

4 Apr 2018

## GALENA MINING LIMITED (G1A)

### Subdivision of capital completed

Galena Mining Limited (G1A) has seen its share price appreciate by as much as 6x since its IPO at 20cps in September 2017. In an attempt to increase liquidity in the stock, the Company has successfully executed a 1:5 share split which has seen shares on issue and escrowed shares increase by 5x from 55.6M to 278M. Conversely, the share price has decreased by a fifth; from 90c to 18c post the subdivision of capital. The share split was formally approved by shareholders on 19 March and came into effect on 3 April.

### Regional work around Abra

In late 2017, G1A carried out a high-resolution helicopter electromagnetic (EM) survey over the Woodlands, Quartzite Well and Manganese Range prospects. A number of clearly defined EM conductive plates were evident at Woodlands as well as a large plate Quartzite Well, which correspond with historic drill results. G1A will soon commence drilling at Woodlands to test the conductors for massive copper mineralisation. Coincident historic significant intersections at Woodlands include: 60m @ 0.3% Cu from 505m (incl. 0.4m @ 8.4% Cu and 16g/t Ag) and 3m @ 1.6% Cu from 188m.

G1A will also assess the Manganese Range and Quartzite Well prospects where historic intersections include 28m @ 2.3% Pb, 32g/t Ag & 1.2% Zn from 121m at Quartzite Well, and 16m @ 1.1% Pb at Manganese Range. A detailed review of the geology and geophysics is underway across all of G1A's 100% owned tenure to prioritise drill targets.

### Awaiting updated metallurgy

We look forward to an update on metallurgy, which we expect in the coming weeks. G1A's predecessor, Abra Mining, completed (2006) metallurgy test work which indicated lead recoveries of between 88-98% using a single stage flotation technique. We have modelled 93%.

### Maintain Speculative Buy

We have updated our model to reflect the share split. We also include the recently issued shares to the CEO in lieu of a cash bonus and have rolled our DCF model forward into a new quarter. Our G1A model is a fully funded model, meaning changes in share price affect our valuation. The recent easing of the G1A share price, coinciding with the share split, results in a valuation of 34cps (previously \$1.77cps, or 35cps equivalent) and 56cps at spot prices. Our 12-month price target is 33cps (previously \$1.71cps, or 34cps equivalent).

G1A remains undervalued and presents an excellent opportunity for investors wanting exposure to a WA lead play with added upside both in-mine and regionally. With drilling soon to commence and the PFS set to be completed in 2H18, we expect G1A will need to raise capital to supplement the \$3.1M cash it had at the end of the DecQ.

Share Price	\$0.185
Preliminary Valuation	\$0.34
Price Target - 12 months	\$0.33

#### Brief Business Description:

Single asset, WA focussed, lead-silver (+zinc, copper, gold) explorer/developer

#### Hartleys Brief Investment Conclusion

The Abra deposit was first drilled in 1981 and has previously been defined to depths of over 500m below surface. ~A\$20M has been spent by previous owners in defining a high tonnage, lower grade deposit. G1A listed in mid-2017 and has defined a high grade resource of 10.3M @ 9.7% Pb & 29g/t Ag.

#### Chairman & CEO

Adrian Byass (Non-Exec Chairman)

Edward Turner (Chief Executive Officer)

#### Top Shareholders

Bloomgold Resources Pty Ltd	29.6%
Jonathan Downes	7.3%
Adrian Byass	4.0%
Oliver Cairns	3.7%

#### Company Address

Level 1, 329 Hay Street  
Subiaco, WA 6008

Issued Capital 278.0m

- fully diluted 309.8m

Market Cap A\$51.4m

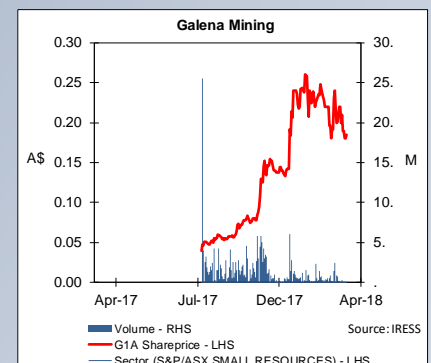
- fully diluted A\$57.3m

Cash (15 Mar 2017) A\$2.4m

Debt (15 Mar 2017) A\$0.0m

EV A\$49.0m

EV - fully diluted A\$53.0m



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Hartleys has assisted in the completion of a capital raising for Galena Mining Limited ("Galena") in the last 12 months for which it has earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Galena, for which it has earned fees and continues to earn fees.

## SUMMARY MODEL

Galena Mining G1A		Share Price \$0.185		4 April 2018 Speculative Buy	
<b>Key Market Information</b>				<b>Directors</b>	
Share Price		\$0.185		<b>Company Details</b>	
Market Capitalisation		\$51.4m		Adrian Byass (Non-Exec Chairman) Level 1, 329 Hay Street	
Market Capitalisation - full dil.		\$57.3m		Jonathan Downes (Non-Exec Director) Subiaco, WA 6008	
Net Cash (debt)		\$2.4m		Oliver Cairns (Non-Exec Director) P +61 8 6461 6350	
Issued Capital		278.0m		Timothy Morrison (Non-Exec Director) F +61 8 6210 1872	
Options		31.75m		Edward Turner (Chief Executive Officer)	
Issued Capital (fully diluted all options)		309.8m		Stephen Brockhurst (Company Secretary) <a href="http://www.galenamining.com.au">www.galenamining.com.au</a>	
<b>EV</b>				<b>Top Shareholders (est)</b>	
- current		\$49.0m		<b>m shs</b>	<b>%</b>
- diluted fully		\$53.0m		Bloomgold Resources Pty Ltd (Timothy Morrison)	82.3 29.6%
				Jonathan Downes	20.4 7.3%
				Adrian Byass	11.1 4.0%
				Oliver Cairns	10.4 3.7%
<b>12Mth Price Target</b>		<b>\$0.33</b>		<b>News flow</b>	
				<b>Project</b>	
<b>Projects</b>	<b>Interest</b>	<b>Location</b>	<b>Commodity</b>		
Mulgul (Abra)	100%	WA	Pb-Ag (Cu-Au-Zn)		
Jillawarra	100%	WA	Pb-Ag (Cu-Au-Zn, Mn)		
<b>JORC Resources</b>	<b>Mt</b>	<b>Pb %</b>	<b>Ag g/t</b>	<b>Cut-off</b>	
<i>Abra (Ordinary Kriging Interpolation)</i>					
Measured	-	-	-	-	
Indicated	5.4	10.0%	28	7.5%	
Inferred	4.9	9.3%	31	7.5%	
<b>Total</b>	<b>10.3</b>	<b>9.7%</b>	<b>29</b>	<b>7.5%</b>	
<b>P&amp;L</b>	<b>FY2017A</b>	<b>FY2018F</b>	<b>FY2019F</b>		
Net Revenue	n/a	n/a	n/a		
Total Costs	n/a	n/a	n/a		
EBITDA	n/a	n/a	n/a		
Deprec/Amort	n/a	n/a	n/a		
EBIT	n/a	n/a	n/a		
Net Interest	n/a	n/a	n/a		
Pre-Tax Profit	n/a	n/a	n/a		
Tax Expense	n/a	n/a	n/a		
NPAT	loss	loss	loss		
Abnormal Items	n/a	n/a	n/a		
Reported Profit	loss	loss	loss		
				<b>Unpaid Capital</b>	
<b>Year Expires</b>		<b>No. (m)</b>	<b>\$m</b>	<b>Avg. Price</b>	<b>% ord</b>
<b>Options - unlisted</b>					
30-Jun-20		11.75	0.71	0.06	4.2%
30-Jun-21		15.00	1.20	0.08	5.4%
<b>Total</b>		<b>26.75</b>	<b>1.91</b>	<b>0.07</b>	<b>10%</b>
<b>Comments</b>					
The Abra deposit was first drilled in 1981 and has previously been defined to depths of over 500m below surface. ~A\$20M has been spent by previous owners in defining a high tonnage, lower grade deposit. G1A listed in mid-2017 and has defined a high grade resource of 10.3Mt @ 9.7% Pb & 29g/t Ag.					
Analyst: Paul Howard Ph: +61 8 9268 3045				Last Updated: 04/04/2018	
Sources: IRESS, Company Information, Hartleys Research					

# PRELIMINARY PRICE TARGET

## METHODOLOGY

Our G1A valuation and price target is considered highly speculative.

Considering 309.75M, fully diluted, shares on issue and a potential mine inventory of 10Mt @ 9.7% Pb and 29g/t Ag, we have simulated a potential ~1Mtpa underground operation, using estimated opex and A\$180M capex based largely on comparable Australian operations. We model production of ~90Ktpa PbEq (85ktpa Pb and 755kozpa Ag) over a 9 year mine life from a 1Mtpa plant at a conservative LOM Pb price of US\$0.90/lb. Lead recoveries have been modelled at 93% at a head grade of 10% Pb, with 95% payabilities. We stress that this is highly speculative and assumes the project can be successfully funded into production.

We see potential for resource growth and model a 10Mt mine inventory. Any potential resource could be further enhanced through definition of economic zinc, copper and gold mineralisation. The zinc mineralisation appears to be associated with the highest grades of lead mineralisation, in what could be a secondary mineralisation event that upgraded lead while emplacing zinc rich hydrothermal fluids. Further work is required to validate this theory. A copper-gold mineralisation event also appears present at depth and can further augment to Abra deposit through additional drilling and resource definition.

Even if development studies are fast tracked, we suspect first production would not be until 1H21 following an 18-month development phase in which a decline would need to descend 300m below surface (2.2km long at a 1:7 gradient). Galena is very much a brownfields explorer/developer with a lead-silver project which may be commercially viable. A discount rate of 14% is used, since the project is at a pre-study stage.

Our fully diluted price target of 33cps is derived from a blended scenario comprised of a discounted cashflow analysis of a Pb-Ag operation at Abra, a base case at consensus and spot pricing, a scenario where G1A does not develop the project (exploration value), and a net cash backing case.

*Our fully diluted price target is 33cps*

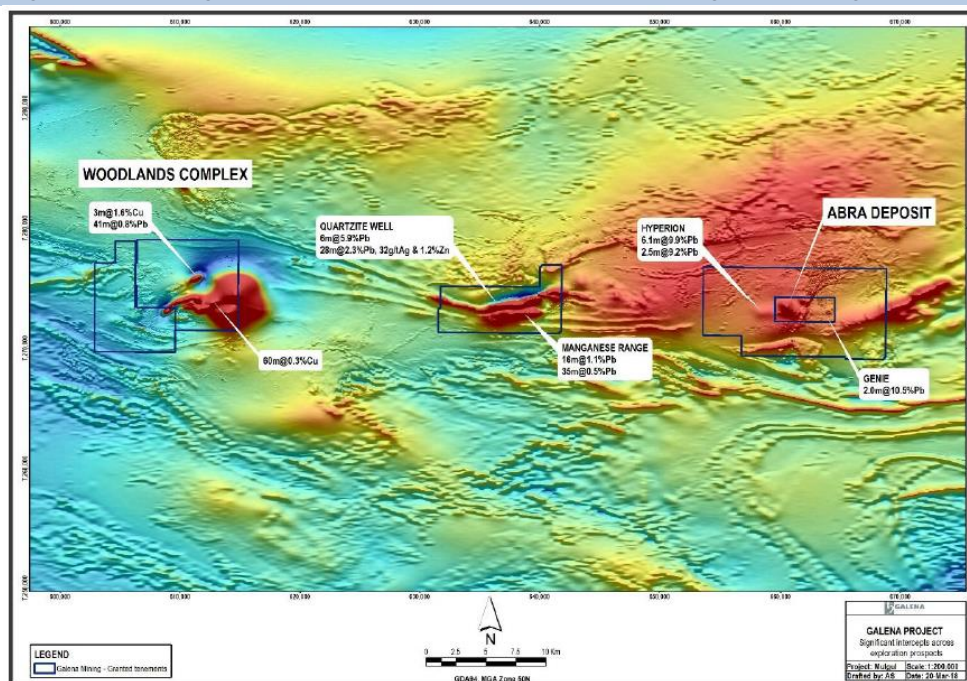
*Our 12-month price target for G1A is 33cps*

**Fig. 1: Hartleys G1A Price Target**

Price Target Methodology	Weighting	Spot	12 Month
Abra NPV @14% - Base Case, assuming equity dilution	60%	\$0.34	\$0.38
NPV at spot commodity and fx prices	10%	\$0.51	\$0.57
Exploration value - no development	25%	\$0.18	\$0.18
Net cash backing	5%	\$0.01	\$0.01
<b>Risk weighted composite</b>		<b>\$0.30</b>	
<b>12 Months Price Target</b>		<b>\$0.33</b>	
Shareprice - Last		\$0.185	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>80%</b>	

Source: Hartleys Estimate

**Fig. 2: Regional prospects with historic drilling over magnetics**



Source: Galena Mining Limited

## RISKS

Key risks for Galena include establishing resources which can be converted to reserves, development studies, funding (both for ongoing exploration activities and any potential future development) and commodity sentiment/demand.

**Fig. 3: Key assumptions and risks for valuation**

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
~90kt PbEq for ~9years	Moderate	Meaningful	We assume G1A can convert a resource to reserve in the order of 10Mt @ 9.7% Pb & 29g/t Ag.
Metallurgy	Low	Meaningful	While previous work suggests the metallurgy is relatively benign, it is a key consideration with all base metal projects.
Exploration Upside	Moderate	Moderate	We assume a high level of exploration upside for G1A. We have assumed a \$80m value on the exploration potential at Abra and on adjacent projects.
Lead Price	Moderate	High	Our lead price forecasts are in line with sell side consensus. However, this is currently ~30% lower than spot.
Funding	Moderate	High	We assume a ~90ktpa PbEq operation at Abra could be funded through a debt:equity ratio of 50:50.
Lead demand	Moderate	High	The emergence of the EV space puts lead (batteries) demand at risk.
<i>Conclusion</i>	<i>The assumptions we have made have a low to moderate risk of not being. We believe is the highest risk to our valuation of G1A is commodity prices and demand.</i>		

Source: Hartleys Research



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## Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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