BELL POTTER

Speculative
See key risks on Page 6
Speculative securities may not be suitable for retail clients

30 August 2017

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Aeon Metals Limited (AML)

High grade drilling continues to validate model

Recommendation
Buy (unchanged)
Price
$0.155
Target (12 months)
$0.25 (previously $0.29)
Risk
Speculative

GICS Sector

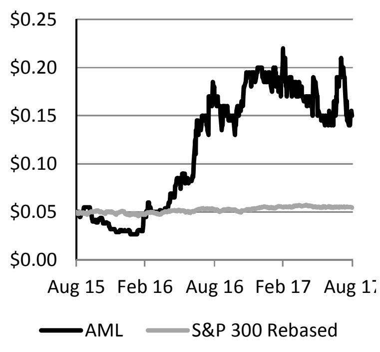
Materials

Expected Return	
Capital growth	**61.3%**
Dividend yield	**0.0%**
Total expected return	**61.3%**
Company Data & Ratios	
Enterprise value	**$90.6m**
Market cap	**$62.1m**
Issued capital	**400.4m**
Free float	**80%**
Avg. daily val. (52wk)	**$26,280**
12 month price range	**$0.13-$0.22**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.19	0.19	0.17
Absolute (%)	-21.05	-18.92	-9.09

Absolute Price



SOURCE: IRESS

Drilling intersects shallow, high grade copper

AML has reported one of its highest grade drill intersections to date. Assays were returned from recent shallow RC holes which were testing for continuity and establishing pre-collars for the upcoming diamond drilling program. Hole WFRC259 intersected **12m at 5.07% copper, and 0.1% cobalt from 34m** down hole. On our count this is the third highest copper grade returned to date, with the highest grade holes all drilled in this recent program – in our view validating the newly understood geological model for Walford Creek and demonstrating its effectiveness in targeting. We expect this to continue and to contribute to a material Resource upgrade in the coming months. Hole WFRC259 was drilled at the Western end of the Vardy Zone, confirming and extending the high grade mineralisation in hole WFDD240, 30m to the east (20m @ 4.45% Cu and 0.20% Co from 35m). It is also the westernmost of the holes drilled into the Vardy Zone in the current program, leaving it open along strike.

Step-out hole 2km west gives a hint of the potential

We also consider that another recently drilled hole, WFRC250, drilled as one of a series of holes to test the location of the Fish River Fault, has hinted at the potential of the Resource upside. Drilled 2km west of the Vardy Zone, it intersected **5m at 3.5% copper and 0.12% cobalt from 102m** down hole. Effectively a significant step-out hole, the intersection of high grade copper well outside what had previously been considered the limits of the high grade zone, is a hugely encouraging result.

Investment thesis – Buy, (Speculative), valuation $0.25/sh

Following the recent equity raise ($5.5m at $0.14/sh), AML is now well funded to add significant value to the project through exploration success. The next round of diamond drilling is set to commence in coming weeks, potentially driving very positive newsflow. We have updated our valuation to reflect the latest capital structure, with dilution lowering our valuation 14%, to $0.25/sh. We retain our Buy (Speculative) rating.

Earnings Forecast

Year end 30 June	2016a	2017e	2018e	2019e
Sales (A$m)	-	-	-	60
EBITDA (A$m)	(3)	(1)	(2)	26
NPAT (reported) (A$m)	(2)	(4)	(5)	6
NPAT (adjusted) (A$m)	(2)	(4)	(5)	6
EPS (adjusted) (¢ps)	(1)	(1)	(1)	1
EPS growth (%)	na	na	na	na
PER (x)	(21.3)	(12.4)	(10.9)	10.9
FCF Yield (%)	-6%	-12%	-111%	-37%
EV/EBITDA (x)	(34.5)	(90.6)	(51.8)	3.6
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-8%	-12%	-15%	11%

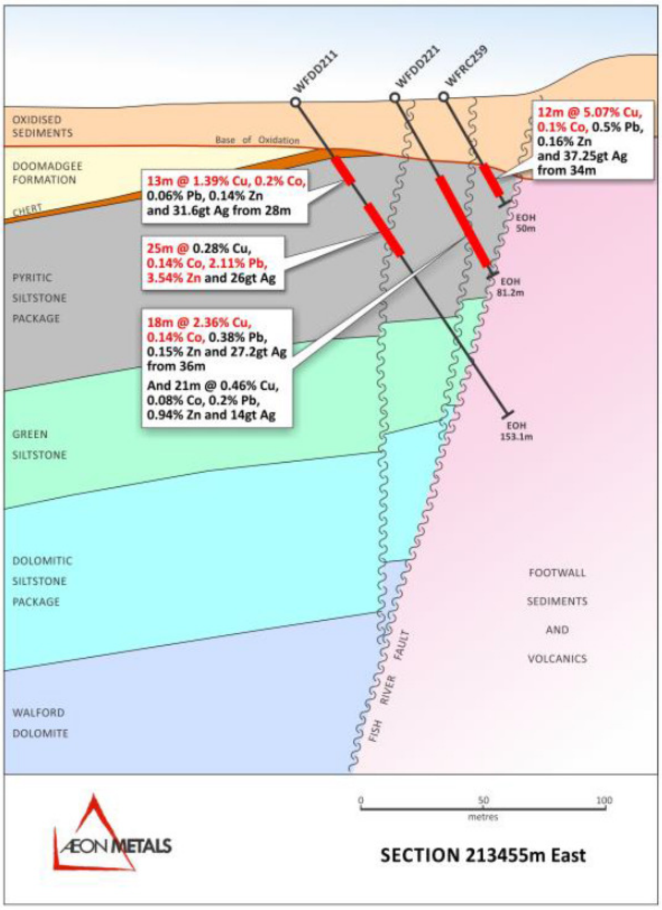
SOURCE: BELL POTTER SECURITIES ESTIMATES

High grade drilling continues to validate model

Drilling intersects shallow, high grade copper

AML has reported one of its highest grade drill intersections to date. Hole WFRC259 intersected 12m at 5.07% copper, and 0.1% cobalt from 34m, indicating shallow, high grade copper at a depth easily mined by open-pit methods. On our count this is the third highest copper grade returned to date. The relevant cross-section is shown below.

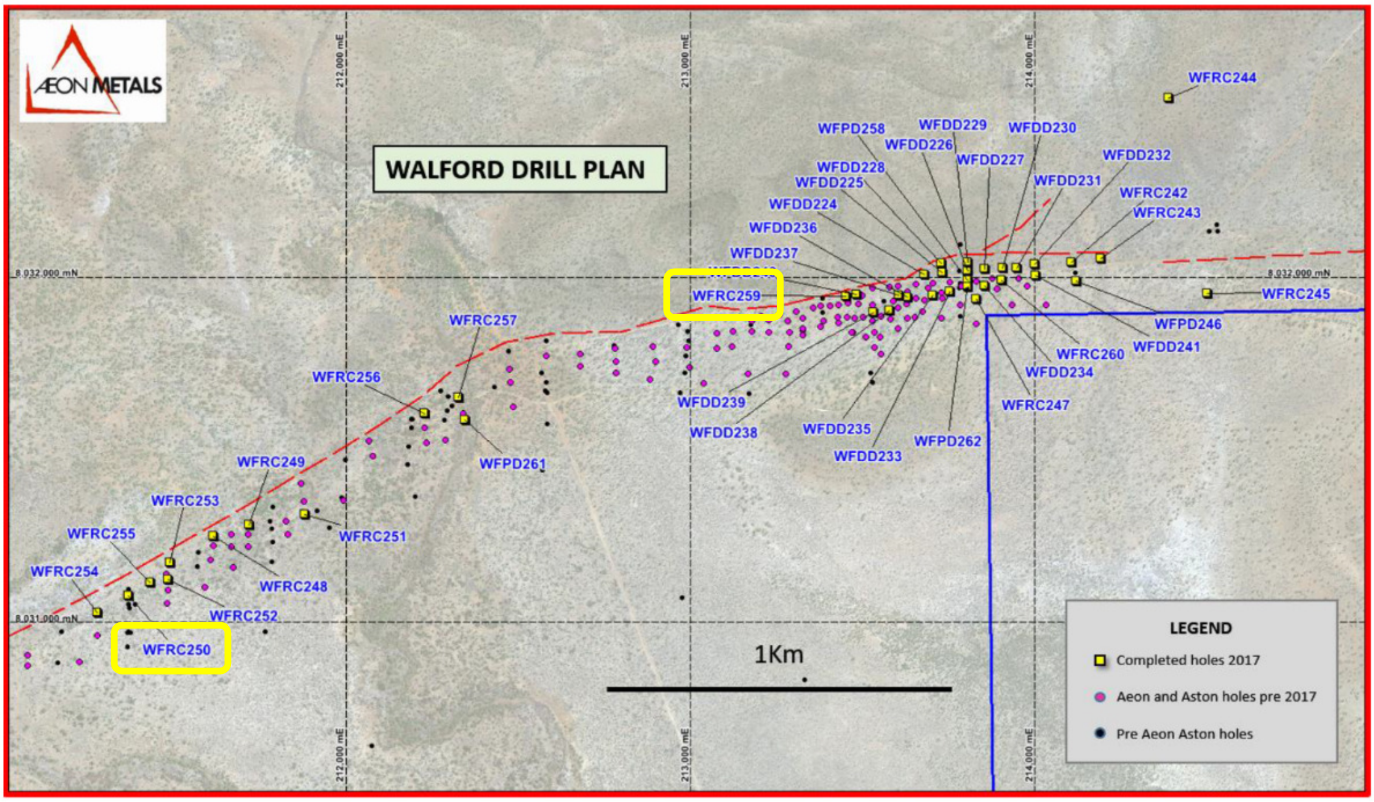
Figure 1 - Cross section 213455mE, showing WFRC259



SOURCE: COMPANY DATA

Hole WFRC259 was drilled at the Western end of the Vardy Zone, confirming and extending the high grade mineralisation in hole WFDD240, 30m to the east (20m @ 4.45% Cu and 0.20% Co from 35m). It is also the westernmost of the holes drilled into the Vardy Zone in the current program, leaving it open along strike.

Figure 2 – Walford Creek drill hole plan – 2017 program



SOURCE: COMPANY DATA

The drill hole plan above shows the location of the shallow, high grade hole WFRC259, at the western end of the Vardy Zone. It also shows hole WFRC250, which intersected 5m at 3.5% copper and 0.12% cobalt from 102m down hole. Drilled 2km to the west of the Vardy Zone this is a highly encouraging result, in our view showing the potential for significant Resource upside.

Changes to our valuation

We update our risk adjusted NPV-based valuation for the Walford Creek project to incorporate our latest commodity price and currency exchange rate forecasts, which includes a modest (3%) increase to US$3.07/lb compared to our previously assumed copper price. This is partially offset by a 4% lower zinc price and higher near-term exchange rate.

We also update our model to reflect the recent capital raising (Bell Potter acted as Manager) and the latest capital structure, which includes the issue of 85m options to major shareholder, OCP. For the purposes of our fully diluted valuation, we assume that these options are exercised, even though they are currently slightly out-of-the-money. We also point out that in the event they are exercised, the combined $20.3m of proceeds will offset the debt with OCP. In the context of a larger equity raise to potentially fund project development, this will make the balance of the debt more easily removed.

Our valuation continues to assume a potential equity raise ($7m at $0.16/sh) within the next 12 months in order to fund the completion of the Bankable Feasibility Study and a likely expanded exploration program at the project.

Our near-term earnings outlook remains unchanged, reflecting the ongoing exploration program in-line with our base-case assumptions. Our target price is lowered 14% to $0.25/sh, primarily on dilution from the recent equity raise. We retain our Buy (Speculative) recommendation, for upside from the current share price of 61%.

Upcoming catalysts

Upcoming catalysts for AML include:

- An ongoing stream of drilling results, which we expect are likely to continue returning high grades;
- Following the completion of the drilling program, AML plans to calculate an updated Resource estimate, which we expect to deliver a material upgrade to the current Resource, likely in the December quarter;
- This will form the basis of a maiden Reserve estimate, likely in early CY18; and
- The completion of a Bankable Feasibility Study to follow, likely in 1HCY18.

Aeon Metals Ltd (AML)

Company description

AML is a Sydney-based company focused on the exploration and development of its flagship asset, the 100%-owned Walford Creek Copper-Cobalt Project, an advanced exploration stage project located approximately 350km north-west of Mt Isa, in Queensland. Since acquiring the project in 2014, AML has completed Resource infill and extension drilling, released updated Mineral Resource estimates, progressed permitting activities and completed a Preliminary Economic Assessment. The global Resource at Walford Creek comprises 73.3Mt at 0.40% Cu, 0.85% Zn and 813ppm Co for 296kt Cu, 623kt Zn and 60kt Co contained. Most recently, efforts have been focussed on a high grade subset of the main Resource, the Vardy Zone, which has a Resource of 6.6Mt at 1.25% Cu, 0.76% Zn and 1,630ppm Co for 82.6kt Cu, 50.2kt Zn and 10.8kt Co contained. We view this as a potential game-changer for AML, offering the potential for small-scale, high grade, copper-cobalt operation in the near term. Further extension of the Vardy Zone and identification of other high grade portions of the existing Resource are compelling opportunities for AML.

Investment thesis – Buy, (Speculative), valuation $0.25/sh

Following the recent equity raise ($5.5m at $0.14/sh), AML is now well funded to add significant value to the project through exploration success. The next round of diamond drilling is set to commence in coming weeks, potentially driving very positive news flow. We have updated our valuation to reflect the latest capital structure, with dilution lowering our valuation 14%, to $0.25/sh. We retain our Buy (Speculative) rating.

Valuation – risked discounted cash flow of key project

Our valuation for AML is broadly based on the parameters and assumptions the Vardy Zone PEA, which assumes a Mining Inventory of 3.6Mt @ 1.15% Cu, 1.06% Zn, 26g/t Ag and 1,842ppm (0.18%) Co being mined at a rate of 600ktpa. Over a six year mine-life this is planned to produce a total of 38.2kt copper in concentrate, 28.8kt zinc in concentrate and 3.2kt of cobalt in cobalt hydroxide. In addition to this, our valuation assumes some exploration success, modelling a Mining Inventory of 5.1Mt for a mine life of eight years and higher grades being front-ended in the production profile (as with the PEA).

NPV premium: In the case of AML, we have taken the step of applying a premium of 25% to our base-case valuation which in some circumstances we believe is justified. We believe this is the case for AML, due to a number of factors including:

- The scarcity of cobalt-exposed projects, particularly advanced stage projects, on the ASX;
- The buoyant, positive market outlook for cobalt demand; and
- A premium being paid by the market, over and above the valuations of exploration companies advancing more ‘mainstream’ commodity projects as a result of these factors.

Our valuation also includes a nominal valuation of $60m for the balance of the exploration portfolio outside the Vardy Zone. Our valuation continues to assume a potential equity raise ($7m at $0.16/sh) within the next 12 months in order to fund the completion of the Bankable Feasibility Study and a likely expanded exploration program at the project.

Resource sector risks

Risks to AML include, but are not limited to:

- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. As an exploration company with no sales revenues, AML is reliant on access to equity markets and debt financing to fund the advancement and development of its projects.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company may relate to geological, mining and metallurgical performance vs design. These can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Construction and development of mining assets may be subject to approvals timelines, receipt of permits, weather events, access to skilled labour and technical personnel, as well as key material inputs and mechanical components which may cause delays to construction, commissioning and commercial production.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations**. The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates. As most metal prices are denominated in US dollars, their translation into Australian dollars are affected by fluctuations in the value of the Australian dollar. Commodity price and foreign exchange rate outcomes may be different from our forecasts.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives. Exploration success is dependent upon a wide range of factors and can deliver a wide range of results. Even once Reserves have been calculated, their economic viability remains dependent upon actual commodity prices and inputs to operating costs.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. AML's key assets are located in Australia, in the State of Queensland, a politically and socially stable jurisdiction, however changes to business conditions and government policies can and have occurred, with potential for adverse impacts on the economic and social viability of AML's operations.
- **Corporate/M&A risks.** Risks associated with M&A activity include differences between the entity's and the market's perception of value associated with completed transactions, the actual performance of an acquired asset vs its expected performance as assessed by the acquiror and the timing of an acquisition may all have a material impact on the value attributed by the market to that acquisition.

Aeon Metals Limited
as at 30 August 2017

Recommendation	Buy, Speculative
Price	$0.155
Target (12 months)	$0.25

Table 1 - Financial summary

PROFIT AND LOSS

Year ending June	Unit	2015a	2016a	2017e	2018e	2019e
Revenue	$m	-	-	-	-	59.7
Expense	$m	(9.3)	(2.6)	(1.0)	(1.8)	(34.2)
EBITDA	$m	**(9.3)**	**(2.6)**	**(1.0)**	**(1.8)**	**25.5**
Depreciation	$m	-	-	(0.0)	(0.0)	(8.1)
EBIT	$m	(9.3)	(2.6)	(1.0)	(1.8)	17.4
Net interest expense	$m	0.1	0.2	(2.7)	(2.8)	(11.8)
PBT	$m	**(9.2)**	**(2.5)**	**(3.7)**	**(4.6)**	**5.6**
Tax expense	$m	-	-	-	-	-
NPAT	**$m**	**(9.2)**	**(2.5)**	**(3.7)**	**(4.6)**	**5.6**

CASH FLOW

Year ending June	Unit	2015a	2016a	2017e	2018e	2019e
OPERATING CASHFLOW						
Receipts	$m	-	-	0.1	-	56.7
Payments	$m	(1.6)	(1.4)	(2.4)	(2.0)	(27.0)
Exploration payments	$m	-	-	0.6	0.6	0.6
Tax	$m	-	-	-	-	-
Net interest	$m	0.1	0.2	(2.7)	(2.8)	(11.8)
Other	$m	0.4	0.5	-	-	-
Operating cash flow	$m	**(1.1)**	**(0.8)**	**(4.3)**	**(4.1)**	**18.6**
INVESTING CASHFLOW						
Capex	$m	(0.0)	(0.0)	(1.2)	(51.2)	(41.5)
Exploration & evaluation	$m	(4.2)	(2.2)	-	-	-
Other	$m	(0.0)	(0.0)	-	-	-
Investing cash flow	$m	**(4.3)**	**(2.3)**	**(1.2)**	**(51.2)**	**(41.5)**
FINANCING CASHFLOW						
Share issues/(buy-backs)	$m	1.9	3.0	-	6.7	28.5
Debt proceeds/(repayments)	$m	-	4.8	-	80.0	-
Dividends	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Financing cash flow	$m	**1.9**	**7.8**	**-**	**86.7**	**28.5**
Change in cash	$m	(3.4)	4.8	(5.5)	31.3	5.6

BALANCE SHEET

Year ending June	Unit	2015a	2016a	2017e	2018e	2019e
ASSETS						
Cash & short term investments	$m	1.8	6.6	1.2	32.5	38.1
Accounts receivable	$m	0.1	0.1	0.1	-	-
Property, plant & equipment	$m	0.2	0.1	1.3	52.5	85.9
Exploration & evaluation	$m	43.3	50.1	50.1	50.1	50.1
Other	$m	0.1	0.2	(0.0)	0.0	3.0
Total assets	$m	**45.5**	**57.2**	**52.7**	**135.1**	**177.1**
LIABILITIES						
Accounts payable	$m	0.5	0.9	0.2	0.2	6.5
Borrowings	$m	16.2	23.6	23.6	103.6	103.6
Other	$m	0.2	0.2	0.2	0.2	0.2
Total liabilities	$m	**16.8**	**24.6**	**23.9**	**103.9**	**110.3**
SHAREHOLDER'S EQUITY						
Share capital	$m	45.3	48.4	48.4	55.4	85.4
Reserves	$m	5.5	8.8	8.8	8.8	8.8
Retained earnings	$m	(22.2)	(24.7)	(28.4)	(33.0)	(27.4)
Total equity	$m	**28.6**	**32.5**	**28.8**	**31.2**	**66.8**
Weighted average shares	m	295.6	339.6	297.4	320.7	394.0

CAPITAL STRUCTURE

Shares on issue	m		400.4
Performance shares / other	m		0.0
Total shares on issue	**m**		**400.4**
Share price	**$/sh**		**0.155**
Market capitalisation	$m		62.1
Net cash	$m		-28.5
Enterprise value (undiluted)	**$m**		**90.6**
Options outstanding (m)	m	(wtd avg ex. price $0.13 per share)	158.0
Options (in the money)	m		158.0
Issued shares (diluted for options)	m		558.4
Market capitalisation (diluted)	m		86.6
Net cash + options	$m		-8.2
Enterprise value (diluted)	**$m**		**94.8**

MAJOR SHAREHOLDERS

	%	m
OCP Holdings	20.5%	82.0
Regal Funds Management	5.9%	23.7
Bliss Investments	5.9%	23.5
Washington H Soul Pattinson	5.6%	22.3
SLW Minerals Corporation	4.0%	16.0
Top 5	**41.8%**	**167.5**

FINANCIAL RATIOS

Year ending June	Unit	2015a	2016a	2017e	2018e	2019e
VALUATION						
NPAT	$m	(9)	(2)	(4)	(5)	6
Reported EPS	c/sh	(3)	(1)	(1)	(1)	1
EPS growth	%	na	na	na	na	na
PER	x	-5.0x	-21.3x	-12.4x	-10.9x	10.9x
DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(2)	(1)	(2)	(17)	(6)
P/FCFPS	x	-8.6x	-17.4x	-8.4x	-0.9x	-2.7x
EV/EBITDA	x	-9.8x	-34.5x	-90.6x	-51.8x	3.6x
EBITDA margin	%	nm	nm	nm	nm	43%
EBIT margin	%	nm	nm	nm	nm	29%
Return on assets	%	-19%	-5%	-7%	-5%	4%
Return on equity	%	-29%	-8%	-12%	-15%	11%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	14	17	22	71	65
ND / E	%	50%	52%	78%	227%	98%
ND / (ND + E)	%	33%	34%	44%	69%	49%
EBITDA / Interest	x	-	-	-	-	-2.2x

MINERAL RESOURCES

Walford Creek, QLD	**Mt**	**% Cu**	**Cu (kt)**	**ppm Co**	**Co (kt)**
Total resource	**73**	**0.40%**	**296**	**813**	**60**
Measured	-	-	-	-	-
Indicated	16	0.46%	75	914	15
Inferred	57	0.39%	221	785	45
Vardy Zone					
Total resource	**6.6**	**0.0**	**82.6**	**1,630**	**10.8**
Measured	1.0	1.14%	11.4	1,700	1.7
Indicated	2.2	1.26%	27.7	1,800	4.0
Inferred	3.4	1.28%	43.5	1,500	5.1

PROJECT ASSUMPTIONS - Vardy Zone evaluation

Year ending June 30		FY16	FY17	FY18	FY19	FY20
Currency	US$/A$	0.73	0.75	0.77	0.75	0.75
Copper price	US$/lb	$2.22	$2.44	$3.06	$3.16	$3.26
Cobalt	US$/t	$35,000	$55,000	$55,000	$55,000	$55,000
Zinc	US$/t	$0.80	$1.20	$1.23	$1.26	$1.29
CAPEX - development	A$m	-	-	(49)	(39)	(10)
CAPEX - sustaining	A$m	-	-	(2)	(2)	(2)
Ore milled	Mt	-	-	-	0.30	0.60
Head grade	% Cu	-	-	-	1.25%	1.25%
	ppm Co	-	-	-	1,950	1,950
Production	t Cu	-	-	-	3.6	7.1
	t Co	-	-	-	0.293	0.585

VALUATION

Ordinary shares (m)		**400.4**
Options in the money (m)		158.0
Assumed equity raise (m)		46.7
Diluted m		**605.1**
SOTP	**$m**	**$/sh**
Walford Ck (unrisked NPV10)	134	0.33
Walford Ck (risk discount 25%, NPV10)	100	0.25
Other exploration	60	0.15
Corporate overheads	(9)	(0.02)
Net cash (debt)	(29)	(0.07)
Total (undiluted)	**122**	**0.31**
Cash from options	20	0.03
Assumed equity raise	7	0.01
Total (fully diluted)	**150**	**0.25**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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