

STATE OF IDAHO  
DEPARTMENT OF WATER RESOURCES**APPLICATION FOR TEMPORARY APPROVAL OF WATER USE**For a use not intended to become an established water right and not to exceed one (1) year in duration in accordance with Idaho Code § 42-202A.

RECEIVED

AUG 20 2020

Department of Water Resources  
Eastern Region

Name of applicant Konnex Resources Inc. Phone (208) 954-7039  
 Mailing address PO Box 329 City Mackay, ID  
 State Idaho Zip 83251 Email ryan.mcdermott@pgmining.com

1. Source of water Unnamed Creek tributary to Big Lost River Sinks  
 2. Location of point(s) of diversion. If more than two, attach a Point of Diversion/Place of Use Supplement. ☐

TWP	RGE	SEC	GOVT LOT	1/4	1/4	1/4	County	Source	Local name or tag #
7N	23E	36		NW	NW	SW	Custer	unnamed creek	

3. Location of place of use. If more rows are needed, attach a Point of Diversion/Place of Use Supplement. ☒

TWP	RGE	SEC	NE				NW				SW				SE				Totals
			NE	NW	SW	SE	NE	NW	SW	SE	NE	NW	SW	SE	NE	NW	SW	SE	
7N	23E	36			X		X	X	X	X	X	X	X	X					
6N	23E	1		X	X		X	X	X	X									

4. Proposed use of water:  
 a. ☐ Prevention of flood damage ☐ Ground water recharge ☐ Ground water or surface water remediation  
☒ Other (Limited to a diverted volume of 5 acre-feet.) Describe: mineral exploration drilling  
 b. Attach a detailed description of how the proposal will accomplish the intended objective, such as prevention of flood damage.  
 5. Amount of water. Complete all three:  
 a. Maximum rate of diversion: \_\_\_\_\_ cfs; or 100 gpm.  
 b. Maximum daily volume: \_\_\_\_\_ AF; or 20,000 gallons.  
 c. Maximum volume over the duration of the request: 5 AF; or \_\_\_\_\_ gallons.  
 6. Duration of diversion: from 9/1/2020 (month-day) to 8/31/2021 (month-day).  
 7. Describe proposed diverting works: Suction hose into plastic water tank positioned below existing road culvert.  
 8. a. Who owns the property at the requested point of diversion? Honolulu Copper Company (leased to Konnex)  
 b. Who owns the facilities that will convey water to the place of use? Konnex Resources Inc  
 c. Who owns the land to be irrigated or place of use? Honolulu Copper Company  
 d. If any of the items above is owned by a person or entity other than the applicant, describe the arrangement allowing access and attach written evidence of the arrangement. See attached description for patented claim block; otherwise public land.  
 9. Attach an 8 1/2" x 11" map identifying the water source, point(s) of diversion, place(s) of use and conveyance system.

I hereby acknowledge that I assume all risk of the diversion and use of the water under this approval. I certify this is a temporary use and is not intended to become an established water right.

Ryan McDermott Chief Executive Officer 8/20/2020  
 Signature of Applicant Title, if any Date

Received by CS Date 8/20/2020 Time 4:30pm  
 \$50.00 fee received by CS # E046206 Date 8/20/2020  
 Watermaster comments received? \_\_\_\_\_ Date \_\_\_\_\_

STATE OF IDAHO  
DEPARTMENT OF WATER RESOURCES

The Idaho Department of Water Resources ("Department") has examined this application for temporary approval to use water under the provisions of Idaho Code § 42-202A and has determined that:

     A. The application for temporary approval should be denied because \_\_\_\_\_

- ☒ B. The application for temporary approval should be approved, since
1. The temporary approval can be properly administered.
  2. Other water sources are not readily available.
  3. The approval is in the public interest.
  4. The approval will not injure known public values associated with the water source or any known water rights.
  5. If the temporary approval is within a water district, the Department has sought and considered the recommendations of the watermaster.

This application is therefore hereby:

     A. DENIED

- ☒ B. APPROVED, subject to the following conditions:
1. Diversion and use of water under this approval is subject to all valid existing water rights.
  2. The applicant assumes all risk of the use of the water under this approval.
  3. This approval authorizes a maximum diversion volume of 5.0 AF and a maximum diversion rate of 0.22 cfs.  
(100gpm)
  4. This approval does not grant a right-of-way across the land of another.
  5. The Department may cancel or reduce the rate of flow or volume authorized by this approval. For example, the Department may cancel or reduce this approval if it concludes the water use is injuring other water rights or adversely affecting fish, wildlife or other public values.
  6. The applicant shall not divert water when downstream minimum flow water rights are not being satisfied.
  7. This approval does not create a continuing right to use water.
  8. A temporary approval for ground water recharge or prevention of flood damage shall be an opportunistic use of surplus water and shall not interfere with the filling of surface water reservoirs.
  9. For a temporary approval authorizing ground water recharge or ground water or surface water remediation, the applicant shall measure and record the weekly quantity of water diverted and report the diversion data to the Department upon request.
  10. This temporary approval is not an authorization for the described water use to be used as mitigation or credit for any other purpose.
  11. Other: \_\_\_\_\_
  12. This approval expires on August 31, 2021.

Signed this 2<sup>nd</sup> day of September, 2020.

  
For the Department



State of Idaho

DEPARTMENT OF WATER RESOURCES

Eastern Region • 900 N SKYLINE DR STE A • IDAHO FALLS, ID 83402-1718

Phone: (208)525-7161 • Fax: (208)525-7177 • Website: [www.idwr.idaho.gov](http://www.idwr.idaho.gov)

Brad Little  
Governor

Gary Spackman  
Director

September 2, 2020

KONNEX RESOURCES INC  
313 E CUSTER RD  
MACKAY ID 83251

RE: Application for Temporary Approval of Water Use: TP-34-29

Dear Applicant(s):

Your application for temporary water appropriation has been approved and is enclosed. The approval authorizes the temporary use of water and does not grant trespass or other activity on public land or on private property.

Please review the **conditions of approval on page 2 of the Application for Temporary Approval form** to understand the limitations associated with the temporary use of water.

This temporary approval **expires on August 31, 2021**. The expiration date cannot be extended under this temporary approval.

If you have any questions, please feel free to contact this office, and any of our agents will be able to assist you.

If you require additional information regarding this matter, please call me at (208) 497-3793 or email me at [Christina.Henman@idwr.idaho.gov](mailto:Christina.Henman@idwr.idaho.gov).

Sincerely,

A handwritten signature in blue ink, appearing to read 'CHenman'.

Christina Henman  
Administrative Asst. I.

Enclosure(s) Receipt

cc: LUCAS YOCKEY, Water District 34.

## 1 EXECUTIVE SUMMARY

### 1.1 Introduction

Konnex Resources, Inc. is a base metal exploration company engaged in the acquisition, exploration, and development of North American mineral properties. Konnex Resources, Inc. has retained Hard Rock Consulting, LLC (“HRC”) to prepare a Preliminary Economic Assessment (“PEA”) for the company’s principal property, the Empire Mine Project (the “Empire Project” or “Project”), a past-producing high-grade copper, gold, silver and tungsten property located in Custer County, Idaho, USA.

Konnex Resources, Inc. is the Idaho registered operating company, and is an 80% owned subsidiary of Phoenix Global Mining Limited (“PGM”), a resource company listed on the London Stock Exchange AIM market (ticker AIM:PGM). ExGen Resources, Inc (TSX V:EXG) (OTC:BXXRF) holds a 20% interest in Konnex. For the purposes of this report, ExGen, PGM, and Konnex Resources, Inc. are referred to collectively as “Konnex”.

HRC, M3 Engineering, Golder and Associates, Call and Nicolas, Cascade Earth Sciences (“CES”), and Minerals Technology LLC (“MTI”) were contracted to perform the test work and engineering necessary to develop a PEA for the mining and processing of the Empire oxide-copper resource, including, but not limited to, metallurgical column testing, mine and processing design, geotechnical studies, baseline environmental studies, and overall project economics for an open-pit, heap leach SX-EW copper project.

This report presents the results of the PEA and associated work completed by HRC. The PEA is a preliminary study that includes an analysis of the potential economic viability of the mineral resources based on conceptual mining and processing methods. This report includes inferred mineral resources which are too speculative geologically to have economic considerations applied, and there is no certainty that the PEA will be realized.

### 1.2 Property Description and Ownership

The Empire Project is in southeast-central Idaho, in the Alder Creek Mining District approximately 3.3 miles southwest of the town of Mackay, and 97 miles west of Idaho Falls. The Project area covers approximately 1,774 acres (718 hectares) of land surface within Section 12, T6NR23E, Sections 35 and 36, T7NR23E, and Sections 31 and 33, T7NR24E, Boise Prime Meridian. Approximately 95% of the Empire Mine deposit is located beneath patented (private) land surface. The remainder of the deposit is located within public lands administered by the U.S. Forest Service (“USFS”).

The Project area consists of 109 contiguous mining claims, which together are comprised of the Honolulu Copper claim group, the Mackay LLC claim group, and the Horseshoe Claim Block. The Honolulu Copper group consists of 13 unpatented mining claims, 18 patented mining claims, and 5 unpatented mill site claims. The Mackay LLC group consists of 14 unpatented mining claims and 3 patented mining claims. Konnex holds 100% of the mineral rights to the claims via lease agreements with Honolulu Copper Corp. (Honolulu Copper group) and Mackay, LLC (Mackay group), with the exception of two Honolulu Copper group claims, for which

Konnex controls a 50% share of the mineral rights. The Horseshoe Claim Block consists of 54 unpatented claims acquired in 2017 and 2018. The Horseshoe claims are 100% owned by Konnex.

The ownership of Konnex and the Empire Project is characterized by three agreements between ExGen and PGM: the Konnex Option dated July 15, 2015, the Supplemental Option Agreement dated November 9, 2016, and Supplemental Option Agreement No. 2 dated April 21, 2017. The terms of these agreements were fully satisfied as of June 29, 2017, establishing PGM's 80% ownership of Konnex Resources, Inc., and ExGen's 20% interest in Konnex.

### 1.3 Geology and Mineralization

The Empire Project is in the historic Alder Creek mining district of east-central Idaho. This portion of east-central Idaho lies within the Cordilleran fold and thrust belt, and in the Basin-and-Range structural and geophysiographic province.

The Empire Project area overlies a north-trending contact zone between an Eocene granitic complex, including the Mackay Granite and Mackay Porphyry, and the White Knob Limestone. This contact zone includes a garnet-pyroxene-magnetite skarn developed in both the carbonate and intrusive rocks. The skarn hosts the polymetallic copper mineralization which characterizes the Empire mine.

At the Empire mine, both copper-oxide (carbonates, malachite and azurite) and sulphide (chalcopyrite/chalcocite) mineralization is developed to varying degrees within exoskarn in rafted limestone fragments and endoskarn in porphyry. The copper oxide mineralization occurs as veinlets, stockworks, and disseminated oxide/sulphides. The sulphides have similar characteristics, but also occur as massive lenses, both copper sulphides and magnetite, along skarn-hosted fault breccias. In both breccia types, the degree of mineralization appears to be a function of the amount of contained skarn fragments.

Drilling has encountered a skarn-hosted body of disseminated and stockwork copper-oxide mineralization extending over a strike length of 3,940 feet, with a thickness of 20 feet to 240 feet from surface, and a width of up to 427 feet. The "width" figure is a function of topography; the skarn is exposed along a steeply-inclined north-trending ridge-crest, with the northern most outcrop being 837 feet lower in elevation than the southernmost exposure. All of the mineralized intercepts are in endoskarn, exoskarn and skarn-hosted breccias.

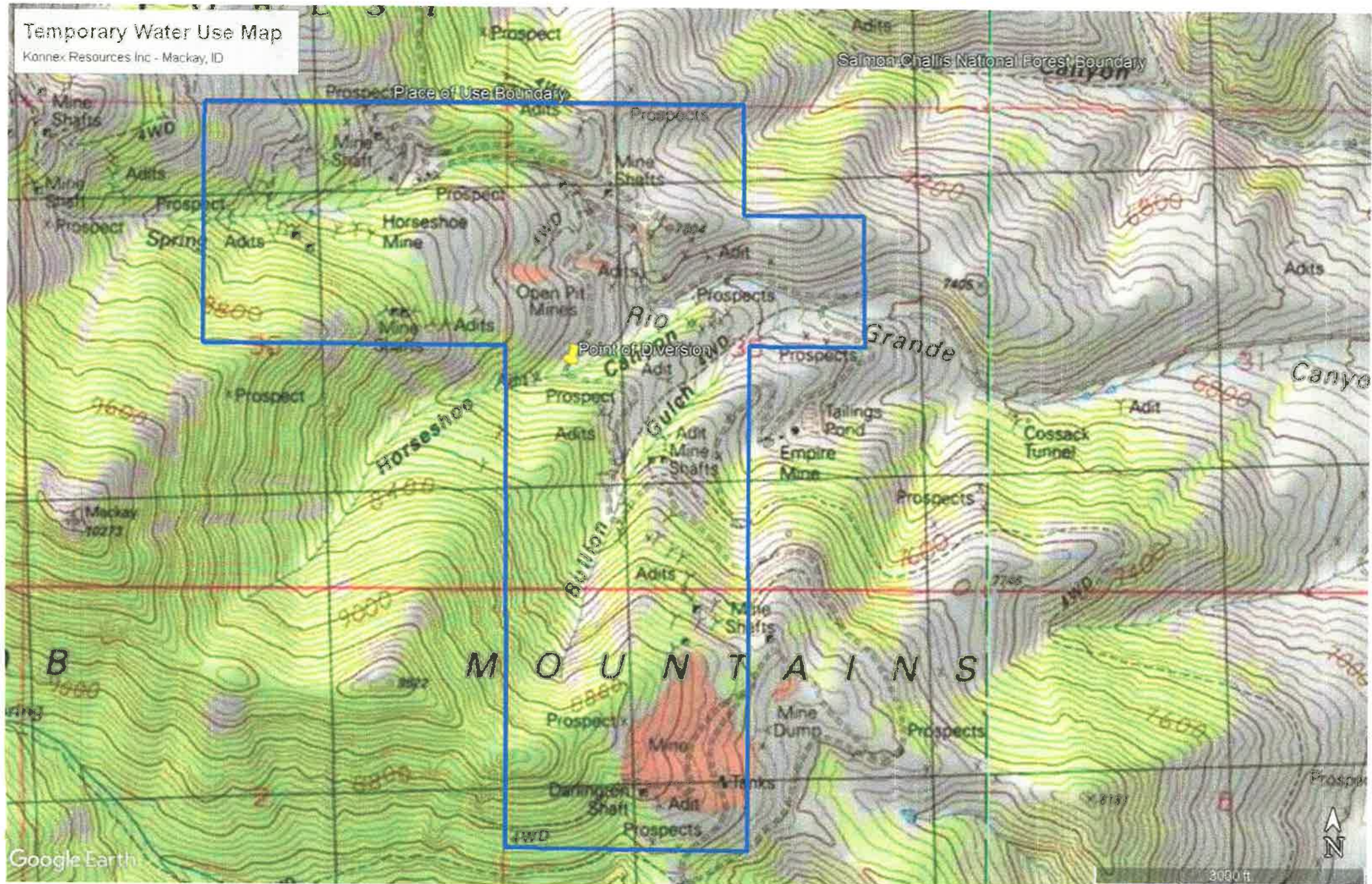
Exploration at the Empire mine has been conducted via a variety of drilling programs carried out between the mid-1900's and present day. Drilling at Empire covers 175.6 acres, totals 87,496 feet, and consists of both RC and diamond core drilling. Drilling has been conducted predominately from the surface, except for drilling completed by U.S.B.M in 1943, which was conducted from existing underground mine developments. Drilling exploration has largely been concentrated in the southern portion of the Project area.

In 2017, Konnex completed 30 drillholes totaling 7,067 feet. The 2017 drilling program included infill and step out holes to test mineralization continuity up dip to the west. Twenty-two RC drillholes account for 5,257 feet, and 8 diamond drillholes total 1,810 feet. Results from the 2017 drilling program show infill drilling



# Temporary Water Use Map

Konnex Resources Inc - Mackay, ID





TP-34-29  
RECEIVED  
AUG 20 2020  
Department of Water Resources  
Eastern Region

August 20, 2020

Ryan McDermott, CEO  
Konnex Resources Inc  
PO Box 329  
Mackay, ID 83251

Idaho Department of Water Resources  
Eastern Region  
900 N Skyline Drive, Ste A  
Idaho Falls, ID 83402-1718

**Subject: Description of Proposed Temporary Water Use**

To Whom It May Concern:

This narrative was prepared to fulfill Item 4.b. of the Application for Temporary Approval of Water Use. Konnex Resources Inc. is applying to the Idaho Department of Water Resources for temporary approval to use water for its mineral exploration drilling program scheduled to commence on September 1. The mineral claims are located approximately three miles west of Mackay, Idaho. The drilling program will typically require up to 20,000 gallons per day.

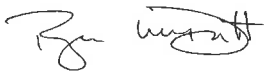
Water will be diverted from an unnamed stream that disappears into the alluvium below the proposed point of diversion (see attached map). Stream water that flows through an existing road culvert will be collected in a plastic tank positioned below the culvert. A portable pump will convey water from the tank into a water truck or into another tank positioned along the edge of the road.

There is little to no risk of any flood damage because the diversion rate and storage volumes are small, and there is no infrastructure within several miles that could be damaged by a sudden release of water.

The stream typically disappears approximately 100 yards below the point of diversion, and there are no other water rights on this tributary. As such, the proposed diversion is not likely to affect any other water users.

Please contact me with any questions or concerns.

Sincerely,



Ryan McDermott, CEO

## Henman, Christina

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**From:** Henman, Christina  
**Sent:** Monday, August 24, 2020 3:24 PM  
**To:** 'watermaster34@atcnet.net'  
**Subject:** Application for Temporary Approval Number TP- 34-29  
**Attachments:** TP-34-29.pdf

Attention LUCAS YOCKEY,

The Department of Water Resources is seeking comment from you regarding an application to temporarily appropriate water. A copy of the application is attached for your reference.

Please submit your comments within 7 days. No response will indicate that you have no objection, concerns or conditions you wish to be added to the issuance of any approval of this application.

If you have any questions regarding this application, please contact me via email or at (208) 497-3793.

Thank you,  
Christina Henman  
Administrative Asst. I