuation estimate. It is therefore difficult to place a valuation on the company.)

THE OPPORTUNITY AT LUCKY STRIKE

A recent capital raising (\$3.8m at 20c on 15 August) has allowed LEX geologists to push ahead and test targets within the tenements to the east of Lake Lefroy. Exploration at the 100%-owned Lucky Strike project has been successful, but frustrating. Past drilling programmes have delivered several very attractive 'hits', but it has been difficult to establish continuity of the mineralisation from drill hole to drill hole. Following the last round of drilling, LEX geologists appear to have a better handle on the somewhat complex Lucky Strike geology

Lucky Strike consists of steeply dipping banded iron units, which are very deeply oxidised (around 150m vertical). This is attributed to the presence of a major structure and intense alteration of the deeper rocks which has allowed preferential oxidation. The zone of deep oxidation is clearly delineated by a significant gravity low extending over 4 to 5km. The targets remain quite obvious, but it has been challenging to establish continuity of the higher-grade gold intercepts and deliver a gold resource.

Recently released intercepts include the following. Collectively these appear to have identified a continuous SW plunging zone of mineralisation, which remains open at depth.

- **19m @ 4.52g/t Au from 45m in LEFR167
incl. 9m @ 8.67g/t Au from 49m**
- **17m at @2.41g/t Au from 111m in LEFR173
incl. 3m @ 10.4g/t Au from 113m**
- **11.1m at 2.47g/t Au from 56.9m in LSRD013
Incl. 4.5m @ 3.73g/t from 63.5m**
- **6m at 4.97g/t Au from 60m in LEFR171**

Source: LEX release, 20 November 2019

Having a better understanding of the geology, it's possible that a single drill hole (LEFR152 which delivered 22m at 2.5gpt) is the start of a third plunging ore shoot (the "hanging wall lode" in the log section above). This zone, possibly hosted in a parallel BIF, is likely to be tested in the next programme.

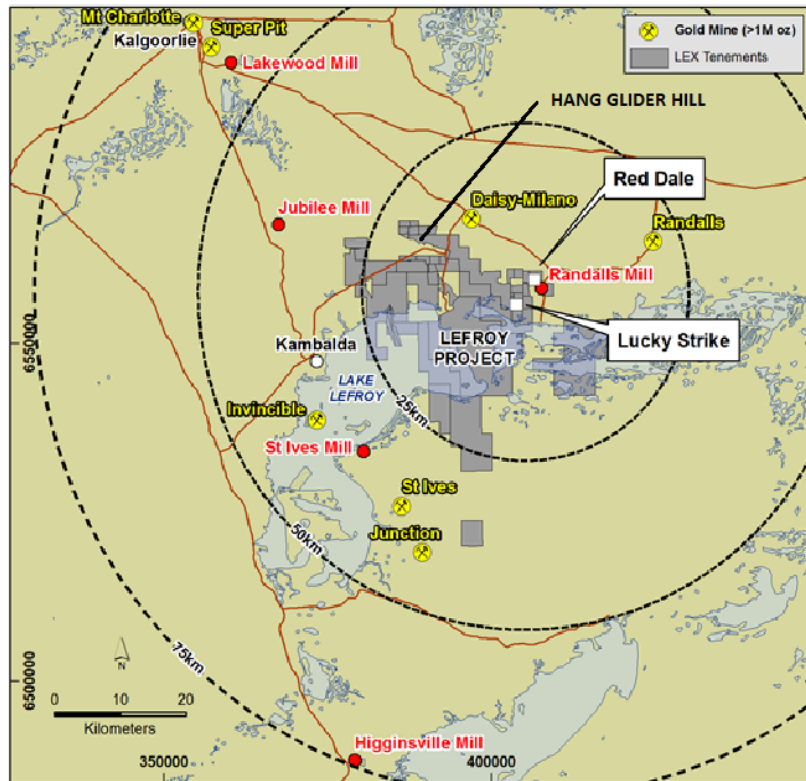
LEX have stated that following the next round of drilling in early 2020, geologists will be in a position to wrap a resource around the Lucky Strike discoveries.

Lucky Strike is extremely well located within a mature mining province. As shown on the following chart there are 5 mills within a 75km radius of Lucky Strike. Three of these have treated ore on a toll basis, and two continue to do so. The 5 mills include:

- **Silver Lake's Randall's mill**, with a 1.2mtpa capacity. SLK's reserve position has declined now to around 3 years, but recent exploration success may see underground reserves emerge from the Mount Belches/Santa discovery and Tank South within the Aldiss mining centre. Both will have to carry significant trucking costs to the mill. LEX's Lucky Strike deposit is just a few km's from the mill, close to a haul road and importantly it is soft oxide ore. We understand that the Randalls operation has no access to oxide. It has all been mined
- **Northern Star's Jubilee mill**, also with a 1.2mtpa capacity. This is a +30 year old mill, deriving its feed from the adjacent HBJ deposit, now a fully underground operation and ore trucked from NST's Kundana underground. HBJ reserves stand at around 3.3mt at a modest grade (for an underground) of 3gpt. We'd be surprised if the Jubilee mill wouldn't also enjoy a nice dose of soft oxide ore.
- **The Lakewood mill**, a privately owned 1.2mtpa toll milling facility, just south of Kalgoorlie.
- **The 4.7mtpa St Ives mill** owned by Gold Fields. Somewhat surprisingly the St Ives general manager was quoted in the local press (Kalgoorlie Miner 28 November 2019) stating that "next year's exploration focus would be to find another open pit" and that they are "going to try and find the next big pit in the next 12 months and secure the life of St Ives in that". Gold Fields are currently earning 70% equity in the Lefroy project from LEX with the expenditure of \$25m over 6 years (from mid 2018). Lucky Strike and adjoining tenements are not included in the earn-in.
- **RNC's Higginsville mill**, 1.4mtpa capacity. RNC acquired the Higginsville plant from Westgold in June 2019, to provide milling facilities for its Beta Hunt underground ore and open pit ore from the nearby Baloo open pits. Previously a toll milling operation, RNC is now just processing ore from its own mines.

We believe that LEX is well positioned to monetise any reserves identified within its 100%-owned projects. To this end we note that LEX has lodged applications for miscellaneous licences which would allow the company to construct haul roads away from the Lucky Strike deposit.

Should the deposits prove large enough, LEX would become an obvious takeover target for Gold Fields (which already owns an 18% stake in LEX), Northern Star or Silver Lake.



Source: Lefroy Resources, with additions

HANG GLIDER HILL

Initial drilling results have been reported from the **Hang Glider Hill (HGH) prospect**, a topographic feature some 17km to the NW of Lucky Strike (see previous map) and possibly located on the prospective Mt Monger fault. Associated with a regional geological survey of the region, LEX provided access to a local prospector who identified a large number of gold nuggets in the area. LEX subsequently completed a soil geochemical survey which has identified a >1.5km long +20ppb gold anomaly.

The initial drill programme was aimed at providing geological information for an area which has had remarkably little attention from explorers over the years. Three diamond holes were drilled evaluating some 160m of strike. The rocks encountered were strongly deformed, likely part of the Mt Monger shear, in contact with relatively undeformed volcanics and sediments (including black shales, which can play host to gold mineralisation). Within the mapped basalt to the south of the Mt Monger fault are intercalated ultramafic units intruded by porphyries. We are attracted by this rock series, which might have provided a ductility contrast leading to fracturing and the incursion of gold-mineralising fluids.

Two zones of gold mineralisation were encountered in the first hole:

- | |
|---|
| <ul style="list-style-type: none"> ○ 6.8m @ 1.86g/t Au from 53.7m ○ 7.68m @ 0.66g/t Au from 44m (includes VG) |
|---|

Visible gold (“VG”) was encountered in the second intercept.

It is still very early days on the HGH project, but we are encouraged that the first drill hole to be drilled into the area in the last 25 years has generated strongly anomalous gold mineralisation. Lefroy holds some 4km of the structure associated with HGH under tenement. An auger drill programme is likely to commence in 1Q2020.

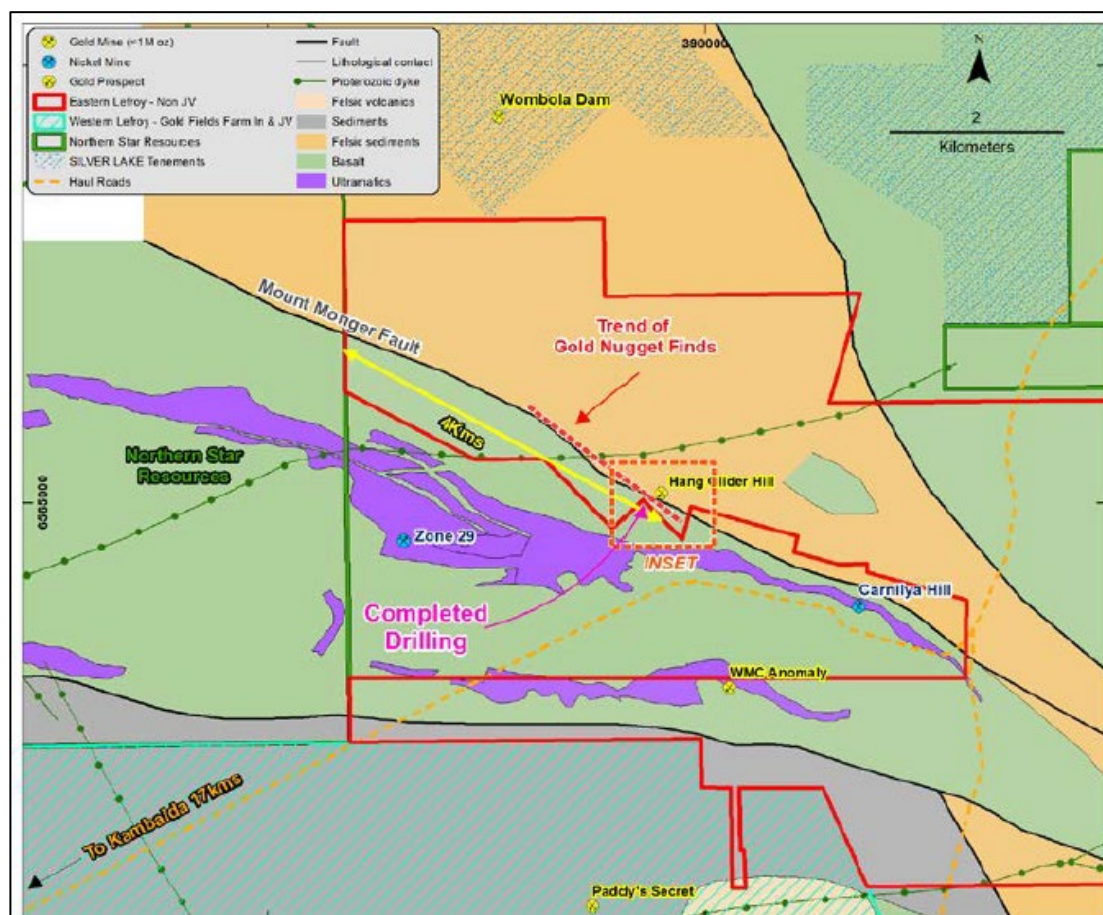


Figure 3 Interpreted geological map of the Hang Glider Hill area and extent of LEX tenement package. Refer to Figure 4 for drilling inset map.

Source: Modified from LEX release, 20 November 2019

Capital structure

| Lefroy Exploration Ltd (LEX AU) | | |
|---------------------------------|------|---------|
| Share price | A\$ | \$0.19 |
| Number of shares (fpo) | m | 100.49 |
| Market capitalisation | A\$m | \$19.09 |
| Share options (40c) | m | 1.0 |
| Cash (at 9/19) | A\$m | \$3.3 |
| Debt | A\$m | \$0.0 |
| Top 20 shareholders, appr. | | 73% |
| Board ownership, appr. | | 24% |
| Goldfields ownership | | 18.1% |

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Dr Chris Baker, an authorised representative of BSCP, certifies that the advice in this report reflects his honest view of the company. He has 29 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a part time basis. He may own securities in companies he recommends but will declare this when providing advice. He currently owns shares in LEX. He is remunerated by BSCP but is not paid a specific fee for providing this report.

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Appendix 1

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