BELL POTTER

Speculative
See key risks on Page 11
Speculative securities may not be suitable for retail clients

8 November 2019

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Aeon Metals Ltd (AML)

Scoping Study shows attractive base case

Recommendation
Buy (unchanged)
Price
$0.12
Valuation
$0.60 (previously $0.57)
Risk
Speculative

GICS Sector

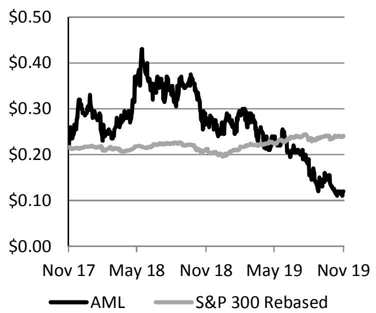
Materials

Expected Return	
Capital growth	**400%**
Dividend yield	**0%**
Total expected return	**400%**
Company Data & Ratios	
Enterprise value	**$85.8m**
Market cap	**$80.9m**
Issued capital	**674.1m**
Free float	**58%**
Avg. daily val. (52wk)	**$104,000**
12 month price range	**$0.105-$0.30**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.13	0.18	0.29
Absolute (%)	-7.7	-33.3	-58.6
Rel market (%)	-10.0	-34.7	-74.3

Absolute Price



SOURCE: IRESS

Detailed Scoping Study demonstrates viability

AML has completed a detailed Scoping Study on its 100%-owned Walford Creek Copper-Cobalt project, located in north-west Queensland. The Study contemplates the open-pit and underground mining of the current Vardy and Marley deposits over an initial 11 year life-of-mine (lom). Ore will be processed through a 2.0Mtpa flotation circuit and concentrator, in parallel with a 1.5Mtpa Heap Leach circuit. Lom production is estimated to be 146kt Cu and 22kt Co, plus zinc, lead, silver and nickel in concentrates and precipitates. The Study estimates an average C1 cash operating cost of US$1.52/lb CuEq, All-In-Sustaining-Cost (AISC) of US$1.56/lb Cueq and pre-production CAPEX of A$323m. AML has calculated a post-tax NPV of A$431m and an IRR of 34%. This has predicated the decision to advance to a Pre-Feasibility Study (PFS) which is targeted for completion in Q2CY20.

Attractive base case with significant upside

The Scoping Study presents as a detailed and high quality piece of work which demonstrates an economically attractive base case for the exploitation of the Walford Creek Project. Applying our own pricing assumptions, we estimate an NPV (8% real, post-tax) of A$474.5m and IRR of 47% represent attractive investment metrics for a project offering excellent exposure to copper and cobalt. We also estimate EBITDA margins of ~42% and a payback period of <4 years, as cumulative free cash flows turn positive in year 4. We see upside opportunity through Resource growth and estimate an additional A$187m in free cash flows with a 2 year lom extension.

Investment thesis – Speculative Buy, valuation $0.60/sh

The Scoping Study represents a major de-risking milestone for AML and presents a viable, defendable and economically attractive base case for the development of Walford Creek. The project offers scale and a unique combination of commodity exposure in copper and cobalt in a stable jurisdiction that would likely appeal to corporates. We lift our valuation 5%, to $0.60/sh and retain our Speculative Buy rating.

Earnings Forecast

Year end 30 June	2019a	2020e	2021e	2022e
Sales (A$m)	-	-	-	214
EBITDA (A$m)	(4)	(2)	(2)	90
NPAT (reported) (A$m)	(4)	(3)	(2)	33
NPAT (adjusted) (A$m)	(4)	(3)	(2)	33
EPS (adjusted) (¢ps)	(1)	(0)	(0)	4
EPS growth (%)	na	na	na	na
PER (x)	(18.3)	(25.3)	(44.5)	2.7
FCF Yield (%)	-19%	-5%	-80%	-191%
EV/EBITDA (x)	(20.8)	(45.1)	(57.2)	1.0
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-6%	-5%	-3%	37%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Scoping Study shows attractive base case

Detailed Scoping Study demonstrates viability

AML has completed a detailed Scoping Study on its 100%-owned Walford Creek Copper-Cobalt project, located in north-west Queensland. The Study contemplates the open-pit and underground mining of the current Vardy and Marley deposits over an initial 11 year lom. Ore will be processed through a 2.0Mtpa flotation circuit and concentrator, in parallel with a 1.5Mtpa Heap Leach circuit. Life of mine production is estimated to be 146kt Cu and 22kt Co, plus zinc, lead, silver and nickel in concentrates and credits for an annual average 42.5kt Cu equivalent (Cueq) and lom production of 446kt Cueq. The Study estimates an average cash operating cost of US$1.52/lb CuEq, All-In-Sustaining-Cost (AISC) of US$1.56/lb Cueq and pre-production CAPEX of A$323m. AML has calculated a post-tax NPV (8% discount rate, real) of A$431m and an IRR of 34%, which has predicated the decision to advance to a Pre-Feasibility Study (PFS). The PFS is targeted for completion in Q2CY20.

Key elements of the Study

- **Tenure:** 100% held by AML, situated on granted Exploration Permits (EPM's), only statutory royalties apply;
- **Resources and Reserves:** The Scoping Study is based only on the mining of the existing Vardy and Marley Copper Lode and Cobalt Peripheral Resources, which we estimate at 37.4Mt @ 0.62% Cu and 1141ppm Co. No Ore Reserve has yet been calculated;
- **Mining Inventory:** The mining inventory and ore processing schedule is a subset of the Vardy and Marley Copper Lode and Cobalt Peripheral Resources. It totals 35.5Mt @ 0.45% Cu and 852ppm Co, plus lead, zinc, silver and nickel. Approximately 81% of the Mining Inventory is derived from Measured and Indicated Resources;
- **Mining Method:** Mining is by a combination of conventional open-pit and underground mining methods. A total of 26.1Mt of open-pit production at a strip ratio of 1.8:1 is planned from a pit on each of the Vardy and Marley deposits. A total of 9.4Mt is to be mined by truck and decline underground with transverse open-stoping mining methods at depths ranging from 120m below surface (mbs) to 300mbs;
- **Process Route:** A combined 2.0Mtpa flotation/bioleach circuit for high grade ore and a 1.5Mtpa heap leach for low grade ore is envisaged. The flotation circuit will produce saleable copper and lead concentrates. The bioleach and precipitation circuits will produce a copper precipitate, zinc precipitate and cobalt-nickel precipitate. Metallurgical testwork has indicated the following recoveries: copper: 95.7%, cobalt: 72.1%; nickel: 72.1%; zinc: 63.7%; lead: 52.3% and silver: 66.6%. The process route will also include a sulphur burner and acid plant for the production of sulphuric acid and power co-generation;
- **Power supply:** Total estimated power draw of 23MW is planned to be supplied by on-site diesel generation, supplemented by co-generation from the sulphur burning plant. Power costs are estimated to be A$0.27/kWh, on this basis;
- **Capital Costs:** The total pre-production CAPEX estimate is A$323m, inclusive of an A$24m (8%) contingency. The largest single item is the processing plant at A$174m;
- **Operating Costs:** Unit operating costs of A$58.10/t include $18.10/t combined open-pit and underground mining costs and $29.90/t combined processing costs; and
- **Payabilities:** Copper: 96.5%, cobalt: 90.0%, zinc: 85.0%, lead: 95.0%, silver: 95.0% and nickel: 90.0% of saleable metal produced.

Attractive base case with significant upside

The Scoping Study presents as a detailed and high quality piece of work which demonstrates an economically attractive base case for the exploitation of the Walford Creek Project. Furthermore, the Study is based only on the current Vardy and Marley Mineral Resources to support the initial 11 year lom. We expect a material Resource increase following the recently completed 2019 drilling program, which infilled and extended the adjacent Amy Zone over an additional 6km of strike. This has the potential to add significantly to the base-case mine life, add material value and further de-risk the project via exposure to key commodities over a longer price-cycle.

Our valuation and assumptions

We have updated our own model of Walford Creek for the purpose of making our own assessment of its value, sensitivities and impact on our valuation of AML.

For the purposes of our modelling and analysis we have made the following assumptions:

- Assumed AML's base case mining and processing schedule;
- Assumed AML's base case operating cost estimates;
- Assumed AML's base case pre-production capital cost estimates. We make a more conservative assumption on lom sustaining capital, for which we allow A$88m vs AML's A$73m;
- Assumed AML's metallurgical recovery and product payability estimates. The exception in our modelling is the nickel, which we have not included at this point;
- Used our own commodity pricing and exchange rate forecasts (summarised below) for the purposes of financial evaluation and estimation of copper equivalent production;
- Calculated our un-risked NPV for the project on a, post-tax basis, applying a real discount rate of 8%;

Our valuation does not entirely mirror AML's. When we apply AML's fundamental base case assumptions to our model, we calculate an un-risked NPV of ~A$458m, approximately 6% above AML's published estimate of A$431m.

Initial differences are with our commodity price deck. Our base case pricing assumptions compare with AML's base case pricing assumptions as shown in the table below:

Table 1 - Pricing assumptions (real terms)

Exposure	units	Price forecasts BPe	Price forecasts AML	Variance BPe vs AML(%)
Copper	US$/lb	$3.13	$3.09	1.2%
Lead	US$/lb	$0.92	$1.08	-14.8%
Zinc	US$/lb	$1.15	$1.23	-6.5%
Silver	US$/lb	$16.24	$19.00	-14.5%
Cobalt	US$/lb	$24.95	$23.31	7.0%
AUD:USD		0.740	0.725	2.1%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The key sensitivities of FX, cobalt price and copper price drive variations in our analysis. Our copper price and cobalt price are above (in favour of the valuation) vs AML's base case assumptions. Our FX rate is above (and negative to the valuation) vs AML's base case assumption.

Key takeaways and analysis

Walford Creek's primary commodity exposures are copper and cobalt. Combined, under our base case pricing assumptions, these metals account for 79.3% of revenues. The split between the two is finely balanced and the largest share of revenues switches between the two depending upon minor variations in price.

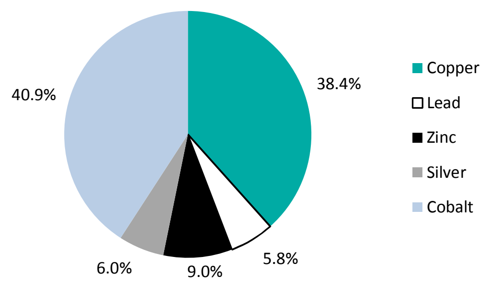
Under our base case assumptions the project's revenue is marginally dominated by cobalt. Despite this, we find it is marginally more sensitive to the copper price. Walford Creek's life-of-mine revenues total A$3.6 billion, as summarised in the table below:

Figure 1 – LOM Revenues by commodity

Commodity	Revenue (A$m)
Copper	$1,374.5
Lead	$207.5
Zinc	$322.5
Silver	$213.9
Cobalt	$1,463.5
Total	**$3,581.9**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 2 – LOM Revenue split



SOURCE: BELL POTTER SECURITIES ESTIMATES

The key outputs of production, project free cash flow, operating costs and valuation from our base case model are summarised below:

Table 2 - Model outputs – Bell Potter base case

Metric	Model output	Units
LOM Cu prod	152.9	kt Cu
LOM Co prod	21.8	kt Co
LOM Cueq prod	384.4	kt Cueq
LOM Free Cash Flow	$902.1	A$m
C1 cash costs	$1.80	US$/lb Cueq
AISC	$1.89	US$/lb Cueq
NPV (un-risked)	**$474.5**	**A$m**

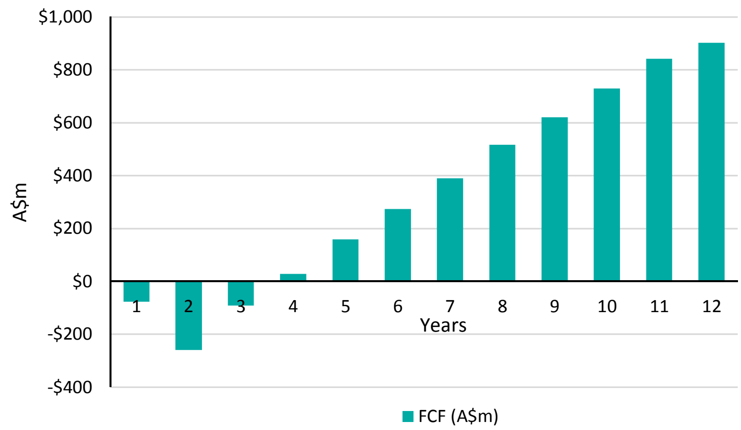
SOURCE: BELL POTTER SECURITIES ESTIMATES

The key outputs are broadly in-line with AML's Scoping Study, but differences include:

- A lower copper equivalent production estimate, due to our slightly higher copper price assumption and relatively lower prices on other metals, except cobalt;
- These factors also lift our estimate of C1 cash costs and AISC per Cueq lb vs AML's estimate, due to our lower Cueq calculation; and
- Our un-risked, post-tax NPV is ~10% higher than AML's valuation. We expect this is due to our higher copper and cobalt price assumptions, offset by a higher exchange rate and potentially variations in the free cash flow profile.

Overall however, we can broadly validate the cash flows and valuations derived from AML's Scoping Study. We are also of the view that the operating costs applied are consistent with the mining and processing methods proposed. Our calculated NPV of A$474.5m and IRR of 47% represent attractive investment metrics for a project offering excellent exposure to copper and cobalt. We also estimate EBITDA margins of ~42% and a payback period of <4 years, as cumulative free cash flows turn positive in year 4.

Figure 3 - Walford Creek - Cumulative free cash flows



SOURCE: BELL POTTER SECURITIES ESTIMATES

Key Sensitivities

We have conducted a sensitivity analysis of key inputs into the Walford Creek valuation. The valuation drivers, in order of influence according to our estimates, are:

- Foreign exchange rate assumption;
- Operating cost assumptions;
- Copper price forecast;
- Cobalt price forecast; and
- Capital expenditure assumption.

The results of the key sensitivities are summarised in the tables below:

Table 3 – Sensitivity – AUD:USD exchange rate

		-10%	-10%		+10%	+10%
LOM Cueq prod	kt Cueq	0.0%	384.4	384.4	384.4	0.0%
LOM Free Cash Flow	A$m	29.5%	$1,168.2	$902.1	$684.4	-24.1%
C1 cash costs	US$/lb Cueq	-8.7%	$1.65	$1.80	$1.96	8.7%
AISC	US$/lb Cueq	-8.7%	$1.73	$1.89	$2.05	8.7%
NPV (un-risked)	**A$m**	**34.3%**	**$637.4**	**$474.5**	**$341.3**	**-28.1%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

The foreign exchange rate is the most significant valuation driver for the Walford Creek project. The influence on project valuation is skewed to the upside, with a -10% variation having a greater positive influence than the negative influence of a 10% increase in the exchange rate.

Table 4 – Sensitivity – Copper price

		-10%	-10%		+10%	+10%
LOM Cueq prod	kt Cueq	6.8%	410.8	384.4	362.9	-5.6%
LOM Free Cash Flow	A$m	-10.5%	$806.9	$902.1	$997.3	10.5%
C1 cash costs	US$/lb Cueq	-6.7%	$1.68	$1.80	$1.91	6.3%
AISC	US$/lb Cueq	-6.7%	$1.76	$1.89	$2.01	6.2%
NPV (un-risked)	**A$m**	**-12.3%**	**$416.3**	**$474.5**	**$532.8**	**12.3%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Despite the revenue split being marginally weighted towards cobalt, Walford Creek's valuation is more sensitive to the copper price, underpinning one of the key theses of investment.

Table 5 – Sensitivity – Cobalt price

		-10%	-10%		+10%	+10%
LOM Cueq prod	kt Cueq	-3.8%	369.7	384.4	399.2	3.8%
LOM Free Cash Flow	A$m	-10.6%	$806.9	$902.1	$997.3	10.6%
C1 cash costs	US$/lb Cueq	3.7%	$1.87	$1.80	$1.74	-3.4%
AISC	US$/lb Cueq	3.7%	$1.96	$1.89	$1.83	-3.4%
NPV (un-risked)	**A$m**	**-12.0%**	**$417.7**	**$474.5**	**$531.4**	**12.0%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

While the copper price influence marginally outweighs the impact of the cobalt price on Walford Creek's valuation, it still provides leverage and exposure to cobalt. This illustrates one of the unique features of Walford Creek – it's exposure to the combination of copper and cobalt in a single asset.

Table 6 – Sensitivity – OPEX

		-10%	-10%		+10%	+10%
LOM Cueq prod	kt Cueq	0.0%	384.4	384.4	384.4	0.0%
LOM Free Cash Flow	A$m	15.3%	$1,040.3	$902.1	$763.9	-15.3%
C1 cash costs	US$/lb Cueq	-9.2%	$1.64	$1.80	$1.97	9.2%
AISC	US$/lb Cueq	-8.8%	$1.72	$1.89	$2.06	8.8%
NPV (un-risked)	**A$m**	**17.8%**	**$559.2**	**$474.5**	**$389.9**	**-17.8%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

A key driver for most mining projects, the achievement of the forecast operating costs and control of any cost inflation will be key to realising the anticipated value from Walford Creek.

Table 7 – Sensitivity – CAPEX

		-10%	-10%		+10%	+10%
LOM Cueq prod	kt Cueq	0.0%	384.4	384.4	384.4	0.0%
LOM Free Cash Flow	A$m	2.6%	$925.5	$902.1	$878.7	-2.6%
C1 cash costs	US$/lb Cueq	0.0%	$1.80	$1.80	$1.80	0.0%
AISC	US$/lb Cueq	0.0%	$1.89	$1.89	$1.89	0.0%
NPV (un-risked)	**A$m**	**4.7%**	**$496.8**	**$474.5**	**$452.3**	**-4.7%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Walford Creek shows relative insensitivity to variations in CAPEX. While keeping it low will clearly lower the financing hurdle, the project's relatively long life helps de-risk this element.

Walford Creek looks a robust investment proposition

We point out that the negative (+10%) cases for FX and OPEX, taken in isolation, still deliver positive NPV's and an NPV:CAPEX ratio of >1. Combining both these negative cases will clearly have a material impact on valuation. However, when we apply those sensitivities (+10% OPEX and +10% FX) we still get a positive NPV of A$257m and a 5-6 year payback period. While less attractive, this still speaks to the economically robust investment case that Walford Creek presents.

Resource growth and mine life extension – the Amy Zone

One of the key opportunities we see at Walford Creek for AML is the potential for Resource growth and mine life extension. The mining inventory upon which the Scoping Study is based is derived only from the existing Vardy and Marley Resources.

We expect a material Resource increase following the recently completed 2019 drilling program, which infilled and extended the adjacent Amy Zone over an additional 6km of strike. This has the potential to add significantly to the base-case mine life, add material value and further de-risk the project via exposure to key commodities over a more price-cycles. The Amy Zone currently comprises a small Copper Lode Resource of 1.8Mt @ 1.5% Cu and 2,700ppm Co (plus lead, zinc and silver).

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 + 1,100-2,000ppm Co (plus lead, zinc and silver). Taking the midpoint of this would imply an additional 9.5Mt of potential ore, equivalent to 2.7 years of mine life.

In the table below, we have summarised our key model outputs under the scenario of an additional 2 years mine life.

Table 8 - Model outputs - Bell Potter base case +2yrs LOM

Metric	Model output	Units	Variance vs Base Case (%)
LOM Cu prod	179.6	kt Cu	17.5%
LOM Co prod	25.6	kt Co	17.5%
LOM Cueq prod	451.5	kt Cueq	17.5%
LOM Free Cash Flow	$1,089.2	A$m	20.7%
C1 cash costs	$1.80	US$/lb Cueq	0.0%
AISC	$1.89	US$/lb Cueq	-0.2%
NPV (un-risked)	**$535.4**	**A$m**	**12.8%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Under this scenario we estimate an additional A$187m in project free cash flows, a 17.5% increase in lom production and a 12.8% uplift to project NPV.

While these results are certainly positive, they do not quantify the further de-risking this delivers to the project, positive implications they have for project financing and the increased attraction a longer mine life may have for a larger corporate looking for an Australian-based copper project.

Changes to our valuation

With the release of the formal Scoping Study which incorporates the updated project development scenario for AML's 100%-owned Walford Creek project, we have made changes to our modelled assumptions which reflect the new life-of-mine plan and project economics. Key changes include the following:

- Modelling our mining and processing schedule in-line with those presented in AML's Walford Creek Scoping Study. This includes pushing our production schedule back by ~12 months;
- Updating our operating cost structure based on the unit mining and processing costs presented in the Walford Creek Scoping Study. We view the underlying unit costs as consistent with the mining and processing methods proposed;
- Updating our metallurgical recovery assumptions to reflect those in the Walford Creek Scoping Study. These have been calculated from metallurgical testwork programs covering all key elements of the Walford Creek process route;
- Updating our payability assumptions for metal in concentrate / precipitate as per those in the Walford Creek Scoping Study, based upon initial market soundings and product comparisons by AML;
- Lowering our assumed CAPEX from A$350m to A$323m, in-line with AML's itemised summary and inclusive of an 8% contingency;
- Updating for our latest commodity price and foreign exchange rate forecasts;
- Including our standard assumption for exploration companies of an equity raise within the next 12 months, in this case $7m at $0.12/sh (last closing price); and
- Rolling our model forward.

The net impact is a 5.3% increase to our valuation of AML, from $0.57/sh to $0.60/sh. Our updated valuation implies a 400% return from the last closing share price of $0.12. We retain a Speculative Buy recommendation.

Table 9 - Changes to our FY forecasts

	Previous			New			Change		
Year ending 30 June	**2019e**	**2020e**	**2021e**	**2019e**	**2020e**	**2021e**	**2019e**	**2020e**	**2021e**
Prices & currency									
Copper price (US$/lb)	3.09	3.27	3.35	2.87	3.19	3.26	-7%	-2%	-3%
Cobalt price (US$/t)	40,000	45,000	55,000	40,000	45,000	55,000	0%	0%	0%
US$/A$	0.70	0.72	0.73	0.68	0.70	0.73	-3%	-3%	0%
Production & costs									
Ore milled (Mtpa)	-	0.30	0.90	-	-	2.10	na	-100%	133%
Head grade (% Cu)	-	1.35%	1.35%	-	-	0.45%	na	-100%	-67%
Head grade (ppm Co)	-	1,800	1,800	-	-	853			
Copper produced (tpa)	-	3,726	11,178	-	-	9,044	na	-100%	-19%
Cobalt produced (tpa)	-	421	1,264	-	-	1,292			
All-In-Sustaining-Cost (A$/lb Cu)	-	$0.53	($0.25)	-	-	($0.24)	na	-100%	na
Earnings and valuation									
Revenue (A$m)	-	62	199	-	-	214	na	-100%	7%
EBITDA (A$m)	(3)	21	103	(2)	(2)	90	na	-107%	-12%
EBIT (A$m)	(3)	11	74	(2)	(2)	42	na	-114%	-44%
NPAT (adjusted) (A$m)	(4)	4	63	(3)	(2)	33	na	-153%	-48%
EPS (reported) (cps)	(1)	0	6	(0)	(0)	4	na	-160%	-29%
PER (x)	(20.8)	26.7	1.9	(25.3)	(44.5)	2.7	(4.5)	(71.2)	0.8
EPS growth (%)	na	na	1312%	na	na	na	na	na	na
DPS (reported) (cps)	-	-	-	-	-	-	0%	0%	0%
Yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
NPV ($/sh)		0.57			0.60			5%	
Price Target ($/sh)		0.57			0.60			5%	

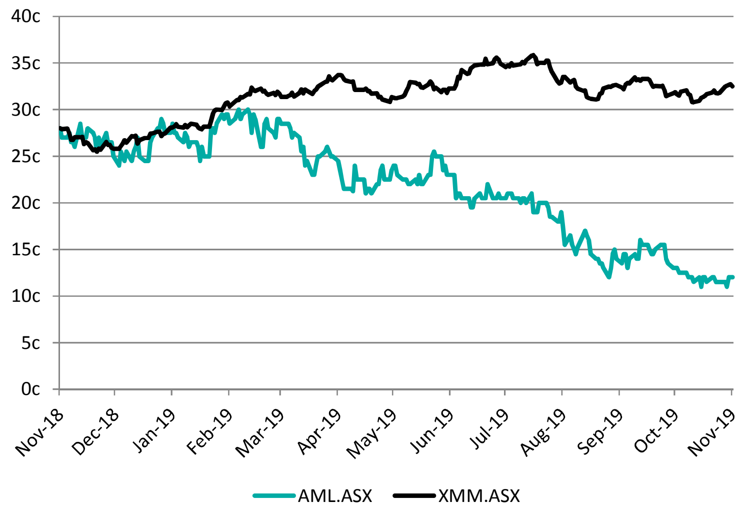
SOURCE: BELL POTTER SECURITIES ESTIMATES

Upcoming catalysts

Upcoming catalysts for AML include:

- Progress reports and assay results from the 2019 drill program, targeting Resource extensions and the realisation of a portion of the Copper Lode Exploration Target across the Amy Zone;
- The release of updated Resource estimates for Walford Creek, in particular for the Amy Zone. We view this as the most immediate source for Resource growth at Walford Creek and likely to underpin a mine life extension for the PFS;
- Further updates from the ongoing workstreams (including environmental baseline studies) that will form the basis of a PFS, targeted for completion in Q2CY20; and
- Updates on potential funding options being considered by AML, including debt and equity finance, metal streaming deals and strategic equity deals at the project and company levels.

Figure 4 - 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. In 2018 a 34,000m RC and diamond drilling program defined a new 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. These Resources formed the basis of an updated Scoping Study, released in October 2019.

Investment thesis – Speculative Buy, valuation $0.60/sh

The Scoping Study represents a major de-risking milestone for AML and presents a viable, defendable and economically attractive base case for the development of Walford Creek. The project offers scale and a unique combination of commodity exposure in copper and cobalt in a stable jurisdiction that would likely appeal to corporates. We lift our valuation 5%, to $0.60/sh and retain our Speculative Buy rating.

Valuation – risked discounted cash flow of key project

Our valuation for AML is based on the October 2019 Scoping Study which outlines a scenario for the open-pit and underground mining of the Walford Creek project. This assumes a Mining Inventory of 35.5Mt @ 0.45% Cu, 0.78% Pb, 0.88% Zn, 24g/t Ag and 852ppm Co being mined and processed at a combined rate of 3.5Mtpa over an 11-year mine-life. Processing via a 2.0Mtpa concentrator and 1.5Mtpa heap leach is planned to produce 145.8kt Cu and 22.5kt Co over the lom, plus zinc, lead nickel and silver. We also include an exploration valuation of $160m 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 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 Ltd
as at 8 November 2019

Recommendation	Buy, Speculative
Price	$0.12
Valuation	$0.60

Table 10 - Financial summary

PROFIT AND LOSS

Year ending June	Unit	2018a	2019a	2020e	2021e	2022e
Revenue	$m	-	-	-	-	214.1
Expense	$m	(14.1)	(4.1)	(1.9)	(1.5)	(124.0)
EBITDA	$m	**(14.1)**	**(4.1)**	**(1.9)**	**(1.5)**	**90.0**
Depreciation	$m	-	-	(0.0)	(0.0)	(48.4)
EBIT	$m	(14.1)	(4.1)	(1.9)	(1.5)	41.6
Net interest expense	$m	0.2	0.1	(1.4)	(0.4)	(9.1)
PBT	$m	**(13.9)**	**(4.0)**	**(3.3)**	**(2.0)**	**32.5**
Tax expense	$m	-	-	-	-	-
NPAT	**$m**	**(13.9)**	**(4.0)**	**(3.3)**	**(2.0)**	**32.5**

CASH FLOW

Year ending June	Unit	2018a	2019a	2020e	2021e	2022e
OPERATING CASHFLOW						
Receipts	$m	-	-	0.2	-	203.3
Payments	$m	(2.1)	(1.9)	(3.3)	(1.5)	(99.5)
Exploration payments	$m	-	-	-	-	-
Tax	$m	-	-	-	-	-
Net interest	$m	0.2	0.1	(1.4)	(0.4)	(9.1)
Other	$m	-	-	-	-	-
Operating cash flow	$m	**(1.9)**	**(1.8)**	**(4.5)**	**(1.9)**	**94.7**
INVESTING CASHFLOW						
Capex	$m	(0.4)	(0.1)	-	(67.6)	(261.4)
Exploration & evaluation	$m	(5.2)	(11.9)	-	-	-
Other	$m	-	-	-	-	-
Investing cash flow	$m	**(5.6)**	**(12.0)**	**-**	**(67.6)**	**(261.4)**
FINANCING CASHFLOW						
Share issues/(buy-backs)	$m	34.8	0.0	7.6	-	-
Debt proceeds/(repayments)	$m	(16.6)	8.0	-	242.0	-
Dividends	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Financing cash flow	$m	**18.3**	**8.0**	**7.6**	**242.0**	**-**
Change in cash	$m	10.8	(5.7)	3.1	172.5	(166.7)

BALANCE SHEET

Year ending June	Unit	2018a	2019a	2020e	2021e	2022e
ASSETS						
Cash & short term investments	$m	12.7	7.0	10.1	182.6	15.9
Accounts receivable	$m	0.4	0.1	0.1	0.1	0.4
Property, plant & equipment	$m	0.4	0.4	0.4	68.0	281.0
Exploration & evaluation	$m	63.0	75.4	75.4	75.4	75.4
Other	$m	0.2	0.3	(0.1)	(0.1)	10.3
Total assets	$m	**76.7**	**83.2**	**86.0**	**326.0**	**383.1**
LIABILITIES						
Accounts payable	$m	1.9	2.1	0.3	0.3	24.8
Borrowings	$m	14.6	12.8	12.8	254.8	254.8
Other	$m	0.2	0.3	0.3	0.3	0.3
Total liabilities	$m	**16.8**	**15.2**	**13.4**	**255.4**	**279.9**
SHAREHOLDER'S EQUITY						
Share capital	$m	90.0	108.5	116.5	116.5	116.5
Reserves	$m	8.4	2.2	2.1	2.1	2.1
Retained earnings	$m	(38.6)	(42.6)	(45.9)	(47.8)	(15.3)
Total equity	$m	**59.9**	**68.1**	**72.6**	**70.7**	**103.2**
Weighted average shares	m	492.8	611.5	699.7	726.4	726.4

CAPITAL STRUCTURE

Shares on issue	m	674.1
Performance shares / other	m	0.0
Total shares on issue	**m**	**674.1**
Share price	**$/sh**	**0.120**
Market capitalisation	$m	80.9
Net cash	$m	-4.9
Enterprise value (undiluted)	**$m**	**85.8**
Options outstanding (m)	m	0.0
Options (in the money)	m	0.0
Issued shares (diluted for options)	m	674.1
Market capitalisation (diluted)	m	80.9
Net cash + options	$m	-4.9
Enterprise value (diluted)	**$m**	**85.8**

MAJOR SHAREHOLDERS

	%	m
OCP Holdings	41.6%	280.2
Management and Board	3.6%	24.0

FINANCIAL RATIOS

Year ending June	Unit	2018a	2019a	2020e	2021e	2022e
VALUATION						
NPAT	$m	(14)	(4)	(3)	(2)	33
Reported EPS	c/sh	(3)	(1)	(0)	(0)	4
EPS growth	%	na	na	na	na	na
PER	x	-4.3x	-18.3x	-25.3x	-44.5x	2.7x
DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(2)	(2)	(1)	(10)	(23)
P/FCFPS	x	-7.9x	-5.4x	-18.8x	-1.3x	-0.5x
EV/EBITDA	x	-6.1x	-20.8x	-45.1x	-57.2x	1.0x
EBITDA margin	%	nm	nm	nm	nm	42%
EBIT margin	%	nm	nm	nm	nm	19%
Return on assets	%	-21%	-5%	-4%	-1%	9%
Return on equity	%	-33%	-6%	-5%	-3%	37%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	2	6	3	72	239
ND / E	%	3%	9%	4%	102%	231%
ND / (ND + E)	%	3%	8%	4%	51%	70%
EBITDA / Interest	x	-	-	-	-	-9.9x

MINERAL RESOURCES

Walford Creek, QLD	Mt	% Cu	Cu (kt)	ppm Co	Co (kt)
Copper Lode 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
Cobalt Peripheral Resource					
Total resource	**19.8**	**0.16%**	**31.7**	**1,044**	**20.7**
Measured	2.4	0.14%	3.4	1,100	2.6
Indicated	11.0	0.17%	18.7	1,000	11.0
Inferred	6.4	0.15%	9.6	1,100	7.0

PROJECT ASSUMPTIONS - Vardy Zone evaluation

Year ending June 30		FY18	FY19	FY20	FY21	FY22
Currency	US$/A$	0.78	0.72	0.68	0.70	0.73
Copper price	US$/lb	$3.06	$2.83	$2.87	$3.19	$3.26
Cobalt	US$/t	$73,057	$47,634	$40,000	$45,000	$55,000
Zinc	US$/t	$1.44	$1.22	$1.23	$1.22	$1.20
CAPEX - development	A$m	-	-	-	(65)	(258)
CAPEX - sustaining	A$m	-	-	-	(3)	(3)
Ore milled	Mt	-	-	-	-	2.10
Head grade	% Cu	-	-	-	-	0.45%
	ppm Co	-	-	-	-	853
Production	t Cu	-	-	-	-	9,044
	t Co	-	-	-	-	1,292
AISC	A$/lb Cu	-	-	-	-	($0.24)

VALUATION

Ordinary shares (m)		**674.1**
Options in the money (m)		-
Assumed equity raise (m)		58.3
Diluted m		**732.4**
SOTP	**$m**	**$/sh**
Walford Ck (unrisked NPV10)	475	0.70
Walford Ck (risk discount 40%, NPV10)	285	0.42
Other exploration	164	0.24
Corporate overheads	(14)	(0.02)
Net cash (debt)	(5)	(0.01)
Total (undiluted)	**429**	**0.64**
Cash from options	-	-
Assumed equity raise	7	0.01
Total (fully diluted)	**436**	**0.60**

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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