BELL POTTER

Speculative
See key risks on Page 4
Speculative securities may not be suitable for retail clients

22 March 2019

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Aeon Metals Limited (AML)

Funding for 2019 secured

Recommendation	
Buy (unchanged)	
Price	
$0.245	
Valuation	
$0.55 (previously $0.58)	
Risk	
Speculative	

GICS Sector

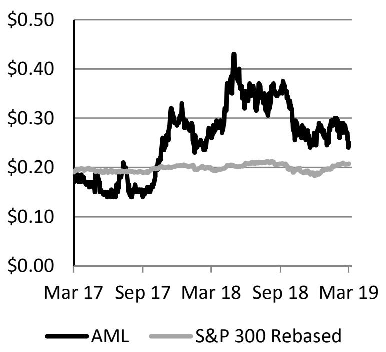
Materials

Expected Return	
Capital growth	**124.5%**
Dividend yield	**0.0%**
Total expected return	**124.5%**
Company Data & Ratios	
Enterprise value	**$168.9m**
Market cap	**$164.9m**
Issued capital	**673.1m**
Free float	**58%**
Avg. daily val. (52wk)	**$287,000**
12 month price range	**$0.23-$0.45**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.30	0.25	0.27
Absolute (%)	-16.7	2.0	-7.4
Rel market (%)	-18.5	-7.5	-11.2

Absolute Price



SOURCE: IRESS

Warrants exercised, loan drawn

AML has negotiated the early exercise of 85m outstanding warrants held by major shareholder, OCP Asia. The warrants had a maturity date of December 2019 and exercise price of $0.16 for a face value of $13.4m. The warrants were designed to offset AML's debt to OCP of $18m (including capitalised interest), also due in December 2019. In this context OCP's exercise of the warrants has been paid by offsetting the balance of AML's debt with OCP, reducing it to ~$4.6m, as well as extending the maturity date of the loan to December 2020. In conjunction with this OCP has advanced a further $8m cash loan to AML, also maturing December 2020. In consideration for the new loan and the maturity extension AML will pay OCP a $0.4m fee, due on maturity. Following the debt restructure, we estimate a gross debt position of $13m for AML and a current cash position of ~$9.0m.

Funded for CY2019 drill program and PFS

The good news is that this funding arrangement leaves AML well-funded to undertake its 2019 drill program and advance the Pre-Feasibility Study (PFS) on its 100%-owned Walford Creek copper-cobalt project in Queensland. These could be significant positive catalysts for AML, particularly any extension drilling which may demonstrate the major potential scale of the deposit. In executing this latest funding arrangement AML has aimed to defer its next equity funding "until the value of the Walford Creek project is better understood". AML now has the opportunity to add value before its next equity raise and potentially removed that immediate overhang from the share price. It does however defer the repayment of its debt to OCP, in itself also an overhang on the share price, albeit longer-dated.

Investment thesis – Speculative Buy, valuation $0.55/sh

Updating our assumptions for the latest capital structure and funding arrangements lowers our price target by 5% to $0.55/sh. We retain our Speculative Buy rating and our 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) (¢ps)	(3)	(1)	(1)	1
EPS growth (%)	na	na	na	na
PER (x)	(8.7)	(28.6)	(32.6)	22.9
FCF Yield (%)	-6%	-6%	-32%	-52%
EV/EBITDA (x)	(12.0)	(48.3)	(62.6)	7.1
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-33%	-9%	-8%	5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Funding for 2019 secured

Changes to our valuation

We have made only minor changes to our valuation for AML, primarily around its updated capital structure and new debt arrangements. The net impact is the dilution of effectively issuing equity at $0.16/sh.

This is partially offset by the removal of our standard assumption for an equity raise, which we apply to all exploration companies.

We have, however, also removed the 10% valuation premium previously applied to Walford Creek to reflect the commodity premium we had observed being paid by the market for cobalt-exposed assets. Due to a combination of the premium coming out of the market for cobalt-exposed assets, and in some measure due to the reduction in AML's debt repayment coverage (AML must now raise all of this in the market as opposed to having some visibility on the warrants exercise) we have now removed this valuation premium.

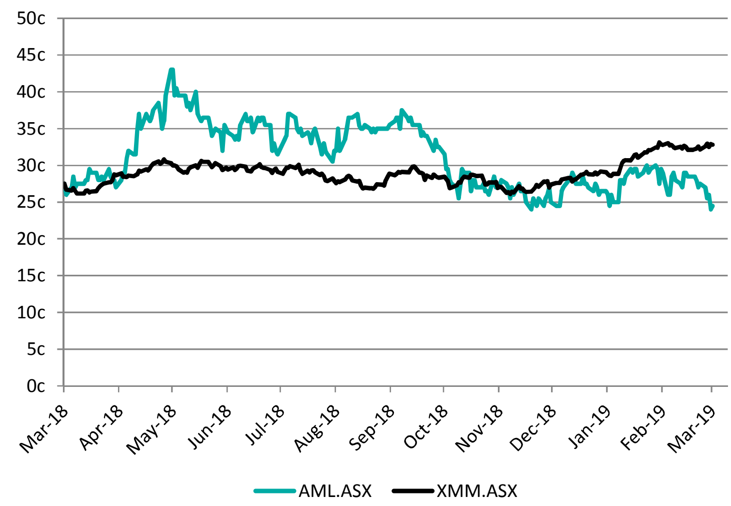
The net impact is a 5% reduction to our valuation for AML, to $0.55/sh. Our updated valuation implies a 124.5% return from the last closing share price of $0.245. We retain a Speculative Buy recommendation.

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 1 - 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 $0.55/sh

Updating our assumptions for the latest capital structure and funding arrangements lowers our price target by 5% to $0.55/sh. We retain our Speculative Buy rating and our 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 had previously taken the step of applying a premium of 10% to our base-case valuation which in some circumstances we believe is justified. We had applied this to 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 paid by the market, above the valuations of exploration companies advancing more 'mainstream' commodity projects as a result of these factors.

However, due to a combination of the premium coming out of the market for cobalt-exposed assets in particular and in some measure due to the reduction in AML's debt repayment coverage (AML must now raise all of this in the market) we have now removed this valuation premium.

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 22 March 2019

Recommendation	Buy, Speculative
Price	$0.245
Valuation	$0.55

Table 1 - Financial summary

PROFIT AND LOSS

Year ending June	Unit	2017a	2018a	2019e	2020e	2021e
Revenue	$m	-	-	-	-	66.7
Expense	$m	(8.3)	(14.1)	(3.5)	(2.7)	(43.0)
EBITDA	$m	**(8.3)**	**(14.1)**	**(3.5)**	**(2.7)**	**23.6**
Depreciation	$m	-	-	(0.0)	(0.0)	(8.4)
EBIT	$m	(8.3)	(14.1)	(3.5)	(2.7)	15.2
Net interest expense	$m	0.1	0.2	(1.5)	(1.7)	(7.1)
PBT	$m	**(8.2)**	**(13.9)**	**(5.0)**	**(4.4)**	**8.1**
Tax expense	$m	-	-	-	-	-
NPAT	$m	**(8.2)**	**(13.9)**	**(5.0)**	**(4.4)**	**8.1**

CASH FLOW

Year ending June	Unit	2017a	2018a	2019e	2020e	2021e
OPERATING CASHFLOW						
Receipts	$m	-	-	0.4	-	63.3
Payments	$m	(1.7)	(2.1)	(3.1)	(1.9)	(26.0)
Exploration payments	$m	-	-	(1.6)	(1.0)	(1.0)
Tax	$m	-	-	-	-	-
Net interest	$m	0.1	0.2	(1.5)	(1.7)	(7.1)
Other	$m	-	-	-	-	-
Operating cash flow	$m	**(1.6)**	**(1.9)**	**(5.8)**	**(4.5)**	**29.2**
INVESTING CASHFLOW						
Capex	$m	-	(0.4)	(3.0)	(41.8)	(124.8)
Exploration & evaluation	$m	(3.2)	(5.2)	-	-	-
Other	$m	0.0	-	-	-	-
Investing cash flow	$m	**(3.2)**	**(5.6)**	**(3.0)**	**(41.8)**	**(124.8)**
FINANCING CASHFLOW						
Share issues/(buy-backs)	$m	-	34.8	-	-	190.0
Debt proceeds/(repayments)	$m	-	(16.6)	-	185.4	-
Dividends	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Financing cash flow	$m	**-**	**18.3**	**-**	**185.4**	**190.0**
Change in cash	$m	(4.8)	10.8	(8.8)	139.0	94.4

BALANCE SHEET

Year ending June	Unit	2017a	2018a	2019e	2020e	2021e
ASSETS						
Cash & short term investments	$m	1.9	12.7	3.8	142.9	237.3
Accounts receivable	$m	0.1	0.1	0.1	0.1	0.4
Property, plant & equipment	$m	0.1	0.4	3.4	45.2	161.6
Exploration & evaluation	$m	54.8	63.0	63.0	63.0	63.0
Other	$m	0.1	0.5	(0.1)	(0.1)	3.0
Total assets	$m	**57.1**	**76.7**	**70.3**	**251.1**	**465.2**
LIABILITIES						
Accounts payable	$m	0.8	1.9	0.7	0.5	6.6
Borrowings	$m	31.8	14.6	14.6	200.0	200.0
Other	$m	0.2	0.2	0.1	0.1	0.1
Total liabilities	$m	**32.8**	**16.8**	**15.4**	**200.6**	**206.7**
SHAREHOLDER'S EQUITY						
Share capital	$m	48.4	90.0	90.0	90.0	290.0
Reserves	$m	4.1	8.4	8.4	8.4	8.4
Retained earnings	$m	(28.2)	(38.6)	(43.6)	(48.0)	(39.9)
Total equity	$m	**24.3**	**59.9**	**54.9**	**50.5**	**258.5**
Weighted average shares	m	347.8	492.8	586.0	586.0	752.6

CAPITAL STRUCTURE

Shares on issue	m		673.1
Performance shares / other	m		0.0
Total shares on issue	**m**		**673.1**
Share price	**$/sh**		**0.245**
Market capitalisation	$m		164.9
Net cash	$m		-4.0
Enterprise value (undiluted)	**$m**		**168.9**
Options outstanding (m)	m	#DIV/0!	0.0
Options (in the money)	m		0.0
Issued shares (diluted for options)	m		673.1
Market capitalisation (diluted)	m		164.9
Net cash + options	$m		-4.0
Enterprise value (diluted)	**$m**		**168.9**

MAJOR SHAREHOLDERS

	%	m
OCP Holdings	41.6%	280.2
Management and Board	3.6%	24.0
Top 2	**45.2%**	**304.2**

FINANCIAL RATIOS

Year ending June	Unit	2017a	2018a	2019e	2020e	2021e
VALUATION						
NPAT	$m	(8)	(14)	(5)	(4)	8
Reported EPS	c/sh	(2)	(3)	(1)	(1)	1
EPS growth	%	na	na	na	na	na
PER	x	-10.3x	-8.7x	-28.6x	-32.6x	22.9x
DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(1)	(2)	(2)	(8)	(13)
P/FCFPS	x	-17.9x	-16.1x	-16.2x	-3.1x	-1.9x
EV/EBITDA	x	-20.3x	-12.0x	-48.3x	-62.6x	7.1x
EBITDA margin	%	nm	nm	nm	nm	35%
EBIT margin	%	nm	nm	nm	nm	23%
Return on assets	%	-14%	-21%	-7%	-3%	2%
Return on equity	%	-29%	-33%	-9%	-8%	5%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	30	2	11	57	(37)
ND / E	%	123%	3%	20%	113%	-14%
ND / (ND + E)	%	55%	3%	16%	53%	-17%
EBITDA / Interest	x	-	-	-	-	-3.3x

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	**19.4**	**1.17%**	**227.6**	**1,360**	**26.4**
Measured	2.9	1.19%	34.5	1,500	4.4
Indicated	10.6	1.12%	118.7	1,300	13.8
Inferred	5.9	1.26%	74.3	1,400	8.3

PROJECT ASSUMPTIONS - Vardy Zone evaluation

Year ending June 30		FY17	FY18	FY19	FY20	FY21
Currency	US$/A$	0.75	0.78	0.73	0.75	0.75
Copper price	US$/lb	$2.44	$3.06	$3.00	$3.31	$3.39
Cobalt	US$/t	$65,000	$65,000	$65,000	$65,000	$65,000
Zinc	US$/t	$1.15	$1.44	$1.26	$1.27	$1.22
CAPEX - development	A$m	-	-	-	(40)	(120)
CAPEX - sustaining	A$m	-	-	-	-	(3)
Ore milled	Mt	-	-	-	-	0.30
Head grade	% Cu	-	-	-	-	1.35%
	ppm Co	-	-	-	-	1,800
Production	t Cu	-	-	-	-	3,726
	t Co	-	-	-	-	367
AISC	A$/lb Cu	-	-	-	-	$0.13

VALUATION

Ordinary shares (m)		**673.1**
Options in the money (m)		-
Assumed equity raise (m)		-
Diluted m		**673.1**
SOTP	**$m**	**$/sh**
Walford Ck (unrisked NPV10)	351	0.52
Walford Ck (risk discount 40%, NPV10)	211	0.31
Other exploration	180	0.27
Corporate overheads	(14)	(0.02)
Net cash (debt)	(4)	(0.01)
Total (undiluted)	**372**	**0.55**
Cash from options	-	-
Assumed equity raise	-	-
Total (fully diluted)	**372**	**0.55**

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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