



## ASX ANNOUNCEMENT

23 January 2020

ASX: G1A

### ACTIVITIES REPORT FOR QUARTER ENDED 31 DECEMBER 2019

#### HIGHLIGHTS:

- Commenced construction of Abra Base Metals Project
- Completed 4% of Abra project development works
- Upgraded Abra JORC Mineral Resource estimate (Indicated plus Inferred) at a 5.0% lead cut-off increased to 41.1Mt at 7.3% lead and 18g/t silver – ~8% increase in contained lead and ~10% increase in contained silver vs prior Resource
- Formalised offtake agreements that enable Galena to purchase Abra concentrate from AMPL at benchmark terms and then on-sell to IXM at a premium
- Cancellation of a historical 1.125% vendor royalty on Abra to reduce total historical vendor and other non-Government royalty equivalent payments from 3.5% to 2.375%
- Appointed lead industry expert, Mr Stewart Howe to Galena board of directors

**GALENA MINING LTD.** (“Galena” or the “Company”) (ASX: G1A) reports on its activities for the quarter ending 31 December 2019 (the “Quarter”), largely focused on advancing its 86.16%-owned Abra Base Metals Project (“Abra” or the “Project”) located in the Gascoyne region of Western Australia.

#### **ABRA BASE METALS PROJECT (86.16%)**

Abra comprises a granted Mining Lease, M52/0776 and is surrounded by the Exploration Licence E52/1455, together with several co-located General Purpose and Miscellaneous Leases. The Project is 100% owned by Abra Mining Pty Limited (“**AMPL**”), which in turn is currently 86.16% owned by Galena, with the remainder owned by Toho Zinc Co., Ltd. (“**Toho**”) (pursuant to an Investment Agreement and Shareholders Agreement with Toho).

Abra is fully permitted and construction works commenced in September 2019.

#### Project construction / development

During the Quarter, construction of Abra surface infrastructure continued.

Abra Base Metals Project construction / development progress to completion<sup>1</sup>

<u>Progress within the Quarter</u>	<u>Total cumulative progress as at Quarter-end</u>
4%	4%

Notes: 1. Based on completed proportion of total forecast project development capital expenditure excluding owners team costs.

Abra site works during the Quarter included the following:

- Permanent camp construction – The first stage of the permanent camp was completed, including accommodation units for 80 persons along with a full-sized kitchen and messing facilities. Facilities were connected to services and ready for occupation by the end of the Quarter.
- Water supply and wastewater treatment facility – Pumps were installed at three previously drilled water bores and 3km of water distribution pipe work was completed in November and then facilities for potable water supply and wastewater treatment were largely completed by Quarter-end.
- Topsoil clearing and storage, ground preparation at the permanent camp site and various site and access roadworks were completed in October.

Selected recent photos of construction works at Abra site

Constructed Stage 1 permanent camp



Closer view of permanent camp accommodation units



Commissioned permanent kitchen and mess



Laundry facilities



Commissioned water supply and wastewater treatment facility



Installed camp power generation units



Safety and environment

During the Quarter, 15,760 employee and contractor work hours were recorded at Abra with no medically treated injuries or lost time injuries recorded.

No environmental reportable incidences or exceedances were recorded during the Quarter.

Resource upgrade

During the Quarter, the Company reported an upgraded JORC Mineral Resource estimate (Indicated plus Inferred) for Abra at a 5.0% lead cut-off of 41.1Mt at 7.3% lead and 18g/t silver (the “**October 2019 Resource**”), representing an approximately 8% increase in contained lead and 10% increase in contained silver in comparison to the December 2018 Resource. The Indicated portion of the October 2019 Resource is now 16.7Mt at 8.5% and 24g/t silver, holding approximately 114Kt more lead and approximately 2.1Moz more silver than the December 2019 Resource.

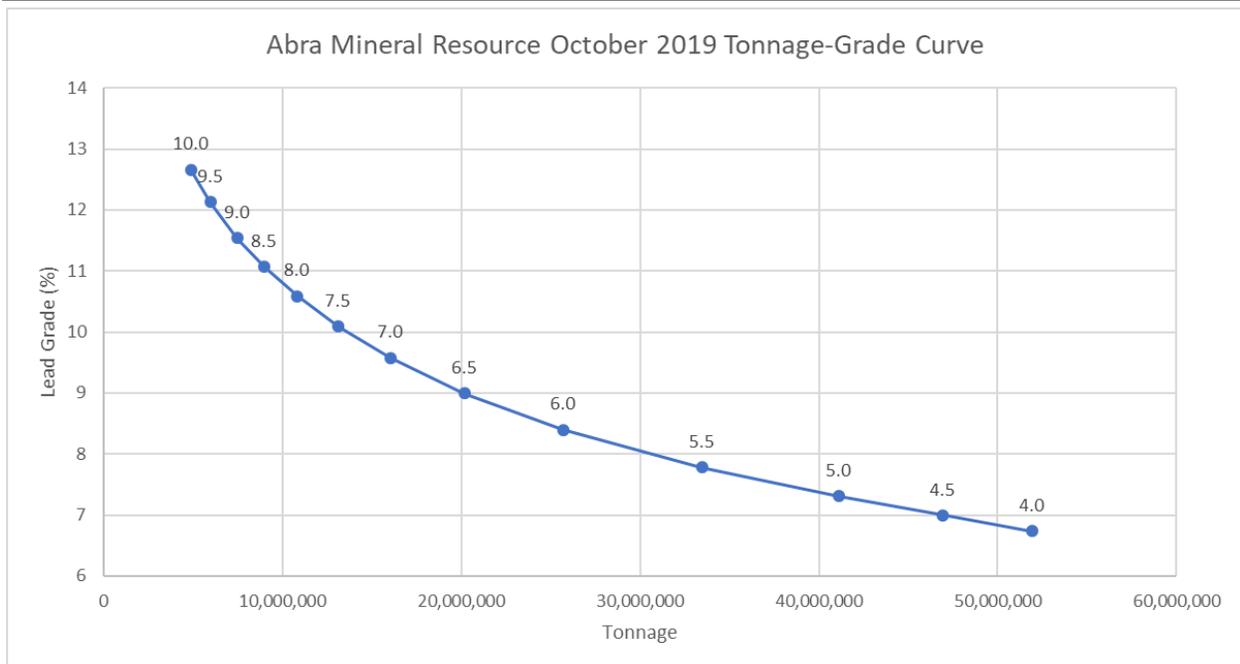
The Company believes that the 2019 Project Development Drilling program that resulted in the October 2019 Resource succeeded in its main aim of increasing geological confidence within the north western Apron Zone sector (i.e., the first three years of the Abra mine plan), adding an additional 1.7Mt of Indicated Resource, mainly from that sector.

Abra JORC Mineral Resource estimate (October 2019 Resource)<sup>1</sup>

<u>Resource classification</u>	<u>Tonnes (Mt)</u>	<u>Lead grade (%)</u>	<u>Silver grade (g/t)</u>
Measured	-	-	-
Indicated	16.7	8.5	24
Inferred	24.4	6.5	14
<b>Total</b>	<b>41.1</b>	<b>7.3</b>	<b>18</b>

Notes: 1. Calculated using ordinary kriging method and a 5.0% lead cut-off grade. Tonnages are rounded to the nearest 100,000t, lead grades to one decimal place and silver to the nearest gram. Rounding errors may occur when using the above figures.

October 2019 Resource – Total Resource ‘grade tonnage’ curve



Source: Optiro.

For detailed information regarding the October 2019 Resource please see the Galena ASX announcement of 17 October 2019.

AMPL Commercial initiatives in support of Abra development – Toho Transaction

Prior to the Quarter, Galena executed definitive agreements with Toho setting out the terms for Toho’s investment of \$90 million in three tranches for a 40% ownership interest in Galena’s previously wholly-owned subsidiary, AMPL (the “**Toho Transaction**”). Key relevant terms of the Toho Transaction include:

- Investment and investment structure – \$90 million total investment to be made via the subscription of new ordinary shares in AMPL such that Toho owns 40% of AMPL on completion of the full investment and Galena retains 60%.
- Tranched payment – \$20 million will be paid on initial closing of the transaction (for 8.89% of AMPL); \$10 million will be paid once Galena issues the DFS for Abra (for a further 4.44% of AMPL); and \$60 million will be paid once project financing debt for the Project has been confirmed (for a further 26.67% of AMPL, taking Toho’s total ownership in AMPL to 40.00%).
- Toho funding support – Toho will assist AMPL to procure, by leveraging the attractive programmes available to it from its relationships with Japanese lenders, a contribution to project financing debt.
- Repayment of historical shareholder loans to Galena – As part of the Transaction, AMPL will repay \$10 million of historical shareholder loans back to Galena.
- Off-take – Galena and Toho each have the right to enter into off-take agreements with AMPL to purchase their respective share of AMPL’s high-grade high-value lead-silver concentrate on arms-length, benchmark terms, with each party maintaining rights to market and on-sell their respective share of purchased off-take.

To date, AMPL has received \$30 million from Toho under the Toho Transaction.

Both Galena and Toho elected to take up their rights to off-take during the Quarter, with each party entering into contracts to purchase their respective fully invested share of AMPL's production (60% in the case of Galena and 40% in the case of Toho) from AMPL on benchmark terms for an initial period of 10-years from the commencement of production (expected in 2021).

#### Commercial initiatives in support of Abra development – bank financing

During the Quarter, a mining-experienced bank, leading the project financing debt arrangement on behalf of AMPL procured seven submissions from banks in response to AMPL's proposal on its targeted debt structure / terms and a group of those were short-listed for detailed discussions. An independent technical expert completed a technical due diligence report for use by the short-listed banks, which largely completed due diligence. AMPL continues to be engaged in detailed discussions with the short-listed bank group with a view to finalising credit approvals on a mutually agreed set of terms.

#### Near-Project exploration

There were no material near-Project exploration activities completed during the Quarter.

### **NON-ABRA PROSPECTS**

Galena's non-Abra prospects consist of Woodlands, Manganese Range and Quartzite Well, which are located between approximately 20-50 kilometres or further to the west of Abra and reside within three granted Exploration Licences, being: E52/1413; E52/3575 and E52/3630.

A limited diamond drilling campaign was undertaken on the Manganese Range prospect on E52/1413 during October and November 2019 to test a large-scale coincident gravity and electromagnetic anomaly identified in 2018 by new and re-processed geophysical survey data. The program consisted of two drill-holes for a combined 1,014 cumulative linear metres. Visual logging indicated that copper, zinc and lead mineralisation appeared to be present in both holes, with assays still pending at the end of the Quarter, although results are unlikely to be material to the Company. More importantly, the Manganese Range drilling identified the presence of the right stratigraphy and strong alteration Galena is targeting within its Edmund Basin tenements for potential discovery of commercial base and precious metals deposits.

### **CORPORATE**

#### Offtake agreement with IXM

In October, Galena concluded an offtake agreement with IXM S.A. ("IXM") to sell IXM 65,000 tonnes per year of Abra lead-silver concentrates for a period of 10-years from the commencement of production at the Project. Such agreed volume largely accounts for the 60% of Abra production that Galena has entered into an agreement with AMPL to procure. Under the back to back arrangement, Galena will purchase concentrates from AMPL on benchmark terms and then on-sell to IXM with an adjustment to benchmark terms in favour of Galena (i.e., Galena will realise a premium to benchmark).

In addition to offtake, IXM and the Company have agreed indicative terms with respect to a US\$12 million financing facility (“**IXM Facility**”) to be available in two tranches of US\$6 million each during: Project construction; and ramp-up. The IXM Facility is not intended to be part of the Abra project financing debt facilities currently being arranged, for which AMPL will be the borrower. However, it provides a valuable additional source of funding that Galena may draw as an option in the event it, or AMPL, have additional liquidity requirements during critical phases of Abra’s development.

#### Cancellation of 1.125% Abra royalty

In December, the Company announced that AMPL terminated a 1.125% historical vendor royalty on Abra by entering into a transaction with the individual royalty holder. Under the transaction, AMPL paid consideration for the royalty termination of: \$1.6 million in cash; plus 7,000,000 shares in Galena. The consideration required for the termination was provided to AMPL by each of its shareholders, with \$1.6 million contributed by Toho’s wholly-owned subsidiary CBH Western Australia Pty Ltd and the 7,000,000 Galena shares contributed by the Company.

Following the royalty termination, total historical vendor and other non-Government royalty equivalent payments applicable to Abra have reduced from 3.5% to 2.375%.

#### Global lead industry expert appointed to the board

Mr Stewart Howe was nominated to the Galena board in late-November.

Mr Howe is a mining and chemical engineer with considerable management experience in the global lead / zinc industry. His experience includes six years as Chief Development Officer at Zinifex Limited, which at the time was one of the world’s largest miners and smelters of lead and zinc with assets on three continents. During his tenure at Zinifex, Mr Howe oversaw some of the most significant transactions in the global lead/zinc industry, including the spin-off of Zinifex’s smelters to create Nyrstar N.V. and restarting development of the Dugald River Mine now owned by MMG.

During the past ten years Mr Howe has provided advisory roles to boards, private equity and financiers related to restructuring and acquisition of mining assets in base metals and bulk commodities. He has advised the South Australian Government for six years on its financial support for redevelopment of the Port Pirie lead smelter. Mr Howe is also an experienced director, chairing the board of Whittle Consulting Group and serving on the boards of a government owned water authority and not-for-profit organisations.

Prior to his tenure at Zinifex and non-executive director career, Mr Howe spent 23 years at BP in various executive and management roles.

## **OUTLOOK**

#### Cash position

As at the end of the Quarter, the Company, together with its subsidiaries had approximately \$27.5 million in cash comprised of cash at bank and term deposit balances.

### Outlook

With Abra in construction, the Company continues to target initial production in 2021 and the first full-year of steady-state commercial production in 2022.

Upcoming value-adding Abra and corporate milestone workstreams include:

- Conclusion of project financing debt
- Commencement of the box-cut
- Full construction decision and execution of plant EPC contract
- Mobilisation of the underground mining contractor

The Board of Directors of Galena Mining Limited authorised this announcement for release to the market.

Further information contact:

**Galena Mining Ltd.**



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**Alex Molyneux**  
Managing Director

### Competent Person's Statement

The information in this report related to the Abra Ore Reserve estimate is based on work completed by Mr Roger Bryant, BEng (Mining, Member AUSIMM). Mr Bryant is an employee of AMPL. Mr Bryant has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Exploration Targets, Mineral Resources and Ore Reserves. Mr Bryant consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

The information in this report related to the October 2019 Resource estimate is based on work completed by Mr Don Maclean MSc (Geol), MAIG and RP Geo (Exploration and Mining), MSEG, a consultant to AMPL and Mr Mark Drabble B.App.Sci. (Geology), MAIG, MAusIMM, Principal Consultant at Optiro Pty Ltd. Mr Maclean was responsible for data review, QAQC, and development of the geological model. Mr Drabble was responsible for resource estimation, classification and reporting. Mr Maclean and Mr Drabble have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Exploration Targets, Mineral Resources and Ore Reserves. Mr Maclean and Mr Drabble consent to the inclusion in the report of the matters based on this information in the form and context in which it appears.

The information in this report to which this statement is attached that relates to exploration results and drilling data is based upon information compiled by Mr Don Maclean MSc (Geol), MAIG and RP Geo (Exploration and Mining), MSEG, a consultant to AMPL. Mr Maclean has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Exploration Targets, Mineral Resources and Ore Reserves. Mr Maclean consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

### No new information

This report contains references to exploration results and Mineral Resource estimates, all of which have been cross-referenced to previous announcements made by the Company. The Company confirms that it is not aware of any new information or data that materially affects the information included in the relevant announcements and in the case of estimates of Mineral Resources, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed.

### Forward-looking statements

The contents of this announcement reflect various technical and economic conditions at the time of writing. Given the nature of the resources industry, these conditions can change significantly over relatively short periods of time. Consequently, actual results may vary from those in this announcement.

Some statements in this announcement regarding estimates or future events are forward-looking statements. They include indications of, and guidance on, future earnings, cash flow, costs and financial performance. Forward-looking statements include, but are not limited to, statements

preceded by words such as “planned”, “expected”, “projected”, “estimated”, “may”, “Scheduled”, “intends”, “anticipates”, “believes”, “potential”, “predict”, “foresee”, “proposed”, “aim”, “target”, “opportunity”, “could”, “nominal”, “conceptual” and similar expressions.

Forward-looking statements, opinions and estimates included in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements are provided as a general guide only and should not be relied on as guarantee of future performance. Forward-looking statement may be affected by a range of variables that could cause actual results to differ from estimated results and may cause the Company’s actual performance and financial results in future periods to materially differ from any projections of future performance or results expressed or implied by such forward-looking statements. So, there can be no assurance that actual outcomes will not materially differ from these forward-looking statements.

**Appendix 3 – Tenement information as required by Listing Rule 5.3.3**

<b>Country</b>	<b>Location</b>	<b>Project</b>	<b>Tenement</b>	<b>Change in Holding (%)</b>	<b>Current Interest (%)</b>
<u>Tenements owned by Galena or wholly-owned subsidiaries:</u>					
Australia	WA	Jillawarra	E52/1413*	0	100
Australia	WA	Jillawarra	E52/3575	0	100
Australia	WA	Jillawarra	E52/3581	100	100
Australia	WA	Jillawarra	E52/3630	0	100
<u>Tenements owned by Galena's 86.16%-owned subsidiary Abra Mining Pty Limited:</u>					
Australia	WA	Abra	M52/0776	0	100
Australia	WA	Abra	E52/1455	0	100
Australia	WA	Abra	G52/0286	0	100
Australia	WA	Abra	G52/0292	0	100
Australia	WA	Abra	L52/0121	0	100
Australia	WA	Abra	L52/0194	0	100
Australia	WA	Abra	L52/0198	0	100
Australia	WA	Teano	L52/205	0	100
Australia	WA	Erivilla	L52/206	0	100
Australia	WA	Teano	L52/207	0	100
Australia	WA	Teano	L52/210	0	100

\* Pending renewal

## About Abra Base Metals Project

86.16% owned by Galena, the Abra Base Metals Project (“**Abra**” or the “**Project**”) is a globally significant lead-silver project located in the Gascoyne region of Western Australia (between the towns of Newman and Meekatharra, approximately 110 kilometres from Sandfire’s DeGrussa Project).

Galena completed an outstanding definitive / bankable feasibility study (“**FS**”) (see *Galena ASX announcement of 22 July 2019*) for development of a mine and processing facility with a 16-year life producing a high-value, high-grade lead-silver concentrate containing approximately 95kt of lead and 805koz of silver per year after ramp-up. Based on a pre-development capital expenditure estimate of A\$170 million, the FS modelled a pre-tax net present value for Abra (at an 8% discount rate) of A\$553 million and an internal rate of return of 39%.<sup>1</sup>

*Note: 1. Information relating to the production target and financial information derived from the production target is extracted from the ASX announcement of 22 July 2019. Galena confirms that that all material assumptions underpinning the production target, or forecast financial information derived from a production target, in that announcement continue to apply and have not materially changed.*

### Abra JORC Mineral Resource estimate<sup>1, 2</sup>

Resource classification	Tonnes (Mt)	Lead grade (%)	Silver grade (g/t)
Measured	-	-	-
Indicated	16.7	8.5	24
Inferred	24.4	6.5	14
<b>Total</b>	<b>41.1</b>	<b>7.3</b>	<b>18</b>

*Notes: 1. See Galena ASX announcement of 17 October 2019. Galena confirms that it not aware of any new information or data that materially affects the information included in Galena’s ASX announcement of 17 October 2018 and confirms that all material assumptions and technical parameters underpinning the resource estimates continue to apply and have not materially changed. 2. Calculated using ordinary kriging method and a 5.0% lead cut-off grade. Tonnages are rounded to the nearest 100,000t, lead grades to one decimal place and silver to the nearest gram. Rounding errors may occur when using the above figures.*

Abra location

