RM Research

5 September 2013

ASX CODE: PMR

Speculative Buy

Capital Structure	
Sector	Materials
Share Price (A$)	0.40
Fully Paid Ordinary Shares (m)	85.0
Listed Options (m)	-
Unl Options (ex 30c, exp 12/14 to 10/16 (m))	3.6
Market Capitalisation (undil) (A$m)	34.0
Enterprise Value	33.8
Share Price Year H-L (A$)	0.21-0.54
Approx Cash (A$m)	0.2

Directors	
John Dawkins	Chairman
John Foley	Deputy Chairman
Michael Leu	Managing Director
Jacob Rebek	Director
Peter Kennewell	Director
Bruce Dennis	Non-Executive Director
Peter Meers	Non-Executive Director

Major Shareholders	
Sovereign Gold Company Limited	79.5%
Raffles Capital	11.8%

Analyst

Andrew Muir +61 8 9488 0800

INITIATION OF COVERAGE

Precious Metal Resources Limited

Large Scale Base Metals Targets…..Drilling Soon

Halls Peak—A New SEDEX Province?

- PMR's Halls Peak project has a number of indications that the tenements contain a new SEDEX province, such as those at Mt Isa, Cannington, and McArthur River base metal deposits. VTEM surveys have highlighted both shallow and deep anomalies over a +14km^2 area. The shallow anomalies correlate with a number of historic high grade base metals mines with grades in the order of +2.5% copper, +8% lead, +10% zinc and +200g/t silver.
- Key will be testing the large VTEM anomalies at depth, which if mineralised, will demonstrate the proof of concept and the existence of a large scale SEDEX system.

High Impact Drilling Soon

- The Company is planning to undertake a drilling program to test the strike and depth extents of the known zones around the historic mines, as well as the deeper holes to test the VTEM anomalies at depth.

Key Funding From SUGEC

- The vast majority of work on Halls Peak is being funded by SUGEC, which is contributing $10m over a two year period and thereby gaining a 30% stake in the project. However, with just $0.2m in cash as at 30 June 2013, we expect PMR to seek funding in the near term.

Peel Fault Provides Gold Exposure

- PMR has recently signed a Joint Venture on the Peel Fault Gold Project, located in north-eastern NSW. The project is located along a major geological structure which PMR considers to be highly prospective for gold deposits, yet remains underexplored. The Joint Venture agreement requires PMR earning up to 70% in two tranches via the expenditure of $1m over 3.5 years. Initial work is focussing on Crow King, with drilling expected in the next 3-6 months.

Price Catalyst

- **RM Research** sees the drilling of Halls Peak as a key driver in the fortunes of the company, with success in the shallow drilling, and proof of concept at depth, likely to lead to a significant share price appreciation.
- Catalysts associated with Peel Fault include the testing of walk up drill targets as defined by the previous owner (Icon Resources), as well as the generation and drilling of its own targets.

Action and Recommendation

- **RM Research** believes that the first drill program at Halls Peak will be closely monitored by the market, particularly if the drilling tests the SEDEX concept. We expect any indications of SEDEX mineralisation should lead to a sizeable rerating of the company's share price. In addition, we expect good gold drill results from Peel Fault to be viewed favourably. Consequently we initiate coverage with a **SPECULATIVE BUY**.

INVESTMENT CASE

LEVERAGED TO EXPLORATION SUCCESS

"Live and die by the drill bit"

Successful exploration that leads to proof of concept of a new SEDEX province within its Halls Peak tenements should lead to a rerating in the share price. Whilst we see the deeper drilling as high risk, exploration drilling along strike and at depth of the known base metals mineralisation should also lead to positive news flow.

LARGE SCALE

Large scale may lead to large rewards

If the SEDEX concept is proven, it will require sizeable funding to drill out and prove up, due to the large areal extent, as well as the depth of the potential zones. We see the scale potential as being attractive to a larger mining house who would have the funds as well as expertise to develop the project. Whilst this is arguably drawing a long bow, exploration success may also lead to corporate activity. However, we note that the Company is effectively controlled by Sovereign Gold Company Limited [ASX: SOC] with 79.5%. Consequently SOC may be a better vehicle for exposure to corporate activity.

SUGEC PROVIDING BOTH FINANCIAL AND TECHNICAL SUPPORT

In addition to providing the $10m in funding, SUGEC is also supplying a sizeable technical team to progress Halls Peak, meaning there is minimal funding requirements from PMR, though we would not be surprised if PMR comes to market soon.

COMPANY OVERVIEW

Precious Metal Resources Limited ("**PMR**", "**The Company**") is a junior exploration company focusing on projects in regional NSW, Australia. The Company is targeting a range of mineralisation styles including large scale sedimentary exhalative ("SEDEX") polymetallic targets (Halls Peak), gold (Peel Fault JV, Hortons), Broken Hill style polymetallic targets, and VMS and porphyry targets (New England).

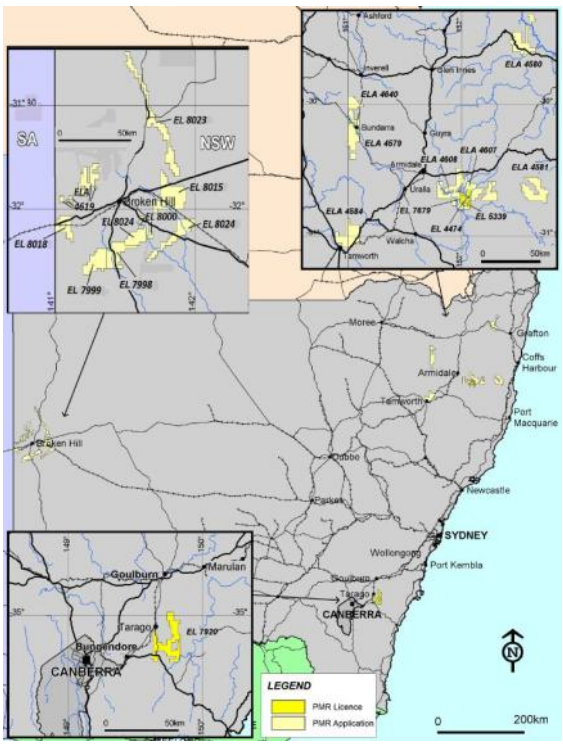


FIGURE 1: PMR Project locations (*source*: **PMR** 2012 Annual Report).

Whilst the Company has not undertaken any sizeable drill programs to date, recent VTEM geophysics has indicated the potential for a large SEDEX style target at its Halls Peak project, which if proven, has the chance to lead to a substantial rerating. In addition, PMR has recently entered into a Joint Venture on the Peel Fault project which has a sizeable tenement holding on an underexplored gold belt.

Three of the Halls Peak tenements (EL's 7679, 4474 & 5339) are subject to a 30% farm in Joint Venture ("JV") with SUGEC via the expenditure of $10m over 2 years.

The company was the subject of a takeover by Sovereign Gold in August 2012. This resulted in SOC ending up with 81.26% of PMR. In July 2013, SOC sold its share down to 79.5%.

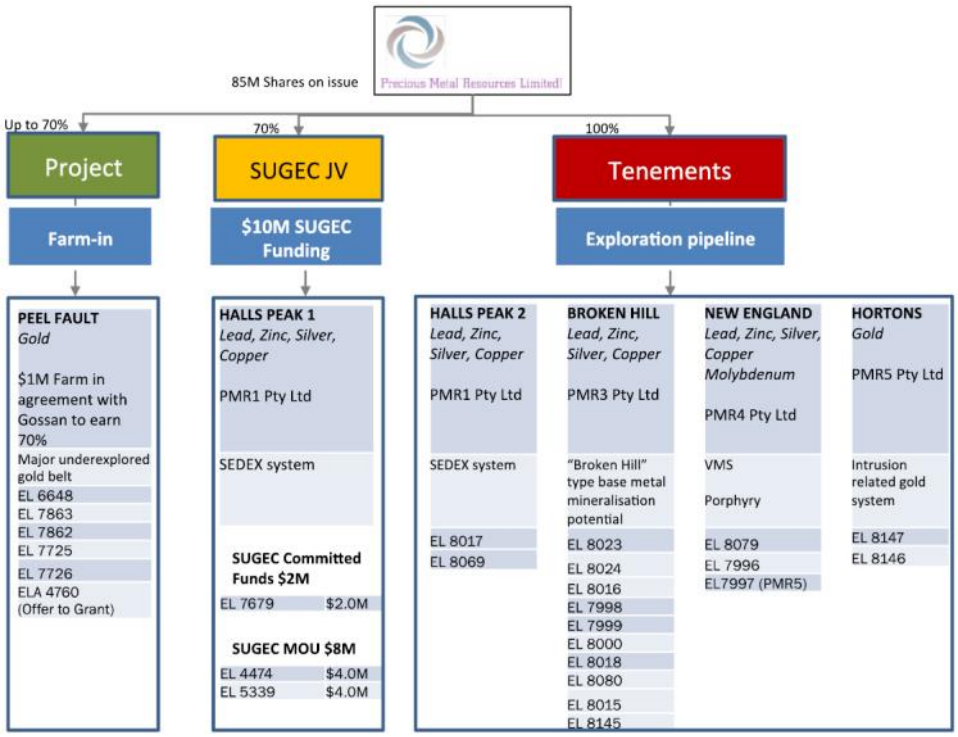


FIGURE 2: PMR Project Assets Overview (*source*: **PMR** Release, August 2013).

EXPLORATION OVERVIEW

Halls Peak Project

Location & History

The Halls Peak project is located 80km south-east of the regional NSW town of Armidale and consists of three granted tenements (EL7679, 5339 & 4474).

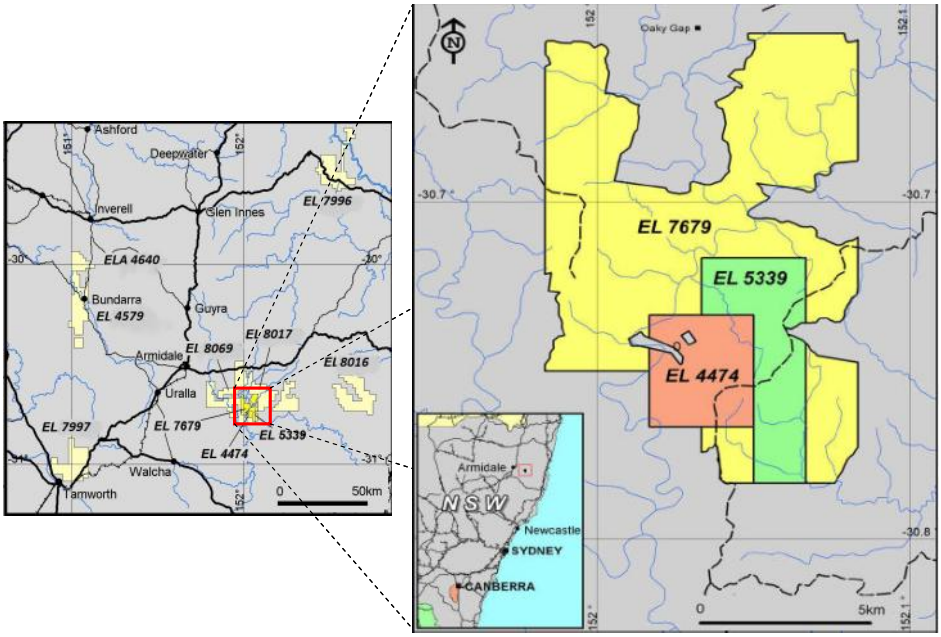
The Company believes that Halls Peak is highly prospective for high grade copper, lead, zinc and silver massive sulphide deposits. PMR is exploring for such deposits with a global target of 5 – 70Mt of mixed grade mineralisation. In addition, PMR is investigating orogenic gold deposits.

Base Metals

Historic high grade base metal mines at Halls Peak

The area has been subject to historic small scale mining, with a number of operations by prospectors at various periods between 1916 and the late 1970's. These include the Faints-Firefly, Gibsons, Mickey Mouse and Sunnyside mines. Typically, the mines targeted Cu, Ag, Pb and Zn from both gossans and massive sulphides.

FIGURE 3: Halls Peak Tenements (*source*: modified from **PMR** Release, June 2013).



Significant historic exploration

In addition, the area has been subject to historic exploration and work by the Geological Survey of NSW, BHP Co. Ltd., Mt. Isa Mines Ltd., The Zinc Corporation, Allstate Exploration N. L., Carpentaria Exploration Co. Ltd., CRA Exploration Limited and Amoco Minerals Australia Co.

Carpenteria highlighted that a syngenetic sulphide assemblage was limited to a black pyritic metasiltstone. Exploration by others also focussed on these black pyritic sediments, including CRA, which located a number of associated gossans. In addition, some gossans were identified to be within northeast trending fault/shear zones. Such mineralisation was considered to be “leakage” that migrated out of the black shale/sediment horizon.

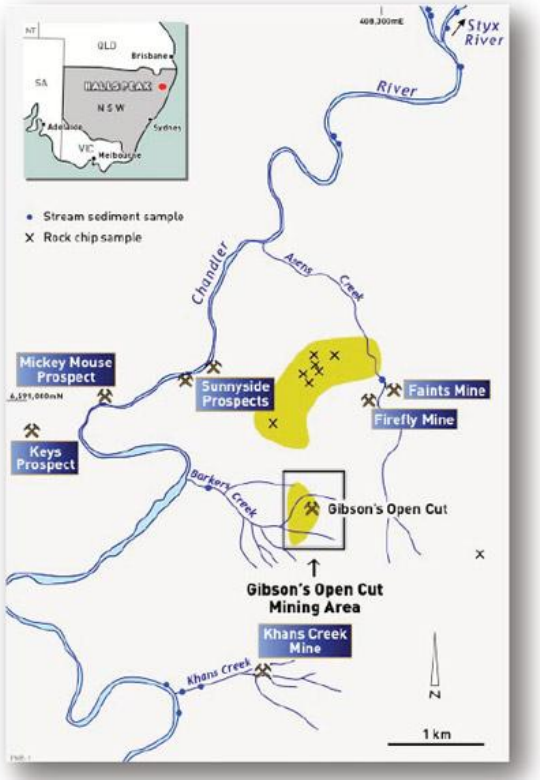
Gold

Gold potential, but not the key focus

Recent work has also identified numerous gold–rich quartz breccias with values between 0.7 - 10.4g/t Gold. In addition, resampling and reassaying of c.4,000m of historic diamond drill core (from 1969 – 1974) has indicated that previous explorers did not assay some holes for silver and base metals as the mineralised rocks appeared almost identical to un-mineralised rocks.

Whilst the potential for precious metals apears encouraging, the primary focus is on the base metals.

FIGURE 4: Halls Peak Historic Mines (*source*: **PMR** Release, February 2013).



VTEM has highlighted large scale anomalies

PMR Work

In 2012, PMR flew a 1,221km VTEM survey, in collaboration with Sugec Mining Company Pty Ltd, (SUGEC). The survey identified large conductive zones at depth beneath the former Keys, Mickey Mouse, Sunnyside and Sunnyside East mines. PMR believes that these conductive zones may be due to base metal mineralisation.

The survey also highlighted vertical anomalies at depth, which PMR interprets as sulphide bearing vent zones that have emanated from deep within the earth. These vertical zones are overlain by horizontal zones that are interpreted as flat-lying sediments that contain sulphide minerals which flowed from the vertical vents onto the overlying sea floor.

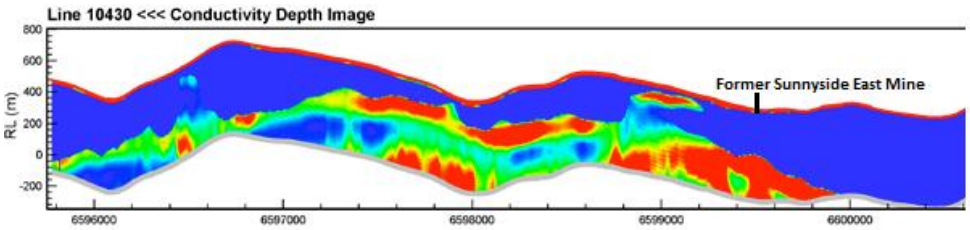


FIGURE 5: Conductivity Depth Image beneath the former Sunnyside East Mine (*source*: **PMR** Release, January 2013).

PMR indicates that some of the shallower VTEM anomalies are present at the former silver-lead-zinc-copper mines at Halls Peak, potentially indicating that the shallow anomalies are due to base metal mineralisation. These anomalies are shown in light blue/green in Figure 5.

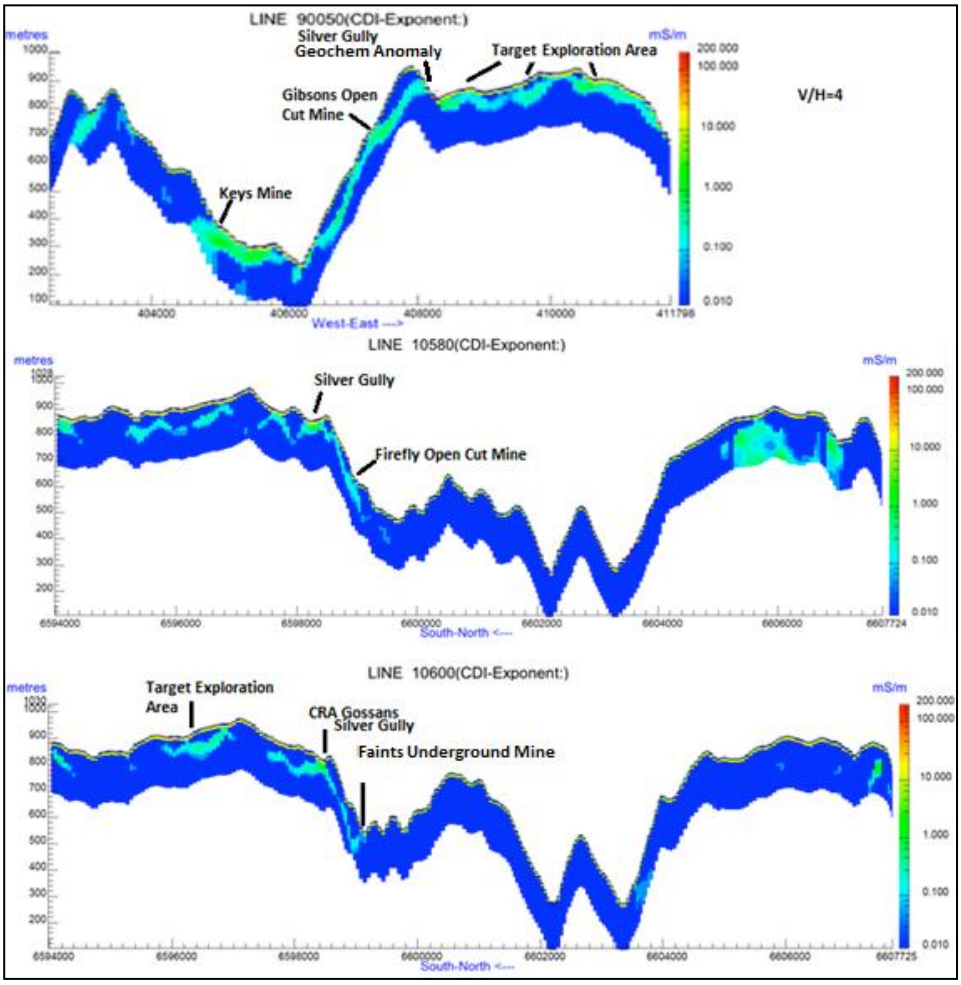


FIGURE 6: Shallow and Deep VTEM anomalies and correlation with Historic Mines (*source*: **PMR** Release, June 2013).

Mineralisation associated with sediments as well as in faults

SEDEX systems can be very large

SEDEX Targets

Many of the historic copper, zinc, and lead sulphide mines are on or near a northeast trending regional fault, indicating that the sulphide minerals have been remobilised to the surface from these conductive zones, according to PMR.

The mineralisation's proximity to a fault zone, flat lying zones and close association with the sedimentary horizons has led PMR to believe that the mineralisation at Halls Peak is more of a Sedimentary Exhalative (SEDEX) style, rather than the previously proposed Volcanic Massive Sulphide (VMS).

SEDEX systems form beneath deep seas, with hot springs venting upwards through fractures and faults, creating beds of base metals on the sea floor. The VTEM survey has identified anomalies possibly related to a SEDEX system that cover an area of 14.3 km^2. If the mineralisation was to cover this areal extent, the Halls Peak project could be considered to be a new SEDEX province.

This recognition should allow the company to better target exploration efforts. It is also significant in that SEDEX deposits can contain very large tonnages and carry a range of base metals. Other SEDEX base metal provinces include northern Queensland, which contains the Mt Isa, Hilton, George Fisher, Cannington, Century and McArthur River base metal mines.

According to PMR, the grades mined in the Halls Peak area during last century were higher than the typical grades mined in most SEDEX deposits, more commonly in the order of c.7% lead, c.5% zinc and c.120 g/t silver. To this end, reanalysis of historic diamond core at the Gibsons Mine confirmed high-grade intersections of:

- 6.25m @ 3.6% copper, 14.6% lead, 21.6% zinc and 352 g/t silver
- 6.86 m @ 2.6% copper, 8.2% zinc, 14.2% lead and 202 g/t silver and
- 17.68 m @ 4% copper, 24% zinc, 15% lead and 197 g/t silver.

Other high grades have also been seen at the Faints Mine.

PMR believes that the pods of high grade mineralisation at these mines, combined with surrounding extensive lower grade shales are near the upper surface of the black shales and formed during the final waning stages of SEDEX associated mineralising activity.

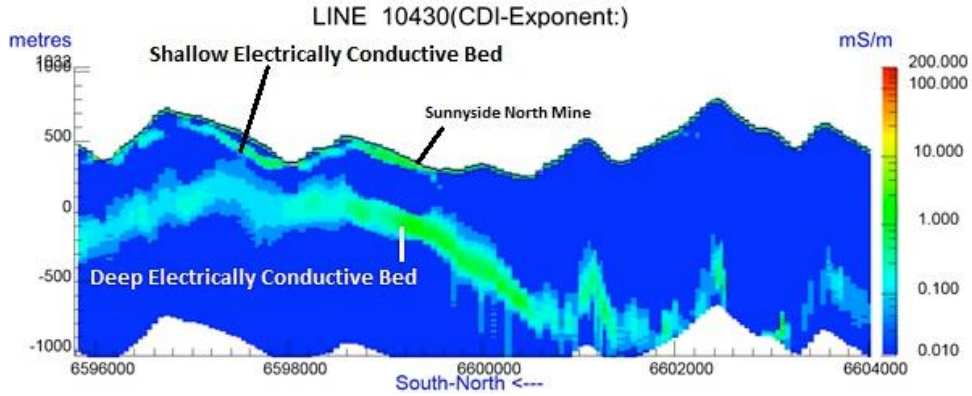


FIGURE 7: Deep and Shallow conductive beds underneath Sunnyside North Mine (*source*: **PMR** Release, July 2013).

Potential higher grade base metal beds may have formed at a greater depth, with the VTEM survey indicating a broad and extensive conductive zone, at depths of c.500m beneath the Faints and Firefly Mines. The deepest drill hole to date at the Faints and Firefly Mines was c.200m depth in 1969, which was too shallow to intersect the deeper conductive layer.

A program is being developed to test these broad conductors at depth below Gibsons Mine, Sunnyside Mine and Faints-Firefly Mine.

In addition, deep electrically conductive beds have been identified at c.1,500m depth. PMR believes that these deep conductors may be caused by base metal mineralisation, and there is therefore the potential for very extensive deep mineralisation throughout the province in the manner of other similarly mineralised systems such as Mt Isa, McArthur River and Cannington.

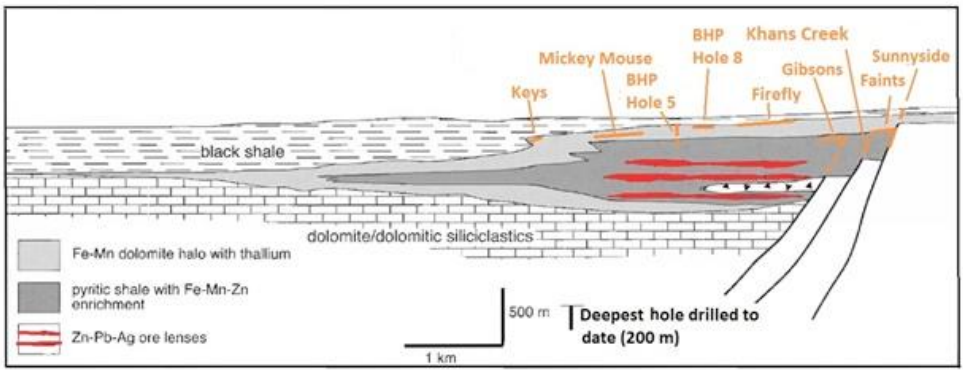


FIGURE 8: Schematic interpretation of historic Halls Peak mines in relation to a typical Australian SEDEX deposit (*source*: **PMR** Release, April 2013).

Historic deposits can be interpreted to be in the upper part of a SEDEX system

PMR believes that the Halls Peak former mines (in brown on Figure 8) are located in the uppermost part of a mineralising SEDEX system. Consequently, the high grade zinc-lead-silver lenses typical in the lower parts of such systems would be at greater depths. This concept appears to be supported by the deeper conductive anomalies from the VTEM survey.

Consequently, the past drilling and mining has been too shallow to reach these potential deeper high-grade lenses, in our opinion.

It is clear that only shallower and less conductive base metal beds and veins were drilled at Halls Peak by past explorers. The deepest hole to date went to 200 metres and was therefore inadequate to test the deeper parts of the SEDEX mineralised system. To test the deeper mineralisation requires at least 400m drill holes.

IP Anomalies

IP has highlighted additional close to surface mineralisation

Induced Polarisation (IP) geophysical surveys completed over parts of the historic mines at Halls Peak have highlighted electrically conductive zones. These conductive zones outcrop beneath the historic silver-lead-zinc-copper mines and PMR believes that the IP anomalies are associated with the base metals mineralisation.

The IP has indicated that the mineralisation extends further at depth and along strike, as also seen in the VTEM anomalies.

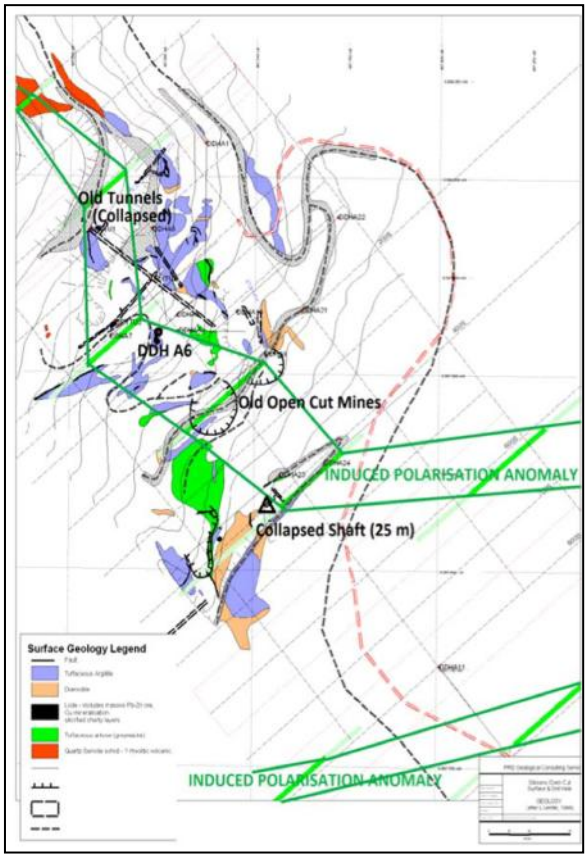


FIGURE 9: Plan View of Historic mines and IP anomalies (*source*: **PMR** Release, July 2013).

PMR believes that the IP has demonstrated potential for the high grade mineralisation to be more intensely developed in places within the shallow electrically conductive bed. Significantly, this bed extends for over one kilometre between the Gibsons and Faints-Firefly Mine areas implying significant potential to define base metals mineralisation both along strike and depth of the historic mines.

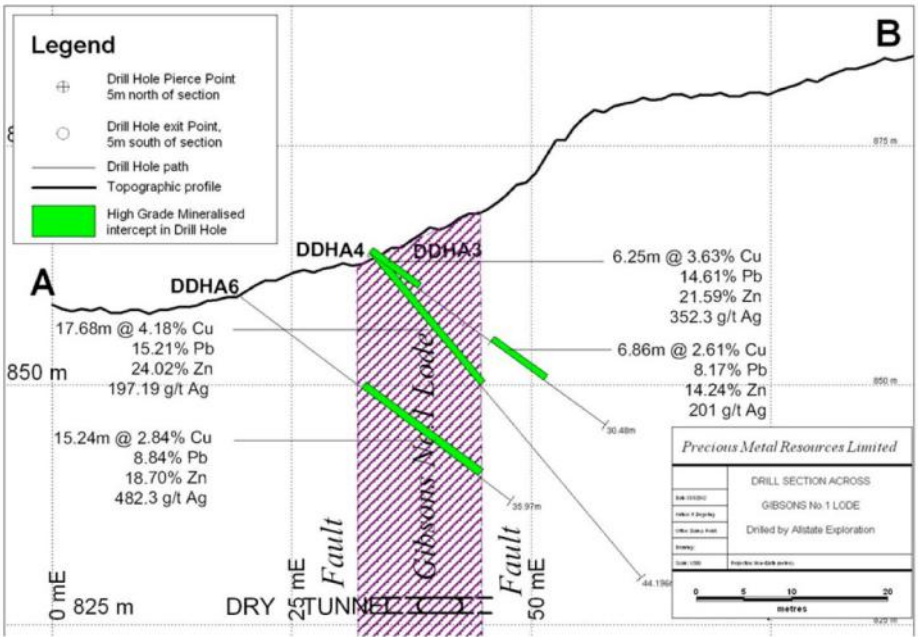


FIGURE 10: IP anomaly correlation with Historic drilling, Gibsons historic mine (*source*: **PMR** Release, July 2013).

Proposed Work Program

In addition to the ongoing refinement of the VTEM and IP surveys, the Company is in the process of generating targets for drilling.

Drilling likely to separately target shallow and deep mineralisation

We expect near term work to cover both infill and extensional drilling around the historic known mineralisation to demonstrate size, continuity and grade. We understand that this drilling is likely to take place within the next six months.

In addition, we expect deeper drill holes will be undertaken to test the deeper conductive beds for the larger scale SEDEX concept.

SUGEC JV

PMR has a joint venture agreement on three of its Halls Peak tenements with Jiangsu Geology and Engineering Co. Ltd. (SUGEC) of Nanjing, a Chinese State Owned Enterprise. The joint venture involves $8m in exploration on EL 4474 ($4m) and EL 5339 ($4m) and $2m exploration funding on EL 7679.

The funding covers a 2 year period.

As part of this, SUGEC has provided a dedicated team of geologists, geochemists and geophysicists to work with PMR.

As a result, SUGEC will be entitled to a 30% interest in each tenement on completion of the required expenditure commitment for that tenement.

McArthur River Comparison

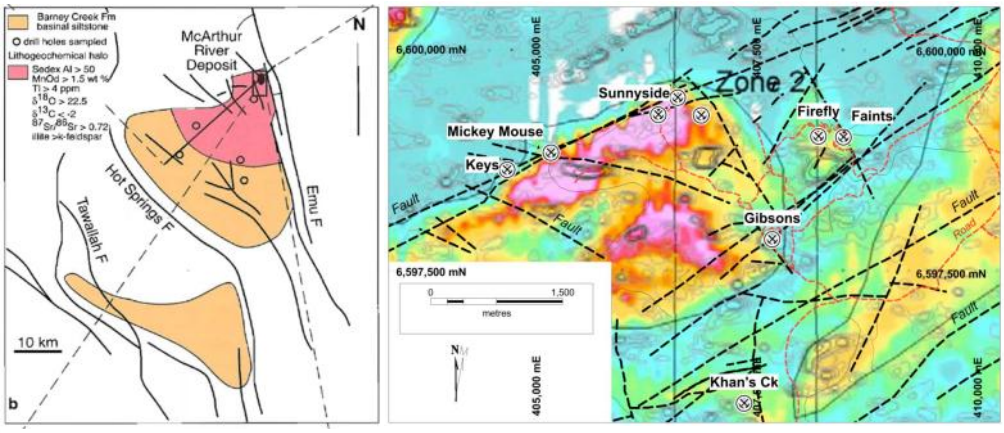
McArthur river is a world class system with large resource and long mine life, but requiring large upfront capex

Based on the information to date, PMR believes that the Halls Peak SEDEX system may be most analogous to the world class McArthur River deposit in the Northern Territory, currently owned by GlencoreXstrata. The deposit was first found in 1955, with mining commencing in 1996. The operation was initially mined via underground methods, before moving to open pit extraction in 2007.

Startup capex in 1995 was $290m.

The total pre-mining geological resource for McArthur River was 227Mt @ 9.2% Zn, 4.1% Pb, 41g/t Ag & 0.2% Cu. As at 31 December 2011, the mine had measured and indicated resources of 162Mt @ 10.7% Zn, 4.7% Pb & 48g/t Ag, with annual plant throughput of 2.5Mt per annum and a mine life out to 2027.

FIGURE 11: McArthur River deposit and Halls Peak Comparison (*source*: **PMR** Release, April 2013).



Development Concepts

Large capex would be required for any large scale development of Halls Peak

Whilst it is too early to suggest that Halls Peak is of a similar size to the McArthur River base metals deposit, we would suggest that the development of the project is likely to have a high preproduction capital requirement due to the scale, potential depth of operations and size of plant. Our early stage pre-production capital estimate would be in the range of $500—$1,000m, if not higher.

In addition, the funds required to drill out the resource to a resource and reserve status could be upwards of $50m, again depending on depth and variability of the deposit.

Alternatively a smaller scale development would generate faster cashflow (though smaller) and stage the development to preserve capital

For the above reasons, such SEDEX deposits are typically operated by larger companies given the sizeable capital and technical requirements.

Conversely, PMR may seek to initially target the shallower mineralisation in a much smaller operation to generate earlier cashflow and to reduce capex requirements. In the current market environment with the difficulties in raising capital, we would not be surprised if this was the option chosen if market conditions prevail.

In addition, a small scale operation would still present an attractive opportunity to a large mining house as it would not remove the scale potential of the area.

However, significant work is required before such a decision is required.

OTHER PROJECTS

Peel Fault Project

PMR has recently completed a Farm-In and JV Agreement with Gossan Hill Gold Limited, a subsidiary of Sovereign Gold, on the Peel Fault Gold Project. The project is located north of Tamworth in north-eastern NSW.

Highly prospective for a number of styles of gold deposit

Peel Fault contains 5 granted tenements and one application. The tenements are located along a major geological suture which PMR considers to be highly prospective for gold deposits, yet remains underexplored. PMR believes that the ground is prospective for three types of gold deposit:

- Greenstone Belt Gold: Californian Mother Lode Au. Orogenic Liswanite (Silica -Carbonate-Au)-hosted Gold – Approximately half the World's gold has been produced from greenstone hosted deposits.
- Intrusion-Related Gold systems (Large tonnage Au deposits). Altered gold-bearing monzonite dykes.
- High Grade Narrow Vein Orogenic Reef/Structure.

The agreement requires PMR earning a 35% interest via staged expenditure of $500,000 over 2 years. An additional 35% can be earned by the expenditure of another $500,000 over a further 18 months.

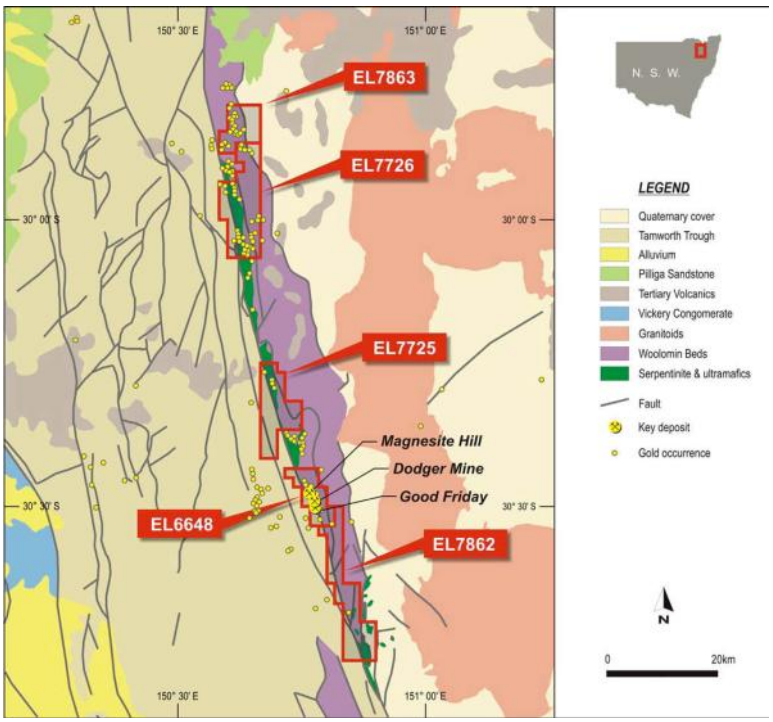


FIGURE 12: Peel Fault Project Tenements and Geology (*source*: **PMR** Release, August 2013).

Work Program

Walk up targets with drilling planned within the next six months

PMR's near term priority for Peel Fault will be on Crow King, EL 6648. The EL contains clusters of historic gold deposits over a 6.5km NW corridor. The area has been subject to 3D geophysical surveys which has identified a number of key gold target areas. An RC drilling program as well as a deep diamond hole is planned to test the extent of potentially economic mineralisation, initially discovered by previous owner Icon Resources Limited (now Carbine Tungsten Limited). To this end, we understand that there are a number of walk up drill targets identified by Icon. In addition, we expect PMR to define additional targets. We understand that drilling is planned within the next three to six months.

OTHER PROJECTS

Broken Hill

The project contains a significant amount of historic work including a large Government database, soil geochemistry, and geophysics surveys.

Large historic body of work, but focussed on lead-zinc-silver.

Given the long history of lead-zinc-silver mining at Broken Hill, previous exploration was typically focussed was on lead-zinc-silver mineralisation only, with little interest in copper-gold. However, we understand that a similar mineral field, Mt Isa, has copper deposits closely related to the lead-zinc-silver, but which were found many years after mining started.

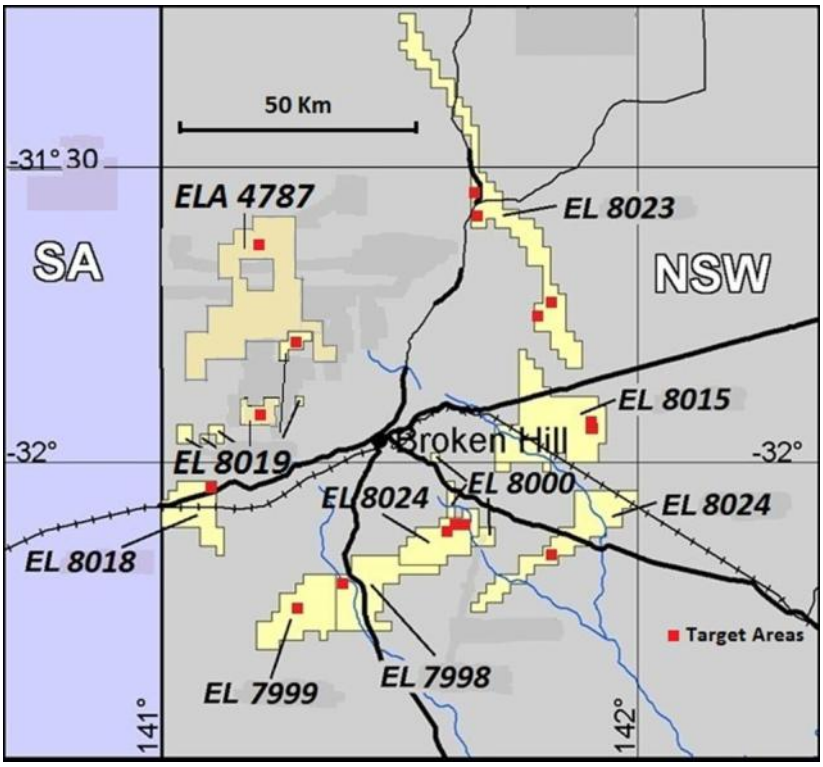


FIGURE 13: Broken Hill Project Tenements (*source*: Modified from **PMR** 2012 Annual Report).

PMR believes that the copper is typically located in vent zones for the lead-zinc-silver mineralisation, and the company is now targeting such vent zones.

PMR to focus on copper-gold, looking at structural controls

Given the historic lead-zinc exploration focus, previous exploration targeted mineralisation related to stratigraphy, with little structural analysis done. However, with PMR's focus on the vent related copper-gold mineralisation, the main controls for this are structure, not stratigraphy. Consequently we understand that PMR is planning to have a more structurally focussed mindset than previous explorers.

Work Program

However, Broken Hill lower priority than Halls Peak and Peel Fault projects

We expect PMR's work to involve compiling all the historic data over the company's leases, and then interpreting this data, possibly combined with follow up geophysical surveys, with a view to determining drill targets. However we understand that the Broken Hill tenements are a lower near term priority relative to the Halls Peak and Peel Fault projects and the company has not stated a timeline on an expected work program.

OTHER PROJECTS

Hortons

The Hortons project consists of two leases (EL 4783 & 4785) located east of Tenterfield in Northern NSW. The Company believes the project has good potential for intrusive relative gold systems (IRGS). Figure 14 displays the map of the project with yellow triangles and brown circles representing historic gold occurrences and drill holes respectively.

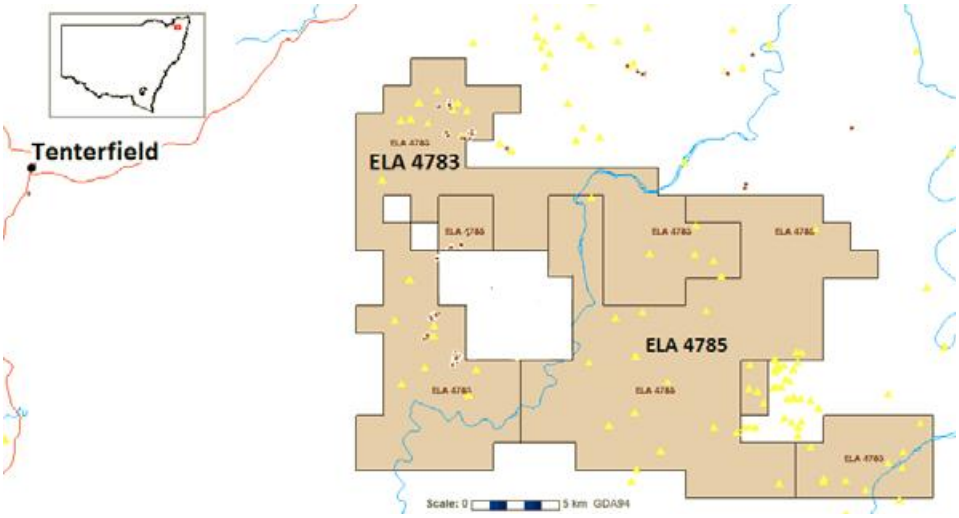


FIGURE 14: Hortons Project Tenements (*source*: **PMR** Release, July 2012).

Historic Work

The project hosts a number of small historic gold mines as well as a small historic gold resource of 24.5koz, with a reserve of 17.9koz of gold.

Resources	Class	COG (g/t)	Mineral Resource			Method	Audited
			Tonnage (t)	Grade (g/t Au)	Contained Au (oz)		
Hortons	Measured	0.50					
	Indicated	0.50	341,036	1.94	21,200	MIK	Audited
	Inferred	0.50	60,508	1.71	3,300		
	Subtotal		**401,500**	**1.91**	**24,500**		

FIGURE 15: Hortons: Mineral Resources at 30 June 1999 (GS2001/127) (*source*: **PMR** Release, July 2012).

Reserves	Type	Classification	COG	Tonnes	Grade	Au oz	Gold Price Used
Hortons	Heap Leach	Probable	0.50	239,129	2.33	17,900	$450

FIGURE 16: Hortons: Mineral Reserves at 30 June 1999 (GS2001/127) (*source*: **PMR** Release, July 2012).

The historic reserve is based on a pit optimisation using an A$450/oz gold price.

The Company notes that the Hortons ore body has not been drilled out and remains open up and down plunge (north and south) as well as up dip to the east. PMR estimates that infill drilling has the potential of adding 170kt @ 2 g/t Au to the reserves and are largely contained within the current pit design.

In addition the company has identified a number of IRGS targets from geochemical anomalies and historic drilling.

Three separate gold-in-soil soil anomalies are present within 600 metres of the Hortons deposit, which will require follow-up surface geochemical sampling and indicates the potential to host further Hortons style mineralisation.

OTHER PROJECTS

Hortons ctd

At Surface Hill, c.3km north of Hortons, sampling identified three NNE trending gold zones, 200m to 300m in length and varying between 20m and 140m in width. In addition, seventeen composite rock chip samples were collected from historic workings. Of these 10 returned results above 0.3g/t gold, including 1.69g/t, 1.77g/t, 3.23g/t & and 5.07g/t Au.

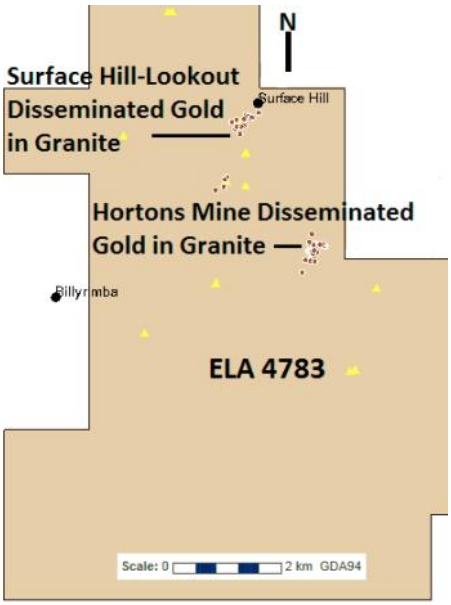


FIGURE 17: Hortons and Surface Hill Prospects (*source*: **PMR** Release, July 2012).

Previous work also included 14 hole RCP drill holes for 1423m, which identified low-grade (0.4 - 0.5 g/t Au) gold mineralisation in 10 hole with a best result of 30m @ 2.22 g/t Au.

PMR Work Program

We expect PMR to review all of the historic work to date, before undertaking further soil sampling and geophysics to identify and refine drill targets. As yet, the Company has not advised on a time frame for this work.

BASE METALS MARKET OUTLOOK

Macro themes improving…

After a poor start to the year, along with the general malaise surrounding resource stocks, base metals have all rallied in recent months on the back of short covering as well as better than expected China data. Recently, China's trade figures, were the cause for more optimism with overall July exports rising 5.1% year-on-year versus expectations of 3%. In addition, imports jumped 10.9% year-on-year. It now appears that the Chinese economy is now stabilizing rather than slowing.

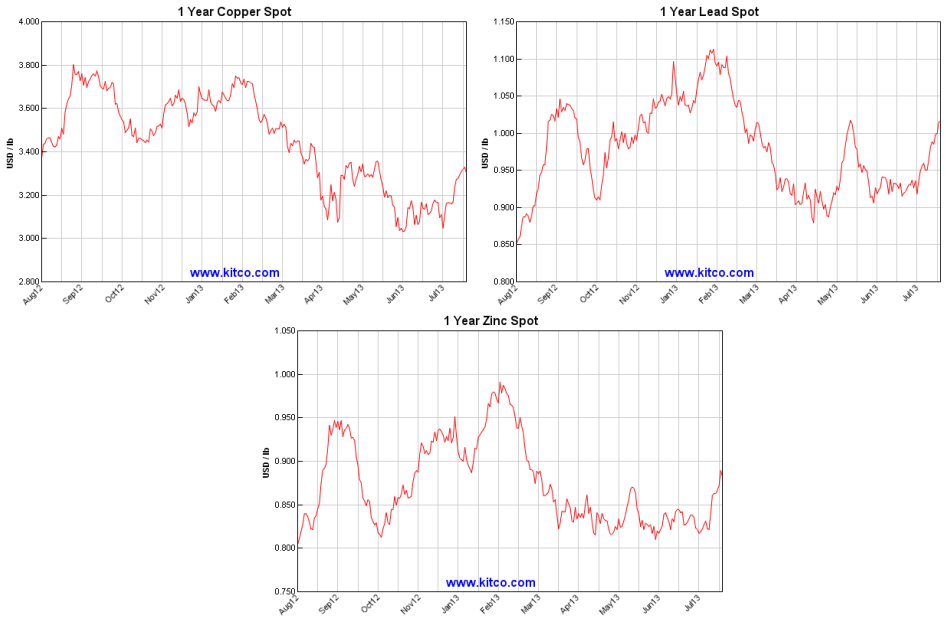


FIGURE 18: One Year LME Price charts for Copper, Lead and Zinc (*source*: www.Kitco.com, August 2013).

Mixed Supply Side News

On the copper front, mine supply is forecast to grow at c.4% this year, double the average growth rate over the last 10 years, which should keep the copper supply/demand equation in surplus, and therefore limit the likelihood of the strong run in copper continuing.

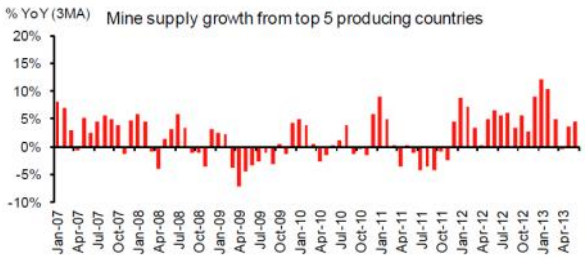


FIGURE 19: Copper Supply from top 5 Countries (*source*: Macquarie Research, July 2013).

Likewise we expect lead production to also increase, possibly dampening the price rises to date. For zinc, the main supply side issue remains the corporate warehousing issues, as well as strong Chinese concentrate production.

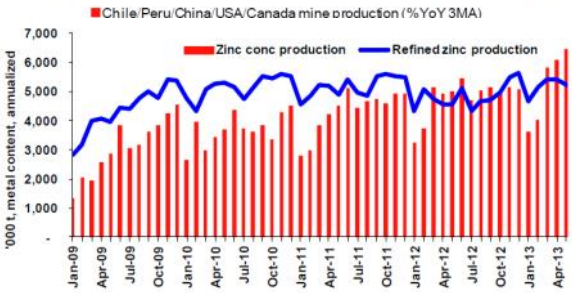


FIGURE 20: Chinese Zinc production (*source*: Macquarie Research, July 2013

Short to Medium Prices Likely to be Flat

In the short to medium term, with China improving, weakness in the US dollar helping prices, and some signs of recovery in European economic data, we expect the demand side to be maintained. However, this is somewhat offset by the supply side issues, resulting in relatively flat prices over the same period.

RISK ANALYSIS

- **Exploration Risk:** Mineral exploration is high risk and there is the potential that PMR's exploration programs may fail to define the proposed mineralisation style and/or any potentially economic mineralisation. Whilst to date the VTEM survey, mapping and historic mining all correlate well, the true testing of the proposed SEDEX theory requires a sizeable drill campaign.
- **Metallurgical and Processing Risks:** The mineralogy of mineral deposits may present challenging metallurgical issues that may lead to an increase in operating and/or capital costs and adversely affect project economics. Typically, the more metals present in a mineralising system, the more complex the extraction of each metal.
- **Liquidity Risk:** Given that SOC owns 79.5% (67.6m shares) and Raffles Capital owns 11.8% (10.0m shares), the free float available to investors is less than 9% of the issued capital. This equates to less than 7.5m shares available to trade, assuming no change in holding by SOC or Raffles.
- **Financial Position:** With $0.2m in cash (June 30 2013), the Company does not currently have the financial reserves to fully evaluate all of its exploration projects and is likely to be dependent on raising capital in the short to medium term, in our opinion. However, for Halls Peak, the short to medium term funding requirements are covered by SUGEC and should allow the project to be progressed significantly before PMR is required to contribute funds. However, we note that there is currently insufficient funds to meet the farm in commitments for Peel Fault.
- **Peer Underperformance:** Underperformance of peer base metals explorers and/or developers has the potential to adversely affect market sentiment and lead to lower valuations for PMR.
- **Commodity Risks:** Whilst the company is not financially exposed to movements in base and precious metals prices as it does not have any production at this stage, movements in these metal prices are likely to impact sentiment towards the company and its projects.
- **Market Risks:** Further declines in equity markets may continue to put pressure on junior resource companies as investors switch out of risk into safe haven investments.

CORPORATE

PMR listed on the ASX on 6 December 2011, raising $2m via the issuance of 10m ordinary shares. Since listing, the company has not raised any further capital via the market.

As at June 30, 2013, PMR had $0.2m in cash, and no debt.

The company was the subject of a friendly takeover by Sovereign Gold Company Limited [ASX: SOC] in August 2012, which resulted in Sovereign ending up with 81.26% of PMR when the bid was closed on 27th August 2012. The other substantial shareholder at completion of the takeover was Raffles Capital Limited [ASX: RAF], which also owned a c.27% direct interest in SOC, and a c.3% indirect interest via Hudson Resources Limited [ASX: HRS]. In July 2013, SOC sold its share down to 79.5%.

CONCLUSION

In our opinion, Halls Peak exhibits a number of positive signs for large scale SEDEX style base metals mineralisation with correlating evidence on a number of levels including:

- High grade mineralisation seen in the historic mines,
- Shallow and deep VTEM anomalies,
- Surface mapping and sampling, and
- IP anomalies

Significantly, both the shallow VTEM and IP anomalies can be directly associated with base metals mineralisation, seen both in the mines and at times at surface. RM Research sees the key for value uplift will be the testing of the deeper zones as well as extending along strike and depth extent of the known zones.

RM Research believes that the first drill program to test the SEDEX concept to be closely monitored by the market, with any indications of proof of concept likely to lead to a sizeable rerating of the company's share price. Likewise, positive drill results from Peel Fault are also likely to be viewed favourably. Consequently **RM Research** initiates coverage of **Precious Metal Resources** with a **SPECULATIVE BUY**.

DIRECTORS & MANAGEMENT

John S Dawkins AO BEc; RDA **Chairman** (**Non Exec)**

Mr Dawkins' earliest exposure to the mining industry was when as Minister for Trade in the Hawke Government he was responsible for the administration of export controls on certain minerals until he proposed the abolition of these arrangements in order to improve the operation of the market.

During his time in Government he also served in a number of other portfolios including as Treasurer. Since leaving politics he has been an occasional adviser to the World Bank and OECD and has held a number of board positions including Elders Rural Bank (now Rural Bank); Sealcorp Holdings (now Asgard Wealth Solutions); while his current appointments with the listed companies include Australian Bauxite Limited, Tiaro Coal Limited, Precious Metal Resources Limited and Integrated Legal Holdings and the unlisted Government Relations Australia Advisory Ltd. He also chairs the Australian Qualifications Framework Council, the National Skills Standards Council and the Board of Governors of the Institute for International Trade at the University of Adelaide.

John Foley BD LLB BL (Dub) MAICD **Deputy Chairman** (**Non Exec)**

Graduating in law from the University of Sydney in 1969, Mr Foley was admitted to practice as a Barrister in New South Wales in 1971, and was called to the Irish Bar in 1989 and admitted as a Member of the Honourable Society of Kings'Inns in Dublin, Ireland.

Mr Foley has over 40 years' experience in the gold mining industry and was a founding Director of the Australian Gold Council, the industry body. Mr Foley has 20 years' experience as the Chairman of Australian mining company, Citigold Corporation Limited, listed on the ASX and the FSE (Frankfurt Stock Exchange), and with a Level One ADR (American Depository Receipts) program in the USA.

Mr Foley has wide-ranging experience in resources, industrial, manufacturing, legal, financial and investment related industries, with extensive business experience in Australia. His leadership roles have covered a broad scope of senior positions, and his commercial and legal background provides further depth, knowledge and experience to the Company.

Michael Leu BSc (Hons, 1st Class) **Managing Director**

Michael Leu is a geologist with over 30 years professional experience in exploration and mining commodities within Australia and some Pacific and Asian countries. He has worked in industry (Freeport, Getty Oil, Queensland Ores), as a private consultant and for seven years on the academic staff of Macquarie University.

Mr. Leu has extensive expertise in mineral exploration for epithermal and porphyry gold±Cu deposits; intrusion-related gold systems; metahydrothermal gold; greisen-hosted molybdenite, wolfram and tin; volcanic-hosted massive sulphides; chromite; uranium; alluvial gold and platinum and a range of industrial minerals. Mr. Leu is a Director and Chief Geologist of Sovereign Gold Company Limited.

Jacob Rado Rebek **Director/Senior Geologist**

Jacob Rebek is an Australian geologist with forty years experience in exploration. From 1970 to 2003 he worked for CRA and Rio Tinto in various parts of Australia and overseas. His roles included that of exploration manager for Papua New Guinea in 1970s, South Australia and Northern Territory from 1981 to 1984, Eastern Australia from 1987 to 1993 and Exploration Director for South America from 1997 to 2000.

Mr Rebek led teams which discovered new zinc, copper and gold deposits. Since 2003, he worked for emerging companies generating new projects. In 2006, he started working for Hudson Resources Limited (ASX: HRS) as Chief Geologist. Since 2006, he has led exploration of Australian Bauxite Limited (ASX: ABZ) and Tiaro Coal Limited (ASX: TCM).

Peter Kennewell BSc **Chief Geologist**

Peter Kennewell has worked for the past 26 years for Cluff Resources Pacific NL as Exploration Manager, and the last 18 years as Managing Director.

Mr Kennewell has successfully overseen the development of mines, from resource evaluation, prefeasibility study, environmental impact approvals, grant of mining tenements and funding arrangements, through to plant and accommodation construction and staffing.

Bruce Dennis BCom LLM (UNSW) **Non Exec Director**

Mr Dennis is a solicitor in Australia with over 30 years' experience. He has practised in areas of personal injury, civil and commercial litigation in the Federal Court, Supreme Court and District Court jurisdictions. Mr Dennis has considerable experience in identifying commercial and legal risk. His business interests' include resource exploration.

Peter Meers BA (Economics) **Non Exec Director**

Mr Meers is Chairman and Chief Executive Officer of Hudson Resources Limited, Chairman of Australian Bauxite Limited, Director of Sovereign Gold Company Limited, Chief Executive Officer of Tiaro Coal Limited and non-executive director of Archer Exploration Limited. These are all ASX listed companies.

Peter has broad experience across a range of industries including financial services (consumer, commercial and investment banking, securities trading and origination), mining and exploration and building materials. In the area of financial services he was responsible for establishment of new business operations in China, Vietnam, Philippines and Indonesia.

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RM Research Recommendation Categories

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Buy	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
Speculative Buy	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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