

### Analyst

David Coates 612 8224 2887

### Authorisation

Stuart Howe 613 9235 1856

# Aeon Metals Limited (AML)

## Emerging as one of Australia's top copper projects

### Recommendation

**Buy** (unchanged)

Price

**\$0.29**

Valuation

**\$0.58** (previously \$0.53)

Risk

**Speculative**

### GICS Sector

Materials

### Expected Return

Capital growth	100%
Dividend yield	0%
Total expected return	100%

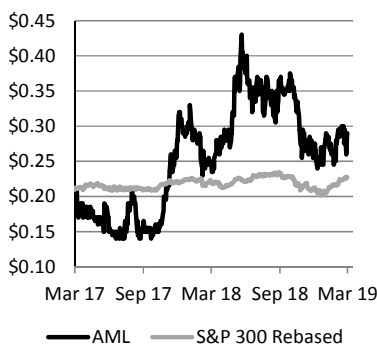
### Company Data & Ratios

Enterprise value	<b>\$182.2m</b>
Market cap	<b>\$170.4m</b>
Issued capital	<b>587.5m</b>
Free float	<b>67%</b>
Avg. daily val. (52wk)	<b>\$297,000</b>
12 month price range	<b>\$0.205-\$0.45</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.25	0.28	0.25
Absolute (%)	16.0	3.6	16.0
Rel market (%)	11.5	-4.3	13.4

### Absolute Price



SOURCE: IRESS

### Resource update underpins base case

AML has released an updated Resource for its 100%-owned Walford Creek copper-cobalt project in Queensland. The new Resource increases both the size and confidence of the copper and cobalt Resources. It also includes a maiden Resource and Exploration Target for the Amy Zone (the 5.7km strike extension of the previous Resource). The Copper Lode portion of the Resource has been increased by 24% to **19.4Mt @ 1.17% Cu + 0.86% Pb + 0.72% Zn + 28g/t Ag + 0.13% Co**, containing 228kt copper and 26kt cobalt, plus lead, zinc and silver. For the first time, progress on metallurgical test work has enabled the estimation of a copper equivalent grade (Cueq., on a recovered basis) of 2.11% Cueq (for 409kt Cueq). The combined Copper Lode and Cobalt Peripheral Resources include 26.9Mt in the higher confidence Measured and Indicated categories (up from 13.3Mt) and as such are available for conversion to Ore Reserves. Ore Reserves are required for a Feasibility Study mine plan and this tonnage alone would imply a potential mine life of 18 years (at 1.5Mtpa).

### Exploration Target points to high confidence upside

In addition, an Exploration Target of **6-13Mt @ 1.0-2.0% Cu + 0.11-0.20% Co** (+Pb, Zn, Ag for 1.7-3.2% Cueq.) has been estimated for the Amy Zone. In our view the potential of achieving this target is high, given a 1.8Mt Inferred Resource has already been defined across four points in the Amy Zone and the demonstrated predictability and consistency of the current Copper Lode Resource. Taking the Target's midpoint implies a further 9.5Mt of ore and ~230kt Cueq. for a potential Copper Lode Resource of 28.9Mt @ 2.22% Cueq (for 640kt Cueq.). This points to Walford Creek emerging as one of Australia's largest and highest grade undeveloped copper projects.

### Investment thesis – Speculative Buy, valuation \$0.58/sh

Updating our assumptions for the new Resource and our new mining assumptions increases our valuation by 9% to \$0.58/sh. We retain our Speculative Buy rating and view that 2019 will see significant further Resource growth at Walford Creek.

### Earnings Forecast

Year end 30 June	2018a	2019e	2020e	2021e
Sales (A\$m)	-	-	-	67
EBITDA (A\$m)	(14)	(4)	(3)	24
NPAT (reported) (A\$m)	(14)	(5)	(4)	8
NPAT (adjusted) (A\$m)	(14)	(5)	(4)	8
EPS (adjusted) (cps)	(3)	(1)	(1)	1
EPS growth (%)	na	na	na	na
PER (x)	(10.3)	(33.8)	(38.6)	27.1
FCF Yield (%)	-5%	-5%	-27%	-44%
EV/EBITDA (x)	(12.9)	(52.0)	(67.5)	7.7
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-33%	-9%	-8%	5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Emerging as a top copper project

## Resource update underpins base case

AML has released an updated Resource for its 100%-owned Walford Creek copper-cobalt project in Queensland. The new Resource increases both the size and confidence of the copper and cobalt Resources. It also includes a maiden Resource and Exploration Target for the Amy Zone (the 5.7km strike extension of the previous Resource).

The Copper Lode portion of the Resource has been increased by 24% to **19.4Mt @ 1.17% Cu +0.86% Pb + 0.72% Zn + 28g/t Ag + 0.13% Co**, containing 228kt copper and 26kt cobalt, plus lead, zinc and silver.

For the first time, progress on metallurgical test work has enabled the estimation of a copper equivalent grade (Cueq., on a recovered basis) of 2.11% Cueq (for 409kt Cueq). The updated Copper Lode Resources for the Vardy, Marley and Amy Zones are summarised below.

**Table 1 – Walford Creek Project –Vardy and Marley Zone Copper Lode Mineral Resource as at February 2019**

Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	%Cueq.
Measured	2.9	1.19%	0.93%	0.94%	26	0.15%	34,510	26,970	27,260	2,424,166	4,350	2.24%
Indicated	10.6	1.12%	0.89%	0.76%	28	0.13%	118,720	94,340	80,560	9,542,341	13,780	2.05%
Inferred	4.1	1.16%	0.78%	0.57%	29	0.13%	47,560	31,980	23,370	3,822,723	5,330	2.01%
<b>Total</b>	<b>17.6</b>	<b>1.14%</b>	<b>0.87%</b>	<b>0.75%</b>	<b>28</b>	<b>0.13%</b>	<b>200,790</b>	<b>153,290</b>	<b>131,190</b>	<b>15,789,230</b>	<b>23,460</b>	<b>2.07%</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING

**Table 2 – Walford Creek Project –Amy Zone Copper Lode Mineral Resource as at February 2019**

Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	%Cueq.
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-	-	-
Inferred	1.8	1.50%	0.75%	0.51%	33	0.15%	27,000	13,500	9,180	1,880,818	2,700	2.48%
<b>Total</b>	<b>1.8</b>	<b>1.50%</b>	<b>0.75%</b>	<b>0.51%</b>	<b>33</b>	<b>0.15%</b>	<b>27,000</b>	<b>13,500</b>	<b>9,180</b>	<b>1,880,818</b>	<b>2,700</b>	<b>2.48%</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING

Combining the Marley, Vardy and Amy Zones gives the following, total, Copper Lode Resource (19.4Mt @ 2.11% Cueq for 409kt Cueq contained). Of this, 13.5Mt or 70% of the total Copper Lode Resource is in the high confidence Measured and Indicated categories.

**Table 3 – Walford Creek Project –Total Copper Lode Mineral Resource as at February 2019**

Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	%Cueq.
Measured	2.9	1.19%	0.93%	0.94%	26	0.15%	34,510	26,970	27,260	2,424,166	4,350	2.24%
Indicated	10.6	1.12%	0.89%	0.76%	28	0.13%	118,720	94,340	80,560	9,542,341	13,780	2.05%
Inferred	5.9	1.26%	0.77%	0.55%	30	0.14%	74,560	45,480	32,550	5,703,542	8,030	2.15%
<b>Total</b>	<b>19.4</b>	<b>1.17%</b>	<b>0.86%</b>	<b>0.72%</b>	<b>28</b>	<b>0.13%</b>	<b>227,790</b>	<b>166,790</b>	<b>140,370</b>	<b>17,670,048</b>	<b>26,160</b>	<b>2.11%</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING

## Exploration Target points to high confidence upside

In addition, an Exploration Target has been estimated for the Amy Zone Copper Lode Resource. It stands at 6-13Mt @ 1.0-2.0% Cu + 0.7-0.9% Pb + 0.35-0.55% Zn + 25-35g/t Ag + 0.11-0.20% Co (for 1.7-3.2% Cueq.).

The midpoint of the Amy Zone Copper Lode Exploration Target (ET) is summarised in the table below:

**Table 4 – Walford Creek Project – Amy Zone Copper Lode Exploration Target and midpoint tonnes/grade**

Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	%Cueq.
Inferred range	6	1.0%	0.7%	0.35%	25	0.11%	95,000	66,500	33,250	7,636,000	10,450	1.71%
	13	2.0%	0.9%	0.55%	35	0.20%	190,000	85,500	52,250	10,690,000	19,000	3.19%
<b>Midpoint</b>	<b>9.5</b>	<b>1.50%</b>	<b>0.80%</b>	<b>0.45%</b>	<b>30</b>	<b>0.15%</b>	<b>142,500</b>	<b>76,000</b>	<b>42,750</b>	<b>9,162,962</b>	<b>14,250</b>	<b>2.45%</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING

In our view the potential of achieving this target is high, given:

- 1) that a 1.8Mt Inferred Resource has already been defined across four points within the Amy Zone; and
- 2) the demonstrated predictability and consistency of the current Copper Lode Resource over significant strike lengths.

Taking the Exploration Target midpoint implies a further 9.5Mt of ore @ 2.45% Cueq for ~230kt Cueq. for a **potential Copper Lode Resource of 28.9Mt @ 2.22% Cueq** (for 640kt Cueq.). This would make Walford Creek one of Australia's largest and highest grade undeveloped copper projects. We have summarised this in the table below:

**Table 5 – Walford Creek Project – Total Copper Lode Mineral Resource and Exploration Target midpoint as at February 2019**

Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	%Cueq.
Measured	2.9	1.19%	0.93%	0.94%	26	0.15%	34,510	26,970	27,260	2,424,166	4,350	2.24%
Indicated	10.6	1.12%	0.89%	0.76%	28	0.13%	118,720	94,340	80,560	9,542,341	13,780	2.05%
Inferred + Expn Target	15.4	1.41%	0.79%	0.49%	30	0.14%	217,060	121,480	75,300	14,866,504	22,280	2.34%
<b>Total</b>	<b>28.9</b>	<b>1.28%</b>	<b>0.84%</b>	<b>0.63%</b>	<b>29</b>	<b>0.14%</b>	<b>370,290</b>	<b>242,790</b>	<b>183,120</b>	<b>26,833,010</b>	<b>40,410</b>	<b>2.22%</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING

We expect that achieving the conversion of this Exploration Target into a Mineral Resource will be a high priority for the 2019 drilling program and that a relatively small quantity of drilling will be required to realise this Target. In our view this represents one of several key catalysts for AML in the coming 12 months.

### Previous Copper Lode Resource (January 2018)

The previous Copper Lode Resource was defined in the Vardy and Marley Zones only and did not have sufficient data to support an Exploration Target. To compare the current position of Walford Creek with where it was 12 months ago we have presented it below, in the same format as the updated Copper Lode Resource.

**Table 6 – Walford Creek Project – Total Copper Lode Mineral Resource as at January 2018**

Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	%Cueq.
Measured	1.2	1.25%	0.89%	0.81%	26	0.16%	15,000	10,680	9,720	1,014,677	1,920	2.31%
Indicated	3.8	1.19%	0.69%	0.88%	24	0.14%	45,220	26,220	33,440	2,883,279	5,320	2.14%
Inferred	10.7	1.25%	1.09%	0.81%	38	0.16%	133,750	116,630	86,670	13,003,690	17,120	2.38%
<b>Total</b>	<b>15.7</b>	<b>1.24%</b>	<b>0.98%</b>	<b>0.83%</b>	<b>33</b>	<b>0.16%</b>	<b>193,970</b>	<b>153,530</b>	<b>129,830</b>	<b>16,901,646</b>	<b>24,360</b>	<b>2.32%</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING  
COPPER EQUIVALENT GRADES ARE BELL POTTER ESTIMATES BASED ON THE 2019 COPPER EQUIVALENT CALCULATION

The Measured and Indicated portion of the previous Copper Lode Resource comprised 32% of the tonnage and stood at 5.0Mt.

## Cobalt Peripheral Lode Resource

AML has also released an updated Resource for the Cobalt Peripheral Lode and it is shown in the table below:

**Table 7 – Walford Creek Project –Total Cobalt Peripheral Lode Mineral Resource (Vardy and Marley Zones) as at February 2019**

Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	%Cueq.
Measured	2.4	0.14%	0.81%	1.34%	20	0.11%	3,360	19,440	32,160	1,543,236	2,640	1.12%
Indicated	11.0	0.17%	0.80%	1.00%	21	0.10%	18,700	88,000	110,000	7,426,822	11,000	1.03%
Inferred	6.4	0.15%	0.92%	0.83%	24	0.11%	9,600	58,880	53,120	4,938,354	7,040	1.03%
<b>Total</b>	<b>19.8</b>	<b>0.16%</b>	<b>0.84%</b>	<b>0.99%</b>	<b>22</b>	<b>0.10%</b>	<b>31,660</b>	<b>166,320</b>	<b>195,280</b>	<b>13,908,412</b>	<b>20,680</b>	<b>1.04%</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING

The updated Cobalt Peripheral Lode Resource is confined to the Marley and Vardy Zones and, as such, has been subject only to infill drilling. While this has resulted in a modest increase to the size of the Resource, the main value uplift here is via the increased confidence categories.

Measured and Indicated Resources have increased 61% to 13.4Mt from 8.3Mt and now comprise 68% of the Cobalt Peripheral Lode Resource. This makes a significant contribution to the potential Reserve base and mine life to be contemplated in the Feasibility Study.

We also estimate that the Cobalt Peripheral Lode contributes an additional 206kt Cueq to the total Resource base at Walford Creek.

### Previous Cobalt Peripheral Lode Resource (January 2018)

To compare the previous Cobalt Peripheral Lode Resource, which was defined in the Vardy and Marley Zones only, we have presented it below, in the same format as the updated Copper Lode Resource.

**Table 8 – Walford Creek Project –Total Cobalt Peripheral Lode Mineral Resource (Vardy and Marley Zones) as at January 2018**

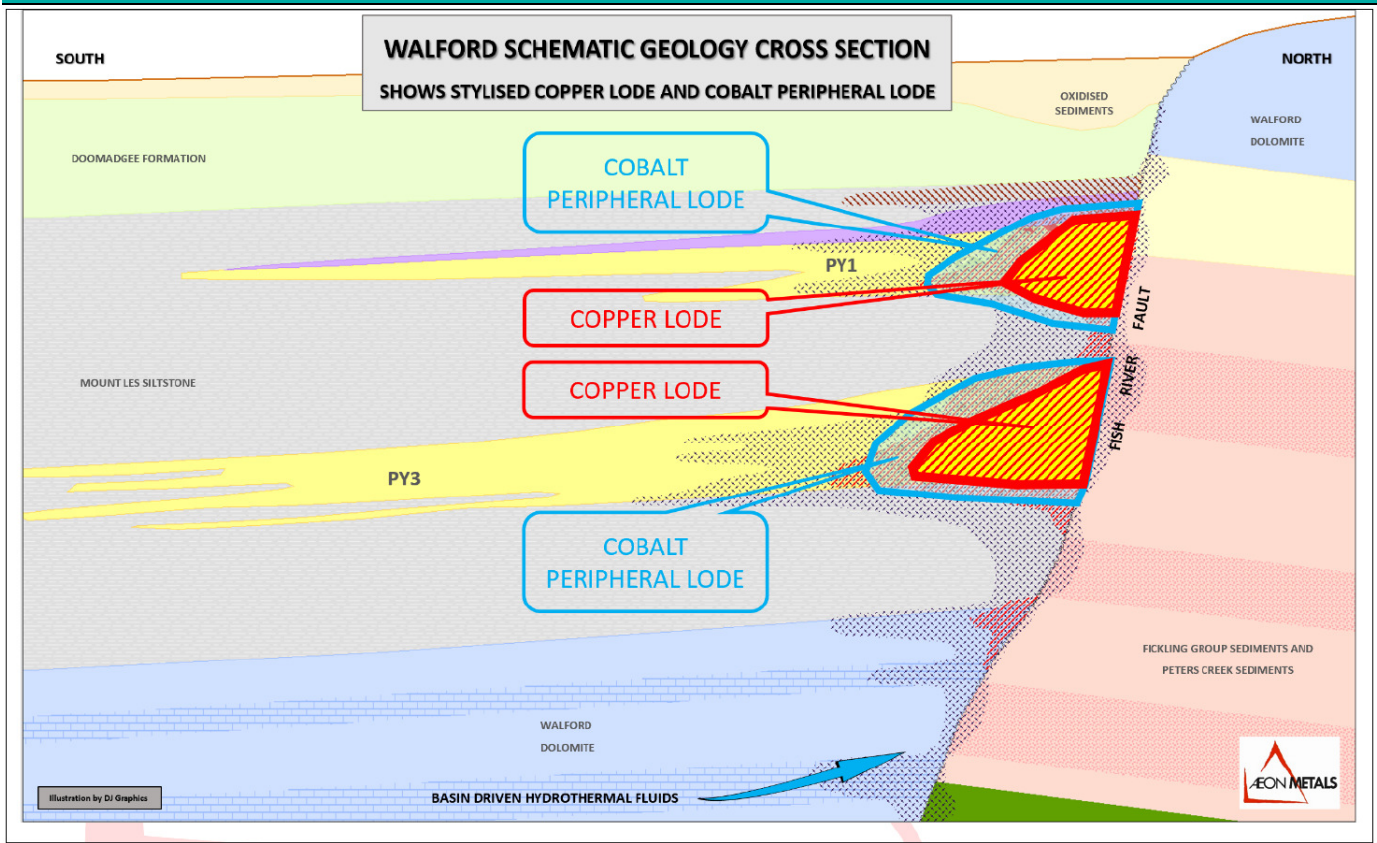
Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	%Cueq.
Measured	1.8	0.13%	0.54%	1.16%	17	0.12%	2,340	9,720	20,880	1,006,961	2,160	1.09%
Indicated	6.5	0.17%	0.66%	1.13%	18	0.10%	11,050	42,900	73,450	3,719,841	6,500	1.03%
Inferred	9.7	0.16%	1.03%	0.95%	25	0.12%	15,520	99,910	92,150	7,858,928	11,640	1.14%
<b>Total</b>	<b>18.0</b>	<b>0.16%</b>	<b>0.85%</b>	<b>1.04%</b>	<b>22</b>	<b>0.11%</b>	<b>28,910</b>	<b>152,530</b>	<b>186,480</b>	<b>12,585,730</b>	<b>20,300</b>	<b>1.10%</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING  
COPPER EQUIVALENT GRADES ARE BELL POTTER ESTIMATES BASED ON THE 2019 COPPER EQUIVALENT CALCULATION

The Measured and Indicated portion of the previous Cobalt Peripheral Lode Resource comprised 46% of the tonnage.

Any practical mining scenario at Walford Creek would almost certainly extract the contiguous Cobalt Peripheral Resource and the project needs to be considered in this context. The figure below illustrates the relationship between the Copper Lode and the Cobalt Peripheral Lode.

Figure 1 - Copper lode



SOURCE: COMPANY DATA

While the Cobalt Peripheral Resource is effectively lower grade, its extraction will likely be justified for the following reasons:

- In practical terms, due to the contiguous nature of the mineralisation, it would be inevitable that a portion of the Cobalt Lode Resource would be mined;
- In terms of ensuring maximum mining recovery of the high value Copper Lode Resource, a portion of the Cobalt Lode Resource would be mined;
- At the point of extracting the Cobalt Lode Resource, all mining infrastructure and capital development would have been established and paid for. The mining of the Cobalt Lode Resource would only have to generate a financial return on the marginal mining and processing costs – a much lower investment hurdle; and
- With the exception of a lower copper grade, the metallurgical characteristics of the Cobalt Peripheral Lode are essentially the same, so would almost certainly be able to be processed through the same processing plant.

## Consolidated Walford Creek Resource base

With these points in mind we believe it is important to consider the project in the context of the combined Resource Statements. The Cobalt Peripheral Lode Resource includes an additional 206kt Cueq. Combined with the Copper Lode Resource defined across the Vardy, Marley and Amy Zones, this lifts the total copper equivalent contained in the global Walford Creek Resource base to 615kt Cueq.

We point out that these are our calculations and that a consolidated Resource Statement has not been published by the company.

**Table 9 – Walford Creek Project –Consolidated Mineral Resource as at February 2019 (Bell Potter calculations)**

Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	%Cueq.	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	Cueq. (t)
Measured	5.3	0.71%	0.88%	1.12%	23	0.13%	1.73%	37,870	46,410	59,420	3,967,402	6,990	91,840
Indicated	21.6	0.64%	0.84%	0.88%	24	0.11%	1.53%	137,420	182,340	190,560	16,969,162	24,780	330,600
Inferred	12.3	0.68%	0.85%	0.70%	27	0.12%	1.57%	84,160	104,360	85,670	10,641,896	15,070	192,970
<b>Total</b>	<b>39.2</b>	<b>0.66%</b>	<b>0.85%</b>	<b>0.86%</b>	<b>25</b>	<b>0.12%</b>	<b>1.57%</b>	<b>259,450</b>	<b>333,110</b>	<b>335,650</b>	<b>31,578,460</b>	<b>46,840</b>	<b>615,410</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING

### Total Measured and Indicated Resources underpin attractive project base case

The combined Copper Lode and Cobalt Peripheral Resources include 26.9Mt in the higher confidence Measured and Indicated categories (up from 13.3Mt) and as such are available for conversion to Ore Reserves. Ore Reserves are required for a Feasibility Study mine plan and this tonnage alone would imply a potential mine life of 18 years (at 1.5Mtpa).

This points to an extremely strong foundation for both a mining study and the potential financing of this project. Long mine lives are more amenable to debt funding as there is greater flexibility with the maturity profile. Price risk is also mitigated for all stakeholders as an extended mine life provides exposure through more commodity price cycles.

### Exploration Target upside

In addition to this we point out that, assuming the realisation of midpoint of the Amy Zone Exploration Target range, there is the potential to add a further 230kt Cueq to the already defined Resource base, for a total of 848kt Cueq at an overall grade of 1.7% Cueq. This is summarised in the table below. Once again, we point these are our calculations and that a similar statement has not been published by the company.

**Table 10 – Walford Creek –Consolidated Mineral Resource and Exploration Target as at February 2019 (Bell Potter calculations)**

Category	Mt	% Cu	% Pb	% Zn	g/t Ag	% Co	%Cueq.	Cu (t)	Pb (t)	Zn (t)	oz Ag	Co (t)	Cueq. (t)
Measured	5.3	0.71%	0.88%	1.12%	23	0.13%	1.73%	37,870	46,410	59,420	3,967,402	6,990	91,840
Indicated	21.6	0.64%	0.84%	0.88%	24	0.11%	1.53%	137,420	182,340	190,560	16,969,162	24,780	330,600
Inferred + Expn Target	21.8	1.04%	0.83%	0.59%	28	0.13%	1.95%	226,660	180,360	128,420	19,804,858	29,320	425,720
<b>Total</b>	<b>48.7</b>	<b>0.83%</b>	<b>0.84%</b>	<b>0.78%</b>	<b>26</b>	<b>0.13%</b>	<b>1.74%</b>	<b>401,950</b>	<b>409,110</b>	<b>378,400</b>	<b>40,741,422</b>	<b>61,090</b>	<b>848,160</b>

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING



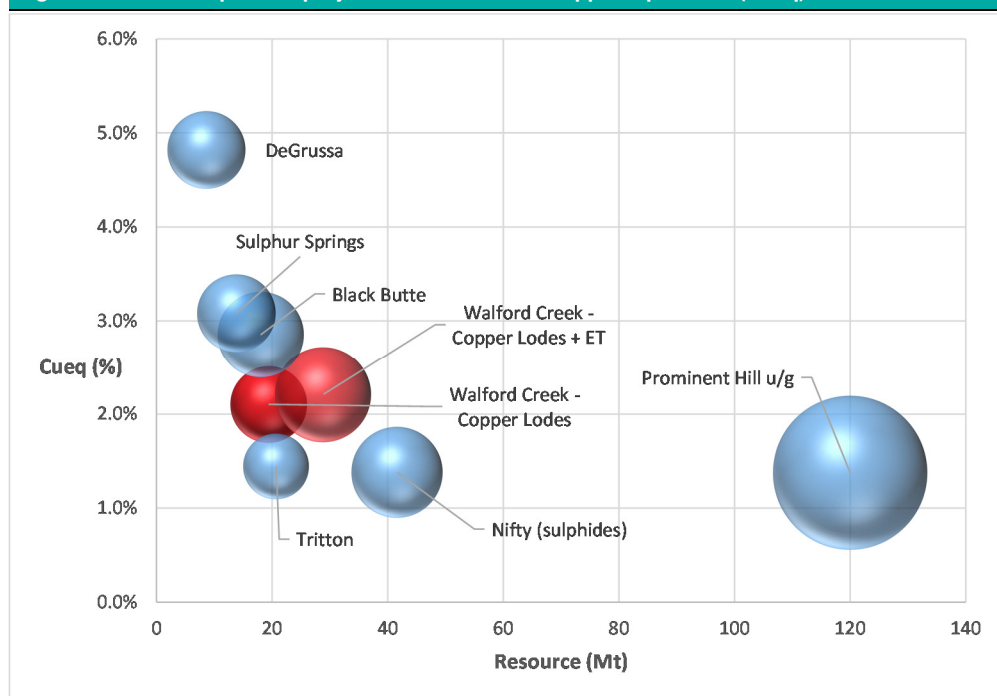
## Project comparisons

The bubble chart below illustrates how Walford Creek is emerging as one of the top copper projects on the market. We have compared it with a number of (mostly Australian) key development and production projects in ASX-listed companies. The list is not meant to be comprehensive – just to show some key comparable assets, including underground mines that are currently producing.

Our analysis has been done on a recovered copper equivalent (Cueq) basis. In making our assumptions we have:

- 1) Used the most recent Resource Statements for the projects listed
- 2) Applied either forecast or actual metallurgical recoveries; and
- 3) Calculated the Cueq percentage using the price deck from AML's calculations.

**Figure 2 – Peer comparison projects – bubble size = copper equivalent (Cueq) tonnes**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

We make the following observations:

- The Walford Creek deposit is comparable with the scale and grade of demonstrated underground operations in Australia;
- While this chart illustrates some growth at Walford Creek (with the Exploration Target midpoint), this project is still at an early stage of discovery and has seen only one full season of drilling. In our view significant growth potential remains;
- Walford Creek offers unique exposure to copper and cobalt. The only other Resource with meaningful cobalt grades is Black Butte. The PEA for that project makes reference to poor cobalt recoveries and no meaningful cobalt production; and
- We have shown only the Copper Lodes and Copper Lode Exploration Target (ET). Our calculation of the current consolidated Mineral Resource comes in at 39.2Mt @ 1.57% Cueq for ~615kt Cueq contained (similar size to the Copper Lodes + ET data point). Allowing for some realisation of the Exploration Target adds a further 230kt Cueq, for a potential Resource of 48.7Mt @ 1.74% Cueq for ~848kt Cueq.

The table below shows the underlying data for the results displayed in the comparison chart.

Company	Project	Mt	% Cu	% Pb	% Zn	g/t Ag	g/t Au	% Co	% Cu eq.	t Cu eq.
OZL	Prominent Hill u/g	120	1.20%			3	0.6		1.38%	1,650,880
<b>AML</b>	<b>Walford Creek - Copper Lodes + ET</b>	<b>28.9</b>	<b>1.28%</b>	<b>0.84%</b>	<b>0.63%</b>	<b>29</b>	<b>-</b>	<b>0.14%</b>	<b>2.22%</b>	<b>642,060</b>
MLX	Nifty (sulphides)	41.6	1.50%			-	-		1.38%	574,080
SFR	Black Butte	18	3.30%			14	-	0.10%	2.85%	513,216
VXR	Sulphur Springs	13.8	1.50%	0.20%	3.80%	17	-		3.08%	424,977
SFR	DeGrussa	8.7	4.70%			-	1.6		4.82%	419,214
<b>AML</b>	<b>Walford Creek - Copper Lodes</b>	<b>19.4</b>	<b>1.17%</b>	<b>0.86%</b>	<b>0.72%</b>	<b>28</b>	<b>-</b>	<b>0.13%</b>	<b>2.11%</b>	<b>409,310</b>
AIS	Tritton	20.7	1.50%			-	0.1		1.44%	298,457

SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING

In order to calculate recovered Cueq grades, assumed recoveries were applied as follows:

- Prominent Hill u/g: Cu 87%, Ag 73%, Au 72%
- Nifty (sulphides): Cu 92%
- Black Butte: Cu: 86.4%, Ag: nil, Co: nil
- Sulphur Springs: Cu: 87%, Zn: 94%, Ag: 46%
- DeGrussa: Cu 92%, Au 45%; and
- Tritton: Cu: 92%, Au 90%.

#### Reporting of copper equivalent grades

For the first time, progress on metallurgical test work has enabled AML to report the estimation of a copper equivalent grade (Cueq.). This has been calculated on a recovered basis, as per the following pricing and metallurgical recovery assumptions.

The table below shows those assumptions plus examples of copper equivalent grades and ore values:

Metal	Price (US\$)	Recovery (%)	Example grade	Cueq.% (recovered)	Ore value (US\$/t)
Copper (Cu)	\$6,614/t	92	1.0% Cu	0.92%	US\$61/t
Lead (Pb)	\$2,205/t	24	1.0% Pb	0.09%	US\$6/t
Zinc (Zn)	\$2,756/t	46	1.0% Zn	0.21%	US\$14/t
Silver (Ag)	\$16/oz	50	31.1g/t Ag	0.13%	US\$9/t
Cobalt (Co)	\$45,000/t	68	0.10% Co	0.50%	US\$33/t
<b>Total Cueq.%</b>				<b>1.85% Cueq.</b>	<b>US\$122/t</b>

SOURCE: COMPANY DATA, SECTION 2 OF JORC COMPETENT PERSON STATEMENT, BELL POTTER SECURITIES CALCULATIONS



## Changes to our valuation

We have made a number of changes to our modelled assumptions for the Walford Creek project as a result of this update.

The updated Resource Statement and Exploration Target leads us to increased our assumed Mining Inventory from 15Mt to 20Mt, which we assume is mined over an 18 year mine life by both underground and open-pit methods. This also implies an increased mining rate, causing us to lower our assumed unit mining costs to reflect this.

We also apply the assumed metallurgical recoveries, as reported in the JORC Table of the Competent Person's Statement for the updated Resource. This in turn implies the inclusion of a roasting circuit in the processing plant and a larger CAPEX – which we now assume to be A\$400m – and funded by a combination of debt and equity in FY20 and FY21.

We also update for our latest commodity price assumptions, where the main change is the lowering of our cobalt price forecast, from US\$75,000/t to US\$65,000/t. This approximates the average cobalt price over the last 2 years.

We also update for the latest capital structure and maintain our default assumption for an equity raise within the next 12 months, of \$10.0m at \$0.29/sh.

We have also previously applied a 25% premium to our project valuation, reflecting the scarcity of advanced, cobalt exposed projects on the ASX and the high demand for such stocks. The market has clearly softened on the sector and we have lowered the premium accordingly. In our view, due to the unique copper-cobalt exposure offered by AML, justification remains for some premium to be attached, which we now apply 10% to our risked project NPV. Our project NPV is risked by 40% to reflect its stage of development.

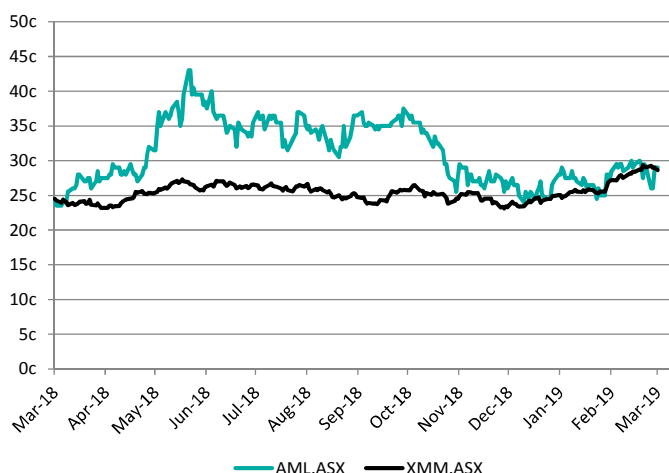
The net impact is a 9% increase to our valuation for AML, to \$0.58/sh. Our updated valuation implies a 100% return from the last closing share price of \$0.29. We retain a Speculative Buy recommendation.

## Upcoming catalysts

Upcoming catalysts for AML include:

- Updates from the ongoing technical studies advancing the larger, upgraded Resource at Walford Creek. AML is targeting the completion of a Feasibility Study on the updated Resource during 2019; and
- Commencement of the 2019 drill program, targeting Resource extensions and the realisation of the Copper Lode Exploration Target.

**Figure 3 - 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 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.

In mid-2017 a new understanding of the deposit resulted in the development of a geological model which was subsequently used to target a diamond drilling program testing for high grade extensions of the Vardy Zone. In 2018 the largest drill program undertaken at Walford Creek was completed, comprising 34,000m of RC and diamond drilling. This defined a Copper Lode Resource of 19.4Mt @ 1.17% Cu +0.86% Pb + 0.72% Zn + 28g/t Ag + 0.13% Co, containing 228kt copper and 26kt cobalt, plus lead, zinc and silver. It also defined a Cobalt Peripheral Resource of 19.8Mt @ 1.04% Cueq and supported the estimation of an Exploration Target of 6 to 13Mt @ 2.45% CuEq.

## Investment thesis – Speculative Buy, valuation \$0.58/sh

Updating our assumptions for the new Resource and our new mining assumptions increases our valuation by 9% to \$0.58/sh. We retain our Speculative Buy rating and view that 2019 will see significant further Resource growth at Walford Creek.

## Valuation – risked discounted cash flow of key project

Our valuation for AML is based on our own assumptions for the potential open-pit and underground mining of the Copper Lodes of the Walford Creek project. This assumes a Mining Inventory of 20.4Mt @ 1.28% Cu, 0.8% Pb, 0.8% Zn, 30g/t Ag and 0.15% Co being mined at a rate of 1.2Mtpa over a seventeen year mine-life to produce ~15ktpa copper in concentrate, 1,300tpa cobalt plus zinc, lead and silver. It allows for higher grades being front-ended in the production profile (as with the PEA). We also include an exploration valuation of \$180m to reflect Resource upside and the prospectivity of the 20km strike length of the Fish River Fault across AML's tenements.

**NPV premium:** In the case of AML, we have taken the step of applying a premium of 10% 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, and Walford Creek's particular uniqueness as a copper-cobalt project, on the ASX;
- The positive market outlook for cobalt demand and its concentrated supply source; and
- A premium that continues to be paid by the market, above the valuations of exploration companies advancing more 'mainstream' commodity projects as a result of these factors.

# 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.



**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.*

**Research Team**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
<b>Industrials</b>			
Sam Haddad	Industrials	612 8224 2819	shaddad
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
<b>Financials</b>			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	lsotiriou
<b>Resources</b>			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
<b>Analysts</b>			
James Filius	Analyst	613 9235 1612	jfilius
Alexander McLean	Analyst	612 8224 2886	amclean
Damien Williamson	Analyst	613 9235 1958	dwilliamson

**Bell Potter Securities Limited**

ACN 25 006 390 7721

Level 38, Aurora Place  
88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

www.bellpotter.com.au

**The following may affect your legal rights. Important Disclaimer:**

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. In Hong Kong this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded, Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

**Disclosure of interest:**

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Disclosure: Bell Potter Securities acted as Lead Manager to the \$30.0m placement in December 2017 and received fees for that service.

**ANALYST CERTIFICATION**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.