

9 July, 2020

Quarterly Activities Report - Period Ended 30 June 2020

KGL continued preparations to develop Jervois Copper Project

-) Using pandemic delay period to optimise Jervois mine design and advance project planning
-) As world copper market strengthens ahead of economic stimulus by governments
-) Improved geological understanding of Jervois to deliver enhanced mine planning

Summary

1. The Company used the delay caused by COVID-19 to optimise mine design and progress the planning for the development of the Jervois project.

Geotechnical studies of the proposed open pit and underground mines were received. Work began on re-optimising mine design at Reward to include consideration of the updated information of the high grade intercepts identified from the latest drilling. Mining costs were re-assessed and confirmed. Reviews of plans and costs of mineral processing and infrastructure continued. The aim is that a Pre-feasibility Study will be released in Q4 2020.

2. Applying improved geological understanding is expected to deliver enhanced mine planning.

Applying the increased knowledge base of the Jervois geology is leading to more efficient mine design of both the proposed open pit and underground mines at the Reward deposit, where half of the known Jervois mineral resource is located, and also the proposed mine at the Bellbird deposit.

Commenting on recent progress, Chairman Denis Wood said:

"The gathering strength of the world copper market encouraged us during the quarter in our work on Jervois. The copper price is a key consideration in taking the project to development.

"We took the opportunity to revisit the geology and project planning during the period of delay caused by the pandemic. The improved geological knowledge is being applied in mine planning. While the successful drilling programs identified and delineated a high grade resource, these geological studies have increased our structural understanding, particularly at the Reward deposit. Integrating the results into mine planning will be crucial in maximising efficiency in ore recovery.

"This value adding outcome reinforces the importance of applying state of the art expertise to focus on building a high grade mineable resource. It is the same principle we have adopted in using latest exploration down hole electromagnetic (DHEM) surveying technologies to uncover exciting new discoveries at Reward South and potentially at Bellbird South.

"We now have at Jervois not only the valuable resource on which our mine development planning is based, but also the potential to expand Jervois beyond the initial project with further drilling.

"Geotechnical reports, mine design re-optimisation and processing and infrastructure planning and costing are increasing our confidence in the project."

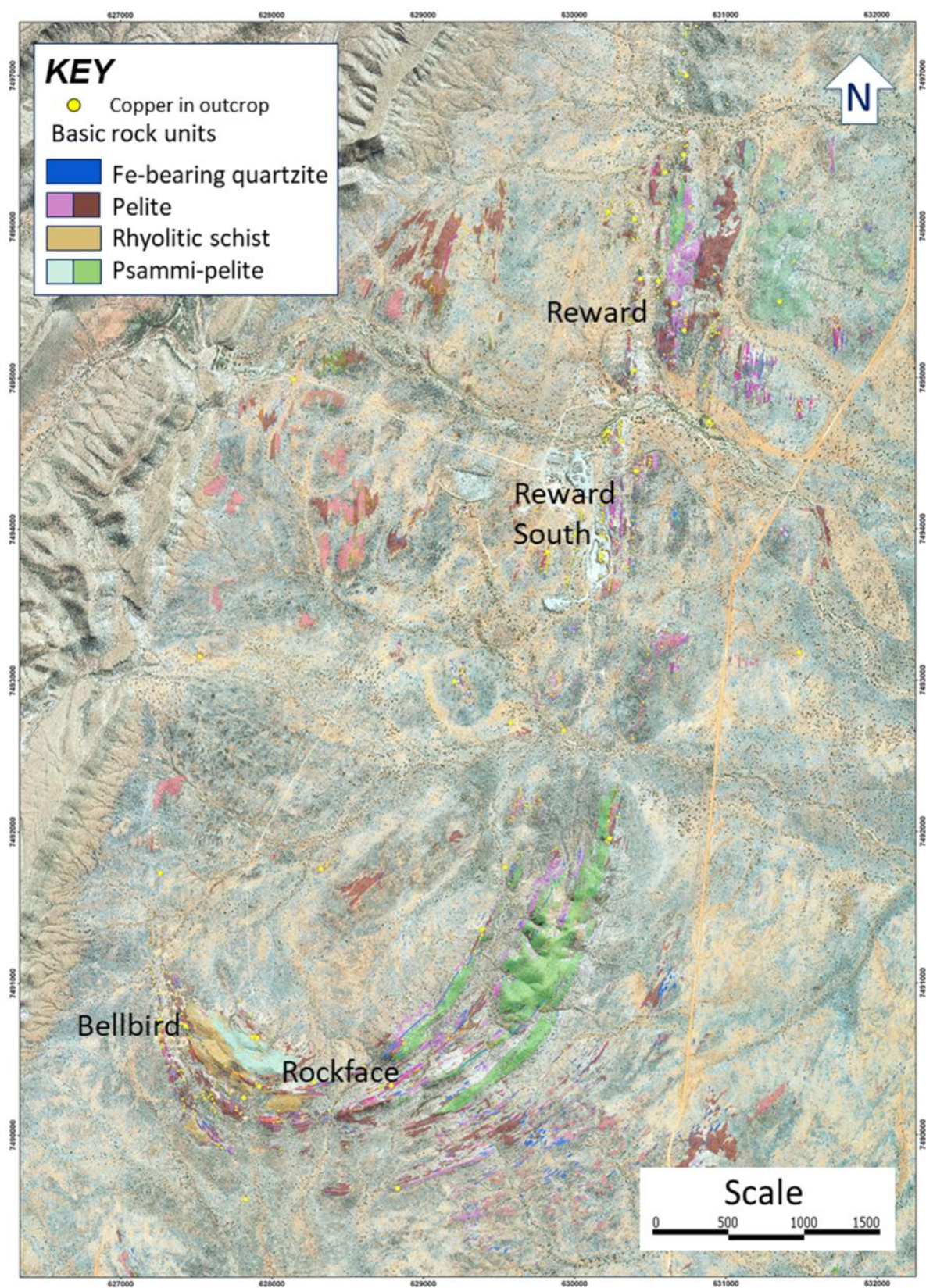


Figure 1: Jervois geology and active prospect map locating major deposits

1. The Company used the delay caused by COVID-19 to optimise mine design and progress the planning for the development of the Jervois project.

During the quarter, KGL Resources Limited (ASX: KGL) (KGL or the Company) successfully progressed studies and reviews of mining, processing and infrastructure for the Jervois project. The aim is that a Pre-feasibility Study will be released in Q4 2020. The components of this study were well progressed during the quarter.

Geotechnical

Detailed open pit and underground geotechnical reports were received from consultants in May. Favourable ground conditions in the Rockface underground mining area support a top-down mining strategy to target ore access sooner than would otherwise be possible. The available open pit data was found to be of a high level of confidence for the proposed open pits at Reward and Bellbird, and design parameters for the pits that are similar to those previously determined have been recommended.

Mine planning

A review of the underground mine plan for Rockface was completed and should result in higher tonnages becoming available earlier in the mining sequence at costs similar to previous estimates.

A re-optimisation of the Reward open pit and underground mines commenced following the availability of an updated geological model which includes the drilling completed late in 2019 and early in 2020.

Processing

A review of metallurgical testing was completed, to support metallurgical processing performance and future projections.

A second review of processing costs was completed and gave a high level of confidence in previous estimates used for planning. The process plant layout was developed and incorporated into the overall site plan. This includes the capture of run-off for re-use in the process water supply.

Infrastructure

A review of power plant tenders included assessment of wind power in a hybrid diesel-solar plant.

A review of civil design – roads, water pond, tailings storage and other infrastructure – was completed. A cost estimate has been received and is being reviewed.

Drone based high resolution imaging equipment was used to complete detailed topographic surveying at the site.

Lease and licence applications for the water supply borefield were progressed.

Mining Management Plan

The Mining Management Plan was submitted to the Northern Territory Government in early April. Final government approval of the project is expected during the September quarter.

2. Applying improved geological understanding is expected to deliver enhanced mine planning.

During the quarter, the knowledge of the geology at Jervois that has been built up over several years was brought to bear on the mine planning. This greater understanding was based on revised logging, structural mapping and other procedures. The result has been an improved understanding of the geology and the two groups into which most of the mineralisation is contained – a low grade strata form domain, and a high grade domain enhanced by structural thickening and late stage hydrothermal fluids. Much of the high grade copper is located in steeply plunging lenses at the Reward Main Lode and Reward Deeps Lode. However, there is considerable recoverable copper located in the other generally lower grade domain.

Understanding the internal distribution of the mineralisation is crucial for efficient mine planning. The ongoing optimisation of mine design at Jervois is benefiting considerably by the application of the steadily accumulated knowledge. It is leading to more efficient design of both the proposed open pit and underground mine at Reward, where half of the known Jervois mineral resource is located, and also at the proposed underground mine at the Bellbird deposit. The greater efficiency in ore recovery will provide economic gains for the Jervois project.

World copper market

During the June quarter, directors were encouraged to see a strengthening of the global copper market in the face of the pandemic as the Company continued to prepare for the development of the Jervois project.

The rising copper demand lifted the price throughout last year to a peak of US\$6327 a tonne on 14 January before it fell with the onset of the pandemic to a low of US\$4630 on 23 March and was US\$6082 on 8 July.

The market has been influenced by economic stimulus measures committed by governments, including the \$700 billion program by China where half of the world's copper is consumed. These massive injections of funds will be directed largely to metals-intensive infrastructure projects requiring large volumes of copper. Adding to the optimism has been the apparent success in China of bringing the coronavirus under control.

Copper supply is expected to struggle to meet growing demand created not only by the post-virus stimulus measures, but also by the long term trend of strongly increasing copper consumption driven by copper's usage in consumer goods, electrical transmission, electric vehicles and renewable energy, as well as infrastructure and construction.

CEO of Barrick Gold Corp Mark Bristow expressed the longer term positive outlook for copper when he was widely reported as saying in February that copper will be "the most strategic metal on this planet" in a decade.

Commodity research analysts are forecasting strong growth in demand for copper.

Writing last month that copper is an essential component of the energy technologies of the future, the CEO of the European Copper Institute Bernard Respaut cited an International Energy Agency report showing the significant amounts of copper required in many key renewable energy technologies – offshore windmills need up to 7000 kg of copper and onshore windmills around 4000 kg of copper per MW installed, photovoltaic panels around 2500 kg per MW of capacity, electric vehicles use three to four times as much copper as conventional vehicles, and charging stations between 2.1 and 5.4 kg of copper each.

Eurasia Group's Henning Gloystein advised in a recent research note that the pandemic was expected to accelerate trends in government-supported environmental investments and digitalization which heralded a coming boom in copper demand. "Welcome to the age of copper," he announced. Widescale fiscal measures would help drive demand back to pre-crisis levels next year, with demand increasing by 2.5% a year this decade towards 30 million tonnes a year by 2030.

Current supply is being constrained by recent mine closures and curtailed production in response to the current economic slowdown. Copper stocks at the London Metal Exchange and in other warehouses

have fallen substantially during the past quarter. Looking further ahead, future mine production has also been affected, with a pause created in plans to expand existing major mines and develop new mines.

Adding to the potential for a supply deficit is the slowing rate of discovery of new copper deposits in the last 10 years over the previous two decades, and the continuing problem of reducing grades particularly in Latin America, the world's largest copper producing region. A higher copper price will inevitably be required to justify the development of lower grade deposits.

In summary, the copper price has been forecast to strengthen in both the short and longer term as demand doubles over the next 20 to 30 years and supply is constrained and mine production costs rise.

Outlook

Pre-development planning for the Jervois project will continue in preparation for when economic and market conditions are favourable. Northern Territory Government approval of the Mining Management Plan is expected during the September quarter, and any accompanying conditions will be incorporated into the modelling required to seek project financing.

Tenements

Tenement Number	Location	Beneficial Holding
ML 30180	Jervois Project, Northern	100%
ML 30182	Jervois Project, Northern	100%
ML30829	Jervois Project, Northern	100%
EL 25429	Jervois Project, Northern	100%
EL 30242	Jervois Project, Northern	100%
E28340	Yambah, Northern Territory	100%
E28271	Yambah, Northern Territory	100%
EL28082	Unka Creek, Northern Territory	100%

Mining Tenements Acquired and Disposed during the quarter*	Location	Beneficial Holding
Nil		

Tenements subject to farm-in or farm-out agreements	Location	Beneficial Holding
Nil		

Tenements subject to farm-in or farm-out agreements acquired or disposed of during the quarter	Location	Beneficial Holding
Nil		

Transaction with related parties

As reported in the quarterly cash flow report part 6.1, amounts paid to related parties of \$65,000 consist of directors' fees and expenses for the quarter. In part 6.2 of quarterly cash flow report, amounts paid to related parties of \$26,000 were for metallurgical consultancy services provided on an arm's length basis.

Forward-looking statements

This report includes certain forward-looking statements. The words “forecast”, “estimate”, “like”, “anticipate”, “project”, “opinion”, “should”, “could”, “may”, “target” and other similar expressions are intended to identify forward looking statements. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding forecast cash flows and potential mineralisation, resources and reserves, exploration results and future expansion plans and development objectives of KGL are forward-looking statements that involve various risks and uncertainties. Although every effort has been made to verify such forward-looking statements, there can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. You should therefore not place undue reliance on such forward-looking statements.

Statements regarding plans with respect to the Company's mineral properties may contain forward looking statements. Statements in relation to future matters can only be made where the Company has a reasonable basis for making those statements.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

KGL Resources Limited

ABN

52 082 658 080

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	93	258
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	-	-
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(140)	(296)
	(e) administration and corporate costs	(140)	(611)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	19	24
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(168)	(625)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(13)	(17)
	(d) exploration & evaluation (if capitalised)	(1,876)	(2,912)
912	(e) investments	-	-
	(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – refund of security deposits	366	366
2.6	Net cash from / (used in) investing activities	(1,523)	(2,563)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(27)	(27)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings – lease payments	(53)	(53)
3.7	Transaction costs related to loans and borrowings – interest on leases	(4)	(4)
)	Dividends paid	-	-
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	(84)	(84)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,228	6,725
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(168)	(625)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,523)	(2,563)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(84)	(84)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	3,453	3,453

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	950	1,127
5.2	Call deposits	2,503	4,101
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,453	5,228

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
65
26

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
N/a		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(168)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(1,876)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(2,044)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	3,453
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	3,453
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	1.7

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: No, due to the health and safety concerns surrounding the CoVid-19 pandemic, the Company's site-based exploration activities have concluded, and personnel and drilling equipment demobilised from the project site. There are no immediate plans to re-establish site exploration activities.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Yes, refer to the KGL Entitlement Issue announcement released to the ASX on 9 July 2020. Two major shareholders have committed to take up their share of the rights issue (totalling 36% of the total entitlement offer), and the Directors are of the belief that the offer will raise sufficient capital to fund the Company's ongoing operations.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes, through the reduction in immediate exploration expenditures and the successful completion of the Entitlement Issue, the Company expects to continue with its development plan for the Jervois Project.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 9 July 2020.....

Authorised by: Kylie Anderson on behalf of the Board.....

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.