HD **Segue Resources Limited - RM Capital Research, Initiation of Coverage**

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Segue Resources Ltd is a junior minerals explorer focused on its recently acquired Fraser Range projects in the Southeast of Western Australia.

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Segue controls over 3,500km2 of tenements in the Fraser Range region, and has one of the largest holdings in the province.

Within its Fraser Range tenements, the **company** is concentrating the majority of its effort on the Plumridge Project (c. 2,200km2), where it is exploring for nickel, **copper** and **gold**. SEG considers the ground to be highly prospective for massive sulphide nickel mineralization such as that found at the nearby Nova deposit by Sirius Resources NL. The **company** is progressing exploration in a thorough and methodical fashion with a view to drilling nickel targets by early-mid 2014.

The **company** is utilising consulting **firm** Newexco to aid in Segues nickel sulphide exploration. Newexco was responsible for the discovery of Western Areas Flying Fox T0 - T7 deposits and Spotted Quoll, as well as Sirius's Nova-Bollinger deposit. At the southern end of its Fraser Range tenements, Segue also has the Deralinya project (1,300km2), which the **company** considers to be prospective for **gold**, base metals, mineral sands and **uranium**.

In addition, the **company** has a 340km2 project in northern WA called Pardoo, which is considered prospective for nickel-**copper**-PGE's as well as **iron ore**. The project already contains the Highway nickel-**copper** deposit which has an Inferred JORC compliant resource of 23.0Mt @ 0.41% nickel, 0.13% **copper** and 0.03% cobalt, using a 0.3% nickel cut-off.

Background

The Fraser Range region in WA's Southeast was previously considered difficult to explore due to its relative remoteness, significant sand cover with poor outcrop, and access issues due to sand dunes, salt lakes and thick scrub. However, the region has still seen c.50 years of sporadic work by juniors, majors, as well as academics. The discoveries of the Tropicana **gold** deposit by AngloGold in 2005 and Sirius Resources Nova nickel-**copper** deposit in mid 2012 confirmed the prospectivity of the region and prompted a sizeable increase in exploration activity for both **gold** and base metals.

Due to the large areal extent covering a broad range of geological domains, with a favourable structural regime, the region is considered prospective for a range of different deposit styles including:

Structurally controlled **gold** (e.g. Tropicana, Hercules, Beachcomber, Corvette)

Intrusive related Ni, Cu, PGE's (e.g. Nova, Bollinger)

Palaeodrainage **uranium** (e.g. Mulga Rocks)

Mineral Sands, Lignite, and **Coal**.

Nova-Bollinger Discovery (Sirius Resources NL)

Sirius's Nova nickel-**copper** mineralization is hosted by a gabbroic intrusion which presents itself as an 'eye' shaped bulge in the otherwise strongly linear magnetic fabric of the Albany Fraser Complex. The

deposit was found by a combination of soil and aircore bedrock sampling, high resolution magnetic and ground EM surveys.

Deeper drilling of coincident ground EM conductors and bedrock nickel anomalies intersected massive nickel sulphide mineralization at around 150m below surface. Nova-Bollinger has a global JORC compliant resource of 14.6mt @ 2.2% nickel, 0.9% **copper**, & 0.08% cobalt, containing 325kt of nickel, 134kt of **copper** and 11kt of cobalt. Sirius is currently completing a definitive feasibility study on the project with lowest quartile cash costs over a 10 year mine life. Average annual production is targeted at 28kt of nickel, 11kt of **copper** and 940t of cobalt.

We understand that Sirius Resources interprets the mineralization at Nova to be related to a feeder zone structure, caused by a late stage intrusion. Other key aspects of the Nova deposit that are relevant for nickel sulphide exploration in the region include:

The deposit is adjacent to a major structure,

The mineralization is associated with a late-stage intrusion which made use of a steep strike-slip fault,

A mafic cumulate host rock,

The deposit has a marker horizon of a contact metamorphic areole of the intrusive pipe and

The **ore** is located on the sediment-mafic contact

EXPLORATION OVERVIEW

Plumridge Project

Segue acquired its Fraser Range tenements in late 2013, for $200,00 in cash and $1,100,000 in SEG shares. The majority of SEG's Fraser Range ground holding is owned 100%, except for four tenements in the Plumridge Nickel and **Gold** project area. These are subject to a farm-in joint venture (JV) with International Goldfields Ltd. The JV involves Segue earning a 60% interest by spending $1.0 **million** by 31 January 2015.

Across the tenements, Segue has a pipeline of prospects ranging from grass roots to advanced exploration. The **company** has a philosophy of continuously prioritizing targets at each step of the process, with the less prospective targets progressively dropped, allowing more focused work to be conducted on a smaller number of more prospective targets. The **Company** is also conscious of minimising exploration risk by continually refining targets and methods at each stage of the process, thereby maximising potential for success whilst minimising potential for wasted costs.

The tenements are unencumbered with no Native Title claimants, with no nature reserves and no pastoral leases, making exploration access and approvals faster than would otherwise be the case. The Plumridge project is the main focus of exploration for Segue, though broken into two separate prospects, Plumridge Nickel and Plumridge **Gold**. Plumridge Nickel is considered prospective for nickel, **copper** and platinum group elements (PGE's), similar to that of the Nova-Bollinger deposit, located c.120km south-west. Plumridge **Gold** primarily has a **gold** focus.

Plumridge Nickel

Segue has completed a thorough desktop study of the previous exploration work, known geology and geophysics. The work focused on the key aspects that SEG considers important to the discovery of Nova, including late stage intrusive crosscutting the regional fabric and the proximity to a major regional structure. Significantly, Segue has 100m line spaced aeromagnetic data over its tenements, which is crucial in the identification of Nova-style eye structures. We understand that the publicly available 400m spaced aeromagnetic data of the Albany Fraser Complex is too coarse to conclusively identify Nova and similar eye structures.

By utilising their 100m spaced aeromagnetic dataset, reprocessed by Newexco to enhance Nova patterns, Segue has identified 16 features which they believe exhibit the same geophysical response as that of Nova-Bollinger. Follow up work involves the commencement of ground based activities of:

Aircore drill holes to penetrate the largely transported cover over each of the 16 eye targets to test for Nova-style mafic host rocks and geochemistry,

Ground EM to identify potential Nova-type conductor-bearing intrusives,

Follow up close-spaced aircore drilling to test or identify coincident surface bedrock nickel anomalies and

Fixed and Moving Loop Transient EM surveys over the highest priority Nova like eye features.

The EM surveys are designed to identify intrusive-hosted conductive bodies down to a depth of around 500m below surface. If any such bodies are highlighted, follow up deeper drill testing is planned, likely in 2H 2014.

Plumridge **Gold**

The Plumridge **Gold** project had previously been explored for **gold** by Corvette Resources (now International Goldfields), including the Corvette prospect, though minimal base metals exploration was done. The Corvette prospect is a +5km long region of anomalous **gold** mineralization, with multiple +1g/t **gold** intercepts in drilling, located c.60km southwest of the +5Moz Tropicana deposit. Whilst substantial drilling was undertaken, Corvette Resources was unable to effectively delineate the mineralization.

Since the **acquisition** of the project, Segue has undertaken a detailed review of previous drilling results and geology aided by the use of oriented diamond drill-core. This review has allowed the **Company** to gain a better understanding of the local and district-scale structures associated with the **gold** mineralization in the immediate area around the Corvette prospect.

Segue has identified that the high-grade **gold**-bearing veins trend east to east-north east and are hosted by a package of felsic to mafic gneisses intruded by late-stage potassic pegmatites.

These details are key as:

Almost all of the historic drilling was oriented east-west, more or less parallel to the strike of the high grade veins. Ideally drilling should be oriented perpendicular to strike to maximise the representativeness of drill intersections to the mineralized system as a whole.

Beadell Resource's Hercules **Gold** Project, proximal to the +5Moz Tropicana **gold** deposit, is hosted by late stage potassic pegmatites within a mixed gneissic package, suggesting Corvette has a favourable host rock for this style of mineralization.

In addition, SEG is re-analysing over 16,000 drill samples using a Portable Infrared Mineral Analyser (PIMA) to build up a map of the different alteration styles associated with the **gold** mineralization and use it as a vector to mineralization.

PIMA does this by testing for changes in mineral alteration chemistry associated with **gold** mineralization. The use of PIMA is relatively fast and cost effective and the **company** plans to use it on the large number drill chip samples from previous exploration, with analysis to be completed by the end of August 2014. Segue will then integrate the knowledge gained from the PIMA and structural studies with a view to defining new targets ready for drilling at the completion of the nickel drilling programs.

Deralinya Project

Segue owns the Deralinya project 100%, which consists of 4 tenements covering 1,298km2. The projects are located at the southern end of the Fraser Range group and lie on the Central Biranup Zone of the Albany Fraser Orogen. The project is considered highly prospective for **gold** deposits due to the high degrees of geological complexity and proximity to major regional structures that change orientation, forming what Segue calls an 'S bend'.

In addition, Segue considers the project to be prospective for minerals sands as well as palaeodrainage/salt lake hosted Mulga Rocks style **uranium** mineralization. We understand that the **Company** is undertaking a structural and desktop review of the project to ascertain exploration going forward. However, whilst Segue considers the project to be highly prospective, we expect the focus to remain on the Plumridge projects, and would not be surprised if SEG sought to joint venture the projects out.

Other Assets

Pardoo

The Pardoo project is located in the Pilbara region of WA, c.120km east-northeast of Port Hedland. The project covers c.340km2, and is prospective for nickel and **iron ore**. However, the main focus of the **company** is on the Plumridge projects, and consequently the Pardoo projects are considered lower priority.

Pardoo Nickel

The project contains magmatic and shear-hosted nickel, **copper** and PGE's and is considered prospective for nickel sulphide mineralization. A JORC compliant nickel resource at the Highway Prospect was completed in 2010 which totalled 23.0Mt @ 0.41% nickel, 0.13% **copper** and 0.03% cobalt (Inferred), using a 0.3% nickel cut-off.

Pardoo **Iron Ore**

Pardoo is considered prospective for magnetite style **iron ore** mineralization. Significantly for a magnetite project, Pardoo is located close to key infrastructure such as rail, gas and electric power, given the often capital intense nature of magnetite developments.

Magnetite mineralization has been identified within a mafic gabbro host rock, and is likely magmatic in nature, as opposed to many of the sedimentary style deposits in the Pilbara. Metallurgical test work has been completed on historical diamond core drilling which indicated the potential to generate a magnetite concentrate with grades of up to 69.1% **iron** with an average of 66% Fe. However, concentrate mass recovery is generally low averaging 14%, but is correlated with **iron** grade.

CORPORATE

As at 30 September, 2013, SEG had $1.0m in cash, and no debt. Post this, the **company** paid $0.2m as part of the Fraser Range project transaction, and issued 550m SEG shares to the vendors. As at 16 December 2013, the **company** had 1,086.9m shares on issue, of which 500m are escrowed until 13 December 2014. In addition, Segue has 11.8m options exercisable at $0.051 by November 2014, as well as 25.0m options exercisable at $0.01 by February 2018.

PEER ANALYSIS

Following the discovery of Nova-Bollinger, the Fraser Range region has seen a significant jump in junior exploration activity. We note that many of these explorers have indicated the presence of the 'eye' geophysical structures. We would caution that whilst this is promising, other criteria are likely to be required including;

The presence of a late stage mafic (not felsic) intrusive into an existing strong regional fabric

Localised EM conductors and

Close proximity to a major regional structure.

Whilst there has been some promising early stage exploration, we do not see any **company** having replicated SIR's success as yet.

We note that whilst SEG has the third largest ground holding amongst peers, the **company** has a below mid-range market capitalisation. We see this as a result of Segue being a relatively new entrant to the Fraser Range region, with no fieldwork completed to date. As targets are refined, fieldwork commences and drilling programs draw closer, we expect to see interest in SEG's activities to increase, with the potential for an increase in market activity.

DIRECTORS AND MANAGEMENT

Steven Michael - Managing Director

Mr Michael has extensive experience in the global resources sector specialising in corporate finance and **equity** capital markets. He has over 15 years' experience in natural resources with RBC Capital Markets, Macquarie Bank and NM Rothschild & Sons. Mr Michael holds a **B**.Com and is a Member of the Institute of Chartered Accountants in Australia.

Dr Howard Carr - Technical Director

Dr Carr is a mineral exploration geologist with extensive experience in **gold**, PGE's, nickel, **iron ore**, phosphate and tungsten projects in diverse geographies including Australia, South Africa, **China** and Burkina Faso. Dr Carr was awarded the Jubilee Medal from the South African Geological Society for his work on the Bushveld Complex in South Africa. Dr Carr has a PhD in Economic Geology (UWA) and a Graduate Diploma of Management from the Australian Institute of Management.

Nicholas Ong - Non-Executive Director

Mr Ong was a Principal Adviser at the ASX in Perth and brings seven years' experience in listing rules compliance and corporate governance to the board. Mr Ong was an active member of the ASX JORC Group and has overseen the admission of in excess of 100 companies to the official list of the ASX. Mr

Ong is a member of Chartered Secretaries Australia and has a MBA from the University of Western Australia.

Matthew Foy - Non-Executive Director and **Company** Secretary

Mr. Foy, previously a Senior Adviser at the ASX, has six years' experience in facilitating the compliance of listed companies. Mr. Foy is a qualified Chartered Secretary and has reviewed and approved the listing of over 40 companies during his tenure at the ASX. Mr. Foy is also **Company** Secretary of ASX-listed Stonehenge Metals Limited, SWW **Energy** Limited and Auroch Minerals NL.

Mr Foy is a member of Chartered Secretaries Australia, has a Graduate Diploma (Applied Finance) from FINSIA and a **B**.Com from the University of Western Australia.

RISK ANALYSIS

Exploration Risk: Mineral exploration is inherently high risk and there is the potential that SEG's exploration programs may fail to define the proposed mineralization style and/or any potentially economic mineralization.

Financial Position: With an estimated <$0.8m in cash post transaction, and requiring to spend $1.0m on the Plumridge JV by early 2015, the **company** will need to bolster its capital position in our opinion, or else risk not completing its obligations for its share of Plumridge. Consequently, we expect the **company** to come to market to raise the necessary funds to pay for the work on Plumridge, as well as on its other projects.

Peer Underperformance: We see the underperformance of peer explorers or negative issues surrounding the Nova-Bollinger development as having the potential to adversely affect market sentiment and **lead** to lower valuations for SEG.

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.

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 mineralizing system, the more complex the extraction of each metal. However, at this stage SEG is yet to define an economic deposit, so processing risk is negligible at this point in time, though may become important in the future.

CONCLUSION

Given Segue's large land position and prospective geology, we are favourably disposed to the methodical exploration approach taken by the **company**. We also like the technical expertise being applied to the work as evidenced by Dr Carr's strong technical background and the engagement of Newexco as consultants. Whilst there is no guarantee of exploration success, we see Segue as having a superior technical approach to many of its peers, and whilst starting exploration later, we rate its ground position and technical expertise higher than many of these peers. RM Research initiates coverage of Segue Resources Ltd with a SPECULATIVE BUY.

For further information visit www.segueresources.com

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