BELL POTTER

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

30 October 2017

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Aeon Metals Limited (AML)

First assays show drilling success

Recommendation
Buy (unchanged)
Price
$0.20
Valuation
$0.27 (previously $0.25)
Risk
Speculative

GICS Sector

Materials

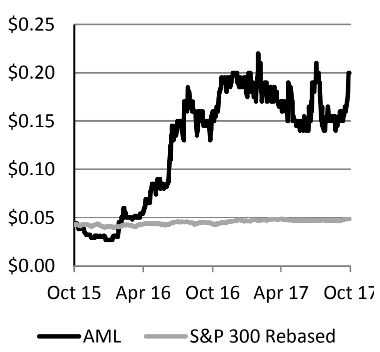
Expected Return	
Capital growth	**35.0%**
Dividend yield	**0.0%**
Total expected return	**35.0%**

Company Data & Ratios	
Enterprise value	**$108.6m**
Market cap	**$80.1m**
Issued capital	**400.4m**
Free float	**79%**
Avg. daily val. (52wk)	**$44,127**
12 month price range	**$0.13-$0.22**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.15	0.19	0.13
Absolute (%)	37.9	5.3	53.8
Rel market (%)	34.0	1.4	44.9

Absolute Price



SOURCE: IRESS

High grade assays from Phase II drilling

AML has released the first assays from the latest drilling program at its 100% owned Walford Creek project in Queensland. They are from hole WFD263, drilled within the current Vardy Resource, returning the following high grade copper-cobalt intersections:

9m @ 2.01% Cu, 0.24% Co and 25g/t Ag from 143m; and

25m @ 2.20% Cu, 0.16% Co and 18g/t Ag from 169m, including

10m @ 4.63% Cu, 0.14% Co and 22gt Ag from 184m.

Eight diamond holes have now been drilled in the current program for approximately 2,000m, with a final hole to commence shortly. It was reported that **the 8 holes logged to date have all intercepted the targeted mineralisation** and that copper mineralisation has been visually logged in all holes. Four holes have been completed within the currently defined Vardy Resource and four outside and along strike of the Vardy Resource. The final hole in the program will also be outside the Resource.

Looking good for Resource upgrade at year-end

In short, these are very exciting numbers. The reported grades are high value and better than those of the existing Vardy Resource. As such, once incorporated into an updated estimate, the results should contribute to an uplift in the Resource's copper grade. The fact that visual logging has also confirmed all holes have intersected the mineralisation up to 900m beyond the current Vardy Resource indicates the strong likelihood of a material increase in the Resource tonnage.

Investment thesis – Buy, (Speculative), valuation $0.27/sh

In our view this represents the confirmation a step change in the exploration of the deposit. We believe Walford Creek is now entering an exciting period of discovery and growth, during which effective, cost efficient drilling could create significant value through exploration success. We retain our Buy (Speculative) recommendation.

Earnings Forecast

Year end June 30	2017a	2018e	2019e	2020e
Sales (A$m)	-	-	60	120
EBITDA (A$m)	(8)	(2)	26	55
NPAT (reported) (A$m)	(8)	(6)	5	26
NPAT (adjusted) (A$m)	(8)	(6)	5	26
EPS (adjusted) (¢ps)	(2)	(2)	1	5
EPS growth (%)	na	na	na	408%
PER (x)	(8.4)	(13.2)	20.1	4.0
FCF Yield (%)	-7%	-74%	-25%	32%
EV/EBITDA (x)	(13.0)	(53.6)	4.3	2.0
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-29%	-21%	10%	33%

SOURCE: BELL POTTER SECURITIES ESTIMATES

First assays show drilling success

High grade assays from Phase II drilling

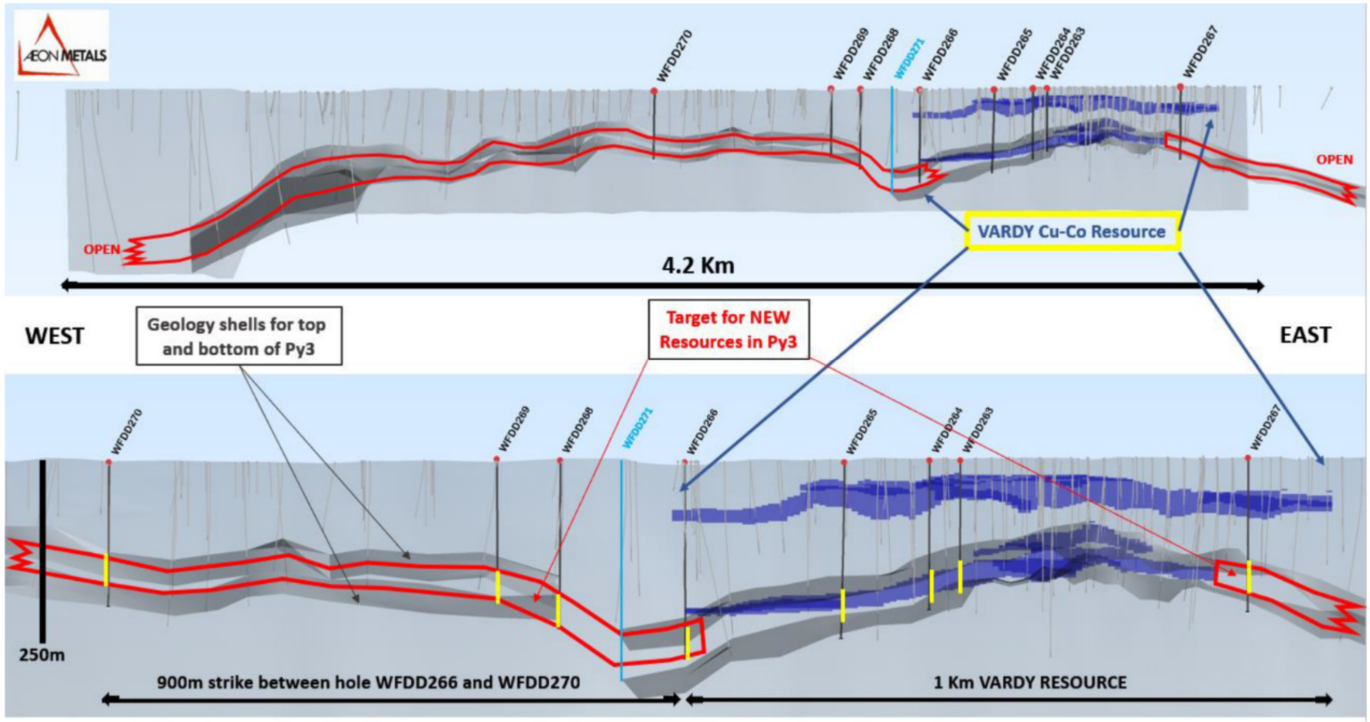
AML has released the first assays from the latest drilling program at its 100% owned Walford Creek project in Queensland. They are from hole WFD263, drilled within the current Vardy Resource and returning the following high grade copper-cobalt intersections:

- **9m @ 2.01% Cu, 0.24% Co** and 25gt Ag from 143m; and
- **25m @ 2.20% Cu, 0.16% Co** and 18g/t Ag from 169m, including;
  - **10m @ 4.63% Cu, 0.14% Co** and 22gt Ag from 184m, and
  - **2m @ 10.79% Cu, 0.13% Co** and 42g/t Ag from 191m.

Eight diamond holes have now been drilled in the current program for approximately 2,000m, with a final hole to commence shortly. It was also reported that the 8 holes logged to date have all intercepted the targeted mineralisation and that copper mineralisation has been visually logged in all holes. Four holes have been completed within the currently defined Vardy Resource and four outside and along strike of the Vardy Resource. The final hole in the program will also be outside the Resource.

The figure below shows the current Vardy Resource (in blue) which stands at **6.6Mt at 1.25% Cu, 0.76% Zn and 0.163% Co** for 82.6kt Cu, 50.2kt Zn and 10.8kt Co contained. Also shown is the PY3 mineralised unit, defined from current and historical drilling plus the completed and planned drill holes from the current drill program.

Figure 1 - Long section showing the latest drilling, the Vardy Resource (blue) and PY3 mineralised unit (red)



SOURCE: COMPANY DATA

The objective of this drill program is to upgrade and extend the Vardy Resource by targeting the PY3 mineralised unit, which the latest geological model postulates contains the highest grade copper and cobalt. This is being validated by the latest drilling which, by applying this model, has so far achieved a 100% strike rate. This exploration success is clearly showing the potential to materially extend the current Resource.

Looking good for Resource upgrade at year-end

In short, these are very exciting results. The reported grades are high value and better than those of the existing Vardy Zone Resource. As such, once incorporated into an updated estimate, the results should contribute to an uplift in the Resource's copper grade.

The table below estimates the recovered value of the intersections from hole WFD263 compared with the recovered value from the Vardy Zone Resource. Overall the latest intersection has a recovered value 29% higher the current Resource – clearly indicating the potential for improved economics.

Table 1 - Walford Creek hole WFDD263 compared with current Resource grades and estimated recovered value (A$/t)

Hole ID	Intercept (m)	Grades					Recovered value (A$/t)					
		%Cu	% Co	% Pb	% Zn	Ag g/t	Cu	Co	Pb	Zn	Ag	Total
263	25	2.20%	0.16%	0.14%	0.11%	17.6	$172	$61	-	$3	-	**$236**
incl.	10	4.63%	0.14%	0.17%	0.16%	21.7	$361	$53	-	$5	-	**$419**
incl.	2	10.79%	0.13%	0.17%	0.16%	42.0	$842	$49	-	$5	-	**$897**
	Vardy Resource	**1.25%**	**0.16%**	**0.74%**	**0.76%**	**25.6**	**$98**	**$62**	**-**	**$24**	**-**	**$183**

Price assumptions	US$/t $6,500	US$/t $60,000	US$/t $2,500	US$/t $3,300	US$/oz $17.00
AUD/USD	0.768				

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Just as importantly, the copper grades (highlighted) are significantly higher than that of the current Resource. Firstly, this starts to bring the deposit into focus as a copper project, secondly it shows the potential of the specifically targeted high grade zones and finally it further validates the geological model, with drilling demonstrating the postulated grade zonation within the deposit.

The fact that visual logging has confirmed all the holes drilled in the latest program have intersected the mineralisation up to 900m beyond the current Vardy Resource indicates the strong likelihood of a material increase in the Resource tonnage.

Finally, the 100% strike rate for the holes in this latest drilling program not only further validates the geological model but further opens up the prospectivity of the Fish River Fault, the main controlling structure of the deposit, which runs for some 22km across AML's tenements.

This all continues to support one of the key tenets of our investment thesis, which is of value creation on the back of exploration success and Resource growth.

Changes to our valuation

We make no changes to our risk adjusted NPV-based valuation for the Walford Creek project at this time and leave our assumed mining inventory unchanged at 5.1Mt. This allows an additional 2 years of production compared to the PEA, on what we view as likely Resource extension. We point out that this is still less than the current Vardy Zone Resource.

We do however increase our notional valuation of the balance of AML's exploration tenements at Walford Creek by $10m, from $60m to $70m, given the very positive indications from the latest drill program. These results further validate the geological model, increase the prospectivity of the Fish River Fault and increase the likelihood of the definition of high grade strike extensions along it.

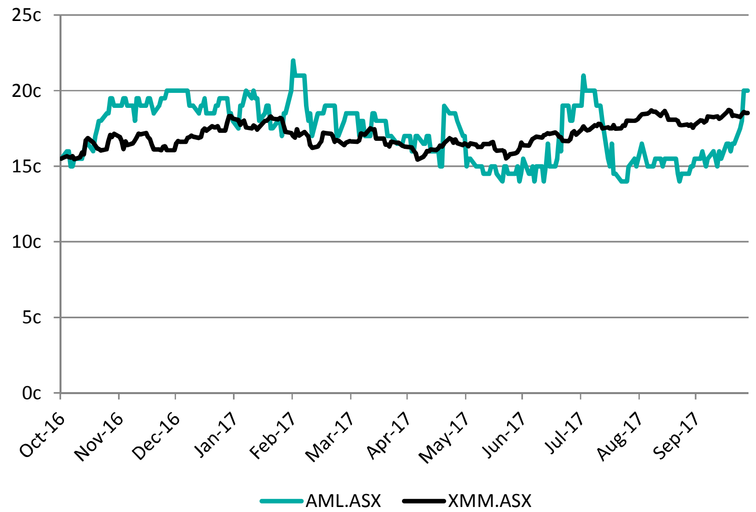
Our near-term earnings outlook remains unchanged, reflecting the ongoing exploration program in-line with our base-case assumptions. Our valuation increases 8% to $0.27/sh and we retain our Buy (Speculative) recommendation, for upside from the current share price of 35%.

Upcoming catalysts

Upcoming catalysts for AML include:

- An ongoing release of drilling results through to early December, 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 by year-end CY17;
- 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.

Figure 2 - AML share-price performance vs ASX Metals and Mining (re-based)



SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

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 $0.27/sh

In our view this represents the confirmation a step change in the exploration of the deposit. We believe Walford Creek is now entering an exciting period of discovery and growth, during which effective, cost efficient drilling could create significant value through exploration success. We retain our Buy (Speculative) recommendation.

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 $70m for the balance of the exploration portfolio outside the Vardy Zone. Our valuation also assumes a small equity raise ($7m at $0.20/sh), which we view as likely within the next 12 months in order to fund the completion of the Bankable Feasibility Study on the Vardy Zone.

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 October 2017

Recommendation	Buy, Speculative
Price	$0.20
Valuation	$0.27

Table 2 - Financial summary

PROFIT AND LOSS						
Year ending June	**Unit**	**2016a**	**2017a**	**2018e**	**2019e**	**2020e**
Revenue	$m	-	-	-	59.7	120.0
Expense	$m	(2.6)	(8.3)	(2.0)	(34.2)	(64.7)
EBITDA	$m	**(2.6)**	**(8.3)**	**(2.0)**	**25.5**	**55.2**
Depreciation	$m	-	-	(0.0)	(8.1)	(16.2)
EBIT	$m	(2.6)	(8.3)	(2.0)	17.4	39.0
Net interest expense	$m	0.2	0.1	(3.8)	(12.7)	(12.6)
PBT	$m	**(2.5)**	**(8.2)**	**(5.8)**	**4.7**	**26.4**
Tax expense	$m	-	-	-	-	-
NPAT	**$m**	**(2.5)**	**(8.2)**	**(5.8)**	**4.7**	**26.4**

CASH FLOW						
Year ending June	**Unit**	**2016a**	**2017a**	**2018e**	**2019e**	**2020e**
OPERATING CASHFLOW						
Receipts	$m	-	-	0.1	56.7	117.0
Payments	$m	(1.4)	(1.7)	(2.5)	(27.0)	(59.0)
Exploration payments	$m	-	-	0.6	0.6	0.6
Tax	$m	-	-	-	-	-
Net interest	$m	0.2	0.1	(3.8)	(12.7)	(12.6)
Other	$m	0.5	(0.0)	-	-	-
Operating cash flow	$m	**(0.8)**	**(1.6)**	**(5.6)**	**17.7**	**46.0**
INVESTING CASHFLOW						
Capex	$m	(0.0)	-	(51.2)	(41.5)	(12.4)
Exploration & evaluation	$m	(2.2)	(3.2)	-	-	-
Other	$m	(0.0)	0.0	-	-	-
Investing cash flow	$m	**(2.3)**	**(3.2)**	**(51.2)**	**(41.5)**	**(12.4)**
FINANCING CASHFLOW						
Share issues/(buy-backs)	$m	3.0	-	11.9	28.5	-
Debt proceeds/(repayments)	$m	4.8	-	80.0	-	(20.0)
Dividends	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Financing cash flow	$m	**7.8**	**-**	**91.9**	**28.5**	**(20.0)**
Change in cash	$m	4.8	(4.8)	35.1	4.7	13.6

BALANCE SHEET						
Year ending June	**Unit**	**2016a**	**2017a**	**2018e**	**2019e**	**2020e**
ASSETS						
Cash & short term investments	$m	6.6	1.9	37.0	41.7	55.3
Accounts receivable	$m	0.1	0.1	0.1	0.1	-
Property, plant & equipment	$m	0.1	0.1	51.3	84.7	80.8
Exploration & evaluation	$m	50.1	54.8	54.8	54.8	54.8
Other	$m	0.1	0.2	(0.1)	2.9	6.0
Total assets	$m	**57.2**	**57.1**	**143.2**	**184.2**	**197.0**
LIABILITIES						
Accounts payable	$m	0.9	0.8	0.2	6.5	12.9
Borrowings	$m	23.6	31.8	111.8	111.8	91.8
Other	$m	0.2	0.2	0.2	0.2	0.2
Total liabilities	$m	**24.6**	**32.8**	**112.2**	**118.5**	**104.9**
SHAREHOLDER'S EQUITY						
Share capital	$m	48.4	48.4	60.9	90.9	90.9
Reserves	$m	8.8	4.1	4.1	4.1	4.1
Retained earnings	$m	(24.7)	(28.2)	(34.0)	(29.3)	(2.9)
Total equity	$m	**32.5**	**24.3**	**31.0**	**65.7**	**92.1**
Weighted average shares	m	339.6	347.8	384.9	472.0	522.0

CAPITAL STRUCTURE			
Shares on issue	m		400.4
Performance shares / other	m		0.0
Total shares on issue	**m**		**400.4**
Share price	**$/sh**		**0.200**
Market capitalisation	$m		80.1
Net cash	$m		-28.5
Enterprise value (undiluted)	**$m**		**108.6**
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		111.7
Net cash + options	$m		-8.2
Enterprise value (diluted)	**$m**		**119.9**

MAJOR SHAREHOLDERS		
	%	**m**
OCP Holdings	21.5%	86.0
Regal Funds Management	8.0%	32.1
Bliss Investments	5.9%	23.5
Washington H Soul Pattinson	5.6%	22.3
SLW Minerals Corporation	4.0%	16.0
Top 5	**44.9%**	**179.8**

FINANCIAL RATIOS						
Year ending June	**Unit**	**2016a**	**2017a**	**2018e**	**2019e**	**2020e**
VALUATION						
NPAT	$m	(2)	(8)	(6)	5	26
Reported EPS	c/sh	(1)	(2)	(2)	1	5
EPS growth	%	na	na	na	na	408%
PER	x	-27.5x	-8.4x	-13.2x	20.1x	4.0x
DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(1)	(1)	(15)	(5)	6
P/FCFPS	x	-22.5x	-14.6x	-1.4x	-4.0x	3.1x
EV/EBITDA	x	-41.3x	-13.0x	-53.6x	4.3x	2.0x
EBITDA margin	%	nm	nm	nm	43%	46%
EBIT margin	%	nm	nm	nm	29%	33%
Return on assets	%	-5%	-14%	-6%	3%	14%
Return on equity	%	-8%	-29%	-21%	10%	33%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	17	30	75	70	36
ND / E	%	52%	123%	241%	107%	40%
ND / (ND + E)	%	34%	55%	71%	52%	28%
EBITDA / Interest	x	-	-	-	-2.0x	-4.4x

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**	**1.25%**	**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)		35.0
Diluted m		**593.4**
SOTP	**$m**	**$/sh**
Walford Ck (unrisked NPV10)	134	0.34
Walford Ck (risk discount 25%, NPV10)	101	0.25
Other exploration	70	0.17
Corporate overheads	(9)	(0.02)
Net cash (debt)	(29)	(0.07)
Total (undiluted)	**133**	**0.33**
Cash from options	20	0.03
Assumed equity raise	7	0.01
Total (fully diluted)	**160**	**0.27**

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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