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Aeon Metals Ltd (AML)

Scoping Study update signals strategic shift

Recommendation

Buy (unchanged)

Price

\$0.057

Valuation

\$0.105 (previously \$0.56)

Risk

Speculative

GICS Sector

Materials

Expected Return

Capital growth	84.2%
Dividend yield	0.0%
Total expected return	84.2%

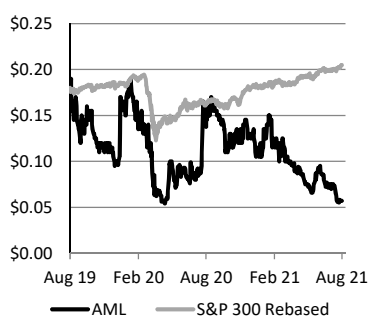
Company Data & Ratios

Enterprise value	\$65m
Market cap	\$48m
Issued capital	841.4m
Free float	60%
Avg. daily val. (52wk)	\$52,000
12 month price range	\$0.054-\$0.17

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.08	0.08	0.16
Absolute (%)	-24.0	-24.0	-63.2
Rel market (%)	-27.3	-29.9	-87.9

Absolute Price



SOURCE: IRESS

New management and project review

AML has announced a major reconfiguration of the development plan for its 100%-owned Walford Creek Copper-Cobalt Project in north-west QLD. An updated Scoping Study includes a major change to the processing route which represents both a technical and strategic shift for the project. Pressure Oxidation (POX) is being introduced to the circuit: a hydrometallurgical process that leaches metals to solution for recovery to high purity metal products. From a strategic point of view this gives AML much greater control over its products, the marketing of them, and increased value, with payabilities near 100%. AML has also released an updated Resource as part of the project review. This follows the appointment of a new Managing Director, Dr Fred Hess, a metallurgist with over 40 years' experience in mining project development who was most recently Managing Director of PanAust Limited.

Proof of concept to advance to PFS

We view the updated Scoping Study as a shift in the technical approach and more importantly as a 'Proof-of-Concept' than a definitive indicator of financial performance. Under conservative assumptions the updated Study generates IRR's of 13%-18%. In our view sufficient to justify advancement of the POX circuit towards PFS. Opportunities remain for lower CAPEX, lower operating costs, ongoing exploration and Resource extension, optimisation of float circuit design and power supply. While technically a more complex process, it continuously treats a whole-of-ore concentrate, allowing more flexibility and optionality. It also offers higher recoveries and the production of saleable, high purity metal products, giving AML more control over its production and reducing marketing risks.

Investment thesis – Speculative Buy, valuation \$0.105/sh

We update our valuation to reflect the updated Scoping Study, the overall pushback of the development timeframe, the latest capital structure, including the recent equity raise and debt extension. The net impact is an 81% reduction in our valuation, from \$0.56/sh to \$0.107/sh. We continue to see opportunity in a strategic copper-cobalt Resource located in Australia. We retain our Speculative Buy recommendation.

Earnings Forecast

Year end 30 June	2020a	2021e	2022e	2023e
Sales (A\$m)	-	-	-	-
EBITDA (A\$m)	(5)	(3)	(3)	(3)
NPAT (reported) (A\$m)	(5)	(5)	(6)	(6)
NPAT (adjusted) (A\$m)	(5)	(5)	(6)	(6)
EPS (adjusted) (cps)	(1)	(1)	(1)	(1)
EPS growth (%)	na	na	na	na
PER (x)	(7.1)	(8.1)	(8.9)	(10.7)
FCF Yield (%)	-22%	-16%	-14%	-13%
EV/EBITDA (x)	(12.0)	(19.3)	(19.2)	(22.5)
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-8%	-8%	-9%	-8%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Capital raise and project re-set

New management and project review

AML has implemented key management changes and a material re-set of the development strategy for its 100%-owned Walford Creek copper-cobalt project in north-west QLD. Former Managing Director, Hamish Collins, has been replaced by Non-Executive Director, Dr Fred Hess. This was initially in an interim capacity, since made permanent as of late June 2021. Dr Hess initiated a review of the Walford Ck project, with a focus on the process route. This followed the evaluation of the original cobalt processing method as economically unviable. With cobalt accounting for >30% of the in-situ Resource value, unlocking its recovery is key to maximising value from the project. Cobalt is also a strategically important metal and Walford Ck has potential to offer supply to the global market that is both secure and ethical.

Given the shift in focus to the re-evaluation of the process route, we view Dr Hess' experience as well suited to the next stage of development at Walford Ck. He is a metallurgist with over 40 years' experience in mining project development, operations and management across the Asia Pacific region, in open cut and underground operations and base and precious metals. Dr Hess was most recently Managing Director of PanAust Limited.

Resource update

An updated Mineral Resource for Walford Ck was completed as a priority for the project review. No new drilling was undertaken, with the main changes relating to the calculation methodology which applied detailed density weightings and refinements to the geological model. The update also included nickel estimates for the first time, as the new process route makes provision for precipitation of nickel sulphate (previously not recovered).

The update covered the Copper Mineral Resource and the Cobalt Peripheral Resource for the Vardy and Marley Zones. The Resource at Amy was effectively unchanged. 95% of the Vardy/Marley Resources and 84% of the total Walford Ck Resource base are in the higher confidence M&I categories and available for conversion to Reserves.

The updated Copper Resource and Cobalt Peripheral Resources are summarised below:

Table 1 – Walford Creek Project – Copper Lode Resources (Vardy, Marley, Amy) as at April 2021

Category	Mt	% Cu	Cu (t)	% Pb	Pb (t)	% Zn	Zn (t)	g/t Ag	Moz Ag	% Co	Co (t)	% Ni	Ni (kt)
Measured	6.4	1.17%	74.9	1.02%	65.3	0.88%	56.3	27.9	5.7	1,500	9.6	0.07%	4.5
Indicated	12.2	1.03%	125.7	1.09%	133.0	0.66%	80.5	31.8	12.5	1,500	18.3	0.07%	8.5
Inferred	6.1	1.22%	74.4	1.31%	79.9	0.65%	39.7	36.8	7.2	1,500	9.2	0.08%	4.9
Total	24.7	1.11%	275.0	1.13%	278.2	0.71%	176.5	32.0	25.4	1,500	37.1	0.07%	17.9

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

Table 2 – Walford Creek Project – Cobalt Peripheral Resource (Vardy, Marley) as at April 2021

Category	Mt	% Cu	Cu (t)	% Pb	Pb (t)	% Zn	Zn (t)	g/t Ag	Moz Ag	% Co	Co (t)	% Ni	Ni (kt)
Measured	6.4	0.24%	15.4	0.85%	54.4	1.20%	76.8	19.5	4.0	1,000	6.4	0.04%	2.6
Indicated	11.7	0.25%	29.3	0.99%	115.8	1.03%	120.5	21.8	8.2	900	10.5	0.04%	4.7
Inferred	0.9	0.20%	1.8	1.27%	11.4	0.72%	6.5	23.7	0.7	900	0.8	0.04%	0.4
Total	19.0	0.24%	46.4	0.96%	181.7	1.07%	203.8	21.1	12.9	934	17.7	0.04%	7.6

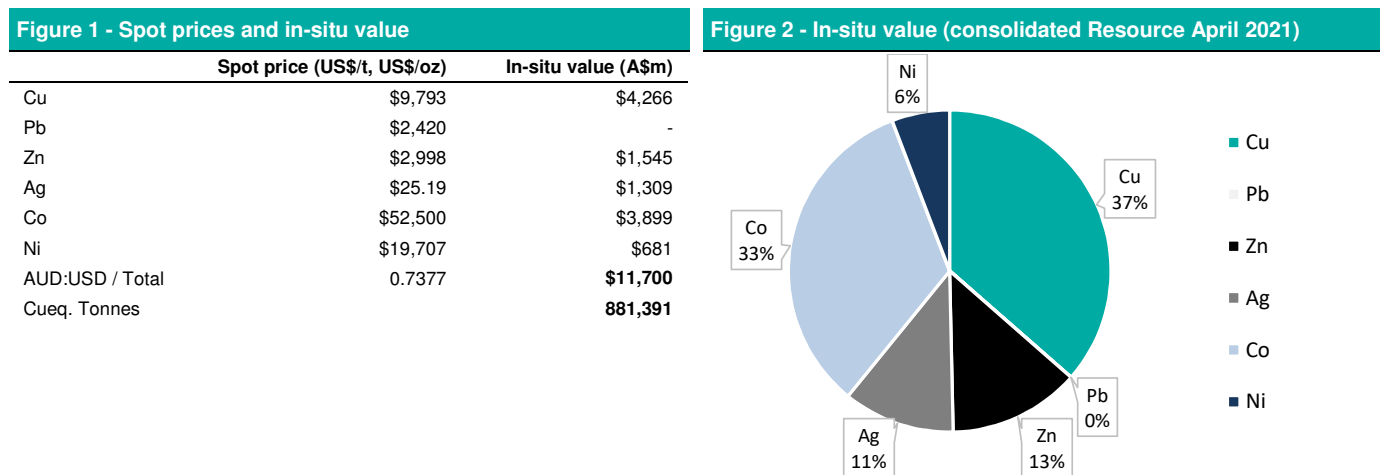
SOURCE: COMPANY REPORTS. CONTAINED METAL AMOUNTS ARE BELL POTTER CALCULATIONS AND HAVE NOT BEEN ADJUSTED FOR ROUNDING

We have also calculated the consolidated Walford Creek Resource base as at April 2021, summarised in the table below. These are Bell Potter calculations:

Table 3 – Walford Creek Project –Consolidated Mineral Resource as at April 2021 (Bell Potter calculations)													
Category	Mt	% Cu	Cu (t)	% Pb	Pb (t)	% Zn	Zn (t)	g/t Ag	Moz Ag	% Co	Co (t)	% Ni	Ni (kt)
Measured	12.8	0.71%	90.2	0.94%	119.7	1.04%	133.1	23.7	9.7	1,250	16.0	0.06%	7.0
Indicated	23.9	0.65%	154.9	1.04%	248.8	0.84%	201.0	26.9	20.7	1,206	28.8	0.06%	13.2
Inferred	7.0	1.09%	76.2	1.30%	91.3	0.66%	46.1	35.1	7.9	1,423	10.0	0.07%	5.2
Total	43.7	0.74%	321.4	1.05%	459.8	0.87%	380.3	27.3	38.3	1,254	54.8	0.06%	25.5

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

Based upon current spot prices, we estimate an in-situ value (i.e. unadjusted for recoveries, other than excluding contained Pb) of A\$11,700m for the consolidated Resource Estimates of April 2021, equivalent to 880kt of copper equivalent (Cueq). On this measure the latest Resource updates is a ~15% increase compared with the prior estimate of December 2019.



SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

SOURCE: BELL POTTER SECURITIES ESTIMATES

Comparison with December 2019 Resource

The previous consolidated Resource, calculated by Bell Potter as at December 2019, is summarised below:

Table 4 – Walford Creek Project –Consolidated Mineral Resource as at December 2019 (Bell Potter calculations)												
Category	Mt	% Cu	Cu (t)	% Pb	Pb (t)	% Zn	Zn (t)	g/t Ag	Moz Ag	% Co	Co (t)	
Measured	12.1	0.71%	85.5	0.82%	99.4	1.00%	120.6	22.8	8.9	1,256	15.2	
Indicated	22.2	0.64%	142.4	0.85%	188.9	0.79%	174.7	25.6	18.3	1,155	25.6	
Inferred	6.7	1.12%	75.0	1.28%	86.0	0.68%	45.3	35.2	7.6	1,348	9.0	
Total	41.0	0.74%	302.8	0.91%	374.4	0.83%	340.7	26.3	34.7	1,216	49.9	

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

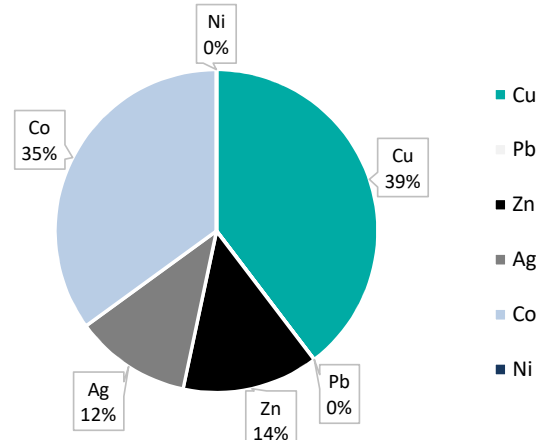
Applying current spot prices to the December 2019 Resources, we estimate an in-situ value (i.e. unadjusted for recoveries, other than excluding contained Pb,) of A\$10,138m for, equating to 764kt Cueq.

Figure 3 - Spot prices and in-situ value

	Spot price (US\$/t, US\$/oz)	In-situ value (A\$m)
Cu	\$9,793	\$4,020
Pb	\$2,420	\$0
Zn	\$2,998	\$1,384
Ag	\$25.19	\$1,185
Co	\$52,500	\$3,548
Ni	\$19,707	\$0
AUD:USD / Total	0.7377	\$10,139
Cueq. Tonnes		763,727

SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

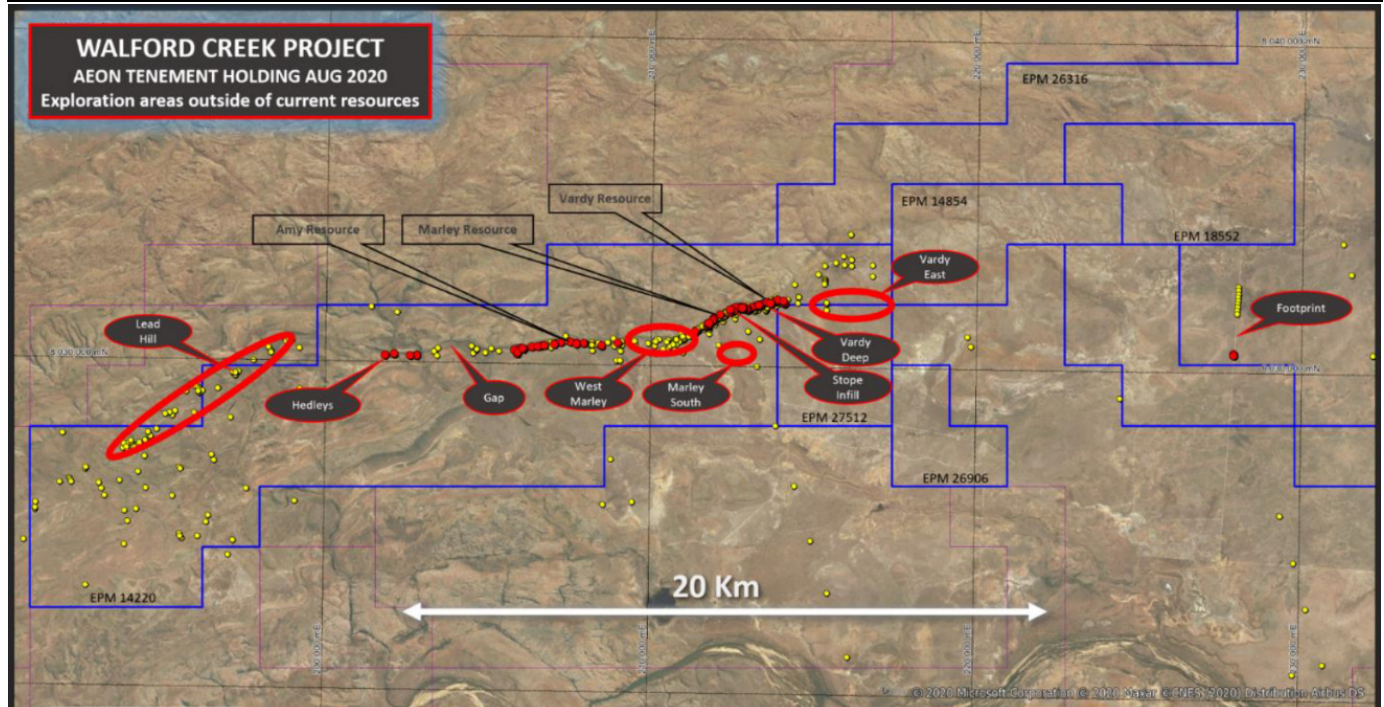
Figure 4 - In-situ value (consolidated Resource December 2019)



SOURCE: BELL POTTER SECURITIES ESTIMATES

Resource growth potential remains a key opportunity at the Walford Creek project and is a key strategic objective for the development of the project. The Vardy, Marley and Amy Zones have a combined strike length of ~7.6km within a tenement package covering ~25km of prospective strike length of the Fish River Fault, the key controlling geological structure hosting the Walford Ck mineralisation. Both infill and extensional drill programs show potential to add to the Resource at Walford Ck.

Figure 5 – Walford Creek drilling focus areas CY21



SOURCE: COMPANY DATA

A three phase drilling program is underway and will be incorporated into a further Resource update is targeted for late CY21 to support the completion of the PFS in 1QCY22.

- **Phase 1:** Metallurgical and in-fill drilling within the Vardy/Marley zones with initial results expected in August 2021.

- **Phase 2:** Utilisation of geophysical surveys to target an extensional drilling campaign focussed on the Amy Zone and expected to commence August 2021.
- **Phase 3:** Tying Phase 1 and 2 results into delineation drilling for incorporation into an updated Resource Estimate in early CY22.

Scoping Study update and process route change

The updated Scoping Study includes a major change to the process route which represents both a technical and strategic shift for the project. Pressure Oxidation (POX) is being introduced to the circuit: a hydrometallurgical process to extract metals from ore to a leach solution. The contained metals in the leach solution are sequentially recovered by solvent extraction and electro-winning, to a high purity metal product. From a strategic point of view this gives AML much greater control over their products, the marketing of them, and increased value, with payabilities near 100%.

Figure 6 – Process route and end product summary

	Bulk Sulphide Concentrate / POX Flowsheet					
	Cu	Pb	Zn	Ag	Co	Ni
Primary Grind P ₈₀	150µm					
Primary Liberation	metal sulphides from non-sulphide gangue					
Initial Separation	Bulk sulphide concentrate					
Metal Extraction	Pressure oxidative leach delivers high PLS tenor					
End Products	Cu cathode	tailings	Zn ingot	Ag doré bar	Co sulphate	Ni sulphate
Final Product Quality	99.99% Cu		99.99% Zn	>99% Ag	battery grade (>99%) sulphates	
Treatment Charges	No		No	Yes	No	No

SOURCE: COMPANY DATA

The previous flowsheet design relied primarily on a concentrator to produce separate copper, zinc and lead metal concentrate products (with silver credits) and a cobalt/nickel rich pyrite concentrate. Cost-effective cobalt extraction was problematic, and alternative bioleach pathways to produce cobalt and nickel precipitate products had been under evaluation.

Table 5 - Metallurgical recoveries - POX vs Concentrator

Metal	Recoveries (Concentrator + Heap Leach 2019)	Recoveries (POX circuit 2021)
Cu	95%	95%
Zn	64%	92%
Ag	67%	82%
Co	72%	79%
Pb	52%	-
Ni	72%	76%

SOURCE: COMPANY DATA – ASX RELEASE 21 OCTOBER 2019, ASX RELEASE 30 JUNE 2021 AND BELL POTTER SECURITIES ESTIMATES

The production of multiple concentrate products had lower capital and operating costs, but overall extracted less value from the Resource. While difficult to quantify in cost terms, the production of multiple concentrate products can also be more complex from an operational perspective, requiring separation by ore type, specific mill feed blending strategies and batch processing campaigns. To meet concentrate specifications, avoid payability discounts and contaminant penalties, these aspects need to be precisely managed. The

POX route, while technically a more complex process, continuously treats a whole-of-ore concentrate, simplifying that aspect of operations, allowing more flexibility and optionality. It offers significantly higher recoveries and the production of saleable high purity metal products. Compared with the sale and marketing of concentrates, AML would also incur no / minimal Treatment and Refining Charges (TC/RC's) and lower transport costs.

Table 6 – Value of payable metal produced: 2019 Study vs 2021 Study (current spot price basis)

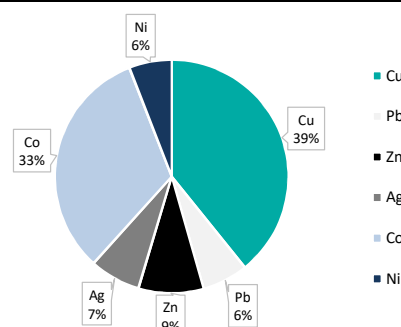
		2019	Value at spot (A\$m)	2021	Value at spot (A\$m)	Change vs 2019
LOM Cu prod	kt	141	\$1,868	243	\$3,226	73%
LOM Pb prod	kt	91	\$298	-	-	-100%
LOM Zn prod	kt	93	\$379	278	\$1,130	198%
LOM Ag prod	Moz	10	\$330	26	\$876	165%
LOM Co prod	kt	20	\$1,438	33	\$2,349	63%
LOM Ni prod	kt	10	\$262	15	\$401	53%
LOM Cueq	kt	345	\$4,574	601	\$7,981	74%

SOURCE: COMPANY DATA – ASX RELEASE 21 OCTOBER 2019, ASX RELEASE 30 JUNE 2021 AND BELL POTTER SECURITIES ESTIMATES

This analysis also helps characterise the implied payable recovery of the Resource under each scenario.

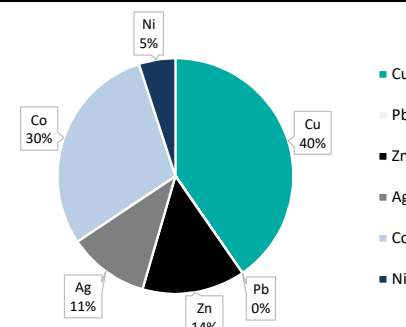
- Payable metal recoveries – 2019 Scoping Study: 45%.
- Payable metal recoveries – 2021 Scoping Study: 68%.

Figure 7 – 2019 LOM Revenue split



SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 8 - 2021 LOM Revenue split



SOURCE: BELL POTTER SECURITIES ESTIMATES

The increased operating flexibility and optionality, higher recoveries, higher payability final products and higher revenues come with higher operating costs and a materially higher CAPEX compared with the 2019 Scoping Study. Key parameters and performance metrics taken from AML's Scoping Studies of October 2019 and June 2021 are summarised in the table below.

Table 7 – Scoping Study key parameters: 2019 and 2021

	AML 2019 BASE CASE	AML 2021 BASE CASE
O/P mined (Mt)	26.1	11
U/G mined (Mt)	9.4	25
LOM (yrs)	11	14
Plant throughput (Mtpa)	2.0Mtpa concentrator + 1.5Mtpa HL for 3.5Mtpa	3.0Mtpa concentrator feeding 1.5Mtpa POX
Products	Cu, Pb, Zn concentrates, Co-Ni sulphide, Zn sulphide	Cu cathode, Zn ingot, Co sulphate, Ni sulphate
Cueq (ktpa)	42ktpa	50ktpa
OPEX (A\$/t processed)	\$58.10	\$101.50
AISC US\$/lb Cu	\$1.56	\$2.00-\$2.20
CAPEX (A\$m)	\$323m (incl. 10% contingency)	\$996m (incl. 20% contingency)
Sustaining CAPEX (A\$m)	\$73m	\$86m
Operating surplus/EBITDA	\$1,602m (~\$145m pa)	\$2,875m (~\$205m pa)
IRR (%)	34%	13%
NPV (A\$m)	A\$431m	A\$375m

SOURCE: COMPANY DATA – ASX RELEASE 21 OCTOBER 2019, ASX RELEASE 30 JUNE 2021

The higher capital and operating costs predictably result in lower NPV's and IRR's for the updated Scoping Study. However, we see the following positives and opportunities:

- Higher annual operating cash flows (by ~\$60m pa over 14 years);
- Higher copper equivalent production rates;
- Longer mine life offering increased price cycle exposure;
- Increased value extracted from the Resource – an advantage that increases with mine life;
- Opportunity for reduction in a conservative CAPEX estimate, which includes a 20% contingency;
- Optionality to treat oxide and transitional ore types through the POX circuit; and
- Opportunities to optimise solar power supply, operating schedules, plant throughput and CAPEX.

Different commodity price assumptions were used for each of the Scoping Studies, with overall a slightly higher value per tonne of ore used in 2019. While this slightly favours the 2019 Study, we don't believe it materially impacts the key conclusions to be drawn from comparison of the two studies.

Table 8 – Commodity price assumptions and in-situ value: 2019 vs 2021			
Resource grade		AML 2019 Scoping Study	AML 2021 Scoping Study
0.74% Cu	LOM average Cu price (US\$/lb)	3.09	3.52
0.12% Co	LOM average Co price (US\$/lb)	23.31	16.79
0.87% Zn	LOM average Zn price (US\$/lb)	1.23	1.22
1.05% Pb	LOM average Pb price (US\$/lb)	1.08	-
27g/t Ag	LOM average Ag price (US\$/lb)	19.00	20.00
0.06% Ni	LOM average Ni price (US\$/lb)	6.80	6.80
	In-situ value per tonne (US\$/t)	186	152

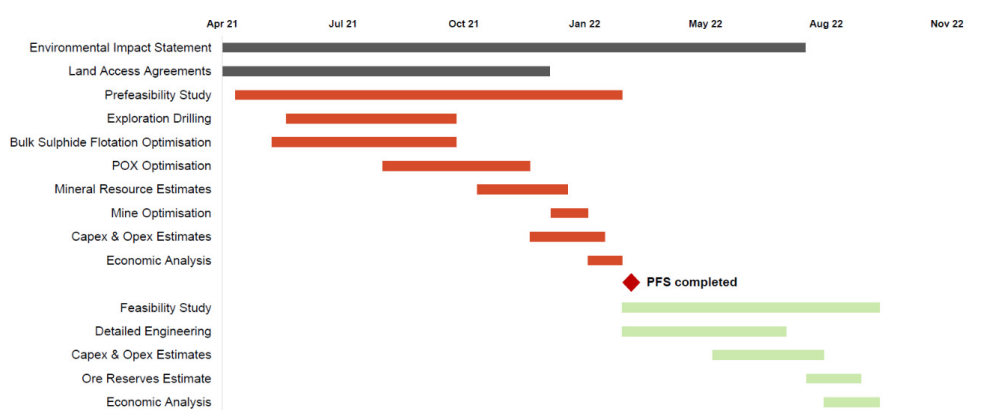
SOURCE: COMPANY DATA – ASX RELEASE 21 OCTOBER 2019, ASX RELEASE 30 JUNE 2021, BELL POTTER CALCULATIONS

Development timeline

The key near-term milestone is the completion of the Pre-Feasibility Study, targeted for 1QCY22. Workstreams required for this include Resource infill and metallurgical drilling for Reserve calculation and ongoing flotation and POX test work. We anticipate progressive news flow from AML as results from these programs are delivered.

Much of the required work for other study inputs has been completed to a high level of accuracy. This should enable relatively rapid completion of a Definitive Feasibility Study, targeted for end CY22.

Figure 9 – Walford Creek development timeline



SOURCE: COMPANY DATA

Funding and capital structure

To support the advancement of Walford Creek, AML has completed an equity capital raise of \$9.5m (163.8m shares issued at \$0.058/sh). A Shareholder Purchase Plan (SPP) is also underway to raise up to an additional \$3.0m, also priced at \$0.058/sh. It remains open until 18 August 2021.

Use of proceeds is focussed on the completion of the PFS in 1QCY22, which will evaluate in detail the revised process route, including the POX circuit. Funds will also be allocated to ongoing extensional and infill Resource drilling at Walford Creek, where opportunities exist to further upgrade the confidence of the Resource and test open extensions of known mineralised zones.

AML's last reported cash balance was \$0.58m at end June 2021. Following completion of the placement, we estimate AML will have ~\$9m cash, which should be sufficient meet the above objectives.

In addition, AML recently secured a 24 month loan maturity extension, to 17 December 2023, with OCP Asia, AML's major shareholder and lender. As at end June 2021, the facility with OCP stood fully drawn at \$26.2m. It carries an interest rate of 12% calculated quarterly and capitalised to the loan.

AML's current capital structure is summarised below:

Table 9 - AML capital structure summary

Shares on issue	m	763.8
Performance shares / other	m	<i>Tranche 2 placement shares</i> 77.6
Total shares on issue	m	841.4
Share price	\$/sh	0.056
Market capitalisation	\$m	47.1
Net cash	\$m	-17.2
Enterprise value (undiluted)	\$m	64.3
Options outstanding (m)	m	0.0
Options (in the money)	m	0.0
Issued shares (diluted for options)	m	841.4
Market capitalisation (diluted)	m	47.1
Net cash + options	\$m	-17.2
Enterprise value (diluted)	\$m	64.3

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Changes to our valuation

Following the latest updates from the company we have made the following changes to our AML valuation:

- Updated for the April 2021 Resource update, which overall resulted in a ~10% increase in the total contained metal in the Walford Creek deposits;
- Pushed back our assumption for first production by ~24 months to FY25, reflecting the latest schedule for completion of the Pre-Feasibility Study in and the allowance of 12 months for Detailed Engineering and 12 months for construction;
- Updated our modelled operating assumptions to reflect the latest development plan, which includes whole-of-ore flotation through a 3.0Mtpa concentrator feeding a 1.5Mtpa pressure oxidative leaching circuit to produce premium metal end-products;
- Increased the risk-adjustment discount we apply to our NPV-valuation for Walford Creek, from 40% to 60%, reflecting the revision of the process route and the requirement for further metallurgical test work to confirm its viability;
- Updated for the latest capital structure and financial position following the recent capital raising of \$9.5m via the placement of 163.8m shares at \$0.058/sh and the extension of the OCP debt facility;
- Updated for our latest commodity price and foreign exchange rate forecasts;
- Lowered our notional exploration valuation from \$120m to \$20m, reflecting the near-term focus on project development studies ahead of exploration expenditure;
- Updated our standard assumption for exploration companies for an equity raise within the next 12 months, in this case \$10.0m at \$0.05/sh (~10% discount to the last closing price); and
- Rolled our model forward.

The net impact is an 81% reduction in our valuation, from \$0.56/sh to \$0.107/sh. The main impacts to our valuation are the lower un-risked NPV we derive for Walford Ck based upon the new operating and financial metrics, the increased risk-adjustment discount applied to our Walford Ck NPV, the dilution of the latest equity placement and the lowered exploration valuation. We round our sum-of-the-parts AML valuation to the nearest 0.5c/sh, for an updated Valuation of \$0.105/sh. With upside of 91% from the last closing price, we retain our Speculative Buy recommendation.

Upcoming catalysts

Key upcoming catalysts for AML include:

- Updates from the ongoing PFS workstreams (including exploration drilling results, metallurgical test work results, operational optimisations and environmental baseline studies) that will form the basis of a PFS, now targeted for completion in 1QCY22;
- A further update to the Walford Creek Resource estimate, incorporating results from the current infill and extension program. This is expected by end CY21/ early CY22;
- Bulk flotation and POX extraction metallurgical test work results and implications they may have for the new, proposed process route;
- Updates on potential funding options being considered by AML, including debt and equity finance, engagement with the Northern Australia Infrastructure Facility (NAIF), metal streaming deals and strategic equity deals at the project and company levels.

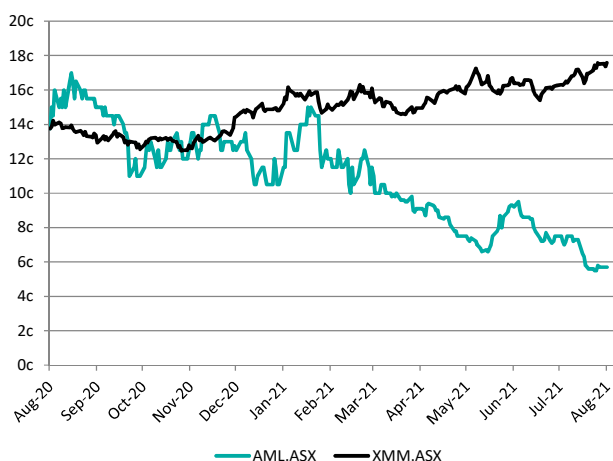
Deep discount to Resource value

We do not typically monitor a company's Enterprise Value relative to the value of its Resource, but we see an extraordinary discount in AML's case, particularly given the high confidence in the Resource (84% in Measured and Indicated) and the advance stage of a number of the PFS workstreams.

We note that AML's current EV of \$65m equates to just 0.6% of the value of the in-situ Resource. Given the strategic nature, attractive jurisdiction and that a technical pathway for its extraction is close to being resolved, we view this as a deep discount.

Share price performance vs ASX Metals and Mining Index

Figure 10 - 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 initial project evaluations. In mid-2017 a new understanding of the deposit resulted in the development of a geological model which was subsequently used to target high grade extensions of the Vardy Zone. Drilling programs over the course of 2018 and 2019 have now defined a Copper Lode Resource of 18.4Mt @ 1.05%Cu + 0.14%Co + 29g/tAg +0.90%Pb + 0.72%Zn, containing 194kt copper and 26kt cobalt, plus lead, zinc and silver. It also defined a Cobalt Peripheral Resource of 17.4Mt @ 0.26%Cu + 0.09%Co + 20g/tAg + 0.80%Pb + 1.01%Zn, containing 45kt copper and 16kt cobalt, plus lead, zinc and silver. The updated Amy Copper Mineral Resource stands at 5.1Mt @ 1.25%Cu + 0.14%Co + 37g/tAg + 1.35%Pb + 0.63%Zn, containing 32kt copper and 21kt cobalt, plus lead, zinc and silver. These Resources will form the basis of a PFS to be released in 1QCY21.

Investment thesis – Speculative Buy, valuation \$0.105/sh

We update our valuation to reflect the updated Scoping Study, the overall pushback of the development timeframe, the latest capital structure, including the recent equity raise and debt extension. The net impact is an 81% reduction in our valuation, from \$0.56/sh to \$0.107/sh. We continue to see opportunity in a strategic copper-cobalt Resource located in Australia. We retain our Speculative Buy recommendation.

Valuation – risked discounted cash flow of key project

Our valuation for AML is based on the June 2021 Scoping Study which outlines a scenario for the open-pit and underground mining of the Walford Creek project. This assumes a Mining Inventory of 36Mt @ 0.70% Cu, 0, 0.83% Zn, 28g/t Ag and 0.12% Co being mined and processed at a rate of 3.0Mtpa over an 14-year mine-life. Processing via a 3.0Mtpa whole-of-ore concentrator feeding a 1.5Mtpa Pressure Oxidation (POX) plant is planned to produce 243kt Cu, 33kt Co, 278kt Zn, 26Moz Ag and 15kt Ni over the LOM.

We also include an exploration valuation of \$20m to reflect the potential Resource upside and strategic value of the 20km strike length of the Fish River Fault across AML's tenements, as well as the opportunity of the near-term regional drill programs set to commence across the Basin Edge project and other targets.

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. Exploration and development companies with no sales revenues are reliant on access to equity markets and debt financing to fund the advancement and development of their projects.
- **Operating and development risks:** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **Operating and capital cost fluctuations:** The cost and availability of 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 producing Resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Resource growth and mine life extensions:** The viability of future operations and the earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives, which is in turn dependent upon exploration success, of which there are no guarantees.
- **Regulatory changes risks:** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating.
- **Corporate/M&A risks:** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Table 10 - Financial summary

PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending June	Unit	2019a	2020a	2021e	2022e	2023e	Year ending June	Unit	2019a	2020a	2021e	2022e	2023e
REVENUE							VALUATION						
Revenue	\$m	-	0.1	-	-	-	NPAT	\$m	(4)	(5)	(5)	(6)	(6)
Expense	\$m	(4.1)	(5.5)	(3.4)	(3.4)	(2.9)	Reported EPS	c/sh	(1)	(1)	(1)	(1)	(1)
EBITDA	\$m	(4.1)	(5.4)	(3.4)	(3.4)	(2.9)	EPS growth	%	na	na	na	na	na
Depreciation	\$m	-	-	(0.0)	(0.0)	(0.0)	PER	x	-8.7x	-7.1x	-8.1x	-8.9x	-10.7x
EBIT	\$m	(4.1)	(5.4)	(3.4)	(3.4)	(2.9)	DPS	c/sh	-	-	-	-	-
Net interest expense	\$m	0.1	0.0	(1.9)	(2.6)	(2.6)	Franking	%	0%	0%	0%	0%	0%
PBT	\$m	(4.0)	(5.4)	(5.3)	(6.0)	(5.5)	Yield	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	-	-	FCF/share	c/sh	(2)	(1)	(1)	(1)	(1)
NPAT	\$m	(4.0)	(5.4)	(5.3)	(6.0)	(5.5)	P/FCFPS	x	-2.5x	-4.5x	-6.3x	-7.0x	-7.8x
CASH FLOW							LIQUIDITY & LEVERAGE						
OPERATING CASHFLOW							Return on assets						
Receipts	\$m	-	-	0.3	-	-	Return on equity	%	-6%	-8%	-8%	-9%	-8%
Payments	\$m	(1.9)	(2.0)	(2.0)	(1.8)	(1.8)	LIQUIDITY & LEVERAGE						
Exploration payments	\$m	-	-	(1.1)	(1.1)	(1.1)	Net debt (cash)	\$m	6	17	14	13	20
Tax	\$m	-	-	-	-	-	ND / E	%	9%	26%	21%	18%	31%
Net interest	\$m	0.1	0.0	(1.9)	(2.6)	(2.6)	ND / (ND + E)	%	8%	21%	18%	15%	23%
Other	\$m	-	0.1	-	-	-	EBITDA / Interest	x	-	-	-	-	-
Operating cash flow	\$m	(1.8)	(1.9)	(4.7)	(5.5)	(5.5)	MINERAL RESOURCES						
INVESTING CASHFLOW							Walford Creek, QLD						
Capex	\$m	(0.1)	(0.0)	(2.1)	(2.1)	(2.1)	Copper Lode Resource	Mt	% Cu	Cu (kt)	ppm Co	Co (kt)	
Exploration & evaluation	\$m	(11.9)	(6.7)	-	-	-	Measured	6.4	1.17%	74.9	1,500	9.6	
Other	\$m	-	-	-	-	-	Indicated	12.2	1.03%	125.7	1,500	18.3	
Investing cash flow	\$m	(12.0)	(6.7)	(2.1)	(2.1)	(2.1)	Inferred	6.1	1.22%	74.4	1,500	9.2	
FINANCING CASHFLOW							Cobalt Peripheral Resource						
Share issues/(buy-backs)	\$m	0.0	-	9.0	9.5	-	Total resource	19.0	0.24%	46.4	934	17.7	
Debt proceeds/(repayments)	\$m	8.0	4.0	7.0	-	-	Measured	6.4	0.24%	15.4	1,000	6.4	
Dividends	\$m	-	-	-	-	-	Indicated	11.7	0.25%	29.3	900	10.5	
Other	\$m	-	-	-	-	-	Inferred	0.9	0.20%	1.8	900	0.8	
Financing cash flow	\$m	8.0	4.0	16.0	9.5	-	PROJECT ASSUMPTIONS - Vardy Zone evaluation						
Change in cash	\$m	(5.7)	(4.6)	9.2	1.9	(7.6)	Year ending June 30						
BALANCE SHEET							Currency						
ASSETS							US\$/AS						
Cash & short term investments	\$m	7.0	2.4	11.6	13.5	5.9	Copper price	US\$/lb	\$4.05	\$3.92	\$4.06	\$4.16	\$4.27
Accounts receivable	\$m	0.2	0.1	0.1	0.1	0.4	Cobalt	US\$/t	\$55,000	\$55,000	\$55,000	\$55,000	\$55,000
Property, plant & equipment	\$m	0.4	0.3	2.4	4.5	6.6	Zinc	US\$/t	\$1.11	\$1.11	\$1.14	\$1.17	\$1.20
Exploration & evaluation	\$m	75.4	80.0	80.0	80.0	80.0	CAPEX - development	A\$m	-	(299)	(349)	(249)	(100)
Other	\$m	0.2	0.3	0.0	0.0	(0.2)	CAPEX - sustaining	A\$m	-	(11)	(11)	(11)	(11)
Total assets	\$m	83.2	83.1	94.2	98.1	92.6	Ore milled	Mt	-	-	2.20	3.00	3.00
LIABILITIES							Head grade						
Accounts payable	\$m	2.1	0.8	0.6	0.6	0.6	% Cu	-	-	0.70%	0.70%	0.70%	
Borrowings	\$m	12.8	19.0	26.0	26.0	26.0	ppm Co	-	-	1,200.0	1,200	1,200	
Other	\$m	0.3	0.3	0.3	0.3	0.3	Production	t Cu	-	-	14,630	19,950	19,950
Total liabilities	\$m	15.2	20.1	26.9	26.9	26.9	t Co	-	-	2,086	2,844	2,844	
SHAREHOLDER'S EQUITY							AISC						
Share capital	\$m	108.5	108.5	118.0	128.0	128.0	A\$/lb Cu	-	-	\$2.48	\$2.40	\$2.40	
Reserves	\$m	2.2	2.5	2.5	2.5	2.5	VALUATION						
Retained earnings	\$m	(42.6)	(47.9)	(53.2)	(59.3)	(64.8)	Ordinary shares (m)						
Total equity	\$m	68.1	63.0	67.3	71.2	65.7	Options in the money (m)						
Weighted average shares	m	611.5	675.8	757.7	939.6	1,039.6	Assumed equity raise (m)						
CAPITAL STRUCTURE							Diluted m						
Shares on issue	m						763.8	SOTP					
Performance shares / other	m	<i>Tranche 2 placement shares</i>					77.6	\$m					
Total shares on issue	m						841.4	\$/sh					
Share price	\$/sh						0.057	Walford Ck (unrisked NPV10)					
Market capitalisation	\$m						48.0	Walford Ck (risk discount 60%, NPV10)					
Net cash	\$m						-17.2	Other exploration					
Enterprise value (undiluted)	\$m						65.1	Corporate overheads					
Options outstanding (m)	m						0.0	Net cash (debt)					
Options (in the money)	m						0.0	Total (undiluted)					
Issued shares (diluted for options)	m						841.4	Cash from options					
Market capitalisation (diluted)	m						48.0	Assumed equity raise					
Net cash + options	\$m						-17.2	Total (fully diluted)					
Enterprise value (diluted)	\$m						65.1	111					
MAJOR SHAREHOLDERS													
							% m						
							OCP Holdings						
							40.1%						
							306.6						
							P. Averill						
							4.6%						
							35.1						
							Top 2						
							44.7%						
							341.7						

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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